

OPEN

Finance Sub-Committee

10 September 2025

First Financial Review of 2025/26

**Report of: Ashley Hughes, Executive Director of Resources
(Section 151 Officer)**

Report Reference No: FSC/25/25-26

Ward(s) Affected: Not applicable

For Decision or Scrutiny: Both

Purpose of Report

- 1 This report provides the current forecast outturn for the financial year 2025/26 based on our income, expenditure and known commitments as at the end of June 2025. It also identifies actions that are being taken to address adverse variances to urgently address our financial sustainability.
- 2 The report provides the forecast outturn for all services, to provide Members with contextual information on the position for the whole Council. Members are asked to focus their scrutiny on the forecasts and supporting information relating to services within the remit of the Committee whilst understanding the overall context.
- 3 The report highlights any changes and external pressures that are impacting the Council since setting the budget in February 2025.
- 4 As set out in previous Financial Reviews, the requirement to continue to identify further actions to bring the Council back to a position where we are living within our means remains, and it will be important that these actions are closely monitored, and appropriate action taken to manage our resources. This report includes information on the actions that are currently underway.
- 5 Reporting the financial forecast outturn at this stage, and in this format, supports the Council's vision of being an effective and enabling Council as set out in the Cheshire East Plan 2025-2029.

- 6 The report also requests member approval for amendments to the Council's budget in line with authorisation levels within the Constitution.

Executive Summary

- 7 This is the First Financial Review monitoring report (FR1), showing the forecast outturn position for the 2025/26 financial year.
- 8 The report provides the current forecast outturn position for the revenue budget, capital budget and Dedicated Schools Grant (DSG) for the financial year 2025/26 based on our income, expenditure and known commitments as at the end of June 2025.
- 9 The First Financial Review (FR1) forecast revenue outturn is an **adverse variance of £3.1m** (after the application of planned use of conditional Exceptional Financial Support **£25.3m** as set out in the approved budget in February 2025). Further details are shown in **Table 1** in paragraph 22.
- 10 All Directorates continue to work on mitigation plans to improve the overall forecast overspend position and in doing so, are highlighting any risks associated with mitigations currently reflected in the reported £3.1m overspend.
- 11 The value of additional mitigation plans not yet reflected as delivered at FR1 are estimated at £2.8m, giving a potential improved overall forecast of £0.3m overspend. However, should the current mitigations included in the FR1 forecast not materialise, alongside further risks identified, then the forecast overspend position could increase to £18.7m adverse. Further updates will be provided at FR2.
- 12 Each Directorate have plans underway to deliver approved budget changes (growth and savings) identified as part of the 2025/26 approved budget per MTFS line – see paragraph 30 below and **Annex 1, Section 2** of the report.
- 13 The opening DSG deficit is £112.1m with an in-year projected movement of £33.5m to forecast a year end deficit of £145.6m – refer to paragraphs 39-41 for further details. Further reporting on the DSG Management Plan is being taken to the next Children's and Families Committee which outlines the plan to stabilise the DSG and start reducing the deficit.
- 14 The capital programme for the current year is forecasting expenditure of £205.5m in year, an underspend of £3m against a budget of £208.4m at Outturn. This is an increase against the approved MTFS budget of £173m due to increases in Supplementary Capital Estimates (SCEs) of £22.3m as well as some reprofiling of projects.

- 15 The overall forecast revenue overspend of £3.1m remains a significant financial challenge for the Council when considered in addition to the planned use of Exceptional Financial Support (EFS) of £25.3m. Reserves at out-turn were £29.4m, being £6.3m of General Fund Reserves and £23.1m of Earmarked Reserves. A planned net use of Earmarked Reserves and the General Fund Reserve is forecast at £3.3m leaving £26.1m total available reserves. The Council's level of reserves is therefore insufficient to cover the current forecast revenue outturn for the year without further action.

Further details are also available in the following Annexes to the main report.

Annex 1: Detailed First Financial Review 2025/26

- **Section 1** 2025/26 Forecast Outturn
- **Section 2** 2025/26 Directorate Revenue Commentary and update on 2025/26 Approved Budget Change Items
- **Section 3** Revenue Grants for approval
- **Section 4** Capital
- **Section 5** Reserves

Annex 2: Detailed Capital Programme 2025/26

Annex 3: Detailed First Financial Review 2025/26 – additional information

- **Section 1** Debt
- **Section 2** Council Tax and Business Rates
- **Section 3** Treasury Management
- **Section 4** Prudential Indicators

RECOMMENDATIONS

The Finance Sub Committee to:

1. Review the factors leading to a forecast adverse Net Revenue financial pressure of £3.1m against a revised budget of £440.5m (0.7%). To scrutinise the contents of **Annex 1, Section 2** and review progress on the delivery of the MTFS approved budget policy change items, the RAG ratings and latest forecasts, and to understand the actions to be taken to address any adverse variances from the approved budget.
2. Review the in-year forecast capital spending of £205.5m against an increased capital budget of £208.5m. This was adjusted at outturn following an approved MTFS budget of £173m.

3. Recommend to Council to approve the Supplementary Revenue Estimate Request for Allocation of Additional Grant Funding over £1,000,000 as per **Annex 1, Section 3, Table 1**.
4. Note that the Adults and Health, Children and Families and Environment and Communities committees will be asked to approve the Supplementary Revenue Estimate Requests for Allocation of Additional Grant Funding over £500,000 and up to £1,000,000 as per **Annex 1, Section 3, Table 2**.
5. Note the Capital Virements above £500,000 up to and including £5,000,000 as per **Annex 1, Section 4, Table 4** to be approved in accordance with the Council's Constitution.
6. Recommend to Council to approve the Supplementary Capital Estimate Request for Allocation of Additional Grant Funding over £1,000,000 as per **Annex 1, Section 4, Table 5**.
7. Note the available reserves position as per **Annex 1, Section 5**.

Background

- 16 The Council operates a financial cycle of planning, review, management and reporting. This report ensures that we review where we are and provide a forecast outturn position for the 2025/26 financial year, whilst also identifying the actions that need to be taken to manage our overall resources. The information in this report also supports planning for next year's budget by identifying issues that may have medium term impacts.
- 17 The Council set its 2025/26 annual budget in February 2025. The budget was balanced, as required by statute, with planned use of EFS, by way of a capitalisation direction, totalling £25.3m, plus £24.3m of transformation savings to achieve in year, and included important assumptions about spending in the year. The budget is part of the Medium-Term Financial Strategy (MTFS) 2025 to 2029.
- 18 This single view of the financial picture of the Council provides the overall financial context.
- 19 The management structure of the Council is organised into the following directorates:
 - Adults, Health and Integration
 - Children's Services
 - Place
 - Resources

- Chief Executive's Office
 - Governance, Compliance and Monitoring
- 20 The Council's reporting structure provides forecasts of a potential year-end outturn within each directorate during the year, as well as highlighting activity carried out in support of each outcome contained within the Cheshire East Plan. Budget holders are responsible for ensuring they manage their resources in line with the objectives of the Council and within the approved budget.
- 21 For the purposes of each committee, these directorate budgets are aligned to a specific committee and the appendices to this report provide information at a level that should enable the committee to scrutinise the causes of any variations in budget and appropriate actions needed to bring the Council back into line in terms of managing its resources.

2025/26 Revenue Outturn – Financial Review 1 (FR1)

- 22 Overall, the First Financial Review (FR1) forecast revenue outturn is an **adverse variance of £3.1m** (after the application of planned use of conditional Exceptional Financial Support **£25.3m** as set out in the approved budget in February 2025). Further details are shown in **Table 1** below.

Table 1 2025/26 FR1	Revised Budget £m	Forecast Outturn £m	Forecast Variance £m
Service Committee			
Adults and Health	167.257	166.962	(0.295)
Children and Families	97.352	106.350	8.998
Corporate Policy	43.671	43.734	0.062
Corporate Policy- Cross Transformation	(13.452)	(3.821)	9.631
Economy Growth	28.741	26.456	(2.285)
Environment and Communities	43.670	41.125	(2.545)
Highways and Transport	17.151	17.265	0.114
Total Service Budgets	384.390	398.071	13.681
Finance Sub:			
Central Budgets	56.068	45.535	(10.533)
Funding	(415.197)	(415.197)	-
Total Finance Sub	(359.129)	(369.662)	(10.533)
Exceptional Financial Support	(25.261)	(25.261)	-
TOTAL	0.0	3.147	3.147

- 23 All Directorates continue to work on mitigation plans to improve the overall forecast overspend position and in doing so, are highlighting any risks associated with mitigations currently reflected in the reported £3.1m overspend.
- 24 The value of additional mitigation plans not yet reflected as delivered at FR1 are estimated at £2.8m, giving a potential improved overall forecast of £0.3m overspend (see Optimistic forecast Table 2). However, should the current mitigations included in £3.1m FR1 forecast not materialise, then the pessimistic forecast position could increase to £18.7m (see Table 3). Further updates will be provided at FR2.

25 **Table 2 Optimistic position**

Table 2 – Optimistic position 2025/26 FR1	Revised Budget £m	Forecast Outturn £m	Forecast Variance £m
Service Committee			
Adults and Health	167.257	166.562	(0.695)
Children and Families	97.352	105.050	7.698
Corporate Policy	43.671	43.734	0.062
Corporate Policy- Cross Transformation	(13.452)	(3.821)	9.631
Economy Growth	28.741	26.456	(2.285)
Environment and Communities	43.670	40.125	(3.545)
Highways and Transport	17.151	17.265	0.114
Total Service Budgets	384.390	395.371	10.980
Finance Sub:			
Central Budgets	56.068	45.400	(10.668)
Funding	(415.197)	(415.197)	-
Total Finance Sub	(359.129)	(369.797)	(10.668)
Exceptional Financial Support	(25.261)	(25.261)	-
TOTAL	0.0	0.313	0.313

26 Table 3 Pessimistic position

Table 3 – Pessimistic position 2025/26 FR1	Revised Budget (NET) £m	Forecast Outturn £m	Forecast Variance £m
Service Committee			
Adults and Health	167.257	171.862	4.605
Children and Families	97.352	108.050	10.698
Corporate Policy	43.671	43.734	0.062
Corporate Policy- Cross Transformation	(13.452)	(0.821)	12.631
Economy Growth	28.741	26.456	(2.285)
Environment and Communities	43.670	41.525	(2.145)
Highways and Transport	17.151	17.265	0.114
Total Service Budgets	384.390	408.071	23.681
Finance Sub:			
Central Budgets	56.068	51.083	(4.985)
Funding	(415.197)	(415.197)	-
Total Finance Sub	(359.129)	(364.114)	(4.985)
Exceptional Financial Support	(25.261)	(25.261)	-
TOTAL	0.0	18.696	18.696

- 27 As indicated above in Table 1, the forecast overspend of £3.1m remains a significant financial challenge for the Council when considered in addition to the planned use of EFS of £25.3m. Reserves levels are insufficient to cover this level of overspending and should not be used as an alternative to undelivered savings or management actions to constrain and contain in-year pressures. Any drawdown in year to fund unmitigated pressures is not a sustainable approach and will take the Council further into financial distress.
- 28 The key areas causing an overspend at FR1 include a projected overspend of £9.0m within Children and Families, this is largely due to increased costs of placements (£6.4m adverse) and staffing (£2.2m). A shortfall of £9.7m is forecast against in-year cross-directorate Transformation savings, details of all Transformation related savings can be found in paragraphs 46-49 below.
- 29 Offsetting these pressures, there is a favourable variance of £4.7m within the Place Directorate due to vacancy management and various one-off income items expected in year. The contingency budget is contributing a

further £7.2m to the overspend position (including the use of £1.6m to cover the pay inflation pressure), whilst interest and Minimum Revenue Provision (MRP) are forecast to be £3.3m under budget due to lower than expected borrowing, increased levels of investment and slippage in the capital programme. More detailed narrative explanations of variances are included in Section 2 of Annex 1.

Overall mitigations planned to manage pressures

- 30 Work is underway across all Services to look at mitigating actions which can be taken to reduce the forecast position in-year, some of the actions below have contributed to date or are being considered:
- Line-by-line reviews of all budgets to further identify immediately any underspends and/or additional funding.
 - Actively manage vacancies, particularly agency usage and reduce any overspends on staffing as soon as possible.
 - Review the borrowing elements of the capital programme to minimise the minimum revenue provision and interest payable.
 - Review of capital receipts available and potential surplus assets that can be sold (for best consideration).
 - Children & Families – reviewing costs of placements, establishment reviews, Reunification of children, and Work on Edge of Care Service proposals to identify early intervention and cost reduction.
 - Place Services – mitigations in year through further vacancy management, reducing expenditure and maximising funding opportunities.
 - Corporate – Vacancy management.
 - Finance Sub – potential further bad debt reviews generating one-off in year contributions to assist in reducing the in year overspend and review/reset process moving forward.
 - Contingency Budget - the remaining balance of £5.7m (after general pay inflation pressure of £1.6m) has been released from Contingency to support the overall Council over commitment.

Capital Programme

- 31 The MTFS budget of £173m was set at Full Council in February 2025. Following that approval, and the completion of the outturn position of 2024/25, the MTFS position was increased to £208.4m. This was driven

by increases in Supplementary Capital Estimates (SCEs) of £22.3m as well as some reprofiling of projects.

- 32 The FR1 forecast position for capital spending for 2025/26 indicates forecast capital expenditure of £205.5m against the revised MTFS budget of £208.4m, showing a small forecast underspend.
- 33 **Table 4 below** sets out the capital programme position for 2025/26 as at FR1:

Capital 2025/26	Actuals FR1	Forecast Spend	Funded by:					Total
			Government Grants	External Contributions	Revenue Contributions	Capital Receipts	Prudential Borrowing	
	£m	£m	£m	£m	£m	£m	£m	£m
Adults and Health	-	0.132	0.132	-	-	-	-	0.132
Children and Families	0.030	47.746	39.054	6.812	-	0.050	1.830	47.746
Corporate Policy	1.014	16.481	-	-	-	-	16.481	16.481
Economy & Growth	3.036	44.420	23.082	1.394	0.183	0.328	19.433	44.420
Environment & Communities	0.451	24.371	8.340	1.193	0.647	-	14.191	24.371
Highways & Transport	4.730	72.392	57.795	4.762	-	0.825	9.010	72.393
Total	9.261	206.541	128.403	13.603	0.344	1.203	60.945	205.543

- 34 Detailed Committee tables are set out in **Annex 2**.
- 35 A full update is being provided to the Capital Programme Board.
- 36 Changes to the capital programme will impact the capital financing budget in year through the costs of interest payable where borrowing is incurred. Minimum Revenue Provision (repayments for the capital borrowing) impacts in subsequent years once an asset has become operational. Therefore, reductions in borrowing achieved through capital programme budget changes, whether through delay, budget reduction or alternative sources of financing, will be reflected in the revenue position each year in the MTFS for 2025-29 and beyond.
- 37 The current Capital programme remains unaffordable and ongoing scrutiny of the capital programme will be undertaken by the Capital Programme Board.
- 38 The current forecast for achievable capital receipts in year is £1m at FR1 – in line with budget - however further receipts are in the pipeline and a further update will be provided at FR2. Any additional receipts above budget can be used to reduce revenue pressures from borrowing in year or could be used to assist with funding of transformation activity.

Dedicated School Grant

- 39 The key pressure on DSG relates to the high needs block where SEND service continues to see a significant increase in the number of pupils

with an Educational Health Care Plans (EHCPs), and the associated school placement costs. The deficit in 2024/25 was an improvement on the budget gap, the in-year pressure being £33.5m increasing the cumulative deficit balance to £112.1m with an additional £1.6m Early Years payback increasing the cumulative deficit to £113.7m.

- 40 The cumulative deficit is currently being managed by an accounting override, which has recently been extended until 2028, allowing it to be treated as an un-usable reserve. At this stage the position is not recoverable unless there are significant changes to funding, national policy and demand. The cumulative deficit position is adding to the pressures of the Council as borrowing is required to cover the cumulative deficit which results in annual interest costs of around £5.6m in 2024/25 with an estimated cost of £5.8m in 2025/26.
- 41 The updated DSG Management Plan in July 2025, which will be reported at Children and Families Committee in September 2025, reduces the growth rate of EHCP based on the lower in year deficit at the yearend outturn. The mitigated forecast for 2025/26 is £145.6m (in year position of a deficit of £32.1m) after including mitigations of £14.8m. This plan continues to reduce the previous planned mitigated deficit by 2031/32 from £236.7m to £205.4m.

Progress on delivery of the 2025/26 approved budget change items

- 42 Each Directorate have plans underway to deliver approved budget changes (growth and savings) identified as part of the 2025/26 approved budget per MTFS line – see **Annex 1, Section 2** of the report.
- 43 Table 5 presents a summary of the progress on the delivery of the 2025/26 approved budget change items. For items rated as Amber these are for items where there are risks and/or mitigating actions in place. For items rated as red these are for items where services are projecting an adverse variance and there is risk of in year non delivery/achievement. New mitigation items have also been included that have come forward since the approval of the MTFS to help the in-year position where identified.
- 44 The green and blue columns show budget change items that are either delivered or on track to be delivered or even exceed in some cases. However, there is also a pressure of £23.1m as shown in the red column that has a high risk of not being achieved within this financial year. There are new, in year mitigations of £8.9m, unrelated to the change item rows that have been identified to assist the outturn position. The table overleaf summarises the progress by Committee:

Table 5: Summary of the progress on the delivery of the 2025/26 approved budget change items:

Committee	Approved Change Budget £m	Forecast Outturn £m	Complete £m	Green £m	Amber £m	Red £m	EFS £m	Mitigate £m
Adults & Health	21.494	21.199	(0.737)	20.148	3.350	2.961		(4.523)
Children & Families	8.659	17.657	(0.487)	1.981	0.203	16.033		(0.073)
Corporate Policy	1.078	1.140	(0.726)	0.310	-	1.893		(0.337)
Corporate Policy Cross Transform	(13.452)	(3.821)	-	-	(1.446)	(2.375)		-
Economy & Growth	0.534	(1.751)	(1.009)	0.668	(0.148)	1.187		(2.449)
Env & Communities	(2.741)	(5.286)	(0.159)	(8.048)	0.401	3.324		(0.804)
Highways & Transport	1.061	1.175	0.161	1.667	(0.025)	0.124		(0.752)
Finance Sub - Central	35.294	24.761	16.681	8.080	-	-		-
Finance Sub - Funding	(26.666)	(26.666)	-	(26.666)	-	-		-
Exceptional Financial Support	(25.261)	(25.261)	-	-	-	-	(25.261)	-
TOTAL	-	3.147	13.724	(1.860)	2.335	23.147	(25.261)	(8.938)

45 A complete list of all approved budget change items, with progress noted against each item, can be found in **Annex 1, Section 2**.

Transformation Savings Update

- 46 The FR1 forecast outturn position against the approved Transformation budget changes for 2025/26 is outlined in Table 6 below:

Table 6 - Transformation Budget Saving	Saving included in Council's 2025/26 budget £m	Forecast Outturn position at FR1 £m	(Under)/Over £m
Access to Services & Corporate Core (Cross cutters including Digital/Workforce/3 rd Party Spend/Fees & Charges)	(13.452)	(3.821)	9.631
Service Delivery – Adults Social Care	(7.000)	(7.000)	-
Service Delivery – Children's	(3.788)	(1.368)	2.420
Service Delivery – Place	(0.175)	(0.175)	-
Total	(24.415)	(12.364)	12.051

- 47 The FR1 forecast outturn position against Access to services and Corporate Core projects is outlined below in Table 7:

Table 7 - Transformation Budget Saving	2025/26 Budget £m	2025/26 FR1 £m	2025/26 Variance £m
Digital Customer Enablement Invest	(0.750)	-	0.750
Digital Acceleration – Invest to Save	(0.600)	(0.200)	0.400
Digital Blueprint – Invest to Save	(4.000)	(1.000)	3.000
Fees and Charges	(0.750)	(0.821)	0.071
Third Party Spend	(3.000)	(0.625)	2.375
Target Operating Model (TOM)	(3.000)	(0.999)	2.001
Agency Staffing	(0.352)	(0.176)	0.176
Workforce Productivity	(1.000)	-	1.000
Total	(13.452)	(3.821)	9.631

- 48 Within the cross cutting Corporate Core Programme, the Fees and Charges project has reached agreement with relevant budget holders to deliver savings of £0.821m, which is £0.071m in excess of the £0.750m planned budget saving. Across the other cross cutting projects within the Corporate Core and Access to Services programmes, delays in agreeing

business cases and associated savings mean that the anticipated full year savings can now no longer be delivered in 2025/26. Savings across the Workforce, Digital and Third Party spend projects for the remainder of the financial year are forecast at £3.0m against the budget saving of £12.7m. This forecast is based on a projection of delivery for each project, which collectively results in the achievement of approximately 24% of the 2025/26 budgeted savings.

- 49 The Adults Social Care Transformation programme is forecasting a shortfall of £2.7m against the four Transformation projects but this has been completely offset by in year mitigating actions, with maximisation of client income and management of vacancies the main contributors. The Children's Service Delivery programme is forecasting total savings of £0.5m against savings of £3.8m included in the 2025/26 budget. One off mitigating actions of £0.9m have been identified to date, to reduce the net shortfall to £2.4m.

Revenue Grants for Approval

- 50 Approvals for Supplementary Revenue Estimates for allocation of additional grant funding are detailed in **Annex 1, Section 3**.

Reserves Position

- 51 On 1 April 2025, Earmarked Reserves totalled £23.1m and the General Fund Reserve Balance totalled £6.3m. Of the total earmarked reserves, £3.3m (11.2%) will be spent in 2025/26, on supporting the revenue budget for 2025/26.
- 52 Table 8 below shows the position on reserves forecast level of Earmarked and General reserves by the end of 2025/26.
- 53 As set out in the 2025/26 Budget/MTFS approved in February 2025, the overall level of reserves held by the Council remains insufficient.

Table 8: Total Reserves

Table 8 Earmarked Reserves	Balance at 1 April 2025	Drawdowns to Support Service Expenditure	Additional Contributions to Reserves	Balance Forecast at 31 March 2026
	£m	£m	£m	£m
Earmarked Reserves	(23.114)	14.888	(11.341)	(19.567)
General Fund Reserve	(6.299)	0	(0.186)	(6.485)
Total Usable Reserves	(29.413)	14.888	(11.527)	(26.052)

- 54 The Council is currently forecast to have £26.1m of earmarked reserves at the end of the financial year 2025/26. Of this £3.0m can be considered ringfenced, with specific conditions limiting their use.
- 55 A full list of all earmarked reserves per Committee can be found in **Annex 1, Section 5**.

Debt

- 56 Sundry debt includes all invoiced income due to the Council except for statutory taxes (Council Tax and Non-Domestic Rates). The balance of outstanding debt on 30 June 2025 was £20.9m (£18.5m at 31 March 2025), of which £12m is over 6 months old (£11.9m at 31 March 2025). See **Annex 3, Section 1** for further details.

Council Tax and Business Rates

- 57 Council Tax and Business Rates income are collected into the Collection Fund. The fund is then shared between the billing authority (usually the local council), major preceptors (e.g. police and fire authorities), and for Business Rates, central government. It ensures transparency and proper allocation of resources to fund local services.
- 58 After accounting adjustments, the Council Tax Collection Fund is forecasting a £0.3m surplus for 2025/26, of which, £0.2m is attributable to Cheshire East Council. This estimated surplus would be paid out in 2026/27 and be credited to the Collection Fund Earmarked Reserve.
- 59 After accounting adjustments, the Non-Domestic Rates Collection Fund is forecasting a £4.5m surplus for 2025/26, of which, £2.2m is attributable to Cheshire East Council. This estimated surplus would be paid out in 2026/27 and be credited to the Collection Fund Earmarked Reserve.
- 60 Further detailed information on both funds and the current collection rates for each can be found in **Annex 3, Section 2**.

Treasury Management Strategy update

- 61 Treasury Management income to 30 June 2025 is £628k which is higher than the budgeted £432k. Borrowing costs are also lower than budgeted at £4.5m compared to budget of £5.0m. From the projected cash flows for the remainder of 2025/26 the net difference in financing costs (borrowing less investment interest) is expected to be £2.0m less than that budgeted.
- 62 Following the reductions in base rates, borrowing costs have begun to fall. The cost of borrowing is still higher than implied future rate cuts would suggest but this is driven by gilt yields and likely tightening of

liquidity in the inter-Local Authority market which has been witnessed in the last 2 years. The application for exceptional financial support has raised credit worthiness concerns with some lenders restricting the number of lenders available to the Council. The expectation is that borrowing costs will probably not start to fall until 2026/27 and beyond.

- 63 At the moment, cash shortfalls are generally being met by temporary borrowing from other local authorities which for a number of years has been considerably cheaper than other sources of borrowing and allowed the Council to keep financing costs low. The cost of these loans remains good value compared with longer term loans and interest forecasts suggest it is still the cheaper option in the long term. However, liquidity risk remains an issue as funds become more scarce towards year end. To reduce liquidity risk, consideration is being given to taking more shorter term (1-5 years) Public Works Loan Board (PWLB) loans.
- 64 The cost of short term borrowing for the first 3 months of 2025/26 is 4.93% which is a decrease from 5.29% for 2024/25. These costs are expected to reduce further as the outlook is for reducing interest rates.
- 65 Further detailed information is set out in **Annex 3, Section 3.**

Investment Strategy

- 66 There have not been any material changes to the Investment Strategy since that reported as part of the MTFS 2025-29, see [link](#) on the Cheshire East website.

Consultation and Engagement

- 67 As part of the budget setting process the Pre-Budget engagement process provided an opportunity for interested parties to review and comment on the Council's Budget principles.

Reasons for Recommendations

- 68 The overall process for managing the Council's resources focuses on value for money, good governance and stewardship. The budget and policy framework sets out rules for managing the Council's financial affairs and contains the financial limits that apply in various parts of the Constitution. As part of sound financial management and to comply with the constitution any changes to the budgets agreed by Council in the MTFS require approval in line with the financial limits within the Finance Procedure Rules.
- 69 This report provides strong links between the Council's statutory reporting requirements and the in-year monitoring and management processes for financial and non-financial management of resources.

Other Options Considered

- 70 None. This report is important to ensure Members of the Committee are sighted on the financial pressure the Council is facing and the activity to date to try and mitigate this issue, and are given an opportunity to scrutinise this activity and identify any further actions that could be taken to learn to live within our means Do nothing. Impact – Members are not updated on the financial position of the Council. Risks – Not abiding by the Constitution to provide regular reports.

Implications and Comments

Monitoring Officer/Legal/Governance

- 71 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.
- 72 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.
- 73 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.
- 74 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.

- 75 This report provides an update on progress for 2025/26 for all services.
- 76 It also provides updates and comments regarding the Council's use of Exceptional Financial Support under The Levelling-up and Regeneration Act 2023 which inserted an amended Section 12A as a trigger event within the Local Government Act 2003, in relation to capital finance risk management. The legislation also provides for risk mitigation directions to be given to the Council which limit the ability to undertake certain financial action. The limitations are based on identified risk thresholds.

Section 151 Officer/Finance

- 77 The Council's financial resources are agreed by Council 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.
- 78 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.
- 79 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.
- 80 As part of the process to produce this report, senior officers review expenditure and income across all services to support the development of mitigation plans that will return the outturn to a balanced position at year-end.
- 81 Forecasts contained within this review provide important information in the process of developing the Medium-Term Financial Strategy. Analysis of variances during the year will identify whether such performance is likely to continue, and this enables more robust estimates to be established.
- 82 The risk associated with the scale of these challenges 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:

1. Spending decisions could be made that exceed the available resources of the Council. This would unbalance the budget, which is unlawful.
2. Spending decisions to restrict or hide pressures could be made that avoid an immediate deficit, but in fact are based on unlawful activity.

83 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.

84 Further consequences would be highly likely and could include the appointment of Commissioners from the MHCLG, and potential restrictions on the decision-making powers of local leaders.

Human Resources

85 This report is a backward look at Council activities at outturn and states the year end position. Any HR implications that arise from activities funded by the budgets that this report deals with will be dealt within the individual reports to Members or Officer Decision Records to which they relate.

Risk Management

86 Financial risks are assessed and reported on a regular basis, and remedial action taken if required. Risks associated with the achievement of the 2024/25 budget and the level of general reserves were factored into the 2025/26 financial scenario, budget, and reserves strategy.

Impact on other Committees

87 All Committees will receive this financial update report.

Policy

88 This report is a backward look at Council activities and predicts the year-end position. It supports the Council's vision of being an effective and enabling Council as set out in the Cheshire East Plan 2025-2029

- 89 The forecast outturn position, ongoing considerations for future years, and the impact on general reserves will be fed into the assumptions underpinning the 2026 to 2030 Medium-Term Financial Strategy.
- 90 The approval of supplementary estimates and virements are governed by the Finance Procedure Rules section of the Constitution.

Equality, Diversity and Inclusion

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

Consultation

Name of Consultee	Post held	Date sent	Date returned
Statutory Officer (or deputy):			
Ashley Hughes	S151 Officer	28/08/2025	02/09/2025
Kevin O'Keefe	Interim Monitoring Officer	28/08/2025	02/09/2025
Legal and Finance			
Julie Gregory	Legal Manager	28/08/2025	01/09/2025
Chris Benham	Director of Finance	28/08/25	01/09/2025

Access to Information	
Contact Officer:	Chris Benham – Director of Finance Chris.benham@cheshireeast.gov.uk
Appendices:	Annex 1 - Detailed First Financial Review 2025/26: • Section 1 2025/26 Forecast Outturn • Section 2 2025/26 Directorate Revenue Commentary and update on 2025/26 Approved Budget Change Items • Section 3 Revenue Grants for approval

	• Section 4 Capital • Section 5 Reserves Annex 2 - Detailed Capital Programme 2025/26 Annex 3 - additional information: • Section 1 Debt • Section 2 Council Tax and Business Rates • Section 3 Treasury Management • Section 4 Prudential Indicators
Background Papers:	The following are links to key background documents: MTFS 2025-2029