

OPEN

Adults and Health Committee

17 November 2025

Second Financial Review 25/26

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

Report Reference No: AH/02/25-26

Ward(s) Affected: Not applicable

For Decision and Scrutiny

Purpose of Report

- 1 This report provides the Adults and Health Committee an update on the current forecast outturn for the financial year 2025/26. This is the second financial review (FR2) and is based on our income, expenditure and known commitments as at the end of August 2025.
- 2 The report is structured into four parts:
 - a) An Executive Summary of the Council's Financial Position
 - b) A Summary of Recommendations
 - c) An Adults and Health Committee focused narrative
 - d) An annex for the Committee that summarises the service level financial forecast and the detailed capital programme.
- 3 The Executive Summary of the Council's Financial Position provides the Committee with summary details of the Council's forecast outturn for all services. This provides the Committee with contextual information on the financial position of the Council. The Committee is asked to focus their scrutiny on the forecasts and supporting information relating to services within the remit of the Committee whilst understanding the overall financial position of the Council.
- 4 The Summary of Recommendations requests the Committee's approval for amendments to the Committee's budget, in line with the Committee's authorisation levels.

- 5 The Committee focused narrative presents the current revenue and expenditure commentary with an update on the 2025/26 approved budgeted change items relating to the Adults and Health services.
- 6 The annex includes the summary of the service level financial forecast and the individual projects within the Directorate's capital programme.
- 7 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.
- 8 The full report to Finance Sub Committee on 3 November 2025 includes additional information on debt, Council Tax and Business Rates collection, Treasury Management and Prudential Indicators. The report can be found here [Finance Sub Committee FR2 Report](#).

Executive Summary – Council Financial Position

- 9 This is the Second Financial Review monitoring report (FR2), showing the forecast outturn position for the 2025/26 financial year.
- 10 The report provides the current forecast outturn position for the revenue budget, capital budget, Dedicated Schools Grant (DSG) and Transformation Programme for the financial year 2025/26.
- 11 The Second Financial Review (FR2) forecast revenue outturn is an **adverse variance of £2.345m** against a net revenue budget of £360.198m which is an improvement of £0.802m compared to the overspend reported at FR1 of £3.147m.
- 12 The current forecast is that services will be £12.904m over budget in the current year, whilst central budgets are forecast to be £10.559m under budget, resulting in the overall outturn overspend of £2.345m overspend.
- 13 This is after the application of planned use of conditional Exceptional Financial Support **£25.261m** as set out in the approved budget in February 2025. Please see Table 1 at the top of page 3 for details:

Table 1 2025/26 FR2	Revised Budget	Forecast Outturn	Forecast Variance	Forecast Variance FR1 £m	Movement from FR1 to FR2 £m
	£m	£m	£m		
Service Committee					
Adults and Health	167.257	167.334	0.077	(0.295)	0.372
Children and Families	98.420	107.283	8.863	8.998	(0.135)
Corporate Policy	43.708	43.492	(0.216)	0.062	(0.278)
Corporate Policy - Cross Transformation	(13.452)	(3.821)	9.631	9.631	-
Economy Growth	28.756	25.996	(2.760)	(2.285)	(0.475)
Environment and Communities	43.618	40.921	(2.697)	(2.545)	(0.152)
Highways and Transport	17.151	17.159	0.008	0.114	(0.106)
Total Service Budgets	385.458	398.364	12.906	13.680	(0.774)
Finance Sub:					
Central Budgets	55.000	44.439	(10.561)	(10.533)	(0.028)
Funding	(415.197)	(415.197)	-	-	-
Total Finance Sub	(360.197)	(370.758)	(10.561)	(10.533)	(0.028)
Exceptional Financial Support	(25.261)	(25.261)	-	-	-
TOTAL	-	2.345	2.345	3.147	(0.802)

- 14 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 £2.345m overspend. Each Directorate has plans underway to deliver approved budget changes (growth and savings) identified as part of the 2025/26 approved budget per MTFS line.
- 15 The value of additional mitigation plans not yet reflected as delivered at FR2 are estimated at £1.933m, giving a potential improved overall forecast of £0.412m overspend. However, should the current mitigations included in the FR2 forecast not materialise, alongside further risks identified, then the forecast overspend position could increase to £21.191m adverse.
- 16 The opening DSG deficit is £112.149m with an in-year projected movement of £33.829m to forecast a year end deficit of £145.978m.
- 17 The FR2 forecast outturn position against the approved Transformation budget changes for 2025/26 is outlined in Table 2 below. The Committee should note that one off in year mitigations totalling £1.789m have been identified to temporarily offset the forecast overspend.

Table 2 - Transformation Budget Saving	Original Budget	Forecast Outturn	Forecast Variance	Forecast Variance FR1	Movement from FR1 to FR2
	£m	£m	£m	£m	£m
Access to Services & Corporate Core (Cross cutters including Digital/Workforce/3 rd Party Spend/Fees & Charges)	(13.452)	(3.821)	9.631	9.631	-
Service Delivery – Adults Social Care	(7.000)	(7.000)	-	-	-
Service Delivery – Children's	(3.788)	(0.868)	2.920	2.420	0.500
Service Delivery – Place	(0.175)	(0.175)	-	-	-
Total	(24.415)	(11.864)	12.551	12.051	0.500

- 18 The movement of £0.500m in the forecast variance is due to delays in the Children and Families Services Birth to Thrive Transformation project, which means that savings will now not be delivered in 2025/26.
- 19 The capital programme for the current year is forecasting expenditure of £167.700m in year, an underspend of £40.791m against a budget of £208.491m at FR2. This is an increase against the approved MTFS budget of £173.142m due to increases in Supplementary Capital Estimates (SCEs) of £23.031m as well as some reprofiling of projects.
- 20 The overall forecast revenue overspend of £2.345m remains a significant financial challenge for the Council when considered in addition to the planned use of Exceptional Financial Support (EFS) of £25.261m.
- 21 Reserves at out-turn were £29.413m, being £6.299m of General Fund Reserves and £23.114m of Earmarked Reserves. A planned net use of Earmarked Reserves and the General Fund Reserve is forecast at £2.282m leaving £27.131m 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.

RECOMMENDATIONS

The Adults and Health Committee is recommended to:

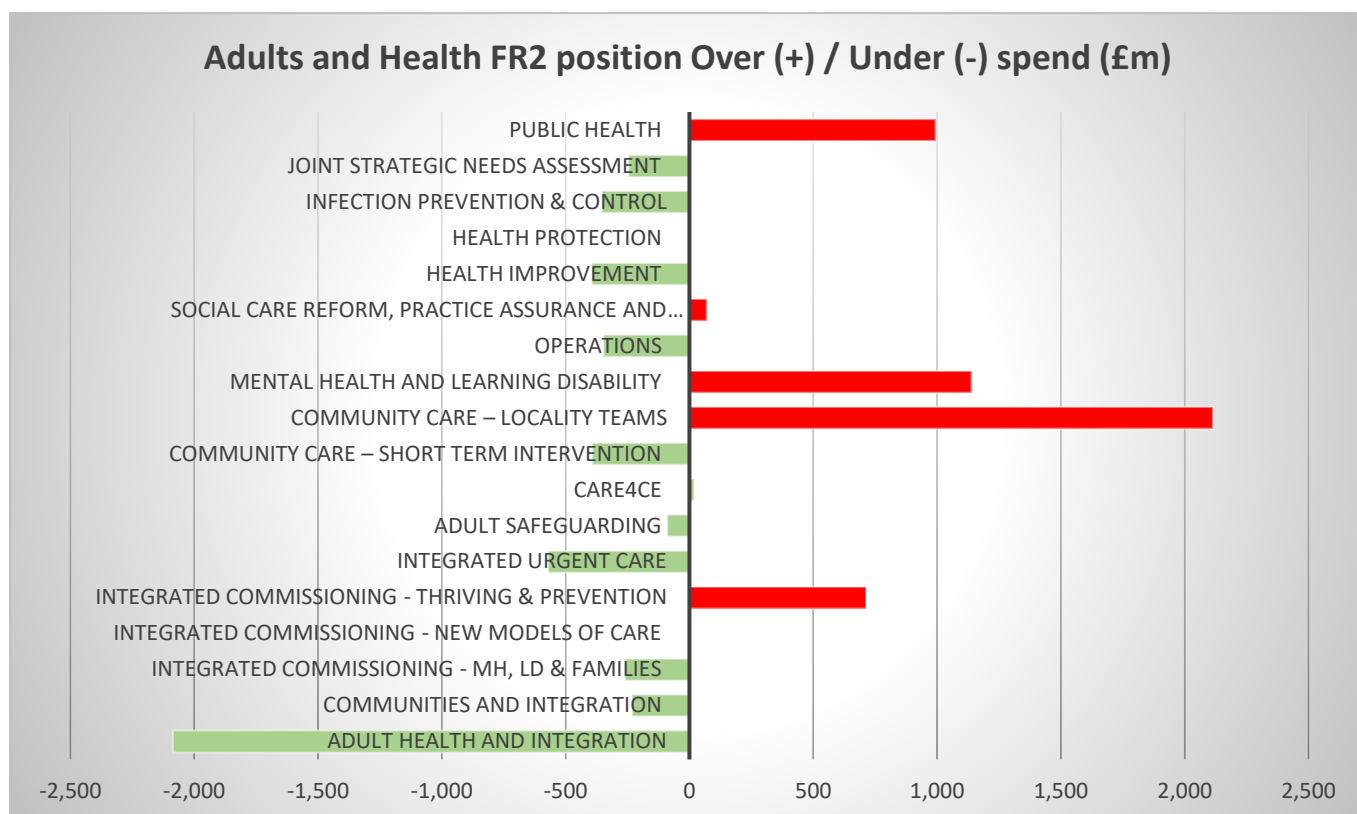
1. Note the overall Council's Financial position as described within the Executive Summary – Council Financial Position.
2. Scrutinise the latest revenue forecast for Adults and Health Directorate, review progress on the delivery of the MTFS approved budget policy change items (Table 3), the RAG ratings and to understand the actions to be taken to address any adverse variances from the approved budget.
3. Note the overall in-year forecast capital spending for Adults and Health Directorate of £0.132m against a revised MTFS budget of £0.468m in Tables 4 and 5.
4. Note the available reserves position as per Table 6.

Adults and Health Committee Focused Narrative

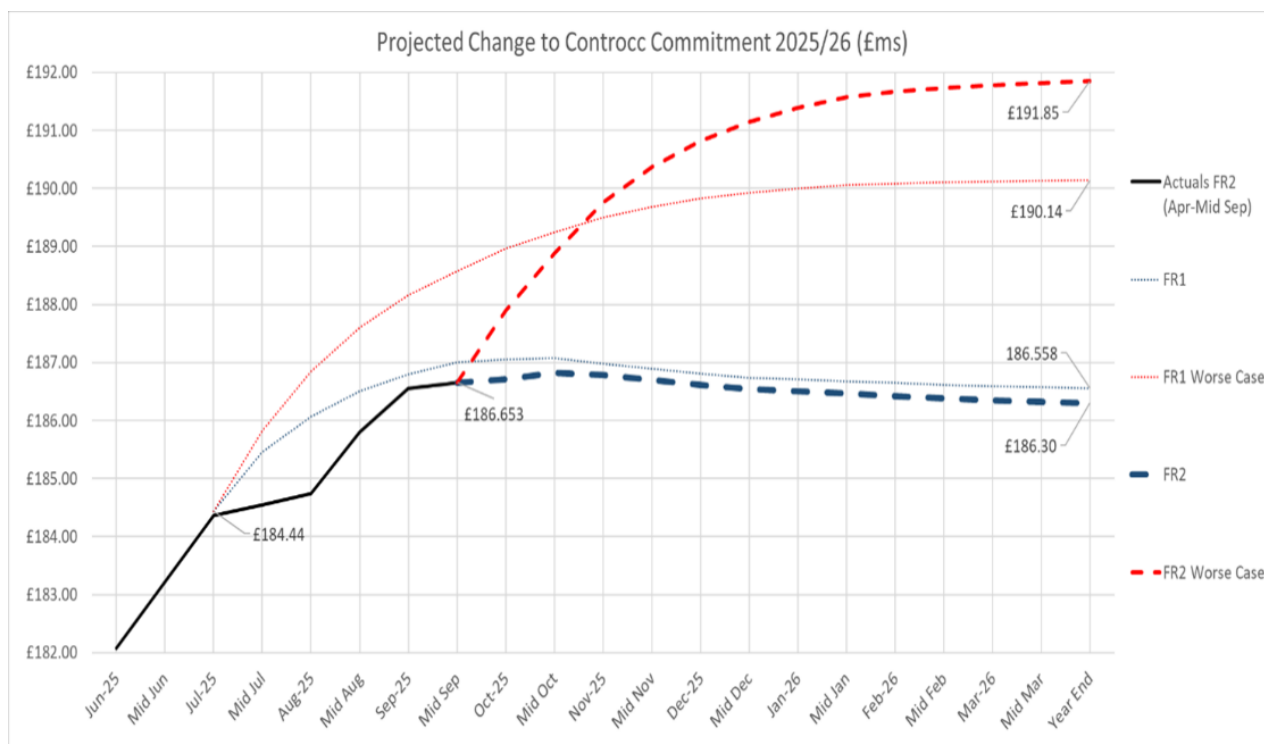
Revenue and Expenditure Commentary including an update on the 2025/26 Approved Budget Change Items

- 22 The Adults and Health Committee second financial review for 2025/26 presents a forecast overspend of ££0.077m reflecting a deterioration of £0.372m since FR1. The early assumptions included in FR1 and FR2 have been developed using information about the impact of transformation activity. However, estimates remain subject to change over the remaining seven months of 2025/26. Under a worst-case scenario, FR2 indicates a potential overspend of £6.212m.

The graph below presents the service level position of the Directorate with the summary data available within Section 1 of Annex 1.



- 23 The forecast for client contributions to adult social care have been revised down following internal review work over the summer. The expected positive variance against budget has reduced from £3.462m to £2.717m. This £0.745m adjustment to the original projection reflects a more accurate assessment of recoverable income. The recently published annual review from the Local Government and Social Care Ombudsman's reported a 28% rise in complaints nationally in respect of care charges, highlighting wider challenges in this area.
- 24 This has been partially offset by a £0.330m positive variance on care cost accruals. This forecasted variance for 2025/26 reflects a prudent estimate of the value of pending costs which relate to prior financial years. Now that 5 months of 2025/26 has elapsed, current forecasts predict this benefit in year.
- 25 Care costs have continued to rise since FR1. There was a sharper-than-expected increase in July. However, growth in August was below the forecasted rate, resulting in a broadly neutral impact over the two-month period. These variances reflect the variability in care cost trends and highlights the challenges in forecasting commissioned care costs. The following chart shows the change to forecasted gross cost commitment since FR1:



Figures in Chart:

FR1 (April – July) Actual Commitment for 2025/26, **£184.440m**

FR2 (April – Mid-September) Actual Commitment for 2025/26, **£186.653m**

FR2 Forecasted closing Commitment (including growth and savings estimates)
£186.300m

FR2 Forecasted closing Commitment, worst case scenario, (including of growth and savings estimates) **£191.850m**

Summary of 2025/26 Financial Commitment as 12th September (FR2):

PSR	Age Band	Accommodation with Care	Supported Living	Care at Home	Direct Payment	Day Care	Shared Lives	Total
Learning Disability Support	18-64	£ 12,205,181	£ 26,854,178	£ 8,422,182	£ 5,607,750	£ 2,165,890	£ 277,434	£ 55,532,614
Learning Disability Support	65+	£ 1,773,730	£ 4,095,960	£ 1,056,724	£ 7,352	£ 93,545	£ 25,515	£ 7,052,826
Memory & Cognition	18-64	£ 2,042,129	£ 456,861	£ 270,843	£ 154,496	£ 9,892	£ 11,643	£ 2,945,864
Memory & Cognition	65+	£ 28,262,062	£ 255,688	£ 2,907,814	£ 662,434	£ 68,541	£ 58,343	£ 32,214,883
Mental Health	18-64	£ 2,243,393	£ 5,743,965	£ 2,035,980	£ 438,585	£ 11,256	£ 84,221	£ 10,557,398
Mental Health	65+	£ 5,667,641	£ 523,540	£ 956,047	£ 82,773	£ -	£ 39,875	£ 7,269,877
Physical Support	18-64	£ 3,114,119	£ 2,254,340	£ 3,752,477	£ 2,447,669	£ 97,601	£ 91,169	£ 11,757,375
Physical Support	65+	£ 31,890,380	£ 660,130	£ 19,604,394	£ 892,311	£ 12,972	£ 45,898	£ 53,106,085
Sensory Support	18-64	£ 157,900	£ 529,779	£ 191,476	£ 500,308	£ 44,627	£ -	£ 1,424,089
Sensory Support	65+	£ 537,361	£ 1,044	£ 181,288	£ 35,500	£ -	£ 3,842	£ 759,035
Social Isolation Support	18+	£ 395,915	£ 835,409	£ 387,750	£ 322,427	£ 118,757	£ 89,677	£ 2,149,935
Social Isolation Support	18-64	£ -	£ -	£ -	£ -	£ -	£ 22	£ 22
Substance Misuse Support	18+	£ 201,550	£ 107,778	£ 92,761	£ -	£ -	£ 703	£ 402,792
Support for Carer	18+	£ -	£ -	£ 3,635	£ 163,744	£ -	£ -	£ 167,379
Support for Carer	18-64	£ -	£ -	£ -	£ 2,221	£ -	£ -	£ 2,221
Block Contract Commitments								£ 1,310,587
Total		£ 88,491,360	£ 42,318,673	£ 39,863,371	£ 11,317,569	£ 2,623,081	£ 728,343	£ 186,652,984

Risks

- 26 FR2 assumes transformation savings to be delivered in the remaining 7 months of 2025/26 in line with the planned profile of savings. The original MTFS 2025/26 savings targets were informed by the Inner Circle deep dives (July 2024), which provided high-level estimates of potential savings. Business cases are now progressing, with pilots underway and implementation support being recruited. While the full-year savings remain achievable, some in-year mitigation is required due to the timing of delivery. An additional £2.549m is expected to be delivered in 2025/26, and £1.490m has been verified as delivered by FR2:

MTFS Saving 2025/26	Budget (£ms)	FR2 - Total Forecast (£ms)	FR2 Budget Variance (£ms)
Prevent, Reduce, Enable	-£1.500	-£0.339	£1.161
Learning Disability Transformation	-£2.500	-£1.000	£1.500
Commissioning and Brokerage	-£0.500	-£0.500	£0.000
Partnership Case Review	-£2.500	-£2.200	£0.300
Preparing for Adulthood	-£0.868	£0.000	£0.868
Total	-£7.868	-£4.039	£3.829

- 27 Demographic growth: The FR2 position assumes externally commissioned care growth of £2.2m between FR2 and year end. This estimate matches the trend seen in 2024/25 and is based on comparable conditions and internal constraints for expenditure growth. The chart above illustrates the forecasted impact of this £2.194m growth and the estimated £2.549m in savings between FR2 to the year end. The worst-case line excludes the estimated savings and adds in a £3.000m risk associated with an increase to the number of returning self-funders being picked up.

NHS

- 28 A material financial risk associated with the ongoing NHS restructuring which was highlighted in the FR1 report remains.
- 29 There is an emerging significant risk associated with current and forecasted winter pressures. Both Acute Trusts are being placed into NHS Tier 1 intervention status, which is part of a national escalation framework used during periods of extreme operational pressure. This escalation presents a challenge to the local authority; early indicators are already highlighting

increased pressure on discharge pathways and increasing financial pressure to the local authority. This position will continue to be closely monitored through the winter period.

Mitigations

- 30 The position assumes it will be possible to replicate 2024/25's use of grants against eligible criteria.
- 31 The forecast assumes that staffing levels remain consistent with the September payroll. Underspends in year are currently being driven by held vacancies, which are forecast at FR2 to continue throughout 2025/26.

Update on 2025/26 Approved Budget Change Items

- 32 The following section provides an explanation of the key drivers behind variances to the budget for the Adults and Health directorate. Table 3 provides detailed commentary on the progress against the approved budget change items that were agreed as part of the approved budget in February 2025.

Table 3 – Detailed List of Approved Budget Change Items

MTF S Ref No	Detailed List of Approved Budget Changes – Service Budgets	2025/26 MTFS £m	2025/26 Forecast Outturn £m	2025/26 Forecast Outturn Variance £m	Progress 2025/26 (RAG rating and commentary)
Adults and Health Committee 2025/26 Revised Budget as per Cover report Table 1		167.257	167.334	0.077	
Change from 2024/25 budget		21.494	21.571	0.077	
1	Client Contributions	(5.182)	(5.182)	-	Green - Income target for 2025/26 has been achieved.
2	Revenue Grants for Adult Social Care	(0.220)	(0.220)	-	Completed
3	Pensions Cost Adjustment	(0.517)	(0.517)	-	Completed

MTF S Ref No	Detailed List of Approved Budget Changes – Service Budgets	2025/26 MTFS £m	2025/26 Foreca st Outturn £m	2025/26 Foreca st Outturn Varianc e £m	Progress 2025/26 (RAG rating and commentary)
4	Demand in Adult Social Care	5.000	5.000	-	Amber – The Council has completed a model to forecast cost and demand in adult social care which will form the basis of future growth and saving requirements.
5	Pay Inflation	2.251	2.961	0.710	Red - LGS pay offer for 2025.Full and final offers of 3.20% increase resulting in overspend of c.£1.7m across the Council. Updated at FR1 to include additional pressure from the 2.5% not previously identified.
6	Funding the staffing establishment	3.800	3.800	-	Green - Increases in the number of social care staff to maintain safe services and to meet increasing demands.
7	Fully Funding current care demand levels 2024/25	24.500	24.500	-	Green - Growth, recognising the full year effect of current pressures on the externally commissioned care budget.

MTF S Ref No	Detailed List of Approved Budget Changes – Service Budgets	2025/26 MTFS £m	2025/26 Foreca st Outturn £m	2025/26 Foreca st Outturn Varianc e £m	Progress 2025/26 (RAG rating and commentary)
8	Remodel extra care housing catering service	(0.270)	(0.270)	-	Green - Work is ongoing to remodel the catering offer in extra care facilities.
9T	Prevent, Reduce, Enable - Older People	(1.500)	(0.339)	1.161	Amber - The Prevent Reduce Enable programme has been established in accordance with the Council's Strategic Transformation programme. The pilot began on 16th June. The Prevent, Reduce, Enable programme is focused on ensuring that people are supported to live independent lives for as long as possible, delaying the need for commissioned social care services. The business case for year one anticipates a realisable saving of £650k. This is a shortfall of £850k against the MTFS. Offsetting savings are being identified.

MTF S Ref No	Detailed List of Approved Budget Changes – Service Budgets	2025/26 MTFS £m	2025/26 Foreca st Outturn £m	2025/26 Foreca st Outturn Varianc e £m	Progress 2025/26 (RAG rating and commentary)
10T	Learning Disability service transformation	(2.500)	(1.000)	1.500	Amber - Programme status has been updated to Amber due to continued challenges identified within working groups about delivery targets. The full year effect of the transformation programme remains at £2.5m as per the MTFS savings target, however, it is acknowledged the delivery of the full target will not be achieved this year due to a time lag in converting business cases into delivery. The forecast has been amended to £1m to reflect this. A breakdown of how the £2.5m (full year effect) savings target will be achieved is in development, covering the three key areas of the programme, Supported Living, Care4CE, and Shared Lives contributions.

MTF S Ref No	Detailed List of Approved Budget Changes – Service Budgets	2025/26 MTFS £m	2025/26 Foreca st Outturn £m	2025/26 Foreca st Outturn Varianc e £m	Progress 2025/26 (RAG rating and commentary)
					Work is also underway to confirm savings from the decommissioning of one of our Supported Living buildings, (estimated at £154k) this to be recorded against this target once validated
11T	Commissioning and brokerage transformation	(0.500)	(0.500)	-	Green - The Guide Price Policy is now in place and a tracker has been set up to monitor savings against the MTFS target. There is a high confidence level that this can be achieved.
12T	Preparing for Adulthood	(0.868)	-	0.868	Red - This saving will be realised in children's services, it is likely that this is double counting with saving identified in the Birth to Thrive transformation group. The Council is are reviewing as part of 'plan B' savings.
13T	Health and Social Care Partnership Case Review	(2.500)	(2.200)	0.300	Green - This is now part of BAU and the service will provide updates via a tracker as to the progress against the target. To

MTF S Ref No	Detailed List of Approved Budget Changes – Service Budgets	2025/26 MTFS £m	2025/26 Forecast Outturn £m	2025/26 Forecast Outturn Variance £m	Progress 2025/26 (RAG rating and commentary)
					date this year the Council has achieved £0.684m.
In year	Other forecast mitigations within the Adults services	-	(4.545)	(4.545)	Mitigations linked to maximisation of eligible grants, careful management of vacancies, and client income. To reconcile to FR2.
In year	Other forecast pressures within the Adults services	-	0.083	0.083	Other variances to reconcile to FR2 position.

Capital Programme

33 **Table 4** below sets out the Adults and Health capital programme position for 2025/26 as at FR2, showing forecast of £0.132m against revised MTFS budget at outturn of £0.468m.

Table 4 Capital 2025/26	MTF S £m	Out - turn £m	Actu als FR1 £m	Actu als FR2 £m	Forec ast Spend £m	Gov Grant s £m	Ext Cont ributions £m	Rev Co ntri butions £m	Cap Rece ipt £m	Prud Borr ow £m	TOT AL £m
Adults and Health	0.389	0.468	-	-	0.132	0.132	-	-	-	-	0.132

34 Movements in the forecast 25/26 expenditure are made up of a Supplementary Capital Estimate (SCE)m for Community – Rural Shared Prosperity Fund £0.088m, carry forwards from 24/25 £0.167m with subsequent reprofiling to 2026/27 £0.424m, notably the Electronic Call Monitoring System £0.389m.

- 35 **Table 5** shows the movement in the 2025/26 Capital budget since the MTFS Budget was approved in February 2025.

Table 5 Capital Movement 2025/26	MTFS Budg et 2025- 29 £m	SCE Outtu rn and FR1 £m	Carry Forwar d & Budg et Reduc tion Outtur n and FR1 £m	Vire ment Outtu rn and FR1 £m	Re profil ed to futur e FR1 £m	SCE FR2 £m	Vire ment FR2 £m	Budge t Reduc tion FR2 £m	Re profil ed to futur e FR2 £m	FR2 2025/ 26 £m
Adults and Health	0.389	-	0.167	-	(0.424)	-	-	-	-	0.132

- 36 Each Committee is being asked to recognise the need for capital restraint particularly if external borrowing is required. This is being monitored and tracked through the work of the Capital Programme Board.

Reserves Position

- 37 Table 6 below shows the Adults and Health position on reserves by the end of 2025/26.

Table 6 Earmarked Reserves	Balance at 1 April 2025	Drawdown to Support Service Exp	Additional Contributi ons to Reserves	Balance Forecast at 31 March 2026	Notes
	£m	£m	£m	£m	
Public Health Reserve	(3.204)	-	(0.465)	(3.669)	Ring-fenced underspend to be invested in areas to improve performance against key targets.
PFI Equalisation - Extra Care Housing	-	-	(0.046)	(0.046)	Surplus grant set aside to meet future payments on existing PFI contract.

					The reserve was temporarily appropriated to support the budget deficit. Additional contributions, above the original schedule, will be required to realign the reserve balance to the funding shortfall.
Total Reserves	(3.204)	-	(0.511)	(3.715)	

Consultation and Engagement

- 38 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

- 39 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.
- 40 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

- 41 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

- 42 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.

- 43 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.
- 44 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.
- 45 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.
- 46 This report provides an update on progress for 2025/26 for all services.
- 47 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

- 48 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.
 - 49 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
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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.

- 50 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.
- 51 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.
- 52 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.
- 53 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.
- 54 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.
- 55 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

- 56 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

- 57 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

58 All Committees will receive this financial update report.

Policy

59 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

60 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.

61 The approval of supplementary estimates and virements are governed by the Finance Procedure Rules section of the Constitution.

Equality, Diversity and Inclusion

62 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):			
Chris Benham	Director of Finance and Deputy S151 Officer	05/11/2025	05/11/1025
Kevin O'Keefe	Interim Director of Law and Governance (Monitoring Officer)	05/11/2025	06/11/2025
Legal and Finance			
Hilary Irving	Interim Head of Legal Services	05/11/2025	05/11/2025
Other Consultees:			
Executive Directors/Directors:			

Access to Information	
Contact Officer:	Chris Benham – Director of Finance Chris.benham@cheshireeast.gov.uk
Appendices:	Annex 1 - Detailed Second Financial Review 2025/26
Background Papers:	The following are links to key background documents: MTFS 2025-2029 First Financial Review 2025/26