

OPEN

Finance Sub-Committee

3 November 2025

Second Financial Review 25/26

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

Report Reference No: FSC/11/25-26

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 August 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 Second Financial Review monitoring report (FR2), 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, Dedicated Schools Grant (DSG) and Transformation Programme for the financial year 2025/26.
- 9 The Second Financial Review (FR2) forecast revenue outturn is an **adverse variance of £2.345m**, an improvement of £0.802m compared to the overspend reported at FR1 of £3.147m. 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. Further details are shown in **Table 1** in paragraph 20.
- 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 £2.345m overspend. 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.
- 11 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.
- 12 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 – refer to paragraph 47 for further details.
- 13 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 £173.077m due to increases in Supplementary Capital Estimates (SCEs) of £23.031m as well as some reprofiling of projects.

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

15 **Annex 1: Detailed Second 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

16 **Annex 2: Detailed Capital Programme 2025/26**

17 **Annex 3: Detailed Second 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 £2.345m against a revised budget of £360.198m (0.65%). 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 £167.700m against an increased capital budget of £208.491m.
3. Approve the temporary virement of £1.415m budget from the Place Directorate to the Transformation budget, this relates to in year savings delivered of £1.039m to offset third party spend and £0.376m fees and charges.
4. 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**.
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. Note the Capital Budget Reductions as per **Annex 1, Section 4, Table 5**
7. Note the available reserves position as per **Annex 1, Section 5**.

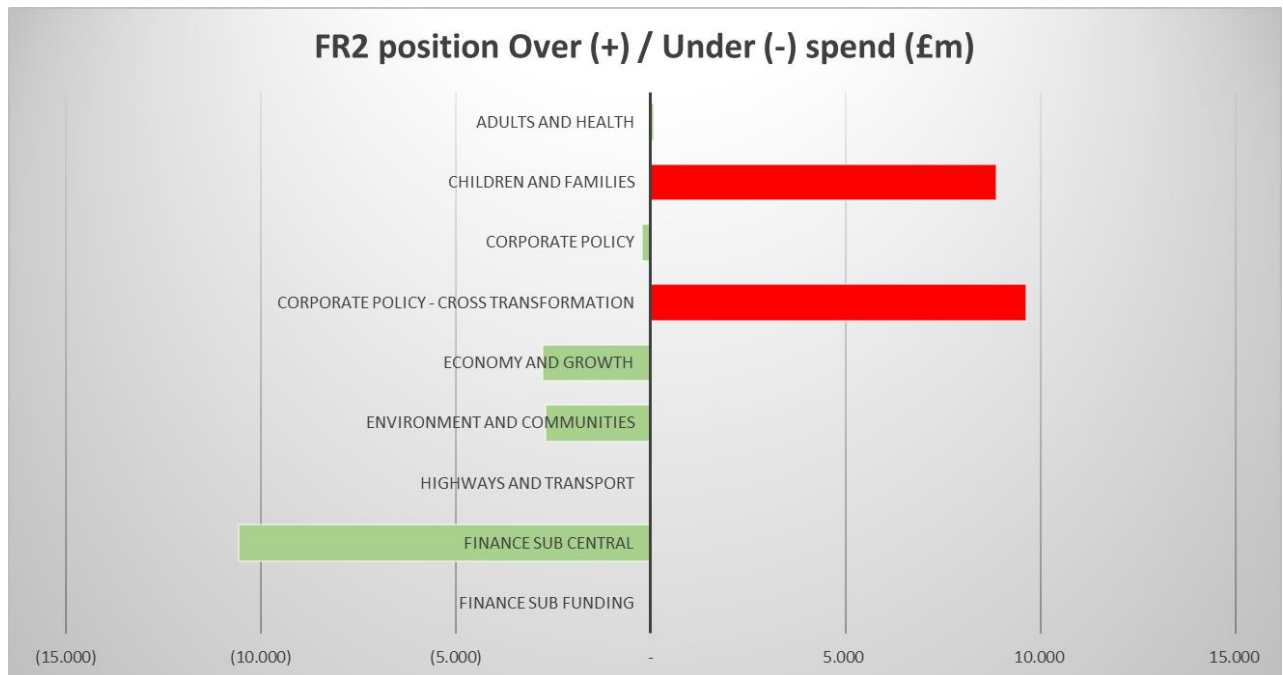
Background

- 18 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 £25.261m, plus £24.415m 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.
- 19 For the purposes of each committee, 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 2 (FR2)

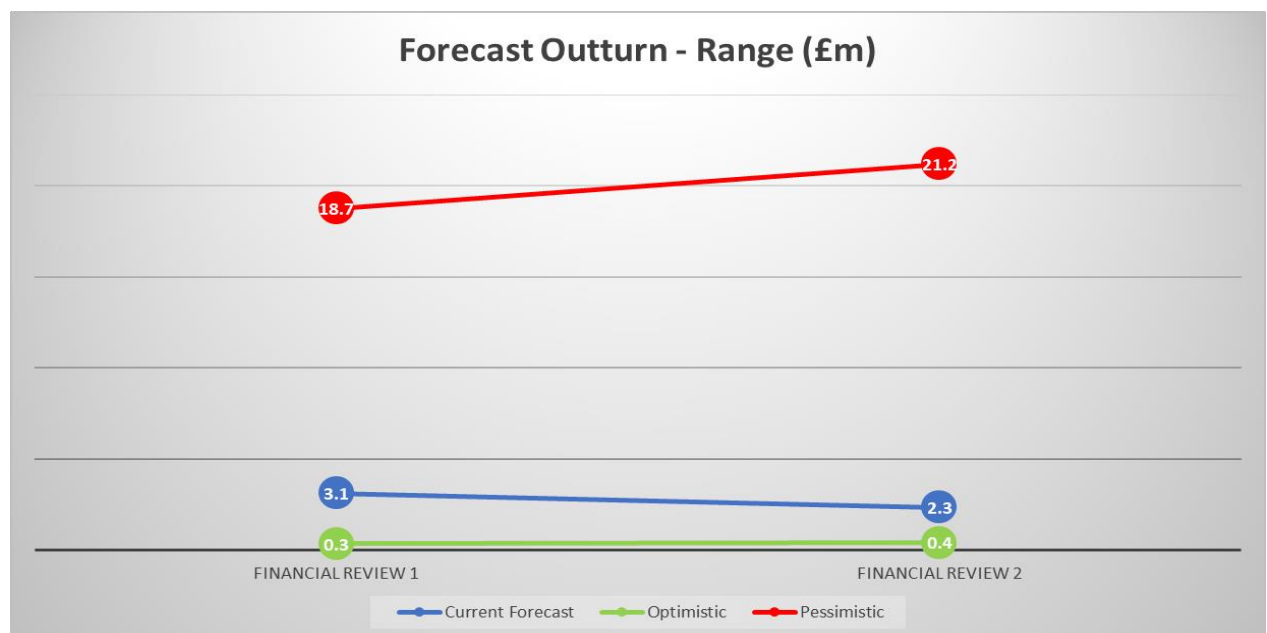
- 20 Overall, the Second Financial Review (FR2) forecast revenue outturn is an **adverse variance of £2.345m** (after the application of planned use of conditional Exceptional Financial Support **£25.261m** as set out in the approved budget in February 2025). Further details are shown in **Table 1 below**.

Table 1 2025/26 FR2	Revised Budget	Forecast Outturn	Forecast Variance	Forecast Variance FR1	Movement from FR1 to FR2
	£m	£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)



- 21 The key areas causing an overspend at FR2 continue to be the Children and Families directorate and pressures against the in-year cross-directorate Transformation savings. Children and Families have seen a slight improvement since FR1, but the projected overspend remains at £8.863m which is driven by the increased costs of placements (£7.979m adverse) and agency staffing overspend. A shortfall of £9.631m is forecast against in-year cross-directorate Transformation savings, details of all Transformation related activity can be found in paragraphs 41-46 below.
- 22 Offsetting these pressures, there is a favourable variance of £5.450m within the Place Directorate due to vacancy management and a number of one-off income items expected in year such as the Extended Producer Responsibility grant, reserves from the companies brought back in house and some overdue rent to be received.
- 23 The contingency budget is contributing a further £7.253m to the overspend position (including the use of £1.705m to cover the pay inflation pressure), whilst interest and Minimum Revenue Provision (MRP) are forecast to be £3.306m 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.
- 24 The most significant change since FR1 is the improvement in Place as described above and also within the Corporate directorate where the forecast has benefitted from further vacancy management.

- 25 The optimistic position of £0.412m may be achieved through a number of possible improvements: a betterment within Children and Families could occur due to the use of unallocated grant funding to mitigate staff costs, reduced agency cover due to permanent recruitment and minimise the spot purchasing of bednights.
- 26 The Environment and Communities forecast may be improved further due to better bereavement and recycling income, lower Household Waste Recycling Centres (HWRC) cost due to re-procurement and lower growth required for Refuse Collection Vehicles where modifications may provide an alternative solution.
- 27 The pessimistic position of £21.191m assumes a worsening forecast of £8.779m within the Adults & Health and Children & Families Directorates. For Adults there are risks of a delay in the realisation of transformation savings and the cost of Adult's Social Care increasing due to a change in the number of self-funders. The cost of placements for Children and Families may increase further together with the need to recruit International Social Workers towards the end of the year.
- 28 This position does not assume use of the Contingency Budget of £5.548m to offset the deficit and a further reduction of £3.0m of the level of Transformation savings.
- 29 Other changes include a reduction in Digital project income arising from staffing changes associated with Gemini. Transport costs may increase due to higher repairs and maintenance on an ageing fleet.



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 the establishment to identify where any budgets can be removed.
 - 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.
 - 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 £5.548m (after general pay inflation pressure of £1.705m) has been released from Contingency to support the overall Council over commitment.

Risks

- 31 The key risks to the year end outturn continue to be the cost and number of placements for children's social care, the level of agency staff needed to balance the resource required to support children's services and the demands on the Adult's Social care service. Whilst progress is being made against some Transformation projects, there remains a significant gap on the budgeted cross directorate savings which requires further mitigation.

Capital Programme

- 32 The MTFS budget of £173.077m 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 £208.491m. This was driven by increases in Supplementary Capital Estimates (SCEs) of £23.013m as well as some reprofiling of projects.
- 33 The FR2 forecast position for capital spending for 2025/26 indicates capital expenditure of £167.700m against the revised MTFS budget of £208.491m.
- 34 **Table 2 below** sets out the capital programme position for 2025/26 as at FR2:

Table 2 Capital 2025/26	MTFS	Out - turn	Actuals FR1	Actuals FR2	Forecast Spend	Gov Grants	Ext Contri bution s	Rev Contri bution s	Cap Receipt	Prud Borrow	TOTAL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Adults & Health	0.389	0.468	-	-	0.132	0.132	-	-	-	-	0.132
Children & Families	37.723	56.131	0.030	1.161	24.556	18.997	4.196	-	0.050	1.313	24.556
Corporate Policy	12.745	10.125	1.014	2.506	13.298	-	-	-	-	13.298	13.298
Economy & Growth	36.081	56.535	3.036	6.583	44.414	22.921	1.677	0.067	0.328	19.421	44.414
Environment & Communities	19.357	18.606	0.451	1.099	15.284	8.655	1.600	0.647	-	4.382	15.284
Highways & Transport	66.782	66.626	4.730	15.883	70.016	57.318	4.247	0.100	0.100	8.251	70.016
TOTAL	173.077	208.491	9.261	27.232	167.700	108.023	11.720	0.814	0.478	46.665	167.700

- 35 **Table 3** shows the movement in the 2025/26 Capital budget since the MTFS Budget was approved in February 2025.

Table 3 Capital Movement 2025/26	MTFS	SCE	Carry Forward & Budget Reduction Outturn and FR1	Virement	Re profiled to future	SCE	Virement	Budget Reduction	Re profiled to future	FR2 2025/26
	Budget 2025-29 £m	Outturn and FR1 £m	£m	Outturn and FR1 £m	FR1 £m	FR2 £m	FR2 £m	FR2 £m	FR2 £m	£m
Adults & Health	0.389	-	0.167	-	(0.424)	-	-	-	-	0.132
Children & Families	37.723	4.624	5.584	0.308	(0.493)	-	(3.460)	-	(19.730)	24.556
Corporate Policy	12.745	-	3.736	-	-	-	-	-	(3.183)	13.298
Economy & Growth	36.081	2.594	11.097	-	(5.352)	0.921	(0.409)	-	(0.518)	44.414
Environment & Communities	19.357	1.610	6.154	-	(1.229)	-	(0.050)	(0.004)	(10.555)	15.284
Highways & Transport	66.782	11.166	4.580	-	(10.136)	1.373	0.459	(0.284)	(3.924)	70.016
TOTAL	173.077	19.994	31.318	0.308	(17.634)	2.294	(3.460)	(0.288)	(37.910)	167.700

- 36 Detailed Committee tables are set out in **Annex 2**

- 37 A full update is being provided to the Capital Programme Board.
- 38 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.
- 39 The current Capital programme remains unaffordable and ongoing scrutiny of the capital programme will be undertaken by the Capital Programme Board.
- 40 The current forecast for achievable capital receipts in year remains at £1.000m at FR2 – in line with budget - however further receipts are in the pipeline and a further update will be provided at FR3. 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.

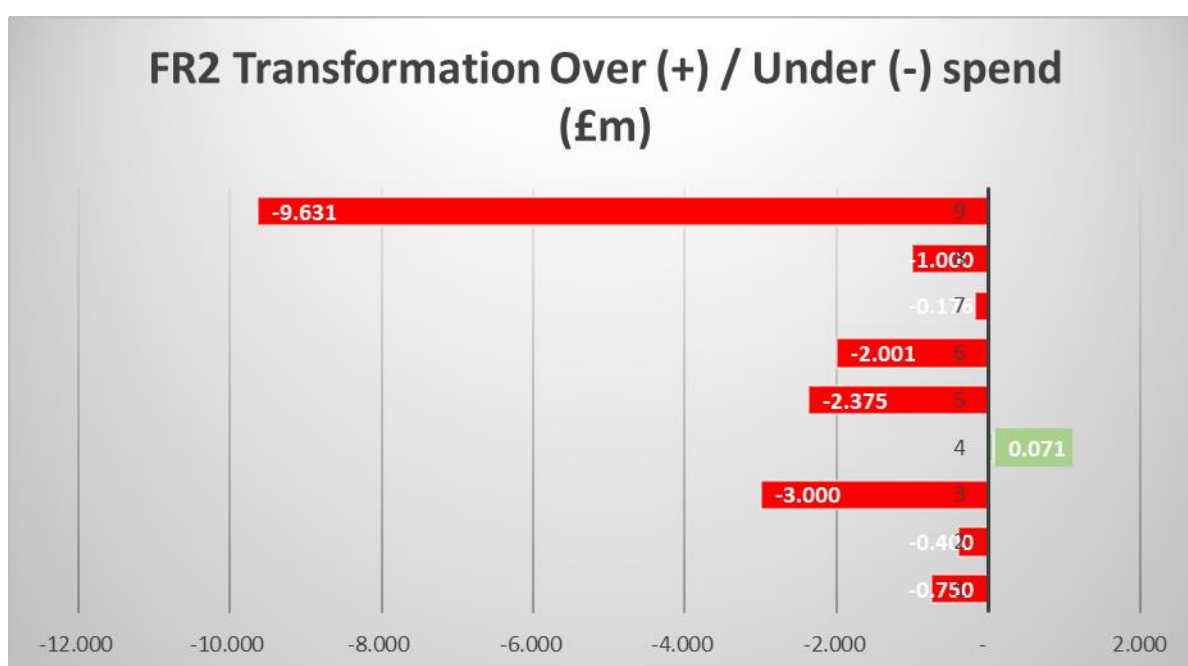
Transformation Savings

- 41 The FR2 forecast outturn position against the approved Transformation budget changes for 2025/26 is outlined in Table 4 below:

Table 4 - 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	0
Service Delivery – Adults Social Care	(7.000)	(7.000)	0	0	0
Service Delivery – Children's	(3.788)	(0.868)	2.920	2.420	0.500
Service Delivery – Place	(0.175)	(0.175)	0	0	0
Total	(24.415)	(11.864)	12.551	12.051	0.500

- 42 The movement of £0.5m in the forecast variance is due to delays in the Children's Services Birth to Thrive Transformation project, which mean that savings will now not be delivered in 2025/26.
- 43 The FR2 forecast outturn position against the Access to Services and Corporate Core programmes is outlined in Table 5 below:

Table 5 Transformation Cross Cutting Budget Savings	2025/26 Budget	2025/26 FR2 Forecast	2025/26 Variance
Access to Services Customer Enablement	(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
Workforce Resizing	(3.000)	(0.999)	2.001
Reduction of unavoidable agency usage	(0.352)	(0.176)	0.176
Productivity and wellbeing	(1.000)	-	1.000
TOTAL	(13.452)	(3.821)	9.631



- 44 Within the cross cutting Corporate Core, the Fees and Charges project will deliver agreed savings of £0.821m, above the planned budget saving of £0.750m. Across the other cross cutting projects within the Corporate Core and Access to Services programmes, delays in agreeing business cases and action plans to deliver associated savings mean that the full anticipated permanent savings can no longer be delivered in 2025/26.

- 45 Across the remaining cross cutting savings projects permanent savings of £3.000m are forecast against the budget saving of £12.702m. This forecast is based on a projection of delivery for each project, which collectively results in the achievement of approximately 24% of the planned 2025/26 budgeted savings.
- 46 However, in addition to these permanent savings one off in year mitigations totalling £1.789m have been identified to temporarily offset the forecast overspend. The Place directorate have identified £1.039m of in year savings to reduce the forecast Third Party Spend variance by this amount. In addition, the People and Customer Experience service within the Resources Directorate has identified in year savings of £0.750m to fully mitigate the variance against the Access to Services Customer Enablement Project. When these one-off mitigations are taken into account, the forecast variance across the Transformation cross cutting projects is reduced from £9.631m as set out in Table 5 to a revised variance of £7.842m.

Dedicated School Grant

- 47 The updated DSG Management Plan in July 2025, approved 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 cumulative deficit forecast for 2025/26 is £145.978m after including mitigations of £14.792m. This seven-year plan reports a mitigated cumulative deficit by 2031/32 of £197.608m after including £792.689m mitigation.

Revenue Grants for Approval

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

Reserves Position

- 49 On 1 April 2025, Earmarked Reserves totalled £23.114m and the General Fund Reserve Balance totalled £6.299m. Of the total earmarked reserves, a net of £2.282m (7.76%) will be spent in 2025/26, on supporting the revenue budget for 2025/26.
- 50 Table 3 below shows the position on reserves forecast level of Earmarked and General reserves by the end of 2025/26.
- 51 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 3: Total Reserves

Table 3 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)	16.811	(13.039)	(19.342)
General Fund Reserve	(6.299)	0	(1.490)	(7.789)
Total Usable Reserves	(29.413)	16.811	(14.529)	(27.131)

- 52 The Council is currently forecast to have £27.131m of useable reserves at the end of the financial year 2025/26. Of this £3.715m can be considered ringfenced, with specific conditions limiting their use.
- 53 A full list of all earmarked reserves per Committee can be found in **Annex 1, Section 5**.

Debt

- 54 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 31 August 2025 was £20.506m (£20.854m at 30 June 2025), of which £12.523m is over 6 months old (£11.998m at 31 August 2025). See **Annex 3, Section 1** for further details.

Council Tax and Business Rates

- 55 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.
- 56 After accounting adjustments, the Council Tax Collection Fund is forecasting a £0.476m surplus for 2025/26, of which, £0.400m 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.
- 57 After accounting adjustments, the Non-Domestic Rates Collection Fund is forecasting a £3.157m surplus for 2025/26, of which, £1.547m 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.

- 58 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

- 59 Treasury Management income to 31 August 2025 is £1.380m which is higher than the budgeted £0.720m. Borrowing costs are also lower than budgeted at £7.456m compared to budget of £8.280 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 £2.561m less than that budgeted.
- 60 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-LA market which has been witnessed in the last 2 years. The use of 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.
- 61 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) PWLB loans.
- 62 The cost of short term borrowing for the first 5 months of 2025/26 is 4.71% 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 and older higher cost debt is repaid.
- 63 Further detailed information is set out in **Annex 3, Section 3**.

Investment Strategy

- 64 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

- 65 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

- 66 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.
- 67 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

- 68 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

- 69 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.
- 70 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.

- 71 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.
- 72 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.
- 73 This report provides an update on progress for 2025/26 for all services.
- 74 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

- 75 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.
- 76 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.

- 77 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.
- 78 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.
- 79 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.
- 80 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.
- 81 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.
- 82 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

- 83 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

- 84 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

- 85 All Committees will receive this financial update report.

Policy

- 86 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
- 87 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.
- 88 The approval of supplementary estimates and virements are governed by the Finance Procedure Rules section of the Constitution.

Equality, Diversity and Inclusion

- 89 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	20/10/2025	24/10/2025
Kevin O'Keefe	Interim Monitoring Officer	20/10/2025	20/10/2025
Legal and Finance			
Chris Benham	Director of Finance	09/10/2025	23/10/2025
Julie Gregory	Legal Manager	09/10/2025	10/10/2025

Access to Information	
Contact Officer:	Chris Benham – Director of Finance Chris.benham@cheshireeast.gov.uk
Appendices:	Annex 1 - Detailed Second 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 First Financial Review 2025/26