

Going Concern

The accounts are prepared on a going concern basis, on the assumption that the functions of the Council will continue in their current or similar form for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council regularly reviews its cashflow forecasting and the medium-term financial strategy fully reflects the potential borrowing costs required. The Council ensures it has sufficient liquidity to pay all its liabilities and keeps a schedule of forthcoming major payments to help its short-term borrowing strategy. The Council does have an ambitious and significant capital programme over the next four years and there will be planned borrowing, either from the Public Works Loans Board (PWLB) or other sources, to fund this programme. At the Third Financial Review for 2023/24, the Council was forecasting capital spending of £171.1m, however the final Outturn position was £136.9m. The Council must refine this profile of spending to ensure it is reduced or delayed to ease the pressure on the capital financing budget and avoid the risk of over-borrowing. The Council is of the view that appropriate loan arrangements will be available if required. The Council is forecast to be within its authorised limit and operational boundary for external debt.

In making its going concern assessment, the Council must also consider its budgets and the level of reserves. The Council assesses its financial position for future years through the medium-term financial planning process.

2023/24 Budget

Expenditure on services exceeded budget by £6m in 2022/23, despite an overall increase of £16.6m in net budget. In 2023/24 the increase in net budget was £25.4m, with an out-turn overspend of £8.5m, funded from reserves.

There were several reasons for increasing costs, these can be summarised under three main headings:

1. Inflation: Caused by demand and supply issues from an increasing population with increasingly complex needs, as well as price inflation in contracts and supplies and services.
2. Interest Rates: In 2023/24 the Council had debts of £284m accumulated from the spending profile of large-scale infrastructure projects, overspending of budgets and the increasing deficit in high needs (SEND) education expenditure. Repayment of interest on these debts became a material problem following the rapid rise in interest rates in 2022 and 2023.
3. Other: The recent pressures on budgets, aligned to national uncertainty, over economic factors and policies, forces short term reactive thinking. These pressures limiting the opportunity for longer term strategic planning. The Government's decision to cancel HS2 Phase 2 also meant that costs associated with that project, that were expected to be funded from future income, were expected to be funded from existing reserves, with no prospect of future income.

The Council continues to face rising demand due to Social Care demographics and unit costs. These pressures are further compounded by the continued impact of high inflation and additional borrowing costs associated with servicing of the Dedicated Schools Grant deficit.

Financial performance was reported regularly to committees throughout 2023/24. The statutory accounts for 2022/23 were closed on time and presented in draft in May 2023. The 2022/23 financial outturn was presented in July 2023 with 2023/24 in-year financial reviews in October, November and January. Throughout 2024/25, committee chairs and committee members wanted to assure themselves that the Council is achieving not only the in-year financial targets, but also developing a sound MTFS as part of the transformation programme.

The 2023/24 in-year financial performance highlighted that the most significant financial pressures were being seen within social care. In January 2024, the Secretary of State for DLUHC increased social care funding, within the Local Government Financial Settlement, following consultation feedback. This was an unusual response but reflected the ongoing strain on council budgets. The financial settlement was otherwise largely unchanged and evidence suggested that several councils continued to face severe financial stress.

Without financial support from central government the S25 Statement highlighted that the Council must take the responsible step of ensuring local income is increased and costs reduced to support essential services. Income from service users being particularly important to sustain discretionary services.

Several councils have issued Section 114 notices in the last two years. The Secretary of State maintained a clear narrative that councils must demonstrate strong financial management and control, and that councils should not take unnecessary risks. Cheshire East Council took positive steps in 2023/24 to demonstrate compliance with the Financial Management Code and this work continues as part of the wider transformation programme.

Budget setting 2024/25

In setting a budget for 2024/25, net expenditure was expected to increase by a further £34.3m, however income from increased funding was only forecast to increase by £22.6m, creating a budget deficit of £11.7m. The Council therefore used reserves to fund this deficit in 2024/25.

The Section 25 report supporting the 2023/24 budget stated that “The balanced position relies on achieving each proposal within the strategy without delays. Low levels of reserves present limited scope to manage any unforeseen financial difficulties in the medium-term.”. The issue of having low levels of reserves must be addressed within the next 12 months.

The S25 statement, stated that the Council must transform to create sustainable services and support infrastructure projects that reflect ‘whole life’ costs. These must cover the medium to long term and be backed by reserves that can manage any emerging risks.

The statement also set out that the Chief Executive had taken the initiative to engage senior officers in a self-assessment of the Council against the Local Government Association – Transformation Capability Framework.

The results would inform a programme of activity across the Council. This would include reviewing how senior officers work more collaboratively within a management board operating model. This providing more opportunities to focus on strategic outcomes and manage change.

The transformation programme, needed to help address the financial deficit, focussed on:

- Reprioritisation to create an opportunity to invest in critical areas but also disinvest from areas.

- Customer engagement and experience through using technology to streamline service delivery enabling selfservice available 24/7 whilst ensuing specialised support and guidance is given to those that need it.
- Achieving value for money in, and across all services, by reducing manual, repetitive tasks through automation of systems and processes.
- Reviewing organisational structures and operating models to maximise performance and outcomes.
- Developing the right skills and behaviours across the entire workforce to achieve high productivity levels.
- Achieving financial targets through the effective implementation of well informed and clear decisions informed by data and insight.
- Developing the Asset Management Plan to align it to service requirements and dispose of surplus assets.

The structure and scale of ambition of the Transformation Programme was reported to the Corporate Policy Committee in March 2024. This approach established the programme as part of the next financial cycle.

In developing the 2024/25 budget the Council identified net revenue budget gross growth at £64m (+18% on the 2023/24 net budget of £353.1m). £23.3m relates to social care, with £9.5m relating to MRP and interest payments. Additional growth was forecast in waste collection, asset maintenance, highway maintenance and local buses.

This level of growth necessitated Council Tax increases in-line with government expectations on Core Spending Power. Continued uncertainty in local government funding structures presented a risk to the forecasts within the MTFS. Business Rate Retention, Fairer Funding, and changes to the Environmental Act were all outstanding issues with potentially material implications for the Council's finances and were not expected to be clarified until 2025.

£30m of savings and mitigation were planned in 2024/25. Implementing this level of savings would be challenging but based on professional judgement they were considered feasible and achievable. Such changes would rely on appropriate governance, as well as clear and timely decision making.

General reserves were increased in 2022 from £11.5m to £12.6m. Further increases were achieved to bring this reserve up to £14.1m (4% of the net revenue budget). These were positive progress towards a Corporate Plan target of £20m and a frequently stated benchmark of 5%. This strategy was linked to sound financial management of earmarked reserves to manage specific risks and plan for future opportunities and liabilities.

Spending in 2022/23, 2023/24 and 2024/25 forecasts were reducing total reserves to an inadequate level. In 2023/24 the £8.5m deficit reduced General Reserves to £5.6m at out-turn, earmarked reserves closed at £32.3m including the requirement to treat £8.7m of spending on HS2 as revenue, leaving total reserves at £37.9m excluding balances held by schools.

In 2024/25 net spending was forecast at £387.4m against net funding of £375.7m. This £11.7m deficit further reduced total reserves. This position being clearly unsustainable as a 1% variance in spending could trigger the requirement for a Section 114 report.

The Section 25 Statement in the 2024/25 Budget, approved in February 2024 set out the S151 Officers assessment of the risks that the Council could value and stated that the S151 was not satisfied that the Reserves Strategy presented an adequate level of reserves to support the MTFS. In order to mitigate the risk of financial failure and the consequential

impact on local services, the S151 Officer and Chief Executive had been in regular contact with the Exceptional Financial Support (EFS) Team of Department of Levelling Up Housing and Communities (DLUHC) analysing the causes of financial stress on Cheshire East Council, including the impact of HS2, High Needs expenditure and wider general fund issues with inflation and interest costs.

In February 2024, DLUHC provisionally agreed EFS for 2023/24 and 2024/25 totalling £17.6m

During early 2024, the Council commissioned the following external reviews and external support to help identify and address the key issues:

- Local Government Association (LGA) Corporate Peer Challenge – a peer challenge was carried out in March 2024 and the report published in June 2024 with a set of 18 recommendations for the Council. A detailed action plan was produced.
- Decision-making accountability (DMA) review – the Council also commissioned the LGA to carry out a review of its senior management structure, establishing a model which promoted clear responsibility, accountability and efficient decision-making.
- Contracting an external transformation partner, Inner Circle, to help the Council to shape a transformation plan to help close the gap.

There has been a significant programme of works following these reviews to address findings including engagement with an external partner to work alongside officers and Members to identify opportunities to transform the way the Council operates to help improve, address key findings and to assist with closing the gap that was identified in the last MTFs. The Transformation Plan, produced as a result of this work, was approved at Corporate Policy Committee in August 2024 and submitted to central government by the end of August 2024 in line with the requirement as part of the approval of EFS, first granted in principle, in February 2024.

Extensive internal work has also been undertaken to challenge budgets and put forward savings and income options alongside the transformation programme recommendations.

The single greatest financial risk to the Council remains the substantial and growing deficit on High Needs spending from the Dedicated Schools Grant (DSG). This has been highlighted as the biggest risk for several years with the accumulated deficit as at 31 March 2024 being £78.6m. The 2024/25 in year deficit at the time of setting the 2024/25 budget was forecast at £51.3m, increasing the deficit to a forecast £129.9m at 31 March 2025. The actual deficit at 31 March 2025 being £112m. During 2024/25 a statutory accounting override was in place until 31 March 2026 which meant that the DSG deficits did not have to be covered from the General Fund i.e. they are not cash backed up to 31 March 2026. Since then the override was subsequently been extended to 31 March 2028 during 2025 - further details will be set out in the provisional Local Government Finance Settlement (Late 2025).

Update on 2024/25 – as at Out-turn

In 2024/25 the Council continued to face rising demand due to Social Care demographics and unit costs. These pressures were further compounded by the continued impact of high inflation and additional borrowing costs associated with servicing of the Dedicated Schools Grant deficit.

To address 2024/25 in-year pressures, the Strategic Finance Management Board introduced weekly meetings, chaired by the Section 151 Officer and led on a number of key tasks to urgently reduce spend and identify additional savings – further details are set out in the

2024/25 Out-turn report to Finance Sub Committee in June 2025: [FSC Final Outturn 2024-25 V2 FINAL AS AT 1651.pdf](#)

The out-turn position, net of proposed transfers to useable reserves of £7.6m, was an overspend of £17.6m. This was funded by the application of the full amount of approved Exceptional Financial Support. This included the setting up of a reserve to set aside sufficient one-off resources to be able to respond to the steps that will be necessary to support the delivery of our transformation, change and improvement activity. This will enable activities to be pump primed to ensure that change is made at pace to support our longer-term financial sustainability.

A capital review was also undertaken in 2024/25 with a view to reducing and re-profiling the amount of capital spend funded by borrowing which led to significant slippage in year. Continued scrutiny of the capital programme continues through 2025/26 to minimise and delay spend funded from borrowing in order to reduce the ongoing revenue costs in future years. The Council is of the view that appropriate loan arrangements will be available if required. The Council is forecast to be within its authorised limit and operational boundary for external debt.

Update on 2025/26 budget as at Feb 2025

At the time of approving the MTFS for 2024-28, the Council had identified new pressures totalling over £76m in 2025/26. These pressures were partially mitigated by over £30m of savings and additional service income proposals, a 4.99% Council Tax increase and additional funding from central Government however, there remained a £41.9m gap for 2025/26 at this time. This position is partly due to the £11.7m use of general fund reserves in 2024/25 that cannot forecast to continue into 2025/26. The Transformation Programme as mentioned above was also planned to substantially address the structural budget deficit over the medium term.

Recognising that this Going Concern statement is required to cover up to 12 months from signing and taking into account the out-turn position for 2024/25, during the development of the 2025/26 budget (i.e. post the approval of the MTFS 2024-28), the Council identified updated pressures totalling over £70m. These pressures have been partially mitigated by over £53m of savings and additional service income proposals, maintaining a 4.99% Council Tax forecast increase and additional funding from central Government however, there remained a reduced £25.3m gap for 2025/26. The Council presented this position to MHCLG (previously DLUHC by this stage in the process) who provisionally agreed EFS for 2025/26 in order to balance the budget in time for the full Council meeting in February 2025. This was in addition to the use of EFS to balance the 2024/25 outturn and bolster reserves with the use of £17.6m (in line with approved levels from government).

The latest forecast out-turn position for 2025/26 as reported to Finance Sub Committee in September 2025 indicates

Update on plans for balancing the 2026/27 budget – Sept 2025

The budget gap for 2026/27 as per the Feb25 MTFS is £21.6m and is being reviewed alongside in year reporting 2025/26 and the Government consultation on Future Funding. The gaps forecast in later years of the MTFS (approved Feb 25) must be addressed as part of the business planning process this year as well as the Council learning to live within its means by delivering all savings and containing approved growth within 2025/26 otherwise this increases pressure in future years and widens the gap that will have to be closed. The MTFS Update report to Finance Sub Committee on 2 June 2025, set out that all Committees

areas are being asked to start to develop plans in preparation for budget consultation and engagement events in the autumn of 2025 as per the timeline agreed in the report to start to address the 2026/27 gap.

A further update to the Finance Sub Committee on 10 September 2025, set out the latest assumptions in the MTFS and an update on the impact of the Fairer Funding reforms based on latest forecasts which will be firmed up further in late October. The Council has presented 3 scenarios including a base, optimistic and pessimistic forecast reflecting a range of assumptions developed in conjunction with the Finance Sub Committee Working Group. Further development of savings proposals are underway with a further report due in late October to include outlines business case proposals for consultation and engagement.

Fair Funding Update 2025

In 2025, the Government has announced wide ranging reforms commencing with a review of the funding formula. There is a significant shortfall in social care funding nationally and until this is recognised many authorities, including Cheshire East Council, will need further support from the Government in future years to balance their budgets.

The Government published a consultation paper on funding reform in June 2025 which will be followed by a redistribution of funds between authorities to be phased in over three years. When announced, this will provide some certainty on funding available to the Council over the next three years, which will help inform budget planning.

Due to the short-term nature of exceptional financial support, which is only announced a year at a time, currently there is uncertainty on the Council's future funding position. However, the Council has and will continue to have sufficient liquidity over the MTFS period to make payments to the workforce, contractors, suppliers and honour all its financial commitments.

Conclusion

In conclusion, based on the medium-term financial strategy and the results of cash flow modelling, the authority is able to maintain sufficient liquidity and financial resilience to meet its obligations and continue delivering services.

The latest in year forecast and 2026/27 MTFS Update report indicate that the Council will continue to be reliant on either further EFS or a significant improvement in the level of grant from central government in order to balance future budgets over the medium term. However, the 2026/30 MTFS aims to demonstrate the effect of achieving the Transformation Plan aims and delivering a sustainable budget over the medium term, ultimately reducing reliance on EFS by the end of the 4 year cycle.

Management recognises that material uncertainty remains in the immediate term due to uncertainty on future funding and in year budget delivery, however, appropriate contingency provision is being built into the 2026/30 MTFS to assist the delivery of proposals and delivered the required build back of reserves. Given this direction of travel, management is therefore satisfied regarding the Council's ability to continue as a going concern.