

OPEN

Corporate Policy Committee

27 November 2025

Second Financial Review of 2025/26

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

Report Reference No: CPC/26/25-26

Ward(s) Affected: Not applicable

For Decision or Scrutiny: Both

Purpose of Report

- 1 This report provides the Corporate Policy 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:
 - An Executive Summary of the Council's Financial Position
 - A Summary of Recommendations
 - A Corporate Policy Committee focused narrative
 - 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 to note and scrutinise those items that are within scope of the Committee's activities.

- 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 Corporate Policy 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 £m	Forecast Outturn £m	Forecast Variance £m	Forecast Variance FR1 £m	Movement from FR1 to FR2 £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:

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 A full update on progress with the transformation programmes was provided as [an appendix to the Finance Review Period 1 report](#) in October. Any updates since that report are set out below. A full update on the progress with the Improvement and Transformation Delivery Plan 2025-27 including transformation programme and projects, will be reported to this Committee in early 2026. Corporate Policy Committee supported the Improvement and Transformation Delivery Plan at its meeting on 30 October 2025.
- Corporate Core: The fees and charges project has been delivered and is now closed with a new Fees and Charges Policy approved by Corporate Policy Committee on 30 October 2025. The Corporate Core programme will be closed as part of the changes under the Improvement and Transformation Delivery Plan where projects have been completed, moved into other programmes or business as usual.
 - Workforce and Culture: The Cheshire East Leaders’ development programme commenced in October and we launched our staff survey on culture and values. Workforce is delivering activity to support our financial position and implemented a Purchase of Annual Leave & HPiL (agency holiday payments reductions) scheme. This has delivered £690,000 of savings this year.
- 20 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.

- 21 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.
- 22 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 Corporate Policy Committee is recommended to:

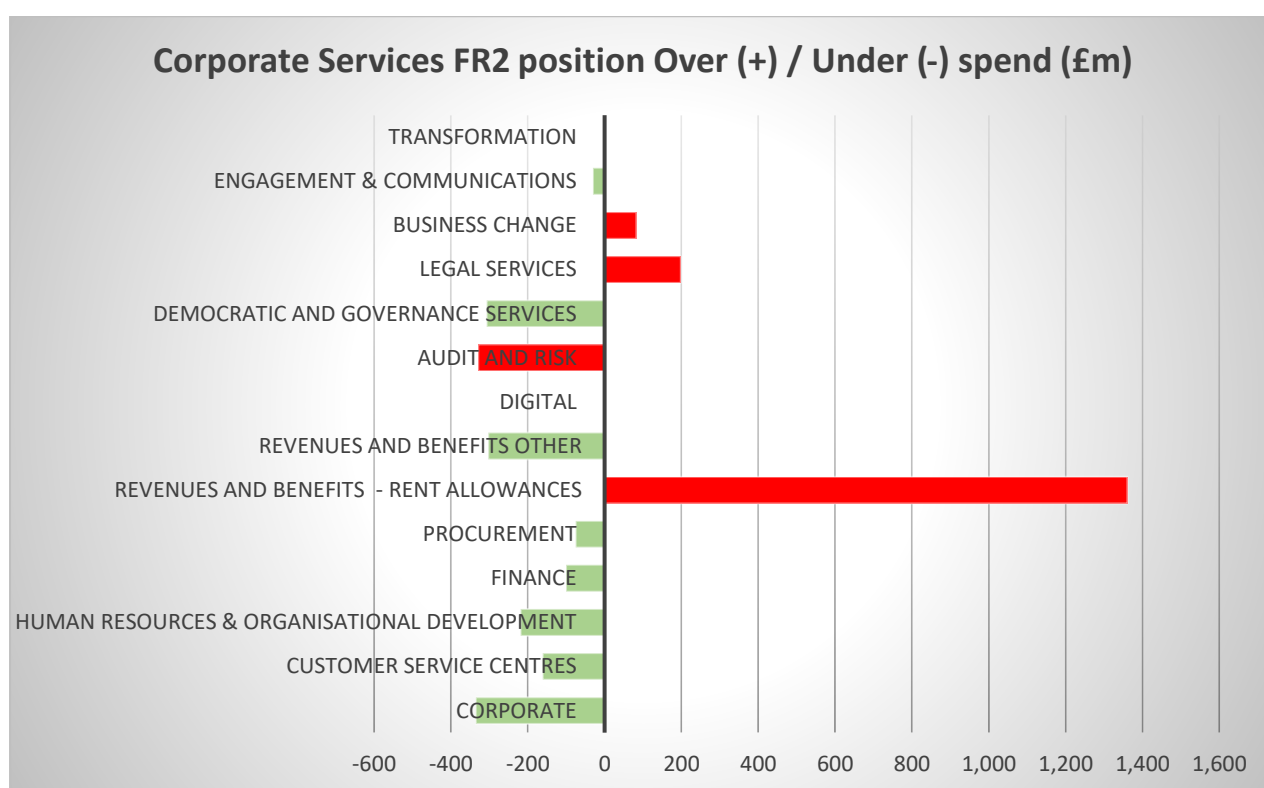
1. Note the overall Council's Financial Position as described within the Executive Summary – Council Financial Position.
2. Scrutinise the latest revenue forecast for the Corporate Policy Directorate, review progress on the delivery of the MTFS approved budget policy change items (Table 3), the RAG ratings and to understand the actions to be taken to address any adverse variances from the approved budget.
3. Note the overall in-year forecast of capital spending for the Corporate Policy Directorate of £13.298m against a revised MTFS budget of £10.125m in Tables 4 and 5.
4. Note the available reserves position in Table 6.

Corporate Policy Committee Focused Narrative

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

- 23 The Corporate Policy Directorate second financial review for 2025/26 presents a forecast underspend of £0.217m against a budget of £43.708m which is an improvement of £0.279m on the FR1 position.
- 24 The graph below presents the service level position of the Directorate with the summary data available within Section 1 of Annex 1.

Corporate Policy favourable variance of £0.217m



- 25 The key reason for the FR2 favourable variance is vacancy management. The majority of services have forecast an underspend on staffing budgets totalling £1.850m. This is being partially offset by the use of agency staff in some areas.
- 26 These underspends have been offset by the following pressures:
- a forecast £1.361m (£1.257m at FR1) under-recovery on Rent Allowances, and a reduction in Housing Benefit Overpayment recovery rates;

- a forecast under-recovery of income of £0.305m (£0.629m at FR1) within several services particularly within Transformation and Improvement, Legal Services, and Audit and Risk.

Risks

- 27 Digital Services has undergone a considerable change in recent months due to the splitting of the shared service and remodelling of the Cheshire East element. FR2 projections are based on transitioning to new model and at this stage the expectation is that the service will come in on budget. There are significant risks in this position in terms of finalising staffing structures, forecasting contract spend and delivering the expected number of chargeable hours. There is a £0.099m worsening since FR1 due to the number of agency staff contracts that have been extended to complete the change programme.

Update on 2025/26 Approved Budget Change Items

- 28 The following section provides an explanation of the key drivers behind variances to the budget for the Corporate Policy 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

MTFS 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)
Corporate Policy Committee 2025/26 Revised Budget as per Cover report Table 1		43.708	43.491	(0.217)	
Change from 2024/25 budget		1.078	0.861	(0.217)	
34	Enforce prompt debt recovery and increase charges for costs	(0.077)	(0.077)	-	Completed - The award of costs is a matter for the Magistrates at each court hearing. However, only by exception will they vary from the level already agreed by us with the Court Manager. The approach to the Court Manager has been made and the revised level agreed. The action is therefore complete, but the financial benefits will accrue as the Council continues the regular recovery process during the year.
35	Pension costs adjustment	(0.396)	(0.396)	-	Completed
36	Pay Inflation	1.494	2.013	0.519	Red - LGS pay offer for 2025. Full and final offers of 3.20% increase resulting in overspend of c.£1.7m across the Council.
37	Shared Services Review - Move to Hybrid Model for ICT	(0.733)	(0.733)	-	Completed - The Shared Service continues to reduce third party costs and agency spend as per the Business case.

MTFS 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)
38	The achievement of additional Registration Service income, over and above that which is currently identified as required	(0.350)	(0.350)	-	Green - Additional Registration Service income. To be reviewed in year as the season progresses.
39	Recognising the annual receipt of £45k of Police and Crime Panel grant income	(0.045)	(0.045)	-	Green - This reflects a grant payment from the Home Office that is received each year in the Council's budget subject to adequate justification being provided.
40	Remove unspent element of phones budgets in corporate services	(0.060)	(0.060)	-	Completed. The phone budgets were reduced accordingly following approval of this proposal to align budgets with spend levels.
41T	Digital Acceleration Revenue Growth	-	-	-	No proposal in 2025/26
42T	Digital Blueprint Revenue Growth	-	-	-	No proposal in 2025/26
43	Transactional Shared Services stabilisation plan	0.270	0.270	-	Green - To provide TSS with additional capacity in 2025/26 - impact of this item and further review to be determined.
44	Additional cost of External Audit Fees	0.265	0.265	-	Green - Additional cost of External Audit Fees - based on 2024/25 fee level.
45	Reduce Members Allowances budget	(0.100)	(0.100)	-	Green - Reduce Members Allowances budget for previous years pay award that was not taken.
46	Additional Cost of Bank Charges from 2025/26	0.120	0.170	0.050	Red – 2025/26 bank charges are above increased budget available and the latest information available suggests charges could increase further
47	Reverse reduction in leadership and management costs as posts are being retained	0.540	0.540	-	Completed. This reversal was necessary in light of the LGA review of decision making and the need to put an appropriate senior management structure in place in the corporate areas.
48	Reinstatement of a one-off saving of £150,000 from election budgets for 2024/25	0.150	0.150	-	Green - Reinstatement of a one-off saving of £150,000 from election budgets, for the 2024/25 year. Noted that the election costs will exceed the reserve and that difference will form a pressure on outturn. The next material local election is May 2027.
In year	Rent allowances and Housing Benefit Over payment pressure	-	1.361	1.361	Reduction in Overpayment Recovery Rates +£750k (£650k at FR1) due to: • reducing Housing Benefit (HB) caseload due to migration to Universal Credit affecting ability to recover overpayments via ongoing benefit; • PDP (Payment Deduction Program via DWP benefits) HB overpayments are low down in the hierarchy of recovery;

MTFS 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)
					• PDP deductions from Universal Credit (UC) payments are capped at 15% of the claimant's standard allowance, down from the previous maximum rate of 25% from April 2025 so less amount being able to recover; and • Less disposable income of debtors due to cost of living. Rent Allowances - shortfall in budgeted income versus budgeted expenditure +£611k (£607k at FR1) Shortfall is mainly due to the number of Supported Accommodation claims and increase in the number of new supported accommodation projects in Cheshire East. Housing costs are met from Housing Benefits and claimed back from DWP through the Housing Benefit Subsidy. The rents for supported accommodation are often higher than mainstream rents and not all expenditure is met by subsidy per HB regulations. Rent levels for new schemes and rent increases are reviewed and challenged by Benefits service who also work with the Councils Commissioning team.
In year	Mitigations to balance back to Finance Review position	-	(2.147)	(2.147)	Mitigations to balance back to Finance Review position

Capital Programme

29 **Table 4** below sets out the Corporate Policy capital programme position for 2025/26 as at FR2, showing a forecast of £13.298m against a revised MTFS budget of £10.125m.

Table 4 Capital 2025/26	MTFS £m	Out - turn £m	Actuals FR1 £m	Actuals FR2 £m	Forecast Spend £m	Gov Grants £m	Ext Contributions £m	Rev Contributions £m	Cap Receipt £m	Prud Borrow £m	TOTAL £m
Corporate Policy	12.745	10.125	1.014	2.506	13.298	-	-	-	-	13.298	13.298

30 **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 Budget 2025-29	SCE Outturn and FR1	Carry Forward & Budget Reduction Outturn and FR1	Virement Outturn and FR1	Re profiled to future FR1	SCE FR2	Virement FR2	Budget Reduction FR2	Re profiled to future FR2	FR2 2025/26
----------------------------------	------------------------	------------------------	---	-----------------------------	------------------------------	------------	-----------------	-------------------------	------------------------------	-------------

	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate Policy	12.745	-	3.736	-	-	-	-	-	(3.183)	13.298

- 31 Capital carry forwards from 2024/25 amounted to £3.736m including ICT Hybrid Model of £1.690m and IADM (Information Assurance and Data Management) of £0.609m. FR1 and FR2 reviews have resulted in £3.183m being reprofiled into future years, made up mainly of ICT Hybrid Model of £1.090m and Digital Blueprint of £1.280m.
- 32 Due to the above changes, forecast expenditure in 2025/26 has increased by £0.553m.
- 33 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

- 34 Table 6 below shows the Corporate Policy forecast position on reserves by the end of 2025/26.

Table 6 Earmarked Reserves	Balance at 1 April 2025	Drawdown to Support Service Exp	Additional Contributions to Reserves	Balance Forecast at 31 March 2026	Notes
	£m	£m	£m	£m	
Collection Fund Management	(5.120)	6.193	(10.133)	(9.060)	To manage cash flow implications as part of Business Rates Retention Scheme.
Capital Financing Reserves	(2.234)	2.234	(0.208)	(0.208)	To provide for financing of capital schemes, other projects and initiatives. Additional funds for Tatton Park substation and Green Infrastructure.
Insurance Reserve	(0.314)	1.415	(1.183)	(0.082)	To settle insurance claims and manage excess costs.
Elections General	(0.432)	-	-	(0.432)	To provide funds for Election costs every 4 years.
Digital Solutions Architect	(0.074)	0.074	-	-	To help fund the Digital Customer Enablement programme and will be key to realising the cost savings and efficiencies across the Council through a number of digital initiatives.

2025/26 Transformation Reserve 1	(3.500)	3.500	-	-	To support a group of projects across the Council's four Directorates to deliver improved service delivery through efficiency and revenue savings.
2025/26 Transformation Reserve 2	(5.300)	1.061	-	(4.239)	The Transformation Programme 2 reserve has been created to help mitigate one-off costs of the change delivery programme over the next two financial years.
ICT Programme	(0.300)	0.250	-	(0.050)	To support the costs associated with the Gemini project, including potential redundancies.
Total Reserves	(17.274)	14.727	(11.524)	(14.071)	

Consultation and Engagement

- 35 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

- 36 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.
- 37 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

- 38 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

- 39 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.
- 40 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.
- 41 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.
- 42 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.
- 43 This report provides an update on progress for 2025/26 for all services.
- 44 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

- 45 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.
- 46 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.
- 47 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.
- 48 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.
- 49 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.
- 50 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.
- 51 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.
- 52 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

- 53 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

- 54 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

- 55 All Committees will receive this financial update report.

Policy

- 56 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
- 57 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.
- 58 The approval of supplementary estimates and virements are governed by the Finance Procedure Rules section of the Constitution.

Equality, Diversity and Inclusion

- 59 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	11/11/2025	12/11/2025
Kevin O'Keefe	Interim Monitoring Officer	11/11/2025	12/11/2025
Legal and Finance			

Hilary Irving	Acting Head of Legal Services	11/11/2025	12/11/2025
Jennie Summers	Acting Head of Legal Services	11/11/2025	12/11/2025

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