# Local Government Act 2003: Section 25

# Report by the Assistant Director of Finance (S151 Officer) (Chief Finance Officer)

## Background

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the Chief Finance Officer (at Cherwell District Council that is the Assistant Director of Finance (S151 Officer)) must report to it on the following matters:

   - The robustness of the estimates made for the purposes of the (council tax requirement) calculations
   - The adequacy of the proposed financial reserves

2. The council is required to have **due regard** to this report when making decisions on the budget. **The law expects councillors to consider this advice and not set it aside lightly.**

3. In expressing my opinion, I have considered the financial management arrangements and control frameworks that are in place, the budget assumptions, the adequacy of the Budget & Business Planning process, the financial risks facing the council and the level of total reserves.

4. Section 25 of the Local Government Act 2003 concentrates primarily on the uncertainty within the budget year (i.e. 2025/26). However, future uncertainties, particularly around levels of resource provided by Government, the delivery and identification of savings, future rates of inflation and the increasing pressures in demand-driven services also inform the need for reserves and balances in the medium term.

## Executive Summary

5. In preparing the Budget and Medium-Term Financial Strategy for 2025/26 – 2029/30 a number of processes have been put in place to ensure that the budget is achievable and sustainable, and services can be delivered within the anticipated funding available.

6. In order to provide assurances that the budget estimates are robust the Assistant Director of Finance (Section 151 Officer) has had regard to the following factors:

   - Financial Management arrangements and control frameworks
   - The Budget and Business Planning Process

- Budgeting assumptions, including:
  - resources available from central Government and local taxation
  - impact of inflation and pay awards
  - consideration of market risk
  - locally identified budget pressures
- The affordability of the capital programme
- Financial risks

7. In setting the budget and prudently managing its finances, the council holds both general balances and specific earmarked and ring-fenced reserves. A risk assessment is carried out to determine the minimum level of general balances that the council should hold. This has been determined to be £7.8m for 2025/26.

**Financial management arrangements and control frameworks**

8. The council expects to receive a disclaimed audit opinion for 2022/23. This disclaimed opinions is as a result of the external auditors not having sufficient time to provide their opinion before the "backstop" deadlines were reached for the relevant financial years. As a result of receiving a disclaimed audit opinion in 2022/23, the council anticipates that it will receive a disclaimed opinion for its 2023/24 accounts. The 2023/24 disclaimed opinion is as a result of the previous disclaimed opinion as the auditors ran out of time to get assurance over the opening balances of the council's statement of accounts before the "backstop" deadline. This is a phenomenon that is affecting local government as a sector and is not unique to local government.

9. Whilst external auditors are able to provide disclaimed opinions on the accounts, they are still required to form a opinion in respect of the council's ability to secure value for money. The auditor's conclusions are based on whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness. The council received an unqualified value for money conclusion for 2022/23 and expects the same for 2023/24.

10. The council has good governance arrangements in place. The Section 151 Officer has responsibility for ensuring that an effective system of internal control is maintained to provide an assessment of the current position across the whole council and identifying areas for improvement where appropriate. External audit's Audit Results Report (ARR) had no findings to report on the council's Annual Governance Statement (AGS) for 2022/23 and the draft ARR for 2023/24 reached the same conclusion. Areas for improvement are reported to Accounts, Audit & Risk Committee and monitored in-year through the Corporate Oversight and Governance Group.

11. The Code of Practice for Financial Management (the FM Code) was introduced by CIPFA in November 2019. The Code clarifies how Chief Finance Officers

should satisfy their statutory responsibility for good financial administration as required in Section 151 of the Local Government Act 1972. Full compliance with the FM Code is expected again in 2025/26. Annex 1 below sets out a compliance assessment against the Code's standards. All of the 19 Standards have been assessed as Green meaning that compliance can be evidenced. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment. The assessment will also be used to help inform the council's 2024/25 AGS which will be published alongside the 2024/25 Statement of Accounts. In addition, the council is compliant with:

- The Code of Practice for Local Authority Accounting in the Unted Kingdom
- The Prudential Code for Capital Finance in Local Authorities
- The Treasury Management in the Public Sector Code of Practice

12. A move away from budget 'monitoring' towards budget 'management' was introduced in 2023/24. This requires services to consider their budgets and forecast spend for the year. In addition, budget holders are required to consider, if they are forecasting an overspend, what mitigations can be introduced to reduce the overspend whilst at the same time considering the associated service consequences. This approach will continue in 2025/26, helping to ensure that budget holders continue to be accountable for the budgets they hold and be further strengthened with budget holders having to develop mitigation plans if their forecast budget variance exceeds 2%.

**Ongoing Financial Impact of Behaviour Change and Market Changes**

13. The financial impact arising from behavioural changes following the COVID-19 pandemic and the cost-of-living crisis has extended into 2024/25 and is anticipated to continue into the medium term. The council has monitored its car parking and retail rental income levels closely and considered:

    - car parking income based on the 2024/25 budget management position and assumptions around increases in charges.
    - forecast assumptions around retail rental income levels based on the latest intelligence available.
    - interest rates have significantly increased in recent years and are anticipated to fall in future years.

14. To help insulate the council from further financial impacts, there is £1.1m available in a commercial risk contingency in 2025/26 as well as there being a separate £8.7m market risk reserve and £2.9m interest rate risk reserve should the assumptions highlighted in paragraph 13 change significantly.

**Budget & Business Planning Process**

15. The Budget & Business Planning process to prepare for the 2025/26 budget was refreshed in order to directly follow an external process to identify cashable efficiency savings and consider differing levels of service that could be provided as part of the council's approach to transformation. Services worked through the process with consultants to identify potential demand changes, efficiencies and impacts of changes in service levels currently provided. This has helped the council to identify potential options that need to be worked up further in order to deliver savings options for future years of the MTFS (as set out in section 4.5 of the main report). Examination of the budget proposals has been subject to challenge by a corporate transformation board. Only proposals that were fully validated with a clear implementation plan and confirmation from the services that proposals are deliverable in 2025/26 have been included within the 2025/26 budget and MTFS. There has been engagement with the Executive, the Political Group Leaders as well as inviting all members to Budget Planning Committee to consider how the budget was developed over the year. The main changes proposed to the budget were also the subject of public consultation in November and December 2024.

16. Budget Planning Committee considered the proposed revenue savings, pressures, capital bids and fees and charges at its meeting in December 2024. In January 2025, the Committee considered the Capital & Investment Strategy and Reserves Policy and projected reserves levels. Comments from these meetings were considered by the Executive in proposing this budget to council. In addition, the Accounts, Audit and Risk Committee considered and recommended to Executive the Capital & Investment Strategy and Treasury Management Strategy in January 2025.

17. A public consultation on the budget was also held between 22 November 2024 and 23 December 2024. Responses were received from 165 residents and businesses with strong support for all proposals included in the budget consultation. Scrutiny of the budget savings has also been considered from an equalities perspective.

**Budget Assumptions**

18. The formation of the 2025/26 budget and indicative budgets for the following four years to 2029/30 have allowed for best estimates of the total financial envelope over the medium term, taking into account anticipated unavoidable pressures plus investments and the savings then required to match the funding available. In forming the estimates various assumptions have been made. The main assumptions together with an assessment of their risk are set out below:

a) <u>Funding assumptions</u> – General Government funding by way of the Settlement Funding Assessment for 2025/26 only has been notified by DLUHC as part of the Local Government Finance Settlement. Where specific government grants have been notified, these are reflected in the Medium-Term Financial Strategy (MTFS).

Beyond 2025/26, there is limited certainty in terms of local government finance. The Government has issued a consultation indicating that a business rates reset and local government finance reform will begin to take place in 2026/27 and be phased over a period of three years, in line with the council's MTFS forecast. The Office for Budget Responsibility has indicated that "unprotected services" will receive annual real terms cuts in funding of 1.1% on average over the next three years. The government has also announced that New Homes Bonus is expected to end. The council has adopted these assumptions and an approximation of the loss of Funding Guarantee Grant as a proxy for financial reform implications. Details and assumptions for 2025/26 have been set out in the Revenue Budget Strategy at Section 4.2 of the Budget Report.

Business rates forecast income for 2025/26 is based on the statutory NNDR1 return. It is assumed that all growth will be removed when the business rate baseline is reset. This is forecast, as the MTFS planning assumption, to begin in 2025/26 and be phased over three years. The Government has indicated in its consultation that business rates resets will be phased over three years. The council has responded to the Government consultation and will monitor future announcements and direction of travel over government funding.

A Band D Council Tax increase of £5 (to £158.50) is proposed for 2025/26 (complying with the referendum limit confirmed in the Local government Finance Settlement) and across the medium term. This is a 3.3% increase in the council's element of Council Tax and is **not considered to be excessive** when comparing against the Government's referendum principles for 2025/26.

The increase in the council tax base for 2025/26 was higher than assumed in the 2024/25 MTFS, with an actual increase of 1.4% Band D equivalent properties in 2025/26 compared to 1.2% forecast in the 2024/25 MTFS. The cause is due to an increase in the rate of house building. Housing growth is assumed for 2025/26 and across the medium term.

b) <u>Inflation</u> – The council anticipates pay awards will apply over the MTFS period. The council has built the agreed pay award into its 2025/26 assumptions.

Where services submitted pressures linked to inflationary increases these have been funded. The council has provided for contract inflation at 2% in 2025/26. The latest figures from December 2024 show CPI running at 2.5% (compared to 4.0% in December 2023). Whilst inflation has reduced significantly in the last 12 months it is still running at twice the Government's target rate. However, analysis suggests that inflation will continue to fall and could average around 2% across 2025.

Alongside the increases built in for contracts, the council has been prudent in setting aside resource for inflationary pressure in 2025/26. Overall, the council holds an inflation contingency in 2025/26 of £1.0m, equivalent to 4.0% of the net budget. Any inflationary pressures in services funded by grant are expected to be maintained within the level of grant awarded.

c) 2025/26 Budget Pressures – The council has undertaken regular budget management throughout 2024/25 and reported this to Executive on a monthly basis. As part of this process detailed monitoring of the savings programme has continued. Consideration has been given as to whether any challenges in savings delivery in 2024/25 will continue into 2025/26. Furthermore, services have identified unavoidable budget pressures for 2025/26, which have also been challenged by senior leaders.

d) 2024/25 Forecast Outturn – The council's forecast financial position up to the end of December 2024 shows a forecast outturn position of an overspend of £0.043m. This is made up of £0.474m in-year savings non-delivery, offset by £0.431m base budget underspends. In addition to forecasting a balanced outturn position the council has also made unbudgeted net contributions of £1.4m to earmarked reserves in 2024/25 through overachievement of interest income through its treasury management function and a one-off improvement due to changes in the council's MRP policy.

e) Treasury Management – at 31 December 2024, the council held £145m of long term debt with Public Works Loans Board and £35m of short term debt with terms of less than 12 months. All existing debt is at fixed interest rates over various maturity periods. As a result, the council's weighted average cost of borrowing is forecast to increase from 2.65% in 2024/25 to 2.68% in 2025/26 at a time when the Bank of England is forecast to gradually reduce interest rates to 4% by December 2025. The MTFS assumes continuation of the strategy to borrow internally at £61m in 2025/26. The council has a Capital Financing Requirement of £239.8m, forecast to fall to £236.9m by 2026, which external debt will remain below. Debt as at 31 March 2025 is forecast to be £180m made up of loans and an overdraft facility. The council has assessed that its Authorised Limit for External Debt for 2025/26 will be £310m (no change from 2024/25). A large proportion of the borrowing costs will be met by additional income streams. Additionally, all borrowing costs have been included in the Budget and MTFS so the council is able to understand the overall commitments required of it over the medium term.

The proposed MTFS assumes, as per our treasury advisors' forecast, that the bank rate will gradually reduce from 4.75% (December 2024) to 4.25% by June 2025, before gradually reducing to 3.5% in December 2026. For 2025/26 the council anticipates that it will need to take out c£40m borrowing to refinance current loans that are maturing but associated interest costs will be offset by additional income and has been factored into the MTFS. Based on market rates, the target in-house rate of return on investing surplus cash is 4.0% for 2025/26.

The council makes loans to organisations that help to deliver the priorities of the council. Risk assessments of default against these loans are made to determine an upper limit that the council is prepared to provide across different classes of borrower. For 2025/26 the proposed limit of loans the council can provide is £83.7m, of which £82.6m would be to subsidiaries of the council.

f) Capital Programme – the proposed Capital Programme has a balanced funding position over the 5-year period to 2029/30 with required borrowing costs to finance it being reflected in the MTFS. The total capital programme is £33.0m, of which £10.2m is planned to be spent in 2025/26. The Capital and Investment Strategy identifies that the council expects its overall debt to remain within both its Operational Boundary for Total External Debt of £200m and Authorised Limit for Total External Debt of £310m.

**Financial Risks**

19. Financial risks occur wherever there is uncertainty around the financial impacts. As the council is setting a budget for the coming year, which is a plan for what is expected to happen, there is an inherent risk of uncertainty as a budget cannot be set with the benefit of hindsight.

20. Given the:

- real terms reductions in government grant funding,
- the limits placed on the level of council Tax increases,
- the ongoing financial impacts of behaviour change,
- uncertainty around how inflation levels and interest rates will change in the coming year,
- the growing unavoidable pressures and the need to deliver savings in future years in particular,

the budget will inevitably contain a degree of risk. The key risks are set out in the following paragraphs. However, to help manage the impact of financial risk, a corporate contingency is proposed. The level of corporate contingency for 2025/26 is £2.6m. The corporate contingency budget is held to cover;

- market risks, including those linked to the ongoing impact of behaviour change as well as volatile markets for commodities and interest rates

- the risk that inflationary pressures are higher than have been identified in the services;
- the risk that proposed savings are not achieved in full;
- other unforeseen costs at the time of budget setting.

a) Behaviour Change – The impact of the changing behaviour of the public and corresponding impacts on the economy and services will continue throughout 2025/26 and over the medium term. This will present several risks to the council including:

   - Insufficient market capacity to meet demand;
   - Sustainability of existing contracts for supply of works, goods and services;
   - Increase in price for goods and services;
   - Reduced capacity and availability in the supply chain creating delays in delivery;
   - Workforce availability, recruitment and retention;
   - Reduced income.

   Paragraph 13 highlights that the council has made allocations within the budget to address these, and paragraph 14 sets out that there are reserves and contingencies to address these should the pressures provided be insufficient.

b) Achievement of planned savings – the council has recent experience of delivering savings programmes. However, the scale of potential savings required in the future exceeds those delivered in recent years.

   i) it was successful in identifying and delivering the in-year savings required from its Revised Budget for 2020/21.

   ii) The council identified a savings programme of £4.3m for 2021/22 and was able to deliver 80% of this programme.

   iii) The council identified a savings programme of £2.9m for 2022/23. The savings delivery was 75%.

   iv) The council identified a savings programme of £1.0m for 2023/24. The savings delivery was 80% with mitigations identified for non-delivery.

   v) The council identified a savings programme of £1.8m for 2024/25. The forecast savings delivery as at the end of December 2024 is around 75% with mitigations identified for non-delivery.

   Ongoing existing and proposed savings currently identified in the MTFS which are required to be delivered up to 2029/30 total £2.1m.

All managers have a responsibility to ensure the efficient delivery of services within their resource envelope and, when savings are proposed, that those savings are both realistic in terms of the level of savings and the timing of implementation. Should the level and timing of such savings vary due to unforeseen events, or additional cost pressures be identified, management actions within the relevant services, directorates and subsequently corporately will need to be identified and implemented.

Where a service is overspending it should identify mitigations that could bring the service back on budget. If the service feels these mitigations will have too great an impact on service provision, then it will need to identify why there is a greater priority to retain its provision and request other services in the Directorate identify compensatory mitigations.

Where a directorate is overspending it should identify mitigations that could bring the directorate back on budget. If the directorate feels these mitigations will have too great an impact on service provision, then it will need to identify why there is a greater priority to retain its provision and request other directorates in the council identify compensatory mitigations.

The Corporate Leadership Team will need to consider any mitigations that are developed to ensure the council operates within its budget and make recommendations to the Executive of which should be implemented through the monthly Performance, Finance and Risk Reports.

Service delivery needs to represent value for money and operate within the existing budget profile. Budgets should not be seen as a competing activity against service delivery but act as an enabler for the provision of council services. It is incumbent on budget holders that their level of service delivery is informed by budget. This requires a cultural change, relevant to some areas of the council, which have shown a pattern of overspending pushed by placing service delivery above operating within approved budget levels.

In order to help to address this issue the council is introducing a new financial performance indicator of 2% variance against budget for each Assistant Director’s service area. Where a forecast against the agreed revenue budget exceeds this 2% tolerance the service will be invited to Budget Oversight Group to support the service to identify mitigating actions to bring the service back within budget. Ideally these will identify service efficiencies but it may be that the mitigations will have service implications, either in the short-term or on an ongoing basis.

c) Local Government Funding – changes to the local government funding regime could create significant financial challenges to the council. Uncertainty around the future of New Homes Bonus and the anticipated Fair Funding Review as well as the anticipated business rates reset in 2026/27, all assumed to be phased over three years per the Government's consultation, will have significant financial consequences on the level of resources available to the council if implemented as set out in the MTFS. The 2025/26 Local Government Finance Settlement was for one year only and includes significant levels of funding which could be one-off, in particular the Funding Guarantee and New Homes Bonus grants. In addition, as an indication of direction of travel for new funding, a very limited amount of new funding identified for local government was distributed to district councils generally and this council specifically.

In addition, it is not yet clear how funding and costs related to Simpler Recycling will be addressed, if at all and also whether the net additional resources from Extended Producer Responsibility will be available on an ongoing basis. The council has assumed that a full business rates reset will take place from 2026/27 (phased over three years), though there are other ways that a reset could be implemented. The Government has indicated that the financial implications of local government reform will be phased over three years. The council is therefore planning for its future resource levels on a prudent basis in an uncertain financial landscape.

<u>Over the medium-term, Office for Budget Responsibility analysis of the Government's Budget and Autumn Statement has given a clear indication that from 2026/27 there are likely to be average annual real terms reductions in the levels of funding made available to unprotected services of 1.1%</u>. The council is using its assumptions around the fallout of one-off resources to approximate this prior to detailed announcements being issued.

d) <u>Inflation</u> – As set out in paragraph 18b above, the council has made provision for contract inflation of up to 2% across the MTFS period in line with government's inflation target. Pay increases are also assumed over the MTFS period. The contingency budget is available to help mitigate the inflationary risk to the council over and above those inflationary pressures submitted by the Directorates.

e) <u>Interest Rates</u> – Interest rates have fallen at a slower rate than originally anticipated in 2024 but are forecast to continue to fall gradually in 2025 before gradually reducing to around 3.5% by December 2026. The council borrowed at fixed rates to mitigate the risk for its current borrowing needs. This did not include future requirements or amendments to plans that were in place at the time. Therefore, the costs of borrowing for new capital schemes or varying existing plans is far greater than it has been historically. There is also a risk that when we come to take out replacement borrowing the rates are higher than we have budgeted for. The council has made prudent forecasts based on the information currently available but must accept that in these turbulent times there is reduced economic certainty and will continue to work with its treasury advisors to operate the most prudent approach to borrowing with the information available at the time. Surplus interest income in 2024/25 has been put to a Interest Rate Risk reserve to help to mitigate the council against the risk of interest rate falling at a slower rate than forecast.

f) Contingent Liabilities – as with many large, complex organisations, there are a number of contingent liabilities that the council is aware of but it is not clear over the size, timing or whether they will occur. As it is impossible to budget accurately for these, the council mitigates this risk by retaining the policy contingency budget and reserves, to be applied if the contingent liabilities crystallise and the council cannot find another approach to address them.

**Level of total reserves**

21. As described above the financial environment in which the council operates is subject to risk and uncertainty. There is significant risk and uncertainty to the council's medium-term funding with local government funding reviews expected to take place to consider how resources should be allocated across local government and how a reset of business rates income will be introduced.

22. The Reserves Policy at Appendix 14 sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves. As well as holding a contingency budget, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching my decision on the minimum level of balances I feel are appropriate to be held for 2025/26, I have considered the strategic, operational, and financial risks facing the authority including the ability to deliver planned savings, as well as external risks such as further economic shocks. The minimum level of balances for 2025/26 based on this risk assessment is £7.9m, with the current 2024/25 outturn position forecast to be £6.1m, in line with the previous assessment; a S151 review of reserves was carried out to ensure that sufficient general balances will be in place for 2025/26. This minimum level of general balances has also taken into consideration the level of earmarked reserves that the council holds which could be diverted for other purposes if required; if there was a proposal to allocate additional earmarked reserves then an updated assessment of the minimum level of general balances would be required. The assessment of minimum level of general balances can be seen at Appendix 15.

23. Earmarked reserves are also held for specific planned purposes. In assessing the appropriate level of reserves, a review has been undertaken to determine if they are both adequate and necessary. The review has identified where there are plans for future spending to take place and that there are sufficient reserves available for this. There are also sufficient earmarked reserves available to support budgetary challenges and pump prime work to identify service changes necessary to operate within the council's future financial envelope. It is

currently anticipated that the total medium-term reserves and balances (revenue and capital) to be held by the council will be £43.7m.

24. It should be noted that in the event that reserves are used to support the council's budget position, they will only be able to be used on a one-off basis and do not provide a permanent budget solution to the financial challenges faced as, once a reserve is used, it cannot be used again. This budget is making a net contribution to earmarked reserves of £2.7m, with the use of earmarked reserves restricted to time limited items and grant funded reserves being used in line with the grant conditions.

25. A summary of the reserves estimates for the council taken from Appendix 16 is as follows:

| Reserve Category | Forecast Balance 1 April 2025 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m | 2029/30 £m | Expected Balance 1 April 2030 £m |
|---|---|---|---|---|---|---|---|
| General Balances | (7.853) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | (7.853) |
| Earmarked Reserves | (28.848) | (2.663) | (0.339) | (0.449) | (0.449) | (0.449) | (33.227) |
| Revenue Grants | (1.280) | 0.523 | 0.007 | 0.007 | 0.007 | 0.007 | (0.730) |
| **Sub-total Revenue Reserves** | **(37.981)** | **(2.110)** | **(0.392)** | **(0.442)** | **(0.442)** | **(0.442)** | **(41.810)** |
| Capital Reserves | (5.948) | 0.720 | 3.355 | 0.000 | 0.000 | 0.000 | (1.873) |
| **TOTAL RESERVES** | **(43.929)** | **(1.390)** | **2.963** | **(0.442)** | **(0.442)** | **(0.442)** | **(43.683)** |

**CIPFA Financial Resilience Index**

26. CIPFA's Financial Resilience Index is a comparative analytical tool that is used to support good financial management, providing a common understanding within a council of their financial position. The index shows a council's position on a range of measures associated with financial risk relative to other local authorities; it does not try to make an assessment of the absolute level of risk within the sector. The index is made up of a set of indicators which take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights

areas where additional scrutiny should take place in order to provide additional assurance.

27. The data is obtained from the Revenue Expenditure and Financing England Outturn Report 2023/2024. It should therefore be viewed in the context of this being a snapshot 12 months ago.

28. The following paragraphs comment on the council's position relative to all other non-metropolitan district councils.

a) Level of Reserves – This is the ratio of the current level of reserves to the council's net revenue expenditure. The council's ratio is 100.00% in a range of 0.00% (higher risk) to 100.00% (lower risk). The council is at the lowest risk position of District Councils.

b) Change in Reserves – This shows the percentage change in reserves over the past three years. The council's change is –57.11%% in a range of -100.00% (highest risk) to 74.67% (lowest risk). The council is identified at around the higher risk end of the spectrum of District Councils. However, it should be noted that a large proportion of Cherwell's change will relate to the timing of income streams linked to business rates reliefs – where government grants were allocated in 2021/22 and used in 2022/23.

c) Interest Payable/Net Revenue Expenditure – This indicator is the ratio of interest payable to net revenue expenditure. The range for all District Councils is 0.00% (lower risk) to 1,067.98% (higher risk). The council's ratio is 16.16%. The council is identified around the upper quartile of District Councils although it is not an outlier compared to the majority of councils. It should be noted that the council generates other income streams to help meet these interest costs as well as resources from the net budget being available if necessary.

d) Gross External Debt – This indicator compares the gross external debt held by councils. The range for District Councils is from £0 to £2,125m, with Cherwell at £181m and in the upper quartile of non-metropolitan district councils. This reflects the decisions taken to finance the capital programme, including Castle Quay and Graven Hill, through borrowing.

e) Fees & Charges to Service Expenditure Ratio – This indicator shows the proportion of fees and charges against the council's total service expenditure. The range for District Councils is 1.18% (highest risk) to 53.12% (lowest risk), with Cherwell at 14.59%, a reduction from last year. The council has relatively low fees and charges income compared to its total expenditure which means it is more susceptible to changes in Government funding, but also makes it less vulnerable to economic shocks. The council should consider whether it is raising sufficient income through its fees and charges in the future to reduce its reliance on central government related resources.

f) Council Tax Requirement/Net Revenue Expenditure – This indicator shows the ratio of council tax as a proportion of net expenditure. The range for District Councils is 19.81% (highest risk) to 540.40% (lowest risk), with Cherwell at 50.08%. Cherwell is in the upper quartile for risk of council tax income as a proportion of its budget. This reflects the fact that the council has a lower-than-average band D council tax as a result of nine-years of not increasing council tax up to 2019. The council has subsequently been addressing this in recent years by increasing its council tax by the maximum allowed without triggering a referendum.

g) Growth Above Baseline - This indicator is calculated as the difference between the baseline funding level and retained rates income, over the baseline funding level. The range for District Councils is -35.20% (lower risk) to 435.83% (higher risk) with the council at 171.60%. This is perceived as a risk as, in comparison with many other Districts, the council's retained income from business rates is high – which is a reflection of having a successful strategy to grow business rates in Cherwell over the period. However, the proposed MTFS assumes a phased reset begins to take place from 2026/27. The council has already acknowledged this risk and will plan to address this in developing the 2025/26 MTFS and budget. It should also be noted that both the timing of a reset and form (i.e. whether all growth is reset) is not certain.

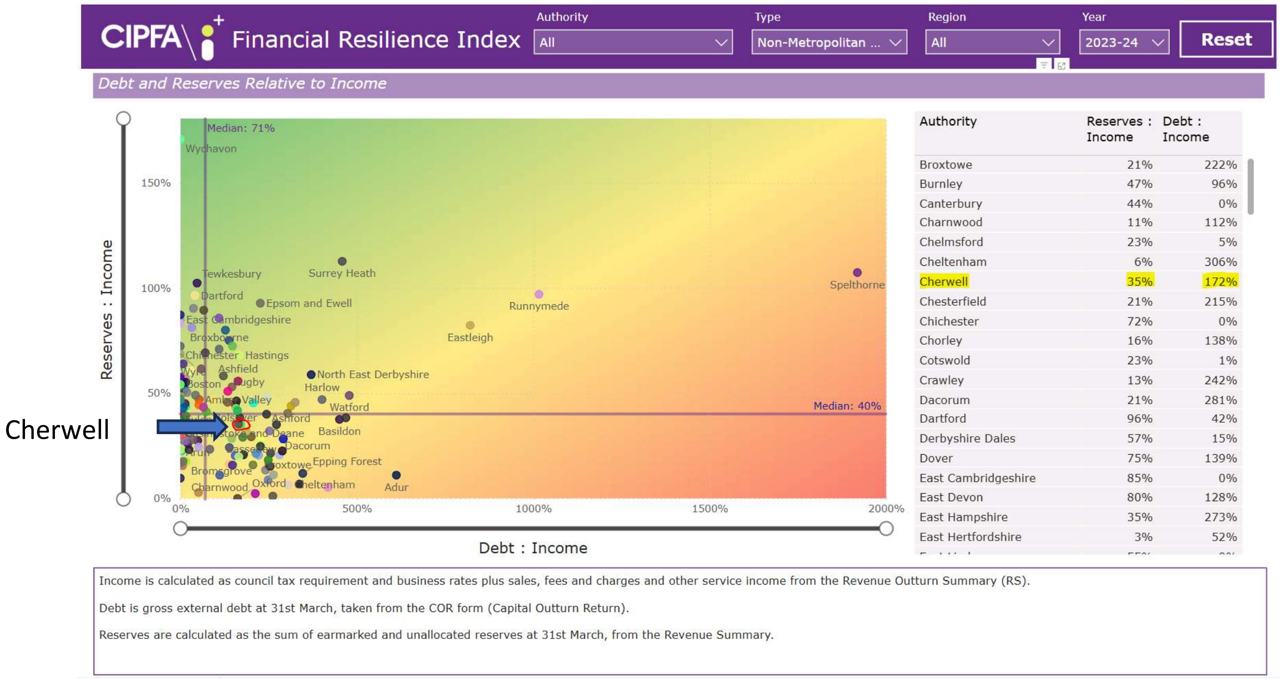
h) Unallocated Reserves – This indicator is calculated as the ratio of unallocated reserves to net revenue expenditure. The range for district councils is 0.00% (highest risk) to 1,562.20% (lowest risk) with the council at 20.98%. The council at the median risk of non-metropolitan districts. This analysis is based on 2023/24; as part of the 2025/26 budget, unallocated reserves are being increased. When unallocated and earmarked reserves are combined the council has in excess of 125% of its net budget available as reserves.

i) Earmarked Reserves – This indicator is calculated as the ratio of earmarked reserves to net revenue expenditure. The range for district councils is 0.00% to 3,461.78% with the council at 105.32%. The council is at the median risk of district councils. When unallocated and earmarked reserves are combined the council has in excess of 125% of its net budget available as reserves.

j) Change in Unallocated Reserves – This indicator is the average change in unallocated reserves over the past three years. The range for district councils is -100.00% (highest risk) to 232.09% with the council at 23.04%. The council is around the lower quartile for risk demonstrating that it has been prudent in not only ensuring its unallocated reserves have not reduced in recent years, but also having increased them.

k) Change in Earmarked Reserves – This indicator is the average percentage change in earmarked reserves over the past three years. The range for district councils is -100.00% (higher risk) to 336.36% with the council at -62.04%. This is in the upper quartile of risk relative to other district councils. However, this primarily reflects the level of reserves generated and then released related to business rates reliefs awarded by the Government after budgets being set in relation to Covid and the timing of when income could be recognised.

l) <u>Debt and Reserves Relative to Income –</u> the chart below shows all district councils graphically comparing the ratios 'reserves:income' and 'debt:income'. The council's 'reserves:income' ratio is 35% (median 35%) and 'debt : income' ratio is 172% (median 52%). Cherwell has been circled in red below to show where it sits relative to all other district councils. Cherwell has below the median unallocated 'reserves : income' ratio and above the median 'debt : income' ratio but is not a visible outlier relative to other district councils shown on the chart.




## Assurance Statement of the Chief Finance Officer

29. The proposed budget for 2025/26 and Medium-Term Financial Strategy to 2029/30 addresses the demand pressures, inflationary risks and behaviour changes which are expected to continue into the medium term.

30. Whilst the 2025/26 budget is balanced, there remains a significant gap between estimated spend and funding streams between 2026/27 and 2029/30. This is primarily due to the anticipated funding changes beginning in 2026/27 and being phased over 3 years:

- business rates reset
- fair funding review

- removal of New Homes Bonus

31. Therefore, the council needs to maintain focus on financial sustainability and producing a balanced budget over the medium term, which will require it to prioritise and transform services. It is important to note that plans should be developed for all years of the MTFS, and savings of this scale **will** impact on all services of the council and the level of service the council is able to provide. The council has begun this process through the transformation programme and identified a number of ideas that now need to be reviewed and level of savings that can be delivered be validated along with implementation plans. This process should continue as soon as possible after the 2025/26 budget is approved. In addition work identifying potential future service levels and associated funding levels should continue to be developed in order to prepare a combined transformation and service reduction options to deliver a balanced budget over the medium term.

32. The risks in the 2025/26 budget are predominantly in relation to the uncertainty around inflation, market risk and interest rates. To help mitigate this a contingency budget of £2.6m is available, the £8.7m market risk reserve and £2.9m interest rate equalisation reserve.

33. The system of financial control remains robust, and financial management and financial systems are monitored to ensure they remain effective and relevant. Where areas for improvement are identified actions are agreed with directorates and support provided to implement them.

34. I believe the level of the council's total reserves are sufficient to provide both general balances to manage the impact of unexpected events in line with the risk assessment; and the setting aside of earmarked reserves to meet known or anticipated liabilities.

35. Therefore, I am satisfied that the budget proposals for 2025/26 recommended by the Executive are robust.

**Michael Furness, Assistant Director of Finance (S151 Officer) (Chief Finance Officer)**

12 February 2024

**Appendix 1 – Summary Financial Management Code Assessment**

**General Opinion**

It is the opinion of the Chief Finance Officer (CFO) that the council is currently financially resilient, continues to strive in delivering value for money to its residents and businesses and aims to provide the capacity to deliver its strategic ambition within the challenging environment within which it operates. In its aim of striving for financial excellence, the council continues to identify areas for improvement as it seeks to deliver its ambitious corporate priorities and its core services during a period of volatility and financial constraints.

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
|---|---|---|---|---|
| **1.** | **Responsibilities of the CFO and Leadership Team** | | | |
| A | The leadership team is able to demonstrate that the services provided by the authority provide value for money | The Constitution – updated Feb 2024, included revised refreshed financial procedure rules. There is a clear governance structure, with well-defined roles for Members, committees and all Chief and Statutory Officers. The collective responsibility for the achievement of Value for Money (VFM) is made within the constitution. This is reviewed and updated regularly. The constitution is reviewed regularly.<br><br>Procurement and contract management regulations - The organisation ensures that all services tendered by the Council provide the best use of resources. Tenders are assessed against quality of service as well as price, with social value considered a key part of procurement.<br><br>Contracts and third-party agreements require review and approval by finance, procurement | Develop a statement of how proposals in committee reports will deliver value for money where appropriate<br><br>Review the use of service benchmarks to understand cost drivers and to identify where further cost improvement may be possible.<br><br>Further benchmarking and cost review across other council services | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
|---|---|---|---|---|
| | | and service head/director which is a process to ensure procurements have been compliantly undertaken.<br><br>The Gateway Process approach incorporates a robust gateway-based process for decision making. Business cases which are the key decision-making documents include details on options, benefits (nonfinancial and financial) and the cost for delivery and through an investment appraisal providing a clear view of the value for money before projects are finalised and approved.<br><br>Benchmarking of some services has been carried out in specific areas of high demand and risk e.g., environmental services. Further benchmarking across other council services and cost review to be a focus in 2025/26 with a view of identifying opportunities to improve value for money whilst also focusing on demand management in the medium term.<br><br>Overview and Scrutiny committee meets 6-7 times a year, examines policy and performance of services and can refer matters to Executive.<br><br>External Audit review the council's arrangements for VFM and provide a VFM opinion as part of their external audit work on the accounts. | | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
|---|---|---|---|---|
| B | The authority complies with the CIPFA "Statement of the Role of the CFO in Local Government" | The CFO is a qualified accountant with significant experience working as an active member of the leadership team. The CFO is a member of Corporate Leadership Team (CLT) and has an influential role with members of the Executive, Accounts, Audit & Risk Committee and lead opposition members.<br><br>The council's finance team is resourced at present to deliver the councils key core requirements. The finance function is staffed through permanent staff with good levels of knowledge and experience. The CFO promotes personal development; there are currently two members of the team studying for accounting qualifications. | Review annually the statement of roles and responsibilities of CFO, CLT and the Executive. | |
| **2.** | **Governance and Financial Management Style** | | | |
| C | The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control | The council's Constitution includes a copy of the code of conduct, which sets out the principles, behaviour and actions for members and officers of the council. The Code of Ethics and Standards requires all staff to abide by the Nolan Principles in public life. The council has an Accounts, Audit and Risk Committee which reviews the arrangements for assurance.<br><br>The Head of Internal Audit and Counter Fraud Lead report regularly to this committee on the work of the internal audit and counter fraud teams and have independent direct links to the committee to raise any concerns they may have. The Head of Internal Audit is required to provide an independent opinion each year on | Continue to enhance and develop the role of the Corporate Oversight & Governance Group (COGG). | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
|---|---|---|---|---|
| | | the effectiveness of the system of internal control and also on progress on the delivery of actions recommended through specific internal audit reviews.<br><br>The Corporate Oversight & Governance Group (COGG) was set up to ensure good governance and internal control, including driving the production of the Annual Governance Statement (AGS) and Action Plan through the completion of Professional Lead Statements and engagement with Corporate Directors. | | |
| D | The authority applies the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016)" | The AGS includes an Annual Internal Audit Opinion on the effectiveness of the internal control environment and the systems of internal control and confirms its continuing commitment to the CIPFA Framework.<br><br>The effectiveness of the council's governance arrangements is reviewed and reported each year through the AGS. Directors and Assistant Directors are required to sign off annual assurance statements, this requires them to confirm whether they are aware of any significant weaknesses in internal control.<br><br>Accounts, Audit and Risk Committee is responsible for considering the council's arrangements for corporate governance including strategic oversight of risk management processes. Executive retain responsibility for the management of risk. | Continue to enhance and develop the AGS through CLT and respond to emerging best practice. | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
|---|---|---|---|---|
| E | The Financial Management style of the authority supports financial sustainability | The Council has moved from a Budget Monitoring approach to Budget Management which is an active approach designed not just to report variances but to develop mitigations in order to manage the in-year variances corporately. A Budget Oversight Group has been established to challenge service areas projecting overspends to contain these within their annual budgets through mitigations. | Continue to challenge budget managers to explore options for mitigating budget variances to ensure financial sustainability.<br><br>Reporting could be enhanced with regular reports on FOI, data subject access requests, and EIR requests, to give visibility and assurance on regulatory compliance | |
| **3.** | **Long to Medium-Term Financial Management** | | | |
| F | The authority has carried out a credible and transparent financial resilience assessment | A Financial Resilience assessment is included within the budget documents reported to Executive and Council. The assessment is consistent with the Medium-Term Financial Strategy (MTFS) assumptions.<br><br>As part of refreshing the medium-term financial forecast, a risk assessment is made of likely future pressures and demands, and an assessment is made for a suitable level of General Fund reserve required to mitigated risk. The council maintains a minimum level of general balances for unforeseen risks and circumstances.<br><br>A 'going concern' assessment is carried out each year as part of the annual audit process which involves a review of reserve levels and cashflow modelling. | Scenario planning and sensitivities continue to be considered as part of medium-term forecasting. | |
| G | The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members | The council reviews and identifies each year the risks (local/national, internal/external) facing the council that may have financial | Continue to update CLT and the Executive throughout the year and within Budget/MTFS documents. | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
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| | | implications and these are outlined in the budget report, Statement of Accounts and MTFS each year. The MTFS resource forecast is competed on a "realistic worst case" scenario with alternative scenarios modelled. A fundamental service review exercise has been undertaken in 2024/25 to identify options to address the "realistic worst case".<br><br>Executive and the Budget Planning Committee each received the Budget and Business Planning Process 2024/25 – 2028/29 Report in July 2023 in preparing for 2024/25 budget setting and updated in Sept 2024 for 2025/26 budget setting. | | |
| H | The authority complies with the CIPFA "Prudential Code for Capital Finance in Local Authorities" | A Capital Strategy is produced annually. Quarterly Treasury Management monitoring is considered at the Accounts, Audit and Risk Committee. A profiled five-year capital programme was approved by Council in Feb 2024 and is managed monthly and reported to the Executive. The Q2 and Q4 Treasury Management reports include prudential indicators and are also reported to Council. | The quarterly TM reports contain updates on Prudential Indicators but this could be expanded to further facilitate the interpretation of them for readers. | |
| I | The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans | The council has an Integrated Business Planning and Budget Process with a five-year MTFS which supports the delivery of the councils' statutory duties and corporate plan priorities. The service business planning process in 2024/25 sought to ensure consistent business plans were in place for the delivery of the council's Business Plan for all | Continue to ensure services are aware of future savings plans committed to and savings are implemented. Encourage 'early alert' if future savings are at risk so that mitigations can be put in place and potentially get savings back on track. | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
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| | | directorates which included the financial resources required for delivery and hence sustainability. | | |
| **4.** | **The Annual Budget** | | | |
| J | The authority complies with its statutory obligations in respect of the budget setting process | The Council produces its annual balanced budget and supporting documentation.<br><br>The council's CFO is fully aware of the circumstances under which to issue a Section 114 and does not anticipate this being required in respect of budget setting at this time, though this is kept under review. | | |
| K | The budget report includes a statement by the CFO on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves | S25 statement accompanies the suite of budget documents reported to Executive and Council. Enhanced by including an assessment of compliance with the FM Code. | | |
| **5.** | **Stakeholder Engagement and Business Plans** | | | |
| L | The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget | Consultation on the budget proposals as well as ensuring we carry out the statutory business rate payers' consultation.<br><br>The council's 2024/25 Business Plan was developed through key findings from working with and engaging with local residents, staff, businesses, partner agencies and organisations and seeks to deliver district-wide ambitions. This can be found on the council's website. This will be refreshed for 2025/26.<br><br>The council continually reviews and refreshes its communication strategy / plans to improve the communication of the council's financial position, strategic plans and aims to key stakeholders in the community. | Continue with corporate and directorate consultation where appropriate. | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
|---|---|---|---|---|
| M | The authority uses an appropriate documented options appraisal methodology to demonstrate the value for money of its decisions | A gateway process which includes a standardised business case is required for all capital schemes which sets out alternative options, the reasons for discounting them and benefits of progressing with the scheme.<br>All tenders consider VfM by considering the quality of service and not just price – the appraisal process is documented.<br>The Extended Leadership Team (ELT) are responsible for overseeing the Gateway process for evaluation of projects. The process considers factors such as VFM, business need and recommendations are made to CLT who in turn recommend to Members.<br><br>The gateway process is being enhanced to ensure that benefits realisation plays a more significant role in the future. | Continue to embed Gateway process and refine business case templates from outline through to full for both revenue and capital schemes for all strategic boards. | |
| **6.** | **Monitoring Financial Performance** | | | |
| N | The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability | The quarterly Performance, Risk and Finance Report to Executive enables CLT and Executive to respond to emerging issues.<br>Enhancements to capital reporting have been introduced to now include analysis of variances to the total cost of the scheme rather than comparison to in-year profiled budget. All capital schemes are now monitored by either a strategic board (for place shaping or transformational schemes) or by the appropriate Directorate Leadership Team (for Business As Usual schemes). | The Capital Programme monitoring element requires enhancement to:<br>• better reflect performance and the delivery of outcomes linked to the completion of capital schemes.<br>• Better understand the drivers of budget reprofiling | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
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| | | Monthly Budget Management reports are prepared to identify as quickly as possible challenges to the budget. As a result of this “early warning system” management has established the Budget Oversight Group to work closely with services that are overspending to identify options to come back on budget. | | |
| O | The Leadership Team monitors the elements of its balance sheet that pose a significant risk to financial sustainability | Reserves and balances are monitored quarterly and reported to Executive. Changes in budgeted use require appropriate approvals before they can be assumed.<br>Debtor monitoring takes place monthly, identifying and analysing aged debt. Regular review and management of aged debt has resulted in either recovery or unrecoverable debts being written off in a timelier manner. CLT receive a quarterly report on the top 20 debtors, this is also reported to the ELT and to DLTs. | Continue to enhance reporting of aged debt to enable budget managers to effectively manage their aged debt. | |
| **7.** | **External Financial Reporting** | | | |
| P | The CFO has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the “Code of Practice on Local Authority Accounting in the United Kingdom” | The responsibilities of the CFO are set out in the constitution, financial regulations and are also included in employment contract/job description as well as in statute.<br><br>The annual accounts are produced in compliance with the CIPFA Code by appropriately qualified and trained individuals and are approved by the CFO and the external auditors prior to approval by the Accounts, Audit and Risk Committee. The draft accounts for 2022/23 were published after the statutory deadline due to audit delays on the 2021/22 | Continue close working with the council’s external auditors to deliver a final audited set of accounts in a timelier manner. | |

| Ref | CIPFA Financial Management Standards | Current Status | Further Work | Status |
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| | | accounts. However, the draft 2023/24 accounts were published prior to the statutory deadline. For various reasons the publication of the final accounts has been delayed in recent years, however council officers and the auditors are progressing the completion of these audits, and it is envisaged the 2022/23 audit will be completed during 2024/25 with the 2023/24 audit and the publication of final accounts soon thereafter. | | |
| Q | The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions | CLT and Executive consider the outturn report and year end variances enabling strategic financial decisions to be made as necessary.<br><br>The outturn position is then used to inform and update the in-year budget position, medium term financial planning projections and to inform the forward forecast and adequacy of reserves and balances. | Feedback regularly sought to improve the quality of reporting. | |