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. 2024/25). 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 2024/25 – 2028/29 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 £6.1m for 2024/25.

Financial management arrangements and control frameworks

8. The council expects to receive an unqualified audit opinion in 2021/22 (based on the January 2024 draft Audit Results Report) and expects the same for 2022/23 (subject to the approach adopted nationally to "resetting" the local authority audit position). In respect of securing 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. Similarly, the council expects to receive an unqualified value for money conclusion for 2021/22 and expects the same for 2022/23.

9. 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 draft Audit Results Report had no findings to report on the council's Annual Governance Statement (AGS) for 2021/22 and the same is expected for 2022/23. Areas for improvement are reported to Accounts, Audit & Risk Committee and monitored in-year through the Corporate Oversight and Governance Group.

10. 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 2024/25. 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 2023/24 AGS which will be published

alongside the 2023/24 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

11. 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 2024/25, helping to ensure that budget holders continue to be accountable for the budgets they hold.

Ongoing Financial Impact of Behaviour Change

12. 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 2023/24 budget management position and assumptions around increases in charges.
    - forecast assumptions around retail rental income levels based on the latest intelligence available.

13. To help insulate the council from further financial impacts, there is £1.1m available in a commercial risk contingency in 2024/25 as well as there being a separate £6.2m market risk reserve should the assumptions highlighted in paragraph 12 change significantly.

Budget & Business Planning Process

14. The Budget & Business Planning process is well established and includes significant input from Finance, Customer Focus, Human Resources and Legal & Governance. The construction of the budget has taken place with the combined input of the services to develop and own both pressures and savings proposals put forward along with validation from the Finance team in conjunction with HR and Performance. Examination of the budget proposals has been subject to challenge by the directorate and corporate leadership teams, the council's leadership team and the Assistant Director of Finance (along with the corporate finance team). 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.

15. Budget Planning Committee considered the proposed revenue savings, pressures, capital bids and fees and charges at its meeting in December 2023. In January 2024, 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 2024.

16. A public consultation on the budget was also held between 24 November 2023 and 22 December 2023. Responses were received from 202 residents and businesses with over 50% support for all proposals included in the budget consultation. Scrutiny of the budget savings has also been considered from an equalities perspective.

Budget Assumptions

17. The formation of the 2024/25 budget and indicative budgets for the following four years to 2028/29 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 2024/25 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 2024/25, there is limited certainty in terms of local government finance. The Government has announced that a business rates reset and local government finance reform will not take place before 2025/26. The Office for Budget Responsibility has indicated that “unprotected services” will receive annual real terms cuts in funding of 2.3% on average over the next three years. However, no specific announcements have been made on local government funding levels over the medium term, when and what form a business rates reset may take, whether New Homes Bonus or Funding Guarantee grant will continue in the medium term, or when local government financial reform will be introduced. This makes it difficult to plan for the resource levels over the medium term. Details and assumptions for 2024/25 have been set out in the Revenue Budget Strategy at Section 3.2 of the Budget Report.

Business rates forecast income for 2024/25 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 now forecast, as the MTFS planning assumption, to begin in 2025/26 and be phased over three years. The Government has indicated that there will be a phased approach to resets, but has not issued any guidance over the period or profile over which this will take. Therefore, the council has taken the prudent position of assuming a full reset over three years which is in line with the usual Spending Review period. As the Government issues announcements and consultations on business rates resets and other local government finance reforms, these will be factored into the MTFS and fed into the 2025/26 Budget and Business Planning Process.

A Band D Council Tax increase of £5 is proposed for 2024/25 (within the referendum limit confirmed in the Local government Finance Settlement) and across the medium term. This is a 3.4% 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 2024/25.

The increase in the council tax base for 2024/25 was lower than assumed in the 2023/24 MTFS, with an actual increase of 1.45% Band D equivalent properties in 2024/25 compared to 2.1% forecast in the 2023/24 MTFS. The cause is due to a drop in the rate of house building. Housing growth is assumed for 2024/25 and across the medium term.

b) <u>Inflation</u> – The Spending Review 2021 set out that public sector pay rises would continue throughout the Spending Review Period. The council has built an assumed pay award into its 2024/25 assumptions which is being held as a contingency until the pay award is agreed.

Where services submitted pressures linked to inflationary increases identified during 2023/24 (as a result of general inflation being in excess of 10% early to mid-way through the financial year) they have been funded. The council has provided for contract inflation of a further 6% in 2024/25. The latest figures from December 2023 show CPI running at 4.0% (compared to 10.5% in December 2022). 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 2024. Additional funding of £0.7m has been set aside for potential increased costs that were not identified as part of budget setting, including utility costs, as prices are particularly volatile. Alongside the increases built in for contracts, the council has been prudent in setting aside resource for inflationary pressure in 2024/25.

Overall, the council holds an inflation contingency in 2024/25 of £2.2m (including a potential pay award), equivalent to 8.1% of the net budget. Any inflationary pressures in services funded by grant are expected to be maintained within the level of grant awarded.

c) 2024/25 Budget Pressures – The council has undertaken regular budget management throughout 2023/24. As part of this process detailed monitoring of the savings programme has continued. Where savings have been identified as undeliverable in 2023/24, and won't be delivered in 2024/25, they have been identified as a pressure in 2024/25. Furthermore, services have identified unavoidable budget pressures for 2024/25, which have also been reviewed by Finance officers and challenged by senior leaders.

d) 2023/24 Forecast Outturn – The council's forecast financial position up to the end of December 2023 shows a forecast balanced outturn position. This is made up of £0.3m in-year savings non-delivery, offset by £0.3m base budget underspends. In addition to forecasting a balanced outturn position the council has also made contributions of £1.2m to the market risk reserve in 2023/24 through overachievement of interest income through its treasury management function.

e) Treasury Management – at 31 December 2023, the council held £166m of long term debt with Public Works Loans Board. 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 2.19% in 2023/24 to 2.52% in 2024/25 at a time when interest rates are generally available at around 5%. The MTFS assumes continuation of the strategy to borrow internally at £74m. The council has a Capital Financing Requirement of £246.1m, forecasted to rise to £255.8m by 2025, which external debt will remain below. Debt as at 31 March 2024 is forecast to be £181m. The council has assessed that its Authorised Limit for External Debt for 2024/25 will be £310m (no change from 2023/24). 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 5.25% (February 2024) to 5.0% by June 2024, before gradually reducing to 3.0% in September 2025. For 2024/25 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 4.8% for 2024/25.

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 2024/25 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 2028/29 with required borrowing costs to finance it being reflected in the MTFS. The total capital programme is £40.4m, of which £24.3m is planned to be spent in 2024/25. 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 £290m and Authorised Limit for Total External Debt of £310m.

Financial Risks

18. 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.

19. 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 will change in the coming year,
- the growing unavoidable pressures and the need to deliver savings,

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 2024/25 is £4.1m. 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
- the annual cost of living pay award for 2024/25
- 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

2024/25 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 12 highlights that the council has made allocations within the budget to address these, and paragraph 13 sets out that there are reserves and contingencies to address these should the pressures provided be insufficient.

b) <u>Achievement of planned savings</u> – 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 forecast savings delivery as at the end of December 2022 is 75%.

iv) The council identified a savings programme of £1.0m for 2023/24. The forecast savings delivery as at the end of December 2023 is at around 75% as well with mitigations identified for non-delivery.

Ongoing existing and proposed savings currently identified in the MTFS which are required to be delivered up to 2028/29 total £2.3m.

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.

c) <u>Local Government Funding</u> – changes to the local government funding regime could create significant financial challenges to the council. Uncertainty around the future of New Homes Bonus (the Government had previously indicated its intent to issue a consultation on its future) and the anticipated Fair Funding Review as well as the anticipated business rates reset in 2025/26 (assumed to be phased over three years) could have significant financial consequences on the level of resources available to the council. The 2021 Spending Review was for three years outlining the overall local government resource envelope to 2024/25 with no official Government announcements of funding levels thereafter. The 2024/25 Local Government Finance Settlement was for one year only and includes significant levels of funding which could be one-off, in particular the Minimum Funding Guarantee and New Homes Bonus grants. In recent years the Government has issued a Policy Statement indicating the Government's thoughts on its approach to funding in future years, but there has been no statement released by the Government to provide strategic direction on funding plans for 2025/26 or beyond. In addition, it is not yet clear how funding and costs related to Simpler Recycling (formerly Extended Producer Responsibility) will be addressed. The council has assumed that a full business rates reset will take place from 2025/26 (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 though not given an indication of the period or profile of the phasing. 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 2025/26 there are likely to be average annual real terms reductions in the levels of funding made available to unprotected services of 2.3%</u>. The council

is using its assumptions around the fallout of one-off resources to approximate this prior to detailed announcements being issued.

d) Inflation – As set out in paragraph 18b above, the council has made provision for contract inflation of up to 6%, falling back to 2% in 2025/26 in line with government's inflation target thereafter. 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) Interest Rates – Interest rates have increased significantly in 2023 but are forecast to begin to fall in 2024 before gradually reducing to around 3.0% by September 2025. 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 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 2023/24 has been put to a Market Risk reserve as well as an Interest Rate Equalisation reserve to help to protect the council against interest rate pressures.

Level of total reserves

20. 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.

21. 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 2024/25, 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 2024/25 based on this risk assessment is £6.1m, with the current 2023/24 outturn position forecast to be £6.1m. 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.

22. 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 £43.4m.

23. 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 £0.8m, with the use of earmarked reserves restricted to time limited items and grant funded reserves being used in line with the grant conditions.

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

Reserve Category	**Forecast Balance 1 April 2024 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**2028/29 £m**	**Expected Balance 1 April 2029 £m**
General Balances	(6.150)	0.000	0.000	0.000	0.000	0.000	(6.150)
Earmarked Reserves	(26.681)	(0.776)	(0.674)	(1.176)	(1.226)	(1.226)	(31.759)
Revenue Grants	(2.297)	0.898	0.007	0.007	0.007	0.007	(1.371)
Sub-total Revenue Reserves	**(35.128)**	**0.122**	**(0.667)**	**(1.169)**	**(1.219)**	**(1.219)**	**(39.280)**
Capital Reserves	(7.389)	3.250	0.000	0.000	0.000	0.000	(4.139)

TOTAL RESERVES	**(42.516)**	**3.372**	**(0.667)**	**(1.169)**	**(1.219)**	**(1.219)**	**(43.419)**

CIPFA Financial Resilience Index

25. 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.

26. The data is obtained from the Revenue Expenditure and Financing England Outturn Report 2022/2023. It should therefore be viewed in the context of this being a snapshot 12 months ago.

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

a) <u>Reserves Sustainability Measure</u> – This indicator measures the ratio between the current level of reserves and the average change in reserves in each of the last three years. A negative value (which implies reserves have increased) or one greater than 100 is recoded to 100. The council's score is 100 in a range of 1.06 (higher risk) – 100 (lower risk), with the vast majority of council's all scoring 100. This is due to all District council's seeing an increase in their level of reserves due to the timing of grant being received for business rates reliefs awarded and the recognition of reduced income in the following financial year for the associated collection fund deficit.

b) <u>Level of Reserves</u> – This is the ratio of the current level of reserves to the council's net revenue expenditure. The council's ratio is 118.05% in a range of -8,561.18% (higher risk) to 1,968.96% (lower risk). The council is around the median position of District Councils and is therefore neither relatively high risk nor low risk. It should be noted that for all District Councils there would be an element of these reserves that would be held as a timing issue relating to business rates discounts awarded as a result of Government policies relating to Covid-19 which would be used the following year.

c) <u>Change in Reserves</u> – This shows the percentage change in reserves over the past three years. The council's change is -0.73%% in a range of -104.95%

(highest risk) to 297.96% (lowest risk). The council is identified at around the upper quartile end of the spectrum of District Councils, but the same caveat applies as in level of reserves that a large proportion of Cherwell's change will relate to the timing of income streams linked to business rates reliefs.

d) Interest Payable/Net Revenue Expenditure – This indicator is the ratio of interest payable to net revenue expenditure. The range for all District Councils is -458.26% (lower risk) to 528.01% (higher risk). The council's ratio is 15.08%. 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.

e) Gross External Debt – This indicator compares the gross external debt held by councils. The range for District Councils is from £0 to £1,997m, with Cherwell at £188m 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. As at 31 March 2023 the council's total external borrowing equalled £166m.

f) 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 1.42% (highest risk) to 57.96% (lowest risk), with Cherwell at 17.05%, an increase 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.

g) 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 -2,279.55% (highest risk) to 583.02% (lowest risk), with Cherwell at 58.26%. Cherwell is around 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 20219. The council has subsequently been addressing this in recent years by increasing its council tax by the maximum allowed without triggering a referendum.

h) 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 -153.23% (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 2025/26. 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.

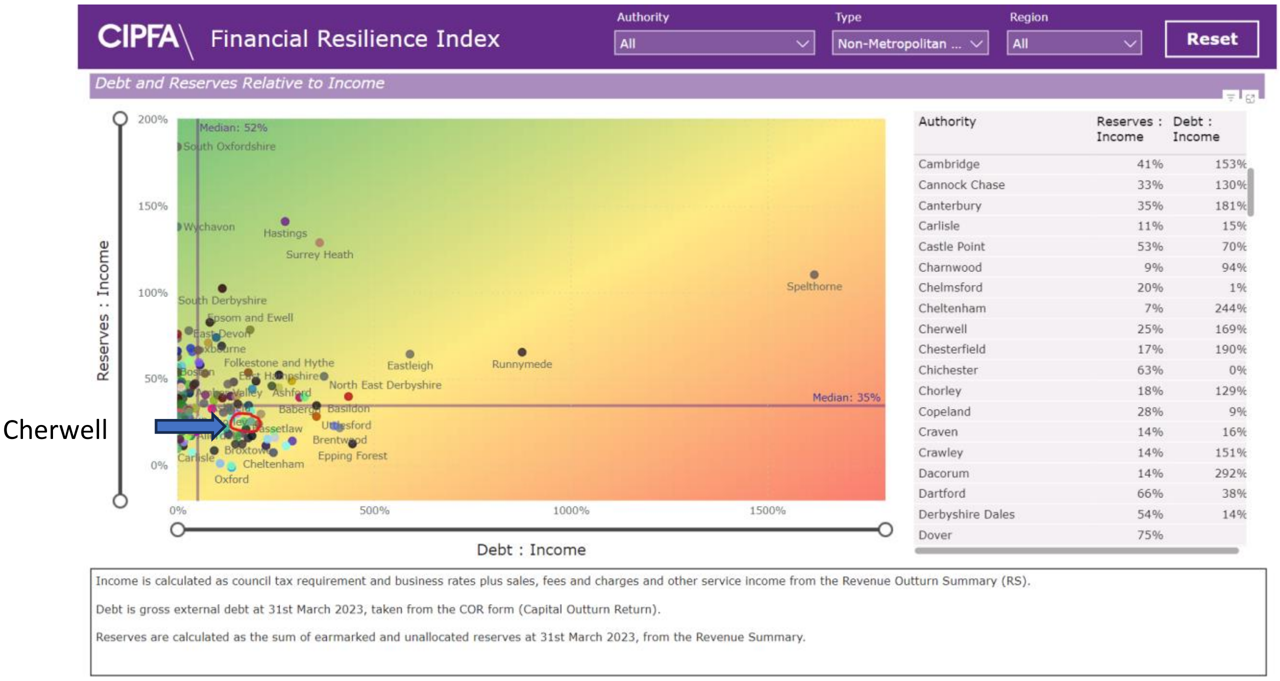
i) Unallocated Reserves – This indicator is calculated as the ratio of unallocated reserves to net revenue expenditure. The range for district councils is -2,333.07% (highest risk) to 737.59% (lowest risk) with the council at 25.75%. The council is slightly below the median risk of non-metropolitan districts. When unallocated and earmarked reserves are combined the council has in excess of 100% of its net budget available as reserves.

j) Earmarked Reserves – This indicator is calculated as the ratio of earmarked reserves to net revenue expenditure. The range for district councils is -6,228.12% to 1,231.37% with the council at 92.30%. The council is just above the median risk of district councils. When unallocated and earmarked reserves are combined the council has in excess of 100% of its net budget available as reserves.

k) 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% to 969.99% with the council at 38.76%. The council is below the lower quartile for risk demonstrating that it has been prudent in ensuring its unallocated reserves have not reduced in recent years, but also having increased them.

l) 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 -108.19% to 725.41% with the council at -8.04%. This is at 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 and the timing of when income could be recognised.

m) Debt and Reserves Relative to Income – the chart below shows all district councils graphically comparing the ratios ‘unallocated reserves : income’ and ‘debt : income’. The council’s ‘reserves : income’ ratio is 25% (median 35%) and ‘debt : income’ ratio is 169% (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.



Authority	Reserves : Income	Debt : Income
Cambridge	41%	153%
Cannock Chase	33%	130%
Canterbury	35%	181%
Carlisle	11%	15%
Castle Point	53%	70%
Charnwood	9%	94%
Chelmsford	20%	1%
Cheltenham	7%	244%
Cherwell	25%	169%
Chesterfield	17%	190%
Chichester	63%	0%
Chorley	18%	129%
Copeland	28%	9%
Craven	14%	16%
Crawley	14%	151%
Dacorum	14%	292%
Dartford	66%	38%
Derbyshire Dales	54%	14%
Dover	75%	

Income is calculated as council tax requirement and business rates plus sales, fees and charges and other service income from the Revenue Outturn Summary (RS).

Debt is gross external debt at 31st March 2023, taken from the COR form (Capital Outturn Return).

Reserves are calculated as the sum of earmarked and unallocated reserves at 31st March 2023, from the Revenue Summary.

Assurance Statement of the Chief Finance Officer

28. The proposed budget for 2024/25 and Medium-Term Financial Strategy to 2028/29 addresses the demand pressures, inflationary risks and behaviour changes which are expected to continue into the medium term.

29. Whilst the 2024/25 budget is balanced, there remains a significant gap between estimated spend and funding streams between 2025/26 and 2027/28. This is due to the anticipated ongoing impact of the cost-of-living crisis, the fallout of one-off resources, uncertainty of funding pending the future of New Homes Bonus in 2024/25, alongside the development of the new needs-led funding formula and anticipated business rates reset phased over three years beginning in 2025/26. 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. In line with the follow-up report from the Peer Review (9 October 2023), “CDC is in a strong position to bring a balanced budget for 2024/25 … the council should not delay bringing forward the efficiencies and savings required, as a considerable budget gap remains for 2025/26.” 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. This process should begin as soon as possible after the 2024/25 budget is approved.

30. The risks in the 2024/25 budget are predominantly in relation to the uncertainty around how the impacts of behaviour change will settle and inflation. To help mitigate this a contingency budget of £3.9m is available and the £6.2m market risk reserve.

31. 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.

32. 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.

33. Therefore, I am satisfied that the budget proposals for 2024/25 recommended by the Executive are robust.

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

12 February 2024

Summary Financial Management Code Assessment

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	All services are reviewed to ensure they are being delivered efficiently and appropriate savings are identified. All tenders consider VfM by considering the quality of service and not just the price.	Develop a statement of how proposals in Executive Reports will deliver value for money where appropriate	
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 CLT (Corporate Leadership Team) and has an influential role with members of the Executive, Accounts, Audit & Risk Committee and lead opposition members.	Review annually the statement of roles and responsibilities of CFO, CLT and the Exec.	
2.	**Governance and Financial Management Style**			
C	The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control	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.	Continue to enhance and develop the role of COGG.	
D	The authority applies the CIPFA/SOLACE “Delivering Good Governance in Local Government: Framework (2016)”	Annual Governance Statement includes audit opinion on effectiveness of internal control environment and systems of internal control.	Continue to enhance and develop the AGS through CLT.	
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 variance corporately. .	Continue to challenge budget managers to explore options for mitigating budget variances to ensure financial sustainability. Reporting to AARC will be enhanced to include regular	

Ref	CIPFA Financial Management Standards	Current Status	Further Work	Status
			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. The assessment is consistent with the Medium-Term Financial Strategy (MTFS) assumptions.		
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	MTFS transparently outlined the financial challenges facing CDC in the Budget and Business Planning Process 2023/24 – 2027/28 Report.	Continue to update CLT and the Executive throughout the year and within Budget/MTFS documents.	
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 considered at the Accounts, Audit and Risk Committee. A profiled five-year capital programme was approved by Council in Feb 2023 and is managed monthly and reported to the Executive.	The quarterly TM reports now contain updates on more Prudential Indicators but this can still be expanded.	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	CDC has an Integrated Business Planning and Budget Process with a five-year MTFS.	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.	
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.		
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 report accompanies the suite of Budget documents. Enhanced by including an assessment compliance with the FM Code		

Ref	CIPFA Financial Management Standards	Current Status	Further Work	Status
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	Significant consultation on the budget proposals as well as ensuring we carry out the statutory business rate payers' consultation.	Continue with corporate and directorate consultation where appropriate.	
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. All tenders consider VfM by considering the quality of service and not just price – the appraisal process is documented. The Strategic Place Shaping Programme Board and the Transformation Board are responsible for overseeing the Gateway process for evaluation of projects which considers factors such as vfm, business need and recommend to the Strategic Board who in turn recommend to Members.	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 monthly Performance, Risk and Finance Report to Executive enables CLT and Executive to respond to emerging. 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 DLT (for BAU schemes).	The Capital Programme monitoring element requires enhancement to: • better reflect performance and the delivery of outcomes linked to the completion of capital schemes. • Better understand the drivers of budget reprofiling	

Ref	CIPFA Financial Management Standards	Current Status	Further Work	Status
O	The Leadership Team monitors the elements of its balance sheet that pose a significant risk to financial sustainability	Reserves and balances are monitored monthly and changes in budgeted use require appropriate approvals before they can be assumed. 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 more timely manner.	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 annual accounts are produced in compliance with the CIPFA Code.		
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.		