

## 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. 2026/27). 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 2026/27 – 2030/31 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 – ensuring alignment to the Corporate Plan
  - 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 £8.0m for 2026/27.

### **Financial management arrangements and control frameworks**

8. The council received a disclaimed audit opinion for 2022/23. This disclaimed opinion 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. At the time of writing the S25 statement for the 2025/26 budget, the auditors were in the process of finalising their opinion on the 2023/24 accounts. Therefore this section of the report comments on the final external audit opinion for both 2023/24 and 2024/25.
9. As a result of receiving a disclaimed audit opinion in 2022/23, the council received a disclaimed opinion for its 2023/24 and 2024/25 accounts. These disclaimed opinions are as a result of the 2022/23 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 Cherwell District Council. However, the Annual Audit Reports received are positive in the council’s approach to preparing and producing the accounts. The auditors are in the process of developing a “road map” to return to standard audit opinions of the accounts.
10. Whilst external auditors currently provide disclaimed opinions on the accounts, they are still required to form an 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 2023/24 and 2024/25.
11. 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 2023/24 and the ARR for 2024/25 reached the same conclusion. Areas for improvement are reported to Accounts, Audit & Risk Committee and monitored in-year through the officer led Corporate Oversight and Governance Group.

12. 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 2026/27. 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 2025/26 AGS which will be published alongside the 2025/26 Statement of Accounts. In addition, the council is compliant with:
  - The Code of Practice for Local Authority Accounting in the United Kingdom
  - The Prudential Code for Capital Finance in Local Authorities
  - The Treasury Management in the Public Sector Code of Practice
13. 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 2026/27, 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%. As the value of the contingency budget has reduced for 2026/27, there is a greater need for services to identify mitigations along with service impacts for the Executive to consider whether they are prepared to implement the change or request mitigations be identified from other services. It is recognised that where income is not being generated at the levels budgeted, it is not a simple situation to generate additional income. Furthermore, reducing spend in income generating areas may have knock on implications for future years' income levels. Therefore, if overspends occur in areas due to reductions in income

generation, there may be a requirement to consider reductions in spend in other services.

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

14. The financial impact arising from behavioural changes following the COVID-19 pandemic, the cost-of-living crisis and global market uncertainty has extended into 2025/26 and is anticipated to continue into the medium term. Budgets have previously been adjusted to reflect the anticipated impact of this. The council has continued to monitor its car parking and retail rental income levels closely and considered:
  - car parking income based on the 2025/26 budget management position and assumptions around increases in charges.
  - forecast assumptions around retail rental income levels reflecting 2025/26 levels of income achieved and the latest intelligence available on anticipated lease renewals and new tenancy arrangements.
  - interest rates have significantly increased in recent years, are beginning to fall and are anticipated to fall in future years, although there remains uncertainty around the pace of this.
15. To help insulate the council from further financial impacts, there is a small sum of £0.1m available in a commercial risk revenue budget contingency in 2026/27 as well as there being a separate £9.3m market risk reserve and £5.9m interest rate equalisation reserve should the assumptions highlighted in paragraph 14 change significantly.

### **Budget & Business Planning Process**

16. The Budget & Business Planning process to prepare for the 2026/27 budget was reviewed to enhance the 2025/26 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 to identify potential demand changes, efficiencies and impacts of changes in service levels currently provided. This has helped the council to identify service investments and efficiencies/income proposals that have been included in the MTFS. In addition, the council now has an enhanced understanding of potential service levels that could be provided as well as the financial implications if it were required to make significant service level changes.
17. Examination of the budget proposals has been subject to challenge by a corporate transformation board, including Executive Directors. There has been engagement with the Executive, the Political Group Leaders have been made aware of the proposals and Budget Planning Committee was invited to

comment on the 2026/27 budget process. The main changes proposed to the budget were also the subject of public consultation in November and December 2025.

18. Budget Planning Committee considered the proposed revenue savings, pressures, capital bids and fees and charges at its meeting in December 2025. In January 2026, 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 2026.
19. A public consultation on the budget, including capital proposals, was also held between 20 November 2025 and 23 December 2025. The business community was also invited to respond to the consultation. Responses were received from 1,184 residents and businesses. Changes to savings have been proposed after considering the feedback from the consultation. Scrutiny of the budget savings has also been considered from an equalities perspective.

### **Budget Assumptions**

20. The formation of the 2026/27 budget and indicative budgets for the following four years to 2030/31 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) Funding assumptions – General Government funding by way of the Settlement Funding Assessment for 2026/27 to 2028/29 has been notified by MHCLG 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).

The introduction of a three-year funding settlement gives far greater certainty than the council has had over its medium-term resources in recent years. The Government has introduced its Fair Funding 2.0 formula and also implemented a full reset of business rates income, both of which have phased introductions over three years. Without any additional transitional protection these two changes would have left the council facing a significant funding reduction and challenge to set its budget. However, some of the key protections that the council suggested to the Government be introduced have been adopted. Key to these are:

- Increasing the floor beyond which the council will not receive funding

reductions. This means that the council will receive 95% of its 2025/26 resources (including adjusting for changes in council tax income) in 2026/27 and no net reductions in funding following this.

- Including some of the retained income from business rates pooling in the baseline position from which the reductions in funding are measured. The increase in the baseline position meant that the total amount of resources retained in 2026/27 through the floor position also increased.
  - It should be noted that the provisional financial settlement proposed a far more beneficial approach to estimating income from business rates pools to the council. The option in the final settlement sees the council receive £2.3m less resources annually from 2027/28.

These protections mean that in 2028/29 the council will be in receipt of £8.5m Transitional Protection grant. The three-year settlement runs to the end of the Government's current Spending Review Period and there are no firm spending indications after this. In the ministerial statement accompanying the provisional three-year settlement, the Minister of State for Local Government and English Devolution set out, "we know that councils are concerned about what will happen at the next spending review, so we will keep working closely with them to avoid cliff edges." This gives an element of comfort that there will not be significant reductions in the £8.5m protection that will be provided. However, there is still uncertainty and so the council will consider a range of scenarios as part of its modelling for 2029/30 and 2030/31.

Business rates forecast income for 2026/27 is based on the statutory NNDR1 return. The level of business rates income that the council will receive over the next three years is not fixed, but is dependent on the level of business rates charged in each year. The forecast of future years business rates income is based on estimates of growth in business rates income through net increases in business properties being developed in Cherwell. If the council takes decisions which mean that the rate of growth differs from what is assumed in the MTFS then the forecast will need to be amended to take account of this.

A Band D Council Tax increase of £5 (to £163.50) is proposed for 2026/27 (complying with the referendum limit confirmed in the Local government Finance Settlement) and further annual increases of £5 are assumed across the medium term. This is a 3.2% increase in the council's element of Council Tax for 2026/27 and is **not considered to be excessive** when comparing against the Government's referendum principles for 2026/27.

The increase in the council tax base for 2026/27 was lower than assumed in the 2025/26 MTFS, with an actual increase of 1.3% Band D equivalent properties in 2026/27 compared to 1.6% forecast in the 2025/26 MTFS. This is

primarily due to delaying the introduction of the second homes premium for 12 months. Housing growth is assumed for 2026/27 and across the medium term.

Like business rates, the level of council tax income the council will receive is not fixed over the next three years. If the rate of increase in the taxbase differs from that assumed in the MTFS then the forecast will need to be amended accordingly.

- b) Inflation – The council has made assumptions and provided for pay awards over the MTFS period.

Where services submitted pressures linked to inflationary increases these have been funded. The council has provided for contract inflation at 3.5% in 2026/27. The latest figures from December 2025 show CPI running at 3.4% (compared to 2.5% in December 2024). Whilst inflation has increased slightly 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 the Bank of England's central estimate is for inflation to be around 2% by the end of 2026<sup>1</sup>.

Alongside the increases built in for contracts, the council has been prudent in setting aside resource for inflationary pressure in 2026/27. Overall, the council holds an inflation contingency in 2026/27 of £1.8m, equivalent to 5.5% of the net budget (however a proportion of this is held to fund the pay award once agreed). Any inflationary pressures in services funded by grant are expected to be maintained within the level of grant awarded.

- c) 2026/27 Budget Pressures – The council has undertaken regular budget management throughout 2025/26 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 2025/26 will continue into 2026/27. Furthermore, services have identified unavoidable budget pressures for 2026/27, which have also been challenged by senior leaders and where they cannot be maintained within services, built into the budget.
- d) 2025/26 Forecast Outturn – The council's forecast financial position as at the end of December 2025 shows a forecast outturn position of a balanced position. This is made up of £0.525m in-year savings non-delivery, £2.499m services overspend, offset by £3.024m corporate underspends. In addition to forecasting a balanced outturn position the council has also made unbudgeted net contributions of £1.5m to earmarked reserves in 2025/26 through recognition of the amortised benefit of early redemption of a loan to PWLB.

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<sup>1</sup> [Bank of England Monetary Policy Report November 2025, Chart 3.1](#)

- e) Treasury Management – at 31 December 2025, the council held £114m 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 reduce slightly from 2.87% in 2025/26 to 2.81% in 2026/27 at a time when the Bank of England is forecast to gradually reduce interest rates to 3.25% by December 2026 and remain at that level until December 2027. The MTFS assumes the continuation of the strategy to utilise internal borrowing of £83m in 2026/27. The council has a Capital Financing Requirement of £233.9m, forecast to increase to £238.8m by 2027, which external debt will remain below. Debt as at 31 March 2026 is forecast to be £149m. The council has assessed that its Authorised Limit for External Debt for 2026/27 will be £270m (£310m in 2025/26). A large proportion of the borrowing costs will be met by 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 3.75% (December 2025) to 3.25% in December 2026. For 2026/27 the council anticipates that it will need to take out c£41m 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 3.54% for 2026/27.

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 2026/27 the proposed limit of loans the council can provide is £74.6m, of which £73.6m 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 2030/31 with required borrowing costs to finance it being reflected in the MTFS. The total capital programme is £31.6m, of which £17.9m is planned to be spent in 2026/27. 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 £199m and Authorised Limit for Total External Debt of £270m.

## Financial Risks

21. 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.
22. Given the:



- real terms reductions in government grant funding,
- limits placed on the level of council Tax increases,
- ongoing financial impacts of behaviour change,
- uncertainty around how inflation levels and interest rates will change in the coming year,
- 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 2026/27 is £2.2m. 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 and to cover the anticipated cost of the pay award;
- other unforeseen costs at the time of budget setting.

In addition the council holds market risk and interest risk reserves.

- 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 14 highlights that the council has made allocations within the budget to address these, and paragraph 15 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. The scale of the planned savings required is broadly inline with 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 £1.7m for 2024/25. The savings delivery was 63% with mitigations identified for non-delivery.
- vi) The council identified a savings programme of £1.5m for 2025/26. The forecast savings delivery as at the end of December 2025 is around 66% with mitigations identified for non-delivery.

Ongoing existing and proposed savings currently identified in the MTFS which are required to be delivered up to 2030/31 total £4.1m.

In addition, the council is continuing its transformation agenda through Cherwell Futures. The council will use this programme to drive efficiencies and continuous improvement across the organisation.

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.

This will enable CLT to understand the implications of potential mitigations and make informed recommendations to the Executive on how to proceed with the budget.

This approach requires collective agreement by the Corporate Leadership Team that Executive Directors will ensure services identify and present appropriate mitigations along with service impacts where overspends are forecast.

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, where a forecast net overspend against the agreed revenue budget exceeds a 2% tolerance the service will be invited to Budget Oversight Group. This group will 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 – the Government has introduced significant changes to the local government funding regime including a reset of the business rates retention system and the introduction of Fair Funding 2.0. The Government also recognised that implementing these changes without transition arrangements would be unsustainable for some local authorities. At the same time the Government has introduced a 3-year settlement. This provides a larger degree of certainty than the council has had in recent years for its resource forecast. However, the Government implemented significant changes between the provisional and final finance settlements that negatively impacted on the council. The Government has also indicated that it will consult on the 2027/28 and 2028/29 settlements meaning that further changes could take place.

The government has provided protections for local authorities that would significantly lose from the changes, with the council having its net losses capped at 5% in cash terms in 2026/27 compared to a Government estimate of 2020/21 resources and then held flat in cash terms in the later years of the settlement. These losses are significantly less than had been inferred from Government announcements in summer 2025, but are £2.3m per annum worse from 2027/28 compared to the Government's provisional announcement in

December 2025. As such, the council has a balanced budget for 2026/27, but a £2.3m gap in 2027/28.

The main income uncertainties facing the council now are around rates of growth in council tax and business rates income which are, to some extent, in the control of the council.

From 2029/30 there is no certainty as Government announcements will need to be made in line with the next Spending Review. Therefore, the council has developed scenarios of how funding levels could change, with the main planning assumption a repeat of how funding levels have changed in this Spending Review period.

- d) Inflation – As set out in paragraph 20b above, the council has made provision for contract inflation of up to 3.5% in 2026/27 and 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) Interest Rates – Interest rates have fallen at a slower rate than originally anticipated in 2025 but are forecast to continue to fall gradually in 2026 to around 3.25% 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 2025/26 has been used to support the council's overall financial position, whilst the income recognised from the premium received from early redemption of a loan with the PWLB has been put to the Interest Rate Risk reserve to help insulate 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**

23. As described above the financial environment in which the council operates is subject to risk and uncertainty. There is far greater certainty around funding levels for the next three years than there has been in recent years. However, the council is still subject to market and interest rate risks and uncertainties as well as uncertainty to the council's funding from Government from 2029/30 onwards. The Government has also made it clear that with Local Government Reorganisation on the horizon, the council should not plan to use its reserves for major schemes not previously planned in its MTFS or that it would use for regular business.
24. 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 2026/27, 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 2026/27 based on this risk assessment is £8.0m, with the current 2025/26 outturn position forecast to be £8.0m, 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 2026/27. 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.
25. 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 £53.9m at the end of the MTFS period.
26. 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 £3.8m (some of which are due to timing issues of when resources are available), with the use of earmarked reserves restricted to time limited items and grant funded reserves being used in line with the grant conditions.

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

Reserve Category	Forecast Balance 1 April 2026 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m	Expected Balance 1 April 2031 £m
General Balances	(8.021)	0.000	0.000	0.000	0.000	0.000	(8.021)
Earmarked Reserves	(32.520)	(3.835)	(1.787)	(2.030)	(1.382)	(2.036)	(43.591)
Revenue Grants	(1.352)	0.333	0.041	0.027	0.017	0.007	(0.928)
<b>Total Revenue Reserves</b>	<b>(41.892)</b>	<b>(3.502)</b>	<b>(1.746)</b>	<b>(2.003)</b>	<b>(1.365)</b>	<b>(2.029)</b>	<b>(52.539)</b>
Capital Reserves	(4.929)	3.416	0.061	0.061	0.000	0.000	(1.391)
<b>TOTAL RESERVES</b>	<b>(46.821)</b>	<b>(0.086)</b>	<b>(1.685)</b>	<b>(1.943)</b>	<b>(1.365)</b>	<b>(2.029)</b>	<b>(53.930)</b>

### CIPFA Financial Resilience Index

28. [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.
29. The data is obtained from the Revenue Expenditure and Financing England Outturn Report 2024/2025. It should therefore be viewed in the context of this being a snapshot 12 months ago.

30. 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 138.39% in a range of -203.72% (higher risk) to 5,792.32% (lower risk). The council is around the median risk position of District Councils – this shows the level of reserves held is reasonable and in line with the rest of the sector.
- b) Change in Reserves – This shows the percentage change in reserves over the past three years. The council's change is +13.24%% in a range of -100.00% (highest risk) to +399.03% (lowest risk). The council is identified at around median risk 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. A net contribution to reserves over this period is a positive from a financial management perspective.
- 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 -314.29% (lower risk) to 1,352.95% (higher risk). The council's ratio is 15.52%. The council is identified around the median of District 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. Most importantly the repayment of interest costs is factored into the budget and MTFS.
- d) Gross External Debt – This indicator compares the gross external debt held by councils. The range for District Councils is from £0 to £2,176m, with Cherwell at £165m 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. The council's borrowing has reduced since 2024/25 and is forecast to be £149m.
- 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 1.30% (highest risk) to 64.61% (lowest risk), with Cherwell at 14.56%. The council has relatively low fees and charges income compared to its total expenditure (upper quartile of risk) 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

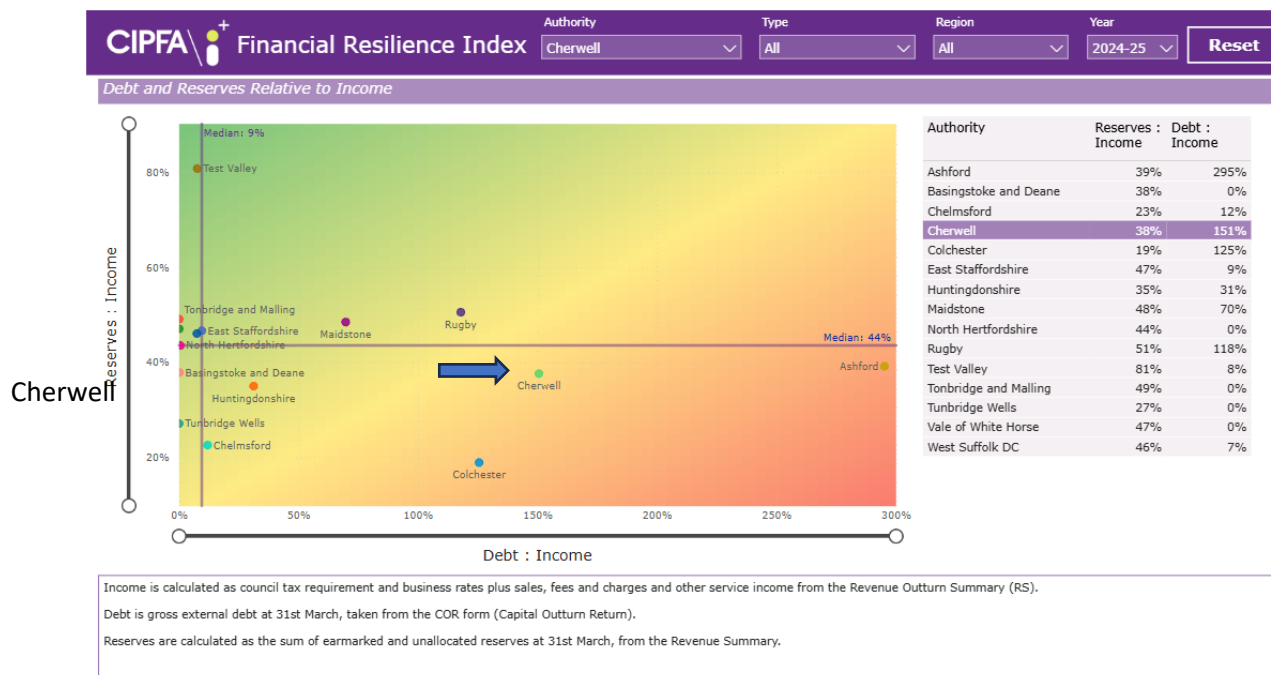
Councils is -56.68% (highest risk) to 546.48% (lowest risk), with Cherwell at 51.74%. Cherwell is in the upper quartile for risk of council tax income as a proportion of its budget. This reflects the fact that the council has a lower-than-average band D council tax as a result of nine-years of not increasing 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 -49.49% (lower risk) to 750.87% (higher risk) with the council at 302.73%. This places the council at the upper end of risk, having the 6<sup>th</sup> highest retained growth of all councils. 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 – and therefore susceptible to significant losses following a business rates reset. However, the Government has introduced a business rates reset and introduced transitional protections to support the council over the coming three-year settlement period. Therefore, over this period the council has far greater certainty over its resources than it had in previous years. As part of the final settlement announced by the Government, the council will retain £8.5m of transitional protection grant in 2028/29. There is a risk that the Government remove this funding in 2029/30, though the minister has said the Government will look to avoid “cliff-edges” in funding in the next spending review period.
- h) Unallocated Reserves – This indicator is calculated as the ratio of unallocated reserves to net revenue expenditure. The range for district councils is -6.95% (highest risk) to +1,367.74% (lowest risk) with the council at 26.92%. The council is at the lower end of median risk of non-metropolitan districts. Therefore the council has a reasonable level of unallocated reserves. When unallocated and earmarked reserves are combined the council has in excess of 138% 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 -196.77% to 4,424.58% with the council at 111.47%. The council is at the median risk of district councils. When unallocated and earmarked reserves are combined the council has in excess of 138% 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 864.66% with the council at 34.81%. 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 11,167.53% with the council at 9.02%. This is at the median risk relative to other district councils. This further demonstrates the council has been prudent in increasing its earmarked reserves.
- l) Homelessness / Net Revenue Expenditure – This indicator is the ratio of expenditure on Homelessness to Net Revenue Expenditure. The range for district councils is -22.43% (low risk) to 95.73% (high risk). The council is at 5.66% and lower quartile risk. Homelessness and temporary accommodation is a national pressure across district councils, therefore having a low proportion of spend on homelessness means there is greater flexibility to direct resources to Homelessness pressures if required. The council has allocated an additional £0.5m to support Homelessness and Temporary Accommodation pressures and is also planning on introducing capital schemes that are expected to alleviate pressures in the future.
- m) Debt and Reserves Relative to Income – the chart below shows Cherwell and its statistical nearest neighbour district councils graphically comparing the ratios 'reserves:income' and 'debt:income'. The council's 'reserves:income' ratio is 38% (median 44%) and 'debt : income' ratio is 151% (median 9%). 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. This shows that Cherwell could operate for just under 6 months if it were to lose all of its income (which is very unlikely) and that its debt is 1.5 times the total income of the council. As set out elsewhere in this report, the council has planned within its MTFS to service all of its debts in line with the relevant payment terms.



### Assurance Statement of the Chief Finance Officer

31. The proposed budget for 2026/27 and Medium-Term Financial Strategy to 2030/31 addresses the demand pressures, inflationary risks and behaviour changes which are expected to continue into the medium term.
32. The 2026/27 budget is balanced. However, there is a £2.3m gap identified in 2027/28 based on current planning assumptions, with further modest savings required in 2029/30 and 2030/31. The gap in 2027/28 is as a result of a late change notified by the Government between the provisional local government finance settlement announced on 17 December 2025 and the final local government finance settlement announced on 9 February 2026. The final settlement reduced the amount of resources the council will receive by £2.3m from 2027/28.
33. The council now needs to deliver what is planned in the MTFS and identify how it intends to address the £2.3m gap in 2027/28. The council is well placed to do this as it continues to develop and deliver the Cherwell Futures Programme and also has a healthy balance sheet in case it needs to smooth the implementation of benefits identified. At the same time it should maintain focus on financial sustainability and look to deliver the non-financial benefits that should come from continuous improvement identified through the Cherwell Futures programme. As well as the Cherwell Futures programme the council has carried out provisional work on service levels it provides. This work may also be required to support the delivery of £2.3m savings.

34. The risks in the 2026/27 budget are predominantly in relation to the uncertainty around inflation, market risk and interest rates. To help mitigate this a contingency budget of £2.2m is available, as are the £9.3m market risk reserve and £5.9m interest rate equalisation reserve.
35. 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.
36. 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.
37. Therefore, I am satisfied that the budget proposals for 2026/27 recommended to the council are robust.

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

11 February 2026

## Annex 1 – Summary Financial Management Code Assessment

### General Opinion

It is the opinion of the 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
<b>1. Responsibilities of the CFO and Leadership Team</b>				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	<p>The Constitution – updated Feb 2024, including revised refreshed financial procedure rules. This includes a clear governance structure, with well-defined roles for Members, committees and all Chief and Statutory Officers. The collective responsibility for the achievement of VFM is made within the constitution. This is reviewed and updated regularly. The constitution is reviewed regularly.</p> <p>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.</p> <p>Contracts and third-party agreements require review and approval by finance, procurement and service head/director which is a process to ensure procurements have been compliantly undertaken.</p>	<p>Develop a statement of how proposals in committee reports will deliver value for money where appropriate</p> <p>Continue to develop the use of benchmarking and cost review across other council services</p>	

		<p>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.</p> <p>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 continue to be a focus in 2026/27 with a view of identifying opportunities to improve value for money whilst also focusing on demand management in the medium term.</p> <p>Overview and Scrutiny committee meets 6-7 times a year, examines policy and performance of services and can refer matters to Executive.</p> <p>External Audit review the council's arrangements for VFM and provide a VFM opinion as part of their external audit work on the accounts.</p> <p>Service benchmarking data (source: RA2024/25) was provided to CLT during budget setting to highlight where Cherwell is more or less expensive than other districts to act as a "conversation starter" in better understanding cost drivers and identifying where further cost improvement may be possible.</p>		
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	Review annually the statement of roles and	

		<p>Team) and has an influential role with members of the Executive, Accounts, Audit &amp; Risk Committee and lead opposition members.</p> <p>The council's finance team is resourced at present to deliver the council's 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.</p>	responsibilities of CFO, CLT and the Exec.	
<b>2. Governance and Financial Management Style</b>				
C	<p>The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control</p>	<p>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.</p> <p>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 the effectiveness of the system of internal control and also on progress on the delivery of actions recommended through specific internal audit reviews.</p> <p>The Corporate Oversight &amp; Governance Group (COGG) was set up to ensure good governance and internal control, including driving the production of the Annual Governance Statement</p>	Continue to enhance and develop the role of COGG.	

		(AGS) and Action Plan through the completion of Professional Lead Statements and engagement with Executive Directors.		
D	The authority applies the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework (2016)"	<p>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.</p> <p>The effectiveness of the council's governance arrangements is reviewed and reported each year through the AGS. Exec Directors, Assistant Directors and certain Heads of Service are required to sign off annual assurance statements, this requires them to confirm whether they are aware of any significant weaknesses in internal control.</p> <p>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.</p>	Continue to enhance and develop the AGS through CLT and respond to emerging best practice.	
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.	<p>Continue to challenge budget managers to explore options for mitigating budget variances to ensure financial sustainability.</p> <p>Reporting could be enhanced with regular reports on FOI, data subject access requests, and EIR requests, to give</p>	

			visibility and assurance on regulatory compliance	
<b>3. Long to Medium-Term Financial Management</b>				
F	The authority has carried out a credible and transparent financial resilience assessment	<p>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.</p> <p>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.</p> <p>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.</p>	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	<p>The council reviews and identifies each year the risks (local/national, internal/external) facing the council that may have financial 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 second service review exercise has been undertaken in 2025/26 to identify further options to address the "realistic worst case".</p> <p>Executive and the Budget Planning Committee each received the Budget and Business Planning Process Report in Sept 2024 in</p>	Continue to update CLT and the Executive throughout the year and within Budget/MTFS documents.	



		preparing for 2025/26 budget setting and updated in Oct 2025 for 2026/27 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 2025 and is managed monthly and reported to the Executive quarterly. 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 Annual Planning Process which brings together business planning and budget setting process (including a five-year MTFS). This process supports the delivery of the councils’ statutory duties and corporate plan priorities. The service business planning process in 2025/26 sought to ensure consistent business plans were in place for the delivery of the council’s Corporate Plan for all directorates which included the financial resources required for delivery and hence sustainability.	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.	
<b>4. The Annual Budget</b>				
J	The authority complies with its statutory obligations in respect of the budget setting process	<p>The Council produces its annual balanced budget and supporting documentation.</p> <p>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.</p>		

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 reported to Executive and Council. Enhanced by including an assessment of compliance with the FM Code.		
<b>5. Stakeholder Engagement and Business Plans</b>				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	<p>Consultation on the budget proposals as well as ensuring we carry out the statutory business rate payers' consultation.</p> <p>The council's 2025/26 Corporate Plan was developed through key findings from working with and engaging with local residents, staff, businesses and partner agencies and organisations and seeks to deliver district-wide ambitions. This can be found on the council's website.</p> <p>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.</p>	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	<p>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 recommended scheme.</p> <p>All tenders consider VfM by considering the quality of service and not just price – the appraisal process is documented.</p> <p>The Extended Leadership Team (ELT) are responsible for overseeing the Gateway process for evaluation of projects. The process considers factors such as vfm, business</p>	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.	

		<p>need and recommendations are made to CLT who in turn recommend to Members.</p> <p>The gateway process has been enhanced to ensure that benefits realisation plays a more significant role in the future.</p>		
<b>6. Monitoring Financial Performance</b>				
N	The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	<p>The quarterly Performance, Risk and Finance Report to Executive enables CLT and Executive to respond to emerging issues.</p> <p>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 project board or by the appropriate DLT (for BAU schemes).</p> <p>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 maintained the Budget Oversight Group to work closely with services that are overspending to identify options to come back on budget.</p>	<p>The Capital Programme monitoring element requires enhancement to:</p> <ul style="list-style-type: none"> <li>• better reflect performance and the delivery of outcomes linked to the completion of capital schemes.</li> <li>• Better understand the drivers of budget reprofiling</li> </ul> <p>Transformation will look to bring additional governance to capital approval and monitoring.</p>	
O	The Leadership Team monitors the elements of its balance sheet that pose a significant risk to financial sustainability	<p>Reserves and balances are monitored quarterly and reported to Executive. Changes in budgeted use require appropriate approvals before they can be assumed.</p> <p>Debtor monitoring takes place monthly, identifying and analysing aged debt. Regular review and management of aged debt has resulted in either recovery or unrecoverable</p>	Continue to enhance reporting of aged debt to enable budget managers to effectively manage their aged debt.	

		debts being written off in a more timely manner. CLT receive a quarterly report on the top 20 debtors, this is also reported to ELT and to DLTs.		
<b>7. External Financial Reporting</b>				
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”	<p>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.</p> <p>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 2024/25 were published prior to the statutory deadline and the subsequent audit found no material issues. The audit opinion remains Disclaimed; however, this is not a reflection on the quality of the council’s accounts, but rather a reflection of the ongoing impact of the audit backlog. .</p>	Continue close working with the council’s external auditors to move out of disclaimed and qualified audit opinions.	
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	<p>CLT and Executive consider the outturn report and year end variances enabling strategic financial decisions to be made as necessary.</p> <p>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.</p>	Feedback regularly sought to improve the quality of reporting.	