AUDIT & GOVERNANCE COMMITTEE

17 September 2025

ASSESSMENT OF THE COUNCIL'S FINANCIAL MANAGEMENT, CONTROLS & GOVERNANCE

Report by Executive Director of Resources & Section 151 Officer

RECOMMENDATION

1. **Audit & Governance Committee is RECOMMENDED to note the report.**

Executive Summary

2. Since 2020/21 the Government has provided Exceptional Financial Support (EFS) for councils who made a request for financial assistance to handle pressures that they considered unmanageable and to enable them to set balanced budgets. The support is provided on an exceptional basis, and where relevant, on the condition that a local authority may be subject to an external assurance review. Some of the councils in receipt of EFS have also issued a Section 114 notice.

3. Councils have sought EFS for a variety of reasons but in almost all cases, multiple issues have combined impacting on financial resilience. An assessment of the causes of financial strain indicates that in most cases where councils have upper tier responsibilities persistent pressures in adult and children's social care has been coupled with a low level of reserves. Other causes of financial strain include costs relating to homelessness, Special Educational Needs and Disabilities (SEND) deficits impacting on cash balances, debt costs, transformation delays, legacy issues and accounting corrections.

4. While Oxfordshire County Council needs to continue to take action to manage demand and costs, the year end position for both 2023/24 and 2024/25 and the assessment against the Financial Management Code for 2024/25, demonstrates strong financial control and resilience. However, there are significant risks around the growing deficit against High Needs Dedicated Schools Grant funding as well as the potential impact of funding reform from 2026/27.

5. The level of reserves is fundamental to financial sustainability so while the council is not currently in the same position as the councils that have sought EFS this report sets out an assessment of the current position and the controls in place to help mitigate risks.

Background

6. The following councils in England and Wales have received Exceptional Financial Support (EFS). The growth in the number of councils receiving support, and the number of councils receiving support over multiple years indicates that financial resilience issues are increasing. Councils seeking support over multiple years also shows that once these issues impact on the ability to set a balanced budget it is often difficult to recover with the need to repay borrowing or replenish balances causing further difficulties.

7. Key national drivers noted by the Ministry of Housing, Communities and Local Government (MHCLG) in 2025/26 include:

- **Historic overspends and budget gaps**, particularly in social care, homelessness, and transport services
- **Legacy accounting issues**, such as pension fund corrections (e.g., Plymouth)
- **Equal pay liabilities and restructuring costs**, as seen in Southampton
- **Rising demand and reduced income**, especially in London boroughs, where nearly a quarter of councils faced potential collapse without EFS.

2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Croydon Eastbourne Lambeth Luton Nottingham Redcar & Cleveland Wirral	Copeland Croydon Eastbourne Wirral	Copeland Croydon Kensington & Chelsea Slough	Croydon Cumberland Kensington & Chelsea Lambeth Slough Thurrock Westmorland and Furness West Northamptonshire	Birmingham Bradford Cheshire East Croydon Cumberland Eastbourne Havering Medway Middlesbrough North Northamptonshire Nottingham Plymouth Slough Somerset Southampton Stoke on Trent Thurrock West Northamptonshire Woking	Barnet Birmingham Bradford Cheshire East Croydon Cumberland Eastbourne Enfield Halton Haringey Havering Medway Newham Nottingham Shropshire Slough Solihull Somerset Southampton Stoke-on-Trent Swindon Thurrock Trafford West Berkshire

2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
					Windsor & Maidenhead Wirral Woking

8. In the majority of cases, external assurance reviews of these councils by the Chartered Institute Public Finance and Accountancy (CIPFA) have shown that multiple issues have compounded to cause financial difficulties. Reasons for EFS for councils with upper tier responsibilities are available are summarised below:

Council	Reasons
City of Bradford Metropolitan District Council	Structural deficit of ~£120m; demand pressures in social care, SEND, and homelessness; low reserves; need for multi-year EFS to support recovery and transformation.
Cheshire East Council	Large DSG deficit; high borrowing costs; rising social care demand; limited reserves; capital programme pressures; risk of unsustainable debt without EFS.
Cumberland Council	Legacy financial issues from predecessor councils; weak financial planning; depleted reserves; capital programme slippage; equal pay claim risk; need to carry forward EFS.
London Borough of Havering	Structural budget gap due to rising costs in Adults and Children's Social Care, homelessness, and home-to-school transport; inadequate reserves; adverse Ofsted report requiring costly improvement plan.
Medway Council	Persistent overspending in Adult Social Care, Children's Services, SEND transport, and homelessness; low tax base; insufficient reserves; projected multi-year budget gaps.
Middlesbrough Council	Critically low reserves; demand-led overspending in social care; underdeveloped transformation programme; reliance on EFS to balance 2024/25 budget.
Plymouth City Council	One-off accounting correction related to a 2019 pension fund transaction; rising demand and complexity in Adult and Children's Social Care; homelessness pressures.
Somerset Council	Post-unitarisation financial strain; under-delivered savings; depleted reserves; large capital programme

Council	Reasons
	and debt; risk of needing further EFS if transformation savings are not realised.
Southampton City Council	Structural deficit; depleted reserves; reliance on EFS to balance 2024/25; under-delivered savings; high social care costs; reliance on statutory DSG override.
Stoke-on-Trent City Council	Persistent pressures in Children’s Social Care and home-to-school transport; homelessness and housing maintenance costs; low council tax base; forecasted deficits beyond 2024/25.
Slough Borough Council	The Council has faced significant financial mismanagement issues in the past, leading to a substantial budget deficit; significant amount of debt, for which the interest payments are a considerable financial burden; The cost and demand for social care services have continued to rise, making it difficult for the council to manage its budget.
Swindon Borough Council	The cost and demand for social care services have continued to rise, making up around 80% of the council's budget; The council has a significant amount of debt, and the interest payments are a considerable financial burden.
West Berkshire Council	Social care spending rose from 56% of the council’s budget in 2017/18 to 74% in 2023/24. This increase in demand, particularly in adult and children’s social care, placed unsustainable pressure on the council’s finances.
Windsor and Maidenhead Council	The council's financial situation has been impacted by historical decisions, including unsustainably low council tax rates and accounting inaccuracies; an increase in demand for services, particularly social care and homelessness accommodation; a lack of financial reserves which has made it difficult to manage these pressures; a significant amount of debt, with interest payments exceeding £13 million a year; a backlog of accounting queries and errors, further undermining the council's financial position.
West Northamptonshire Council	Transformation delays post-unitarisation; ambitious savings targets in Children’s Services; unresolved disaggregation issues; need for capitalisation to support transformation.

9. The two most common causes of financial strain, which regularly feature together, are adult and children's social care costs combined with low levels of general fund reserves. In many cases, social care overspends exceed the level of general fund reserves and it then becomes difficult to replenish those to a level where the council is able to set a balanced budget.

10. The average level of general fund reserves in the authorities that have sought EFS (where quantifiable data was available) was £11.5m.

11. Other causes of financial strain, in order of frequency, include homelessness costs, the impact of special educational needs and disabilities (SEND) deficits on cash balances, debt costs, transformation delays, legacy issues and accounting corrections.

12. Where debt was a factor in financial difficulties the councils had very high gearing, with the average general fund capital financing requirement being 2.3 times larger than the net annual revenue budget. Moreover, those councils also had very little borrowing headroom, with the amount of external debt compared to capital financing requirement being between 75% to 95%.

Oxfordshire County Council

Financial Management

13. An assessment against the CIPFA Financial Management Code is undertaken as part of the budget process each year. The most recent report and assessment identified that the Council remained well placed to evidence compliance with the Code from 1 April 2025. 17 standards were assessed as green and two as amber with action being taken on the latter through the council's Commercial Strategy and Business Services Transformation.

14. Regular updates to Strategic Leadership Board and Cabinet set out the financial position throughout the year and over the medium term ensuring visibility of the financial position and risks so that action can be taken as relevant.

Financial Resilience & Risks

15. The council's year - end financial position for 2022/23 was an overspend of £13.4m largely driven by an overspend in Children's Social Care partially offset by an underspend on budgets held centrally. In 2023/24 there was a further service overspend of £12.3m within an overall underspend of £12.3m.

16. Expenditure for Adults and Children's Services has increased over the last 5 years. However, it has been possible to manage this within an overall balanced budget and to top up balances where necessary.

	Actual Expenditure 2021/22 £m	Actual Expenditure 2022/23 £m	Actual Expenditure 2023/24 £m	Actual Expenditure 2024/25 £m	Net Budget 2025/26 £m
Adult Services	199.6	218.5	229.7	245.1	253.2
Children’s Services	144.6	172.9	180.0	202.3	210.9

17. In 2024/25 services achieved a broadly breakeven position compared to the budget as a result of a combination of action to manage social care demand and costs. The council underspent by £12.8m (2.1%) overall, as a result of increased interest on cash balances and pay inflation being lower than anticipated when the budget was set.

18. The budget for 2024/25 included planned service savings of £30.1m. These was offset by a budgeted risk adjustment of £4.1m added to reflect risks around the achievement of savings for Children’s Services. Savings of £6.0m that were not delivered (20% of the £30.1m total or 23% of the risk adjusted total), and were mitigated/managed within the year end variation, included:

    - £1.1m savings related to Children’s Services staffing, agency staff, contract savings and placements.
    - £2.2m arising from delays to the introduction of Lane Rental charges in Environment & Highways.
    - £0.7m Environment & Highways waste collections and other income generation targets.
    - £1.1m Delivering the Future Together staffing savings which are expected to be achieved through on-going service redesign.

19. Over time it has become more difficult to identify and achieve further service savings as a larger proportion of the budget is now spent on social care and action has already been taken to manage demand and improve outcomes for social care through the Oxfordshire Way, and keeping people well at home for longer, for example. As a result planned savings in the Medium Term Financial Strategy agreed in February 2025 now largely relate to the impact of service redesign and transformation.

20. The risk assessed level of General Balances for 2025/26 is £30.2m (around 5% of the net operating budget). The actual level of balances at the end of 2024/25 was £45.3m. As part of the 2025/26 budget £10.8m of this total was agreed to be used to support one off expenditure on transformation and redundancy costs demonstrating that the council has funding to support transformation needed to support future resilience. There is also on-going contingency budget of £7.3m built into the budget for 2025/26 to provide additional financial resilience should any service area overspend not be effectively mitigated by corrective actions before the end of the financial year.

21. General fund earmarked reserves are forecast to be around £200m at 31 March 2026. Around half of the total is funding for the capital programme.

Prudential Indicators

22. The ratio of debt financing costs to net revenue stream for the council is forecast be 4.6% over the medium term, which is marginally below the average of 5.3% for English County Councils who have not sought EFS over the same time period. For councils that have sought EFS, or have issued a Section 114 notice, the ratio is 9.9%.

23. External debt as a proportion to the Capital Financing Requirement is forecast to be 50% for Oxfordshire County Council compared to 75% - 95% for councils who have sought EFS. This indicates that the council has an affordable level of debt, without being overly risk averse. Taken together these indicators also show that if required for cashflow purposes, the council could 'externalise' the capital financing requirement if needed (ie. there is headroom to take external debt if needed).

High Needs Dedicated Schools Grant Deficits

24. The statutory reporting requirements for the 2025/26 accounts require the closing deficit balance on Dedicated Schools Grant to be held within an unusable reserve. The existing statutory override was due to end on 31 March 2026 but the Government has now extended this until 31 March 2028. While the council is continuing to take action to manage the deficit through the Deficit Management Plan, it is continuing to grow in line with demand. The forecast deficit for 2025/26 increased to £44.8m in the Business Management & Monitoring Report to Cabinet in July 2025 and expected to increase further in the next update to Cabinet in October 2025.

25. The High Needs Dedicated Schools Grant (DSG) Block cumulative deficit was £92.5m at the end of 2024/ 25 and this is expected to exceed £130m by 31 March 2026.

Summary Assessment

26. The council has managed the impact of increasing demand and costs of service delivery and remains financially resilient. However, there is a duty to ensure expenditure does not exceed the resources available so it is vital that we continue to emphasise and promote the importance of financial management, the delivery of savings and reduce expenditure through the council's transformation programme, to protect service delivery and achieve a balanced budget position.

27. The council is currently in a sound financial position in terms of forecast council funded expenditure and the availability of general balances and earmarked reserves. This is a good baseline given the forthcoming funding reforms due to be implemented from 2026/27 (arising from the Fair Funding Review 2.0) and the transition to a new unitary council or councils in 2028/29.

28. However, despite action taken through the Deficit Management Plan the deficit against High Needs Dedicated Schools Grant continues to grow at an increasing rate. Further information on how High Needs deficits will be managed in future is expected later in the year along with a White Paper on SEND reform. However, the growing deficit, and the scale of the increase in

2025/26, means this is a significant risk to the council's on-going financial resilience.

Financial Implications

29. This report is largely concerned with finance and the implications are set out in the main body of the report.

Kathy Wilcox, Head of Corporate Finance

Legal Implications

30. The Council's constitution at Part 3.2 (Budget and Policy Framework) sets out the obligations and responsibilities of both the Cabinet and the Council in approving, adopting, and implementing the Council's budget and policy framework.

The budget is a non-executive function, however the Cabinet has a duty under the Local Government Act 2000 to monitor the budget and make any recommendations to Council as they think fit.

The statutory framework for the prudential financial system is set out in the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. These Regulations provide that the Council must have regard to CIPFA codes in managing its budget.

This report sets out the budgetary controls, an update on the monitoring of spending, risks and finance position for the Council against the approved Council budget, and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

Jay Akbar
Head of Legal and Governance Services

Staff Implications

31. There are no staffing implications arising from this report.

Equality & Inclusion Implications

32. There are no equality or inclusion implications arising from the report.

Risk Management

33. It is really important that services continue to accurately budget, manage and forecast all expenditure to ensure that action can be taken to mitigate and manage issues and the impact on wider financial resilience.

Lorna Baxter, Executive Director of Resources and Section 151 Officer

Background papers: None

Contact Officer: Kathy Wilcox, Head of Corporate Finance September 2025