Financial Strategy 2026/27

Overview

1. The Financial Strategy sets out the approach the council will take to ensure it is financially sustainable over the medium and long term. It supports the delivery of other corporate strategies, such as the Strategic Plan and the Capital & Investment Strategy as well as the more detailed objectives of service strategies and plans. Integrated and aligned strategies and plans are imperative to financial resilience and stability as the impact of actions or decisions on one or more of these strategies will have an impact on the others.

2. Financial resilience is the ability, from a financial perspective, to respond to changes in delivery or demand without placing the organisation at risk of financial failure. The budget is underpinned by a financial strategy to ensure the financial sustainability of the Council, deliver essential services to residents and achieve our vision of making Oxfordshire a greener, fairer and healthier county, within a limited amount of resource.

3. Financial sustainability and resilience require successful and sustained focus on the delivery of the following critical elements and financial planning principles:

    - Managing the impact of rising need through demand management.
    - Delivering agreed savings as well as planned outcomes from investments.
    - Ensuring the level of earmarked reserves and general balances is adequate based on the level of risk and financial uncertainty and only using one-off resources for temporary purposes.
    - Effective financial management across the council in line with the requirements of the CIPFA Financial Management Code.

4. These principles are achieved through the delivery of the Council's Delivering the Future Together programme.

Medium Term Funding Context (2026/27 to 2028/29)

5. Core Spending Power is the government's measure of the core revenue funding available for local authority services through the local government finance settlement. It consists of revenue grant funding made available through the settlement, locally retained business rates and council tax.

6. Core Spending Power information for 2026/27, 2027/28 and 2028/29 was published in the Provisional Local Government Finance Settlement on 17 December 2025. The government's assessment of Core Spending Power for Oxfordshire County Council is shown in the table below.

CORE SPENDING POWER

Oxfordshire					
Illustrative Core Spending Power of Local Government:					
	2024-25	2025-26	2026-27	2027-28	2028-29
	£ millions	£ millions	£ millions	£ millions	£ millions
Fair Funding Allocation[1]	0.0	0.0	177.3	167.2	158.1
of which: Baseline Funding Level	0.0	0.0	69.5	71.1	72.5
of which: Revenue Support Grant[2]	0.0	0.0	94.6	96.1	85.5
of which: Local Authority Better Care Grant[3]	0.0	0.0	13.2	-	-
Legacy Funding Assessment	172.1	182.3	0.0	0.0	0.0
of which: Legacy Business Rates[4]	100.6	102.3	0.0	0.0	0.0
of which: Legacy Grant Funding[5]	60.8	66.7	0.0	0.0	0.0
of which: Local Authority Better Care Grant	10.7	13.2	0.0	0.0	0.0
Council tax requirement[6,7]	498.6	533.3	570.4	610.0	652.3
Homelessness, Rough Sleeping and Domestic Abuse[8,9]	1.2	1.5	1.5	1.5	1.5
Families First Partnership[10]	1.7	3.3	6.4	6.4	5.5
Total Transitional Protections[11]	0.0	0.0	0.0	0.0	0.0
of which: 95% income protection	0.0	0.0	0.0	0.0	0.0
of which: 100% income protection	0.0	0.0	0.0	0.0	0.0
of which: Fire and Rescue Real-terms floor	0.0	0.0	0.0	0.0	0.0
Grants rolled in to Revenue Support Grant[12]	2.1	2.2	0.0	0.0	0.0
Recovery Grant	0.0	0.0	0.0	0.0	0.0
Recovery Grant Guarantee[13]	0.0	0.0	0.0	0.0	0.0
Mayoral Capacity Fund	0.0	0.0	0.0	0.0	0.0
Core Spending Power	**675.8**	**722.5**	**755.5**	**785.1**	**817.4**
Core Spending Power year-on-year change (£ millions)		46.7	33.1	29.6	32.3
Core Spending Power year-on-year change (%)		6.9%	4.6%	3.9%	4.1%
Core Spending Power change since 2024 (£ millions)		46.7	79.7	109.3	141.6
Core Spending Power change since 2024 (%)		6.9%	11.8%	16.2%	20.9%
Core Spending Power change since 2025 (%)			4.6%	8.7%	13.1%

7. The table includes 2024/25 and makes comparisons back to that year. It is not clear why this is relevant to the 2026/27 settlement and means that a larger increase in 2025/26 is included in the comparative change and obscuring the underlying reductions in grant funding from 2026/27 onwards.

8. By 2028/29 the council's Core Spending Power will increase by £94.9m compared to 2025/26. However, council tax projections for 2026/27 to 2028/29 assume that local authorities will increase their Band D council tax in line with the maximum allowable level set out by the council tax referendum principles published alongside the settlement. Core Spending Power therefore assumes that there will be further Council tax increases of 4.99% in each of the next three years paid by Oxfordshire residents which will raise £119m. The difference is a net reduction of £24.1m in

grant and business rates funding from central government. This includes an increase of £3.1m in funding for the Families First Partnership that will need to be used to fund new investment and activity in preventative services for children's social care in line with guidance published by the government. The underlying reduction in grant funding over the three years is £27.2m.

9. The funding available to the council is impacted by the introduction of resource equalisation as part of the Fair Funding Review 2.0. This directs funding towards places that have a weaker council tax base and are less able to meet their needs through locally raised council tax income. Councils with stronger council tax bases, in relative terms, are assumed to need less grant funding compared to those with weaker bases.

10. The Core Spending Power table assumes that the tax base will increase by 1.86% each year. This is higher than the 1.75% assumption in the February 2025 MTFS; by 2028/29 the additional 0.1% growth each year would generate £2.1m more council tax funding. If this doesn't materialise and the increase was 1.75% the funding reduction would be £29.3m.

11. An increase of 4.99% in Band D council tax is assumed in each of 2026/27, 2027/28 and 2028/29 based on a general increase of 2.99% and an Adult Social Care Precept of 2.0%. If the council chose not to increase council tax by 4.99% each year the reduction in funding would increase further.

12. Further information explaining how Core Spending Power is built up is included in the main body of the report.

<u>Council Taxbase in Oxfordshire</u>

13. The Core Spending Power table assumes growth in the taxbase of 1.85% based on the average growth over the last five years.

14. Underlying taxbase growth remains strong but is impacted by delays in the Valuation Office Agency providing over 2,000 new homes in the South and Vale District Council areas with a council tax band. This means the taxbase will only grow by 1.33% in 2026/27 compared to the 1.75% assumed in the MTFS. The growth in 2027/28 has been adjusted upwards to reflect these homes being brought into the tax base. Future growth is assumed in the proposed MTFS at 1.75% per year which provides additional annual increases in funding of c£10-£11m.

<u>Contingency Budget and General Balances</u>

15. To help mitigate pressures in demand led services and other risks the council will continue to hold an on-going contingency budget of £6.3m in 2026/27. The use of the existing £7.3m contingency budget to help manage service pressures in 2025/26 illustrates the importance of this approach in protecting general balances and the council's financial resilience. The Earmarked Reserves & General Balances Policy Statement 2026/27 (Section 4.6) sets out the risk assessment for the level of General Balances. These will be set at £32.6m in 2026/27, increased from £30.2m in 2025/26 to maintain balances at 5% of the net operating budget.

<u>Medium Term Funding Context</u>

16. The medium-term funding context is challenging due to:

- The impact of the **Fair Funding Review 2.0** from 2026/27 onwards which will reduce funding for the council's services by close to £30m by 2028/29. The MTFS sets out that there is a deficit of £15.5m in 2027/28 and then £22.0m in 2028/29. Plans to manage the on-going deficit from 2027/28 onwards will need to be developed from early 2026 onwards. The council will need to assess where it is providing services above the statutory minimum or at a level above statistical neighbours and will undertake benchmarking to inform that. Action to reduce spend or increase income, to help meet the legal requirement to balance the budget overall, will have to be taken where that is the case.

- **Local government reorganisation and devolution with new councils expected to be operating from 1 April 2028:** the council needs to continue to plan on a 'going concern basis.' In other words, the council should not take short terms decisions which will impact on the financial sustainability go a new unitary council/s. However, it is recognised that planning for risks/issues beyond 1 April 2028 is challenging in an environment of reduced funding.

- **Continued pressures on demand for social care and the sufficiency of market provision, particularly for Children's Social Care.** Demand for children's social care continues to rise along with the cost of placements, driven by a lack of capacity in the market. While the government have indicated that they will take action to manage excessive profits by children's social care providers it is unclear how this will be implemented and what effect it will have locally.

- **Potential changes to the Better Care Fund from 2027/28:** The 10 Year Health Plan for England announced reform to the Better Care Fund to focus on integrated services. DHSC and MHCLG will shortly set out further detail on the approach to reform. Where this involves any change to the NHS and local authority minimum contributions to pooled funding these will not be introduced before 2027/28. The council's share of the Better Care Fund within the Pooled Budgets is £33m in 2026/27 so any change to the level of funding or the required use within that total in future years could have a significant impact on financial sustainability.

- **On-going uncertainty about the future arrangements for the management of past and future overspends relating to High Needs Dedicated Schools Grant,** where the accumulated deficit is expected to be £163m by the end of 2025/26 and is likely to reach over £300m by the time the statutory override ends on 31 March 2028.

<u>Delivering the Future Together Programme</u>

17. The council's Delivering the Future Together programme is accelerating the delivery of financial and non - financial benefits and supporting the council's financial sustainability in the context of those challenges and uncertainties through:

- Becoming smaller and leaner in terms of the number of people who are directly employed by OCC
- Operating from fewer buildings, making sure those we keep are used to their full capacity
- Embracing technology where it improves productivity and connectivity to the people we serve, helping us become more efficient
- Collaborating more closely with partners in the voluntary and community sector so we're no longer the main provider for every service; and
- Harnessing commercial opportunities where they deliver value for our residents.

18. Organisational redesign is on-going across the council and is planned to continue until 2027/28. A Delivery Director will join the council for a six-month period to provide strategic leadership of all organisational change across the council. Their role is to optimise the strategic change portfolio, bringing in LGR and outputs of budget planning and aligning with the strategic priorities. This will also require decisions on what to stop/start/continue, and commitment to the optimised portfolio.

19. The council's Commercial Strategy and improvements to contract management are being enabled through the redesigned Financial and Commercial Services function which went live in late 2025. More systematic business intelligence information and insight needed to underpin the Commercial Strategy and enable the council to demonstrate that all revenue and capital expenditure provides value for money is being developed.

20. A new Financial Management Strategy and Operating Model will be implemented in 2026. This will include training and improvements to processes to help improve the effectiveness of financial management. The development of dashboards will improve the visibility of service data underpinning forecasts. There will also need to be renewed and sustained focus on managing demand and other pressures throughout the financial year overseen by the Strategic Leadership Board.

21. As part of the Property Strategy the council is rationalising its property assets and will move out of County Hall in late 2026, ensuring fuller utilisation of other office accommodation sites across Oxfordshire.

<u>Dedicated Schools Grant (DSG) Unusable Reserve</u>

22. Oxfordshire participated in Phase 1 of the DfE's Delivering Better Value scheme and implemented a Deficit Reduction Plan in 2024/25 to manage expenditure on High Needs funded by Dedicated Schools Grant. Despite the action being taken, there are continuing significant annual deficits against the grant funding.

23. As set out in the Earmarked Reserves and General Balances Policy Statement (Section 4.6) it is expected that the deficit on the Dedicated Schools Grant (DSG) Unusable Reserve will increase over the medium term and after taking account of planned mitigations could reach a deficit balance of more than £300m by the time the statutory over-ride comes to an end on 31 March 2028.

24. The School and Early Years Finance (England) Regulations 2020 stipulate that a deficit on the DSG must be carried forward to be funded from future DSG income unless permission is sought from the Secretary of State for Education to fund the deficit from general resources. Regulations require the negative balance to be held in an unusable reserve. The DSG 'statutory override' was extended for a one-off period of three years (up to March 2028). Demand for High Needs continues to outstrip the growth in the grant funding and as set out in the Business Management & Monitoring Report to Cabinet in January 2026 the forecast deficit compared to Dedicated Schools Grant (DSG) funding for High Needs is £70.7m in 2025/26. This would increase the cumulative deficit to £163m by 31 March 2026.

25. The Provisional Local Government Finance Settlement for 2025/26 set out that the Government would set out plans for reforming the SEND system. This would include plans to help Local Authorities "deal with their historic and accruing deficits" as well as considering any transitional period between the current and reformed system.

26. The Provisional Local Government Finance Settlement consultation document for 2026/27 includes the following statement:

> *"…once the Statutory Override ends at the end of 2027-28, funding will be managed within the overall central government DEL envelope…* ***local authorities will of course be expected to manage the system effectively and where this is the case we would not expect local authorities to need to fund future special educational needs costs from general funds***".

27. Regarding the cumulative deficits which exist now and will be larger by 2028, the consultation states:

> "*Whilst we do not expect local authorities to plan on the basis of having to meet deficits in full, any future support will* ***not be unlimited****. Councils must continue to work to keep deficits as low as possible".*
>
> *"To support local authorities to do this, we are disseminating best practice and case studies from previous programmes focussed on efficient spending, such as Safety Valve and Delivering Better Value, and providing all local authorities with advisers to help consider how these learnings can be applied….We will provide further detail on our plans to support local authorities with historic and accruing deficits and conditions for accessing such support later in the Settlement process.*"

28. The National Funding Formula (NFF) for Schools 2026-27 document includes the following (paragraph 39)

> "*It is clear that the extent of the* ***divergence between high needs NFF allocations and spending*** *in different local authorities raises questions about aspects of this allocation methodology.* ***The Department will therefore review the high needs funding system for future years, to ensure that it will properly support the reformed SEND system****.*"

29. These statements set an expectation that local authorities will be required to meet some of the historic deficit, and potentially some on-going costs beyond 2027/28. Reflecting the change in where some of the responsibility for the accumulated deficit lies (from the Department for Education to local authorities), it is proposed to increase the contribution to the Demographic Risk Reserve from £4m in 2025/26 to £8m per annum from 2026/27 onwards. Alternatively, this contribution could, if this was allowed, be used to support borrowing of up to around £120m which is around two thirds of the forecast deficit at 31 March 2026. Further information on the future arrangements for the management of High Needs DSG deficits is expected in the Final Settlement in February 2026.

30. This is a considerable financial risk, and if a resolution to this is not forthcoming then the financial viability of the council would need to be reconsidered.

Measuring Financial Performance

31. Measuring the Council's financial health through a set of targeted measures is a key way of measuring our financial health and resilience in supporting the Council's plans and priorities. The key indicators upon which we will measure ourselves are set out in Annex 1 below.

32. The CIPFA's Financial Resilience Index[1] shows a council's performance against a range of measures associated with financial risk, including the level of earmarked reserves and general balances. The data sets are a comparative tool to be used to support good financial management and generate a common understanding of the financial position within authorities.

33. The information for Oxfordshire compared to similar authorities is set out in Annex 2. Whilst there are a range of indicators, the themes generally relate to the three areas below.

   - Levels of Debt – the gross external debt indicator remains comparatively low risk and remains well below the median. Interest payable is also relatively low risk compared to net revenue expenditure.
   - Levels of Reserves – overall Oxfordshire is lower risk compared to comparators and the position has improved compared to 2023/24. The council is well above the median when comparing the level of reserves to income.
   - Social Care ratio – social care spend has increased from 76% to 82% of spend compared to net revenue expenditure. This remains relatively lower risk than the majority of comparators but means that relatively more of the budget is being spent on demand led services that are more difficult to change except through demand management.

34. The one indicator where Oxfordshire scores comparatively higher risk than other County Councils is in relation to Business Rates - growth above baseline. This

[1] The December 2025 Index uses figures from the 2024/25 DLUHC revenue and expenditure Outturn data return (RO)

indicator is calculated as the difference between the baseline funding level and retained rates income, over the baseline funding level. This growth has been removed as part of the Business Rates reset from 2026/27 and is contributing to the reduction in funding set out in the Core Spending Power table published by the Government.

Financial Management

35. Financial indicators alone do not give a complete picture of financial health and sustainability; strengths of financial management and governance are also an essential foundation of any successful organisation.

36. The Code of Practice for Financial Management (the FM Code) was introduced by CIPFA in November 2019. on behalf of the Ministry of Housing, Communities and Local Government (MHCLG) in the context of increasing concerns about the financial resilience and sustainability of local authorities. The FM code is not statutory but compliance with the code is obligatory. It brings together elements that are already part of existing statutory guidance:

    - Role of the Chief Financial Officer in Local Government (S151 Officer)
    - Prudential Code for Capital Finance
    - Code of Practice on Local Authority Accounting in the United Kingdom

37. The FM Code, which includes 19 standards, 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. Importantly it emphasises the collective financial responsibility of the leadership team, including the relevant elected members, of which the Chief Finance Officer is one member.

38. An assessment has been made of the Council's current compliance with the FM Code. The assessment has identified that the Council is well placed to evidence compliance from 1 April 2026. 17 standards have been assessed as green, and 2 standards continue to be rated as amber, demonstrating that that sound financial management and robust governance arrangements are in place. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment. The Summary Assessment is included at Annex 3.

39. The principal areas of attention for development and improvement during 2026/27 will be the continued embedding of the Financial & Commercial Services Redesign following go – live in December 2025, and improvements to data structures and reporting that will be enabled by the new structure. These need to underpin the development of a more commercial approach as well as improvements to financial management competency and budget management across the council that will be driven by the agreement and implementation of the Financial Management Strategy across the council.

Key Performance Indicators

The Financial Strategy enables the Authority to undertake Budget Planning for the short, medium and longer term, and to make sound decisions on the commitment of financial resources whilst ensuring strong financial resilience. As such the Financial Strategy supports the Strategic Plan, and a budget planning process that can ensure finances are allocated to support the delivery of all the council's key priorities.

The Financial Strategy directly supports the council's priorities. There are two key strategic indicators (SI) that demonstrate the effectiveness of the Financial Strategy:

1. The Council is financially resilient
2. The Council has good financial management and governance

The following set out the performance activity and measures for monitoring these indicators, the frequency of monitoring and where they are reported to. The key measures are reported publicly through Cabinet and Performance & Corporate Services Overview & Scrutiny Committee as part of the monthly Business Management & Monitoring Report (BMMR), others are monitored within the Finance Service and reported by exception or are routinely reported to the Audit and Governance Committee.

SI	Measure	**2026/27 Target**	**Reporting**	**Reported to:**
	Delivering to budget and achieving savings:			
1	Overall forecast revenue variance across the Council	Break even or underspend	Quarterly Management & Monitoring Report (BMMR) and Provisional Outturn Report (POR) for 2026/27 at the end of the financial year.	Cabinet
1	Achievement of Planned savings in 2026/27	90%	BMMR & POR	Cabinet

2	Services deliver services and achieve planned performance within budget	=< 1% revenue budget variation (with service outcomes achieved)	BMMR & POR	Cabinet
	Ability to manage unplanned/unforeseen events:			
1	General Balances are forecast to remain within 85% of the risk assessed level for 2026/27.	>85% of the risk assessed level of £32.6m.	BMMR & POR	Cabinet
	Use of Grants			
2	Total Outturn variation for Dedicated Schools Grant (DSG) funded services (schools and early years)	Break even or underspend	BMMR & POR	Cabinet
2	Total Outturn variation for Dedicated Schools Grant (DSG) funded services (high needs)	Overspend no higher than £70m	BMMR & POR	Cabinet
2	Use of non-DSG revenue grant funding	=>95% of grant funding is spent in year	BMMR & POR	Cabinet
	Systems and processes operate effectively and are well controlled to reduce and detect error and fraud:			
2	Positive assurance from External Audit	Zero material issues identified by External Audit	Quarterly and Annual Report (September)	Audit & Governance Committee
2	Annual report of the Chief Internal Auditor (CIA)	Positive assurance by the CIA	Annually (May)	Audit & Governance Committee
2	Positive assurance following Internal Audits of Financial Systems and processes	90% audits of financial systems are rated Green or Amber	Quarterly	Audit & Governance Committee
2	Internal Audit actions for financial systems implemented within agreed timescales	90% of priority 1 and 2 audit actions implemented within the originally agreed timescale	Quarterly	Audit & Governance Committee
2	% of agreed invoices paid within 30 days	>95%	Bi-Monthly BMMR	Cabinet
	Compliance with the CIPFA Financial Management Code of Practice			
2	Annual self-assessment of compliance to the CIPFA FM standards	100% compliance (green and amber RAG ratings)	Annually (January)	Cabinet / Audit & Governance Committee
	Debt Management			
2	Invoice Collection Rate – Corporate Debtors	97%	BMMR & POR	Cabinet

2	Invoice Collection Rate – ASC contribution debtors	94%	BMMR & POR	Cabinet
2	Debt Requiring Impairment – Corporate Debtors	<£0.500M	BMMR & POR	Cabinet
2	Debt Requiring Impairment – ASC contribution debtors	<£4.3M	BMMR & POR	Cabinet
	Treasury Management			
2	Average cash balance compared to forecast average cash balance	=<0% or +15% variation to £325m	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee
2	Average interest rate achieved on in-house investment portfolio	>=4.00%	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee
2	Average Annualised Return achieved for externally managed funds	>=3.75%	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee

Capital Programme indicators are included in the Capital & Investment Strategy at Section 5.1