Financial Strategy 2024/25

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 such as the Property Strategy. 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 making Oxfordshire a greener, fairer and healthier county, within a limited amount of resource.

3. Financial sustainability and resilience requires successful and sustained focus on the delivery of four critical elements and financial planning principles for the revenue budget and medium term financial strategy:

   - Transforming the council to become employer, partner and place shaper of choice.
   - Managing the impact of rising need through demand management.
   - Delivering agreed savings and 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.

Short Term Funding Context (2024/25)

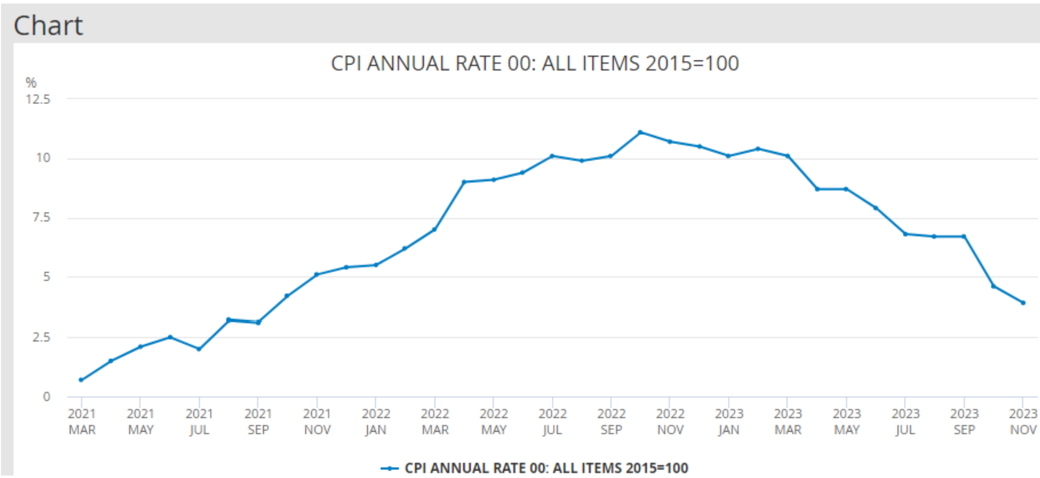
4. Whilst a two-year policy statement for 2023/24 and 2024/25 was published in December 2022 setting out the government’s intentions for the local government finance settlement for those two years, only a single year Local Government Finance Settlement for 2023/24 was provided. A further policy statement for 2024/25 was published on 5 December 2023, followed by a single year Provisional Local Government Finance Settlement for 2024/25 on 18 December 2023.

5. The Government uses Core Spending Power as a way of measuring the resources available to local authorities though the local government finance settlement. However, this includes both Council Tax increases and some ring-fenced grants, so it is not a clear measure of how much government funding has been provided for general services or by how much the funding has increased. The increase in Core Spending Power for 2024/25 for the Council is 6.9%, or £42.2m.

- £31.8m of the increase (75%) relates to the assumption that the maximum Council Tax increase of 4.99% is taken along with forecast taxbase growth.
- £7.2m of the increase (17%) relates to increases in Social Care grants announced as part of the Policy Statement in 2022 and already included in the draft MTFS agreed by Council in February 2023.
- £5.6m of the increase (13%) relates to the increase in the Settlement Funding Assessment which is increased annually by the CPI rate in the September preceding the start of the year, i.e., September 2023
- A £2.4m reduction (-6%) as a result of a reduction on the total funding available though the general Services Grant.

6. Whilst the increase in funding will go a significant way to meeting inflationary and demand pressures, there is still a requirement to make considerable savings and the need to increase council tax by the maximum allowable of 4.99% in order to deliver a balanced budget.

7. Increases in funding need to be seen in the context of inflation and its cumulative impact in the 2022/23 and 2023/24 financial years. The graph below shows the path of the Consumer Prices Index (CPI) since March 2021. CPI reached a peak of 11.1% in October 2022 and has slowly decreased to 3.9% in November 2023. The CPI time series shows that there has been a total increase of 22.3% over this period.



8. Taxbase growth has remained strong in 2023/24 and 2024/25 at 1.99% and 1.77% respectively. Future growth is assumed in the proposed MTFS at 1.75% per year which provides additional annual increases in funding of c£7.5m. An increase of 1.99% in Band D council tax is assumed in each of 2025/26 and 2026/27 as no information about future increases or the continuation of the Adult Social Care Precept is currently available beyond 2024/25.

9. The current MTFS included a contingency budget of £8.3m in 2023/24. Some of this has been used on a permanent basis to meet the cost of the pay award which was higher than expected when the budget was set. The contingency has been re-established as part of the budget proposals for 2024/25 providing some necessary

cover to meet any further inflationary or demand pressures given the current volatility. The Earmarked Reserves & General Balances Policy Statement 2023/24 (Section 4.6) sets out both the risk assessment for the level of General Balances taking into account the current financial uncertainty and the continuing higher levels of financial risk.

Medium Funding Context (2025/26 to 2026/27)

10. There remains a lack of certainty in key aspects of Local Government funding. The policy statements published in both 2022 and 2023 state that the government recognises that providing councils with greater certainly on key aspects of their funding is important for the budget setting process and the ability to plan for the future. However, alongside this, the Policy Statement issued in December 2023 continued to refer to the position in relation to the local government funding reforms stating 'the government remains committed to improving the local government finance landscape in the next Parliament. At the 2023 to 2024 Settlement, we heard calls from the sector for stability. Now is not the time for fundamental reform, for instance implementing the Review of Relative Needs and Resources or a reset of accumulated business rates growth. This continues to be the government's position.'

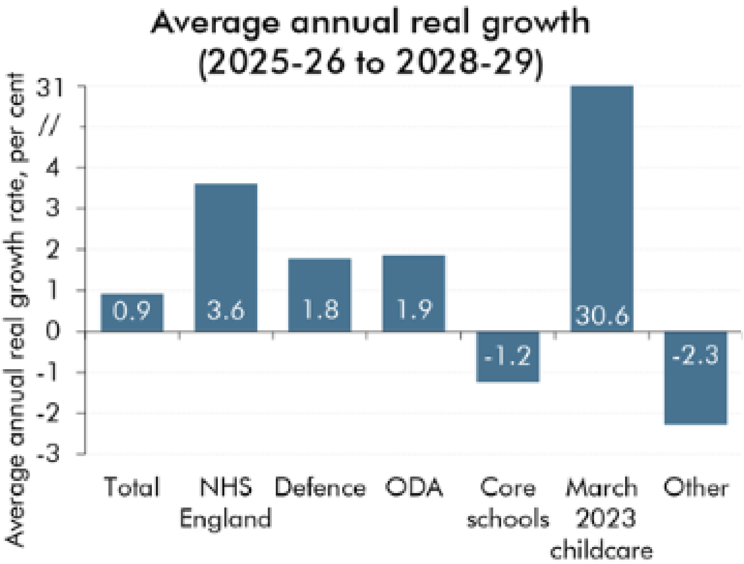
11. The medium-term funding context is not only uncertain due to delays in in the implementation of the government's long planned reforms to fair funding, business rates but also as a result of the following factors:

    - Reductions in general funding for local government from 2010 and the increase in the proportion of the council's spend on social care needs, means the ability to deliver further savings is reduced.
    - Continued pressures on demand for social care and the sufficiency of market provision, particularly for Children's Social Care.
    - The broader economic environment, including the availability of workforce, high interest rates and the cumulative impact of inflation.
    - Continuing significant cost of living pressures on communities and residents.
    - Delays and uncertainty regarding the implementation of adult social care charging reforms.
    - 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 built is expected to be £68.0m by the end of 2024/25.

12. The current financial risks in the public sector are also set out in the Office for Budget Responsibility publication from July 2023 titled Fiscal Risks and Sustainability. This states, the '2020s are turning out to be a very risky era for the public finances. In just three years, they have been hit by the Covid pandemic in early 2020, the energy and cost-of-living crisis from mid-2021, and the sudden interest rate rises in 2022, whose consequences continue to unfold. This rapid succession of shocks has delivered the deepest recession in three centuries, the sharpest rise in energy prices since the 1970s, and the steepest sustained rise in borrowing costs since the 1990s.'

13. The Office for Budget Responsibility (OBR) forecasts for spending projections arising from Autumn Statement 2022 for the period 2025/26 to 2027/28 set out a 0.7% real terms annual cut in funding for 'other services' which includes Local Government. The projections arsing from the Autumn Statement 2023 for 'other services' show spending needing to fall by 2.3% a year in real terms from 2025/26 (see table below). However, if defence and Official Development Assistance (ODA) spending are increased in line with the Government's ambitions rather than current GDP share, this would lead to unprotected spending needing to fall by an average of 4.1% a year. This means there is the likelihood that in the medium term there will be very significant financial challenges for local authorities. It is therefore imperative to plan ahead to ensure a balanced budget is set each year as well as responding to emerging needs and priorities.

14. Furthermore, the OBR report states that 'delivering a 2.3% a year real terms fall in day-to-day spending would present challenges. Performance indicators for public services continue to show signs of strain, for example eleven 'Section 114' notices have been issued by local authorities since 2018, compared to two in the preceding 18 years. The Institute for Government's recent report found that performance in eight out of nine major public services has declined since 2010, with schools the exception'.



15. To ensure that the council is sustainable in the medium term and be the best we can for our residents, there is an imperative to fundamentally change how we do things. Over the next two years, our vision for a successful and sustainable Council of the future is one where we:
    - are smaller; operating from fewer buildings making sure those we keep are used to their full capacity;
    - embrace technology where it improves productivity and connectivity to the people we serve, helping us become more efficient;
    - collaborate more closely with partners in the voluntary and community sector so we're no longer the main provider for every service; and
    - exploit commercial opportunities where they deliver value for our residents.

16. This vision will be delivered through the Council's Delivering the Future Together transformation programme. The programme will accelerate delivery of financial and non financial benefits achieving our operating principles and supporting the Council's financial sustainability.

Dedicated Schools Grant (DSG) Unusable Reserve

17. 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 could reach a deficit balance of £144.3m by the end of the MTFS period based on the deficits set out in Annex B. This unsustainable position confronts most authorities with responsibility for schools. 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.

18. Regulations require the negative balance to be held in an unusable reserve. The DSG 'statutory override' has been extended for a one-off period of three years (up to March 2026). The SEND and alternative provision improvement plan issued by the DfE in March 2023 stated 'it is critical that, during this extension, local authorities continue to work with all parts of the SEND system to put themselves in the best position so that when the 'statutory override' comes to an end, local authorities are able to demonstrate their ability to deal with remaining DSG deficits.' The document does not however contain any plan to bring levels of funding for High Needs provision up to sustainable levels. Irrespective of this, it is imperative that the council continues to develop and implement its reforms for High Needs to bring expenditure more in line with grant allocations.

19. 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 2024 the forecast deficit compared to Dedicated Schools Grant (DSG) funding for High Needs is £21.3m in 2024/25. Oxfordshire participated in Phase 1 of the DfE's Delivering Better Value scheme. This national programme, providing £1m of grant funding to help manage High Needs deficits. Despite this investment and the outcome of the programme, continued increases in demand mean that annual deficits against the grant funding are expected to grow in future years.

20. Beyond the period of the statutory override, the expectation is that the balance on the DSG Unusable Reserve will transfer back to the Council's total Earmarked Reserves. If this happens, it materially impacts on the overall level of reserves and by 1 April 2026, the total earmarked reserves held by the Council would only be £47.6m putting the financial standing of the council at risk. In this scenario, the council would need to take action to address the position. The risk associated with this is considered significant, however given the extension of the regulations, this does not need to be addressed until the 2026/27 financial year. Therefore, the position does not currently impact on decisions in the short term but consideration does need to be given in the medium term on how this might be addressed.

Long Term Funding Context (to 2033/34)

21. The financial risks in the public sector over the longer term are also set out in the OBR report on Fiscal Risks and Sustainability. The context of the longer-term position needs to be seen following on from the challenging position in the short and medium term. This makes it more important to ensure that the Council is fit for purpose and transforms to remain sustainable over the long term.

22. The report states 'governments face growing costs from an ageing society, a warming planet, and rising geopolitical tensions – challenges that no longer loom in the distance in our 50-year projections but pose significant fiscal risks in this decade:

    - as the 'baby boom' cohorts enter retirement and high inflation ratchets up the cost of the triple lock, state pension spending is expected to be £23 billion in today's terms (0.8% of GDP) higher in 2027/28 than at the start of the decade;
    - as global temperatures rise and the 2050 deadline for reaching net zero draws closer, rising take-up of electric vehicles is expected to cost £13 billion a year in forgone fuel duty by 2030, while the public investments needed to support the decarbonisation of power, buildings, and industry could reach £17 billion a year by that date; and
    - in response to growing security threats in Europe and Asia, the Government has said it aspires to increase defence spending – for the first time in seven decades – from 2.0 to 2.5% of GDP, at a potential cost of £13 billion a year in today's terms.'

23. At a local level, the county is facing significant demographic pressures. Economic prosperity and the quality of the environment make Oxfordshire an attractive place in which to live and work., The February 2022 update of the Oxfordshire County Council housing-led forecasts predict a total population in Oxfordshire of 853,500 by 2030, a growth of 157,600 (+20%). Over the same period, the number of people aged 65 and over is projected to grow by almost 25%. Over the next twenty years the number of people aged over 85 is expected to double with one in four requiring intensive support from the social and health care system. It is expected that there will be an increase in the number of clients with learning disabilities as well as an increase in this client group's life expectancy. In addition, the 0-17 population is expected to rise by 16% leading to an increase in the number of children requiring school places. This will result in an erosion of existing and forecast spare capacity in many primary schools and in time, secondary schools.

24. Long term planning is particularly challenging in the current environment. However, in planning for the long term, it remains important to understand both the context of Oxfordshire as well as the main drivers of change. In this context, we need to ensure that the most fundamental issues facing the organisation which have been identified are responded to.

25. The longer-term trajectory for housing led forecasts indicate that the level of tax base growth is expected to continue to increase broadly at its current rate of c1.75% to 2.00% per year. Assuming interventions over the medium term have an impact on managing demand; that inflation levels are assumed to return to within the Bank of England target of 2% and that council tax increases remain in line with inflation, then

the prospect for the Council of meeting its increasing demographic pressures is likely to be achievable.

26. However, this does not take into account significant funding reductions which may arise over the medium term and any potential impact of the High Needs DSG deficit returning to the Council's Balance sheet. These scenarios will need to be modelled as well for alternative possible future economic and political environments.

27. The Capital & Investment Strategy at Section 5.1 sets out the long-term context in which capital expenditure and investment decisions are made and articulates how the Council's capital investment will help achieve the Council's vision and priorities as well as respond to demographic changes. The Council has a capital investment requirement over the ten-year period to 2033/34 of £363m. The Council will need to consider different mechanisms for financing over the longer term to deliver this level of investment. A Commercial Strategy is currently in development which will help to address the issue.

Measuring Financial Performance

28. 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.

29. There are two key data sets which are used to measure financial health and resilience: CIPFA's Financial Resilience Index[1] and the Office for Local Government (OFLOG) data explorer. Both are designed to support and improve discussions surrounding local authority financial resilience. They show 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.

30. The information from the two datasets 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 – Oxfordshire is well placed in these metrics. The levels of debt to income are in the lower quartile and in respect of level of debt compared to core spending, Oxfordshire is well below the median range. Debt servicing as a percentage of core spending is also at the low end of the median range. In the resilience index, the gross external debt metric is low risk.
    - Levels of Non Ringfenced Reserves (General Balances) – As a percentage of both service spend and net revenue expenditure, Oxfordshire is within the median range (lower end).
    - Levels of Reserves (Ringfenced and General Balances) - In the resilience index, Oxfordshire is in the middle compared to others, and the change in level

[1] The December 2023 Index uses figures from the 2022/23 DLUHC revenue and expenditure Outturn data return (RO)

of reserves is lower than other comparators. The reserves sustainability measures, measuring the change in reserves in each of the last three years, Oxfordshire is lower risk compared to others.

- Social Care spend – Oxfordshire is within the median range (lower end) suggesting that the risk is comparatively less than others. In the financial resilience index, the Social Care ratio, at 78% of spend compared to net revenue expenditure is lower risk than comparators.

31. The one indicator where Oxfordshire scores comparatively higher risk than other County Councils is in relation to Business Rates - growth above baseline. This indicator is calculated as the difference between the baseline funding level and retained rates income, over the baseline funding level. This is perceived as a risk because compared with many other counties, Oxfordshire's income from business rates growth is high. However, given the implementation of funding reforms and a business rates reset will now not occur before 2025/26, there is no risk in the short-term. Furthermore, any business rates loss is expected to be phased reducing the impact in anyone year. The potential impact on the MTFS in 2025/26 and 2026/27 will be reviewed next year when further information may be available.

Financial Management

32. 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.

33. 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

34. 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.

35. The first full year of compliance with the FM Code was 2021/22. It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

36. 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 2024. 17 of the 19 Standards have been assessed as Green and 2 assessed as Amber 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 Annual Governance Statement (AGS) which will be published alongside the Statement of Accounts. The Summary Assessment is included at Annex 3.

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	**2024/25 Target**	**Reporting Frequency**	**Reported to:**
	Delivering to budget and achieving savings:			
1	Overall forecast revenue variance across the Council	Break even or underspend	Bi-Monthly Business Management & Monitoring Report (BMMR)	Cabinet
1	Achievement of Planned savings in 2024/25	90%	Bi-Monthly BMMR	Cabinet
2	Directorates deliver services and achieve planned performance within budget	=< 1% revenue budget variation (with service outcomes achieved)	Bi-Monthly BMMR	Cabinet

	Ability to manage unplanned/unforeseen events:			
1	General Balances are forecast to remain within 85% of the risk assessed level for 2024/25.	>85% of the risk assessed level of £30.2m.	Bi-Monthly BMMR	Cabinet
	Use of Grants			
2	Total Outturn variation for Dedicated Schools Grant (DSG) funded services (schools and early years)	Break even or underspend	Bi-Monthly BMMR	Cabinet
2	Total Outturn variation for Dedicated Schools Grant (DSG) funded services (high needs)	Overspend no higher than £21.3m (see Annex B)	Bi-Monthly BMMR	Cabinet
2	Use of non-DSG revenue grant funding	=>95% of grant funding is spent in year	Bi-Monthly BMMR	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	95%	Bi-Monthly BMMR	Cabinet
2	Invoice Collection Rate – ASC contribution debtors	92%	Bi-Monthly BMMR	Cabinet
2	Debt Requiring Impairment – Corporate Debtors	<£0.300M	Bi-Monthly BMMR	Cabinet

2	Debt Requiring Impairment – ASC contribution debtors	<£2.5M	Bi-Monthly BMMR	Cabinet
	Treasury Management			
2	Average cash balance compared to forecast average cash balance	=<0% or +15% variation	Quarterly (Quarterly Treasury Management Report)	Cabinet / Audit & Governance Committee
2	Average interest rate achieved on in-house investment portfolio	>=3.00%	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