

## Financial Strategy 2025/26

### 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 (2025/26)

4. Following the Autumn Budget a Policy Statement for 2025/26 was published on 28 November 2024, followed by a single year Provisional Local Government Finance Settlement for 2025/26 on 18 December 2024. The Final Local Government Finance Settlement is expected in early to mid February 2025.
5. The Government uses Core Spending Power as a way of measuring the resources available to local authorities through 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.
6. Core Spending Power for the council will increase from £663.1m in 2024/25 to £705.3m in 2025/26 assuming a council tax increase of 4.99%.

- £33.8m of the increase (80%) relates to the assumption that the maximum Council Tax increase of 4.99% is taken along with forecast taxbase growth.
  - £6.1m of the increase (14%) relates to increases in Social Care grant. The MTFs also assumed that the £4.7m increase in the grant announced in the Final Local Government Finance Settlement for 2024/25 would fall out so the total increase in funding is £10.8m.
  - There is new grant for Children's Social Care Prevention £1.4m, £1.1m funding relating to the New Homes Bonus which will continue for a further year and a £0.3m increase in the Domestic Abuse Duty Safe Accommodation Grant.
  - The remaining £0.5m Services Grant has been removed as expected in 2025/26.
7. Whilst the increase in funding will help to meet inflationary and demand pressures there is still a requirement to make savings and to increase council tax by the maximum allowable of 4.99% in order to deliver a balanced budget and particularly to fund increases in social care costs. Funding of £10.2m generated through the Adult Social Care precept is being used to support increased demand and costs for Adult Social Care and a further £13.3m of the general increase in council tax is estimated to be needed to fund Children's Social Care in 2025/26. In addition, the full use of the Social Care Grant will be used to meet increased costs in Children's Social Care.
8. Taxbase growth has remained strong, with an increase of 1.77% in 2024/25 1.87% in 2025/26. Future growth is assumed in the proposed MTFs at 1.75% per year which provides additional annual increases in funding of c£10m. Pending further information from the Government an increase of 3.99% in Band D council tax is assumed in each of 2026/27 and 2027/28 based on a general increase of 1.99% and an Adult Social Care Precept of 2.0%. The actual increases will depend on the arrangements for the referendum limit for those years and local determination.
9. The current MTFs included an on-going contingency budget of £7.3m in 2024/25. This continues to be available providing some necessary cover to meet any further inflationary or demand pressures in 2025/26. The Earmarked Reserves & General Balances Policy Statement 2025/26 (Section 4.6) sets out the risk assessment for the level of General Balances which will be set at £30.2m in 2025/26.

### **Medium Term Funding Context (2026/27 to 2027/28)**

10. As part of the Policy Statement the government set out that from 2026/27 the way councils are funded will be reformed with the intention of directing funding to where it is most needed, based on an up-to-date assessment of need and local resources. These reforms will build on the proposals set out in the previous government's review of Relative Needs and Resources (also referred to as the 'Fair Funding Review') and will include a 'reset' of the business rates retention system. There will be a gradual move gradually towards an updated system and views will be sought on possible transitional arrangements to determine how local authorities reach their new funding allocations.

11. An Initial consultation on the objectives and principles of the government's proposed approach was launched alongside the provisional Local Government Finance Settlement for 2025/26 with a consultation on the technical detail of resetting the business rates retention system in early 2025 and further consultation later in 2025. Implementation of these reforms will begin through the multi-year Settlement in 2026/27.
12. The distribution of the increase in the Social Care Grant in 2025/26 has been equalised to take account of the funding generated through the adult social care precept. The council's share is around 0.7% of the national total and compares to Relative Needs Formula distributions in previous years where the council received around 1.0% of the national total.
13. The Children's Social Care Prevention Grant has been distributed using a new children's needs-based formula. The Provisional Settlement sets out that the council will receive £1.4m or 0.6% of the national total.
14. The Government launched a consultation on funding reform from 2026/27 alongside the Provisional Settlement for 2025/26. The government's principal objective is to develop a new distribution methodology, based on an updated assessment of need and resources. This will be achieved by updating the existing Settlement Funding Assessment. This new distribution methodology will be used to allocate grant funding and retained business rates income from 2026/27. It will:
  - i. Measure differences between local authorities' demand for services, using updated 'Relative Needs Formulae', considering drivers of demand including population and deprivation.
  - ii. Measure differences in the cost of providing services, using 'Area Cost Adjustments'; and
  - iii. Adjust for the ability to raise Council Tax locally.
15. The government also intends to carry out a full Business Rates Reset in 2026/27. Under a full reset, no growth accumulated from 2013/14 to date is retained in the forthcoming reset period, as this would be reallocated as per the updated funding assessment. However, growth that comes on stream after the reset would be retained for the duration of the future reset period, continuing to reward authorities for local business rates growth, subject in some cases to the payment of a levy.
16. The consultation sets out possible transitional arrangements for funding changes to be phased over 2 – 3 years.
17. Ahead of the outcome of the consultation and further information being shared by the Government, the impact on the future funding available to the council is not known. However, the council's 2025/26 share of the increase to the Social Care Grant and the new distribution formula for the Children's Social Care Prevention Grant, along with the business rates reset could infer that the council would lose business rates growth of £4.9m; around 30-40% of funding currently being received through the Settlement Funding Assessment, and potentially also through other grants including the Public Health Grant. Using these assumptions and depending on the extent to which funding reform reduces existing funding, it is possible that existing funding available to the

council could reduce by £20m - £45m over a two or three year period from 2026/27 onwards requiring savings to be made to balance the overall budget.

18. The medium-term funding context is not only uncertain due to funding reform but also as a result of the following:

- Reductions in general funding for local government since 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.
- An independent commission into adult social care was launched by the Government in January 2025. The commission will consider long-term reform to overhaul social care and address the inherited challenges it faces. This will include the creation of a national care service underpinned by national standards, delivering consistency of care across the country.
- Local government reorganisation and devolution.
- 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 £84.2m by the end of 2024/25.

19. To council's Delivering the Future Together transformation 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:

- being leaner and more focused on delivering key priorities to the best of our ability;
- operating from fewer buildings and make 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

### Dedicated Schools Grant (DSG) Unusable Reserve

20. Oxfordshire participated in Phase 1 of the DfE's Delivering Better Value scheme and is continuing to implement 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 expected to be continuing annual deficits against the grant funding in future years.

21. 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 £137.6m by the end of the MTF5

period based on the deficits set out in Annex B. Without mitigations the estimated deficit would rise to £226.2m. This unsustainable position confronts most authorities with responsibility for schools.

22. 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 2026). 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 2025 the forecast deficit compared to Dedicated Schools Grant (DSG) funding for High Needs is £28.4m in 2024/25.
23. The Provisional Local Government Finance Settlement for 2025/26 set out that the Government will set out plans for reforming the SEND system. This will also 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. This work will inform any decision to remove the statutory override (which currently ends on 31 March 2026). The expectation is that the Government will find a solution towards dealing with (and accounting for) the accumulated deficit prior to the end of 2025/26, when the current statutory override is due to end. That is a considerable financial risk, and if a resolution to this is not forthcoming (in the financial year 2025/26) then the financial viability of the council would need to be reconsidered.

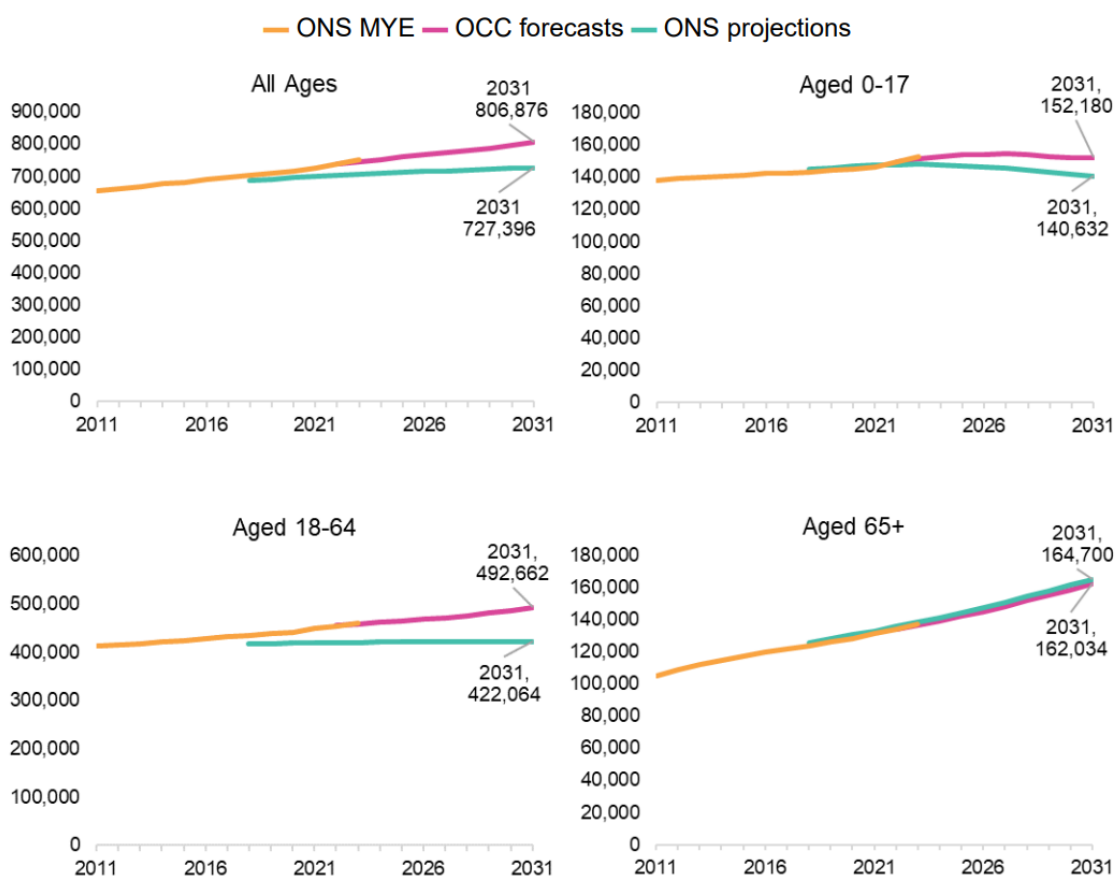
### **Long Term Funding Context (to 2035/36)**

24. The financial risks in the public sector over the longer term were included in an OBR report on Fiscal Risks and Sustainability published in September 2024. 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.
25. The report set out that 'governments in the UK and around the world face a number of longer-term pressures that are likely to weigh on their public finances further. These include:
  - an ageing population, with a falling birth rate and the 'baby-boom' cohorts moving through retirement putting downward pressure on revenues and upward pressure on spending;
  - climate change, including the fiscal costs of completing the transition to net zero while also coping with damage from rising temperatures and more severe weather; and;
  - rising geopolitical tensions, with both the previous and current UK Governments aspiring to raise defence spending to 2.5% of GDP. The previous government set out an intention to increase defence spending to from 2.0% to 2.5% of GDP by 2030. The Labour Government has committed to spending 2.5% of gross domestic product (GDP) on defence and will set out the pathway to reach this

target during 2025. Reaching this target would impact on funding available for other government departments.

26. 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 August 2024 update of the Oxfordshire County Council housing-led forecasts which take into account the predicted increase in housing across Oxfordshire from planned district housing trajectories predict a total population in Oxfordshire of 806,900 by 2031, a growth of 68,600 (+9%).

While the population in all age groups is expected to rise the largest increase is in the number of people aged 65+.



27. 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 also expected to rise, albeit at a slower rate, 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.

28. 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% 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 and that the Adult Social Care precept supports the increase in the number of older people needing care, then the prospect for the Council of meeting its increasing demographic pressures is likely to be achievable.

29. However, this does not take into account significant funding reductions which may arise as a result of funding reform and any potential impact of the High Needs DSG deficit returning to the council's balance sheet.
30. 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 2034/35 of £560m. There is a need to consider different mechanisms for financing capital expenditure over the longer term to deliver this level of investment. The Commercial Strategy agreed in March 2024 is expected to help to address this including options for meeting 2030 and 2050 carbon management targets.

### **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<sup>1</sup> 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 has increased in risk slightly compared to 2022/23 but remains comparatively low risk and is 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 2022/23. The council is above the median when comparing the level of reserves to income.
  - Social Care spend – Oxfordshire is within the median range (lower end) suggesting that the risk is comparatively less than others. In the financial

---

<sup>1</sup> The December 2024 Index uses figures from the 2023/24 DLUHC revenue and expenditure Outturn data return (RO)

resilience index, the Social Care ratio, at 76% of spend compared to net revenue expenditure is lower risk than comparators.

34. 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 £4.9m income from business rates growth is high. However, given the implementation of funding reform including a business rates reset will now not occur before 2026/27, there is no risk in 2025/26. Furthermore, the business rates reset is expected to be phased over two or three years reducing the impact in anyone year.

### **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. 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.
39. 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 2025. 17 of the 19 Standards have been assessed as Green and 2 continue to be 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	2025/26 Target	Reporting Frequency	Reported to:
<b>Delivering to budget and achieving savings:</b>				
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 2025/26	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

## Section 4.5

<b>Ability to manage unplanned/unforeseen events:</b>				
1	General Balances are forecast to remain within 85% of the risk assessed level for 2025/26.	>85% of the risk assessed level of £30.2m.	Bi-Monthly BMMR	Cabinet
<b>Use of Grants</b>				
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 £26.7m (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
<b>Systems and processes operate effectively and are well controlled to reduce and detect error and fraud:</b>				
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
<b>Compliance with the CIPFA Financial Management Code of Practice</b>				
2	Annual self-assessment of compliance to the CIPFA FM standards	100% compliance (green and amber RAG ratings)	Annually (January)	Cabinet / Audit & Governance Committee
<b>Debt Management</b>				
2	Invoice Collection Rate – Corporate Debtors	97%	Bi-Monthly BMMR	Cabinet
2	Invoice Collection Rate – ASC contribution debtors	94%	Bi-Monthly BMMR	Cabinet
2	Debt Requiring Impairment – Corporate Debtors	<£0.500M	Bi-Monthly BMMR	Cabinet

## Section 4.5

2	Debt Requiring Impairment – ASC contribution debtors	<£4.3M	Bi-Monthly BMMR	Cabinet
<b>Treasury Management</b>				
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	>=3.25%	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