Local Government Act 2003: Section 25
Report by the Executive Director of Resources & Section 151 Officer (Chief Finance Officer)

Background

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the Chief Finance Officer must report to it on the following matters:

    - The robustness of the estimates made for the purposes of the (council tax requirement) calculations
    - The adequacy of the proposed financial reserves

2. The council is required to have due regard to this report when making decisions on the budget. The law expects councillors to consider this advice and not set it aside lightly.

3. In expressing my opinion, I have considered the financial management arrangements and control frameworks that are in place, the budget assumptions, the adequacy of the Budget & Business Planning process, the financial risks facing the council and the level of total reserves.

4. This report concentrates primarily on the level of uncertainty within the budget year (i.e. 2025/26). However, it also considers key medium term risks and issues faced by the Council, particularly around the delivery of savings, anticipated increases in demand driven services, the impact of demand for services funded by High Needs Dedicated Schools Grant, funding reform and devolution/local government reorganisation. These factors also inform the need for reserves and balances across the medium term strategy period.

Financial management arrangements and control framework

5. In building the budget and considering the risks inherent within it, it is important to consider the wider control environment which will help to manage and minimise those risks. This includes:

    - the approach to financial planning and monitoring with budget holders
    - a strong accountability framework which sets out clear roles and responsibilities in terms of financial management
    - regular and accurate reporting to Members and senior officers
    - an effective internal audit function assessing controls and processes.

6. The Code of Practice for Financial Management (the FM Code) clarifies how Chief Finance Officers should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972. The Financial Strategy set out at Section 4.5 sets out a compliance assessment against the Code's standards. 17 of the 19 Standards have been assessed as Green and 2 assessed as Amber meaning that compliance can be evidenced. Proposed actions to support continuous improvement and bring the ratings to Green have been included in the assessment for development in 2025/26. The two areas for improvement are:
    - A - The leadership team is able to demonstrate that the services provided by the authority provide value for money (VfM).
    - E – The Financial Management Style of the authority supports financial sustainability.

7. It is important for the Council to focus on these areas as weaknesses increase the risk of financial management and governance failures.

8. Annually, the external auditors (EY) review the financial accounts and assess value for money effectiveness. In prior years there has been a backlog in signing off the accounts and now the Authority is up to date. The position of the accounts for both Oxfordshire County Council and Oxfordshire Pension Fund are:
    - 2021/22 - unqualified opinion signed off on 25 January 2024
    - 2022/23 – due to EY's approach to 2022/23 audit and time bound requirements of the local audit reset, the Authority received a disclaimed opinion to the published accounts on 23 January 2024
    - 2023/24 – draft but expect disclaimed due to the on-going impact of the disclaimed opinion for 2022/23 on prior year balances and signed off in mid – February 2025.

    In respect of securing value for money, the conclusions are based on whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness. The council received an unqualified value for money conclusion for 2021/22. Due to the disclaimed opinion for the 2022/23 accounts, there was also a disclaimed value for money conclusion for 2022/23. There is a draft unqualified value for money conclusion for 2023/24.

9. The council's governance arrangements require a statement at the year-end from the 'corporate lead officer' for various key control areas. The Section 151 Officer has responsibility for ensuring that an effective system of internal control is maintained to provide an assessment of the current position across the whole council and identifying areas for improvement where appropriate. Areas for improvement are included in the Annual Governance Statement and monitored in year via the Audit & Governance Committee.

Current Financial Context

10. Financial resilience is impacted not only by local government finances but also the national and international context. The trajectory will be shaped by uncertain economic adjustments, geopolitical tensions and volatility (for example, the impact of on-going conflict in Ukraine and the Middle East as well as other bi-lateral relationships (US, EU, China etc). Currently, these issues do not have a direct financial impact on the authority (except for the maintenance of the on-going Homes for Ukraine scheme). However, they will be considered if there is a clear impact and appropriate mitigation can be implemented.

11. Inflation has fallen back during 2024/25 and is expected to return to closer to the 2% target in 2025/26. However, the cost of services remains higher as a result of previous inflation. Future increases also remain sensitive to global factors and the impact of the future approach to the National Living Wage.

12. As part of the Local Government Finance Policy Statement published on 28 November 2024 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 towards an updated system with transitional arrangements to determine how local authorities reach their new funding allocations.

13. 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. There will then be 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.

14. In the context of a challenging financial environment along with considerable uncertainty, the council continues to work to:

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

- harness commercial opportunities where they deliver value for our residents.

15. This vision is being delivered through the council's Delivering the Future Together transformation programme. This will accelerate delivery of financial and non - financial benefits achieving our operating principles and supporting the council's financial sustainability.

Budget Assumptions

16. The formation of the 2025/26 budget and indicative budgets for the following two years to 2027/28 have allowed for best estimates of the total financial envelope over the medium term taking into account anticipated unavoidable pressures relating to inflation and demand plus other changes to expenditure plans and the savings then required to match the funding available. It is not the role of the S25 assurance statement to comment on the precise mix of these, providing the overall combination results in a balanced budget and the estimates on which the calculation is based are robust.

17. The Budget & Business Planning process is well established. All the estimates within the proposed budget are the product of a comprehensive iterative budget process with Cabinet Members, Executive Directors and Directors as well as regular briefings with the Cabinet Member for Finance resulting in agreement on the level of service delivery within the identified financial resources. The main financial risks that are taken into account in determining the estimates are set out in paragraph 20 below.

18. In forming the estimates various assumptions have been made, the main assumptions together with an assessment of their risk are set out below:

a) Funding assumptions: Grants – the Government's one year Provisional Local Government Financial Settlement for 2025/26 and linked Policy Statement only provide certainty for the coming financial year. There is no clarity on the future government funding from 2026/27 onwards, both in terms of specific grants such as the Social Care grant and New Homes Bonus as well as general government support through the Settlement Funding Assessment. Given the lack of clarity, the grant funding assumptions for the MTFS assume no change from 2025/26.

Funding assumptions: Council Tax – A Council Tax increase of 4.99% is proposed for 2025/26; the maximum allowable (without a referendum) as confirmed in the Local Government Finance Policy Statement and Provisional Settlement for 2025/26. The rise comprises a general precept increase of 2.99% and a 2.00% increase in the Adult Social Care precept. Whilst the Local Government departmental limits set out in the Autumn Statement 2024 and reflected in the increase in Core Spending Power assume an increase in

Council Tax of 4.99%, the Government has not yet provided any information about council tax referendum limits from 2026/27 onwards. Given the uncertainty on government funding beyond 2025/26, and lower anticipated inflation, it is prudent to assume lower council tax increases for 2026/27 onwards. Therefore, the MTFS currently assumes a 3.99% increase on the basis of a general increase of 1.99% and an adult social care precept of 2.00% for both 2026/27 and 2027/28 ahead of further information being available.

The existing MTFS assumed an increase in the taxbase for Band D equivalent properties in 2025/26 of 1.75% which is consistent with growth in previous years. The actual increase for 2025/26 is 1.87% and the proposed MTFS continues to assume annual increases of 1.75% to 2027/28 which is a reasonable projection based on anticipated housing-based growth projections.

There continue to be strong surpluses on Council Tax collection funds. The actual position notified by the districts for 2025/26 is £9.2m. Apart from 2021/22 and 2022/23 when there was an impact related to COVID-19, council tax surpluses have averaged at least £8.0m each year. Therefore, it is reasonable to assume that the collection fund position for 2026/27 and beyond will remain at a surplus of £8.0m. Should collection rates dip below this sum in any year, there is a Collection Fund reserve which can be utilized to mitigate any volatility.

<u>Funding assumptions: Business rates</u> – Estimates of income from business rates for 2025/26 have been made based on the Settlement Funding Assessment (SFA) and linked Section 31 grant funding as set out in the Provisional Local Government Finance Settlement along with an estimate of business rates growth above this baseline. Given the lack of clarity on funding reform, increases of 2.0% in the SFA and growth are built into the MTFS.

b) <u>Inflation</u> – Having hit a 41 year high of 11.1% in October 2022, inflation fell to 2.5% in December 2024. The Autumn Budget assumes Consumer Price Index (CPI) inflation of 2.5% in 2024 with inflation remaining above 2% but gradually falling until 2028. Reflecting this, funding for contractual and income inflation in 2025/26 has generally been assumed at 2%. Where there are specific contractual arrangements that are higher than this funding has been built into pressures to reflect that.

The increase of 6.7% in the National Living Wage in April 2025 also means that pressure relating to pay inflation (based on national agreements) for the council’s employees is now likely to be higher than the 2.5% increase originally assumed for 2025/26. The current assumption for 2025/26 provides funding in line with the average increase for 2024/25 of 3.5%.

The estimated impact of the increase to employers’ National Insurance increases for both direct employees and indirect contract costs has been built into the proposed budget for 2025/26 (£3.9m has been directly applied to

Service Areas and £4.3m held centrally). These will be partly offset by the National Insurance compensation grant, which has been estimated at £3.1m.

In total, the budget includes £36.8m for inflationary pressures in 2025/26.

c) Demographic/Demand Growth – as set out in the Financial Strategy (Section 4.5), Oxfordshire faces significant demographic growth with an expected increase in its population of 20% by 2030. This results in increased demand for services and, with a faster growing ageing population, growing pressure on the health and social care system. Funding for demographic demand growth is built into the budget each year to meet forecast increases for older people, adults with learning disabilities and physical disabilities as well as growth in demand in children's social care, home to school transport and waste disposal.

The contingency budget also includes on-going funding equivalent to 1% of the budget for both Adults and Children's Services to mitigate the risk of additional demand in these services. As set out in the Business Management & Monitoring Report to Cabinet in January 2025, following the Integrated Care Board confirming that they will now fund their share of health costs, £3.0m has been added to the Budget Priorities reserve to cover future risk within Adult Social Care.

d) Treasury Management – all existing debt is under fixed interest rates so is not subject to interest rate variation and the MTFS assumes an extension of the strategy to borrow internally. Internal borrowing has the effect of reducing some of the 'cost of carry'[1]. The limit of internal borrowing will be combined with the long-term debt lending limit and will not exceed £450m in 2025/26.

Prudent assumptions have been made regarding the bank rate and target in-house rates of return. The proposed MTFS assumes a return of 3.25% in 2025/26 (4.25% 2024/25) reducing to 3.00% from April 2026 and 2.50% for the remainder of the MTFS period.

As at 31 December 2024, the Council had £98m (original purchase value of £101m) invested in external funds, representing 20% of the Council's total investment portfolio. Whilst market volatility has seen the capital value of the funds fluctuate recently, they are held with a long-term view, and there is no intention to divest from any of the funds at present. An estimated return of 3.75% is assumed for 2024/25 compared with a target return on the funds of between 4.00% - 5.00%. Therefore, there is no optimism bias in the income forecasts.

[1] the difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash

Additional interest on balances contributed to the underspend of £12.3m at the end of 2023/24 and is also expected to contribute to a forecast underspend of £8.5m in 2024/25. The availability of this additional one – off funding is aiding financial resilience and enabling reserves to be replenished.

e) Capital Programme – the proposed ten–year Capital Programme has a shortfall of funding/over-programmed of £11.1m. Given the programme is £1.5bn over a ten-year period, this is not considered an imprudent position. Any new capital resources which arise in 2025/26 will be prioritised to bringing the programme back into balance. The proposed ten-year programme allows for a planned approach to the management of assets, services and needs.

The total programme of £1.5bn is funded by capital grants, developer contributions, capital receipts and prudential borrowing. Over 54% of the programme is funded by grants and contributions (£838m). 18% of the programme is funded by borrowing (£276m), the full costs of which are built into the revenue budget.

Councils are required under the CIPFA Prudential Code to ensure that borrowing is prudent and affordable and are required to publish indicators (known as prudential indicators) to demonstrate this. The main indicator to judge affordability of debt is “the ratio of financing costs to net revenue stream”. CIPFA do not offer any guidance on the level at which this ratio becomes imprudent, however using other similar authorities as a guide, a judgement can be made.

The budget proposals include additional borrowing of £65m to fund capital expenditure, predominantly for highways. The prudential borrowing limit for the Council has been set at 5.5% - in line with the average for all County Councils. The costs of borrowing, with the additional proposed investment remain within 5% the council’s net revenue stream throughout the MTFS period and is therefore prudent and affordable. The Capital Programme includes a programme contingency of 3% to meet any unavoidable or unforeseen costs.

The Capital and Investment Strategy (Section 5.1) outlines the council’s approach to capital investment and complies with the requirements of the CIPFA Prudential Code for Local Authorities. The capital programme governance arrangements are now embedded and have strengthened the processes for inclusion of schemes in the programme. The capital programme only includes schemes that have been agreed to address identified need. These schemes have an approved initial business case, articulating a clear case for change, a defined scope, an indicative budget/investment and an agreed indicative timeline including a ‘go live’ date. Pipeline capital schemes are subject to further development and an approved initial business case and have only estimated costs. These schemes may change in both scope and value before being agreed through the capital governance process and brought forward into the firm programme.

Financial Risks

19. Given the growing unavoidable pressures and the need to deliver savings, the budget will inevitably contain a degree of financial risk. The key risks are set out in the following paragraphs. However, to help manage the impact of financial risk, a corporate contingency is held. The proposed level of corporate contingency for 2025/26 is £7.3m. The contingency budget is held to cover:

- the risk that demographic pressures are higher than forecast;
- any unfunded new burdens or unfunded elements of government grant;
- any potential pay awards beyond budgeted assumptions plus other inflationary risk; and
- the risk that proposed savings are not achieved in full, based on the performance targets set out in the Financial Strategy.

a) Achievement of planned savings – the council has generally had a history of good delivery on its planned savings with an average achievement of 91% per year over the nine years up to 2021/22. However, delivery of planned savings reduced to 43% in 2022/23 and the savings not achieved were a contributory factor in the year end overspend of £13.4m. Action taken in 2023/24 meant that 84% of savings were achieved. The Budget and Business Planning report to Cabinet in January 2025 shows that 75% of new savings built into the 2024/25 budget are currently assessed as green or amber. There are further savings in the existing and proposed MTFS which are required to be delivered up to 2027/28 totalling £39.7m, of which £30.1m is planned for 2025/26. Some of the previously agreed savings relating to the Financial Strategy for Children's Services have been reviewed and reduced as part of the budget proposals on the basis of current and anticipated demand and costs.

The Council's transformation programme, Delivering the Future Together, includes projects which will enable the delivery of savings from organisation wide themes. A saving of £7.7m has been included for this programme in 2025/26. This includes savings of £5.0m from undertaking a review of contracts and third party spend, £1.0m savings from commercial opportunities, £0.7m savings from organisational redesign in addition to £1.3m savings remaining to be achieved from 2024/25. A further £10.0m is proposed to be added to the Transformation Reserve to help meet costs of implementing programmes designed to deliver savings in 2025/26.

The Financial Strategy (Section 4.5) sets out the performance target of 95% for achievement of planned savings. Given the history for delivery has generally been around 90%, and that non delivery of savings impacts on the forecast outturn position and therefore the financial sustainability of the council, the contingency budget includes provision to cover up to 5% non-delivery of planned savings.

b) Demand led pressures – There are some budgets where service user numbers for the provision of statutory services are notoriously difficult to control/predict therefore a degree of judgment has to be applied to estimate the level of risk to the budget.

The total number of children we care for (excluding unaccompanied children) rose significantly from September 2021 and was over 800 in 2022/23. Since then, the service has implemented a number of organisational, governance and business process controls and market management actions to address the underlying pressures. As a result of this the total number of children we care for has reduced to approximately 700 during 2024 and is being maintained at that level.

The number of Education and Health Care Plans (EHCPs) in Oxfordshire has risen from 2,027 in 2015/16 to 7,318 in January 2025, an increase of 261%. This has had a direct impact on the home to school transport budget which overspent by £1.7m in 2022/23, £3.1m in 2023/24 and is forecast to overspend by £1.0m in 2024/25. In order to bring about a stable budget, a programme is underway that will identify and implement a set of interventions to manage demand more effectively. Alongside this, actions in the High Needs Deficit Management Plan may indirectly impact on the home to school transport costs.

Through the delivery of the Oxfordshire Way, the number of people receiving adult social care services remains broadly in line with forecasted increases. The total number of adults supported in January 2025 was 6,802, an increase of 2.3% from April 2024. However, there is a continuing risk that if the combined effect of demand and the level of assessed need starts to rise at a faster rate than assumed this will put pressure on the adult social care budget.

c) High Needs – as mentioned above, over the last ten years there has been a 261% increase in the number of children who are supported through an EHCP. The cost of providing education is met from the Dedicated Schools Grant (DSG). In the same period the DSG allocation for 2014/15 for the High Needs block was £50.1m, whilst the latest allocation for 2024/25 is £109.2m, only an 118% increase. Due to exponential growth in the number of EHCPs, and their cost, in comparison to the funding allocated by Government, the forecast deficit continues to grow at a more material rate than local measures can currently mitigate the impact. The forecast deficit compared to DSG funding for High Needs is £28.4m in 2024/25. This has increased by £7.1m compared to the budgeted deficit of £21.3m agreed by Council in February 2024.

As set out in the Financial Strategy (Section 4.5), regulations require the negative balance on the High Needs DSG Reserve to be held in an unusable reserve. Continued increases in demand and inflationary pressures are proving to be considerably more significant than reductions in expenditure that can be achieved through efficiencies and demand management. There is therefore a significant risk that deficits will continue to increase and even after taking account of actions in the Deficit Management Plan the total deficit will be over £100m by 31 March 2026.

The Government will set out plans for reforming the SEND system during 2025/26. 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 about the continuation of the statutory override.

If the balance on the DSG Unusable Reserve transferred back to the Council's total Earmarked Reserves it would materially impact on the overall level of reserves and by 1 April 2026, the total earmarked reserves held by the Council would only be £40m - £50m putting the financial standing of the council at risk. In this scenario, the council would need to take action to address the position. Whilst there is an expectation that a solution from Government will be provided, should this not materialize, one option to ensure there was an adequate level of reserves would be to use the annual £4.0m contribution to the Demographic Risk reserve to fund the revenue costs of borrowing from the PWLB to fund the deficit. £4.0m per year for 25 years could finance £66m. This would increase the level of reserves at 1 April 2026 to £110m – £120m. This would require MHCLG and DFE approval and would not solve the issue of on-going annual deficits but would improve short term financial resilience.

d) <u>Devolution and Local Government Reorganisation</u> - On 16 December 2024, the Government published the Devolution White Paper. The paper sets out the Government's intention to significantly reform, at great pace, local government structures and implement devolution across England. The Government wishes to see successor councils emerge from the current two-tier system of district and county councils and that those successor councils and the existing unitary-structured councils of England must join a Strategic Authority. The county council has expressed its interest in joining the fast-track process for re-organisation, which requires a final business case/s to be submitted by May 2025 and could see a shadow authority being established in April 2026. Estimated costs from previous authorities in implementing local government reorganisation range between £20m to £25m. The Cabinet at its meeting in January 2025, approved the creation of a reserve with an initial contribution of £5m towards costs in 2025/26. It is clear that further funding will be required, but the timing of spend will depend on the date a new successor authority or authorities will be established.

From work undertaken back in 2016, it was identified that on-going savings would arise from the move to a successor unitary authority /authorities from the removal of duplication and rationalisation across a range of services. Factors considered related to senior and middle management, duplication of back-office functions, the cost of elections, streamlining costs associated with delivery of services and optimising the way services are currently assembled. Whilst it will be the decision of Government on the shape and size of a unitary authority or authorities, the previous work identified that the greatest level of savings would arise from a single unitary authority, with only marginal savings with two authorities.

e) Social Care Funding – the Better Care Fund (BCF) and Improved Better Care Fund (iBCF) have been significant sources of funding for use across the Health and Social Care system since 2015/16. In combination, estimated funding for 2025/26 amounts to £44.3m. The use of the BCF and iBCF funding has to be agreed with health partners through the Better Care Fund plan. There remains a risk that council expenditure within the Pooled Budgets that is funded through Better Care Fund contributions may be impacted by national or local changes to the funding and expectations around its use.

f) Funding Reform - ahead of further detail awaited from the Government, the impact of funding reform on the future funding available to the council is not known. If the council's share of the increase to the national totals for the Social Care Grant increase and Children's Prevention Grant are extrapolated, the funding reform and local government alignment could reduce existing funding, possibly by £20m - £45m over a two or three year period from 2026/27 onwards requiring savings to be made to balance the overall budget.

g) Inflation – inflation is forecast to fall back to the 2% target over the medium term. Whilst sufficient funding is built into the proposed budget for contract inflation increases based on current Office for Budget Responsibility (OBR) and market projections, if inflation does not fall as fast as predicted, this may place pressure on budgets. Similarly, pay increases for 2025/26 are also based on current assumptions linked to the National Living Wage increases. The contingency budget of £7.3m does provide some protection against this risk.

h) Workforce availability - Recruitment and retention of staff is a challenge in the majority of local authorities and predictions are that shortages in the public sector workforce will continue over the longer term. This is also the case in Oxfordshire with significant shortfalls in the social care sector, teaching and professional services. In the last few years, there has been a significant use of agency staff where posts cannot be recruited to. One of the priorities of Our People and Culture Strategy agreed by Cabinet in March 2024 is to ensure the Council attracts, recruits and retains talented people, defining an employer value proposition and developing an employer brand to raise our employer profile. This should reduce the need for agency staff in future. The overall trend in agency spend is a steady decrease in the last 2 years- the total annual agency spend for the 2023/24 financial year was £36.0m compared to £39.7m for 2022/23 and is expected to reduce further in 2024/25.

i) <u>Major Infrastructure Programmes</u> – There are a mix of factors continuing to impact on the deliverability and cost of capital schemes. Where those schemes are grant funded there is a risk that slippage could impact on the availability of grant funding as it is not possible to complete the scheme by the funding deadline. Inflationary pressures may also mean that costs increase further by the point the scheme reaches the construction phase, eroding the value of the grant funding so that is insufficient to meet the revised scheme costs.

These risks are being managed through the council's capital governance process at both project and programme level and through the Strategic Capital Board. Where necessary action is being taken to adjust scheme deliverables and to use value engineering to maintain spend within the available funding.

The deadline for claiming the remaining £30m Housing & Growth Deal grant funding is 31 March 2025 and any expenditure beyond that point will not be funded. Schemes in the programme are being closely monitored during 2024/25 and action will be taken to maximise the use of the grant funding while minimising the risk to the council.

j) <u>Capital Programme Forward Funding</u> – the council is undertaking a number of capital and revenue schemes that are forward funded where the initial costs of implementation are expected to be met by future charges being received. These include the Workplace Parking Levy, Traffic Filters and the expansion of the Zero Emission Zone in Oxford. In addition, the council is forward funding a number of schemes where the cost is expected to be met by S106 contributions or capital receipts.

As the schemes are progressing costs are being incurred ahead of the funding being received. Potential uncollected amounts and/or overestimated funding could expose the Council to a funding gap as well as an extended forwarded funding timeframe. The relative level of forward funding will continue to change over time so this will be monitored closely to ensure that the implications for both the cash flow behind and overall funding of the programme can be managed.

k) <u>Market Sustainability/Supplier Failure</u> - The impact of inflation, particularly around the National Living Wage and Employers National Insurance increase and workforce availability are also reflected in the supplier market. Whilst all suppliers have their financial stability reviewed before a contract is awarded to them, and any fundamental changes to this are flagged to the Council on publication of their latest accounts, there can be a significant period of time without any update on their financial situation meaning that should a supplier fail due to financial pressures, this can be at very short notice to the Council. Suppliers also review their market involvement at regular intervals to ensure that they are making as much profit as predicted; should this not be the case then they may make decisions to withdraw from that area of the supply market entirely, again with relatively little notice to the Council. This may be mitigated through contract management and supplier management activity, so that procurement and the service can be advised of the future supplier direction; however this is not infallible, and suppliers may choose to not share all relevant information.

Level of total reserves

20. The Earmarked Reserves and General Balances Policy Statement at Section 4.6 sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves. As well as holding a contingency budget, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching the decision on the level of balances I feel are appropriate to be held for 2025/26, I have considered the strategic, operational and financial risks facing the authority including the ability to deliver planned savings, as well as external risks such as the impact of flooding or contract risks. The recommended level of balances for 2025/26, based on the risk assessment, is £30.2m (unchanged from 2024/25 £30.2m).

21. Earmarked reserves are also held for specific planned purposes. In assessing the appropriate level of reserves, a review is undertaken annually to determine if they are both adequate and necessary. In addition, the Financial Resilience index has been used to provide an understanding and comparison of the level of reserves with other county councils (See Financial Strategy Section 4.5). The Earmarked Reserves and General Balances Policy Statement sets out the details of that review.

Assurance Statement of the Chief Finance Officer

22. The risks in the 2025/26 budget are predominantly in relation to demand and inflation. The proposed budget for 2025/26 and Medium Term Financial Strategy to 2027/28 includes proposals to address both inflationary rises and demand pressures. In addition, to help mitigate these risks, the proposed 2025/26 budget includes a contingency of £7.3m. There is also a further £3.0m held in the Budget Priorities Reserve for risks related to Adult Services.

23. There is also risk from the continuing increasing demand in the high needs budget which remains under significant pressure in the current financial year and is expected to remain so over the medium term.

24. Whilst the 2025/26 budget is balanced, there remains a gap between estimated spend and funding streams for 2026/27 onwards. There is also significant uncertainty around the impact of funding reforms from 2026/27 which presents a risk to the financial resilience of the council. Therefore, there needs to be a maintained focus producing a balanced budget over the medium term to ensure continued financial sustainability.

25. The system of financial control remains sound, and financial management and financial systems are monitored to ensure they remain effective and relevant. Where areas for improvement are identified actions are agreed with directorates and support provided to implement them.

26. I believe the level of the council's total reserves is appropriate and sufficient to provide both general balances to manage the impact of unexpected events in line with the risk assessment; and the setting aside of earmarked reserves to meet known or anticipated liabilities. However, this statement is drafted on the presumption that the Government will find a solution to dealing with (and accounting for) the accumulated High Needs 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 action would need to be taken to maintain the financial sustainability of the Council.

27. As Section 151 officer, I can formally report that in my view the budget estimates recommended by the Cabinet are robust and the level of reserves adequate, as required by the Local Government Act 2003.

Lorna Baxter FCPFA
Executive Director of Resources and Section 151 Officer
February 2025