Local Government Act 2003: Section 25
Report by the Deputy Chief Executive (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. This report represents my personal and professional judgement, made independently in my statutory capacity as Oxfordshire County Council's Chief Finance Officer.

4. 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.

5. This statement has been prepared with explicit reference to CIPFA's Practice Oversight Panel Advisory Note 6: The Section 25 Notice – Additional Support (10 December 2025), which provides current national expectations for such judgements in a period of elevated and systemic financial risks across local government.

6. This report concentrates primarily on the level of uncertainty within the budget year (i.e. 2026/27). 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,
    - impact of demand for services funded by High Needs Dedicated Schools Grant, and
    - impact of 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

7. 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.

8. The Code of Practice for Financial Management (the FM Code) sets out principles and standards for sound financial management, ensuring transparency and accountability in local government finances. It 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, which mandates that every local authority must make arrangements for the proper administration of its financial affairs. The Financial Strategy set out at Section 4.5 sets out a compliance assessment against the Code's standards.

9. Annually, the external auditors (EY) review the financial accounts and assess value for money effectiveness. The position of the accounts for both Oxfordshire County Council and Oxfordshire Pension Fund are up to date:

   - 2024/25 – The Statement of Accounts is expected to be signed on 3 February 2026 with a qualified audit opinion. This represents an improvement from the previously anticipated disclaimed opinion. The qualification relates to the continuing impact of the unaudited 2022/23 opening balances.

   - 2025/26 – It is currently anticipated that the accounts will again receive a qualified audit opinion, arising from the unresolved position in respect of the 2022/23 balances.

10. 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. There was an unqualified value for money conclusion for 2023/24 and 2024/25.

11. 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.

Budget Assumptions

12. The formation of the 2026/27 budget and indicative budgets for the following four years to 2030/31 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.

13. 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, and Directors as well as regular briefings with the Cabinet Member for Finance, Property and Transformation 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 15 below.

14. 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 three-year Provisional Local Government Financial Settlement for 2026/27 to 2028/29 which reflects the outcome of the Fair Funding Review 2.0, whilst challenging due to reductions in funding over the three years, does provide certainty and gives time to plan for the reductions which will be required to achieve a balanced budget over the medium term.

Council Tax – A Council Tax increase of 4.99% is proposed for 2026/27 and for the three-year settlement period to 2028/29; the maximum allowable (without a referendum) as set out in the Local Government Finance Policy Statement and the Local Government Provisional Finance Settlement for 2026/27. The rise comprises a general precept increase of 2.99% and a 2.00% increase in the Adult Social Care precept.

The existing MTFS assumed an increase in the taxbase for Band D equivalent properties in 2026/27 of 1.75% which is consistent with growth in previous years. The actual increase for 2026/27 is only 1.33%. However, this is predominantly due to a delay in the valuation of around 2,000 properties in two district councils. If these had been included, the taxbase increase would be approximately 2.0%. The proposed MTFS continues to assume annual increases of 1.75% to 2030/31, which is a reasonable projection based on prior years' growth.

There continue to be strong surpluses on Council Tax collection funds. The actual position notified by the districts for 2026/27 is £8.2m. 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 2027/28 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 utilised to mitigate any volatility.

<u>Business rates</u> – As a core part of the funding system in the Fair Funding review 2.0, the government will implement a full reset of the Business Rates Retention System in 2026/27. The local share (the amount of business rates that is retained by local government) will continue to be subject to redistribution across local government via 'top-ups' and 'tariffs'. Given the uncertainty about future growth in business rates beyond this reset, Oxfordshire councils agreed to revoke the North Oxfordshire business rates pool for 2026/27. This had been in place since 2014/15.

b) <u>Inflation</u> – The Autumn Budget assumes Consumer Price Index (CPI) inflation of 3.5% in 2025 with inflation remaining above 2% but gradually falling until 2028. Reflecting this, funding for contractual and income inflation in 2026/27 has generally been assumed at 3%. Where there are specific contractual arrangements that are higher than this, funding has been built into pressures to reflect that.

The increase of 4.1% in the National Living Wage in April 2026 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 2026/27 (costing an additional £2.3m per 1%). 3.0% annual pay cost increase is included in budgets from 2027/28 onwards.

In total, the budget includes £16.4m for inflationary pressures in 2026/27 (of which £8.7m is for pay inflation assumed at 3.2% plus contingency).

c) <u>Demographic/Demand Growth</u> – Oxfordshire faces significant demographic growth with an expected increase in its population of 9% from 2023 to 2032. Within that, there will be an estimated 21% increase in the number of people aged over 65. The increased population will put pressure on the demands for services and 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.

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 2026/27.

Prudent assumptions have been made regarding the bank rate and target in-house rates of return. The proposed MTFS assumes a return of 4.00% in 2026/27 (3.25% in 2025/26) reducing to 3.50% from April 2027 and for the remainder of the MTFS period.

As at 31 December 2025, the Council had £90m (original purchase value of £88m) invested in external funds, representing 19% 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 2026/27 compared with a target return on the funds of between 4.00% - 5.00%. Therefore, there is no optimism bias in the income forecasts.

Additional interest on balances contributed to an underspend of £12.8m in 2024/25. £2.0m of an additional £7.5m forecast interest on balances is being used to help manage forecast service overspends in 2025/26 and the remaining £5.5m is expected to be held in a Budget Reserve to help support the budget for 2027/28. The availability of this additional one-off funding has aided financial resilience and enabled reserves to be replenished. However, the cash impact of the High Needs DSG deficit means that future interest is likely to reduce, so this may not continue.

e) Capital Programme – the proposed ten–year Capital Programme has a shortfall of funding/over-programmed of £10.4m. 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 2026/27 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 53% of the programme is funded by grants and contributions (£838m). 14% of the

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

programme is funded by borrowing (£211m), 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 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.

The council has recently established a Strategic Place Shaping Board (Capital Projects) to oversee the links across the whole Council and the whole place. The intention is that this will optimise the council’s capital programme, improve impact, lever external funding and reduce volatility on costs and enable improved visibility and tracking of the pipeline of future schemes to enable improved delivery over time.

Financial Risks

15. 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 2026/27 is £6.3m. The contingency budget is held to cover:

- the risk that demographic pressures are higher than forecast;
- any potential pay awards beyond budgeted assumptions plus other inflationary risk; and
- the risk that proposed savings, including existing savings relating to organisational redesign and other cross cutting savings, are not achieved in full, based on the performance targets set out in the Financial Strategy.

a) Achievement of planned savings – prior to 2022/23, the Council 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, since then, delivery of planned savings has reduced.

	Outturn (-ve underspend/ +ve overspend)	Savings Target	%
2022/23	£13.4m	£17.8m	43%
2023/24	-£12.3m	£28.2m	84%
2024/25	-£12.8m	£26.0m	77%
2025/26	-£2.0m	£28.7m	75%

The Council's Delivering the Future Together programme includes projects which will enable the delivery of savings from organisation wide themes. Savings of £7.7m are included in the MTFS for 2025/26, of which £4.5m (58%) are forecast to be undelivered in 2025/26, although they are expected to be delivered in the main by the end of 2026/27. This includes savings of £5.0m from undertaking a review of contracts and third party spend and £1.0m savings from commercial opportunities. There are also £0.7m savings from organisational redesign in addition to £1.3m savings remaining to be achieved from 2024/25.

The Budget and Business Planning report to Cabinet in January 2026 shows that 75% of new savings built into the 2025/26 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 £29.4m, of which £24.4m is planned for 2026/27. The previously agreed savings relating to the Financial Strategy for Children's Services have been mitigated by a risk adjustment of £2.1m which is proposed to be added as part of the budget proposals.

The Financial Strategy (Section 4.5) sets out the performance target of 90% for achievement of planned savings. Given that non delivery of savings impacts on the forecast outturn position and therefore the financial sustainability of the Council, there needs to be a continued focus on delivery and strategies in place where savings are off track.

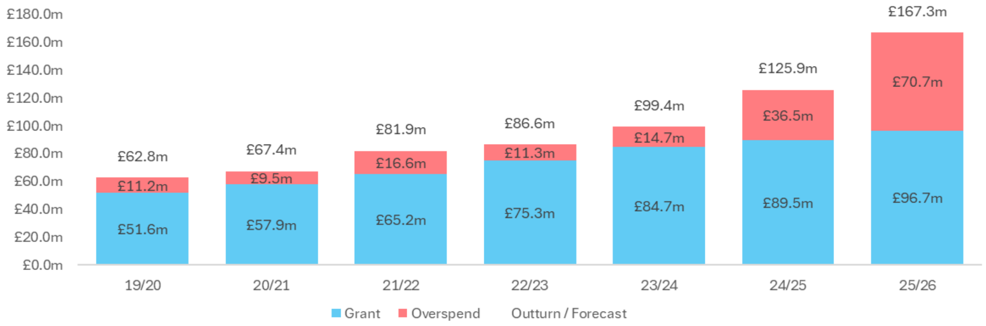
b) Demand led pressures – there are some budgets where service user numbers for the provision of statutory services are notoriously difficult to control/predict. Therefore, a degree of judgement has to be applied to estimate the level of risk to the budget.

The average total number of children we care for was 785 for 2024/25 and has been maintained at approximately a similar level during 2025/26 to date at 782 (666 Oxfordshire born children, 47 children with disabilities and 68 unaccompanied asylum-seeking children). However, within this, the proportion of Oxfordshire born children we care for has increased and within that higher cost placement types are becoming increasingly required. This is giving rise to pressures in 2025/26, with ongoing impacts into 2026/27, which are being addressed through the 2026/27 budget with an investment of £11.6m, plus a further £1.8m for future demographic growth.

As set out in detail below, the number of Education and Health Care Plans (EHCPs) in Oxfordshire has risen significantly in recent years. This has had a direct impact on the home to school transport budget which, prior to 2024/25 had been overspending significantly. To bring about a stable budget a transformation programme was established, implementing a set of interventions to manage demand more effectively. This is having a positive impact with a break-even position expected for 2025/26 which includes the delivery of a £0.5m saving.

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 2026 was 6,895, an increase of 1.4% from January 2025. 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. £5.4m is built into the budget for demographic changes in 2026/27.

c) High Needs – 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%. The increase from January 2024 to January 2025 was 13.2%. 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 projected spend for 2025/26 is £167.3m, compared to the allocation for 2025/26 which is £96.7m. The table below sets out the overspend against the grant since 2019/20 which clearly shows the acceleration of the overspend since 2024/25.



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.

In line with the CIPFA Code of Practice, and the statutory over-ride which is in place until 31 March 2028, deficits on High Needs on Dedicated Schools Grant (DSG) have been held in an unusable reserve since 2020/21. The forecast deficit of £70.7m in 2025/26 will increase the total accumulated negative balance for High Needs held in this reserve from £92.5m at 31 March 2025, to £163.2m at 31 March 2026. If expenditure continues at the same rate the deficit would be expected to exceed £250m by 31 March 2027. The current estimate of earmarked reserves (excluding school balances) by 31 March 2027 is £242m.

Currently the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 which formalise the accounting treatment of the High Needs deficit into an unusable reserve, explicitly state that 'Local authorities must not charge DSG deficits to a revenue account'.

As set out in Section 4.5, the Provisional Local Government Finance Settlement consultation document sets out that *"…once the Statutory Override ends at the end of 2027-28, funding will be managed within the overall central government DEL envelope.'* Regarding the cumulative deficits, the consultation states that "*whilst we do not expect local authorities to plan on the basis of having to meet deficits in full, any future support will not be unlimited"*.

These statements, for the first time, set a clear expectation that local authorities will be required to meet some of the historic deficit. Reflecting that the Council will need to manage at least some of the deficit, it is proposed to increase the contribution to the High Needs DSG Deficit Risk Reserve from £4m in 2025/26 to £8m per annum from 2026/27 onwards. This will mean that by 31 March 2028, there will be £41.0m in the reserve, an estimated 13% of the likely deficit by that date. Alternatively, this contribution could, if this was allowed, be used to support borrowing of up to around £120m or around two thirds of the forecast deficit as at 31 March 2026.

Even if the historic deficits to 2025/26 were met in full by government, at the current rate of spend, there would be a deficit of over £140m for the financial years 2026/27 and 2027/28 before funding will be managed by central government. If a significant proportion of the deficit both historic and up to 2027/28 is met by government, say 75%, this would result in the local authority needing to meet the remaining £75m, based on the projected £300m deficit by 2027/28.

Therefore, whilst further information on the future arrangements for the management of High Needs DSG deficits is expected in the Final Settlement in February 2026, this remains a significant risk for the Council.

d) Devolution and Local Government Reorganisation - following submission of LGR business cases in November 2025, a statutory consultation is expected to take place from early February 2026, giving residents, businesses and stakeholders the opportunity to share their views on the three proposals for Oxfordshire before any decisions are made. The government is expected to announce its decision in early summer 2026. Elections are likely to take place for a shadow authority (or authorities) in May 2027 – a temporary governing body established during the transition period to a new council. A new council(s) will potentially come into effect on 1 April 2028. Alongside this, an expression of interest for a Thames Valley Strategic Authority was submitted to Government in December 2025, with the ambition for its creation also on 1 April 2028.

Whilst 2027/28 will potentially be the final year this Council sets a budget, it is important that consideration is given to the long-term sustainability of a future organisation or organisations and that decisions are not made with short term interests only, or that disadvantage a new authority or authorities.

The preparatory work in relation to the creation of a new organisation or organisations is significant and will require considerable resource to deliver. At the same time, it is essential that a focus on business as usual is maintained to ensure the Council continues to deliver efficient and effective services to residents and remains financially sustainable.

The One Oxfordshire proposal set out estimated costs of transition to a new council of £21.9m. Of this, costs expected to be incurred ahead of vesting day on 1 April 2028 are estimated to be £8.8m. Whilst the expectation is that this will be met from the savings that will arise from the creation of a new unitary council, or councils, the reserve to support LGR and Devolution established in 2024/25 with a £10m contribution will be used in the interim to meet the costs incurred ahead of savings being realised.

e) Social Care/Health - the Government's proposed Fair Pay Agreement (FPA) presents a material and unquantified cost risk for adult social care services. Information provided by national bodies indicates that the initial funding provision is unlikely to be sufficient to meet the scale of workforce enhancements needed so this is a risk that may increase future costs.

Continued uncertainty and delays in the Better Care Fund (BCF) guidance and allocations contribute to volatility in budgeting and hinder effective planning. National reforms are expected to introduce significant changes to allocations from 2027/28, with some areas likely receiving no uplift and potential redistribution away from local authorities. Lastly, Integrated Care Boards (ICBs) across the country are operating under significant financial pressure, and this creates a growing risk for local authorities. Oxfordshire is no different. This increases the potential of unfunded pressures emerging within the system and adult social care which creates uncertainty for medium-term financial planning.

Level of total reserves

16. 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 2026/27, 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 2026/27, based on the risk assessment, is £32.7m (£30.2m for 2025/26).

17. 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

Conclusion

18. The risks in the 2026/27 budget are predominantly in relation to costs and demand in Adult Social Care and Children's Social Care. The proposed budget for 2026/27 and Medium Term Financial Strategy includes proposals to address both inflationary rises and current plus forecast demand pressures. In addition,

to help mitigate these risks, the contingency budget includes on-going funding equivalent to 1% of the budget for these services.

19. In addition, the achievement of planned savings in line with their delivery plans remains a risk and should delivery fall behind schedule, mitigations will be required to ensure that they do not give rise to financial stress in 2026/27.

20. Whilst the 2026/27 budget is balanced, there is a significant gap between estimated spend and known funding for 2027/28 and 2028/29 due to the impact of the Fair Funding Review 2.0. It is therefore imperative that action is taken early to achieve a balanced budget over the medium term, to ensure continued financial sustainability. As a result of the financial challenges in the medium-term, the budget-setting process for 2027/28 has been brought forward with discussions starting in early February 2026. These early discussions will be aligned and explicitly linked to clear priorities as articulated in the Strategic Plan, as well as reflecting the needs Local Government Reogranisation and Devolution and achieved through the Delivering the Future Together programme.

21. There is significant risk to financial sustainability over the medium term relating to the accumulated High Needs DSG deficit as well as the in-year overspend, which are growing at an accelerated rate. This is impacting on the overall level of reserves held and on foregone interest. A national solution to the accumulated deficit is awaited as part of the Final Local Government Finance Settlement, which is expected to be published on 9 February 2026. However, it is not known what this looks like or when it will be implemented.

22. The system of financial control is adequate, and financial management and financial systems are monitored to ensure they remain effective and relevant. Where areas for improvement are identified, actions will need to be agreed with Directors and support provided to implement them.

Section 25 Judgement

Robustness of estimates

- The estimates for 2026/27 are robust subject to strengthened in-year management and disciplined controls, particularly in regard to delivery of savings.

Adequacy of reserves

- The level of 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. Whilst reserves are adequate for 2026/27, there is limited headroom in future years given the heightened volatility from reduced contingencies, demand-led pressures and ability to deliver savings.

Important Note: High Needs DSG Deficit

- My assurance depends on the government providing a national solution that covers a substantial portion of both past and future High Needs DSG deficits. If this does not happen, the Council's financial sustainability will be compromised.

Lorna Baxter FCPFA
Deputy Chief Executive (Section 151 Officer)
February 2026