

**To:** Council  
**Date:** 13 February 2025  
**Report of:** Head of Financial Services (Section 151 Officer)  
**Title of Report:** Chief Finance Officer's report on the robustness of the Council's 2025/26 budget

## Summary and Recommendations

### Purpose of report:

Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Financial Officer to report to Council on:

- a) the robustness of the estimates made for the purposes of the calculations of the budget; and
- b) the adequacy of the proposed financial reserves.

Council in considering its Budget should have regard to this advice.

**Recommendation:** That Council notes this report in setting its budget for 2025/26 and the indicative budgets for 2026/27 – 2028/29.

## Appendix 1: Statement of Reserves and Balances

### Introduction

- 1 The Governments White Paper on devolution has cast some doubt as to the landscape going forward for all local authorities and the MTFP has been prepared on a going concern basis, based on what we know at the moment.
- 2 The financial backdrop of local authorities continues to be difficult. A number of local authorities continue to issue Section 114 notices, effectively declaring bankruptcy and others continue to threaten similar action. The Provisional Finance Settlement for 2025-26 has not been good for district council's with most if not all receiving no increase in core spending power which only exacerbates existing financial pressures. Oxford city Council continue to experience financial pressures around

temporary accommodation and although the increase in Homelessness Preventative Grant of £600k was welcome this has only been confirmed for one year grant and only partially mitigates the £1.8 million of ongoing financial cost which we are currently suffering.

- 3 Despite this difficult financial position the Council's Budget and Medium Term Financial Strategy is balanced over the next 4 year period by a combination of efficiencies, additional fees and charges and returns from our wholly owned companies with the balance of £7.5 million over the 4 year period being funded from council reserves. Reluctantly there are some minimal budget cuts in Community Services, the council tax reduction scheme and service provided by ODS in order to stay within the budget envelope and should our income streams not continue, and Financial Reforms being introduced by the Government in 2026 not deliver then inevitably further service reductions cannot be ruled out.
- 4 This report to Council is a statutory requirement of the Councils Chief Financial Officer under Section 25 of the Local Government Act 2003, to report to Council on :
  - a) The robustness of estimates made for the calculation of the budget
  - b) The adequacy of reserves
- 5 Council are required to consider this report alongside the budget setting discussions.

### **Preparation of the Medium Term Financial Plan**

- 6 As in previous years the Council has undertaken a prudent and robust approach in developing its Medium-Term Financial Strategy ("MTFS") based on information that is available to date and prudent forecasts of the income and expenditure that will be arise whilst undertaking it's services.

### **Robustness of Estimates**

- 7 All aspects of the Council's budget, efficiency savings, additional income streams, and pressures have been subject to rigorous review, with Service Heads being required to review the plans they put forward in previous years and confirm delivery of the proposals over the life of the MTFS.

Scrutiny of the budget has been undertaken by

- The Finance Team
  - Directors and the Chief Executive
  - Executive Members
  - The Scrutiny Committee's Finance Panel
- 8 Monitoring of the budget through the year is undertaken by Financial Services in conjunction with Heads of Service and Cost Centre Managers to ensure that the budget is on target or variations are reported and acted upon at an early stage. Monthly monitoring reports are considered by Heads of Service at the Council's Operational Delivery Group and Corporate Management Team with quarterly updates presented to Cabinet.
  - 9 The Council has established a Project Management Office to oversee and undertake project management of projects within the Council's Capital Programme. Potential projects are subject to more rigour and resources are spent on

establishing the feasibility and outline business case before a bid is made through Cabinet and Council for budget approval of funds to carry out the project.

## General Fund Assumptions

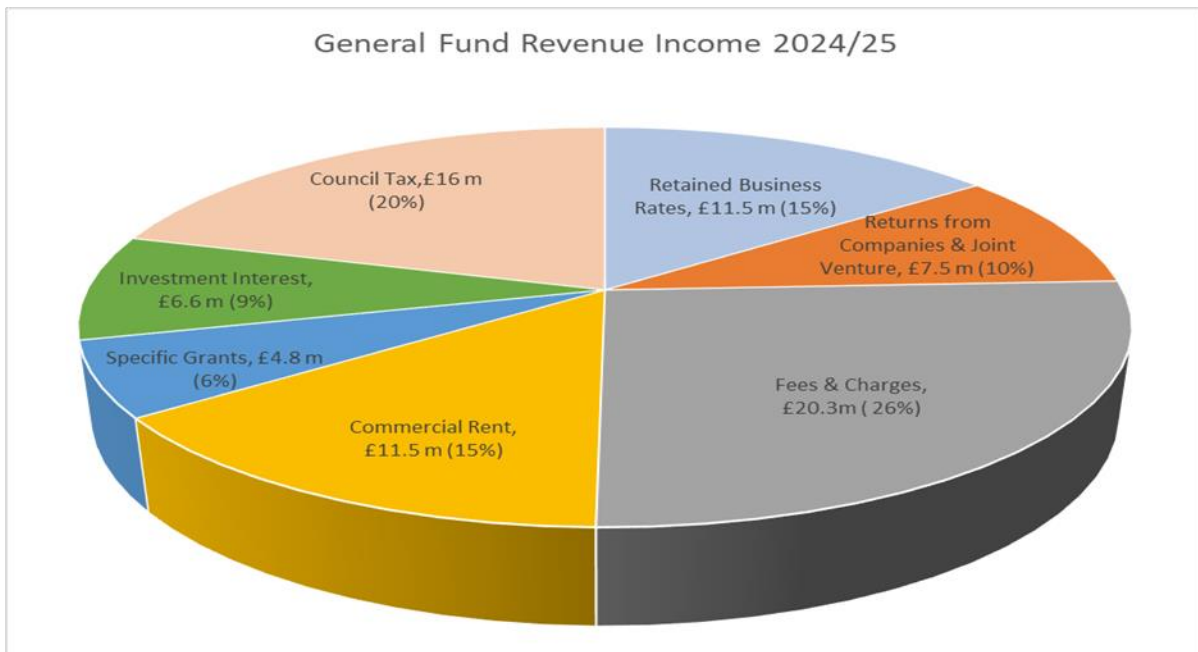
10 Assumptions on which the four-year MTFs are based are contained within the main budget report presented elsewhere on the agenda, however, the key assumptions include:

- **Council Tax increase**- The Council Tax increase is 2.99% for 2025-26, in line with the referendum limit set by the Government for both 2023-24 and 2024-25. It is assumed that this increased at the previous referendum limit of 1.99% thereafter.
- **Investment Interest** – On the 7<sup>th</sup> November 2024 the Bank of England cut base rates from 5.00% to 4.75%. This is the second time the Bank of England has cut the rate after it fell from 5.25% to 5% in August. Base rates are estimated to steadily decline over the period until plateauing at 3.5%. Investment earnings on cash balances and borrowing included within the MTFP has used these rates
- **OxWed Development** – Income yield from the councils partnership in Oxwed LLP continues at 6.5% on the amount invested which currently stands at £13.5 million. Planning approval is under consideration and alongside it the delivery strategy which will move the project closer to the delivery of financial returns to the Council and its partner Nuffield College.
- **Oxford Direct Services Ltd** - The updated ODS Business Plan includes ambitious targets to generate additional turnover for the companies trading arm and ultimately improved dividend return to the Council estimated at around £11million over the next 4 years.
- **Oxford City Housing Ltd** –Dividend returns from the Company are expected to be around £8 million over the MTFs in addition to marginal returns of interest on monies borrowed
- **Borrowing** - Due to the scale of investment over the period to 2025/26 to 2028/29, the level of prudential borrowing will increase to over £1.1 billion. Borrowing from internal resources will be maximised on the General Fund, however much of the borrowing will need to be from external resources with anticipated external borrowing increasing from £218 million to £975 million in 2028/29. Most of this debt relates to HRA capital expenditure with provision have been made to finance the debt in the Councils MTFP.
- **Retained Business Rates** – The MTFs includes estimates of the amount of Retained Business Rates income for the authority, based on the Government’s indication of tariffs and baseline income for 2025-26. The Government have indicated that Local Authority Finance Reform together with fairer funding and business rates reset will be implemented in 2026-27. There remains uncertainty after this date for which a provision has been built into the MTFs.
- **Pay Assumptions** – The two year pay deal agreed by the Council and unions in 2022 expires on 1<sup>st</sup> April 2026. For 2025-26 pay increases were

agreed at 3% following 6.5% agreed for 2024-25. Inflationary increases have been assumed for the later years of the MTFS.

- **Inflation** – Most budgets are cash limited. The most significant impact is on materials purchased by Oxford Direct Services in respect of repairs and maintenance and the council’s capital programme, for which some budgetary provision has been made

11 The Oxford Model’s reliance on income streams from its wholly owned companies and other sources of income such as commercial rents (as illustrated below) to cover General Fund expenditure is more of a risk than simply reducing spend. In such situations it is prudent and advisable to hold an adequate amount of reserves and balances to deal with any volatility in these areas.



## Capital

- 12 The Council has set an ambitious Capital Programme for the next five years in excess of £845 million.
- 13 The preparation of the Capital Programme has undergone similar scrutiny to the other areas of the Council’s budget with the Development Board having an oversight of all new bids. Contingencies are included within individual schemes for variations in spend with any other variations outside these amounts being subject to the normal virement and supplementary estimate approvals set out in the Council’s Financial Rules. For this year a 45% optimism bias has been built into the capital budget. This a recognised methodology which highlights the tendency for project managers to be overly optimistic on how much of the capital programme that can be delivered. This has the effect of reducing the programme down to £765 million over the MTFS.
- 14 Financing of schemes within the Programme is predominantly through borrowing which at £671 million over the 5 year programme represents 79% of the total

programme. Most General Fund additional borrowing is in relation to loans to the Council's Housing Development Company (OCH(D)L) with the HRA borrowing being in relation to the purchase of social housing units from OCH(D)L.

### **Housing Revenue Account (HRA) Assumptions**

15 The Scrutiny of the HRA budget and Business Plan has followed a similar process to that for the General Fund outlined above.

16 Key assumptions in the HRA budget include:

- **Rent increases** – The Governments consultation on rent increases from 1-4-2026 closed on 23-12-2024 but there has been no confirmation yet of the governments intended 5 year rent policy which would allow rents to increase by up to CPI +1% or the opinion of local authorities on these increases on a rolling 5 and 10 year programme.
- **New Dwellings** - The HRA will continue to purchase the affordable housing from OCHL's 10 year development programme 1,051 properties within a gross overall budget envelope for all years of £452m before grant and shared ownership sales.
- **Debt** - An increase in the level of HRA debt for the new build acquisitions by £200 million to cover all capital commitments over the next 4 year period. Debt is controlled by reference to the Interest Cover Ratio (ICR) i.e. how many times surpluses cover the debt interest charges. The ratio used by the Council is 1.25.
- **Interest rates** - As at 31-3-2025 the bulk of the loans outstanding with the HRA relate to the self-financing debt taken out in 2012. Interest rates on these loans are fixed at varying rates with an average of 3.5%.
- **Working Balance** - HRA working balance not to fall below £3.5 million
- **Disposals** - 20 dwellings per year is assumed from 2025-26 onwards.
- **Inflation** - All the assumptions for inflation are the same as for the Council's General Fund Budget.

17 The HRA is reliant on income raised from council house rents and service charges to cover its day to day activities and to finance borrowing which will escalate from its current level of around £270 million to £896 million over the next 4 year period. The level of borrowing has to be affordable and is controlled by reference to the Interest Cover Ratio, which is maintained at or above 1.25. At this level expenditure in the HRA both capital and revenue based on the estimates is affordable over the next 5 years although there is no room for any further spend over that period. Beyond this period should the council continue to be allowed to increase rents by CPI +1% there is more scope to spend on priorities such as decent homes, new housing and climate change mitigations.

### **Adequacy of Reserves and Balances**

18 The prudent level of reserves that the Council should maintain is a matter of judgement. Generally the higher the risk of the council's financial plans the higher the level of reserves and balances.

19 The level of the Councils overall reserves and balances is shown in Appendix 1 and summarised in Table 1 below:

Reserve Name	Current Balance @ 01/04/2024	Planned Movement 24/25	Expected balance 01/04/2025	Planned Movement 25/26	Forecast Balance 31/03/2026
<b>Earmarked Reserves</b>					
Sub total	-47,372,312	14,674,579	-32,697,733	4,473,000	-28,224,733
<b>Ringfenced reserves funded by 3rd parties</b>					
Sub total	-9,494,610	-1,366,159	-10,860,769	1,920,000	-8,940,769
<b>Other Ringfenced reserves</b>					
Sub total	-761,484	258,239	-503,245	120,688	-382,557
<b>Self Insurance Fund</b>	-1,164,556		-1,164,556		-1,164,556
<b>TOTAL GF Earmarked Reserves</b>	<b>-58,792,963</b>	<b>13,566,659</b>	<b>-45,226,303</b>	<b>6,513,688</b>	<b>-38,712,615</b>
			0		0
<b>TOTAL HRA Earmarked Reserves</b>	<b>-10,831,256</b>	<b>1,443,262</b>	<b>-9,387,994</b>	<b>0</b>	<b>-9,387,994</b>
<b>TOTAL ALL earmarked reserves</b>	<b>-69,624,219</b>	<b>15,009,921</b>	<b>-54,614,298</b>	<b>6,513,688</b>	<b>-48,100,610</b>
General Fund Working Balance	-3,622,000		-3,622,000		-3,622,000
HRA Working Balance	-4,000,000		-4,000,000		-4,000,000

20 Table 1 indicates that General Fund earmarked reserves £59 million at 31-3-2024 to an estimated level at 31-3-2025 of £45 million and then to an estimated £38 million by 31-3-2026. Other points worthy of note :

- **Earmarked reserves** – such reserves are generally held for specific purposes to cover risk and projects many of which are in implementation. Reserves in this category include the employee reserve £3 million and NNDR reserve £6 million, the indirect property fund reserve £2 million which protect the revenue account against swings in spend and income. The capital reserve £3 million will be used to finance the capital programme over the next 4 years. Within these reserves is also the ‘risk reserve’ £8.7 million which will be used to balance the MTFP. The use of any of these reserves other than for the purpose they have been established will have a financial consequence and will reduce the financial resilience of the Council.
- **Ringfenced reserves funded by third parties-** relating to grants, licenses, HMO, Salix and Commuted sums can only be used for the specific purposes.
- **Other ring fenced accounts** -reserves which have a statutory limitation on their use; such as the Taxi Licensing Reserve, grants reserved and the HMO Licensing Reserve
- **Self Insurance fund** -Accounts which it is considered prudent to set aside for uninsured risks
- **General Fund working balance** remains at around £3.6 million throughout the period of the MTFs, this represents the only unfettered reserve held by the Council.

### Housing Revenue Account

21 Table 1 indicates that HRA unringfenced earmarked reserves £11 million at 31-3-2024 to an estimated level at 31-3-2025 of £9 million and then remaining at this level. Other points worthy of note :

- **All HRA reserves** are held to finance the capital programme
- **The HRA working balance** is estimated at around £4 m representing around 8% of gross rental income, sufficient to meet any unexpected financial issues that may arise in the Housing Revenue Account. .

## Financial Resilience

22 The consequence of not keeping a prudent level of reserves can be significant. In the event of a serious problem, or a series of events can have a significant impact on the Council's finances such as a downturn in the financial position of ODS or reduced activity in OCHL as has been recently seen this can have or a reduction in the value of the Council's property investments it could lead to less return for the Council and potentially a deficit position. In the absence of reserves the Council would be forced to cut expenditure in a damaging or arbitrary way.

23 The Chartered Institute of Public and Finance and Accountancy (CIPFA) has stated that there should be no imposed limit on the level or nature of balances required to be held by an individual Council. However, for a district council, where changes to a few areas can have a disproportionate impact, a higher percentage of level of reserves to net expenditure is desirable. The level of balances to be held is largely a matter of judgement for the Council's Section 151 Officer based on local circumstances such as the level of activity in the council, the risk appetite of the council, the council's reliance on income streams and gross expenditure.

24 CIPFA undertake a survey of councils to understand their financial resilience. By analysing data from individual councils and providing comparisons on a number of key financial areas, CIPFA place a risk rating against each of these measures in terms high, medium and low risk. The last exercise undertaken was in December 2024 based on financial information for 2023-24 but may still provide a useful indication of how the council stands compared to these indicators.

25 The main observations in comparison to other non-metropolitan districts was as follows:

- The ratio of Council tax income as a proportion of net expenditure was 20% for Oxford against a range of 20%- 540% for other local authorities. The authority was deemed high risk.
- The 'Oxford Model' relies on significant income streams to fund its gross expenditure. Fees and charges as a ratio to service expenditure is 27% against a range of 1.18% to 53% for other local authorities. This ratio will increase over the life of the MTFs given the reliance on financial returns from OCHL and ODS and although deemed low by CIPFA is certainly one to closely monitor.
- The high percentage of business rates growth above baseline for Oxford City Council at 74% within a range of -35% to 436% is deemed high risk.

- At £3.6 million the General Fund Working Balance at around 13% of net revenue expenditure. Whilst this was far short of the upper end of the sample group at 1,562% and is considered high risk, it is still considered by the Council's Section 151 Officer to be a reasonable level for this authority especially when combined with earmarked reserves.

## Sensitivity Analysis

- 26 Risks remain around fluctuations in the council's incomes and expenditure. Whilst it is unlikely that there would be an adverse impact on all of these areas all at once should this happen then reserves would be required to cover the resultant shortfall. The following analysis indicates the financial impact of a 10% variation on significant items of income and expenditure for the General Fund and HRA

Table 2 : 10% Variation in income and expenditure					
				Gross	Risk
				£000's	£000's
<b>General Fund</b>					
Fees and charges				20,000	2,000
Commercial rent income				12,000	1,200
Business Rates				13,000	1,300
Returns from companies and partnerships				19,000	1,900
Other investment interest				16,000	1,600
Interest payable				12,400	1,240
Homelessness spend				2,000	200
	<b>TOTAL</b>			<b>94,400</b>	<b>9,440</b>
<b>HRA</b>					
Repairs				13,580	1,358
Interest payable				15,290	1,529
Rental income and service charges				60,897	6,089
	<b>TOTAL</b>			<b>89,767</b>	<b>8,977</b>

## Treasury Management

- 27 Reserves and Balances are an essential part of cash balances on which the Treasury function is based. Whilst waiting to be used they will attract interest of currently around 3% per annum depending how they are invested. Longer term investments such as property funds and lending to companies including the Council's wholly owned companies will attract interest in the region of 5%, while investments held for short term liquidity purposes will be at the lower end.
- 28 The budget for investment net interest from company lending, HRA and investments is £16 million per annum. Reserves and balances can also be 'internally borrowed' essentially deferring the need to borrow externally to meet capital commitments. Such borrowing is currently cheaper than accessing external borrowing sources such as the Public Works Loan Board (PWLb).

## Progress on the 2024/25 Budget



29 Budget monitoring for the 9 months ending 31 December 2024 indicates an a balanced position on the General Fund after the transfer of £1.3 million from the risk reserve.

### **Conclusion**

30 I have reviewed the budget preparation process for 2025-26 to 2028-29 and the level of reserves and balances. The Council still faces significant financial challenges in a number of areas including

- **Business Rates Retention** – The Government have announced that Local Government Finance Reform will be implemented from 1-4-2026. Whilst some provision has been made in the budget for this although in reality it is still no clearer how this will affect the authority
- **Pressures around income streams** especially commercial rents and car parking income. Prudent estimates have been made of the likely estimated position of these income streams.
- **The success of the council's wholly owned companies** will be key to its financial success with returns and dividend over the MTFs of around £19 million. The performance of these companies will need to be closely monitored.
- **Efficiencies and increased income changes** – the Councils plans to increase efficiencies and increased income by another £11.8 million by 2028-29 which will need close monitoring to ensure delivery.

31 In relation to the HRA, there is a significant increase in borrowing to facilitate affordable housing purchases from the Council's wholly owned company although analysis would suggest that these purchases are financially viable in terms of Internal Rate of Return, Payback and Net Present Value and the Interest Cover Ratio seeks to ensure that this borrowing remains affordable. Increased spend on decent homes, carbon retrofit and new requirements from the housing regulator will put additional pressures on the HRA which will require careful management.

32 The level of earmarked reserves will fall by 34% between 1-4-2024 and 1-4-2026 to amount of £28 million. The balance of the risk reserve of £8.7m will be used to balance the MTFP and a capital reserve balance of £3 million is earmarked for the capital programme leaving NNDR reserve of £6.5 million, an employee reserve of £3 million, an indirect property fund reserve of £2 million and other earmarked reserve held for funding other expenditure.

33 The Head of Financial Services (Section 151 Officer) has always reinforced the need for reasonable levels of reserves especially given the risks around the Oxford Model. Whilst the Oxford Model does ensure that services are maintained in the face of reductions in Government funding, it does so by using externally generated income either from services provided by the Council or from our wholly owned companies. The alternative is to reduce services and hence spend.

34 Despite the issues highlighted above the Council has undertaken a rigorous process in its budget setting for the Medium Term and more specifically I would conclude that:

- The process for the formulation of General Fund, HRA and Capital budgets, together with the level of challenge, provides a reasonable assurance of their robustness.
- The level of reserves at this stage is adequate and based on current understanding should be sufficient to cover fluctuations in income and expenditure over the medium term.

### **Financial Implications**

35 These are covered within the report

### **Legal Implications**

36 In addition to the obligation for the Chief Finance Officer to report under Section 25 of the Local Government Act 2003 set out in the purpose of this report, the provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon and requires the Council to set a balanced budget having regard to the advice of its chief finance officer (section 151).

### **Risk Implications**

37 An analysis of 'Key Risks' is shown in the main Budget report elsewhere on the agenda. They are key factors to take into account when determining the level of reserves that the authority should retain.

<b>Report author</b>	Nigel Kennedy
Job title	Head of Financial Services
Service area or department	Finance
Telephone	01865 252708
e-mail	nkennedy@oxford.gov.uk

STATEMENT OF RESERVES AND BALANCES			APPENDIX 1
Reserve Name	Current Balance @ 01/04/2024	Expected balance 01/04/2025	Forecast Balance 31/03/2026
<b>Earmarked Reserves</b>			
Housing Benefit Reserve	-504,000	-4,000	-4,000
Employee Costs Reserve	-2,943,001	-2,943,001	-2,943,001
ES Management Fee	-198,465	-218,465	-188,465
IT Infrastructure Reserve	-1,198,524	-198,524	-198,524
City Council Elections Reserve	-189,686	-72,686	-72,686
Capital Financing Reserve	-8,207,301	-5,707,301	-3,207,301
Assistant CHEX Carry Forward Reserve	0	0	0
Community Services - Carry Forward Reserve	-114,808	-61,808	-61,808
Corporate Services - Carry Forward Reserve	-150,877	-877	-877
City Regeneration - Carry Forward Reserve	-677,262	-477,262	-477,262
Ward Members Budget Reserve	-307,710	-367,710	-427,710
Homelessness Reserve	-199,519	-199,519	-199,519
OxFutures II	0	0	0
Community and Neighbourhood Reserve	-86,764	-76,764	-66,764
Community Safety Partnership Fund	-183,030	-198,030	-213,030
Emergency Flood Reserve	-266,155	-216,569	-166,569
NNDR Retention Reserve	-14,504,025	-9,504,025	-6,504,025
Indirect Property Fund Reserve	-2,960,490	-2,460,490	-1,960,490
Museum Development Reserve	-4,272	-4,272	-4,272
ES Salary Reserve	-444,047	-414,047	-314,047
Grenoble Road Reserve	-225,993	0	0
Vehicle Purchase Reserve	-2,300,000	0	0
Northway and Marston Flood Alleviation	-493,460	-476,460	-459,460
Apprentices Reserve	-357,592	-357,592	-357,592
Private Sector Safety Financial Penalties	-459,946	-509,946	-559,946
Local Plan Costs	-226,389	-269,389	-269,389
Risk Reserve	-9,409,777	-7,027,777	-8,746,777
EV Projects Income	-77,965	-77,965	-77,965
S106 Monitoring Income	-157,919	-157,919	-157,919
Net Zero Transition Fund	-523,337	-695,337	-585,337
Life Chances	0	0	0
ESO Electricity Budget Reserve	0	0	0
Proclamation Reserve	0	0	0
<b>Sub total</b>	<b>-47,372,312</b>	<b>-32,697,733</b>	<b>-28,224,733</b>
<b>Ringfenced reserves funded by 3rd parties</b>			
Taxis A/C Reserve	-83,120	-163,120	-213,120
Grants Reserve	-9,170,648	-10,426,806	-8,426,806
HMO Licensing Reserve	-118,266	-48,266	21,734
Selective Licensing Income Reserve	-122,576	-222,576	-322,576
<b>Sub total</b>	<b>-9,494,610</b>	<b>-10,860,769</b>	<b>-8,940,769</b>
<b>Other Ringfenced reserves</b>			
Commuted Sums (Parks)	-175,000	-175,000	-175,000
SALIX Energy Projects	-264,265	-84,265	-74,265
Lord Mayor Deposit Scheme Reserve	-51,604	-51,604	-51,604
S106 Commuted Sums	-82,239	0	0
BOB - MK Reserve	-5,753	-9,753	-9,753
TR71 Blue Bin League	-71,936	-71,936	-71,936
Growth Deal - JSSP	-110,688	-110,688	0
<b>Sub total</b>	<b>-761,484</b>	<b>-503,245</b>	<b>-382,557</b>
<b>Self Insurance Fund</b>	<b>-1,164,556</b>	<b>-1,164,556</b>	<b>-1,164,556</b>
<b>TOTAL GF Earmarked Reserves</b>	<b>-58,792,963</b>	<b>-45,226,303</b>	<b>-38,712,615</b>
		0	0
HRA - Carry Forward Reserve	-1,443,262	0	0
HRA Capital Projects Reserve	-8,868,069	-8,868,069	-8,868,069
HRA - CRM Work	-119,772	-119,772	-119,772
Feasibility Studies Reserve	-316,307	-316,307	-316,307
Self Insurance Fund	-83,846	-83,846	-83,846
<b>TOTAL HRA Earmarked Reserves</b>	<b>-10,831,256</b>	<b>-9,387,994</b>	<b>-9,387,994</b>
<b>TOTAL ALL earmarked reserves</b>	<b>-69,624,219</b>	<b>-54,614,298</b>	<b>-48,100,610</b>
<b>General Fund Working Balance</b>	<b>-3,622,000</b>	<b>-3,622,000</b>	<b>-3,622,000</b>
<b>HRA Working Balance</b>	<b>-4,000,000</b>	<b>-4,000,000</b>	<b>-4,000,000</b>

This page is intentionally left blank