

**To:** Council  
**Date:** 23 February 2026  
**Report of:** Group Finance Director (Section 151 Officer)  
**Title of Report:** Chief Finance Officer's report on the robustness of the Council's 2026/27 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 2026/27 and the indicative budgets for 2027/28 – 2029/30.

## Appendix 1: Statement of Reserves and Balances

### Introduction

- 1 The financial backdrop of local authorities continues to be difficult. There continues to be a number of authorities issuing Section 114 notices, effectively declaring bankruptcy and others threatening similar action continues to rise. There were around 30 local authorities requesting 'exceptional financial support' through capitalisation, from government in 2025-26 for around £1.5 bn, covering multiple years, most of which has been agreed in principle by the Government.
- 2 The backdrop of Local Government Reorganisation brings added uncertainty with the current timetable for those authorities affected would see new unitary councils operational with effect from 1<sup>st</sup> April 2028. For planning purposes the Council's

budget continues to be based on a four year period to demonstrate a going concern although in reality in the absence of a slippage in the timetable the council in its current form will no longer exist from 1-4-2028.

- 3 Whilst the three year Provisional Finance Settlement for 2026-27 to 2028-29 has been welcomed by local authorities, replacing the one year settlements that we have seen in the past decade, the publication has for most been too late for preliminary budget setting and the government objective of transparency over how the financing is calculated has arguably not been achieved.
- 4 The Settlement itself whilst was heralded as an £11 bn increase in core spending power over the three year period, in reality largely comes from increases in assumed council tax with very little new funding given to local government.
- 5 In Oxfor's case core spending rises by zero per cent in 2026-27 and by 7% (£3million) over the 3 year period compared to 2025-26, a real terms decrease. Some authorities saw a reduction in core spending power in 2026-27.
- 6 Despite this backdrop 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 £7.4 million over the 4 year period being funded from council reserves.
- 7 This report to Council is a statutory requirement of the Council's 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 arise from undertaking its 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 Directors 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 Service Directors 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 Corporate Leadership Team with quarterly updates presented to Cabinet.

### 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:

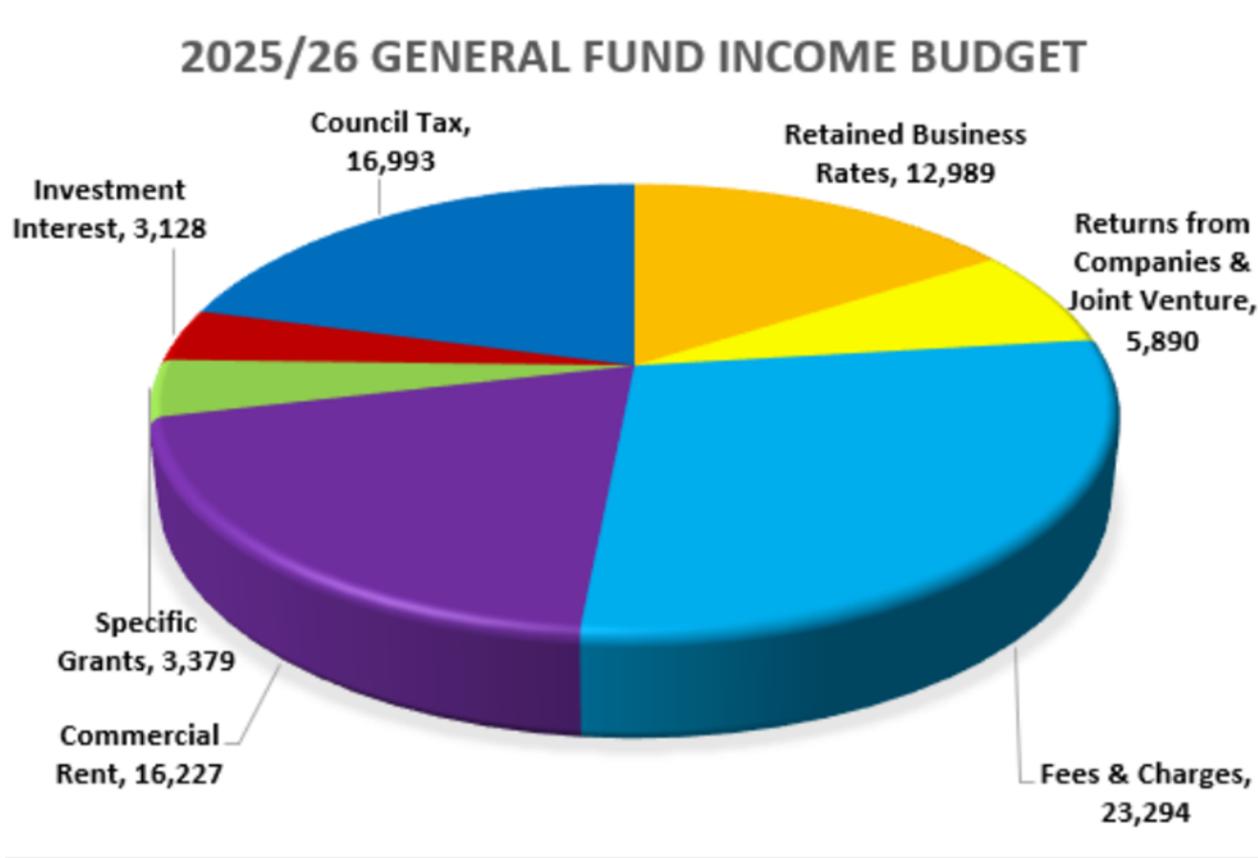
- **Council Tax increase-** The Council Tax increase is 2.99% for 2026-27, in line with the referendum limit set by the Government. It is assumed that this increased at this rate thereafter.
- **Investment Interest** – Based on the Bank of England Interest rates the following interest assumptions have been made:
  - Investment interest rates – 3.6% – 3.25%
  - Borrowing rates – 4.5% – 4.45%

Internal borrowing is used in favour of external borrowing and there is currently no General Fund external borrowing although the Capital Financing Requirement at the 1-4-2026 is £98.5 million including leases of around £26 million rising to £125 million in 2029/30.

- **OxWed Development** – The Council has outstanding loans and accrued interest of approximately £21 million in a 50/50 Limited Liability Partnership (LLP) with Nuffield College. Loan rates are 4% above base. Since the LLP has yet to make a surplus, this interest is accrued rather than paid. As at 31<sup>st</sup> March 2025 the total of accrued interest will be approximately £5 million. The LLP has secured planning permission to develop the site and is now looking to secure a development partner, or partners. At this point the Council's investment and accrued interest will be paid together with a proportion of the profits from the sale. The value and timing of profits at this point are uncertain although suitable budget assumptions have been made within the MTFs.
- **Oxford Direct Services Ltd** - The updated ODS Business Plan includes ambitious targets to generate additional turnover for the companies trading arm and ultimately improve dividend return to the Council estimated at around £2.4 million per year over the next 4 years.
- **Oxford City Housing Ltd** –Dividend returns from the Company are expected to be around £3 million next year and then zero thereafter. The Company are looking at their future strategic direction and also the tenure mix of their housing schemes in the pipeline to improve profitability and increase dividend although this is not currently prudent to include.
- **Retained Business Rates** – Following the reset in the latest Finance Settlement business rates income has been reduced to baseline over the MTFs. In 3 years time there will be another reset although by then under Local Government Reform the Council will no longer exist in its current form.
- **Revenue Support Grant** – Under the new Finance Settlement revenue support grant increases from around £200k to around £8 million, most of which is a reallocation of business rates income distributed under the fairer

funding formula and government grants including an allocation for temporary accommodation.

- **Pay Assumptions** – The two year pay deal agreed by the Council and unions in 2022 expires on 1<sup>st</sup> April 2026. Going forward the unions and staff have agreed a 2 year pay settlement of the higher of 3.5% or £1500 for 2026-27 followed by 3% for 2027-28.
  - **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 four years of around £738 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 40% 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 £621 million over the MTFs.

- 14 Financing of schemes within the Programme is predominantly through borrowing which at £562 million over the 4 year programme represents 97% 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 largely 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 Government confirmed the rent increase for social landlords at CPI+1% (4.8% for 2026-27) for the next 10 year period. In addition landlords are permitted to increase rent by a further £1 per week in 2027-28 and then up to £2 per week from 2028-29 onwards until rental convergence is achieved for those properties to which this applies.
- **New Dwellings** - The HRA will continue to purchase the affordable housing from OCHL's 10 year development programme . The current HRA Capital programme includes £165 million being spent on the purchase of 448 new build affordable homes from OCHL. The overall commitment to OCHL is for the purchase of 806 dwellings will be completed over the MTFP (running to March 2030), of which 424 will have been completed by 31st March 2026. In addition to the OCHL new build developments, the HRA is directly commissioning 847 affordable homes with an overall budget of £286 million. 107 of these homes are forecast be completed by 31st March 2026
- **Debt** - An increase in the level of HRA debt to around £450 million by the end of 2026-27 and peak debt of £800million by 2036-37. An annual interest cover ratio of approximately 1.25 throughout the life of the HRA Business Plan
- **Interest rates** - As at 31-3-2025 the loans outstanding with the HRA related to a mix of self-financing debt taken out in 2012, and more recently loans for the development and acquisition of new homes. Interest rates on these loans are fixed at varying rates with an average of 3.9%.
- **Working Balance** - HRA working balance not to fall below £3.5 million
- **Disposals** - 20 dwellings per year is assumed from 2026-27 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 £651 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 around 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 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:

TABLE 1 : STATEMENT OF RESERVES AND BALANCES			
Reserve Name	Balance @ 01/04/2025	Expected balance 01/04/2026	Forecast Balance 31/03/2027
<b>Earmarked Reserves</b>			
Sub total	(46,236,994)	(42,075,303)	(35,331,143)
<b>Ringfenced reserves funded by 3rd parties</b>			
Sub total	(9,147,247)	(8,579,746)	(8,579,746)
<b>Other Ringfenced reserves</b>			
Sub total	(497,583)	(502,463)	(470,775)
<b>Self Insurance Fund - GF</b>	(352,000)	(352,000)	(352,000)
<b>TOTAL GF Earmarked Reserves</b>	<b>(56,233,824)</b>	<b>(51,509,512)</b>	<b>(44,733,664)</b>
<b>TOTAL HRA Earmarked Reserves</b>	<b>(7,498,076)</b>	<b>(3,937,076)</b>	<b>(3,937,076)</b>
<b>TOTAL ALL earmarked reserves</b>	<b>(63,731,900)</b>	<b>(55,446,588)</b>	<b>(48,670,740)</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>(5,832,000)</b>	<b>(7,249,000)</b>

20 Table 1 indicates that General Fund earmarked reserves total £56 million at 31-3-2025 falling to an estimated level at 31-3-2026 of £51 million and then to an estimated £45 million by 31-3-2027. 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 £16 million which partly protects the revenue account against adverse cash flow from business rates and the indirect property fund reserve £3 million which protects the revenue account against swings in spend and income. The capital reserve £8 million will be used to finance the capital programme over the next 4 years. Within these reserves is also the 'risk reserve' £7.4 million which will be

used to balance the MTFP, and a further £4 million of the risk reserve is forecast to be used over the life of the MTFP. Whilst some of these earmarked reserves can be re-purposed 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 (£6 million of which relates to homelessness and Ukrainian and Afghan support), 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 MTFP, this represents the only unfettered reserve held by the Council.

### Housing Revenue Account

21 Table 1 indicates that HRA earmarked reserves total £7 million at 31-3-2025 and reduce to an estimated 4 million by 31-3-2027. 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 6% of gross rental income but improves over the next 2 years 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, such as a downturn in the financial position of ODS or reduced activity in OCHL, as has been recently seen, 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 Councils 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 in 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

2025 based on financial information for 2024-25 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 54% for Oxford against a range of 56%- 546% for other local authorities. The authority was deemed high risk although what is more relevant is the income from fees and charges shown below.
- The 'Oxford Model' relies on significant income streams to fund its gross expenditure. Fees and charges as a ratio to service expenditure is 53% against a range of 3.44% to 64% 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 risk by CIPFA is certainly one to closely monitor.
- The high percentage of business rates growth above baseline for Oxford City Council at 85% within a range of -49% to 294% is deemed high risk. The recent Finance Settlement has removed all growth above baseline with the Council losing £2million to £3million of business rates income as a result. Equally the Council has benefited from increased Revenue Support Grant.
- Earmarked reserves and balances 31-3-2025 as a percentage of net revenue spend stood at 180%. Whilst this was far short of the upper end of the sample group at 5,792% 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 since some reserves are ringfenced.

### **Sensitivity Analysis**

26 Risks remain around fluctuations in the council's incomes and expenditure. Whilst it is unlikely that there would 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
				20%
			£000's	£000's
<b>General Fund</b>				
Fees and Charges			23,000	2,300
Commercial rent income			16,000	1,600
Investment interest			20,000	2,000
Returns from companies			5,400	540
Homelessness			9,000	900
Interest payable			14,000	1,400
Efficiencies			1,000	100
Base service spend			32,281	3,228
Council tax			17,900	1,790
	<b>TOTAL</b>		<b>138,581</b>	<b>13,858</b>
				0
<b>HRA</b>				
Rental Income /service charges			66,207	6,621
Gross spend			66,639	6,664
	<b>TOTAL</b>		<b>132,846</b>	<b>13,285</b>

## Local Government Reorganisation

- 27 Local Government Reorganisation will impact many local authorities across the country. Business cases for a number of unitary options have been submitted to Government which are now being assessed. Regardless of the unitary options chosen, the authority will need to demonstrate financial resilience to deal with the structural and process changes that will be needed to deliver services in the future. Our financial resilience is demonstrated by the strength of our balance sheet including all assets, reserves and balances and our ability to set robust estimates and a balanced 4 year MTFP. The healthy position of Oxford City in this respect puts the council in a good financial position to move forward.

## Treasury Management

- 28 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 4% 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.
- 29 The budget for investment net interest from company lending, HRA and investments is £6.5 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 2025/26 Budget

- 30 Budget monitoring for the 9 months ending 31 December 2025 indicates an adverse forecast outturn variance of £1.3 million after a budgeted transfer of £2.059 million to reserves. Should this position prevail then this will be covered from the risk reserve.

### Conclusion

- 31 I have reviewed the budget preparation process for 2026-27 to 2029-30 and the level of reserves and balances. The Council still faces significant financial challenges in a number of areas including:
- **Local Government Review** – The Council has included £2 million in its budget to commence work on preparations for LGR once the decision on the future direction of the Council is known in April 2026. There will be a lot of upfront costs to deliver the efficiencies and savings that we outlined in the Council bid to move to a Greater Oxford Council. It is anticipated that the level of reserves together with any budgetary bids will be sufficient to meet these changes before ongoing savings come on stream.
  - **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 £12.6 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 £1.2 million by 2029-30 which will need close monitoring to ensure delivery.
  - **Homelessness** – The Council continues to experience a significant increase in the number of families and individuals being placed in temporary accommodation. The Council estimate that without mitigation this could rise by another £7 million per annum. Mitigations include the purchase of 260 dwellings and this programme will need to stay on track if the mitigations are to be successful.
- 32 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.
- 33 The level of earmarked reserves will fall by 20% between 1-4-2025 and 1-4-2027 to amount of £45 million, of which £9 million are ringfenced. The risk reserve which is used to balance the MTFP will at this point be around £6 million although another £4 million will be used over the remaining period of the MTFP. Other

significant earmarked reserves include NNDR retention reserve £15million, capital financing reserve £3 million, the indirect property reserve £3 million and the employee cost reserve £3 million.

- 34 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.
- 35 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

- 36 These are covered within the report

### Legal Implications

- 37 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

- 38 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.

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