WEST OXFORDSHIRE DISTRICT COUNCIL	WEST OXFORDSHIRE DISTRICT COUNCIL
Name and date of Committee	**COUNCIL – 26 FEBRUARY 2025**
Subject	**REPORT OF THE CHIEF FINANCIAL OFFICER ON THE ROBUSTNESS OF THE BUDGET ESTIMATES, ADEQUACY OF THE COUNCIL'S RESERVES AND RISK 2025/26**
Wards affected	All
Accountable member	Cllr Alaric Smith Executive Member for Finance Email: alaric.smith@westoxon.gov.uk
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Summary/Purpose	Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council's reserves.
Recommendation(s)	That the Council: 1. Notes this report and has regard to it when making its decisions about budget and Council Tax for 2025/26.
Corporate priorities	• Putting Residents First • A Good Quality of Life for All • A Better Environment for People and Wildlife • Responding to the Climate and Ecological Emergency • Working Together for West Oxfordshire
Key Decision	NO
Exempt	NO
Consultees/ Consultation	NO

1. BACKGROUND

1.1 Section 25 of the Local Government Act 2003 places a statutory duty on the Chief Financial Officer to make a report to the Council, at the time that the budget is considered, and the council tax set on:

- the robustness of the budget estimates and
- the adequacy of the Council's reserves.

The Council must have regard to this report when making decisions about the budget and council tax for the forthcoming year.

1.2 As members will be aware local authorities are under significant financial pressure. The Local Government Association (LGA) indicated, ahead of the Autumn 2024 budget, that there was a growing risk of systemic failure with 18 councils being reliant on being given Exceptional Financial Support (EFS) to balance their books in 2024/25 and 42% of councils drawing on reserves in 2022/23 and 2023/24.

1.3 The pressure on local authorities is due to a reduction in core funding, single year settlements, uncertainty about the timing and impact of the proposed local government finance reforms and the general state of the economy. This all leads to a very challenging financial environment and the prospect of devolution and local government reorganisation have done nothing to alleviate the uncertainty faced by this and other Councils.

1.4 It should be noted that while the reserves position for the Council is currently relatively healthy, there remains a financial gap which unless resolved will exhaust the reserves over the life of this Medium-Term Financial Strategy (MTFS).

2. ROBUSTNESS OF BUDGET ESTIMATES

2.1 The budget setting process at West Oxfordshire District Council has been operating effectively for many years and is overseen by qualified and experienced staff.

2.2 Each year service areas are requested to review their revenue budgets, and produce estimates for the forthcoming financial year, in preparation for budget setting meetings with the Finance team. At these meetings, every line item is reviewed and sense checked. This is an important part of the process as it enables budget pressures to be challenged and validated to ensure that the MTFS only includes those items where there is a clear business case or those that meet a wider strategic aim. These proposed changes are also carefully reviewed by senior management and Executive Members.

2.3 Quarter 2 budget monitoring was forecasting an overspend this financial year of £85,686 compared to the approved budget which anticipated a contribution of £5,107 to General Fund Reserves. This may lead to the observation that the 2024/25 budget proved to be inaccurate. However, the reality of budgets is that they can only ever be based on what is known at the time and what can reasonably be foreseen or estimated. The important element is to understand the reasons for any variance and to ensure that these are considered as part of the budget setting process for the subsequent year(s).

2.4 The overspend forecast at Quarter 2 was mainly driven by income shortfalls in garden waste and development management, the delayed Elmfield office letting, the empty Carterton Industrial Estate units and increased expenditure on waste and recycling container replacement. These elements have all been considered as part of the 2025/26 budget setting process.

2.5 Investment Property income is a vital revenue stream to fund front line Council services. However, an Investment Property portfolio has a natural cycle of voids and rent-free periods as tenants move in and out of properties. The Executive agreed to the setting up of an Investment Property Reserve to smooth out this cycle of voids and rent-free periods. This was to augment the revenue outturn position and reduce reliance on general fund reserves in years where there is significant negative impact on the revenue budget.

2.6 The 2025/26 waste contract costs for Ubico are a saving of £69,407 from the 2024/25 contract sum, which was an increase of £826,000. This highlights the hard work done by both the Waste and Finance teams and Ubico to drive efficiencies into the contract.

2.7 In January 2025 the Council agreed the final extension to the Waste and Environmental Services contract with Ubico to March 2027 (circa £9m per annum). In the same month the Executive agreed to the creation of The Oxfordshire Waste and Environmental Services Transformation Programme to explore alternative service delivery models with neighbouring authorities. An initial report, looking at the possible impacts of this collaborative working, indicates that there are significant benefits (financial and non-financial) to this approach.

2.8 Fees and charges are reviewed annually on a cost recovery basis and to ensure that the income budget is achievable. As a result of this review. modest inflationary increases have been charged to Trade Waste, Land Charges and Pre-Application Advice. In addition, Green Waste licences are to increase by £2.50, to £52.50, generating expected additional income of £82,500. The average in 2024/25, for charges levied by other local authorities providing a green waste service, was £59.30.

2.9 The existing leisure contract with GLL returns a significant level of income to the Council. This contract comes to an end in 2027 and whilst the leisure offering by the Council is currently under review, the project is at too early a stage to be able to determine what the new contract may look like. However, based on the early years of the current contract it is likely that the Council will not receive any income in the first few years of a new contract, but rather will be paying a fee to the leisure operator. The impact of this has been built into the MTFS for this budget.

2.10 The lack of certainty around the timing and impact of local government reforms, and possibility of further single year funding settlements, make the development of the MTFS a challenging exercise. Intrinsically the MTFS is based on the most reasonable forecasts of income and expenditure that can be inferred at this time using every source of information available to us including financial modelling by external experts who assist local authorities with regards to government funding and financial planning.

2.11 The Transformation Group, established in 2023/24, continues to help steer the Council's response to the challenging financial environment, guide the preparation of a sustainable MTFS consistent with the Council Plan and oversee the delivery of the Council's work programme in terms of service transformation, investment and revenue generation.

2.12 Previous iterations of the revenue budget, MTFS and capital programme have been subject to review by the Executive and Council's Overview and Scrutiny Committee.

2.13 The financial management process is robust with quarterly Financial Performance reports being taken to the Executive and the Overview and Scrutiny Committee.

2.14 It is imperative that the Council can balance the budget over the medium term in a sustainable and manageable way through a combination of income generation, prudent use of reserves and a robust cost reduction and savings programme.

2.15 The key assumptions on which the budget for 2025/26 and the MTFS have been prepared are set out in the budget paper.

PUBLICA REVIEW

2.16 Following the Human Engine report in November 2023 and the Local Partnerships report in March 2024, the Council approved the Detailed Transition Plan (DTP), for returning services to the Council in Phase 1 of the transition, on 24th July 2024.

2.17 Phase 1 services transferred to the Councils on 1st November 2024. These were:

- Democratic Services and Elections
- Forward Planning
- Development Management (but not 'planning validation and planning support')
- Ecology
- Conservation, Heritage & Design
- Building Control
- Economic Development
- Tourism
- Communities and wellbeing
- Climate change
- Strategic Finance (to include all finance roles apart from transactional finance (AP / AR), procurement, insurance and Treasury Management)
- Communications

- Strategic Housing
- Corporate Planning, policy and partnerships
- Executive Assistants and Support.

Overall, the actual costs of Phase 1 were within the budget assumptions included in the 2024/25 budget cycle.

2.18 The scope of the services in Phase 2 has been reviewed, in light of the Devolution White Paper and the Local Government Review (LGR), and only the following services are now in scope for West Oxfordshire. They are

- Waste Management
- Project Management
- Property Services
- Leisure Contract Management

2.19 These services have been selected because they are needed to deliver specific Council priorities over the next few years.

2.20 The options for the services considered in Phase 2 ranged from delivering services on a sovereign basis, delivering on a shared basis, and retaining in Publica.

2.21 Detailed structure plans have been developed and the associated costs have been modelled.

2.22 The savings from the re-structuring of senior roles in Publica were front loaded into Phase 1, so whilst it is possible further savings may result from changes to senior roles in Phase 2, they are not expected to be significant. This is due to the necessity for retaining sufficient senior resource to manage the services remaining in Publica i.e. Revenues, Benefits, Housing, ICT, Environmental and Regulatory Services, Customer Services and transactional finance.

2.23 Based on this work, and the resulting cost modelling, £300,000 has been set aside from earmarked reserves to fund one off costs and £200,000 of enduring costs have been included in the base budget.

2.24 In terms of timescales for Phase 2, Detailed Transition Plans are targeted to go to Council meetings for a decision in March. The target transfer date is 1st July 2025

2.25 I am satisfied that the MTFS and Capital Programme have been based on sound and reasonable assumptions.

3. ADEQUACY OF RESERVES

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:

- i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing.
- ii) A contingency to cushion the impact of unexpected events or emergencies
- iii) A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.

3.2 The Council expects to hold general fund balances of just under £12.25m at the end of this financial year. This is a more favourable position than many Councils.

3.3 However, as the MTFS shows, this position may worsen significantly in the coming few years given the risks that the Council faces as highlighted in the Budget Paper and in this report. This situation will need to be addressed in the coming months and years as the Council needs to ensure that the appropriate mitigating actions are taken to ensure that we maintain an adequate "cushion" against "unexpected events and emergencies."

3.4 The one-off allocation of £2.3m of Extended Producer Responsibility funding, which was not included as part of Core Spending Power in the settlement, is a windfall that creates a significant surplus in the 2025/26 revenue budget. The proposed 2025/26 budget recommends that £1.7m of this funding is moved into Earmarked Reserves. This will fund the anticipated reduction in recycling credits due to the tax being levied on Oxfordshire County Council for the burning of waste. This reserve will also fund the Oxfordshire Waste and Environmental Services Transformation Programme, Phase 2 of the Publica transition and the additional resource required to assess the impact of the recently announced Devolution White Paper.

3.5 Common sense, and guidance from CIPFA, would suggest that it is good practice to look not only at the level of overall reserves held, but also at the rate of depletion. Growth in the baseline budget has an impact on the rate of depletion, as well as the overall reserves held.

3.6 It is imperative therefore that projects coming forward to the Council, for review and approval, be vigorously challenged to ensure that they have a strong business case, or need, before approval is given.

3.7 The Council continues to hold reserves for specific purposes, known as earmarked reserves, in accordance with decisions made by the Council in previous years and as recommended by CIPFA. These reserves are reviewed during the financial year to ensure that they remain appropriate and adequate.

3.8 I am satisfied that the level of reserves is adequate to support the 2025/26 budget although Members will need to be mindful of the reserves utilised in the coming years and take remedial actions, when possible, to ensure that reserves remain at an adequate level over the medium and longer term.

4. RISK

4.1 Discussion is included above, and in the Budget Report and Strategy papers, around the significant risks facing us as a Council.

4.2 One key risk is the uncertainty around local government funding from 2026/27 onwards which poses a significant risk to the financial sustainability of this Council, and many others, due to the reliance on general fund reserves to meet increasing budget gaps. Fair Funding Review and Business Rates Reset, originally due in 2020, have yet to be implemented.

4.3 The lack of time to consult on funding reforms or the New Home Bonus scheme has resulted in a final year payment of New Homes Bonus for 2025/26. The consultation on the reform of Local Government Funding, including the reform of the Business Rates system, closed on 12th February 2025. It is expected that this Council is likely to suffer a 40% reduction in business rates income because of this reform.

4.4 The wider economic environment, in terms of inflation and interest rates, is another key risk for the Council. The state of the economy will impact both income and expenditure during the coming financial year including the demand for certain services such as homelessness provision and income generation from Council Tax and Business Rates.

4.5 In July 2022/23 the Executive approved the setting up of a specific budget deficit earmarked reserve to reduce the budget gap over the life of the MTFS and it would be prudent to continue to build up this earmarked reserve until the long-term impact of funding changes can be accurately assessed. This will minimise the impact on service levels, pending greater clarity in term of how central Government funding will develop.

4.6 The return of staff and services to the Council, in Phase 2 of the Publica transition, is another risk in terms of the revenue budget over the life of the MTFS. However, lessons learnt from Phase 1, for which the overall costs are within the budget envelope in 2024/25, have been applied to the due diligence and cost modelling for Phase 2 to help mitigate this risk.

4.7 The possibility of the ending of the statutory override in 2025/26 for Financial Instruments (pooled funds), which requires fair value gains and losses to be taken to an unusable reserve unless the fund is sold, is another key risk. The ending of the override would require any gains and losses to be recognised in revenue thus having an impact on our revenue budget. Unrealised losses would reduce available resource to fund core services, while unrealised gains would not represent genuine resource increases that could be utilised. Our Pooled funds currently have a capital value below their purchase price because of rising interest rates and high inflation. This "loss" would have to be moved to the General Fund in 2025/26 if the statutory override is not extended.

4.8 An earmarked reserve, to smooth out the impact of any unrealised gains or losses, was set up at the end of 2023/24 as recommended by our treasury advisors. The realised capital loss reported in Quarter 2 budget monitoring, resulting from one of our Pooled Funds closing in September 2024, will be funded from this reserve.

4.9 As mentioned above, Investment Property income is a vital revenue stream to fund front line Council services. The volatility in this income stream is a key risk which has been mitigated by the setting up of an Investment Property Reserve as detailed above.

4.10 The existing leisure contract, which comes to an end in 2027, is another risk area for the Council as detailed above.

4.11 The announcement of the Devolution White Paper, in December 2024, and the possible impact on District Councils is an identifiable risk to the MTFS. At this early stage it is difficult to predict the outcome of this proposal. However, reserves have been set aside for additional resource that may be required to fully assess the impact of this announcement,

4.12 The 2025/26 Budget and the MTFS have been prepared with consideration of these risks. However, no risk can be completely mitigated, therefore an inherent level of risk remains.

5. CONCLUSION

5.1 I can advise Members that the 2025/26 budget estimates are both prudent and robust. The level of reserves is adequate to support the 2025/26 financial position.

5.2 This budget is a surplus of £91,280. However, the picture from 2026/27 onwards is less optimistic with an increasing reliance on the use of reserves to fund front line services and an urgent need to identifying new, sustainable income streams.

5.3 The Council will need to continue to set realistic budgets, balancing current need and future financial stability, to ensure that adequate reserves are maintained.

Madhu Richards
Director of Finance and Section 151 Officer
16th February 2025