



WEST OXFORDSHIRE  
DISTRICT COUNCIL

## WEST OXFORDSHIRE DISTRICT COUNCIL

Name and date of Committee	<b>COUNCIL – 25 FEBRUARY 2026</b>
Subject	<b>REPORT OF THE CHIEF FINANCIAL OFFICER ON THE ROBUSTNESS OF THE BUDGET ESTIMATES, ADEQUACY OF THE COUNCIL'S RESERVES AND RISK 2026/27</b>
Wards affected	All
Accountable member	Cllr Alaric Smith Executive Member for Finance Email: <a href="mailto:alaric.smith@westoxon.gov.uk">alaric.smith@westoxon.gov.uk</a>
Accountable officer	Madhu Richards, Director of Finance Email: <a href="mailto:madhu.richards@westoxon.gov.uk">madhu.richards@westoxon.gov.uk</a>
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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, the adequacy of the Council's reserves and risk.
Recommendation(s)	That the Council:  I. Notes this report and has regard to it when making its decisions about budget and Council Tax for 2026/27.
Corporate priorities	<ul style="list-style-type: none"><li>• Putting Residents First</li><li>• A Good Quality of Life for All</li><li>• A Better Environment for People and Wildlife</li><li>• Responding to the Climate and Ecological Emergency</li><li>• Working Together for West Oxfordshire</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	NO

## **I. 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** The 2026/27 budget has been prepared without incorporating any potential impacts from Local Government Reorganisation (LGR). At this stage, it is not possible to provide credible financial projections until the Government has reviewed the proposals, submitted in November 2025, and confirmed which proposal will be implemented. Consequently, the Medium-Term Financial Strategy (MTFS) assumes that the Council will continue to operate as usual and meet its financial obligations for the foreseeable future, irrespective of any future LGR decisions.
- 1.3** It should be noted that while the reserves position for the Council is currently relatively healthy, there are also continued uncertainties and cost pressures which could have a significant impact on the level of reserves over the life of the MTFS.
- 1.4** The use of reserves to manage short term fluctuations in the Council's financial position is necessary but cannot be sustained over the longer term – reserves can only be spent once.

## **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 overall cost of service underspend of £272,063 against the profiled budget for the period. Forecast to the year-end was an underspend of £458,823 compared to the approved budget for 2025/26 which anticipated a contribution of £91,280 to General Fund Reserves. This could lead to the observation that

the 2025/26 budget proved to be inaccurate. However, the reality of budgets is that they can only ever be based on the information available at the time that the budget is set 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 underspend forecast at Quarter 2 was due to additional income from Trade Waste and Development Management, both of which had been exceptional in the first half of the year. Development Management income was 75% up on the same period last year due to the receipt of major applications and Trade Waste was up 52.7%. These elements have been considered as part of the 2026/27 budget setting process.
- 2.5** In January 2025 the Executive agreed to the creation of The Oxfordshire Waste and Environmental Services Programme (WESP) to explore alternative service delivery models with neighbouring authorities. An initial report, looking at the possible impacts of this collaborative working, indicated that there were sizeable benefits (financial and non-financial) to this approach. The programme has made significant progress during 2025/26, and the estimated impact of WESP are included in the 2026/27 budget and MTFS.
- 2.6** The existing leisure contract, which comes to an end in 2027, returns a significant level of income to the Council. In October 2025, the Executive agreed to enter a five-year contract extension with Greenwich Leisure Limited (GLL) and delegated authority to the Director of Place, in consultation with others, to commence negotiations with GLL with regards to this extension. The estimated impact of these negotiations and the resulting contract extension is built into the MTFS for this budget.
- 2.7** Fees and charges are reviewed annually on a cost recovery basis and to ensure that the income budget is achievable. Fee increases in 2026/27 for services provided on a cost recovery basis have been increased in line with the estimated pay award of 3% and any proven increase in direct expenditure.
- 2.8** Discretionary fees have been reviewed on a case-by-case basis in consultation with budget holders, considering the commercial viability of the service and opportunities to maintain or grow market share.
- 2.9** The Executive approved the fees and charges schedule for 2026/27 in their meeting of 14 January 2026.
- 2.10** 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.

- 2.11 The financial management process is robust with quarterly Financial Performance reports being taken to the Executive and the Overview and Scrutiny Committee.
- 2.12 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.
- 2.13 The key assumptions on which the budget for 2026/27 and the MTFS have been prepared are set out in section 7 of the budget paper.
- 2.14 With the final three-year settlement, announced on 9 February 2026, the Council should be able to plan budgets and the MTFS with more confidence as much of the volatility has been taken out of the process. Having known figures enables the Council to better manage reserves and mitigate financial shocks.
- 2.15 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.
- 2.16 **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 £12.55m at the end of this financial year. This is a more favourable position than many local authorities.
- 3.3 However, as the MTFS shows, the general fund balance is reducing over the life of the MTFS and given the risks that the Council faces, as highlighted in the Budget Paper and in this report, the Council needs to ensure that appropriate mitigating actions are taken against “unexpected events and emergencies.” to ensure that an adequate “cushion” is maintained.

- 3.4** A significant unknown at present is the transformation costs of LGR. It would be prudent to assume that there will be a significant impact on General Fund reserves before 2028. If LGR were to be delayed for any reason, the Council may need to implement a savings programme in order to continue to produce a balanced budget past the life of the current MTFS.
- 3.5** Over the last few years, the Council has built-up Earmarked Reserves by moving additional retained Business Rates income (growth over baseline), the surplus remitted from the Business Rates Pool and any General Fund surplus into Earmarked Reserves to fund any gap in the revenue budget over the life of the MTFS. This policy helps to ensure the viability of our provision of front-line services until the end of the MTFS period in 2030/31. This is important, not just for the Council and our residents, but also for the new Unitary Authority that will take over from the Council.
- 3.6** 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.
- 3.7** 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.
- 3.8** The Council continues to hold reserves for specific purposes 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.
- 3.9** **I am satisfied that the level of reserves is adequate to support the 2026/27 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 below, and in the Budget Report and Strategy papers, around the significant risks facing us as a Council.
- 4.2** The wider economic environment, in terms of inflation and interest rates, is a 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.

- 4.3** Interest rates are slowly starting to come down which for the Council is a double-edged sword. On the one hand, it will make any external borrowing that the Council enters into more affordable, but falling interest rates adversely impact the returns we make from our cash balances.
- 4.4** Over recent years Treasury Management short term investing has produced income returns far higher than budget due to prevailing global economic conditions and the high rate of return from the Money Market Funds (MMF) and Debt Management Office (DMO). As interest rates fall back, so do these income returns.
- 4.5** Once the Government announces their decision for LGR in Oxfordshire, expected in summer 2026, there will undoubtedly be the need for a substantial resource commitment to a transition programme, and this could have a material impact on the MTFS in years 2 and 3.
- 4.6** During this time, we cannot fail to maintain our level of service provision to the residents of West Oxfordshire or to meet our financial obligations. An Earmarked Reserves has been set up to mitigate this risk and fund LGR costs in the first instance. The funding requirements will be updated as a more detailed financial analysis can be done once a decision is announced.
- 4.7** Investment Property income is a vital revenue stream to fund front line Council services. The income can be volatile and is therefore another key risk for the Council. This risk has been mitigated by the setting up of an Investment Property Reserve, the provision of additional resource following the transfer back, from Publica into the Council, of the Property and Assets team and the development of an Asset Management Strategy.
- 4.8** The existing leisure contract, as detailed above, is another risk area for the Council. Careful negotiations, to ensure that we achieve the best outcomes for the Council with regards to this contract, should help to mitigate this risk.
- 4.9** The Council has a moderate risk profile as reflected in the CIPFA Resilience Index framework for 2024/25. The index provides a comparative snapshot of the financial health of English local authorities by assessing the Councils' resilience across multiple indicators including debt levels, usable reserves and expenditure pressures.
- 4.10** The Councils' moderate risk profile is based on relatively low levels of debt, strong income collection, positive performance delivery metrics and proactive use of reserves for planned projects. As referred to above and in the budget report, risks include declining reserves, increasing debt from upcoming capital commitments and pressures in demand led services.
- 4.11** The Council's position in the CIPFA Resilience Index reflects a balanced financial profile, combining prudent financial management with the need to address emerging pressures and

maintain adequate reserves. We are well positioned to manage short-term pressures, but continued monitoring and strategic planning are required to maintain long-term stability.

**4.12 The 2026/27 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 2026/27 budget estimates are both prudent and robust. The level of reserves is adequate to support the 2026/27 financial position.

**5.2** This budget is a contribution to general fund reserves of £683,814 before growth and a balanced budget after growth. There are continued uncertainties and cost pressures, as detailed in the budget report, which will have an impact on future budgets and the MTFS.

**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

25 February 2026