Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments

1. General Fund Balances

1.1. In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Director of Finance) is required to report on the robustness of the estimates made for the purposes of the revenue budget calculations and the adequacy of the proposed reserves. This information enables a longer-term view of the overall financial resilience of the Council to be taken. It also reports on the Director of Finance's consideration of the affordability and prudence of capital investment proposals. The level of general balances to support the budget and an appropriate level of Earmarked Reserves maintained by the Council in accordance with the agreed Council Policy on Earmarked Reserves, are an integral part of its continued financial resilience supporting the stability of the Council.

1.2. The Council has prepared a detailed revenue budget within a five-year Medium Term Financial Strategy (MTFS), a five-year Capital Programme and continues the closure of accounts within an appropriate timeframe allowing early focus on the upcoming challenges and put together a financial transformation programme aimed at addressing the financial challenges that the Council faces over the short and medium term.

1.3. It was recognised in the 2024/25 Budget Report in February that the continued use of reserves and one-off measures has had the impact of deferring the changes that are required to balance the revenue budget by ongoing, sustainable means.

1.4. Since 2016/17, over £115m of reserves has been approved by Members as part of the annual budget setting process to underpin the Council's revenue budget. This is alongside other one-off measures. The 2024/25 revenue budget forecast outturn position highlights a current unfavourable projected variance of £14.2m; which will need to be financed from reserves. This is in addition to the general contribution from reserves of £10.8m towards the 2024/25 budget approved by Council in February 2024 together with contributions from other earmarked reserves for specific projects/initiatives of some £4.6m. The totality of these actions would mean applying around £29.5m of Earmarked Reserves to balance the budget in 2024/25. Whilst the level of Earmarked Reserves is sufficient to allow the Council to take this action, it is not a sustainable approach, and it significantly reduces the quantum of the Council's available reserves and thus its financial resilience.

1.5. In the light of known financial pressures facing the Council, £11.3m was set aside as part of the 2024/25 budget to support the Council's revenue budget in 2025/26 – this was held in Balancing Budget and Fiscal Mitigation reserves. Due to the pressures on reserves highlighted above, the total reserves available to support the General Revenue Budget has now fallen to £26m. However, the balance on these reserves is forecast to increase by the end of 2025/26 as outlined in 3.4 below. As detailed within Revenue Budget Report, for 2025/26, no use corporate reserves are now proposed for 2025/26.

1.6. The delivery of savings proposals improved in 2024/25 and whilst ambitious proposals are again put forward for 2025/26, the arrangements put in place in 2024/25 will continue into 2025/26. These include:

- The continuation of a Delivery Panel, chaired by the Leader to monitor the delivery of proposed savings and ensure they are a primary focus of directors.

- The implementation of detailed service reviews to identify additional cost reduction proposals that can be approved during 2025/26. This will commence as soon as the 2025/26 budget is approved.
- Continuation of the additional controls (first introduced in January 2024) in respect of authorising expenditure and new recruitment.

Transformation Programme

1.7. Since April 2024, the current Transformation Programme has delivered service improvements and budget reductions for directorates and put in place foundations for wider transformational change. However, in line with the new Corporate Plan 2024-27, the Programme was reviewed and refreshed with a renewed focus to ensure the Council is financially sustainable and remains viable for the future.

1.8. The Transformation Programme now incorporates the four pillars for change described in the Corporate Plan to ensure the Council is 'Ready for the Future' in meeting its challenges include:

- Efficiency and Value for Money
- Capacity Building
- Prevention
- Early Help

1.9. The Ready for the Future Programme will also review the delivery of existing budget reductions and going forward the Programme will closely align with the budget-setting process and the development of the Council's Medium-Term Financial Strategy. This alignment is crucial to achieving the necessary budget reductions and efficiency savings required to ensure the organisations financial stability.

2. General Fund Balances

2.1. A summary of the balances required to support the 2025/26 revenue budget is shown at **Annexe A**. It also presents the calculation of an indicative recommended level of balances to support the 2026/27 to 2029/30 budgets.

3. Risk Assessment

3.1. There are two approaches for deciding the optimum level of the general contingency reserve (General Fund Balance) required for the Council to support its annual budget process. This is either a percentage of expenditure, which at one stage was recommended by the External Auditor to be at a minimum 5% of net expenditure or an approach based on an assessment of risk.

3.2. The agreed Council approach adopted is to use a risk-based approach based upon a number of areas of risk. These areas of risk and a summary of the General Fund balance calculation can be found at **Annexe A**. This calculation has not changed significantly from the previous year and indicates that the General Fund Balance needs to increase from the current level of £18.9m to a value of £30m over the MTFS period. This represents approximately 9% of the Council's net revenue budget and is in line with the Grant Thornton recommendation[1] that the minimum level of general reserves should be between 5% and 10% - given the uncertainties faced by the Council the level of general reserves should be towards the top of this range. The calculation takes into account the following:

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[1] Lessons Learned from Public Interest Reports, 2022

- Inflation is underestimated in the original estimates;
- Interest rates are underestimated;
- Changes to grant funding regimes;
- Some budgets are only indicative at the time the budget is agreed;
- Volatility in some budget headings between years;
- Efficiency gains expected in the agreed budget are not achieved;
- Unforeseen insurance costs;
- Emergencies which cannot be foreseen which occur on an ad hoc basis;
- Changes to budgets where targets are not met;
- Financial and Partnership guarantees given by the Council including Health Devolution; and
- Unforeseen events.

3.3. The summary at **Annexe A** provides a financial value against these areas of risk. This shows that for 2025/26 the level of balances available to support the Council's revenue position should be no less than £30.2m. Similar levels are required throughout the MTFS period.

3.4. The General fund balance is currently £18.9m. This together with level of Earmarked Reserves available to support the Council's revenue budget means that the Council will start 2025/26 with reserves available to support the Revenue Budget totalling just over £26m as outlined in Section 11 of the Revenue Budget Report. This is lower than the £30m recommended. The proposed transfer to reserves in 2025/26, together with the projected return of reserves of £3m from the GM waste Disposal Authority, means that the projected balance of reserves available to support the general revenue expenditure will increase to just above £30m by the end of 2025/26. This is a welcome first step to commence the replenishment of reserves. However, a further programme of additional, sustainable savings will need to be implemented in 2026/27 in order for reserves to rise to the recommended level over the period of the MTFS.

4. Affordability and Prudence

4.1. The current prudential borrowing regime places a duty on the Chief Financial Officer to ensure that the financial impact of decisions to incur additional borrowing over and above that supported by direct Government resources are affordable both in the immediate and over the longer term.

4.2. In 2021, The Institute of Public Finance & Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes in response to concerns about high levels of borrowing to fund commercial investment in a small number of Local Authorities which required all Local Authorities to prepare a Capital Strategy report. The Council remains compliant with this requirement.

4.3. In accordance with previous practice, the Annual Review of the Capital Programme (known as the Summer Review) was completed and subsequently approved by the Capital Investment Programme Board and then approved by Cabinet as part of the Month 6 monitoring report at its meeting of 04 December 2024. This review incorporated discussions with Project Managers and Finance Officers to determine an updated profile of expenditure for all schemes. It also examined any further opportunities to reallocate resources or decommission schemes whilst also including an in-depth analysis of capital receipts.

4.4. The outcome of this review was that £13.5m was rephased in 2024/25 to future years with some further re-phasing of 2025/26 spend to later in the Capital Programme. The Capital Programme is kept under regular review, including during the preparation of the Capital Strategy and Capital Programme 2025/26 to 2029/30, with updates to the Programme being reported as part of the monthly monitoring reports. The reprofiling of planned capital spending detailed together with the revision to the Minimum Revenue Provision approved by Council on 20 January 2025 has resulted in a reduction in capital financing costs of some £5m.

4.5. The capital spending plans will be financed as far as appropriate utilising capital grant and capital receipts, Housing Revenue Account (HRA) resources for HRA projects, with the balance being funded through Prudential Borrowing. No significant new schemes have been added to the 5-year Capital Programme unless they can be financed without recourse to additional borrowing.

4.6. The borrowing from 2025/26 onwards is estimated at £81.3m, which relates to previously approved schemes and is significantly lower than previous years (the Capital Strategy approved by Budget Cabinet on 28 February 2024 forecast an increase in borrowing of some £112m). This is forecast to increase the annual debt servicing costs by £6m over the MTFS period, which will add further financial pressure to the Council.

4.7. The Council will keep the Capital Programme under constant review during 2025/26: In particular, any new projects that require any significant Prudential Borrowing must be supported by business cases that address the additional costs that will result to ensure that the impact on the General Fund and therefore the council taxpayers are minimised.

Financial Resilience

4.8. The Section 151 Officer has to consider the financial resilience of the Council and its ability to withstand and mitigate the impact of the unknown costs as a result of local and national changes across the MTFS period. There are a number of ways in which the Council demonstrates its financial resilience:

- MTFS review and update – continual update of the key assumptions and forecasts that underpin the Council's MTFS to ensure they remain robust and accurate;
- Budget Risk Assessment – annual assessment of the adequacy of the Council's General Fund Balance to mitigate the impact of risks;
- Reserves Policy – annual review and update of the Council's Reserves Policy to ensure the Council has a strategic approach to the creation and maintenance of Earmarked Reserves;
- Annual Review (Summer Review) of the Capital Programme – annual review to ensure estimates are affordable and prudent;
- Scrutiny and Audit Committees – regular Member scrutiny of the Council's Revenue and Capital financial position throughout the year alongside reports on Financial Resilience and the Reserves Policy; and
- Internal and External Audits – independent audits of the Council's financial management and governance throughout the year including reviews of Fundamental Financial Systems (FFS).

The Chartered Institute of Public Finance and Accountancy (CIPFA) - Financial Resilience Index

4.9. Since 2019/20, the Chartered Institute of Public Finance and Accountancy (CIPFA) have published their Financial Resilience Index, essentially as an early warning indicator to prompt discussion and action. The level of reserves and balances are a key element in the CIPFA Financial Resilience Index. The latest index was published in December 2023.

4.10. The index in respect of 2024 is yet to be published. A draft index has been issued to the Council and this - unsurprisingly given the reduction in reserves during 2023/24 - does assign a reduced level of financial resilience to the Council. The Council's comparative position relative to its nearest neighbours and other metropolitan authorities remains broadly unchanged, reflecting the fact that the financial pressures it is facing are not unique to Oldham but indicative of the problems that all similar authorities to Oldham are facing. However, it is also important to note:

- The index is a lagging indicator and does not take into account the use of reserves and overspend occurring in 2024/25.
- The list of comparator authorities are ones that are facing the same financial challenges as Oldham.

4.11. There have been several reports issued on the subject of the financial resilience of Local Authorities alongside the CIPFA Financial Resilience Index. Lack of financial resilience has been highlighted over the past few years by the issuing of a notice under Section 114 of the Local Government Act 1988 (a Section 114 Notice). In addition, 19 authorities have recently sought Exceptional Financial support from the Government, which enables them to capitalise certain elements of their revenue expenditure for a limited period of time.

4.12. It is important to note that the Council's External Auditor (Forvis Mazars LLP) is required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The opinion requires the demonstration of:

- Financial Sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

4.13. The Council has not yet received the final Annual Report on the financial year 2023/24 from the External Auditors. The report will contain a commentary on the audit of the financial statements as well as an opinion on the Council's Value for Money (VFM) arrangements (outlined above). Although it has not yet been received, in relation to each of the three areas examined, an interim update will be provided to the Audit Committee of 30 January 2024 and it is expected that the findings will be positive and that no risks or significant weaknesses in arrangements will be reported. As such, Members can have further confidence in the current financial position.

4.14. Financial resilience does depend in part on the Council maintaining an adequate level of reserves and these are detailed within **Sections 11 and 13** of the Revenue Budget Report. As part of the suite of Budget monitoring reports, the level of Earmarked Reserves held by the Council the policy on Earmarked Reserves was reported to and considered by Cabinet throughout the year and also reported to Governance, Strategy & Resources Scrutiny Board.

4.15. Members can be assured that Oldham Council remains financially resilient in the short term. Work has and is taking place to address the on-going financial pressures that the Council is facing with additional investment being made in Children's and Adults Social Care and also Housing. This strategy relies on the delivery of the transformation programme over the short to medium term and therefore it is vital that the Council delivers on current plans.

4.16. In conclusion, the Chief Finance Officer is able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates 2025/26. However, this is only the case provided that general balances remain at £18.9m for 2025/26 and strategies continue to be developed to increase them to a level approaching £30m over the MTFS period, as calculated and shown in **Annexe A** to this report. Furthermore, all budget options, or in year alternatives, must be monitored closely and delivered as planned.

Annexe A - General Balances Calculation

Area of Risk	2025/26 Value by Risk Factor £000	2026/27 Value by Risk Factor £000	2027/28 to 2029/30 Value by Risk Factor £000
Inflation	2,962	2,871	2,878
Interest rates	500	500	500
Changes to grant funding regimes	870	399	379
Estimated Budgets	6,250	6,650	6,750
Budget Volatility	1,503	1,871	1,946
Budget Reductions	5,465	2,840	1,423
Unforeseen insurance costs	100	200	250
Emergency Planning	8,250	8,250	8,250
Changes to budgets	1,000	1,000	1,000
Financial and Partnership guarantees	2,500	2,250	2,250
Unforeseen events	1,250	2,000	4,000
Total General Fund Balance Requirement (based on Risk Assessment)	**30,649**	**28,831**	**29,626**