

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

1. General Fund Balances

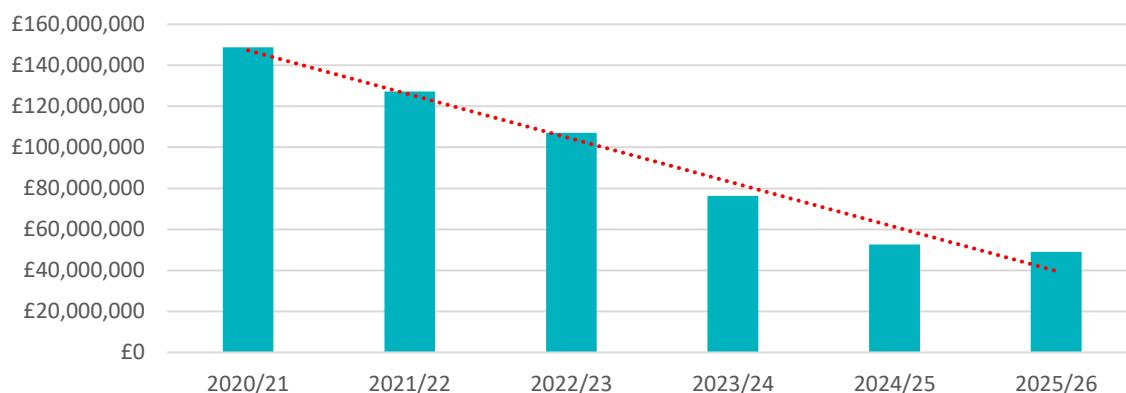
1.1. In order to comply with Section 25 of the Local Government Act 2003; the Authority's Chief Financial Officer (the Director of Finance) is required to report on the robustness of the estimates made for the purposes of the revenue budget calculations and the adequacy of the proposed reserves. This 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 reserves maintained by the Council in accordance with the agreed Council Policy on 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 three year Medium Term Financial Strategy (MTFS), 2027/28 to 2028/29 on the known settlement information and a high level indicative narrative for the years 2029/30 and 2030/31 which are outside the PLGFS period, 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. In the past a significant number of general revenue usable reserves have been approved by full Council as part of the annual budget setting process to underpin the Council's revenue budget. As can be seen in the most recent revenue budget monitoring report for 2025/26, the revenue budget forecast outturn position highlights a current unfavourable variance which will need to be financed from reserves. This is in addition to the use of revenue reserves to fund specific projects/initiatives during the financial year. The Council's policy to transfer one-off returns to replenish reserves offsets these projected movements and means that the net projected reduction in the Council's general revenue reserves position for 2025/26 will be £3.616m.

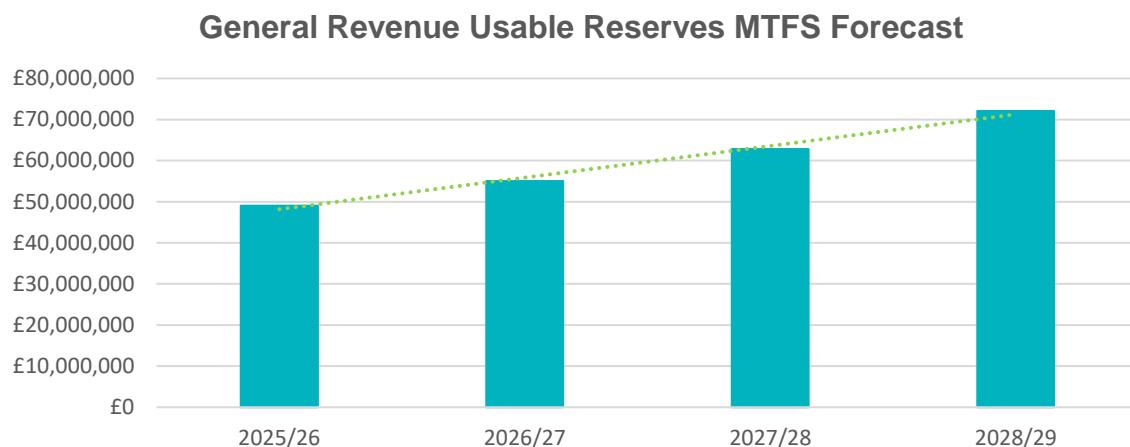
1.4. With the use of revenue reserves to balance the 2025/26 position, it is projected that by the end of the 2025/26 financial year, 67.05% of general revenue reserves will have been utilised since 2020 as shown in the table below.

General Revenue Usable Reserves balances since 2020/21



1.5. Whilst the projected use of reserves in 2025/26 is minimal in comparison to previous financial years, the use of reserves to balance the revenue position is not sustainable. To address this, the Council's MTFS includes budgeted transfers to reserves of £11.592m

between 2026/27 to 2028/29. Furthermore, any additional one-off returns will also be transferred to reserves to replenish the balances held and rebuild from the past usage of this resource. Based upon these assumptions, the below table shows the projected trajectory of these balances over the detailed 3-year life of the MTFS, 2026/27 to 2028/29 which is based on the known information of indicative funding the Council will receive from the Provisional Local Government Finance Settlement (PLGFS).



1.6. Every effort must continue to be made by the Council to retain reserves at these levels and therefore, it is important that services manage expenditure within the cash envelopes available to them.

Approach to setting the revenue budget

1.7. Early work began on setting the revenue budget for 2026/27 during 2025 having regard to the 2024/25 outturn, the forecast adverse position for 2025/26 and the budget gap for 2026/27. The key principles used in the approach to setting the 2026/27 revenue budget were:

- Review of key demand areas and the delivery of statutory services
- Updating the underlying assumptions used for budget estimates including demand and price
- Review of those areas where costs are greater than budgetary provision
- Delivery / non-delivery of current approved budget reductions, the mitigations in place and the established procedures for scrutiny of these budget reductions
- The availability of base budget provision for in year volatility to remove the risk of in year overspends
- Management actions implemented during the financial year and the impact of these actions upon the Council's financial position
- Renewed focus of the Council's Transformation Programme and the relevant investment required to ensure delivery of long term financial efficiencies
- Any emerging issues and any associated financial impact
- Review of all revenue resources, outcomes and current delivery
- The Council's overall financial resilience

Transformation Programme

1.8. Since April 2024, the Council's Transformation Programme has delivered service improvements and budget reductions for directorates and put in place foundations for wider transformational change. These foundations have allowed for a renewed focus to

ensure the Council is financially sustainable and remains viable for the future, focusing on key areas of demand and the opportunities available to deliver services whilst making financial efficiencies.

1.9. The 2026 Transformation Programme builds upon the work undertaken to date, and with additional investment, can deliver substantial financial efficiencies over the medium to long term. These efficiencies have been incorporated into the Council's Medium Term Financial Plan and will be subject to the same scrutiny processes that have been established for other directorate budget reductions.

2. Adequacy of Reserves

2.1. A summary of the balances required to support the 2026/27 revenue budget is shown at **Annexe A**. It also presents the calculation of an indicative recommended level of balances to support the 2027/28 to 2028/29 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 Revenue Usable Reserves calculation can be found at **Annexe A**. This calculation has not changed significantly from the previous year and indicates that the General Revenue Usable Reserves balance (which includes the General Fund Balance) should remain above a minimum level of £36.750m for 2026/27. It is therefore recommended that the Council's General Fund Balance remains at its current level of £18.865m. The level of General Revenue Reserves represents approximately 10% of the Council's net revenue budget and is in line with previous public interest recommendations that the minimum level of general reserves should be between 5% and 10% - given the financial challenges faced by the Council over the last few years, the level of general reserves should be towards the top of this range. The calculation takes into account the following:

- 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. As detailed at paragraph 1.5, based upon information available at this time, the forecast position for General Revenue Usable Reserves for 2026/27 to 2028/29 is expected to increase, and therefore will remain above the minimum level recommended, with balances projected to rise to £72.090m by the end of 2028/29.

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 has been completed and is included within the Quarter 3 capital monitoring report and the Capital Programme report presented elsewhere on this agenda. This review incorporated discussions with Executive Directors, 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 a total of £53.187m was rephased across the life of the Capital programme. A total of £46.835m was re-phased into 2026/27 and £6.231m of further re-phasing into 2027/28 and 2028/29 with £0.475m in 2029/30 towards the later years of the Capital Programme. The Capital Programme is kept under regular review, including during the preparation of the Capital Strategy and Capital Programme 2026/27 to 2030/31, with updates to the Programme being reported as part of the monthly monitoring reports.
- 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. The schemes added within the Capital Strategy and Capital Programme 2026/27 to 2030/31 are in the main funded from external capital grants.
- 4.6. The borrowing from 2026/27 onwards is estimated at £58.3m, which relates to previously approved schemes and is lower than previous years (the Capital Strategy approved by Budget Council on 6 March 2025 forecast borrowing of £81.3m). The Council has worked hard to reduce the borrowing requirement over the MTFS period and as a result the debt servicing costs have reduced over the period since last reported in the Robustness Statement at the Budget Council meeting in March 2025. Previous forecasts had annual debt servicing costs £6m over the MTFS period, the current MTFS forecast is an average of £3.676m over the settlement period 2026/27 to 2028/29 which will reduce the financial pressure on the Council.
- 4.7. The Council will keep the Capital Programme under constant review during 2026/27 and future years. In particular, any new projects that require any 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 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; 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).

4.9. Nationally, the 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 2025/26, 30 authorities have had Exceptional Financial (EFS) support from the Government agreed. EFS is temporary financial assistance provided by the government to Councils that are facing severe financial difficulties. This support, which is not additional revenue funding provided by Government, is typically used to help a Council meet its financial obligations, continue to deliver essential services and avoid the need to issue a 'Section 114'. This highlights the importance for the Council to increase its financial resilience to avoid any need for this type of support.

4.10. Furthermore, 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 Council received the Auditor's draft report in respect of 2024/25, which has detailed a serious weakness in this area. This weakness is as a result of continued overspending and a reliance of using reserves to support day to day revenue expenditure.

4.11. Whilst this is of concern for the Council, the Auditors noted that the organisation has made significant efforts in this area for 2025/26 by setting a revenue budget that did not require a budgeted use of reserves. It was noted however, that the Council was projecting an in year adverse variance and that the use of reserves was again likely. As such, the Auditors made a series of recommendations as follows:

- review its budget setting process to identify areas where demand-led expenditure is consistently in excess of planned levels and determine whether revised forecasting procedures are required;
- consider whether required levels of savings are sufficient to mitigate the likely increases in future demand;
- ensure savings plans are realistic and achievable and are subject to regular detailed monitoring so the Council can identify alternative budget reduction options when existing plans are at risk of non-delivery by year end; and

- review its Medium Term Financial Strategy and Reserves Policy to identify ways of increasing reserves to provide long-term resilience in the Council's financial position.

4.12. As detailed within the 2026/27 Revenue Budget Report and within this appendix, the recommendations made by our External Auditors have all been addressed as part of the budget setting process.

4.13. Members can be assured that whilst reserves balances have been reduced, the Council remains financially resilient in the short term with a clear strategy in place to increase this resilience over the life of the MTFS. This strategy does rely on the delivery of the transformation programme over the short to medium term and therefore it is vital that the Council delivers on the current plans.

4.14. 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 for 2026/27. This is only the case provided that the General Fund Balance remains at £18.865m for 2026/27 and the strategies identified to increase General Revenue Usable Reserves are delivered. Furthermore, it is important that all budget options, or in year alternatives, must be monitored closely and delivered as planned.

Annex A – Minimum General Revenue Usable Reserves Calculation (including General Fund Balance)

Area of Risk	2026/27 Value of Risk Factor £000	2027/28 Value of Risk Factor £000	2028/29 Value of Risk Factor £000
Inflation	2,500	2,750	3,000
Interest rates	650	650	650
Changes to grant funding regimes	1,500	2,000	2,250
Estimated Budgets	1,750	2,500	3,500
Budget Volatility	9,571	8,875	12,285
Budget Reductions	7,579	9,313	6,900
Unforeseen insurance costs	200	200	200
Emergency Planning	8,250	8,250	8,250
Changes to budgets	1,000	1,000	1,000
Financial and Partnership guarantees	2,500	2,500	2,500
Unforeseen events	1,250	1,250	1,250
Total General Revenue Usable Reserves Requirement (based on Risk Assessment)	36,750	39,288	41,785
Forecast General Revenue Usable Reserves	55,001	62,810	72,090