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

1. Introduction

- 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 Authority 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 Authority in accordance with the agreed Authority Policy on Earmarked Reserves, are an integral part of its continued financial resilience supporting the stability of the Authority.
- 1.2. Members are being asked to consider this issue in this budget and MTFS report. The Authority must be prepared to continue to work hard to strip costs out of the budgets where possible; recognising that as most of the Authority's costs are tonnage related a large part of this cost reduction can only be achieved if District Councils significantly reduce the tonnages they provide for the Authority to dispose of.
- 1.3. The Authority must consider whether the Levy increase proposed for 2026/27 and in the future will enable the Levy income to meet forecast costs. If the Authority continues to take steps to equalise the Levy and expenditure in this budget into the medium term, the Authority can expect to remain financially robust as it moves forward with the Government's agenda for Simpler Recycling and its own Future Waste Services (FWS) procurement.
- 1.4. The Authority has prepared a detailed revenue budget, a five year Medium Term Financial Strategy (MTFS) and a five year Capital Programme. The 2024/25 closure of accounts was completed within an appropriate timeframe allowing - compared to previous years - early focus on the upcoming challenges and put together financial projections that cover not only the medium term but also through to 2050.
- 1.5. The robustness of the Authority's budget for 2026/27 is considered against a table of components with the Authority's position identified against them.

COMPONENT	COMMENTARY
Availability of reliable information	The budget is based on realistic assumptions of pay, price and contract increases, and tonnage throughputs to recycling or disposal. This is coupled with an assessment of the major financial risks and how they are to be managed.

COMPONENT	COMMENTARY
Guidance and strategy	The Authority's Financial Procedural Rules cover the management of its budget. The Budget timetable is well communicated and the Strategy is clearly outlined
Corporate approach and integration	Section managers identify budget pressures and risks at an early stage in the process, particularly the financial effects of contract costs, waste management contracts and processes as well as litigation risks.
Flexibility	Flexibility in budget management is built into the Authority's Constitution.
Monitoring	The Authority operates a monthly financial monitoring regime, with monthly reports reviewed by the Senior Leadership Team (SLT). Financial updates are presented to every Authority meeting.

1.6. Based on the above arrangements, it is reasonable to consider that the Authority has a robust budget process.

2. Usable Reserves

2.1. The 2024/25 draft accounts show accumulated usable reserves of £29.6m, representing some 36% of net expenditure. Whilst the overall level of reserves is relatively high compared to other authorities, there are forthcoming financial pressures which will almost certainly represent a call on these reserves over the medium term. These include:

- Uncertainty over future EPR grant income;
- Costs of forthcoming legislative changes: separation of food waste (2026), costs associated with Additional Materials (2026), reduced income share due to the Deposit Return Scheme (2027), Emissions Trading Scheme costs (2028);
- The requirement to procure a new Waste Management & Recycling (WMRC) contract when the current contract with Veolia expires in 2029;
- Increased contractual costs; and
- Reduced income from recyclates.

2.2. In the light of known financial pressures facing the Authority, £10m was set aside as part of the 2024/25 budget to support the Authority's revenue budget once the above pressures take effect. A further contribution to reserves of some £12m is anticipated for 2025/26.

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- 2.3. ETS will represent a significant increase in expenditure, especially if the levels of residual waste remain at their current levels. Discussions are taking place with all five districts to outline the implications for the levy and the need to reduce the levels of fossil-based residual waste.
- 2.4. The Authority shared this analysis with Authority members and the districts on 24th October 2025, including the impact of a number of scenarios.

Future Waste Services Programme

- 2.5. The Authority is embarking on an ambitious programme to upgrade its assets to deliver improved services and ensure that it can comply with foreseeable legislative requirements over the next 30 years. The Authority will deliver this through its FWS programme with procurement anticipated to commence in the next financial year with contracts in place by spring 2029. Some £4.5m is budgeted over the next three years to fund the cost of procurement and associated specialist adviser costs.

3. Borrowing and Capital Programme

- 3.1. Long-term borrowing and PPP liabilities stood at £160.7m as at 31 March 2025, down from £170.9m in the previous year. This is predicted to fall to £152.0m by 31 March 2026 and continue to fall to £136.7m by the time the WMRC contract ends in 2029.
- 3.2. 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.
- 3.3. 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 Authority remains compliant with this requirement.
- 3.4. An Annual Review of the Capital Programme was completed and subsequently approved by SLT and then approved by the Authority as part of the Month 6 monitoring report at its meeting of 21 November 2025. This review incorporated discussions with SLT and service managers to determine an updated profile of expenditure for all schemes.
- 3.5. The outcome of this review was that an additional £1.5m was included in respect of works required to facilitate the processing of Additional Materials from April 2026. This work is to be undertaken in the latter quarter of 2025/26. Minimal expenditure (c. £0.9m in total) is forecast for the three years from 2026/27 through to 2028/29, prior to the FWS works commencing in 2029/30.
- 3.6. The Capital Programme is kept under regular review, including during the preparation of the Capital Strategy and Capital Programme 2026/27-2028/29, with updates to the Programme being reported as part of the monthly financial monitoring reports submitted to SLT and updates provided at each Authority Meeting. The reprofiling of planned capital spending detailed together with the revision to the Minimum Revenue Provision policy -

approved by Authority on 27 June 2025 - is reflected in medium term and long-term financial projections.

- 3.7. The Capital Financing Requirement (CFR) for 2026/27 is estimated at £182.1m (£190.0m in 2024/25), which relates to previously approved schemes and is reducing year on year. By 2028/29 the CFR is forecast to have reduced to £167.1m and total annual interest costs to fall to £13.1m (£17.2m in 2024/25). The CFR and associated interest costs are then forecast to increase from 2029/30 onwards once the FWS investment commences.
- 3.8. The Authority will keep the Capital Programme under constant review during the remainder of 2025/26. A revised Capital Strategy and Capital Programme is put to members for approval at this Authority meeting. In future, any new projects in excess of £0.5m that require any significant Prudential Borrowing must be supported by business cases that address the additional costs that will result. This is to ensure projects are affordable and that the impact on the General Fund and therefore the Levy requirement is minimised.

4. Risk Assessment

- 4.1. There are two approaches for deciding the optimum level of the general contingency reserve (General Fund Balance) required for the Authority 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 risk¹.
- 4.2. The Authority's adopted approach 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 Annex A. This calculation indicates that the General Fund Balance needs to remain at a value of c. £40m until before reducing in 2028/29 once likely future financial pressures, including ETS, take effect. This is above the Grant Thornton recommendation¹ that the minimum level of general reserves should be between 5% and 10% and reflects the known future financial pressures faced by the Authority. The calculation takes into account the potential for:
 - Contract indexation continuing to exceed original estimates and government forecasts;
 - Understatement of future interest rates;
 - Changes to grant funding regimes;
 - Emergency Planning
 - Volatility in some budget headings between years;
 - Increases in insurance costs;
 - Reduction in recyclate income;
 - Impact of legislative changes
 - Contract disputes;
 - Financial guarantees given by the Authority; and
 - Unforeseen events.
- 4.3. The forecast General Fund balance at 31 March 2026 is currently £22.2m. This together with £20m Earmarked Reserves available to support the Authority's revenue budget means that the Authority is forecast to start 2026/27 with reserves available to support the

¹ Lessons Learned from Public Interest Reports, 2022

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Revenue Budget totaling £42.4m.

4.4. However, reserves are forecast to reduce significantly from 2028/29 onwards and increases in the levy will be required to ensure that the Authority remains in a robust financial position over the medium to longer term.

5. Financial Resilience

5.1. The Section 73 Officer has to consider the financial resilience of the Authority 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 Authority demonstrates its financial resilience:

- MTFS review and update – continual update of the key assumptions and forecasts that underpin the Authority's MTFS to ensure they remain robust and accurate;
- Budget Risk Assessment – annual assessment of the adequacy of the Authority's General Fund Balance to mitigate the impact of risks;
- Reserves Policy – annual review and update of the Authority's Reserves Policy² to ensure the Authority 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;
- Audit Committee – regular Member scrutiny of the Authority'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 Authority's financial management and governance throughout the year.

6. External Audit VFM Opinion

6.1. It is important to note that the Authority's External Auditor (Grant Thornton 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 Authority has not yet received the Auditor's final report in respect of 2024/25, but a draft circulated in advance to the Chief Executive and Chair of the Audit Committee demonstrates that the Authority has made considerable progress in addressing the significant issues identified in previous reports. The final report will be provided to the Audit Committee of 12 February 2026.

7. Conclusion

7.1. Financial resilience does depend in part on the Authority maintaining an adequate level of reserves. As part of the suite of Budget monitoring reports, the level of Earmarked Reserves held by the Authority and the policy on Earmarked Reserves was reported to and considered by the Authority throughout the year.

7.2. It is clear that the Authority remains financially resilient in the short term. Work has and is taking place to address the on-going financial pressures that the Authority is facing and identified in paragraph 5 above and identified within the MTFS. This strategy relies on the

² 2025/26 Policy approved by the Authority on 27 June 2025

delivery of the FWS programme to put in place the infrastructure required and future levy increases that will enable the costs of ETS to be covered once the legislation comes into force.

- 7.3. In conclusion, the Chief Finance Officer is able to advise the Authority of the robustness of the estimates and the affordability and prudence of revenue and capital projections for 2026/27. However, this is only the case provided that general balances remain at c £40m for 2026/27 (as calculated and shown in Annexe A to this report) and strategies continue to be developed over the MTFS period to address the anticipated increased legislative costs.

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Annexe A - General Balances Calculation

Area of Risk	2026/27	2027/28	2028/29	2029/30	Total
	Value by Risk Factor £000				
Inflation	400	320	160	80	960
Interest rates	30	35	40	40	145
No increase in Levy	200	200	200	200	800
Changes to grant funding	580	464	371	297	1,712
Emergency Planning	25	25	25	25	100
Budget volatility (non contract)	50	50	50	50	200
Increases in insurance costs	250	250	250	250	1,000
Reduction in income	925	1,375	1,825	1,000	5,125
Impact of Legislation changes (non ETS)	300	300	13,800	13,800	28,200
Contract disputes	625	625	625	625	2,500
Financial guarantees	25	25	25	25	100
Unforeseen events	50	50	50	50	200
Total General Fund Balance Requirement (based on Risk Assessment)	3,460	3,719	17,421	16,442	41,042