Appendix 3: Statement of Financial Robustness

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. At the next annual budget meeting, members will be 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 the following year and in the future will enable the Authority's 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 is in the process of preparing its revenue budget for 2027/28, updating its five-year Medium Term Financial Strategy (MTFS) and five-year Capital Programme. The 2025/26 draft accounts were completed within the statutory deadline and, as reported to this Committee, expects to publish audited accounts shortly. The Authority has also prepared projections that cover not only the medium term but through to 2050.

1.5. The robustness of the Authority's budget for 2027/28 will be 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.

Appendix 3: Statement of Financial Robustness

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 2025/26 draft accounts show accumulated usable reserves of £40.4m, representing some 47% 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 (2030);
- 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. A further contribution to reserves of some £3.5m is anticipated for 2026/27.

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 22nd October 2026.

Future Waste Services (FWS) 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. A further £3.0m is budgeted over the next two 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 £151.6m as at 31 March 2026, down from £161.3m in the previous year. This is predicted to fall to £143.1m by 31 March 2027 and continue to fall to £136m 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 will be presented to the Authority as part of the Month 6 monitoring report at its meeting of 27 November 2026. This review incorporated discussions with SLT and service managers to determine an updated profile of expenditure for all schemes.

3.5. The Capital Programme is kept under regular review, including during the preparation of the Capital Strategy and Capital Programme 2026/27-2030/31, 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 forecast financial value of the overall Capital Programme is currently £180.5m for the period.

3.6. 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.

3.7. The Capital Financing Requirement (CFR) for 2026/27 is estimated at £180.9m (£186.8m in 2025/26), 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 £12.6m (£15.8m in 2026/27). The CFR and associated interest costs are then forecast to increase from 2029/30 onwards once the FWS investment commences. The estimated impact is outlined within the Treasury Management Strategy Statement.

3.8. The Authority will keep the Capital Programme under constant review during the remainder of 2026/27. A revised Capital Strategy and Capital Programme will be put to members for approval at the Authority meeting scheduled for 5th February 2027.

4. Medium and long-term financial forecasts

4.1. The current medium term financial forecast is shown at Table 1 below. Note that this assumes Emissions Trading Costs (ETS) come into effect in 2030 and assumes an annual 2.5% increase in the Levy:

Table 1

	2026-27 £000	2027-28 £000	2028-29 £000	2029-30 £000	2030-31 £000	2031-32 £000
MRWA Establishment	3,245	3,361	3,469	3,587	3,700	3,817
MRWA - other costs	2,409	2,666	2,733	2,801	2,871	2,943
Procurement	1,717	1,500	1,760	0	0	0
WMRC contract	32,172	35,638	36,885	6,363	0	0
Food Waste	1,160	1,200	1,242	1,206	1,232	1,274
Additional materials	2,922	3,024	3,130	540	0	0
RRC	46,020	44,158	44,368	44,684	45,044	46,285
Trade Waste	-744	-1,068	-1,106	-1,144	-1,185	-1,226
New FWS contracts	0	0	0	30,952	39,687	43,825
DRS	0	0	incl	incl	incl	incl
ETS	0	0	0	0	3,826	14,995
Interest (existing long term debt)	1,391	1,463	1,237	1,219	1,202	1,184
Interest earned on cash balances	-600	-545	-441	-430	-610	-598
Capital Financing	-1,271	1,886	364	2,969	6,474	6,943
EPR	-11,606	-10,445	-9,401	-8,461	-7,615	-6,853
Total Expenditure	**76,815**	**82,836**	**84,240**	**84,285**	**94,627**	**112,589**
Net Levy (net of recycling credits)	-80,567	-82,963	-85,037	-87,163	-89,342	-91,575
Net Position	**-3,752**	**-126**	**-796**	**-2,877**	**5,285**	**21,014**
General Fund Reserves b/f	-20,375	-24,127	-24,253	-25,049	-27,926	-22,641
Forecast for Year	-3,752	-126	-796	-2,877	5,285	21,014
General Fund Reserves c/f	**-24,127**	**-24,253**	**-25,049**	**-27,926**	**-22,641**	**-1,627**

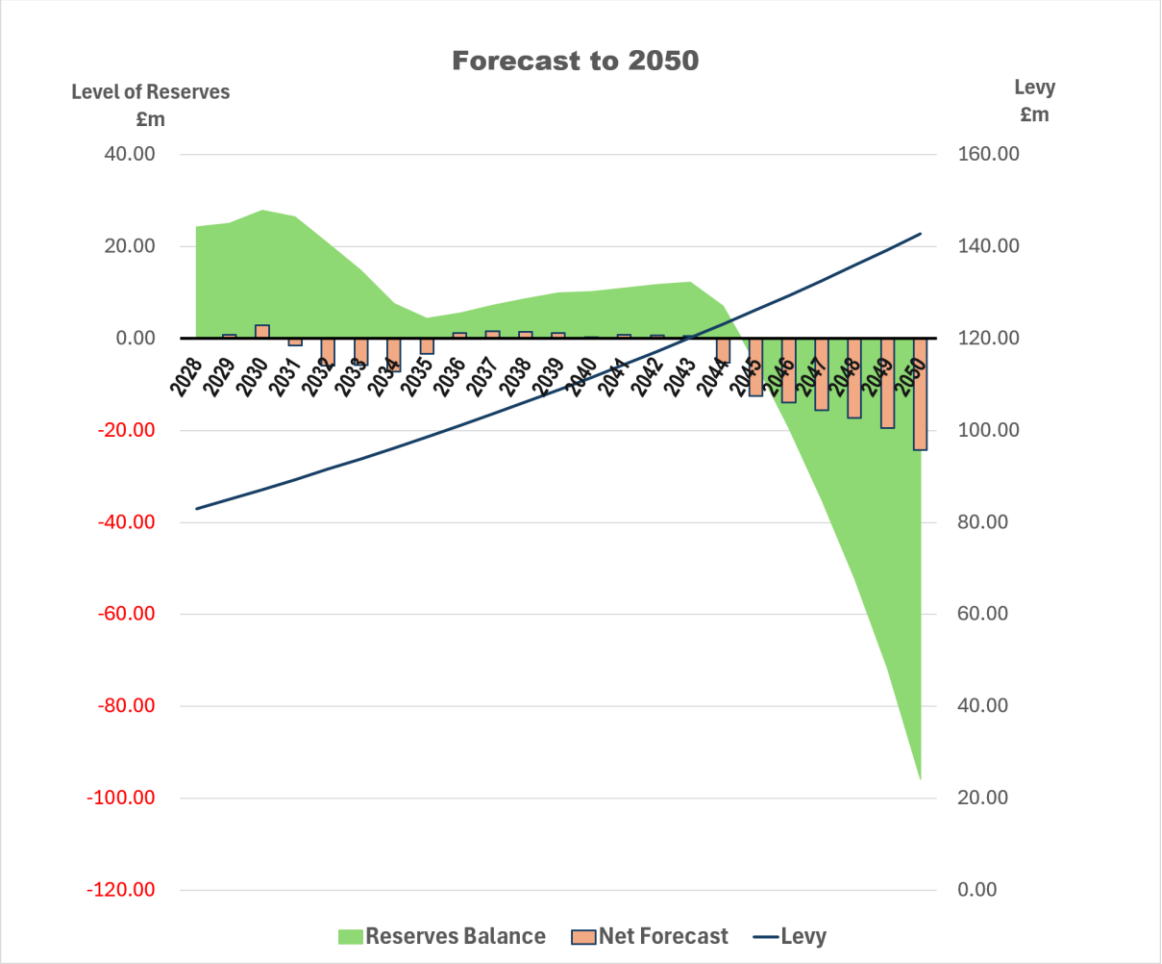
4.2. The table shows that the Authority has sufficient general fund reserves to cover the MTFS period. However, the forecasts should be treated with caution given the uncertainties concerning ETS and FWS.

4.3. The Authority has undertaken analysis costs up to 2050, by which point the RRC contract will have expired. The analysis is based on a range of assumptions including an annual levy increase of 2.5% per annum and an annual reduction in residual waste.

4.4. The financial forecast excluding any impact of ETS is illustrated in figure 1 below:

Appendix 3: Statement of Financial Robustness

Figure 1



4.5. The results show a decrease in the level of reserves from 2031 through to 2035, primarily resulting from increased Minimum Revenue Provisions relating to historic debt. Reserves are then forecast to increase gradually until 2043 before reducing again as increases in the Minimum Revenue Provision associated with the Resource Recovery Contract take effect.

4.6. The analysis predicts that reserves would be exhausted by 2045 based on the assumptions used. However, the position is sensitive to the levels of overall residual waste and changes to the levy. For instance, an annual increase in the levy of 2.75% from 2027/28 onwards would mean that the Authority's reserves will always remain positive.

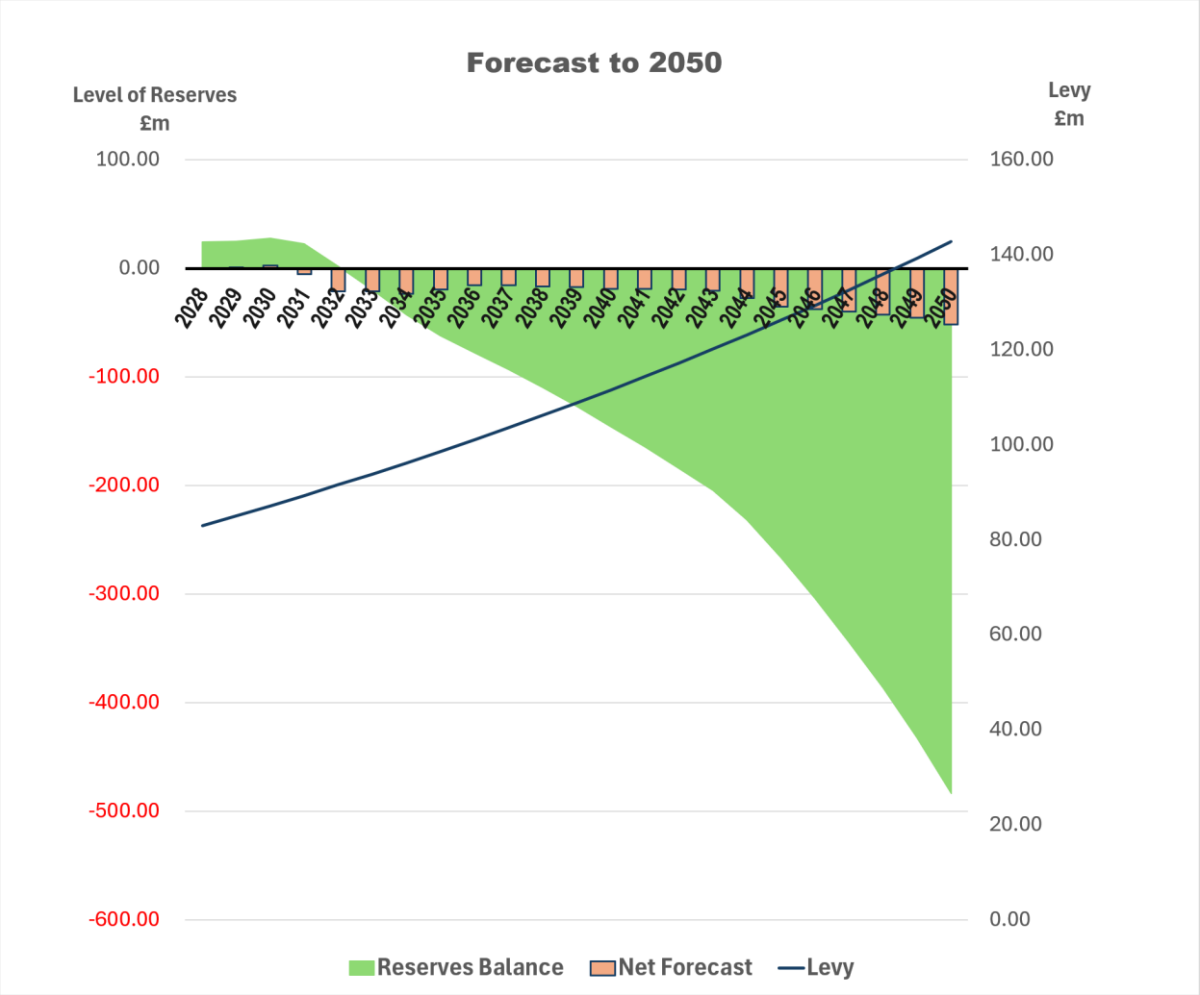
4.7. The situation will be monitored from year to year and the levy set taking into account forecast tonnage levels over the medium and longer term.

4.8. Another significant impact will be the introduction of ETS which will be impacted by timing, cost and amount of waste affected; all of which are currently unknown. The impact of incorporating potential ETS liabilities is illustrated in Figure 2 below and is based on the following Assumptions:

Introduction	2030
Cost per tonne	£100
% of residual waste affected	40%

4.9. The above will be updated once further Government guidance is released and completion of the Waste Composition Analysis (which is currently procurement and expected to completed by Autumn 2027).

Figure 2



4.10. The results in this scenario indicate that the Authority's reserves would be exhausted by 2032, based upon the assumptions used.

4.11. The only significant ways in which this can be mitigated are through a reduction in the levels of residual waste or an increase in the levy of between 4% and 5% per annum.

5. Risk Assessment

5.1. 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 risk[1].

5.2. 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

[1] Lessons Learned from Public Interest Reports, 2022

previously presented to members can be found at Annexe A. This calculation indicated that usable reserves need to remain at a value of c. £40m, before reducing in 2028/29 once likely future financial pressures, including ETS, take effect. 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.

5.3. The forecast General Fund balance at 31 March 2027 is currently £23.8m. This together with £20m Earmarked Reserves available to support the Authority's revenue budget means that the Authority is currently forecast to start 207/28 with reserves available to support the Revenue Budget totaling £43.8m.

5.4. An updated calculation will be presented to to the Authority on 0 February 2027.

6. Financial Resilience

6.1. 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 Policy[2] to ensure the Authority has a strategic approach to the creation and maintenance of Earmarked Reserves;
- Regular review of the Capital Programme – annual review to ensure estimates are affordable and prudent;
- Reporting – regular reporting to members 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.

7. External Audit VFM Opinion

[2] 2026/27 Policy approved by the Authority on 29 May 2026

7.1. 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 2025/26, but a draft presented to this Committee demonstrates that the Authority has made considerable progress in addressing the significant issues identified in previous reports. The final report will be presented to the Audit Committee of 21 January 2027 and to the Authority on 05 February 2027.

8. Conclusion

8.1. 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.

8.2. The Chief Finance Officer is able to advise the Committee 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 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.

Appendix 3: Statement of Financial Robustness

Annexe A - General Balances Calculation

Area of Risk	2026/27 Value by Risk Factor £000	2027/28 Value by Risk Factor £000	2028/29 Value by Risk Factor £000	2029/30 Value by Risk Factor £000	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**