

# **Guildford Borough Council**

**7 February 2024**

## **Section 25 Report of the Section 151 Officer**

**Robustness of Estimates and  
the Adequacy of Reserves and Balances  
Local Government Act 2003 (Section 25)**

### **Purpose of report**

1. Section 25 of The Local Government Act 2003 places a duty on the Chief Finance Officer to make a report to the authority on the robustness of estimates and adequacy of reserves. This report fulfils this requirement and provides Members with assurance that the budgets have been compiled appropriately and that the level of reserves is adequate. It is a statutory requirement that councillors must consider this report when considering and approving a budget.
2. Under Section 25 of the Local Government Act 2003, the Council's Chief Finance Officer is required to report to the Council on:
  - The robustness of the estimates included within the budget
  - The adequacy of the reserves and balances
3. It is a statutory requirement that councillors must consider this report when considering and approving a budget.

### **Introduction**

4. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its budget and precept, the Chief Finance Officer must report to it on the following matters:
  - a) the robustness of the estimates made for the purposes of the calculations, and;
  - b) the adequacy of the proposed financial reserves.

5. The authority must have due regard to the report when making decisions on the budget and precept.
6. The Chief Finance Officer for the Council is the Section 151 Officer. In expressing their opinion, the Chief Finance Officer has considered the financial management arrangements that are in place, the level of reserves, the budget assumptions and the financial risks facing the Council.
7. In presenting this report the Chief Finance Officer is mindful of other associated statutory safeguards designed to support the authority:
  - Section 151 of the Local Government Act 1972 which requires the authority to make arrangements for the proper administration of its financial affairs and that the Chief Financial Officer has personal responsibility for such administration.
  - Sections 32, 43 & 93 of the Local Government Finance Act 1992 which requires the authority to set a balanced budget.
  - The Prudential Code introduced as part of the Local Government Act 2003 sets out the framework within which the authority must manage its investments, including adequate planning and budget estimates.
  - The external auditor's duty to assess the adequacy of the authority's proper arrangements to secure economy, efficiency and effectiveness ('value for money').
8. To reinforce these obligations, section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to all the authority's councillors, in consultation with the Monitoring Officer, if there is or is likely to be unlawful expenditure or an unbalanced budget.

## **Report Details**

### National Picture

9. Local Government is continuing to commission and deliver services to its residents and businesses during a period of prolonged financial uncertainty and significant change. This uncertainty relates to both the overall UK economy as well as the impact of national policy changes to

the way in which local government is funded in the medium / long-term. Demand pressures, high inflation and interest rates on top of 10+ years of cuts to local government funding have put significant pressure on the budgets of local authorities.

10. It is important that we continue to manage our resources in a prudent and sustainable way, ensuring that we understand and can plan and manage our risks effectively over the medium term which is why a strong link between our service outcomes and financial measures is imperative.

### Local Picture

11. Guildford Borough Council has found itself in a difficult financial position, partly down to the erosion of financial controls and governance following replacement of ICT systems and major restructuring of the Council.
12. Commercial income from our property investments have held up well as they are largely geared towards small industrial sectors. The pandemic effectively “stress-tested” our investments and they have held up extremely well. This is a much better position than in many other Councils and is testament to the strength of the tenancies we have in place.
13. The Council is committed to investing and developing its local economy and this investment can be seen clearly through key decisions taken at a local level including direct property investment for regenerative purposes such as the Ash Road Bridge and Weyside Urban Village projects.
14. The Council delivers a wide range of services to support our residents, communities and businesses. Some of these services are provided by all Councils as a requirement of national legislation whilst Guildford Borough Council chooses to provide others as a result of the specific needs of our communities and the priorities of the Council.

## Budget Process

15. The budget has been prepared using accruals accounting and provides for realistic estimates of income, expenditure, and liabilities. The detailed budget has been prepared with each of the service areas and the finance team. These have been reviewed and challenged by the senior management team.
16. The budget ensures that all aspects of the budget (Revenue, Capital and Treasury) are understood, and the interdependencies are taken account of.
17. During the year, the monitoring of financial information has been thoroughly reviewed and reporting is now provided monthly to a wide range of audiences. Improvements and developments have also been incorporated into the processes to ensure that we continue to provide the best level of transparency that we can. Further improvements are still planned in this area.
18. The prudential code introduced a rigorous system of prudential indicators, which explicitly require regard to affordability, prudence, value for money, stewardship, service objectives and practicality in the way in which we manage our finances. This is backed up by a specific requirement to monitor performance against forward-looking indicators and report and act on significant deviations. These are fully considered by our Corporate Governance and Standards committee.

## Budget Assumptions and robustness of estimates

19. The Council has complied fully with the requirements of the Prudential Code for Capital Finance in Local Authorities. The Treasury Management Strategy, Capital Strategy and investment Strategy provide the framework for which the Council to adhere to. I (the Chief Finance Officer) am satisfied that the levels assumed in the indicators are affordable and sustainable.
20. The Council has insurance cover through external policies. I (the Chief Finance Officer) am satisfied that the insurance cover is adequate to meet all reasonable insurable liabilities.

### Adequacy of reserves

21. The appropriate level of reserves can support an organisation in managing risk and volatility in its operating environment. The Council is facing significant risk and change over the medium term due to number of local and national issues and it is important that the level of reserves reflects this.
22. The Council non-ringfenced reserves are estimated to be around £11.5m at the end of 2023-24 (£8.4m plus adjustments to the HRA, SANG and capitalisation). This is well above the minimum 5% of general fund expenditure recommended.
23. There is currently significant uncertainty over funding levels for 2025-26 and beyond. This is due to several key issues, the forthcoming General Election, the single year Financial Settlement given in for 2024-25, the delay in implementing the local Government Finance reforms (Fair Funding Review, Business Rate baseline reset, New Homes Bonus).

### Financial Management

24. The Council's External Auditor, Grant Thornton, have completed the audit of the 2019-20 accounts but have not undertaken the audit of the 2020-21 and 2021-22 accounts due to the on-going investigation around the housing maintenance service. The Council comprehensively considers all issues raised by External Audit and responds accordingly to any issues / recommendations. We will continue to work closely with the External Auditors and react positively to any issues identified.
25. The new Internal Auditors, Southern Internal Audit Partnership (SIAP), have been able to progress through the internal audit plan and the outcome of this work has demonstrated stability and in the Councils control framework. Some work has been re-prioritised during the year to allow additional resource to be applied to examination of the key controls in light of the previously identified historic accounting errors.
26. The Chief Finance Officer considers that the financial control arrangements are now sufficiently robust to maintain adequate and effective control of the budget during 2024-25.

## Risk Assessment

27. The Council has a robust risk management framework in place. The framework supports the Council in managing significant risk.
28. The key risks within the budget for 2024-25 are set out below, together with the mitigations in place to manage them.

Risk Areas in 2024-25	Issues/ Mitigations
Inflationary pressure – affects contracts and pay award	Contract inflation of £500k has been built into the budget. Expectations are that rates will continue to fall during 2024-25.
Pay Award – assumption of 4%, 3%, 3%	Locally negotiated. Cost of living impact for employees noted.
Fees and Charges – budgets raised due to current over achievement and savings requirements, but demand could be affected	Key items such as car parking and Garden waste will be closely monitored, and corrective action taken Corporately if necessary
Commercial Income – potential for voids	Income has held up very well and the current investments appear to suit current market requirements. The investments will be kept under close review.
The Economy	Growth currently minimal and any impact will need to be monitored if this continues.
Benefits	Cost of Living crisis and roll-out of Universal Credit likely to put additional pressure on benefit payments. Non-recovery / debt will be closely monitored
Staffing availability	Current difficulties in recruiting staff in some service areas, particularly professional staff. Recruitment campaigns used where possible and Interims only as last resort.

<b>Risk Areas in 2024-25</b>	<b>Issues/ Mitigations</b>
Homelessness / Refugees	Increasing issue at the same time as government funding is reducing. Close monitoring required and appropriate action taken if necessary.
Delays in Government Policy	New funding from Extended Producer Responsibility delayed. Increased costs from National Minimum Wage, benefit changes but not funded. National pressure required.
Collaboration / Business Transformation	Staffing being increased but savings target needs to be delivered. Need to address key issues of Terms and Conditions and ICT harmonisation.
Planning Appeals	Cost is not budgeted as unpredictable.
Legal / JR costs	Increasing use of legal measures by the public / companies. Needs to be robustly defended as appropriate.
Asset Sales	Target of £50m to be delivered. Needs to be done methodically to ensure best value and closely monitored.
Debt Management	Need to ensure sums owed to the Council are recovered. Better monitoring and follow up being introduced
Establishment Control / Vacancy Management	Staffing costs are the greatest area of expenditure. Control of the establishment and delivery of the vacancy saving imperative.
ICT obsolescence	Need to ensure that systems / software are up to date to maximise benefits and minimise risks such as cyber security

Risk Areas in 2024-25	Issues/ Mitigations
Park and Ride	On-going legal challenges around park and ride sites and provision need careful management.
North Downs Housing	Future of NDH needs to be determined which could lead to write down of loans / asset values.
Housing Maintenance Investigation	One-off budget has been set aside to deal with investigation costs. Potential for general fund impact but should be minimal

### Future Outlook

29. The future financial risks are partly due to potential national funding changes but also due to the on-going state of the economy. These include:

- Reset of the business rates growth baseline which was delayed again from 2022-23. Guildford is not part of any business rates pooling arrangements so there would be no loss of historic growth is this was implemented, which is likely to be a very significant issue for many district / borough councils.
- Savings delivery – Future savings are still required to balance the MTFP period and deal with the future borrowing costs associated with Weyside Urban Village.
- Impact of the Fair funding review (if / when implemented) is likely to move funding from the South to the North of the Country, which would be a disbenefit for Surrey Councils. There is however likely to be transitional arrangements put in place which would smooth out any adverse impact.
- The lack of a multi-year finance settlement means significant uncertainty over future funding levels.
- A replacement New Homes Bonus scheme was due to be introduced in 2022-23 and no details of this have yet been released.
- Pay costs for 2025-26 onwards have been included at 3%. Inflation is high at present but expected to reduce. These rates could

increase which would mean additional cost pressures on future budgets.

- Commercial income may be impacted but has held up very well to date. Hopefully, this risk will reduce as the economic recovery progresses.

## Conclusions

30. I am satisfied that the budget prepared for the financial year 2024-25 is prudent and makes allowance for the costs of providing services in accordance with the Councils' approved policies and service plans. I consider that the budget proposals set out in the report are robust. The level of reserves is sufficient to meet the known risks within the budget taking account of the Councils robust financial management framework.

## Statements of the Section s151 Officer

### **Section 151 Officer - Statement on the Robustness of the Budget.**

**“The Borough Council is recommended to note that, in my opinion, the estimates used in the production of the budget proposal for 2024-25 are adequately robust”.**

### **Section 151 Officer - Statement on the Adequacy of Reserves**

**“Based on the assessment of the reserves and contingencies, the key financial risks identified, and the thorough process used for developing the Medium-Term Financial Plan, I have determined that the level of reserves and balances for 2024-25 is adequate.”**

Richard Bates

Section 151 Officer – Guildford Borough Council

29 December 2023