

Guildford Borough Council

Council 5 February 2025

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. The 2024 General Election has seen a change of political leadership for the Country. This has initially led to additional taxation burdens across all sectors. The impact of this on the economy in terms of growth, inflation and interest rates is not yet clear. A fair funding review is expected in Spring 2025 which will seek to redistribute funding to the areas of greatest need. The impact of this will be important to understand as well as any transitional arrangements which are put in place.
11. 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

12. In 2023, Guildford Borough Council 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. This has now been stabilised through both the Financial Recovery Plan (FRP) and more latterly, the Corporate Improvement Plan which incorporated any outstanding actions from the FRP.

13. 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 performed 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.
14. 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.
15. 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

16. 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.
17. The budget ensures that all aspects of the budget (Revenue, Capital and Treasury) are understood, and the interdependencies are taken account of.
18. 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. Recent improvements have included the addition of debt monitoring information within the reports.
19. 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

20. 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.
21. 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

22. 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.
23. The Council non-ringfenced reserves are estimated to be around £17.7m at the end of 2024-25. This is well above the minimum 5% of general fund expenditure recommended.
24. There is currently significant uncertainty over funding levels for 2026-27 and beyond. This is due to several key issues, the single year Financial Settlement given in for 2025-26, the planned local Government Finance reforms including a new Fair Funding Review which is likely to include a reset of the Business Rate baseline and uncertainty over the future of specific grants such as the New Homes Bonus.

Financial Management

25. The Council's External Auditor, Grant Thornton, have completed the audit of the 2020-21 accounts but have not undertaken the audit of the 2021-22 and 2022-23 accounts. Due to the national backlog, these have now been "backstopped" and have therefore had disclaimer audit opinions issued upon them.
26. 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.
27. The Internal Auditors, Southern Internal Audit Partnership (SIAP), have been able to progress through the internal audit plan and the outcome of this work has examined the Councils control framework. Due to historic issues identified, further work is being undertaken in the current financial year to follow up previous recommendations and ensure agreed changes have been implemented.
28. The Chief Finance Officer considers that the financial control arrangements are now sufficiently robust to maintain adequate and effective control of the budget during 2025-26.

Risk Assessment

29. The Council has a robust risk management framework in place. The framework supports the Council in managing significant risk.
30. The framework has been updated during 2024-25 and a new risk management policy is now in place, risk registers have been updated and an exercise undertaken on risk appetite.
31. The key risks within the budget for 2025-265 are set out below, together with the mitigations in place to manage them.

| Risk Areas in 2024-25 | Issues/ Mitigations |
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| Inflationary pressure – affects contracts and pay award | Contract inflation of £500k has been built into the budget. Expectations are that rates will not vary significantly during 2025-26. |
| Pay Award – assumption of 3% per annum | Locally negotiated at present. Cost of living impact for employees noted. |
| National Insurance Increase | Changes in employers NI have added £1k additional cost per employee. The impact of this is not just on our employees, but affecting our contractors and suppliers so may push up costs. |
| 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 still struggling. Impact of taxation changes will need to be monitored. |
| 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. |
| 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 not guaranteed after year 1. Increased costs from National Minimum Wage, benefit changes but not funded. |
| Collaboration / Business Transformation | Local Partnerships report has highlighted potential benefits. Need to have appropriate governance and capacity to take advantage of this opportunity |
| 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. |

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| 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. New policy and better monitoring and follow up have been 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 |
| Park and Ride | Reducing usage has triggered a review of future management arrangements. |
| Interest Rates | Expectations of reductions have now slowed. This will impact borrowing costs |
| Weyside Urban Village | On-going inflation pressure on land values leave a significant projected deficit on this scheme. Mitigation strategy needs to be agreed in Spring 25. |

Future Outlook

32. 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 many times under the previous government. Guildford is not part of any business rates pooling arrangements and is at the Business Rates Safety Net, so this would limit the loss of historic growth for Guildford if this is implemented. This is however 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. The new Government has stated that areas of high deprivation will benefit from any redistribution. 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. This is however promised for 2026-27 and beyond.
- A replacement New Homes Bonus scheme was due to be introduced in 2022-23 to incentivise house building. This has still not materialised.
- Pay costs for 2025-26 onwards have been included at 3%. Cost of living pressures mean these rates may 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

33. I am satisfied that the budget prepared for the financial year 2025-26 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 2025-26 is adequate.”

Richard Bates
Section 151 Officer – Guildford Borough Council
10 December 2024