APPENDIX 2

STATEMENT OF THE SECTION 151 OFFICER UNDER THE REQUIREMENTS OF SECTION 25 OF THE LOCAL GOVERNMENT ACT 2003

ROBUSTNESS OF BUDGET ESTIMATES AND ADEQUACY OF RESERVES 2025/2026

1. INTRODUCTION

The Local Government Act 2003 Section 25 includes a specific duty on the Chief Finance Officer (Section 151 Officer) to make a report to the authority when it is considering its annual budget and council tax levels. The report must deal with the robustness of the estimates and the adequacy of the reserves included within the budget. (For the purpose of the Act 'reserves' includes 'general fund balances'). The Act requires the Council to have due regard to the report in making its decisions at the Council's budget and council tax setting meeting in respect of 2025/26.

In making this report I have considered the financial management arrangements that are in place, the level of projected reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the Council and its overall financial strategy.

<u>National Context</u>

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 to long-term. Demand pressures, high inflation and interest rates on top of a decade of cuts to local government funding have put significant pressure on the budgets of local authorities.

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.

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

It is a demanding time for local authorities as they grapple with immense resourcing challenges ranging from inflationary pressures to rising demand and recruitment constraints. The financial resilience of all local authorities is under strain, with a number of authorities already declaring Section 114 notices in the last few years with an increasing number requesting exceptional financial support from the Government.

Since 2010/11, local authority spending has fallen from 7.4 to 5.0 per cent of GDP, and it falls further in the Office for Budget Responsibility (OBR) forecast to 4.6 per cent of GDP in 2028-29. Given local authorities' statutory duty to provide a range of services where demand is likely to continue to grow, pressure on local authority finances and services will continue.

Whilst the local government finance settlement provides some additional financial support, it does not address the uncertainties around future funding and reform. The volume and complexity of those reforms is significant and includes a Spending Review, the promise of a multiyear settlement, funding model reform and business rates modernisation, all over laid with plans for significant structural reorganisation of the sector and further devolution. Reforms from several other Whitehall departments who own policy responsibility for many services delivered by local councils will also be significant for financial planning.

It is difficult to anticipate the outcome from the wide range of reforms that are being developed, and the fiscal landscape that will play into future government decisions continues to be volatile. It is therefore appropriate that this uncertainty is considered when exercising my judgement on the robustness of budget estimates and the adequacy of reserves.

Local Context

The Council has faced unprecedented financial challenges over the last few years. The Council, like many residents and businesses across our town, diverted significant resources, and lost significant income, in responding to the pandemic. It then faced a new crisis, one of rising costs of service delivery and the tough challenge of trying to support the growing number of people in our town hit by the cost-of-living crisis.

Commercial income from our property investments have held up well as they are largely diversified across a number of sectors including office, retail and industrial. 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.

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 investment for regenerative purposes such as the Golden Valley Development.

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 Cheltenham Borough Council chooses to provide others as a result of the specific needs of our communities and the priorities of the Council.

Strategically the financial and economic context facing the Council remains similar to recent years. The strategic messages and many of the risks, set out in this report, are therefore similar to last year. However, the potential policy changes (including service specific and fiscal) following the General Election in 2024 and the absence of a Comprehensive Spending Review beyond 2025/26, makes medium term financial planning less certain. Preserving the Council’s financial resilience remains the key long-term driver in the Council’s financial strategy as the Council moves forward to the next 5-year Medium Term Financial Strategy (MTFS) - 2025-2030.

Taking the above into account alongside the Council’s mitigating actions, my conclusions are in summary:

- supplies and services and staffing budgets are sufficient to maintain services as planned;

- budgeting assumptions for treasury management activity reflect market expectations that interest rates have peaked and are forecast to gradually reduce to less than 4% by the end of 2025 and may stabilise to 3.5% in 2026;

- the 2024/25 budget provided an opportunity for the Council to reset its baseline position against its corporate priorities. The 2025/26 budget proposals take account of the Council’s ambition to realise significant growth and prosperity for the town through initiatives such as the Golden Valley Development, the Minster Exchange and additional housing delivery through sites such as North Place, 320 Swindon Road, and the former Monkscroft school;

- it is my opinion that the approach to budgeting for income is prudent although it is imperative that monthly forecasting and analysis of key income streams are monitored throughout the financial year;

- the proposal to increase council tax is required to ensure the viability of this Council in future years without having to make significant cuts to front-line services. The proposed increase in council tax for 2025/26 is within the referendum threshold, which allows shire district councils to increase council tax by the 'greater' of 2.99% or £5 based on a Band D property;

- the medium-term financial planning assumptions, including future cuts in government support (aligned behind the Government commitment to undertake a fair funding review, business rates baseline reset and an overhaul of the new homes bonus), are prudent. The continued development and revision of the budget strategy for closing the projected budget gap is providing a planned and measured approach to meeting future financial challenges, albeit these were front-loaded in 2024/25, some of which are carried forward into 2025/26;

- the approach to financing maintenance and ICT replacement is acceptable. Looking ahead, the need to model and prioritise future investment aspirations will become critical if the Council is to meet some of the targets within the Medium-Term Financial Strategy (MTFS);

- the level of reserves, including General Balances, is satisfactory. This is caveated with the condition that the proposed budget for 2025/26 aims to increase General Balances by £560,803.

2. ROBUSTNESS OF ESTIMATES

Budget estimates are assessments of spending and income made at a point in time, based on service needs and known expenditure patterns. The statement about the robustness of estimates cannot give a guaranteed assurance about the budget, but gives Councillors reasonable assurances that the budget has been based on the best available information and assumptions.

In order to meet the requirement of assessing the robustness of estimates the Section 151 Officer will consider and rely upon the key processes that have been put in place:

- the issuing of clear guidance to Service Managers on preparing budgets through the annual budget strategy report;

- peer review by finance staff involved in preparing the standstill base-budget, i.e. the existing budget plus contractual inflation;
- the use of in-year budget monitoring to re-align budgets in line with projected changes for 2025/2026;
- a medium-term planning process that highlights priority services and risks;
- a review of the corporate risk register;
- a service review by the Cabinet, Leadership Team and Service Managers of detailed budget and proposed savings and their achievability;
- finance staff providing advice throughout the process on robustness, including vacancy factors, increments, current demand, and income levels; and
- sign-off from budget-holders to take accountability and ownership of the budgets devolved to them for managing within the financial rules.

Notwithstanding these arrangements that are designed to test the budget throughout its various stages of development, considerable reliance is placed on Service Managers having proper arrangements in place to identify issues, project demand data, to consider value for money and efficiency and record key risks within their operational risk register.

The table below identifies assumptions made during the budget process and comments upon the risks and decisions taken when preparing the budget.

<table>
<tr><th>Budget Assumption</th><th>Financial Standing and Management</th></tr>
<tr><td>1. The treatment of demand led pressures.</td><td>The main budget assumptions are set out in detail in the main budget report and the Section 151 Officer confirms that these are realistic in the context of the demographic and fiscal challenges facing the Council, although the proposed efficiency and other service savings are ambitious and there is substantial risk, they will not all be achieved within the required timescale. This is why the enhanced tracking of action plans to deliver efficiencies will be continued and monitored robustly throughout the financial year.

Like many council's, CBC has faced unprecedented financial challenges over the last two years in providing the resources to manage the response to the pandemic followed by rising costs and challenges faced through the cost of living crisis. With inflation and interest rates still holding above target levels, the Council has had to rely on its general balances to ensure it has a balanced budget in 2024/25.

Service Managers are expected to manage changes within their budgets by re-prioritising or by taking steps to reduce expenditure where income streams decrease significantly. Where this is not possible it will be necessary to use the working balance or earmarked reserves on the understanding that they may need to be restored in future years.

Tax changes and caps on benefits increase pressure on rent arrears and homelessness provision, however following the freeze on the Local Housing Allowance (LHA) since April 2020 the rate has been restored to the 30th percentile (meaning the LHA rate will fully cover the rent of up to three in every 10 homes in Cheltenham) from April 2024 and this will continue into 2025/26.

The National Living Wage will rise by 6.7% from £11.44 to £12.21 an hour for individuals aged 21 and over. The Chancellor also confirmed Universal Credit and other benefits will increase from April 2025 by 1.7% in line with September 2024's inflation figure and the state pension will increase by 4.1%

The impact on rent arrears will be closely monitored and the HRA budget proposals reflect a provision for bad debts of £250,000 in 2025/26.</td></tr>
</table>

Budget Assumption	Financial Standing and Management
2. The treatment of inflation and interest rates.	The following assumptions have been made in the preparation of the Medium-Term Financial Strategy in respect of inflationary pressures: • The pay award for 2025/26 has allowed for a £1,000 flat increase for those on grades A – I and 2% for those on grades J - P. As the target rate of inflation is not forecast to move back towards the Bank of England's target of 2% until Q4 2027, pay awards are modelled at 3% per annum from 2026/27. Members allowances have been budgeted to reflect the same assumptions as staff. • Employer's Superannuation contributions – agreed until 2026 through the latest 2022 triennial valuation and through agreement to pay the required secondary sum payments to the Local Government Pension Scheme (LGPS) as an up-front payment in April 2023 covering the period 2023/24 to 2025/26. Early conversations with the Actuary have locked in future contributions (for the period 2026/27 to 2028/2029) at 18.9% of payroll, which represents an annual reduction of £1.995m. Current modelling and results support the current strategy which has ensured the Council is in a positive cash-flow position, resulting in an improved funding level of c.140% as at 31 March 2024. • Contract inflation has been allowed for at the appropriate contractual rate. The Ubico contract sum (by far our largest contract value) now reflects stabilised costs in respect of fuel, energy and pay. • In line with previous practice, general inflation has not been provided for unless the relevant professional officer has indicated that there are inflationary pressures. Whilst this creates natural efficiency savings it could lead to insufficient budget to maintain service levels. In-year increases will need to be managed. • The Council provides a number of demand-led services e.g. green waste collection, car parking, building control charges, etc. The estimates for 2025/26 provide for an inflationary increase where market conditions dictate. Income from council tax and business rates have stabilised to pre-pandemic levels. • As part of the Autumn Budget Statement in October 2024, the Government confirmed that the April 2025 rent increase for social housing would be CPI +1% which equates to a 2.7% increase. High inflation in the construction and maintenance sector accompanied with high interest rates will impact financial viability and as a consequence the timing of delivery of new build schemes and acquisitions of properties. • The treasury management strategy continues to diversify into pooled funds which will expose the Council to investments within property, bonds and equities. These funds have the advantage of providing wide diversification of investment risk, coupled with the services of professional fund managers in return for a fee. These funds offer enhanced returns over the longer-term but are more volatile in the short-term but will allow the authority to diversify into asset classes other than cash. • The Council adheres to the CIPFA Code of Practice for Treasury Management 2011 and updates its policy and strategy statements annually. The Capital Strategy and Investment Strategy is reviewed annually to ensure security of public money. Our treasury advisors continue to advise the Council and Treasury Management Panel on policy. Risks around inflation and interest rate variations have been built into my assessment of the budget and subsequently have been built into the base budget in 2025/26. In-year increases will need to be managed but may need to be funded from General Balances as was the case in previous years. The recommended minimum HRA revenue reserve to cover contingencies is £1.5m. The three year projections forecast a reserve balance of £1.284m at 31st March 2028. However, Cheltenham Borough Homes (CBH) currently hold reserves of c. £0.5m which will be returned to the HRA once CBH is formally wound up, taking HRA revenue reserves above the £1.5m recommended.

Budget Assumption	Financial Standing and Management
3. Estimates of the level and timing of capital receipts.	Property Services need to ensure our land and property asset portfolio is fit for purpose, secures increased income generation, maximises capital receipts and stimulates growth and investment in the borough. Surplus assets and assets generating a low yield have been identified for disposal to realise in excess of £25m in capital receipts whilst also contributing to the stimulation of the local economy. A strategic review of our property portfolio has been undertaken to ensure that the Council's assets make the maximum contribution possible to support the MTFS. Housing stock sales through Right to Buy (RTB) are estimated to be at 10 per annum following changes to the RTB legislation which reduces the discount available for any applicants after the 21 November 2024. The changes from that legislation also mean that the Council will be able to retain 100% of the capital receipts from Right to Buy sales indefinitely, making the existing policy permanent. These receipts will be ring-fenced towards the supply of new housing. The use of RTB receipts continues to be closely monitored to ensure they are retained for reinvestment in Cheltenham.
4. The treatment of efficiency savings/ productivity gains.	The system for monitoring the progress on the implementation of efficiency savings was enhanced during 2023/24, as requested by Cabinet, and now includes supportive budget challenge sessions led by the Deputy Chief Executive and Director of Finance and Assets with directors and heads of services for the largest spending areas. Scrutiny by the Leader and Cabinet, as well as the Budget Scrutiny Working Group will continue as before. 86% of the savings proposals for 2025/26 are prudent and achievable although there is substantial risk that the remaining 14% may not all be achieved within the required timescale. Whilst further work is required to realise these savings in a transparent manner, this should not undermine our ability to keep expenditure within budget in 2025/26 as provision is made for slippage within working balances. The remaining proposals are already in progress and no slippage has been identified at this stage.

Budget Assumption	Financial Standing and Management
5. Government support.	The following assumptions have been made in the preparation of the medium-term financial projections in respect of government support: • The budget assumptions for 2025/26 are based on the final financial settlement notified by the Ministry of Housing, Communities and Local Government (MHCLG) on 3 February 2025. • The medium-term financial projections assume a full business rates reset under the fair funding review in 2026/27. It also assumes this Council will no longer receive any Revenue Support Grant (RSG) and that New Homes Bonus (NHB) will be phased out in its entirety by 2026/27. • The budget requires £0.087m of New Homes Bonus (NHB) to support the revenue budget in 2025/26. The budget also requires £2.511m from other grants; Revenue Support Grant (RSG) of £0.190m, Funding Guarantee Grant of £0.757m, National Insurance Compensation Grant of £0.219 and Extended Producer Responsibility (EPR) payment of £1.345m. In modelling the MTFS, coupled with a business rates reset, it is assumed that these grants will fall away over the coming years, albeit softened by a 'damping' payments in 2026/27 to 2028/29. • The budget for 2025/26 includes assumptions for business rates based on estimates of collection rates, bad debts, appeals, reliefs (mandatory and discretionary) and assumed 40% share under the 50% retention system. The medium-term financial projections assume that a full reset will be implemented as part of the fair funding review. As in previous years, an earmarked reserve is maintained to help mitigate the risk of any future fluctuations. Despite the uncertainty over future government funding, I am comfortable that the Council has been sufficiently prudent in budgeting for reductions in government support, including dealing with the uncertainty of business rates and EPR receipts. The Government lifted the HRA borrowing restrictions, abolishing the debt cap and left the level of borrowing to be controlled by the prudential code. This should allow a significant increase in the new build programme subject to the identification of appropriate sites and financial viability. However, high inflation in the construction and maintenance sector coupled with high interest rates impact financial viability and timing of delivery of new build schemes and acquisitions of properties. Many housing providers in the sector have reduced or delayed their new build programmes due to these financial pressures. This presents challenges when considering how we increase our housing stock levels and new rental income which can be used to offset some of the pressures in the HRA overhead costs. The HRA must be treated as a long-term business that is financially sustainable over a 30-year period. Given the volatile set of circumstances we face, there may need to be a trade-off between new build programmes (development), stock investment and decarbonisation.

Budget Assumption	Financial Standing and Management
6. Proposed level of council tax.	When setting the level of council tax, Councillors should always consider the medium-term outlook to ensure that a sustainable budget position is maintained Councillors also need to acknowledge that the Localism Act 2011 contains requirements for local authorities to hold a referendum where council tax is proposed above a specific increase (the greater of up to 3% or £5 in 2025/26). Council tax is the main source of locally raised income for this authority and has previously been referred to by MHCLG as 'an important source of funding which is used to meet the difference between the amount a local authority wishes to spend and the amount it receives from other sources such as government grants. When calculating the core grant settlement, the Government assumes that all shire districts will increase their council tax by the threshold amount for 2025/26. The indicative grant levels for the period 2025/26 and beyond also assumes that all local authorities will increase their council tax levels up to the threshold each year. CIPFA has published a financial resilience index and their recommended good practice is that this is referred to within the s25 report for 2025/26. One of the indicators is the council tax requirement as a ratio to net revenue expenditure. This indicator provides a measure of the relative importance of council tax and grants. A low ratio suggests higher dependency on grants which may suggest that a Council may experience financial difficulties as grants diminish further. The ratio for this Council in 2025/26 is 57.01% and is projected to rise over the duration of the MTFS which equates to this Council having a diminishing dependency on grants. There has been an important shift in the Government's principles, most noticeably, the shift away from freezing council tax to using council tax to generate additional funding. Given the relevance of the indicator outlined above, I support a council tax increase of 2.99% (equivalent to a £7.11 increase on a Band D property) as this will avoid the requirement for a referendum (cost c. £230k) for council tax increases over the government cap.

Budget Assumption	Financial Standing and Management
7. Medium Term Financial Strategy (MTFS) – the strategy for closing the projected funding gap.	Sound financial management requires that the Section 151 Officer and Councillors have full regard to affordability when making recommendations about the local authority's future revenue and capital programme. The 2025/26 budget includes medium term financial projections of the projected funding gap and indicates broadly how the Council may close the projected funding gap over the period 2025/26 to 2029/30. The Medium-Term Financial Strategy outlines the strategy for closing the funding gap and includes efficiency savings and income targets rather than necessarily specific worked up projections of cost savings. The Council has traditionally provided 'one off' funding for investment in systems or staff costs i.e. additional short-term resource, redundancy/pension costs funded from savings or earmarked reserves. The Council's approach to modelling and monitoring the MTFS and planning for meeting future funding gaps outlined in the budget strategy demonstrates robust and effective planning for closing the funding gap and is effectively scrutinised. The Council has developed a more commercial approach to service provision with the aim of becoming self-financing and less dependent of Central Government funding. This approach has helped to refocus on delivering a sustainable MTFS. Developing strategies for regeneration and economic growth which will generate revenue for the Council to offset the reductions in government funding streams and will continue to be a key strand of the development of the MTFS. This is a key driver behind the proposal to increase resource within the Planning Service. As the Council moves into the next phase of delivery in its Golden Valley Development (GVD), it is critical that the Council commits adequate resources which are directed towards meeting its corporate priorities. Both the General Fund and the Housing Revenue Account, alongside external partners, have allowed for budget allocations in 2025/26 and beyond to ensure the GVD programme is adequately resourced both via a dedicated program team and through external advisors.
8. The authority's capacity to manage in-year budget pressures.	The authority has proven its ability to manage in-year budget pressures with recorded overspends in recent years being identified as risks and held as contingency within the assessment of the General Fund Balance. Improvements to our Devolved Budgetary Control scheme have improved our management of cash limited budgets, with a requirement for each budget-holder to sign and take accountability for their budgets set for the following financial year.

Budget Assumption	Financial Standing and Management
9. The strength of the financial information and reporting arrangements.	The Council has strong internal and external reporting standards. Quarterly management reports are made to the Cabinet. These procedures have allowed firm management of any projected overspends in the past. These reports have been enhanced with detailed financial commentary and clear direction with regards to in-year virements which aids transparency and full scrutiny. In addition, the Budget Scrutiny Working Group meet regularly to scrutinise both the in-year budgetary position and the Medium-Term Financial Strategy.
10. The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	The Council's virement and carry forward rules are clear. The Council is operating management disciplines to ensure management and policy actions are considered in relation to overspending budgets. Generally, virement is considered at a corporate level against corporate priorities, including the contribution towards the optimal level of general fund reserves. The Council's Devolved Budgetary Control scheme gives managers flexibility to manage budget variations within their range of services. Service overspends may be clawed back from future budgets.
11. The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	The Council's insurance arrangements are considered adequate. The Council does self-insure on small claims to mitigate rising insurance premiums which will need to be funded from the base budget.
12. The approach to financing the maintenance programme.	The Council has £599k built into the base revenue budget to fund the annual maintenance budget of the property portfolio. The budget also proposes an additional £150k to reflect the increased costs associated with Leisure@ Cheltenham. The maintenance schedule of planned commitments has been established for 2025/26 and will be reviewed by the Asset Management Working Group on an annual basis.

Given consideration of the above factors and the detailed scrutiny of the budget that has been undertaken this year, I can give positive assurance on the robustness of the budget estimates. The greatest risk to this assurance is a sustained period of both high inflation and interest rates.

3. ADEQUACY OF RESERVES AND BALANCES

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

Within the statutory and regulatory framework it is the responsibility of the Section 151 Officer to advise the authority on its level of reserves that should be held, and to ensure that there are clear protocols for their establishment and use. Councillors, on the advice of the Section 151 Officer, should make their own judgements on such matters taking into account local circumstances. The adequacy of reserves can only be assessed at a local level and requires a considerable degree of professional judgement. The assessment needs to be made in the context of the authority's MTFS, its wider financial management, and associated risks over the lifetime of the plan. The Secretary of State has reserved powers to set a minimum level of reserves to be held by councils if required.

The CIPFA resilience index also has a number of indicators measuring reserves. The indicators suggest that compared to other district councils, both our earmarked reserves and our unallocated reserves (i.e. general balances) are in the lower quartile. Whilst this is useful information, it needs to be more qualitative, which is around whether reserves are being used in line with policy. There appears to be an assumption within these indicators that having high levels of reserves is a good measure which doesn't necessarily fit well with the equity perspective that councils should not be sitting on high levels of reserves as this is being funded by local taxpayers that are not getting any benefit.

Reserves should not be held without a clear purpose. Should it be considered that the level (or proposed levels of reserves) is inadequate then a report must be made to Council outlining how this has arisen and what action should be taken to prevent a reoccurrence in subsequent years.

As part of the annual budget setting process and in reviewing the MTFS, the Council needs to consider the establishment and maintenance of reserves. These can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general balances;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general balances;
- a means of building up funds (earmarked reserves) to meet known or predicted requirements.

GENERAL (WORKING) BALANCES – CALCULATION OF OPTIMUM LEVEL

There are two approaches for deciding the optimum level of working balance. One approach is to simply apply a percentage range to the Net Budget

Requirement, currently assessed at between 5% and 10% or a level between £0.953m and £1.905m. The alternative is a level based upon a risk assessment of the budget. In 2025/26 the Section 151 Officer has used a risk-based approach to assess the appropriate level of general balances.

The framework for assessing the risks surrounding the budget needs to consider the following:

- inflationary pressures;
- pension fund changes;
- planned savings measures;
- interest rate variations;
- volume variations on demand-led services such as planning fees, land charges;
- new services/initiatives including waste and recycling;
- the risk of litigation;
- emergency planning;
- financial guarantees;
- grant income;
- future budget projections.

	Area of Risk	Explanation
1.	Inflationary Pressures	Historically the cost of pay awards has caused major variations to budget estimates. The 2025/26 budget proposals assume a pay rise of c. 3% in line with expectations across the whole public sector. With CPI currently recorded at 2.5% with an expectation from the Bank of England that this is likely to peak at 3.7% in Q3 2025 before falling back to the Government's target of 2% in Q4 2027, an additional 1% pay award provision of £120,000 is provided within the working balance to offset this risk. Inflationary risks on other costs are a factor elsewhere. The Ubico contract is driven by fuel and pay increases and a provision of 1.5% on the 2025/26 General Fund contract value suggests a figure of £168,000 should be kept as a provision within the working balance. Whilst the rising costs of energy have been factored into the base budget, other supplies and services could be subject to an uplift in prices. A further £50,000 is considered prudent to be provided for within the working balance.
2.	Pension Fund Changes	The 2022 triennial review has brought a degree of certainty to future pension costs for 2023-2026. These will not impact adversely on the Council in the next 12 months so no specific provision is required at this point.
3.	Planned savings	The Savings Strategy identifies £1.130m of savings, efficiencies and additional

	Area of Risk	Explanation
	measures	income to be delivered in 2025/26, of which £0.630m is carried forward from 2024/25. Analysis of the sensitivity of our general balance levels to the delivery of savings is included on page 16 of the Medium-Term Financial Strategy included in the budget proposals at Appendix 9. The analysis shows that anything less than delivery of 60% of the total target for 2025/26 means that our general balance will fall to below £1.404m by 31 March 2026. Due to the work undertaken and decisions made in 2024/25, there is confidence in at least this level of delivery however 40% of the total (est. £452,000) have been incorporated within the working balance.
4.	Interest rate variations	After a sustained period of low interest rates, the Bank of England base rate now stands at 4.50%. Whilst the majority of the Council's borrowing is fixed, our existing strategy remains to use short-term borrowing to fund elements of our capital programme identified as work in progress. The 2025/26 budget assumes interest rates for short-term borrowing is 4.35% and whilst many commentators believe that interest rates have peaked there remains some upside risk. A provision of £104,000, reflecting a further 0.5% increase is therefore provided within the working balance.
5.	Volume variations demand led	During the economic downturn associated with Covid-19 the Council was extremely vulnerable to drops in key income streams, e.g. planning fees, car parking income, etc. The budget projections reflect a reset in some of these areas to align with changing consumer behaviours and to ensure the Council is less reliant on income from car parking charges. As such a provision amounting to £200,000 to reflect the volatility is recognised in the working balance. A number of earmarked reserves are also held specifically to deal with this volatility.
6.	Risk of litigation contingency	The level of risk associated with litigation is considered and a provision of £100,000 is retained within the working balance, which mirrors the budget provision for supplementary approvals. The Council holds a separate earmarked reserve for planning appeals which is also available if required.
7.	Emergency planning	Whilst the Government will step in to assist in the event of a major disaster there are thresholds at which assistance is given. This threshold is 0.2% of the net budget. Financial support is then given at 85% of costs above this level. Provision of £1m would cost this Council £170,000 which is provided for within the working balance; the cash flow impact would need to be handled from invested cash balances.
8.	Financial guarantees/ contingent liabilities	Run-off of the old Municipal Mutual Insurance claims has begun but no provision is required at this stage.
9.	Grant income	A number of one-off grant streams are anticipated in the 2025/2026 budget but no assumptions have been made for their continuation across future financial years. No risks have been identified around existing grant flows that require specific provision in the working balance.

	Area of Risk	Explanation
10.	Business rates retention	As part of the pooling arrangement, the Council could be required to contribute to large scale revaluations such as occurred with Virgin Media via Tewkesbury Borough Council. Provision for such occurrences should therefore be included within the working balance and as such £100,000 is held. The Council holds a separate earmarked reserve for Business Rates Retention which is also available if required.
11.	IFRS19 pooled investment fund statutory override	As part of the provisional local government finance settlement for England launched in December 2024, it included a question on IFRS9 pooled investment fund statutory override which is due to expire with effect from 1 April 2025. As part of the consultation response, we confirmed that we did not agree with the government's proposal to not extend the override due to the potential financial impact this could have if the unrealised gains and losses were taken to the General Fund Revenue leading to further pressures on service delivery. The government remains of the view that the override should not be extended beyond 1 April 2025, however, reflecting on the financial position of the sector, recognise that there may be a case for additional transitional support for historic investments, such as ours. It therefore appears that a further extension remains under consideration, but only for investments made before the 1 April 2025, which would apply to the pooled investments held by the Council. During the pandemic, the Council's book value loss was at a high of £870k, and if this was to have been taken through to revenue, would have had a detrimental effect on our year-end balances. In the current year to date, the book value has seen a gain in the funds held and it would be prudent to build-up a reserve to cover the eventual end of the statutory override, if implemented. A contingency provision of £200,000 is to be held in general balances to cover any change in government policy post April 2025.
12.	The Cheltenham Trust	A contingency provision of £100,000 is to be held in general balances for any unforeseen instances incurred by the Trust as they go through re-organisation and transformation post Covid-19.

The assumptions above total £1,764,000, suggesting that we strive to maintain a working balance around this figure during 2025/26. The Council should aim to not allow the working balance to fall below this figure. The current working balance is projected to be £1,856,319 at 31 March 2026.

EARMARKED RESERVES

In order to assess the adequacy of earmarked reserves when setting the budget, the Section 151 Officer should take account of the strategic, operational and financial risks facing the authority. Accepting that there are still some areas of uncertainty, the level of reserves appears adequate at this point in time and no other changes are currently recommended, although every effort should be made to increase the level of reserves held as a way of future-proofing against further funding reductions.

I have reviewed the revenue reserves and propose the transfers as identified in Appendix 7. I also consider that the financial reserves and working balance as proposed in these papers are adequate to fund spending plans for 2025/2026.

However, given the ambitions set by the Council, and the uncertainty surrounding the outcome of the Fair Funding Review and the Business Rates Retention reset, I strongly recommend that any future underspends or fortuitous windfalls are earmarked for transfer to either general balances or earmarked reserves.

3. CAPITAL HEALTH

The CIPFA Resilience Index highlights two particular indicators surrounding capital health:

- Interest Payable / Net Revenue Expenditure
- Gross External Debt

These measures only partially cover capital health as they are unable to analyse how these measures are factored in at a local level. Interest payable is more than covered by income received, which have been backed up by prudent business cases when it comes to commercial property investments and regeneration projects. The Council has also approved a prudent Minimum Revenue Provision (MRP) Policy that ensures all debt is serviced and repaid over the life of an asset.

Whilst the gross external debt level may be perceived to be high in value, this indicator alone does not reflect the strength of the Council's Balance Sheet or indeed recognise the benefits of debt such as social value, wellbeing and financial return.

The asset to debt ratio is a measure of a company's financial risk. That is, it measures how much of a company's debts could be paid off by selling its assets in case of liquidation. If it is less than 0.5, the company's ratio is strong, because the company is easily able to service their debts if they have to. If the ratio is large, like over 0.5 or especially over 1, more of the expenses are being paid by borrowed money, which might indicate less stability. With an asset to debt ratio of 0.32, the Council's ratio is therefore strong.

4. RISK ASSESSMENT

In response to the significant challenges that the Council is facing and the associated emerging risks, an integrated risk framework comprising the separate disciplines of risk management is well established in the Council and will be maintained. The Corporate Risk Register remains in place and will continue to be monitored monthly by the Chief Executive and senior officers, and reviewed regularly by Audit, Compliance and Governance Committee.

The specific risks relating to the financial environment and opportunities facing the Council are listed below and will require regular review during the course of the year as some of these become clearer:

- erosion of the Council's main source of funding (council tax and business rates);
- delivery of the major change programmes and associated efficiencies;
- potential policy changes (including service specific and fiscal) following the General Election in 2024;
- The English Devolution White Paper with plans for significant structural reorganisation of the sector and further devolution, and
- the absence of a Comprehensive Spending Review beyond 2025/26.

The Section 151 Officer is satisfied that the proposed budget, general balances and earmarked reserves adequately address these risks. Additional resilience has been assured over the long term through the decision to bring housing services under the delivery of the Council. This will ensure the Council is best placed to deliver efficiencies to protect services, enhance and improve the offer to residents by creating a tenure neutral approach as well as respond to new government regulations which place greater accountability on the Council for the operation and compliance of Housing Services.

5. FINANCIAL MANAGEMENT

The Council's previous External Auditor, Grant Thornton, have completed the audit of the 2021/22 and 2022/23 statement of accounts. However, due to the national backlog, the 2022/23 statement of accounts have now been "backstopped" and have therefore had a disclaimer audit opinion issued upon them. Our new External Auditor, Bishop Flemming, are finalising the audit of the 2023/24 statement of accounts, but again, due to time afforded, these will be subject to a disclaimer audit opinion. The 2023/24 statement of accounts are due to be formally signed off by the Audit, Compliance and Governance Committee at its meeting on 25 February 2025.

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.

The Internal Auditors, South West Audit Partnership (SWAP), have been able to progress through the internal audit plan and the outcome of this work has examined the Council's control framework.

The Section 151 Officer considers that the financial control arrangements are now sufficiently robust to maintain adequate and effective control of the budget during 2025/26.

6. OVERALL CONCLUSION

There is a legal requirement under the Local Government Act 1992, section 32 and 43 to set a balanced budget. The budget proposal includes budgets for expenditure and income and uses reserves to fund one off expenditure, fund future expenditure or phase in the impact of increased expenditure per the MTFS without drawing on the General Reserve.

I am, therefore, satisfied that the proposed budget is balanced and meets the legal requirement to set a balanced budget.

My overall view is that the budget is a sound response to continuing challenging financial circumstances, which maintains services, maximises efficiencies and responds to anticipated future financial challenges.

In line with statutory duties, Councillors are asked to consider the advice provided in this report, based upon my assessment of the robustness of the overall budget and estimates in the medium-term financial projections.

Whilst the Section 25 report is addressed to Councillors, it is crucial that senior officers understand its key messages, particularly how it impacts the operation of the authority within its budget.

7. STATEMENTS OF THE SECTION 151 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 2025/26 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 Strategy, I have determined that the level of reserves and balances for 2025/26 is adequate.”

PAUL JONES
Deputy Chief Executive (Section 151 Officer)