

SECTION 25 REPORT OF THE CHIEF FINANCE OFFICER (S151 OFFICER)

Local Government Act 2003 – Statutory Report

Cheltenham Borough Council – Budget Year 2026/27

1. Introduction

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) to report to the authority on the robustness of the estimates used for setting the budget and council tax, and the adequacy of the proposed financial reserves.

The Council is required to have due regard to this report when making decisions on the budget. The law expects councillors to consider the advice in this report when considering the 2026/27 budget proposals.

In preparing this report, the following have been considered:

- The operating context
- The financial management arrangements and control frameworks in place
- Budget planning process and the level of exposure to financial risks
- External factors that impact the Council's capacity and financial resilience
- The robustness of the budget assumptions
- The adequacy of the reserves

2. Operating Context

2.1 National and Sector Environment

Local government continues to face sustained financial pressure in terms of demand for services, inflation and interest rate volatility, and the structural underfunding of the local government sector. Inflation peaked at 11.1% in October 2022 and has continued to fall to being 3.4% in December 2025. Bank interest rates reached a 16 year high of 5.25% in August 2023 but have fallen back to their current level of 3.75%, with further cuts expected this year.

The Institute for Fiscal Studies (IFS) estimated that funding from central government to councils fell by 46% during the 2010s. Reform of council funding has been discussed for almost a decade, and the promised reforms have finally been introduced for 2026/27 through the Fair Funding Review. This review also reintroduced multi-year settlements, with funding allocations covering a three-year period from 2026/27 to 2028/29. The reintroduction of multi-year settlements

significantly helps with medium-term financial planning and provides greater certainty of over key elements of future budgets.

The balance of funding for councils has changed, with reductions in government funding and a shift to more being raised locally through council tax. The finance settlement from government assumes an annual council tax increase of 2.99%.

Local Government Reorganisation in two-tier areas, which is scheduled to be implemented by April 2028, would mean that the Council would cease to exist, with its assets and liabilities being transferred to a new unitary council.

2.2 Local Context

The 2025/26 Net Budget was set at £19.055m, and this included a contribution to General Fund Balances of £0.560m. Following a detailed review of all of budgets, savings and asset disposals the latest forecast is an overspend of £0.662m for year. This means that instead of contributing to General Fund Balances there will be draw on them of £0.101m for the year reducing them down from £1.286m to £1.184m at the end of 2025/26 financial year. The key items driving this position are non-delivery of savings and delays to asset disposals.

The level of General Fund Balances has been reviewed and updated with the level being set at £1.5m for 2026/27 with the budget proposal contributing £0.316m to bring them up top this level.

A review of all the Earmarked Reserves has been undertaken to identify if the reserve is still required or if they can be reallocated. This review has reduced down the number of Earmarked Reserves from 26 down to 10. Part of the process has been to top up the Business Rates Retention Equalisation Reserve to £500,000, the IT Repairs & Renewals Reserve to £150,000 and New Initiatives Reserve to £1m in recognition of the LGR implementation costs.

The budget for 2026/27 has been adjusted for the budget variances in the current year and updates for known changes such as inflation, the local government finance settlement and a council tax increase of 2.99% (Band D £252.11). The budget includes growth of £0.159m as well as the contribution to General Fund Balances to bring them up to £1.5m. The resulting savings target for 2026/27 is £1.054m which will be delivered through a savings programme that has 4 key areas of focus which are:

- Staffing establishment review – A review of the staffing establishment budgets focussed on identifying vacant roles and unallocated staffing budgets that can be removed. This review is also a key part of preparing for LGR and ensuring that HR records and staffing budgets are fully aligned.
- Base budget review – An efficiency review of the base budget to identify savings and additional income that can delivered with no impact upon

services. This will involve a line-by-line review of all budgets looking at actual spend and income compared to the budget over the last few years to identify variances. This review will assist with the preparation for LGR and will ensure that all of the detailed base budgets are as accurate as possible.

- Discretionary service review - This will review will focus upon reviewing the discretionary services and identifying possible savings options for members to consider.
- Capital project and funding review – A detailed review of capital programme including a detailed analysis of likely timings of likely spend and asset disposals.

Over the medium term, Cheltenham's Fair Funding allocations from government are forecast to fall from £7.698m in 2025/26 to £7.218m in 2026/27, £6.762m in 2027/28, and £6.270m in 2028/29. The forecast budget gap for 2027/28 is estimated to be £0.492m.

3. Financial Management Arrangements and Control Framework

3.1 Governance and Oversight

The Council's Code of Governance consists of several policy documents and procedures. A key component is the Council's written Constitution, which sets out how decisions are made and the procedures that are followed to ensure efficiency, transparency and accountability to residents. Within this there is the Budget and Policy Framework Rules which set out the processes and arrangements for the management of the Councils finances.

The CIPFA Financial Management Code (FM Code) sets out how Chief Finance Officers should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972. The Code sets the standards of financial management expected for local authorities and builds on the CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The FM Code applies a principle-based approach and the principles are:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.

- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool integrated into financial management, including political scrutiny and the results of external audit, internal audit and inspection.

3.2 Internal and External Audit Assurance

SWAP internal audit work indicates no significant weaknesses in core financial controls. The 2024/25 Statement of Accounts has been produced but will be disclaimed by the external auditors as they will not have fully tested everything by the backstop date of end of February. However, no significant issues have been identified.

3.3 Treasury & Capital Framework

The Treasury Strategy prioritises security and liquidity and has been produced based upon the advice of Arlingclose, our external advisors. The Minimum Revenue Provision (MRP) policy remains prudent. The capital programme is governed by gateway reviews and regular reporting.

3.4 Budget Monitoring

There is an established quarterly budget monitoring process with reports being taken to Cabinet and covering revenue, capital and the Housing Revenue Account (HRA).

4. Budget Planning Process and Exposure to Risks

The Cabinet approved the Budget Strategy, Process & Timetable 2026/27 at its meeting on 21 October 2025, with the assumptions being:

- The projection will be for a standstill budget, prepared under a general philosophy of no growth in levels of service.
- Pay Inflation: assumptions of 3% for the national pay award.
- Budgeted for employee pay inflation and an increase in members' allowances for 2026-27 which will include a contingency for any pay award.
- An inflationary increase to the relevant costs in the base budget.
- The impact of prevailing interest rates on the investment portfolio will be assessed in preparing the budget. The Treasury Management Panel will consider the position in respect of treasury management activity during the budget setting cycle.

The budget process has involved:

- The use of in-year budget monitoring including reviewing delivery of savings.
- Updating the detailed staffing establishment budgets for each service
- Use of external Treasury Management advisors, Arlingclose, who have provided an economic outlook and forecast of future interest rates which have been built into the Treasury Management Strategy for 2026/27.
- Review of the corporate risk register.
- Use of the NNDR1 form that is completed by the end of January 2026.
- Use of Pixel Financial Management and their modelling and forecast of resources over the medium term.
- Review of the final Finance Settlement for Cheltenham from MHCLG that was published on 9 February 2026.
- Detailed review of the current year's budget, identification of variances and the production of a revised 2025/26 budget.
- Continued alignment of the budget to Corporate Plan 2025–28.
- Formal consultation on the budget proposals (23 Dec 2025 to 31 Jan 2026) and ongoing scrutiny via Budget Scrutiny Working Group.

The key financial risks and mitigations are:

- Funding & Settlement Risk: Reductions in funding. Mitigation: The multi-year settlement has provided a level of certainty and aids multi-year financial planning.
- Savings Delivery Risk: The budget includes delivery of £1.097m of savings. Mitigation: clear project plans to be developed for the savings proposals with tracking of progress and regular reporting to Cabinet.
- Business Rates Volatility: Appeals/revaluation/pool risk. Mitigation: £0.5m Business Rates Retention Equalisation Reserve.
- Inflation & Contract Risk: Variability in pay, energy and major contracts. Mitigation: budgets for 2026/27 increased for inflation such as pay awards. General Reserves restored to assessed level of £1.5m.
- Treasury & Interest Rate Risk: Deviation from interest forecasts. Mitigation: Treasury Management Strategy based upon external expert advice and subject to regular monitoring.
- Capital Receipts/Disposals Programme Risk: The timing/value of capital receipts. Mitigation: The Capital project and funding review – A detailed review of capital programme including a detailed analysis of likely timings of likely expenditure and asset disposals.

5. External factors that impact the Council's capacity and financial resilience

There are a number of external factors that impact upon the Councils capacity and financial resilience and the key ones include:

- National economic conditions: inflation and interest rate impact upon the council's finances. Interest rates have fallen over the last year and 2 further rate cuts are expected during 2026/27 which will have a positive impact upon the councils' borrowing costs. Inflation has significantly reduced from its high of 11.1% in October 2022 and the Bank of England are forecasting to hit their target of 2% during the year.
- Statutory pressures: waste, homelessness, environmental and regulatory changes continue to shape the cost base and risk profile
- Funding for Councils: The Fair Funding Review has now been published and funding details up to and including 2028/29 are now known.
- Local Government Reorganisation: The proposals for reorganisation within Gloucestershire are currently out to consultation by MHCLG. The proposals would see all assets and liabilities of Cheltenham transferring to a new unitary in April 2028.

The other area that has had an impact on upon the Councils capacity and financial resilience is within the Finance Team itself. There has been a loss of key personnel and corporate knowledge. This has been addressed through the use of interim support.

6. Robustness of Budget Assumptions

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.

The formation of the 2026/27 Budget is based on a series of assumptions relating to risk, funding assumptions and likely trends in inflation and demand. It is important that these assumptions are as robust as possible and there is provision to manage unforeseen risk. The key assumption in developing the 2026/27 budget estimates include:

- Pay award: 3% increase for the national pay award
- Council tax: 2.99% increase taking the Band D charge to £252.11 and based upon an updated council tax base of 45,008.7 giving an income of £11,347,143
- Pensions: 17.1% for the primary rate plus £290,000 for the secondary rate
- Fees & charges: inflationary uplift per approved schedule
- Borrowing rates: 3.75% average
- Business rates payable: 3.9%
- Funding from Government: Based upon the final finance settlement announced on 9 February 2026

7. Adequacy of the Reserves

The Council holds General Fund Balances to cover unforeseen circumstances and Earmarked Reserves which are funds set aside for a specific purpose.

The updated assessment of the level of General Fund Balances indicates that they should be set at £1.5m which is equivalent of 7.5% of a net budget of £20m. The updated level takes account of the publication of a three-year funding settlement from government and the certainty that this now brings. It also takes into account the financial risks facing the council and level of Earmarked Reserves.

A review of all of the Earmarked Reserves has been undertaken to identify if each reserve is still required or if they can be reallocated. This review has reduced down the number of Earmarked Reserves from 26 down to 10. Part of the process has been to top up the Business Rates Retention Equalisation Reserve to £500,000, the IT Repairs & Renewals Reserve to £150,000 and New Initiatives Reserve to £1m in recognition of the LGR implementation costs.

At the start of 2025/26 the total amount of Earmarked Reserves & General Fund Balances stood at £4.795m, and they are forecast to increase to £5.230m by the end of 2026/27.

8. Overall Section 151 Officer Assurance Statement

The 2026/27 budget proposals require the delivery of savings totalling £1.053m, in order to ensure that reserves are maintained at their forecast level.

Robustness of Budget Estimates

In my opinion, the estimates used in preparing the Cheltenham Borough Council Budget for 2026/27 are robust. They are based upon sound assumptions, are built up from the revised 2025/26 position and reference the latest information available.

Adequacy of Reserves

I am satisfied that the proposed level of reserves—including a minimum General Fund Balance of £1.5m and total reserves forecast at £5.230m—is adequate to support the 2026/27 budget and associated risks.

Overall Conclusion

As the Section 151 Officer, I can formally report that in my view the budget estimates recommended by the Cabinet are robust and the level of reserves adequate, as required by the Local Government Act 2003.

Adele Taylor

Director of Finance and Operations (Section 151 Officer)