

Section 25 Report - Section 151 Officer Report on the Robustness of the 2026/27 Budget Estimates and the Adequacy of Reserves

1. Introduction

- 1.9 The Council has a legal duty to set a balanced budget and must take all reasonable factors into account when doing so. Under Section 25(1)(b) of the Local Government Act 2003, the Section 151 Officer (Chief Finance Officer) has a personal responsibility to advise the Council on the robustness of the budget estimates and the adequacy of the Council's reserves when it considers its budget and council tax. The Act requires Members to have regard to this advice when making their decisions.
- 1.10 To support Chief Finance Officers (CFOs) in fulfilling this responsibility, the Chartered Institute of Public Finance and Accountancy (CIPFA) provides guidance on the CFO's role in the budget-setting process, including the requirement to provide a statement on the robustness of estimates and the adequacy of reserves. This statement has been prepared in accordance with that guidance, and Members are advised to consider the content of this report carefully.

2. The robustness of the estimates

- 2.1 The robustness of the estimates involves scrutinising the detailed elements of the budget, weighing all relevant factors, and taking a balanced view of the associated risks. Depending on the level of risk identified within the proposed budget, the Chief Finance Officer is required to consider the Council's contingency arrangements should planned savings not materialise. This report seeks to outline the risks associated with delivering the proposed savings, together with the implications and contingency measures should those savings not be achieved as planned.
- 2.2 In these exceptionally challenging times, councils continue to face the ongoing impacts of the cost-of-living crisis and the housing crisis. In the case of Spelthorne following the Best Value Directions, it is seeking to reduce its risk exposure by paying down debt more rapidly and rationalise its investments assets portfolio. Additionally in April 2027 the Council will be passing across its assets and liabilities to West Surrey Council. It is therefore more important than ever that the Council adopts a careful and prudent approach to budget setting and sets out a medium-term strategy for achieving financial sustainability, for both revenue and capital, and to the assessment and management of budgetary risk.
- 2.3 Whilst in the long term the revised Minimum Revenue Provision Policy adopted by Council in November 2025 will ensure debt is written down faster and reduces longer term risk, in the short term it places greater pressure on the Revenue Budget. One key mitigation of this factor will be the delivery of a medium-term assets rationalisation programme, and a second mitigating approach will be the combination of using reserves and delivering revenue savings to close the Budget gap.

2.4 Officers, will closely monitor movements in interest rates, make informed judgements regarding the recovery of income from fees and charges, and assess and manage the risks affecting the Council's commercial and retail income streams. The ongoing impact of these factors on the Council's current and future financial position will be kept under regular review.

2.5 In light of the challenges outlined earlier in this report, officers will continue to closely monitor collection rates for Council Tax and Business Rates, as well as income from investment assets. The Knowle Green Estates Board will oversee the management of residential rental income, including monitoring rent arrears, reducing costs where possible, and seeking opportunities to increase income, while effectively managing the Council's 174 residential rental units. The Council as the sole shareholder of KGE is currently evaluating options for determining the longer future direction of the assets under the company's control.

2.6 There are a range of other legislative measures in Local Government Acts which are in place to ensure local authorities do not over-commit themselves financially. These include the Chief Finance Officer's power and duty under S114 of the Local Government Finance Act 1988, which requires a report to all members of the Council if there is, or likely to be, unlawful expenditure or an the expenditure of the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources, including reserves.

2.7 The Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which guides local authorities on the affordability of their capital programme. This is addressed in the Treasury Management Strategy 2026/27 report going to February Council.

2.8 The 2003 Act does not provide any specific guidance on how to evaluate the robustness of the estimates. However, it does identify the need to allow for risks and uncertainties that might lead to expenditure exceeding budget by:

- Making prudent allowance in the estimates for inflation, known cost increases, or reductions in income and in addition
- Ensuring that there are adequate reserves to draw on if the estimates are insufficient.

2.9 It is stressed that the advice contained in this report on the appropriate level of reserves is not based on a percentage of spend, but on an assessment of all the circumstances likely to affect the Council. Whilst we are aware that Spelthorne as other West Surrey councils, is in the first wave of Reorganisation, we have for the moment continued business as usual projections. Guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) states the following factors should be considered by the section 151 officer in undertaking an assessment on the overall level of reserves and balances:

- Assumptions regarding inflation, which clearly are of increased significance at present.
- Treatment of demand led pressures.
- Treatment of savings
- Risks inherent in new partnerships etc.

- Financial standing of the authority (i.e., level of borrowing, debt outstanding etc).
- The Authority's track record in budget management
- The Authority's capacity to manage in year budget pressures.
- The Authority's virements and year end procedures in relation to under and overspends.

2.6 Estimates of the level and timing of capital receipts. Given the assets rationalisation programme this will be of particular significance. Timing of realisation of capital receipts relative to the year end date of 31st March has a particular impact on each subsequent year's Minimum Revenue Provision charge to the Revenue Budget.

2.7 In making this assessment, the Section 151 Officer has had regard to the most recent findings and recommendations arising from the Best Value Inspection and reports from the Council's External Auditors, particularly those relating to the need to strengthen medium-term financial planning.

2.8 In assessing the robustness of the Council's budget approach, the Section 151 Officer, working with senior officers and Councillors, has considered the Council's financial position over the next three years and how that impacts on West Surrey's baseline position. The Government has confirmed the outcome of the local government funding reform, which is intended to direct additional resources towards areas with lower tax bases and higher levels of need. This reform has resulted in a redistribution of grant funding between councils and has been accompanied by a reset of business rates. These changes a begin to take effect from 2026/27, with Spelthorne, along with other Surrey councils, over a three-year period will be relatively disadvantaged in real terms but cushioned by a grant floor.

2.9 A full business rates reset also takes effect with effect from 1st April 2026. In 2026/27 Spelthorne is assisted by the business rates safety net. While the reset has highlighted significant challenges from 2026/27 onwards, it also indicates that, given current levels of reserves, the Council has sufficient reserves to balance its budget in 2026/27 and hypothetically in 2027/28 and 2028/29 as well. This is based on the recent updated Reserves Strategy which was approved by the Council in December 2025.

2.10 Over the coming year, the Council will place particular emphasis on two key priorities. First, it will ensure the robust monitoring and delivery of the £1 million of unidentified efficiency savings built into the budget, with progress reported regularly to Councillors. These savings will deliver larger full year benefits for West Surrey. Second, the Council will actively engage with the Surrey Local Government Reorganisation transitional process to help ensure a safe and legal transfer to West Surrey. Once the new Council is established significant transformation work will be undertaken. This is informed by options analysis undertaken by consultants. It is important that the in-year target savings levels are delivered in 2026/27.

2.11 It remains essential that the Council continues to critically review its financial management performance. One of the key messages of the CIPFA Financial Management Code is that responsibility for effective

financial management rests with the whole senior management team, encompassing both Members and officers.

2.12 Key areas of focus over the last 12 Months include:

- Improvements in financial management, governance, and reporting processes as part of the Improvement Plan agreed with government appointed Commissioners.
- The Council has developed and implemented a new MRP Policy to ensure long-term financial sustainability and adherence to updated regulatory guidelines.
- Improved the accuracy and timeliness of the Statement of Accounts, significantly enhancing the quality of financial reporting and transparency. This included a more rigorous review process, which resulted in clearer and more comprehensive financial statements for stakeholders. Improvements in the have been confirmed by the external auditors in their 2024/25 Audit Findings report.
- Refinanced Council debt to reduce outstanding debt by 32.3% - reducing future financial liabilities. The new debt structure aligns with the Council's financial strategy and IRP objectives, providing enhanced financial flexibility and resilience.
- Drafted a new Medium-Term Financial Strategy (MTFS) which outlines clear financial priorities and the pathway to financial recovery over the next 3-5 years.
- Strengthened Financial Governance and Compliance - Implemented improvements in financial governance and compliance, strengthening internal controls and reporting mechanisms in line with the IRP's objectives. Ensured full adherence to regulatory requirements and financial best practices, enhancing the Council's credibility with stakeholders and external auditors.
- Enhanced Stakeholder Engagement and Reporting - Increased transparency and communication around financial performance and the recovery plan by enhancing stakeholder engagement and regular reporting. Developed clear and accessible financial reports for both internal and external audiences, ensuring all key stakeholders were informed and aligned with progress on the IRP. Still progress to be made in improving the clarity and usefulness of reports.
- Improved service delivery and efficiency through more efficient use of resources, faster processing times for payments, better oversight of budgets, and improved accuracy in financial reporting.
- Enhanced service delivery to budget managers across the Council to ensure that services continue to be funded and operate effectively despite the challenges of financial cuts or inflationary pressures, and ongoing improvement through an updated financial management system, which allows for better forecasting, reporting, and compliance.

2.13 The Council and the Finance team have collaborated effectively with the Finance Commissioner to ensure alignment of key financial policies and strategic objectives with the overall Council recovery plan. This includes engaging in collaborative decision-making on critical financial issues and projects, including the adoption of the new MRP Policy, debt refinancing, and the MTFS, driving positive outcomes for the Council's financial health.

Adequacy of Reserves

2.14 The Local Government Act 2003 requires the Chief Finance Officer to report on the adequacy of the Council's financial reserves when the General Fund budget requirement for the year is being considered. Under the Local Government Finance Act 1988, all usable revenue balances held by the Council are, in principle, at the disposal of the General Fund, with the exception of the Collection Fund and Section 106 / Community Infrastructure Levy (CIL) reserves. However, all of Spelthorne Borough Council's reserves have been approved by Council as earmarked and may only be used for their intended purposes.

2.15 The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). There are also safeguards in place to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement
- Chief Finance Officer's S114 powers
- The external auditor's responsibility to review and report on financial standing
- The prudential code for capital finance

2.16 The minimum prudent level of reserves that the Council should maintain is a matter of professional judgement. Reserves act as the Council's safety net, providing a contingency to cushion the impact of unexpected events or emergencies, as well as a working balance to manage uneven cash flows. Reserves can also be used to build up funds commonly referred to as earmarked reserves to meet known or anticipated liabilities.

2.17 These issues, together with the Council's Reserves Policy approved by Council at its meeting on 11 December 2025. The Council's General Fund revenue reserve, which acts as the primary contingency reserve, currently stands at £4.1m, representing 20% of the proposed net budget requirement for 2026/27.

2.18 The Chartered Institute of Public Finance and Accountancy (CIPFA), in its Financial Management Code, states that "the aim of the authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges."

2.19 During the 2023/24 financial year, the Council applied £15.8m from reserves to mitigate the impact of accumulated capitalised costs relating to abortive housing sites that were required to be charged to revenue. In addition, £6.5m of reserves were applied in 2024/25 to offset the impact of the Minimum Revenue Provision (MRP) on regeneration assets reclassified as surplus with effect from 1 April 2024.

2.20 Despite these significant applications, the Council retained a reasonable level of reserves. As at 31 March 2025, total usable reserves stood at £56.2m. Of these £40.9m available from the start of 2025/26 to be used flexibly to support the MTFS. It is estimated that at the end of 2025/26 £21.7m of these reserves will remain available to support future budgets.

2.21 This position must be considered in the context of the Council's outstanding loan debt, which stood at £715m following the refinancing of PWLB debt completed on 25 November 2025.

2.22 Not all reserves are available for use. Some arise from statutory and accounting requirements and are therefore classified as unusable reserves. These reserves cannot be applied for any other purpose and are excluded from the Reserves Strategy, as their creation, purpose, and use are prescribed and not subject to local discretion.

2.23 An effective Reserves Strategy must be subject to regular review and adaptation to reflect the evolving risks faced by the Council. The context in which the Council holds reserves has changed significantly in recent years. Historically, the strategy focused on the long-term retention of investment assets and the management of associated risks through the accumulation of earmarked sinking fund reserves to support the sustainability of rental income streams.

2.24 In May 2025, the Council received Statutory Directions requiring the implementation of a strict debt reduction programme and the disposal of a substantial proportion of its investment assets. Under the Improvement and Recovery Plan, the majority of these assets are expected to be sold over the medium term. As a result, the original rationale for maintaining sinking fund reserves has materially changed.

2.25 In parallel with these Statutory Directions, the Council has revised its Minimum Revenue Provision (MRP) policy to comply with statutory guidance. This revision has led to a significant increase in the annual MRP charge to the Revenue Budget, placing additional pressure on the Council's overall financial position. To help mitigate these pressures, the Council has undertaken a debt rescheduling exercise and will implement an asset rationalisation programme. While these actions will provide some relief, they are not expected to fully offset the ongoing budgetary pressures.

2.26 Consideration has also been given to risks arising from group relationships between the Council and its two subsidiary companies. The more material of these is Knowle Green Estates (KGE), which has loan financing of approximately £45.3m from the Council. This loan exposure is supported by rental income generated from KGE tenants. Over time, rental income is expected to increase through annual rent uplifts, while interest rates on the loans are fixed for a 50-year period. The company operates a target of re-letting void properties within 10 days and has a strong track record in achieving this. Performance on voids is reported monthly to the KGE Board, alongside rent arrears, which remain consistently low.

Conclusion

2.27 The Chief Finance Officer is satisfied that each service budget has been prepared in the context of the Council's corporate strategies, including the Capital Strategy and longer-term financial strategy which means that the

Council is presented with robust estimates as a basis for making decisions about the level of Council tax.

2.28 Having reviewed the Council's reserves position in the context of the current economic and financial environment, it is concluded that the Council continues to operate with an acceptable level of reserves in the near term. However, it is important to note that plans to generate significant additional income and reduce expenditure will need to be developed over the coming year, in conjunction with other West Surrey councils. This will be necessary to mitigate key risks—particularly those relating to commercial property income, potential reductions in government grant and business rates income—and to address rising service costs, most notably the cost of nightly paid temporary accommodation, in order to balance budgets over the life of the Medium-Term Financial Strategy.