

Approaching the Section 25 statement

This briefing builds on a round table hosted by CIPFA which brought together experienced local government chief financial officers from across the country to explore how Section 25 statements have evolved and to share their thoughts and insights on how to improve the effectiveness of these key documents.

Background

The [Local Government Act 2003 \(Section 25\)](#) requires that the chief financial officer reports the following matters to members when agreeing its annual budget and precept:

- the robustness of the estimates made for the purposes of the budget calculations, and
- the adequacy of the proposed financial reserves.

An authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made.

For members the Section 25 statement provides critical context for budgetary discussions. The provision of this information is a legal requirement and ensures that all members have regard to the professional advice provided by the authority's chief financial officer when final budget decisions are made being made.

There is not a prescribed format for a Section 25 statement and over the years these statements have evolved to reflect the increasing complexity and uncertainty that surround local authorities.

As skilled finance professionals, the participants of the round table discussed what they had learnt from their own experience producing these reports, but also reflected on the experience of others. The conversations showed a document in transition and that CFOs are now using the Section 25 statements with more confidence to proactively tell the story of the authority's finances and budget rather than an after-the-fact financial statement narrative.

The discussion reflected two main themes:

- the strategic challenges faced to ensure the Section 25 statement is effective
- the practical challenges on content presentation and governance.

The strategic challenges faced to ensure the Section 25 statement is effective

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:

“Since 2010-11, local authority spending has fallen from 7.4 to 5.0 per cent of GDP, and it falls further in our 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, for example adult and child social care, pressure on local authority finances and services will continue.”

[Economic and Fiscal Outlook – November 2023](#) (Office for Budget Responsibility, 2023).

The participants felt that a key role of a strengthened Section 25 statement was to ensure there was a clear understanding of the inherent risk in the sector that impacted their organisation and that this strategic view added to the effectiveness of the statement.

These strategic risks included:

- understanding the appropriate balance between short- and medium-term narrative
- awareness of the potential risk of a Section 114 and the actions needed to remain financially sustainable
- clarity on the impact of industry-wide financial strain temporarily mitigated by the government through special overrides, for example, the Dedicated Schools Grant (DSG) high needs deficits
- possible risks from other ring-fenced funds such as the Housing Revenue Account (HRA).

In addition, the group discussed how effectiveness can be improved by ensuring members understand and can challenge the Section 25 statement when required, by:

- establishing governance arrangements to address more serious concerns raised in a Section 25 report
- increasing awareness of the importance of the Section 25 statement within the wider leadership team
- upskilling newly appointed Section 151 officers and supporting them with the production of a statement
- developing the skills of deputy directors of finance prior to appointment.

Practical suggestions

There is no prescribed format for a Section 25 statement and so the participants discussed what they felt made for an effective report. The suggestions covered a number of topic areas including content, presentation and governance arrangements, and the thoughts of the attendees have been captured below.

Content of the Section 25 statement

Introduction

- Macroeconomic context within which the council operates and medium-term economic outlook.
- An overview of financial management track record, governance and delivery of strategic objectives.
- Note on compliance with the codes and standards.

1. Robustness of estimates

- A summary of key assumptions around growth, inflation and the impact of macro conditions highlighted in the context.
- Income assumptions that align with the economic environment the council operates, demand anticipated and pricing.
- Capital receipt assumptions and dependencies.
- Grant assumptions, highlighting unguaranteed grants such as new home bonus. Also reference grants that may be awarded at short notice and the council's capacity to utilise them.
- Savings requirement and feasibility of the plans to achieve the required savings.

- Statement of controls required to deliver more ambitious savings plans.
- Financial risks relating to commercial ventures, partnerships and/or investment. Estimated income, or cost saving projections that are dependent on the success of those ventures.
- Other financial risks facing the council and the mitigations in place.
- Debt service cost and exposure to interest rate risks.

2. Adequacy of reserves

- A summary of reserves clearly outlining unusable and earmarked reserves from general reserves.
- Reserve narrative summarising the purpose of earmarked reserves and the basis of calculation of general reserves.
- A review of the authority's resilience using CIPFA's Resilience Index and plans to manage risk areas.
- Where relevant, Dedicated Schools Grant (DSG) deficits and the feasibility of plans for managing those deficits as agreed with the Department for Education (DfE).
- Where relevant risk of HRA deficit and mitigations in place to limit General Fund impact.
- IFRS 9 deficit and any reserve set aside to mitigate.

3. Conclusion and call to action

- Statement of CFO opinion on adequacy of reserves and any reservations.
- Recommendation to members and specific actions required to deliver on key assumptions.

Presentation of the Section 25 statement

There was a shared view that being overly prescriptive on the presentation of the Section 25 statement would not be helpful, but there was unanimous agreement that the choice of presentation should maximise member engagement. There continues to be a varied approach to presenting Section 25 Statements as part of the budget report, as a separate report or as an appendix to the budget report.

Whatever approach is taken, the choice of presentation should be transparent and understandable.

Most importantly, the wording of Section 25 statements should:

- be clear as to the robustness of estimates, savings plans and budget
- present a summary of reserves, clearly demarcating earmarked reserves
- tell the story of an authority's financial sustainability clearly and concisely
- specify the decisions the authority must take considering the report.

Governance

The participants noted that each authority goes through a unique assurance process for its Section 25 reporting. There was consensus that it is good practice for the annual governance statement to reflect on how the authority has complied with its governance process for preparing the budget and Section 25 statement.

There was also agreement that while the Section 25 report is addressed to members, it is crucial for senior officers to understand its key messages, particularly how it impacts the operation of the authority within its budget. One participant spoke about successfully

involving service directors early in the budgeting process to increase their sense of responsibility for the robustness of the authorities' budgets and reserves.

Examples of other good practice to consider embedding in the governance process include:

- an iterative process to test scenarios of alternative solutions to budget constraints – this requires effective dialogue between the CFO and senior management
- early member engagement by sharing a first draft to cabinet with initial proposals about robustness of estimates and reserves
- use of scrutiny committee as an important check and balance, particularly when more difficult decisions are required to assure that the budget estimates are robust
- supporting members to understand the content of the statement – the recommendation that full council note the contents of Section 25 statement.

Conclusion

The participants concluded that early iterations of Section 25 statements were short and covered high-level risk such as a narrative about demographic pressures and a commentary on cost control.

More recent Section 25 statements are more robust, often linking with the annual governance statement (AGS). They cover the current year and consider the medium and longer term. They address issues in detail including concerns around reserves, income uncertainty and potential deficits.

There was consensus that this is a positive move that reflects the seriousness and importance of the document. While not all, many embraced the idea of a separate report as a stand-alone document.

Finally, there was agreement that a Section 25 statement by itself will not address the challenges local authorities face. However, a clear articulation of what makes a council's budget position robust is a critical way to engage members in budgetary discussions.

CIPFA would like to thank all those who contributed to this round table which was supported by members from the following groups:

- Society of London Treasurers
- Society of County Treasures
- Society of District Treasurers
- Society of Unitary Treasures
- Society Of Metropolitan Treasurers
- Members of ALATS.