



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	OVERVIEW & SCRUTINY COMMITTEE – 02 SEPTEMBER 2024
Subject	BUILDING THE BUDGET
Wards affected	All
Accountable member	Cllr Mike Evely, Deputy Leader and Cabinet Member for Finance Email: mike.evely@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Report author	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Summary/Purpose	To provide members of Overview and Scrutiny committee an outline of the Council's budget setting process, key decision points, and a brief outline of the administration's approach to the annual budget consultation.
Annexes	None
Recommendation(s)	That Overview and Scrutiny Committee <ol style="list-style-type: none">1. Note the report on Building the Budget.2. Consider and recommendations it wishes Cabinet to consider for the 2025/26 Budget Consultation.
Corporate priorities	<ul style="list-style-type: none">• Delivering good services
Key Decision	No
Exempt	No
Consultees/ Consultation	None



1. BACKGROUND

- 1.1 This report provides members of Overview and Scrutiny committee an outline of the Council's budget setting process, key decision points, and a brief outline of the administration's approach to the annual budget consultation.
- 1.2 In common with the almost all local authorities, the council faces several external budget pressures that are impacting on its finances over the medium-term. Whilst inflation has fallen back over the course of the calendar year, there remains uncertainty around interest rates and inflationary pressures in the current financial year which exert an influence over the Council's budget both directly and indirectly.

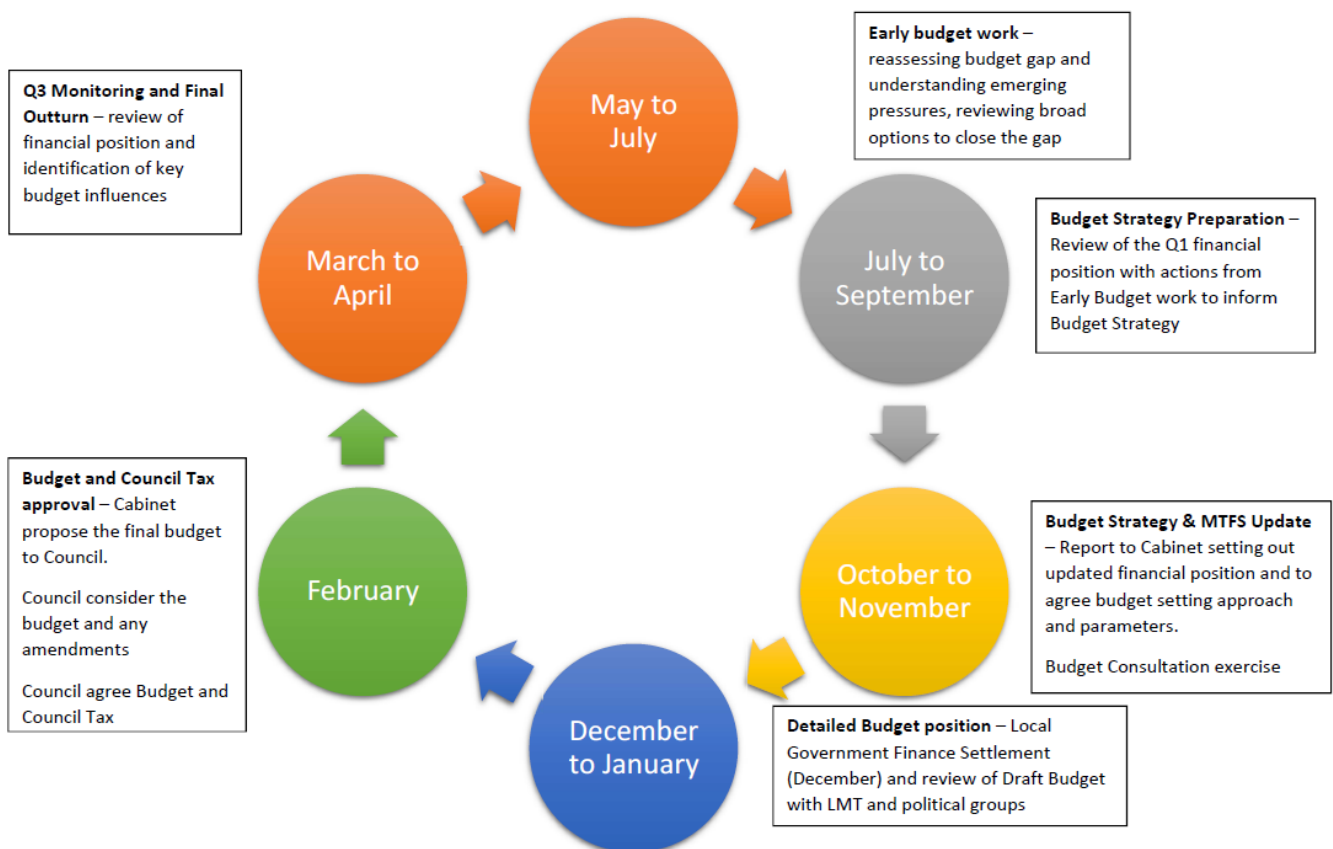
2. ANNUAL BUDGET CYCLE

- 2.1 All local authorities are required on an annual basis to set a balanced budget and approve the level of Council Tax.
- 2.2 There is a robust legislative framework setting out what Councils must do and by when. The provisions of the Local Government Finance Act 1992 (LGFA 1992) set out what the council has to base its budget calculations upon and require the council to set a balanced budget with regard to the advice of its Chief Finance Officer (Section 151 Officer).
- 2.3 The setting of the budget is a function reserved to full Council, who will consider the draft budget which has been prepared by the Executive (i.e. Cabinet). Once the budget has been agreed by full Council the Executive cannot make any decisions which conflict with it, although virements and year-in-year changes can be made in accordance with the council's financial regulations. The budget must be set before 11 March in the financial year preceding the one in respect of which the budget is set.
- 2.4 The Local Government Association's [*Must know guide: The annual budget process*](#) is a useful reference guide for members on the way Council budgets are prepared and includes the following salient points in the introduction:
 - The annual budget process is probably the single biggest, most complex exercise that any council undertakes as part of its annual cycle.
 - Getting this process right is vital to the council's success and contributes significantly to what it achieves for the local area. Without a sustainable budget which supports long-term financial resilience many other plans and aspirations may well founder



3. COTSWOLD DISTRICT COUNCIL BUDGET SETTING

- 3.1 The Council's constitution sets out the Budget and Policy Framework Rules (Part D4), Financial Procedure Rules (Part D9), and the Council Budget Protocol (Part G Appendix D) that outlines the roles and responsibilities for preparing and proposing the budget and the way in which the budget presented to Council and approved.
- 3.2 In practice, the budget setting process should be seen as a continuous cycle – as soon as the annual budget is formally set in February focus shifts towards the following year's budget and how financial performance (as reported in the quarterly Financial Performance Reports) may influence the direction. The diagram below provides an overview of the cycle.





- 3.3** As shown in diagram above, there are two reports that are presented during the budget setting cycle that provide members with updates on the key considerations.
- November O&S and Cabinet: Budget Strategy and MTFS Update report.
 - February O&S, Cabinet and Council: Revenue Budget, Capital Programme and Medium-Term Financial Strategy report
- 3.4** November's Budget Strategy and MTFS Update report is the most relevant to consider at this meeting following discussion at the Overview and Scrutiny Committee on 08 January 2024 on the 2024/25 Budget Consultation Feedback Report.
- 3.5** This report will set out the Budget Strategy to support the preparation of the 2025/26 revenue and capital budgets and provide an update Medium Term Financial Strategy forecast. This will include:
- Review of the external economic environment (inflation, interest rates) and the assumptions underpinning the MTFS (e.g. Pay Award, General Inflation).
 - Changes to Government policy and/or consultations that will influence the Council's financial projections.
 - Review of the prior year's outturn report and the current year forecast – what impact does this have on the budget strategy and MTFS (i.e. have savings and cost reductions been achieved, performance on fees and charges).
 - Review of the risks and uncertainties from the current MTFS – are they relevant, optimistic, or pessimistic?
 - Changes in demand for services or other demographic shifts (e.g. temporary accommodation for homeless)
 - Political considerations on Council Tax, Fees, and Charges
 - Review of the Capital Programme and Capital Financing position including availability and revenue impact of internal capital financing (e.g. Capital Receipts, reserves) and options for external capital finance e.g. Prudential Borrowing).
- 3.6** A Budget Consultation exercise is undertaken each year following Cabinet approval of the Budget Strategy and MTFS Update report. As set out in the LGA Must know document:
- “Formal consultation on the budget needs to be legally compliant, and that includes taking account of the government’s statutory guidance on best value. Section 3(2) of the Local Government Act 1999 states that councils must consult taxpayers, service users and other interested persons when deciding how to fulfil their Best Value duty. Although there is no specific requirement to consult widely on the budget, (the council must consult with non-domestic rates payers on its plans for expenditure under Section 65 of the Local Government*



Finance Act 1992), it is an important element of achieving best value and many councils take the opportunity of setting the budget to meet their statutory best value responsibility”

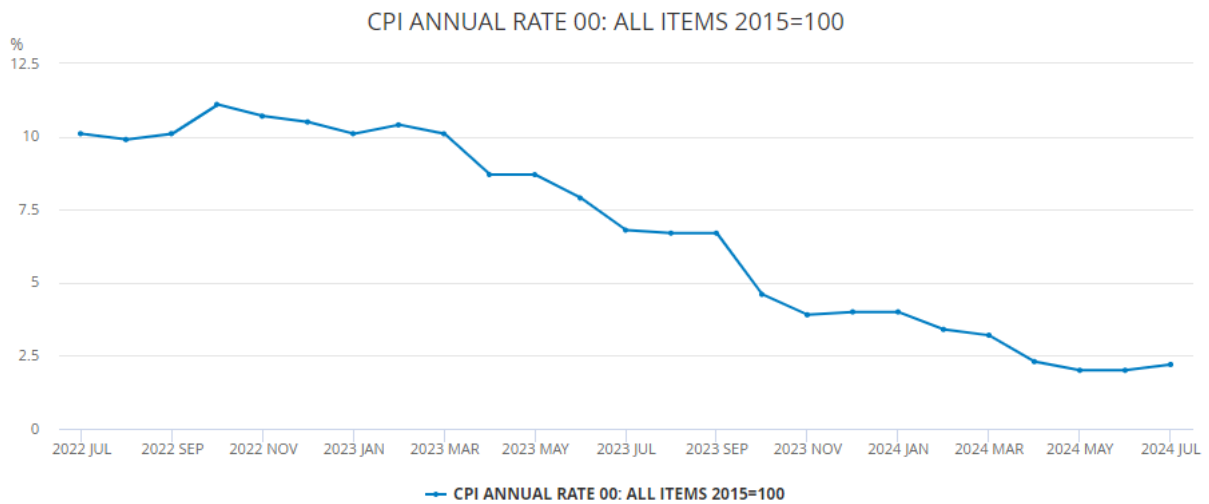
- 3.7 Consultation provides members with the opportunity to engage with residents on the Council’s financial position (in particular the size and scale of the financial challenge), what it will need to do to address this, and the priorities for the coming year.
- 3.8 The 2024/25 budget consultation exercise asked residents for their views on the Council’s budget proposals:
- Whether residents agreed with the administration’s approach to the budget.
 - Whether the Council should make proposed changes to Waste and Recycling services.
 - Whether residents agreed with the approach to increase Council Tax.
 - Asked residents for their view about potential changes to parking charges.
 - Invited residents for comments on the Council’s priorities or any other aspect of the Council’s spending and service delivery.

4. EXTERNAL ECONOMIC ENVIRONMENT

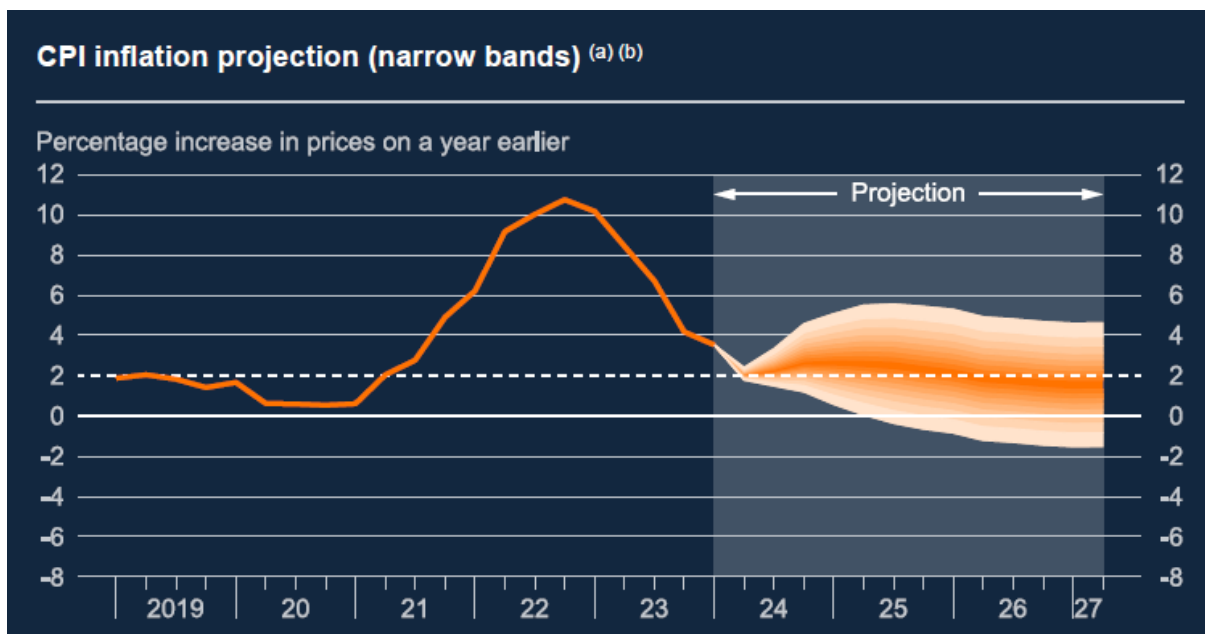
- 4.1 The following section is taken from the Q1 Financial Performance report. The *2024/25 Revenue Budget, Capital Programme and Medium Term Financial Strategy* report to Council in February 2024 outlined the external economic pressures on the Council that were likely to have a material impact on the budgeted and MTFS. An update on economic environment is provided below.

Inflationary Pressures

- 4.2 The level of inflation, as measured by the Consumer Prices Index, for July 2024 is 2.2% (up from 2.0% in June 2024). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 3.6% (2.9% in June 2024). Core inflation (as defined by the Office for National Statistics as the CPI Rate excluding energy, food, alcohol, and tobacco) fell to 3.3% (3.5% in June 2024). It is this measure that concerned the Bank of England and led to increases in interest rates during 2022 and 2023 with easing of the base rate in July 2024.



- 4.3 Although general inflation has reduced since the start of the calendar year, the Council is subject to specific inflationary pressures on its services (e.g., fuel costs on waste and recycling service) which have tended to track higher than CPI and RPI.
- 4.4 The forecast for inflation is to remain close to the Bank of England’s target of 2.0% (CPI) with analysts commenting on the August 2024 rate that the slow and gradual deflation remains with the expectation of further interest rate cuts in the latter half of the year. The graph below shows the different CPI forecasts that are published in the quarterly Bank of England Monetary Policy Committee report (August 2024).



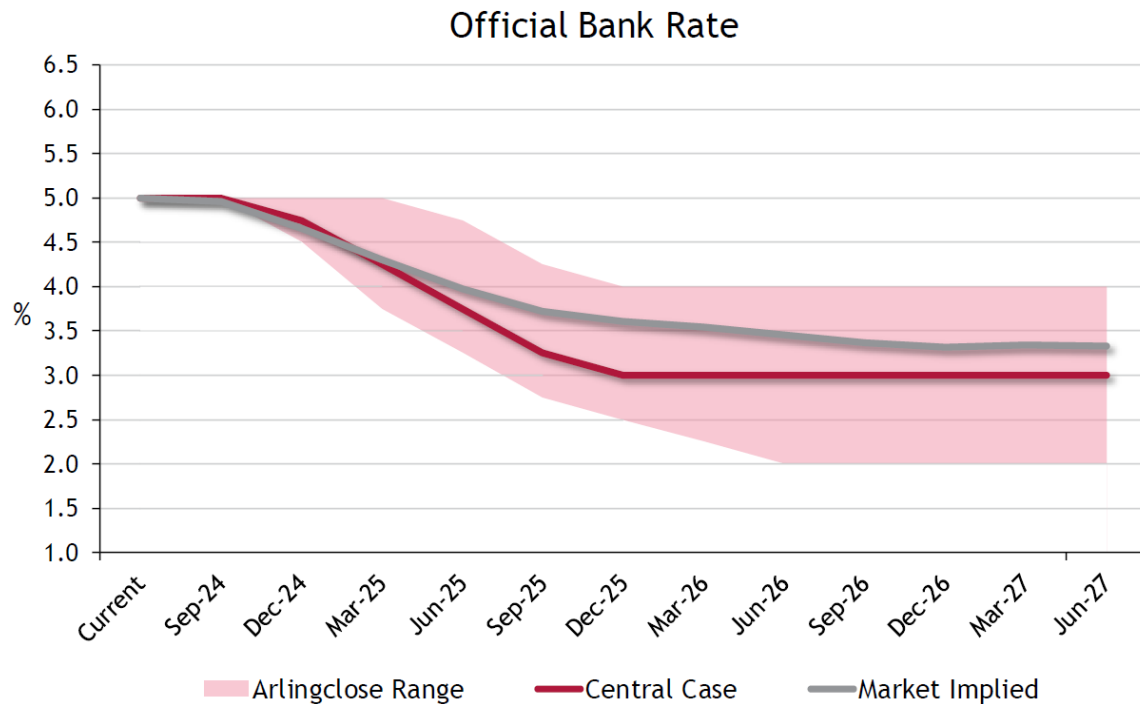


Inflationary Pressures – Pay Award

- 4.5 The assumption made for the 2024/25 budget was for an average Pay Award of 5% across Publica and Council staff with 6% budgeted for across Ubico. Inflationary provision of just under £1m has been included in the budget for the pay award across Publica and Ubico contracts and for retained staff costs.
- 4.6 Local Government employers made a final offer to the unions in May 2024. With effect from 01 April 2023, the offer made by employers was:
- an increase of £1,290 (pro rata for part-time employees) to be paid as a consolidated, permanent addition on all NJC pay points 2 to 43 inclusive (equating to an increase of between 2.50% and 5.77% depending on the paygrade)
 - an increase of 2.50% on all pay points above the maximum of the pay spine but graded below deputy chief officer
 - an increase of 2.50% on all allowances
- 4.7 For reference, the financial implications of the employers offer outlined above is within the inflation allowance in the current year's budget.
- 4.8 The unions have rejected this offer and are seeking a pay increase of £3,000 or 10% at every spinal column point (whichever is the higher). **The estimated additional financial impact of the union proposal would be around £0.600m.**
- 4.9 At the time of drafting this report it is unclear when the pay award will be settled and at what level.

Interest Rates

- 4.10 The Bank of England increased interest rates fourteen times since December 2021 to mitigate inflationary pressures with the base rate reaching 5.25% in August 2023. The MPC voted to reduce rates by 0.25% to 5.00% at their last meeting at the beginning of August 2024 (5-4 in favour of a reduction to 5.00% with the 4 members voting for no change). The council's treasury management advisors have forecast further reductions during the year with an expectation that the base rate may reduce to 4.25% by March 2025. The next MPC meetings are scheduled for 19 September 2024, 07 November 2024 and 19 December 2024.



- 4.11** Whilst there is no immediate plan to prudentially borrow to support the Capital Programme, the Council may need to undertake borrowing over the medium-term although this is dependent on several factors. Clearly, with PWLB interest rates remaining relatively high compared to the previous 12 years, this will impact the expenditure required to service any borrowing the Council undertakes. The capital financing position is set out in more detail in section 4 of this report.
- 4.12** The Council has limited and reducing internal resources to support the capital programme (capital receipts, earmarked reserves). This is not unique to Cotswold District Council with reports in specialist press (e.g., Public Finance) of Councils shelving or scrapping planned capital projects as other costs continue to rise and/or the need to find savings to balance the budget.
- 4.13** With interest rates expected to remain relatively high during the financial year, the Council will need to ensure capital expenditure and capital financing decisions are made ‘in the round’. This will ensure that existing and new capital schemes are not considered in isolation and are prioritised against the Council’s Corporate Plan and reference to affordability and deliverability.
- 4.14** Cabinet adopted the Asset Management Strategy (AMS) in May 2024 which set out the principles for managing assets and provides a clear strategy for decision making and investment



in the Council's land and property assets. To support the AMS, detailed asset management plans for each asset will be considered by Cabinet at their meeting in November 2024.

5. CONCLUSIONS

- 5.1** The report sets out the budget setting process and the decisions that members will need to take prior to the presentation of the budget and consideration of the Council Tax Level in February 2025.
- 5.2** The Budget Strategy and MTFS Update report to Cabinet in November 2024 will set out the Council's financial prospects for 2025/26 with specific proposals around savings and funding subject to consultation. Feedback from the consultation process together with any further budget adjustments for 2025/26 will be reported to the Cabinet in January 2025.
- 5.3** The final budget proposals, including the outcome from the Local Government Finance Settlement, will be presented to the Cabinet in February 2025, and will subsequently be debated at Council later in February 2025.

6. FINANCIAL IMPLICATIONS

- 6.1** There are no financial implications arising directly from this report.

7. LEGAL IMPLICATIONS

- 7.1** There are no legal implications arising directly from this report.

8. RISK ASSESSMENT

- 8.1** None.

9. EQUALITIES IMPACT



COTSWOLD
DISTRICT COUNCIL

9.1 None.

10. BACKGROUND PAPERS

10.1 None

(END)