



Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>CABINET – 07 NOVEMBER 2024</b>
Subject	<b>2025/26 BUDGET STRATEGY AND MEDIUM-TERM FINANCIAL STRATEGY (MTFS) UPDATE</b>
Wards affected	All
Accountable member	Cllr Mike Evely, Deputy Leader and Cabinet Member for Finance Email: <a href="mailto:mike.evely@cotswold.gov.uk">mike.evely@cotswold.gov.uk</a>
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Summary/Purpose	This report sets out the Budget Strategy to support the preparation of the 2025/26 revenue and capital budgets and presents an updated Medium Term Financial Strategy forecast.
Annexes	Annex A – Draft Medium Term Financial Strategy (MTFS) 2025/26 to 2028/29 Annex B – Draft Capital Programme and Capital Financing Statement 2025/26 to 2028/29
Recommendation(s)	That Cabinet resolves to: <ol style="list-style-type: none"><li>1. Approves the 2025/26 Budget Strategy as outlined in the report.</li><li>2. Approves the revised Capital Programme including the additional expenditure on Disabled Facilities funded by Disabled Facilities Grant, as set out in Annex B.</li></ol>
Corporate priorities	<ul style="list-style-type: none"><li>• Delivering good services</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A



## 1. EXECUTIVE SUMMARY

- 1.1 The Council approved its Medium-Term Financial Strategy (MTFS) and set the budget for the 2024/25 financial year on 21 February 2024. This Report sets out the Council's Budget Strategy for 2025/26 and provides an update to the MTFS forecast position.
- 1.2 **A significant budget gap was identified in the February 2023 and February 2024 MTFS forecasts.** The indicative position outlined for 2024/25 through to 2027/28 was an unfunded budget gap of £4.182m (down from £5.053m). With the decision to return the majority of services from Publica to the Council, without further mitigating action the unfunded budget gap can be expected to have increased over the last 6 months.
- 1.3 Ensuring financial sustainability is one if not the key issue facing all local authorities currently. Reductions in the core long-term funding Councils have received over the last decade, continued uncertainty around the timing and impact of proposed local government finance reforms (previously referred to as the Fair Funding Review), and the impact of higher levels of inflation and interest rates all contribute to the pressure on the Council's continued financial sustainability position.
- 1.4 The uncertainty around local government finance reforms, which have already been delayed several times since April 2020. Following the General Election in July 2024, the Government have indicated that a further single-year finance settlement will be provided for 2025/26.
- 1.5 As outlined in the Policy Paper ["Fixing the foundations: public spending audit 2024-25"](#), the outcome from the Spending Review will set spending plans for a minimum of three years of the five-year forecast period. This will be reported at the Spring Budget in March 2025 with a multi-year finance settlement expected from 2026/27. This makes it difficult to forecast the Council's financial prospects over the immediate medium-term period.
- 1.6 The Inflation rate has continued to fall since the February 2024 MTFS (CPI currently 1.7%) easing the pressure on the Council finances.
- 1.7 Interest rates have remained at a higher level throughout the current financial year although the Bank of England has reduced rates by 0.25% to 5.00% in August 2024. The expectation is for further interest rate reductions over the next two years.
- 1.8 With a budget gap over the MTFS period, the budget strategy provides the framework for the Council and its service delivery partners when assessing funding priorities.
- 1.9 Having a clear set of budget principles for the Council to accept and work toward helps a clear framework on the journey to setting a balanced budget for the forthcoming year. These are set out in paragraph 4.4 of the report and cover the Council's Best Value Duty, approach to reserves, full cost recovery through fees and charges, and capital investment priorities.
- 1.10 The 2024/25 Local Government Finance Settlement only provided a funding allocations for a single financial year. With the new Government indicating a further single-year settlement



for 2025/26 the broad assumption is for another ‘rollover’ settlement with no material changes in funding levels anticipated. Therefore, assumptions on funding have not been fundamentally reviewed for the purposes of the MTFS update and remain uncertain.

- 1.11 The 2025/26 Budget estimate for Council Tax assumes an increase in the number of dwellings liable for Council Tax (i.e., a 1% increase in the Taxbase) and a £5 increase in a Band D charge for Council Tax. This falls within the permissible level of increase before triggering a local referendum and equates to an increase less than 10 pence per week for a Band D property.
- 1.12 Forecasting business rates income is complex with the impact of the external economic environment, additional reliefs, and the impact from the April 2023 revaluation contributing to the level of uncertainty around forecasts for the medium-term.
- 1.13 An updated estimate has been included in this MTFS of £5.000m to match the 20245 budgeted level. Whilst this estimate has been included in the MTFS it is prudent to consider the overall level of resources (Council Tax plus Government Funding) and apply a degree of damping to avoid over estimation.
- 1.14 Table ESI below includes the budget pressures that have been included in the draft revenue budget and MTFS.

**Table ESI – Budget Pressures**

<b>Item &amp; Summary</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>	<b>2027/28 (£'000)</b>	<b>2028/29 (£'000)</b>
<b>Budget Pressures</b>				
2024/25 External Audit scale fee increase (10%)	14	14	14	14
Spacehive Platform Fee (Crowdfund Cotswold)	30	30	30	0
Asseet Management - Rental Income	8	8	8	8
<b>TOTAL</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>22</b>

- 1.15 Table ES2 below sets out the cost reduction and income generation items brought forward from February 2024 that have been included in the MTFS update.
- 1.16 Given the scale of the financial challenge the Council is facing, a longer-term view has been taken on the development of the refreshed Savings and Transformation plans. These will be brought forward over the coming months once an action plan for each major workstream has been developed. Project Management support and external support (e.g. APSE, LGA) may be required on individual lines of enquiry to ensure options are fully appraised prior to inclusion in the programme.
- 1.17 Subject to further due diligence, additional savings and transformation items will be put forward as part of the administration’s budget proposals in February 2025.



**Table ES2 – Savings Proposals**

<b>Savings (b/f from Feb 2024 MTFS)</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>	<b>2027/28 (£'000)</b>	<b>2028/29 (£'000)</b>
<u>Corporate Savings</u>				
LGPS - Secondary Rate (PIA) (Budget savings)	(196)	(196)	(196)	(196)
<u>Other Expenditure Savings</u>				
Ubico - Rezoning of Rounds	(500)	(500)	(500)	(500)
<u>Fees &amp; Charges</u>				
Car Parking Fees	(120)	(210)	(293)	(394)
Garden Waste - fee increase	(115)	(231)	(348)	(465)
<b>TOTAL</b>	<b>(931)</b>	<b>(1,137)</b>	<b>(1,338)</b>	<b>(1,555)</b>

### **Publica Review**

- 1.18** Following reports from Human Engine (November 2023) and Local Partnerships (March 2024), Council approved the Detailed Transition Plan (“DTP”) report at its meeting on 31 July 2024. This set out the process that would be followed to return the majority of services to the Council with an initial transfer of services taking place on 01 November 2024.
- 1.19** The DTP and covering report provided members with an initial estimate of additional cost of Phase I (enduring impact) and the one-off costs (provision for redundancy).
- 1.20** These cost estimates have been updated for this report but should be treated with a degree of caution – they are estimates at the current time and will vary as appointments are made to new roles within the council.
- 1.21** The table below provides members with a reconciliation between the financial implications set out in the July 2024 DTP and those included in the MTFS update included within this report.



<b>Reconciliation of movement in additional cost</b>	<b>July 2024 DTP (£'000)</b>	<b>November 2024 update (£'000)</b>	<b>Change (£'000)</b>
Phase 1 Baseline Cost	3,674	3,616	(58)
Sharing + Pension Impact	326	318	(8)
New Roles	553	619	66
<b>New Model Total</b>	<b>4,553</b>	<b>4,553</b>	<b>0</b>
Publica Savings (Direct)	(240)	(240)	0
Indirect Savings	(283)	(282)	1
<b>Enduring Impact</b>	<b>4,030</b>	<b>4,031</b>	<b>1</b>
<b>Indicative Annual Increase / (Decrease)</b>	<b>356</b>	<b>415</b>	<b>59</b>

- 1.22** It should be noted that these cost estimates only cover Phase 1 of the DTP. No estimate has been included in the MTFs for Phase 2. Proposals for the next phase are at a very early stage and will require extensive due diligence before any decision is taken. This is in-line with the approach taken with Phase 1 and is vital to ensure the Council is able to remain financially sustainable given the likely cost increase that will result from Phase 2.
- 1.23** It is important to note that the gross increase in cost of Phase 1 (£0.937m in a full year) was net of cost reductions of £0.522m associated with changes made to the Publica management structure (giving the net cost estimate of £0.415m). Elements of the new posts (shown in the waterfall) could be considered as one-off changes to the Council's structure and matched by comparable reductions in the Publica contract sum. The associated cost reductions have been front-loaded and it is not anticipated that similar cost reductions would be realised in Phase 2.
- 1.24** In terms of one-off costs, paragraph 5.10 of the CTP covering report included the following: *"A prudent estimate would be for the Council to anticipate around £0.300m of redundancy and associated costs which allows for a level of mitigation. This represents an equal one-third share of the costs with future salary savings allocated on the same basis."*
- 1.25** The current estimate for the Council's share of redundancy and pension strain costs is £0.274m and within the amount set aside within the Financial Resilience reserve.
- 1.26** The draft MTFs shown in Table ES3, and Annex A is based on the most credible assumptions and forecasts of income and expenditure over the next 4 years. The uncertainty around the timing and impact of local government finance reforms makes it difficult to estimate with certainty the likely budget gap that the Council will need to close by 2026/27. However, whilst this outcome is uncertain, there is a need for the Council to ensure financial sustainability is maintained over the MTFs period and develop a robust and balanced savings and transformation plan to close the forecast budget gap.



**1.27** It is therefore appropriate for the Council to consider a revenue budget position over the next two financial years that delivers a surplus to ensure the Financial Resilience reserve is replenished to mitigate the financial position forecast from 2026/27.

**Table ES3 – Draft MTFS**

	<b>2024/25</b>				
<b>Underlying Budget Gap - November 2024</b>	<b>Latest</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>
Service Revenue Expenditure	16,584	16,584	16,584	16,584	16,584
Non-Service Expenditure & Income	(699)	(1,378)	(923)	(849)	(367)
Inflation Provision		629	1,220	1,825	2,454
Budget Pressures	0	52	0	0	0
Publica Review Phase 1	174	417	469	469	469
Technical Adjustments					
<b>Draft Net Revenue Budget (Before Savings)</b>	<b>16,060</b>	<b>16,304</b>	<b>17,350</b>	<b>18,029</b>	<b>19,139</b>
TOTAL Funding	(15,577)	(15,153)	(13,852)	(12,479)	(11,211)
<b>Underlying Budget Gap</b>	<b>482</b>	<b>1,151</b>	<b>3,498</b>	<b>5,550</b>	<b>7,928</b>
<b>Savings identified</b>					
LGPS		(196)	(196)	(196)	(196)
Ubico - rezoning of Waste & Recycling	(375)	(500)	(500)	(500)	(500)
Car Park fees		(120)	(210)	(293)	(394)
Garden Waste fee - cost recovery		(115)	(231)	(348)	(465)
Other Savings	(450)				
<b>Revised Budget Gap / (Surplus)</b>	<b>(343)</b>	<b>220</b>	<b>2,361</b>	<b>4,213</b>	<b>6,374</b>
				<b>6,451</b>	<b>12,825</b>

**1.28** The Financial Resilience reserve was relied upon in 2022/23 and 2023/24 to balance the budget (£2.103m) which was not sustainable over the medium-term. Council approved the motion in November 2023 recognising that it could not continue to use reserves to balance its revenue budget. The 2024/25 budget and Medium-Term Financial Strategy were prepared on the basis that planned operating surpluses in 2024/25 and 2025/26 were transferred to the Financial Resilience Reserve.

**1.29** The draft MTFS shows a revised moderate surplus of £0.343m in 2024/25 with a deficit of £0.220m in 2025/26. Although this remains a positive outcome at this stage of the budget setting cycle, consideration should be given to options to increase the projected surplus.

**1.30** A review of the Reserves and Balances strategy will be undertaken to consider the adequacy of reserves considering the continued financial risks faced by the Council. The review will consider guidance published under CIPFA Bulletin 13: Local Authority Reserves and Balances (March 2023).



**1.31** As reported in the 2024/25 Outturn report, slippage of £1.513m has been included in the Capital Programme for 2024/25. Additional expenditure of £0.800m (Disabled Facilities Grant-funded) and £0.393m of EV Charging Points (ORCS Grant) have been included giving a revised budget of £9.509m, as shown in the table below. The capital programme for 2025/26 to 2027/28 remains unchanged. Total expenditure decreases to £1.328m in 2025/26, increases to £6.651m in 2026/27, with an estimate of £2.720m for 2027/28.

**Table ES4 – Capital Programme 2024/25 to 2027/28**

<b>Capital Programme</b>	<b>REV 2024/25 (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Leisure & Communities	1,310	50	550	50	1,960
Housing/Planning and Strategic Housing	3,351	700	700	700	5,451
Environment	2,458	428	5,251	1,820	9,957
ICT, Change and Customer Services	350	150	150	150	800
UK Rural Prosperity Fund	752	0	0	0	752
UK Shared Prosperity Fund Projects	134	0	0	0	134
Land, Legal and Property	880	0	0	0	880
Transformation and Investment	274	0	0	0	274
	<b>9,509</b>	<b>1,328</b>	<b>6,651</b>	<b>2,720</b>	<b>20,208</b>

**1.32** As set out in the *2024/25 Revenue Budget, Capital Programme and Medium-Term Financial Strategy* report, the Council’s capital expenditure has up until the current financial year been predominantly financed from capital receipts. As these are forecast to deplete over the capital programme period the Council will need to undertake prudential borrowing to support future capital expenditure plans. Other sources of finance support the capital programme, either from external sources (government grants and other contributions) or the Council’s own resources (revenue, reserves, and capital receipts).

**1.33** The Capital Financing position will be reviewed by the s151 Officer during the year as expenditure forecasts are updated to ensure a balanced use of capital resources and mitigation of current and future interest rates.

**1.34** The report sets out the Council’s financial prospects for 2025/26. Final budget proposals, including the outcome from the Local Government Finance Settlement, will be presented to the Cabinet and debated at Council during February 2025.



## 2. BACKGROUND

- 2.1 The Council approved its Medium-Term Financial Strategy (MTFS) and set the budget for the 2024/25 financial year on 21 February 2024. This Report sets out the Council's Budget Strategy for 2025/26 and provides an update to the MTFS forecast position.
- 2.2 A significant budget gap was identified in the February 2023 and February 2024 MTFS forecasts. The indicative position outlined for 2024/25 through to 2027/28 was an unfunded budget gap of £4.181m (down from £5.053m). With the decision to return the majority of services from Publica to the Council, without further mitigating action the unfunded budget gap can be expected to have increased over the last 6 months.

**Table 1 – February 2024 Medium Term Financial Strategy position**

	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)
<b>MTFS Summary</b>				
Net Service Revenue Expenditure	15,858	15,858	15,858	15,858
Corporate Items/Non Service Income & Expenditure	(1,015)	(649)	(50)	24
Transfers to/(from) earmarked reserves	476	(557)	(701)	(701)
Provision for Inflation	1,117	1,993	2,694	3,414
<b>Service + Corporate Items</b>	<b>16,437</b>	<b>16,645</b>	<b>17,801</b>	<b>18,596</b>
Budget Pressures	584	628	690	740
Technical Adjustments	77	77	77	77
Risk Items	0	0	0	0
Savings and Transformation Plan items	(2,036)	(2,931)	(3,205)	(3,422)
<b>Draft Net Revenue Budget</b>	<b>15,061</b>	<b>14,419</b>	<b>15,362</b>	<b>15,990</b>
<b>TOTAL Funding</b>	<b>(15,577)</b>	<b>(14,743)</b>	<b>(13,852)</b>	<b>(12,479)</b>
<b>Budget Gap / (Surplus)</b>	<b>(516)</b>	<b>(324)</b>	<b>1,511</b>	<b>3,511</b>
				<b>4,181</b>

- 2.3 Under the Local Government Finance Act 1992 (as amended), the Council is legally required to set a balanced budget for the following financial year and remains in balance. Section 114 of the Local Government Finance Act 1998 requires the Section 151 Officer to report to all Members if there is likely to be unlawful expenditure or an unbalanced budget.
- 2.4 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. Although inflation has fallen back to the Bank of England's target (CPI 2.00%) there remains uncertainty around the pace of interest rate reduction in the current financial year which have an influence over the Council's budget for 2025/26 and the MTFS period both directly and indirectly.





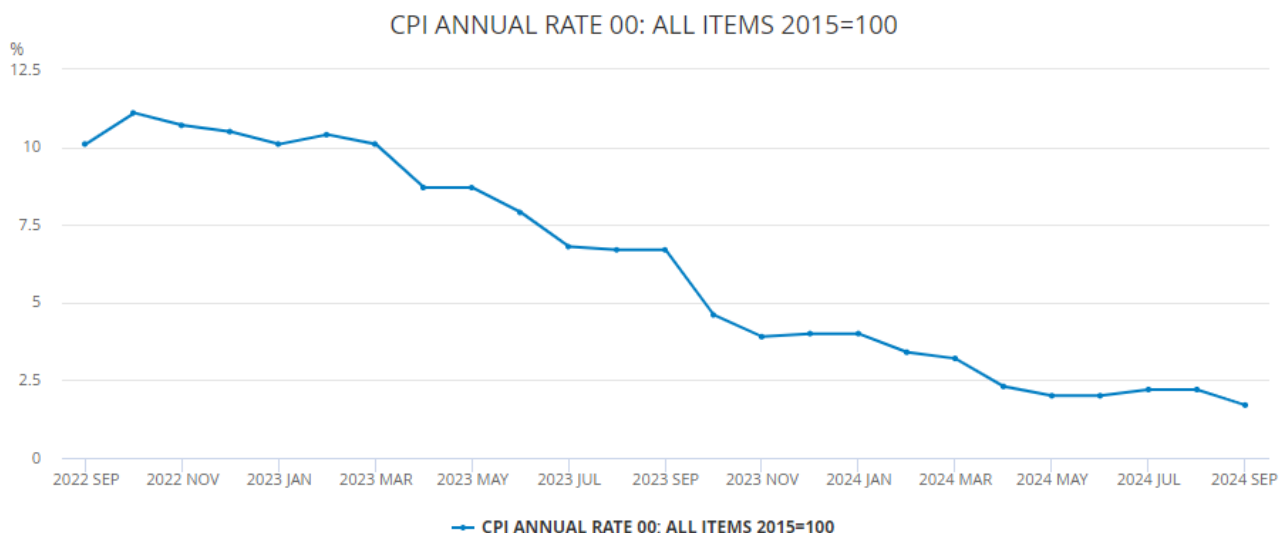
- 2.5 Members should consider some of the wider issues facing local government that will inform the 2025/26 revenue and capital budgets and the MTF5.
- 2.6 A number of local authorities have issued section 114 notices since 2018 with Birmingham City Council being the most high-profile along with Woking Borough Council, Slough Borough Council and Thurrock Council. A section 114 notice indicates that the council's forecast income is insufficient to meet its forecast expenditure for the next year.
- 2.7 Whilst the number of authorities issuing section 114 notices is relatively low (8 out of 317 local authorities in England since 2018) it is unprecedented to have this many issued in a short space of time.
- 2.8 A number of other local authorities have indicated they are facing significant financial challenge. The LGA reported in March 2024 that one in five council leaders and chief executives in England thought it was very or fairly likely that a Section 114 notice may need to be issued. Grant Thornton reported in January 2024 that 40% of Councils were at risk of financial failure over the next five years.
- 2.9 **Whilst there is no immediate risk of Cotswold District Council having to consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability. The increase in cost of returning services to the Council must be balanced and within the financial envelope set out in the MTF5.**
- 2.10 The level of uncertainty across the sector makes it more difficult to plan for the medium-term. As outlined earlier in the report, Local Government Finance reforms, originally due to be implemented from April 2020, have been pushed back until at least April 2026.
- 2.11 Therefore, it should be noted the updated MTF5 position set out in this report is subject to uncertainty and a degree of estimation of costs and income. As with all estimates and assumptions, there is an inherent risk that they may not be accurate. The financial position will continue to be monitored with the estimates and assumptions reviewed and updated throughout the budget setting process. These will be finalised once the provisional Local Government Settlement is announced which is expected in December following the Autumn Budget on 30 October 2024.



### 3. EXTERNAL ECONOMIC ENVIRONMENT

#### Inflationary Pressures

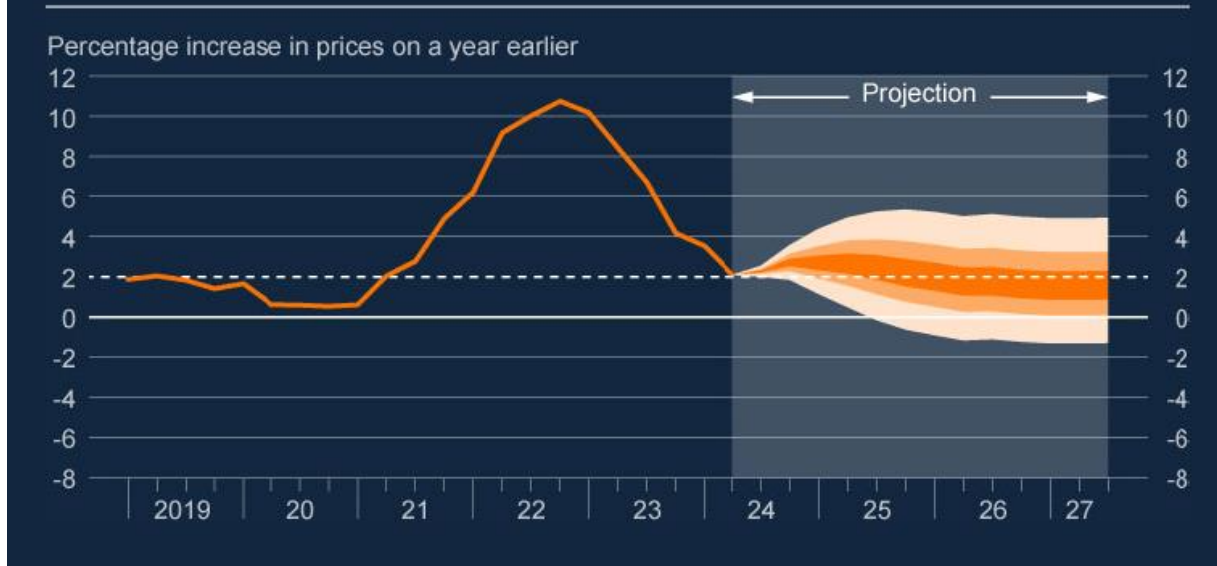
- 3.1** The level of inflation, as measured by the Consumer Prices Index, for September 2024 is 1.7% (down from 2.2% in August 2024). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 2.7% (3.5% in August 2024). Core inflation (as defined by the Office for National Statistics as the CPI Rate excluding energy, food, alcohol, and tobacco) fell to 3.2% (3.6% in August 2024). Commentary from economists on the inflation rate indicated the rate may track back up in the October 2024.



- 3.2** 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.
- 3.3** The forecast for inflation is to remain within the Bank of England's target of 2.0% (CPI) although there was debate when inflation remained at relatively high levels suggesting the bank should consider revising the target to 3.0%. The graph below shows the different CPI forecasts that are published in the quarterly Bank of England Monetary Policy Committee report (August 2024).



**Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced**



- 3.4** The lower inflation expectations shown in the Bank of England's Fan Chart above will need to be taken into account when assessing the impact on 2025/26 revenue and capital budgets and over the MTFs-period.

#### **Inflationary Pressures – Pay Award**

- 3.5** 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.
- 3.6** The Local Government pay award was settled on 22 October 2024 as set out below. With effect from 01 April 2024:
- 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

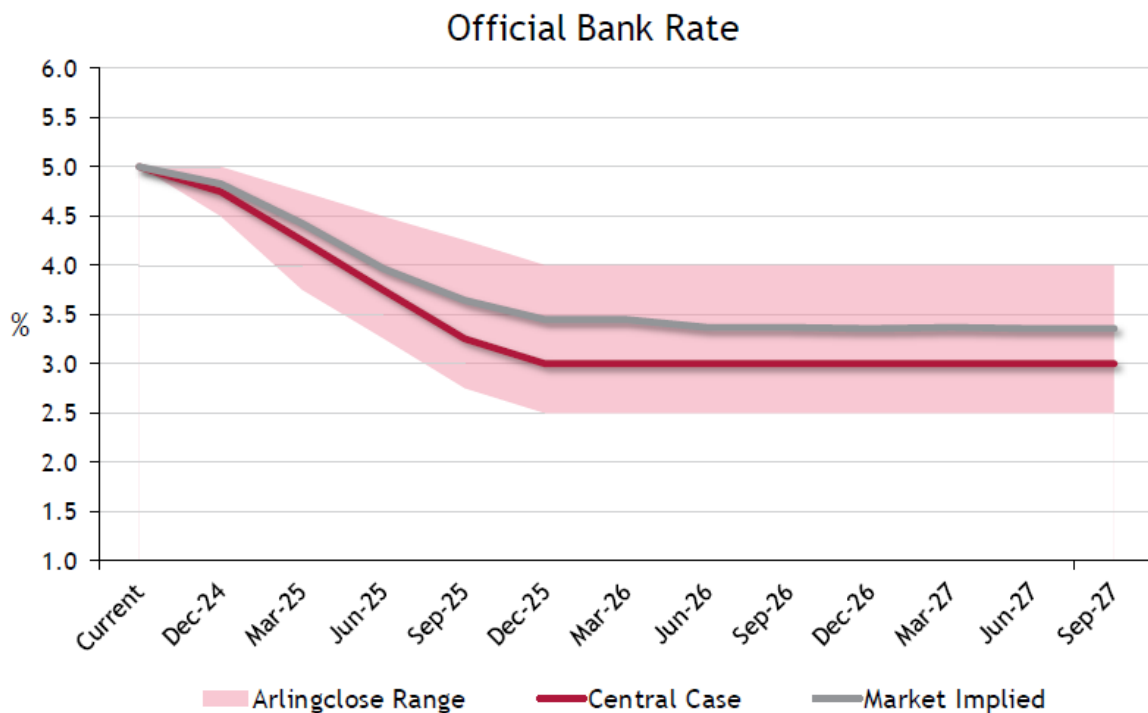


**3.7** The financial implications of Pay Award outlined above is within the inflation allowance in the current year’s budget. Any surplus provision in 2024/25 will be transferred to the Financial Resilience reserve to maintain financial sustainability over the MTFS period and to mitigate the impact of Phase I of the Publica Review. An adjustment to the 2024/25 base salary budget will be included in the February 2025 MTFS once the full impact of the Pay Award has been applied to employee salaries.

### Interest Rates

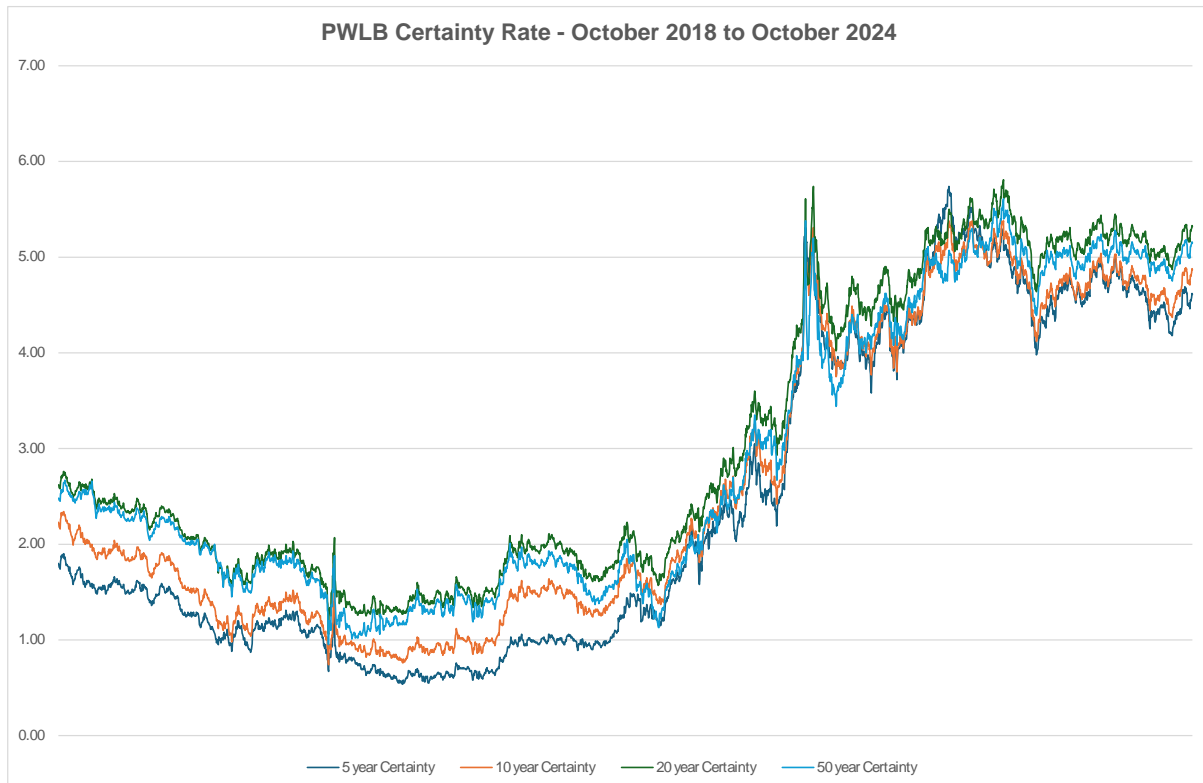
**3.8** The Bank of England reduced the Base rate in August 2024 by 0.25% with the easing of inflationary pressures taking the base rate to 5.00%. The MPC voted to maintain rates at 5.00% at their latest meeting in September 2024. The council’s treasury management advisors have forecast at least one further reduction during the year with an expectation that the base rate will reduce in November. The next MPC meetings are scheduled for 07 November 2024, 19 December 2024, and 06 February 2025.

**3.9** Following the release of the inflation data on 16 October 2024, economic commentary suggested the Bank of England may increase the pace of interest rate reductions in 2024 and early 2025.



**3.10** To support the Capital Programme over the medium-term, the Council may need to undertake borrowing during the coming financial year although this is dependent on a number

of factors. 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.



- 3.11** The Council has limited and reducing internal resources to support the capital programme (capital receipts, earmarked reserves). Unless further capital receipts are received as a result of asset disposals, the Council will need to undertake prudential borrowing.
- 3.12** With interest rates expected to remain 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.

### **Economic Outlook**

- 3.13** The International Monetary Fund published their latest half-yearly outlook for the global economy on 22 October 2024. It was widely reported that the IMF forecast for the UK economy was more positive with growth for 2024 now forecast at 1.1% rather than 0.7%. The forecast for 2025 remains unchanged at 1.5%.



- 3.14** The IMF acknowledged the ‘soft-landing’ for western economies following relatively high levels of inflation and highlighted there remains risk given international trade disputes and conflicts in the Middle East could drive prices up.
- 3.15** Recent commentary published by the Council’s Treasury Management advisors, Arlingclose, highlights the near-term uncertainty in the global economy.

*“The move from a seemingly stable global outlook through the summer until mid-September has been replaced by more uncertainty. While the economic growth outlook appears to have improved, which makes the path for interest rates less clear, the uncertainty may largely stem from upcoming political events that could have significant consequences for growth, inflation, fiscal and monetary policy. Recent movements in gilt yields represent investors seeking compensation for the less certain outlook for interest rates.*

*The next MPC meeting is on 7th November, and we expect the Committee will vote for a further reduction in Bank Rate to 4.75% in line with our long-held interest rate view. We remain of the opinion that inflation will remain under control, with underlying measures, particularly services inflation, easing, amid a relatively tame growth environment, prompting the Bank of England to loosen monetary policy.*

*The gilt market is likely to remain volatile until the UK Budget and US Election have taken place, at which point there may be greater certainty over the interest rate path.”*

#### **4. 2025/26 BUDGET STRATEGY – ASSUMPTIONS**

- 4.1** The 2025/26 Budget Strategy outlines the principles and aims for the revenue and capital budget preparation process and takes into account the need for the Council to achieve a balanced budget position and maintain financial sustainability over the medium-term.
- 4.2** The February 2024 MTFs identified a significant budget gap over the MTFs period. With the additional pressures as set out in Section 3 of the report, the budget strategy provides the framework for the Council and its service delivery partners when assessing funding priorities.
- 4.3** As set out in paragraph 2.6 to 2.8., many Councils are facing a significant financial challenge in setting a balanced budget for the forthcoming year. Whilst the financial challenge for Cotswold District Council is not proportionately as extreme as some other local authorities, it is still a significant challenge for the Council to address.
- 4.4** Having a clear set of budget principles for the Council to accept and work toward helps a clear framework on the journey to setting a balanced budget for the forthcoming year, as such Cotswold adopted the following principles for 2024/25 which remain sound:
- A clear focus on fulfilling the Council’s Best Value Duty (*“make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”*). Further development and



mobilisation of the continuous savings programme through the Cabinet Transform Working Group (CTWG). Key objective for CTWG is to review savings and transformation proposals to close most of the budget gap by driving out costs from the running expenditure of the Council and its service delivery partners, focused both in the short and medium term.

- The Council will not rely on the use of one-off funding sources to address recurring budgetary pressures, specifically it should not place material reliance on use of reserves for revenue purposes over the medium-term.
- Maintaining financial sustainability over the MTFS period, the Council should take steps to replenish the Financial Resilience reserve in 2024/25 and 2025/26 to mitigate the budget gap forecast from 2026/27.
- Recognising the challenging inflationary environment, the Council is currently operating in and the increase in service costs, where services are charged for, fees and charges need to be set at an optimal price, ensuing full cost recovery as a minimum.
- Ensuring the long-term viability of service provision from as stable a position as possible is vital to continued success of quality service delivery, there a continued focus on budget sustainability will be key to all considerations with a reduce use of one-off measures or borrowing to fund activity.
- Recognising the capital investment priorities outlined in the Council Corporate Plan and the importance to the residents of the district, a sustainable funding solution should be developed to fund the emerging capital programme – with a specific focus on funding all new capital activity predominantly from capital receipts with minimal borrowing.

### **Pay and Price Inflation**

- 4.5** The budget will be prepared on a ‘standstill’ basis in that no price inflation will be added other than to contractual commitments to pay an annual inflationary increase such as external contracts and software licence agreements.
- 4.6** Prudent provision will be made in the 2025/26 budget for the pay award to ensure the Council’s budget is protected in the short-term with the broad assumptions used in the MTFS set out below.
- Publica: 3.00%
  - Ubico: 3.00% (CDC to hold an additional 1.00% in contingency)
  - CDC: 2.50% to 3.00% (depending on position)
- 4.7** Non-pay inflation will be applied to specific elements of the Ubico contract where there is a material impact on service costs and an agreed assessment of the evidence of inflationary pressures (e.g., Fuel prices).



- 4.8 The ONS published the September CPI and RPI figures on 16 October 2024 with CPI reducing to 1.7% and RPI falling to 2.7%. These figures are used as the basis for uprating of some welfare benefits.
- 4.9 As set out above, the MTFS will include an allowance for these inflationary pressures over the medium-term and will be reviewed over the Autumn.

### **Fees and Charges**

- 4.10 As set out in the paragraphs above, the Council is currently exposed to inflationary pressures in service delivery costs. Where services are charged for, fees and charges need to be set at an optimal price, ensuing full cost recovery as a minimum. This is in accordance with Cabinet decisions included in prior year MTFS reports to *“charge for services to ensure they are not subsidised by other taxpayers.”*
- 4.11 The February 2024 MTFS included an assumption for inflationary increases across key fees and charges such as Green Waste licence and Car Park fees. A report will be considered by Cabinet in February 2025 on the revised fees and charges for 2025/26.

### **Commercial Property Income/Asset Management**

- 4.12 The Council’s revenue budget for 2024/25 includes £0.422m of gross rental income from Commercial Property which provides funding for other Council services. Given the risk in holding commercial property (e.g., occupancy rates and fluctuations in the property market), income and expenditure budgets associated with the portfolio will be reviewed considering the external economic environment. This will help ensure the Council is budgeting at the appropriate level and that risks to income and expenditure changes across the medium term can be incorporate into the MTFS and Capital Programme.
- 4.13 The 2025/26 budget (as set out in the February 2024 MTFS) assumed further costs/loss of rental income for the year of £0.070m with further pressures over the MTFS period. This will be reviewed against the current position on rental income expectations with any updated forecast included in the February 2025 MTFS.
- 4.14 The Asset Management Strategy (AMS) was adopted in May 2024. The strategy provides a longer-term view (i.e., the next 10 years) of the approach to managing the Council’s land and buildings.
- 4.15 The AMS will be supported by detailed asset management plans for the Land and Buildings assets it holds considering stock condition surveys and including consideration of any investment required to achieve minimum efficiency standards (MESS). This work is already underway with the Council considering priority areas such as Old Station and Memorial Cottages with further plans will come forward over the coming months.





- 4.16** The budget setting process will need to consider whether a proportion of commercial income is set aside in an Earmarked Reserve each year to provide an ongoing funding stream to manage the portfolio and any Asset Management requirements that are identified in the AMS.

#### **Local Government Pension Scheme**

- 4.17** An actuarial review of the Local Government Pension Scheme was undertaken in 2022 with a revised funding schedule included in the February 2023 MTFS. This resulted in a reduction in the employer secondary rate payment of £0.139m in 2023/24 increasing to £0.335m in 2024/25 and £0.531m in 2025/26.
- 4.18** For the purposes of the MTFS, no change has been forecast to the level of pension fund contribution at the current funding period (2025/26). Assumptions around employer contributions will not be updated until the conclusion of the next actuarial review which will commence in March 2025 with any changes to contributions taking effect from 2026/27. Clearly, there is a risk at the next valuation for contribution levels to increase should the actuarial assessment require.

#### **Interest Rates – Investments and Borrowing**

- 4.19** Treasury management income remained well above budget expectations in 2023/24 with total investment income of £1.783m. Although the 2024/25 Q1 forecast for Treasury management income remains above target due to higher interest rates and cash balances, interest rates are expected to reduce over the next 12 months.
- 4.20** As outlined in the Treasury Management Strategy, the Council invests its surplus balances with a budgeted income return of £1.3461m in 2024/25. The Strategy sets out that the Council aims to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested.
- 4.21** The Council has two broad classes of investments – Short-term investments (Debt Management Office and Money Market Funds where balances are held for short periods until required) and Pooled Funds.
- 4.22** The initial forecast for 2025/26 is £1.001m recognising the gradual reduction in interest rates forecast in 2025/26. This will be reviewed over the coming months with a final estimate included in the revenue budget and MTFS to be considered by Cabinet and Council in February 2025.

#### **Government Funding**

- 4.23** Following the General Election in July 2024, the new Government published an assessment of the finances [“Fixing the foundations: public spending audit 2024-25”](#). The report highlighted an expected overspend on departmental spending of £21.9bn.



- 4.24** The Government have since indicated that the Local Government Finance Settlement for 2025/26 will be for a single year, with the outcome from the spending review due to report into the Spring 2025 budget. A Local Government Finance policy statement is expected to be published in November following the budget which may provide some clarity and certainty on key aspects of funding to support budget setting and financial planning.
- 4.25** For the purposes of this report, it has been assumed that the overall level of Government funding remains largely unchanged for 2025/26. The exception to this is the forecast for Retained Business Rates with the level of retained rates being comparable to the 2024/25 budgeted level.
- 4.26** Owing to the timing of the General Election, no consultation has taken place on key aspects of Local Government Finance reform or on the design of the New Homes Bonus scheme.
- 4.27** For the purposes of the MTFS it is assumed that, other things being equal, any additional New Homes Bonus payment will result in an equal and opposite change in the Funding Guarantee. In other words, it is assumed there would be no increase in the level of resources for 2025/26.
- 4.28** The Government have deferred the introduction of Extended Producer Responsibility (pEPR) by a year (now October 2025). Commentary included in the 2023/24 settlement indicated pEPR may have provided additional income to local authorities.
- “2024-25 brings with it a significant new funding stream, subject to successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme as soon as is feasible within this financial year; local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services. Alongside His Majesty’s Treasury and the Department for Environment, Food and Rural Affairs, we will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities in the coming year.”*
- 4.29** The broad assumption made at this stage is there is unlikely to be any material change to the funding position already set out in the 2024/25 settlement and included within the MTFS.

### **Council Tax**

- 4.30** The assumption for 2025/26 is there is no change to the Council Tax referendum principles for shire district and borough councils – increases of Council Tax of up to 3% or £5 (whichever is higher). Should the referendum principles be amended (usually when the Local Government Finance Settlement is published), this will be considered and any recommendation included in the February 2025 MTFS
- 4.31** The 2025/26 Budget estimate for Council Tax assumes an increase in the number of dwellings liable for Council Tax (i.e., a 1% increase in the Taxbase) and a £5 increase in a Band D charge for Council Tax. This falls within the permissible level of increase before triggering a local referendum and equates to an increase less than 10 pence per week for a Band D property.



- 4.32** At their meeting on 20 March 2024 Council approved to introduce a Council Tax premium on second homes (from April 2025) and to apply the maximum premium for Empty Homes (from April 2024) as set out in the Levelling Up and Regeneration Act 2023.
- 4.33** The Government laid regulations on 08 October 2024 setting out exceptions to council tax premiums on second and empty homes. These regulations will come into force on 01 November and have effect from 01 April 2025. Further guidance will be provided once the regulations come into force.
- 4.34** The initial estimate provided in the March 2024 report indicated that £3.4m of additional Council Tax would be generated with Cotswold District Council's share being £0.246m. As part of the calculation of the Council Taxbase, this estimate will be reviewed taking into account the exemptions set out in regulations and subsequent guidance.
- 4.35** The March 2024 report proposed that the District Council's share of the additional revenue is set aside in the Council Priority: Housing Delivery reserve to facilitate the provision for additional affordable housing units across the district.
- 4.36** This proposal is subject to ongoing review by the Leader and Deputy Leader, in consultation with the Deputy Chief Executive to ensure the level of funding available to support the Council priority and the Council's wider financial sustainability objectives are met.
- 4.37** The Empty Homes Premium is applied to dwellings which are unoccupied and substantially unfurnished with an increasing level of premium depending on the length of time the property has remained Empty.
- Premium of 100% for dwellings which are unoccupied and substantially unfurnished (Empty Homes Premium) after 1 year up to 5 years of becoming empty;
  - Premium of 200% for dwellings which are unoccupied and substantially unfurnished (Empty Homes Premium) between 5 years and 10 years;
  - Premium of 300% for dwellings which are unoccupied and substantially unfurnished (Empty Homes Premium) for 10 years or more.
- 4.38** The decision to set Council Tax remains an annual decision for Council to consider when setting the budget in February.
- 4.39** The Council has consulted on proposed changes to the Local Council Tax Support scheme (LCTS) with changes focussed supporting more people with the cost of living and provide more support to those families with dependent children.

### **Business Rates**

- 4.40** Forecasting business rates income is complex with the impact of the external economic environment, additional reliefs, and the impact from the April 2023 revaluation contributing to the level of uncertainty around forecasts for the medium-term.



- 4.41** An initial estimate of £4.516m was included in the February 2024 MTFS. This has been revised to £5.000m to match the 2024/25 forecast.
- 4.42** Whilst this estimate has been included in the MTFS it is prudent to consider the overall level of resources (Council Tax plus Government Funding) and apply a degree of damping to avoid over estimation. The MTFS includes scenarios on both funding and expenditure to provide members with a range of potential outcomes. In effect, the overall level of funding in the balanced and pessimistic scenarios can be seen as a reduction in the estimate of business rates income for the year. Further detail of the modelling and scenarios are set out in Section 5 of the report.
- 4.43** The Council is required to finalise its Business Rates estimates for 2025/26 and its initial estimate of any surplus or deficit for 2024/25 by 31 January 2025 which will be included in the February 2025 MTFS.
- 4.44** The Council is a member of the Gloucestershire Business Rates Pool. The main aim of the pool is to maximise the retention of locally generated business rates and to ensure that it further supports the economic regeneration of the wider Gloucestershire.
- 4.45** Subject to approval from the Secretary of State as part of the Local Government Finance Settlement, it is assumed that the Gloucestershire Business Rates Pool will continue for a further year (i.e. 2025/26).
- 4.46** Following a review of the financial performance undertaken by LG Futures on behalf of the Gloucestershire s151 officers, it was recommended that the composition of the pool was amended to maximise the amount of pool benefit retained in Gloucestershire. 21 different scenarios were modelled with the three highest gain changes being:
- Exclude Cheltenham Avg. total gain of £2.4m
  - Exclude Cheltenham & Forest of Dean Avg. total gain of £2.3m
  - Exclude Cheltenham & Tewkesbury Avg. total gain of £2.0m
- 4.47** The highest gain using each of the four data years is to exclude Cheltenham. Using the four data sets, the difference in gains would be:
- 2021/22 data All £2.9m exc Cheltenham £4.7m +£1.8m
  - 2022/23 data All £3.8m exc Cheltenham £6.3m +£2.5m
  - 2023/24 data All £4.2m exc Cheltenham £6.9m +£2.7m
  - 2024/25 data All £4.6m exc Cheltenham £7.4m +£2.8m
- 4.48** Given the purpose of the Gloucestershire Pool is to share benefit and maximise the retention of business rates locally, it is intended that the local distribution agreement will be updated (it was last updated in 2012) to ensure that Cheltenham receives benefit as if it were a member of the formal business rates pool using the current allocation basis in place.



- 4.49** The change in Pool composition was subject to informal discussion with Gloucestershire Leaders and Chief Executives with universal support for the changes.

#### **Financial Resilience Reserve**

- 4.50** A Financial Resilience reserve of £1.875m was established as part of the *Draft Budget Proposals 2023-24 and Latest MTFS Forecasts* report to Cabinet in November 2022 with the intention to hold at a level that allows the Council to mitigate short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes).
- 4.51** The reserve assists with mitigation of the budget gap identified in the MTFS and to facilitate profiling of a Savings and Transformation plan and support the award of the Leisure and Culture contract over MTFS period.
- 4.52** The projected balance on the Financial Resilience reserve is £2.854m by the end of the 2024/25 financial year. This does not take into account any addition to the reserve due to the reduced impact from the Pay Award.
- 4.53** As set out in this report, the Council must set a balanced budget for the forthcoming financial year. Whilst the Financial Resilience reserve is intended to support the Council MTFS and mitigate the budget gap identified; it should not be utilised on an ongoing basis to balance the budget.

## **5. 2025/26 REVENUE BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2025/26 TO 2028/29**

- 5.1** As set out in section 2 of this report, a significant budget gap was identified in the February 2023 and February 2024 MTFS forecasts. The financial position over the medium-term remain challenging and uncertain. It is widely expected that reforms to local government finance, originally due in 2020/21 but delayed several times already, will result in a substantial reduction in the Council's funding from central Government. The timing of these reforms remains uncertain with the assumption in the MTFS that these reforms will be delayed further and not implemented until 2026/27.

#### **Financial Sustainability**

- 5.2** Ensuring financial sustainability is one if not the key issue facing all local authorities currently. Reductions in the core long-term funding Councils have received over the last decade, continued uncertainty around the timing and impact of proposed local government finance reforms (previously referred to as the Fair Funding Review), and the impact of higher levels of inflation and interest rates all contribute to the pressure on the Council's continued financial sustainability position.



- 5.3** For the Council to meet its legal obligation to provide statutory services and to support the priorities as set out in the Council Plan, financial sustainability must be maintained over the MTFS period.
- 5.4** There are a range of safeguards in place that help to prevent local authorities overcommitting themselves financially. These include:
- Balanced Budget requirement: England, Sections 31A, 42A of the Local Government Finance Act 1992, as amended.
  - Chief Finance Officer (CFO) duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.
  - Requirements of the Prudential Code
- 5.5** These requirements are reinforced by Section 114 of the Local Government Finance Act 1988 which requires the CFO to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted, and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 5.6** Paragraphs 2.6 to 2.8 of this report outlined the wider sector position regarding Section 114 notices and authorities in financial difficulty. It is important that members understand the legal framework which support local authority budget setting and financial sustainability.

### **Publica Review**

- 5.7** Following reports from Human Engine (November 2023) and Local Partnerships (March 2024), Council approved the Detailed Transition Plan ("DTP") report at its meeting on 31 July 2024. This set out the process that would be followed to return the majority of services to the Council with an initial transfer of services taking place on 01 November 2024.
- 5.8** The DTP and covering report provided members with an initial estimate of additional cost of Phase I (enduring impact) and the one-off costs (provision for redundancy).
- 5.9** These cost estimates have been updated for this report but should be treated with a degree of caution – they are estimates at the current time and will vary as appointments are made to new roles within the council.
- 5.10** The table and Waterfall chart below provides members with a reconciliation between the financial implications set out in the July 2024 DTP and those included in the MTFS update included within this report.



Reconciliation of movement in additional cost	July 2024 DTP (£'000)	November 2024 update (£'000)	Change (£'000)
Phase 1 Baseline Cost	3,674	3,616	(58)
Sharing + Pension Impact	326	318	(8)
New Roles	553	619	66
<b>New Model Total</b>	<b>4,553</b>	<b>4,553</b>	<b>0</b>
Publica Savings (Direct)	(240)	(240)	0
Indirect Savings	(283)	(282)	1
<b>Enduring Impact</b>	<b>4,030</b>	<b>4,031</b>	<b>1</b>
<b>Indicative Annual Increase / (Decrease)</b>	<b>356</b>	<b>415</b>	<b>59</b>

5.11 The main changes between July 2024 and the November 2024 estimate are:

- Additional Communications Team post [+£73k].
- Reduction in Development Management and Forward Planning estimate [-£7k]
- Reduction in estimate of Director and Executive Assistant roles [-£3k]
- Other minor changes in cost estimate [-£4k]

5.12 It should be noted that these cost estimates only cover Phase 1 of the DTP. No estimate has been included in the MTFS for Phase 2. Proposals for the next phase are at a very early stage and will require extensive due diligence before any decision is taken. This is in-line with the approach taken with Phase 1 and is vital to ensure the Council is able to remain financially sustainable given the likely cost increase that will result from Phase 2.

5.13 It is important to note that the gross increase in cost of Phase 1 (£0.937m in a full year) was net of cost reductions of £0.522m associated with changes made to the Publica management structure (giving the net cost estimate of £0.415m). Elements of the new posts (shown in the waterfall) could be considered as one-off changes to the Council's structure and matched by comparable reductions in the Publica contract sum. The associated cost reductions have been front-loaded and it is not anticipated that similar cost reductions would be realised in Phase 2.

5.14 In terms of one-off costs, paragraph 5.10 of the CTP covering report included the following: *"A prudent estimate would be for the Council to anticipate around £0.300m of redundancy and associated costs which allows for a level of mitigation. This represents an equal one-third share of the costs with future salary savings allocated on the same basis."*

5.15 The current estimate for the Council's share of redundancy and pension strain costs is £0.274m and within the amount set aside within the Financial Resilience reserve.

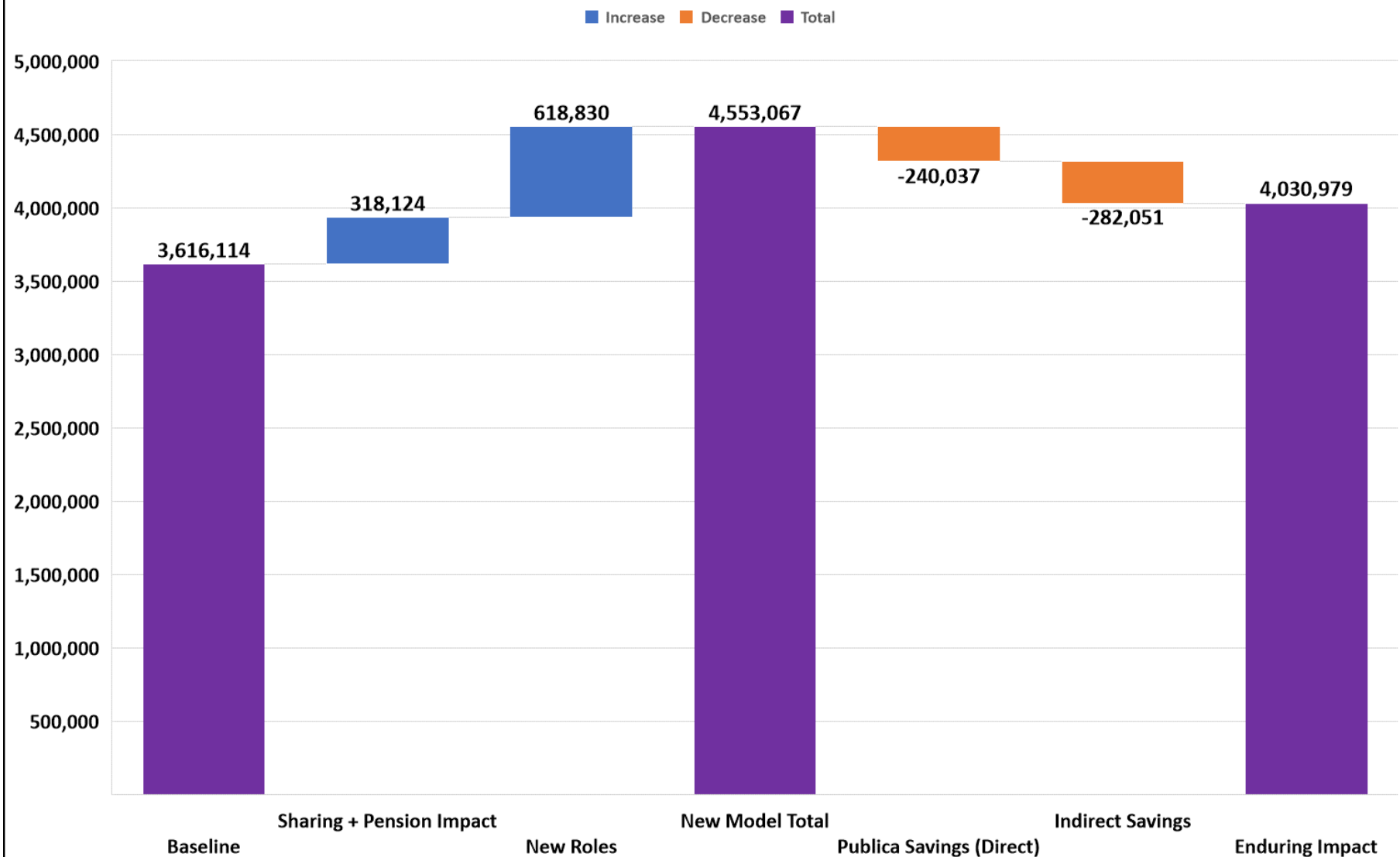


- 5.16** Members have received updates in the quarterly financial performance reports on the costs associated with the Transition Programme. The table below provides an update on costs incurred up to Q2 2024/25 (i.e. 30 September 2024) and a forecast for the remainder of the Phase I period (i.e. to 31 March 2025). The forecast to the end of the year indicates that £0.274m of the £0.500m set aside to support the transition programme will have been utilised on Phase I preparation and delivery.
- 5.17** The forecast for the Transition Programme includes ‘soft’ commitments (i.e. principal of expenditure has been agreed but timing and duration of spend not yet confirmed) for additional support for the areas below. The forecast includes estimates for 2025/26 expenditure:
- Finance Business Partnering
  - Project Management Support (Programme Manager)
  - HR Payroll Support
  - Strategic HR support (External oversight and critical friend review of TUPE)





### PHASE 1: Baseline Movements Reconciliation (All Business Areas)





Item	Description	2023/24 Financial Year		2024/25 Financial Year			TOTAL Estimate	CDC Share (£)
		2023/24 Actual (£)	2023/24 CDC Share (£)	2024/25 Actuals to Q2 (£)	2024/25 Forecast (£)	2024/25 CDC Share (£)		
Programme Director	Interim Programme Director (AP) sourced through Tile Hill	56,950	18,983	119,305	92,664	70,656	268,919	89,640
External Legal advice	External Legal advice to support transition of service from Publica to Councils including TUPE advice	14,327	4,776	17,793	27,880	15,224	60,000	20,000
Human Engine Report	Consultancy and support provided July to October 2023	26,400	6,600	0	0	0	26,400	6,600
Local Partnerships	20 days consultancy in 2023/24 - LGA funded	0	0	0	0	0		
Local Partnerships	Additional support outside of the LGA-funded consultancy	0	0	0	0	0		
Support to Councils	Additional Finance Business Partner support	0	0	0	29,072	14,536	116,288	58,144
Programme Office	Programme Manager Nov-March	0	0	0	0	0	42,000	14,000
Programme Office	Backfill costs for Finance Business Partner role	8,925	2,975	59,805	68,715	42,840	137,445	45,815
Programme Office	HR Payroll Support	0	0	0	8,596	2,865	17,192	5,731
Programme Office	External oversight and critical friend review of TUPE conversations and processes	0	0	0	20,000	0	20,000	6,667
Programme Office	Backfill costs for HR Business Partner role	0	0	17,224	23,955	13,726	82,357	27,452
		<b>106,602</b>	<b>33,334</b>	<b>214,127</b>	<b>270,882</b>	<b>159,848</b>	<b>770,601</b>	<b>274,048</b>



### Budget pressures included in the MTFS.

5.18 Table 2 below includes the budget pressures that have been included in the draft revenue budget and MTFS.

Table 2 – Budget Pressures

Item & Summary	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
Budget Pressures				
2024/25 External Audit scale fee increase (10%)	14	14	14	14
Spacehive Platform Fee (Crowdfund Cotswold)	30	30	30	0
Asset Management - Rental Income	8	8	8	8
<b>TOTAL</b>	<b>52</b>	<b>52</b>	<b>52</b>	<b>22</b>

- **Commercial Property Income:** reduced rental income expectations and void costs forecast for 2025/26 with anticipation of asset disposals in future years as part of the emerging Asset Management Strategy.
- **External Audit Scale Fees:** the external audit scale fee was increased by 151% for the new PSAA-led contracts from April 2024. This major reset in the scale fee had been widely expected owing to the current audit backlog and the wider challenges in wider audit market. A further increase of 10% for April 2025 is expected based on draft information from PSAA.
- **Income pressures:** an indicative budget pressure is included in the draft revenue budget and MTFS to address the income shortfall on specific fees and charges. The level of the adjustment to income budgets will be reviewed to ensure compensating expenditure adjustments are considered to bring the service budget back in line.

### Savings included in the MTFS update

5.19 The table below sets out the ongoing cost reduction and income generation items from the February 2024 MTFS. Further work will be undertaken over the budget setting process to refine existing items and to consider additional items as they are identified through the detailed review of Publica and Ubico service delivery budgets, and through the Cabinet Transform Working Group.



**Table 3 – Savings items included in the MTFS**

<b>Savings (b/f from Feb 2024 MTFS)</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>	<b>2027/28 (£'000)</b>	<b>2028/29 (£'000)</b>
<u>Corporate Savings</u>				
LGPS - Secondary Rate (PIA) (Budget savings)	(196)	(196)	(196)	(196)
<u>Other Expenditure Savings</u>				
Ubico - Rezoning of Rounds	(500)	(500)	(500)	(500)
<u>Fees &amp; Charges</u>				
Car Parking Fees	(120)	(210)	(293)	(394)
Garden Waste - fee increase	(115)	(231)	(348)	(465)
<b>TOTAL</b>	<b>(931)</b>	<b>(1,137)</b>	<b>(1,338)</b>	<b>(1,555)</b>

5.20 The savings proposals in table above have been included in the draft revenue budget and MTFS.

- **Car Park Tariffs, Pay and Display:** an annual inflationary uplift was included from 2025/26 in the February 2024 MTFS. The figures in the table above indicate the additional income that would arise from the annual uplift but will need to be carefully modelled before any proposals come forward to take into account performance in 2024/25 following the introduction of new tariffs and Sunday Charging.
- **Garden Waste Fee, Recovery of costs:** an annual £5 increase in the Garden Waste fee was included from 2025/26 in the February 2024 MTFS. This will need to be reviewed against any corresponding change in service costs from Ubico. The estimate of income is based on the number of existing subscribers and maintains the discount in the fee offered to residents in receipt of Local Council Tax Support.
- **Waste & Recycling Collections:** The full-year impact of the review of all the waste and recycling rounds across the district is confirmed at £0.500m.

#### **Development of credible/robust savings proposals/CTWG**

- 5.21 An important part of the approach to maintaining financial sustainability will be to continue to deliver efficiencies and savings over the coming years. The Council Plan and services must be delivered within the overall resource envelope available to the Council thereby reducing reliance on earmarked reserves to support the budget.
- 5.22 The level of savings included in the February 2024 MTFS, and the update set out in this report does not meet the budget gap identified. The Financial Resilience reserve is being used to balance the budget in the short-term and will be depleted over the MTFS period leading to a potential deficit position by 2026/27. The Council will need to address the scale of the budget gap to ensure a balanced budget can be set for 2025/26 and beyond. The position set out in



this report is by no means complete and the budget gap may change due to assumptions being updated.

- 5.23** The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to
- financially manage the short, medium, and long-term finances of a local authority
  - manage financial resilience to meet unforeseen demands on services.
  - manage unexpected shocks in their financial circumstances.
- 5.24** A key element of demonstrating financial sustainability and compliance with the FM Code is for the Council to ensure suitable mechanisms are in place around savings so that they are identified, agreed, planned, implemented, and achieved. This will help to ensure the funding gap identified within the MTFS is addressed in a planned and managed way.
- 5.25** The Cabinet Transform Working Group (CTWG) was established in March 2023 to provide a robust approach to addressing the budget gap identified over the MTFS period. The programme established a revised process for how transformation projects and savings are identified, evaluated, and approved, with clearer reporting and monitoring and governance arrangements. The group have met several times during the year and are reviewing a number of options.
- 5.26** Given the scale of the financial challenge the Council is facing, a longer-term view has been taken on the development of the refreshed Savings and Transformation plans. This will help ensure adequate cost reductions are identified, scoped, and planned over the MTFS period. Savings ideas will be grouped by workstream and indicate outcomes expected in terms of financial and service benefits and set challenging but achievable action plans for delivery by agreed periods.
- 5.27** These will be brought forward over the coming months once an action plan for each major workstream has been developed. Project Management support and external support (e.g. APSE, LGA) may be required on individual lines of enquiry to ensure options are fully appraised prior to inclusion in the programme.
- 5.28** This will require careful consideration of the resources required to support and deliver a more comprehensive medium-term programme where service delivery responsibility is evolving.
- 5.29** Subject to further due diligence, it is anticipated that a draft programme will be included in the February 2025 MTFS with a clear delivery plan for each year. However, the programme will need to be flexible and agile to meet the financial challenge and be capable of scaling up or down to meet any emerging requirement.



### Scenarios/Modelling

- 5.30 The MTFS update is based on the most credible expenditure, income and funding position and sets out the resulting budget gap with additional action required over the coming months to mitigate the position for 2025/26 and over the MTFS period.
- 5.31 With the level of uncertainty, a number of scenarios have been developed to model the impact and sensitivity on distinct levels of inflationary pressures, cost reduction measure, and income/funding options. This enhances the financial planning process and supports the Council's continued financial sustainability priority, providing a degree of flexibility over the coming months as the MTFS is reviewed and refined in advance of the formal approval of the budget and MTFS by Council in February 2025.
- 5.32 As set out in the external auditor's Annual Report ([External Auditor's Annual Report, Audit and Governance Committee 25 July 2023](#)) the Council faces a lack of funding certainty and external economic factors which could lead to different financial scenarios.
- 5.33 The table below sets out the key characteristics of the scenarios that will be utilised in the development of the February 2025 MTFS.
- 5.34 The scenarios modelled are reasonable current/balanced (i.e., most credible), worst case (pessimistic), mid-case, and optimum financial outcome (best/optimistic).
- 5.35 The three alternative scenarios broadly differ from the current scenario as follows:
- **Inflation:** + or – 1.0% on Pay Award (being the single largest contributor to inflationary pressures)
  - **Council Tax:** All scenarios assume Council Tax is increased by £5 per annum and the taxbase increases by 1%.
  - **Local Government finance reforms:** assumption these are delayed until 2026/27 with short-term (3 years) transitional protection.
  - **Business Rates Income:** current scenario assumes £5.0m of retained business rates income in 2024/25 and 2025/26. Best case assumes £5.0m in 2024/25 and £5.1m in 2025/26. Worst case assumes £4.0m in 2024/25 and 2025/26. All scenarios assume a reduction to the baseline funding level (£2.3m) from 2026/27.
  - **Savings:** Scenarios will assume additional savings targets for ranging from £0.500m to £2.250m over the MTFS period.
  - **Other:** funding forecasts based on the latest Pixel MTFP Model that will be available following the publication of the Local Government Finance Settlement.

### Draft MTFS

- 5.36 The draft MTFS shown in Table 4 and Annex A is based on the most credible assumptions and forecasts of income and expenditure over the next 4 years. The uncertainty around the timing and impact of local government finance reforms makes it difficult to estimate with



certainty the likely budget gap that the Council will need to close by 2026/27. However, whilst this outcome is uncertain, there is a need for the Council to ensure financial sustainability is maintained over the MTFs period and develop a robust and balanced savings and transformation plan to close the forecast budget gap.

- 5.37** It is therefore appropriate for the Council to consider a revenue budget position over the next two financial years that delivers a surplus to ensure the Financial Resilience reserve is replenished to mitigate the financial position forecast from 2026/27.
- 5.38** The Financial Resilience reserve was relied upon in 2022/23 and 2023/24 to balance the budget (£2.103m) which was not sustainable over the medium-term. Council approved the motion in November 2023 recognising that it could not continue to use reserves to balance its revenue budget. The 2024/25 budget and Medium-Term Financial Strategy were prepared on the basis that planned operating surpluses in 2024/25 and 2025/26 were transferred to the Financial Resilience Reserve.
- 5.39** The draft MTFs shows a revised moderate surplus of £0.343m in 2024/25 with a deficit of £0.233m in 2025/26. Although this remains a positive outcome at this stage of the budget setting cycle, consideration should be given to options to increase the projected surplus.

**Table 4 – Draft MTFs**

	2024/25	2025/26	2026/27	2027/28	2028/29
	Latest				
<b>Underlying Budget Gap - November 2024</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>
Service Revenue Expenditure	16,584	16,584	16,584	16,584	16,584
Non-Service Expenditure & Income	(699)	(1,378)	(923)	(849)	(367)
Inflation Provision		629	1,220	1,825	2,454
Budget Pressures	0	52	0	0	0
Publica Review Phase 1	174	417	469	469	469
Technical Adjustments					
<b>Draft Net Revenue Budget (Before Savings)</b>	<b>16,060</b>	<b>16,304</b>	<b>17,350</b>	<b>18,029</b>	<b>19,139</b>
TOTAL Funding	(15,577)	(15,153)	(13,852)	(12,479)	(11,211)
<b>Underlying Budget Gap</b>	<b>482</b>	<b>1,151</b>	<b>3,498</b>	<b>5,550</b>	<b>7,928</b>
<b>Savings identified</b>					
LGPS		(196)	(196)	(196)	(196)
Ubico - rezoning of Waste & Recycling	(375)	(500)	(500)	(500)	(500)
Car Park fees		(120)	(210)	(293)	(394)
Garden Waste fee - cost recovery		(115)	(231)	(348)	(465)
Other Savings	(450)				
<b>Revised Budget Gap / (Surplus)</b>	<b>(343)</b>	<b>220</b>	<b>2,361</b>	<b>4,213</b>	<b>6,374</b>
				<b>6,451</b>	<b>12,825</b>



### **Corporate Plan 2024-2028**

- 5.40** A new Corporate Plan covering the period 2024-2028 was adopted by Council at their meeting on 24 January 2024. The MTFs and Corporate planning process are aligned to ensure adequate resources are available to support the Corporate Plan priorities whilst maintaining financial sustainability over the plan period.

### **Balances and Reserves Strategy**

- 5.41** A review of the Reserves and Balances strategy will be undertaken to consider the adequacy of reserves considering the continued financial risks faced by the Council. The review will consider guidance published under CIPFA Bulletin 13: Local Authority Reserves and Balances (March 2023).
- 5.42** The Council's financial position is supported by its balances and reserves. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 5.43** The Council has a General Fund balance and number of earmarked reserves to support delivery of key priorities and financial sustainability.
- 5.44** The General Fund Balance will need to be maintained at a risk-assessed minimum level (currently £1.760m). The Financial Resilience Reserve balance will need to be held at a level that mitigates short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes).
- 5.45** These reserves should not be utilised to fund normal, on-going service provision.
- 5.46** The Council holds earmarked reserves to support the priorities included in the Corporate Plan. This funding is available for investment in initiatives which support delivery against these priorities.
- 5.47** The table below sets out the closing position on the General Fund balance and earmarked reserves for 2023/24.





**Table 5 – Balances/Reserves**

	<b>Closing Balance 31/03/2024</b>	<b>Estimated Balance 31/03/2025</b>	<b>Estimated Balance 31/03/2026</b>	<b>Estimated Balance 31/03/2027</b>	<b>Estimated Balance 31/03/2028</b>	<b>Estimated Balance 31/03/2029</b>
<b>Estimated Reserve balance over MTFS period</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>	<b>(£'000)</b>
<b>General Fund</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>
Council Priorities						
Council Priorities Fund - Allocated (Table X)	(151)	(151)	(151)	(151)	(151)	(151)
Council Priorities Fund - Unallocated	0	0	0	0	0	0
Council Priority: Transformation and Change	(200)	(200)	(200)	(200)	(200)	(200)
Council Priority: Publica Review	(471)	(311)	0	0	0	0
Council Priority: Climate Emergency	(250)	(250)	(250)	(250)	(250)	(250)
Council Priority: Housing Delivery	(750)	(750)	(750)	(750)	(750)	(750)
Council Priority: Local Plan	(908)	(908)	(908)	(908)	(908)	(908)
Council Priority: Regeneration/Infrastructure	(200)	(200)	(200)	(200)	(200)	(200)
Financial Resilience Reserve	(2,512)	(2,854)	(2,621)	(247)		
Financial Resilience Reserve - shortfall (indicative)					3,979	10,336
Risk Mitigation	(550)	(550)	(550)	(550)	(550)	(550)
Other Revenue reserves	(2,237)	(2,094)	(2,094)	(2,094)	(2,094)	(2,094)
<b>Subtotal Earmarked Reserves</b>	<b>(8,228)</b>	<b>(8,268)</b>	<b>(7,724)</b>	<b>(5,350)</b>	<b>(1,124)</b>	<b>5,233</b>
<b>TOTAL GF Balance + Earmarked Reserves</b>	<b>(9,988)</b>	<b>(10,028)</b>	<b>(9,484)</b>	<b>(7,110)</b>	<b>(2,884)</b>	<b>3,473</b>

## 6. CAPITAL PROGRAMME AND FINANCING

- 6.1** The Council's Capital Strategy and Capital Programme are considered over a five-year period. The Strategy provides the framework for the Council's capital expenditure and financing plans to ensure they are affordable, prudent, and sustainable over the longer-term.
- 6.2** The Council set out its Capital Programme for the period 2024/25 to 2027/28 based on the principles of the current Capital Strategy and was approved by Council at their meeting on 21 February 2024.
- 6.3** As reported in the 2024/25 Outturn report, slippage of £1.513m has been included in the Capital Programme for 2024/25 giving a revised budget of £8.326m, as shown in Table 6. The capital programme for 2025/26 to 2027/28 remains unchanged. Total expenditure decreases to £1.328m in 2025/26, increases to £6.651m in 2026/27, with an estimate of £2.720m for 2027/28.



**Table 6 – Capital Programme 2024/25 to 2027/28**

<b>Capital Programme</b>	<b>REV 2024/25 (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Leisure & Communities	1,310	50	550	50	1,960
Housing/Planning and Strategic Housing	3,351	700	700	700	5,451
Environment	2,458	428	5,251	1,820	9,957
ICT, Change and Customer Services	350	150	150	150	800
UK Rural Prosperity Fund	752	0	0	0	752
UK Shared Prosperity Fund Projects	134	0	0	0	134
Land, Legal and Property	880	0	0	0	880
Transformation and Investment	274	0	0	0	274
	<b>9,509</b>	<b>1,328</b>	<b>6,651</b>	<b>2,720</b>	<b>20,208</b>

**6.4** The capital programme is focussed on delivering against the Council’s key priorities, with further schemes coming forward to on enhancing the delivery of core services through improvement and enhancement of assets. A review of the programme will be undertaken as part of the budget setting process and will be focussed on

- Affordability and deliverability of schemes
- Current capital financing resources and potential capital receipts arising from the Asset Management Strategy
- Actions agreed in response to the financial sustainability improvement recommendations.

**Capital Financing**

**6.5** As set out in the *2024/25 Revenue Budget, Capital Programme and Medium-Term Financial Strategy* report, the Council’s capital expenditure has up until the current financial year been predominantly financed from capital receipts. As these are forecast to deplete over the capital programme period the Council will need to undertake prudential borrowing to support future capital expenditure plans. Other sources of finance support the capital programme, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves, and capital receipts).

**6.6** The level of prudential borrowing included in the capital financing statement reflects the financing available in the revenue budget, capital receipts align with forecasts and grant funding and other contributions are based on already notified allocations or best estimates at the time of preparation. If additional resources become available, projects that meet the Council’s strategic capital objectives will be brought forward for approval.



**Table 7 – Capital Financing 2024/25 to 2027/28**

<b>Capital Financing Statement</b>	<b>REV 2024/25 (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Capital receipts	6,267	628	1,780	2,020	10,695
Capital Grants and Contributions	2,830	700	700	700	4,930
Earmarked Reserves	0	0	0	0	0
Revenue Contribution to Capital Outlay (RCCO)	0	0	0	0	0
Community Municipal Investments (CMI)	412	0	0	0	412
Prudential Borrowing	0	0	4,171	0	4,171
	<b>9,509</b>	<b>1,328</b>	<b>6,651</b>	<b>2,720</b>	<b>20,208</b>

**6.7** The Capital Financing position will be reviewed by the s151 Officer during the year as expenditure forecasts are updated to ensure a balanced use of capital resources and mitigation of current and future interest rates.

## **7. RISKS AND UNCERTAINTIES**

**7.1** There are a number of financial risks that the Council will face over the medium-term. The 2024/25 Budget and the MTFs will need to be prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

**7.2** The main risk is around the nature and scope of local government funding from the Government from 2026/27. The implementation of the Fair Funding Review and Business Rates changes has already been delayed (originally due from April 2020) and is assumed to be delayed until April 2026. The forecast impact on District Councils is likely to be significant as resources are moved around Local Government to recognise Social Care cost pressures.

**7.3** It is difficult to estimate with certainty the impact on Cotswold. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2026/27 and beyond.

**7.4** However, an initial estimate of a near 50% reduction in the level of retained business rates income has been included in the MTFs assumptions from 2026/27 (reduction from £5.0m to £2.5m). An estimate has been made around transitional arrangements, but these are not based on any indication or commitment from the Government but have been based on financial modelling provided by Pixel including a view on damping (transitional arrangements upon implementation of the new distribution methodology to avoid significant step-changes, shocks or disruption to stable financial planning and service delivery).



- 7.5** Further risks remain in terms of the wider economic environment – interest rates and inflation along with projections for UK Growth over the MTFS period will have an influence on the Council’s budget preparation and MTFS.

## **8. CONSULTATION**

- 8.1** Budget Consultation will take place as part of the wider engagement with residents. 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”*

- 8.2** 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.

## **9. CONCLUSIONS**

- 9.1** The report sets out the Council’s financial prospects for 2025/26. Final budget proposals, including the outcome from the Local Government Finance Settlement, will be presented to the Cabinet and debated at Council during February 2025.

## **10. FINANCIAL IMPLICATIONS**

- 10.1** There are no financial implications arising directly from the report.

## **11. LEGAL IMPLICATIONS**

- 11.1** Save for any legal duties and requirements set out in the body of the report there are no further legal implications arising directly from the recommendations and the report.



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## **12. EQUALITIES IMPACT**

- 12.1** There are no direct implications arising from this result. The equalities impact of policy change or through the implementation of projects referred to in this report will be considered in subsequent reports to the Cabinet or Council as appropriate.

## **13. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

- 13.1** None

## **14. BACKGROUND PAPERS**

- 14.1** None  
(END)