



Council name	<b>COTSWOLD DISTRICT COUNCIL</b>
Name and date of Committee	<b>COUNCIL – 24 FEBRUARY 2025</b>
Subject	<b>2025/26 REVENUE BUDGET, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL STRATEGY</b>
Wards affected	All
Accountable member	Mike Evemy, Deputy Leader and Cabinet Member for Finance and Transformation Email: <a href="mailto:mike.evemy@cotswold.gov.uk">mike.evemy@cotswold.gov.uk</a>
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Report author	David Stanley, Deputy Chief Executive and Section 151 Officer Email: <a href="mailto:david.stanley@cotswold.gov.uk">david.stanley@cotswold.gov.uk</a>
Summary/Purpose	To present the Revenue Budget for 2025/26, Capital Programme and Medium-Term Financial Strategy for 2025/26 to 2028/29
Annexes	Annex A – Report from the Chief Finance Officer Annex B – Medium Term Financial Strategy 2025/26 to 2028/29 Annex C – Budget Pressures and Savings Annex D – Capital Programme 2025/26 to 2028/29 Annex E – Annual Capital Strategy 2025/26 and MRP Statement Annex F – Annual Treasury Management Strategy and Non-Treasury Management Investment Strategy 2025/26 Annex G – Detailed Revenue Budgets 2025/26 Annex H – Strategy for the Flexible Use of Capital Receipts Annex I – Budget Consultation Responses
Recommendation(s)	Council resolves to approve:  <ol style="list-style-type: none"><li>1. the Medium-Term Financial Strategy set out in Annex B</li><li>2. the Budget Pressures and Savings for inclusion in the budget, set out in Annex C</li></ol>



# COTSWOLD

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	<ol style="list-style-type: none"><li>3. the Council Tax Requirement of £7,065,418 for this Council</li><li>4. the Council Tax level for Cotswold District Council purposes of £158.93 for a Band D property in 2025/26 (an increase of £5)</li><li>5. the Capital Programme, set out in Annex D</li><li>6. the Annual Capital Strategy 2025/26, as set out in Annex E</li><li>7. the Annual Treasury Management Strategy and Non-Treasury Management Investment Strategy 2025/26, as set out in Annex F</li><li>8. the Strategy for the Flexible use of Capital Receipts, as set out in Annex H</li><li>9. the balances and reserves forecast for 2025/26 to 2028/29 as set out in Section 7 of the report.</li><li>10. formally note the renewal of the CIVICA OpenRevenues 3-year software contract from 01 June 2025 with an annual fee of £0.106m (an increase of £0.031m over the previous annual contract value)</li></ol>
Corporate priorities	<ul style="list-style-type: none"><li>• Delivering Good Services</li><li>• Responding to the Climate Emergency</li><li>• Delivering Housing</li><li>• Supporting Communities</li><li>• Supporting the Economy</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	The 2025/26 Revenue Budget, Capital Programme and Medium-Term Financial Strategy has been developed in consultation with the Council's statutory officers, Publica management, Ubico management, and members of the Cabinet. Consultation has been carried out with members of the Overview and Scrutiny Committee and with the district's residents, businesses, and community organisations.



## **1. EXECUTIVE SUMMARY**

- 1.1** The budget and Medium-Term Financial Strategy (MTFS) have been prepared in the context of ongoing pressures on the Council's finances.
- 1.2 A significant budget gap was identified in the February 2023 and February 2024 MTFS forecasts.** The indicative position outlined for 2025/26 through to 2027/28 was an unfunded budget gap of £4.697m (£10.487, 2025/26 to 2028/29), as reported to Council in February 2024. With the decision to return the majority of services from Publica to the Council (November 2023), without further mitigating action the unfunded budget gap can be expected to have increased over the last 12 months. It was noted at the time that a revised approach to savings and transformation was required given the cumulative budget gap forecast over the MTFS period.
- 1.3** 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. There remains uncertainty around inflation and interest rates 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.
- 1.4** The Government published their much-anticipated white paper on Local Government in December 2024 ["English Devolution White Paper – Power and Partnership: Foundations for Growth"](#). Local government reorganisation for two-tier areas (through the creation of Unitary Councils) forms a significant part of the Government's plans.
- 1.5** Several local authorities have issued section 114 notices since 2018 with Birmingham City Council 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.
- 1.6 Whilst there is no immediate risk of Cotswold District Council having to apply for Exceptional Financial Support (EFS) or consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability.**



- 1.7 Should the budget gap not be closed sufficiently, EFS cannot be ruled out in future years.**
- 1.8** The level of uncertainty across the sector makes it more difficult to plan for the medium-term. As outlined earlier in the report, the white paper published in December 2024 proposes fundamental changes to the way local government is organised in two-tier areas. At the time of writing this report, the timetable for reorganisation is unclear; changes could take place as early as April 2027 or April 2028 but is dependent on a number of factors.
- 1.9** Local Government Finance reforms, originally due to be implemented from April 2020, are now planned from April 2026. The Government launched a consultation on "[Local authority funding reform: objectives and principles](#)" in December 2024. This sets out the government's proposed approach and should be viewed in the context of the white paper on devolution. The consultation closed on 12 February 2025.
- 1.10** The reforms will have a significant impact on the level of funding the Council receives from the Government (circa £3m). It is likely that resources (funding) will be directed towards high-need/low taxbase authorities from low-need/high taxbase authorities.
- 1.11** Furthermore, the resetting of the Business Rates Retention System, cessation of New Homes Bonus, and the interaction with the Devolution white paper would suggest that Shire District Councils such as Cotswold are likely to see significant reductions in their funding and has formed the basis of funding assumptions in the MTFs for several years.
- 1.12 It is proposed that the Council increases Council Tax by the maximum permissible level and will increase Cotswold District Council's Band D rate by £5 (just under 10p per week) from £153.93 to £158.93.**
- 1.13** The provisional settlement for 2025/26 was announced on 18 December 2024 with the Final Settlement published on 03 February 2025. As indicated in the policy statement, the settlement incorporated a number of reforms to local authority funding – largely around how new funding streams were distributed. Whilst previous finance



settlements have been seen as a 'roll-over' from one year to the next, there are significant changes to funding streams for 2025/26. It is worth stressing that the settlement only covers the forthcoming financial year with no indication of future funding levels.

**1.14** The final settlement confirmed allocations included in the provisional settlement.

- It is a single year settlement for 2025/26.
- Confirmation of the Council Tax referendum principle of 2.99% or £5 (whichever is higher) for shire districts and boroughs.
- New Homes Bonus scheme continues for a further year.
- **Rural Services Delivery Grant abolished**
- New Grant – Recovery Grant (£600m additional funding)
- New Grant – Children's Services Prevention Grant (£263m)
- Adult Social Care grant will increase by £880m
- Domestic Abuse Safe Accommodation Grant (£160m) now included in Core Spending Power (CSP).
- Protection of Core Spending Power (CSP) through the Minimum Funding Guarantee (MFG) but on a much-reduced basis. The threshold has reduced from 4% to 0% and includes the Government's assumptions of Band D Council Tax increases and taxbase growth. The percentage increase in CSP for Shire Districts was the lowest of all local authority classes at an average of 0.32% (a 4.75% decrease when Council Tax assumptions are removed)
- Continuation of the approach to eliminating negative RSG.
- Services Grant has been abolished.
- **Final Settlement included allocation of Employer National Insurance Grant of £0.133m.**

Publica Review

- 1.15** The February 2024/25 MTFS did not include any budget provision for Phase 1, or any subsequent phase associated with the transfer of services from Publica to the Council. The [2025/26 Budget Strategy and Medium-Term Financial Strategy \(MTFS\) Update](#) report was considered by Cabinet at their meeting in November 2024. This provided members with an update on the financial aspects of transition.



**1.16** It is important to note that the gross increase in cost of Phase 1, £0.984m in a full year (up from £0.937m), was net of cost reductions of £0.503m (reduced from (£0.522m) associated with changes made to the Publica management structure (giving the net cost estimate of £0.481m – up from £0.415m). Elements of the new posts 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.

**1.17 It is essential that the Council takes every opportunity to make services as efficient and cost effective as possible and this will be an important element of the Transition Plan and approach to service design. Cost pressures must be minimised during the transition plan period to ensure service costs are contained within the financial envelope set out in the MTFS.**

**1.18** The MTFS has been prepared against the emerging position regarding the Phase 2 of Publica Transition. The broad assumptions for the purposes of the 2025/26 budget and over the medium term is that service costs will increase as a result of increased employer pension contributions and a reduced emphasis on sharing of services. The MTFS has made a broad assumption based on a limited number of services that are being considered for Phase 2. There remains uncertainty around future service transition due to Devolution/Local Government Reorganisation. Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in March 2025.

**1.19** At the time of preparing the 2025/26 Budget and MTFS, the nature and structure of service delivery for the Phase 2 services in scope had not been finalised. The latest available information indicated that the following services were forecast to increase in cost by £0.300m in a full year.

- Property and Estates
- Leisure Management
- Waste & Recycling (contract management)
- Project and Programme support



**1.20** Alongside the services transferring, a small number of additional roles have been identified to support delivery of the Council's Savings and Transformation Programme, emerging values, and Culture Strategy, and to support the Strategic Housing function.

**1.21** In order to minimise the ongoing cost to the Council, reserve and additional funding has been identified. The list below provides details of the additional posts, and the funding stream identified.

- Head of Organisational Development and People (Growth, Revenue Budget)
- Transformation Lead (Reserve funded)
- Transformation Support – Project Management (Reserve funded)
- Strategic Housing Support (Growth, funded from Council Tax Second Homes Premium)

<b>Post</b>	<b>2025/26 Estimate (£'000)</b>	<b>2026/27 Estimate (£'000)</b>	<b>2027/28 Estimate (£'000)</b>	<b>2028/29 Estimate (£'000)</b>
Head of Organisational Development and People	75	100	100	100
Transformation Lead	99	132	33	0
Transformation Support	50	67	17	0
Strategic Housing Support	48	64	64	64
	<b>272</b>	<b>363</b>	<b>214</b>	<b>164</b>
<b>Funded by:</b>				
Council Tax Second Homes Premium	(48)	(64)	(64)	(64)
Earmarked Reserve	(149)	(199)	(50)	0
Revenue Budget	(75)	(100)	(100)	(100)
	<b>(272)</b>	<b>(363)</b>	<b>(214)</b>	<b>(164)</b>

**1.22** Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in March 2025 which will set out in detail timing and service and management structures. As with Phase 1, one-off costs associated with delivering Phase 2 are estimated at £0.300m and would be funded from one-off funding.

**1.23** It is important that members are kept apprised on the outcomes from the due diligence and the financial implications as they emerge during the transition period. Although there will be further reports to Cabinet and Council throughout the transition period, it is recommended that the quarterly financial performance reports to Cabinet include timely and relevant financial updates.



### Balanced Budget Requirement

**1.24** The Council is legally required to set a balanced budget for the following financial year and remains balanced. As can be seen in the MTFS, the Council's core financial position is a balanced budget for 2025/26 with a transfer of the projected surplus to the Financial Resilience reserve. However, there is a significant and increasing projected budget gap of £1.589m in 2026/27 and is forecast to increase to £4.879m in 2027/28 and £6.282m by 2028/29. This is an unmitigated position and assumes that there are no cost reductions or savings measures identified.

**Table ES1 – Summary Medium Term Financial Forecast**

	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
<b>MTFS Summary</b>				
Net Service Revenue Expenditure	17,241	17,241	17,241	17,241
Corporate Items/Non Service Income & Expenditure	(1,154)	(459)	169	121
Transfers to/(from) earmarked reserves	(620)	(1,259)	(13)	37
Provision for Inflation	0	629	1,268	1,903
<b>Service + Corporate Items</b>	<b>15,467</b>	<b>16,152</b>	<b>18,664</b>	<b>19,302</b>
Budget Pressures	597	763	564	464
Technical Adjustments	0	0	0	0
Risk Items	0	0	0	0
Savings and Transformation Plan items	(359)	(1,340)	(1,551)	(1,766)
<b>Draft Net Revenue Budget</b>	<b>15,704</b>	<b>15,575</b>	<b>17,677</b>	<b>18,000</b>
<b>TOTAL Funding</b>	<b>(16,342)</b>	<b>(13,986)</b>	<b>(12,797)</b>	<b>(11,718)</b>
<b>Budget Gap / (Surplus)</b>	<b>(638)</b>	<b>1,589</b>	<b>4,879</b>	<b>6,282</b>

**1.25** An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years. The Council Business 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.

**1.26** The level of savings set out in the MTFS 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 during 2027/28. For clarity, the MTFS assumes that the cost of change associated with the Publica review is contained within the existing financial envelope.





Given the increasing budget gap from 2026/27 it is not unreasonable to expect service reviews to contribute towards a balanced budget position over the MTFS period. At this stage, it is difficult to make a robust judgement as to the level and timing of cost reduction for services that will be transferred from Publica to the Council.

- 1.27** The Council will need to address the scale of the budget gap to ensure a balanced budget can continue to be set over the MTFS period. The position set out in this report is by no means complete and the budget gap may change due to assumptions being updated.
- 1.28** Local Government Reorganisation, as outlined earlier in the report in the English Devolution white paper, and the proposals for Local Government Finance reforms, will exert significant influence over the prospects for the Council's finances over the MTFS-period.
- 1.29** The Cabinet Transform Working Group Council will need to further develop the approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. This will need to include consideration of a service design framework for inclusion in the [Publica] Transition Plan to ensure service costs are contained within the financial envelope set out in the MTFS.

#### Budget Pressures, Inflation and Risk

- 1.30** The table below sets out the impact on the Council's budget from demand and inflationary pressures, impact on fees and charges income, and the risk allowance included in the revenue budget and MTFS for major contracts. 2025/26 Service Revenue Budgets already include the impact of Budget Pressures and Savings (as detailed in Annex C) unless otherwise stated.



**Table ES2 – Pressures and Inflation**

Item & Summary	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
<b>Budget Pressures (already included in SRE)</b>				
Expenditure Pressures	316	316	316	316
Income Pressures	134	134	134	134
	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>
<u>Provision for Inflation &amp; Contract Growth</u>				
Contract Inflation (Publica, Ubico)	476	485	974	1,482
CDC Service (Pay Inflation)	140	144	293	421
Provision for ongoing costs associated with transferring services - Publica Transition Phase 2	225	300	300	300
Revenue impact of additional posts (excludes reserve funded posts)	75	100	100	100
	<b>916</b>	<b>1,029</b>	<b>1,668</b>	<b>2,303</b>
	<b>1,366</b>	<b>1,479</b>	<b>2,118</b>	<b>2,753</b>
Included in 2025/26 Service Revenue Budgets ==>	<b>1,066</b>			

Savings, Income and Cost reductions

**1.31** To ensure the Council is able to set a balanced budget for the forthcoming financial year, savings have been included where proposals are robust and can be delivered. The table below provides a summary of the savings included in the MTFs.

**Table ES3 – Savings, Fees and Charges**

Savings	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
Corporate Savings and Income	(221)	(746)	(746)	(746)
Expenditure Savings	(327)	(327)	(327)	(327)
Fees and Charges	(281)	(508)	(720)	(934)
<b>Subtotal</b>	<b>(829)</b>	<b>(1,582)</b>	<b>(1,793)</b>	<b>(2,008)</b>



### Balances and Reserves

- 1.32** A review of the Reserves and Balances strategy has been undertaken to consider the adequacy of reserves considering the financial risks faced by the Council. The review has considered guidance published under CIPFA Bulletin 13: Local Authority Reserves and Balances (March 2023).
- 1.33** 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.
- 1.34** As set out earlier in the report, there is a much-heightened focus on financial sustainability throughout the sector, largely due to the number of Section 114 notices that have been issued since 2018 and local authorities seeking exceptional financial support.
- 1.35** The review of reserves and balances maintains the distinction between the General Fund Balance and Earmarked Reserves.
- 1.36** The General Fund Balance has been assessed taking account of the strategic, operational, and financial risks facing the authority and the underlying budgetary assumptions. This includes:
- The treatment of inflation and interest rates
  - Level and timing of estimated capital receipts
  - Treatment of demand-led pressures
  - Treatment of planned efficiency savings
  - The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements, or major capital developments
  - The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.
  - The general financial climate to which the authority is subject to



**1.37** The General Fund Balance will be maintained at a minimum of £1.760m, with the Financial Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes). Given the budget gap identified over the MTFS period, the Council must identify and deliver new savings to ensure this reserve is adequate.

**1.38** However, these reserves should not be utilised to fund normal, on-going service provision. It is important to review the level of reserves regularly.

**1.39** A review of the Council Priorities Fund revenue reserve was undertaken as part of the 2024/25 budget setting process with the recommendation that this is allocated into separate reserves linked to the priorities outlined in the Council's Corporate Plan as indicated below:

- Delivering Good Services
- Responding to the Climate Emergency
- Delivering Housing
- Supporting Communities
- Supporting the Economy

**1.40** It is recommended that for 2025/26 the following reserves are maintained to support delivery of the Council Plan, the Publica Review outcomes, and the ongoing preparation of the Council's Local Plan:

- **Council Priority: Publica Review** reserve – the estimated unspent balance (estimated at £0.225m) to provide adequate funding for the Council's share of the costs arising during the Phase 2 of the Publica Transition.
- **Council Priority: Local Plan** reserve – a further £0.250m is allocated to the to ensure the next stages of the Local Plan preparation can be delivered following the update to the National Planning Policy Framework (NPPF) in December 2024. The Council has submitted an expression of interest to MHCLG for Delivery Funding of up to £0.250m. Should the Council be successful and receive an allocation, the level of reserve funding will be reviewed. It is anticipated that local authorities will be notified of outcome in February 2025.
- **Council Priority: Climate Emergency** reserve is maintained up to £0.250m



- **Council Priority: Housing Delivery** reserve is maintained at £0.500m
- **Council Priority: Regeneration/Infrastructure** reserve is maintained at £0.200m with a commitment of up to £0.070m regarding feasibility studies agreed by Cabinet in December 2024. The reserve is held to provide funding for feasibility studies and due diligence around the emerging Cirencester Town Centre Masterplan including support for the Council's Car Park Strategy.
- **Council Priority: Transformation and Change** reserve is increased from £0.200m to £0.318m to provide funding for savings and transformation support, projects and invest to save initiatives.

**1.41** New initiatives will require Members to review existing commitments against earmarked reserves and to reallocate funds accordingly.

**1.42** Therefore, the following balances and reserves position is proposed over MTFS period:

- General Fund Balance to be maintained at minimum level of £1.760m
- Financial Resilience Reserve held to mitigate 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.
- Council Priorities reserves are maintained for 2025/26 to support the priorities outlined in the Corporate Plan.

**1.43** If approved, the impact of these proposed changes outlined in the report to the level of balances and reserves is set out in the table below.



**Table ES4 – Reserves and Balances Forecast ('Do nothing' scenario)**

As per MTFS	Estimated Balance 31/03/2025 (£'000)	Estimated Balance 31/03/2026 (£'000)	Estimated Balance 31/03/2027 (£'000)	Estimated Balance 31/03/2028 (£'000)	Estimated Balance 31/03/2029 (£'000)
<b>General Fund</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>	<b>(1,760)</b>
Council Priorities	(2,649)	(1,613)	(902)	(902)	(902)
Financial Resilience Reserve	(2,884)	(4,164)	(2,647)	2,041	8,017
Financial Resilience Reserve - shortfall (indicative)					
Risk Mitigation	(2,245)	(2,344)	(1,335)	(1,447)	(1,214)
Ringfenced Earmarked Reserves	(19)	(14)	(14)	(14)	(14)
Other Revenue reserves	(1,782)	(877)	(872)	(867)	(862)
<b>Subtotal Earmarked Reserves</b>	<b>(9,578)</b>	<b>(9,012)</b>	<b>(5,770)</b>	<b>(1,189)</b>	<b>5,026</b>
<b>TOTAL GF Balance + Earmarked Reserves</b>	<b>(11,338)</b>	<b>(10,772)</b>	<b>(7,530)</b>	<b>(2,949)</b>	<b>3,266</b>

IFRS9 Statutory Override

**1.44** The Government have indicated through the Local Government Finance Settlement consultation that they do not intend to extend the IFRS9 statutory override beyond its current end date of 31 March 2025. This position was confirmed in the Government's response to the consultation, although there does appear to be the prospect of "transitional support for historic investments" although it is unclear what form this would take. Councils would need to comply with the requirements of IFRS9 from financial year 2025/26 and the Council should still consider mitigation options in the absence of a clear position from the Government.

**1.45** Since 2018, a statutory accounting override ("the override") has been in place that allows councils to disapply part of International Financial Reporting Standard 9 (IFRS 9), which would otherwise require councils to make provision in their budgets for changes in value (gains or losses) of certain types of financial investments (pooled investment funds). The override was put in place by the previous government in response to councils' concerns that this requirement would adversely affect their financial position and to provide time for councils to prepare for full compliance with IFRS 9. The original override was a temporary measure due to end 31 March 2023, later extended by 2 years following consultation with the sector. The override is currently due to end March 2025.



- 1.46** The implications for the Council could be significant. Should the value of the Council's Pooled Funds be below the original purchase value, any unrealised loss at the end of the 2025/26 financial year would need to be mitigated.
- 1.47** In anticipation of the statutory override period not being extended, the Council has established a Treasury Management Risk reserve to hold funds to manage the cyclical nature of pooled funds. However, there is a risk that the unrealised losses in a given year may exceed the amounts set aside in the earmarked reserve.
- 1.48** The Council will need to consider its risk appetite for potential pooled fund value fluctuations and whether further mitigation measures should be put in place. Such measures may include holding a greater balance in the earmarked reserve, consideration of disposal of some or all of the pooled funds. In reviewing mitigation options, the Council will need to consider the revenue impact as pooled funds provide a longer-term investment return which supports the General Fund budget.

Capital Programme 2025/26 to 2028/29

- 1.49** 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.
- 1.50** The Council has set out its Capital Programme for the period 2025/26 to 2028/29 based on the principles of the current Capital Strategy. This is summarised in the table below and in further detail in Annex D of this report. A total capital expenditure budget of £4.0m in 2025/26 is proposed. Total expenditure over the programme period is estimated at £18.1m (£25.4m when including the current financial year). This includes provision for replacement of Waste and Recycling vehicles in line with the replacement programme. However, given the significant capital outlay and the potential impact from Local Government Reorganisation this will be kept under review.



**Table ES5a – Summary Capital Programme**

<b>Capital Programme</b>	<b>2024/25 Revised Budget (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>2028/29 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Leisure & Communities	1,491	0	500	0	0	1,991
Housing/Planning and Strategic Housing	2,405	1,718	1,839	2,230	1,775	9,967
Environment	1,606	1,132	5,255	1,826	205	10,025
ICT, Change and Customer Services	150	350	150	150	150	950
UK Rural Prosperity Fund	752	0	0	0	0	752
UK Shared Prosperity Fund Projects	134	327	0	0	0	461
Land, Legal and Property	517	500	0	0	0	1,017
Transformation and Investment	257	0	0	0	0	257
	<b>7,312</b>	<b>4,027</b>	<b>7,744</b>	<b>4,207</b>	<b>2,130</b>	<b>25,420</b>

**1.51** The Council has developed an Asset Management Strategy supported by Carter Jonas during 2024/25. This was presented to Cabinet in May 2024 and is being further developed to include detailed asset management plans and Minimum Efficiency Standards (MES) considerations for the Land and Buildings assets it holds. The emerging strategy provides a longer-term view of the income and expenditure profiles, tenant events, hold and disposal options. The strategy will help ensure that the Council's capital assets are maintained, developed, and continue to contribute effectively to the delivery of the Council services, to support the local economy or provide income in line with expectations. Where there are opportunities to use assets more effectively to deliver Council Priorities, business cases will be presented to the Cabinet or Council for approval.

**1.52** 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).

**1.53** At their meeting on 31 October 2023 Overview and Scrutiny Committee recommended that the Capital Programme should be kept under review to ensure the revenue impact of capital expenditure and financing decisions were fully considered.





**1.54** The level of prudential borrowing included 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. However, with the current relative high cost of borrowing, the business cases for new projects will need to be robust, include adequate headroom to cover capital financing costs, and be subject to additional challenge from officers prior to member consideration.

**Table ES5b – Summary Capital Financing Statement**

	<b>2024/25 Revised Budget (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>2028/29 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Capital receipts	3,628	2,052	3,184	2,476	355	11,695
Capital Grants and Contributions	3,269	1,975	1,689	1,731	1,775	10,439
Community Municipal Investment	415	0	0	0	0	415
Prudential Borrowing	0	0	2,871	0	0	2,871
<b>TOTAL</b>	<b>7,312</b>	<b>4,027</b>	<b>7,744</b>	<b>4,207</b>	<b>2,130</b>	<b>25,420</b>

### Conclusions

**1.55** Despite the uncertainties around Local Government Funding Reforms, the continued pressure on households from the Cost-of-Living crisis, and the general economic position, the Council has been able to prepare a balanced budget whilst maintaining services to residents.

**1.56** The budget has been prepared in accordance with the approved budget strategy. This includes the principle of maintaining the Council's general fund revenue risk-based balance at £1.760m and maintaining other usable reserves to mitigate risk and support improvement.

**1.57** The Council will need to continue to take steps to manage and address the budget gap identified over the MTFS period.



- 1.58** The Capital Programme includes planned expenditure £7.744m in 2025/26 with the Council needing to consider the outcome of due diligence work on other potential schemes before any further capital expenditure is committed.
- 1.59** The budget includes a recommendation to Council for the current Council Tax level to increase by £5 for a Band D property (from £153.93 per annum to £158.93) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.
- 1.60** Cabinet, with support from the Cabinet Transform Working Group Council will need to further develop the approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. This will need to include consideration of a service design framework for inclusion in the [Publica] Transition Plan to ensure service costs are contained within the financial envelope set out in the MTFS.
- 1.61** The MTFS does not include any savings targets as an approach to mitigating the budget gap. Including savings targets would not provide a credible MTFS or projection on reserve balances. Targets would not be robust as there would be insufficient details, plans, or business cases to support the inclusion of savings targets.
- 1.62** Instead, the MTFS presents the unmitigated position, with reserve balances utilised to support the MTFS. This is not a strategy in itself and is not a sustainable position. Tables 9b and 9c within the report do illustrate the impact on reserve balances of a different approach – namely the reprioritisation of reserve balances and the effect of £3m of budgets savings across 2026/27 and 2027/28. This is to highlight the scale of the financial challenge and that even with a modest level of savings in 2026/27, this does not in itself fully close the budget gap.
- 1.63** As set out in the report, the Council will need to accelerate the Savings and Transformation programme during 2025/26. With additional resources included in the revenue budget (funded from earmarked reserves), a balanced and proportionate Savings and Transformation Programme must be considered ahead of the 2026/27 budget setting process. The approach must set out the process for identifying, reviewing and agreeing workstreams, clear delivery timescales, and how effective governance will be demonstrated.



- 1.64** The Local Government Association (LGA) has developed a [Transformation Capability Framework](#). This sets out the essentials for successful (service) transformation and the resources the Council will need to deliver such a programme.
- 1.65** With the need to close the budget gap identified in the MTFs, a key aspect of the Savings and Transformation will need to be on robust business cases that outline the financial outcomes and certainty of delivery.
- 1.66** The Council is required to balance the budget one year from the next and must deliver an ongoing savings programme – a robust, balanced, and proportionate plan of cost management and income generation opportunities to ensure the Council is able to achieve financial sustainability.
- 1.67** Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing. Reserves held to promote financial sustainability are forecast to be depleted during the MTFs period. Consideration should be given as part of the year-end procedures for 2024/25 as to their adequacy for future financial years given the current risks and uncertainties identified in this report. All reserves will be monitored and reported to Cabinet throughout 2025/26.



## **2. BACKGROUND**

- 2.1 A significant budget gap was identified in the February 2023 and February 2024 MTFS forecasts.** The indicative position outlined for 2025/26 through to 2027/28 was an unfunded budget gap of £4.697m (£10.487, 2025/26 to 2028/29), as reported to Council in February 2024. With the decision to return the majority of services from Publica to the Council (November 2023), without further mitigating action the unfunded budget gap can be expected to have increased over the last 12 months. It was noted at the time that a revised approach to savings and transformation was required given the cumulative budget gap forecast over the MTFS period.
- 2.2** 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.
- 2.3** 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. There remains uncertainty around inflation and interest rates 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.
- 2.4** The Government published their much-anticipated white paper on Local Government in December 2024 ["English Devolution White Paper – Power and Partnership: Foundations for Growth"](#). Local government reorganisation for two-tier areas (through the creation of Unitary Councils) forms a significant part of the Government's plans.
- 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 MTFS.
- 2.6** Several local authorities have issued section 114 notices since 2018 with Birmingham City Council 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 (9 out of 317 local authorities in England since 2018) it is unprecedented to have had this many issued in a short space of time.

<b>Section 114 Notices issued</b>	<b>Date</b>
Northamptonshire County Council	02-Feb-2018
Northamptonshire County Council	24-Jul-2018
London Borough of Croydon	11-Nov-2020
London Borough of Croydon	02-Dec-2020
Slough Borough Council	02-Jul-2021
Nottingham City Council	15-Dec-2021
Northumberland Council **	23-May-2022
London Borough of Croydon	22-Nov-2022
Thurrock Borough Council	18-Dec-2022
Woking Borough Council	07-Jun-2023
Birmingham City Council	05-Sep-2023
Nottingham City Council	29-Nov-2023
London Borough of Barnet **	23-Jan-2025

\*\* relates to unlawful payment

**2.8** A number of other local authorities have indicated they are facing significant financial difficulties and are likely to request support from the Government through the Exceptional Financial Support (EFS) scheme.

**2.9** A report by the Local Government Association (LGA) in October 2024 ([link to article](#)) highlighted that "an unprecedented 18 councils were given Exceptional Financial Support (EFS) from the Government in February to help meet their legal duty to balance their books this year (2024/25)" The survey by the LGA indicated:

- one in four councils have warned that they are likely to apply for emergency government bailout arrangements (EFS) to stave off bankruptcy in the next two financial years (2025/26 and 2027/28).
- Responses were received from 195 councils
- Around one in four Councils are likely to apply for EFS in 2025/26 and/or 2026/27 without additional government funding.

**2.10** Although the LGA survey and report was published prior to the October 2024 budget and provisional Local Government Finance Settlement, this does provide an indication of the scale of the financial challenge facing local authorities.



**2.11** As part of the Final Local Government Finance Settlement, it was announced that six local authorities would be able to increase their Council Tax by more than the usual prescribed limits. This should be considered as Exceptional Financial Support.

- **7.5% maximum:** Birmingham City Council, Somerset Council, Trafford Council
- **9.0% maximum:** London Borough of Newham, City of Bradford Metropolitan District Council, Royal Borough of Windsor and Maidenhead

**2.12** Whilst there is no immediate risk of Cotswold District Council having to apply for Exceptional Financial Support (EFS) or consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability.

**2.13** Should the budget gap not be closed sufficiently, EFS cannot be ruled out in future years.

**2.14** Cabinet approved its draft Medium Term Financial Strategy (MTFS) for the period 2025/26 to 2028/29 on 07 November 2024. The Council undertook a budget consultation process during January 2025.

**2.15** A focussed budget consultation exercise was undertaken in January 2025 with 46 responses to the consultation. It is worth noting that the number of responses is considerably lower than in previous years. The consultation process was undertaken during the 'pre-election' period in the lead up to the by election for the Chesterton Ward on 16 January 2025. A 'pre-election' period places certain restrictions on the way in which the Council can engage with its residents.

**2.16** The consultation asked residents for their views on proposed Council Tax increases and the Council's priorities. Feedback from the consultation has been used to inform this report.

**2.17** The budget and MTFS have now been updated to reflect the following:

- The Government's announcement of the Provisional Local Government Settlement 2025/26;
- The estimated Council Taxbase 2025/26 and the forecast balance on the Collection Fund in respect of Council Tax collection in 2024/25; and



- Provision for changes which have arisen since 07 November 2024.

**2.18** The level of uncertainty across the sector makes it more difficult to plan for the medium-term. As outlined earlier in the report, the white paper published in December 2024 proposes fundamental changes to the way local government is organised in two-tier areas. At the time of writing this report, the timetable for reorganisation is unclear; changes could take place as early as April 2028 but is dependent on a number of factors.

**2.19** Local Government Finance reforms, originally due to be implemented from April 2020, are now planned from April 2026. The Government launched a consultation on "[Local authority funding reform: objectives and principles](#)" in December 2024. This sets out the government's proposed approach and should be viewed in the context of the white paper on devolution. The consultation closed on 12 February 2025 with the Section 151 Officer supporting the consultation response through the Society of District Council Treasurers.

**2.20** The reforms will have a significant impact on the level of funding the Council receives from the Government. It is likely that resources (funding) will be directed towards high-need/low taxbase authorities from low-need/high taxbase authorities.

**2.21** Furthermore, the resetting of the Business Rates Retention System, cessation of New Homes Bonus, and the interaction with the Devolution white paper would suggest that Shire District Councils such as Cotswold are likely to see significant reductions in their funding and has formed the basis of funding assumptions in the MTFs for several years.

**2.22** The key issue for the Government to consider is the pace of reforms and the level and duration of transitional arrangements that are put in place. Without adequate transitional arrangements, there is a greater risk of Shire District Councils in particular failing financially.



Local Government Finance Policy Statement and Settlement 2025/26

- 2.23** The Local Government Finance policy statement was published on 28 November 2024 and outlines the Government's proposals for 2025/26, alongside longer-term plans for reforming local authority funding.
- 2.24** The statement confirmed the Council Tax referendum principles for 2025/26 and a continuation of the existing New Homes Bonus scheme for a further year. The statement included reference to the Extended Producer Responsibility for packaging (EPR) scheme funding for 2025/26.
- 2.25** The provisional settlement for 2025/26 was announced on 18 December 2024 with the Final Settlement published on 03 February 2025. As indicated in the policy statement, the settlement incorporated a number of reforms to local authority funding – largely around how new funding streams were distributed. Whilst previous finance settlements have been seen as a 'roll-over' from one year to the next, there are significant changes to funding streams for 2025/26. It is worth stressing that the settlement only covers the forthcoming financial year with no indication of future funding levels.
- 2.26** As outlined earlier, the government are consulting on local authority funding reforms that would take effect from April 2026.
- 2.27** The Government's 4-week consultation on the settlement closed on 15 January 2025. The final settlement published on 03 February 2025 included details of the allocations for compensating local authorities for the increased Employer National Insurance contributions (ENICs) announced in the October 2024 budget.
- 2.28** The final settlement confirmed allocations included in the provisional settlement.
- It is a single year settlement for 2025/26.
  - Confirmation of the Council Tax referendum principle of 2.99% or £5 (whichever is higher) for shire districts and boroughs.
  - New Homes Bonus scheme continues for a further year.
  - **Rural Services Delivery Grant abolished**
  - New Grant – Recovery Grant (£600m additional funding)
  - New Grant – Children's Services Prevention Grant (£263m)





- Adult Social Care grant will increase by £880m
- Domestic Abuse Safe Accommodation Grant (£160m) now included in Core Spending Power (CSP).
- Protection of Core Spending Power (CSP) through the Minimum Funding Guarantee (MFG) but on a much-reduced basis. The threshold has reduced from 4% to 0% and includes the Government's assumptions of Band D Council Tax increases and taxbase growth. The percentage increase in CSP for Shire Districts was the lowest of all local authority classes at an average of 0.32% (a 4.75% decrease when Council Tax assumptions are removed)
- Continuation of the approach to eliminating negative RSG.
- Services Grant has been abolished.
- **Final Settlement included allocation of Employer National Insurance Grant of £0.133m.**

**Table 1 – Core Spending Power**

	2024/25 FINAL (£'000)	2025/26 [Feb 2024 MTFS] (£'000)	2025/26 Prov <sup>n</sup> (£'000)	2025/26 Final (£'000)	Change from 2024/25 FINAL (£'000)
<b>Core Spending Power (CSP)</b>					
Settlement Funding Assessment	2,156	2,179	2,193	2,193	37
Compensation for under-indexing the business rates multiplier	416	0	440	440	24
Council Tax Requirement excluding parish precepts	6,597	6,893	6,853	6,853	256
Improved Better Care Fund	0	0	0	0	0
New Homes Bonus	287	0	820	820	533
New Homes Bonus returned funding	0	0	0	0	0
Rural Services Delivery Grant	818	818			(818)
Transition Grant					0
Domestic Abuse Safe Accommodation Grant	36	0	37	37	0
Adult Social Care Support Grant	0	0	0	0	0
Winter Pressures Grant	0	0	0	0	0
Social Care Support Grant	0	0	0	0	0
Social Care Grant	0	0	0	0	0
Market Sustainability and Fair Cost of Care Fund	0	0	0	0	0
Lower Tier Services Grant					
Funding Guarantee	2,231	2,298	2,230	2,230	(0)
Grants Rolled-in	18	0	0	0	(18)
Services Grant	13	12			(13)
<b>Core Spending Power</b>	<b>12,573</b>	<b>12,200</b>	<b>12,573</b>	<b>12,573</b>	<b>0</b>
<b>Funding outside of CSP</b>					
Extended Producer Responsibility			1,502	1,502	1,502
Employer National Insurance Contributions Grant			0	133	133
<b>TOTAL Funding as announced</b>	<b>12,573</b>	<b>12,200</b>	<b>14,075</b>	<b>14,208</b>	<b>1,635</b>



- 2.29** The Table above shows a cash-flat Core Spending Power for 2025/26 and includes an increase in the level of Council Tax and in the Taxbase. The settlement represents a £0.373m increase over the level assumed in the Draft MTFS.
- 2.30** The Council will receive £1.502m of funding in respect of Extended Producer Responsibility and £0.133m for Employer National Insurance costs in 2025/26. These are not included in the calculation of CSP but has been taken into account by the government when assessing the overall level of funding for councils.
- 2.31** The policy statement stated that [Local Authorities] "cannot continue to operate in a system that has seen some councils increasing their level of reserves and others struggling to deliver essential services and balance budgets." Whilst this is not as explicit as previous years (where the view was that the level of reserves should be reviewed and where possible released to support local service delivery), it does signal a change to the way funding is allocated.
- 2.32** The Council holds earmarked reserves for specific purposes. Members should consider the wider Reserves and Balances Strategy (as set out in Section 7 of this report) as there may be competing demands:
- maintaining financial sustainability over the MTFS period and balanced budget requirement
  - mitigating financial and demand-led risks
  - providing funding for council priorities and planned future expenditure.
  - one-off funding to help maintain or enhance service provision.
- 2.33** The updated MTFS includes provision of a risk-based General Fund balance of £1.760m being the minimum expected level for total working balances.

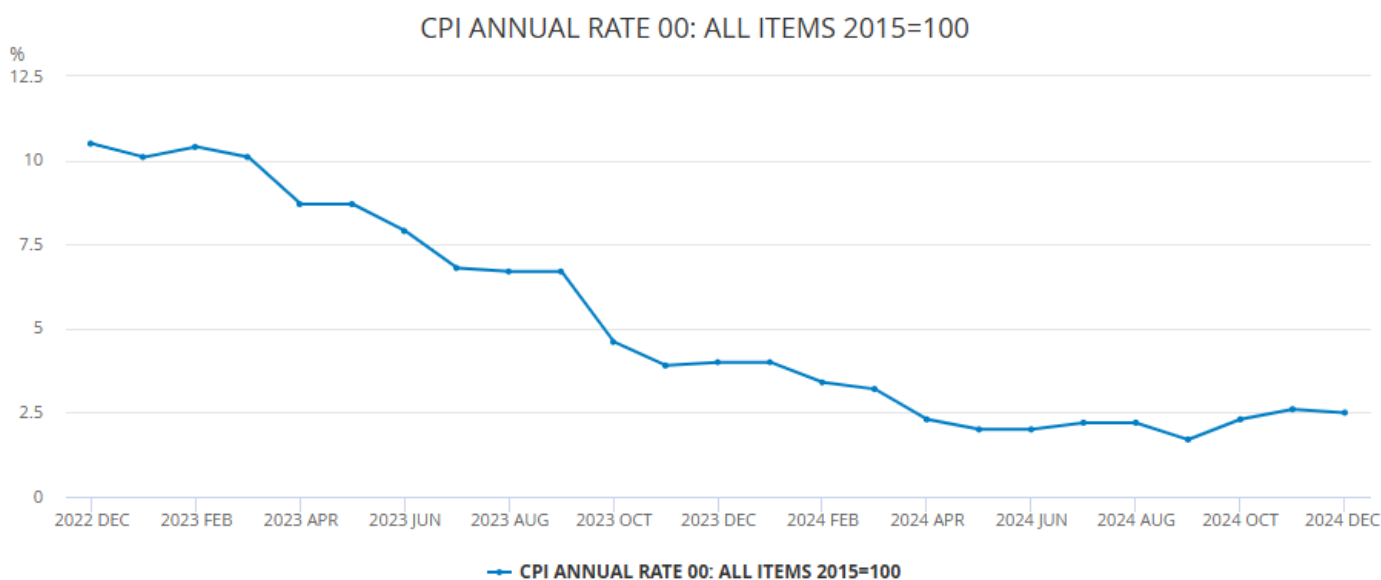


### 3. EXTERNAL ECONOMIC ENVIRONMENT

**3.1** As reported to Cabinet during the year, there are a number of external economic pressures on the Council that will have a material impact on the 2025/26 budget and MTFS.

#### **Inflationary Pressures**

**3.2** The level of inflation, as measured by the Consumer Prices Index, for December 2024 is 2.5% (down from 2.6% in November 2024). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 3.5% (3.6% in November 2024). Core inflation (as defined by the Office for National Statistics as the CPI Rate excluding energy, food, alcohol, and tobacco) was 3.2% (3.5% in November 2024). The CPI goods annual rate increased from 0.4% to 0.7%, while the services rate reduced from 5.0% to 4.4%.



**3.3** 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.

**3.4** The forecast for inflation (CPI) is that it will remain above the Bank of England's target of 2.0% during 2025. The graph below shows the different CPI forecasts that are



published in the quarterly Bank of England Monetary Policy Committee report (February 2025).



**3.5** The continuation of elevated levels of inflation throughout the year and the Bank of England’s forecast over the medium-term will need to be taken into account when assessing the impact on 2025/26 revenue and capital budgets.

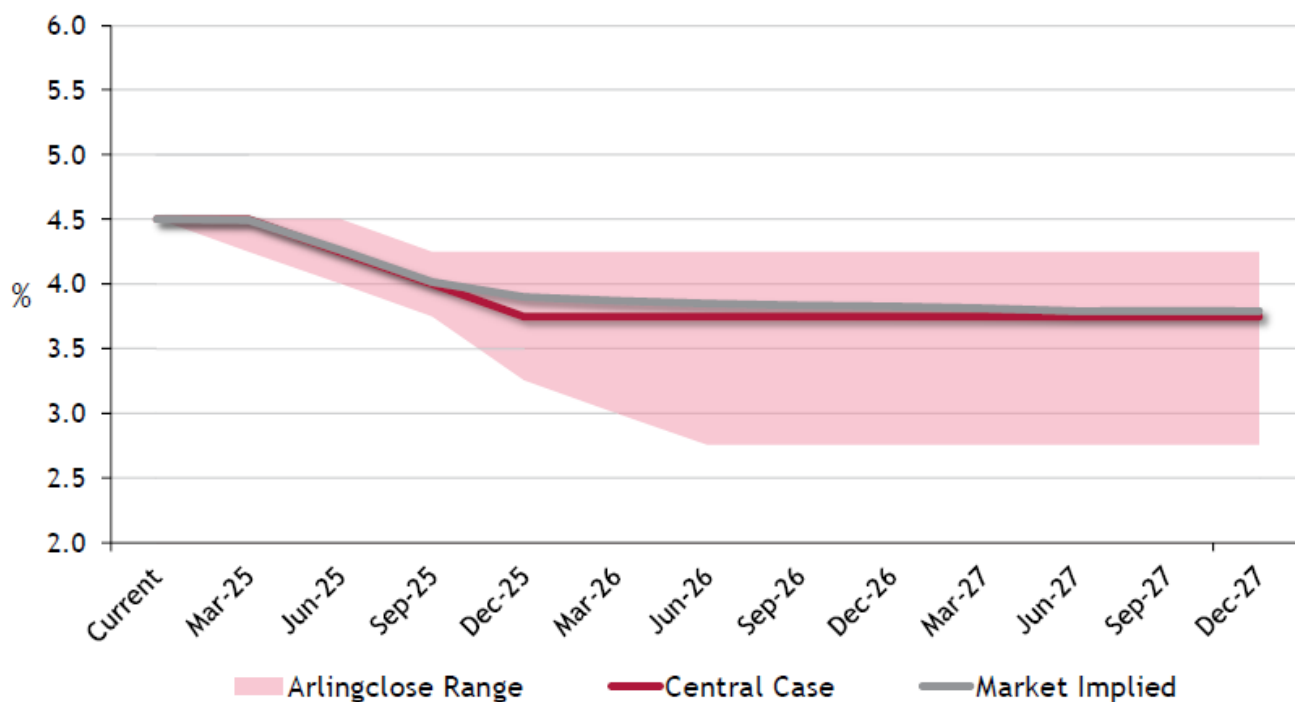
### **Interest Rates**

**3.6** The Bank of England has slowly reduced interest rates from their peak of 5.25% (August 2023) as inflationary pressures have eased. The current Bank of England base rate is 4.50% and was reduced from 4.75% at the MPC meeting on 05 February 2025. The council’s treasury management advisors believe further reductions in the bank base rate will come through during 2025 tied to the quarterly report cycle to 3.75% by the end of the calendar year. The next MPC meeting is scheduled for 20 March 2025 with dates now agreed for 2025.



Confirmed Dates	
Thursday 06 February 2025	February Monetary Policy Report
Thursday 20 March 2025	
Thursday 08 May 2025	May Monetary Policy Report
Thursday 19 June 2025	
Thursday 07 August 2025	August Monetary Policy Report
Thursday 18 September 2025	
Thursday 06 November 2025	November Monetary Policy Report
Thursday 18 December 2025	
Provisional Dates 2026	
Thursday 05 February 2026	February Monetary Policy Report
Thursday 19 March 2026	
Thursday 30 April 2026	May Monetary Policy Report
Thursday 18 June 2026	
Thursday 30 July 2026	August Monetary Policy Report
Thursday 17 September 2026	
Thursday 05 November 2026	November Monetary Policy Report
Thursday 17 December 2026	

Official Bank Rate



**3.7** To support the Capital Programme, the Council may need to undertake borrowing during 2026/27 although this is dependent on several factors. With PWLB interest rates



remaining relatively high despite reduction in the base rate (and compared to the previous decade), this will impact the expenditure required to service any borrowing the Council undertakes.

**3.8** 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 slowly balance the budget.

**3.9** With interest rates expected to reduce the forthcoming 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**

**3.10** The Office for Budget Responsibility published their economic and fiscal outlook in October 2024. The key observations and forecasts outlined in the report were:

- Having stagnated last year, the economy is expected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent, slightly below its estimated potential growth rate of 1⅓ per cent, over the remainder of the forecast.
- Having fallen back to around the 2 per cent target in mid-2024, the OBR expect CPI inflation to pick up to 2.6 per cent in 2025 partly due to the direct and indirect impact of Budget measures
- From its current level of 5.00% (now 4.75%), Bank Rate is expected to fall to 3.50% in the final year of the forecast
- Supported by the temporary boost to demand from the October 2024 Budget, the unemployment rate falls from 4.30% this year to 4.00% in 2026 before returning to its estimated structural rate of 4.10% in 2028.
- Expect nominal earnings growth to fall from 4.70% this year to around 3.50%



- in 2025 and then average 2.25% over the remainder of the forecast
- Living Standards, as measured by Real household disposable income (RHDI) per person, grows by an average of just over 0.50% a year over the forecast.

#### **4. 2024/25 REVENUE BUDGET**

- 4.1** The original net revenue budget for 2024/25 was £15.061m giving rise to a budgeted surplus of £0.516m. Cabinet has considered the forecast outturn position during the year with the last forecast outturn position of £15.358m reported in the Financial Performance Report – Q2 2024/25 (Update). This highlighted a forecast adverse variation of £0.297m against the budget, with the budgeted surplus reduced to £0.219m.
- 4.2** The MTFs has assumed that the budgeted surplus of £0.516m would be transferred to the Financial Resilience reserve. Although the adverse variation reported in Q2 reduces the revenue budget surplus, when taken with the reduced impact of the 2024/25 Pay Award (£0.400m reduction), the proposed transfer to the Financial Resilience Reserve (£0.619m) would be in line with the budgeted position.
- 4.3** Given the complexity of budget transfers associated with Phase 1 of the Publica Review, service budgets have not been revised for the current financial year.
- 4.4** The Q3 forecast will be considered by Cabinet at their meeting in April 2025 and should be viewed as a draft outturn position. Should there remain and adverse outturn forecast, in the absence of mitigating cost reductions or savings the remaining overspend will need to be funded from the Financial Resilience reserve to achieve a balanced position.



## **5. PUBLICA REVIEW**

- 5.1** The February 2024/25 MTFS did not include any budget provision for Phase 1, or any subsequent phase associated with the transfer of services from Publica to the Council. The [2025/26 Budget Strategy and Medium-Term Financial Strategy \(MTFS\) Update](#) report was considered by Cabinet at their meeting in November 2024. This provided members with an update on the financial aspects of transition.
- 5.2** 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.
- 5.3** The DTP and covering report provided members with an initial estimate of additional cost of Phase 1 (enduring impact) and the one-off costs (provision for redundancy).
- 5.4** These cost estimates have been updated but members should be aware that they are updated estimates and may vary as recruitment and appointments continue made to roles within the council.
- 5.5** The table below provides members with a reconciliation between the financial implications set out in the July 2024 DTP, those included in the MTFS update, and the estimates included within this MTFS.
- 5.6** The main changes between the July 2024 estimate and the February 2025 MTFS are:
- Additional Communications Team post, salary assumptions [+£84k].
  - Increase in salary assumptions for Director of Communities and Place [+£11k]
  - Increase in salary assumptions for senior planning roles [+£47k]
  - 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]





**Table 2 – Publica Transition – Phase 1 cost movement**

	July 2024 DTP (£'000)	November 2024 update (£'000)	December 2024 update (£'000)	Change (£'000)
<b>Reconciliation of movement in additional cost</b>				
Phase 1 Baseline Cost	3,674	3,616	3,701	27
Sharing + Pension Impact	326	318	321	(5)
New Roles	553	619	663	110
<b>New Model Total</b>	<b>4,553</b>	<b>4,553</b>	<b>4,686</b>	<b>132</b>
Publica Savings (Direct)	(240)	(240)	(221)	19
Indirect Savings	(283)	(282)	(282)	1
<b>Enduring Impact</b>	<b>4,030</b>	<b>4,031</b>	<b>4,182</b>	<b>152</b>
<b>Indicative Annual Increase / (Decrease)</b>	<b>356</b>	<b>415</b>	<b>481</b>	<b>125</b>

**5.7** It should be noted that the table above only covers Phase 1. The financial implications of Phase 2 will be considered alongside the DTP in March 2025. However, for the purposes of the MTFs, a high-level estimate has been included in the MTFs for Phase 2. Proposals for the next phase are being reviewed with extensive due diligence before any decision is taken as part of the DTP in March 2025. 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.

**5.8** The budgetary impact for Phase 2 is outlined in more detail in Section 6 of this report.

**5.9** It is important to note that the gross increase in cost of Phase 1, £0.984m in a full year (up from £0.937m), was net of cost reductions of £0.503m (reduced from (£0.522m) associated with changes made to the Publica management structure (giving the net cost estimate of £0.481m – up from £0.415m). Elements of the new posts 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.

**5.10** In terms of one-off costs, paragraph 5.10 of the DTP 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.”

**5.11** The current estimate for the Council’s share of redundancy and pension strain costs is £0.188m (previously reported at £0.274m) and within the amount set aside within the Financial Resilience reserve.

**5.12** Members have received updates in the quarterly financial performance reports on the costs associated with the Transition Programme. The table in the Q2 Financial Performance report provided an update on costs incurred up to Q3 2024/25 (i.e. 31 December 2024) and a forecast for the remainder of the Phase 1 period (i.e. to 31 March 2025). The latest forecast to the end of the year indicates that £0.225m of the £0.500m set aside to support the transition programme will have been utilised on Phase 1 preparation and delivery.

**5.13** 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)

## **6. MEDIUM TERM FINANCIAL STRATEGY 2025/26 TO 2028/29**

**6.1** (As stated earlier in the report, budget and MTFs have been prepared in the context of ongoing pressure on the Council’s finances. The impact from the external economic environment on service expenditure and income, and the continuation of constraints of government policy (funding and devolution) means the budget and medium-term are subject to considerable uncertainty.



- 6.2** Cabinet considered the *2025/26 Budget Strategy and Medium-Term Financial Strategy (MTFS) Update* report [\[link\]](#) at their meeting in November 2024. The report set out the broad approach for the 2025/26 budget with indicative estimates of funding.
- 6.3** This report updates the estimates and budget proposals following the Provisional Local Government Finance Settlement published on 18 December 2024 (as set out in Section 2 of the report).
- 6.4** Service budgets have been updated for 2025/26, along with forecasts of Corporate Income and Expenditure budgets. Given the volatility in the economy and uncertainty around future prices, inflationary provision has been included as a separate item and assumes:
- Pay inflation of 3% (Publica) and 3% (Ubico plus a further 1% held by CDC as a contingency).
  - Price inflation on major contracts (Publica and Ubico), utilities, and IT costs (in-line with the approach set out in the Budget Strategy). Additional inflationary provision has been made in the budget and across the MTFS period recognising energy price rises.
- 6.5** Fees and Charges have been reviewed in accordance with the agreed approach of cost recovery with the 2025/26 Fees and Charges report at this meeting of Cabinet setting out in detail the fees and charges proposed for 2025/26. This report has been prepared on the basis of the proposed fees being approved by Cabinet.
- 6.6** An increase of £0.266m has been reflected in fees and charges that have been subject to review or increased in-line with the September 2024 CPI inflation rate of 1.7%. Budget holders are required to review the fees and charges as part of the budget setting process to ensure they are set at an appropriate level and that charges are transparent and show a clear methodology for their increase.



## **Budget Pressures**

- 6.7** The table below provides an overview of the material service budget changes by service area and a brief outline of the reason for the budget change. For the purposes of this report, a material change is considered to be +/- £20k. There are likely to be several factors behind a net change in service budgets – impact of inflation, changes in income projections, impact of Phase 1 of the Publica transition, virements between different cost centres within a service area.
- 6.8** Income pressures have been grouped in the table and have been included as a budget pressure due to the shortfall in income or where there is a technical change to funding.

**Table 3 – Budget Pressures (included in Service Revenue Budgets)**

<b>Budget Pressures</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>	<b>2027/28 (£'000)</b>	<b>2028/29 (£'000)</b>
External Audit Fees - 10% increase in scale fee and Housing Benefit audit costs	52	52	52	52
Cotswold National Landscape Contribution increase	13	13	13	13
Elections - review of budget provision in context of overspends in 2023/24 and 2024/25	54	54	54	54
Planning & Strategic Housing - Licences and Subscriptions	36	36	36	36
Business Rates on Council-owned properties - increase in liability	20	20	20	20
CIVICA Software Licence Renewal	31	31	31	31
Environmental & Regulatory Services - Building Control service improvements, Emergency Planning (LRF)	14	14	14	14
Democratic Services - Licences for Modern.gov and Public i	13	13	13	13
Communications - Licences for Social Media and email client software	10	10	10	10
Waste & Recycling - Clinical Sharps budget adjustment	(15)	(15)	(15)	(15)
Public Conveniences - contract and utility costs	14	14	14	14
Corporate Costs - Insurance, Subscriptions	21	21	21	21
Bank Charges - volume increase	34	34	34	34
Other Budget Pressures <£10k	21	21	21	21
<b>TOTAL</b>	<b>316</b>	<b>316</b>	<b>316</b>	<b>316</b>



**6.9** Budget Pressures have been reviewed, challenged, and validated and only included in the MTFS where there is a clear business need or a wider strategic requirement to invest in service delivery. Budget Pressures can broadly be categorised as summarised below. Where income pressures have been identified this is largely where the current income budget is forecast to be unachievable due to changes in behaviour or demand.

- Unavoidable cost pressures: External Audit scale fee increase and increase in Housing Benefit audit costs
- Inflation-led or contract-related cost pressures: CIVICA Revenues and Benefits System
- Income pressures: Waste & Recycling material sales, Car Park fees – penalty charges.

**6.10** Members will note from the table above an increase in the cost of the CIVICA Revenues and Benefits system. The contract with CIVICA for the shared system commenced on 01 June 2020 and is due to end on 31 May 2025. Following an options appraisal and review of procurement options in early 2024, the recommendation was to procure a new contract with through a suitable framework. The cost of system change was a significant factor in the review of options.

**6.11** A shorter contract length has been negotiated in light of the timescales around Devolution/Local Government Reorganisation. The total cost for the shared contract of this period is £0.951m with £0.031m per annum as the impact on Cotswold District Council.

**6.12** As the contract value is around £0.106m per annum for the Council (£0.317m over the contract term) and given the need to ensure uninterrupted software provision and support, it is recommended that members formally note the outcome and contract values.

### **Inflation**

**6.13** The main budget pressure facing the Council over the MTFS period is inflation. The MTFS includes provision for inflation major contracts (Publica and Ubico). Provision has also been made for the annual pay award either directly (for Council officers and



Members) or indirectly through the Publica and Ubico contracts. Energy prices reduced from their peak in 2022 but with global volatility are likely to be under pressure in 2025/26

**6.14** The inflation rate has continued to fall and reached 1.7% in September 2024 although has risen to 2.5% in December 2024. The Office for Budget Responsibility outlined their expectations for inflation in their November 2024 report:

- Having fallen from a 41-year high of 11.1 per cent in October 2022, annual CPI inflation is expected to remain close to the 2 per cent target throughout the forecast period. We expect a temporary rise, from around 2 per cent in the third quarter of this year, to an average of 2.6 per cent in 2025. This is driven by higher gas and electricity prices, the direct effect of policies announced in this Budget, and the effect of a small positive output gap on domestically generated inflation. CPI inflation then gradually falls back to the 2 per cent target in 2029 as the positive output gap closes and energy price growth normalises. Compared to the March forecast, CPI inflation is higher in 2025 and 2026 by 1.1 and 0.6 percentage points respectively, and slightly higher until the end of the forecast. On average just over half of the higher inflation in 2025 and 2026 is driven by our pre-measures judgements, with the rest due to the impact of policies in this Budget.
- There is significant uncertainty around the forecast for CPI inflation. Domestically, if wage growth is less persistent than we assume this could drive lower inflation. There are also risks to the forecast from the external environment given the continuing war in Ukraine and the widening conflicts in the Middle East. Based on historical forecast errors, there is roughly a one-in-five chance of CPI inflation being above 4.5 per cent or below 1.1 per cent in 2025.

**6.15** The main cost pressure facing the Council is the Pay Award which has been forecast at 3% over the MTFS period – slightly above pre-Covid levels (2% to 2.5%) recognising the inflation prospects outlined above. The table below sets out the forecast for inflation over the MTFS period. There remains significant uncertainty with risk around the level and extent of inflation provision made.



**Table 4 – Inflation Forecast (Office for Budget Responsibility, October 2024)**

	<b>OBR Forecasts, October 2024</b>			
	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
OBR Forecast	2.6%	2.3%	2.1%	2.1%
External forecast (average)	2.2%	2.2%	2.4%	2.3%

**6.16** The table below sets out the cash and percentage provision made within the MTFs for major contracts, energy costs and the Pay Award.

**Table 5 – Inflation Provision included in the MTFs**

<b>Contract/Provision</b>	<b>2025/26 provision</b>	<b>2026/27 assumption (£'000)</b>	<b>2027/28 assumption (£'000)</b>	<b>2028/29 assumption (£'000)</b>
Ubico	3.00%	250	498	756
Publica	3.00%	235	476	725
CDC Services	3.00%	144	293	421
		<b>629</b>	<b>1,268</b>	<b>1,903</b>

**6.17** For the purposes of the calculating the inflationary impact on contract for MTFs, the base budget used to calculate the Publica contract sum inflation provision is £7.547m (i.e. 2024/25 Contract Sum of £10.823m less the value of budget transferred for Phase 1 of £3.674m). With the transfer of further services and budget under Phase 2 the inflationary provision and split will need to be reviewed.



**Table 6a – Ubico Contract Costs (Review in conjunction with Table 8b)**

	2024/25 Ubico Contract (£'000)	2025/26 Ubico Contract (£'000)	Change (£'000)	Change (%)
<b>Ubico Services</b>				
GM - Car Parks	71	62	(8)	(11.84%)
GM - Cemetery, Crematorium and Churchyards	196	173	(23)	(11.84%)
Garden Waste Collection	1,420	1,310	(111)	(7.81%)
Household Waste	1,720	1,844	125	7.24%
Recycling	3,087	3,340	253	8.20%
Refuse / Recycling Organic & Food Waste	661	732	71	10.73%
Street Cleaning	1,566	1,387	(179)	(11.45%)
GM - Trinity Road, Offices	18	16	(2)	(11.84%)
<b>Grand Total</b>	<b>8,738</b>	<b>8,863</b>	<b>125</b>	<b>1.43%</b>

**Table 6b – Multi-Service Gross/Net Cost (Review in conjunction with Table 8b)**

	2025/26 Budget				
	Ubico Contract (£'000)	Other Service Costs (£'000)	Gross Service Cost (£'000)	Service Income (£'000)	Net Service Cost (£'000)
<b>Waste, Recycling, Street Cleaning and Grounds Maintenance Services</b>					
Bulky Household Waste	0	73	73	(79)	(6)
GM - Car Parks	62	0	62	0	62
GM - Cemetery, Crematorium and Churchyards	173	0	173	0	173
Garden Waste Collection	1,310	145	1,454	(1,593)	(139)
Household Waste	1,844	149	1,993	(3)	1,990
Recycling	3,340	238	3,578	(932)	2,646
Refuse / Recycling Organic & Food Waste	732	0	732	0	732
Street Cleaning	1,387	45	1,432	0	1,432
GM - Trinity Road, Offices	16	0	16	0	16
<b>Grand Total</b>	<b>8,863</b>	<b>648</b>	<b>9,512</b>	<b>(2,606)</b>	<b>6,905</b>

**6.18** The gross and net budget for services in the table above includes the reduced cost associated with the rezoning exercise, inflationary provisions and other changes to the contract including Employer's National Insurance Contributions.





## **Publica Phase 2**

- 6.19** The transition of services from Publica to Council will clearly have a material impact on the Council's resources and budget over the MTFs-period. For the purposes of the 2025/26 revenue budget and the MTFs, it is assumed the cost of services will remain within the cost envelope set out over the medium-term.
- 6.20** **It is essential that the Council takes every opportunity to make services as efficient and cost effective as possible and this will be an important element of the Transition Plan and approach to service design. Cost pressures must be minimised during the transition plan period to ensure service costs are contained within the financial envelope set out in the MTFs.**
- 6.21** To fund the one-off costs of transition, £0.500m has been set aside in the Corporate Priority: Publica Review reserve. It is anticipated that a balance of £0.225m will be available to support Phase 2.
- 6.22** Inevitably, there are likely to be workforce planning costs arising from the transfer of services. As the indicative timetable for services to transfer is not yet known, the scale and the timing of workforce planning costs and mitigation measures is difficult to estimate with any certainty. Therefore, it is appropriate to set out the approach the Council will take to financing these costs over the transition period.
- 6.23** To ensure adequate provision is made for the costs and mitigation options over the transition period, the Council must have adequate financial headroom in order to make key decisions on service design. Therefore, the recommended approach is to increase the availability of one-off revenue and capital resources through:
- Effective resource management – ongoing vacancy management with confirmed underspends allocated to the Workforce Planning reserve.
  - Application of capital receipts to qualifying expenditure (e.g., cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation) in accordance with the Council's policy on the Flexible use of capital receipts.



**6.24** The MTFs has been prepared against the emerging position regarding the Phase 2 of Publica Transition. The broad assumptions for the purposes of the 2025/26 budget and over the medium term is that service costs will increase as a result of increased employer pension contributions and a reduced emphasis on sharing of services. The MTFs has made a broad assumption based on a limited number of services that are being considered for Phase 2. There remains uncertainty around future service transition due to Devolution/Local Government Reorganisation. Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in March 2025.

**6.25** At the time of preparing the 2025/26 Budget and MTFs, the nature and structure of service delivery for the Phase 2 services in scope had not been finalised. The latest available information indicated that the following services were forecast to increase in cost by £0.300m in a full year.

- Property and Estates
- Leisure Management
- Waste & Recycling (contract management)
- Project and Programme support

**6.26** Alongside the services transferring, a small number of additional roles have been identified to support delivery of the Council's Savings and Transformation Programme, emerging values and Culture Strategy, and to support the Strategic Housing function.

**6.27** In order to minimise the ongoing cost to the Council, reserve and additional funding has been identified. The list below provides details of the additional posts, and the funding stream identified.

- Head of Organisational Development and People (Growth, Revenue Budget)
- Transformation Lead (Reserve funded)
- Transformation Support – Project Management (Reserve funded)
- Strategic Housing Support (Growth, funded from Council Tax Second Homes Premium)



**Table 7– Additional Posts**

<b>Post</b>	<b>2025/26 Estimate (£'000)</b>	<b>2026/27 Estimate (£'000)</b>	<b>2027/28 Estimate (£'000)</b>	<b>2028/29 Estimate (£'000)</b>
Head of Organisational Development and People	75	100	100	100
Transformation Lead	99	132	33	0
Transformation Support	50	67	17	0
Strategic Housing Support	48	64	64	64
	<b>272</b>	<b>363</b>	<b>214</b>	<b>164</b>
<b>Funded by:</b>				
Council Tax Second Homes Premium	(48)	(64)	(64)	(64)
Earmarked Reserve	(149)	(199)	(50)	0
Revenue Budget	(75)	(100)	(100)	(100)
	<b>(272)</b>	<b>(363)</b>	<b>(214)</b>	<b>(164)</b>

**6.28** Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in March 2025 which will set out in detail timing and service and management structures. As with Phase 1, one-off costs associated with delivering Phase 2 are estimated at £0.300m and would be funded from one-off funding.

**6.29** The plan must be cognisant of financial cost associated with service transformation. The MTFS outlines the resources available to the Council – both in terms of ongoing revenue budgets and one-off resources. Whilst the due diligence process is yet to conclude and will be subject to constant review and revision, it is inevitable with a programme of this scale and size that additional costs of change will be identified as services are reviewed and transferred back to the Council.

**6.30** The Council has limited one-off funding in the form of revenue and capital reserves. There must be an appropriate balance struck between the use of one-off funding to support the cost of change and supporting the revenue and capital budget and Council priorities over the medium-term.

**6.31** Decisions regarding additional costs arising from service redesign and transfer will be subject to business cases that clearly outline how the proposal contributes to the wider outcomes in terms of a cost/benefit assessment (for example, additional cost assessed



against the ongoing saving opportunity and payback period). Whilst the governance process for the Transition Plan activities has yet to be finalised, it is recommended this includes consultation and sign-off with the Section 151 Officer to ensure overall project costs are managed, monitored, and reported as part of the quarterly financial performance reports.

**6.32** It is important that members are kept apprised on the outcomes from the due diligence and the financial implications as they emerge during the transition period. Although there will be further reports to Cabinet and Council throughout the transition period, it is recommended that the quarterly financial performance reports to Cabinet include timely and relevant financial updates.

#### **Risk Items**

**6.33** The 2025/26 Budget and MTFS includes budget provision to ensure the General Fund is not exposed to undue risk from contract inflation, procurement risk, and fees and charges income fluctuations.

**6.34** £0.200m has been maintained as a contingency budget to mitigate the risk of inflationary pressure on the key Publica and Ubico contracts and to provide some budgetary headroom around fees and charges income.

**6.35** This budget will be held centrally and would be allocated in support of evidenced budget pressures during the year identified through the quarterly financial monitoring process. Should these budgets not be required, in part or in full, they would be returned to the Financial Resilience Reserve (in-year) and reviewed as part of the 2026/27 budget setting process.

**6.36** A further balance of £0.160m will be held centrally as detailed budgets are updated following Phase 1 and Phase 2 transfers. In effect, this balance is a timing difference – the total cost of services, whether provided by Publica or the Council, must be within the financial envelope set out in the MTFS and contained within the MTFS.



## Savings

**6.37** To ensure the Council is able to set a balanced budget for the forthcoming financial year, savings have been included where proposals are robust and can be delivered. The table below provides a summary of the savings included in the MTFs.

**Table 8a – Savings**

<b>Savings and Budget reductions</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>	<b>2027/28 (£'000)</b>	<b>2028/29 (£'000)</b>
<u>Corporate Savings and Income</u>				
LGPS - Secondary Rate (PIA) (Budget savings)	(196)	(196)	(196)	(196)
LGPS - Secondary Rate (PIA) (TV)	0	(500)	(500)	(500)
Trinity Road - rental income	(25)	(50)	(50)	(50)
<u>Other Expenditure Savings</u>				
Ubico - Rezoning of Rounds	(59)	(59)	(59)	(59)
Ubico - Street Service review	(150)	(150)	(150)	(150)
Business Rates - Car Parks (reduced liability)	(50)	(50)	(50)	(50)
Service Charges - Trinity Road tenants	(25)	(25)	(25)	(25)
Revenues and Benefits - additional grant funding	(41)	(41)	(41)	(41)
Other budget changes	(2)	(2)	(2)	(2)
<u>Fees &amp; Charges</u>				
Car Parking Fees	(90)	(200)	(293)	(390)
Garden Waste - fee increase	(123)	(241)	(359)	(477)
Other Fees and Charges (as per Cabinet Report)	(53)	(53)	(53)	(53)
Planning Fees - Annual uplift	(15)	(15)	(15)	(15)
<b>TOTAL</b>	<b>(829)</b>	<b>(1,582)</b>	<b>(1,793)</b>	<b>(2,008)</b>

**6.38** As can be seen from the MTFs Summary table in this report, the requirement to reduce costs and balance the budget are substantial over the MTFs period. Section 6 of this report sets out the position on budget and efficiency savings over the MTFs period as part of the balanced budget requirement.

## Fees and Charges

**6.39** The Budget Strategy report restated the approach of full cost recovery from fees and charges where possible for the services it provides.



**6.40** The outcome from the review has been analysed and discussed with Cabinet members. The table below sets out the updated position on fees and charges income estimates for 2025/26 and includes an assumed annual uplift over the MTFs period. The decision on fees and charges will be considered by Cabinet as part of each year's budget setting round. A detailed schedule of the Fees and Charges was included as Annexes to the 2025/26 Fees and Charges Report.

**6.41** A review of Car Park fees and Season Ticket pricing has been undertaken with the fees for ½ hour and 1 hour stays at all the Council's car parks held at current levels. Fees for stays of 2 hours or more have increased in line with the inflation increase between October 2023 and October 2024.

**6.42** The impact of the changes and rebalancing of PCN and Permit income would be to increase the budgeted level of income in 2025/26 by £0.090m.

**6.43** A Garden Waste fee increase of £5 (£64 to £69) takes into account the impact of rezoning and the increased cost pressures such as Employers National Insurance contributions. This increase will ensure the Garden Waste service is provided on a cost recovery basis, as can be seen from the calculation below. The MTFs assumptions assumes a slight reduction in subscribers at the start of the year due in part due to price sensitivity:

**Table 8b – Garden Waste Service**

	2025/26 Gross Service Cost (£'000)	(£'000) Forecast Income	Net Cost (£'000)
<b>Garden Waste Service</b>			
Net cost based on £64 per annum charge	1,454	(1,422)	32
Net cost based on £69 per annum charge (as per 2024 subscriber numbers)	1,454	(1,593)	(139)
<b>Net cost based on £69 per annum charge (MTFS assumption)</b>	<b>1,454</b>	<b>(1,456)</b>	<b>(2)</b>

**Other Income changes**

**6.44** Cabinet considered the Agile Working Update and Tenancy Proposals for Trinity Road Council Offices in Cirencester at their meeting in February 2024.



- 6.45** Following a procurement exercise with engagement with serviced office providers, Watermoor Point was selected as the Council's partner with a Management Agreement.
- 6.46** An initial estimate of has been included in the 2025/26 Revenue Budget of £25k reflecting the current letting position. Take-up from tenants has initially been slow but Watermoor Point have reported a sharp increase in January. There are now nine tenants in place, there are 8 contracts out for signature, and there are 23 potential tenants for whom Watermoor Point is preparing quotes or providing information.
- 6.47** The open-plan atrium space is still largely unoccupied, but it is hoped as more tenants sign up and the space becomes busier and has more atmosphere, this will then attract even more tenants.
- 6.48** For the purposes of the MTFS, a prudent view has been taken on future income and expenditure savings. These will be updated once lettings have been agreed and will only be included in the revenue budget and MTFS when cashflow outcomes are certain.

#### **Non-Service Expenditure and Income**

- 6.49** Corporate Income and Expenditure budget items cover the non-service revenue expenditure and income that is included in the Council's General Fund. Non-Service budgets for 2025/26 of (£1.799m) are proposed and will reduce over the MTFS period as the revenue impact of capital financing takes effect. Specific budgets covering the Council's Treasury Management activities, approach to the revenue implications of capital financing, and planned reserve transfers are set out below in more detail.

#### **Local Government Pension Scheme – Triennial Review**

- 6.50** An assumption has been made from 2026/27 around the level of employer pension contributions. The next triennial review will commence in March 20225 and report through in the Autumn. Based on an initial mid-review point assessment by the pension fund actuary, the funding level is expected to be in the region of 140%.



**6.51** Following consultation with Gloucestershire County Council who administer the LGPS and the actuary, an immediate reduction in the current stabilisation parameter is considered prudent. An estimate of a £0.500m annual reduction has been included in the MTFS as a result.

### **Treasury Management, Capital Financing and PWLB Lending Terms**

**6.52** The MTFS includes an estimate of the cost of borrowing required to support the capital programme. A Draft of the Treasury Management Strategy for 2025/26 (Annex F) was considered by Audit and Governance Committee at its meeting on 28 January 2025. The report sets out the forecast for the Council's Treasury Management activities (investments and borrowing). Advice is provided from the Council's Treasury Management advisors Arlingclose, in terms of investment performance, timing of decisions, capital financing, and the wider economic outlook.

**6.53** The Council's capital financing approach is informed by the CIPFA and MHCLG guidance on the capital financing framework which has been reviewed and strengthened since 2020.

**6.54** Provisions within the Levelling-Up and Regeneration Act that would have expanded the Government's statutory powers to intervene in the local government capital finance system have been dropped by the current Government.

**6.55** It was confirmed during 2024 that Capital Flexibilities would continue to at least 2030. This would allow local authorities to develop local policies (subject to MHCLG and CIPFA guidance) to

- capitalise general cost pressures and meet these with capital receipts.
- allow authorities to borrow for the revenue costs of invest-to-save projects.
- provide additional flexibilities for the use of the proceeds of selling investment assets, such as using capital receipts to increase revenue reserves.
- discounted PWLB rates by 0.4% for invest-to-save projects, matching the current HRA rate.





**6.56** The CIPFA Prudential Code on Capital Finance and Treasury Management Code of Practice were implemented in full with effect from April 2023. The main elements of the Codes are summarised below for reference only.

**6.57 Prudential Code on Capital Finance:**

- Provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.
- Proportionality is included as an objective in the Prudential Code. Provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.
- Capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.

**6.58 Treasury Management Code:**

- Investment management practices and other recommendations relating to non-treasury investments are included within the Treasury Management Practices (TMPs) alongside existing TMPs.
- Introduction of the Liability Benchmark as a treasury management indicator for local government bodies.
- Environmental, Social and Governance (ESG) risks are incorporated into TMP1 (Risk Management) rather than a separate TMP 13.
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy

**6.59** As set out in the Annual Treasury Management Strategy, the Council's borrowing strategy is "to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required."



- 6.60** The MTFS includes estimates of the borrowing costs arising from the financing of the capital programme.
- 6.61** As set out in paragraph 3.6, the Bank of England has slowly reduced interest rates from their peak of 5.25% (August 2023) as inflationary pressures have eased. The current Bank of England base rate is 4.50% and was reduced from 4.75% at the MPC meeting on 05 February 2025. The council's treasury management advisors believe further reductions in the bank base rate will come through during 2025 tied to the quarterly report cycle to 3.75% by the end of the calendar year. The next MPC meeting is scheduled for 20 March 2025 with dates now agreed for 2025
- 6.62** The Treasury Management Strategy sets out the Council's policy on Minimum Revenue Provision (MRP) and is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans)
- 6.63** The level of MRP to be charged to the revenue budget has been reviewed in light of the updated capital programme. MRP of £9k is to be charged in 2025/26 and is forecast to increase to £395k by 2028/29.
- 6.64** The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in April 2024 concerning the duty of local authorities to make prudent MRP each year.
- 6.65** Estimates of interest receivable on other investments remain positive but with some uncertainty around the wider global economy on the Council's longer-term investment returns. The Council continues to hold up to £12.5m in Pooled Funds and other longer-term investments, which have generated strong income returns. Investment income of £1.1m has been forecast for 2025/26 recognising the strong performance over the last 12 months whilst recognising the forecast fall in interest rates. The MTFS forecast assumes a reduced level of return from 2025/26 and further reductions over the MTFS period. This will be kept under review in terms of the overall cash position of the authority and the impact of forecast interest rate changes.



### **IFRS9 Statutory Override**

- 6.66** The Government have indicated through the Local Government Finance Settlement consultation that they do not intend to extend the IFRS9 statutory override beyond its current end date of 31 March 2025. This position was confirmed in the Government's response to the consultation, although there does appear to be the prospect of "transitional support for historic investments" although it is unclear what form this would take. Councils would need to comply with the requirements of IFRS9 from financial year 2025/26 and the Council should still consider mitigation options in the absence of a clear position from the Government.
- 6.67** Since 2018, a statutory accounting override ("the override") has been in place that allows councils to disapply part of International Financial Reporting Standard 9 (IFRS 9), which would otherwise require councils to make provision in their budgets for changes in value (gains or losses) of certain types of financial investments (pooled investment funds). The override was put in place by the previous government in response to councils' concerns that this requirement would adversely affect their financial position and to provide time for councils to prepare for full compliance with IFRS 9. The original override was a temporary measure due to end 31 March 2023, later extended by 2 years following consultation with the sector. The override is currently due to end March 2025.
- 6.68** The implications for the Council could be significant. Should the value of the Council's Pooled Funds be below the original purchase value, any unrealised loss at the end of the 2025/26 financial year would need to be mitigated.
- 6.69** In anticipation of the statutory override period not being extended, the Council has established a Treasury Management Risk reserve to hold funds to manage the cyclical nature of pooled funds. However, there is a risk that the unrealised losses in a given year may exceed the amounts set aside in the earmarked reserve.
- 6.70** The Council will need to consider its risk appetite for potential pooled fund value fluctuations and whether further mitigation measures should be put in place. Such measures may include holding a greater balance in the earmarked reserve, consideration of disposal of some or all of the pooled funds. In reviewing mitigation



options, the Council will need to consider the revenue impact as pooled funds provide a longer-term investment return which supports the General Fund budget.

## **7. BALANCED BUDGET REQUIREMENT**

- 7.1** The Council is legally required to set a balanced budget for the following financial year and remains balanced. As can be seen in the MTFs, the Council's core financial position is a balanced budget for 2025/26 with a transfer of the projected surplus to the Financial Resilience reserve. However, there is a significant and increasing projected budget gap of £1.589m in 2026/27 and is forecast to increase to £4.879m in 2027/28 and £6.282m by 2028/29. This is an unmitigated position and assumes that there are no cost reductions or savings measures identified.
- 7.2** An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years. The Council Business 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.
- 7.3** The level of savings set out in the MTFs 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 during 2027/28. For clarity, the MTFs assumes that the cost of change associated with the Publica review is contained within the existing financial envelope. Given the increasing budget gap from 2026/27 it is not unreasonable to expect service reviews to contribute towards a balanced budget position over the MTFs period. At this stage, it is difficult to make a robust judgement as to the level and timing of cost reduction for services that will be transferred from Publica to the Council.
- 7.4** The Council will need to address the scale of the budget gap to ensure a balanced budget can continue to be set over the MTFs period. The position set out in this report is by no means complete and the budget gap may change due to assumptions being updated.



- 7.5** Local Government Reorganisation, as outlined earlier in the report in the English Devolution white paper, and the proposals for Local Government Finance reforms, will exert significant influence over the prospects for the Council's finances over the MTFS-period.
- 7.6** 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 applies to all local authorities with the first full year of compliance required in 2022/23. 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.
- 7.7** 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.
- 7.8** In response to the adverse financial position forecast for 2024/25 outlined in the quarterly Financial Performance reports, Cabinet agreed the following in the [Financial Performance Report – Q2 2024/25](#) at their meeting on 05 December 2024:
- Cabinet review in-year opportunities with Publica and Ubico as part of the 2025/26 Budget options to mitigate the financial position as currently forecast across the MTFS period.
  - **Vacancy Management** - implement an Authority to Fill process with authorisation for all recruitment activity including time-limited agency cover, limits of day/hourly rates, recruitment costs. Prioritisation of posts/service areas with active recruitment to essential roles only.
  - **Consultancy support and external commissions** – s151 to provide guidance to all service leads on criteria under which external agency support can be



commissioned (subject to business case which would identify need based on criteria such as supports Corporate Plan delivery, alternative options have been considered, time-critical requirement to ensure project delivery, funding identified and available).

- Accelerate development of **refreshed Savings & Transformation plan** to ensure adequate cost reductions are identified, scoped, and planned over the MTFS period. Savings ideas will be grouped by workstream and clearly indicate outcomes expected in terms of financial and service benefits and set challenging but achievable action plans for delivery by agreed periods.
- Linked to the mitigation action above, consider actions for budget holders in 2025/26 to **reduce income pressures** on revenue budget as part of the review of fees and charges from a cost recovery position.
- **Publica Review Phase 2** poses the single biggest risk to a balanced budget in 2025/26 and over MTFS period. The design-led principle *Consideration of cost* must ensure that the additional cost of bring services back to the Council are quantified with mitigating actions taken to reduce the potential impact on the MTFS.

**7.9** During 2024/25, the Cabinet Transform Working Group (CTWG) met to support Cabinet with identifying and reviewing savings and transformation opportunities.

**7.10** The Cabinet Transform Working Group Council will need to further develop the approach to the Council's Savings AND Transformation Programme to address the budget gap identified over the MTFS period. This will need to include consideration of a service design framework for inclusion in the [Publica] Transition Plan to ensure service costs are contained within the financial envelope set out in the MTFS.

**7.11** As set out earlier in the report, a Transformation Lead and Transformation Support role have been established funded from the Savings and Transformation earmarked reserve. This will provide the Council with additional capacity and support over the next two years to drive a transformation programme and identify and deliver ongoing revenue budget savings.



- 7.12** The MTFS does not include any savings targets as an approach to mitigating the budget gap. Including savings targets would not provide a credible MTFS or projection on reserve balances. Targets would not be robust as there would be insufficient details, plans, or business cases to support the inclusion of savings targets.
- 7.13** Instead, the MTFS presents the unmitigated position, with reserve balances utilised to support the MTFS. This is not a strategy in itself and is not a sustainable position. Tables 9b and 9c within the report do illustrate the impact on reserve balances of a different approach – namely the re-protitisation of reserve balances and the effect of £3m of budgets savings across 2026/27 and 2027/28. This is to highlight the scale of the financial challenge and that even with a modest level of savings in 2026/27, this does not in itself fully close the budget gap.
- 7.14** As set out in the report, the Council will need to accelerate the Savings and Transformation programme during 2025/26. With additional resources included in the revenue budget (funded from earmarked reserves), a balanced and proportionate Savings and Transformation Programme must be considered ahead of the 2026/27 budget setting process. The approach must set out the process for identifying, reviewing and agreeing workstreams, clear delivery timescales, and how effective governance will be demonstrated.
- 7.15** The Local Government Association (LGA) has developed a [Transformation Capability Framework](#). This sets out the essentials for successful (service) transformation and the resources the Council will need to deliver such a programme.
- 7.16** With the need to close the budget gap identified in the MTFS, a key aspect of the Savings and Transformation will need to be on robust business cases that outline the financial outcomes and certainty of delivery.

### **Balances and Reserves**

- 7.17** A review of the Reserves and Balances strategy has been undertaken to consider the adequacy of reserves in light of the financial risks faced by the Council. The review has taken into account guidance published under CIPFA Bulletin 13: Local Authority Reserves and Balances (March 2023).



**7.18** 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.

**7.19** There are also a range of safeguards in place that help to prevent local authorities over-committing 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.

**7.20** 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.

**7.21** As set out earlier in the report, there is a much-heightened focus on financial sustainability throughout the sector, largely due to the number of Section 114 notices that have been issued since 2018 and local authorities seeking exceptional financial support.

**7.22** The review of reserves and balances maintains the distinction between the General Fund Balance and Earmarked Reserves.

**7.23** The General Fund Balance has been assessed taking account of the strategic, operational, and financial risks facing the authority and the underlying budgetary assumptions. This includes:





- The treatment of inflation and interest rates
- Level and timing of estimated capital receipts
- Treatment of demand-led pressures
- Treatment of planned efficiency savings
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements, or major capital developments
- The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions.
- The general financial climate to which the authority is subject to

**7.24** The General Fund Balance will be maintained at a minimum of £1.760m, with the Financial Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes). Given the budget gap identified over the MTFS period, the Council must identify and deliver new savings to ensure this reserve is adequate.

**7.25** However, these reserves should not be utilised to fund normal, on-going service provision. It is important to review the level of reserves regularly.

**7.26** A review of the Council Priorities Fund revenue reserve was undertaken as part of the 2024/25 budget setting process with the recommendation that this is allocated into separate reserves linked to the priorities outlined in the Council's Corporate Plan as indicated below:

- Delivering Good Services
- Responding to the Climate Emergency
- Delivering Housing
- Supporting Communities
- Supporting the Economy

**7.27** It is recommended that the following reserves are maintained to support delivery of the Council Plan, the Publica Review outcomes, and the ongoing preparation of the Council's Local Plan:



- **Council Priority: Publica Review** reserve – the estimated unspent balance (estimated at £0.225m) to provide adequate funding for the Council’s share of the costs arising during the Phase 2 of the Publica Transition.
- **Council Priority: Local Plan** reserve – a further £0.250m is allocated to the to ensure the next stages of the Local Plan preparation can be delivered following the update to the National Planning Policy Framework (NPPF) in December 2024. The Council has submitted an expression of interest to MHCLG for Delivery Funding of up to £0.250m. Should the Council be successful and receive an allocation, the level of reserve funding will be reviewed. It is anticipated that local authorities will be notified of outcome in February 2025.
- **Council Priority: Climate Emergency** reserve is maintained up to £0.250m
- **Council Priority: Housing Delivery** reserve is maintained at £0.500m
- **Council Priority: Regeneration/Infrastructure** reserve is maintained at £0.200m with a commitment of up to £0.070m regarding feasibility studies agreed by Cabinet in December 2024. The reserve is held to provide funding for feasibility studies and due diligence around the emerging Cirencester Town Centre Masterplan including support for the Council’s Car Park Strategy.
- **Council Priority: Transformation and Change** reserve is increased from £0.200m to £0.318m to provide funding for savings and transformation support, projects and invest to save initiatives.

**7.28** New initiatives will require Members to review existing commitments against earmarked reserves and to reallocate funds accordingly.

**7.29** Therefore, the following balances and reserves position is proposed over MTFS period:

- General Fund Balance to be maintained at minimum level of £1.760m
- Financial Resilience Reserve held to mitigate 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.
- Council Priorities reserves are maintained for 2025/26 to support the priorities outlined in the Corporate Plan.



**7.30** If approved, the impact of these proposed changes outlined in the report to the level of balances and reserves is set out in the table below.

**Table 9a – Reserves and Balances Forecast ('Do nothing' scenario)**

	Estimated Balance 31/03/2025 (£'000)	Estimated Balance 31/03/2026 (£'000)	Estimated Balance 31/03/2027 (£'000)	Estimated Balance 31/03/2028 (£'000)	Estimated Balance 31/03/2029 (£'000)
<b>As per MTFS</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>
Council Priorities	(2,649)	(1,613)	(902)	(902)	(902)
Financial Resilience Reserve	(2,884)	(4,164)	(2,647)	2,041	8,017
Financial Resilience Reserve - shortfall (indicative)					
Risk Mitigation	(2,245)	(2,344)	(1,335)	(1,447)	(1,214)
Ringfenced Earmarked Reserves	(19)	(14)	(14)	(14)	(14)
Other Revenue reserves	(1,782)	(877)	(872)	(867)	(862)
<b>Subtotal Earmarked Reserves</b>	<b>(9,578)</b>	<b>(9,012)</b>	<b>(5,770)</b>	<b>(1,189)</b>	<b>5,026</b>
<b>TOTAL GF Balance + Earmarked Reserves</b>	<b>(11,338)</b>	<b>(10,772)</b>	<b>(7,530)</b>	<b>(2,949)</b>	<b>3,266</b>

**7.31** Whilst the level of reserves and balances shown in the table indicates that the Council is in a good financial position, the budget gap from 2026/27, increasing over the MTFS period, would reduce the Financial Resilience Reserve to a nil balance during 2027/28.

**7.32** The Council will need to ensure the continued delivery of robust, balanced, and proportionate savings to mitigate the budget gap over the MTFS period.

**7.33** The Balances and Reserves Strategy recognises the financial risks facing the Council over the MTFS period. A key consideration is to ensure financial resilience and sustainability can be supported through the strategy.

**7.34** With a significant budget gap forecast from 2026/27 and increasing over the MTFS-period, it is crucial for the Council to close this gap through a comprehensive Savings and Transformation Programme. At this stage of the financial planning process, the budget gap is only mitigated through the utilisation of the Financial Resilience reserve and other risk-mitigation reserves such as the Business Rates risk reserve.



**7.35** Whilst this is a reasonable position for the forthcoming financial year, it is not a sustainable position. Without additional cost reduction measures, the Financial Resilience reserve will be depleted by 2027/28. It is not prudent, therefore, for the Council to maintain other reserve balances for other projects and priorities if financial sustainability cannot be maintained.

**7.36** Balances held under each Council Priority will need to be reviewed should there not be adequate mitigation to the budget gap as outlined in the MTFS.

**7.37** The tables below are intended to illustrate the impact on reserve balances with mitigation measures in place (i.e. additional cost reduction and savings are identified and delivered in 2026/27 and 2027/28).

**Tables 9b and 9c – Reserves and Balances Forecast (Reprioritisation of reserves)**

	Estimated Balance 31/03/2025 (£'000)	Estimated Balance 31/03/2026 (£'000)	Estimated Balance 31/03/2027 (£'000)	Estimated Balance 31/03/2028 (£'000)	Estimated Balance 31/03/2029 (£'000)
<b>As per MTFS with <u>NO</u> mitigation</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>
Council Priorities	(2,649)	(1,613)	0	0	0
Financial Resilience Reserve	(2,884)	(4,164)	(3,549)	1,139	7,115
Financial Resilience Reserve - shortfall (indicative)					
Risk Mitigation	(2,245)	(2,344)	(1,335)	(1,447)	(1,214)
Ringfenced Earmarked Reserves	(19)	(14)	(14)	(14)	(14)
Other Revenue reserves	(1,782)	(877)	(872)	(867)	(862)
<b>Subtotal Earmarked Reserves</b>	<b>(9,578)</b>	<b>(9,012)</b>	<b>(5,770)</b>	<b>(1,189)</b>	<b>5,026</b>
<b>TOTAL GF Balance + Earmarked Reserves</b>	<b>(11,338)</b>	<b>(10,772)</b>	<b>(7,530)</b>	<b>(2,949)</b>	<b>3,266</b>

**7.38** Under this scenario, with no additional savings or mitigation, balances held under the broad heading of "Council Priorities" are transferred to the Financial Resilience Reserve to ensure adequate resources are available to support the MTFS. This scenario does not address nor fully fund the budget gap but is shown for illustrative purposes.



	Estimated Balance 31/03/2025 (£'000)	Estimated Balance 31/03/2026 (£'000)	Estimated Balance 31/03/2027 (£'000)	Estimated Balance 31/03/2028 (£'000)	Estimated Balance 31/03/2029 (£'000)
<b>As per MTFS with further savings by 2027/28</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>
Council Priorities	(2,649)	(1,613)	0	0	0
Financial Resilience Reserve	(2,884)	(4,164)	(4,549)	(861)	4,115
Financial Resilience Reserve - shortfall (indicative)					
Risk Mitigation	(2,245)	(2,344)	(1,335)	(1,447)	(1,214)
Ringfenced Earmarked Reserves	(19)	(14)	(14)	(14)	(14)
Other Revenue reserves	(1,782)	(877)	(872)	(867)	(862)
<b>Subtotal Earmarked Reserves</b>	<b>(9,578)</b>	<b>(9,012)</b>	<b>(6,770)</b>	<b>(3,189)</b>	<b>2,026</b>
<b>TOTAL GF Balance + Earmarked Reserves</b>	<b>(11,338)</b>	<b>(10,772)</b>	<b>(8,530)</b>	<b>(4,949)</b>	<b>266</b>

**7.39** Under this scenario, mitigation measures reduce the net budget by £1m in 20226.27 and a further £2m in 2027/28. Balances held under the broad heading of "Council Priorities" are transferred to the Financial Resilience Reserve to ensure adequate resources are available to support the MTFS. This scenario ensures there is a positive balance at the end of 2028/29 and is shown for illustrative purposes.

**Table 10 – Summary Medium Term Financial Forecast**

	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
<b>MTFS Summary</b>				
Net Service Revenue Expenditure	17,241	17,241	17,241	17,241
Corporate Items/Non Service Income & Expenditure	(1,154)	(459)	169	121
Transfers to/(from) earmarked reserves	(620)	(1,259)	(13)	37
Provision for Inflation	0	629	1,268	1,903
<b>Service + Corporate Items</b>	<b>15,467</b>	<b>16,152</b>	<b>18,664</b>	<b>19,302</b>
Budget Pressures	597	763	564	464
Technical Adjustments	0	0	0	0
Risk Items	0	0	0	0
Savings and Transformation Plan items	(359)	(1,340)	(1,551)	(1,766)
<b>Draft Net Revenue Budget</b>	<b>15,704</b>	<b>15,575</b>	<b>17,677</b>	<b>18,000</b>
<b>TOTAL Funding</b>	<b>(16,342)</b>	<b>(13,986)</b>	<b>(12,797)</b>	<b>(11,718)</b>
<b>Budget Gap / (Surplus)</b>	<b>(638)</b>	<b>1,589</b>	<b>4,879</b>	<b>6,282</b>

**7.40** The summary MTFS shown above highlights the significant and increasing budget gap over the MTFS-period. There is considerable uncertainty around the Council's finances



from 2026/27 given the proposed reforms to Local Government Finance and the potential impact from the Devolution White Paper.

**7.41** However, the MTFS forecast is based on reasonable assumptions and should be viewed as a good indication as to the direction of travel.

## **8. FUNDING**

**8.1** The MTFS includes a forecast of the level of funding available to support the General Fund over the medium-term which are set out in detail below.

### **Overview**

**8.2** As set out earlier in Section 2, there is considerable uncertainty over the medium-term. Forecasts of funding for 2026/27 are based on the assumption that that reforms to Local Government Finance, as set out in the consultation document, are delivered in full.

**8.3** Estimating the level of Government funding for 2026/27 and beyond is difficult as there is no certainty around the timing and scale of the transition from the current finance system for local government. Coupled with Local Government Reform which will see Shire District Councils such as Cotswold abolished, there has never been greater uncertainty to the forecasts.

**8.4** For the purposes of the MTFS, it has been assumed that the pace of reform will be relative quick (i.e., transitional arrangements will be in place for a shorter period of time than has been the case with previous reforms of local government finance). This is shown in the funding estimates for 2026/27 to 2028/29 as damping. This funding mechanism is provided to ensure that funding reductions are managed over a defined period of time so that no Council would see a reduction of more than x% (e.g. no more than say 5% or 10% in any given year). For MTFS modelling purpose a floor of 10% has been assumed which would move funding over a 4-year period. Estimates for the later MTFS period should, therefore, be treated with a high degree of caution.



- 8.5** The pace of Local Government Reform in Gloucestershire will ultimately determine the level of transitional arrangement funding provided.

### **Business Rates**

- 8.6** The Council was 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. The estimate of retained business rates income included in this report do not take into account the final forecasts for business rates that were submitted in the NNDR1 return.
- 8.7** Forecasting business rates income is complex with the impact of the lower level of Leisure, Retail and Hospitality relief outlined in the Autumn Statement and the implementation of shorter 3-year revaluation periods contributing to the level of uncertainty around forecasts for the medium-term.
- 8.8** The estimate of business rates income has been prepared based on the rateable value of properties on the rating list on 31 December 2024. Forecasts have been made concerning the level of mandatory and discretionary reliefs that will be given, and an allowance made for bad debts and repayments.
- 8.9** Business rates are collected by the Council, and the proceeds are shared between Cotswold District Council, Gloucestershire County Council, and the Government. There is an element of risk and reward involved in the Business Rates scheme, which is designed to incentivise Councils to promote business growth within their areas. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation, and reliefs.
- 8.10** The draft forecast for business rates included in this report, although broadly similar to last year, has seen significant changes in terms of rateable values and reliefs. The assumption made in the MTFS is the Council's share of retained business rates is based on a draft assessment of the NNDR1 data and is estimated at £5.117m in 2025/26. The final estimate will not be available until 31 January 2025, and it is recommended that a delegation is provided to the Council's Deputy Chief Executive, in consultation with the Deputy Leader and Cabinet Member for Finance and Transformation for any changes to the General Fund Summary arising from the Local Government Finance



Settlement and the Business Rates Retention Scheme estimates prior to submission to Council.

- 8.11** Each year the Council forecasts whether its collection of Business Rates will be higher than anticipated, resulting in a “surplus” on the Collection Fund, or lower than anticipated, resulting in a “deficit” on the Collection Fund.
- 8.12** Where this Council forecasts a surplus on the Collection Fund, the surplus is paid out in the following financial year to the County Council (10%), Government (50%) and the District Council (40%). Similarly, where the Council forecasts a deficit, the deficit is recovered in the same proportions in the following financial year. It is important that the Council is aware of the risk on the Collection Fund – there can be significant change in business rates income from one year to the next.
- 8.13** The draft position on the Collection Fund is a deficit of £2.023m of which £0.809m is Cotswold’s share. In order to mitigate the impact this would have on the 2025/26 revenue budget (the deficit would reduce the level of funding), an equal amount will be transferred from the Business Rates risk reserve and Section 31 Grant reserve.
- 8.14** The table below should be considered as an initial forecast based on a high-level view on the impact of the revaluation and business rates reliefs.

**Table 11 – Business Rates Forecast**

	<b>2024/25 Final (£'000)</b>	<b>2025/26 Est. (£'000)</b>
<b>Derivation of BRR Figures for MTFS</b>		
Non-Domestic rating income (NNDR1 Estimate)	13,495	14,754
Less: Tariff Payment to Government	(13,332)	(13,444)
Less: Estimated Levy Payment to Government	(1,747)	(1,628)
Add: Renewable Energy schemes	117	268
<b>Estimated Retained Business Rates</b>	<b>(1,467)</b>	<b>(50)</b>
Section 31 Grant Payable	6,481	5,167
<b>TOTAL Funding from Business Rates</b>	<b>5,014</b>	<b>5,117</b>
<b>Assumed BRR included in MTFS</b>	<b>5,014</b>	<b>5,117</b>





### **Gloucestershire Business Rates Pool**

- 8.15** The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth. The Pool Levy rate increased from 15% to 21% because of the 2023/24 revaluation resulting in a lower proportion of business rates growth being retained in the County.
- 8.16** As advised to members in the 2025/26 Budget Strategy and Medium-Term Financial Strategy (MTFS) Update report, the composition of the Pool was amended to maximise the amount of pool benefit retained in Gloucestershire. The current pooling arrangements (which includes all 6 Districts Council and the County Council) was revoked. New pooling arrangements were approved by the Secretary of State in December 2024 which excludes Cheltenham Borough Council.
- 8.17** 4Given the purpose of the Gloucestershire Pool is to share benefit and maximise the retention of business rates locally, the local distribution agreement has been updated 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.
- 8.18** Any windfall gain associated with the Business Rates Pool will be allocated to the Business Rates Risk reserve and/or Financial Resilience reserve.
- 8.19** There remains uncertainty over the future of Business Rates Pooling beyond 2025/26. Local Government Finance reforms will include a reset to business rates alongside the shorter 3-year valuation periods. Therefore, there is a risk that Pooling may not be financially viable as there may be too much risk and too little reward.

### **New Homes Bonus (NHB)**

- 8.20** New Homes Bonus will continue for a further year in 2025/26 with an allocation of £0.820m included in the provisional settlement. As has been the case over the last four financial years, 2025/26 is a one-year only allocation and does not give rise to an ongoing legacy payment. The Government has indicated it will set out the future position of New Homes Bonus ahead of the 2026/27 local government finance settlement.



### **Funding Floor (formerly known as Funding Guarantee)**

- 8.21** The provisional settlement includes the Funding Floor protects all local authorities from a year-on-year reduction in CSP. The funding floor assumes authorities use the maximum of their council tax flexibilities but excludes any grants rolled into CSP in 2025-26. The Funding Floor provides a lower level of support than the Funding Guarantee and only ensures that all councils will see at least a cash-flat (i.e. 0% change) core spending.
- 8.22** For Cotswold, the value of the Funding Floor is £2.230m for 2025/26 with no assumption in the MTF5 is for further support over the MTF5-period. Whilst this funding is welcomed, it falls short of mitigating the inflationary pressures on the Council's budget.

### **Other Grants/Funding**

- 8.23** The Government has abolished the Rural Services Delivery Grant (RSDG) that recognised the cost of service delivery in rural areas. This provided £0.820m of funding in 2024/25 with no clear indication at this stage as to how rural councils will be supported financially in future settlements.
- 8.24** The Final Settlement included an allocation of £0.133 in respect of increased Employer National Insurance Contributions announced in the October 2024 budget.
- 8.25** Revenue Support Grant (RSG) of £0.164m for 2025/26 has been provided in the provisional settlement. Since 2024/25, this is a consolidation of four previous grants which maintain their existing distribution. These are the Independent Living Fund; Council Tax Discounts – Family Annex; Local Council Tax Support Administration Subsidy; and Natasha's Law. The value of the rolled-in grants is broadly equal to the RSG allocation and should be viewed as replacing existing distinct funding streams rather than 'new' funding.

### **Extended Producer Responsibility [EPR]**

- 8.26** In November 2024, the Department for Environment, Food and Rural Affairs (DEFRA) set out the amount of funding the Council would receive for extended producer



responsibility. The funding is intended to help local authorities to cover net costs of collecting, managing, recycling and disposing of household packaging waste.

**8.27** In the first year (April 2025 to March 2026) local authorities will receive a basic payment based on:

- publicly available and existing data, including WasteDataFlow information and Office of National Statistics (ONS) data.
- data about tonnages, operations and unit costs gathered from a representative sample of LAs across the UK

**8.28** The amount allocated to Cotswold for 2025/26 is £1.502m

**8.29** From the second year (April 2026 to March 2027) the basic payment and any adjustments will be based on data local authorities submit to the Scheme Administrator.

**8.30** It is difficult to estimate the amount of ongoing funding the Council may receive from EPR as it will be dependent of a number of factors such as the data that will need to be submitted, producer and consumer behaviour, assessment of costs of an efficient service as determined by DEFRA.

**8.31** For the purposes of the MTFs, an assumption has been made that future funding would be at 50% of the 2024/25 allocation. This will need to be reviewed during 2025/26 as the scheme for future years is developed by the scheme administrator.

**8.32** The table below sets out the assumed level of funding included within the MTFs.



**Table 12 – Funding assumed in MTFS forecast**

	Final 2024/25 (£'000)	FINAL 2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
<b>Funding included in MTFS</b>					
Council Tax	6,597	7,065	7,361	7,661	7,967
Business Rates Retention (net of risk + returned funding)	5,014	5,117	2,304	2,435	2,571
Rural Services Delivery Grant	818	0	0	0	0
Lower Tier Services Grant	0	0	0	0	0
Funding Floor	2,231	2,230	0	0	0
Services Grant	13	0	0	0	0
New Homes Bonus	287	820	0	0	0
New Homes Bonus (Returned Funding)	0	0	0	0	0
Revenue Support Grant (RSG)	144	164	(1,704)	(1,723)	(1,745)
(Negative) Revenue Support Grant	0	0	0	0	0
Transitional Protection (Damping)	0	0	5,141	3,541	2,041
pEPR		1,502	751	751	751
Employer's National Insurance Contributions Grant		133	133	133	133
Collection Fund - CT	28	119	0	0	0
Collection Fund - NNDR	445	(809)	0	0	0
<b>TOTAL Funding</b>	<b>15,577</b>	<b>16,342</b>	<b>13,986</b>	<b>12,797</b>	<b>11,718</b>
<b>Proposed Net Revenue Budget</b>	<b>15,061</b>	<b>15,704</b>	<b>15,575</b>	<b>17,677</b>	<b>18,000</b>
<b>Budget shortfall/(surplus)</b>	<b>(516)</b>	<b>(638)</b>	<b>1,589</b>	<b>4,879</b>	<b>6,282</b>

### Council Tax

**8.33** The referendum threshold for 2025/26 for Shire Districts including Cotswold District Council is 2.99% or £5 (whichever is the greater). The Core Spending Power calculation published with the Local Government Finance Settlement assumed that all authorities would raise their Council Tax towards the maximum allowable amounts. Factoring such increases into the funding assessment, removes flexibility for local authorities to take local decisions about tax levels and to use increases in local taxation to offset local spending pressures. Councils now need to make these increases just to keep total funding levels at a standstill.

**8.34** The revenue budget assumes a £5 increase in a Band D charge for Council Tax, which 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.



**8.35** A £5 increase in Council Tax formed part of the Budget Consultation undertaken in January 2025. The results of the consultation exercise indicated strong support from respondents to a £5 increase in the Band D Council Tax rate. Question 1 asked:

*To support our priorities and help us to close our expected funding gap from the Government, we plan to increase Council Tax by 10p a week (£5 a year) for a Band D property (£3.33 for Band A up to £10 for Band G). Do you agree with this approach?*

**8.36** The response to this question was supportive. 69.6% agreed or strongly agreed with the proposed Council Tax increase. 28.3% disagreed or strongly disagreed whilst 2.2% provided no answer.

**8.37** A Council Tax rise of £5 increases the Band D rate from £153.93 to £158.93 and will generate an additional £0.469m in additional Council Tax revenue annually (when taken with estimated changes to the taxbase and additional premiums). The MTFS assumes an increase of up to £5 per annum. This would generate £1.370m over the MTFS period including 2025/26 (£0.901m 2026/27 to 2028/29).

**Table 13 – Council Tax Income**

	2025/26	2026/27	2027/28	2028/29
Taxbase	44,456.16	44,900.72	45,349.73	45,803.23
Assumed Band D rate (£)	158.93	163.93	168.93	173.93

	2025/26	2026/27	2027/28	2028/29
Precept (£'000)	7,065	7,361	7,661	7,967
Increase (£'000)	469	295	300	306
Cumulative Increase (£'000)	755	1,050	1,350	1,656

**8.38** 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.

**8.39** The Government provided guidance to local authorities in November 2024 setting out exceptions to council tax premiums on second and empty homes. These



regulations and guidance come into force on 01 November and have effect from 01 April 2025.

- 8.40** 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. The 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.
- 8.41** 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.
- 8.42** In assessing the likely level of additional Council Tax the Second Homes premium would generate, a prudent estimate has been taken due to the level of exemption that would be applied to certain properties across the district (i.e. those around Cotswold Lakes).
- 8.43** The Council will need to liaise with second homeowners and Parish and Town Councils during 2025 to ensure the taxbase reflects the number of second homes in the district. The prudent estimate used for 2025.26 Council Tax setting purposes is based on information on second homes within the Council Tax revenue system. This may not be a complete record of all the second homes as there has been no requirement for this data to be provided by homeowners.
- 8.44** 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.

**8.45** The decision to set Council Tax remains an annual decision for Council to consider when setting the budget in February.

#### **Local Council Tax Support Scheme**

**8.46** Council approved the Council Tax Support scheme for 2025/26 at their meeting on 27 November 2024. Revisions to the scheme included an increase to income bands within the scheme of 4% to give support to households through the cost-of-living crisis.

**8.47** The cost of the scheme will increase by approximately £28k across all preceptors, with the cost to Cotswold District Council estimated to be just under £2k. The impact of this has been reflected in the Council Tax estimate included within the MTFS.

#### **Council Taxbase**

**8.48** The Taxbase for 2025/26 has been estimated at 44,546.16 and represents an increase of 1,600.83 (3.74%) over the 2024/25 figure when including the estimated number second homes that would be liable for the premium. On a like-for-like basis (i.e. excluding the impact of the Second Homes premium), the increase is 785.07 (1.83%).

**8.49** For the purposes of the MTFS it has been assumed the Taxbase will grow at 1.00% per annum.

#### **Collection Fund (Council Tax and NNDR)**

**8.50** The Council Tax Collection Fund is estimated to be in surplus by the end of the current financial year by £0.990m. Cotswold District Council's share is £0.119m and is included within the Council Tax Collection Fund deficit line within the MTFS.



**8.51** Collection rates for Council Tax have remained resilient throughout 2024/25. At the time of writing, the Revenues team have been able to collect the majority of Council Tax due for the year and the collection rate has improved each month. The latest available collection data suggests that the Council is above the collection rate for the same period in 2023/24 and the total collected is forecast to be above the level precepted against the Collection Fund.

**8.52** Any surplus of deficit on the Collection Fund is shared across the major precepting authorities (Gloucestershire County Council and Gloucestershire Police and Crime Commissioner).

## **9. CAPITAL PROGRAMME 2025/26 TO 2028/29**

**9.1** 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.

**9.2** The Council has set out its Capital Programme for the period 2025/26 to 2028/29 based on the principles of the current Capital Strategy. This is summarised in the table below and in further detail in Annex D of this report. A total capital expenditure budget of £4.0m in 2025/26 is proposed. Total expenditure over the programme period is estimated at £18.1m (£25.4m when including the current financial year)

**9.3** The capital programme is focussed on delivering against the Council's key priorities, with further schemes focused on enhancing the delivery of core services through improvement and enhancement of assets. The programme also includes support for the provision of affordable local housing and the Council's statutory duties in respect of Disabled Facilities Grants.





**Table 14 – Summary Capital Programme**

<b>Capital Programme</b>	<b>2024/25 Revised Budget (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>2028/29 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Leisure & Communities	1,491	0	500	0	0	1,991
Housing/Planning and Strategic Housing	2,405	1,718	1,839	2,230	1,775	9,967
Environment	1,606	1,132	5,255	1,826	205	10,025
ICT, Change and Customer Services	150	350	150	150	150	950
UK Rural Prosperity Fund	752	0	0	0	0	752
UK Shared Prosperity Fund Projects	134	327	0	0	0	461
Land, Legal and Property	517	500	0	0	0	1,017
Transformation and Investment	257	0	0	0	0	257
	<b>7,312</b>	<b>4,027</b>	<b>7,744</b>	<b>4,207</b>	<b>2,130</b>	<b>25,420</b>

- 9.4** The capital programme includes investment in the Council's Leisure Centres, supporting the delivery of Housing in the District, responding to the Climate emergency and investment in new waste collection vehicles to support the service.
- 9.5** The Council has developed an Asset Management Strategy supported by Carter Jonas during 2024/25. This was presented to Cabinet in May 2024 and is being further developed to include detailed asset management plans and Minimum Efficiency Standards (MES) considerations for the Land and Buildings assets it holds. The emerging strategy provides a longer-term view of the income and expenditure profiles, tenant events, hold and disposal options. The strategy will help ensure that the Council's capital assets are maintained, developed, and continue to contribute effectively to the delivery of the Council services, to support the local economy or provide income in line with expectations. Where there are opportunities to use assets more effectively to deliver Council Priorities, business cases will be presented to the Cabinet or Council for approval.
- 9.6** 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).

**9.7** At their meeting on 31 October 2023 Overview and Scrutiny Committee recommended that the Capital Programme should be kept under review to ensure the revenue impact of capital expenditure and financing decisions were fully considered.

**9.8** The level of prudential borrowing included 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. However, with the current relative high cost of borrowing, the business cases for new projects will need to be robust, include adequate headroom to cover capital financing costs, and be subject to additional challenge from officers prior to member consideration.

**Table 15 – Summary Capital Financing Statement**

	<b>2024/25 Revised Budget (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>2027/28 Budget (£'000)</b>	<b>2028/29 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Capital receipts	3,628	2,052	3,184	2,476	355	11,695
Capital Grants and Contributions	3,269	1,975	1,689	1,731	1,775	10,439
Community Municipal Investment	415	0	0	0	0	415
Prudential Borrowing	0	0	2,871	0	0	2,871
<b>TOTAL</b>	<b>7,312</b>	<b>4,027</b>	<b>7,744</b>	<b>4,207</b>	<b>2,130</b>	<b>25,420</b>

## **10. KEY ASSUMPTIONS, RISKS, AND UNCERTAINTIES**

**10.1** There are a number of financial risks that the Council will face over the medium-term. The 2025/26 Budget and the MTFS have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.



**10.2** The first key risk is around the nature and scope of local government funding from the Government in 2026/27 and more substantially, the impact of Devolution and Local Government Reorganisation over the MTFS-period.

**10.3** It is very difficult to estimate with certainty the impact on Cotswold. Fundamental changes to the way in which each Council's needs are assessed and funded will need to be consulted on and modelled prior to the 2026/27 Local Government Finance Settlement. Therefore, considerable risk and uncertainty remains in the estimates for 2025/26 and beyond.

**10.4** However, the MTFS has for a number of years included a significant reduction in the level of retained business rates income from 2026/27. This is due to the Business Rates reset that will be part of Local Government Finance Reform. 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).

**10.5** The second key risk is around the continued impact on the Council from pressures within the wider economy including growth expectations, inflation, and interest rates. This will have an impact on income and expenditure budgets during 2025/26 and will require timely and accurate financial reporting to Cabinet. These risks include:

- Income from Council Tax and Business Rates will continue to be under pressure in 2025/26 with an expectation that the taxbase for Council Tax and Business Rates may take time to recover.
- Increased demand for certain services (e.g., Homelessness) may put additional financial pressure on the Council.
- Cost of services where the Council is exposed to risk sharing in contract costs.
- Energy cost pressures

**10.6** A third key risk is around the impact from the Publica Review. As set out in the report, Phase 2 of the transition will increase the cost of services due to increased employer



pension contributions and a reduced emphasis on sharing of services. The MTFs has made a broad assumption based on a limited number of services that are being considered for Phase 2. There remains uncertainty around future service transition due to Devolution/Local Government Reorganisation. Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in March 2025.

**10.7** For the purposes of the 2025/26 revenue budget and the MTFs, it is assumed the cost of services will remain within the cost envelope set out over the medium-term.

**10.8** Inevitably, there are likely to be workforce planning costs arising from the transfer of services under Phase 2. Due to the nature of shared service delivery being more prevalent for Phase 2 services, the timing of workforce planning costs and mitigation measures is difficult to estimate with any certainty. Therefore, it is appropriate to set out the approach the Council will take to financing these costs over the transition period.

**10.9** In order to ensure adequate provision is made for the costs and mitigation options over the transition period, the Council must have adequate financial headroom in order to make key decisions on service design. Therefore, it is proposed that the following approach is adopted:

- Ongoing review of vacancies with first call on confirmed underspends to be allocated to the Workforce Planning reserve.
- Flexible use of capital receipts (subject to business case and assessment of wider capital financing implications)

**10.10** The budget has been prepared in light of key financial risks facing the Council over the medium-term, principally:

- Local Government Finance Reforms due from April 2026.
- Uncertainty around the timing of Devolution/Local Government Reorganisation.
- Treasury management issues including interest rates, level of capital expenditure, use of internal resources, borrowing costs.
- External economic environment – UK and global economy.



- Financial impact of the Capital Programme on the revenue budget – the affordability of the capital programme and future schemes needs to be carefully considered.
- Unbudgeted costs (for example from service demand or legal challenge to planning decisions.)

## **11. CONCLUSIONS**

**11.1** Despite the uncertainties around Local Government Funding Reforms, the continued pressure on households from the Cost-of-Living crisis, and the general economic position, the Council has been able to prepare a balanced budget whilst maintaining services to residents.

**11.2** The budget has been prepared in accordance with the approved budget strategy. This includes the principle of maintaining the Council's general fund revenue risk-based balance at £1.760m and maintaining other usable reserves to mitigate risk and support improvement.

**11.3** The Council will need to continue to take steps to manage and address the budget gap identified over the MTFS period.

**11.4** The Capital Programme includes planned expenditure £7.744m in 2025/26 with the Council needing to consider the outcome of due diligence work on other potential schemes before any further capital expenditure is committed.

**11.5** The budget includes a recommendation to Council for the current Council Tax level to increase by £5 for a Band D property (from £153.93 per annum to £158.93) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.

**11.6** Cabinet, with support from the Cabinet Transform Working Group Council will need to further develop the approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. This will need to include consideration of a service design framework for inclusion in the [Publica] Transition Plan to ensure service costs are contained within the financial envelope set out in the MTFS.



**11.7** The Council is required to balance the budget one year from the next and must deliver an ongoing savings programme – a robust, balanced, and proportionate plan of cost management and income generation opportunities to ensure the Council is able to achieve financial sustainability.

**11.8** Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing. Reserves held to promote financial sustainability are forecast to be depleted during the MTFS period. Consideration should be given as part of the year-end procedures for 2024/25 as to their adequacy for future financial years given the current risks and uncertainties identified in this report. All reserves will be monitored and reported to Cabinet throughout 2025/26.

## **12. FINANCIAL IMPLICATIONS**

**12.1** The financial implications are set out in detail within the report.

## **13. LEGAL IMPLICATIONS**

**13.1** None directly as a result of a review of the draft report

## **14. RISK ASSESSMENT**

**14.1** Section 11 of this report set out the risks and uncertainties around the 2025/26 budget and MTFS forecast.

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

**15.1** None

## **16. BACKGROUND PAPERS**

**16.1** None