



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET – 7 FEBRUARY 2022
Report Number	AGENDA ITEM 7
Subject	MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2022/23
Wards affected	ALL
Accountable member	Cllr Mike Evely, Deputy Leader and Cabinet Member for Finance Email: Mike.Evely@cotswold.gov.uk
Accountable officer	Jenny Poole, Deputy Chief Executive Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	The purpose of this report is to present the budget for 2022/23.
Annexes	Annex A – Medium Term Financial Strategy Annex B – Capital Strategy Annex C – Investment Strategy Annex D – Treasury Management Strategy Annex E – Detailed Revenue Budget 2022/23 Annex F – Pay Policy Statement 2022/23
Recommendation/s	<i>That Cabinet</i> <i>a) considers:</i> <i>(i) the Budget proposals 2022/23,</i> <i>(ii) the Medium Term Financial Strategy,</i> <i>(iii) the Pay Policy Statement,</i> <i>(iv) the Capital Strategy</i> <i>(v) the Investment Strategy</i> <i>(vi) the Treasury Management Strategy;</i>

	<p><i>(vii) the opportunity to issue a £1 million Community Municipal Investment, with approve of the final terms being delegated to the Deputy Chief Executive in consultation with the Deputy Leader and Cabinet Member for Finance; and</i></p> <p><i>b) Subject to any amendments it wishes to make, recommends the above set of documents to Council.</i></p> <p><i>c) Recommends the Local Council Tax Support Scheme as detailed at 2.61 to 2.63 for 2022/23 to Council.</i></p> <p><i>d) Subject to the Council approval of recommendation (c), Council delegates authority to the Deputy Chief Executive to approve the Local Council Tax Support Scheme annual uprating of allowances and non-dependant deductions in line with national regulations.</i></p>
Corporate priorities	The budget for 2022/23 reflects the financial implications of the Council Priorities as approved in the Council Plan in September 2020.
Key Decision	NO
Exempt	NO
Consultees/ Consultation	The Medium Term Financial Strategy and Budget for 2022/23 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, Audit Committee and with the District's residents, businesses and community organisations.

1. BACKGROUND

- 1.1. Cabinet approved its draft Medium Term Financial Strategy (MTFS) for the period 2022/23 to 2025/26 and the associated budget proposals for 2022/23 for consultation on 4 October 2021. The Council ran an extensive budget consultation process during October and November 2021 which included: a feature in an edition of Cotswold News which was provided to every household in the District, events with Town and Parish Councils, an item within the CDC Live Broadcast, community engagement events and promotion of the budget consultation survey via social media.
- 1.2. The Council received 432 responses to the consultation, an increase of 106 responses from the consultation last year. The Overview and Scrutiny Committee also considered the proposed MTFS and 2022/23 budget on 30 November 2021.
- 1.3. In January 2022, Cabinet considered feedback from the consultation and used that feedback to inform decisions on changes to car park charging periods, car park and season ticket fees.
- 1.4. The budget and MTFS have now been updated to reflect the following:
 - A. The Government's announcement of the Provisional Local Government Settlement 2022/23;
 - B. The estimated Council Taxbase 2022/23 and the forecast balance on the Collection Fund in respect of Council Tax collection in 2021/22; and
 - C. Provision for changes which have arisen since 4 October 2021.
- 1.5. The updated MTFS is attached at **Annex A**.
- 1.6. This report focuses upon changes to budget proposals since 4 October 2021. The Overview and Scrutiny Committee considered the updated MTFS and detailed budget proposals for 2022/23 on 1 February 2022.
- 1.7. The Audit Committee considered the draft Capital, Investment and Treasury Management Strategies on 27 January 2022.
- 1.8. The Deputy Chief Executive and Deputy Leader and Cabinet Member for Finance will provide feedback from the Audit Committee and the Overview and Scrutiny Committee to Cabinet Members at the meeting on 7 February 2021.

2. MAIN POINTS

Provisional Local Government Finance Settlement 2022/23

- 2.1. On 27 October 2021, the Chancellor of the Exchequer announced the outcome of the Spending Review 2021. The Spending Review has set the Government's departmental spending limits for the next three financial years, 2022/23 to 2024/25.
- 2.2. The Department for Levelling Up, Housing and Communities (DLUHC) has used the outcome from the Spending Review to set the Provisional Local Government Finance Settlement 2022/23. The Settlement, announced on 16 December 2021, proposes Government funding for individual councils.
- 2.3. The key announcements for district councils included:

- 2.3.1. Nationally, an above inflation cash increase of 6.9% has been announced; however, this is different for individual councils. For Cotswold District Council, the settlement is essentially a flat roll-over from 2021/22.
- 2.3.2. Councils impacted by “negative Revenue Support Grant”, which includes this Council, continue to be protected from this funding cut;
- 2.3.3. New Homes Bonus funding will continue for 2022/23 but the grant will be for one-year only. The 2021/22 New Homes Bonus grant remains payable for that year only, so will not continue in 2022/23. Prior to 2020/21, New Homes Bonus grant was awarded for multiple financial years, initially six years and latterly four years. A consultation paper on the future of New Homes Bonus is due to be published shortly with an indication that changes will be implemented in 2023/24;
- 2.3.4. Rural Services Delivery Grant continues in 2022/23;
- 2.3.5. A new Services Grant has been introduced in 2022/23 and will be payable for one year only. This Grant includes funding for the national increase to National Insurance Contributions. This grant will be excluded from potential “transitional protection” as the Government implements changes to local government funding. This change is expected to take place from 2023/24.
- 2.3.6. The Lower Tier Services Grant which was introduced in 2021/22 to ensure that no local authority saw an overall reduction in Core Spending Power in 2021/22 continues in 2022/23. Core Spending Power includes income from Retained Business Rates, Council Tax, Lower Tier Support Grant, New Homes Bonus, Rural Services Delivery Grant and the new Services Grant.
- 2.3.7. Disabled Facilities Grant funding will continue at current levels;
- 2.3.8. The Government delayed changes to local government funding from the Fairer Funding Review and Business Rate Retention Scheme for a year to April 2023.
- 2.4. In October, the Council’s draft budget for 2022/23 prudently included only legacy New Homes Bonus Grant from 2019/20 as the future of New Homes Bonus was uncertain. In terms of overall Government funding, it was assumed that funding would be broadly neutral but that increased income from a Council Tax increase would be considered as part of core Government Funding and cash funding from the Government would fall in line with the Council Tax increase. The impact of the Provisional Local Government Settlement on the Council’s revenue budget for 2022/23 is set out below:
 - 2.4.1. New Homes Bonus increased by £145,598 as a further one-off grant was announced for 2022/23 only;
 - 2.4.2. Rural Services Delivery Grant remains in line with budget expectation at £632,183;
 - 2.4.3. The Lower Tier Services Grant has reduced by £220,551 to £1,472,660;
 - 2.4.4. The new Services Grant increases Government funding by £129,486.
 - 2.4.5. The 2022/23 revenue budget funded by core Government funding has therefore increased by £54,533.
- 2.5. Using advice provided by Pixel Financial Management, who are experts in interpreting the impact of changes to Government policy on local authority funding, the impact of the announcements in the Spending Review and the Provisional Local Government Settlement on

Government funding for the period 2023/24 to 2025/26 have been modelled. The outcome of the modelling is set out below and has been reflected in the MTFS:

Government Funding	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Retained Business Rates	3,280	3,424	2,208	2,271	2,335
Lower Tier Services Grant	691	1,473			
Rural Services Delivery Grant	632	632			
New Homes Bonus	2,093	810			
Services Grant	0	129			
Negative Revenue Support Grant	0	0	(1,595)	(1,635)	(1,666)
Damping	0	0	3,873	2,945	1,985
Total Government Funding Forecast January 2022	6,696	6,468	4,486	3,581	2,654
Potential Funding Cut		228	1,982	905	927
October 2021 MTFS Forecast Funding Cut	N/A	282	3,046	798	829
Change	0	(54)	(1,064)	107	98

2.6. Over the life of the MTFS, the forecast of Government funding has improved by £913,000. However, the forecast for period 2023/24 to 2025/26 needs to be treated with caution as the

Government has not provided any indicative funding figures at an individual local authority level.

Estimated Income from Business Rates Retention Scheme 2022/23

- 2.7. A key element of funding from the Government comes from retained business rates. The MTFS assumes the Council will be compensated (through section 31 revenue grant) for any negative impact upon business rates income relating to any national announcements on discounts or reliefs to businesses. An example of this is the Covid-19 Additional Relief Fund (CARF) which was announced as part of the Provisional Local Government Settlement. This fund will provide business rate relief to businesses but will not impact the value of Business Rates retained by the Council as the Council will be compensated by a cash grant.
- 2.8. Changes to the Business Rates Retention Scheme were due to come into effect from April 2022. As stated in 2.3.8, this change will now take place in April 2023. The MTFS reflects forecast income from the revised scheme using advice from Pixel Financial Management who are providing expert advice to support local authorities and national bodies such as Sparse and the Local Government Association.

The Gloucestershire Business Rates Pool

- 2.9. 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 within the area of the Local Enterprise Partnership. Details of past performance of the Business Rates Pool is included in the Medium Term Financial Strategy at **Annex A**.
- 2.10. Any windfall gain associated with the Business Rates Pool in 2021/22 and 2022/23 will be allocated to the Council Priorities Fund.
- 2.11. 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.
- 2.12. 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.
- 2.13. At the time of writing this report, the business rate estimates for 2022/23 are being prepared. The 2022/23 estimate includes the forecast Collection Fund balance for 2021/22. This report assumes no change to the forecast reported to Cabinet in October 2021 of £3,424,000. An update will be provided by the Deputy Chief Executive at the meeting.

Estimated Council Tax Base 2022/23 and forecast Collection Fund balance for 2021/22

- 2.14. Each year the Council estimates the size of the Council Taxbase. The Taxbase is calculated as the number of dwellings in the District equivalent to “Band D” Council Tax properties. For example, a Band H property pays twice the amount of Council Tax as a Band D property. In Taxbase terms, this property is worth 2 Band D properties. The Taxbase is reduced to allow for the cost of the Local Council Tax Support Scheme and other exemptions and discounts. The Taxbase is increased for empty properties which incur a premium.
- 2.15. The draft 2022/23 budget assumed a Taxbase of 42,350.3. The detailed calculation of the Taxbase was carried out in October 2021. The result was a Taxbase of 42,192.9. The lower

Taxbase reflects an increase in the number of single person households (where an occupier is entitled to a discount of 25%), an increase in the impact of Local Council Tax Support payable as a result of the forecast economic conditions in 2022/23 and promotion of the support available to low income households in the District. In addition, growth in housing supply has been slower than previously expected. This has resulted in a reduction of income from Council Tax of £22,655.

- 2.16. The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax, including proposed limits. The principles are subject to approval by the House of Commons. From 2013 onwards, any Council that wishes to raise its Council Tax above the limit that applies to it will have to hold a referendum.
- 2.17. For this Council, the Government is proposing a maximum Council Tax increase of 2% or £5 for 2022/23, whichever is the higher. The budget for 2022/23 proposes a Council Tax increase of £5. The Collection Fund is the account where Council Tax income is recorded. This income is then paid out to the “precept” authorities, i.e. Gloucestershire County Council, Gloucestershire Police and Crime Commissioner, this Council and those Town and Parish Councils which have requested a precept for the year.
- 2.18. Each year the Council forecasts whether its collection of Council Tax 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.
- 2.19. Where this Council forecasts a surplus on the Collection Fund, the surplus is paid out in the following financial year to the County Council, Police and Crime Commissioner and the District Council in proportion to their respective level of precept for the financial year. Similarly, where the Council forecasts a deficit, the deficit is recovered proportionately from the three major preceptors in the following financial year. Collection Fund surplus or deficit is not passed on to the Town and Parish Councils but is shared proportionately by the three major preceptors.
- 2.20. For 2021/22, the forecast Collection Fund balance is neutral (£0) with the income to the Collection Fund matching the value of the precepts paid out. The Government provided grant funding in recognition of the difficulty in collecting Council Tax in 2020/21 as a result of the Covid-19 pandemic. The budget for 2021/22 included an estimated grant of £96,000 to be applied at £32,000 across the three financial years from 2021/22 to 2023/24. The actual grant received was higher than estimated at £132,000. This means that the grant available for funding revenue in 2022/23 and 2023/24 has been increased to by £18,000 to £50,000 for the next two financial years.
- 2.21. In January 2022, Cabinet approved a change to the Council Tax Exemptions Policy. The revised policy is expected to increase Council Tax income to the Council by £35,000.
- 2.22. The draft 2022/23 budget assumed Council Tax income of £6,180,424. This was based upon an estimated Tax Base of 42,350.3, a £5 increase to Band D Council Tax, a Collection Fund surplus of £53,000 and application of £31,941 of Government grant to compensate for the impact of Covid-19. Since October, the following changes have impacted upon Council Tax income for 2022/23:

Changes to Council Tax income 2022/23	
Draft Budget October 2021	£6,180,424
Formal Council Taxbase Calculation	(£22,655)
Collection Fund Deficit, net of Government grant,	(53,000)
Council Tax Exemption Policy Change	£35,000
Additional Government Grant for impact of Covid-19 on collection in 2020/21	£18,000
Revised Income from Council Tax	£6,157,769
Reduction in Council Tax income	£22,655

2.23. Since the draft budget in October 2021, income from Council Tax related funding has reduced by £22,655.

Budget changes since draft Budget proposals in October 2021

2.24. In November 2021, HM Treasury published a comparison of independent inflation forecast for the UK economy. Over the medium-term inflation is forecast as follows:

	2022	2023	2024	2025
	%	%	%	%
Consumer Price Inflation	4.0	2.6	2.5	2.3
Retail Price Inflation	5.8	4.1	3.7	3.5

2.25. The MTFS considered by Cabinet in October 2021, included provision for inflation of 2.0% in each year of the MTFS. Given the forecast above, the MTFS has been updated to include pay inflation at 2.5% over the life of the MTFS. There is a risk that pay award inflation in 2022/23 could be higher than 2.5% and this has been considered in the Chief Finance Officers risk assessment of the 2022/23 budget proposals. The change in this assumption has increased the Council's budget as follows:

	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000

Impact of increasing inflation provision	332	117	116	114
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- 2.26.** The contract sum payable to Ubico has been reviewed using a zero based accounting basis. The impact of inflation on the Ubico contract sum is £355,000. This is an increase of £140,000 on the inflationary provision included within the MTFs in October 2021. The additional growth relates to the provision for a 2.5% pay award, additional costs of the vehicle driver market forces supplement and increased National Insurance contributions.
- 2.27.** Households in the District are continuing to present high levels of garden waste and recycle. In order to collect this waste Ubico needs to continue to operate additional collection rounds. The cost of these additional rounds is £360,000 per annum. As part of the Environmental Services Improvement Programme, the Commissioning Team are working with Ubico to deliver services more efficiently and to reduce the cost of the service. For 2022/23, funding for the additional rounds has been provided through the Council Priorities Fund earmarked reserve. To avoid this additional cost becoming part of the annual revenue budget changes will have to be made to the way the waste and recycling service operates. These changes may include cross-border working or collecting waste and recycle in a different way.
- 2.28.** The Contract sum payable to Publica has been reviewed. The impact of inflation on the Publica contract sum is £352,000. The inflation provision has increased by £107,000 since the October MTFs update to reflect the potential of a 2.5% pay award rather than a 2% pay award.
- 2.29.** Provision for inflationary impact upon Council employee costs, Member's allowance and supplies and services budgets has been increased by £85,000.
- 2.30.** In November 2021, the Council completed the procurement process for its insurance arrangements. Officers worked hard to minimise the impact of challenging market conditions on the cost of insurance arrangements for the Council. The revenue budget needs to provide for unavoidable cost pressure of £44,000 for insurance arrangements.
- 2.31.** In December 2021, the Council advanced the procurement process for its gas and electricity supply broker, in the expectation of completion in January 2022. Market conditions are extremely challenging and the cost of these utilities is expected to increase by £7,000. The Council is maintaining its current practice of purchasing electricity generated from renewable sources through the use of traceable Renewable Energy Guarantees of Origin (REGOs). This policy has minimal impact on the cost of electricity, but means that the Council use of electricity is not at the expense of the environment.
- 2.32.** A review of business rates payable against budgetary provision has identified that the Council can reduce provision for the cost of Business Rates payable on Council property assets by £13,000.
- 2.33.** Budget monitoring in 2021/22 has identified that the budget for discretionary pension fund contributions to the Gloucestershire Local Government Pension Scheme can be reduced by £110,000.
- 2.34.** The budget for the cost of recycling materials processing costs was increased in 2021/22 to reflect the impact of the Covid-19 pandemic on the volume of recycle presented by households. The actual cost in 2021/22 indicates that this budget increase was overly

pessimistic. It is proposed that the budget is reduced by £78,000 in 2022/23 to reflect current market conditions and material volumes.

- 2.35.** The Council's lease arrangement for coach parking at Bourton-on-the-Water village has now ended. A saving of £22,000 can now be recognised in the revenue budget.
- 2.36.** In October 2021, the draft budget for 2022/23 include a provision for a 10% reduction in demand for car parking in the District, an income loss of £250,000. Experience in September, October and November 2021 has seen demand at 85%; 5% lower than assumed in the draft budget. It is proposed therefore to increase the provision for reduced income from car parking to £400,000. The assumption that demand will recover back to the level experienced prior to the Covid-19 pandemic over the next two years has been maintained.
- 2.37.** Rental income from a property owned by the Council in Dyer Street in Cirencester has previously been saved in to an earmarked revenue reserve to be used to fund repairs required to the property. In November 2021, Cabinet has approved use of the reserve for roof repair works on the property. From 2022/23, the net rental income of £130,000 can now be recognised in the Revenue Budget. Rental income from other commercial properties has also increased by £11,000. In total, the budget for investment property rental income in 2022/23 is increased by £141,000.
- 2.38.** In July 2021, Council approved a loan arrangement with Cottsway Housing Association Ltd. As part of a review of the Capital Programme, it is possible to finance the loan through the use of Capital Receipts. This enables the interest payable to the Council on the loan of £60,000 to be included within the revenue budget for 2022/23.
- 2.39.** The Council's contract with its leisure services provider includes an increase to the Management Fee payable to the Council of £26,000.
- 2.40.** The Council's leisure contract provides for rental income generated at the Cirencester Leisure Centre to be shared between the contractor and the Council. Additional income of £12,000 from the lease of commercial space can now be recognised in the revenue budget.
- 2.41.** The draft budget included savings of £795,000. A review of the savings programme has identified an increase of £27,000. Further information on the plans to deliver these savings is set out at 2.45 to 2.48.

Capital Programme

- 2.42.** The Capital Programme has been reviewed to include new investments agreed by the Council since the draft budget proposals in October 2021 and to reflect revisions to the financial year in which investments are expected to take place. The updated Capital Programme is included within the Capital Strategy at **Annex B**.
- 2.43.** The 2021/22 Capital Programme includes projects of £499,000 which are planned to be financed through borrowing. The Council is required to make a Minimum Revenue Provision (MRP) for the eventual repayment of borrowing. The cost of MRP and interest on borrowing undertaken in 2021/22 requires an increase to the revenue budget of £136,000.
- 2.44.** The changes to the draft revenue budget for 2022/23 are set out below:

2022/23 Revenue Budget	Income Change £000	Expenditure Change £000	Total £000
Increased Government funding – Provisional Local Government Settlement	(54)		(54)
Reduced Council Tax income	23		23
Increased provision for inflation		332	332
Increase in cost of insurance		44	44
Increase in cost of gas and electric utilities		7	7
Reduced cost of Business Rates on Council property assets		(13)	(13)
Realignment of the budget for Discretionary Pension Fund contributions		(110)	(110)
End of lease of coach park at Bourton on the Water		(22)	(22)
Reduced income from car parks linked to reduced demand	150		150
Commercial property income	(141)		(141)
Cottsway Loan Interest	(60)		(60)
Recyclate processing costs		(78)	(78)
Leisure contract Management Fee increase	(26)		(26)
Lease income Cirencester Leisure Centre	(12)		(12)
Increase to savings	(27)		(27)
Capital Financing – MRP and Interest		136	136

2022/23 Revenue Budget	Income Change £000	Expenditure Change £000	Total £000
Changes to 2022/23 Budget since Oct 21	(147)	296	149
Revenue budget (surplus)/deficit October 21			(180)
Revised budget (surplus)/deficit			(31)

Balancing the Revenue Budget

- 2.45. The MTFs has been updated in light of the changes to the revenue budget and capital programme set out in this report. In order to balance the Council's revenue budget over the medium term, the Council will need to increase income or reduce the cost of service delivery. The savings required to balance the revenue budget and the plans for delivering these savings are set out in the table below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Savings required to balance revenue budget	822	3,824	2,062	2,160
Plans to deliver budget savings				
Award based Government Funding outside of Fairer Funding Review	0	900	0	0
Environmental Services Improvement Programme	145	250	200	400
Policy Change				
Changes to car park charges and savings from move to cashless car parking fee collection	323	0	0	0
Garden waste collection charges – move to full cost recovery	264	0	100	0
Town and Parish election cost recovery	5	0	6	3

Total Policy Change	592	0	106	3
Recovery Investment Strategy				
Cottsway Housing Association Loan Interest	60	0	0	0
Investments related to addressing the Climate Change Emergency	0	2,000	1,300	800
Economic Development and use of Council assets to provide property lease income	0	600	300	600
Savings from service reviews within Publica	25	74	156	357
Total Recovery Investment Strategy	85	2,674	1,756	1,757
Total Plans to deliver budget savings	822	3,824	2,062	2,160

2.46. Following Council's approval of the MTFs and 2022/23 budget, the Council's Environmental Services Improvement Programme and the Recovery Investment Strategy will be updated to reflect the revised targets.

2.47. In order to deliver the additional income through the Recovery Investment Strategy, the Council needs to provide sufficient capital funding. The Council's Capital Programme and Capital Strategy has been updated to include £50 million for investment to support the Council's response to its Climate Change Emergency declaration and £25 million to invest in the provision of physical assets to enable economic development which will provide a lease income to the Council. The capital funding is profiled over the next three financial years as set out below:

Recovery Investment Strategy Capital	2022/23	2023/24	2024/25
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	£million	£million	£million
Investments related to addressing climate change emergency	25	15	10
Investments for economic development and use of Council assets	10	5	10
Total	35	20	20

- 2.48. The impact of the Minimum Revenue Provision for repayment of the borrowing and the interest charges are included in the MTFS and revenue budget proposals for 2022/23.

Revenue Budget proposals 2022/23 – Fees and Charges

- 2.49. The Council plans to continue with its budget resolution from February 2020 to increase garden waste service fees to make the service cost neutral. For 2022/23, this means implementing an increase to £47 for each bin licence. Demand remains high for this service and the overall revenue benefit from increased clients and moving the fee to a full cost recovery basis is expected to be £264,000.
- 2.50. On 10 January 2022, Cabinet approved changes to car park fees and charges, including charging for the period between 3 PM and 6 PM across the District. These changes are estimated to increase income to the Council by £300,000. In line with the Council's policy of reviewing car park tariffs and permit fees for inflation every two years, an inflationary increase has also been applied to car park tariffs and permit fees. This is expected to increase income by £100,000.

Impact upon General Fund Balance

- 2.51. In October 2021, Cabinet considered the draft 2022/23 budget which forecast a budget surplus of £180,000. Since October 2021, changes to the 2022/23 budget and Government funding, set out in the Table at 2.44 have changed that position to a surplus of £31,175.
- 2.52. Full details of the impact of the Council's budget proposals upon General Fund Balance, revenue and capital reserves are set out in **Annex A**.

Capital Strategy, Investment Strategy and Treasury Management Strategy

- 2.53. Details of the proposed Capital Programme for the period 2022/23 to 2025/26 are set out in the Council's Capital, Investment and Treasury Management Strategies at **Annex B, C and D**. The Capital Programme has been reviewed to include new investments agreed by the Council since the draft budget proposals in October 2021 and to reflect revisions to the financial year in which investments are expected to take place. The funding available to support the Recovery Investment Strategy has also been updated in line with the information in the table at 2.47.

- 2.54. In December 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) revised the Prudential Code and the Treasury Management Code of Practice. These changes to the Code came in effect from 20 December 2021. CIPFA particularly highlights that the requirement that *“local authorities must not borrow to invest primarily for financial return”* applies with immediate effect. Full compliance with the changes to reporting requirements is not required until 2023/24. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. There are also various tweaks to the capital Prudential Indicators. The Audit Committee received a report on the changes to the Codes at its meeting on 27 January 2022.

Opportunity for Community Investment in Climate Change

- 2.55. In July 2021 the Council committed to issue a Local Climate Bond using the Community Municipal Investment (“CMI”) model. Officers have been working in partnership with an experience partner, Abundance, on proposals for the Council’s first CMI issue. Abundance has managed similar issues in Swindon, Leeds, West Berkshire, Warrington and Islington councils.
- 2.56. The draft Treasury Management Strategy proposes that the Council issues £1 million of Local Climate Bonds with an indicative interest rate of 1.18% for five years. The £1 million may be offered to the community for investment as a one-off opportunity or can be made available in phases, for example two issues of £500,000 each. The Council will pay Abundance an arrangement fee of £2,500 and an annual fee of £500 per annum. The total fees payable to Abundance over the five years are £5,000, these fees will be charged to the revenue account at £1,000 per annum. The £1,000 cost of raising finance through the Local Climate Bond will be offset by paying a lower interest rate than the rate available through the PWLB Certainty Rate (currently 1.88%).
- 2.57. The illustrative interest rate of 1.18% is currently considered to be attractive to investors as it is higher than the interest rate available on cash deposits and returns on gilts; for example, a three year National Savings and Investment Green Savings Bond is currently paying 0.65%. It is proposed that the final terms of the CMI, including the interest rate offered and the number and timing of investment phases is delegated to the Deputy Chief Executive in consultation with the Deputy Leader and Cabinet Member for Finance.

Review of Earmarked Reserves

- 2.58. The proposed use of the Council’s Earmarked Reserves was set out in the Cabinet report in October 2021. Since then Cabinet has approved the use of £12,000 to transfer the car park enforcement service from the current service provided to Publica to be managed as an in-house service. In addition £13,000 has been approved for commissioning feasibility work on options for roof insulation for the Trinity Road offices.
- 2.59. The Council holds a Council Priorities Fund revenue reserve. This funding is available for investment in initiatives which support delivery against the Council’s priorities. Details of commitments against the Council Priorities Fund is included in the Medium Term Financial Strategy at **Annex A**.

- 2.60. The Council Priorities Fund is now largely allocated and new initiatives will require Members to review existing commitments against earmarked reserves and to reallocate funds accordingly.

Local Council Tax Support Scheme

- 2.61. Each year the Council has to decide whether to make changes to its Council Tax support scheme for working age customers. The current scheme was adopted in 2020/2021 with the assistance of Stroud and Cotswold District Citizens Advice Bureau, which delivered an increase in support to the most vulnerable residents within the District.
- 2.62. Keeping the Council Tax support scheme unchanged for 2022/2023 will continue to support the Council's key priority to support the health and wellbeing of its residents. The only changes required to the scheme are the annual uplift of allowances (which provides an increase in financial support) and non-dependent deductions. Non-dependent deductions reduce support and are based on the number of adults living within the household who are financially independent from the Council Taxpayer.
- 2.63. The annual uplift to allowances to non-dependent deductions will be set by the Government and it is proposed that Council delegates authority to the Deputy Chief Executive to approve the respective changes to the Council's Local Council Tax Support scheme for 2022/23.

Pay Policy Statement

- 2.64. Section 38 of the Localism Act requires local authorities to produce a Pay Policy Statement. The Statement includes the authority's policy on pay dispersion. Pay dispersion is the relationship between remuneration of Chief Officers and the median paid officer.
- 2.65. The Pay Policy attached at **Annex 'F'** includes the following key requirements of the Localism Act 2011:
- A. policy on pay for each of the 'in scope' Officers;
 - B. policy on the relationship between Chief Officers and other Officers;
 - C. policy on other aspects of remuneration, namely recruitment, increases in remuneration, performance related pay and bonuses, termination payments, and transparency.

3. FINANCIAL IMPLICATIONS

- 3.1. The Council's Medium Term Financial Strategy has been updated to reflect the proposals set out in this report and is attached at **Annex A**.
- 3.2. A summary of the impact of the budget proposals for 2022/23 is set out below:

Summary of changes to the Council's Net Budget Requirement	£
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Original Net Budget Requirement 2021/22 (as approved by Council in February 2021)	12,557,015
Inflationary Pressure – expenditure budgets	837,500
Unavoidable budget pressures, investment in Priorities expenditure and accounting changes (net decrease)	120,945
Inflation on fees and charges income	(100,000)
Unavoidable budget pressures – income	1,758
Savings	(822,000)
Net Budget Requirement 2022/23	12,595,218

3.3. The Council’s net budget requirement will be funded as follows:

	£	£
Net Budget Requirement 2022/23		12,595,218
Net Business Rate Income	3,424,000	
Council Tax payers @ £143.93 Band D	6,107,828	
Government Grants - Council Tax impact of Covid-19	50,000	
New Homes Bonus	810,236	
Rural Services Delivery Grant	632,183	

	£	£
Lower Tier Services Grant	1,472,660	
Services Grant	129,486	
Total Funding		12,626,393
Budget Surplus		31,175

3.4. The budget proposals assume a budget surplus of £31,175. This surplus will be contributed to the General Fund Balance.

3.5. The detailed revenue estimates for the Council are attached at **Annex E**.

Chief Financial Officer Report

3.6. Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year.

Robustness of Budget Estimates

3.7. The budget report for 2021/22 referred to risks to the level of funding provided by Government in 2022/23 as a result of changes from the Fairer Funding Review and changes to the Business Rates Retention System. For 2022/23, the Government announced a roll-forward of 2021/22 funding arrangements. While these risks have not materialised for the 2022/23 financial year, they continue to represent a risk to the Council from 2023/24 onwards. In his statement on the Provisional Local Government Statement, the Secretary of State for Levelling Up, Housing and Communities referred to future changes to Local Government funding as follows:

“Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013-14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes.

As part of this we will look at options to support local authorities through transitional protection. Councils should note the one-off 2022/23 Services Grant provided in the Local Government Finance Settlement in 2022/23 will be excluded from potential transitional protections.”

3.8. The Medium Term Financial Strategy illustrates the potential loss of Government funding from Business Rates Retention, New Homes Bonus, Rural Services Delivery Grant, Lower Tier

Services Grant and the new Services Grant. For 2022/23 income from these funding sources is £6.469 million. The Council has used information published by the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) and advice from consultants to estimate the impact of these changes on this Council. By 2025/26, this income could reduce by around £4 million.

- 3.9.** The Medium Term Financial Strategy has been updated to include additional income generation or savings required to address this loss of funding. A Recovery Investment Strategy was approved by Council in September 2020 which will set out options for delivering additional income or generating further savings. In response to the use of external borrowing by some authorities to fund investment in commercial assets such as investment properties, DLUHC and CIPFA have tightened up regulation on this practice. This tightening up has included removing access to Public Works Loans Board lending for commercial activity. Following Council approval of the 2022/23 budget and MTFs, the Council's Recovery Investment Strategy needs to be updated to reflect the revised income generation requirement and to ensure that the proposed investments comply with the new regulations.
- 3.10.** The Council's budget estimates have been prepared by appropriately qualified and experienced staff in consultation with management. Budgets have been subject to scrutiny through the Council's Overview and Scrutiny Committee. The Capital Strategy, Investment Strategy and Treasury Management Strategy have been subject to scrutiny through the Council's Audit Committee.
- 3.11.** The budget for 2022/23 includes a savings target of £822,000. The Council used the budget consultation process in October and November 2021 to seek feedback on various options to change car parking tariffs. In January 2022, Cabinet considered the consultation feedback and approved changes including removing the subsidy for car parking between 3 PM and 6 PM across the District. This decision is estimated to increase income from car parking by £300,000 each year. Additional income of £264,000 will also be generated from the existing Council policy of setting the charges for the garden waste service on a full cost recovery basis. Income of £60,000 per annum will be generated through interest payments on loan to Cottsway Housing Association which was approved by Council in July 2021. The balance of savings of £25,000 will be delivered through in-year savings from the Publica transformation and digital services programmes and through the Environmental Services Improvement Programme which is run in partnership between the Council and Ubico. If Council approves the budget proposals set out in this report, I am confident that the savings target of £822,000 is achievable.
- 3.12.** In December 2021, the Bank of England base rate increased from 0.1% to 0.25%. With inflation in November 2021 running at 4.0% (CPI) and 5.8% (RPI), The Council's treasury advisors are forecasting that the Bank of England Base Rate may increase to 0.5% throughout 2022/23. The budget for 2022/23 reflects the increase in investment income as a result of increased returns on highly liquid assets but also reflects lower cash balances as a result of investment in services. The net impact is neutral upon the investment income budget. Since 2018/19, the Council has diversified £12.5 million of its cash deposits into a range of pooled funds with the aim of increasing investment returns whilst satisfying the Council's requirements for security and liquidity in line with the Treasury Management Strategy. This has helped to protect the Council from the significant impact of extremely low interest rates.

Income from the diversified investment portfolio is expected to generate a return of £422,312. Further information is available in the Council's Treasury Management Strategy.

- 3.13.** The Council's capital investment proposals are set out in this report and in the Capital Strategy. The Council has included £75 million of capital investment to reflect the requirement to both invest to deliver against the Council Priorities and Corporate Plan, approved in September 2020, and to generate additional income to replace anticipated reductions to Government funding. The Council will need to borrow to fund its capital programme. The revenue implications of the proposed borrowing, provision for repayment of debt and interest payments, is included in the Medium Term Financial Strategy so that Members are aware of the longer term financial implications of this level of investment. The Medium Term Financial Strategy, Capital Strategy, Investment Strategy and Treasury Management Strategy are all inter-related and provide the Council with a view of the affordability and proportionality of its spending plans.
- 3.14.** The Council has a robust Risk Management Strategy. Significant financial risks have already been identified and are included within the Medium Term Financial Strategy. A Corporate Risk assessment covering a range of financial and non-financial risks has been carried out and the results form part of the Council's performance management systems and processes. The Corporate Risk register is reviewed regularly by the Council's Audit Committee and Cabinet.
- 3.15.** The major risk looking forward to 2022/23 is in respect of further waves of the Covid-19 pandemic, which will impact upon income from fees and charges (especially car parking) and cost of service provision, especially waste and recycling service costs. The proposed budget provides for a £400,000 impact as a result of lower demand for car parking and £360,000 for additional recycling and garden waste collection rounds.
- 3.16.** The 2022/23 budget proposals include provision for pay award and supplies and services inflation of 2.5%. With inflation in November 2021 running at 4.0% (CPI) and 5.8% (RPI), there is likely to be pressure on the Local Government Employers to agree to a national pay award which exceeds the provision in the proposed 2022/23 budget. In this case, the Council would need to use some of its General Fund Balance to fund the additional employment costs which will arise from its own directly employed staff and the contracts for service provision with Publica and Ubico. This is considered within the section of this report on adequacy of the Council's Reserves.
- 3.17.** The Government has provided for district councils to increase Council Tax by up to 2% or £5 (whichever is the higher) for 2022/23 without a requirement to hold a referendum. This report proposes the maximum council tax increase of £5 for a Band D property in 2022/23 which will support ongoing financial sustainability.
- 3.18.** **I can confirm that the budget estimates as presented are both prudent and robust.**

Adequacy of the Council's Reserves

- 3.19.** The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:
- A. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
 - B. A contingency to cushion the impact of unexpected events or emergencies;

C. A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.

3.20. The Council held general fund revenue balances of £0.896 million on 1 April 2021. The budget for 2021/22 anticipated an operating budget surplus and contribution to reserves of £6,000. Financial monitoring and forecasting during the year indicates that the contribution to the General Fund could be significantly higher at around £170,000. In addition, the General Fund will increase by £1,634,000 as the 2022/23 past service deficit contribution to the Gloucestershire Local Government Pension Scheme was paid during 2021/22 as part of a lump sum contribution which saved £184,000 per annum. The 2021/22 budget therefore forecasts a General Fund Balance at the end of the year of £2,536,000. If forecasting proves to be accurate this could increase to £2,700,000 at the end of the financial year.

3.21. The 2021/22 budget provided for the impact of the Covid-19 pandemic on the Council's income and expenditure. As stated in 3.20, budget monitoring and forecasting indicates that this was a prudent provision. The 2022/23 budget continues to provide for the ongoing impact of the pandemic with a provision for reduced income from car parking of £400,000 and additional costs for the recycling and garden waste service of £360,000.

3.22. The 2021/22 revenue budget expects the General Fund Balance at 31 March 2022 to be £2,536,000. The 2021/22 lump sum payment to the LGPS, provides capacity in the revenue budget to top up the General Fund Balance by £1.634 million in 2022/23, which will increase the General Fund Balance to over £4.1 million as at 31 March 2023.

3.23. I have assessed the risks to the budget and have determined that the minimum reserves position should be £1.715 million under the current economic outlook with significant risks remaining to revenue streams from the Covid-19 pandemic. £1.715 million is the equivalent of 13.5% of the net cost of Council services. The unbudgeted financial risks are assessed as follows:

A.	Litigation costs (e.g. planning appeals)	£500,000
B.	Business rate pool risk - reflects no pool gain or loss	£400,000
C.	Pay award inflation at 3.5% (extra 1% over 2022/23 provision)	£250,000
D.	Unforeseen budget pressures (in excess of £360,000 in budget)	£200,000
E.	Income from fees and charges (lower by more than £400,000 provided for in revenue budget)	£200,000
E.	Inability to deliver in-year savings from service reviews, digital change or Environmental Services Improvement Programme	£140,000
F.	Emergency planning	£25,000

3.24. The Council receives quarterly financial performance information which highlights any unfunded financial liabilities which arise during the year and require additional funding. The Council holds sufficient General Fund Working Balance to fund this level of risk. The annual

update of the Medium Term Financial Strategy enables the Council to incorporate any of these emerging risks within the Council's financial plans.

3.25. The Medium Term Financial Strategy forecasts the level of General Fund Reserves as follows:

	31 March 2023	31 March 2024	31 March 2025	31 March 2026
General Fund	4,202	4,202	4,202	4,202

3.26. The Council has incorporated savings targets into the Medium Term Financial Strategy which will enable the Council to maintain a level of reserve above the minimum position of £1.715 million. While the General Fund can manage a delay to the delivery of some of the £3.824 million of savings required in 2023/24, a revised Recovery Investment Strategy with an action plan needs to be developed over the next few months so that the Council is able to take decisions and implement the changes required to deliver against the income generation or service savings targets in a timely manner.

3.27. In addition to the General Fund balance, the Council holds various earmarked reserves which are held to fund costs associated with transformational change or smooth the impact of cyclical cost to the Council Tax payer. These funds will enable the Council to deliver its medium and longer term savings plans.

3.28. I can confirm that over the period of the Medium Term Financial Strategy, the level of reserves is currently adequate.

4. LEGAL IMPLICATIONS

4.1. None directly as a result of this report.

5. RISK ASSESSMENT

5.1. Details of national and local risk which may impact upon the financial sustainability of the Council are set out within the Medium Term Financial Strategy at **Annex A**.

6. ALTERNATIVE OPTIONS

6.1. On 1 February 2022, the Overview and Scrutiny Committee considered these budget proposals and were encouraged to provide feedback to the Cabinet, which may include alternative options. The Audit Committee considered the Capital, Investment and Treasury Management Strategies on 27 January 2022.

6.2. Cabinet will consider this report together with feedback from the Overview and Scrutiny Committee and the Audit Committee and will determine the final budget proposals to be presented to Council for consideration.