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| Council name | COTSWOLD DISTRICT COUNCIL |
| Name and date of Committee | 7 NOVEMBER 2022 |
| Report Number | AGENDA ITEM 10b |
| Subject | DRAFT BUDGET PROPOSALS 2023-24 AND LATEST MTFS FORECASTS |
| Wards affected | All |
| Accountable member | Cllr Mike Every, Deputy Leader and Cabinet Member for Finance Email: Mike.Every@cotswold.gov.uk |
| Accountable officer | David Stanley, Deputy Chief Executive Officer Email: David.Stanley@cotswold.gov.uk |
| Summary/Purpose | To present to Cabinet for approval the Council's draft budget proposals for 2023/24 together with a refresh of the Medium Term Financial Strategy (MTFS) forecasts. These proposals will form the basis of public consultation starting in November 2022. |
| Annexes | Annex A – MTFS Revenue forecasts 2023/24 to 2026/27 Annex B – Revised MTFS capital programme 2023/24 to 2026/27 Annex C – Reserves forecasts |
| Recommendation(s) | That Cabinet resolves to: <i>(a) Approve the draft 2023/24 revenue budget for consultation.</i> <i>(b) Note the potential use of general fund and earmarked reserves to balance the budget for 2023/24</i> |
| Corporate priorities | <ul style="list-style-type: none">• Delivering our services to the highest standards• Responding to the challenges presented by the climate crisis• Providing good quality social rented homes• Presenting a Local Plan that's green to the core• Helping residents and communities access the support they need for good health and wellbeing• Supporting businesses to grow in a green, sustainable manner, and to provide high value jobs |
| Key Decision | YES |



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| Exempt | NO |
| Consultees/ Consultation | The draft budget proposals will be subject to public consultation through November and December 2022. Feedback from the consultation will be presented to Cabinet in January 2023. |

I. BACKGROUND

- I.1 The Council approved its Medium Term Financial Strategy (MTFS) and set its budget for the 2022/23 financial year on 16 February 2022. This Report provides an update to the MTFS forecast position and sets out the Council's draft budget proposals for the 2023/24 financial year.
- I.2 Under the Local Government Finance Act 1992 (as amended) the Council is required by law to set a balanced budget for the following financial year. 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.
- I.3 At this stage, the draft proposals for 2023/24 and the MTFS forecasts are merely an indication of the potential revenue budget position as this year, more than ever, it is difficult to predict the levels of government funding which will be allocated to local government.
- I.4 In formulating draft budget proposals, there will always be a degree of estimation of likely costs and income and necessarily certain assumptions are made which may, or may not, prove to be accurate. The financial position will continue to be monitored with the estimates refreshed over the next few months. These will be finalised once the provisional Local Government Settlement is announced which is expected in mid-December following the Spending Review scheduled for 17 November 2022.
- I.5 Following consideration by the Cabinet, the draft budget proposals will be subject to consultation with residents, businesses, community organisations and Town and Parish Councils. Feedback from the consultation will be considered by the Cabinet on 9 January 2023 and will be used to inform the final budget proposals to be considered by Cabinet and Council in February 2023.

Context

- I.6 Setting the Council's annual revenue budget is a challenging process but, never more so, than for 2023/24 given the unprecedented global and UK economic crisis and the impact that this has had on inflation and the Council's costs.



- 1.7** Although general inflation is currently 10.1% the Council's finances have been hit hard by the significantly higher inflation on certain costs such as fuel and relief HGV driver costs, incurred in delivering its waste collection services. Whilst the Council is investing in measures to reduce its energy consumption, the significant increase in energy costs has also created further budgetary pressures.
- 1.8** Although the Council has remained largely debt free in 2022/23, this has been predominantly due to the availability of capital receipts to fund capital investment. As with all reserves, the capital receipts reserve is a finite funding pot but there will be an ongoing requirement to undertake capital investment in the assets that the Council owns and its core operational infrastructure.
- 1.9** During 2022/23, the Council did borrow £0.5m through its climate investment initiative but this was to fund specific capital expenditure on electric vehicle charging points and energy reduction measures.
- 1.10** The refreshed capital programme is discussed in more detail below and officers will be working with the Council's Treasury advisors to ascertain whether there will be a requirement to undertake prudential borrowing during 2023/24 to support the capital programme.
- 1.11** Whilst the draft revenue budget proposals will always include indicative estimates of government funding, the recent turmoil within the government and the impact on the UK economy has made it even more difficult to predict what funds will be made available to the Council within the local government settlement for 2023/24.
- 1.12** Given the current volatility and uncertainty, there will also be a number of key financial risks facing the Council and which underpin the draft budget proposals and this report highlights those risks and what action, if any, the Council can take to mitigate those risks.

2. DRAFT BUDGET PROPOSALS 2023/24

Budget process

- 2.1** The Council maintains a robust approach to its budget setting process to ensure that it can continue to deliver services in a sustainable way within the context of a balanced budget. For 2023/24 an incremental budget approach has been taken to the draft budget proposals. The 2022/23 base budgets have been rolled forward and adjusted for estimates of inflation and other unavoidable cost pressures together with funding changes and potential savings options.



- 2.2 In setting the draft budget and MTFs proposals, modelling has been carried out on indicative levels of central government funding, Council Tax and other income as well as levels of inflation and other cost pressures such as the local government pay award and employers pension contributions.
- 2.3 Whilst there is still more to be done, work has been undertaken on identifying and challenging savings proposals to ensure that the Council is efficient as possible but also, once agreed, savings are robust and deliverable.

Draft Revenue Budget 2023/24 – Summary proposals

- 2.4 Set out in the table below is the draft revenue budget position for 2023/24 based on alternative estimates of government funding using a best, mid and worst case scenario approach.

Table 1: - Indicative Revenue Budget gap 2023/24 – alternative government funding scenarios

| | Best | Mid | Worst |
|--|---------------|----------------|----------------|
| | 23/24 | 23/24 | 23/24 |
| | £000s | £000s | £000s |
| Council tax - Band D equivalent | 6,384 | 6,369 | 6,284 |
| Retained business rates | 4,218 | 3,448 | 3,448 |
| Collection fund (deficit)/surplus | | | |
| Grant funding | | | |
| Revenue support grant (inc negative RSG) | 0 | 0 | 0 |
| Rural sparsity delivery grant | 632 | 632 | 632 |
| Lower tier services grant ** | 1,435 | 1,435 | 1,361 |
| Services grant | 129 | 129 | 129 |
| Returned NHB | 0 | 0 | 0 |
| New Homes Bonus* | 385 | 385 | 142 |
| Total grant funding | 2,581 | 2,581 | 2,264 |
| Total Funding | 13,183 | 12,397 | 11,996 |
| Net Budget requirement | 13,950 | 13,950 | 13,950 |
| Budget (deficit)/surplus | (767) | (1,553) | (1,954) |

- 2.5 Explanations for the different scenarios are set out in the funding section below. As can be seen from the table above, with any of the indicative government funding scenarios above, the Council is facing a significant budget gap for 2023/24 ranging from £0.767m as a best case to £1.954m as a worst case. The 'Mid' scenario is seen as the most likely and credible forecast of future funding.



- 2.6 These scenarios also assume that the Council will be permitted to increase Council Tax by 1.99% or £5 for a Band D, whichever is the greater, or that it will be compensated from any government decision to freeze Council Tax increases.
- 2.7 A reconciliation from the 2023/23 net budget requirement of £12.595m to the estimated net budget requirement of £13.950m for 2023/24 is set out in Table 2 below. It can be seen from this that latest forecasts indicate that the Council is facing around **£3m of expenditure pressures** in the costs of running its core services, predominantly arising from the high levels of actual, and forecast, inflation.
- 2.8 Therefore, the budget gap has arisen from the fact that the indicative central government funding estimates will not, with any scenario, compensate the Council for the unavoidable cost pressures it is now facing.
- 2.9 Outside of central government and core funding, the only mechanisms for the Council to generate additional income is through increasing the charges it makes for services it provides (Fees & Charges) and through investment to generate returns.
- 2.10 The current administration has previously consulted on moving to “full cost recovery” where possible for the services it provides and, given the significant increase in the Council’s cost base, a comprehensive review of fees and charges has been undertaken.
- 2.11 The outcomes of this review are currently being analysed and discussed with Cabinet Members but initial indications are that increasing certain fees to move to, or closer to, full cost recovery could generate an additional £0.400m of Fees & Charges income. In its public consultation, the Council will also outline alternative increases to car parking charges. The draft budget proposals currently indicate that an additional **£0.565m of additional Fees & Charges income** could be generated to assist in offsetting the increased costs the Council is facing.
- 2.12 The Council approved a Recovery Investment Strategy (RIS) to invest in initiatives to meet corporate priorities but which would also generate a revenue return on that investment. This would assist in making the Council more financially self-sufficient and remove the reliance on central government funding which is uncertain and not necessarily in line with need. However, the recent significant increases in interest rates and the current UK economic turmoil mean that borrowing to invest on any significant scale would be unwise to undertake in the short to medium term.
- 2.13 There may still be opportunities that arise from time-to-time but these will be considered strictly on a business case basis taking into account any refresh of the budget and MTFs



proposals and the affordability of any borrowing at the time. If approved, any such initiatives will be added to the capital programme in the usual way.

- 2.14** The revenue budget proposals above include £0.133m of additional income for 2023/24 arising from initiatives already approved under the Recovery Investment Strategy.
- 2.15** Whilst the Council is facing unprecedented increases in its expenditure budgets, work has nonetheless been undertaken, working with our key partners, to identify opportunities for cost savings. In the draft revenue budget proposals for 2023/24 **total expenditure savings of £1.002m** have been identified.
- 2.16** At this stage of the annual budget planning cycle, it is assumed that any budget gap will be met from a draw down from usable revenue reserves. However, the Council recognises the need for more savings to reduce the gap on an ongoing basis and work will continue with partners to develop further savings proposals.
- 2.17** This report includes forecasts of the Council's reserves and illustrates that there will be sufficient reserves to enable a **balanced budget to be set for 2023/24** in the event that more time is needed to find the additional savings.
- 2.18** This report also includes estimates of the revenue budget position over the medium term but the projected MTFS financial position from 2024/25 onwards will require more work, ahead of the final proposals presented to Cabinet and Council in February 2023.
- 2.19** The capital programme approved in February 2022 has also been reviewed and the revised programme covering the period 2023/24 to 2026/27 can be found at Annex B.
- 2.20** The revised programme commits the Council to £27.171m of capital investment over the MTFS period and the draft revenue budget, in Table 1 above, includes the capital financing costs of the revised programme where borrowing has been identified as the source of funding.
- 2.21** Table 2 below illustrates how the Council's net budget position has changed from the 2022/23 base budget position but more detailed explanations on these changes and the matters discussed above are set out in the remainder of this report.



Table 2: - Reconciliation of changes from the 2023/23 net budget requirement

| | £000s |
|---|----------------|
| Net budget requirement 2022/23 | 12,595 |
| Core service expenditure increases | |
| Base budget pressures 2022/23 | 1,240 |
| Annual pay award (retained officers) | 35 |
| Member allowances | 13 |
| Contract inflation & growth | 1,051 |
| Other budget pressures | 640 |
| Total service increases | 2,979 |
| (Expenditure savings) | |
| Third party contract savings | (500) |
| Corporate savings | (250) |
| Other expenditure savings | (252) |
| Total service savings | (1,002) |
| Capital Financing increase/(decrease) | 11 |
| Income budget pressures | |
| Investment properties | 65 |
| (Increases in income) | |
| Fees & charges increases/policy changes | (565) |
| Additional income from Recovery Investment Strategy | (133) |
| External grant or other funding | 0 |
| Other income savings | 0 |
| Total income changes | (633) |
| Net budget requirement 2023/24 | 13,950 |

3. FUNDING

- 3.1 The recent mini-budget announcements and subsequent reversals means that there will not be a formal spending review announcement in the autumn as has been the case in recent years. Therefore it is likely that there will only be a one-year Local Government Settlement and not a multi-year settlement. This will mean that financial planning over the MTFS period will remain uncertain and challenging.
- 3.2 There is currently much speculation as to whether the Local Government Settlement will include increased funding to offset the high levels of actual and forecast inflation but, given the recent events and UK economic uncertainty, there is now a widely held view that there will be no significant additional funding.



- 3.3** The Council receives its funding from Council Tax, Business Rates, specific central government grant funding and income it generates through charging for the services it provides (Fees & Charges).

Council Tax

- 3.4** In recent years, local government has been permitted to increase Council Tax by 1.99% or £5 for a Band D property, whichever is the greater, but there has been no indication as to whether this will be the case for 2023/24. For the draft budget it has been assumed that a £5 increase will be permissible or, if the government decides on a Council Tax freeze, that appropriate compensation will be given to local authorities. In the funding scenarios above a modest increase in the Council Tax base has been assumed.

Business Rates

- 3.5** Based on advice from the Council's professional advisors, the current MTFS proposals assume that the Fairer Funding Review (FFR) will be implemented from 2025/26 but this has yet to be confirmed by the current government. As can be seen from the MTFS proposals at Annex A, Cotswold District Council is likely to be a significant loser of funding from the implementation of any such scheme.
- 3.6** Business Rates income is linked to the rateable value of properties (which is reviewed at periodic intervals) multiplied by a number of pence in the £ and this is known as the multiplier. The next Business Rates revaluation is planned to take place on 1 April 2023 and this will result in changes to the rateable values of businesses.
- 3.7** The Valuations Office Agency (VOA) has indicated that data will not be available until later in the year and, therefore, it is unclear at this stage what impact the revaluation will have on business rates in the District.
- 3.8** Under statutory rules the Business Rates multiplier is increased each year by RPI (retail price index). The September 2022 figure for RPI is 12.6% which the government is unlikely to pass on to businesses given the current financial crisis.
- 3.9** In previous years, the government has either capped the increase to business at 2% or frozen the multiplier but compensated local government for this decision. Given the size of the September inflation figure, there is currently uncertainty as to what the government will do in this respect.

New Homes Bonus

- 3.10** One specific grant which is an important source of funding for district Councils is New Homes Bonus. This is a specific grant paid by central government to local councils to incentivise housing growth in their areas. The conditions around the calculation of this grant



has changed over recent years and so the amount receivable has been significantly diminishing (see table 3 below) and there is no guarantee that new homes bonus payments will be payable in any given financial year.

Table 3 – Historic New Homes Bonus Funding

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|-----------------|---------|---------|---------|---------|---------|
| | £m | £m | £m | £m | £m |
| NHB allocations | 3.255 | 3.169 | 2.093 | 0.810 | 0.385* |

*based on CTBI form submitted on 14 October 2022

The government has not yet confirmed whether there will be a further round of New Homes Bonus payments in 2023-24 although sector experts believe that they are likely to continue for at least one further year. The draft budget proposals for 2023/24 are based on the assumption that the government will pay at least two further years of NHB. On information drawn from the latest CTBI form submitted on 14 October 2022, the Council should receive £0.385m.

Scenarios of government funding

- 3.11** The level of Government funding available to the Council for 2022/23 has been modelled on three scenarios.
- 3.12 Scenario 1:** reflects the level retained Business Rates income derived from the financial forecast model provided by Pixel, a cash flat settlement, and Council Tax increase of £5 and a forecast Taxbase increase of 1.75%.
- 3.13 Scenario 2:** reflects the level retained Business Rates income derived from the 2022/23 forecast, a cash flat settlement less impact of the reversal of the 1.25% National Insurance contribution increase, and Council Tax increase of £5 and a forecast Taxbase increase of 1.50%. This is seen as the most likely and credible forecast at the time of writing this report.
- 3.14 Scenario 3:** reflects the level retained Business Rates income derived from the 2022/23 forecast, a cash flat settlement less impact of the reversal of the 1.25% National Insurance contribution increase, and Council Tax increase of £5 with no change to the Taxbase forecasts from the 2022/23 MTFs approved in February 2022.



Table 4 – Comparison of Funding

| Funding | 2022/23 | Scenario 1 “Best” 2023/24 | Scenario 2 “Mid” 2023/24 | Scenario 3 “Worst” 2023/24 |
|---|----------------|--|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Total Government Funding | 6,468 | 6,799 | 6,028 | 5,712 |
| Council Tax | 6,073 | 6,384 | 6,369 | 6,284 |
| Overall Funding | 12,541 | 13,183 | 12,397 | 11,996 |
| Increase/(decrease) in Government funding from 2022/23 base | | 331 | (440) | (756) |
| Increase/(decrease) in overall funding from 2022/23 base | | 642 | (144) | (545) |

3.15 The impact of the Fairer Funding Review, changes to Business Rate Retention, levelling up and devolution over the medium term remain uncertain. The Council’s funding advisors are currently modelling for the Fairer Funding Review to be implemented from 2025/26 and estimates of government funding over the MTFs period is included in the table at Annex A.

4. EXPENDITURE

4.1 As highlighted above, the Council is currently facing over £3m of expenditure pressures and these are analysed in the table below:

Table 5 – Estimates of Expenditure Budget Pressures 2023/24

| Description of cost pressure | £'000 |
|--|--------------|
| Base budget pressures 2022/23 | 1,240 |
| Pay award (retained officers only) | 35 |
| Members allowances | 13 |
| Contract inflation (including partner indicative pay awards) | 701 |
| Growth required for post-Covid demand increases | 350 |
| Estimates of contract re-procurement increases | 300 |
| IT Cyber Security measures | 100 |
| Increased election costs | 25 |
| Additional forecast energy costs | 95 |
| Miscellaneous small budget pressures | 120 |
| Total service cost pressures | 2,979 |
| Increased capital financing costs | 11 |
| Total expenditure pressures | 2,990 |



- 4.2** The base budget pressures include the additional costs of the indicative flat cash pay award of £1,925 per employee for 2022/23 over and above the 2.5% included in the approved February budget report. This includes both Publica and Ubico pay awards and altogether results in £0.622m of additional costs although confirmation of acceptance of the pay award by the Unions is awaited. For 2023/24 there is an assumption that there will be a 4% pay award but this is purely an estimate at this stage.
- 4.3** The 2022/23 base budget pressures also include an additional £0.310m of cost pressures in relation to fuel inflation. For 2023/24 there is currently an assumption that adding the £0.310m to the base budget will mean that there will be sufficient funds to contain any movements in fuel prices in 2023/24. However, this assumption will be revisited for the final budget.
- 4.4** Post-Covid there has been a permanent, stepped increase in the volume of recycling and residual waste collected and the Council has been in discussions with its partner Ubico regarding a potential contract variation. The Council is currently working with Ubico to see whether there is scope to mitigate the additional costs by utilising any spare capacity. An indicative figure of £0.350m has been included but it is anticipated that the amount required will reduce for the final budget.

Pension Fund

- 4.5** The Council is required to pay employer contribution rates based on the payroll costs for employees who are members of the Local Government Pension Scheme. Whilst Cotswold District Council has very few retained officers, it is still required to meet the costs of the scheme through its contracts with Publica and Ubico.
- 4.6** Historically, the Council also been required to pay lump sum payments to the Gloucestershire Pension Fund as a result of the Cotswold District Scheme being in an overall deficit position. Every three years, the scheme receives a formal revaluation (known as the Triennial Valuation) and the scheme is due to be revalued as at 31 March 2022.
- 4.7** The results of the Triennial will be available in the next few weeks and the draft budget proposals are currently based on estimates received from the Gloucestershire Pension Fund in July 2022 which will undoubtedly change.

5. OTHER INCOME

Fees & Charges

- 5.1** The Council provides a number of statutory and discretionary services which it is permitted to charge for. For some services, the amount the Council is permitted to charge is fixed



and/or set by government, whilst others it has discretion as to the charge although it is not permitted to make a profit.

- 5.2 As highlighted in the background section above, a comprehensive review of Fees & Charges has been undertaken to understand whether the Council is appropriately recovering its costs in the provision of statutory and discretionary services.
- 5.3 Initial analysis has indicated that there are number of services provided which fall considerably short of full cost recovery. However, it is acknowledged that, in some cases, moving to full cost recovery would require substantial increases in fees and so further analysis and benchmarking is required.
- 5.4 This initial review has indicated that the Council will be able to generate an estimated £0.400m of additional income through increasing fees and charges to full cost recovery.
- 5.5 The budget proposals also include an estimate of £0.165m of additional income from car parking charges and the approach to be taken will be outlined in the budget consultation. The table below provides a high-level analysis of the current proposed increases to Fees & Charges.

Table 6 – High-level Summary of proposed Fees & Charges increases 2023/24

| Fees & Charges increases | £'000 |
|---|--------------|
| Car Parking increases | 165 |
| General fees & charges increase | 225 |
| Garden waste increase | 175 |
| Total Fees & Charge/Income increases | 565 |

- 5.6 A separate Fees & Charges report will be submitted to Cabinet for approval, prior to finalisation of the budget proposals for 2023/24, which will set out in detail the planned increases for all individual fees and charges.

Investment property returns

- 5.7 The Council has a number of investment properties which generate rental income to the Council as landlord. During the course of 2022/23 a number of rent reviews have taken place which have led to a reduction in the proposed rent charged.
- 5.8 Whilst the Council is endeavouring to challenge any reduction in rent, an estimate of a **£65k pressure** from lower rent has been included in the draft proposals in order to be prudent.



6. SAVINGS

6.1 In the two years prior to 2022/23 the Council delivered over £1m of revenue budget savings and had planned to deliver an additional £0.822m of savings from returns generated through the Recovery Investment Strategy (RIS). Two RIS investments totalling just over £2.4m have been approved and/or delivered in 2022/23:

- Purchase of Ridgeway House (used as homelessness accommodation) £1.441m
- Trinity Road Agile working project £0.975m

6.2 It is anticipated that positive returns will flow through in 2023/24 and an indicative net saving of £0.131 million from RIS investments has been included in the draft revenue budget proposals.

6.3 The Council's key partners, Publica and Ubico, have been allocated an efficiency target of £0.250m each. Some plans have already been developed, but further work will be required to confirm that the full £0.500m will be deliverable from 1 April 2023.

Table 6 – Savings identified

| Description of cost pressure | £'000 |
|-------------------------------|--------------|
| Partner contract savings | 500 |
| Fees & Charges | 565 |
| Corporate savings | 250 |
| Miscellaneous service savings | 252 |
| RIS net returns | 133 |
| Total savings | 1,700 |

6.4 As highlighted above, work is ongoing to identify further savings for inclusion in the final budget proposed in February 2023.

7. CAPITAL PROGRAMME

7.1 The February 2022 approved capital programme has been revised in light of more up-to-date information on existing projects, both in terms of costs and likely expenditure profiles, and the latest MTFS capital programme is attached at Annex B. Key investment planned for 2023/24 is:

- Leisure centres £1.2m
- New waste vehicles £1.6m
- Loan to HA for affordable/carbon neutral homes £2.6m
- Improved ICT and planning systems £0.5m
- Regeneration: Strategic property acquisition £4.4m



- 7.2** The total investment required over the MTFS period is estimated to be £27.1m and capital financing cost estimates have been included in the revenue budget proposals for those investments which it is anticipated will be funded through prudential borrowing.
- 7.3** As highlighted above, further planned investments in the Recovery Investment Strategy have now been removed from the revised capital programme and will only be added to the capital programme on an approved business case basis going forward.

8. RESERVES

- 8.1** Section 32 and 43 of the Local Government Act 1992 requires precepting authorities to have regard to the level of financial reserves (usable reserves) needed, for meeting future expenditure, when calculating the budget requirement. When reviewing their medium term plans and preparing the annual budget local authorities should ensure that they have appropriate levels of reserves to cover the following:
- A working balance to smooth the timing of cashflows and avoid temporary borrowing (General Fund balance);
 - A contingency for emergencies or to cover unforeseen events requiring funding (General Fund balance);
 - Reserves set aside to meet specific purposes and future expenditure (Earmarked Reserves).
- 8.2** There are no strict rules as to the level of General Reserve which should be maintained, and Councils will usually have a Reserves policy in place (reviewed annually) which will set out the minimum General Fund balance to be maintained taking into account the specific financial risks the Council is facing.
- 8.3** Councils are also permitted to hold earmarked reserves where funds are set aside to meet future specific costs and can be held for a variety of purposes. It is good practice to undertake an annual review of these earmarked reserves to ensure that the purpose that the funds were originally set aside for is still required.
- 8.4** Under Section 25 of the Local Government Act 2003, the local authority's Section 151 Officer is required to report on the adequacy of reserves when the authority is considering its budget requirement. Annex C illustrates that the Council is forecast to have usable reserve balances (revenue and capital) of £22.801m by the end of March 2023. This is considered by the S151 Officer to be adequate at this early stage of the budget setting process.



- 8.5 A review of the approved capital programme has also been undertaken together with the sources of funding for that programme ensuring that borrowing costs are mitigated given the recent, and forecast, increases in interest rates.

General Fund

- 8.6 The General Fund balance was £4.032m as at 31 March 2022. This is forecast to reduce to £2.792m at the end of March 2023 due to the provision for the 2022/23 unbudgeted pressures identified to-date totalling £1.240m.
- 8.7 The Quarter 2 financial monitoring is currently underway which may lead to further pressures being highlighted. Any forecast overspend greater than £1.240m will lead to a further reduction in the General Fund balance as at 31 March 2023.
- 8.8 As highlighted above, there are no specific rules as to the level of General Fund reserve balance which should be maintained. However, the forecast balance represents 22.1% of the net budget requirement for 2022/23 of £12.595m which is a relatively high balance with a general rule of thumb being between 5-10%.
- 8.9 As set out Table 1, the draft budget proposals indicate that, with any of the government funding scenarios, the Council is currently facing a budget gap ranging from £0.0797m to £1.953m. Whilst, further savings proposals are being developed, it would be possible to use part of the General Fund reserve to fund any residual budget gap and enable a balanced budget to be set. Reducing the General Fund balance to around £1.5m would still represent 10.75% of the net budget requirement for 2023/24 (£13.950m).
- 8.10 The appropriate level of General Fund balance will be considered by the Council's S151 Officer in conjunction, with the Deputy Leader and Cabinet Member for Finance, in finalising the budget for 2023/24. Any funds in excess of this minimum level can then be considered for use to bridge any residual budget gap for 2023/24.

Earmarked Reserves

- 8.11 A review of earmarked reserves has been undertaken to establish whether there are any earmarked reserves that have previously been set aside for specific but events may mean that they are no longer required.
- 8.12 In addition, a review of the capital programme, its funding sources and any use of earmarked reserves has similarly been undertaken. This review has identified that previous approval had been given to use £1.875m of the Council Priorities Fund to part-fund the strategic property acquisition, with the balance being funded from the capital receipts reserve.



- 8.13 Recent information provided to officers has indicated that the proposed property acquisition is unlikely to go ahead until later in 2023/24, at the earliest, and therefore it is now proposed that the £1.875m be transferred to a new Financial Resilience Reserve instead.
- 8.14 This reserve will then provide the Council with funds which can be used to smooth the delivery of savings and ensure the Council is able to continue to set a balanced budget.
- 8.15 The intention is that any balance of funding required for the strategic property acquisition will be met through borrowing and the capital financing costs associated with that borrowing have been included within the draft budget and MTFs proposals.
- 8.16 As can be seen from Annex C, the review has also resulted in just over £0.340m of previously earmarked reserves now being identified by officers as potentially available for re-use. The Deputy Leader and Cabinet Member for Finance will review these reserves, in conjunction with his Cabinet colleagues, to confirm that they are no longer required for the intended purpose.
- 8.17 Following this review it is proposed that any reserves which have been agreed are no longer required will also be transferred to the Financial Resilience Reserve which could potentially increase this reserve to £2.215m.

Capital reserves

- 8.18 In addition, local authorities will also maintain usable capital reserves:
- **Capital receipts reserve** - holds the proceeds from the sale of assets, and can only be used for those purposes specified in the capital finance and accounting regulations.
 - **Capital Grants Unapplied Reserve** – this reserve holds capital grants that have been received but have yet to be used to finance capital expenditure.
- 8.19 Following the Council's transfer of its housing stock and the proceeds arising from this transfer, the capital receipts reserve has been an important source of funding for capital investment, mitigating the need to undertake external borrowing.

9. RISK ASSESSMENT

- 9.1 As set highlighted above, the S151 Officer in considering the adequacy of reserves will need to undertake an assessment of the strategic, operational and financial risks facing the Council. The key financial risks currently facing the Council are:



- 9.1.1 Uncertainty of government funding** – as this report highlights, Cotswold District Council is currently facing significant cost pressures arising from the high levels of inflation. At the same time, the recent turmoil in the Government, the likelihood of the UK officially entering a recession and the high levels of government borrowing indicate that there the UK is likely to be entering into a new era of austerity. Therefore, there is the real risk that not only does the Government not compensate local government for the cost pressures but that there is actually a cut to government funding.
- 9.1.2 Fairer funding review** - Longer term, the impact of the Fairer Funding Review and proposed changes to the Retained Business Rates Scheme pose a significant risk to the level of core Government funding available to Cotswold District Council.
- 9.1.3 Reduced income** – as set out in this report, outside of core funding the main mechanism which the Council has to generate additional income is through charging for the services it provides, outside of those covered by Council Tax. The cost of living crisis, coupled with changes to post-Covid demand for some services, means that there is the risk that the Council is unable to generate the income levels set out in the budget proposals.
- 9.1.4 General cost increases** – whilst the draft budget and MTFS proposals includes assumptions around future levels of cost inflation e.g. pay award, these estimates may prove to be incorrect. There is the possibility that future costs increase higher than projected.
- 9.1.5 Interest rate rises** – With interest rates increasing and forecast to increase even further in 2023/24, any borrowing required to undertake capital investment may become more expensive and lead to additional revenue pressures from increased capital financing costs. As is now the case, any future capital investment proposals will be subject to a robust business case which will include an assessment of affordability of the project over the MTFS period.
- 9.1.6 Pension Fund** – the results of the Triennial Pension Fund valuation could lead to increases (or decreases) to the lump sum deficit payments and/or the employer primary pension contribution rate.
- 9.1.7 Demand for core services** – there is the risk that demand for core services increases which then results in additional costs. An example of this is the sustained increased volumes of recycling and residual waste which have emerged post-Covid as a result of changes to residents’ behaviour e.g. permanent or hybrid home-working and permanent shift to on-line purchasing. These changes in behaviour result in increased residual waste and higher volumes of recycling resulting from increased packaging from home deliveries.
- 9.1.8 Legislative changes** - with any changes to legislation there could be additional costs arising for the Council in implementing these changes. There is an assumption that any increased costs will be met from “new burdens” funding provided by the Government. There is always the risk that the new burdens funding does not cover all of the costs incurred.



- 9.1.9 Savings** – the draft budget proposals include savings identified together with savings targets for the Council’s partners. Partners are working closely with the Council to develop their plans to achieve the savings targets, there remains an element of risk associated with these targets.

10. CONSULTATION

- 10.1** The budget consultation will be run through the Council’s new online consultation and engagement platform – Commonplace. This will be complimented by physical copies of the survey available in the Council offices for those who cannot complete the online survey.
- 10.2** The Council plans to use a wide range of communications channels to share the key budget messages and highlight the consultation to as many residents, businesses and community organisations as possible, encouraging them to take part. This will include:
- 10.2.1** An article in the next edition of “Cotswold News” which is delivered to all households across the District in early November
 - 10.2.2** The use of all Council social media channels including Facebook, Twitter, Instagram, Nextdoor and LinkedIn. It will also be shared in local social media groups
 - 10.2.3** Videos with Cabinet members explaining the Council’s budget and an animated video explaining budget proposals
 - 10.2.4** Promotion via the Council’s website homepage and banner
 - 10.2.5** Media engagement to get local media to cover the consultation
 - 10.2.6** A bespoke webpage covering key messages and linking to an online survey
 - 10.2.7** Promotion through Town and Parish Councils
 - 10.2.8** Promotion in the Council’s new E-newsletter
 - 10.2.9** Boards positioned in towns and villages across the district
 - 10.2.10** Information to businesses via the councils Business Matters newsletter
 - 10.2.11** Pull up banners in council customer service spaces
 - 10.2.12** Website advertising
 - 10.2.13** Promotion to staff and Councillors through internal communications and the Council’s Overview and Scrutiny Committee.
- 10.3** This will be complemented by engagement events in supermarkets across the district where residents will be able to speak to Cabinet members and officers about the budget. They will be held in Cirencester, Tetbury, Moreton-in-Marsh and Stow-on-the-Wold and the dates and times will be promoted in the communications.
- 10.4** The Consultation will run from 8 November to 9 December 2022. Feedback will be provided to the Cabinet in January 2023.



11. CONCLUSIONS

- 11.1** The report sets out the Council's budget proposals for 2023/24 which will be subject to consultation. Feedback from the consultation process together with any further budget adjustments for 2023/24 will be reported to the Cabinet in January 2023. The final budget proposals, incorporating the Government funding for the Council, will be presented to the Cabinet in February 2023 and will be debated at Council on 15 February 2023.

12. FINANCIAL IMPLICATIONS

- 12.1** There are no direct financial implications of this report itself.

13. LEGAL IMPLICATIONS

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

14. EQUALITIES IMPACT

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

15. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

- 15.1** The budget proposals for 2023/24 and include potential capital investment and associated revenue financing costs for investment in carbon zero affordable homes, electric vehicles charging points and council offices carbon efficiency works.

16. ALTERNATIVE OPTIONS

- 16.1** The Cabinet may consider alternative budget proposals either at the meeting or following the consultation process in January and February 2023.

17. BACKGROUND PAPERS

- 17.1** None

(END)