



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET – 06 FEBRUARY 2023
Subject	2023/24 REVENUE BUDGET, CAPITAL PROGRAMME AND MEDIUM TERM FINANCIAL STRATEGY
Wards affected	All
Accountable member	<p>CLlr Mike Evemy, Deputy Leader and Cabinet Member for Finance</p> <p>Email: <a href="mailto:mike.evemy@cotswold.gov.uk">mike.evemy@cotswold.gov.uk</a></p>
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Summary/Purpose	The purpose of this report is to present the budget for 2023/24.
Annexes	<p>Annex A – Report of the Chief Finance Officer (Section 25 Statement)</p> <p>Annex B – Medium Term Financial Strategy</p> <p>Annex C – Savings Plan Items</p> <p>Annex D – Capital Programme 2023/24 to 2026/27</p> <p>Annex E – Annual Capital Strategy 2023/24</p> <p>Annex F – Annual Treasury Management Strategy and Non-Treasury Management Investment Strategy 2023/24</p> <p>Annex G – Detailed Revenue Budgets 2023/24</p> <p>Annex H – Strategy for the Flexible Use of Capital Receipts</p> <p>Annex I – CDC response to the Local Government Finance consultation</p> <p>Annex J – Pay Policy Statement 2023/24</p>
Recommendation(s)	<p><i>Cabinet are requested to consider and approve for recommendation to Council:</i></p> <p><i>(a) the Medium-Term Financial Strategy set out in Annex B</i></p> <p><i>(b) the Savings and Transformation items for inclusion in the budget, set out in Annex C</i></p> <p><i>(c) the Council Tax Requirement of £6,310,795 for this Council</i></p> <p><i>(d) the Council Tax level for Cotswold District Council purposes of £148.93 for a Band D property in 2023/24 (an increase of £5)</i></p> <p><i>(e) the Capital Programme, set out in Annex D</i></p> <p><i>(f) the Annual Capital Strategy 2023/24, as set out in Annex E</i></p> <p><i>(g) the Annual Treasury Management Strategy and Non-Treasury</i></p>



	<p><i>Management Investment Strategy 2023/24, as set out in Annex F</i></p> <p><i>(h) the Strategy for the Flexible use of Capital Receipts, as set out in Annex H</i></p> <p><i>(i) the balances and reserves forecast for 2023/24 to 2026/27 as set out in Section 5 of the report</i></p> <p><i>Cabinet are recommended to approve delegation to the Council's Deputy Chief Executive, in consultation with the Deputy Leader and Cabinet Member for Finance</i></p> <p><i>(j) for any changes to the General Fund Summary arising from the Local Government Finance Settlement and the Business Rates Retention Scheme estimates prior to submission to Council</i></p>
Corporate priorities	<ul style="list-style-type: none"><li>• Delivering our services to the highest standards</li><li>• Responding to the challenges presented by the climate crisis</li><li>• Providing good quality social rented homes</li><li>• Presenting a local plan that's green to the core</li><li>• Helping residents and communities access the support they need for good health and wellbeing</li><li>• Supporting businesses to grow in a green, sustainable manner, and to provide high value jobs</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	<p>The 2023/24 Revenue Budget, Capital Programme and Medium Term Financial Strategy has been developed in consultation with the Council's statutory officers, Publica management, Ubico management, and members of the Cabinet. Consultation has been carried out with members of the Overview and Scrutiny Committee and with the District's residents, businesses and community organisations.</p>



## **I. EXECUTIVE SUMMARY**

- I.1** The budget and Medium Term Financial Strategy (MTFS) have been prepared in the context of ongoing pressures on the Council's finances.
- I.2** Uncertainty around Local Government funding from the Government in the later years of the MTFS is a significant risk within the MTFS estimates. The implementation of Local Government Finance reform (formerly known as the Fair Funding Review and changes to the Retained Business Rates system) has already been delayed from the original implementation date of April 2020 until at least April 2025 if not later. The forecast impact on Shire District Councils is likely to be significant as resources are reallocated across Local Government recognising the Social Care cost and demand pressures.
- I.3** It is very difficult to estimate with certainty the impact on Cotswold District Council. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2025/26 and beyond. However, an initial estimate of a 30% reduction in the level of retained business rates income has been included in the MTFS assumptions. An estimate has been made around transitional arrangements, but these are not based on any indication or commitment from the Government. The impact from the external economic environment on service expenditure and income, and the continuation of constraints in government funding (both in terms of the level of funding and duration) means the budget and medium-term are subject to considerable uncertainty
- I.4** The continued impact on the Council from pressures within the wider economy including inflation and interest rates. This will have an impact on income and expenditure budgets during 2023/24 and will require timely and accurate financial reporting to Cabinet. These risks include:
- Income from Council Tax and Business Rates will continue to be under pressure in 2023/24 with an expectation that the Business Rates base will remain volatile and may take time to recover.
  - Increased demand for certain services (e.g., Homelessness) may put additional financial pressure on the Council.
  - Cost of services where the Council is exposed to risk sharing in contract costs
  - Energy cost pressures
  - Interest rate increases in recent months and the forecast of further base rate increases during 2023 – this will have an impact on prudential borrowing costs
- I.5** The Council's budget and MTFS were the subject of a consultation exercise during November and December 2022 with Cabinet considering the feedback from residents in January 2023.



- 1.6 It is proposed that the Council increases Council Tax by the maximum permissible level and will increase Cotswold District Council's Band D rate by £5 (just under 10p per week) from £143.93 to £148.93
- 1.7 The provisional settlement for 2023/24 was announced on 21 December 2022 and given the impact from inflation and the wider external economic environment it should be seen as a 'roll-over' settlement from 2022/23. It is worth stressing that the settlement only covers the forthcoming financial year although indicative funding levels for 2024/25 have been provided. Significant changes to local government finance have been delayed until 2025/26 with the Government indicating consultation will take place on aspects of local government finance in spring 2023.
- 1.8 The provisional settlement largely confirmed the funding expectations for local government outlined in the Spending Review 2021 and confirmed in the 2022 Autumn Statement.
- It is a one-year settlement for 2023/24, with some indications about funding for 2024/25.
  - Confirmation of the Council Tax referendum principle of 3% or £5 (whichever is higher) for shire districts and boroughs
  - New Homes Bonus scheme continues for a further year. There is no indication about the future of NHB in 2024/25 and beyond
  - Rural Services Delivery Grant maintained
  - Significant Social Care Funding – Social Care Grant of £3.852bn plus Adult Social Care Market Sustainability Fund of £562m and Discharge Fund of £300m
  - Protection of Core Spending Power (CSP) through a new grant – Funding Guarantee to ensure all Councils receive a 3% cash increase in resources.
  - Continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA)
  - Revenue Support Grant (RSG) has been uplifted by 10.1% but there are other items rolled in (Family Annex Council Tax Discount Grant and LCTS Administration Subsidy grant).
  - Services Grant has been reduced for the National Insurance Contributions increase that was reversed with some additional redirection of funding within the settlement
  - £100 million of additional funding for local authorities to support the most vulnerable households already in receipt of Council Tax support. The provisional allocation for Cotswold District Council is £0.103m. The Government expects local authorities to use the majority of their funding allocations to reduce bills for current working age and pension age Local Council Tax Support (LCTS) claimants by up to £25.

#### Balanced Budget Requirement

- 1.9 The Council is legally required to set a balanced budget for the following financial year and remains balanced. As can be seen in the MTFs, the Council's core financial position is a balanced budget next year (after utilisation of the Financial Resilience reserve and other

transfers to reserves). However, there is a significant and increasing projected budget gap of £0.871m in 2023/24, £0.206m in 2024/25 and is forecast to increase to £3.025m in 2026/27.



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

	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
<b>MTFS Summary</b>				
Net Service Revenue Expenditure	13,626	13,626	13,626	13,626
Corporate Items/Non Service Income & Expenditure	(813)	(677)	(671)	(656)
Transfers to/(from) earmarked reserves	0	0	0	0
Provision for Inflation	1,811	2,336	2,897	3,477
<b>Service + Corporate Items</b>	<b>14,624</b>	<b>15,285</b>	<b>15,852</b>	<b>16,447</b>
Budget Proposals	762	602	564	564
Risk Items	500	500	500	500
Savings and Transformation Plan items	(1,510)	(2,358)	(3,323)	(3,351)
<b>Draft Net Revenue Budget</b>	<b>14,376</b>	<b>14,029</b>	<b>13,593</b>	<b>14,160</b>
<b>TOTAL Funding</b>	<b>(13,504)</b>	<b>(13,823)</b>	<b>(11,771)</b>	<b>(11,134)</b>
<b>Budget Gap / (Surplus)</b>	<b>871</b>	<b>206</b>	<b>1,822</b>	<b>3,025</b>

- 1.10** An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years. The Corporate Strategy and services must be delivered within the overall resource envelope available to the Council thereby reducing reliance on earmarked reserves to support the budget.
- 1.11** The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code applies to all local authorities with the first full year of compliance required in 2022/23. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:
- financially manage the short, medium and long-term finances of a local authority
  - manage financial resilience to meet unforeseen demands on services
  - manage unexpected shocks in their financial circumstances
- 1.12** The newly created Cabinet Transform Working Group (CTWG) is developing a revised approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. The programme will set out a revised process for how transformation projects and savings are identified, evaluated, and approved, with clear reporting and monitoring and governance arrangements. This approach will need to be undertaken by officers and members over the course of the 2023/24 financial year to be implemented to cover the new MTFS period.
- 1.13** The CTWG approach will look at the design principles required to achieve a robust and balanced and proportionate plan. It is expected that any programme will include a mix of cost savings and additional income. The programme will consider and review service delivery options, organisational redesign programmes, improved procurement outcomes, and how to

embed a commercial approach to service delivery and improved utilisation of property and income-generating assets.



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DISTRICT COUNCIL

- 1.14** Whilst the focus of CTWG’s programme will be on ensuring the budget gap over the MTFS period can be addressed, in-year savings opportunities will be reviewed and implemented to reduce the reliance on the Financial Resilience reserve in 2023/24.

Budget Pressures, Inflation and Risk

- 1.15** The table below sets out the impact on the Council’s budget from demand and inflationary pressures, impact on fees and charges income, and the risk allowance included in the revenue budget and MTFS for major contracts.

**Table ES2 – Pressures and Inflation**

<b>Item &amp; Summary</b>	<b>2023/24 (£'000)</b>	<b>2024/25 (£'000)</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>
<u>Budget Pressures</u>				
Expenditure Pressures	435	275	237	237
Income Pressures	326	326	326	326
	<b>762</b>	<b>602</b>	<b>564</b>	<b>564</b>
<u>Provision for Inflation &amp; Contract Growth</u>				
Contract Inflation	1,121	1,665	2,227	2,806
Pay Inflation	40	21	21	21
Energy Cost Inflation	300	300	300	300
Contract Growth (Ubico)	350	350	350	350
	<b>1,811</b>	<b>2,336</b>	<b>2,897</b>	<b>3,477</b>
<u>Risk Items</u>				
Leisure and Culture Risk	300	300	300	300
Modernisation of Planning (IDOX System)	200	200	200	200
	<b>500</b>	<b>500</b>	<b>500</b>	<b>500</b>
	<b>3,072</b>	<b>3,437</b>	<b>3,961</b>	<b>4,540</b>

Savings Plan

- 1.16** In order to mitigate the budget pressure outlined above and to set a balanced budget for the year, the draft budget proposals included expenditure savings of £1.095m and Fees and Charges income of £0.415m.
- 1.17** Savings proposals have been reviewed to ensure they are robust and can be delivered. The table below provides a summary of the savings included in the MTFS with Annex C providing further detail.

Table ES3 – Savings



Savings	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
Third Party Contract Savings	(500)	(856)	(1,613)	(1,613)
Corporate Savings	(139)	(335)	(531)	(531)
Other Expenditure Savings	(456)	(601)	(613)	(641)
Corporate Income	0	(151)	(151)	(151)
<b>Subtotal</b>	<b>(1,095)</b>	<b>(1,943)</b>	<b>(2,908)</b>	<b>(2,936)</b>

Fees and Charges	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
Other Fees and Charges - Cost Recovery	(186)	(186)	(186)	(186)
Garden Waste - fee increase	(229)	(229)	(229)	(229)
<b>Subtotal</b>	<b>(415)</b>	<b>(415)</b>	<b>(415)</b>	<b>(415)</b>

#### Balances and Reserves

- 1.18 A review of the Reserves and Balances strategy has been undertaken to consider the adequacy of reserves in light of the financial risks faced by the Council. The review has taken into account guidance published under CIPFA LAAP Bulletin 99: Local Authority Reserves and Balances (July 2014).
- 1.19 The Council's financial position is supported by its balances and reserves. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.20 The review of reserves and balances recommends a distinction between the General Fund Balance and Earmarked Reserves.
- 1.21 The General Fund Balance has been assessed taking account of the strategic, operational and financial risks facing the authority and the underlying budgetary assumptions. This includes
- The treatment of inflation and interest rates
  - Level and timing of estimated capital receipts
  - Treatment of demand-led pressures
  - Treatment of planned efficiency savings
  - The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
  - The availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions
  - The general financial climate to which the authority is subject



- 1.22** The General Fund Balance will be maintained at a minimum of £1.760m, with the Financial Resilience Reserve balance held at a level that would allow the Council to mitigate short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes). Given the budget gap identified over the MTFS period, the Council must identify and deliver new savings to ensure this reserve is adequate.
- 1.23** However, these reserves should not be utilised to fund normal, on-going service provision. It is important to review the level of reserves regularly.
- 1.24** The Council holds a Council Priorities Fund (CPF) revenue reserve. This funding is available for investment in initiatives which support delivery against the Council's priorities. The fund has been utilised over the last two years with a balance of £1m expected by the end of the current financial year. New initiatives will require Members to review existing commitments against earmarked reserves and to reallocate funds accordingly.
- 1.25** The Balances and Reserves Strategy adopts a different approach to previous financial years and recognises the financial risks facing the Council over the MTFS period. A key consideration is to ensure financial resilience and sustainability can be supported through the strategy. Therefore, the following balances and reserves position is proposed over MTFS period:
- General Fund Balance to be maintained at minimum level of £1.760m
  - Financial Resilience Reserve held to mitigate the budget gap identified in the MTFS and to facilitate profiling of a Savings and Transformation plan and support the award of the Leisure and Culture contract over MTFS period.
  - £0.350m projected Business Rates Pool income to be allocated to Financial Resilience Reserves for financial years 2023/24 to 2025/26. No assumption made for 2026/27 and beyond as it is uncertain whether Business Rates Pools will be viable post-reset.
  - Council Priorities Fund to be held at 2022/23 forecast closing balance level of £1m (forecast makes the assumption that no further allocations are planned)
- 1.26** If approved, the impact of these proposed changes outlined in the report to the level of balances and reserves is set out in the table below with the Graph indicating changes to the composition of earmarked reserves over the MTFS period.



Table ES4 – Reserves and Balances Forecast



Reserve type	Opening Balance 01/04/2022 (£'000)	Estimated Balance 31/03/2023 (£'000)	Estimated Balance 31/03/2024 (£'000)	Estimated Balance 31/03/2025 (£'000)	Estimated Balance 31/03/2026 (£'000)	Estimated Balance 31/03/2027 (£'000)
General Fund	(2,553)	(1,760)	(1,760)	(1,760)	(1,760)	(1,760)
Council Priorities Fund	(2,767)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Financial Resilience Reserve	0	(3,290)	(2,799)	(2,941)	(1,469)	0
Financial Resilience Reserve - shortfall (illustrative)	0	0	0	0	0	2,635
Transform Invest to Save	(218)	(100)	(100)	(100)	(100)	(100)
Property R&M/Capital Works	0	(250)	(250)	(250)	(250)	(250)
ESIP Reserve	0	(58)	(58)	(58)	(58)	(58)
Business Rates Movement Reserve	(4,120)	(4,200)	0	0	0	0
Local Plan	(819)	(554)	(95)	0	0	0
Covid-19 Reserves	(88)	0	0	0	0	0
Community-Led Housing Grant	(806)	(806)	(776)	(746)	(714)	(681)
Previously committed reserves	(1,144)	(184)	(184)	(184)	(184)	(184)
Committed reserves	(1,991)	(863)	(513)	(382)	(424)	(498)
Ringfenced	(329)	(479)	(346)	(318)	(290)	(262)
<b>Total Earmarked Revenue Reserves</b>	<b>(12,283)</b>	<b>(11,785)</b>	<b>(6,120)</b>	<b>(5,979)</b>	<b>(4,489)</b>	<b>(398)</b>
<b>Total Revenue Reserves</b>	<b>(14,836)</b>	<b>(13,545)</b>	<b>(7,880)</b>	<b>(7,739)</b>	<b>(6,249)</b>	<b>(2,158)</b>

Capital Programme 2023/24 to 2026/27

- 1.27** The Council's Capital Strategy and Capital Programme are considered over a five-year period. The Strategy provides the framework for the Council's capital expenditure and financing plans to ensure they are affordable, prudent and sustainable over the longer-term.
- 1.28** The Council has set out its Capital Programme for the period 2023/24 to 2026/27 based on the principles of the current Capital Strategy. This is summarised in Table ES5a below and in further detail in Annex D of this report. A total capital expenditure budget of £13.899m in 2023/24 is proposed. Total expenditure decreases to £2.318m and £1.277m in 2024/25 and 2025/26 respectively, and in the final year of the current programme 2026/27 spend is estimated at £5.015m.
- 1.29** The capital programme is focussed on delivering against the Council's key priorities with further schemes focused on enhancing the delivery of core services through improvement and enhancement of assets. The programme also includes support for the provision of affordable local housing and the Council's statutory duties in respect of Disabled Facilities Grants.

**Table ES5a – Summary Capital Programme**



<b>Capital Programme</b>	<b>2022/23 Budget (£'000)</b>	<b>2023/24 Budget (£'000)</b>	<b>2024/25 Budget (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Leisure & Communities	428	1,387	50	50	550	2,465
Housing/Planning and Strategic Housing	2,383	4,001	1,300	700	700	9,084
Environment	961	1,956	111	377	3,615	7,020
ICT, Change and Customer Services	70	350	150	150	150	870
UK Rural Prosperity Fund	0	191	573	0	0	764
UK Shared Prosperity Fund Projects	11	28	134	0	0	173
Land, Legal and Property	516	500	0	0	0	1,016
Transformation and Investment	1,510	5,486	0	0	0	6,996
	<b>5,879</b>	<b>13,899</b>	<b>2,318</b>	<b>1,277</b>	<b>5,015</b>	<b>28,388</b>

**1.30** The capital programme includes £0.500m for Asset Management activities in 2023/24 (under the summary heading Land, Legal and Property) recognising the need to manage the existing assets over the initial MTFS period.

**1.31** The Council will develop a comprehensive Asset Management Strategy supported by detailed asset management plans for the Land and Buildings assets it holds and will be presented to Cabinet in July 2023. The strategy and plans will identify and provide a longer-term view (e.g. 5-10 years) of the income and expenditure profiles, tenant events, hold and disposal options. The draft core aims of the Asset Management Strategy are set out below.

- Drive efficiency through the management of our land and property assets, ensuring they provide the right space, in the right place and on the best terms. This also includes income generation and overall social value from the property portfolio through proactive asset management.
- Manage our property portfolio effectively using best practice, project and property management methodologies, adopting clear policies and action plans to meet our strategic goals; developing clear reporting processes to involve and inform Councillors, Service Managers and Project Sponsors in decision making.
- Keep our properties safe, dry and secure through the implementation of a well-managed, rigorous compliance regime; repairs and renewals programme with clear maintenance plans and efficient facilities management.
- Delivering the corporate objectives and priorities of the organisation through the management of assets
- Embed a culture of innovation that maximises best use of appropriate technologies that support new ways of working and protects the environment; utilising available financing to support implementation and meet the objectives of the Climate xxx Action Plan

**1.32** The Council's capital expenditure has up until the current financial year been predominantly financed from capital receipts. As these are forecast to deplete over the capital programme period the Council will need to undertake prudential borrowing to support future capital expenditure plans. Other sources of finance support the capital programme, either from

external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts).



**COTSWOLD**  
DISTRICT COUNCIL

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

**Table ES5b – Summary Capital Financing Statement**

<b>Capital Financing Statement</b>	<b>2022/23 Budget (£'000)</b>	<b>2023/24 Budget (£'000)</b>	<b>2024/25 Budget (£'000)</b>	<b>2025/26 Budget (£'000)</b>	<b>2026/27 Budget (£'000)</b>	<b>TOTAL Budget (£'000)</b>
Capital receipts	2,817	8,036	715	240	615	12,423
Capital Grants and Contributions	2,370	1,576	1,407	700	700	6,753
Earmarked Reserves	238	0	0	0	0	238
Revenue Contribution to Capital Outlay (RCCO)	70	150	150	150	150	670
Community Municipal Investments (CMI)	384	116	0	0	0	500
Prudential Borrowing	0	4,021	46	187	3,550	7,804
	<b>5,879</b>	<b>13,899</b>	<b>2,318</b>	<b>1,277</b>	<b>5,015</b>	<b>28,388</b>

### Conclusions

- 1.34** Despite the uncertainties around future levels of Government Funding, the impact from Covid over the last two years, the Cost of Living crisis and the general economic position, the Council has been able to prepare a sound budget whilst maintaining services to residents. The budget will also provide a platform for Cotswold District to address future challenges.
- 1.35** The budget has been prepared in accordance with the approved budget strategy. This includes the principle of maintaining the Council's general fund revenue risk-based balance at £1.760m and maintaining other usable reserves to mitigate risk and support improvement.
- 1.36** The Council will need to continue to take steps to manage and address the budget gap identified over the MTFS period.
- 1.37** The Capital Programme includes planned expenditure £13.899m in 2023/24 with the Council needing to consider the outcome of due diligence work on other potential schemes before any further capital expenditure is committed.
- 1.38** The budget includes a recommendation to Council for the current Council Tax level to increase by £5 for a Band D property (from £143.93 per annum to £148.93) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.



**COTSWOLD**  
DISTRICT COUNCIL

- 1.39** The newly created Cabinet Transform Working Group Council will need to develop a revised approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. The approach will look at the design principles required to achieve a robust, balanced and proportionate plan of cost management and income generation opportunities to ensure the Council is able to achieve financial sustainability.
- 1.40** Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing. Reserves held to promote financial sustainability are forecast to be depleted during 2026/27 and will require consideration during 2022/23 as to their adequacy for future financial years given the current risks and uncertainties identified in this report. All reserves will be monitored and reported to Cabinet throughout 2023/24.



## 2. BUDGET REPORT – BACKGROUND

- 2.1 Cabinet approved its draft Medium Term Financial Strategy (MTFS) for the period 2023/24 to 2026/27 and the associated budget proposals for 2023/24 for consultation on 07 November 2022. The Council ran an extensive budget consultation process during November and December 2022. The Council used 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.
- 2.2 The Council received 389 responses to the consultation, a slight reduction of 37 when compared to the 2022/23 Budget Consultation (432 responses were received) but more than the 345 received in 2020 when the consultation was last run in November and December.
- 2.3 In January 2023, Cabinet considered feedback from the consultation and has used that feedback to inform this report.
- 2.4 The budget and MTFS have now been updated to reflect the following:
- The Government’s announcement of the Provisional Local Government Settlement 2023/24;
  - The estimated Council Taxbase 2023/24 and the forecast balance on the Collection Fund in respect of Council Tax collection in 2022/23; and
  - Provision for changes which have arisen since 07 November 2022.

### Local Government Finance Policy Statement and Settlement 2023/24

- 2.5 The Local Government Finance policy statement was published on 12 December 2022 that set out the Government’s intentions for the local government finance settlement for the next 2 years (2023/24 and 2024/25). In the absence of a multi-year finance settlement, the policy statement provides councils with greater certainty on key aspects of funding to support budget setting and financial planning for the future.
- 2.6 The statement set out the Council Tax referendum principles for both years and that the core settlement principles will continue through to 2024/25. However, the policy statement indicated a review of New Homes Bonus prior to 2024/25 and set out the emerging position for the Extended Producer Responsibility for packaging (pEPR) scheme.
- 2024-25 brings with it a significant new funding stream, subject to successful delivery of the Extended Producer Responsibility for packaging (pEPR) scheme as soon as is feasible within this financial year; local authorities can expect to receive additional income from the scheme whilst being asked to submit data relevant to their waste collection services. Alongside His Majesty’s Treasury and the Department for Environment, Food and Rural Affairs, will be assessing the impact of additional pEPR income on the relative needs and resources of individual local authorities in the coming year.



- The Government recognises that the position of the lower tier must be understood in the round, therefore will review the 2024-25 position of funding for lower tier authorities particularly given the possible interactions with the pEPR scheme. The Government also recognises the need to help councils plan and will set out the future position of New Homes Bonus ahead of the 2024-25 local government finance settlement.
- 2.7** Whilst the policy statement was helpful and provided an indication of the financial settlement for 2023/24 and 2024/25, it did not provide indicative allocations at local authority level.
- 2.8** The provisional settlement for 2023/24 was announced on 21 December 2022 and given the impact from inflation and the wider external economic environment it should be seen as a 'roll-over' settlement from 2022/23. It is worth stressing that the settlement only covers the forthcoming financial year although indicative funding levels for 2024/25 have been provided. Significant changes to local government finance have been delayed until 2025/26 with the Government indicating consultation will take place on aspects of local government finance in spring 2023.
- 2.9** The Government's four-week consultation on the settlement closed on 16 January 2023 with the Council's response included in Annex I. The final settlement is due to be confirmed shortly. This report has been prepared based on figures contained within the provisional local government finance settlement and are not expected to change.
- 2.10** The provisional settlement largely confirmed the funding expectations for local government outlined in the Spending Review 2021 and confirmed in the 2022 Autumn Statement.
- It is a one-year settlement for 2023/24, with some indications about funding for 2024/25.
  - Confirmation of the Council Tax referendum principle of 3% or £5 (whichever is higher) for shire districts and boroughs
  - New Homes Bonus scheme continues for a further year. There is no indication about the future of NHB in 2024/25 and beyond
  - Rural Services Delivery Grant maintained
  - Significant Social Care Funding – Social Care Grant of £3.852bn plus Adult Social Care Market Sustainability Fund of £562m and Discharge Fund of £300m
  - Protection of Core Spending Power (CSP) through a new grant – Funding Guarantee to ensure all Councils receive a 3% cash increase in resources.
  - Continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA)
  - Revenue Support Grant (RSG) has been uplifted by 10.1% but there are other items rolled in (Family Annex Council Tax Discount Grant and LCTS Administration Subsidy grant).
  - Services Grant has been reduced for the National Insurance Contributions increase that was reversed with some additional redirection of funding within the settlement



- £100 million of additional funding for local authorities to support the most vulnerable households already in receipt of Council Tax support. The provisional allocation for Cotswold District Council is £0.103m. The Government expects local authorities to use the majority of their funding allocations to reduce bills for current working age and pension age Local Council Tax Support (LCTS) claimants by up to £25.

**Table I – Core Spending Power**

<b>Core Spending Power</b>	<b>2022/23 (£'000)</b>	<b>2023/24 Prov<sup>n</sup> (£'000)</b>	<b>Change from 2022/23 (£'000)</b>
Settlement Funding Assessment	1,879	2,083	205
Compensation for under-indexing the busines	192	332	140
Council Tax Requirement excluding parish pr	6,129	6,356	228
Improved Better Care Fund	0	0	0
New Homes Bonus	810	290	(520)
New Homes Bonus returned funding	0	0	0
Rural Services Delivery Grant	632	632	0
Transition Grant	0	0	0
Lower Tier Services Grant	1,435		(1,435)
Funding Guarantee		2,066	2,066
2022/23 Services Grant	129	73	(57)
<b>Core Spending Power</b>	<b>11,206</b>	<b>11,833</b>	<b>627</b>

**2.11** The Table above shows an increase in Core Spending Power of £0.627m (5.6%) and assumes a higher Council Taxbase than has been estimated and used within the budget and MTFs. Taking the lower Council Taxbase into account, the overall increase in Core Spending Power is £0.369m (3.3%) and is only marginally above the Government's 3% level.

**2.12** The policy statement and settlement included reference to the level of local authority reserves with a view that the level of reserves should be reviewed and where possible released to support local service delivery.

- The Government notes the significant increase in some local authority reserves over the 2 years of the pandemic. Local authorities are encouraged to consider how they can use their reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support councils' financial sustainability and future investment. In order to support council members and local electorates to understand the reserves that their authorities are holding and what they are used for, the Government will also explore releasing a user-friendly publication of the reserves data currently collected in the Local Authority Revenue Expenditure and Financing Outturn statistics. Consultation



will be undertaken with trusted partners, including the Local Government Association, about doing this.

**2.13** The Council holds earmarked reserves for specific purposes. Members should consider the wider Reserves and Balances Strategy (as set out in Section 4 of this report) as there may be competing demands:

- maintaining financial sustainability over the MTFS period and balanced budget requirement
- mitigating financial and demand-led risks
- providing funding for planned future expenditure
- one-off funding to help maintain services

**2.14** The updated MTFS includes provision of a risk-based General Fund balance of £1.760m being the minimum expected level for total working balances

### **3. 2022/23 BUDGET**

**3.1** The original net revenue budget for 2022/23 was £12.595m. Cabinet has considered the forecast outturn position during the year with the last forecast outturn position of £13.976m reported in the Financial, Council Priority and Service Performance Report – 2022/23 Quarter Two. This highlighted a forecast adverse variation of £1.381m against the budget as reported at the time.

**3.2** The MTFS has assumed that £1.240m of the General Fund Balance will be required in the current year to achieve a balanced position at year end based on the estimate included in the Draft Budget and Medium Term Financial Strategy considered by Cabinet in November 2022.

**3.3** Given the level of uncertainty in the forecast outturn position, largely due to the external economic environment, service budgets have not been revised for the current financial year.

**3.4** The Q3 forecast will be considered by Cabinet at their meeting in March 2023 and should be viewed as a draft outturn position. Should there be a material change in the outturn forecast, there will need to be an equal adjustment to the level of the General Fund balance drawn down to achieve a balanced position.

### **4. MEDIUM TERM FINANCIAL STRATEGY 2023/24 TO 2026/27**

**4.1** As stated earlier in the report, budget and MTFS have been prepared in the context of ongoing pressure on the Council's finances. The impact from the external economic environment on service expenditure and income, and the continuation of constraints in government funding





(both in terms of the level of funding and duration) means the budget and medium-term are subject to considerable uncertainty.

- 4.2 Cabinet considered the *Draft Budget Proposals 2023/24 and Latest MTFS Forecasts* report [\[draft budget report\]](#) at their meeting in November 2022. The report set out the broad approach for the 2023/24 budget and a number of draft revenue budget proposals and indicative estimates of funding.
- 4.3 This report updates the estimates and budget proposals following the budget consultation process in November and December 2022 and the Provisional Local Government Finance Settlement published on 20 December 2022 (as set out in Section 2 of the report).
- 4.4 Service budgets have been updated for 2023/24, along with forecasts of Corporate Items. Given the volatility in the economy and uncertainty around future prices, inflationary provision has been included as a separate item and assumes:
- Pay inflation of 4% and an assumption of the impact of pay increments
  - Price inflation on major contracts (Publica and Ubico), utilities, and IT costs (in-line with the approach set out in the Budget Strategy). Additional inflationary provision has been made in the budget and across the MTFS period recognising energy price rises
- 4.5 Fees and Charges have been reviewed in accordance with the agreed approach of cost recovery with the 2023/24 Fees and Charges report at this meeting of Cabinet setting out in detail the fees and charges proposed for 2023/24. This report has been prepared on the basis of the proposed fees being approved by Cabinet.
- 4.6 An increase of £0.186m has been reflected in fees and charges that have been subject to review or increased in-line with the annual increase in the CPI inflation rate. Budget holders are required to review the fees and charges as part of the budget setting process to ensure they are set at an appropriate level and that charges are transparent and show a clear methodology for their increase.

#### **Budget Pressures**

- 4.7 The table below provides an overview of the material service budget changes by service area and a brief outline of the reason for the budget change. For the purposes of this report, a material change is considered to be a change in the net budget of +/- £x. There are likely to be several factors behind a net change in each budget line set out in Annex G – impact of inflation, changes in income projections, virements between different cost centres within a service area
- 4.8 Income pressures have been grouped in the table and have been included as a budget pressure due to the shortfall in income or where there is a technical change to funding streams (Local Council Tax Support Administration Subsidy, Council Tax Annex).



**Table 2 – Budget Pressures**

<b>Item &amp; Summary</b>	<b>2023/24 (£'000)</b>	<b>2024/25 (£'000)</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>
<b>Budget Pressures</b>				
ICT Cyber Security	47	47	47	47
Support for Race Commission	5	5	5	5
Elections (New Burdens Funded)	25	25	0	0
Climate Change - Gloucestershire-wide	13	13	0	0
Options Appraisal for Housing Delivery	10	0	0	0
Modernisation of Planning (IDOX System)	150	0	0	0
Finance Service - Additional Capacity	20	20	20	20
Publica Contract adjustments	74	74	74	74
Other minor budget adjustments	(3)	(3)	(3)	(3)
Bulky Waste Budget Adjustment	13	13	13	13
Emergency Accommodation	6	6	6	6
Car Parking (Card processing charges)	33	33	33	33
Council Tax Print Costs	5	5	5	5
External Audit Statutory Audit Costs	5	5	5	5
External Audit - Housing Benefit	15	15	15	15
Internal Audit (3% increase in fee)	3	3	3	3
Communications	15	15	15	15
<b>Income Pressures</b>				
Household Waste - Income Adjustment	45	45	45	45
Planning Fee Income - pressure	70	70	70	70
Recycling Income - Adjustment	25	25	25	25
Council Tax Fines/Court Cost (Income adj)	44	44	44	44
Land Charges Income base Reduction	20	20	20	20
Reversal of LCTS Subsidy/CT Annex Grant	122	122	122	122
<b>TOTAL</b>	<b>762</b>	<b>602</b>	<b>564</b>	<b>564</b>

**4.9** Budget Pressures have been reviewed, challenged and validated and only included in the MTFs where there is a clear business need or a wider strategic requirement to invest in service delivery. Budget Pressures can broadly be categorised as the follows:

- Unavoidable cost pressures: External Audit Costs, Council Tax printing
- Demand-led cost pressures: Emergency Accommodation, Car Parking Bank Charges
- Agreed Service Investment with Publica: ICT Cyber Security, Planning, Finance, Housing Delivery, Communications, Elections
- Budget Adjustments and Corrections: Bulky Waste, Public Contract adjustments
- Contributions to County-wide schemes: Race Commission, Climate Leadership

**4.10** As part of the wider review of service budgets, a number of income pressures have been identified, largely where the current income budget is forecast to be unachievable due to changes in behaviour or demand.



### Inflation

- 4.11 The main budget pressure facing the Council in 2022/23 and 2023/24 is inflation. The MTFs includes provision for inflation major contracts (Publica and Ubico) and energy costs. Provision has also been made for the annual pay award either directly (for Council officers and Members) or indirectly through the Publica and Ubico contracts.
- 4.12 The inflation rate has increased significantly over the last 12-months to a 40-year high driven by a number of economic factors including higher energy and raw material costs. The Office for Budget Responsibility outlined the key drivers of inflation in their November 2022 report:
- **Gas and Electricity bills** are a significant factor. The Energy Price Guarantee (EPG) limits the contribution of household gas and electricity bills to around 2 percentage points in 2022 and 2023 (so, CPI inflation is 2 percentage points lower in the final quarter of 2022 and around 1 percentage point lower on average across 2023). As wholesale gas and electricity prices surged, the Ofgem price cap rose 54 per cent from £1,277 in October 2021 to £1,971 in April 2022, and would have risen a further 80 per cent to £3,549 this October were it not for the EPG limiting the unit price of gas and electricity. As a result, the average household will pay an annualised rate of £2,500 from October – a 27 per cent rise from the April 2022 cap. The EPG then rises by 20 per cent in April 2023 to an annualised rate of £3,000 – still significantly lower than the around £4,000 Ofgem cap that would be implied in that quarter by wholesale futures prices. Those futures prices fall across 2024 and 2025, with household energy bills evolving in line with these prices after the EPG ends.
  - **Food, beverages, and tobacco** are expected to contribute 1.5 percentage points to inflation in 2023 as a whole. The weaker pound also raises food prices as the UK imports around half of its food. Food, beverages, and tobacco price inflation eases significantly at the end of 2023, with prices broadly flat through to 2025 before contributing modestly (around 0.3 percentage points) to headline inflation in the final two years of the forecast
  - **Other tradable goods and services** inflation has contributed around 2.5 percentage points to headline inflation so far this year due to global supply bottlenecks, combined with the depreciation of sterling. The OBR expect this to fade gradually during 2023, when its contribution falls to 1.7 percentage points before turning negative in 2024, as supply bottlenecks ease, energy prices fall, and this reduced input price inflation is passed on to consumers. This contributes to falling CPI inflation in the medium term
  - **Other non-tradable goods and services** inflation has risen over the past year as a tight labour market and increases in living costs push up nominal wage growth. This adds 2.8 percentage points to overall inflation in the final quarter of 2022, before falling back by mid-2023 as energy prices fall, spare capacity in the economy builds, and wage growth moderates
- 4.13 The main cost pressure facing the Council is the Pay Award which has been forecast at x% across the MTFs period recognising the wider drivers of inflation outlined above. The table

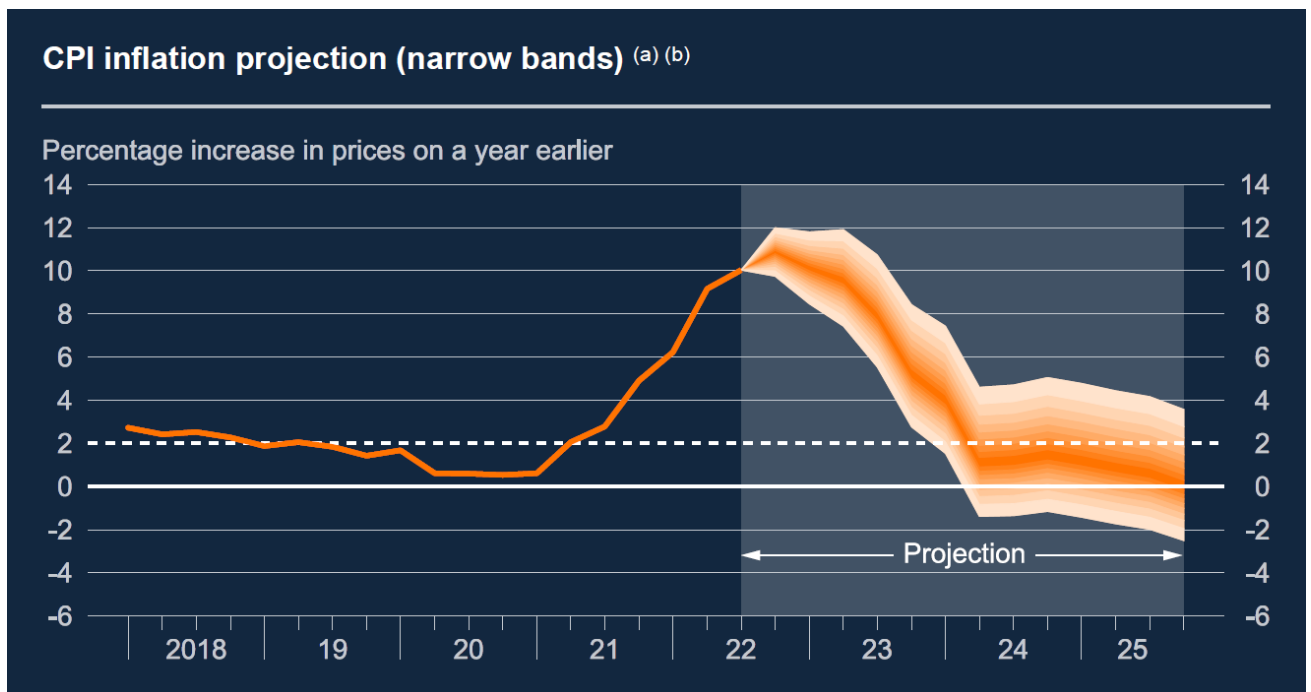


and graph below set out the forecast for inflation over the MTFS period. Clearly, there remains significant uncertainty in the short-term around inflation and there is some risk around the level and extent of inflation provision made.

**Table 3 – Inflation Forecast (Office for Budget Responsibility, November 2022)**

		OBR Forecasts, November 2022			
	Dec-22	2022 Q4	2023 Q4	2024 Q4	2025 Q4
Consumer Prices Index (CPI)	10.5%	9.1%	7.4%	0.6%	(0.8%)
Retail Prices Index (RPI)	13.4%	11.6%	10.7%	1.5%	(0.4%)

**Graph I – Inflation Forecast (Monetary Policy Report, November 2022)**



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



**Table 4 – Inflation Provision included in the MTFS**

Contract	Component	2022/23	2023/24	Budget Change (£'000)	2023/24 (%)
		Budget (£'000)	Draft Budget (£'000)		
Ubico	Employment Costs	3,869	4,634	765	19.77%
Ubico	Diesel	654	824	170	25.96%
Ubico	All other costs	2,691	2,818	127	4.72%
<b>Subtotal Ubico Contract</b>		<b>7,214</b>	<b>8,275</b>	<b>1,062</b>	<b>14.72%</b>
Publica Contract		10,236	10,645	409	4.00%
Energy Costs - Electricity		117	469	300	256.02%
Energy Costs - Gas		52			
Pay Award		996	1,036	40	4.00%

Contract/Provision	2024/25 % assumption	2025/26 % assumption	2026/27 % assumption
Ubico	4.00%	4.00%	4.00%
Publica	4.00%	4.00%	4.00%
Energy Costs - Electricity	0.00%	0.00%	0.00%
Energy Costs - Gas	0.00%	0.00%	0.00%
Pay Award	2.00%	2.00%	2.00%

4.15 As can be seen from the tables above, contract costs for Ubico and Publica are subject to significant cost pressures for 2023/24. Ubico contract costs will increase from £7.2m in 2023/24 to £8.275m in 2023/24 (around 14.7%). This is a mix of inflationary cost increases (Pay, Fuel costs) and revisions to service costs reflecting changes in waste streams and volumes.

**Table 5a – Ubico Contract Costs**

Ubico Services	2022/23 Ubico Contract (£'000)	2023/24 Ubico Contract (£'000)	Change (£'000)
GM - Car Parks	65	63	(2)
GM - Cemetery, Crematorium and Churchyards	180	175	(5)
Garden Waste Collection	1,134	1,315	181
Household Waste	1,468	1,622	154
Recycling	2,306	2,933	627
Refuse / Recycling Organic & Food Waste	605	685	81
Street Cleaning	1,439	1,465	26
GM - Trinity Road, Offices	17	16	(0)
<b>Grand Total</b>	<b>7,214</b>	<b>8,275</b>	<b>1,062</b>



**Table 5b – Multi-Service Gross and Net Cost**

Waste, Recycling, Street Cleaning and Grounds Maintenance Services	2023/24 Budget				
	Ubico Contract (£'000)	Other Service Costs (£'000)	Gross Service Cost (£'000)	Service Income (£'000)	Net Service Cost (£'000)
Bulky Household Waste	0	57	57	(63)	(6)
GM - Car Parks	63	0	63	0	63
GM - Cemetery, Crematorium and Churchyards	175	0	175	0	175
Garden Waste Collection	1,315	37	1,352	(1,328)	24
Household Waste	1,622	158	1,780	(27)	1,753
Recycling	2,933	310	3,243	(950)	2,293
Refuse / Recycling Organic & Food Waste	685	0	685	0	685
Street Cleaning	1,465	38	1,503	0	1,503
GM - Trinity Road, Offices	16	0	16	0	16
<b>Grand Total</b>	<b>8,275</b>	<b>542</b>	<b>8,818</b>	<b>(2,305)</b>	<b>6,513</b>

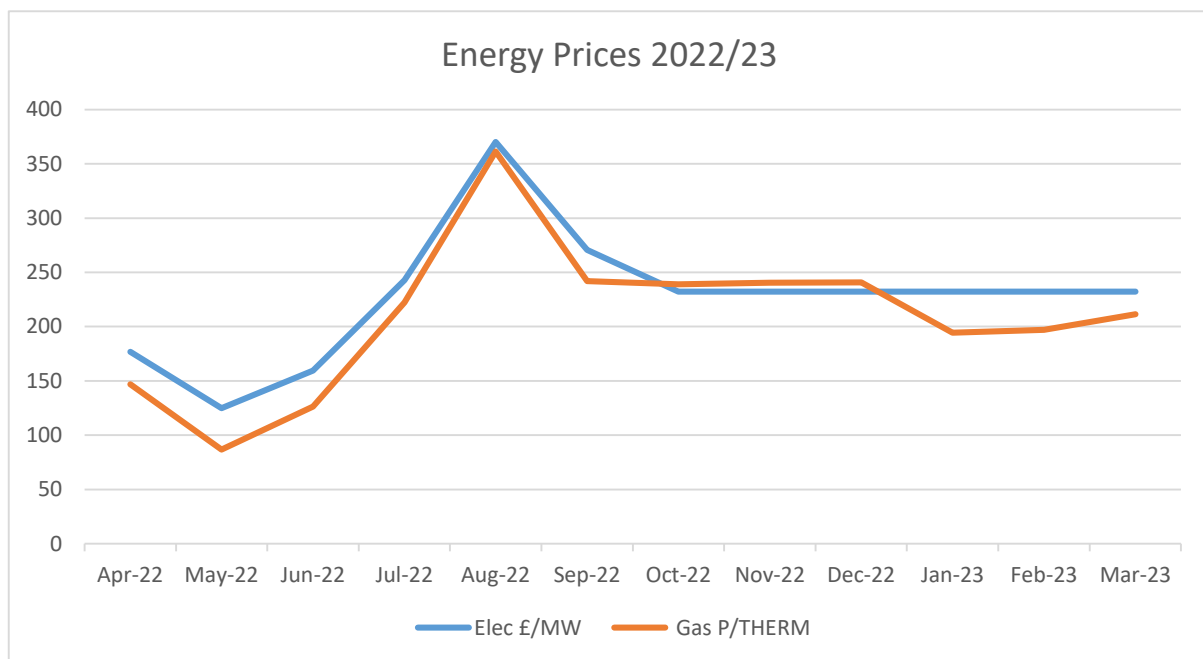
**4.16** As shown in Table 4, the inflationary element of the contract price with Publica for the provision of Council Services has increased from £10.236m to £10.645m. This has been estimated on the basis of the Local Government Pay Award for 2023/24 being 4%. Other changes to the contract cost are included in the MTFs as Budget Pressures or Savings.

**4.17** Energy costs have increased significantly since the start of the financial year with the conflict in Ukraine leading to unprecedented increases in the wholesale energy market. Whilst prices have stabilised over the last few months as a result of Government support and reduced pricing in wholesale markets, it is difficult to forecast with certainty energy budget requirements for 2023/24.

**4.18** The Council is part of a wider procurement position with Cheltenham, Forest of Dean and West Oxfordshire Councils with an energy broker providing an assessment of price risks and mitigation measures. Based on the latest forecast, the increase for 2023/24 is estimated at £0.263m. With the level of uncertainty prevalent in the energy market an inflationary provision of £0.300m has been included in the MTFs. This will be kept under review and updated forecasts will be included in the regular quarterly financial and performance monitoring reports to Cabinet.



Graph 2 – Energy Prices 2022/23



### Risk Items

- 4.19** The 2023/24 Budget and MTFS includes two budget items to ensure the General Fund is not exposed to undue risk from contract inflation, procurement risk, and fees and charges income fluctuations.
- 4.20** £0.300m has been included in the budget to ensure the Council can agree a new contract for the Council's Leisure Centres and Corinium Museum in March 2023. The Council is currently evaluating the tenders received from potential service providers.
- 4.21** £0.200m has been included to mitigate the risk inflationary pressure on the key Publica and Ubico contracts and to provide some budgetary headroom around fees and charges income.
- 4.22** These budgets will be held centrally and would be allocated in support of evidenced budget pressures during the year identified through the quarterly financial monitoring process. Should these budgets not be required, in part or in full, they would be returned to the Financial Resilience Reserve (in-year) and reviewed as part of the 2024/25 Budget setting process.

### Savings

- 4.23** In order to mitigate the budget pressure outlined above and to set a balanced budget for the year, the draft budget proposals included expenditure savings of £1.095m.
- 4.24** Savings proposals have been reviewed to ensure they are robust and can be delivered. The table below provides a summary of the savings included in the MTFS with Annex C providing further details.



Table 6 – Savings

Savings	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
Third Party Contract Savings	(500)	(856)	(1,613)	(1,613)
Corporate Savings	(139)	(335)	(531)	(531)
Other Expenditure Savings	(456)	(601)	(613)	(641)
Corporate Income	0	(151)	(151)	(151)
<b>Subtotal</b>	<b>(1,095)</b>	<b>(1,943)</b>	<b>(2,908)</b>	<b>(2,936)</b>

4.25 The draft budget report assumed that any budget gap would be met from a draw down from the Financial Resilience reserve but recognised the need for further savings to reduce the budget gap.

4.26 As can be seen from the MTFs Summary table in this report, the requirement to reduce costs and balance the budget are substantial. Section 5 of this report sets out the position on budget and efficiency savings over the MTFs period as part of the balanced budget requirement.

#### Fees and Charges

4.27 The draft budget report highlighted the approach of moving to “full cost recovery” where possible for the services it provides and, given the budget pressures highlighted above, a comprehensive review of fees and charges has been undertaken. An indicative £0.565m of additional Fees and Charges income was included in the draft budget report.

4.28 The outcome from the review has been analysed and discussed with Cabinet members. The table below sets out the updated position on fees and charges income estimates for 2023/24. A detailed schedule of the Fees and Charges for 2023/24 was included as Annexes to the 2023/24 Fees and Charges Report.

Table 7 – Fees and Charges

Fees and Charges	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
Other Fees and Charges - Cost Recovery	(186)	(186)	(186)	(186)
Garden Waste - fee increase	(229)	(229)	(229)	(229)
<b>Subtotal</b>	<b>(415)</b>	<b>(415)</b>	<b>(415)</b>	<b>(415)</b>

4.29 As can be seen from the table above, there is a reduced level of additional Fees and Charges income of £0.150m when compared to the draft budget report.

4.30 Cabinet received a report outlining the feedback from the budget consultation exercise at their meeting in January 2023. The consultation had sought views on the proposals around





extending charging to all Car Parks on Sundays and whether to increase existing charges by around 6%.

- 4.31** Cabinet has carefully considered the feedback from residents and whilst additional revenue from the Council's Car Parks would be welcomed to help achieve a balanced budget position Cabinet is mindful of the current economic position. Cabinet have taken into account the potential negative impact there may be on local businesses and residents and mindful of the economic pressure in the market towns. Therefore, there will be no change to the current Car Park Tariffs or a change to the charging periods in 2023/24.
- 4.32** A review of Car Park Season Ticket pricing has been undertaken with revised season ticket prices considered by Cabinet prior to this report.
- 4.33** With the current financial performance of the Car Parks indicating an income shortfall in the current financial year on fees, season tickets and fines it is proposed that the income budget for the Council Car Parks (£2.982m) is held for 2023/24 with a wider review of income performance undertaken in the new financial year taking into account the move to cashless parking.
- 4.34** A Garden Waste fee increase of £10 (£47 to £57) takes into account the projected increased cost of service delivery for 2023/24. This increase will ensure the Garden Waste service is provided on a cost recovery basis, as can be seen from the calculation below:

**Table 8 – Garden Waste Service**

	<b>2023/24 Gross Service Cost (£'000)</b>	<b>(£'000) Forecast Income</b>	<b>Net Cost (£'000)</b>
<b>Garden Waste Service</b>			
Net cost based on £47 per annum charge	1,352	(1,079)	273
Net cost based on £57 per annum charge	1,352	(1,308)	44

**Other Income changes**

- 4.35** Council approved changes to Cotswold District Council's Offices at Trinity Road, Cirencester to facilitate implementation of the Agile Working Strategy. This will reduce costs and the carbon impact of the Council's operations and create space that can be rented on a commercial basis within the building to provide income to the Council.
- 4.36** Members have been kept informed of the Agile Working project during the financial year and the delay in commencing capital works (Roof repairs and other accommodation changes). It is anticipated that the procurement process for contractors to complete these works will be concluded in the next few weeks.



- 4.37 The table below sets out the rental income forecast with £151k of rental income assumed from 2024/25. This represents a cautious view of likely income which could improve and subject to the completion of works and commencement of lease agreements with tenants.

Table 9 – Other Income

Other Income	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
Trinity Road - Agile working (delay 1 year)	0	(151)	(151)	(151)
<b>Subtotal</b>	<b>0</b>	<b>(151)</b>	<b>(151)</b>	<b>(151)</b>

#### Non-Service Expenditure and Income

- 4.38 Corporate Items cover the non-service revenue expenditure and income that is included in the Council's General Fund. Non-Service budgets for 2023/24 of (£0.813m) are proposed and will reduce over the MTFS period as the revenue impact of capital financing takes effect. Specific budgets covering the Council's Treasury Management activities, approach to the revenue implications of capital financing, and planned reserve transfers are set out below in more detail.

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

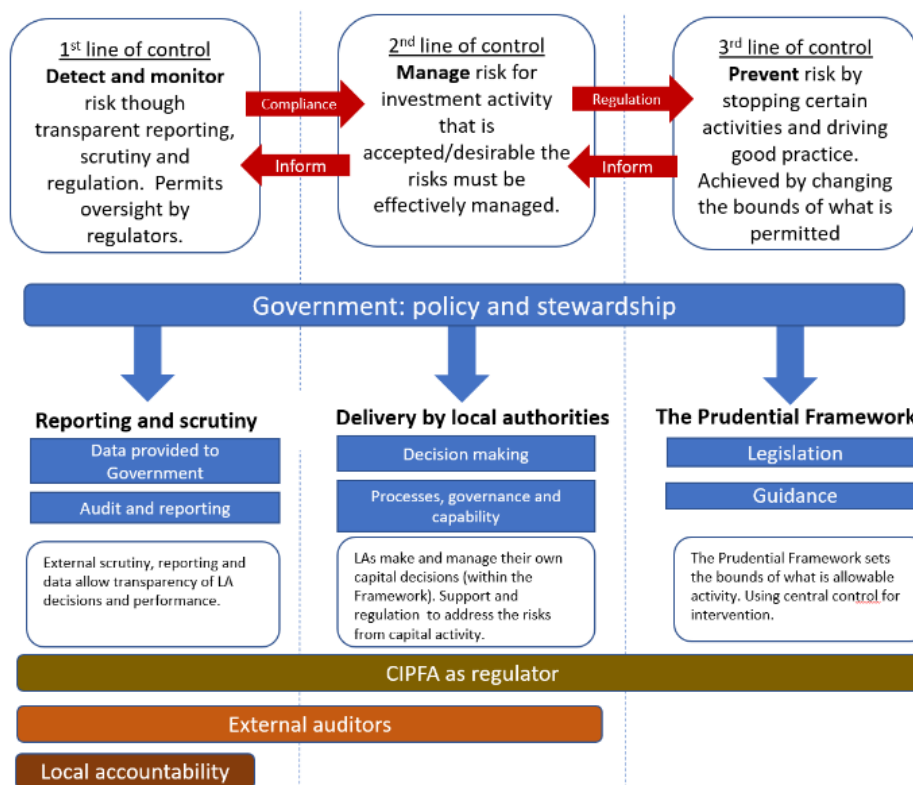
- 4.39 The MTFS includes an estimate of the cost of borrowing required to support the capital programme. The Treasury Management Strategy for 2023/24 (Annex F) was considered by Audit Committee at its meeting on 26 January 2023. The report sets out the forecast for the Council's Treasury Management activities (investments and borrowing). Advice is provided from the Council's Treasury Management advisors Arlingclose, in terms of investment performance, timing of decisions, capital financing, and the wider economic outlook.
- 4.40 The Government provided further guidance and clarification on the revised PWLB Lending Terms in August 2021. The key points are set out below
- Any investment asset acquired after 26 November 2020 would result in the authority not being able to access PWLB in that financial year or being able to use the PWLB to refinance the transaction at any point in the future
  - Authorities should provide details of capital plans, regardless of funding source, covering the whole current financial year and subsequent two financial years
  - Individual projects and schemes may have characteristics of several different categories. In these cases, the Section 151 Officer or equivalent of the authority should use their professional judgment to assess the main objective of the investment and consider which category is the best fit.
  - An asset that is held primarily to generate income which is used to support wider service spending, but serves no direct policy purpose, should not be categorised as service delivery



- Authorities cannot use receipts from primarily for yield assets to buy further primarily for yield assets
- Capital expenditure to maintain existing properties or in order to increase their value where the local authority is planning to sell the property is permitted

4.41 The Government also set out its views on the local authority capital finance framework. Whilst the Government has recognised the importance of local government capital investment, it is concerned at the risks some local authorities have taken around investment in commercial property.

**Figure 1: Three-lines of control model for strengthening the capital system**



4.42 The Levelling-Up and Regeneration Bill contains provisions to expand the Government's statutory powers to intervene in the local government capital finance system.

4.43 The proposed powers are intended to provide the Government with the ability to intervene should it consider excessive risk is being taken by a local authority and will require authorities to provide specific information, undertake commissioned reviews, place borrowing caps in relation to a range of risky activities or take specific actions to reduce its level of risk.

4.44 A number of metrics are being developed which the Government will have regard to in determining whether it is appropriate to the use the statutory powers. These are being refined through working with the sector but include:



- Proportionality of debt. This would be measured as total level of debt compared to the local authority's financial capacity (the financial resources at the disposal of the local authority.)
- Proportion of capital assets which are investments taken in order to generate net financial return or profit.
- Estimates to show whether the authority is not meeting its statutory duty to make sufficient provision to repay debt.
- Proportion of debt held by the local authority where the counterparty is not local or central government. Including credit arrangements and loans.

**4.45** Further, where there is evidence of financial failure, for instance the issuance of a Section 114 notice, the Government will consider the use of these powers where capital practices have been identified as a significant contributing factor

**4.46** Following a soft launch for the 2022/23 financial year, the updated CIPFA Prudential Code on Capital Finance and Treasury Management Code of Practice are fully implemented for 2023/24. The main elements of the Codes are summarised below.

**4.47 Prudential Code** – The updated code includes the following as the focus of the substantive changes:

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

**4.48 Treasury Management Code** – The main changes to the Treasury Management code are as follows:

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



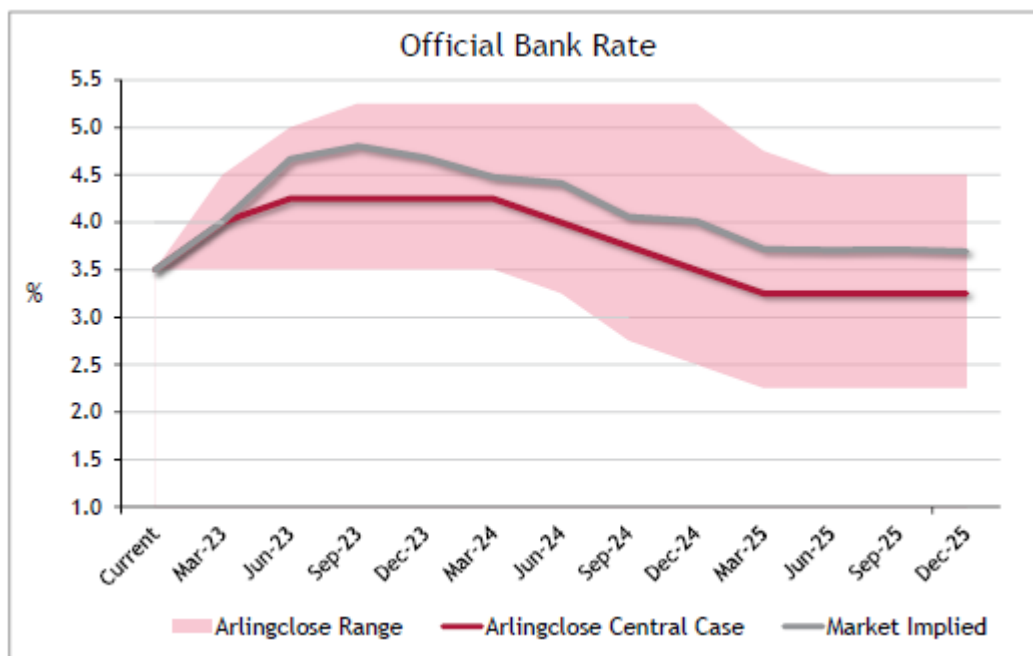
- The purpose and objective of each category of investments should be described within the Treasury Management Strategy

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

**4.50** The MTFS includes estimates of the borrowing costs arising from the financing of the capital programme.

**4.51** Arlingclose (the Council’s Treasury Management advisors) expect the Bank base rate to increase in the short-term above the current 3.50% (as set in December 2022) with the next increase likely in February 2023. Their projection in December 2022 shortly after the MPC decision to raise interest rates is for the Bank Base Rate to peak at 4.25% in the short-term with increases of 25bps forecast for February, March and May. Arlingclose’s view is that the Monetary Policy Committee (MPC) will cut rates in the medium term to stimulate the UK economy, but will be reluctant to do so until wage growth eases Rate cuts are not expected until the first half of 2024.

**Graph 3 – Interest Rates Forecast**



**4.52** The Treasury Management Strategy sets out the Council’s policy on Minimum Revenue Provision (MRP) and is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans)



- 4.53** The level of MRP to be charged to the revenue budget has been reviewed in light of the updated capital programme. MRP of £16k is to be charged in 2023/24 and is forecast to increase to £63k by 2026/27.
- 4.54** The Government consulted on changes to the regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision (MRP) each year. Where authorities borrow to finance capital spend, they are required under regulations to set aside money each year from their revenue account. This is referred to as MRP and is to make sure they can afford to repay the principal of their debt.
- 4.55** The consultation sought to address concerns around compliance by some local authorities with the duty to make prudent provision, resulting in an underpayment of MRP. Specifically, the Government highlighted two particular concerns:
- 4.56** Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.
- 4.57** Local authorities not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are still not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made
- 4.58** Whilst the Council has not had to charge MRP to the revenue budget, Cotswold District Council complies with the current guidance and has included prudent provision with the MTFS for the repayment of prudential borrowing undertaken to support the capital programme. The proposed changes may require the Council to consider the level of MRP in relation to capital loans made to third parties and its future capital expenditure plans.
- 4.59** The consultation closed on 08 February 2022 but there has not been a formal response by the Government.
- 4.60** Estimates of interest receivable on other investments remain positive but with some uncertainty around the wider global economy on the Council's longer-term investment returns. The Council continues to hold up to £12.5m in Pooled Funds and other longer-term investments, which have generated strong income returns. Investment income of £0.650m has been forecast for 2023/24 recognising a recovery in performance over the last 12 months whilst recognising that volatility remains a factor. The MTFS forecast assumes an increased level of return from 2023/24 due to higher interest rates. This will be kept under review in terms of the overall cash position of the authority and the impact of forecast interest rate rises.



## 5. BALANCED BUDGET REQUIREMENT

- 5.1 The Council is legally required to set a balanced budget for the following financial year and remains balanced. As can be seen in the MTFS, the Council's core financial position is a balanced budget next year (after utilisation of the Financial Resilience reserve and other transfers to reserves). However, there is a significant and increasing projected budget gap of £0.871m in 2023/24, £0.206m in 2024/25 and is forecast to increase to £3.025m in 2026/27.
- 5.2 An important part of the strategy for financial sustainability will be to continue to deliver efficiencies and savings over the coming years. The Corporate Strategy and services must be delivered within the overall resource envelope available to the Council thereby reducing reliance on earmarked reserves to support the budget.
- 5.3 The level of savings set out in the MTFS does not meet the budget gap identified. The Financial Resilience reserve is being used to balance the budget in the short-term and will be depleted over the MTFS period leading to a potential deficit position (in a "do nothing" scenario") during 2026/247. The Council will need to address the scale of the budget gap to ensure a balanced budget can be set for 2024/25 and beyond. The position set out in this report is by no means complete and the budget gap may change due to assumptions being updated.
- 5.4 The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code applies to all local authorities with the first full year of compliance required in 2022/23. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:
- financially manage the short, medium and long-term finances of a local authority
  - manage financial resilience to meet unforeseen demands on services
  - manage unexpected shocks in their financial circumstances
- 5.5 A key element of demonstrating financial sustainability and compliance with the FM Code is for the Council to ensure suitable mechanisms are in place around savings so that they are identified, agreed, planned, implemented and achieved. This will help to ensure the funding gap identified within the MTFS is addressed in a planned and managed way.
- 5.6 In response to the adverse financial position forecast for 2022/23 in the *Financial, Council Priority And Service Performance Report – 2022-23 Quarter Two* ([Agenda Item 10, Cabinet 05 December 2022](#)), Cabinet agreed the following actions:
- Agree that if in the event the Council receives one-off income or cost savings, this is allocated to the Financial Resilience Reserve and not committed to fund existing or new/additional expenditure.



- Agree that as part of the final budget preparation process for 2023/24, a review of the Reserves and Balances strategy is undertaken to consider the adequacy of reserves in light of the financial risks faced by the Council
- Agree that the Chief Executive oversees the creation of a Cabinet Transform Working Group, tasked primarily with receiving regular updates on progress against the Publica and Ubico savings and efficiencies target as part of an ongoing strategy to mitigate the forecast adverse financial position.

**5.7** The Cabinet Transform Working Group (CTWG) is developing a revised approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. The programme will set out a revised process for how transformation projects and savings are identified, evaluated, and approved, with clearer reporting and monitoring and governance arrangements. This approach will need to be undertaken by officers and members over the course of the 2023/24 financial year to be implemented to cover the new MTFS period.

**5.8** The CTWG approach will look at the design principles required to achieve a robust and balanced and proportionate plan. It is expected that any programme will include a mix of cost savings and additional income. The programme will consider and review service delivery options, organisational redesign programmes, improved procurement outcomes, and how to embed a commercial approach to service delivery and improved utilisation of property and income-generating assets.

**5.9** Whilst the focus of CTWG's programme will be on ensuring the budget gap over the MTFS period can be addressed, in-year savings opportunities will be reviewed and implemented to reduce the reliance on the Financial Resilience reserve in 2023/24.

### **Balances and Reserves**

**5.10** A review of the Reserves and Balances strategy has been undertaken to consider the adequacy of reserves in light of the financial risks faced by the Council. The review has taken into account guidance published under CIPFA LAAP Bulletin 99: Local Authority Reserves and Balances (July 2014). CIPFA has indicated the Bulletin will be revised and reissued shortly.

**5.11** The Council's financial position is supported by its balances and reserves. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

**5.12** There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:





- **Balanced Budget requirement:** England, Sections 31A, 42A of the Local Government Finance Act 1992, as amended
- **Chief Finance Officer (CFO) duty to report on robustness of estimates and adequacy of reserves** (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement
- **Requirements of the Prudential Code.**

**5.13** These requirements are reinforced by Section 114 of the Local Government Finance Act 1988 which requires the CFO to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

**5.14** There has been a greater focus on financial sustainability and Councils' reserves and balances due to Section 114 notices issued by Northamptonshire County Council (2018), LB Croydon (2020), Slough (2021), and Thurrock (2022).

**5.15** The review of reserves and balances recommends a distinction between the General Fund Balance and Earmarked Reserves.

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

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

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

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

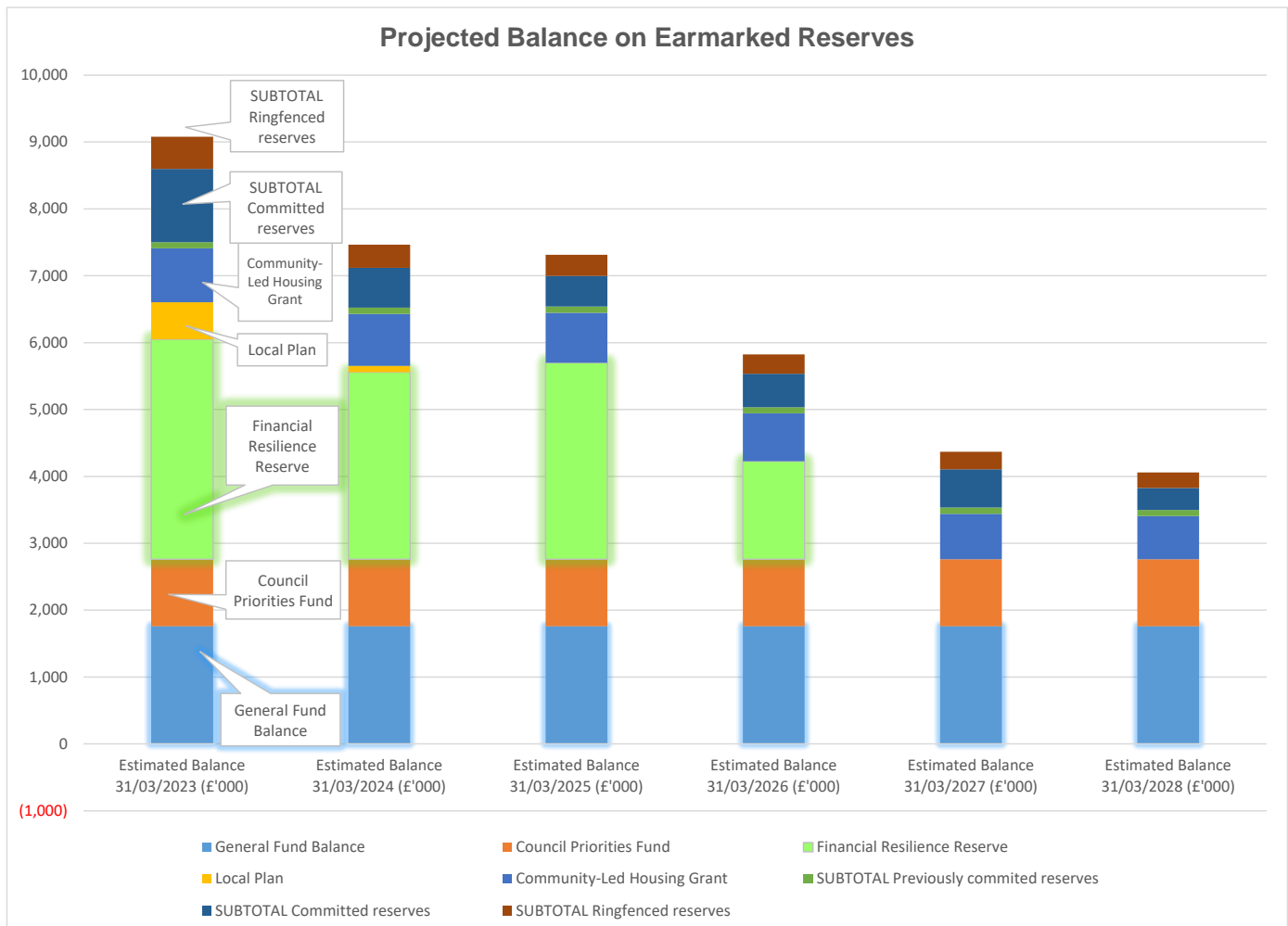


- 5.19** The Council holds a Council Priorities Fund revenue reserve. This funding is available for investment in initiatives which support delivery against the Council's priorities.
- 5.20** The Council Priorities Fund has been utilised over the last two years with a balance of £1m expected by the end of the current financial year. New initiatives will require Members to review existing commitments against earmarked reserves and to reallocate funds accordingly.
- 5.21** The Balances and Reserves Strategy adopts a different approach to previous financial years and recognises the financial risks facing the Council over the MTFS period. A key consideration is to ensure financial resilience and sustainability can be supported through the strategy. Therefore, the following balances and reserves position is proposed over MTFS period:
- General Fund Balance to be maintained at minimum level of £1.760m
  - Financial Resilience Reserve held to mitigate the budget gap identified in the MTFS and to facilitate profiling of a Savings and Transformation plan and support the award of the Leisure and Culture contract over MTFS period.
  - £0.350m projected Business Rates Pool income to be allocated to Financial Resilience Reserves for financial years 2023/24 to 2025/26. No assumption made for 2026/27 and beyond as it is uncertain whether Business Rates Pools will be viable post-reset.
  - Council Priorities Fund to be held at 2022/23 forecast closing balance level of £1m (forecast makes the assumption that no further allocations are planned)
- 5.22** If approved, the impact of these proposed changes outlined in the report to the level of balances and reserves is set out in the table below with the Graph indicating changes to the composition of earmarked reserves over the MTFS period.



**Table 10 – Reserves and Balances Forecast**

Reserve type	Opening Balance 01/04/2022 (£'000)	Estimated Balance 31/03/2023 (£'000)	Estimated Balance 31/03/2024 (£'000)	Estimated Balance 31/03/2025 (£'000)	Estimated Balance 31/03/2026 (£'000)	Estimated Balance 31/03/2027 (£'000)
General Fund	(2,553)	(1,760)	(1,760)	(1,760)	(1,760)	(1,760)
Council Priorities Fund	(2,767)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Financial Resilience Reserve	0	(3,290)	(2,799)	(2,941)	(1,469)	0
Financial Resilience Reserve - shortfall (illustrative)	0	0	0	0	0	2,635
Transform Invest to Save	(218)	(100)	(100)	(100)	(100)	(100)
Property R&M/Capital Works	0	(250)	(250)	(250)	(250)	(250)
ESIP Reserve	0	(58)	(58)	(58)	(58)	(58)
Business Rates Movement Reserve	(4,120)	(4,200)	0	0	0	0
Local Plan	(819)	(554)	(95)	0	0	0
Covid-19 Reserves	(88)	0	0	0	0	0
Community-Led Housing Grant	(806)	(806)	(776)	(746)	(714)	(681)
Previously committed reserves	(1,144)	(184)	(184)	(184)	(184)	(184)
Committed reserves	(1,991)	(863)	(513)	(382)	(424)	(498)
Ringfenced	(329)	(479)	(346)	(318)	(290)	(262)
<b>Total Earmarked Revenue Reserves</b>	<b>(12,283)</b>	<b>(11,785)</b>	<b>(6,120)</b>	<b>(5,979)</b>	<b>(4,489)</b>	<b>(398)</b>
<b>Total Revenue Reserves</b>	<b>(14,836)</b>	<b>(13,545)</b>	<b>(7,880)</b>	<b>(7,739)</b>	<b>(6,249)</b>	<b>(2,158)</b>





Note: The graph excludes the Business Rates Movement reserve balance of £4.2m. This earmarked reserve deals with the timing difference between the Council receiving Section 31 Grant as compensation of reduced business rates income (due to additional business rates reliefs) and the Council needing to finance its share of the deficit on the business rates collection fund. Section 31 Grants are received in-year whereas a deficit on the Collection Fund is financed the following financial year. It has been excluded on the basis it is not available to spend.

- 5.23 Whilst the level of reserves and balances shown in the table indicates that the Council is in a good financial position, the cumulative funding gap of £5.925m over the MTFS period - £0.871m in 2023/24 rising to £3.025m by 2026/27, would reduce the Financial Resilience Reserve to a nil balance during 2026/27.
- 5.24 Clearly, the Council will need to ensure delivery of robust, balanced and proportionate savings to mitigate the budget gap over the MTFS period, as indicated in paragraph 5.7 the newly established CTWG will ensure a Savings and Transformation Programme will be designed and implemented prior to the next MTFS period.

Table 11 – Summary Medium Term Financial Forecast

	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)
<b>MTFS Summary</b>				
Net Service Revenue Expenditure	13,626	13,626	13,626	13,626
Corporate Items/Non Service Income & Expenditure	(613)	(477)	(471)	(456)
Transfers to/(from) earmarked reserves	0	0	0	0
Provision for Inflation	1,811	2,336	2,897	3,477
<b>Service + Corporate Items</b>	<b>14,824</b>	<b>15,485</b>	<b>16,052</b>	<b>16,647</b>
Budget Proposals	762	602	564	564
Risk Items	300	300	300	300
Savings and Transformation Plan items	(1,510)	(2,358)	(3,323)	(3,351)
<b>Draft Net Revenue Budget</b>	<b>14,376</b>	<b>14,029</b>	<b>13,593</b>	<b>14,160</b>
<b>TOTAL Funding</b>	<b>(13,504)</b>	<b>(13,823)</b>	<b>(11,771)</b>	<b>(11,134)</b>
<b>Budget Gap / (Surplus)</b>	<b>871</b>	<b>206</b>	<b>1,822</b>	<b>3,025</b>

## 6. FUNDING

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

### Business Rates

- 6.2 The Council was required to finalise its Business Rates estimates for 2023/24 and its initial estimate of any surplus or deficit for 2022/23 by 31 January 2023. The estimate of retained



business rates income included in this report do not take into account the final forecasts for business rates that were submitted in the NNDRI return.

- 6.3 Forecasting business rates income is complex with the impact of the economic recovery from Covid-19 and additional reliefs announced in the Autumn Statement contributing to the level of uncertainty around forecasts for the medium-term.
- 6.4 From 01 April 2023, the rateable values of all non-domestic properties in England will be updated to reflect the property market as at 01 April 2021 and will ensure business rates bills reflect changes in market conditions since 2015. However, it is conceivable that the revaluation will lead to unexpected outcomes for ratepayers, with some facing significant increases in their liability at a time of increased economic uncertainty.
- 6.5 The estimate of business rates income has been prepared based on the rateable value of properties on the rating list on 31 December 2022. Forecasts have been made concerning the level of mandatory and discretionary reliefs that will be given, and an allowance made for bad debts and repayments.
- 6.6 Business rates are collected by the Council, and the proceeds are shared between Cotswold District Council, Gloucestershire County Council and the Government. There is an element of risk and reward involved in the Business Rates scheme, which is designed to incentivise Councils to promote business growth within their areas. The Council expects its share of retained business rates to be £4m in 2023/24. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation, and reliefs. The draft forecast for business rates included in this report, although broadly similar to last year, has seen significant changes in terms of rateable values and reliefs.
- 6.7 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.
- 6.8 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.
- 6.9 At the time of writing this report, the business rate estimates for 2023/24 are being finalised and will be included in the updated MTFS presented to Council on 15 February 2023. The table below should be considered as an initial forecast based on a high-level view on the impact of the revaluation and business rates reliefs.



Table 12 – Business Rates Forecast **(Not Final)**

	2023/24 Estimate (£'000)	2024/25 Estimate (£'000)
<b>Derivation of BRR Figures for MTFS</b>		
Non-Domestic rating income (NNDR1 Estimate)	12,495	13,465
Less: Tariff Payment to Government	(12,963)	(13,925)
Less: Estimated Levy Payment to Government	(1,345)	(1,463)
Add: Renewable Energy schemes	78	78
<b>Estimated Retained Business Rates</b>	<b>(1,735)</b>	<b>(1,844)</b>
Section 31 Grant Payable	5,108	5,478
Multiplier Cap	801	859
<b>TOTAL Funding from Business Rates</b>	<b>4,173</b>	<b>4,493</b>
<b>Assumed BRR included in MTFS</b>	<b>4,000</b>	<b>4,000</b>

### Gloucestershire Business Rates Pool

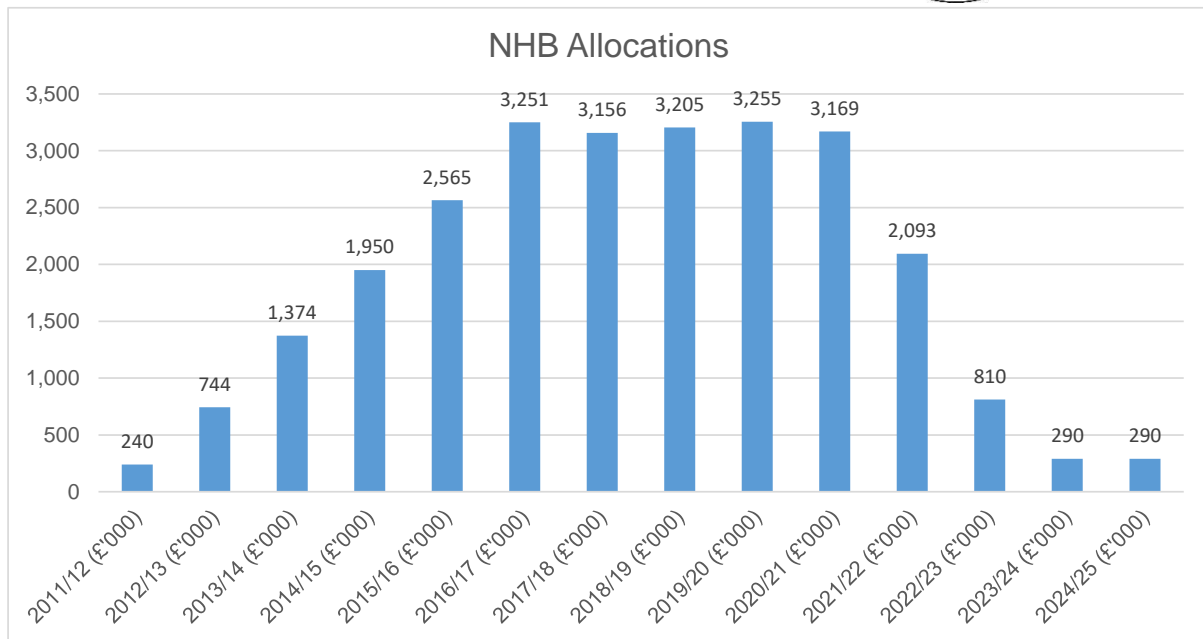
- 6.10 The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership
- 6.11 Change in the Pool Levy rate from 15% to 21% as a result of the revaluation will mean less funding remains in the County. Other things being equal, a pool surplus of £1.0m would give rise to a Pool Levy of £0.210m in 2023/24 compared to £0.150m in 2022/23.
- 6.12 Any windfall gain associated with the Business Rates Pool in 2022/23 will be allocated to the Council Priorities Fund. For financial years 2023/24 to 2025/26 any windfall will be allocated to the Financial Resilience reserve (as indicated in paragraph 5.21 on Earmarked Reserves).
- 6.13 There remains uncertainty over the future of Business Rates Pooling over the MTFS period. Local Government Reform will include a reset to business rates coupled with shorter valuation periods. Therefore, there is a risk that Pooling may not be financially viable as there may be too much risk and too little reward.

### New Homes Bonus (NHB)

- 6.14 New Homes Bonus will continue for a further year in 2023/24 with an allocation of £0.290m included in the provisional settlement. As has been the case over the last two financial years, 2023/24 is a one-year only allocation and does not give rise to an ongoing legacy payment. The Government has indicated that set out the future position of New Homes Bonus ahead of the 2024/25 local government finance settlement. The graph below highlights the reduction in the value of NHB to the Council since 2020/21.



**Graph 4 – New Homes Bonus (NHB)**



### **Funding Guarantee**

- 6.15** The provisional settlement includes a new one-off Funding Guarantee in recognition of the inflationary pressures faced by the sector and is designed to ensure that all councils will see at least a 3% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels.
- 6.16** The Funding Guarantee replaces the Lower Tier Services Grant (£1.435m in 2022/23) and also repurposes other funding streams. Therefore, the value of the allocation should be viewed in the context of the total funding assumed in Core Spending Power as shown earlier in Table I of this report.
- 6.17** For Cotswold, the value of the Funding Guarantee is £2.065m for 2023/24 and is forecast to increase to £2.096m for 2024/25. Whilst this funding is welcomed, it falls short of mitigating the inflationary pressures on the Council's budget.

### **Other Grants/Funding**

- 6.18** The Government has recognised the cost of service delivery in rural areas through the Rural Services Delivery Grant (RSDG) funding since 2016. This will continue for 2023/24 and 2024/25 with £0.632m included in the provisional settlement. It is worth noting that RSDG has not been uplifted to take into account inflation and can be seen as a real-terms reduction in funding for rural areas with the £0.632m allocation being unchanged from 2021/22.
- 6.19** Services Grant continues for 2023/24 and 2024/25 although the allocation for Cotswold has reduced from £0.129m to £0.073m recognising the reversal in November 2022 of the employers National Insurance increase from April 2022.



**6.20** Revenue Support Grant (RSG) of £0.135m for 2023/24 (£0.145m estimated for 2024/25) has been provided in the provisional settlement. However, this is a consolidation of 4 grants which maintain their existing distribution. These are the Independent Living Fund; Council Tax Discounts – Family Annex; Local Council Tax Support Administration Subsidy; and Natasha’s Law. The value of the rolled-in grants is broadly equal to the RSG allocation and should be viewed as replacing existing distinct funding streams rather than ‘new’ funding.

**6.21** The table below sets out the assumed level of funding included within the MTFS

**Table 13 – Funding assumed in MTFS forecast**

<b>Funding included in MTFS</b>	<b>2022/23 (£'000)</b>	<b>2023/24 (£'000)</b>	<b>2024/25 (£'000)</b>	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>
Council Tax	6,073	6,311	6,588	6,870	7,157
Business Rates Retention (net of risk)	3,462	4,000	4,000	3,150	3,213
Rural Services Delivery Grant	632	632	632	632	632
Lower Tier Services Grant	1,435	0	0	0	0
New Grant (was LTSG) to achieve 3% increase in CSP	0	2,066	2,095	0	0
Services Grant	129	73	73	0	0
New Homes Bonus	810	290	290	0	0
New Homes Bonus (Returned Funding)	0	0	0	0	0
Revenue Support Grant (RSG)	0	135	145	0	0
(Negative) Revenue Support Grant	85	0	0	(1,280)	(1,315)
Damping	0	0	0	2,399	1,447
Collection Fund - CT	0	(2)	0	0	0
Collection Fund - NNDR	0	0	0	0	0
<b>TOTAL Funding</b>	<b>12,627</b>	<b>13,504</b>	<b>13,823</b>	<b>11,771</b>	<b>11,134</b>
<b>Proposed Net Revenue Budget</b>	<b>12,595</b>	<b>14,376</b>	<b>14,029</b>	<b>13,593</b>	<b>14,160</b>
<b>Budget shortfall/(surplus)</b>	<b>(32)</b>	<b>871</b>	<b>206</b>	<b>1,822</b>	<b>3,025</b>

### Council Tax

**6.22** The referendum threshold for 2022/23 for Shire Districts including Cotswold District Council is 3% or £5 (whichever is the greater). The Core Spending Power calculation published with the Local Government Finance Settlement assumed that all authorities would raise their Council Tax towards the maximum allowable amounts. Factoring such increases into the funding assessment, removes flexibility for local authorities to take local decisions about tax levels and to use increases in local taxation to offset local spending pressures. Councils now need to make these increases just to keep total funding levels at a standstill.

**6.23** The revenue budget assumes a £5 increase in a Band D charge for Council Tax, which falls within the permissible level of increase before triggering a local referendum and equates to an increase less than 10 pence per week for a Band D property.

**6.24** A £5 increase in Council Tax formed part of the Budget Consultation undertaken in November and December 2022. As reported to Cabinet in January 2023, the results of the





consultation exercise indicated strong support from respondents to a £5 increase in the Band D Council Tax rate. Question 3 asked:

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

- 6.25** The response to this question was supportive. 63.2% agreed or strongly agreed with the proposed Council Tax increase. 22.5% disagreed or strongly disagreed whilst 14.3% neither agreed nor disagreed.
- 6.26** A Council Tax rise of £5 increases the Band D rate from £143.93 to £148.93 and will generate approximately £0.238m in additional Council Tax revenue annually (when taken with estimated changes to the taxbase, £0.211m when the taxbase growth is not included). The MTF5 assumes an increase of up to £5 per annum. This would generate a further £0.846m over the remaining years of the MTF5 period

**Table 14 – Council Tax Income**

	2022/23	2023/24	2024/25	2025/26	2026/27
Taxbase	42,192.93	42,374.24	42,797.98	43,225.96	43,658.22
Assumed Band D rate (£) *	143.93	148.93	153.93	158.93	163.93

	2022/23	2023/24	2024/25	2025/26	2026/27
Precept (£'000)	6,073	6,311	6,588	6,870	7,157
Increase (£'000)		238	277	282	287
Cumulative Increase (£'000)		238	515	797	1,084

- 6.27** The decision to set Council Tax remains an annual decision for Council to consider when setting the budget each year.

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

- 6.28** Council approved the Council Tax Support scheme for 2023/24 at their meeting on 16 November 2022. Revisions to the scheme included changes to income bands within the scheme to give support to households through the cost of living crisis with an increase income bands 2 to 6 for single people and couples by £10 a week, and by £20 a week for those with children.
- 6.29** The cost of the scheme will increase by approximately £58k across all preceptors, with the cost to Cotswold District Council estimated to be just over £4k. The impact of this has been reflected in the Council Tax estimate included within the MTF5.
- 6.30** The Government announced £100 million of additional funding for local authorities to support the most vulnerable households already in receipt of Council Tax support. The Government



expects local authorities to use the majority of their funding allocations to reduce bills for current working age and pension age Local Council Tax Support (LCTS) claimants by up to £25. Councils can use their remaining allocation as they see fit to support vulnerable households with council tax bills.

- 6.31** Whilst the Government guidance and expectation is set out above, the Council will need to design a local scheme to support its residents using discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992. The provisional allocation for Cotswold District Council is £0.103m.

### **Council Taxbase**

- 6.32** The Taxbase for 2023/24 has been estimated at 42,374.24 and represents an increase of 181.31 (0.43%) over the 2022/23 position. For the purposes of the MTFS it has been assumed the Taxbase will grow at 1.00% per annum.

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

- 6.33** The Council Tax Collection Fund is estimated to be in deficit by the end of the current financial year by £18k. Cotswold District Council's share is £2k and is included within the Council Tax Collection Fund deficit line within the MTFS.
- 6.34** Collection rates for Council Tax have improved throughout 2022/23. At the time of writing, the Revenues team have been able to collect the majority of Council Tax due for the year and the collection rate has improved each month. The latest available collection data suggests that the Council is above the collection rate for the same period in 2021/22 and the total collected is forecast to be broadly in-line with the level precepted against the Collection Fund
- 6.35** Any surplus or deficit on the Collection Fund is shared across the major precepting authorities (Gloucestershire County Council and Gloucestershire Police and Crime Commissioner).

## **7. CAPITAL PROGRAMME 2023/24 TO 2026/27**

- 7.1** The Council's Capital Strategy and Capital Programme are considered over a five-year period. The Strategy provides the framework for the Council's capital expenditure and financing plans to ensure they are affordable, prudent and sustainable over the longer-term.
- 7.2** The Council has set out its Capital Programme for the period 2023/24 to 2026/27 based on the principles of the current Capital Strategy. This is summarised in Table 15 below and in further detail in Annex D of this report. A total capital expenditure budget of £13.899m in 2023/24 is proposed. Total expenditure decreases to £2.318m and £1.277m in 2024/25 and 2025/26 respectively, and in the final year of the current programme 2026/27 spend is estimated at £5.015m.



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

**Table 15 – Summary Capital Programme**

	2022/23 Budget (£'000)	2023/24 Budget (£'000)	2024/25 Budget (£'000)	2025/26 Budget (£'000)	2026/27 Budget (£'000)	TOTAL Budget (£'000)
<b>Capital Programme</b>						
Leisure & Communities	428	1,387	50	50	550	2,465
Housing/Planning and Strategic Housing	2,383	4,001	1,300	700	700	9,084
Environment	961	1,956	111	377	3,615	7,020
ICT, Change and Customer Services	70	350	150	150	150	870
UK Rural Prosperity Fund	0	191	573	0	0	764
UK Shared Prosperity Fund Projects	11	28	134	0	0	173
Land, Legal and Property	516	500	0	0	0	1,016
Transformation and Investment	1,510	5,486	0	0	0	6,996
	<b>5,879</b>	<b>13,899</b>	<b>2,318</b>	<b>1,277</b>	<b>5,015</b>	<b>28,388</b>

- 7.4 The capital programme includes £0.500m for Asset Management activities in 2023/24 (under the summary heading Land, Legal and Property) recognising the need to manage the existing assets over the initial MTFS period.
- 7.5 The Council will develop a comprehensive Asset Management Strategy supported by detailed asset management plans for the Land and Buildings assets it holds and will be presented to Cabinet in July 2023. The strategy and plans will identify and provide a longer-term view (e.g. 5-10 years) of the income and expenditure profiles, tenant events, hold and disposal options. The draft core aims of the Asset Management Strategy is set out below.
- Drive efficiency through the management of our land and property assets, ensuring they provide the right space, in the right place and on the best terms. This also includes income generation and overall social value from the property portfolio through proactive asset management.
  - Manage our property portfolio effectively using best practice, project and property management methodologies, adopting clear policies and action plans to meet our strategic goals; developing clear reporting processes to involve and inform Councillors, Service Managers and Project Sponsors in decision making.
  - Keep our properties safe, dry and secure through the implementation of a well-managed, rigorous compliance regime; repairs and renewals programme with clear maintenance plans and efficient facilities management.
  - Delivering the corporate objectives and priorities of the organisation through the management of assets
  - Embed a culture of innovation that maximises best use of appropriate technologies that support new ways of working and protects the environment; utilising available financing to support implementation and meet the objectives of the Climate xxx Action Plan



- 7.6 The Council's capital expenditure has up until the current financial year been predominantly financed from capital receipts. As these are forecast to deplete over the capital programme period the Council will need to undertake prudential borrowing to support future capital expenditure plans. Other sources of finance support the capital programme, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts).
- 7.7 The level of prudential borrowing included reflects the financing available in the revenue budget, capital receipts align with forecasts and grant funding and other contributions are based on already notified allocations or best estimates at the time of preparation. If additional resources become available, projects that meet the Council's strategic capital objectives will be brought forward for approval.

**Table 16 – Summary Capital Financing Statement**

	2022/23 Budget (£'000)	2023/24 Budget (£'000)	2024/25 Budget (£'000)	2025/26 Budget (£'000)	2026/27 Budget (£'000)	TOTAL Budget (£'000)
<b>Capital Financing Statement</b>						
Capital receipts	2,817	8,036	715	240	615	12,423
Capital Grants and Contributions	2,370	1,576	1,407	700	700	6,753
Earmarked Reserves	238	0	0	0	0	238
Revenue Contribution to Capital Outlay (RCCO)	70	150	150	150	150	670
Community Municipal Investments (CMI)	384	116	0	0	0	500
Prudential Borrowing	0	4,021	46	187	3,550	7,804
	<b>5,879</b>	<b>13,899</b>	<b>2,318</b>	<b>1,277</b>	<b>5,015</b>	<b>28,388</b>

## 8. RISKS AND UNCERTAINTIES

- 8.1 There are a number of financial risks that the Council will face over the medium-term. The 2023/24 Budget and the MTFs have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.
- 8.2 The first key risk is around the nature and scope of local government funding from the Government in 2024/25 and more substantially from 2025/26. The implementation of the Fair Funding Review and Business Rates changes has already been delayed (originally due from April 2020) and is likely to be reviewed following comments from the Secretary of State in November 2021. The forecast impact on District Councils is likely to be significant as resources are moved around Local Government to recognise Social Care cost pressures.
- 8.3 It is very difficult to estimate with certainty the impact on Cotswold. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2024/25 and beyond.



- 8.4** However, an initial estimate of a 30% reduction in the level of retained business rates income has been included in the MTFS assumptions from 2025/26. An estimate has been made around transitional arrangements, but these are not based on any indication or commitment from the Government but have been based on financial modelling provided by Pixel including a view on damping (transitional arrangements upon implementation of the new distribution methodology to avoid significant step-changes, shocks or disruption to stable financial planning and service delivery).
- 8.5** A significant uncertainty in the MTFS is the assessment of when funding changes will be implemented. As discussed in paragraph 7.2, the implementation of Local Government Finance reform has already been delayed several times. The Local Government Finance Policy Statement and subsequent settlement provided information on funding for 2024/25. Whilst no indication has been provided for future settlements, there are a number of factors that may influence the timing of reform.
- General Election – if a general election is called as late as November 2024, there would only be a very short period for any new Government to consider reform and consult with Local Government on the 2025/26 settlement. This may mean reform is delayed until 2026/27.
  - Business Rates Valuation periods – HM Treasury’s final report on the Business Rates Review moved to more frequent valuations with April 2023 being the start of a 3-year valuation period. With the next valuation period commencing in April 2026, there may be some benefit to aligning Local Government Finance reforms with the new valuation period.
- 8.6** The second key risk is around the continued impact on the Council from pressures within the wider economy including inflation and interest rates. This will have an impact on income and expenditure budgets during 2023/24 and will require timely and accurate financial reporting to Cabinet. These risks include:
- Income from Council Tax and Business Rates will continue to be under pressure in 2023/24 with an expectation that the taxbase for Council Tax and Business Rates may take time to recover.
  - Increased demand for certain services (e.g., Homelessness) may put additional financial pressure on the Council
  - Cost of services where the Council is exposed to risk sharing in contract costs
  - Energy cost pressures
- 8.7** The budget has been prepared in light of key financial risks facing the Council over the medium- term, principally:
- Business Rates Retention and changes to the Local Government Finance system/Levelling Up Agenda
  - Replacement of New Homes Bonus from 2024/25 at a time this Council will be continuing to delivering a significant number of new homes.



- Treasury management issues including interest rates, level of capital expenditure, use of internal resources, borrowing costs.
- External economic environment – UK and global economy.
- Financial impact of the Capital Programme on the revenue budget – the affordability of the capital programme and future schemes needs to be carefully considered.

## 9. CONCLUSIONS

- 9.1 Despite the uncertainties around future levels of Government Funding, the impact from Covid over the last two years, the Cost of Living crisis and the general economic position, the Council has been able to prepare a sound budget whilst maintaining services to residents. The budget will also provide a platform for Cotswold District to address future challenges.
- 9.2 The budget has been prepared in accordance with the approved budget strategy. This includes the principle of maintaining the Council's general fund revenue risk-based balance at £1.760m and maintaining other usable reserves to mitigate risk and support improvement.
- 9.3 The Council will need to continue to take steps to manage and address the budget gap identified over the MTFS period.
- 9.4 The Capital Programme includes planned expenditure £13.899m in 2023/24 with the Council needing to consider the outcome of due diligence work on other potential schemes before any further capital expenditure is committed.
- 9.5 The budget includes a recommendation to Council for the current Council Tax level to increase by £5 for a Band D property (from £143.93 per annum to £148.93) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.
- 9.6 The newly created Cabinet Transform Working Group Council will need to develop a revised approach to the Council's Savings Programme to address the budget gap identified over the MTFS period. The approach will look at the design principles required to achieve a robust, balanced and proportionate plan of cost management and income generation opportunities to ensure the Council is able to achieve financial sustainability.
- 9.7 Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing. Reserves held to promote financial sustainability are forecast to be depleted during 2026/27 and will require consideration during 2022/23 as to their adequacy for future financial years given the current risks and uncertainties identified in this report. All reserves will be monitored and reported to Cabinet throughout 2023/24.



## 10. FINANCIAL IMPLICATIONS

10.1 The Financial implications are set out in detail within the report.

## 11. LEGAL IMPLICATIONS

11.1 None directly as a result of a review of the draft report.

## 12. RISK ASSESSMENT

12.1 Section 8 of this report set out the risks and uncertainties around the 2023/24 budget and MTFS forecast.

## 13. ALTERNATIVE OPTIONS

13.1 On 01 February 2023, the Overview and Scrutiny Committee considered the budget proposals and were encouraged to provide feedback to the Cabinet, which may include alternative options.

13.2 Cabinet will consider any feedback from the Overview and Scrutiny Committee and will determine the final budget proposals to be presented to Council for consideration.

## 14. BACKGROUND PAPERS

14.1 The following background papers have been referred to within this report.

[Budget and Medium Term Financial Strategy, Cabinet \(07 November 2022\)](#)

[Financial, Council Priority and Service Performance Report - 2022/23 Quarter Two \(Cabinet, 05 December 2022\)](#)

[Budget Consultation Feedback \(Cabinet, 09 January 2023\)](#)

These documents will be available for inspection online at [www.cotswold.gov.uk](http://www.cotswold.gov.uk) or by contacting democratic services [democratic@cotswold.gov.uk](mailto:democratic@cotswold.gov.uk) for a period of up to 4 years from the date of the meeting.

(END)