COTSWOLD
DISTRICT COUNCIL

| | |
|---|---|
| Council name | **COTSWOLD DISTRICT COUNCIL** |
| Name and date of Committee | **COUNCIL – 21 FEBRUARY 2024** |
| Subject | **2024/25 REVENUE BUDGET, CAPITAL PROGRAMME AND MEDIUM-TERM FINANCIAL STRATEGY** |
| Wards affected | All |
| Accountable member | Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance<br>Email: mike.evemy@cotswold.gov.uk |
| Accountable officer | David Stanley, Deputy Chief Executive and Section 151 Officer<br>Email: david.stanley@cotswold.gov.uk |
| Report Author | David Stanley, Deputy Chief Executive and Section 151 Officer<br>Email: david.stanley@cotswold.gov.uk |
| Summary/Purpose | The purpose of this report is to present the budget for 2024/25. |
| Annexes | Annex A – Report of the Chief Finance Officer (Section 25 Statement)<br>Annex B – Medium Term Financial Strategy<br>Annex C – Savings Plan Items<br>Annex D – Capital Programme 2024/25 to 2027/28<br>Annex E – Annual Capital Strategy 2024/25<br>Annex F(i) – Annual Treasury Management Strategy 2024/25<br>Annex F(ii) – Annual Non-Treasury Management Investment Strategy 2024/25<br>Annex G – Detailed Revenue Budgets 2024/25<br>Annex H – Strategy for the Flexible Use of Capital Receipts<br>Annex I – CDC response to the Local Government Finance consultation |
| Recommendation(s) | That Council resolves to approve:<br>1. the Medium-Term Financial Strategy set out in Annex B<br>2. the Savings and Transformation items for inclusion in the budget, set out in Annex C<br>3. the Council Tax Requirement of £6,596,721 for this Council<br>4. the Council Tax level for Cotswold District Council purposes of £153.93 for a Band D property in 2024/25 (an increase of £5)<br>5. the Capital Programme, set out in Annex D<br>6. the Annual Capital Strategy 2024/25, as set out in Annex E<br>7. the Annual Treasury Management Strategy and Non-Treasury |

| | |
|---|---|
| | Management Investment Strategy 2024/25, as set out in Annex F<br>8. the Strategy for the Flexible use of Capital Receipts, as set out in Annex H<br>9. the balances and reserves forecast for 2024/25 to 2027/28 as set out in Section 6 of the report.<br>10. the Council Tax Support scheme recommended by Cabinet summarised in paragraphs 7.29 and 7.30 of this report |
| Corporate priorities | • Delivering our services to the highest standards<br>• Responding to the challenges presented by the climate crisis.<br>• Providing good quality social rented homes<br>• Presenting a local plan that's green to the core.<br>• Helping residents and communities access the support they need for good health and wellbeing.<br>• Supporting businesses to grow in a green, sustainable manner, and to provide high value jobs |
| Key Decision | YES |
| Exempt | NO |
| Consultees/ Consultation | The 2024/25 Revenue Budget, Capital Programme and Medium-Term Financial Strategy has been developed in consultation with the Council's statutory officers, Publica management, Ubico management, and members of the Cabinet. Consultation has been carried out with members of the Overview and Scrutiny Committee and with the District's residents, businesses, and community organisations. |

## 1. EXECUTIVE SUMMARY

1.1 The budget and Medium-Term Financial Strategy (MTFS) have been prepared in the context of ongoing pressures on the Council's finances.

1.2 **A significant budget gap** was identified in the February 2023 MTFS. The indicative position outlined for 2024/25 through to 2026/27 was an unfunded budget gap of £5.053m, as reported to Council in February 2023. It was noted at the time that a revised approach to savings and transformation was required given the cumulative budget gap forecast over the MTFS period. With the challenging economic environment, the unfunded budget gap can be expected to have increased over the last 12 months.

1.3 In common with the almost all local authorities, the council faces several external budget pressures that are impacting on its finances over the medium-term. There remains uncertainty around inflation and interest rates in the current financial year which have an influence over the Council's budget for 2024/25 and the MTFS period both directly and indirectly.

1.4 Several local authorities have issued section 114 notices over the last year with Birmingham City Council being the most high-profile along with Nottingham City Council, Woking Borough Council, and Thurrock Council. A section 114 notice indicates that the council's forecast income is insufficient to meet its forecast expenditure for the next year. A significant number of other local authorities have indicated they are at risk of issuing a section 114 notice.

1.5 **Whilst there is no immediate risk of Cotswold District Council having to consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability.**

1.6 Uncertainty around Local Government funding from the Government in the later years of the medium-term 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 should a General Election take place in the latter half of 2024. 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.

1.7 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 complex and will be challenging to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates over the MTFS period. For the purposes of this report, it has been assumed fundamental changes to local government finance are delayed until 2026/27.

1.8 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.

1.9 The continued impact on the Council from pressures within the wider economy including inflation and interest rates will have an impact on income and expenditure budgets during 2024/25 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 2024/25 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 (higher than pre-pandemic levels)

1.10 The Council's budget and MTFS were the subject of a consultation exercise during November and December 2023 with Cabinet considering the feedback from residents in January 2024.

**1.11 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 £148.93 to £153.93.**

1.12 The provisional settlement for 2024/25 was announced on 18 December 2023. With a general election due no later than January 2025 and the impact from inflation and the wider external economic environment it should be seen as a 'roll-over' settlement from 2023/24. It is worth stressing that the settlement only covers the forthcoming financial year with no indication of future funding levels. Significant changes to local government finance have been delayed until at least 2025/26 and it is widely expected that the outcome from the General Election will push the implementation date out further.

1.13 The provisional and subsequent final settlement confirmed the funding expectations for local government outlined in the Spending Review 2021 and confirmed in the 2023 Autumn Statement.

- It is a one-year settlement 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 2025/26 and beyond.
- Rural Services Delivery Grant maintained at £95m.
- Significant Social Care Funding – a further increase of £1.0bn over and above the additional funding provided in 2023/24.
- Protection of Core Spending Power (CSP) through the continuation of the Funding Guarantee to ensure all Councils receive a 3% cash increase in resources. With the exception of Fire Authorities, the percentage increase in CSP for Shire Districts was the lowest of all local authority classes at an average of 4.93%.
- Continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA)
- Revenue Support Grant (RSG) and the Baseline Funding Level (BFL) have been uplifted by 6.62%.
- Services Grant has reduced from £403m to £77m.
- Flexibilities over the use of capital receipts will be extended to March 2030, subject to consultation with the sector.
- The final settlement allocated a further £600m across local government - £500m in respect of Social Care Funding, £15m increase in Rural Services Delivery Grant, an extra £10m for Services Grant, an increase in the Funding Guarantee from 3% to 4%.
- Local authorities will also be required to publish 'productivity plans' by summer 2024. The Government will convene an expert panel to review the plans and advise the Government on best practice.

<u>Publica Review</u>

**1.14** Human Engine undertook an appraisal of the appropriateness of some services remaining with Publica in response to the Local Government Association Peer Review recommendation. Council approved the recommendations contained with the Human Engine report at their meeting on 22 November 2023.

**1.15** The report recommended that a significant number of services should move from Publica and return to being under greater control of the councils. This would leave Publica delivering a range of back-office services for the Councils.

**1.16** This represents a fundamentally different future for the councils and for Publica. The Publica of the future will be smaller, leaner, and principally a vehicle for sharing services rather than an entity with its own management, cultural identity, and high-profile brand. Subject to approval of the recommendations of the Human Engine report by West Oxfordshire District Council in early 2024, each of the four councils will then work in partnership to create a phased plan for the transfer of services.

**1.17** The transition of services from Publica to Council will clearly have a material impact on the Council's resources and budget over the next two years. For the purposes of the 2024/25 revenue budget and the MTFS, it is assumed the cost of services will remain within the cost envelope set out over the medium-term.

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

**1.19** To fund the one-off costs of transition, it is recommended that £0.500m is set aside in the Corporate Priority: Publica Review reserve.

**1.20** Inevitably, there are likely to be workforce planning costs arising from the transfer of services. As the indicative timetable for services to transfer is not yet known, the scale and the timing of workforce planning costs and mitigation measures is difficult to estimate with any certainty. Therefore, it is appropriate to set out the approach the Council will take to financing these costs over the transition period.

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

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

**1.22** The Publica Review report approved by Council in November 2023 included high-level estimates on the additional cost and mitigation options associated with the return of the majority of services to the Council. The Council is undertaking further and extensive due diligence on the recommendations from the Human Engine review with consideration of workforce planning issues such as employer pension costs, pension liability modelling, TUPE arrangements.

**1.23** The MTFS has been prepared against the emerging position regarding the Publica Review. The broad assumptions for the purposes of the 2024/25 budget and over the medium term is that service costs remain within the financial envelope set out over the MTFS period.

**1.24** The Transition Plan will set out in detail the approach to returning services from Publica to the Council including options on timing and service and management structures.

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

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

1.27 Decisions regarding additional costs arising from service redesign and transfer will be subject to business cases that clearly outline how the proposal contributes to the wider outcomes in terms of a cost/benefit assessment (for example, additional cost assessed against the ongoing saving opportunity and payback period). Whilst the governance process for the Transition Plan activities has yet to be finalised, it is recommended this includes consultation and sign-off with the Section 151 Officer to ensure overall project costs are managed, monitored, and reported as part of the quarterly financial performance reports.

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

Balanced Budget Requirement

1.29 **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 budget for 2024/25 and 2025/26 delivers a surplus which will be transferred to the Financial Resilience reserve. However, there is a significant and increasing projected budget gap of £1.511m in 2026/27 and is forecast to increase to £3.511m in 2027/28.

COTSWOLD DISTRICT COUNCIL

Table ES1 – Summary Medium Term Financial Forecast

| MTFS Summary | 2023/24 Original (£'000) | 2023/24 Q2 Forecast (£'000) | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|---|---|
| Net Service Revenue Expenditure | 13,625 | 16,783 | 15,858 | 15,858 | 15,858 | 15,858 |
| Corporate Items/Non Service Income & Expenditure | (812) | (1,490) | (1,015) | (649) | (50) | 24 |
| Transfers to/(from) earmarked reserves | 0 | (814) | 476 | (557) | (701) | (701) |
| Provision for Inflation | 1,799 | 0 | 1,117 | 1,993 | 2,694 | 3,414 |
| **Service + Corporate Items** | **14,611** | **14,479** | **16,437** | **16,645** | **17,801** | **18,596** |
| Budget Pressures | 762 | 0 | 584 | 628 | 690 | 740 |
| Technical Adjustments | 0 | 0 | 77 | 77 | 77 | 77 |
| Risk Items | 500 | 398 | 0 | 0 | 0 | 0 |
| Savings and Transformation Plan items | (1,510) | (250) | (2,036) | (2,931) | (3,205) | (3,422) |
| **Draft Net Revenue Budget** | **14,363** | **14,627** | **15,061** | **14,419** | **15,362** | **15,990** |
| **TOTAL Funding** | **(13,503)** | **(13,503)** | **(15,577)** | **(14,743)** | **(13,852)** | **(12,479)** |
| **Budget Gap / (Surplus)** | **860** | **1,124** | **(516)** | **(324)** | **1,511** | **3,511** |

1.30 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.

1.31 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.

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

Budget Pressures, Inflation and Risk

1.33 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.

COTSWOLD
DISTRICT COUNCIL

**Table ES2 – Pressures and Inflation**

| Item & Summary | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Budget Pressures | | | | |
| Expenditure Pressures | 300 | 261 | 261 | 261 |
| Income Pressures | 270 | 340 | 402 | 452 |
| | **570** | **601** | **663** | **713** |
| | | | | |
| Techincal Adjustments | **77** | **77** | **77** | **77** |
| | | | | |
| Provision for Inflation & Contract Growth | | | | |
| Contract Inflation | 1,200 | 2,033 | 2,704 | 3,393 |
| Pay Inflation | 68 | 109 | 140 | 171 |
| Energy Cost Inflation | (150) | (150) | (150) | (150) |
| | **1,117** | **1,993** | **2,694** | **3,414** |
| | **1,764** | **2,670** | **3,433** | **4,204** |

Savings Plan

1.34 To mitigate the budget pressure outlined above and to set a balanced budget for the year, the draft budget included a range of proposed expenditure savings and Fees and Charges increases.

1.35 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 | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Third Party Contract Savings | (150) | (250) | (300) | (300) |
| Corporate Savings | (196) | (392) | (392) | (392) |
| Other Expenditure Savings | (913) | (1,263) | (1,263) | (1,263) |
| **Subtotal** | **(1,259)** | **(1,905)** | **(1,955)** | **(1,955)** |

| Fees and Charges | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Car Parking Fees (Sunday Charging) | (105) | (109) | (113) | (116) |
| Car Parking Fees (Tariff Change) | (376) | (506) | (611) | (708) |
| Planning Fees (Statutory) | (100) | (100) | (100) | (100) |
| Other Fees and Charges - Cost Recovery | (27) | (27) | (27) | (27) |
| Garden Waste - fee increase | (169) | (283) | (400) | (517) |
| **Subtotal** | **(777)** | **(1,026)** | **(1,251)** | **(1,468)** |

Balances and Reserves

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

**1.37** 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.

**1.38** The review of reserves and balances for the 2023/24 recommended a distinction between the General Fund Balance and Earmarked Reserves.

**1.39** 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.

**1.40** 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.

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

1.42 A review of the Council Priorities Fund revenue reserve has been undertaken with the recommendation that this is allocated into separate reserves linked to the priorities outlined in the Council's Corporate Plan as indicated below:

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

1.43 It is recommended that the following reserve balances are established to support the Publica Review outcomes and the ongoing preparation of the Council's Local Plan:

- £0.500m is set aside in the Council Priority: Publica Review reserve to provide adequate funding for the Council's share of the costs arising during the Transition phase. The Council approved the Publica Review report in November 2023 which indicated an initial £0.200m would be set aside from the Council Priorities Fund. As the review and transition is a significant undertaking for Cotswold, Forest of Dean and West Oxfordshire councils, there is a recognition across the councils of the cost of the transition programme and associated external advice that will be required.
- £0.250m is allocated to the Council Priority: Climate Emergency reserve
- £0.750m balance is maintained for the Council Priority: Housing Delivery reserve
- A further £0.500m is allocated to the Council Priority: Local Plan reserve to ensure the next stages of the Local Plan preparation can be delivered in accordance with the timetable set out in the *Cotswold District Local Plan Update* report to Council in January 2024.
- £0.200m balance is held in the Council Priority: Regeneration/Infrastructure reserve to provide funding for feasibility studies and due diligence around the emerging Cirencester Town Centre Masterplan including support for the Council's Car Park Strategy.
- £0.200m balance is maintained for the Council Priority: Transformation and Change reserve to provide funding for savings and transformation projects and invest to save initiatives.

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

**1.45** Cabinet approved the establishment of 2 reserves during 2023/24 – Treasury Management Risk and Contract Smoothing reserves. Additional earmarked reserves will be established to mitigate specific financial risks.

- Business Rates Risk – to help mitigate the impact of any unexpected reduction in the business rates base and income. It is proposed that in the first instance, any windfall from the Gloucestershire Business Rates Pool is allocated to this reserve.
- Workforce Planning – to ensure a strategic approach to workforce planning can be delivered.
- Local Government Pension Scheme – to help mitigate the risk of a deficit funding position on the Council's Local Government Pension scheme at each triennial review period (next review due April 2025)

**1.46** The review of balances and reserves consolidates several existing separate balances into single over-arching reserves that provide a more flexibility for the Council to fund specific one-off costs as they arise, subject to business case and approval limits.

- Asset Management and Property
- Planning

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

- General Fund Balance to be maintained at minimum level of £1.760m
- Financial Resilience Reserve held to mitigate the budget gap identified in the MTFS and to facilitate profiling of a Savings and Transformation plan and support the award of the Leisure and Culture contract over MTFS period.
- Council Priorities Fund is allocated to separate reserves to support the priorities outlined in the Corporate Plan.
- Earmarked reserves to mitigate financial risks are established.
- Allocate £25k to the Member Training earmarked reserve to providing adequate funding for member training and development as recommended by the Corporate Peer Challenge in October 2022 ("Establish a training and development programme for elected members")
- £0.100m is transferred to the Treasury Management Risk reserve in 2024/25
- £0.118m of additional funding from the Final Local Government Settlement is transferred to the Workforce Planning Reserve
- £0.959m is transferred to the Business Rates Risk reserve in recognition of the risk on business rates income over the MTFS period (£0.445m arising from the forecast

2023/24 Collection Fund surplus and £0.514m arising from the updated NNDR1-based forecast for business rates income in 2024/25).

1.48 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 indicating changes to the composition of earmarked reserves over the MTFS period.

**Table ES4 – Reserves and Balances Forecast**

| Estimated Reserve balance over MTFS period | Estimated Balance 31/03/2024 (£'000) | Estimated Balance 31/03/2025 (£'000) | Estimated Balance 31/03/2026 (£'000) | Estimated Balance 31/03/2027 (£'000) | Estimated Balance 31/03/2028 (£'000) |
|---|---|---|---|---|---|
| **General Fund** | **(1,760)** | **(1,760)** | **(1,760)** | **(1,760)** | **(1,760)** |
| | | | | | |
| Council Priorities | (3,093) | (2,693) | (2,293) | (1,929) | (1,929) |
| Financial Resilience Reserve | (2,328) | (2,844) | (3,168) | (1,657) | 0 |
| Financial Resilience Reserve - shortfall (indicative) | | | | | 1,854 |
| Risk Mitigation | (723) | (2,250) | (2,646) | (2,692) | (2,738) |
| Ringfenced Earmarked Reserves | (77) | (47) | (47) | (47) | (47) |
| Other Revenue reserves | (1,020) | (822) | (822) | (822) | (822) |
| **Subtotal Earmarked Reserves** | **(7,240)** | **(8,655)** | **(8,976)** | **(7,147)** | **(3,682)** |
| | | | | | |
| **TOTAL GF Balance + Earmarked Reserves** | **(9,000)** | **(10,415)** | **(10,736)** | **(8,907)** | **(5,442)** |

Capital Programme 2024/25 to 2027/28

1.49 The Council's Capital Strategy and Capital Programme are considered over a five-year period. The Strategy provides the framework for the Council's capital expenditure and financing plans to ensure they are affordable, prudent, and sustainable over the longer-term.

1.50 The Council has set out its Capital Programme for the period 2023/24 to 2027/28 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 revised capital expenditure budget of £7.512m in 2023/24 is proposed. Total planned capital expenditure fluctuates over the four-year period 2024/25 to 2027/28 with total expenditure estimated at £17.512m.

1.51 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**

| Capital Programme | 2023/24 Revised Budget (£'000) | 2024/25 Budget (£'000) | 2025/26 Budget (£'000) | 2026/27 Budget (£'000) | 2027/28 Budget (£'000) | TOTAL Budget (£'000) |
|---|---|---|---|---|---|---|
| Leisure & Communities | 79 | 1,310 | 50 | 550 | 50 | 2,039 |
| Housing/Planning and Strategic Housing | 4,765 | 2,289 | 700 | 700 | 700 | 9,154 |
| Environment | 566 | 1,857 | 428 | 5,251 | 1,820 | 9,922 |
| ICT, Change and Customer Services | 100 | 350 | 150 | 150 | 150 | 900 |
| UK Rural Prosperity Fund | 191 | 573 | 0 | 0 | 0 | 764 |
| UK Shared Prosperity Fund Projects | 28 | 134 | 0 | 0 | 0 | 162 |
| Land, Legal and Property | 567 | 300 | 0 | 0 | 0 | 867 |
| Transformation and Investment | 1,216 | 0 | 0 | 0 | 0 | 1,216 |
| | **7,512** | **6,813** | **1,328** | **6,651** | **2,720** | **25,024** |

**1.52** The capital programme includes investment in the Council's Leisure Centres, supporting the delivery of Housing in the District, responding to the Climate emergency and investment in new waste collection vehicles to support the service.

**1.53** The Council has been developing an Asset Management Strategy supported by Carter Jonas over the last few weeks. This will include detailed asset management plans and Minimum Efficiency Standards (MES) considerations for the Land and Buildings assets it holds. This will be presented to Cabinet in April 2024 and further developed over 2024/25. The emerging strategy provides a longer-term view of the income and expenditure profiles, tenant events, hold and disposal options.

**1.54** The Council's capital expenditure has up until the current financial year been predominantly financed from capital receipts. As these are forecast to deplete over the capital programme period the Council will need to undertake prudential borrowing to support future capital expenditure plans. Other sources of finance support the capital programme, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves, and capital receipts).

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

**1.56** The level of prudential borrowing included reflects the financing available in the revenue budget, capital receipts align with forecasts and grant funding and other contributions are based on already notified allocations or best estimates at the time of preparation. If additional resources become available, projects that meet the Council's strategic capital objectives will be brought forward for approval. However, with the current relative high cost of borrowing, the business cases for new projects will need to be robust, include adequate headroom to cover capital financing costs, and be subject to additional challenge from officers prior to member consideration.

Table ES5b – Summary Capital Financing Statement

| Capital Financing Statement | 2023/24 Revised Budget (£'000) | 2024/25 Budget (£'000) | 2025/26 Budget (£'000) | 2026/27 Budget (£'000) | 2027/28 Budget (£'000) | TOTAL Budget (£'000) |
|---|---|---|---|---|---|---|
| Capital receipts | 5,062 | 5,006 | 628 | 1,780 | 2,020 | 14,496 |
| Capital Grants and Contributions | 1,959 | 1,732 | 700 | 700 | 700 | 5,791 |
| Earmarked Reserves | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Contribution to Capital Outlay (RCCO) | 100 | 0 | 0 | 0 | 0 | 100 |
| Community Municipal Investments (CMI) | 391 | 75 | 0 | 0 | 0 | 466 |
| Prudential Borrowing | 0 | 0 | 0 | 4,171 | 0 | 4,171 |
| | **7,512** | **6,813** | **1,328** | **6,651** | **2,720** | **25,024** |

Conclusions

1.57 Despite the uncertainties around future levels of Government funding and the impact from 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.

1.58 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.

1.59 The budget has been prepared considering the Council Motion of 22 November 2023 on Council Finances.

1.60 The motion included the following direction to frame the budget and MTFS: *"This Council recognises that it cannot continue to use reserves to balance its revenue budget and therefore instructs the Deputy Leader and Deputy Chief Executive to prepare a budget and Medium-Term Financial Strategy that puts funds back into the Financial Resilience Reserve in 2024/25 and 2025/26 by delivering operating surpluses in those years."*

1.61 The MTFS achieves this outcome with a surplus for 2024/25 and 2025/26. The Council will need to continue to take steps to manage and address the budget gap identified over the MTFS period.

1.62 The Capital Programme includes planned expenditure £6.813m in 2024/25 with the Council needing to consider the outcome of due diligence work on other potential schemes before any further capital expenditure is committed.

1.63 The budget includes a recommendation to Council for the current Council Tax level to increase by £5 for a Band D property (from £148.93 per annum to £153.93) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.

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

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

**1.66** Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing. Reserves held to promote financial sustainability are forecast to be depleted during the MTFS period. Consideration should be given as part of the year-end procedures for 2023/24 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 2024/25.

COTSWOLD DISTRICT COUNCIL

## 2. BACKGROUND

2.1 **A significant budget gap was identified in the February 2023 MTFS.** The indicative position outlined for 2024/25 through to 2026/27 was an unfunded budget gap of £5.053m, as reported to Council in February 2023. It was noted at the time that a revised approach to savings and transformation was required given the cumulative budget gap forecast over the MTFS period. With the challenging economic environment, the unfunded budget gap can be expected to have increased over the last 12 months.

2.2 Under the Local Government Finance Act 1992 (as amended), the Council is legally required to set a balanced budget for the following financial year and remains in balance. Section 114 of the Local Government Finance Act 1998 requires the Section 151 Officer to report to all Members if there is likely to be unlawful expenditure or an unbalanced budget.

2.3 In common with the almost all local authorities, the council faces several external budget pressures that are impacting on its finances over the medium-term. There remains uncertainty around inflation and interest rates in the current financial year which have an influence over the Council's budget for 2024/25 and the MTFS period both directly and indirectly.

2.4 Members should consider some of the wider issues facing local government that will inform the 2024/25 revenue and capital budgets and the MTFS.

2.5 Several local authorities have issued section 114 notices over the last year with Birmingham City Council being the most high-profile along with Nottingham City Council, Woking Borough Council, and Thurrock Council. A section 114 notice indicates that the council's forecast income is insufficient to meet its forecast expenditure for the next year.

2.6 Whilst the number of authorities issuing section 114 notices is relatively low (9 notices have been issued by 7 out of 317 local authorities in England since 2018) it is unprecedented to have this many issued in a short space of time.

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

** relates to unlawful payment

**2.7** A significant number of other local authorities have indicated they are at risk of issuing a section 114 notice. According to new survey from the Local Government Association

- almost one in five council leaders and chief executives have warned that they could be forced to issue a section 114 notice either this year or next year due to a lack of funding."
- Responses were received from 114 chief executives and 71 council leaders with around half are not confident that they will have enough funding to fulfil their legal duties next year. Nearly one in five council leaders believe that it is "fairly or very likely" that they will issue a section 114 report in the next 15 months.

**2.8** **Whilst there is no immediate risk of Cotswold District Council having to consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability.**

**2.9** Cabinet approved its draft Medium Term Financial Strategy (MTFS) for the period 2024/25 to 2027/28 and the associated budget proposals for 2024/25 for consultation on 02 November 2023. The Council ran an extensive budget consultation process during November and December 2023. 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.

**2.10** The Council received 542 responses to the consultation, an increase of 153 when compared to the 2023/24 Budget Consultation (389 responses were received).

**2.11** In January 2024, Cabinet considered feedback from the consultation and has used that feedback to inform this report.

**2.12** The budget and MTFS has been updated to reflect the following:

- The Government's announcement of the Final Local Government Settlement 2024/25.
- The final estimate of business rates income for 2024/25 and the forecast surplus on the Collection Fund in 2023/24.
- The Council Taxbase for 2024/25 and the forecast surplus on the Collection Fund in respect of Council Tax collection in 2023/24; and
- Provision for changes which have arisen since 02 November 2023.

<u>Publica Review</u>

**2.13** In response to the Local Government Association Peer Challenge Review recommendation, Human Engine undertook an appraisal of the appropriateness of some services remaining with Publica with a report presented to Cabinet and Council in November 2023. Council approved the recommendations contained with the Human Engine report at their meeting on 22 November 2023.

**2.14** The report recommended that a significant number of services should move from Publica and return to being under greater control of the councils. This would leave Publica delivering a range of back-office services for the Councils.

**2.15** This represents a fundamentally different future for the councils and for Publica. The Publica of the future will be smaller, leaner, and principally a vehicle for sharing services rather than an entity with its own management, cultural identity, and high-profile brand. Subject to approval of the recommendations of the Human Engine report by West Oxfordshire District Council in early 2024, each of the four councils will then work in partnership to create a phased plan for the transfer of services.

**2.16** The transition of services from Publica to Council will clearly have a material impact on the Council's resources and budget over the next two years. For the purposes of the 2024/25 revenue budget and the MTFS, it is assumed the cost of services will remain within the cost envelope set out over the medium-term.

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

**2.18** To fund the one-off costs of transition, it is recommended that £0.500m is set aside in the Corporate Priority: Publica Review reserve.

**2.19** Inevitably, there are likely to be workforce planning costs arising from the transfer of services. As the indicative timetable for services to transfer is not yet known, the scale and the timing of workforce planning costs and mitigation measures is difficult to estimate with any certainty. Therefore, it is appropriate to set out the approach the Council will take to financing these costs over the transition period.

**2.20** To ensure adequate provision is made for the costs and mitigation options over the transition period, the Council must have adequate financial headroom in order to make key decisions on service design. Therefore, the recommended approach is to increase the availability of one-off revenue and capital resources through:

- Effective resource management – ongoing vacancy management with confirmed underspends allocated to the Workforce Planning reserve.
- Application of capital receipts to qualifying expenditure (e.g., cost of service reconfiguration, restructuring or rationalisation where this leads to ongoing efficiency savings or service transformation) in accordance with the Council's policy on the Flexible use of capital receipts.

**2.21** The Publica Review report approved by Council in November 2023 included high-level estimates from Human Engine on the additional cost and mitigation options associated with the return of the majority of services to the Council. The Council is undertaking further and extensive due diligence on the recommendations from the Human Engine review with consideration of workforce planning issues such as employer pension costs, pension liability modelling, TUPE arrangements.

**2.22** The MTFS has been prepared against the emerging position regarding the Publica Review. The broad assumptions for the purposes of the 2024/25 budget and over the medium term is that service costs remain within the financial envelope set out over the MTFS period.

**2.23** The Transition Plan will set out in detail the approach to returning services from Publica to the Council including options on timing and service and management structures.

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

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

**2.26** Decisions regarding additional costs arising from service redesign and transfer will be subject to business cases that clearly outline how the proposal contributes to the wider outcomes in terms of a cost/benefit assessment (for example, additional cost assessed against the ongoing saving opportunity and payback period). Whilst the governance process for the Transition Plan activities has yet to be finalised, it is recommended this includes consultation and sign-off with the Section 151 Officer to ensure overall project costs are managed, monitored, and reported as part of the quarterly financial performance reports.

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

<u>**Local Government Finance Policy Statement and Settlement 2024/25**</u>

**2.28** The Local Government Finance policy statement was published on 05 December 2023 that set out the Government's intentions for the local government finance settlement for the forthcoming financial year. The policy statement builds on the proposals for 2024/25 outlined last year providing additional details of the upcoming Settlement. 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.

**2.29** The statement confirmed the Council Tax referendum principles for 2024/25 and a continuation of the existing New Homes Bonus scheme for a further year. The statement made no reference to the Extended Producer Responsibility for packaging (EPR) scheme which was due to be introduced from April 2024 but has been deferred for a year.

**2.30** Whilst the policy statement was helpful and provided an indication of the financial settlement for 2024/25, it did not provide indicative allocations at local authority level.

**2.31** The provisional settlement for 2024/25 was announced on 18 December 2023. With a general election due no later than January 2025 and the impact from inflation and the wider external economic environment it should be seen as a 'roll-over' settlement from 2023/24. It is worth stressing that the settlement only covers the forthcoming financial year with no indication of future funding levels. Significant changes to local government finance have been delayed until at least 2025/26 and it is widely expected that the outcome from the General Election will push the implementation date out further.

**2.32** The Government's 4-week consultation on the settlement closed on 15 January 2024 with the Council's response included in Annex I. The final settlement was announced on 24 January 2024 and debated in Parliament on 07 February 2024.

**2.33** The provisional and subsequent final settlement confirmed the funding expectations for local government outlined in the Spending Review 2021 and confirmed in the 2023 Autumn Statement.

- It is a one-year settlement 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 2025/26 and beyond.
- Rural Services Delivery Grant maintained at £95m.
- Significant Social Care Funding – a further increase of £1.0bn over and above the additional funding provided in 2023/24.
- Protection of Core Spending Power (CSP) through the continuation of the Funding Guarantee to ensure all Councils receive a 3% cash increase in resources. With the exception of Fire Authorities, the percentage increase in CSP for Shire Districts was the lowest of all local authority classes at an average of 4.93%.
- Continuation of the approach to eliminating negative RSG and an uprating of the Settlement Funding Assessment (SFA)

- Revenue Support Grant (RSG) and the Baseline Funding Level (BFL) have been uplifted by 6.62%.
- Services Grant has reduced from £403m to £77m.
- Flexibilities over the use of capital receipts will be extended to March 2030, subject to consultation with the sector.
- The final settlement allocated a further £600m across local government - £500m in respect of Social Care Funding, £15m increase in Rural Services Delivery Grant, an extra £10m for Services Grant, an increase in the Funding Guarantee from 3% to 4%.
- Local authorities will also be required to publish 'productivity plans' by summer 2024. The Government will convene an expert panel to review the plans and advise the Government on best practice.

**Table 1 – Core Spending Power (Final Settlement)**

| Core Spending Power | 2023/24 Final (£'000) | 2024/25 Draft MTFS (£'000) | 2024/25 Prov$^{n}$ (£'000) | 2024/25 FINAL (£'000) | Change from 2023/24 (£'000) |
|---|---|---|---|---|---|
| Settlement Funding Assessment | 2,083 | 2,091 | 2,156 | 2,156 | 73 |
| Compensation for under-indexing the business rates multiplier | 332 | 332 | 416 | 416 | 84 |
| Council Tax Requirement excluding parish precepts | 6,356 | 6,599 | 6,550 | 6,550 | 193 |
| Improved Better Care Fund | 0 | 0 | 0 | 0 | 0 |
| New Homes Bonus | 290 | 215 | 287 | 287 | (3) |
| New Homes Bonus returned funding | 0 | 0 | 0 | 0 | 0 |
| Rural Services Delivery Grant | 707 | 707 | 707 | 818 | 112 |
| Transition Grant | 0 | 0 | 0 | 0 | 0 |
| Adult Social Care Support Grant | 0 | 0 | 0 | 0 | 0 |
| Winter Pressures Grant | 0 | 0 | 0 | 0 | 0 |
| Social Care Support Grant | 0 | 0 | 0 | 0 | 0 |
| Social Care Grant | 0 | 0 | 0 | 0 | 0 |
| Market Sustainability and Fair Cost of Care Fund | 0 | 0 | 0 | 0 | 0 |
| Lower Tier Services Grant | | | | | |
| Funding Guarantee | 1,988 | 2,235 | 2,226 | 2,231 | 242 |
| Services Grant | 76 | 76 | 12 | 13 | (63) |
| **Core Spending Power** | **11,833** | **12,254** | **12,353** | **12,471** | **639** |
| | | | | **118** | |

**2.34** The Table above shows an increase in Core Spending Power of £0.639m (5.40%) and includes an increase in the level of Council Tax and in the Taxbase. The final settlement represents a £0.118m increase over the provisional settlement with the green highlighted areas indicating the funding changes.

**2.35** 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 asks authorities to continue to consider how they can use their reserves to maintain services over this and the next financial year, recognising that not all reserves can be reallocated, and that the ability to meet spending pressures from reserves will vary between authorities.

**2.36** The Council holds earmarked reserves for specific purposes. Members should consider the wider Reserves and Balances Strategy (as set out in Section 6 of this report) as there may be competing demands:

- maintaining financial sustainability over the MTFS period and balanced budget requirement
- mitigating financial and demand-led risks
- providing funding for council priorities and planned future expenditure.
- one-off funding to help maintain or enhance service provision.

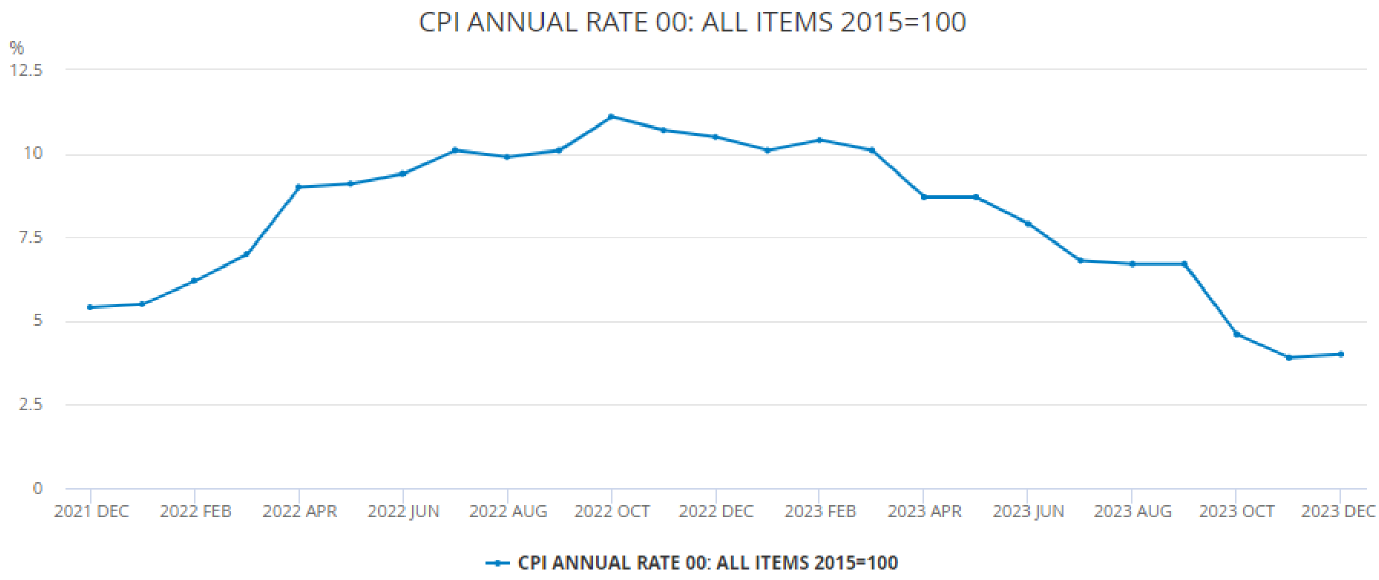
**2.37** The updated MTFS includes provision of a risk-based General Fund balance of £1.760m being the minimum expected level for total working balances.

## 3. EXTERNAL ECONOMIC ENVIRONMENT

**3.1** As reported to Cabinet during 2023/24, there are a number of external economic pressures on the Council that will have a material impact on the 2024/25 budget and MTFS.

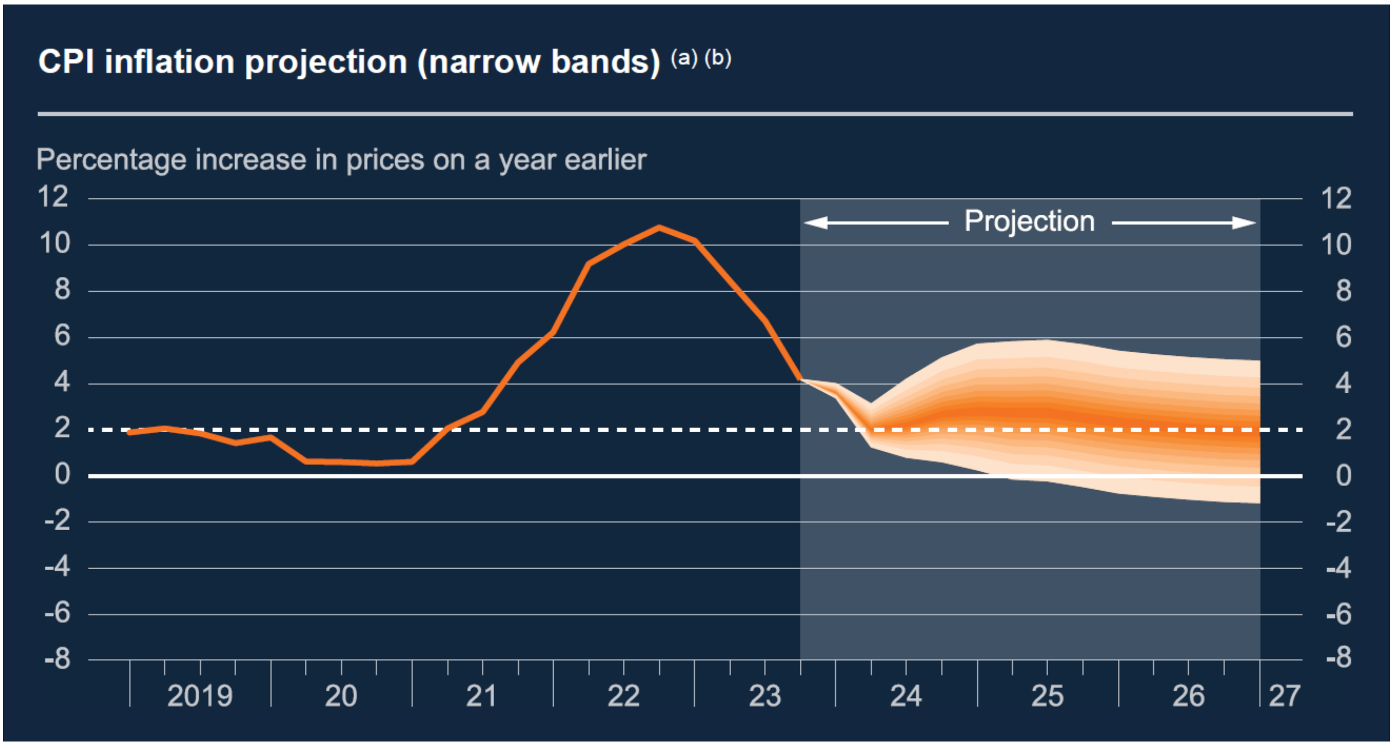
### Inflationary Pressures

**3.2** The Office for National Statistics (ONS) will release inflation figures from the 12 months to January 2024 on 14 February 2024. The level of inflation, as measured by the Consumer Prices Index, for December 2023 is 4.0% (up from 3.9% in November 2023). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 5.2% (5.3% in November 2023). Core inflation (as defined by the Office for National Statistics as the CPI Rate excluding energy, food, alcohol, and tobacco) remained at 5.1% (5.1% in November 2023). Whilst prices of food and beverages reduced this was offset by the impact of increased fuel prices. It is this measure that has concerned the Bank of England and led to increases in interest rates during the current year.




**3.3** Although general inflation has reduced since the start of the calendar year, the Council is subject to specific inflationary pressures on its services (e.g., fuel costs on waste and recycling service) which have tended to track higher than CPI and RPI.

**3.4** The forecast for inflation is for a return towards the Bank of England's target of 2.0% (CPI) although it is worth noting recent commentary suggesting the bank should consider revising the target to 3.0%. The graph below shows the different CPI forecasts that are published in the quarterly Bank of England Monetary Policy Committee report (February 2024).

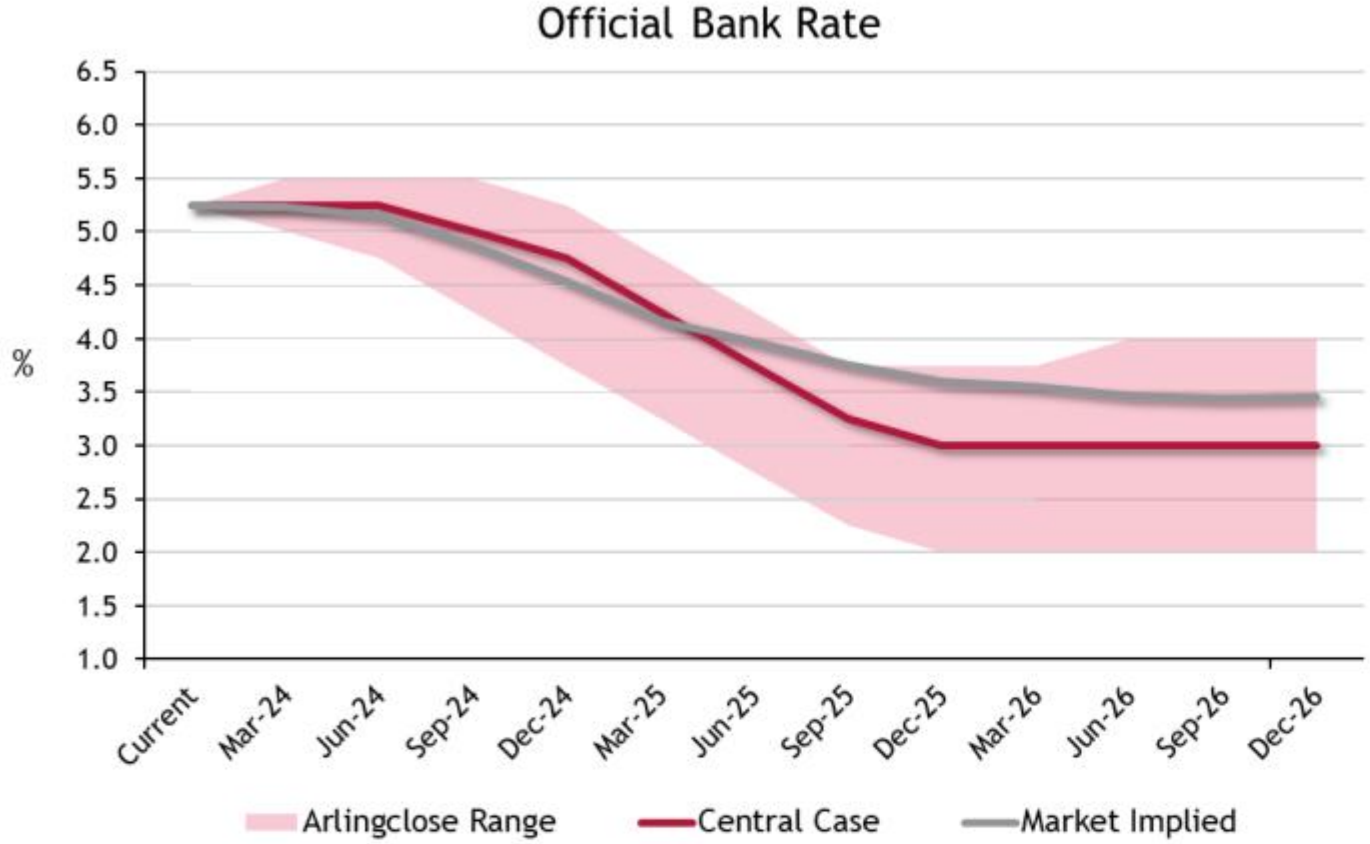


3.5 The continuation of elevated levels of inflation throughout the year and the Bank of England's forecast over the medium-term will need to be taken into account when assessing the impact on 2024/25 revenue and capital budgets.

**Interest Rates**

3.6 The Bank of England has increased interest rates fourteen times since December 2021 to mitigate inflationary pressures with the last increase of 0.25% taking the base rate to 5.25% on 04 August 2023. The MPC voted to maintain rates at 5.25% at their latest meeting on 01 February 2024 (the Monetary Policy Committee voted by a majority of 6-3 to maintain the official Bank Rate at 5.25%. Two members preferred to increase Bank Rate by 0.25 percentage points, to 5.5%. One member preferred to reduce Bank Rate by 0.25 percentage points, to 5%). The council's treasury management advisors believe this is the peak for the bank rate. The next MPC meeting is scheduled for 21 March 2024 with dates now agreed for 2024.

| Confirmed Date | |
|---|---|
| Thursday 01 February 2024 | February Monetary Policy Report |
| Thursday 21 March 2024 | |
| Thursday 09 May 2024 | May Monetary Policy Report |
| Thursday 20 June 2024 | |
| Thursday 01 August 2024 | August Monetary Policy Report |
| Thursday 19 September 2024 | |
| Thursday 07 November 2024 | November Monetary Policy Report |
| Thursday 19 December 2024 | |




**3.7** To support the Capital Programme, the Council may need to undertake borrowing during the current financial year although this is dependent on several factors. With PWLB interest rates remaining relatively high compared to the previous 12 years, this will impact the expenditure required to service any borrowing the Council undertakes.

**3.8** The Council has limited and reducing internal resources to support the capital programme (capital receipts, earmarked reserves). This is not unique to Cotswold District Council with reports in specialist press (e.g., Public Finance) of Councils shelving or scrapping planned capital projects as other costs continue to rise and/or the need to find savings to balance the budget.

**3.9** With interest rates expected to remain high during the forthcoming financial year, the Council will need to ensure capital expenditure and capital financing decisions are made 'in the round.' This will ensure that existing and new capital schemes are not considered in isolation and are prioritised against the Council's Corporate Plan and reference to affordability and deliverability.

**Economic Outlook**

**3.10** The Office for Budget Responsibility published their economic and fiscal outlook in November 2023. The key observations and forecasts outlined in the report were:

- The economy recovered more fully from the pandemic and weathered the energy price shock better than anticipated.
- Expect inflation to remain higher for longer, taking until the second quarter of 2025 to return to the 2 per cent target, more than a year later than forecast in March (See Chart 1.1 below from the OBR publication).
- More persistent inflation means markets expect interest rates to be more than a full percentage point higher than we assumed in March.
- Revised down our estimate of the medium-term potential growth rate of the economy to 1.6 per cent, from 1.8 per cent in March.
- Slower growth from a higher starting point means that, in our central forecast, the level of real GDP in 2027 is only 0.6 per cent higher than March.
- In our central forecast, unemployment rises to 1.6 million people (4.6 per cent of the labour force) in the second quarter of 2025.
- Living standards, as measured by real household disposable income (RHDI) per person, are forecast to be 3½ per cent lower in 2024-25 than their pre-pandemic level.

**Chart 1.1: CPI inflation**


Source: ONS, OBR

## 4. 2023/24 REVENUE BUDGET

4.1 The original net revenue budget for 2023/24 was £14.363m. Cabinet has considered the forecast outturn position during the year with the last forecast outturn position of £14.626m reported in the Financial Performance Report – Q2 2023/24. This highlighted a forecast adverse variation of £0.263m against the budget as reported at the time. With increased Treasury Management investment income and the impact of enhanced vacancy management across the Publica Contract it is anticipated that the Q3 forecast position will be further improved.

**4.2** The MTFS has assumed that £0.861m of the Financial Resilience reserve 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 2023. This assumes that the revenue position, as reported in Q2, improves to a net nil variance by the end of the financial year.

**4.3** 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.

**4.4** The Q3 forecast will be considered by Cabinet at their meeting in March 2024 and should be viewed as a draft outturn position. Should there remain and adverse outturn forecast, in the absence of mitigating cost reductions or savings the remaining overspend will need to be funded from the Financial Resilience reserve to achieve a balanced position.

## 5. MEDIUM TERM FINANCIAL STRATEGY 2024/25 TO 2027/28

**5.1** 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.

**5.2** Cabinet considered the *2024/25 Budget Strategy and Medium-Term Financial Strategy (MTFS) Update* report [2024/25 Budget report to Cabinet, November 2023] at their meeting in November 2023. The report set out the broad approach for the 2024/25 budget and several draft revenue budget proposals and indicative estimates of funding.

**5.3** This report updates the estimates and budget proposals following the budget consultation process in November and December 2023 and the Provisional Local Government Finance Settlement published on 18 December 2023 (as set out in Section 2 of the report).

**5.4** Service budgets have been updated for 2024/25, along with forecasts of Corporate Income and Expenditure budgets. Given the volatility in the economy and uncertainty around future prices, inflationary provision has been included as a separate item and assumes:

- Pay inflation of 5% (Publica) and 6% (Ubico) 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.

**5.5** Fees and Charges have been reviewed in accordance with the agreed approach of cost recovery with the 2024/25 Fees and Charges report approved at the February meeting of Cabinet setting out in detail the fees and charges proposed for 2024/25.

**5.6** An increase of £0.196m has been reflected in fees and charges that have been subject to review or increased in-line with the September 2023 CPI inflation rate of 6.7%. Budget holders are required to review the fees and charges as part of the budget setting process to ensure they are set at an appropriate level and that charges are transparent and show a clear methodology for their increase.

**Budget Pressures**

**5.7** The table below provides an overview of the material service budget changes by service area and a brief outline of the reason for the budget change. For the purposes of this report, a material change is considered to be +/- £20k. There are likely to be several factors behind a net change in each budget line set out in Annex G – impact of inflation, changes in income projections, virements between different cost centres within a service area.

**5.8** Income pressures have been grouped in the table and have been included as a budget pressure due to the shortfall in income or where there is a technical change to funding.

**Table 2 – Budget Pressures and Technical Adjustments**

| Item & Summary | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Budget Pressures | | | | |
| 2023/24 External Audit scale fee increase (151%) | 41 | 41 | 41 | 41 |
| Chipping Campden Dual Use | 14 | 14 | 14 | 14 |
| Planning & Strategic Housing | 10 | 10 | 10 | 10 |
| Property & Estates - Business Rates | 70 | 70 | 70 | 70 |
| Other Service cost pressures <£20k | 38 | 24 | 24 | 24 |
| Environmental Services | 78 | 78 | 78 | 78 |
| Legal Services - Case Management System and Admin | 23 | 23 | 23 | 23 |
| Homlessness Officer | 26 | 0 | 0 | 0 |
| | | | | |
| Income Pressures | | | | |
| 2024/25 Income Pressures - Building Control | 100 | 100 | 100 | 100 |
| 2024/25 Income Pressures - Land Charges | 60 | 60 | 60 | 60 |
| Commercial Property Income - reduced expectations | 110 | 180 | 242 | 292 |
| **TOTAL** | **570** | **601** | **663** | **713** |

| Item & Summary | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Technical Adjustments - Prior year reversals | | | | |
| Publica Contract adjustments | 141 | 141 | 141 | 141 |
| Publica - deletion of Non-Establishment posts | (170) | (170) | (170) | (170) |
| Publica - Transfer of responsibility to CDC | (85) | (85) | (85) | (85) |
| Publica - Transfer of responsibility to CDC | 85 | 85 | 85 | 85 |
| Reversal of income target for CFEU | 105 | 105 | 105 | 105 |
| **TOTAL** | **77** | **77** | **77** | **77** |

**5.9** 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 scale fee increase
- Inflation-led cost pressures: Chipping Campden Leisure Centre, SWAP Audit Fees
- Agreed Service Investment with Publica: Homelessness
- Technical Adjustments (reflecting changes in budget allocation between Publica and the Council and other corrective adjustments): Counter Fraud and Enforcement Unit
- Income pressures: Building Control, Land Charges

**5.10** 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**

**5.11** The main budget pressure facing the Council over the MTFS period is inflation. The MTFS includes provision for inflation major contracts (Publica and Ubico). Provision has also been made for the annual pay award either directly (for Council officers and Members) or indirectly through the Publica and Ubico contracts. Energy prices have reduced significantly from their peak in 2022 with a 50% reduction in the inflationary provision.

**5.12** The inflation rate has fallen from its 41-year high of 11.1% in October 2022, although not as sharply as was forecast. The Office for Budget Responsibility outlined their expectations for inflation in their November 2023 report:

- **Gradual reduction:** we now expect inflation to fall more gradually over the next few years. Our central forecast sees CPI inflation at around 4.8 per cent in the final quarter of 2023, 1.9 percentage points above the March profile. Domestic factors drive most of the upward revision, particularly higher nominal earnings growth outweighing the effect of lower energy prices. We forecast inflation to hit the 2 per cent target in the second quarter of 2025, about a year later than we forecast in March. It then dips below target in the middle of the forecast, driven by further falls in energy costs, along with increasing spare capacity in the economy, which reduces inflationary pressure on non-tradables inflation then returns to target by the forecast horizon.

- **Inflation risk remains:** risks around the outlook for inflation remain high, given both domestic and international uncertainty. The OBR fan chart of potential inflation outcomes is normally constructed using historic forecast errors since 2003. This method suggests fairly contained risks to our projections, with only a 1 in 3 chance that inflation will be above 3 per cent in 2025. But this method understates the risks in the OBR's current forecast. Since 2020, the economy has undergone a series of major shocks from the pandemic and then the Russian invasion of Ukraine. Some of the forecast errors due to these shocks fell well outside the OBR's historic distribution. The current conflict in the Middle East poses a significant risk to the outlook for global energy prices. And more upward surprises to wage settlements represent a key domestic risk to the inflation outlook.
- **Lower energy prices**. The OBR's March inflation forecast was driven by a sharp increase in the cost of imported energy. Gas prices are now expected to be around 36 per cent lower by the end of 2023 than in the OBR's March forecast. By 2027-28, the gap is still 26 per cent. This puts downward pressure on 'imported' energy inflation.
- **Stronger second-round effects from the energy shock.** The OBR now estimate that the knock-on effect of energy costs on wider prices has been almost 50 per cent of their direct contribution to CPI inflation (rather than the 25 per cent assumed since the March 2022 forecast). So, this pushes up 'domestic' inflation by more than in the OBR's previous forecasts.
- **Less economic slack relative to March.** The OBR judge that the economy was operating around 0.5 per cent above its capacity in the second quarter of 2023. This is well ahead of the 1.3 per cent negative output gap we expected in March. A higher degree of excess demand in the first years of the forecast drives earnings and profits higher. Compared to March, the OBR expect nominal earnings to be up 1.3 per cent by end-2023 and up 3.8 per cent by 2027-28

5.13 The main cost pressure facing the Council is the Pay Award which has been forecast at a higher level than previously assessed across the MTFS period recognising the wider drivers of inflation outlined above. The table below sets out the forecast for inflation over the MTFS period. Clearly, there remains significant uncertainty with risk around the level and extent of inflation provision made.

**Table 3 – Inflation Forecast (Office for Budget Responsibility, November 2023)**

| | | OBR Forecasts, November 2023 | | | | |
|---|---|---|---|---|---|---|
| | Dec-23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
| Consumer Prices Index (CPI) | 4.7% | 6.1% | 3.0% | 1.6% | 1.8% | 1.9% |
| Retail Prices Index (RPI) | 6.1% | 8.3% | 4.3% | 2.4% | 2.6% | 2.8% |

5.14 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**

| Budget Element | 2023/24 Final Budget (£'000) | 2024/25 Inflationary provision (£'000) | 2024/25 Inflation (%) |
|---|---|---|---|
| **Ubico Contract** | | | |
| Employment Costs | 4,800 | 373 | 7.78% |
| Vehicle Costs | 1,366 | (88) | -6.43% |
| Other contract costs | 2,254 | 33 | 1.47% |
| **Subtotal** | **8,420** | **318** | **3.78%** |
| | | | |
| Publica Contract | 10,823 | 516 | 4.77% |
| | | | |
| CDC Pay Inflation - Officers | 589 | 33 | 5.56% |
| CDC Pay Inflation - Members | 319 | 35 | 11.00% |
| | | | |
| | **20,151** | **902** | **4.48%** |

Note – Table above shows the revised budget for 2023/24 after Pay Award (£8.420m) whereas next table shows the originally agreed budget for 2023/24 (£8.281m)

5.15 As can be seen from the tables above, contract costs for Ubico and Publica are subject to persistent inflationary cost pressures for 2024/25. Ubico contract costs will increase from £8.4m in 2023/24 to £8.7m in 2024/25 (around 5.5%). This is a mix of inflationary cost increases (Pay, Fuel costs) and revisions to service costs reflecting changes in waste streams and volumes. The Council is exposed to fuel cost risk and given the political environment in the Middle East the s151 Officer will explore options to mitigate fuel cost risk over the contract year.

COTSWOLD
DISTRICT COUNCIL

### Table 5a – Ubico Contract Costs

| Ubico Services | 2023/24 Ubico Contract (£'000) | 2024/25 Ubico Contract (£'000) | Change (£'000) | Change (%) |
|---|---|---|---|---|
| GM - Car Parks | 63 | 71 | 8 | 11.96% |
| GM - Cemetery, Crematorium and Churchyards | 175 | 196 | 21 | 11.96% |
| Garden Waste Collection | 1,316 | 1,420 | 104 | 7.92% |
| Household Waste | 1,623 | 1,720 | 96 | 5.94% |
| Recycling | 2,935 | 3,087 | 152 | 5.17% |
| Refuse / Recycling Organic & Food Waste | 686 | 661 | (25) | (3.68%) |
| Street Cleaning | 1,466 | 1,566 | 100 | 6.83% |
| GM - Trinity Road, Offices | 16 | 18 | 2 | 11.96% |
| **Grand Total** | **8,281** | **8,738** | **458** | **5.52%** |

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

| Waste, Recycling, Street Cleaning and Grounds Maintenance Services | Ubico Contract (£'000) | Other Service Costs (£'000) | Gross Service Cost £'000) | Service Income (£'000) | Net Service Cost (£'000) |
|---|---|---|---|---|---|
| Bulky Household Waste | 0 | 73 | 73 | (79) | (6) |
| GM - Car Parks | 71 | 0 | 71 | 0 | 71 |
| GM - Cemetery, Crematorium and Churchyards | 196 | 0 | 196 | 0 | 196 |
| Garden Waste Collection | 1,420 | 46 | 1,467 | (1,465) | 2 |
| Household Waste | 1,720 | 164 | 1,884 | (24) | 1,860 |
| Recycling | 3,087 | 466 | 3,553 | (1,106) | 2,447 |
| Refuse / Recycling Organic & Food Waste | 661 | 0 | 661 | 0 | 661 |
| Street Cleaning | 1,566 | 44 | 1,610 | 0 | 1,610 |
| GM - Trinity Road, Offices | 18 | 0 | 18 | 0 | 18 |
| **Grand Total** | **8,738** | **793** | **9,531** | **(2,673)** | **6,859** |

5.16 As shown in Table 4, the inflationary element of the contract price with Publica for the provision of Council Services has increased from £10.8m to £11.3m. This has been estimated based on the Local Government Pay Award for 2024/25 being 5%. Other changes to the contract cost are included in the MTFS as Budget Pressures or Savings.

5.17 Energy prices have decreased significantly since the start of the financial year. 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 and a price-risk mitigation strategy, the decrease for 2024/25 is estimated at £0.150m. With the level of uncertainty prevalent in the energy market updated forecasts will be included in the regular quarterly financial and performance monitoring reports to Cabinet.

COTSWOLD DISTRICT COUNCIL

### Risk Items

**5.18** The 2024/25 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.

**5.19** £0.200m has been maintained as a contingency budget to mitigate the risk inflationary pressure on the key Publica and Ubico contracts and to provide a degree of budgetary headroom around the 2024/25 Pay Award and fees and charges income.

**5.20** This budget will be held centrally and would be allocated in support of evidenced budget pressures during the year identified through the quarterly financial monitoring process. Should these budgets not be required, in part or in full, they would be returned to the Financial Resilience Reserve (in-year) and reviewed as part of the 2025/26 budget setting process.

### Savings

**5.21** To mitigate the budget pressure outlined above and to set a balanced budget for the year, the draft budget proposals included expenditure savings of £1.1m.

**5.22** 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.

**Table 6 – Savings**

| Savings | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Third Party Contract Savings | | | | |
| Publica contract | (150) | (150) | (150) | (150) |
| Ubico contract | 0 | (100) | (150) | (150) |
| | | | | |
| Corporate Savings | | | | |
| LGPS - Secondary Rate (PIA) (Budget savings) | (196) | (392) | (392) | (392) |
| | | | | |
| Other Expenditure Savings | | | | |
| Future Publica: Making Service Available online | (75) | (75) | (75) | (75) |
| Publica Review: Transformation of services | (75) | (150) | (150) | (150) |
| Ubico - Rezoning of Rounds | (375) | (500) | (500) | (500) |
| Ubico - Streets Service cost review | (150) | (300) | (300) | (300) |
| Publica Service budget savings | (238) | (238) | (238) | (238) |
| **TOTAL** | **(1,259)** | **(1,905)** | **(1,955)** | **(1,955)** |

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

<u>**Fees and Charges**</u>

**5.24** The Budget Strategy report restated the approach of full cost recovery from fees and charges where possible for the services it provides. A review of fees and charges has been undertaken which generates £0.750m of additional Fees and Charges income as shown in Table 7 below.

**5.25** 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 2024/25 and includes an assumed annual uplift over the MTFS period. The decision on fees and charges is considered by Cabinet as part of each year's budget setting round. A detailed schedule of the Fees and Charges was included as Annexes to the 2024/25 Fees and Charges Report.

**Table 7 – Fees and Charges**

| Fees and Charges | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|
| Car Parking Fees (Sunday Charging) | (105) | (109) | (113) | (116) |
| Car Parking Fees (Tariff Change) | (376) | (506) | (611) | (708) |
| Planning Fees (Statutory) | (100) | (100) | (100) | (100) |
| Other Fees and Charges - Cost Recovery | (27) | (27) | (27) | (27) |
| Garden Waste - fee increase | (169) | (283) | (400) | (517) |
| **Subtotal** | **(777)** | **(1,026)** | **(1,251)** | **(1,468)** |

**5.26** Cabinet received a report outlining the feedback from the budget consultation exercise at their meeting in January 2024. 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 15%.

**5.27** Cabinet carefully considered the feedback from residents and set out their position in the *Review of Parking Charges and Season Tickets* report to Cabinet at the same meeting. The consultation showed good support for the proposals to increase the tariffs and to introduce Sunday charging, although it was noted a larger number of respondents indicated they were not in support of the proposals. Cabinet was mindful of the feedback and on balance recognised the balanced budget requirement that additional revenue from the Council's Car Parks would support. Therefore, there Cabinet agreed to implement the proposed changes to the current Car Park Tariffs and charging periods in 2024/25.

**5.28** A review of Car Park Season Ticket pricing has been undertaken with revised season ticket prices was considered by Cabinet at the meeting in January.

**5.29** The impact of the changes would be to increase the budgeted level of income in 2024/25 by £0.481m.

**5.30** A Garden Waste fee increase of £7 (£57 to £64) considers the projected increased cost of service delivery for 2024/25. 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**

| Garden Waste Service | 2024/25 Gross Service Cost (£'000) | (£'000) Forecast Income | Net Cost (£'000) |
|---|---|---|---|
| Net cost based on £57 per annum charge | 1,467 | (1,331) | 136 |
| Net cost based on £64 per annum charge | 1,467 | (1,465) | 2 |

<u>**Other Income changes**</u>

**5.31** Cabinet considered the *Agile Working Update and Tenancy Proposals for Trinity Road Council Offices in Cirencester* at their meeting on 01 February 2024. This report updates members on work that has been completed to make changes to the Trinity Road offices to facilitate agile working and free up space for tenants and to make recommendations on a future tenant for the space created.

**5.32** The original business case considered by Cabinet in December 2021 assumed that one or two larger tenants would be found that would lease all the office accommodation. A sum of £0.151m annual savings (utilities and Business Rates) and income (tenants) was notionally included in the February 2023 MTFS for the 2024/25 financial year.

**5.33** The Agile Working Update report to Cabinet outlined the outcomes from discussions with prospective tenants and partners and recommended an approach to letting the vacant space. For the purposes of the MTFS, no assumption has been made on the level and timing income or expenditure savings and will only be included in the revenue budget and MTFS when cashflow outcomes are more certain.

<u>**Non-Service Expenditure and Income**</u>

**5.34** Corporate Income and Expenditure budget items cover the non-service revenue expenditure and income that is included in the Council's General Fund. Non-Service budgets for 2024/25 of (£1.760m) 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

**5.35** The MTFS includes an estimate of the cost of borrowing required to support the capital programme. The Treasury Management Strategy for 2024/25 (Annex F) was considered by Audit and Governance Committee at its meeting on 25 January 2024. 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.

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

**5.37** The Levelling-Up and Regeneration Act received Royal Assent in October 2023 and contains provisions that expand the Government's statutory powers to intervene in the local government capital finance system.

**5.38** These powers 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.

**5.39** Several risk 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 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.

**5.40** 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.

**5.41** The Government issued two consultations in December 2023 concerning capital financing – Minimum Revenue Provision (MRP) and Capital Flexibilities.

COTSWOLD
DISTRICT COUNCIL

**5.42** **The consultation on MRP** can be seen as a "final" consultation on proposed changes to regulations and statutory guidance and builds on those published in November 2021 and June 2022. The main proposals remain broadly the same as those in June 2022 – to limit the scope of local authorities to (a) make no MRP on parts of the capital financing requirement (CFR) and (b) to use capital receipts in lieu of a revenue charge for MRP.

**5.43** The regulations would come into force from April 2024 and would require local authorities to make an MRP charge for all capital expenditure financed by debt (unless the asset was not available at the start of the year or certain capital loans). The draft regulations also ensure that capital receipts used to repay debt cannot reduce the MRP charge in the same year (except for capital receipts arising from capital loan repayments and finance lease principal repayments).

**5.44** **The consultation on Capital Flexibilities** is to seek views from local authorities on options for the use of capital resources and borrowing to encourage invest-to-save activity. Specifically, the consultation seeks views on the following.

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

**5.45** The consultations closed on 31 January 2024 (Capital Flexibilities) and 16 February 2024 (MRP).

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

**5.47** **Prudential Code on Capital Finance**:

- Provisions in the code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. The relevant parts of the code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for yield as the primary purpose of the investment or represent an unnecessary risk to public funds.

- Proportionality is included as an objective in the Prudential Code. Provisions have been added so that an authority incorporates an assessment of risk to levels of resources used for capital purposes.
- Capital strategies are required to report investments under the following headings: service, treasury management and commercial investments.

**5.48 Treasury Management Code**:

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

**5.49** 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".

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

**5.51** As set out in paragraph 3.6, the Council's Treasury Management advisors, Arlingclose believe the Bank base rate to have peaked at the current 5.25% (as set in December 2023) with the next MPC meeting scheduled for March 2024. Their projection in February 2024 shortly after the MPC decision to maintain interest rates 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 it is sure there will be no lingering second-round effects [from inflationary pressures] with rate cuts expected from Q3 2024 to a low of around 3% by late 2025.

**5.52** 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)

**5.53** The level of MRP to be charged to the revenue budget has been reviewed considering the updated capital programme. MRP of £12k is to be charged in 2024/25 and is forecast to increase to £35k by 2027/28.

**5.54** As highlighted in paragraph 5.42 and 5.43 above, the Government has issued a "final" consultation on changes to the regulations concerning the duty of local authorities to make prudent Minimum Revenue Provision (MRP) each year.

**5.55** Estimates of interest receivable on other investments remain positive but with some uncertainty around the wider global economy on the Council's longer-term investment returns. The Council continues to hold up to £12.5m in Pooled Funds and other longer-term investments, which have generated strong income returns. Investment income of £1.3m has been forecast for 2024/25 recognising the strong performance over the last 12 months whilst recognising the time-limited impact from higher interest rates. The MTFS forecast assumes an increased level of return from 2024/25 and reduces over the MTFS period. This will be kept under review in terms of the overall cash position of the authority and the impact of forecast interest rate changes.

## 6. BALANCED BUDGET REQUIREMENT

**6.1** The Council is legally required to set a balanced budget for the following financial year and remains balanced. As can be seen in the MTFS, the Council's core financial position is a balanced budget for 2024/25 and 2025/26 (with a transfer of the projected surplus to the Financial Resilience reserve). However, there is a significant and increasing projected budget gap of £1.5m in 2026/27 and is forecast to increase to £3.5m in 2027/28.

**6.2** 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.

**6.3** The level of savings set out in the MTFS does not meet the budget gap identified. The Financial Resilience reserve is being used to balance the budget in the short-term and will be depleted during 2026/27. For clarity, the MTFS assumes that the cost of change associated with the Publica review is contained within the existing financial envelope. Given the increasing budget gap from 2026/27 it is not unreasonable to expect service reviews to contribute towards a balanced budget position over the MTFS period. At this stage, it is difficult to make a robust judgement as to the level and timing of cost reduction for services that will be transferred from Publica to the Council.

**6.4** The Council will need to address the scale of the budget gap to ensure a balanced budget can continue to be set over the MTFS period. The position set out in this report is by no means complete and the budget gap may change due to assumptions being updated.

6.5 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.

6.6 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.

6.7 In response to the adverse financial position forecast for 2023/24 outlined in the quarterly Financial Performance reports, Cabinet agreed to continue to review in-year opportunities with Publica and Ubico to mitigate the forecast financial position.

6.8 During 2023/24, the Cabinet Transform Working Group (CTWG) met several times to support Cabinet with identifying and reviewing savings and transformation opportunities.

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

<u>Balances and Reserves</u>

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

6.11 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.

6.12 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.

**6.13** 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.

**6.14** As set out in paragraph 2.5 of this report, there is a much-heightened focus on financial sustainability throughout the sector, largely due to the number of Section 114 notices that have been issued.

**6.15** The review of reserves and balances for the 2023/24 recommended a distinction between the General Fund Balance and Earmarked Reserves.

**6.16** 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 to

**6.17** 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.

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

**6.19** A review of the Council Priorities Fund revenue reserve has been undertaken with the recommendation that this is allocated into separate reserves linked to the priorities outlined in the Council's Corporate Plan as indicated below:

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

**6.20** It is recommended that the following reserve balances are established to support delivery of the Council Plan, the Publica Review outcomes, and the ongoing preparation of the Council's Local Plan:

- £0.500m is set aside in the Council Priority: Publica Review reserve to provide adequate funding for the Council's share of the costs arising during the Transition phase. The Council approved the Publica Review report in November 2023 which indicated an initial £0.200m would be set aside from the Council Priorities Fund. As the review and transition is a significant undertaking for Cotswold, Forest of Dean and West Oxfordshire councils, there is a recognition across the councils of the cost of the transition programme and associated external advice that will be required.
- £0.250m is allocated to the Council Priority: Climate Emergency reserve
- £0.750m balance is maintained for the Council Priority: Housing Delivery reserve
- A further £0.500m is allocated to the Council Priority: Local Plan reserve to ensure the next stages of the Local Plan preparation can be delivered in accordance with the timetable set out in the *Cotswold District Local Plan Update* report to Council in January 2024.
- £0.200m balance is held in the Council Priority: Regeneration/Infrastructure reserve to provide funding for feasibility studies and due diligence around the emerging Cirencester Town Centre Masterplan including support for the Council's Car Park Strategy.
- £0.200m balance is maintained for the Council Priority: Transformation and Change reserve to provide funding for savings and transformation projects and invest to save initiatives.

## Table 9a – Reserves and Balances (Council Priorities)

| Council Priorities Fund - Allocations | Estimated Balance 31/03/2024 (£'000) | Estimated Balance 31/03/2025 (£'000) | Estimated Balance 31/03/2026 (£'000) | Estimated Balance 31/03/2027 (£'000) | Estimated Balance 31/03/2028 (£'000) |
|---|---|---|---|---|---|
| **Council Priorities** | | | | | |
| Council Priorities Fund - Allocated (Table X) | (28) | (28) | (28) | (28) | (28) |
| Council Priorities Fund - Unallocated | 0 | 0 | 0 | 0 | 0 |
| Council Priority: Transformation and Change | (200) | (200) | (200) | (200) | (200) |
| Council Priority: Publica Review | (500) | (500) | (500) | (500) | (500) |
| Council Priority: Climate Emergency | (250) | (250) | (250) | (250) | (250) |
| Council Priority: Housing Delivery | (750) | (750) | (750) | (750) | (750) |
| Council Priority: Local Plan | (1,164) | (764) | (364) | 0 | 0 |
| Council Priority: Regeneration/Infrastructure | (200) | (200) | (200) | (200) | (200) |
| **TOTAL Council Priorities** | **(3,093)** | **(2,693)** | **(2,293)** | **(1,928)** | **(1,928)** |

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

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

**6.23** Cabinet approved the establishment of 2 reserves during 2023/24 – Treasury Management Risk and Contract Smoothing reserves. Additional earmarked reserves will be established to mitigate specific financial risks.

- Business Rates Risk – to help mitigate the impact of any unexpected reduction in the business rates base and income.
- Workforce Planning – to ensure a strategic approach to workforce planning can be delivered.
- Local Government Pension Scheme – to help mitigate the risk of a deficit funding position on the Council's Local Government Pension scheme at each triennial review period (next review due April 2025)

**6.24** The review of balances and reserves consolidates several existing separate balances into single over-arching reserves that provide a more flexibility for the Council to fund specific one-off costs as they arise, subject to business case and approval limits.

- Asset Management and Property
- Planning

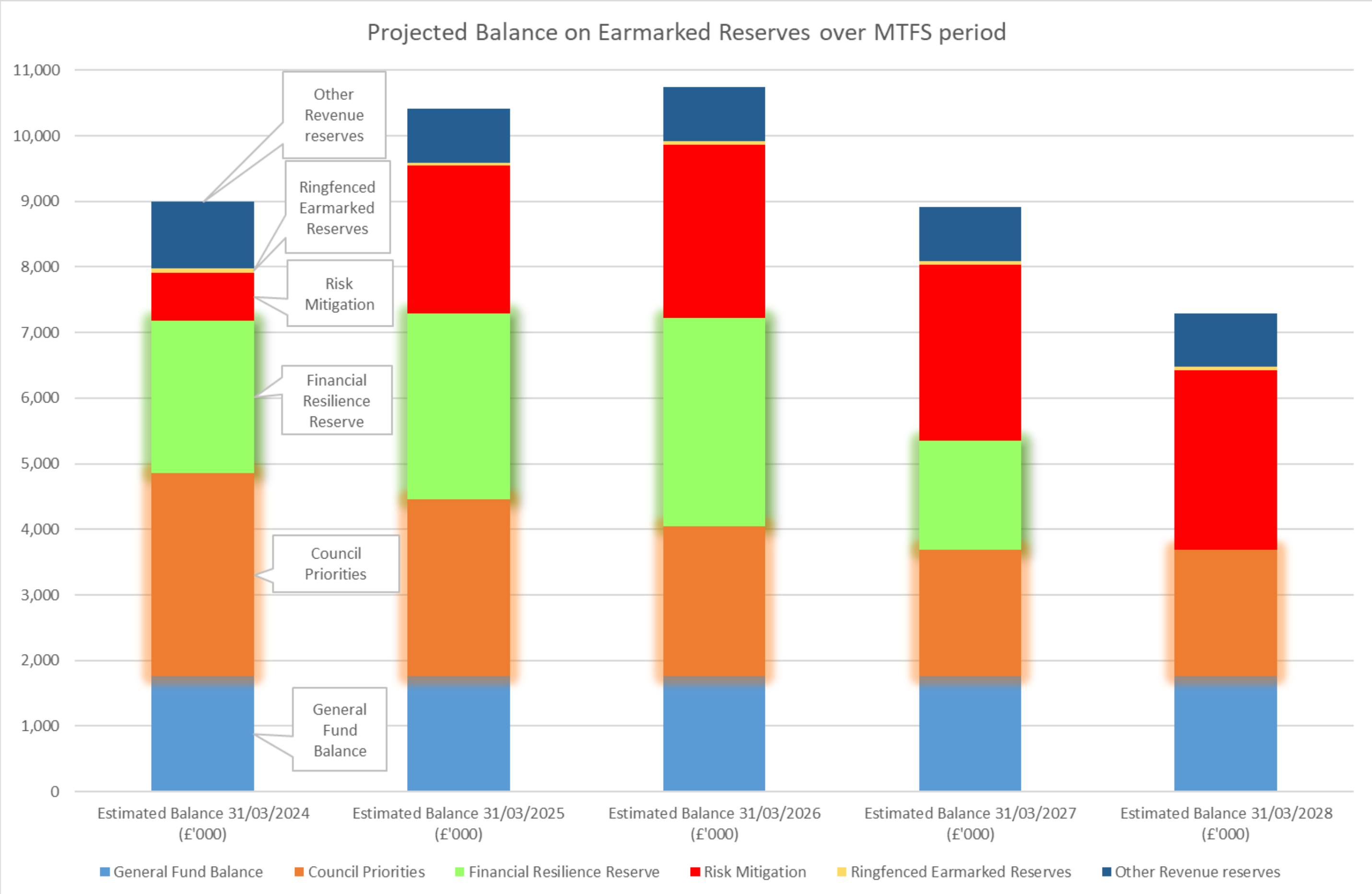
**6.25** Therefore, the following balances and reserves position is proposed over MTFS period:

- General Fund Balance to be maintained at minimum level of £1.760m
- Financial Resilience Reserve held to mitigate the budget gap identified in the MTFS and to facilitate profiling of a Savings and Transformation plan and support the award of the Leisure and Culture contract over MTFS period.
- Council Priorities Fund is allocated to separate reserves to support the priorities outlined in the Corporate Plan.
- Earmarked reserves to mitigate financial risks are established.
- Allocate £25k to the Member Training earmarked reserve to providing adequate funding for member training and development as recommended by the Corporate Peer Challenge in October 2022 ("Establish a training and development programme for elected members")
- £0.100m is transferred to the Treasury Management Risk reserve in 2024/25
- £0.118m of additional funding from the Final Local Government Settlement is transferred to the Workforce Planning Reserve
- £0.959m is transferred to the Business Rates Risk reserve in recognition of the risk on business rates income over the MTFS period (£0.445m arising from the forecast 2023/24 Collection Fund surplus and £0.514m arising from the updated NNDR1-based forecast for business rates income in 2024/25).

**6.26** 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 9b – Reserves and Balances Forecast

| Estimated Reserve balance over MTFS period | Estimated Balance 31/03/2024 (£'000) | Estimated Balance 31/03/2025 (£'000) | Estimated Balance 31/03/2026 (£'000) | Estimated Balance 31/03/2027 (£'000) | Estimated Balance 31/03/2028 (£'000) |
|---|---|---|---|---|---|
| **General Fund** | **(1,760)** | **(1,760)** | **(1,760)** | **(1,760)** | **(1,760)** |
| | | | | | |
| Council Priorities | (3,093) | (2,693) | (2,293) | (1,929) | (1,929) |
| Financial Resilience Reserve | (2,328) | (2,844) | (3,168) | (1,657) | 0 |
| Financial Resilience Reserve - shortfall (indicative) | | | | | 1,854 |
| Risk Mitigation | (723) | (2,250) | (2,646) | (2,692) | (2,738) |
| Ringfenced Earmarked Reserves | (77) | (47) | (47) | (47) | (47) |
| Other Revenue reserves | (1,020) | (822) | (822) | (822) | (822) |
| **Subtotal Earmarked Reserves** | **(7,240)** | **(8,655)** | **(8,976)** | **(7,147)** | **(3,682)** |
| | | | | | |
| **TOTAL GF Balance + Earmarked Reserves** | **(9,000)** | **(10,415)** | **(10,736)** | **(8,907)** | **(5,442)** |




Note: The graph excludes any balance held by the Business Rates Movement reserve. 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 support Council expenditure.

6.27 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 £4.2m over the MTFS period would reduce the Financial Resilience Reserve to a nil balance during 2027/28.

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

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

| MTFS Summary | 2023/24 Original (£'000) | 2023/24 Q2 Forecast (£'000) | 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|---|---|
| Net Service Revenue Expenditure | 13,625 | 16,783 | 15,858 | 15,858 | 15,858 | 15,858 |
| Corporate Items/Non Service Income & Expenditure | (812) | (1,490) | (1,015) | (649) | (50) | 24 |
| Transfers to/(from) earmarked reserves | 0 | (814) | 476 | (557) | (701) | (701) |
| Provision for Inflation | 1,799 | 0 | 1,117 | 1,993 | 2,694 | 3,414 |
| **Service + Corporate Items** | **14,611** | **14,479** | **16,437** | **16,645** | **17,801** | **18,596** |
| Budget Pressures | 762 | 0 | 584 | 628 | 690 | 740 |
| Technical Adjustments | 0 | 0 | 77 | 77 | 77 | 77 |
| Risk Items | 500 | 398 | 0 | 0 | 0 | 0 |
| Savings and Transformation Plan items | (1,510) | (250) | (2,036) | (2,931) | (3,205) | (3,422) |
| **Draft Net Revenue Budget** | **14,363** | **14,627** | **15,061** | **14,419** | **15,362** | **15,990** |
| **TOTAL Funding** | **(13,503)** | **(13,503)** | **(15,577)** | **(14,743)** | **(13,852)** | **(12,479)** |
| **Budget Gap / (Surplus)** | **860** | **1,124** | **(516)** | **(324)** | **1,511** | **3,511** |

## 7. FUNDING

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

**Overview**

7.2 As set out earlier in Section 2, there is considerable uncertainty over the medium-term. Forecasts of funding for 2025/26 assume that planned reforms to Local Government Finance are delayed until at least 2026/27.

7.3 Estimating the level of Government funding for 2026/27 and 2027/28 is difficult as there is no certainty around the timing and scale of the transition from the current finance system for local government.

7.4 For the purposes of the MTFS, it has been assumed that the pace of reform will be relative quick (i.e., transitional arrangements will be in place for a shorter period of time than has been the case with previous reforms of local government finance). This is shown in the funding estimates for 2026/27 and 2027/28 as damping. This funding mechanism is provided to ensure that funding reductions are managed over a defined period of time so that no Council would see a reduction of more than x% (e.g., no more than say 5% or 10% in any given year). For MTFS modelling purpose a floor of 10% has been assumed. Estimates for the later MTFS period should, therefore, be treated with a high degree of caution.

**Business Rates**

**7.5** The Council finalised its Business Rates estimates for 2024/25 and its initial estimate of any surplus or deficit for 2023/24 by 31 January 2024. The estimate of retained business rates income included in this report has been updated to take into account the final forecasts for business rates that were submitted in the NNDR1 return.

**7.6** Forecasting business rates income is complex with the impact of the additional reliefs announced in the Autumn Statement and the implementation of shorter 3-year revaluation periods contributing to the level of uncertainty around forecasts for the medium-term.

**7.7** The estimate of business rates income has been prepared based on the rateable value of properties on the rating list on 31 December 2023. 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.

**7.8** Business rates are collected by the Council, and the proceeds are shared between Cotswold District Council, Gloucestershire County Council, and the Government. There is an element of risk and reward involved in the Business Rates scheme, which is designed to incentivise Councils to promote business growth within their areas. The business rates retention scheme is volatile and estimating the outturn is complex due to factors such as appeals, demolitions, new builds, occupation, and reliefs.

**7.9** The draft forecast for business rates included in this report, although broadly similar to last year, has seen significant changes in terms of rateable values and reliefs. The assumption made in the MTFS is the Council's share of retained business rates will be £5.014m in 2024/25. The MTFS also includes the Council's share of the forecast surplus on the Business Rates Collection Fund in 2023/24 of £0.445m.

**7.10** 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.

**7.11** 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.

7.12 The table below sets out the summary calculation of retained business rates income forecast for 2024/25.

**Table 11 – Business Rates Forecast**

| Derivation of BRR Figures for MTFS | 2023/24 Estimate (£'000) | 2023/24 Initial (£'000) | 2024/25 Final (£'000) |
|---|---|---|---|
| Non-Domestic rating income (NNDR1 Estimate) | 13,201 | 13,974 | 13,495 |
| Less: Tariff Payment to Government | (12,963) | (13,332) | (13,332) |
| Less: Estimated Levy Payment to Government | (1,485) | (1,709) | (1,747) |
| Add: Renewable Energy schemes | 107 | 110 | 117 |
| **Estimated Retained Business Rates** | **(1,140)** | **(957)** | **(1,467)** |
| Section 31 Grant Payable | 4,681 | 4,868 | 5,354 |
| Multiplier Cap | 834 | 1,117 | 1,127 |
| **TOTAL Funding from Business Rates** | **4,375** | **5,028** | **5,014** |
| **Assumed BRR included in MTFS** | **4,389** | **4,500** | **5,014** |

<u>Gloucestershire Business Rates Pool</u>

7.13 The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth. The Pool Levy rate increased from 15% to 21% because of the 2023/24 revaluation resulting in a lower proportion of business rates growth being retained in the County. Any windfall gain associated with the Business Rates Pool will be allocated to the Business Rates Risk reserve.

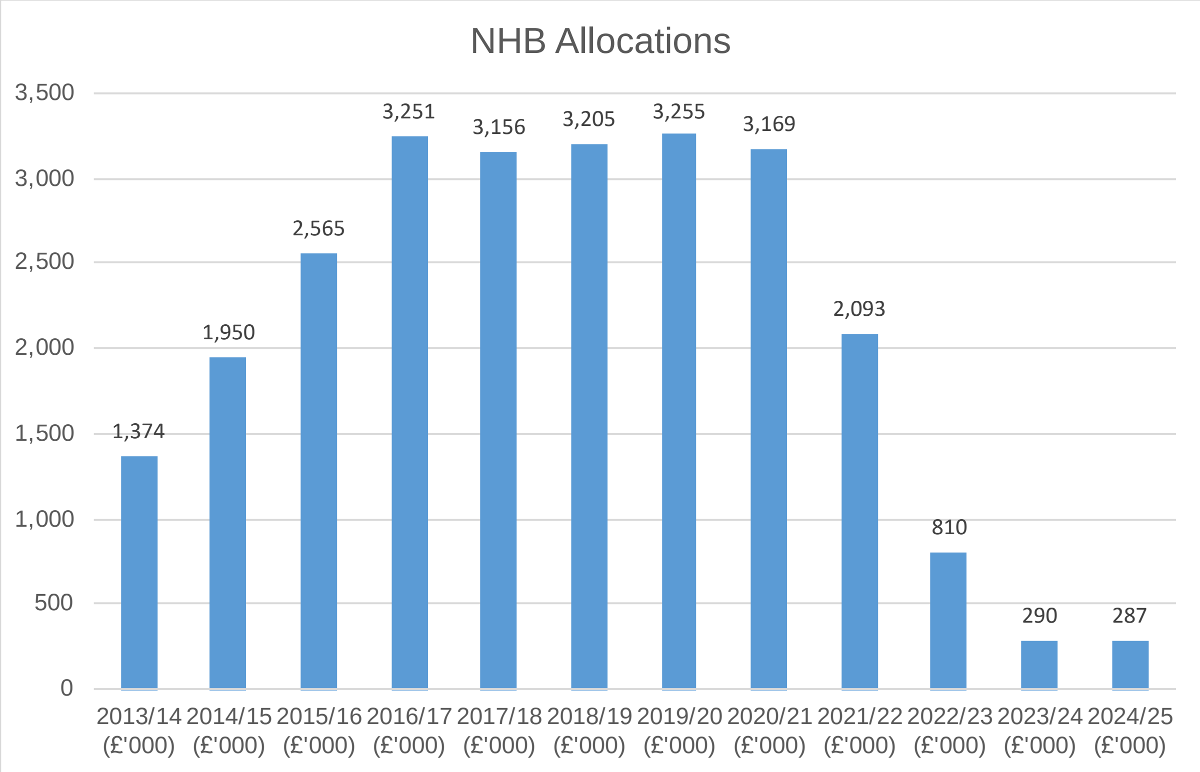
7.14 There remains uncertainty over the future of Business Rates Pooling over the MTFS period. Local Government Finance reforms will include a reset to business rates alongside the shorter 3-year valuation periods. Therefore, there is a risk that Pooling may not be financially viable as there may be too much risk and too little reward.

<u>New Homes Bonus (NHB)</u>

7.15 New Homes Bonus will continue for a further year in 2024/25 with an allocation of £0.287m included in the provisional settlement. As has been the case over the last three financial years, 2024/25 is a one-year only allocation and does not give rise to an ongoing legacy payment. The Government has yet to set out the future position of New Homes Bonus which was intended to take place ahead of the 2024/25 local government finance settlement.

7.16 The graph below highlights the reduction in the value of NHB to the Council since 2020/21.

New Homes Bonus (NHB)




## Funding Guarantee

7.17 The final settlement increased support through the Funding Guarantee and is intended to ensure that all councils will see at least a 4% increase in their Core Spending Power before any decisions about organisational efficiencies, use of reserves or council tax levels.

7.18 The Funding Guarantee replaced the Lower Tier Services Grant (£1.435m in 2022/23) and repurposed 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 1 of this report.

7.19 For Cotswold, the value of the Funding Guarantee is £2.231m for 2024/25 and the assumption in the MTFS is £2.298m for 2025/26. Whilst this funding is welcomed, it falls short of mitigating the inflationary pressures on the Council's budget.

## Other Grants/Funding

7.20 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 2024/25 with £0.818m included in the final settlement.

7.21 Revenue Support Grant (RSG) of £0.144m for 2024/25 has been provided in the provisional settlement. However, this is a consolidation of 4 previous grants which maintain their existing distribution. These are the Independent Living Fund; Council Tax Discounts – Family Annex;

Local Council Tax Support Administration Subsidy; and Natasha's Law. The value of the rolled-in grants is broadly equal to the RSG allocation and should be viewed as replacing existing distinct funding streams rather than 'new' funding.

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

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

| Funding included in MTFS | Provn 2024/25 (£'000) | Final 2024/25 (£'000) | 2025/26 (£'000) | 2026/27 (£'000) | 2027/28 (£'000) |
|---|---|---|---|---|---|
| Council Tax | 6,597 | 6,597 | 6,879 | 7,166 | 7,459 |
| Business Rates Retention (net of risk + returned funding) | 4,500 | 5,014 | 4,590 | 3,216 | 3,350 |
| Rural Services Delivery Grant | 707 | 818 | 818 | 818 | 818 |
| Lower Tier Services Grant | 0 | 0 | 0 | 0 | 0 |
| New Grant (was LTSG) to achieve 3% increase in CSP | 2,226 | 2,231 | 2,298 | 0 | 0 |
| Services Grant | 12 | 12 | 12 | 0 | 0 |
| New Homes Bonus | 287 | 287 | 0 | 0 | 0 |
| New Homes Bonus (Returned Funding) | 0 | 0 | 0 | 0 | 0 |
| Revenue Support Grant (RSG) | 144 | 144 | 146 | (1,723) | (1,742) |
| (Negative) Revenue Support Grant | 0 | 0 | 0 | 0 | 0 |
| Damping | 0 | 0 | 0 | 4,373 | 2,595 |
| Collection Fund - CT | 28 | 28 | 0 | 0 | 0 |
| Collection Fund - NNDR | 0 | 445 | 0 | 0 | 0 |
| **TOTAL Funding** | **14,500** | **15,576** | **14,743** | **13,852** | **12,479** |
| **Proposed Net Revenue Budget** | **13,997** | **15,061** | **14,419** | **15,362** | **15,990** |
| **Budget shortfall/(surplus)** | **(503)** | **(515)** | **(324)** | **1,511** | **3,511** |

<u>**Council Tax**</u>

**7.23** The referendum threshold for 2023/24 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.

**7.24** 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.

**7.25** A £5 increase in Council Tax formed part of the Budget Consultation undertaken in November and December 2023. As reported to Cabinet in January 2024, 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?*

**7.26** The response to this question was supportive. 55.4% agreed or strongly agreed with the proposed Council Tax increase. 32.4% disagreed or strongly disagreed whilst 12.2% neither agreed nor disagreed.

**7.27** A Council Tax rise of £5 increases the Band D rate from £148.93 to £153.93 and will generate approximately £0.286m in additional Council Tax revenue annually (when taken with estimated changes to the taxbase, £0.212m when the taxbase growth is not included). The MTFS assumes an increase of up to £5 per annum. This would generate £1.148m over the MTFS period including 2024/25 (£0.862m 2025/26 to 2027/28).

**Table 13 – Council Tax Income**

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Taxbase | 42,374.24 | 42,855.33 | 43,283.88 | 43,716.72 | 44,153.89 |
| Assumed Band D rate (£) * | 148.93 | 153.93 | 158.93 | 163.93 | 168.93 |

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|---|
| Precept (£'000) | 6,311 | 6,597 | 6,879 | 7,166 | 7,459 |
| Increase (£'000) | | 286 | 282 | 287 | 292 |
| Cumulative Increase (£'000) | | 286 | 568 | 856 | 1,148 |

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

<u>**Local Council Tax Support Scheme**</u>

**7.29** Cabinet recommended that Council approve the Council Tax Support scheme for 2024/25 at their meeting on 07 December 2023. 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 increased level of support for income bands 4 and 5 (up from 30% and 10% to 40% and 20% respectively).

**7.30** The cost of the scheme will increase by approximately £68k across all preceptors, with the cost to Cotswold District Council estimated to be just over £5k. The impact of this has been reflected in the Council Tax estimate included within the MTFS. Council will consider the scheme at their meeting on 21 February 2024 alongside the level of Council Tax.

COTSWOLD
DISTRICT COUNCIL

## Council Taxbase

**7.31** The Taxbase for 2024/25 has been estimated at 42,855.33 and represents an increase of 481.09 (1.14%) over the 2023/24 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)

**7.32** The Council Tax Collection Fund is estimated to be in surplus by the end of the current financial year by £0.200m. Cotswold District Council's share is £28k and is included within the Council Tax Collection Fund deficit line within the MTFS.

**7.33** Collection rates for Council Tax have remained resilient throughout 2023/24. 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 2022/23 and the total collected is forecast to be broadly in-line with the level precepted against the Collection Fund

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

# 8. CAPITAL PROGRAMME 2024/25 TO 2027/28

**8.1** 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.

**8.2** The Council has set out its Capital Programme for the period 2024/25 to 2027/28 based on the principles of the current Capital Strategy. This is summarised in the table below and in further detail in Annex D of this report. A total capital expenditure budget of £6.813m in 2024/25 is proposed. Total expenditure over the programme period is estimated at £17.512m (£25.024m when including the current financial year)

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

Table 14 – Summary Capital Programme

| Capital Programme | 2023/24 Revised Budget (£'000) | 2024/25 Budget (£'000) | 2025/26 Budget (£'000) | 2026/27 Budget (£'000) | 2027/28 Budget (£'000) | TOTAL Budget (£'000) |
|---|---|---|---|---|---|---|
| Leisure & Communities | 79 | 1,310 | 50 | 550 | 50 | 2,039 |
| Housing/Planning and Strategic Housing | 4,765 | 2,289 | 700 | 700 | 700 | 9,154 |
| Environment | 566 | 1,857 | 428 | 5,251 | 1,820 | 9,922 |
| ICT, Change and Customer Services | 100 | 350 | 150 | 150 | 150 | 900 |
| UK Rural Prosperity Fund | 191 | 573 | 0 | 0 | 0 | 764 |
| UK Shared Prosperity Fund Projects | 28 | 134 | 0 | 0 | 0 | 162 |
| Land, Legal and Property | 567 | 300 | 0 | 0 | 0 | 867 |
| Transformation and Investment | 1,216 | 0 | 0 | 0 | 0 | 1,216 |
| | **7,512** | **6,813** | **1,328** | **6,651** | **2,720** | **25,024** |

**8.4** The capital programme includes investment in the Council's Leisure Centres, supporting the delivery of Housing in the District, responding to the Climate emergency and investment in new waste collection vehicles to support the service.

**8.5** The Council has been developing an Asset Management Strategy supported by Carter Jonas over the last few weeks. This will include detailed asset management plans and Minimum Efficiency Standards (MES) considerations for the Land and Buildings assets it holds. This will be presented to Cabinet in April 2024 and further developed over 2024/25. The emerging strategy provides a longer-term view of the income and expenditure profiles, tenant events, hold and disposal options.

**8.6** 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).

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

**8.8** The level of prudential borrowing included reflects the financing available in the revenue budget, capital receipts align with forecasts and grant funding and other contributions are based on already notified allocations or best estimates at the time of preparation. If additional resources become available, projects that meet the Council's strategic capital objectives will be brought forward for approval. However, with the current relative high cost of borrowing, the business cases for new projects will need to be robust, include adequate headroom to cover capital financing costs, and be subject to additional challenge from officers prior to member consideration.

**Table 15 – Summary Capital Financing Statement**

| Capital Financing Statement | 2023/24 Revised Budget (£'000) | 2024/25 Budget (£'000) | 2025/26 Budget (£'000) | 2026/27 Budget (£'000) | 2027/28 Budget (£'000) | TOTAL Budget (£'000) |
|---|---|---|---|---|---|---|
| Capital receipts | 5,062 | 5,006 | 628 | 1,780 | 2,020 | 14,496 |
| Capital Grants and Contributions | 1,959 | 1,732 | 700 | 700 | 700 | 5,791 |
| Earmarked Reserves | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Contribution to Capital Outlay (RCCO) | 100 | 0 | 0 | 0 | 0 | 100 |
| Community Municipal Investments (CMI) | 391 | 75 | 0 | 0 | 0 | 466 |
| Prudential Borrowing | 0 | 0 | 0 | 4,171 | 0 | 4,171 |
| | **7,512** | **6,813** | **1,328** | **6,651** | **2,720** | **25,024** |

**8.9** Whilst the table above and the capital financing statement in shown in Annex D indicate that prudential borrowing is required in 2026/27 this is only an indication based on current forecasts of expenditure and financing. Assumptions will be updated as the Capital Programme and wider economic environment dictate.

## 9. RISKS AND UNCERTAINTIES

**9.1** There are several financial risks that the Council will face over the medium-term. The 2024/25 Budget and the MTFS have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

**9.2** The first key risk is around the nature and scope of local government funding from the Government in 2025/26 and more substantially from 2026/27. The implementation of the Fair Funding Review and Business Rates changes has already been delayed (originally due from April 2020) and is likely to be held back until after the General Election. The forecast impact on District Councils is likely to be significant as resources are moved around Local Government to recognise Social Care cost pressures.

**9.3** 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 2025/26 and beyond.

**9.4** However, an initial estimate of a 30% reduction in the level of retained business rates income has been included in the MTFS assumptions from 2026/27. 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).

**9.5** A significant uncertainty in the MTFS is the assessment of when funding changes will be implemented. As set out in this report, 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 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. For the purposes of the MTFS it has been assumed that 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.

**9.6** 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 2024/25 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 2024/25 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

**9.7** A third key risk is around the impact from the Publica Review. As set out in section 2 of the report, it is difficult at this early stage to set out the financial impact of the transition plan on the Council's finances. Cabinet and Council will consider the Transition Plan and the financial implications in March 2024.

**9.8** The transition of services from Publica to Council will clearly have a material impact on the Council's resources and budget over the next two years. For the purposes of the 2024/25 revenue budget and the MTFS, it is assumed the cost of services will remain within the cost envelope set out over the medium-term.

COTSWOLD
DISTRICT COUNCIL

**9.9** In order to fund the one-off costs of transition, it is recommended that £0.500m is set aside in the Corporate Priority: Publica Review reserve.

**9.10** Inevitably, there are likely to be workforce planning costs arising from the transfer of services. As the indicative timetable for services to transfer is not yet known, the scale and the timing of workforce planning costs and mitigation measures is difficult to estimate with any certainty. Therefore, it is appropriate to set out the approach the Council will take to financing these costs over the transition period.

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

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

**9.12** 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 and the impact of the Levelling Up and Regeneration Act.
- Replacement of New Homes Bonus at a time this Council will be continuing to deliver 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.
- Unbudgeted costs (for example from service demand or legal challenge to planning decisions.)

## 10. CONCLUSIONS

**10.1** Despite the uncertainties around future levels of Government funding and the impact from 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.

**10.2** 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.

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

**10.4** The Capital Programme includes planned expenditure £6.813m in 2024/25 with the Council needing to consider the outcome of due diligence work on other potential schemes before any further capital expenditure is committed.

**10.5** The budget includes a recommendation to Council for the current Council Tax level to increase by £5 for a Band D property (from £148.93 per annum to £153.93) – an increase of around 10p per week) in line with government assumptions within its settlement funding formula.

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

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

**10.8** Reserves continue to be held to support the implementation of key projects and to mitigate against the substantial increased risk the Council is facing. Reserves held to promote financial sustainability are forecast to be depleted during the MTFS period. Consideration should be given as part of the year-end procedures for 2023/24 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 2024/25.

## 11. FINANCIAL IMPLICATIONS

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

## 12. LEGAL IMPLICATIONS

**12.1** None directly as a result of a review of the draft report.

COTSWOLD DISTRICT COUNCIL

## 13. RISK ASSESSMENT

**13.1** Section 9 of this report set out the risks and uncertainties around the 2024/25 budget and MTFS forecast.

## 14. ALTERNATIVE OPTIONS

**14.1** On 30 January 2024, the Overview and Scrutiny Committee considered the budget proposals and were encouraged to provide feedback to the Cabinet, which may include alternative options.

**14.2** 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.

## 15. BACKGROUND PAPERS

**15.1** None