COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

1. BACKGROUND

1.1 Section 25 of the Local Government Finance Act 2003 places a statutory duty on the Chief Financial Officer to report to the authority, at the time the budget is considered, and the council tax is set on:

- the robustness of the estimates included in the budget.
- and the adequacy of the financial reserves in the budget

1.2 The Act requires councillors to have regard to the report in making decisions at the Council's budget setting and council tax setting meeting(s).

1.3 In a briefing note on the Section 25 Statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) highlight the importance for members as it provides "critical context for budgetary discussions" and ensures that "all members have regard to the professional advice provided by the authority's chief financial officer when final budget decisions are being made."

1.4 Whilst there is no prescribed format for the Section 25 statement, recent discussions have focussed on ensuring the statement provides members with a clear understanding of the key strategic risks and challenges facing the sector:

2. INTRODUCTION

2.1 Local authorities are under significant financial pressure, and several have either issued Section 114 notices, sought Exceptional Financial Support (EFS), or have been the subject of specific Public Interest Reports.

2.2 MHCLG have sought early engagement with local authorities who may be at risk of issuing a Section 114 notice. The aim of this engagement is to mitigate the risk of a Section 114 notice by exploring options which may lead to the Government providing Exceptional Financial Support (EFS). This is a form of temporary financial assistance provided by the Government to local authorities that are facing severe financial difficulties. This support is typically used to help a council meet its immediate financial obligations and avoid insolvency.

1.1. It is provided under specific, exceptional circumstances, and local authorities usually need to demonstrate that they have exhausted all other options before this support is granted. The terms of the support can vary and might include loans or other forms of financial assistance. For the coming financial year, six local authorities have been through EFS, and been able to increase their Council Tax by more than the limits set out within the Referendum Principles.

2.3 Section 114 notices are issued by the Chief Finance Officer when they believe Members have or are minded to approve an unbalanced budget where expenditure in a financial year is likely to exceed the resources available. Issuing the notice immediately suspends all financial activity apart from that which is necessary to maintain statutory duties. It also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation. The authority's external auditors and the Ministry for Housing, Local Government and Communities (MHCLG) will also be notified and can step in to provide advice and support.

2.4 CIPFA published a brief report (CIPFA Report on s114 notices) on learning the lessons from Section 114 notices. These used to be issued very rarely but members will note from that Nottingham, Birmingham, and Woking have issued such notices in recent years.

2.5 It is worth stating that 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 from 2026/27 and over the medium-term must be closed to maintain financial sustainability.

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

2.6 CIPFA's report made the following points:

- The savings process should be effective and engaging, with budget holders actively involved in identifying and delivering savings.
- The risks around commercial activities must be clearly understood, with effective oversight of council-owned companies.
- Elected members must receive training on financial matters, improving their understanding of complex issues.
- Governance arrangements should be strengthened and include the ability to speak truth to power.
- Internal audit should review the effectiveness of financial rules and processes, and knowledge of and compliance with financial regulations.
- The quality of financial management should be assessed.

1.2. The level of uncertainty across the sector is unprecedented and must be considered by members when assessing the short and medium-term financial position. Reforms to Local Government Finance, originally due to be implemented from April 2020, will take effect from April 2026 following consultation over the coming months. The reforms are expected to have a significant detrimental impact on the level of funding the Council receives.

2.7 The Government published their white paper on Devolution in England in December 2024. Whilst Gloucestershire is not in the first tranche of two-tier areas subject to reorganisation, the wider devolution agenda will have a significant impact on the Council's decision making and finances over the next two to three years.

2.8 In terms of the macroeconomic environment, recent reductions in the level of inflation and interest rates may reduce some of the financial pressures across the sector. However, economic growth forecasts suggesting slower GDP growth over the near-term.

COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

2.9 The Council's Revenue Budget, Medium Term Financial Strategy and Capital Programme have been prepared with reference to CIPFA guidance on prudential property investment. As Section 151 Officer, I have also had regard to CIPFA's Financial Resilience Index and the CIPFA Financial Management Code (FM Code).

1.3. Section 7 of the 2025/26 Revenue Budget, Capital Programme and Medium-Term Financial Strategy report outlines the compliance requirements of the CIPFA FM Code. The Council should continue to assess its position on compliance with the Code and the Section 151 Officer will be reviewing this position utilising the FM Code's self-assessment tool with an Action Plan identifying actions required to address any areas of weakness.

3. ROBUSTNESS OF ESTIMATES

3.1 The budget setting process at Cotswold District Council has been operating effectively over many years and have been prepared by appropriately qualified and experienced staff in consultation with management.

3.2 Service areas are required to undertake a review of service revenue budgets and work with the Finance Team to produce detailed estimates for the forthcoming financial year. Proposed changes to service budgets are carefully reviewed, with consideration of savings and unavoidable budget pressures by senior management and Cabinet Members.

3.3 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.

1.4. Contract costs for Ubico and Publica have been reviewed and challenged. The contract sum for Ubico takes into account the impact of Waste and Recycling round rezoning that commenced in June 2024. However, with increased costs of employment (Pay inflation and increased Employer National Insurance Contributions), the contract sum has increased by £0.125m (1.43%).

3.4 Following the transfer of services as part of Phase 1 of the Publica Review, the contract sum for 2025/26 is £7.079m – a reduction of £4.085m from the 2024/25 base contract sum. As with the Ubico contract, increased costs of employment (£0.336m) are included and highlight the need to ensure the costs for all Council services are subject to challenge, review, and transformation to demonstrate Value for Money.

3.5 The Revenue Budget, Capital Programme and MTFS have been subject to scrutiny through the Council's Overview and Scrutiny Committee. The Annual Capital Strategy and Annual Treasury Management Strategy and Non-Treasury Investment Strategy have been subject to review through the Council's Audit and Governance Committee

3.6 Financial management remains robust as demonstrated by the quarterly Financial Performance Reports that are considered by Cabinet and the Overview and Scrutiny Committee. The closing financial position for 2024/25 is due to be reported in June or July 2025 subject to completion of the outturn process.

1.5. It is important that the council can balance the budget over the medium term in a sustainable and manageable way through a combination of income, sensible and prudent use of reserves and a robust cost reduction and savings programme.

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

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

COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

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

3.8 As can be seen from Section 7 of the report, the requirement to reduce costs and balance the budget in the later years of the MTFS are substantial.

3.9 The basis on which the budget for 2025/26 and the MTFS have been prepared has been set out clearly in this report. I am satisfied that the budgets for the General Fund and the Capital Programme have been based on sound and reasonable assumptions.

4. PUBLICA REVIEW

4.1 Following reports from Human Engine (November 2023) and Local Partnerships (March 2024), Council approved the Detailed Transition Plan ("DTP") report at its meeting on 31 July 2024. This set out the process that would be followed to return the majority of services to the Council with an initial transfer of services taking place on 01 November 2024.

4.2 The additional cost of transferring services from Publica to the Council has been included within the MTFS.

4.3 The gross increase in cost of Phase 1 is £0.984m in a full year, offset by cost reductions of £0.503m resulting in a net cost increase of £0.481m.

4.4 One-off costs of Phase 1 - £0.188m representing the Council's share of redundancy and pension strain costs, and £0.275m of programme costs have been funded from earmarked reserves.

COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

4.5 The transition of further services from Publica to the Council as part of Phase 2 will clearly have a material impact on the Council's resources and budget over the MTFS-period. For the purposes of the 2025/26 revenue budget and the MTFS, it is assumed the cost of services will remain within the cost envelope set out over the medium-term.

4.6 **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.**

4.7 To fund the one-off costs of transition, £0.500m has been set aside in the Corporate Priority: Publica Review reserve. It is anticipated that a balance of £0.225m will be available to support Phase 2.

4.8 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.

4.9 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.

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

4.10 The MTFS has been prepared against the emerging position regarding the Publica Review. The broad assumptions for the purposes of the 2025/26 budget and over the medium term is that service costs will increase as a result of increased employer pension contributions and a reduced emphasis on sharing services. The MTFS has made a broad assumption on a limited number of services being transferred as part of Phase 2. There remains uncertainty over future service transition due to Devolution/Local Government Reorganisation.

4.11 As part of the preparation of the 2025/26 budget and MTFS, the nature and structure of services in scope was subject to ongoing change. However, based on the best available information, an increased costs of £0.300m has been included within the MTFS (with a part-year impact in 2025/26 of £0.225m).

4.12 Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in detail in March 2025.

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

5. RISK

5.1 As indicated in Section 10 of the report, there are several financial risks that the Council will face over the medium-term. The 2025/26 Budget and the MTFS have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

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

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

5.4 However, the MTFS has for a number of years included a significant reduction in the level of retained business rates income from 2026/27. 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 Financial Management 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).

5.5 The MTFS has assumed that funding in respect of Extended Producer Responsibility (EPR) continues, although at a much-reduced rate (£1.502m allocation for 2025/26 is assumed to reduce by 50% to £0.751m). Whilst the Department for Environment, Food and Rural Affairs (DEFRA) have indicated this is an ongoing revenue stream, there is no guarantee on the level of future funding or indeed how it will be considered in the Local Government Finance Reforms.

5.6 An assumption has also been made around the level of employer pension contributions from 2026/27 following the triennial review that will report in the Autumn on 2025. Based on an initial mid-review assessment by the pension fund actuary, the funding level is expected to be in the region of 140%. Following consultation with Gloucestershire County Council who administer the LGPS and the actuary, an immediate reduction in the current stabilisation parameter is considered prudent. An estimated reduction of £0.500m has been included in the MTFS as a result but remains a risk until formally confirmed in the Autumn.

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

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

5.8 A third key risk is around the impact from the Publica Review. As set out in the report, Phase 2 of the transition of services from Publica to the Council will increase the cost of services. Cabinet and Council will consider the Phase 2 Transition Plan and the financial implications in March 2025.

6. ADEQUACY OF THE RESERVES

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

6.2 The review confirms the General Fund balance to 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 replenished.

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

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

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

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

- **Council Priority: Publica Review** reserve – the estimated unspent balance (estimated at £0.225m) to provide adequate funding for the Council's share of the costs arising during the Phase 2 of the Publica Transition.
- **Council Priority: Local Plan** reserve – a further £0.250m is allocated to ensure the next stages of the Local Plan preparation can be delivered following the update to the National Planning Policy Framework (NPPF) in December 2024. The Council has submitted an expression of interest to MHCLG for Delivery Funding of up to £0.250m. Should the Council be successful and receive an allocation, the level of reserve funding will be reviewed. It is anticipated that local authorities will be notified of outcome in February 2025.
- **Council Priority: Climate Emergency** reserve is maintained up to £0.250m
- **Council Priority: Housing Delivery r**eserve is maintained at £0.500m

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

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

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

6.7 The Council has utilised Capital Receipts to finance capital expenditure with the balance on the Capital Receipts Reserve forecast to be £5.5m at the end of 2024/25. As shown in the Capital Financing Statement in Section 9 of the report, the Council will utilise the remaining balance to support the Capital Programme over the MTFS period. Whilst a residual level of capital receipts are expected over the MTFS period as part of normal activity, without further capital receipts the Council will require prudential borrowing in future years to finance capital expenditure.

6.8 Whilst the level of balances and reserves shown in the report indicates that the Council is in currently a good financial position, the cumulative budget gap of £12m over the MTFS period would reduce the Financial Resilience Reserve to a nil balance during 2027/28 under a 'Do Nothing' scenario. The Council will need to ensure the continued delivery of robust, balanced, and proportionate savings to mitigate the budget gap over the MTFS period.

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

COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

6.10 The MTFS does not include any savings targets as an approach to mitigating the budget gap. Including savings targets would not provide a credible MTFS or projection on reserve balances. Targets would not be robust as there would be insufficient details, plans, or business cases to support the inclusion of savings targets.

6.11 Instead, the MTFS presents the unmitigated position, with reserve balances utilised to support the MTFS. This is not a strategy in itself and is not a sustainable position. Tables 9b and 9c within the report do illustrate the impact on reserve balances of a different approach – namely the repriotisation of reserve balances and the effect of £3m of budgets savings across 2026/27 and 2027/28. This is to highlight the scale of the financial challenge and that even with a modest level of savings in 2026/27, this does not in itself fully close the budget gap.

6.12 As set out in the report, the Council will need to accelerate the Savings and Transformation programme during 2025/26. With additional resources included in the revenue budget (funded from earmarked reserves), a balanced and proportionate Savings and Transformation Programme must be considered ahead of the 2026/27 budget setting process. The approach must set out the process for identifying, reviewing and agreeing workstreams, clear delivery timescales, and how effective governance will be demonstrated.

6.13 The Local Government Association (LGA) has developed a Transformation Capability Framework. This sets out the essentials for successful (service) transformation and the resources the Council will need to deliver such a programme.

6.14 With the need to close the budget gap identified in the MTFS, a key aspect of the Savings and Transformation will need to be on robust business cases that outline the financial outcomes and certainty of delivery.

COTSWOLD
District Council

ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

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

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

6.17 Paragraphs 7.31 to 7.33 and the associated tables outline scenarios considered when assessing the adequacy of reserves. This takes into account that the Council continues to hold reserves balances for specific projects which may need to be released should further savings not be identified and delivered in 2026/27 and 2027/28.

6.18 Therefore, I am satisfied that the level of reserves the Council holds for the forthcoming year is adequate to support the budget although members should consider the level of reserves utilised in 2025/26 and the need to ensure reserves remain adequate over the medium-term.

6.19 In conclusion, I am able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates for 2025/26. The level of reserves remains adequate to support the 2025/26 financial position and demonstrates financial resilience. However, this is only the case provided that action is taken to ensure that the balances are set at the level of £1.760m for 2025/26 and that all savings proposals, are monitored closely and delivered as planned.

David Stanley
Deputy Chief Executive and Section 151 Officer
13 February 2025