



COTSWOLD

District Council

Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET – 16 OCTOBER 2025
Subject	2026/27 BUDGET STRATEGY AND MEDIUM-TERM FINANCIAL STRATEGY (MTFS) UPDATE
Wards affected	All
Accountable member	Cllr Patrick Coleman, Cabinet Member for Finance Email: patrick.coleman@cotswold.gov.uk
Accountable officer	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Report author	David Stanley, Deputy Chief Executive and Section 151 Officer Email: david.stanley@cotswold.gov.uk
Summary/Purpose	This report sets out the Budget Strategy to support the preparation of the 2026/27 revenue and capital budgets and presents an updated Medium Term Financial Strategy forecast.
Annexes	Annex A – Fair Funding 2.0 summary Annex B – Exceptional Financial Support provided to Local Authorities 2025/26 Annex C – Illustrative impact of Fair Funding 2.0 Annex D – Draft (Updated) Medium Term Financial Strategy (MTFS) 2026/27 to 2029/30 Annex E – Draft (Updated) Capital Programme and Capital Financing Statement 2026/27 to 2029/30
Recommendation(s)	That Cabinet resolves to: 1. Approve the 2026/27 Budget Strategy as outlined in the report.
Corporate priorities	<ul style="list-style-type: none">• Delivering good services
Key Decision	NO
Exempt	NO
Consultees/ Consultation	N/A

1. EXECUTIVE SUMMARY

- 1.1** The Council approved its Medium-Term Financial Strategy (MTFS) and set the budget for the 2025/26 financial year on 24 February 2025. This Report sets out the Council's Budget Strategy for 2026/27 and provides an update to the MTFS forecast position.
- 1.2 A significant budget gap has been identified in the MTFS forecasts considered by Council since February 2023.** The indicative position outlined for 2025/26 through to 2028/29 was an unfunded budget gap of £12.112m. The Government has consulted on significant changes to the way each Council is funded through the Local Government Finance Settlement ("LGFS"), subject to the detailed LGFS, changes proposed in the consultation will take effect from April 2026.
- 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. Inflation, as measured by the Consumer Prices Index ("CPI") is above the Bank of England's target of 2.00% (and above target since July 2024). As a result, there remains uncertainty around the pace of interest rate reduction in the current financial year which have an influence over the Council's budget for 2026/27 and the MTFS period both directly and indirectly.
- 1.4** The Government published a white paper on Local Government in December 2024 ["English Devolution White Paper – Power and Partnership: Foundations for Growth"](#). Local government reorganisation for two-tier areas (through the creation of Unitary Councils) forms a significant part of the Government's plans.
- 1.5** Whilst it is outside of the scope of this report, Local Government Reorganisation ("LGR") proposals will have an impact on the council's Medium-Term Financial Strategy. The timeline for reorganisation in Gloucestershire is for the new unitary council(s) to be established on 01 April 2028. This means that Cotswold District Council would cease on 31 March 2028 with 2027/28 being the final financial year.
- 1.6** However, the MTFS is prepared on a "going concern" basis - that the council will continue to operate and meet its financial obligations for the foreseeable future regardless of LGR.

1.7 The inflation rate has increased since the February 2025 MTFS (CPI currently 3.8%). Interest rates have reduced to 4.0% with the expectation of one further interest rate reductions in 2025 (taking the base rate to 3.75%).

1.8 The Government published 2 consultations in June 2025 that frame the wider reforms to Local Government Finance. The Fair Funding 2.0 consultation set out a number of changes to the way in which funding will be allocated to local authorities. The bullet points below provide a summary of the key issues with further detail in Annex B.

Key Objectives

- Modernise funding formulas to better reflect local needs and resources.
- Simplify grant allocations and reduce reliance on competitive bidding.
- Introduce multi-year settlements to improve financial planning.
- Empower councils through greater flexibility over sales, fees, and charges.

Core Components

- Relative Needs Formula (RNF): Assesses demand for services across areas.
- Area Cost Adjustment (ACA): Accounts for regional cost differences in service delivery.
- Resource Adjustment: Reflects the council tax revenue potential of each authority.

Transitional Arrangements

- Funding changes will be phased in over three years (2026–2029).
- A proposed “cash flat floor” aims to protect councils from sharp funding reductions.
- Cotswold District Council is one of around 40 local authorities (largely Shire Districts and Inner London Boroughs) that may need to manage larger losses. MHCLG have indicated that the funding floor may not be set at the flat cash level, and a floor of -5% to -7% of Core Spending Power (“CSP”) has been proposed. Illustrative charts shown in Annex C.

Other Proposals

- Reform of the New Homes Bonus.
- Long-term changes to the Business Rates Retention System.

- Integration of Strategic Authorities into the Local Government Finance Settlement.
- Consideration of equalities impacts and devolution opportunities.

1.9 The reforms will have a significant impact on the level of funding the Council receives from the Government. The Fair Funding Review 2.0 proposes a major overhaul of local government finance, aiming for fairness and transparency. While it promises simplification and better alignment with local needs, it also poses risks of funding reductions for some councils. Members should be aware of the potential implications for service delivery, financial planning, and the need to engage with transitional support mechanisms. Based on the consultation (which closed on 15 August 2025) resources (funding) are likely to be directed towards high-need/low taxbase authorities from low-need/high taxbase authorities

1.10 The Government will provide their response to consultation responses in late September/early October and will be followed by the publication of the Local Government Finance Policy Statement later in October ahead of the budget in November. The Government have indicated that statement will provide local authorities with more clarity on likely funding allocations ahead of the settlement announcement expected mid to late December.

1.11 The resetting of the Business Rates Retention System, cessation of New Homes Bonus, and the interaction with the LGR would suggest that Shire District Councils such as Cotswold are likely to see significant reductions in their funding and has formed the basis of funding assumptions in the MTFS for several years.

1.12 Alongside the Fair Funding 2.0 consultation, the Government sought views on modernising and improving the administration of council tax. This consultation set out the government's proposed approach to the way Council Tax is administered by local authorities with the broad premise of delivering a fairer and more efficient system for taxpayers and local government.

- Changing council tax billing from 10-months to 12-months by default
- Sought views on how the transparency of council tax information could be improved with the intention to help taxpayers understand what their council tax is spent on.

- Sought views on how to modernise council tax disregards to ensure they continue to support those they were intended to support.
- Improvements in the efficiency of council tax billing and communication
- Understanding whether the government could remove barriers that may exist around challenging council tax banding.
- Changes to the process for collecting and enforcing council tax charges. Specifically, the government believes households should be free from concerns of disproportionate enforcement action.

1.13 Therefore, it should be noted the updated MTFs position set out in this report is subject to uncertainty and a degree of estimation of costs and income. As with all estimates and assumptions, there is an inherent risk that they may not be accurate. The financial position will continue to be monitored with the estimates and assumptions reviewed and updated throughout the budget setting process. These will be finalised once the provisional Local Government Settlement is announced which is expected in December following the Budget on 26 November 2025.

1.14 Having a clear set of budget principles for the Council to accept and work toward helps a clear framework on the journey to setting a balanced budget for the forthcoming year. These are set out in sections 4 and 5 of the report and cover the Council's Best Value Duty, approach to reserves, full cost recovery through fees and charges, and capital investment priorities.

1.15 The 2026/27 estimate for Council Tax maintains the assumption of an increase in the number of dwellings liable for Council Tax (i.e., a 1% increase in the Taxbase) and a £5 increase in a Band D charge for Council Tax. This 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.

1.16 As outlined, the Fair Funding 2.0 proposals are dependent upon a full rest of the Retained Business Rates System from 2026/27.

1.17 Alongside the reset, a new valuation period will commence from April 2026 and will introduce new valuations for every business with the addition of further business rates multipliers, as set out in the extract below:

Multiplier structure from 2026-27

Current system (2025-26)	New system (2026-27 onward)	
Small business multiplier, all properties, RV below £51,000	Small business RHL multiplier, RHL properties only, RV below £51,000	Small business multiplier, non-RHL properties, RV below £51,000
Standard multiplier, all properties, RV £51,000 and above	Standard RHL multiplier, RHL properties only, RV £51,000 - £499,999	Standard multiplier, non-RHL properties, RV £51,000 - £499,999
	High-value multiplier, all properties, RV £500,000 and above	

The rates for the new multipliers will be announced at Budget 2025, taking account of the revaluation due in 2026, as well as the economic and fiscal context.

1.18 Therefore, forecasting of business rates income will be more complex than in previous years with less certainty given the 2026 revaluation.

1.19 An initial estimate of £2.304m was included in the February 2025 MTFS. This has been estimated at £2.166m within the Pixel financial model but has not been adjusted within the MTFS.

1.20 The Council is required to finalise its Business Rates estimates for 2026/27 and its initial estimate of any surplus or deficit for 2025/26 by 31 January 2026 which will be included in the February 2026 MTFS.

1.21 The draft MTFS shown in Table ES1, and Annex D is based on the most credible assumptions and forecasts of income and expenditure over the next 4 years.

Table ES1 – Draft MTFS

Medium Term Financial Strategy	MTFS Period			
	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)	2029/30 (£'000)
Opening Budget				
Service	17,359	17,359	17,359	17,359
Corporate	(1,717)	156	158	158
Net Revenue Budget	15,641	17,515	17,517	17,517
Budget Changes & Adjustments				
Provision for Inflation	629	1,268	1,903	2,557
Budget Pressures (Phase 2 FYE)	763	564	464	464
Other budget pressures	0	0	0	0
Savings	(2,097)	(2,275)	(2,436)	(2,651)
REVISED Net Revenue Budget	14,936	17,071	17,447	17,887
Funded by:				
Council Tax	(7,361)	(7,661)	(7,967)	(8,278)
Business Rates	(2,304)	(2,435)	(2,571)	(2,711)
FFR 2.0 Damping	(3,571)	(1,951)	(429)	955
EPR	(751)	(751)	(751)	(751)
Collection Fund	0	0	0	0
TOTAL Funding	(13,986)	(12,797)	(11,718)	(10,784)
Budget shortfall/(surplus)	950	4,274	5,729	7,103

1.22 The Financial Resilience reserve was relied upon during 2022/23 and 2023/24 to balance the budget (£2.103m) which was not sustainable. For 2024/25 and 2025/26 the budget and Medium-Term Financial Strategy were prepared on the basis that planned operating surpluses would be transferred to the Financial Resilience Reserve.

1.23 The level of savings included in the February 2025 MTFS, and the update set out in this report does mitigate the budget gap identified for 2026/27 but does not fully close the budget gap identified for 2027/28. The Financial Resilience reserve is being used to balance the budget in the short-term and will be depleted over the MTFS period leading to a potential deficit position by 2028/29 – the point at which services transfer to the new unitary. The Council will need to address the scale of the budget gap to ensure a balanced budget can be set for 2026/27 and beyond. The position set out in this report is by no means complete and the budget gap may change due to assumptions being updated.

1.24 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 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.

1.25 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.

1.26 Given the scale of the financial challenge the Council is facing, the primary focus will be on Resident focused transformation and smarter internal working projects. This will help ensure adequate cost reductions are identified, scoped, and planned over the MTFS period. Savings and Transformation ideas are likely to be within the common themes already identified:

- Digitalisation - increased use of technology, using existing tech to maximum capacity, and use of AI for efficiencies.
- Resident self-service - via improved web offer, increased use of comms channels
- Workforce fit for the future – upskilling and restructuring.
- Improved systems and processes to remove waste and failure demand grouped by workstream and indicate outcomes expected in terms of financial and service benefits and set challenging but achievable action plans for delivery by agreed periods.

1.27 These will be brought forward over the coming months once an action plan for each major workstream has been developed. Project Management support and external support may be required on individual lines of enquiry to ensure options are fully appraised prior to inclusion in the programme.

1.28 This will require careful consideration of the resources required to support and deliver a more comprehensive medium-term programme where service delivery responsibility is evolving.

1.29 Subject to further due diligence, it is anticipated that a draft programme will be included in the February 2026 MTFS with a clear delivery plan for each year. However, the programme will need to be flexible and agile to meet the financial challenge and be capable of scaling up or down to meet any emerging requirement.

1.30 A review of the Reserves and Balances strategy will be undertaken to consider the adequacy of reserves considering the continued financial risks faced by the Council. The review will consider guidance published under CIPFA Bulletin 13: Local Authority Reserves and Balances (March 2023).

1.31 Total capital expenditure increases to £7.744m in 2026/27, decreases to £4.208m for 2027/28 and £2.130m in 2028/29 with an estimate of £2.743m in 2029/30.

1.32 The 2026/27 capital programme includes £5.171m provision for replacement of Waste and Recycling vehicles in line with the replacement programme. However, given the significant capital outlay and the potential impact from Local Government Reorganisation both the profile of this expenditure and method of financing is currently under review and will be included in the final budget proposals presented to the Cabinet and Council in February 2026.

Table ES2 – Capital Programme 2026/27 to 2029/30

Capital Programme	2026/27 Budget (£'000)	2027/28 Budget (£'000)	2028/29 Budget (£'000)	2029/30 Budget (£'000)	TOTAL Budget (£'000)
Leisure & Communities	500	0	0	550	1,050
Housing/Planning and Strategic Housing	1,839	2,231	1,775	1,819	7,664
Environment	5,255	1,826	205	224	7,510
ICT, Change and Customer Services	150	150	150	150	600
Shared Prosperity Fund Projects	0	0	0	0	0
Land Legal and Property	0	0	0	0	0
Transformation and Investment	0	0	0	0	0
	7,744	4,208	2,130	2,743	16,824

- 1.33** As set out in the *2025/26 Revenue Budget, Capital Programme and Medium-Term Financial Strategy* report, 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) or the Council's own resources (revenue, reserves, and capital receipts).
- 1.34** The Capital Financing position will be reviewed by the s151 Officer during the year as expenditure forecasts are updated to ensure a balanced use of capital resources and mitigation of current and future interest rates.
- 1.35** The report sets out the Council's financial prospects for 2026/27. Final budget proposals, including the outcome from the Local Government Finance Settlement, will be presented to the Cabinet and debated at Council during February 2025.

2. BACKGROUND

- 2.1** The Council approved its Medium-Term Financial Strategy (MTFS) and set the budget for the 2025/26 financial year on 24 February 2025. This Report sets out the Council's Budget Strategy for 2026/27 and provides an update to the MTFS forecast position.
- 2.2** **A significant budget gap has been identified in the MTFS forecasts considered by Council since February 2023.** The indicative position outlined for 2025/26 through to 2028/29 was an unfunded budget gap of £12.112m. The Government has consulted on significant changes to the way each Council is funded through the Local Government Finance Settlement ("LGFS"), subject to the detailed LGFS, changes proposed in the consultation will take effect from April 2026.

Table 1 – February 2025 Medium Term Financial Strategy position

MTFS Summary	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
Net Service Revenue Expenditure	17,241	17,241	17,241	17,241
Corporate Items/Non Service Income & Expenditure	(1,154)	(459)	169	121
Transfers to/(from) earmarked reserves	(620)	(1,259)	(13)	37
Provision for Inflation	0	629	1,268	1,903
Service + Corporate Items	15,467	16,152	18,664	19,302
Budget Pressures	597	763	564	464
Technical Adjustments	0	0	0	0
Risk Items	0	0	0	0
Savings and Transformation Plan items	(359)	(1,340)	(1,551)	(1,766)
Draft Net Revenue Budget	15,704	15,575	17,677	18,000
TOTAL Funding	(16,342)	(13,986)	(12,797)	(11,718)
Budget Gap / (Surplus)	(638)	1,589	4,879	6,282
				12,112

2.3 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.

2.4 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. Inflation, as measured by the Consumer Prices Index (“CPI”) is above the Bank of England’s target of 2.00% (and above target since July 2024). As a result, there remains uncertainty around the pace of interest rate reduction in the current financial year which have an influence over the Council’s budget for 2026/27 and the MTFS period both directly and indirectly.

2.5 The Government published a white paper on Local Government in December 2024 [“English Devolution White Paper – Power and Partnership: Foundations for Growth”](#). Local government reorganisation for two-tier areas (through the creation of Unitary Councils) forms a significant part of the Government’s plans.

- 2.6** Whilst it is outside of the scope of this report, Local Government Reorganisation (“LGR”) proposals will have an impact on the council’s Medium-Term Financial Strategy. The timeline for reorganisation in Gloucestershire is for the new unitary council(s) to be established on 01 April 2028. This means that Cotswold District Council would cease on 31 March 2028 with 2027/28 being the final financial year.
- 2.7** However, the MTFS is prepared on a “going concern” basis - that the council will continue to operate and meet its financial obligations for the foreseeable future regardless of LGR.
- 2.8** The council will continue to provide services to residents up to 31 March 2028, support the LGR process including the transition of services to the new unitary council, and must be able to remain financially sustainable.
- 2.9** As set out in the Financial Performance – Q1 2025/26 report to Cabinet in September 2025, the revenue budget is likely to come under further pressure in 2026/27 and 2027/28 as the Council considers the impact from LGR and ensures services continue to be provided to residents as usual. There will be a demand on key staff to support the assessment of final proposal and plan for a new unitary structure in Gloucestershire, and implementation of the proposal from mid-2026 following the Government’s decision.
- 2.10** It is expected that additional capacity will be needed to support the emerging Corporate Plan, ensure services continue to be provided to residents, and support LGR.
- 2.11** Members should consider some of the wider issues facing local government that will inform the 2026/27 revenue and capital budgets and the MTFS.
- 2.12** Several local authorities have issued section 114 notices since 2018 with Birmingham City Council Woking Borough Council, Slough 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.

2.13 Whilst the number of authorities issuing section 114 notices is relatively low (8 out of 317 local authorities in England since 2018) it is unprecedented to have this many issued in a short space of time.

2.14 The Government, through LGFS, provided 30 councils with Exceptional Financial Support (“EFS”) for the 2025.26. For 8 councils this included agreement to support for prior years. Details of the EFS provided are set out in Annex A.

2.15 Whilst there is no immediate risk of Cotswold District Council having to apply for Exceptional Financial Support (EFS) or consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability.

2.16 Should the budget gap not be closed sufficiently, EFS cannot be ruled out in future years.

2.17 The level of uncertainty across the sector makes it more difficult to plan for the medium-term. As outlined earlier in the report, Local Government Finance reforms will take effect from April 2026.

2.18 The Government published 2 consultations in June 2025 that frame the wider reforms to Local Government Finance. The Fair Funding 2.0 consultation set out a number of changes to the way in which funding will be allocated to local authorities. The bullet points below provide a summary of the key issues with further detail in Annex B.

Key Objectives

- Modernise funding formulas to better reflect local needs and resources.
- Simplify grant allocations and reduce reliance on competitive bidding.
- Introduce multi-year settlements to improve financial planning.
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Core Components

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Other Proposals

- Reform of the New Homes Bonus.
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- Improvements in the efficiency of council tax billing and communication
- Understanding whether the government could remove barriers that may exist around challenging council tax banding.
- Changes to the process for collecting and enforcing council tax charges. Specifically, the government believes households should be free from concerns of disproportionate enforcement action.

2.23 Whilst local government is supportive of some of the proposals set out above, there are concerns across the sector that some of the measures are unnecessary and could be counter-productive and lead to cashflow impacts on councils.

2.24 The proposals around billing for 12-months by default and those around enforcement were of particular concern.

- The option for 12 instalments is already readily available to Council Taxpayers; it closes down options to assist taxpayers who suffer financial shocks; it will have a negative impact on the council's cashflow and finances. The proposed move could have a significant disruptive impact - on those that budget on the basis

of 10 instalments (with February and March being 'free' months) and the proposal will have little or no impact on those already struggling to pay their bills over 12 months.

- Local government Council Tax collection powers are being compared to the powers of an FCA regulated debt collector. Council Tax is a compulsory tax, not a civil debt, and any questions relating to the proportionality of Council Tax enforcement must be compared to other taxes, such as those under the auspices of the HMRC.
- Each Billing Authority, as an independent statutory body, should be able to set its own policy in relation to the recovery of debts.

2.25 The consultation closed on 12 August 2025 with a response expected as part of the Local Government Finance Settlement in December.

2.26 The timetable for LGR in Gloucestershire is for the creation of a new unitary Council/new unitary Councils with effect from April 2028.

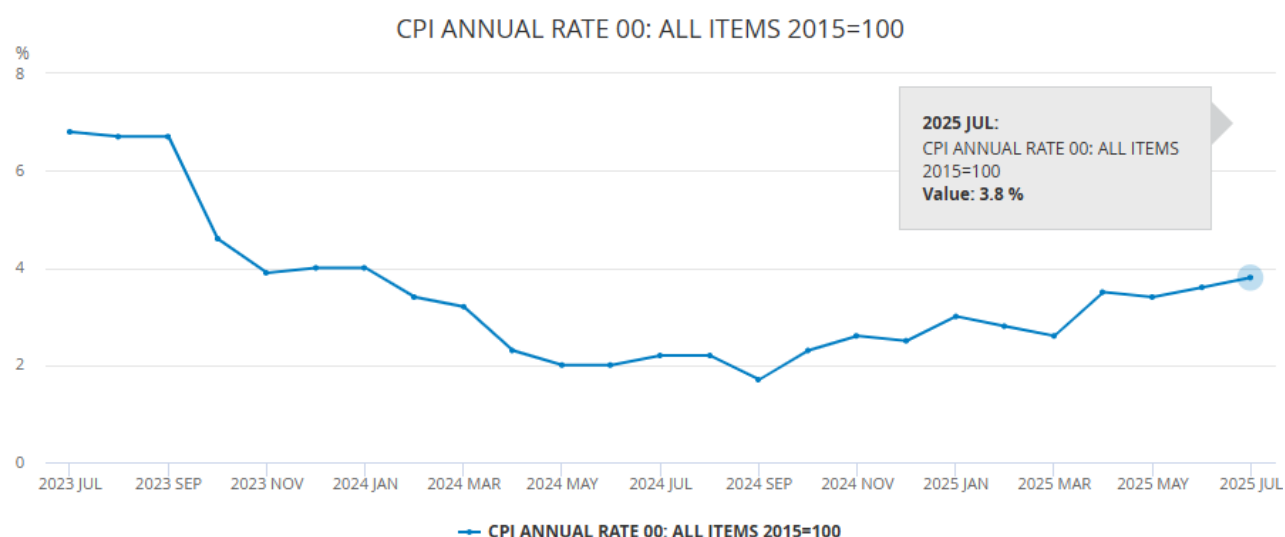
2.27 Therefore, it should be noted the updated MTFS position set out in this report is subject to uncertainty and a degree of estimation of costs and income. As with all estimates and assumptions, there is an inherent risk that they may not be accurate. The financial position will continue to be monitored with the estimates and assumptions reviewed and updated throughout the budget setting process. These will be finalised once the provisional Local Government Settlement is announced which is expected in December following the Budget on 26 November 2025.

3. EXTERNAL ECONOMIC ENVIRONMENT

Inflationary Pressures

3.1 The level of inflation, as measured by the Consumer Prices Index, for July 2025 increased to 3.8% (from 3.6% in June 2025). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 4.8% (4.4% in June 2025). Core inflation (as defined by the Office for National Statistics as the CPI Rate excluding energy, food, alcohol, and tobacco) rose to 3.8% (3.7% in June 2025).

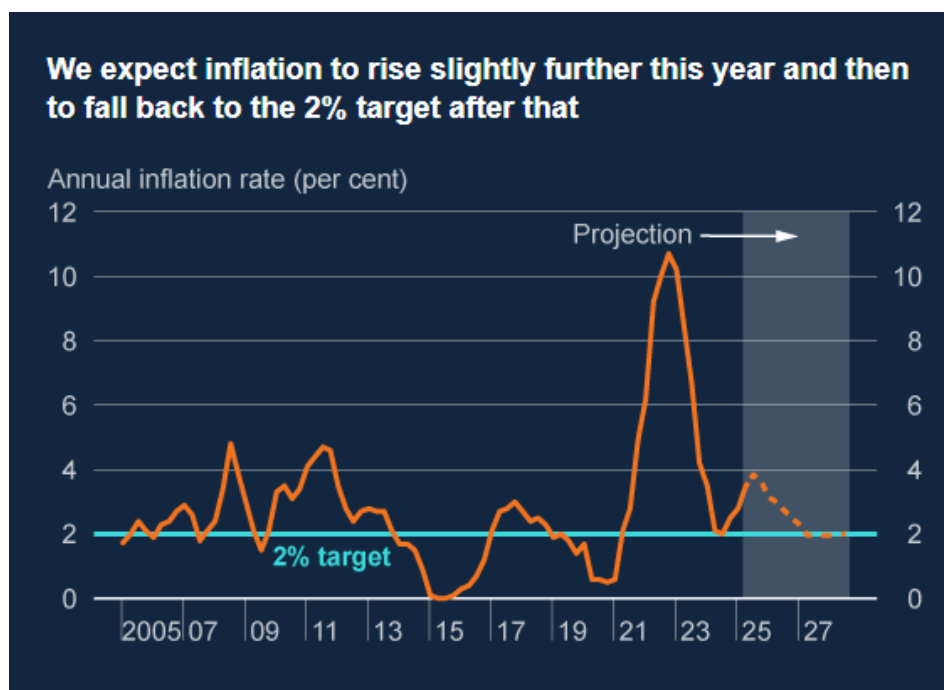
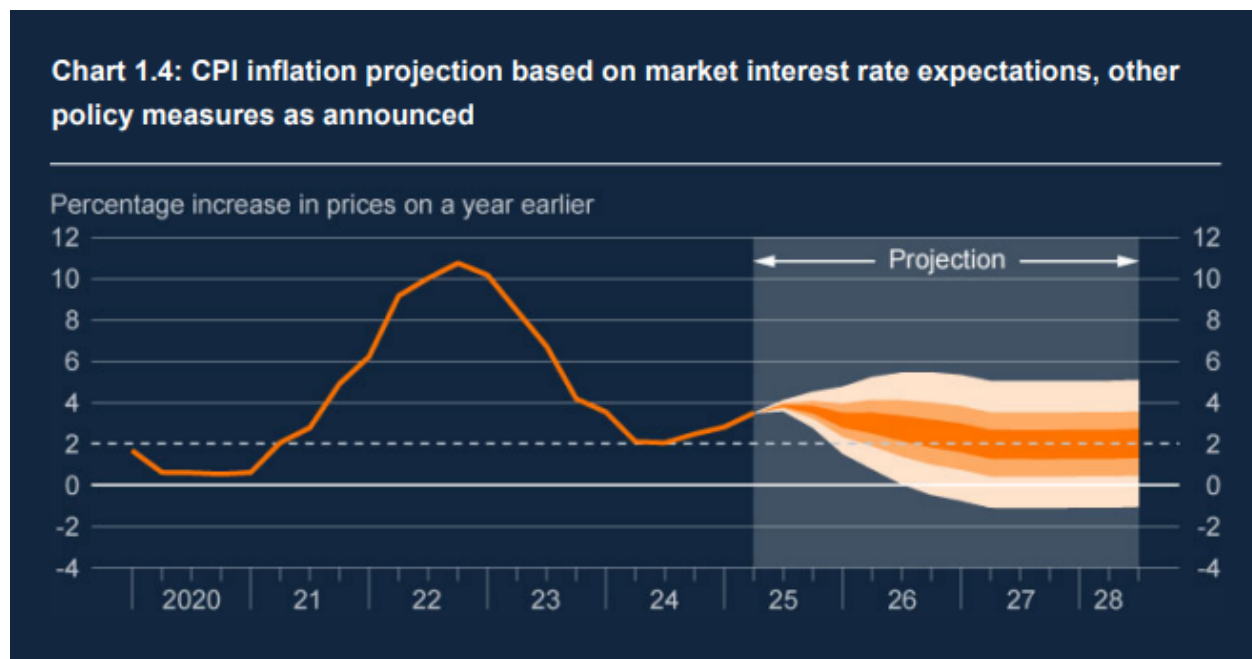
Graph A – CPI Inflation



3.2 Although there has been substantial disinflation over the past two years, 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.

3.3 In the August 2025 Monetary Policy Report, the Bank of England indicated the rate is likely to remain above the 2% target during 2025 (peaking at around 4.0%) as the impact from higher food prices comes through. Inflation is expected to fall back to the 2% target after that. The graph below shows the different CPI forecasts that are published in the quarterly Bank of England Monetary Policy Committee report (August 2025).

Graphs B1/B2 – Bank of England CPI Inflation forecast



3.4 The current level of inflation and expectations for 2026/27 shown in the Bank of England's Fan Chart above will need to be taken into account when assessing the impact on 2026/27 revenue and capital budgets and over the MTFS-period.

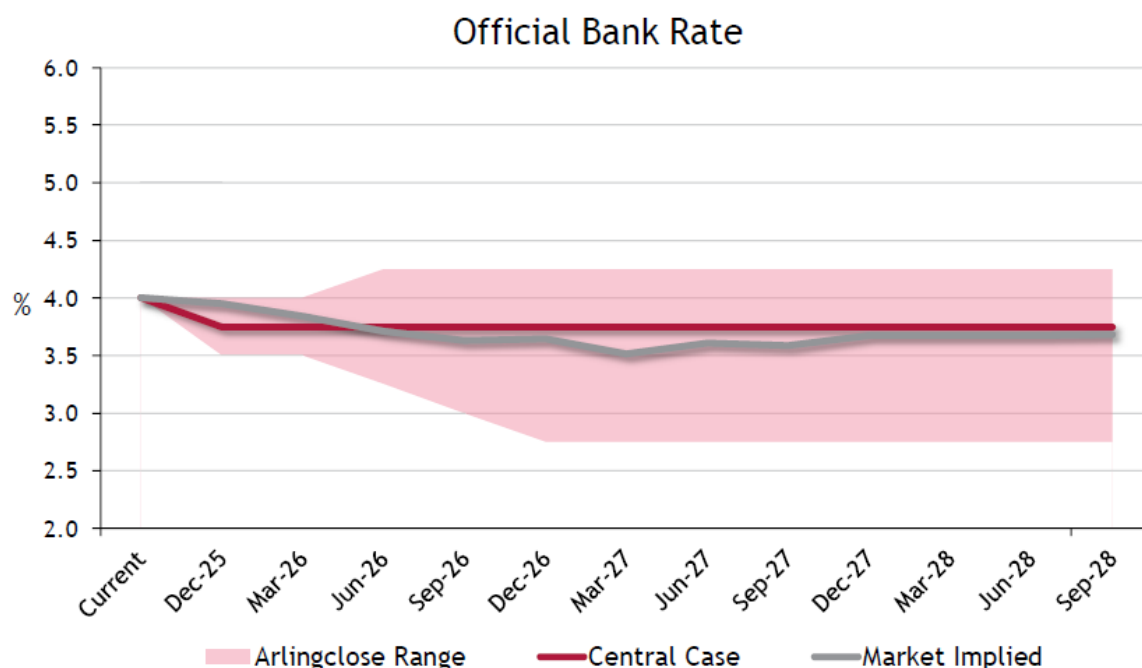
Inflationary Pressures – Pay Award

- 3.5** The assumption made for the 2025/26 budget was for an average Pay Award of 3% across Publica, Ubico and Council staff. Inflationary provision of £0.515m was included in the budget for the pay award.
- 3.6** The Local Government pay award was settled on 23 July 2025. Although the pay award for Chief Officers and Chief Executive was subject to separate negotiations, the award as set out below was agreed for all with effect from 01 April 2025:
- an increase of 3.2% on all NJC pay points and allowances.
- 3.7** The financial implications of Pay Award outlined above is within the inflation allowance in the current year's budget.

Interest Rates

- 3.8** The Bank of England reduced the Base rate in August 2025 by a further 0.25% in response to "substantial disinflation over the past two and a half years" taking the base rate to 4.00% The council's treasury management advisors have forecast that the rate will continue to reduce, with one further cut expected in 2025. The MPC meeting on 18 September 2025 held rates at 4.00%.
- 3.9** The expectation is for further rate reductions during 2025 (aligned to the publication of the Monetary Policy Report each quarter) to a low of 3.75%. However, with the July 2025 inflation rate increasing, there may be a reduced opportunity for further rate reductions in the calendar year. Arlingclose's latest forecast included the following commentary: *"The MPC's sensitivity to higher inflation is partly offsetting the effect of the weak economic environment on Bank Rate expectations. However, we continue to forecast one more 0.25% rate cut in Q4 2025 to 3.75%, while recognising that uncertainty over the timing of this move has increased."*

Graph C – UK Bank of England Base Rate forecast



3.10 The Council has limited and reducing internal resources to support the capital programme (capital receipts, earmarked reserves). Unless further capital receipts are received as a result of asset disposals, the Council will need to undertake prudential borrowing.

3.11 With interest rates expected to 'sticky' during the 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

3.12 The International Monetary Fund published their World Economic Outlook update for the global economy in July 2025. The IMF forecast for the UK economy was for real terms growth of 1.2% in 2025 and 1.4% in 2026.

3.13 The IMF acknowledged this was an upward revision to their April 2025 outlook reflecting the "*front-loading ahead of tariffs, lower effective tariff rates, better financial*

conditions, and fiscal expansion in some major jurisdictions. Global inflation is expected to fall, but US inflation is predicted to stay above target. Downside risks from potentially higher tariffs, elevated uncertainty, and geopolitical tensions persist.”

4. 2026/27 BUDGET STRATEGY – ASSUMPTIONS

- 4.1** The 2026/27 Budget Strategy outlines the principles and aims for the revenue and capital budget preparation process and takes into account the need for the Council to achieve a balanced budget position and maintain financial sustainability over the medium-term.
- 4.2** The February 2025 MTFS continued to highlight a significant budget gap over the MTFS period. With the external economic environment exerting additional pressures on the council’s finances (as set out in Section 3 of the report) the budget strategy provides the framework for the Council and its service delivery partners when assessing funding priorities.
- 4.3** As set out in Section 2 of the report, many Councils are facing a significant financial challenge in setting a balanced budget for the forthcoming year. Whilst the financial challenge for Cotswold District Council is not proportionately as extreme as some other local authorities, it is still a significant challenge for the Council to address.
- 4.4** Having a clear set of budget principles for the Council to accept and work toward helps a clear framework on the journey to setting a balanced budget for the forthcoming year, as such Cotswold adopted the following principles for 2025/26 which remain sound and are a robust basis for the 2026/27 budget setting process:
- A clear focus on fulfilling the Council’s Best Value Duty (*“make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”*). Further development and mobilisation of the continuous savings programme through the Savings and Transformation programme. Key objective is to review savings and transformation proposals to close most of the budget gap by driving out costs from the running expenditure of the Council and its service delivery partners, focused both in the short and medium term.

- The Council will not rely on the use of one-off funding sources to address recurring budgetary pressures, specifically it should not place material reliance on use of reserves for revenue purposes over the medium-term.
- Maintaining financial sustainability over the MTF5 period, the Council has set a budget for 2025/26 to replenish the Financial Resilience reserve in order to mitigate the budget gap forecast from 2026/27.
- Recognising the inflationary environment the Council is currently operating in and the increase in service costs, where services are charged for, fees and charges need to be set at an optimal price, ensuing full cost recovery as a minimum.
- Ensuring the long-term viability of service provision from as stable a position as possible is vital to quality service delivery by both the district council and successor unitary council. A continued focus on budget sustainability will be key to all considerations with a reduce use of one-off measures or borrowing to fund activity.
- Recognising the capital investment priorities outlined in the Council Corporate Plan and the importance to the residents of the district, a sustainable funding solution should be developed to fund the emerging capital programme – with a specific focus on funding all new capital activity predominantly from capital receipts with minimal borrowing.

Pay and Price Inflation

- 4.5** The budget will be prepared on a 'standstill' basis in that no price inflation will be added other than to contractual commitments to pay an annual inflationary increase such as external contracts and software licence agreements.
- 4.6** Prudent provision will be made in the 2026/27 budget for the pay award to ensure the Council's budget is protected in the short-term with the broad assumptions used in the MTF5 set out below.
- Publica: 3.00%
 - Ubico: 3.00% (CDC to hold an additional 1.00% in contingency)
 - CDC: 3.00%

- 4.7** Non-pay inflation will be applied to specific elements of the Ubico contract where there is a material impact on service costs and an agreed assessment of the evidence of inflationary pressures (e.g., Fuel prices).
- 4.8** The Office for National Statistics (“ONS”) will publish the September CPI and RPI figures on 22 October 2025 with CPI expected to remain close to the August figure of 3.8%. These figures are used as the basis for uprating of some welfare benefits.
- 4.9** As set out above, the MTFS will include an allowance for these inflationary pressures over the medium-term and will be reviewed over the Autumn.

Fees and Charges

- 4.10** Where services are charged for, fees and charges need to be set at an optimal price, ensuing full cost recovery as a minimum. This is in accordance with Cabinet decisions included in prior year MTFS reports to *“charge for services to ensure they are not subsidised by other taxpayers.”*
- 4.11** The February 2025 MTFS included an assumption for inflationary increases across key fees and charges such as Green Waste licence and Car Park fees. A report will be considered by Cabinet in January 2026 on the revised fees and charges for 2026/27.

Commercial Property Income/Asset Management

- 4.12** The Council’s revenue budget for 2025/26 includes £0.460m of gross rental income from Commercial Property which provides funding for other Council services. Given the risk in holding commercial property (e.g., occupancy rates and fluctuations in the property market), income and expenditure budgets associated with the portfolio will be reviewed considering the external economic environment. This will help ensure the Council is budgeting at the appropriate level and that risks to income and expenditure changes across the medium term can be incorporate into the MTFS and Capital Programme.

4.13 The 2026/27 budget (as set out in the February 2025 MTFS) will be reviewed against the current position on rental income expectations with any updated forecast included in the February 2026 MTFS.

4.14 The Asset Management Strategy (“AMS”) was adopted in May 2024. The strategy provides a longer-term view (i.e., the next 10 years) of the approach to managing the Council’s land and buildings.

4.15 The AMS is supported by detailed asset management plans for the Land and Buildings assets it holds considering stock condition surveys and including consideration of any investment required to achieve minimum efficiency standards (“MESS”). This work is already underway with the Council considering priority areas over the coming months.

4.16 The budget setting process for 2025/26 set aside a proportion of commercial income in an Earmarked Reserve each year to provide an ongoing funding stream to manage the portfolio and any Asset Management requirements that are identified in the AMS.

Local Government Pension Scheme

4.17 The results of the March 2025 actuarial review of the Local Government Pension Scheme are due in the early autumn with a revised funding schedule for the 2026/27 to 2028/29 financial years.

4.18 The February 2025 MTFS included an estimated reduction in the level of employer contributions of £0.500m based on early engagement with the fund actuary and the Gloucestershire County Council pension fund administrator. At the time of writing and in the absence of the draft results from the actuary, no change has been forecast to the level of pension fund contributions assumed in February 2025.

4.19 Assumptions around employer contributions will not be updated until the conclusion of the actuarial review.

Interest Rates – Investments and Borrowing

- 4.20** Treasury management income remained well above budget expectations in 2024/25 with total investment income of £1.612m. Although the 2025/26 Q1 forecast for Treasury management income remains above target due to higher interest rates and cash balances, interest rates are expected to reduce further in 2025.
- 4.21** As outlined in the Treasury Management Strategy, the Council invests its surplus balances with a budgeted income return of £1.208m in 2025/26. The Strategy sets out that the Council aims to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested.
- 4.22** The Council has two broad classes of investments – Short-term investments (Debt Management Office and Money Market Funds where balances are held for short periods until required) and Pooled Funds.
- 4.23** The initial forecast for 2026/27 is £0.700m recognising the gradual reduction in interest rates during 2025/26 and an assumed reduction in the level of cash balances available to invest in 2026/27. This will be reviewed over the coming months with a final estimate included in the revenue budget and MTFs to be considered by Cabinet and Council in February 2026.

Government Funding

- 4.24** As outlined in Section 2 of this report, the Government have proposed fundamental changes to the Local Government Finance system supported by the Fair Funding 2.0 consultation.
- 4.25** The Government have since indicated that the Local Government Finance Settlement for 2026/27 will be a multi-year settlement, likely to cover the financial years 2026/27 through to 2028/29 (i.e. to the end of the current spending review period). A Local Government Finance policy statement is expected to be published in October/November ahead of the Autumn Budget (26 November 2025). This will include the government's response to the Fair Funding 2.0 consultation and should

provide some clarity and certainty on key aspects of funding to support budget setting and financial planning.

4.26 For the purposes of this report, it has been assumed that the overall level of Government funding remains largely unchanged for 2026/27. At the time of drafting this report, it is not possible to provide members with a credible view on what impact the proposed reforms will have on Cotswold District Council.

4.27 In preparing the estimates for this report, Pixel's MTFP model has been used to provide an indicative forecast of Government funding. However, members should view the funding levels indicated in the table below with a degree of caution. Financial modelling by Pixel and LG Futures includes a degree of interpretation of the Fair Funding 2.0 consultation document in the absence of worked examples from MHCLG.

4.28 Cotswold District Council has been identified as one of the small number of councils whose new share of funding is furthest from their current share of funding. Whilst the majority of councils will be eligible for a flat cash floor, around 40 councils may receive a negative cash floor between -5% and -7%.

4.29 MHCLG had initial conversations with these authorities in July 2025 about supporting them to manage larger losses although noting that MHCLG would still look to offer some form of funding floor in the scenario that the Council's funding floor is not set at the flat cash level.

4.30 Whilst MHCLG were keen to stress that decisions are yet to be finalised, it would seem likely from analysis undertaken by Pixel, LG Futures, and the Institute for Fiscal Studies ("IFS") that Cotswold District Council will be one of the council's most adversely affected by the proposed funding reforms. Annex C includes charts prepared by Pixel during the consultation period which illustrate the relative 'position' for the council.

4.31 For the purposes of the table below which provides an indicative funding scenario, the following broad assumptions have been applied:

- Negative cash floor in 2026/27, flat cash floor for 2027/28 and 2028/29

- New Homes Bonus abolished from 2026/27 with no new incentive.
- Full Business Rates reset for 2026/27.
- Council Tax referendum principles confirmed (2.99% or £5 increase, whichever is the higher)

Table 2 – MTFS Funding assumptions, Pixel Model (September 2025) funding forecast

	MTFS assumptions - February 2025					Pixel Model 5.16.8 (19/08/2025)			
	FINAL 2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)	2029/30 (£'000)	-7% Cash Floor			
Funding included in MTFS						2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)	2029/30 (£'000)
Council Tax	7,065	7,361	7,661	7,967	8,278	7,361	7,661	7,967	8,278
Business Rates Retention (net of risk + returned funding)	5,117	2,304	2,435	2,571	2,711	2,166	2,185	2,206	2,226
Rural Services Delivery Grant	0	0	0	0	0				
Lower Tier Services Grant	0	0	0	0	0				
Funding Floor	2,230	0	0	0	0				
Services Grant	0	0	0	0	0				
New Homes Bonus	820	0	0	0	0				
New Homes Bonus (Returned Funding)	0	0	0	0	0				
Revenue Support Grant (RSG)	164	(1,704)	(1,723)	(1,745)	(1,766)	4,951	3,417	1,901	1,960
(Negative) Revenue Support Grant	0	0	0	0	0				
Transitional Protection (Damping)	0	5,141	3,541	2,041	678	0	0	0	0
Scaling back to fund damping						14	1,253	2,462	0
Extended Producer Responsibility (EPR)	1,502	751	751	751	751	0	0	0	0
Employer's National Insurance Contributions Grant	133	133	133	133	133				
Local Authority Better Care Fund						0	0	0	0
Collection Fund - CT	119	0	0	0	0	0	0	0	0
Collection Fund - NNDR	(809)	0	0	0	0	0	0	0	0
TOTAL Funding	16,342	13,986	12,797	11,718	10,784	14,492	14,516	14,535	12,464
Change in Funding Assumptions since February 2025						506	1,719	2,817	1,679

The Draft MTFS included in this report does not update the funding forecast from that set out in the February 2025 MTFS. The table above includes an estimate from Pixel of the impact from Fair Funding 2.0 but the s151 Officer does not consider this to be robust/suitable for inclusion in the MTFS at this time.

- 4.32** Whilst the indicative scenario suggests a higher level of funding over the MTFS-period than assumed in the February 2025 MTFS, this is by no means a robust forecast and will change once the government publishes its response to the consultation and the policy statement.
- 4.33** The funding scenario assumes a level of transitional protection (see row label “Scaling back to fund damping”) over the period 2026/27 to 2029/30, the level and duration of support is not certain. The February 2025 MTFS assumed a continual reduction in total funding over the MTFS-period (reducing from £13.986m to £10.784m). The scenario included in the table has a more gradual reduction (£14.492m to £12.464m).
- 4.34** Funding was made available to Local Authorities in 2025/26 following the introduction of Extended Producer Responsibility (“EPR”). The total allocation received for the 2025/26 financial year was £1.683m - £0.181m more than the initial allocation as notified and included in the 2025/26 revenue budget.
- 4.35** There has been no indication of allocations of EPR funding for 2026/27. For the purposes of this report, no funding has been assumed - it is not possible to estimate likely funding with any degree of certainty.

Council Tax

- 4.36** Section 2 of this report outlined the consultation on modernising and improving the administration of council tax. For the purposes of this report, an ‘as is’ position is assumed on billing and enforcement.
- 4.37** The assumption for 2026/27 is there is no change to the Council Tax referendum principles for shire district and borough councils – increases of Council Tax of up to 3% or £5 (whichever is higher). Should the referendum principles be amended (usually when the Local Government Finance Settlement is published), this will be considered and any recommendation included in the February 2026 MTFS.
- 4.38** The 2026/27 estimate for Council Tax assumes an increase in the number of dwellings liable for Council Tax (i.e., a 1% increase in the Taxbase) and a £5 increase in a Band D

charge for Council Tax. This 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.

4.39 At their meeting on 20 March 2024 Council approved to introduce a Council Tax premium on second homes (from April 2025) and to apply the maximum premium for Empty Homes (from April 2024) as set out in the Levelling Up and Regeneration Act 2023.

4.40 The March 2024 report proposed that the District Council's share of the additional revenue is set aside in the Council Priority: Housing Delivery reserve to facilitate the provision for additional affordable housing units across the district.

4.41 In assessing the likely level of additional Council Tax the Second Homes premium would generate, a prudent estimate has been taken due to the level of exemption that would be applied to certain properties across the district (i.e. those around Cotswold Lakes).

4.42 The Council will continue to liaise with second homeowners and Parish and Town Councils during 2025 to ensure the taxbase reflects the number of second homes in the district. The prudent estimate used for 2025.26 Council Tax setting purposes was based on information on second homes within the Council Tax revenue system.

4.43 The Empty Homes Premium is applied to dwellings which are unoccupied and substantially unfurnished with an increasing level of premium depending on the length of time the property has remained empty.

- Premium of 100% for dwellings which are unoccupied and substantially unfurnished (Empty Homes Premium) after 1 year up to 5 years of becoming empty;
- Premium of 200% for dwellings which are unoccupied and substantially unfurnished (Empty Homes Premium) between 5 years and 10 years;
- Premium of 300% for dwellings which are unoccupied and substantially unfurnished (Empty Homes Premium) for 10 years or more.

4.44 The decision to set Council Tax remains an annual decision for Council to consider when setting the budget in February.

4.45 The Council has consulted on proposed changes to the Local Council Tax Support scheme (LCTS) with changes focussed supporting more people with the cost of living and provide more support to those families with dependent children.

Business Rates

4.46 As outlined earlier in the report, the Fair Funding 2.0 proposals are dependent upon a full rest of the Retained Business Rates System from 2026/27.

4.47 Alongside the reset, a new valuation period will commence from April 2026 and will introduce new valuations for every business with the addition of further business rates multipliers, as set out in the extract below:

Multiplier structure from 2026-27

Current system (2025-26)	New system (2026-27 onward)	
Small business multiplier, all properties, RV below £51,000	Small business RHL multiplier, RHL properties only, RV below £51,000	Small business multiplier, non-RHL properties, RV below £51,000
Standard multiplier, all properties, RV £51,000 and above	Standard RHL multiplier, RHL properties only, RV £51,000 - £499,999	Standard multiplier, non-RHL properties, RV £51,000 - £499,999
	High-value multiplier, all properties, RV £500,000 and above	

The rates for the new multipliers will be announced at Budget 2025, taking account of the revaluation due in 2026, as well as the economic and fiscal context.

4.48 Therefore, forecasting of business rates income will be more complex than in previous years with less certainty given the 2026 revaluation.

- 4.49** An initial estimate of £2.304m was included in the February 2025 MTFS. This has been estimated at £2.166m within the Pixel financial model but has not been adjusted within the MTFS.
- 4.50** The Council is required to finalise its Business Rates estimates for 2026/27 and its initial estimate of any surplus or deficit for 2025/26 by 31 January 2026 which will be included in the February 2026 MTFS.
- 4.51** The Council has been a member of the Gloucestershire Business Rates Pool since April 2013. The main aim of the pool is to maximise the retention of locally generated business rates and to ensure that it further supports the economic regeneration of the wider Gloucestershire.
- 4.52** With the changes to business rates outlined above and with the impact from the Fair Funding 2.0 reforms, it is unlikely that Business Rates Pooling will be viable in 2026/27 due to the increased risk with all authorities being reset to baseline levels. There would be an imbalance in the risk and reward of pooling.
- 4.53** Therefore, for the purposes of this report it is assumed that there will be no Business Rates Pool for 2026/27.
- 4.54** However, should there be an opportunity to pool this will be considered by the s151 officers in Gloucestershire and subject to discussion with Gloucestershire Leaders and Chief Executives. Any decision on pooling (if viable) will need to be made by Full Council.

Financial Resilience Reserve

- 4.55** A Financial Resilience reserve of £1.875m was established as part of the *Draft Budget Proposals 2023-24 and Latest MTFS Forecasts* report to Cabinet in November 2022 with the intention to hold at a level that allows the Council to mitigate short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes).

4.56 The reserve assists with mitigation of 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.

4.57 The projected balance on the Financial Resilience reserve (as set out in the February 2025 MTFS under the 'Do nothing' scenario) is £4.164m by the end of the 2025/26 financial year, reducing to £2.647m by the end of 2026/27.

4.58 As set out in this report, the Council must set a balanced budget for the forthcoming financial year. Whilst the Financial Resilience reserve is intended to support the Council MTFS and mitigate the budget gap identified; it should not be utilised on an ongoing basis to balance the budget.

5. 2026/27 REVENUE BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2026/27 TO 2029/30

5.1 As set out in section 2 of this report, **a significant budget gap has been identified in the MTFS forecasts considered by Council since February 2023.** The indicative position outlined for 2025/26 through to 2028/29 was an unfunded budget gap of over £12m (including 2029/30). The Government has consulted on significant changes to the way each Council is funded through the Local Government Finance Settlement ("LGFS"), subject to the detailed LGFS, changes proposed in the consultation will take effect from April 2026.

Financial Sustainability

5.2 Ensuring financial sustainability is one if not the key issue facing all local authorities currently. Reductions in the core long-term funding Councils have received over the last decade, continued uncertainty around the timing and impact of proposed local government finance reforms (previously referred to as the Fair Funding Review), and the impact of higher levels of inflation and interest rates all contribute to the pressure on the Council's continued financial sustainability position.

5.3 For the Council to meet its legal obligation to provide statutory services and to support the priorities as set out in the Council Plan, financial sustainability must be maintained over the MTFS period.

- 5.4** There are a range of safeguards in place that help to prevent local authorities overcommitting themselves financially. These include:
- Balanced Budget requirement: England, Sections 31A, 42A of the Local Government Finance Act 1992, as amended.
 - Chief Finance Officer (CFO) duty to report on robustness of estimates and adequacy of reserves (under Section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.
 - Requirements of the Prudential Code
- 5.5** These requirements are reinforced by Section 114 of the Local Government Finance Act 1988 which requires the CFO to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted, and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 5.6** Paragraphs 2.12 to 2.16 and Annex A of this report outlined the wider sector position regarding authorities in financial difficulty. It is important that members understand the legal framework which support local authority budget setting and financial sustainability.

Local Government Reorganisation and impact on Council Services

- 5.7** As outlined in Section 2 of the report, Local Government Reorganisation will have an impact on service delivery and the council's financial position over the next 2 years.
- 5.8** The Government published a white paper on Local Government in December 2024 ["English Devolution White Paper – Power and Partnership: Foundations for Growth"](#). Local government reorganisation for two-tier areas (through the creation of Unitary Councils) forms a significant part of the Government's plans.
- 5.9** Whilst it is outside of the scope of this report, Local Government Reorganisation ("LGR") proposals will have an impact on the council's Medium-Term Financial Strategy. The timeline for reorganisation in Gloucestershire is for the new unitary council(s) to be established on 01 April 2028. This means that Cotswold District Council would cease on 31 March 2028 with 2027/28 being the final financial year.

5.10 However, the MTFS is prepared on a “going concern” basis - that the council will continue to operate and meet its financial obligations for the foreseeable future regardless of LGR.

5.11 The council will continue to provide services to residents up to 31 March 2028, support the LGR process including the transition of services to the new unitary council, and must be able to remain financially sustainable.

Budget pressures

5.12 For the purposes of this report, no further budget pressures have been included in the MTFS forecast. The Finance Team is meeting with all budget holders over the coming weeks to work through detailed budget setting process including an assessment of budget pressures and cost efficiencies.

5.13 These will be reviewed and considered for inclusion in the February 2026 budget report where appropriate and subject to the wider financial position.

Savings included in the MTFS update

5.14 The *Financial Performance Report – Q1 2025/26* was considered by Cabinet at their meeting on 04 September 2025. This set out the initial outturn forecast for the current financial year and outlined the approach being taken for the council to remain financially sustainable and resilient over the medium-term.

5.15 The report outlined two key changes in the way vacancies will be managed during the financial year. Oversight of the Vacancy Management process has been strengthened by the Corporate Leadership Team (“CLT”), with CLT authorisation required to fill a vacancy, either on a short-term or long-term basis. CLT have also reviewed the process for assessing requests for additional resources to ensure a single and consistent approach is taken to the development and appraisal of proposals and business cases.

5.16 A further measure for 2026/27 is to include a vacancy factor of 3% on all salary-related budgets from 2026/27. A vacancy factor is a budgeted financial percentage used to

account for anticipated employee turnover and cover additional costs like temporary staffing.

- 5.17** The indicative budget reduction arising from this approach with a £0.700m budget reduction expected for 2026/27 and has been included in the MTFS update within this report.
- 5.18** The Detailed Transition Reports for Phases 1 and 2 of the Publica Review ([Phase 1, July 2024 Item 18](#) and [Phase 2, March 2025 Item 92](#)) included the following resolution:
- Carry out a budget re-basing for the 2026/7 financial year so that the funding provided to Publica is proportionate to the services received.
- 5.19** An updated costing model and contract sum covering the services that are delivered by Publica has been developed and is subject to review by all partner councils. The review process will be completed over the coming weeks with changes to the council's share of Publica's cost charged through the contract sum included in the February 2026 Budget and MTFS report.
- 5.20** Further cost efficiencies, savings and transformation proposals have been identified and are currently being reviewed by CLT and Cabinet. These cover a wide range of areas and include working with our key service delivery partners (Publica and Ubico) to reduce cost through vacancy management.
- 5.21** These measures are subject to further due diligence to ensure proposals are robust and can be delivered in the timescale identified.
- 5.22** The Q1 report outlined the wider issues facing the council over the forthcoming financial year - The revenue budget is likely to come under further pressure in 2026/27 and 2027/28 as the Council considers the impact from LGR and ensures services continue to be provided to residents as usual. There will be a demand on key staff to support the assessment of final proposal and plan for a new unitary structure in Gloucestershire, and implementation of the proposal from mid-2026 following the Government's decision.

5.23 It is expected that additional capacity will be needed to support the emerging Corporate Plan, ensure services continue to be provided to residents, and support LGR. Therefore, it is proposed to maximise the level of resources available over the next 2 years, any additional budget surplus or one-off benefit is transferred to earmarked reserves at year end, subject to the final outturn position:

- Transformation and Change
- Capacity Building

Development of credible/robust savings and transformation proposals

5.24 An important part of the approach to maintaining financial sustainability will be to continue to deliver efficiencies and savings over the coming years. The refreshed Corporate Plan and services must be delivered within the overall resource envelope available to the Council thereby reducing reliance on earmarked reserves to support the budget.

5.25 The level of savings included in the February 2025 MTFs, and the update set out in this report does mitigate the budget gap identified for 2026/27 but does not fully close the budget gap identified for 2027/28. The Financial Resilience reserve is being used to balance the budget in the short-term and will be depleted over the MTFs period leading to a potential deficit position by 2028/29 – the point at which services transfer to the new unitary. The Council will need to address the scale of the budget gap to ensure a balanced budget can be set for 2026/27 and beyond. The position set out in this report is by no means complete and the budget gap may change due to assumptions being updated.

5.26 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 is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to

- financially manage the short, medium, and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services.
- manage unexpected shocks in their financial circumstances.

5.27 A key element of demonstrating financial sustainability and compliance with the FM Code is for the Council to ensure suitable mechanisms are in place around savings so

that they are identified, agreed, planned, implemented, and achieved. This will help to ensure the funding gap identified within the MTFS is addressed in a planned and managed way.

5.28 Given the scale of the financial challenge the Council is facing, the primary focus will be on Resident focused transformation and smarter internal working projects. This will help ensure adequate cost reductions are identified, scoped, and planned over the MTFS period. Savings and Transformation ideas are likely to be within the common themes already identified:

- Digitalisation - increased use of technology, using existing tech to maximum capacity, and use of AI for efficiencies.
- Resident self-service - via improved web offer, increased use of comms channels
- Workforce fit for the future – upskilling and restructuring.
- Improved systems and processes to remove waste and failure-demand grouped by workstream and indicate outcomes expected in terms of financial and service benefits and set challenging but achievable action plans for delivery by agreed periods.

5.29 These will be brought forward over the coming months once an action plan for each major workstream has been developed. Project Management support and external support may be required on individual lines of enquiry to ensure options are fully appraised prior to inclusion in the programme.

5.30 This will require careful consideration of the resources required to support and deliver a more comprehensive medium-term programme where service delivery responsibility is evolving.

5.31 Subject to further due diligence, it is anticipated that a draft programme will be included in the February 2026 MTFS with a clear delivery plan for each year. However, the programme will need to be flexible and agile to meet the financial challenge and be capable of scaling up or down to meet any emerging requirement.

Scenarios/Modelling

5.32 The MTFS update is based on the most credible expenditure, income and funding position and sets out the resulting budget gap with additional action required over the coming months to mitigate the position for 2026/27 and over the MTFS period.

5.33 With the level of uncertainty, a number of scenarios have been developed to model the impact and sensitivity on distinct levels of inflationary pressures, cost reduction measure, and income/funding options. This enhances the financial planning process and supports the Council's continued financial sustainability priority, providing a degree of flexibility over the coming months as the MTFS is reviewed and refined in advance of the formal approval of the budget and MTFS by Council in February 2026.

5.34 As set out earlier in this report and noted in external auditor Annual Reports (see [Grant Thornton report on Lessons Learned from Auditor's Annual Reports 2025](#)), Government policy has been to introduce exceptional financial support, including permitting borrowing to fund revenue shortfalls. The effect is that in-year revenue costs are being pushed onto a future generation of taxpayers, especially when coupled with special educational needs and disability statutory override.

5.35 The table below sets out the key characteristics of the scenarios that will be utilised in the development of the February 2026 MTFS.

5.36 The scenarios modelled are reasonable current/balanced (i.e., most credible), worst case (pessimistic), mid-case, and optimum financial outcome (best/optimistic).

5.37 The three alternative scenarios broadly differ from the current scenario as follows:

- **Inflation:** + or – 1.0% on Pay Award (being the single largest contributor to inflationary pressures)
- **Council Tax:** All scenarios assume Council Tax is increased by £5 per annum and the taxbase increases by 1%.
- **Business Rates Income:** assessment of growth potential following full rest of the retained business rates system in 2026/27.
- **Savings:** Scenarios will assume additional savings targets over the MTFS period.
- **Other:** funding forecasts based on the latest Pixel MTFP Model that will be available following the publication of the Local Government Finance Settlement.

Draft MTFS 2026/27 to 2029/30

- 5.38** The draft MTFS shown in the table below and Annex D is based on the most credible assumptions and forecasts of income and expenditure over the next 4 years. The uncertainty around the outcome from the Fair Funding 2.0 consultation makes it difficult to estimate with certainty the likely budget gap that the Council will need to close over the MTFS-period. However, whilst this outcome is uncertain, there is a need for the Council to ensure financial sustainability is maintained over the MTFS period and develop a robust and balanced savings and transformation plan to close the forecast budget gap.
- 5.39** It is therefore appropriate for the Council to consider a revenue budget position over the next two financial years that minimise the impact on the Financial Resilience reserve up to 2027/28.
- 5.40** The Financial Resilience reserve was relied upon during 2022/23 and 2023/24 to balance the budget (£2.103m) which was not sustainable. For 2024/25 and 2025/26 the budget and Medium-Term Financial Strategy were prepared on the basis that planned operating surpluses would be transferred to the Financial Resilience Reserve.
- 5.41** The final transfer to the Financial Resilience reserve at the end of the 2024/25 financial year was £0.778m with a surplus of £0.638m budgeted for 2025/26. The draft MTFS shows a reduction in the deficit for 2026/27. Although this remains a positive outcome at this stage of the budget setting cycle, significant further work and member decisions will need to be taken to reduce the deficit further and achieve a sustainable and balanced position for 2026/27.

Table 3 – Draft MTFS

	MTFS Period			
	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)	2029/30 (£'000)
Medium Term Financial Strategy				
Opening Budget				
Service	17,359	17,359	17,359	17,359
Corporate	(1,717)	156	158	158
Net Revenue Budget	15,641	17,515	17,517	17,517
Budget Changes & Adjustments				
Provision for Inflation	629	1,268	1,903	2,557
Budget Pressures (Phase 2 FYE)	763	564	464	464
Other budget pressures	0	0	0	0
Savings	(2,097)	(2,275)	(2,436)	(2,651)
REVISED Net Revenue Budget	14,936	17,071	17,447	17,887
Funded by:				
Council Tax	(7,361)	(7,661)	(7,967)	(8,278)
Business Rates	(2,304)	(2,435)	(2,571)	(2,711)
FFR 2.0 Damping	(3,571)	(1,951)	(429)	955
EPR	(751)	(751)	(751)	(751)
Collection Fund	0	0	0	0
TOTAL Funding	(13,986)	(12,797)	(11,718)	(10,784)
Budget shortfall/(surplus)	950	4,274	5,729	7,103

Corporate Plan 2025-2028

5.42 A refreshed Corporate Plan covering the period 2025-2028 was adopted by Council at their meeting on 24 September 2025. The MTFS and Corporate planning process are aligned to ensure adequate resources are available to support the Corporate Plan priorities whilst maintaining financial sustainability over the plan period.

Balances and Reserves Strategy

5.43 A review of the Reserves and Balances strategy will be undertaken to consider the adequacy of reserves considering the continued financial risks faced by the Council. The review will consider guidance published under CIPFA Bulletin 13: Local Authority Reserves and Balances (March 2023).

5.44 The Council's financial position is supported by its balances and reserves. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting

authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

5.45 The Council has a General Fund balance and number of earmarked reserves to support delivery of key priorities and financial sustainability.

5.46 The General Fund Balance will need to be maintained at a risk-assessed minimum level (currently £1.760m). The Financial Resilience Reserve balance will need to be held at a level that mitigates short-term fluctuations in income and expenditure (e.g., Business Rates, Government funding changes).

5.47 These reserves should not be utilised to fund normal, on-going service provision.

5.48 The Council holds earmarked reserves to support the priorities included in the Corporate Plan. This funding is available for investment in initiatives which support delivery against these priorities.

5.49 The table below sets out the closing position on the General Fund balance and earmarked reserves for 2024/25.

Table 4 – Balances/Reserves

	Balance 31/03/2024 (£'000)	Budgeted transfer (to)/from reserves	Transfer (to)/from reserves	Transfer between (MTFS review)	Balance 31/03/2025 (£'000)
General Fund	(1,760)	0	0	0	(1,760)
Council Priorities	(2,959)	(63)	270	0	(2,753)
Financial Resilience Reserve	(2,512)	(219)	(212)	0	(2,943)
Risk Mitigation	(550)	(1,100)	(1,307)	0	(2,957)
Ringfenced Earmarked Reserves	(57)	0	0	0	(57)
Other Revenue reserves	(2,151)	291	(583)	0	(2,443)
Subtotal Earmarked Reserves	(8,228)	(1,091)	(1,833)	0	(11,152)
TOTAL GF Balance + Earmarked Reserves	(9,988)	(1,091)	(1,833)	0	(12,912)

6. CAPITAL PROGRAMME AND FINANCING

- 6.1** 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.
- 6.2** The Council set out its Capital Programme for the period 2025/26 to 2028/29 based on the principles of the current Capital Strategy and was approved by Council at their meeting on 24 February 2025.
- 6.3** Total capital expenditure increases to £7.744m in 2026/27, decreases to £4.208m for 2027/28 and £2.130m in 2028/29 with an estimate of £2.743m in 2029/30.
- 6.4** The 2026/2027 capital programme includes £5.171m provision for replacement of Waste and Recycling vehicles in line with the replacement programme. However, given the significant capital outlay and the potential impact from Local Government Reorganisation both the profile of this expenditure and method of financing is currently under review and will be included in the final budget proposals presented to the Cabinet and debated at Council during February 2026.

Table 5 – Capital Programme 2026/27 to 2029/30

Capital Programme	2026/27 Budget (£'000)	2027/28 Budget (£'000)	2028/29 Budget (£'000)	2029/30 Budget (£'000)	TOTAL Budget (£'000)
Leisure & Communities	500	0	0	550	1,050
Housing/Planning and Strategic Housing	1,839	2,231	1,775	1,819	7,664
Environment	5,255	1,826	205	224	7,510
ICT, Change and Customer Services	150	150	150	150	600
Shared Prosperity Fund Projects	0	0	0	0	0
Land Legal and Property	0	0	0	0	0
Transformation and Investment	0	0	0	0	0
	7,744	4,208	2,130	2,743	16,824

6.5 The capital programme is focussed on delivering against the Council’s key priorities, with further schemes coming forward to on enhancing the delivery of core services through improvement and enhancement of assets. A review of the programme will be undertaken as part of the budget setting process and will be focussed on

- Affordability and deliverability of schemes
- Current capital financing resources and potential capital receipts arising from the Asset Management Strategy
- Waste Fleet Replacement programme – a detailed review of the waste fleet is underway with options to balance the service requirements and capital/revenue costs associated with the replacement and/or refurbishment of the fleet.

Capital Financing

6.6 As set out in the 2025/26 Revenue Budget, Capital Programme and Medium-Term Financial Strategy report, 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).

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

Table 6 – Capital Financing 2026/27 to 2029/30

Capital Financing Statement	2026/27 Budget (£'000)	2027/28 Budget (£'000)	2028/29 Budget (£'000)	2029/30 Budget (£'000)	TOTAL Budget (£'000)
Capital receipts	3,184	2,476	355	924	6,939
Capital Grants and Contributions	1,689	1,731	1,775	1,819	7,014
Earmarked Reserves	0	0	0	0	0
Revenue Contribution to Capital Outlay (RCCO)	0	0	0	0	0
Community Municipal Investments (CMI)	0	0	0	0	0
Prudential Borrowing	2,871	0	0	0	2,871
	7,744	4,208	2,130	2,743	16,824

6.8 The Capital Financing position will be reviewed by the s151 Officer during the year as expenditure forecasts are updated to ensure a balanced use of capital resources and mitigation of current and future interest rates.

7. RISKS AND UNCERTAINTIES

7.1 There are a number of financial risks that the Council will face over the medium-term. The 2025/26 Budget and the MTFS will need to be prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

7.2 The main risk is around the nature and scope of local government funding from the Government from 2026/27. The implementation of the Fair Funding Review 2.0 outcomes and Business Rates reset will have a significant impact on the council's resources as funding is reallocated across Local Government to recognise Social Care cost pressures.

7.3 Whilst this report uses the latest financial model provided by Pixel to assess the impact, there remains considerable risk and uncertainty remains in the estimates for 2026/27 and beyond.

7.4 However, an initial estimate of a near 50% reduction (from 2026/27) in the level of retained business rates income has been included in the MTFS assumptions for the last 3 years. An estimate was made around transitional arrangements, but this was 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).

7.5 The actual funding the council will receive for 2026/27 and over the MTFS-period will not be known in detail until mid-December 2025 at the earliest.

7.6 Further risks remain in terms of the wider economic environment – interest rates and inflation along with projections for UK Growth over the MTFS period will have an influence on the Council's budget preparation and MTFS.

8. CONSULTATION

- 8.1** Budget Consultation will take place as part of the wider engagement with residents. As set out in the LGA Must know document:

“Formal consultation on the budget needs to be legally compliant, and that includes taking account of the government’s statutory guidance on best value. Section 3(2) of the Local Government Act 1999 states that councils must consult taxpayers, service users and other interested persons when deciding how to fulfil their Best Value duty. Although there is no specific requirement to consult widely on the budget, (the council must consult with non-domestic rates payers on its plans for expenditure under Section 65 of the Local Government Finance Act 1992), it is an important element of achieving best value and many councils take the opportunity of setting the budget to meet their statutory best value responsibility”

- 8.2** Consultation provides members with the opportunity to engage with residents on the Council’s financial position (in particular the size and scale of the financial challenge), what it will need to do to address this, and the priorities for the coming year.

9. CONCLUSIONS

- 9.1** The report sets out the Council’s financial prospects for 2026/27. Final budget proposals, including the outcome from the Local Government Finance Settlement, will be presented to the Cabinet and debated at Council during February 2026.

10. FINANCIAL IMPLICATIONS

- 10.1** There are no financial implications arising directly from the report.

11. LEGAL IMPLICATIONS

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

12. EQUALITIES IMPACT

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

13. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

13.1 None

14. BACKGROUND PAPERS

14.1 None

(END)