



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	CABINET– 07 DECEMBER 2023
Subject	FINANCIAL PERFORMANCE REPORT – Q2 2023/24
Wards affected	All
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@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 of the latest budget monitoring position for the 2023/24 financial year.
Annexes	Annex A – Revenue Budget Summary Annex B – Capital Programme Summary Annex C – Treasury Management Summary
Recommendation(s)	That Cabinet resolves to: <ol style="list-style-type: none">1. Review and note the financial position set out in this report.2. Endorse the recommendation in paragraph 9.3 that Cabinet continue to review in-year opportunities with Publica and Ubico to mitigate the forecast financial position.3. Approve the provisional transfer of £0.150m to the Treasury Management reserve.4. Agree to establish a new earmarked reserve “Contract Smoothing” and approves the provisional transfer of £0.255m from the General Fund Revenue Budget to the earmarked reserve.
Corporate priorities	<ul style="list-style-type: none">• Delivering our services to the highest standards
Key Decision	No
Exempt	No



Consultees/ Consultation	None
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1. BACKGROUND

- 1.1 This report provides members with the second outturn forecast and monitoring position statement for the 2023/24 financial year and should be viewed in the context of the *2024/25 Budget Strategy and Medium-Term Financial Strategy (MTFS) Update* report considered by Cabinet in November 2023.
- 1.2 The purpose of this report is to notify members of any significant variations to budgets identified in the second quarterly budget monitor exercise, highlight any key financial issues, and to inform members of options and further action to be taken.
- 1.3 In common with the almost all local authorities, the council faces several external budget pressures that are impacting on its finances over the medium-term. There remains significant uncertainty around inflation and interest rates in the current financial year which exert an influence over the Council's budget both directly and indirectly.

2. EXECUTIVE SUMMARY

- 2.1 This report sets out the outturn forecast for the financial year informed by the Q2 budget monitoring.
- 2.2 Overview and Scrutiny Committee considered this report at their meeting on 28 November 2023. In reviewing the report and the outturn forecast for Q2, members of the committee recommended that future reports include a visual overview of the financial position and a summary statement on key budget variances. The committee's view was to improve accessibility and provide readers of the report with a summary statement on what the figures mean – in particular whether forecast outcomes were expected, whether the impact of the forecasts are short-term or would have a longer-term impact on the Council.
- 2.3 Based on the budget monitoring exercise undertaken for Q2 and an assessment of the risks and uncertainties facing the Council, the outturn forecast is an adverse variation of £0.263m



Table ESI – Revenue Budget Outturn Forecast (Q2)

	2023/24 Latest Net Budget (£'000)	2023/24 Actuals to Q2 (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)	Movement from Q1
Revenue Budget					
Subtotal Services	17,501	9,194	18,409	908	506
Less: Reversal of accounting adjustments	(1,636)	0	(1,636)	0	0
Revised Subtotal Services	15,866	9,194	16,773	908	506
Corporate Income & Expenditure	(1,503)	(767)	(2,546)	(1,043)	(689)
Provisions and Risk Items	0	0	398	398	(2)
Net Budget Requirement	14,363	8,428	14,625	263	(185)
Funded by:					
Council Tax	(6,311)		(6,311)	0	0
Retained Business Rates	(4,389)	(1,744)	(4,389)	0	0
Government Funding - Grants	(2,905)	(1,530)	(2,905)	0	0
Government Funding - NHB	(290)		(290)	0	0
Collection Fund (surplus) / Deficit	393		393	0	0
TOTAL Funding	(13,503)	(3,274)	(13,503)	0	0
Budget shortfall/(surplus)	861	5,154	1,123	263	(185)

Table ES2 – Revenue Budget – Reconciliation of variations (Q2)

	Positive variation (£'000)	Adverse Variation (£'000)	Movement from Q1 (£'000)
Variations at a glance			
Fees & Charges - Income Shortfall		256	(14)
Overspend - Waste & Recycling containers		50	0
Commercial Property - Rental income shortfall (risk)		75	9
Pay Award (Publica impact)		198	(2)
Pay Award (Ubico impact)		0	(200)
Bad Debt Provision		50	50
Additional Transfer to Reserves (TM Reserve)		150	150
Savings Target shortfall (risk)		250	151
Other service variations		354	296
Ubico Contract forecast overspend (inc Pay Award impact)		173	215
Treasury Management Income	(796)		(596)
Reduced Revenue financing of Capital programme	(203)		(103)
Other Corporate Income and Expenditure	(294)		(140)
Subtotal	(1,293)	1,556	
Net Outturn Variation		263	(185)

2.4 The material forecast variations are listed below with a detailed table of all service variations in Annex A. Please note that the actual spend to date shown in Table ESI differs from the



detailed position shown in Annex A as this adjusts for the timing difference on Housing Benefit Payments.

- Building Control income is below budget with a lower number of applications in quarter one when compared to the same period in prior year (264 applications in Q1 and Q2 2023/24 compared to 315 in Q1 and Q2 2022/23) in part due to continuing financial climate and uncertainty, £110k income shortfall forecast.
- Public Convenience income shortfall due to reduced footfall. Forecast income shortfall of £82k.
- Household waste bins, bags, and containers - overspend forecast of £50k, overspend due to increased demand, increased cost of materials and longer lead times.
- Land charges income is performing below budget with net income received forecast to be £81k below budget at the end of the financial year in part due to the rise in free unofficial personal searches as well as current economic uncertainty leading to a reduced demand.
- Ubico are currently forecasting a net overspend of £134k due to the pay award (£145k adverse) and vehicle costs (£90k adverse), although lower than estimated diesel costs (£95k favourable) reduce the overall forecast position.
- Forecast deficit (£0.255m) on the Leisure and Culture contracts which will be transferred to a new Contract Smoothing reserve – see paragraphs 4.16 to 4.18.

2.5 The adverse income variations outlined above are unlikely to recover over Q3 and Q4 due to longer-term under performance against income budgets in previous financial years. This will need to be addressed for the 2024/25 budget and over the MTFS period.

2.6 The Cabinet Transform Working Group (CTWG) will continue to consider the forecast outturn, financial risks and uncertainties set out in this report. The CTWG will specifically be considering proposals from service delivery partners to contribute to the Council's Savings plans and will be closely monitoring the achievement of savings targets.

2.7 Without any improvement in the forecast outturn for the year, corrective action, or additional savings the outturn variation would have to be met from the Financial Resilience reserve. Clearly, this is not a desirable outcome and further management action must be taken by the Council, Publica and Ubico to mitigate the current forecast position. Members should note that the budgeted use of the Financial Resilience reserve utilised to set a balanced budget was £0.861m. Without mitigating and corrective action, this would increase to £1.124m and is clearly not an acceptable position.

2.8 A summary of the Capital Programme outturn forecast is shown in the table below.



Table ES2 – Capital Programme Outturn Forecast (Q2)

	2023/24 OB (£'000)	2023/24 LAB (£'000)	2023/24 Actuals to Q2 (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)	Movement from Q1 (£'000)
Capital Programme						
Leisure & Communities	1,387	1,391	12	79	(1,312)	(1,312)
Housing/Planning and Strategic Housing	4,001	4,209	2,443	4,765	556	847
Environment	1,956	2,129	159	628	(1,501)	45
Retained & Corporate	0	0	0	0	0	0
ICT, Change and Customer Services	350	415	(0)	100	(315)	0
UK Rural Prosperity Fund	191	191	0	191	0	0
UK Shared Prosperity Fund Projects	28	28	0	28	0	0
Land, Legal and Property	500	870	(0)	567	(303)	(303)
Transformation and Investment	5,486	5,780	157	1,216	(4,564)	0
TOTAL Capital Programme	13,899	15,013	2,770	7,574	(7,439)	(723)

- 2.9** As set out in the *Financial Performance Report 2022/23 Outturn* report to Cabinet in July 2023, slippage of £1.114m from the 2022/23 capital programme has been included in the revised capital programme set out in Table ES2 above. The initial outturn forecast for the current year is an underspend of £7.439m with slippage likely of £3.520m.
- 2.10** The forecast assumes that the Strategic Property Acquisition (included in the summary line Transformation and Investment) will not proceed in the current financial year. With interest rates remaining relatively high, any future acquisition decision will need to be supported by a full business case setting out the wider benefits and financial impact over the immediate and longer-term.
- 2.11** The report outlines several risks and uncertainties regarding the outturn forecast, particularly around income performance assumptions given the volatility.
- 2.12** Financial Sustainability – The 2023/24 revenue budget is held in balance using £0.861m of the Financial Resilience Reserve. It should be noted that without any improvement in the forecast during the year, corrective action, or additional savings the outturn variation would have to be funded from the same reserve at year end. Clearly, this is not a desirable outcome and further management action must be taken by the Council, Publica and Ubico to mitigate the current forecast outturn.



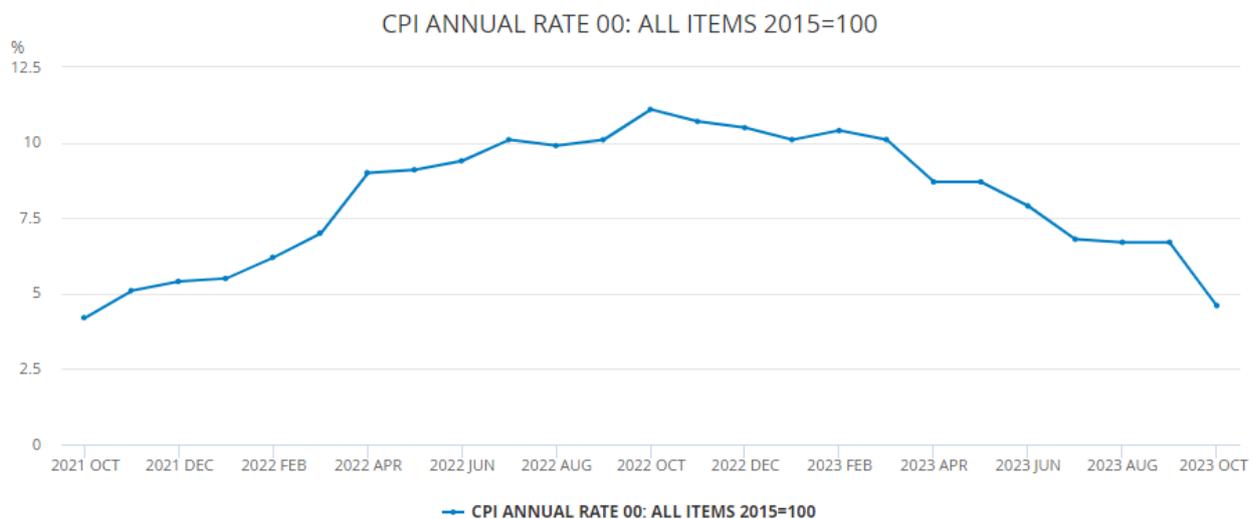
- 2.13** When taken with the 2023/24 Revenue Budget, the Council would be utilising £1.173m of the Financial Resilience reserve to support the budget which is not sustainable over the medium-term.
- 2.14** Financial Performance reports will be presented to members at the March 2024 Cabinet meeting with the outturn position likely to be finalised for the July 2024 Cabinet meeting.

3. EXTERNAL ECONOMIC ENVIRONMENT

- 3.1** The *2024/25 Budget Strategy and Medium-Term Financial Strategy (MTFS) Update* report to Cabinet in November 2023 set out the external economic pressures on the Council.

Inflationary Pressures

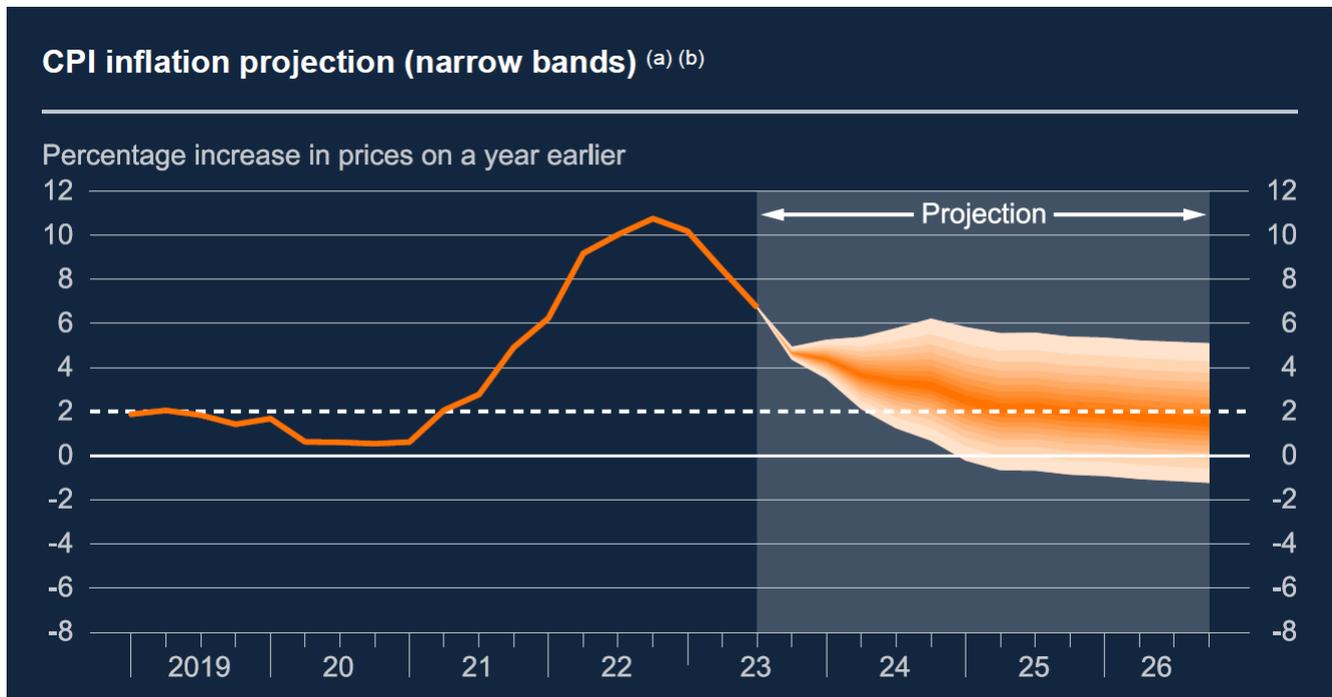
- 3.2** The level of inflation, as measured by the Consumer Prices Index, for October 2023 is 4.6% (down from 6.7% in September 2023). Although it is not the Government's preferred measure of inflation, the Retail Prices Index is 6.1% (8.9% in September 2023). Core inflation (as defined by the Office for National Statistics as the CPI Rate excluding energy, food, alcohol, and tobacco) fell to 5.7% (6.1% in September 2023). It is this measure that has concerned the Bank of England and led to increases in interest rates over the last 18 months.



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



- 3.4 The forecast for inflation is for a return towards the Bank of England's target of 2.0% (CPI) although it is worth noting recent commentary suggesting the bank should consider revising the target to 3.0%. The graph below shows the different CPI forecasts that are published in the quarterly Bank of England Monetary Policy Committee report (November 2023).



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

Inflationary Pressures – Pay Award

- 3.6 The assumption made for the 2023/24 budget was for an average Pay Award of 4% across Publica, Ubico and Retained staff. Inflationary provision of £1.2m has been included in the budget for the pay award across Publica and Ubico contracts and for retained staff costs.
- 3.7 As notified to the Council on 01 November 2023 agreement was reached on the pay award for 2023/24 based on the Local Government employers final offer from March 2023. With effect from 01 April 2023, the agreed pay award is:
- an increase of £1,925 (pro rata for part-time employees) to be paid as a consolidated, permanent addition on all NJC pay points 2 to 43 inclusive (equating to an increase of between 3.88% and 9.42% depending on the paygrade)

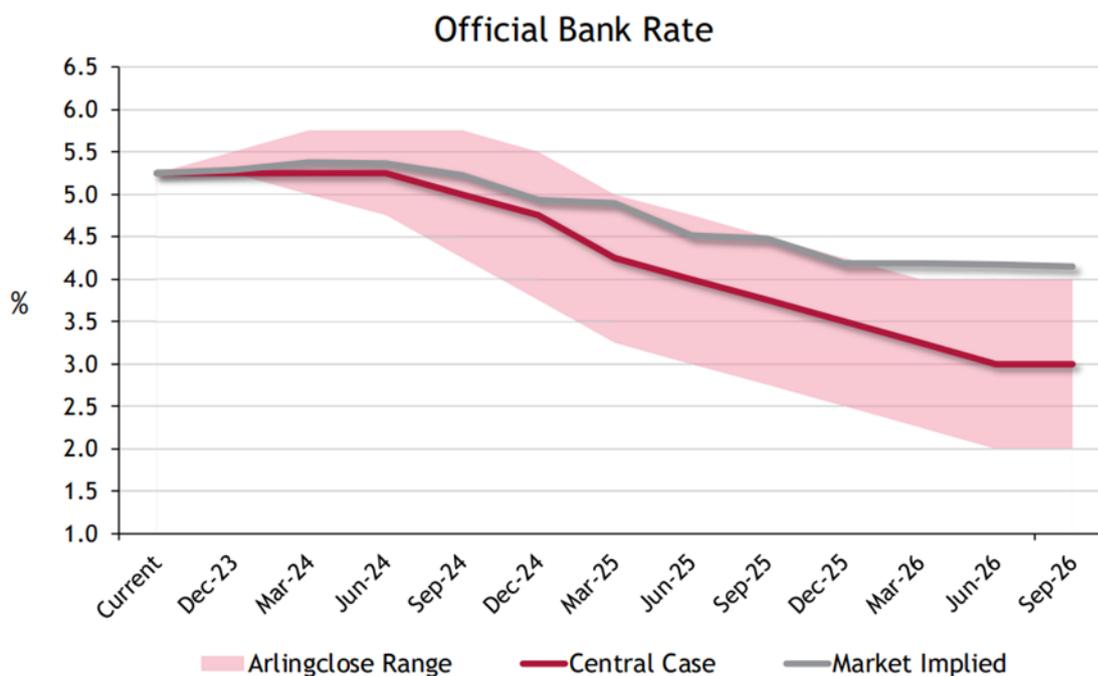


- an increase of 3.88% on all pay points above the maximum of the pay spine but graded below deputy chief officer.
- an increase of 3.88% on all allowances

3.8 As highlighted to members in previous financial reports during the year, the financial implications of the pay awards outlined above is broadly similar in terms of cost when compared to 2022/23 although the Council has allowed for a higher level of pay inflation in the current year's budget. **The additional financial impact of the pay award is £0.342m with the additional cost on the Ubico contract reflected in the service forecast and a provision held 'below the line' for the Publica contract.**

Interest Rates

3.9 The Bank of England has increased interest rates fourteen times since December 2021 to mitigate inflationary pressures with the last increase of 0.25% taking the base rate to 5.25% on 04 August 2023. The MPC voted to maintain rates at 5.25% at their latest meeting on 02 November 2023 (6-3 in favour of maintaining at 5.25% with 3 members voting for a 0.25% increase). The council's treasury management advisors have forecast further increases during the year with an expectation that the base rate may peak at 5.50% to 5.75%. The next MPC meetings are scheduled for 14 December 2023 and 01 February 2024.



3.10 To support the Capital Programme, the Council may need to undertake borrowing during the current financial year although this is dependent on several factors. Clearly, with PWLB



interest rates remaining relatively high compared to the previous 12 years, this will impact the expenditure required to service any borrowing the Council undertakes. The capital financing position is set out in more detail in section 6.7 of this report.

- 3.11 The Council has limited and reducing internal resources to support the capital programme (capital receipts, earmarked reserves). This is not unique to Cotswold District Council with reports in specialist press (e.g., Public Finance) of Councils shelving or scrapping planned capital projects as other costs continue to rise and/or the need to find savings to balance the budget.
- 3.12 With interest rates expected to remain relatively high 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.
- 3.13 An updated Asset Management Strategy is being prepared which will review and assess the Council's assets and bring forward recommendations for the retention or disposal of the Council's land and property holdings linked to the Council's Corporate Plan and Medium-Term Financial Strategy (MTFS). Asset disposals would generate a capital receipt which could be utilised in place of external borrowing. The Asset Management Strategy will be considered by Cabinet in January 2024.

4. 2023/24 REVENUE BUDGET

- 4.1 The Revenue Budget was approved by Council at their meeting on 15 February 2023 with no adjustments made during the financial year to date.

Table 1 – Revenue Budget reconciliation

Budget Item	(£'000)
Original Budget (Council, 15 February 2023)	14,363
Adj:	
Adj:	
Adj:	
Adj:	
Latest Budget	14,363



- 4.2** On 30 September 2023 the Council's is reporting net expenditure of £8.428m against the profiled budget of £8.699m. The financial position is expected to remain challenging during the financial year with the Council facing significant budget pressures as outlined earlier in the report.
- 4.3** The outturn forecast for 2023/24 of £14.626m results in a forecast variance of £0.263m – a reduction of £0.185m against the Q1 forecast. Table 2 provides members with an overview of the significant outturn variations that have been forecast across services with Tables 3 and 4 providing detail on the non-service revenue expenditure and income budgets.

Table 2 – Revenue Budget Outturn Forecast Summary

	2023/24 Latest Net Budget (£'000)	2023/24 Actuals to Q2 (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)	Movement from Q1
Revenue Budget					
Environmental & Regulatory Services	486	302	596	110	(19)
Business Sup. Svcs - Finance, HR, Procurement	1,120	750	1,143	23	23
ICT, Change & Customer Services	2,359	1,126	2,359	0	0
Assets, Property & Regeneration	725	312	751	26	(64)
Publica Executives and Modernisation	131	65	131	0	0
Revenues & Housing Support	615	436	677	62	62
Environmental Services	4,820	2,373	5,101	281	198
Leisure & Communities	1,918	888	2,183	265	230
Planning & Strategic Housing	1,947	984	1,947	0	0
Democratic Services	1,104	821	1,096	(8)	(8)
Retained and Corporate	2,277	1,137	2,426	150	84
Subtotal Services	17,501	9,194	18,409	908	506
Less: Reversal of accounting adjustments	(1,636)	0	(1,636)	0	0
Revised Subtotal Services	15,866	9,194	16,773	908	506
Corporate Income & Expenditure	(1,503)	(767)	(2,546)	(1,043)	(689)
Provisions and Risk Items	0	0	398	398	(2)
Net Budget Requirement	14,363	8,428	14,625	263	(185)
Funded by:					
Council Tax	(6,311)		(6,311)	0	0
Retained Business Rates	(4,389)	(1,744)	(4,389)	0	0
Government Funding - Grants	(2,905)	(1,530)	(2,905)	0	0
Government Funding - NHB	(290)		(290)	0	0
Collection Fund (surplus) / Deficit	393		393	0	0
TOTAL Funding	(13,503)	(3,274)	(13,503)	0	0
Budget shortfall/(surplus)	861	5,154	1,123	263	(185)



Table 3 – Corporate Income and Expenditure

	2023/24 Revised Budget (£'000)	2023/24 Actuals to Q2 (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)	Movement since Q1 (£'000)
Corporate Income and Expenditure					
Contingency	200		120		0
Other non-service expenditure	157		0		0
Other non-service savings	(218)		0		0
Contingency, other non-service income and expendit	139	0	120	(19)	115
Savings & Transformation Items (See Tables 7a and 7b)	(500)		(250)	250	150
Treasury Management - Interest Payable	99	5	14	(86)	(86)
Treasury Management - Interest Receivable	(817)	(758)	(1,613)	(796)	(596)
Minimum Revenue Provision (MRP)	17	0	0	(17)	(17)
Revenue Contribution to Capital Outlay (RCCO)	200	0	100	(100)	0
Transfer to/(from) Earmarked Reserves	(641)	(14)	(916)	(275)	(255)
	(1,503)	(767)	(2,546)	(1,043)	(689)

Table 4 – Provisions and Risk

	2023/24 Profiled Budget to Q1 (£'000)	2023/24 Actuals to Q2 (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)	Movement since Q1 (£'000)
Provisions and Risk					
Ubico Pay Inflation			0	0	(200)
Additional Transfer to Reserves (TM Reserve)			150	150	150
Bad Debt Provision			50	50	50
Publica Pay Inflation			198	198	(2)
Forecast Risk			0	0	0
	0	0	398	398	(2)

*Ubico pay inflation of £148k included within contract service lines.

Key variations

- 4.4** The forecast outturn position is a net overspend/adverse variance of £0.263m. Whilst this is an improved position compared to Q1, further improvement, corrective action or additional savings are required. Without positive action, the outturn variation would have to be funded from the Financial Resilience reserve at year end. Clearly, this is not a desirable outcome and further management action must be taken by the Council, Publica and Ubico to mitigate the current forecast outturn position. Members should note that the budgeted use of reserve utilised to set a balanced budget was £0.861m. Without mitigating and corrective action this would increase to £1.124m and is clearly not an acceptable position.
- 4.5** Annex A provides a detailed analysis and includes commentary against the most significant variances.



- 4.6** The material items which have had an impact on the Council's revenue budget are summarised below with narrative explaining the reasons(s) for the variation in the paragraphs that follow.
- Forecast underachievement of income – Building Control (£0.110m), Land Charges (£0.081m), Public conveniences (£0.082m)
 - Forecast overspend on the Ubico Contract (£0.134m overspend, £0.011m underlying underspend excluding the pay award)
 - Forecast deficit (£0.255m) on the Leisure and Culture contracts which will be transferred to a new Contract Smoothing reserve – see paragraphs 4.16 to 4.18
 - Commercial Property rental income (£0.075m adverse variation)
 - Pay Award impact (£0.198m adverse) – see paragraphs 3.6 to 3.8 and 4.26.
 - Savings Target Risk (£0.250m adverse) – see Section 5 of the report.
 - Treasury Management and interest receivable performance (£0.796m positive variation)
 - Reduced Revenue financing of Capital programme (£0.202m positive variation)
 - Adjustments for Bad Debt Provision and a proposed additional transfer to earmarked reserves (£0.200m)
- 4.7** Where income shortfalls have been forecast, it is expected that Business Managers and Assistant Directors evaluate options for corrective action. It is unlikely income will recover in the current financial year and may have a detrimental impact on the Council's finances over the medium-term. The evaluation must include an assessment of the service cost and income, market positioning, and unit cost and benchmarking data analysis. Options should outline, if possible, how the service can be financially sustainable.
- 4.8** The building control service operates in a competitive market, although the Council has retained its market share income is below budget with a lower number of applications in quarter one when compared to the same period in prior year (264 applications compared to 315 in Q1+Q2 2022/23) in part due to continuing financial climate and uncertainty, £0.110m income shortfall forecast.
- 4.9** Income from land charges is below budget with net income received forecast to be £80k below budget at the end of the financial year due in part to the rise in free unofficial Personal Searches (through Personal Search Agents). Current economic uncertainty, the rise in interest rates and inflation along with forecasts of falls in house prices into 2023 and 2024 has reduced demand for this service.



- 4.10** Public Convenience income shortfall of £0.082m is forecast due to reduced footfall. One-off expenditure reductions reduce the forecast net overspend to £0.066m. Cabinet approved increases to the service charges for the Council's Public Conveniences from 01 April 2023. The service is subject to a review by Overview and Scrutiny Committee (Public Conveniences Review Group) and is due to report the outcome of the review and recommendations in January 2024.
- 4.11** There is a risk that the Council will not receive the budgeted level of commercial rental income given the challenging economic conditions across retail and office sectors and downward pressure on rents. An income shortfall of £0.075m is currently forecast but will be reviewed alongside the wider Asset Management Strategy.
- 4.12** The Council's Environmental Services (grounds maintenance, street cleaning, domestic waste collection, recycling collections etc.) are provided by Ubico Ltd. The contract with Ubico for 2023/24 of £8.275m is currently estimated to cost £8.415m – a net overspend of £0.134m. This is predominantly due to the impact of the pay award (£0.145m overspend), additional costs associated with vehicle repairs and vehicle hire (£0.089m overspend) and other minor budget overspends (£0.020m). This is offset by a reduced volume and cost of fuel (£0.192m underspend) which is lower than the assumed cost included in the budget).
- 4.13** The tables below provides members with an overview of the financial performance of the Ubico Contract (Table 5a) and non-Ubico expenditure and income from fees and charges (Table 5b)

Table 5a – Ubico Contract Outturn Forecast (Q2)

Waste, Recycling, Street Cleaning and Grounds Maintenance Services	Ubico Contract Costs OB (£'000)	Ubico Contract Costs CS (£'000)	Outturn Forecast (£'000)	Outturn Variance (£'000)
WST004 Bulky Household Waste	0	0	0	0
Car Parks GM [CTW668]	63	63	68	4
CCM001 Cemetery/Churchyards GM [CTW688]	175	175	188	12
RYC002 Garden Waste Collection [CTW634]	1,315	1,316	1,383	67
WST001 Household Waste [CTW611]	1,622	1,623	1,703	80
RYC001 Recycling [CTW633]	2,933	2,935	2,939	4
RYC003 Refuse/Recycling/Food Waste [CTW635]	685	686	645	(41)
STC001 Street Cleaning [CTW666]	1,465	1,466	1,472	6
Trinity Road Offices GM [CTW668]	16	16	17	1
Grand Total	8,275	8,281	8,415	134
Less: Pay Award impact				(145)
Net variation on contract (excluding Pay Award)				(10)

Table 5b – Ubico, Non-Ubico, Fees & Charges performance (Q2)

	Gross Service Cost LAB (£'000)	Income LAB (£'000)	Net Service Cost (£'000)	Exp ⁿ Forecast (£'000)	Income Forecast (£'000)	Net Service Forecast (£'000)	Net Service Variation (£'000)
Waste, Recycling, Street Cleaning and Grounds Maintenance Services							
WST004 Bulky Household Waste	57	(79)	(22)	57	(79)	(22)	0
Car Parks GM [CTW668]	63	0	63	68	0	68	4
CCM001 Cemetery/Churchyards GM [CTW688]	175	0	175	188	0	188	12
RYC002 Garden Waste Collection [CTW634]	1,353	(1,301)	52	1,419	(1,301)	118	67
WST001 Household Waste [CTW611]	1,781	(24)	1,757	1,911	(24)	1,887	130
RYC001 Recycling [CTW633]	3,245	(950)	2,295	3,249	(950)	2,299	4
RYC003 Refuse/Recycling/Food Waste [CTW635]	686	0	686	645	0	645	(41)
STC001 Street Cleaning [CTW666]	1,504	0	1,504	1,510	0	1,510	6
Trinity Road Offices GM [CTW668]	16	0	16	17	0	17	1
Grand Total	8,880	(2,353)	6,527	9,064	(2,353)	6,711	184

4.14 Performance against the Ubico Savings Target is outlined in Section 5 of this report.



- 4.15** Household waste bins and receptacles – an overspend is forecast of £50k, due to increased demand, increased cost of materials and longer lead times. As part of the 2024/5 budget setting review, revenue and capital budget provision will be updated to reflect underlying demand and consideration of developer contributions.
- 4.16** The contract with Freedom Leisure to operate the Council’s Leisure and Cultural services commenced in August 2023 for an initial period of 10 years. In common with contracts of this type, there is an uneven profile of payments to and from the operator over the duration of the contract. The forecast for 2023/24 is for a deficit (payment from the Council to the operator) of £0.255m and this is reflected in the net adverse variance of £0.230m for the Leisure and Communities summary line in Table 2.
- 4.17** Based on operator forecasts submitted with tender documentation, the Council will need to set aside adequate funding from the financial resilience reserve in the first five years of the contract, with a surplus on the contract (payment from the operator to the Council) in the remaining years of the contract term.
- 4.18** Therefore, it is recommended that an earmarked reserve is established (Contract Smoothing reserve) that is linked to the Financial Resilience reserve to smooth the cashflow over the contract term and minimise the impact on the revenue budget one year from the next. It is proposed to transfer this forecast deficit of £0.255m to the earmarked reserve.

Treasury Management

- 4.19** Dividends from the Council’s longer-term investments (Pooled funds and Real Estate Investment Trusts) of £0.281m were received in the first half of the financial year achieving a return of over 4% (pooled funds) and around 3% (REIT). Interest from short term cash deposits with the Debt Management Office (DMO) was £0.288m by the end of the second quarter due to larger surplus balances than estimated being available to invest and interest rates rising at higher rate than budgeted. Investment income is forecast to be £0.796m higher than budgeted at the end of the financial year. The table below provides members with a high-level overview of the Council’s Treasury Management investments on 30 September 2023.



Table 6 – Treasury Management Investments on 30 September 2023

Investment type	Balance invested at 30/09/23 (£'000)	Investment Income received to 30/09/23 (£'000)	2023/24 Forecast (£'000)
Bank of England DMDAF	15,087	288	641
Money Market Funds			
Federated Money Market Fund	3,013	63	136
DGLS Money Market Fund	0	55	122
Insight Liquidity Money Market Fund	10	35	86
Lloyds Instant Access		51	89
Real Estate Investment Trusts (REIT)			
Fundamentum Housing REIT	997	14	29
Cash Plus Fund			
Federated Cash Plus Fund	1,122	0	0
Pooled Funds			
CCLA Property Fund	2,212	56	103
Shroders Income Maximiser Fund	782	41	63
CCLA Diversified Income Fund	936	18	34
M&G UK Income Fund	1,723	66	100
Investec Diversified Fund	1,766	40	78
Columbia Threadneedle Bond Fund	1,821	45	74
	29,469	774	1,556

4.20 With the expectation of improved investment returns during the financial year, it was agreed at July Cabinet that any additional investment income above the budgeted level is transferred to a new earmarked reserve (“Treasury Management Risk”) to manage higher borrowing costs in the short-term and to mitigate potential changes to the accounting treatment of gains and losses on pooled funds from March 2025.

4.21 Council approved the Capital Strategy and the Treasury Management Strategy (including the Non-Treasury Management Investment Strategy) at their meeting on 15 February 2023. Audit and Governance Committee have responsibility for reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code and



receiving performance reports. The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve, as a minimum, treasury management semi-annual and annual outturn reports.

4.22 The CIPFA Code was updated in 2021 and includes the new requirement, mandatory from 01 April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are expected to be included in the Council's usual revenue and capital monitoring reports. Section 7 and Annex C of this report provides members with an overview on the non-treasury position.

4.23 Audit and Governance Committee considered the mandatory mid-year Treasury Management report at their meeting on 30 November 2023.

Corporate Income and Expenditure, Provisions and Risk

4.24 As outlined in Tables 3 and 4 there are several significant variations forecast across the Corporate Income and Expenditure budgets. These budgets support the General Fund Revenue budget and are typically the non-service items such as Treasury Management, financing, contingency budget, and provisions for risk.

4.25 Paragraphs 4.19 highlighted the performance of the Council's Treasury Management Investments, largely due to the higher than anticipated interest rates. The outturn forecast is additional income of £0.796m.

4.26 With the strong performance of Treasury Management Investments, it is recommended that £0.150m is transferred to the Treasury Management Reserve to mitigate the potential change to accounting treatment of Pooled Funds from March 2025.

4.27 The Council has in prior years financed ICT capital expenditure from the revenue budget – typically around £0.200m per annum. With the outturn forecast on ICT Capital indicating expenditure of £0.100m for the year the forecast for the revenue contribution (RCCO) has been matched leading to an underspend of £0.100m. Members will need to consider how ICT Capital expenditure should be financed in future years given the budget gap forecast in 20204/25 and over the MTF5 period.

4.28 The 2023/24 revenue budget includes a net transfer from earmarked reserves of £0.625m to fund specific related expenditure – predominantly around new burdens and homelessness. A



further £20k transfer from the Transformation and Investment Programme reserve is proposed to fund external consultancy commissioned by Ubico to support the delivery of future savings and efficiencies.

4.29 As outlined in paragraph 4.23 and 4.18 above it is recommended that;

- a transfer of £0.150m is transferred to the Treasury Management Reserve to mitigate the potential change to accounting treatment of Pooled Funds from March 2025.
- A provisional transfer of £0.255m is made to a newly established “Contract Smoothing” earmarked reserve to transfer the forecast deficit in respect of the leisure and culture contract in 2023/24.

4.30 An allowance of £0.198m is included in Table 4 recognising the Publica element pay award impact the revenue budget. The impact of the pay award on Ubico costs has already been included in the service revenue expenditure forecasts.

4.31 A contingency budget is held centrally to mitigate any in-year cost pressures from inflation or other unforeseen events. This is reported as uncommitted to in-part offset the pay award risks highlighted in the paragraphs above.

4.32 The 2023/24 revenue outturn forecast includes an allowance to increase the bad debt provision by £50k to reflect the increased probability of sundry, council tax and business rate debtors remaining unpaid because of the cost-of-living crisis and recessionary pressures on the economy.

5. SAVINGS AND TRANSFORMATION PROGRAMME DELIVERY

5.1 The 2023/24 Revenue Budget includes savings, cost reduction and additional income of £1.510m to mitigate budget pressures and to enable a balanced budget to be achieved. This included third party contract savings (£0.500m), expenditure savings (£0.456m), additional income from fees and charges (£0.415m), and corporate savings (£0.139m).

5.2 Savings proposals were reviewed to ensure they were robust and could be delivered. There is always a risk with a savings programme – savings may not be delivered in full or on time. Close monitoring of the savings programme through the Cabinet Transform Working Group (CTWG) and through the quarterly financial performance reporting is important to highlight any issues and for action to be taken to bring savings or the budget back in line.



- 5.3** This section sets out the current forecast position on the delivery of the savings agreed as part of the revenue budget identifying any issues and options available to the Council to address under delivery.
- 5.4** CTWG's role is primarily to receive regular updates on progress against the Council's Savings and Transformation programme (including Publica and Ubico savings and efficiencies targets) as part of an ongoing strategy to mitigate the budget gap, any further adverse variation that may arise during the year, and to assess proposals for 2024/25 and later financial years.
- 5.5** Table 7a provides members with a summary of position at the end of Q2.



Table 7a – Savings Update

	2023/24 Budget Removed (£'000)	Tracker	2023/24 Forecast Position (£'000)	2023/24 Variation (£'000)	Movement since Q1 (£'000)
Savings already adjusted out of Service Budgets					
Corporate Savings					
LGPS - Secondary Rate (PIA) (Budget savings)	(139)	Underway/On-Track/Complete	(139)	0	0
Expenditure Savings					
Remove permanent funding for Crowdfunding platform	(85)	Underway/On-Track/Complete	(85)	0	0
Insurance Premium	(47)	Underway/On-Track/Complete	(30)	17	0
Rationalisation of Postage	(20)	Slippage in Savings Delivery	(11)	9	0
Rationalisation of MFDs (Multifunction Devices)	(25)	Underway/On-Track/Complete	(25)	0	0
Google / MS 365 Procurement proposal	(10)	Underway/On-Track/Complete	(10)	0	0
Publica Contract - Net change in Establishment	(67)	Underway/On-Track/Complete	(67)	0	0
Visitor information centre funding reduction	(27)	Underway/On-Track/Complete	(27)	0	0
Internal audit days reduction	(20)	Slippage in Savings Delivery	0	20	0
Planning Appeals Budget	(40)	Underway/On-Track/Complete	(40)	0	0
Recycling Budget Adjustments	(16)	Underway/On-Track/Complete	(16)	0	0
Household Waste Budget adjustments	(9)	Underway/On-Track/Complete	(9)	0	0
Recycling Credits	(90)	Underway/On-Track/Complete	(90)	0	0
Fees and Charges					
Other Fees and Charges - Cost Recovery	(186)	Slippage in Savings Delivery	(122)	64	20
Garden Waste - fee increase	(229)	Underway/On-Track/Complete	(229)	0	0
	(1,010)		(900)	110	20



- 5.6** The forecast in Table 7a indicates £0.900m of the £1.010m savings already adjusted out of the revenue budget (89.1%) will be achieved. £0.110m (10.9%) is off-target and is largely due to under-performance of fees and charges income (Public Conveniences, Land Charges, Cemeteries) as outlined earlier in the report. Expenditure savings arising from lower Insurance Premiums have been achieved, although this is below the anticipated level. A reduction in the level of audit days is not likely to take effect until 2024/25 due to notice periods required to make significant changes to the agreement with South West Audit Partnership (SWAP).
- 5.7** Table 7b provides members with an update on the performance against the Publica and Ubico savings targets (third party contract savings). Several savings initiatives were identified as part of the 2023/24 budget setting process and were reviewed at Publica and Ubico shareholder forums. These initiatives have been developed and scoped in more detail with the recent Council decision on Contact Centre hours illustrating the outcome from the due diligence process.

Table 7b – Savings Update

Savings & Transformation Items [Savings held 'below the line']	2023/24 Original Saving Target (£'000)	2023/24 Forecast Savings (£'000)	2023/24 Variation (£'000)	Movement since Q1 (£'000)
Savings held 'below the line'		0	0	
Publica Savings	(250)		250	250
Contact Centre		(50)	(50)	(50)
WFP: Cabinet Support Officer		(32)	(32)	(32)
WFP: Pensions		(25)	(25)	(25)
Agile Working		(36)	(36)	(36)
One-off Savings		(107)	(107)	(107)
Subtotal Publica	(250)	(250)	0	0
Ubico/ESIP Savings	(250)	0	250	100
Other Corporate Savings		0	0	0
Additional in-year savings (as per Tracker)		0	0	0
Item 1				0
Item 2				0
	(500)	(250)	250	100



- 5.8 The forecast on the identification and delivery of savings against targets indicates Ubico savings (£0.250m) will not be delivered in the current financial year. As set out in section 4 of this report, the outturn forecast on the contract is a net over spend of £0.134m (£0.011m underspend when the pay award is excluded). An update on the strategic options available to the Council on mitigating the current overspend position and/or cost reduction measured will be provided to CTWG in November and December.
- 5.9 Publica savings proposals against the £0.250m target are broadly in-line with the operating model set out in the Publica Business Plan 2022-2025 document ([link to Publica Business Plan](#)). Savings and efficiencies continue to be monitored and challenged through CTWG for robustness in terms of deliverability and the wider business case.

6. CAPITAL PROGRAMME

- 6.1 Council approved the Capital Programme for 2023/24 at their meeting on 15 February 2023. Cabinet approved the carry forward of unspent Capital budgets of £1.114m in the Financial Performance Report 2022/23 Outturn report to Cabinet in July 2023. The revised capital programme for 2023/24 is £15.013m. Given the budget profile of some of these schemes there has been a relatively low level of expenditure over Q1 and Q2 with a net total spend of £2.770m (£1.179m when the service loan is excluded).

Table 8 – Capital Programme budget reconciliation

Capital Programme Reconciliation	(£'000)
Original Budget (Council, 15 February 2023)	13,899
Slippage from 2022/23 (Cabinet, 17 July 2023)	1,114
Adj:	
Adj:	
Adj:	
Latest Budget	15,013



Table 9 – Capital Programme Outturn Forecast Q2

Capital Programme	2023/24 OB (£'000)	2023/24 LAB (£'000)	2023/24 Actuals to Q2 (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)	Movement from Q1 (£'000)
Leisure & Communities	1,387	1,391	12	79	(1,312)	(1,312)
Housing/Planning and Strategic Housing	4,001	4,209	2,443	4,765	556	847
Environment	1,956	2,129	159	628	(1,501)	45
Retained & Corporate	0	0	0	0	0	0
ICT, Change and Customer Services	350	415	(0)	100	(315)	0
UK Rural Prosperity Fund	191	191	0	191	0	0
UK Shared Prosperity Fund Projects	28	28	0	28	0	0
Land, Legal and Property	500	870	(0)	567	(303)	(303)
Transformation and Investment	5,486	5,780	157	1,216	(4,564)	0
TOTAL Capital Programme	13,899	15,013	2,770	7,574	(7,439)	(723)

- 6.2** As set out in the Financial Performance Report 2022/23 Outturn report to Cabinet in July 2023, slippage of £1.114m from the 2022/23 capital programme has been included in the revised capital programme set out in the table above. The outturn forecast for the current year is an underspend of £7.439m with slippage likely of £3.520m.
- 6.3** A summary of the key activity and variations forecast to date is provided below with Annex B providing a detailed overview of expenditure and explanation for variances against the capital programme.
- 6.4** The forecast assumes that the Strategic Property Acquisition (included in the summary line Transformation and Investment) will not proceed in the current financial year. With interest rates remaining relatively high, any future acquisition decision will need to be supported by a full business case setting out the wider benefits and financial impact over the immediate and longer-term.
- 6.5** At their meeting on 31 October 2023 Overview and Scrutiny Committee recommended that the Capital Programme should be kept under review to ensure the revenue impact of capital expenditure and financing decisions were fully considered.

Capital Receipts and Disposals

- 6.6** The Council received a capital loan repayment of £0.295m from Cottsway Housing in Q2 2023/24 in line with the terms of the unsecured development loan facility. The Council did not make any asset disposals during Q1 and Q2 2023/24.



Table 10 – Capital Financing Statement Forecast Q2

Capital Financing Statement	2023/24 OB (£'000)	2023/24 LAB (£'000)	2023/24 Outturn Forecast (£'000)	2023/24 Outturn Variance (£'000)
Capital receipts	8,036	8,469	5,512	(2,957)
Capital Grants and Contributions	1,576	1,907	1,546	(361)
Earmarked Reserves	0	0	0	0
Revenue Contribution to Capital Outlay (F	150	150	50	(100)
Community Municipal Investments (CMI)	116	466	466	0
Prudential Borrowing	4,021	4,021	0	(4,021)
	13,899	15,013	7,574	(7,439)

- 6.7 The Capital Financing position set out in the table above 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. NON-TREASURY MANAGEMENT SUMMARY

- 7.1 The CIPFA Code was updated in 2021 and includes the new requirement, mandatory from 01 April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are expected to be included in the Council's usual revenue and capital monitoring reports.

Prudential Indicators

- 7.2 The detailed Non-Treasury Management prudential indicators are included in Annex C with the commentary below providing members with a high-level summary.
- 7.3 With the lower level of capital expenditure forecast for the financial year, this will reduce the underlying need to borrow. The mid-year Treasury Management report to Audit and Governance Committee will set out the wider impact on the Capital Financing Requirement.



8. RISKS AND UNCERTAINTIES

8.1 The report outlines several risks and uncertainties around the wider economic environment. Some further risks are briefly outlined below.

- Assumptions made in the forecast are based on projections for inflation and interest rates. Uncertainty remains around Government policy, volatility of GBP (£) against other currencies, interaction between increased UK interest rates and the level of inflation.
- This report includes initial forecasts for income from fees and charges and this remains a risk to the Council given the impact of higher prices, energy costs on the cost of living, and the impact of recessionary pressures on the economy. This may lead to reduced demand for council services and hence lower income from fees and charges.
- The Council is dependent on several key partners (e.g., Ubico, Publica, Freedom Leisure) for the delivery of core Council services and may be more exposed to fluctuations in income and expenditure. Any additional income or expenditure pressures would increase the financial pressure facing the Council and would need to be funded through reserves or savings found elsewhere.
- Publica Review – At their meeting on 02 November 2023, Cabinet recommended that Council approve the recommendations set out in the Publica Review report undertaken by Human Engine. The report highlighted the need for a transition plan (to be reported to Cabinet and Council in the new year) and the completion of extensive due diligence. For the purposes of this report, it is worth highlighting the uncertainty around the level and profile of costs required to support the due diligence process. A notional £0.200m has been allocated from the Council Priorities Fund and this will be reviewed once the transition plan has been completed to ensure the adequate one-off resources are made available.
- Publica Review – The Human Engine report identified the preferred option of returning the majority of services to the Council. There is a risk over the remainder of the financial year to service delivery outcomes (ability to provide services at current levels if staff turnover increases) and to costs (increased cost associated with agency/interim staff). The impact from the review outcomes will need to be kept under scrutiny over the coming weeks. As with many insourcing and transformation projects, there is an increased level of uncertainty amongst staff.

9. CONCLUSIONS

9.1 This monitoring report presents an update on the Council's financial position. As the report sets out, an overspend of £0.263m is forecast for the financial year which. Without mitigating or corrective action this would be financed from the Financial Resilience Reserve at year end



which is not considered appropriate given the scale of the financial challenge over the MTFS period.

- 9.2 Cabinet will continue to consider the impact of the forecast outturn and the impact on earmarked reserves as part of their oversight of the savings and transformation programme.
- 9.3 It is recommended that Cabinet review in-year opportunities with Publica and Ubico and provide an update in February as part of the *2024/25 Revenue Budget, Capital Programme and Medium-Term Financial Strategy Report* on options to mitigate the financial position as currently forecast across the MTFS period.

10. FINANCIAL IMPLICATIONS

- 10.1 The financial implications are set out in this report.

11. LEGAL IMPLICATIONS

- 11.1 Under Part 2 Local Government Act 2003, the Council must, from time to time during the year review the calculations it has used to set its budget. The Council's Chief Financial Officer is required to report to the Council on the robustness of estimates made for the purposes of calculating the annual budget, and on the adequacy of proposed financial reserves. Members must have regard to that report when making decisions about the calculations in connection with which it is made.

12. RISK ASSESSMENT

- 12.1 Section 8 of this report sets out the financial risks and uncertainties.

13. EQUALITIES IMPACT

- 13.1 None.

14. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS

- 14.1 Considered within this report.



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15. BACKGROUND PAPERS

15.1 None

(END)