ANNEX A
REPORT OF THE CHIEF FINANCE OFFICER

COTSWOLD DISTRICT COUNCIL

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

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

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

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

1.4 Section 6 of the 2024/25 Revenue Budget, Capital Programme and Medium-Term Financial Strategy report outlines the compliance requirements of the CIPFA FM Code. The Council should continue to assess its position on compliance with the Code and the151 Officer will be reviewing this position utilising the FM Code's self-assessment tool with an Action Plan identifying actions required to address any areas of weakness.

1.5 CIPFA have outlined the four key areas to focus on in order to be financially resilient:

- Getting routine financial management right: financial systems and processes are working effectively.
- Benchmarking: comparing costs, income, and activity levels with similar authorities
- Clear plans for delivering savings: a single, consolidated, living document that sets out what savings have been agreed, progress in implementing the savings, with links to the budget and MTFS.
- Managing reserves: clarity on the use of reserves between one-off and on-going demands

1.6 As members will no doubt be aware, local authorities are under significant financial pressure and several have either issued Section 114 notices or have been the subject of specific Public Interest Reports. Section 114 notices are issued by the Chief Finance Officer when they believe Members have or are minded to approve an unbalanced budget where expenditure in a financial year is likely to exceed the resources available. Issuing the notice immediately suspends all financial activity apart from that which is necessary to maintain statutory duties.

It also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation. The authority's external auditors and the Department for Levelling Up, Housing and Communities (DLUHC) will also be notified and can step in to provide advice and support

1.7 CIPFA published a brief report (CIPFA Report on s114 notices) on learning the lessons from Section 114 notices. These used to be issued very rarely but members will note from that Nottingham, Birmingham, and Woking have issued such notices recently. It is worth stating that whilst there is no immediate risk of Cotswold District Council having to consider issuing a section 114 notice, members will note the budget gap forecast over the medium-term must be closed to maintain financial sustainability.

1.8 CIPFA's report made the following points:

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

Robustness of Estimates

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

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

1.11 Budget Pressures have been reviewed, challenged, and validated and only included in the MTFS where there is a clear business need or a wider strategic requirement to invest in service delivery.

1.12 Contract costs for Ubico and Publica are subject to significant cost pressures for 2024/25. Publica contract costs are forecast to increase by £0.516m in 2024/25. Ubico contract costs will increase by £0.458m (around 5.5%). This is a mix of inflationary cost increases (predominantly around pay) and revisions to service costs reflecting changes in waste streams and volumes.

1.13 Energy costs have decreased significantly since the start of the financial year and has allowed the Council to reduce the level of budget set aside in 2024/25 and over the MTFS period. The Council entered into a purchasing consortium with Cheltenham Borough Council, Forest of Dean District Council, and West Oxfordshire District Council. This allows the Council to benefit from economies of scale through the additional purchasing power of the group. A risk-mitigation strategy is in place that seeks to reduce the group's exposure to price increases through early and planned purchasing activity should prices edge towards pre-determined trigger rates. Whilst prices have stabilised over the last few months the market remains volatile given the war in Ukraine and activities in the Middle East.

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

1.15 Financial management remains robust as demonstrated by the quarterly Financial Performance Reports that are considered by Cabinet and the Overview and Scrutiny Committee. The outturn position (due to be reported in June or July 2024 subject to completion of the outturn process)

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

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

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

1.19 As can be seen from Section 6 of the report, the requirement to reduce costs and balance the budget in the later years of the MTFS are substantial. The MTFS includes significant savings from Ubico in 2024/25 from the rezoning of Waste and Recycling rounds and a review of the Streets service. There is clearly a risk associated with delivery of these savings. Should savings not materialise at the level or within the timeframe assumed this will increase the pressure on the Council balances and reserves. The Council will need to identify the specific risks within the savings programme and take steps to minimise this risk.

1.20 The basis on which the budget for 2024/25 and the MTFS have been prepared has been set out clearly in this report. I am satisfied that the budgets for the General Fund and the Capital Programme have been based on sound and reasonable assumptions.

<u>Publica Review</u>

1.21 In response to the Local Government Association Peer Challenge Review recommendation, Human Engine undertook an appraisal of the appropriateness of some services remaining with Publica with a report presented to Cabinet and Council in November 2023. Council approved the recommendations contained with the Human Engine report at their meeting on 22 November 2023. In summary, the majority of services will move from Publica and return to being under greater control of the Council.

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

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

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

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

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

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

1.27 As set out earlier in this statement, the budget and MTFS do not include any assumption on the costs or savings arising from the Publica review. The Transition Plan will set out in detail the approach to returning services from Publica to the Council including options on timing and service and management structures.

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

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

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

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

<u>Risk</u>

1.32 As indicated in Section 9 of the report, there are several financial risks that the Council will face over the medium-term. The 2024/25 Budget and the MTFS have been prepared with consideration of these risks, but as with any forecast, an inherent level of risk will remain.

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

1.1 It is very difficult to estimate with certainty the impact on Cotswold. Fundamental changes to the way in which each Council's needs are assessed and funded are difficult to model despite some engagement from Government with local authorities. Therefore, considerable risk and uncertainty remains in the estimates for 2025/26 and beyond.

1.2 However, an initial estimate of a 30% reduction in the level of retained business rates income has been included in the MTFS assumptions from 2026/27. An estimate has been made around transitional arrangements, but these are not based on any indication or commitment from the Government but have been based on financial modelling provided by Pixel including a view on damping (transitional arrangements upon implementation of the new distribution methodology to avoid significant step-changes, shocks or disruption to stable financial planning and service delivery).

1.3 A significant uncertainty in the MTFS is the assessment of when funding changes will be implemented. As set out in this report, the implementation of Local Government Finance reform has already been delayed several times. The Local Government Finance Policy Statement and subsequent settlement provided information on funding for 2024/25. Whilst no indication has been provided for future settlements, there a number of factors that may influence the timing of reform.

- General Election – if a general election is called as late as November 2024, there would only be a very short period for any new Government to consider reform and consult with Local Government on the 2025/26 settlement. For the purposes of the MTFS it has been assumed that reform is delayed until 2026/27.
- Business Rates Valuation periods – HM Treasury's final report on the Business Rates Review moved to more frequent valuations with April 2023 being the start of a 3-year valuation period. With the next valuation period commencing in April 2026, there may be some benefit to aligning Local Government Finance reforms with the new valuation period.

1.4 The second key risk is around the continued impact on the Council from pressures within the wider economy including inflation and interest rates. This will have an impact on income and expenditure budgets during 2024/25 and will require timely and accurate financial reporting to Cabinet. These risks include:

- Income from Council Tax and Business Rates will continue to be under pressure in 2024/25 with an expectation that the taxbase for Council Tax and Business Rates may take time to recover.
- Increased demand for certain services (e.g., Homelessness) may put additional financial pressure on the Council.
- Cost of services where the Council is exposed to risk sharing in contract costs.
- Energy cost pressures

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

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

Adequacy of the Reserves

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

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

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

1.35 The establishment of the Financial Resilience Reserve helps ensure a minimum risk-based balance can be maintained on the General Fund Balance whilst recognising the requirement to support the MTFS (mitigating the budget gap) over the medium-term as CTWG work through a comprehensive Savings Programme.

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

1.37 Cabinet approved the establishment of 2 reserves during 2023/24 – Treasury Management Risk and Contract Smoothing reserves. Additional earmarked reserves are proposed to mitigate specific financial risks.

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

1.38 The Council has utilised Capital Receipts to finance capital expenditure with the balance on the Capital Receipts Reserve forecast to be £6.4m at the end of 2023/24. As shown in the Capital Financing Statement in Section 8 of the report, the Council will utilise the remaining balance to support the Capital Programme over the MTFS period. Whilst a residual level of capital receipts are expected over the MTFS period as part of normal activity, without further capital receipts the Council will require prudential borrowing in future years to finance capital expenditure.

1.39 Whilst the level of balances and reserves shown in the report indicates that the Council is in currently a good financial position, the cumulative budget gap of £4.181m over the MTFS period would reduce the Financial Resilience Reserve to a nil balance during 2027/28. This will need to be addressed over the coming months as the Council will need to make significant decisions on future mitigation options.

1.40 The Council continues to hold other reserves for specific purposes in accordance with decisions taken by Council in previous years. These will be kept under review during the financial year to ensure reserve balances held remain appropriate and adequate.

1.41 Therefore, I am satisfied that the level of reserves the Council holds for the forthcoming year is adequate to support the budget although members should consider the level of reserves utilised in 2024/25 and the need to ensure reserves remain adequate over the medium-term.

1.42 In conclusion, I am able to advise Members of the robustness of the estimates and the affordability and prudence of capital estimates for 2024/25. The level of reserves remains adequate to support the 2024/25 financial position and demonstrates financial resilience. However, this is only the case provided that action is taken to ensure that the balances are set at the level of £1.760m for 2024/25 and that all savings proposals, are monitored closely and delivered as planned.

David Stanley
Deputy Chief Executive and Section 151 Officer

13 February 2024