

DRAFT OPERATING BUDGET 2025/26

Summary: To present Draft Operating Budget for the financial year 2025/26 including the Reserves Policy. The Finance and Governance Committee has reviewed the Budget in detail and recommended that it is presented to the Board for adoption.

Recommendation: That the Board notes and adopts the 2025/26 Draft Operating Budget.

Report by: Magda Glanowska – Head of Finance (HoF)

1. BACKGROUND

- This is a very prudent Budget prepared with the acknowledgment that some figures are based on assumptions that may change as more information becomes available. Budget assumptions, process and timeline were reviewed and presented to the Board during the October 2024 meeting.
- This paper seeks to adopt the Draft Operating Budget which was reviewed in detail by the Finance and Governance (F&G) Committee during their February 2025 meeting. The Chair of the Committee said that this very prudent budget looks very thorough and sound process has been followed. It has been acknowledged that there are still a few moving parts and that there are opportunities which will be followed up which may lead to the revision of this budget. This would be dealt with by the F&G Committee when appropriate.
- The F&G Committee indicated that following discussion and assurance from officers the Budget is ready to be presented to the Board along with the Reserves Policy (appended).

2. PROCESS

- The starting point for 2025/26 budget setting was the 2024/25 Reforecast 2 based on Q2 actuals (six months actuals to Sep 2024 and remaining six months forecast).
- The Head of Finance worked with all Budget Holders so that a bottom-up approach was followed. The Draft Operating Budget was collectively reviewed by the Head of Finance and CEO and subsequently discussed by the Head of Finance and the Chair of F&G Committee.
- The Draft Budget is now being presented for review by the F&G Committee. In particular, attention should be focused on the reserves' movements, consolidated income statement and core income statement.
- Following the Committee's recommendations, the Draft Budget will be presented to the Board for final adoption in February 2025.

3. BUDGET ASSUMPTIONS**3.1. FUNDING - CORE**

- **DEFRA:** Following DEFRA one-year determination, the core settlement for 2025/26 will remain the same as current year, i.e. £529,744. We are still awaiting final confirmation of this as well as a 3-year determination, which is still unknown at this stage. It should be noted, there will be no Revenue / Capital uplift which was a one-off uplift this year (FY24/25 - £381,916). Due to this and some major programmes ending, the core budget is under much pressure.
- **Local authorities:** The Management Accountant has been in contact with the 15 local authorities regarding possibility of the funding to be increased in line with inflation

(CPIH). Overall, half the respondents confirmed the increase, three are trying to get us an increase (including potential £13k increase from CDC) and five are still to respond. Funding received in 2024/25 was £145k. Current budget assumption is £150k, however depending on the responses this can be between £147k (worst case) and £161k (best case scenario).

- **Natural England – National Trail:** It is assumed that funding from Natural England for the Cotswold Way will remain the same as the current year at £77k (this includes additional £12k capital as this year, which is yet to be confirmed).

3.2. FUNDING – NON-CORE

- **FiPL** - the programme is due to end as a grant programme on 31 March 2025. DEFRA informed us that funding has been secured to extend Administration for 6 months, to 30 September 2025, and Advice and Guidance for two years to 31 March 2027. DEFRA FiPL allocation for 2025/26 is £152,284 (FY24/25 - £2.01m).
- **Thames Water** – the project is coming to an end in July 2025, however the Partnership Lead has submitted a bid to Thames Water for additional 1-year programme. Note, this is not included in the current budget. See 'Opportunities' section for further details.
- **Ernest Cook Trust (ECT)** - ECT are funding 50% of the role of Outdoor Learning Officer, the three-year role to co-create outdoor learning experiences for children and young people (funding £20k). Year 1 of the programme has been fully funded by DEFRA Revenue Uplift. Therefore, Year 2 - FY25/26 will be fully funded by the ECT thus relieving pressure on the core budget.
- **Removing Barriers (DEFRA)** – there is no funding for the programme in FY25/26.
- **National Highways** – there is no funding for Dark Skies programme in FY25/26.
- **British Mountaineering Council (BMC)** – this was 1-year programme only, there is no funding for the programme in FY25/26.
- **National Lottery Heritage Fund (NLHF)** - there are two significant bids (1) Caring for the Cotswolds and (2) Landscape Connections. As these are still in initial stages, they were not included in the Draft Operating Budget. More details in the 'Opportunities' section of this paper.

3.3. OTHER INCOME

- **Glorious Cotswold Grasslands (GCG)** – although there is no National Highways (NH) Biodiversity Programme next year, GCG are predicting higher income on restoration through private sales (predicting 10ha private sales), giving sales of £157k compared to £65k private sales this year. Total budgeted GCG income for FY25/26 £178k compared to forecasted £132k this year (which also included some NH income). The budget is worst case scenario and does not include any potential grants. See 'Opportunities' section for more details.

3.4. PAYROLL COSTS

- A **Climate Action** Lead (fixed-term role until Oct 2025) and Climate Action Graduate (permanent role) salaries were fully covered by DEFRA Revenue Uplift this year. In 2025/26, both roles will be fully funded from the core budget. This is a £60k yoy increase.
- **FiPL** – DEFRA informed us that funding has been secured to extend Administration for 6 months, to 30 September 2025, and Advice and Guidance for two years to 31 March 2027. The budget assumes ending one employee's contract at the end of its fixed-term contract on 31 Mar 2025, and extending one for 6 months until 31 Oct 2025. These, however, cannot be confirmed until further communication from DEFRA FiPL team received.

- **Outdoor Learning Officer (ECT)** – as mentioned above, this role has been fully funded by DEFRA Revenue Uplift this year and will be fully funded by ECT in FY25/26. We see an increase in salary cost of £38k but this is coming from the restricted reserve, so no spend by the core budget.
- An assumption of a **3% pay increase** for all employees has been built into the budget and increased National Insurance contributions.

3.5. OTHER COSTS

- **Property** – we are currently looking for a long-term office solution. We have budgeted £30k pa (incl. VAT) which is the same as current year costs. In addition, we have budgeted £7.6k pa for barn storage. Once new office location is found, we will have to apply for Not-For-Profit Rates Relief for both office and barn storage locations.
- **Tools & equipment** – there is £65k yoy saving in the income statement, as we have managed to purchase enough tools and equipment from DEFRA Capex Uplift budget this year.
- **Consultants and professional fees / contractors** – total of £177k yoy budgeted saving due to number of programmes ending where we were sub-contracting works or needing consultants' advice. This will increase if more programmes / projects are accepted.
- **Vehicles** – we have purchased two vehicles this year, one covered by DEFRA Capex Uplift (for GCG) and by DEFRA Removing Barriers funding. No more vehicles to be purchased in FY25/26.
- **Other costs (core)** – less contribution to core funding from the restricted projects (£8.6k less from Everyone's Evenlode due to project ending in July 2025), £14k less employee and support costs recharges from FiPL due to programme ending and £7k less employee recharge to Policy & Planning due to NH Dark Skies programme ending. This is somewhat offset by higher contribution of GCG to core (+£14k yoy). Combined adverse impact yoy £27k.

4. RESERVES

- As per the Board's approved Reserves Policy (see *Appendix B*), we are striving to maintain the General Fund at £70-£75k which is c.5% of total operating costs. Additional measure is to keep combined General Fund plus the Development Fund (within Designated Funds) at c. £180k which combined are classed as total available reserves. It is our aim to keep the total available reserves at minimum of 90% of the agreed target (£162k).
- The Draft Operating Budget (worst case scenario) predicts a General Fund of £71k and £78k in Designated Funds of which £50k is the Development Fund (see *Appendix A*). Total available reserves are budgeted at £120k. It needs to be noted that although this is below our minimum target (67% of the target) of the additional measure, it is the worst-case scenario, and it has been expected that there would be a need to use the Development Fund to top up our General Fund in FY25/26 due to matters already flagged. We are however pursuing several opportunities and are hopeful that we will not have to use as much of the Development Fund as in this budget scenario. We will keep in line with the Reserves Policy for the General Fund.

5. KEY RISKS AND OPPORTUNITIES

- The budget is based on a number of key assumptions that also carry some potential risk. The following list highlights those key risks and potential opportunities that may impact the budget.
- **Risks:**

- The 80/20 rule with respect to funding from Defra being conditional on it being no more than 80% of our overall funding. The remaining 20% of core funds comes from local authorities. This could be a significant concern for the future.
- The FiPL grants programme finishing. It is unknown what, if anything, will replace this programme in future years.
- Timing of the Defra funding / grants paid is often difficult to predict and there may be delays in approving claims and payments.
- Pay award being higher than the assumed 3%.
- Not being able to find a long-term office solution within the set budget.
- **Opportunities:**
 - Lower costs or higher income in the final quarter of 2024/25, that result in the **increased reserves carried forward**. We will know this once March MAs (Q4) are completed in mid-April 2025.
 - **Thames Water programme** – Fundraising team have pitched to Thames Water for a 1-year extension programme. This could bring additional revenue of £192k with £38k hosting fee (covering core costs) and would require three full-time employees (potential internal recruitment first) and 0.4 of Partnership Lead (covering some core salary costs).
 - **FiPL** programme extending.
 - Additional income generated from **Glorious Cotswold Grasslands** operation, potential of additional £5-15k in the year.
 - **Higher Local Authority contributions** than budgeted. Budgeted £150k. Potential £161k best case scenario.
 - **NLHF – Caring for the Cotswolds (CftC)** - a £250,000 bid has been submitted to boost the CftC scheme. There will be extra resource to increase community grants to £50,000 per year and employ a dedicated Grants Coordinator, as well as 20% hosting costs. The budget includes 0.5 days of James Webb's time and there will also be a small pot to support paid youth placements. If successful, the project will start in April 2025 and run for three years.
 - **NLHF – Landscape Connections** - NLHF will be investing £150 million into 20 projects during their current strategy period up to 2033. Protected Landscapes must be at the core of any project. CNL has partnered with National Trust and Gloucestershire Wildlife Trust. An expression of interest has been submitted; the first step in applying for a development grant, which can last up to two years and be up to £250,000. A development phase is necessary to plan, cost and define the delivery phase. It would probably involve employing a Project Manager (employed by CNL) who would broker the partnership agreement, sign up landowners and source match funding. We estimate that each partner will need to offer £7,000 as match funding for the development phase. This could bring additional hosting fee revenue of £11,500 per. The project could start in September 2025, if successful.
 - **Additional unbudgeted grants** / funding received.

6. NEXT STEPS

- To actively pursue the above opportunities and understand the timeline when outcomes will be known. Once outcomes known, revise the Budget for any big items e.g. FiPL, NLHF.
- In addition to pursuing above opportunities, always be on a lookout for new funding available ensuring any bids for new work include minimum of 25% hosting fee to release pressure on the core budget.
- Head of Finance to work closely with Chief Executive and Chair of the Finance and Governance Committee when finalising revising the Budget for the above.

- The revised budget to be reviewed and approved by the F&G Committee at their next meeting in June 2025.
- Following Quarter 1 end (Apr-Jun), full Reforecast 1 to take place ensuring individual budgets challenged appropriately where relevant.
- Consider advertising any new roles required for the new projects internally first to reduce recruitment costs, release pressure on core budget and retain existing talent.
- By doing all the above steps, we will reduce the need for use of much of the Development Fund, thus ensuring better Reserves position longer-term.

7. CONCLUSION

- It is recommended, that the Draft Operating Budget is adopted by the Board with a caveat that it is subject to a potential revision which would be approved by the F&G Committee if required and the Board notified at the subsequent Board meeting.
- With only 1 year DEFRA determination followed by 3 years, the Board ideally needs to avoid significant headcount reductions but instead use some of the Development Fund. This is a temporary solution, and longer-term planning needs to be explored.
- We will pursue the opportunities as listed above with the aim of reducing the necessity of using much of the Development Fund to fund the core deficit. If not enough opportunities listed above materialise, we will challenge the budgets at Reforecast 1.
- We will strive to maintain a General Fund of between £70k and £75k in accordance with our Reserves Policy.
- Once the outcome of the risks and opportunities is known, we will revise the Budget for any major impacts (e.g. NHLF / FiPL). The smaller updates will be done as part of the Reforecast 1, following Q1.

SUPPORTING PAPERS

- Appendix A – Reserves Movements
- Appendix B – Income and Expenditure
- Appendix C – Reserves Policy

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