

Chichester District Council

THE CABINET

4 December 2018

Financial Strategy and Plan 2019-20 to 2023-24

1. Contacts

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2. Executive Summary

The purpose of this report is to update the Council's Financial Strategy and the 5 year Financial Model, to help guide the management of the Council's finances in anticipation of the major changes in future Government funding from 2020-21 and the expectation of diminishing resources, in preparation for 2019-20 annual budget. It builds upon the work already achieved under the 2016 deficit reduction plan, and sets out the key financial principles and actions to assist in the process of seeking to set a balanced budget each year, which is a legal requirement. This approach enables the identification of any funding gaps early to ensure that intervention is undertaken in a considered and measured way, thereby adhering to the Council's key financial objectives under its Corporate Plan and protecting services to its community.

3. Recommendation

That the Cabinet considers and recommends to the Council:

- 3.1 That the key financial principles and actions of the five year Financial Strategy set out in appendix 1 to the agenda report be approved.**
- 3.2 That the current five year Financial Model detailed in appendix 2 to the agenda report be noted.**
- 3.3 That, having considered the recommendations from the Corporate Governance and Audit Committee, the Minimum Level of the General Fund Reserves be set at £6.3m.**
- 3.4 That the Director of Corporate Services be given delegated authority, following consultation with the Cabinet member for Corporate Services, to accept the Government's offer to participate in the 75% localisation business rate pilot for 2019-2020, if the West Sussex Councils' bid is successful, or if not, to revert back to the Coastal West Sussex existing pooling arrangement for the coming**

financial year.

3.5 That the current resources position as set out in appendix 3 to the agenda report be noted.

4. Background

- 4.1 The Council's Financial Strategy and the 5 year Financial Model is underpinned by the approved key financial principles, which determines the approach by the Council in its aim to achieve a balanced budget over the medium term, without the use of reserves, except where this is necessary in the short term.
- 4.2 Council accepted a four year funding offer from Government to help provide some degree of certainty covering the period 2016-17 to 2019-20; the 2019-20 Budget will therefore be the final year of this agreement. The provisional financial settlement for 2019-20 is expected on 6 December 2018, along with the outcome of any pilot bids for the 75% Business Rates regime, for which a joint West Sussex County, District and Borough Councils bid has been made for this opportunity.
- 4.3 Associated with the funding agreement the Council also has an approved 2016 Deficit Reduction Plan, which is expected to achieve savings or additional income of £3.8m. The plan is monitored regularly by the appropriate Programme Board; either the Commercial Board or the Business Improvement Board, and as part of the Council's quarterly revenue and capital monitoring regime. Currently £3.38m has been achieved so far, and we currently anticipate exceeding the target.

5. Outcomes to be Achieved

- 5.1 The purpose of this report is to set out the current position of the Financial Strategy and the 5 year Financial Model, taking into account the corporate priorities, any impact of service changes and budget pressures expected in future financial years for 2019-20 and beyond, plus forecasts of future Government funding, and to consider the actions necessary to maintain a robust and balanced budget.
- 5.2 The application of the key financial principles that should be applied over the short to medium term will be used to underpin the annual spending report in February 2019 to set the 2019-20 budget and Council Tax requirement. This will help the Council to deliver its Corporate Plan objectives by having a sound financial position that is balanced over the medium term and enable investment in priority services.
- 5.3 The Director of Corporate Services is given delegated authority to accept the Government's offer to participate in the West Sussex Councils' pilot bid for the 75% localisation of business rates, when the provisional settlement is announced in early December.

6. Proposal

- 6.1 The Financial Strategy (Appendix 1) sets out the current financial position, the challenges and uncertainties faced by the Council. The guiding principles to be used to address the issues identified and the actions required, whilst adhering to the key financial principles.

- 6.2 The 5 year financial model (Appendix 2) has been updated to reflect current assumptions including Government funding, council tax projections, as well as projected costs and planned efficiencies. This includes provision for new cost pressures and bids for growth linked to the Council's corporate plan objectives. These bids will be firmed up during the budget process and reported as part of the budget report to Cabinet in February 2019.
- 6.3 The Council is currently witnessing deterioration in some income streams in the current year, especially in relation to car parking and planning fees. To de-risk the model going forward an adjustment of £300k has been built into the 5 year financial model. The Model demonstrates a balanced budget at the end of year 5, with a relatively small deficit in year 4 that will need to be considered along with the delivery of the outstanding items of the agreed 2016 deficit reduction plan, the assumptions used for the forecasts, and the impact of the other uncertainties which have been set out in the Financial Strategy. This underpins the approach to be used for the 2019-20 revenue budget.
- 6.4 The Corporate Governance & Audit Committee (CG&AC) have recommended to Cabinet that the Minimum Level of Reserves be maintained at the £6.3m level set during the 2018-19 budget cycle, as there remains uncertainty around future Government funding. The outcome of the consultation on the request for the statutory override to address the impact of the accounting standard International Financial Reporting Standard (IFRS) 9 on the Council's revenue budget has recently been announced, that an override will be given for 5 years. Lobbying for this override to be a permanent adjustment continues.
- 6.5 The outcome of the pilot bids for the 75% localisation of business rates for 2019-20 is expected to be announced on the 6 December. The Council will have a short window to accept any offer if the West Sussex Councils' bid is successful, therefore it is proposed that the Director of Corporate Services be given delegated authority to sign up to the offer, following consultation with the Cabinet member for Corporate Services. If this bid is not successful it is intended that the Council will remain within the coastal West Sussex pooling arrangement for 2019-20 i.e. the current pooling arrangement. The 75% business rates pilot bid gives the council an opportunity to further increase the rates pool gain from approximately £3m to £21m, and will also assist the Government in trialling the methodologies for 2020-21 when the new localisation regime is expected to come into force. There would be no impact on the Council's own budgets, only those of the West Sussex Pool.
- 6.6 Appendix 3 sets out the current level of reserves, the commitments against those reserves, and therefore the potential funds available for the council to invest in new schemes. The forecast includes future capital receipts amounting to £8.78m expected to be achieved over the next 5 years.

7. Alternatives Considered

- 7.1 The Financial Strategy is a vital tool for ensuring the Council continues to set a balanced budget even with all of the uncertainty and pressure faced by the Council in the current economic climate.
- 7.2 Various alternatives exist within the strategy and the 5 year plan. The New Homes Bonus (NHB) could for example be used to support revenue budgets, but this would

be contrary to the financial principle of not using non-recurring income to fund recurring expenditure.

- 7.3 Although the financial model assumes certain levels of Council Tax increases, it will be for the Council to determine the appropriate level annually. For 2019-20 the Council Tax levels will be recommended by Cabinet at their February 2019 meeting for Council to consider at the March 2019 meeting.

8. Resource and Legal Implications

- 8.1 The Financial 5 year Model assists with the Council's in its financial planning in order to set a balanced budget each year, which is it legally required to do; this modelling assists with identifying funding gaps early in order to plan ahead to address the issues in a measured way rather than reactive.

9. Consultation

- 9.1 The CG&AC considered the key Financial Principles and the latest position statement against those principles and any further actions required. This information has been incorporated into the Financial Strategy in appendix 1. The Committee also considered the Minimum Level of Reserves to be held as part of the risk mitigation for financial resilience.
- 9.2 A Budget Task & Finish Group comprising of 3 members from both the Overview and Scrutiny Committee and CG&AC will take place in December to consider the major variances of the proposed budget for 2019-20, which will have been informed from the forecasts from within the 5 year Financial Model, and the Resources Statement.

10. Community Impact and Corporate Risks

- 10.1 The Financial Strategy and five year Model helps the Council to manage the strategic risk of financial resilience; however, there remains a fair degree of unknowns in terms of local government funding, Brexit, and the state of the economy; so it is not possible to predict with absolute certainty, the Council's budget position over the next 5 years. This is partly due to the outcome of the 2019 Fair Funding Review, the localisation of Business Rates regime which will impact Government funding from 2020-21, hopefully the outlook will become clearer in the latter part of 2019, along with the impact of Brexit post 29 March 2019.
- 10.2 The Council's own reliance on income generating services can also be adversely affected by the current economic uncertainty as a result of Brexit and the impact on the community that uses council services. The quarterly revenue monitoring undertaken should identify services which are unable to achieve income targets and where necessary targets are revised as part of the budget process to ensure that these remain realistic and achievable. Whilst the Council has set its minimum level of reserves at £6.3m as part of the 2018-19 budget process, the level of reserves held, as at 31 March 2018, amounted to approximately £39m; £24.1m of which are earmarked reserves held for specific services or projects, and a general fund balance of £14.9m, which is adequate to address any shortfall in the short term if necessary.
- 10.3 There is also a risk in relation to service delivery and support to the community impacting the council due to the budget pressures being experienced by other local

authorities and voluntary organisations.

11. Other Implications

	Yes	No
Crime and Disorder		✓
Climate Change and Biodiversity		✓
Human Rights and Equality Impact		✓
Safeguarding and Early Help		✓
General Data Protection Regulations (GDPR)		✓

12. Appendices

12.1 Appendix 1 – Financial Strategy and Medium Term Financial Plan for 2019-2020 to 2023-24

12.2 Appendix 2 – Five-Year Financial Model

12.3 Appendix 3 – Statement of Resources

13. Background Papers

13.1 None