

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 30 OCTOBER 2023

Financial Strategy and Plan 2024-25 to 2028-29

1. Contacts

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2. Executive Summary

This report provides an update to the Council's Financial Strategy and the 5 year Financial Model, which underpins the Council's financial planning for the medium term forecasts, in preparation for the forthcoming financial year's budget. All of which aids the mitigation of the risk in terms of the financial resilience of the Council. As this approach enables the identification of any funding gaps at an early stage 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 the community.

The strategy considers the current forecast of the 5 year model incorporating the inflationary cost pressures, service demand changes in the year, and any items that will be ongoing over the medium term. The model reflects the estimated level of future Government funding, as this remains a high risk area due to the continued uncertainty after 2024-25.

The strategy also sets out the significant risks and opportunities which could impact its financial forecasts. Based on the information available now, the financial strategy is forecasting a surplus for 2024-25 and 2025-26. However, the model reflects no new policy options. This approach is because over the medium term there is an underlying deficit, and so any new expenditure will need to adhere to the Council's key financial principles when managing the risk to its financial resilience. Any new policy options will go through the Budget Review Group before being proposed by Cabinet to Council.

The key recommendations from this report will help to formulate the 2024-25 budget and the level of Council Tax which will be considered by Cabinet and Council in February 2024. When the Council will need to set a balanced revenue budget that is sustainable and in line with the Council's key financial principles.

3. Recommendation

3.1 That the Committee considers and recommends to Cabinet:

- a) **The key financial principles and actions which underpin the financial management of the Council, and the Financial Strategy set out in Appendix 1 Annex A to the agenda report.**
- b) **That the Council maintains a Minimum Level of Reserves of £4m for general purposed.**
- c) **That the earmarked Revenue Budget Support Reserve of £8m is returned to the Council's General Fund Reserve.**

3.2 That the Committee:

- a) **Notes the updated 5 year Financial Model in appendix 2 (Part 2) and the Resources Statement in appendix 3 to the agenda.**

4. Background

- 4.1 In preparation for the annual budget process the Council's Financial Strategy and the 5 year Financial Model, including the key financial principles are reviewed. This is to consider the current and emerging financial pressures, any saving plans, and review the key assumptions being used for future years' forecasts.
- 4.2 The annual budget for revenue spending for 2023-24 and the rolling 5 year capital and asset replacement programmes were approved by full Council on 7 March 2023. The budget incorporated the final year of the efficiency savings identified in the Future Services Framework Recovery Plan as approved in July 2020.
- 4.3 In response to the global pandemic and the expected financial impact the Council approved £8m to be set aside to support the revenue budget over the medium term as part of the assessment in July 2020. To date it has not been necessary to draw on this reserve, and the Council has achieved the target savings of £1.570m as part of the Recovery Plan approved in July 2020.
- 4.4 Last year, the 5 year model indicated an underlying funding gap at the end of the medium term. The general picture is expected to remain the same, although any new saving targets, will be more challenging. Along with the continued uncertainty in so many aspects for strategic financial planning, the Council have recently set up a new Budget Review Group to identify and consider the options and ideas that could be available to the Council to address the estimated funding gap over the medium term. The outcome of their review will be reported back to future Cabinet meetings to aid the 2024-25 budget and the strategic financial planning for 2025-26 and beyond.

5. Outcomes to be Achieved

- 5.1 The purpose of this report is to set out the current position of the 5 year Financial Model, considering the impact of budget pressures currently being experienced and those that will impact future financial years. The model is a high level forecast including estimates of future Government funding based on the information available at this time. This report also considers the Financial Strategy and actions necessary to return the Council to a balanced financial position over the medium term without the need to use reserves, which will be unsustainable.

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 2024 to set the 2024-25 budget and Council Tax requirement. This will help the Council to deliver its Corporate Plan objectives by having a sound financial position that aims to be balanced over the medium term and safeguard the Council's priority services.

6. Proposal

6.1 The Financial Strategy (Appendix 1) sets out the current financial position, the challenges and uncertainties faced by the Council, and the guiding principles to be used to address the issues identified and the actions required; whilst adhering to its key financial principles. Whilst the key financial principles are unchanged the document has been updated to reflect the current narrative and actions required.

6.2 The Committee is requested to consider in Annex A of the Financial Strategy (Appendix 1). These guiding financial principles are fundamental in the management of the Council's financial resilience, and underpin the Council's Financial Strategy, in terms of risk mitigation and governance for strategic financial planning.

6.3 The 5 year Financial Model (Appendix 2 (part 2 restricted item)) is a medium term forecast of the financial position of the Council, which has been updated to reflect current assumptions; including Government funding, council tax projections, as well as projected costs and previous planned efficiencies.

6.4 It should be noted that the model reflects a high level forecast of the potential financial position of the Council over the medium term, using known changes, plus a lot of assumptions based on the data or information available at this time. Therefore, as we are in a period of a high degree of uncertainty, this makes the strategic forecasting very difficult, and so this report sets out the significant risks associated with some of the key assumptions.

6.5 The strategy is based on no new proposals due to the current projections of an underlying deficit over the medium term. So, any new proposals must adhere to the key financial principles before being incorporated in the budget proposed to Cabinet and on to Council in February 2024. Specifically, that any new cost growth or reductions of income must be funded before being agreed and so to aid this process any new proposals with one off or ongoing revenue consequences will need to be considered by the Budget Review Group under their terms of reference to return the Council to a balanced budget within the medium term. Any proposals will need to be linked to the corporate plan and assessed under the prioritisation decision tool developed under the Future Services Framework.

6.6 Based on current projections, with all the caveated warnings about uncertainty, both 2024-25 and 2025-26 are estimated to be in a surplus position, but thereafter there is a potential deficit rising to approximate £3m by 2028-29. So, it may be necessary to use reserves to help balance the budget in the medium term, depending on the timing of the development and implementation of ideas and options from the Budget Review Group recommended to Cabinet, and then onto full Council.

6.7 The model also considers known cost pressures which the Council has no choice in budgeting for; some of which impact not only the current year but the budget for

2024-25 and beyond i.e., high inflation, pay award for 2023-24 still yet to be agreed, and reduced income streams.

- 6.8 In terms of Government funding, there continues to be a great deal of uncertainty as the Funding Review and the localisation of Business Rates (BR) reset has again been delayed. There is no detail yet as to when these reviews will impact the local government financial settlement. It is anticipated that the provisional settlement announcement expected in December will be for 2024-25 only, based broadly like that of 2023-24. Although this is by no means guaranteed, especially in relation to the different grants previously awarded i.e., New Homes Bonus, Service Grant, or the Funding Guarantee Grant etc.
- 6.9 For Business Rates a new valuation list was issued for April 2023, which may impact future appeals against this list. The Government last year changed the review period for new valuation lists from 5 years to 3 years. DLUHC are currently consulting on some changes to Business Rates but the timing of when the outcome will be received is uncertain, along with whether the Business Rates multiplier will be frozen, and whether councils will be fully compensated or not.
- 6.10 Against this background of uncertainty any delay in resetting the Baseline for Business Rates continues to be good news for the Council as it will continue to benefit from the growth achieved so far. However, the anticipated impact of the Baseline reset is that the Council will retain approximately £1.5m less per annum under this funding regime change. Whilst the timing of any changes are currently unknown, it has been assumed in the model that this change may occur from 2026-27, when a fundamental review, may mean that the Council will lose a further £1.5m of central government funding under the redistribution of Revenue Support Grant based on assessed need by DLUHC.
- 6.11 The key assumptions for inflation for pay, prices, and pensions etc. are set out in appendix 1 Para 3.a based on current expectations. Plus, any other known cost pressures or opportunities that can be realistically quantified both in terms of timing and financial impact have been incorporate in the 5 year model.
- 6.12 In terms of risk mitigation, the Council's earmarked investment risk reserve was increased to £2.89m at 31 March 2023, as there continues to be uncertainty in the financial markets affecting the fair value of the Council's long term investments. The current temporary statutory override will cease on 31 March 2025, and therefore the Council will have to consider the adequacy of the reserve when setting the 2025-26 budget. The balance in this reserve will be reviewed annually and adjusted in line with the movements in fair value and the risk posed of the potential losses that could be charged to revenue.
- 6.13 Appendix 3 sets out the current level of reserves, anticipated grant funding, and the commitments against those reserves. The uncommitted balance represents the potential funds available for the council to invest in new schemes. The forecast excludes any future capital receipts, ensuring that this approach is comparable to the treatment of the New Homes Bonus (NHB), and in line with the key financial principles. Whilst under the current regime operated NHB may be awarded in 2024-25, with details released in the provisional financial settlement in December, the resources statement only incorporates grant received to date. If an award is made for

2024-25 it will be for only 1 year. It is still unclear if NHB grant will cease with any fundamental funding review by Government.

- 6.14 The outcome of the Committee's recommendation for the Minimum Level of Reserves will be a verbal update to Cabinet, as the committee meeting is scheduled for after the publication of the Cabinet's agenda papers. The Minimum Level of Reserves approved for 2023-24 budget was £4m. It is recommended that the minimum level remains the same for the forthcoming financial year.

7. Alternatives Considered

- 7.1 The Financial Strategy is a vital tool that aids financial planning and helps to identify when remedial action is required at an early stage to ensure the Council sets a balanced budget. Even with all the uncertainty and pressure faced by the Council in the delivery of its services and changes in service demand, this legal requirement must still be met.
- 7.2 Various alternatives exist within the strategy and the 5 year plan. Reserves can be used to support the revenue budget; however, this is not sustainable in the long term as any deficit will need to be addressed. Further ideas and options will need to be explored in the short to medium term by the Budget Review Group to address the forecast funding gap as indicated in appendix 2. However, there are some significant risks on some key assumptions based on the current information available as of October 2023.
- 7.3 The General Fund Reserve is available to support the funding of the budget but ultimately the long term use of reserves for this purpose would be contrary to the financial principle of using non-recurring income, such as NHB, to fund recurring expenditure. It may be necessary to use this approach of using reserves to balance the budget over the medium-term to assist in the intervening years to develop options to close the estimated funding gap whilst protecting vital front line services.
- 7.4 Although the financial model will assume certain levels of Council Tax increases, it will be for the Council to determine the appropriate level annually. For 2024-25 the Council Tax levels will be recommended by Cabinet, at their February 2024 meeting, to Council to consider at their Council Tax setting meeting. The model currently assumes we will increase Council Tax by 2.99% in 2024-25 and £5 per annum thereafter.

8. Resource and Legal Implications

- 8.1 The Financial 5 year Model helps the Council to financially plan and set a balanced budget each year, which is a legal requirement. The modelling assists with identifying funding gaps early to plan and formulate options to address the issues in a measured rather than reactive way.
- 8.2 When the 2023-24 budget was approved there was a small surplus of £150k which was used to fund three new one-off proposals. So, no support was required from the earmarked Budget Support Reserve, nor was any support required for the 2022-23 outturn position. Despite the 2022-23 budget when set, the estimated support from this specific earmarked reserve of £808k, was actually not required, as the outturn position was a surplus of £0.647m offset by new one off schemes in the year

amounting to £0.805m, which meant that only £0.158m was required from the General Fund Reserve. As the Budget Support Reserve remains intact at £8m, it is recommended that this is returned to the General Fund reserve.

8.3 Following the 2023 elections the Council has a new administration and considering the budget challenges to be faced in the near future, a new Budget Review Group has been set up to assist members in their decision making, to bring the Council back to a balanced position in the medium term without on-going reliance on reserves.

8.4 Due to the uncertainties, the use of the refreshed prioritisation tool and the new budget review process will assist the Council to assess any budget proposals and income generation ideas, including their potential impact on services. In the meantime, the reserves available are sufficient to enable the Council to make measured considered decisions for setting the budget for 2024-25. When hopefully the picture becomes clearer in terms of government funding and the impact of their policies on local authorities. The Council will comply with the legal requirement to balance the budget with the drive to return to a sustainable footing in the use of reserves over the medium term and in line with its key financial principles.

9. Consultation

9.1 Cabinet and all opposition Group Leaders have monthly meetings, including regular financial updates, with the Strategic Leadership Team. Specific strategy briefing days have taken place in October with members to set out the forecasts detailed in the Financial Strategy and the projections in the 5 year model.

9.2 The Corporate Governance and Audit Committee (CG&AC) will have considered this report at their meeting on 30 October. Due to the timing of the Committee a verbal update will be given to Cabinet on the outcome of their review and any recommendations including in relation to the Minimum Level of Reserves

9.3 As part of the annual budget setting, the Annual Budget Scrutiny Group comprising of 3 members from both the Overview and Scrutiny Committee and this committee will take place in January 2024 to consider the major variances of the proposed budget for 2024-25, which will have been informed from the forecasts from within the 5 year Financial Model, the Resources Statement and hopefully the provisional local government funding settlement for 2024-25.

10. Community Impact and Corporate Risks

10.1 The Financial Strategy and 5 Year Financial Model helps the Council to manage the strategic risk of financial resilience. However, there remains a great deal of uncertainty in the medium term including future changes in local government funding, the ongoing impact on the economy from world events, supply chain issues in the wider economy, and inflationary cost pressures that have an impact on service costs.

10.2 The 5 year model reflects the picture based on a number of assumptions, as it is not possible to predict with absolute certainty the Council's budget position over this period, which is why the model is revisited frequently. The Financial Strategy sets out the key financial risks both in terms of likelihood and impact.

- 10.3 Assumptions on the Council's discretionary income streams due to the effect of ongoing behavioural change since the pandemic, and the ongoing economic cost of living crisis are adjusted as necessary to ensure targets set are realistic.
- 10.4 To manage the financial risk, each year the Council set the minimum level of reserves it will hold specifically for unexpected costs or income losses as part of its budget spending plans for the forthcoming financial year.
- 10.5 Appendix 3 identifies the total level of reserves held, as at 31 March 2023. After taking account of anticipated new receipts, grants, and commitments, including the capital programme, earmarked reserves for specific purposes, and a contingency for the LEP funding agreement for Southern Gateway, the Council still has available reserves of £21.023m (with the current £4m minimum balance plus £17.023m uncommitted), which is adequate to address any shortfall as necessary, and demonstrates that the current capital programme is fully funded. It is therefore recommended to the Committee that the Minimum Level of Reserves remains at £4m, and the £8m previously earmarked to support the revenue budget due to the pandemic is returned to the General Fund. If approved this will increase the forecast uncommitted reserves to £29.023m.
- 10.6 There is also a risk in relation to service delivery and support to the community impacting the Council due to the budget pressures experienced by other local authorities and voluntary organisations now and in the future.

11. Other Implications

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

12. Appendices

- 12.1 Appendix 1 – Financial Strategy and Medium Term Financial Plan for 2024-25 to 2028-29
- 12.2 Appendix 2 – Five-Year Financial Model (Part 2)
- 12.3 Appendix 3 – Statement of Resources

13. Background Papers

- 13.1 None