Financial Strategy

Introduction

The Council's Corporate Plan 2022-2025 was last approved by Council on 25 January 2022, and is available on the Council's website here. The annual update of the plan is scheduled to be presented to Cabinet in January 2024. The plan sets out the Council's priorities that represent the challenges and opportunities facing the District Council over the medium term.

The Council continues to face many challenges in the last few years, and looking ahead this situation is unlikely to change. The cost-of-living crisis is impacting on council services such as energy & fuel inflation. Indirectly the precarious state of the economy is impacting several council income streams as households reduce discretionary spend. Future Government funding remains a significant risk with a long overdue funding review along with numerous cost pressures some of which can be quantified and considered in the medium term forecasts, and others remain known unknowns.

This strategy sets out the picture over the medium term and any policy decisions which are linked to the current corporate plan. The current Corporate Plan was set by the previous administration and is therefore currently being reviewed. However, the current approved Council priorities are:

- Homes for all
- Thriving Economy
- Supported Communities
- Financial Prudence
- A Cared-For Environment

Each of these priorities are underpinned by several objectives that set out what the Council aims to achieve and the success measures for the identified actions to be undertaken.

The key financial objective under the Corporate Plan is Financial Prudence, specifically to manage the Council's finances prudently and effectively.

The Council's aim is to:

- **Ensure prudent use of the Council's resources**.
- **Provide value for money through efficient and effective service delivery.**

How the Council will achieve the aims will be to:

- Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period.
- Require compensating savings before any new unfunded revenue expenditure or reductions in income are approved, including capital expenditure that has revenue consequences.

- Maintain a programme of reviews for our services to ensure they are delivered efficiently and effectively.
- Provide services without the on-going use of reserves.
- Continue to identify and develop new and appropriate income generating opportunities that are in keeping with the Corporate Plan's vision.
- Maintain an investment strategy that protects and makes best use of the financial resources available to the Council.
- Rigorously manage the Council's risks.
- Have sound governance arrangements in place.

The success measures agreed by Council on 25 January 2022 were:

- Return the Council to a balanced revenue position within the 5-year model period.
- Manage and successfully deliver the 2021 to 2024 efficiency programme – **Completed.**
- Conclude the review of governance arrangements (target date May 2022) – **Completed.**
- Prepare budget and spending plans that are balanced and affordable annually.
- Prepare treasury, investment and capital strategies that comply with regulations and make best use of Council resources annually.

In relation to the first bullet point, the Council has a legal obligation to set a balanced budget. However, the challenge remains of doing so without the ongoing reliance of using reserves, especially with the continued uncertainty of future Government funding and policy changes impacting the Council's service requirements. The 5 year model estimates an underlying funding gap over the medium term, which is mainly linked to the anticipated impact of a future funding review by government, currently assumed to occur in 2026-27. The anticipated changes include the Business Rates Baseline reset which will remove any growth since the last reset, plus any redistribution of funding which could include negative Revenue Support Grant adjustments. Current indications on the model are that both 2024-25 and 2025-26 budgets will be balanced, so that Council has time to consider its options, before 2026-27 and beyond when the situation is forecast to deteriorate because of the expected reduction in Government funding.

Due to this situation, the Council has set up a new Budget Review Group (approved by Cabinet September 2023) to identify and consider ideas and options that could be available to the Council to address the estimated funding gap over the medium term. The group will make recommendations to the Corporate Governance and Audit Committee on process, and to Cabinet on budgetary proposals.

Approach and Approval Process

Linked to the main financial management objective:

1. The Council maintains a **5 year rolling medium term financial strategy model** which is underpinned by the key financial principles.

2. The **key financial principles**, along with an annual position statement is reported to the Corporate Governance and Audit Committee for their consideration in relation to managing the strategic risk of financial resilience and considering the minimum level of general fund reserves that should be held. The Committee's recommendations are incorporated into the annual Financial Strategy report, considered by both Cabinet and Council ahead of the budget report for the annual budget and council tax setting required prior to the start of the new financial year.

3. A **statement of resources** is maintained to identify the current level of reserves, the commitments against those reserves, and therefore the potential funds available for the Council to invest in new schemes.

4. In year **quarterly revenue monitoring** is undertaken to identify trends and cost pressures which will inform the revenue budget for the forthcoming financial year and beyond. Along with the planned spending on capital and asset replacement projects against the approved programmes. Budget managers also receive **monthly monitoring** reports in the interim to aid the formal quarterly monitoring regime.

5. **Quarterly Financial Health Checks** with the relevant Directors and Divisional Managers to consider all aspects of financial management internal controls, income collection, debt recovery, and payment of suppliers.

Under the umbrella of the **Financial Strategy** are other linked key policies and strategies which assist with ensuring the robust financial management of the Council. These are:

- the **Treasury Management and Investment Strategies** – cashflow management linked to the spending plans of the Council and the investment of surplus funds.

- the **Capital Strategy** – a corporate strategy that is a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how the risks are managed by the Council.

Both these strategies are updated considering any legislative changes, or relevant good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Council maintains a 5 year capital programme linking the available resources directly to corporate priorities and considering revenue implications within the 5 year Financial Strategy Model.

There is also a 5 year planned programme to replace the assets used by the Council to deliver its services, developed from the 25 year Asset Replacement Programme Model. This is updated annually as part of the budget cycle and is in line with the

Council's key financial principles; specifically, financial principle 3, that assets are maintained/ replaced, and that the investment is sustainable by not using reserves for ongoing expenditure.

Medium Term Financial Plan

The aim of the plan is to ensure the financial stability and to support council services by regularly reviewing the key financial influences and identifying the associated risks.

1. Current Financial Position

   The Council's revenue budget requirement for 2023-24 was set at £15.845m, which represented a spending increase of 5.5% over the base budget for 2022-23. This budget was set without the need to use reserves. During 2020 the Council set aside £8m to support the revenue budget in response to the impact of the global pandemic. However, these funds remain intact and so it is recommended that the full £8m are returned to the General Fund Reserve. The 2023-24 budget had a small surplus of £150k which was allocated to fund specific one-off schemes. The schemes were:

   - £100k for Discretionary Housing Payments which can help where low-income households are struggling to meet their housing costs. We are anticipating a reduced allocation from the DWP in 2023-24 so this funding would allow additional households to be helped to avoid arrears or homelessness.

   - £20k to support the Food Partnership as a Chichester food grants pot (matching funding Arun DC who have already committed to the Partnership).

   - £30k for Housing Crisis fund (this is largely used to assist homeless people to furnish accommodation).

   With the exception of Discretionary Housing Payments these one-off items are expected to be removed from the base budget for 2024-25 onwards.

   Council also approved the one-off funding of £30k from reserves for the organisation of "Young People Welcome" city centre events for September/ October 2023 when the budget for 2023-24 was approved.

   The cost pressures experienced during 2022 remain ongoing in the current year, with record inflation continuing to impact the Council's own costs for delivering services. The impact of the economic cost of living crisis on households is driving up service demand in housing, as well as support to people in the district via the Supporting You team, as well as impacting businesses and housing development withing the district with a decline in planning income for major schemes. The cost pressures which have impacted the council too, have been reflected in the updated forecasts using the latest information or assumptions available at this time.

The approved budget for 2023-24 has £678k of savings built in as the final year of the efficiency savings programme developed under the Future services Framework (Covid recovery report). The overall efficiency savings and income generation recovery plan remains on target to achieve the overall agreed target of £1.57m by March 2024.

The financial position remains very uncertain for some income streams which are impacted by the uncertainty in the economy with high inflation and higher interest rates affecting discretionary income streams, as household disposable incomes reduce affecting both the council and local businesses.

The current cost pressures include a pay award risk as the latest employers' offer has yet to be accepted for 2023-24. In the base budget an allowance for a 5% pay award was made across all pay grades, however, the employers offer was 1.27% higher overall and weighted to the lower grades. This equates to an additional cost of £254k. This offer has still to be agreed at the time of writing this strategy. There also remains a challenge in the recruitment and retention of certain relevant skilled staff and is another potential risk for the Council which could have further cost implications.

As part of the preparation for the 2024-25 budget, the pay and some other cost pressures have a degree of certainty, whereas others that have been identified are still very unclear. This includes future Government funding, and the impact of central government's policies which could have an impact on service delivery of the Council.

The uncertainties make the task of strategic financial planning very difficult. The main inflationary costs pressures in the current year also includes pay, reduction in some income streams, increased homeless accommodation costs. utility costs, fuel pricing, the economic and financial impact on our leisure management arrangements and any voids of our commercial rented properties.

Due to the continued uncertainties and financial risks in the financial planning for the council, a new Budget Review Group has been set up by Cabinet on the advice of the Corporate Governance and Audit Committee. The terms of reference can be found on Modern.gov for Cabinet in September 2023.

This Council's approved prioritisation assessment tool is essential to aid members to determine the priorities of the Council and allocate resources accordingly, whilst complying with the legal requirement to balance the budget. During the preparation for the 2024-25 budget the FSF prioritisation tool will be revisited in the autumn and the results of the consultation with members reported to Council in January 2024. This is essential to aid the budget setting in March 2024, and consider proposals for budget growth alongside existing services to ensure the council meets the corporate plan objective of returning to a balanced budget.

Since the budget was set for 2023-24, Cabinet & Council have approved various additional expenditure for projects or cost pressures that will need to be funded from the Council's general reserve. The items approved are listed below increasing the draw on reserves to £669k:

Approved Schemes Funded from the General Fund Reserve	£
Energy Advice Service	60,000
Commissioning Regeneration Strategy City Centre	45,000
Development Management Resources & Appeal Costs	298,000
Replacement Groyne Aids to Navigation	125,000
Green Spaces Unauthorised Vehicle Deterrents	141,000
Total	669,000

Taking these known additions to the council's spending plans for 2023-24, along with the forecasts of the costs pressures currently being experienced (as indicated in the updated 5 year model in Appendix 2), the draw on reserves to balance the forecast outturn based on the current assumptions as at 20 October 2023, is estimated at £0.845m. This forecast reflects current assumptions for inflation, the pay award and higher temporary housing costs offset by savings in fuel costs. However, there is a risk that the situation for all these significant items may be different by the year end, along with any additional new funding proposals made by Cabinet/Council between now and March 2024.

Underpinning the financial strategy is the approach taken for each of the key financial principles, which considering the uncertainties and risks currently being experienced are essential in the Council's financial planning and the mitigation of the strategic risk for financial resilience.

A position statement and any further actions required, are detailed in Annex A against the Council's key financial principles.

The uncertainty and substantial risks which are the backdrop of the current year, it is important that any new policy decisions consider and adhere to the Council's key financial principles regarding any growth and are measured against the current prioritisation tool, which is refreshed to reflect the revised weightings after the May 2023 election. This is important considering the latest forecast for the medium term and the risks associated with some of the key assumptions.

Also, under Government policies the business rates retention scheme can be impacted, e.g. small business rate relief etc. and so to compensate the Council for the loss of this funding source, a grant is paid (which is known as a Section 31 grant). Future changes in this scheme have a risk that the compensation awarded may not always fully cover the financial impact. Government is currently consulting on some technical changes in relation to as split multiplier for applying inflation indices, the outcome is expected to impact 2024-25. The biggest risk to the Council from this funding stream is the Baseline reset on the Business Rates Retention Scheme (BRRS) as this will remove all the growth achieved since the last reset. This change may occur as part of the funding review by Government assumed to be 2026-27, with a reduction of funding received from this source of approximately £1.5m.

The current approved 5 year capital and asset renewal programmes totalling £41.426m (excluding CIL schemes) remains fully funded without the need to borrow from external sources and there is a balance of £17.023m uncommitted resources available for new projects and investment in services over the medium term, plus the £8m of the earmarked Revenue Budget Support Reserve, if approved, to be returned to the General Fund Reserve.

Appendix 3 of the Strategy report shows the current level of resources and the current commitments. The Council's current approved programmes are available on its website at Annual budget: Chichester District Council.

2. 2024-25 Settlement

The provisional Financial Settlement for 2024-25 is expected to be announced by the Department of Levelling Up, Housing and Communities (DLUHC) in December 2023.

It is expected that this will be a one year settlement offer similar to that received I 2023-24. It also remains uncertain of the timing of any potential changes in Government funding due to the Funding Review (FR) and the localisation of business rates impacting future settlements is unknown. It has been assumed in the model that the impact is from 2026-27 based on current intelligence.

Annually as part of the provisional settlement the Government set the threshold criteria which would trigger a Council Tax referendum should a council wish to raise its council tax beyond that threshold. It is likely that for 2024-25 the threshold may be set at 3%, or £5 for shire districts, and authorities can set whichever is greater. Since this information will be confirmed after the Government's technical consultation on the Local Government Financial Settlement 2024-25 expected in December, the 5 year model is assuming a 2.99% increase for 2024-25 and a £5 council tax increase per annum thereafter. Ultimately this is a decision for full Council to make each year during its budget setting in February/March.

In terms of the current economic situation this has been affected by the escalating conflict in the middle east, making the situation more unpredictable in relation to energy prices and potential inflationary pressure. The 5 year model reflect numerous assumptions, including price increases on its discretionary income streams which will be increased by September's CPI, and any necessary changes to income targets to ensure that they are realistic and achievable by reflecting any volume changes. The economic uncertainty makes it harder to predict future income levels from some of the Council's income streams.

3. 5 year Financial Model

The 5 year financial model (appendix 2 of the Strategy report) has been updated to reflect the known changes for the forthcoming year, and forecasts for future years based on information currently available.

This has been prepared with a prudent view in relation to service cost pressures, inflation, and other areas of financial risk. The 5 year model is kept under review so that the Council has time to respond should the situation, and/or government funding be significantly different to that currently forecast.

No new policy options have been included in the 5 year model for 2024-25 and future years, except to incorporate previous council decisions since the budget for 2023-24 as set in March 2023 The cost implication of these have been taken into account in the 5 year model for the current year, and beyond if they impact future years. This is because whilst there is currently a surplus in both 2024-25 and 2025-26, over the medium term there is an underlying deficit of £1,626k (2026-27) to £3,137 (2028-29). The forecast for 2024-25 indicates a surplus of £484k, however this is not expected to continue throughout the 5 year period, and the model moves to a deficit position from 2026-27 and beyond.

The main assumptions in model are:

a. **Inflation** - Uplifts for inflation are given in table 1 below. Inflation this year has been extremely volatile and due to the unstable economies around the world impacting key supplies i.e., fuel.

   General inflation - Is currently running at 6.7% in September which was unchanged from that in August 2023 for CPI. The model uses September's CPI rate for inflation in the 2024-25 budget.

   Pay inflation – The model builds in the impact of the current offer for 2023-24 of a flat rate increase of £1,925 (pro rata for part time staff) or 3.88% for employees who earn over approximately £50k). An allowance for future pay inflation is also reflected in the model. However, pay awards are subject to national negotiations annually. This is a potential risk factor if pay increases match general inflation levels creating a cyclical inflationary pressure. Currently the exact pay award for 2023-24 has yet to be agreed by the unions, but the employers offer exceeds the provision made in the 2023-24 budget by £254k. Pay remains a significant risk as the assumptions reflected in the model could be insufficient.

   Summary - It has therefore been extremely difficult in formulating this year's strategy to predict inflation levels over the medium term, the assumptions used are reflected in Table 1.

   The assumption for the 2024-25 budget for general inflation and income is based on September's CPI.

   Table 1: Inflation Assumptions

	2023-24*	2024-25	2025-26	2026-27	2027-28	2028-29
Pay	1.27%	5%	3%	2.5%	2%	2%
Pension	0%	0%	0%	0%	0%	0%

	2023-24*	2024-25	2025-26	2026-27	2027-28	2028-29
General prices	0%	6.5%	3%	2.50%	2%	2%
Income	0%	6.5%	3%	2.50%	2%	2%

*Note – For 2023-24 this is the additional allowance for inflation on top of the base budget assumption of a 5% pay award.

Income – The 2023-24 budget reflected the revised income targets reflecting any volume or behavioural impact on the discretionary income streams post the Covid pandemic. Currently planning fees are lower in 2024-25 and so a £100k reduction in the income target for 2024-25 has been assumed due to the uncertainty of the economy on major planning schemes.

It has been assumed that the general rate of inflation is applied to all the discretionary income streams including car park income. Any difference to this assumption under the Council's charging policy will need to consider the financial impact against the updated prioritisation tool agreed by the Budget Review Group.

The Bank of England Base Rate is currently 5.25% (September 2023), which is the highest it has been since 2008. Whilst the rate was unchanged in September, if inflationary pressures persist then rates could be at risk of being increased. Market expectations is that rates have peaked and will begin to ease in the middle of 2024, current world events may impact the world economy.

b. **Service Cost Pressures** have been identified and are set out in appendix 2 to the report. The most significant cost pressures in the current year relate to the impact of temporary accommodation costs due the increase in service demand due to homelessness, reduction in planning fee income and rental income for council commercial properties being lower than originally estimated.

   The impact of housing growth in the district on the demand for waste collection an allowance of £100k from 2025-26 has been included in the model.

c. **Council Tax** - The Financial Model has an assumed level of Council Tax increases at 2.99% for 2024-25 and £5 per annum thereafter. Although the referendum criteria for 2024-25 will be announced in December as part of the Provisional Financial Settlement from Government. The final decision for the Council tax increase for 2024-25 will be for Council to determine once the final settlement is known.

d. **New Homes Bonus (NHB)** is currently not used to support the revenue budget as this would be contrary to the Council's key financial principles.

NHB since 2020-21 has been awarded for one year only rather than the previous legacy payments for a four year period. It is anticipated that the NHB will be changed as part of any future fundamental Government funding review, which may take place in 2026-27.

e. **Investment Income** – The higher Base rate has meant that the income received from the inhouse managed surplus funds invested under the Treasury Management Strategy are higher than forecast. However, under the Council's key financial principles this more volatile income stream is added to the Council's capital fund reserve rather than support the revenue budget. Only the more predictable income from the long term multi asset funds is reflected in the revenue budget. The income from these remains stable at around 3 to 4% per annum.

f. **Leisure Management Contract** – The model reflects the renegotiated contractual position from 2023-24 until 2025-26 (the final year of the contract). The current contract ends April 2026.

Summary

Based on the assumptions contained in the model, the Council should be able to set a balanced budget for not only 2024-25, but potentially in 2025-26 as these two years are estimated to be in surplus. However, this position is not sustained over the medium term from 2026-27 and beyond based on the assumptions specifically in relation to future Government funding. It is anticipated that with the Business Rates Retention Scheme Baseline reset will remove the growth in business rates currently received since the last reset. This will remove approximately £1.5m of income, plus the Government funding review will also reduce funding by a further £1.5m. The result is that by the end of the medium term there is a £3m funding gap which the Council will need to consider how to close this gap in time for the 2026-27 budget setting.

The current forecast is not without some significant risks in terms of a number of key contracts that will end in the next few years e.g. utility contract and the leisure contract, inflationary pressures, and other cost pressures that are outside of the Council's control. The current 5 year forecasts indicate that Council will need to consider future changes to bring in a balanced budget from 2026-27 to 2028-29. Currently the model reflects no new policy options, inflation increases on discretionary income streams in line with its fees and charges policy, and the potential maximum council tax increase in line with past government council tax referendum criteria.

In line with the Council's key financial principles the use of reserves for ongoing expenditure is unsustainable, and recurring savings and / or additional income will be required to return to a sustainable position. Any additional increases in spending or reduction in planned income will exacerbate this position, both in the short and medium term. The Council will need to take action to achieve a balanced budget over the medium term in line with its key financial principles. The Budget Review Group will make recommendations to Cabinet to close the revenue gap.

Under the Prudential Code the Council is required to set and monitor treasury management prudential indicators in relation to its financial strategy and the assumptions being made.

Forecasts	2024-25	2025-26	2026-27	2027-28	2028-29
	£'000	£'000	£'000	£'000	£'000
Net Revenue Stream	16,577	17,981	18,974	19,557	19,913
Estimated Financing Costs to Net Revenue Stream	900	900	900	900	900
	%	%	%	%	%
Estimated Net Income from Commercial & Service Investments as % of Net Revenue Stream	5.4	5.0	4.74	4.60	4.52

The income from commercial investments is expected to remain below 10% of the Council's net revenue stream in line with the prudential indicator of proportionality for commercial investments. It should be noted that forecasts for commercial income levels for 2024-25 and future years are not available at the time of writing this strategy. The figures quoted are the best estimates assuming no change, which is felt acceptable given the present budgetary intentions of the Council.

4. Beyond 2024-25, the Risks and Opportunities

From 2024-25 there are a number of major changes which may affect the assumptions in the 5 year Financial Model, especially in relation to the external environment, that present further potential financial risks and instability to the Council's finances:

- The Government's delayed Funding Review which will assess the financial needs for local authorities; the exact timing of this change is still unknown. The Business Rates Retention Scheme (BRRS) will also be part of these changes. The 5 year Financial Model assumes that the Council will receive less government funding in the future (2026-27 assumed), as the funding changes are expected to favour higher tier authorities with social care responsibilities.

- It is also unknown whether the New Homes Bonus grant will cease before these major reforms. Grant payments since 2020-21 have been for one year only.

- New BRRS may offer the opportunity to increase funding gained from the business rate growth in the longer term. However, in the short term there is concern about the resetting of the baseline as the growth achieved to date will be lost.

- The impact on the economy and the demand for services as a result of the wider economic uncertainty. The Council has a high reliance on its fees and charges to balance the budget, especially those that are more volatile in any economic downturn. An assessment for future years has been built into the five year model. This continues to uncharted territory and only time will tell if the estimates are accurate.

- Receipts from Business Rates in are more difficult to predict because of what may occur in the next 12 to 18 months.

- The Council Tax Base is affected by increased discounts that may be awarded due i.e. increased single person households, more disabled band reductions both of which lower the tax base, offsetting any new homes built in the district which would increase the tax base.

- The impact of any funding reductions from other local authorities or funding partners.

- Additional Council Tax on Second Homes – The Government has been considering a second home premium of up to 100%, which could generate extra council tax income. However, this is subject to legislation changes which are still being discussed at the committee stage, including the scheme design etc. so details are currently unknown. The Council would need to approve any introduction of this premium by March 2024, if the legislation is in place, for a start date of 1 April 2025. So, whilst this is a potential opportunity there is a currently a lack of detail for the timing of any legislation nor any scheme details.

Summary of the Risks / Opportunities

Risk	Probability	Impact
Health Protection Regulatory changes **	High	Low (£0.07m)
Green Waste service being mandated as free **	Low	High (£1.3m)
Extended Producer Responsibility (ERP) **	Medium	Unknown
Leisure Contract End May 2026	High	High (£0.4m)
WSCC – On street Parking Enforcement	Low	High (£0.2m)
Food Waste Collection – Govt. Policy **	High	Unknown

Risk	Probability	Impact
Asset Replacement Programme shortfall	High	High (£0.2m)
Planning Appeals	High	High (£0.3m)

Opportunity	Probability	Impact
Government Intervention on Energy Costs	Medium	Unknown
Additional Council Tax from Second Homes **	Medium	High (£0.6m)
Extended Producer Responsibility (ERP) **	Medium	Unknown
Novium – NNDR Change	High	Low (£0.086m)
New Leisure Contract	High	Unknown
Barnfield – Rental Income (subject to planning)	Medium	High (£0.180m)
Statutory Increase of Planning Fees **	High	High (£0.325m)

** These are risk or opportunity areas relating to Government policy awaiting the relevant legislative changes or guidance to be issued and are therefore outside of the Council's control.

5. Conclusion

The Financial Strategy and the 5 year Financial Model have been updated for cost pressures, income reductions, and any known service changes including any decisions agreed by Council since setting the 2023-24 budget.

It also reflects an anticipated reduction in Government funding from 2026-27 due to the expected Funding Review and the potential resetting of the Baseline for Business Rates. The timing of both major changes to local government funding is currently unknown.

The Council's reliance on fees and charges to help balance the revenue budget continues to come under pressure because of the uncertainty in the local and national economy.

Whilst the 5 year Financial Model anticipates that the Council is able to set a balanced budget for 2024-25 with an estimated surplus. There are some significant risks associated with some of the key assumptions made, as explained in the strategy, which could be detrimental to the forecasts. The situation will continue to be updated as greater clarity and information is gained during the budget process for the development of the 2024-25 budget, which will be considered by Cabinet and Council in February 2024.

The model currently indicates that there is an underlining shortfall of approximately £1.626m to £3.137m during the period of 2026-27 through to 2028-29. The funding gap is mainly due to the anticipated changes in Government funding, which the Council will still need to address.

Considering the key risks set out in this strategy it will be imperative for the Council to refresh the FSF prioritisation tool following the May 2023 elections to identify where future savings or income generation opportunities can help mitigate the forecast deficit. This task has been set for the new Budget Review Group to complete and aid their development of a plan for Cabinet and Council to consider in bringing the Council back to a balanced budget.

Especially as the Council is legally required to set a balanced annual budget, any shortfall in the short to medium term will need to be considered and addressed in line with the key financial principles, and the key corporate plan objective for prudent and effective financial management. The use of reserves to balance the budget is not prudent or sustainable unless there is a carefully managed plan to steer the budget back towards being balanced without the use of reserves in the long term.

Key Financial Principles

Linked to the Corporate Plan objectives are the Key Financial Principles that underpin the Council's Financial Planning approach as set out in the table below.

Principle	Narrative	Actions
Key Financial Principles		
1. All key decisions of the Council should relate back to the Corporate Plan.	Corporate Plan: • Is the driver for our decision making, including the allocation of resources, and sets the Council's work plan. • The objectives of the Corporate Plan for Finance are underpinned by the Council's Financial Strategy, Treasury Management and Investment Strategies and the Capital Strategy. • Discretionary service priorities are assessed against the prioritisation tool developed as part of the Future Services Framework (FSF). • The Corporate Plan is reviewed for performance against targets and outcomes. • A resources statement details one off funding available for investment in new and emerging projects for corporate planning. • The affordability role of finance in the corporate planning process has evolved into an assessment of what resources are required to deliver the emerging Corporate Plan projects, whilst maintaining efficient, high-quality services (where possible), using both the Resources Statement and the rolling 5 year Model.	• Regular monitoring and reporting against the key targets and milestones by the Strategic Leadership Team (SLT) and members. • New and emerging issues and service requirements will be considered by SLT and members during strategy planning events. • Members may have to make difficult decisions about service provision and competing priorities to achieve a balanced budget. • New Budget Review Group set up from September 2023 to aid strategic financial planning in the medium term. • Approved Future Services Framework prioritisation model to be updated following May 2023 elections by Budget Review Group.
2. Ensure the revenue budget and capital programme remain balanced and sustainable	• It's a legal requirement to set a balanced revenue budget and to ensure the capital & asset replacement programmes are fully resourced.	• 5 year financial model is updated regularly in year to aid financial planning for senior officers and members.

Principle	Narrative	Actions
over a rolling 5 year period.	• The Statement of Resource Allocation demonstrates that the capital & asset replacement programmes remain affordable. • Minimum level of General Fund reserves currently set at £4m. The appropriateness of this is assessed by the Corporate Governance & Audit Committee (CG&AC). • The 5 year financial strategy model updated for strategic financial planning for the medium term, underpinning the development of the forthcoming financial year's annual budget. • The CG&AC assessment of the minimum level of reserves at their autumn meeting, with their recommendations being made to the next Cabinet meeting. • Future Government funding is uncertain with the expected changes and timing of the Funding Review, and the localisation of Business Rates unknown. Plus, the impact of any fiscal statements or Spending Reviews in the coming year. • The Government's Autumn Statement due on 22 November 2023 will give some indication of DHLUC funding. The financial settlement for 2024-25 is expected to be for one year broadly similar to that awarded for 2023-24. Provisional details are expected from the Government in December 2023.	• Cabinet and all Group Leaders are given regular briefings on the financial position throughout the year. • Other political groups are also briefed on the current financial situation as part of the recovery plan, along with regular review by the Overview and Scrutiny Committee. • Senior managers will continue to monitor the delivery of the final year of FSF Recovery Plan built into 2023-24 revenue budget. • Quarterly in year budget monitoring for revenue and capital schemes undertaken and reported to all members on the Modern.gov website. • CG&AC annual review of the minimum level of reserves. • To update the 5 year model considering any future Government Funding changes once information becomes available regarding future settlements, or on the Business Rates Retention Scheme. • SLT & members to develop options for an action plan to address any funding gaps based on the outcomes and recommendations from the Budget Review Group.

Principle	Narrative	Actions
3. Over the next five years return the Council to a position of non-dependency on reserves.	• To adhere to the legal requirement of a balanced budget it is essential that the Council returns to a balance budget without reliance on reserves, which is unsustainable in the long term. • Minimum level of general fund reserve reviewed annually. • Resources statement to identify commitments and new resources updated and reviewed regularly by members and senior officers. • Annual contribution for the Asset Replacement Programme funding built into budget, and programme reviewed and updated regularly. • Repairs and maintenance budgets in base budget to maintain council buildings rather than use of reserves. • Similarly, other recurring items still funded from reserves must be built into future revenue budgets. • Financial Services capital accountant co-ordinates a full review of the existing asset base of the council with divisional and service managers to identify and assess the need to reinvest in our existing essential assets. This is updated annually to ensure the current asset base remains affordable over the long term.	• Monitor the Recovery plan, and the availability of reserves. • Regular updates on the 5 year model reviewed by SLT and Members. • Resources statement reviewed and updated for strategic financial planning and the annual budget cycle. • These need to be considered regularly in the context of the 5 year model with the aim to achieve a balanced budget without use of reserves by 2026-27. • To build future demands for recurring expenditure into the 5 year Financial Model, and thereby into any potential savings target. • To avoid funding recurring expenditure from reserves as a key financial principle. • Annual review of asset replacement programme with responsible service/budget managers by Financial Services.
4. To maintain a balanced budget in a climate of reduced funding/inflationary pressures, savings in the revenue budget or external	To achieve some certainty about capital and revenue funding before entering into new commitments the Council has: • Robust project management processes to ensure the full consequences of embarking on projects are known and understood from the outset for both revenue and capital. The whole life costs of the project must be considered.	• All Project Initiation Documents (PIDs) are to be based on whole life costs and include an exit strategy.

Principle	Narrative	Actions
funding will need to be identified before any new revenue expenditure, including capital expenditure that has revenue consequences, or any reduction in planned income is approved.	• An assessment of affordability, prudence and proportionality of the Council's Capital Programme should be undertaken in respect of the financial capacity and risks of major/significant projects before the commencement of the project (must be part of the project's PID) and maintained over the life of the project's risk register. • New investment proposals should be linked to the Corporate Plan and Capital Strategy are assessed to ensure that they represent value for money and achieve corporate outcomes. • Projects dependent on matched funding the terms and conditions must be fully understood and agreed by Council and the potential financial risks identified for noncompliance on the conditions set. • Projects should only proceed once all funding has been secured, and the conditions have been assessed and evaluated. • The relevant service must consider, in advance, any costs that may arise at the end of the project and prepare an exit strategy so that the full consequences are known in advance. Whole life costing should be used. • Copies of all funding agreements should be sent to the Financial Services Division to ensure all possible future liabilities are considered with documentation retained for accounting purposes and external audit review.	• Adherence to the Council's Project Management procedures, and Risk Management Strategy and Policy. • Projects assessed against the FSF prioritisation tool for Capital. • Where new spending priorities or income reduction are to be introduced into the revenue budget, corresponding savings or additional income / funding will need to be identified. • The Budget Review Group will assess any changes to policy or income generation and submit recommendations to Cabinet and Council.
5. Review costs in response to changes in service demands.	• The call upon council services is fluctuating more during a period of economic and financial uncertainty. • Whilst short-term variances in demand can be accommodated, any longer term trends, i.e. beyond one year, will require the Council to respond by redirecting its resources in line with changes in demand.	In year monitoring and during the annual budget process: • Essential services that experience an increase in demand will be recognised and supported. • Where there is an on-going reduction in demand beyond one-

Principle	Narrative	Actions
	• This is a key principle as future changes in demand on services are bound to occur. • Prioritising the Council's services will enable scarce resources to be directed to areas of need and priority over the medium term.	year resources should be reviewed to realign resource allocation.
6. Where the Council has discretion over charging for services, consideration needs to be given as to the extent to which service users should bear the costs, and the proportion, if any, that should be met by Council Tax.	• The Council has an approved Fees & Charges Policy (Cabinet December 2020) and has limited discretion in setting fees and charges for some services. • The approach for fees and charges setting being in line with the Council's policy, which is to provide the best overall value for residents, businesses, and the community. • Key principles of the policy are: - the user should pay the full cost for discretionary services unless there is a clear approved policy reason not to do so. - As a minimum, services should aim to break even - Services should have regard to community needs for services and affordability - Fees and charges will increase in line with the assumed inflation rate stated in this Financial Strategy as a minimum, unless the market or benchmarking indicates charges could be accommodate a higher increase.	• As a minimum fees and charges are increased in line with the assumed inflation rate in the Financial Strategy, • Service managers to consider their fees & charges in advance of the start of each financial year. • Any individual services operating at a deficit should aim to break even unless there is an approved policy to support their on-going subsidy. This should be based on the whole cost of delivering the service, including use of assets. • Under the policy some services will be charged at a commercial rate, whereas others may be subsidised to encourage their use. • New fees and charges should be agreed as part of the annual budget process where possible.
7. Continue to review the Council's costs to find further savings.	The Council has a proven track record for identifying and achieving efficiencies and new income generation targets to protect services to the community. As the pandemic FSF recovery plan will achieve the total target of £1.570m by March 2024.	• To consider options to balance the revenue budget funding gap indicated in the 5 year model, with immediate oversight by SLT.

Principle	Narrative	Actions
	• To address any funding gap services will seek to identify further service efficiencies or service provision changes whilst ensuring services are effective and support community need. • The focus is to ensure services are delivered to an appropriate standard at a competitive unit cost. • Aside from formal service reviews, service managers should normally be considering the best and most cost-effective procurement methods in their service areas.	• To use the updated FSF prioritisation model to aid decisions on service changes or efficiencies. • The Budget Review Group will assess current council spending against corporate priorities and income generation. Aiding the Council to achieve a balanced budget over the medium term and address any funding gap.
8. Match Council Tax increases to a realistic and affordable base budget.	To protect services the Council will: • The Financial Strategy will reflect the most beneficial increase in Council Tax over the next 5 years, whilst accepting that such an objective may be impacted by national government policy. • For 2023-24 district councils were permitted to raise their council tax by the higher of the 3% or £5, which aids those with a low tax base. In effect this rule change has permitted this council, since it has one of the lowest Council Tax levels, to increase its Council Tax by £5, until 2023-24 when it increased Council Tax by 2.99 % (equivalent of £5.26 on a Band D property). The Government will confirm what rules will apply for 2024-25 in December.	• The 5 year model reflects the highest increase assumed before triggering a referendum under the Government's threshold criteria. • The model will be updated as necessary once the Government's criteria is known for the forthcoming financial year(s). • Full Council will decide the actual Council tax increase at its budget setting meeting.
9. Budgets should be pooled with other service providers to achieve more effective and cost-efficient outcomes for the community.	• The Council has a track record for working with other agencies and key strategic partners to maximise its ability to meet strategic outcomes under the Corporate Plan and achieve community outcomes. • It is important that strategic objectives and community outcomes are agreed from the outset when partnerships are formed so that the achievement of results can be measured and reported to	• Key strategic partnership risks are considered by the Corporate Governance & Audit Committee • Outcomes from joint working arrangements and other agencies are considered by the

Principle	Narrative	Actions
	members to ensure public funds are being used in the most efficient way to achieve greatest impact for the community.	Overview and Scrutiny Committee. • Exit strategies must be in place as part of the agreements.
10. New Homes Bonus (NHB) This should be allocated annually, and only committed once received.	• As NHB is not ring-fenced the Council has flexibility to choose how it wants to use this source of funding. • Previous Government advice was that NHB was expected to help “reward” communities that have taken housing growth. • Furthermore, it was expected that councils consult with their communities on its use, and in areas where there is a national park as the planning authority, to also consult with the park authority. • NHB can be used to help balance the revenue budget in the short term only since the grant is for one year only. • The Council has reserved the NHB grant for community and other uses once it has been received. In the past it has been used to help reward communities by funding one off projects. • The Council will also use NHB bonus to fund the capital and project programme approved by Council.	• As this source of funding from Government is being phased out any NHB received is treated as addition to general reserves. • To review annually during the annual budget if this funding source is required to aid setting a balanced budget.

Principle	Narrative	Actions
11. Localisation of Business Rates. We should review the decision to pool our business rates annually after receipt of the government draft settlement to ensure that the Council is in the best possible financial position.	• The pooling of Business Rates is considered by the West Sussex Chief Finance Officer's Group annually, when the Government consultation is launched. • Some of the authorities in West Sussex operated a pool in 2023-24. To maximise the gain to the County as a whole, several districts did not form part of the pool, including Chichester District Council (CDC). However, all West Sussex authorities are currently able to benefit from the pool gains. • For 2024-25 the same pool arrangements are being proposed as those operated for 2023-24, subject to the outcome of the provisional settlement when authorities will assess if the arrangement remains beneficial to all. (Authorities that do not form a pool are protected by individual government "safety nets" while those in a pool are not).	• The business case for pooling shall be reviewed annually considering the potential risk associated with being in a pool. • The final decision regarding the pooling arrangements will be considered once the provisional financial settlement is announced.
Resources and Capital Programme Principles		
A. Capital receipts, reserves, and interest on investments (other than property and multi bond investments) will primarily be available for new investment of a non-recurring nature, thereby minimising the overall financial risk. Income earned from property investments, both directly owned and managed property, and the Local Authority Property Fund, together with mixed asset bonds, can be used	• This is a long-established principle whereby non-recurring resources are used to meet non-recurring expenditure. • The revenue budget should not be reliant on reserves for recurring expenditure which is contrary to the key financial principle 4. • Interest receipts are diverted to support the capital programme except for the Local Authority Property Fund (LAPF) related income and the long term multi asset bond investments. • Temporary sources of funding must not be relied upon to fund recurring revenue costs.	• Budget managers embarking on new projects that involve temporary funding must design an exit strategy from the outset to ensure the council is not left with unfunded costs at the end of the funding stream. • Adhere to the Council's project management processes. • All new projects proposals are assessed against the FSF prioritisation for Capital/Projects or the Investment Protocol. • The Budget Review Group will consider and assess all new project proposals including any ongoing revenue impact. Before

Principle	Narrative	Actions
to support revenue as the income streams earned are much less volatile.		items are recommended to Cabinet and Council.
B. Ensure that a sufficient level of reserves is maintained, as informed by the Financial Strategy, so that the Council can remain flexible and is able to respond to a changing local government environment.	The key outcome in meeting the Corporate Plan's objective of financial resilience is: • To maintain the minimum level of reserves to offer resilience against the unexpected costs and provide resources for new initiatives including one-off costs to assist with reshaping the organisation. • The 5 year Capital/Projects and Asset Replacement Programmes are an estimate of the schemes' likely cost, with funding resources reflected in the Resources Statement to meet the need. • The capital programme is by its nature constantly changing and the resource position will be continuously monitored to ensure it remains affordable. • The Resources Statement reflects the current level of reserves, anticipated receipts, and commitments, and this is updated alongside the 5 year financial plan.	• Routine monitoring of the capital schemes and the overall resources position will continue to ensure the capital programme remains affordable. • All earmarked reserves will be reviewed annually with service managers to ensure that they remain relevant and essential, otherwise the funds should be returned to available balances.