

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.	<p>The Corporate Plan is the driver for our decision making, including the allocation of resources, and sets the Council’s work plan. Each year the Corporate Plan is reviewed. 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 high quality provision of services wherever possible.</p> <p>So far, major service reductions have been largely avoided. However, with finite resources that are predicted to continue to reduce in the immediate future, the Council may not be able to deliver all of its aspirations whilst maintaining existing services to the current level provided. Members may have to make difficult decisions in the future about service provision and competing priorities.</p>	<p>Regular monitoring and reporting against the deficit reduction plan approved by full Council September 2016 will be undertaken by officers & reported to members.</p> <p>New and emerging issues and service requirements will be considered by Strategic Leadership Team (SLT) and members during strategy planning events.</p>
2. Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period.	<p>There is a legal requirement to set a balanced revenue budget and ensure the capital programme is fully resourced. Since the reduction in Government funding since the banking financial crisis in 2009, the Council has taken action to balance the revenue budget without drawing on general reserves.</p> <p>The Statement of Resource Allocation demonstrates that the capital programme remains affordable. In setting the 2019-20 revenue budget the Council agreed to set the minimum level of reserves set for the General Fund at £6.3m. Whilst the intention is to set a balanced budget over the medium term, this finite resource remains available to smooth the impact should there be any unanticipated adverse changes to our funding, or where service savings have been unavoidably delayed.</p>	<p>The five year financial model will continue to be monitored and updated, and Cabinet is given regular briefings on this throughout the year. Senior managers will monitor delivery of the approved deficit reduction plan.</p> <p>Budget monitoring for revenue and capital schemes is completed quarterly by budget managers, and reported to all members on the Modern.gov website.</p>

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	<p>The 5 year financial risk model will be updated and reported to Cabinet in November with the forecast of the budget for the next five years.</p> <p>The Corporate Governance and Audit Committee (CGAC) considered the appropriateness of the minimum level of reserves at their meeting in October 2019. Their recommendations will be made to the November 2019 Cabinet meeting.</p> <p>The challenge is to consider future Government funding which was expected to change in 2020-21 due to the Fair Funding Review, 2019 Spending Review and the Localisation of Business Rates. However, the major reviews have now been delayed until 2020, and so the financial settlement for 2020-21 will be for 1 year, as the 2019-20 budget was the final year of the multi-year settlement previously accepted.</p>	<p>To consider future Government funding in light of the fair funding review which will now impact settlements from 2021-22 and beyond, along with the resetting of the Baseline for Business Rates.</p> <p>Any funding gap based on current projections will need to be considered by SLT and members to ensure that an action plan is agreed.</p>
<p>3. Over the next five years maintain a position of non-dependency on reserves.</p>	<p>Appropriate funding needs to be built into the revenue and capital budgets, taking into account the whole life cost of the assets. With reserves being largely committed, the revenue budget will need to make an appropriate contribution to reserves to fund any future capital commitments.</p> <p>Base budgets incorporate repairs and maintenance to council buildings, thereby removing dependency on reserves for what is a recurring revenue cost. Similarly, other recurring items still funded from reserves must be built into future revenue budgets.</p> <p>The 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.</p> <p>Following changes to the Council's Treasury Management Investment strategy in 2017 interest receipts arising from permitted long term investments to a property fund and other specific vehicles whose returns are</p>	<p>To build future demands for recurring expenditure into the 5 year Financial Model, and thereby into any potential savings target.</p> <p>To avoid funding recurring expenditure from reserves as a key financial principle.</p> <p>To determine annually as part of the budget process an amount of revenue income to set aside for future investment opportunities.</p> <p>To determine any further long term investments in line with the Council's Investment Strategy to assist with any projected funding gap in the medium term.</p>

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	<p>less volatile are used to assist with the funding of the revenue budget, as part of the Council's deficit reduction strategy without creating volatility and risk. The Council currently has £10m invested in a Local Authority Property fund and a further £8m in mixed asset bonds generating returns of approximately 4.1% and 2.4% to 4.3% respectively.</p> <p>Other interest arising from the general investment of surplus funds throughout the year for cash flow purposes is recycled into the funding the Council's capital programme; interest receipts on S106 balances are ring-fenced and added to those funds. Whilst any changes in interests rates will have an impact on the overall position of the Council, this approach will not affect the day to day activities of the Council.</p> <p>Recent investment decisions in the Council's own property portfolio will also generate further revenue receipts for the Council. The 5 year financial model takes into account income from historic investment decisions such as Barnfield Drive, Plot 21 Terminus Road and the Enterprise Hub as part of the Commercial Programme Board.</p>	
<p>4. In order to maintain a balanced budget in a climate of reduced funding, savings in the revenue budget or external funding will need to be identified before any new revenue expenditure, including capital expenditure that has revenue consequences, is approved.</p>	<p>The Council needs to have certainty about capital and revenue funding before entering into new commitments. This will require robust project management processes to ensure the full consequences of embarking on particular projects are known and understood from the outset for both revenue and capital. The whole life costs of the project must be considered.</p> <p>Where projects are dependent on match funding, the funding partner may impose certain conditions. The Council needs to clearly understand what those conditions are and their possible financial consequences. Projects should only proceed once all funding has been secured, and the conditions have been assessed and evaluated. The relevant service should also 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 copied to financial services to ensure all possible</p>	<p>All Project Initiation Documents (PIDs) are to be based on whole life costs, and include an exit strategy.</p> <p>New prioritisation criteria to assess any new investment proposals linked to the Corporate Plan.</p>

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	future liabilities are considered and documentation retained.	
<p>5. Review costs in response to changes in service demands.</p>	<p>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. This is a key principle as future changes in demand on services are bound to occur.</p> <p>Prioritising the Council's services will enable scarce resources to be directed to areas of need and priority over the medium term.</p>	<p>Essential services that experience an increase in demand will be recognised and supported. However, where there is an on-going reduction in demand beyond one year they should be reviewed in order to realign resource allocation.</p>
<p>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.</p>	<p>The Council has limited discretion to set fees and charges for some services. Clearly, the setting of charges should have regard to community needs for those services as well as affordability. Traditionally, many fees and charges have increased in line with inflation. The Council has a Fees & Charges Policy. This requires services that have discretion to charge, to attempt to at least break even, unless there is a clear approved policy reason for not doing so. The underlying principle is that the service user should pay the full cost of the services received.</p>	<p>Service managers need 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.</p>
<p>7. Continue to review the Council's costs in order to find further savings.</p>	<p>The Council has already achieved significant savings over recent years. However, the Council will continue to seek further efficiencies to help free up resources, ensure services are as efficient and effective as possible and support the community. The focus is to ensure services are delivered to an appropriate standard at a competitive unit cost.</p> <p>Members and the Strategic Leadership Team (SLT) developed a strategy to eliminate the projected budget deficit up 2022-23 as part of the 4 year funding settlement requirements. A "Deficit Reduction Strategy" was approved by full council September 2016 to achieve further savings of £3.8m. So far savings of £3.5m have been achieved.</p>	<p>In order to assist the budget process for future periods, further efficiencies should be identified. Officers will need to review service costs to determine whether unit costs are appropriate and report back to members where service reviews are deemed necessary to reduce unit costs to an acceptable level.</p> <p>Officers are currently reviewing high</p>

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	<p>The challenge now is to see the remainder of that plan is delivered and to consider the future impact of any service delivery changes, budget pressures or funding reductions by the Government as a result of the fair funding review, or pressures arising due to other external agencies and partners, including West Sussex County Council.</p> <p>Two programme boards (Business Improvement and Commercialisation) were set up to co-ordinate the various projects that the council is engaged in. This enables the council to direct resources to higher priority projects, and enables senior management to intervene to assist projects to remain on track to deliver their planned objectives. The programme boards also track efficiencies as part of their process which aids corporate financial planning. The financial targets from these boards are incorporated in the 5 year financial model.</p> <p>Future service reviews will consider the most efficient ways of working, including working with partners, channel shift, sharing assets, shared services and outsourcing to deliver the best and most effective solutions for services and the community.</p> <p>Aside from formal service reviews, service managers should normally be considering the best, most cost effective procurement methods in their service areas.</p>	<p>cost service areas as part of the 2020-21 budget cycle and a number of service reviews have commenced.</p> <p>Prior year variances in relation to underspends will be reviewed by Financial Services as to whether an opportunity exists to adjust future budget requirements, in consultation with the budget manager.</p>
<p>8. Match Council Tax increases to a realistic and affordable base budget.</p>	<p>The objective is to limit increases in Council Tax to modest and affordable levels over the next 5 years, whilst accepting that such an objective may be impacted by national government policy.</p> <p>In 2018-19 and 2019-20 the Government changed the threshold for triggering a requirement to hold a referendum for council tax increased to over 3%, previous years this was 2%. District councils were permitted to raise their council tax by the highest of the 3% or £5, which aids those with a low tax base. In effect this rule change has permitted this council, since it</p>	<p>Assumptions are made in the 5 year financial strategy model for council tax increases; the model will be updated as necessary, once the Government's criteria is known for referendum thresholds for setting Council Tax increase.</p>

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	<p>has one of the lowest Council Tax levels, to increase its Council Tax by £5.</p> <p>The threshold for 2020-21 is expected to revert back to 2%, as the Government is currently consulting on this and the £5 increase for district councils.</p> <p>The Government will confirm what rules will apply for 2020-21 in early December.</p>	
<p>9. Budgets should be pooled with other service providers to achieve more effective and cost efficient outcomes for the community.</p>	<p>It is likely that in future the Council will become more involved in new ways of working, including greater partnership working, devolved budgets and pooling resources with other agencies. It is important that the Local Strategic Partnership 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 members to ensure public funds are being used in the most efficient way to achieve greatest impact for the community.</p>	<p>Where appropriate we should commission services with other service providers and pool our budgets to provide more effective and efficient outcomes for the customer.</p>
<p>10. New Homes Bonus (NHB) This should be allocated annually, and only committed once received.</p>	<p>The NHB is not new funding. This is paid from local government funding pot that would otherwise have been distributed to councils. The grant is not ring-fenced, and as such the Council can choose how it wants to use this source of funding, although the previous coalition Government pointed out that it expected it to be used to help “reward” communities that have taken housing growth. Further, the Government also stated that it expects councils to 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.</p> <p>The funding is paid as a grant in respect of each new domestic dwelling coming into the tax base (net of any long term empty properties) of the whole District, including the area within the National Park. The amount paid is based on the national average council tax, and is currently paid for the following four years from 2019-20 rewarding development that exceeds the baseline set at 0.4%, and split 20% to the County Council and 80% to the Housing authority, i.e. CDC.</p>	<p>The NHB to be reserved for community and other uses after it has been received. It remains important, however, to allocate this funding taking into account the legal requirement to set a balanced budget for the council. As such this will be reviewed annually.</p> <p>The grants and concessions panel review the use of NHB, along with other grant funding that the council makes available to individuals and groups.</p>

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	<p>However, as part of the Fair Funding Review changes to NHB are expected, but no details are known. Potentially the legacy term may be reduced before the funding disappears completely.</p> <p>So the view remains that NHB should not, therefore, be relied upon long term to resolve our budget position, and should only be committed after it is received, so the decision not to rely upon it to fund core services has proven to be prudent.</p> <p>In previous years the Council have not used the NHB to assist in balancing our revenue budget, and have instead used this source of funding to help reward communities by funding one off projects. .</p>	
<p>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.</p>	<p>The Council participated in a (50%) business rates (BR) pool for some authorities in West Sussex in 2018-19, thereby enabling us to retain more of the NDR growth locally for investment jointly with other pool member authorities which included the county council, Arun, Adur and Worthing.</p> <p>In 2019-20 all West Sussex authorities participated in a 75% BR Pool Pilot having been selected to do so for 1 year by the Government, but this arrangement will cease on 31 March 2020.</p> <p>Full localisation of business rates may in effect do away with the need to form pools to retain this growth, but the change in the system has been deferred like the Fair Funding Review until next year, and any changes to the scheme will apply from 2021-22.</p>	<p>At the time of writing this report the Government is requesting indications by 25 October for those authorities who wish to participate in a 50% BR pool. The Director of Corporate Services is currently considering the Council's position taking into account the potential risks to the pool and outstanding appeals or legal cases impacting the pool.</p>
<p>Resources and Capital Programme Principles</p>		
<p>1. Capital receipts, reserves and interest on investments (other than property and multi bond investments) will primarily be available for new</p>	<p>This is a long-established principle whereby non-recurring resources are used to meet non-recurring expenditure. The revenue budget is no longer reliant on reserves. Interest receipts are, with the exception of property related income and mixed asset bonds, diverted to support the capital programme.</p>	<p>Temporary sources of funding should not be relied upon to fund recurring revenue costs. Budget managers embarking on new projects that involve temporary</p>

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<p>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 to support revenue as the income streams earned are much less volatile.</p>		<p>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.</p>
<p>2. Ensure that a sufficient level of reserves are 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.</p>	<p>The objective is to offer resilience against the unexpected and provide resources for new initiatives including one off costs to assist with reshaping the organisation.</p> <p>The Capital Programme is an estimate of the capital schemes' likely cost and the funding resources likely to be available to meet that need. This is always subject to amendment if, for example, a scheme cost is higher than anticipated or an anticipated capital receipt is less than expected. 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 will be updated alongside the 5 year financial plan.</p>	<p>Routine monitoring of the capital schemes and the overall resources position will continue to ensure the capital programme remains affordable.</p> <p>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.</p>