

Chichester District Council

THE CABINET

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Financial Strategy and Plan 2020-21 to 2024-25

1. Contacts

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2. Executive Summary

The purpose of this report is to update the Council's Financial Strategy and the 5 year Financial Model, which helps to guide the management of the Council's finances and aids the preparations for its annual budget for 2020-21. The anticipated major changes in future Government funding is now expected from 2021-22, having been delayed by 1 year with the continued expectation of diminishing resources. The financial plan builds upon the work already achieved under the 2016 deficit reduction plan, and sets out the key financial principles and actions to assist in the process of seeking to set a balanced budget each year, which is a legal requirement.

This approach enables the identification of any funding gaps early to ensure that intervention is undertaken in a considered and measured way, thereby adhering to the Council's key financial objectives under its Corporate Plan and protecting services to its community.

The key recommendations from this report will help to formulate the 2020-21 budget, and level of Council Tax which will be considered by Cabinet and Council in February and March 2020 respectively.

3. Recommendation

That the Cabinet considers and recommends to the Council:

- 3.1 That the key financial principles and actions of the five year Financial Strategy set out in appendix 1 to the agenda report be approved.**
- 3.2 That the current five year Financial Model detailed in appendix 2 and the Resources Statement in appendix 3 to the agenda report be noted.**
- 3.3 That, having considered the recommendations from the Corporate Governance and Audit Committee, the Minimum Level of the General Fund Reserves is set at £6.3m.**

4. Background

- 4.1 The Council's Financial Strategy and the 5 year Financial Model is underpinned by the approved key financial principles, which determines the approach by the Council in its aim to achieve a balanced budget over the medium term, without the use of reserves, except where this is necessary in the short term.
- 4.2 The budget setting for the current financial year, 2019-20, is the final year of the four year funding offer accepted from the Government in the 2017-18 budget cycle with an assumed start from 2016-17; this helped to provide some degree of certainty during this period. Associated with that funding arrangement is the approved Deficit Reduction Plan (2016), which sought to achieve savings and additional income of £3.8m. This plan is monitored regularly by the appropriate programme board; either the Commercial Board or the Business Improvement Board, and as part of the Council's quarterly revenue and capital monitoring regime. The Council has achieved £3.5m of the target set so far, with further savings anticipated; reflecting the good track record the Council has in delivering efficiencies or generating additional income.
- 4.3 In 2019-20 the Council participated in the West Sussex Business Rates Retention Scheme (BRRS) with 75% retention (instead of the usual 50% retained) for 1 year only. The Government has not extended the pilot, so the Director of Corporate Services along with other West Sussex Chief Finance Officers had until 25 October 2019 to indicate to the Government whether a new BR pool should be created under the 50% retention regime. Potentially due to some major appeal risks, it is unlikely that the Council would join a BR pool for 2020-21, but would still be able to bid for funding into a pool created by other West Sussex authorities since any pool is jointly controlled by all West Sussex authorities whether in the pool or not.
- 4.4 The biggest challenge in financial planning is future government funding, as there is a lot of uncertainty as the Government now intends to give only a 1 year settlement for the 2020-21 budget cycle. Over the medium term certain assumptions have to be made; such as, changes may occur to the New Homes Bonus scheme following the outcome of the Fair Funding Review where it is expected that this funding will taper off. Also due to the recent release of the Government's technical consultation for the Local Government Finance Settlement for 2020-21 the council tax setting referendum criteria was set at 2% rather than maintained at the 3% allowed for the past 2 years. This lower level has been assumed in the model, as the alternative option for low taxing authorities like the district council, which were previously allowed a council tax rise of £5, is part of the current consultation and not guaranteed. The Government required feedback on this technical consultation by 31 October, but the outcome of the consultation and the impact on the financial settlement will not be known until early December.

5. Outcomes to be Achieved

- 5.1 The purpose of this report is to set out the current position of the Financial Strategy and the 5 year Financial Model, taking into account the corporate priorities, any impact of service changes and budget pressures expected in future financial years for 2020-21 and beyond, plus forecasts of future Government funding, and to consider the actions necessary to maintain a robust and balanced budget.

5.2 The application of the key financial principles that should be applied over the short to medium term will be used to underpin the annual spending report in February 2020 to set the 2020-21 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 enable investment in 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. The guiding principles to be used to address the issues identified and the actions required, whilst adhering to the key financial principles.

6.2 The 5 year financial model (Appendix 2) has been updated to reflect current assumptions including Government funding, council tax projections, as well as projected costs and planned efficiencies. This includes provision for any new cost pressures as a result of other funding partners withdrawing support, and other costs which are unavoidable in ensuring the smooth running of the council's services. Any new project proposals linked to the Council's corporate plan objectives will be firmed up during the budget process and reported as part of the budget report to Cabinet in February 2020. The model also reflects the outcome of the actuary's triennial review of the pension fund and the contributions required; due to significantly improved investment performance the pension contributions for 2020-21 until 2022-23 are being reduced by 1% per annum. Beyond that no change for the final 2 years of the model is assumed but will be informed via a further triennial review.

6.3 The delay in the Fair Funding Review and the localisation of Business Rates (BR) until late next year now postpones the expected changes in future funding until 2021-22; however, the delay in resetting the Baseline for Business Rates is good news, as the growth achieved so far is retained for an extra year, which has been reflected in the updated model.

6.4 When last reported the Financial Strategy 5 year Model was showing a balanced budget for the medium term; the situation had changed with the potential cost pressures of over a £1m which are mainly due to proposed changes by West Sussex County Council impacting the council which eroded that balanced position. Fortunately the pension contribution reduction and additional efficiencies have helped balance the projections in the 5 year model, with a small surplus by the end of the medium term.

6.5 The expected reduction in future Government funding has been delayed by 1 year which means that there is projected budget surplus estimated for 2020-21, and deficits in 2021-22 and 2022-23 before moving back into a small surplus by year 5. Since there are significant changes to future Government funding officers may need to consider the impact of those changes when the picture becomes clearer as to whether any further invention is required in the short term only to address any funding gap. Both the Strategic Leadership Team (SLT) and Cabinet are considering the way forward on the financial strategy and the corporate plan; this includes an all member workshop which is currently being arranged so officers can consider members' views of the Council's corporate plan objectives, the service standards expected and the impact on the Council's spending plans.

- 6.6 The Corporate Governance and Audit Committee considered and recommends to Cabinet that the Minimum Level of Reserves be maintained as £6.3m, since there remains uncertainty around future Government funding and this gives the flexibility required should this reserve be required to smooth any adverse changes to Council funding in the short term.
- 6.7 Appendix 3 sets out the current level of reserves, the commitments against those reserves, and therefore the potential funds available for the council to invest in new schemes. The forecast includes future capital receipts amounting to £7.836m and only New Homes Bonus expected for the current financial year 2019-20 of £2.178m in line with the key financial principles.

7. Alternatives Considered

- 7.1 The Financial Strategy is a vital tool in its strategic financial planning for ensuring the Council identifies funding gaps early, so intervention can be planned, so the Council can continue with the aim that it can set a balanced budget even with all of the uncertainty and pressure faced by the Council in the current economic climate and the expectation of changes in Government funding in future years.
- 7.2 Various alternatives exist within the strategy and the 5 year plan. The New Homes Bonus (NHB) could for example be used to support revenue budgets, but this would be contrary to the financial principle of not using non-recurring income to fund recurring expenditure.
- 7.3 Although the financial model assumes certain levels of Council Tax increases, it will be for the Council to determine the appropriate level annually. For 2020-21 the Council Tax levels will be recommended by Cabinet at their February 2020 meeting for Council to consider on 3 March 2020. The assumption of only a 2% council tax increase per annum over the medium term, as opposed to the higher option of £5 each year, equates to income foregone of approximately £1.3m by the end of the 5 year period and £418k per year from 2024 onwards.

8. Resource and Legal Implications

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

9. Consultation

- 9.1 The Strategic Leadership Team will have considered the 5 year Financial Strategy model along with Cabinet members as part of their strategic planning aiding the budget preparation for 2020-21 by officers.
- 9.2 The CG&AC considered the key Financial Principles and the latest position statement against those principles and any further actions required. This information has been incorporated into the Financial Strategy in appendix 1. The Committee also considered the Minimum Level of Reserves to be held as part of the risk mitigation for financial resilience.

9.3 A Budget Task & Finish Group comprising of 3 members from both the Overview and Scrutiny Committee and CG&AC will take place in December to consider the major variances of the proposed budget for 2019-20, which will have been informed from the forecasts from within the 5 year Financial Model, and the Resources Statement.

10. Community Impact and Corporate Risks

10.1 The Financial Strategy and five year Model helps the Council to manage the strategic risk of financial resilience; however, there remains a fair degree of unknowns in terms of local government funding, Brexit, and the state of the economy; so it is not possible to predict with absolute certainty, the Council's budget position over the next 5 years. This is partly due to the outcome of the delayed 2020 Fair Funding Review, the localisation of Business Rates regime which will impact Government funding from 2021-22. Hopefully the outlook will become clearer in the latter part of 2020.

10.2 The Council's own reliance on income generating services can also be adversely affected by the current economic uncertainty including the potential impact of Brexit, continued political uncertainty and the impact on the community that uses discretionary council services. The quarterly revenue monitoring undertaken should identify services which are unable to achieve income targets and where necessary targets can be revised as part of the budget process to ensure that these remain realistic and achievable.

10.3 Whilst the Council has set its minimum level of uncommitted reserves at £6.3m as part of the 2019-20 budget process, the level of total reserves held, as at 31 March 2019, amounted to approximately £44.3m; £29.0m of which are earmarked reserves held for specific services or projects, and a general fund balance of £15.3m, which is adequate to address any shortfall in the short term if necessary.

10.4 There is also a risk in relation to service delivery and support to the community impacting the council due to the budget pressures being experienced by other local authorities and voluntary organisations.

11. Environmental Considerations

11.1 Air Quality, Climate Change and Biodiversity

The Financial Strategy does not have any impact on environmental considerations, however, the service proposals it summarises that may do so will need to be reported as the proposals or service changes are progressed.

12. Other Implications

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

13. Appendices

12.1 Appendix 1 – Financial Strategy and Medium Term Financial Plan for 2020-2021 to 2024-25

12.2 Appendix 2 – Five-Year Financial Model

12.3 Appendix 3 – Statement of Resources

14. Background Papers

14.1 None