

Chichester District Council

CABINET

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Financial Strategy and Plan 2021-22 to 2025-26

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 that underpins the Council's financial planning. The strategy takes into account the Council's response to the pandemic, the impact on the financial resilience of the Council as well as updating the medium term forecasts in preparation for the forthcoming financial year's budget.

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 key recommendations from this report will help to formulate the 2021-22 budget and the level of Council Tax that will be considered by Cabinet and Council in February and March 2021 respectively.

At the time of drafting this report we are awaiting the Government's spending review. An update on any significant impacts for this Council will be provided by way of a supplement, or verbal update at the meeting.

3. Recommendation

3.1 That the Cabinet considers and recommends to Council:

- a) The key financial principles and actions set out in appendix 1 of the 5 year Financial Strategy report are approved.
- b) That having considered the recommendations of the Corporate Governance and Audit Committee, the Minimum Level of Reserves remains set at £4m.

- c) **That the current 5 year Financial Model detailed in appendix 2 and the Resources Statement in appendix 3 to the Financial Strategy report be noted.**

3.2 That Cabinet approves the updated Fees and Charging Policy shown in appendix 4.

4. Background

- 4.1 In preparation for the annual budget process the Council's Financial Strategy and its 5 year Financial Model that includes the key financial principles are reviewed. This is in order to take account of financial pressures, saving plans and the key assumptions being used for future years' budget forecasts.
- 4.2 No sooner had the balanced budget for 2020-21 been set, the global pandemic hit. The ramifications of this have had a significant impact on the Council's financial position. These were reported to Council in the 'Financial Impact of Covid-19' report in July 2020, along with the action plans as detailed in the Recovery Report.
- 4.3 The Financial Model now reflects the work undertaken so far on the Future Services Framework in respect of the first two of the three staged approach approved by Council, namely:

Stage 1 - Efficiency and Effectiveness. This stage challenges how we provide our services to ensure they are both efficient and effective. Senior Officers were tasked to undertake an efficiency review to identify cost savings and opportunities to maximise income. These reviews do not impact on service delivery and can largely be dealt with by management under delegated authority (see Stage 2).

Stage 2 - Policy Options. This stage considers the policy options stemming from the efficiency review that may have an impact to the community, are not in accordance with existing policy, or require capital investment and therefore require a member decision prior to adoption.

Stage 3 – Service prioritisation. This stage would prioritise all discretionary services. In the event that stages 1 and 2 were insufficient to balance the budget or if members wanted to reprioritise resources, this would provide a framework to allocate the resources available.

- 4.4 In April 2010, a new Financial Plan was approved by Council which included the action to develop and adopt a corporate policy on the setting of fees and charges. The fees and charging policy was subsequently approved in November 2010, however, it has not been reviewed or updated since. An update of the policy is attached at Appendix 4 including the different approaches that can be used for fees and charge setting.

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, taking into account the impact of the pandemic, the recovery plan actions, corporate priorities, budget pressures expected in future financial years and also forecasts of future Government funding. This report also considers the Financial

Strategy and actions necessary to return the Council to a balanced financial position over the medium term.

- 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 2021 for the purpose of setting the 2021-22 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.
- 5.3 An updated Fees and Charging Policy which gives a framework for the setting of fees and charges that ensures a consistent approach across all council services, whilst allowing service managers the flexibility to be able to take a more commercial approach when fee setting including considering benchmarking data.

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 the key financial principles.
- 6.2 The 5 year Financial Model (Appendix 2) is a medium term forecast of the financial position of the Council that has been updated to reflect current assumptions; future Government funding, council tax projections, as well as projected costs and previous planned efficiencies. It also contains the proposed three year programme of efficiency savings to be adopted to address the budget deficit as a result of the Covid-19 impact. Any new 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 2021.
- 6.3 It will be necessary to use reserves to help balance the budget in the medium term whilst the efficiencies and policy options under the Future Services Framework are implemented over a three year period. This approach is to take into account that the scale of the reductions will be challenging for officers to implement and adopt into their services, so the process needs to be carefully managed. The model reflects 75% of the proposed savings and policy options to allow some flexibility in the implementation of the proposals as some are aspirational, relate to income generation opportunities, or are to an extent outside of the Council's direct control. Ultimately being prudent in the model will help to mitigate some of the risk that the required savings may not be realised.
- 6.4 The Financial Impact of COVID report to July Council estimated a draw against reserves for the current year of over £8m. Since then the Government have introduced a compensation scheme for Councils that have lost income from sales, fees and charges as well as other funding allocations. The model currently forecasts that just over £3m will now be required from reserves for the current year, and £8m in total over the 5 year planning period provided that the efficiency savings identified are delivered, and subject to all the uncertainties that remain within the model.
- 6.5 The Fair Funding Review and the localisation of Business Rates have again been delayed by the Government until 2022-23. This delay in resetting the Baseline for

Business Rates is good news, as the Council continues to benefit from the growth achieved so far. The anticipated impact of the Baseline reset is that the Council will retain approximately £1m less per annum under this funding regime change from 2022-23.

- 6.6 The key assumptions for inflation for price, pay and pensions etc. are set out in appendix 1 Para 3.a based on current expectations.
- 6.7 Appendix 3 sets out the current level of reserves, anticipated receipts including asset sales and grant funding, and the commitments against these reserves. The uncommitted balance represents the potential funds available for the council to invest in new schemes. The forecast includes future capital receipts amounting to £7.877m and only New Homes Bonus (NHB) expected for the current financial year 2020-21 of £1.585m in line with the key financial principles.
- 6.8 An updated fees and charging policy (appendix 4) is proposed to improve the current policy. The current fees and charges policy has the basic principle of “the service user pays”, and that the charges were expected to be set in order to recover their full costs, unless there was an existing policy or member decision not to do so. Whilst this principle is still very relevant in the updated policy proposed in appendix 4, there is now a drive to seek new income generating opportunities, and for the council to adopt a more commercial approach when setting fees. Previously the default position was fees should be increased each year by the rate of inflation as determined by the Director for Corporate Services. This did not give flexibility to take into account market forces or benchmarking against other local authorities, which the new policy now allows for when services managers consider this to be a more appropriate approach.

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 current health crisis and the impact on the economy this legal requirement still has to be met.
- 7.2 Various alternatives exist within the strategy and the 5 year plan. Reserves can be used to support the revenue budget as currently is the case. However, this is not sustainable in the long term as any deficit will need to be addressed. It is currently anticipated that the budget reductions from stages 1 and 2 are sufficient to address the anticipated funding gap due to the impact of Covid-19. However, while these are being implemented reserves will still be required to balance the budget. This reduces the level of uncommitted reserves available. Ultimately long term use of reserves to support the revenue budget would be contrary to the financial principle of using non-recurring income, such as NHB, to fund recurring expenditure. Full Council approved this approach of balancing the budget over the medium term, and using reserves to assist in the intervening years so that vital front line services could be protected.
- 7.3 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 2021-22 the Council Tax levels will be recommended by Cabinet at their February 2021 meeting

for Council to consider at their March 2021 meeting. The model currently assumes we will increase Council Tax by £5 per annum, or less than 10 pence per week.

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 in order to plan ahead to address the issues in a measured way rather than reactive.

9. Consultation

9.1 The Strategic Leadership Team have considered the 5 year Financial Strategy model along with Cabinet members as part of their strategic planning aiding the budget preparation for 2021-22.

9.2 The Corporate Governance and Audit Committee (CG&AC) considered this report at their meeting on 26 November. Due to the timing of the Committee a verbal update will be given to Cabinet on the outcome of their review and any recommendations made.

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/January to consider the major variances of the proposed budget for 2021-22, 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 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 impact on the economy from the global pandemic and from the end of the transition period for Brexit. Therefore, 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.

10.2 The impact on the Council's discretionary income streams due to the effect of the pandemic illustrates the reliance on income generating services to fund Council services. The Model has taken into account behavioural changes the pandemic is expected to have on some income streams such as car parking.

10.3 In order to manage financial risk the Council in July set its minimum level of reserves at £4m. Appendix 3 identifies the total level of reserves held as at 31 March 2020. After taking account of anticipated new receipts and commitments, including the capital programme and earmarked reserves for specific purposes, £8m allocated for COVID-19, and a contingency for the LEP funding agreement for Southern Gateway, the Council still has available reserves of £17.88m (£4m minimum balance plus

£13.88m uncommitted), which is adequate to address any shortfall as necessary, and demonstrates that the current capital programme is fully funded.

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 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 2021-2022 to 2025-26

12.2 Appendix 2 – Five-Year Financial Model

12.3 Appendix 3 – Statement of Resources

12.4 Appendix 4 – Updated Fees and Charging Policy

13. Background Papers

13.1 None