

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 25 October 2021

Financial Strategy and Plan 2022-23 to 2026-27

1. Contacts

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2. Executive Summary

This report provides an update to the Council's Financial Strategy and the 5 year Financial Model, which underpins the Council's financial planning for the medium term forecasts, in preparation for the forthcoming financial year's budget. All of which aids the mitigation of the risk in terms of the financial resilience of the Council.

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

The strategy takes into account the Council's Recovery Actions Plans and the Future Services Framework following the response to the pandemic.

The key recommendations from this report will help to formulate the 2022-23 budget and the level of Council Tax which will be considered by Cabinet and Council in February and March 2022 respectively.

3. Recommendation

That the Committee considers and recommends to Cabinet:

3.1 The key financial principles which underpin the financial management of the Council, and the 5 year Financial Strategy set out in Appendix 1 Annex A to the agenda report.

3.2 That the Council maintains a minimum level of reserves of £4m for general purposes.

That the Committee:

3.3 Notes the updated 5 year Financial Model in appendix 2 (Part 2) and the resources statement in appendix 3 to the agenda report.

3.4 Nominates 3 members of the Committee to attend the Budget Briefing Task and Finish Group.

4. Background

- 4.1 In preparation for the annual budget process the Council's Financial Strategy and the 5 year Financial Model, including the key financial principles are reviewed. This is in order to take account of financial pressures, saving plans and the key assumptions being used for future years' forecasts.
- 4.2 The annual budget for revenue spending for 2021-22 and the rolling 5 year capital and asset replacement programmes were approved by full Council on 2 March 2021. The budget incorporated the first year of the efficiency savings identified in the Future Services Framework as approved in July 2020.
- 4.3 As a result of the financial impact of the pandemic, the 2021-22 budget was set using the General Fund Reserves to help balance its finances; the first time in many years. This was in line with the approach approved by Council last summer along with the Future Services Framework. The use of the framework will gradually return the Council to a balanced financial position without using reserves over the medium term, thereby protecting valuable public services in the interim.
- 4.4 To cope with the Financial Impact of COVID report to the July 2020 Council estimated a draw against reserves for 2020-21 of over £8m. However, based on the in-year monitoring and action taken, this estimate was reduced to £3m, especially following specific Government COVID support and the introduction of compensation scheme for authority's that lost income from sales, fees and charges. This meant at outturn the £3m allocated from the general fund reserve was not required. The £8m has been allocated to aid a return to a balanced budget over the medium term.

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 includes 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 2022 to set the 2022-23 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, along with the challenges and uncertainties faced by the Council; including 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 Committee is requested to consider in Annex A of the Financial Strategy (Appendix 1). These guiding financial principles are fundamental in the management of the Council's financial resilience, and underpin the Council's Financial Strategy, in terms of risk mitigation and governance for strategic financial planning.
- 6.3 The 5 year Financial Model (Appendix 2) is a medium term forecast of the financial position of the Council, which has been updated to reflect current assumptions; which includes Government funding, council tax projections, as well as projected costs and previous planned efficiencies. It also contains the second year of the three year programme of efficiency savings identified under phases 1 and 2 of the Future Services Framework (FSF) approved by Council in July 2020. The efficiency programme is monitored regularly against the plan. The model reflects any changes identified under this process for the second and third year of the efficiency programme.
- 6.4 The 5 Year Model reflects that by achieving the efficiency targets set under the FSF (Phases 1 & 2), the reliance on balancing the budget is reduced over the medium term. However, the addition to the model of both the costs pressures and the policy options increases the amount required from reserves to be unsustainable and higher than the current £8m allocated by Council. Some of the cost pressures are unavoidable and relatively certain, others such as food waste collection less so, along with how much funding may be given towards this from Government under its environmental policies. Other growth proposals under Policy Options are more under members control as to whether to implement new schemes or services. However to adhere to the key financial principles, phase 3 of the FSF will underpin strategic in achieving a balanced budget.
- 6.5 It should be noted that the model reflects a high level forecast of the potential financial position of the Council over the medium term, using known changes, plus a lot of assumptions using information available at this time. Therefore as we are in a period of a high degree uncertainty this makes the strategic forecasting very difficult.
- 6.6 Any new proposals linked to the Council's corporate plan objectives will be firmed up during the annual budget process and reported as part of the budget report to Cabinet in February 2022.
- 6.7 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 the short to medium 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.
- 6.8 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.
- 6.9 The model will also take in account known cost pressures which the Council has no choice in budgeting for; some of which will impact not only the current year but the budget for 2022-23 and beyond i.e. pay award for 2021-22, higher NI costs along

with market premia to address high demand skill shortages (HGV drivers), rising fuel and utility costs.

- 6.10 The Fair Funding Review and the localisation of Business Rates (BR) have again been delayed by the Government with no detail as to when these reviews will impact the local government financial settlement. Expectation is that some of these changes will not occur in this Parliament, and that the settlement issued in December 2021 may be a multi-year settlement, however, this has yet to be formally confirmed. The delay in resetting the Baseline for Business Rates continues to be 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 £1.5m less per annum under this funding regime change. The exact timing of this change is currently unknown; so it has been assumed in the model that this change may occur from 2023-24. Potentially the provisional local government settlement for 2022-23 announced in December may give an indication of the timing of this change.
- 6.11 The key assumptions for inflation for pay, prices and pensions etc. are set out in appendix 1 Para 3.a based on current expectations.
- 6.12 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 now excludes any future capital receipts, ensuring that this approach is comparable to the treatment of the New Homes Bonus (NHB), and in line with the key financial principles. Under the current regime £0.404m is expected for NHB in 2022-23 relating to a legacy payment for new homes added to the tax base for 2019-20. However, for 2020-21 and 2021-22, grant was awarded for 1 year only rather than for 4 years (i.e. legacy payments). It is still unclear if any NHB grant will be received for 2022-23 or be superseded by an alternative funding regime.
- 6.13 Taking into the current spending plans of the Council and the use of the Future Services Framework's approach to work towards a balanced budget over the medium term, which is consistent with the decisions taken in 2020 and 2021; It is recommended to the Committee that the Minimum Level of Reserves to cover unexpected expenditure or loss of income on the current spending plans remains at £4m.

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 balance 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 stage 1 and 2 of the Future Services Framework may be 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, which 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 2022-23 the Council Tax levels will be recommended by Cabinet at their February 2022 meeting for Council to consider at their March 2022 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.
- 8.2 The 2021-22 budget required £2.099m from reserves to balance the budget, and it's anticipated over the medium term the Council will continue to require to use reserves to balance the budget in line with £8m approved by Council. In the longer term continued of the use of reserves is unsustainable; so this position will need to be addressed under phase 3 of the Future Services Framework.

9. Consultation

- 9.1 Due to the significant impact the pandemic had and continues to have on the financial resilience of the Council, both Cabinet and all opposition Group Leaders have monthly meetings, including regular financial updates, with the Strategic Leadership Team.
- 9.2 As part of the work under stage 3 of the Future Services Framework, all members were invited to a workshop about the financial position of the council and the approach for this phase. A second workshop has been held with the Cabinet, and a separate session with all opposition Group Leaders. Further workshops and briefings will be arranged for all members, Cabinet and political group leaders to determine the way forward in the medium term. This work will enable all members to consider their service priorities, in preparation for any further changes required once there is more clarity and certainty in the Government's funding of local government services.
- 9.3 As part of the annual budget setting, a Budget Briefing 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 2022-23, which will have been informed from the forecasts from within the 5 year Financial Model, the Resources Statement and hopefully the provisional local government funding settlement for 2022-23.

10. Community Impact and Corporate Risks

- 10.1 The Financial Strategy and 5 Year Financial Model helps the Council to manage the strategic risk of financial resilience. However, there remains a great deal of

uncertainty in the medium term including future changes in local government funding, the ongoing impact on the economy from the global pandemic along with supply chain issues in the wider economy which have an impact on service costs. 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 the ongoing 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 set in 2021 its minimum level of reserves at £4m. Appendix 3 identifies the total level of reserves held, as at 31 March 2021. 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 £10.617m (£4m minimum balance plus £6.617m 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 2022-2023 to 2026-27

12.2 Appendix 2 – Five-Year Financial Model (Part 2)

12.3 Appendix 3 – Statement of Resources

13. Background Papers

13.1 None