# |Financial Strategy

## Introduction

The Council's Corporate Plan 2018-2021 was last approved by Council on 23 January 2018. The plan sets out the Council's priorities that represent the challenges and opportunities facing the District Council over the medium term. Due to the impact of the pandemic the expected update of the Corporate Plan has had to be delayed until early 2022.

In response to the impact of this global event on the demand for council's services and the significant financial impact which was set out in the 'Financial Impact of Covid-19' report to Council June 2020, along with the Emergency Action Plan. Following on from this a Recovery Action Plan was developed, under 4 thematic areas of Community and Housing, Economic, Planning, Health and Environmental Protection and Organisational Recovery Plans. To address the impact on the financial position of the council, the Future Services Framework (FSF) was approved to aid the decision making and action required to work towards a balanced budget over the medium term.

The Financial Model 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.

Phase 3 of the framework will assist members to shape and determine the types and levels of services to be provided in the future should the financial situation require. Since late summer work has begun on this phase, not only in preparation for the provisional financial settlement expected in December and the outcome of the Government 2021 Spending Review (SR21), but also to consider any changes in service delivery required over the medium term to ensure that the budget is balanced over the medium term. This aim is in line with the Council's key financial principles.

Extract from Approved Corporate Plan (*To be updated to reflect amendments expected to be approved in January 2022)*

The Priorities are to:

- Improve the provision of and access to affordable housing;
- Support our communities;
- Manage our built and natural environments to promote and maintain a positive sense of place;
- Improve and support the local economy to enable appropriate local growth; and,
- Manage the Council's finances prudently and effectively.

Each of these priorities is underpinned by several objectives that set out what the Council aims to achieve. This includes specific objectives with more detailed actions to be undertaken to meet the Council’s approved key priorities, including specific measurable targets, where appropriate.

**Manage the Council’s Finances Prudently and Effectively**

The overall Financial Strategy is linked to the specific priority within the Corporate Plan that is to **manage the Council’s finances prudently and effectively**; this has three overarching objectives, which are:

1. **Ensure prudent use of the Council’s resources**.

    - Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period.
    - Manage rigorously the Council’s risks.
    - Have sound governance arrangements in place approved by the Council’s external auditors.
    - Use of the FSF to determine the provision or service delivery changes for non-statutory services.

2. **Provide value for money through efficient and effective service delivery**

    - Maintain a programme of improvement reviews for our services to ensure that they are delivered effectively and efficiently. These reviews should challenge existing costs, service delivery mechanisms and consider using outside bodies where appropriate.
    - Ensure that where the Council has discretion over charging for services, service users should normally bear the full costs except where there are important community considerations.
    - Implement an investment strategy to preserve and improve the financial and other resources available to the Council.

3. **Maintain low rate of council tax while protecting services.**

    - Provide services without the use of reserves in the medium term
    - Require compensating savings before any new revenue expenditure is approved, including capital expenditure that has revenue consequences.

The use of the Future Services Framework will guide members in their decision making.
- Continue to review the Council's costs in order to find further savings.
- Continue to identify and develop income generating opportunities for the Council.

**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. Plus spending on capital and asset replacement projects against the approved programmes.
5. New monthly monitoring of the impact of Covid-19 on the Council is collected by the Government, along with specific data under the Sales, Fees and Charges compensation scheme which aids the Council for some of the loss of discretionary income due to the pandemic and ongoing behavioural change. These aids the Government to consider what financial support continues to be required during this unexpected event.

Under the umbrella of the Financial Strategy are other linked policies and strategies which assist with ensuring the robust financial management of the Council, including the Treasury Management and Investment Strategies and a Capital Strategy. The Capital Strategy gives 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. These strategies are updated in light of any legislation changes and 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 taking into account 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 item

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 initial impact of the pandemic on the Council's financial position in 2020-21 was significant, so a staged approach under the Future Services Framework was approved. Under Phases 1 and 2 of the framework, a full efficiency review was undertaken, which identified £2m of savings over a 3 year period (starting with 2021-22), which at the time appeared to be sufficient to balance the budget over the medium term.

   For the approved budget for 2021-22 this built in the first year's savings anticipated under the recovery plan amounting to £0.747m along with using £2.099m from reserves to balance the budget. The performance against the Recovery Plan and these planned savings are regularly monitored by the Overview and Scrutiny Committee. To date the savings expected to be achieved by the end of the financial year will exceed the target by just over £180k.

   The ongoing financial position remains very uncertain with many income streams still impacted by both Covid and the uncertainty in the economy. In addition the employer's pay offer to Local Government staff of 1.75%, if implemented, will add a cost pressure of £280k in 2021-22 and beyond, as this was not budgeted for. Other pay cost pressures in the model include market premia payments for HGV drivers (£100k p.a.) and the 1.25% increase in employers' National Insurance (£132k p.a.) As part of the preparation for the 2022-23 budget, the pay and some other cost pressures have a certain degree of certainty, whereas others have been identified, but they are still very unclear. This includes the possible introduction of mandatory food waste collections where we have assumed that we would receive 50% funding. This makes the task of strategic financial planning very difficult.

   Due to these uncertainties, the priority setting stage of the Future Services Framework has been started over the summer with all the Group Leaders; this exercise will enable members to determine the priorities and allocate resources accordingly, whilst complying with the legal requirement to balance the budget. The policy options included in the model are still yet to be fully considered as part of the FSF policy setting exercise, but if any are considered to be low priority then these items can be excluded from the model. It is intended that the FSF will come back to Council, taking into account the results from the exercise and will inform the strategic financial planning, and hopefully, greater clarity is gained about future Government funding. Ultimately this work will aid the priority decision making of members for future years.

Sometimes under Government policies the business rates retention scheme is impacted, e.g. small business rate relief etc. and to compensate the Council for the loss of this funding source a grant is paid (which is known as a Section 31 grant). The Covid Pandemic had a major impact on the Section 31 grants due to Government support to local businesses during the health crisis.

The approach taken for each of the key financial principles, a position statement and any further actions required, is detailed in Annex A.

The approved 5 year capital and asset renewal programmes totalling £59.427 m currently remains fully funded without the need to borrow from external sources and there is a balance of £6.617m uncommitted resources available for new projects and investment in services, having taken into account £8m allocated by Council in July 2020 to address the COVID 19 impact on the Council's budget.

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. 2022-23 Settlement

The provisional Financial Settlement for 2022-23 is expected to be announced by the Department of Levelling Up, Housing and Communities (MLUHC) in December 2021, following the outcome of the 2021 Spending Review (SR 21) by the Treasury.

Unlike the one year settlement for 2021-22, it is anticipated that the settlement for 2022-23 will be a one year offer. The exact timing of changes in Government funding due to the Fair Funding Review (FFR) and the localisation of business rates impacting future settlements is unknown; expectation is that some parts of the Business Rates scheme may be changed in the next 2 years, but any major changes under the FFR are very uncertain, so it has been assumed in the model that the impact is from 2023-24 based on current intelligence.

The Government set the threshold which would trigger a Council Tax referendum annually. It is likely that for 2022-23 the threshold will be set at 2% (or possibly higher if inflationary pressures are considered) or £5, whichever is greater. This information will be confirmed after the Government's technical consultation on the Local Government Financial Settlement 2022-23 expected in December.

There continues to be economic uncertainty both due to COVID and also the wider world economy for supply issues, and resource/skill issues. Pre-pandemic the Council relied on approximately £18m of income from its fees and charges (pre-Covid) to balance its budget, much of this is discretionary spend or linked to the economy. As highlighted in the last 12 to 18 months these discretionary sources of income have been impacted due to the effect of the pandemic and behavioural change; the effect on some income streams may never recover to pre-pandemic levels e.g. car parks, whereas, others have increased due to higher demand e.g. garden waste collection. This makes it difficult to predict future income levels from some of the Council's income streams, and whilst the model includes some adjustments for income changes, it remains very uncertain and unpredictable.

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 and areas of financial risk. In addition the efficiency savings from the COVID recovery action plan have been reviewed and updated as necessary for year 2 of this plan and reflected in the model, still with a 25% contingency to mitigate risk. This 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 assumed.

The main assumptions in model are:

a. Uplifts for inflation are given in table 1 below. Inflation this year has been quite volatile. CPI started the calendar year at 0.7%, rising to 3% by August. The expectation is that interest rates may need to rise to try to dampen down the inflationary pressure in the economy.

RPI was 1.6% in January, with small increases until April when the rate increased to 3.3%. It has continued to rise each month thereafter with the latest rate for August at 5.4%. It has therefore been extremely difficult in formulating this year's strategy to predict inflation levels for 2022-23 which are reflected in Table 1.

Table 1: Inflation Assumptions

| | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|---|---|---|---|---|---|
| Pay | 2% | 2% | 2% | 2% | 2% |
| Pension | -1% | 0% | 0% | 0% | 0% |
| General prices | 3% | 2.75% | 2.5% | 2% | 2% |
| Income | 3% | 2.75% | 2.5% | 2% | 2% |

It should be noted that whilst these assumptions are used for the strategic modelling, where appropriate within the detailed annual budget exercise, specific inflation assumptions are applied for certain costs such as fuel and utility costs ranging from 5 to 8%.

Fees and charges income are also reviewed to identify those which could achieve an increase higher than the base inflation assumption, in line with the Council's approved Fees and Charges Policy.

The Bank of England Base Rate is currently 0.1% and the picture is far from clear as to what future rates will be. There is expectation that the Base Rate may start to rise due to the inflationary pressures in the economy and worldwide supply problems. The prospect of negative interest rates seems to have receded for now.

b. Service Cost Pressures have been identified and are set out in appendix 2 to the report. The most significant cost pressure relates to the reduction in income from sales, fees and charges. Whilst the Government have compensated Councils for some of their losses in the current year, the majority of this support was for 2020-21 only and the first quarter of 2021-22. For other costs pressures such as pay awards, including market premia required for specific skills shortages e.g. HGV drivers, planning officers and rises in employer’s NI; a prudent estimate of the likely longer term impact has been built into the forecasts.

c. Saving targets for the second year of the COVID recovery plan (phases 1 & 2), have been reviewed and updated in the Financial Model; this includes any necessary changes to reflect the rephrasing or removal of targets (where appropriate), since the saving targets were first approved as part of the 2021-22 budget cycle. Table 2 sets out the remaining savings targets to be achieved over the £0.747m already built into the approved Base Budget.

Table 2: Remainder of Saving Targets – FSF (Phases 1 & 2)

| | 2022-23 £’000 | 2023-24 £’000 | 2024-25 £’000 | 2025-26 £’000 | 2026-27 £’000 |
|---|---|---|---|---|---|
| Savings or new income streams | (357) | (1,130) | (1,130) | (1,130) | (1,130) |
| Contingency | 89 | 283 | 283 | 283 | 283 |
| **Total** | (268) | (848) | (848) | (848) | (848) |

d. The Financial Model has an assumed level of Council Tax increases at £5 per annum rather than 2%; although it is unclear at present whether the £5 increase for low taxing authorities such as Chichester will be allowed. The final decision for the Council tax increase for 2022-23 will be for Council to determine once the final settlement is known.

e. 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 for 2020-21 and 2021-22 was awarded for one year only rather than legacy payments for four years. Current forecasts for 2022-23 include the final payment legacy payment of £0.404m relating to NHB for 2019-20 only. As it is uncertain whether any grant will be paid in 2022-23, due to any Government funding changes as part of the 2021 Spending Review.

Based on the assumptions contained in the model the Council is currently unable to set a balanced budget by the end of year 5 and will need to use reserves while the COVID recovery plan savings are implemented, along with any further assessment of changes required under phase 3 of the Future Services Framework to return to a sustainable position. However, 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, and in line with its key financial principles.

Based on current projections in the model the Council will need to use reserves to balance the budget over the medium term; Council approved £8m from the general fund reserve to support the revenue budget.

4. Beyond 2022-23 , the Risks and Opportunities

From 2022-23 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 Spending Review 2021 (SR21) impacting the settlement for 2022-23 and possibly beyond. The delayed Fair Funding Review which will assess the financial needs for local authorities; the exact timing of this change is 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, 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 may cease before these reforms, it is anticipated that the Council will receive the final legacy payment for 2019-20 NHB in the 2022-23 settlement of £0.404m. Both 2020-21 and 2021-22 were allocations for one year only so any allocation under the provisional financial settlement for 2022-23 will not be confirmed until the outcome of the SR21.

- 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 both COVID and the wider economic uncertainty. This may affect GDP and the outcome of the Spending Review, and consequently the financial settlement for local authorities from 2022-23 onwards. 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. The experience in the current financial year shows that some income streams such as car parking charges have been badly affected. An assessment for future years has been built into the five year model. This is 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.

- In the medium term there is still a budgetary risk in relation to the statutory override for the accounting treatment for treasury management investments under IFRS 9. This override, which means losses on certain investments are only recognised if the investment is sold, was given for 5 years until April 2023. Lobbying continues for this adjustment to be made permanent. Due to the impact of COVID, the Council is currently carrying a £0.5 m of potential losses. The Investment Risk reserve currently holds £1.016m to cover this cost, but any new investments will have an impact on the adequacy of this reserve.

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

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 motions agreed by Council. It also reflects an anticipated reduction in Government funding from 2023-24 due to the Fair Funding Review and the potential resetting of the Baseline for Business Rates. The timing of both of these major changes to local government is currently unknown.

The Council's reliance on fees and charges to help balance the revenue budget continues to come under pressure as a result of ongoing impact of COVID and behavioural change, plus the uncertainty in the local and national economy. As the Council has to take account of changes in people's behaviour in relation to home working and shopping in the high street, both of which are having an impact on trends for car park income.

The 5 year Financial Model anticipates that the Council is only able to set a balanced budget for 2022-23 through the use of approximately £1.12m of reserves, reducing to a smaller deficit of £0.269m to be funded by reserves at the end of the 5 years. However, this position would only be achieved if the anticipated efficiencies under phases 1 and 2 of the Future Services Framework are delivered. This position does not take into the cost pressures reflected in the model, nor the potential policy options, which ultimately reflects that the phase 3 of the FSF will be imperative to ensure the Council returns to a more sustainable positon in its spending plans.

As the Council is legally required to set a balanced annual budget, any shortfall in the short term will need to be considered and addressed in line with the key financial principles and its 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 using the Future Services Framework with the identified recovery plan savings the Council is working towards a balanced budget in the medium term, however, further action may be required due to the uncertainty of future Government funding and some of the saving plans being aspirational. Potentially this may mean that under phase 3 of the Future Services Framework the Council will have to identify the future changes in its priorities and service delivery to address any estimated budget shortfalls over the medium term.

**Annex A**

## 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**. | 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.<br><br>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. | Regular monitoring and reporting against the COVID recovery plan will be undertaken by officers & reported to members.<br><br>New and emerging issues and service requirements will be considered by the Strategic Leadership Team (SLT) and members during strategy planning events aided by the Future Services Framework as approved by Council on 21 July 2020. |
| **2. Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period**. | There is a legal requirement to set a balanced revenue budget and ensure the capital programme is fully resourced. As a result of the continued reduction in Government funding, the Council has needed to take action in order to balance the revenue budget without drawing on general reserves, except where necessary in response to exceptional circumstances e.g. a pandemic.<br><br>The Statement of Resource Allocation demonstrates that the capital programme remains affordable. In July 2020 Council agreed to set the minimum level of General Fund reserves at £4m, and to release £8m to address the financial pressure caused by COVID. Whilst the intention is to set a balanced budget over the medium term, this finite resource remains available to support revenue while the COVID recovery plan is implemented. | The 5 year financial model will continue to be monitored and updated, cabinet and all Group Leaders are given regular briefings on this throughout the year. The other political groups of the council 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 COVID Recovery Plan under the |

| Principle | Narrative | Actions |
|---|---|---|
| | 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.<br><br>The Corporate Governance and Audit Committee (CGAC) will consider the appropriateness of the minimum level of reserves at their autumn meeting, with their recommendations being made to the next Cabinet meeting.<br><br>Future Government funding is uncertain with the expected changes and timing of  the Fair Funding Review, and the localisation of Business Rates unknown. Plus the impact of the Spending Review for 2021 (SR21). The financial settlement for 2022-23 is expected to be a multi-year allocation. | Future Services Framework.<br><br>Budget monitoring for revenue and capital schemes is completed quarterly by budget managers, and reported to all members on the Modern.gov website.<br><br>To consider future Government funding in light of the fair funding review. This will impact future settlements, although the exact timing for this change is unknown, along with the resetting of the Baseline for Business Rates.<br><br>Any funding gap based on current projections will need to be considered by SLT and members to ensure that an action plan is agreed. |
| **3. Over the next five years return the Council to a position of non-dependency on reserves.** | It is essential that the Council strives to return to a position of balancing its budget without the need to rely on reserves. However, in order to protect public services, Council has agreed to a phased approach to delivering the COVID Recovery Plan while using reserves to assist in the intervening years. Such an approach is only sustainable while projections indicate that a balanced position will be achieved over the medium term, and that there are sufficient uncommitted reserves to support such an approach. The 5 year model indicates that just over £8m of reserves will be required, and this has been reflected in the Resources Statement.<br><br>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. | To keep under review the COVID Recovery plan, and the availability of reserves. 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.<br><br>To build future demands for recurring expenditure into the 5 year Financial Model, and thereby into any potential savings target.<br><br>To avoid funding recurring |

| Principle | Narrative | Actions |
|---|---|---|
| | 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.<br><br>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. | expenditure from reserves as a key financial principle. |
| **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, or any reduction in planned income is approved.** | 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.<br><br>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 the Financial Services Division to ensure all possible future liabilities are considered and documentation retained.<br><br>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. | All Project Initiation Documents (PIDs) are to be based on whole life costs, and include an exit strategy.<br><br>New investment proposals should be linked to the Corporate Plan, and assessed to ensure they represent for value for money.<br><br>Phase 3 of the Future Services Framework Phase 3 aid members in their choices and decision making to determine service and funding priorities in the future in order to return to a balanced revenue budget. |

| Principle | Narrative | Actions |
|---|---|---|
| **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. This is a key principle as future changes in demand on services are bound to occur.<br><br>Prioritising the Council's services will enable scarce resources to be directed to areas of need and priority over the medium term. | 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 resources should be reviewed in order 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 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 do so in an 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. 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. | 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. Under the policy some services will be charged at a commercial rate, whereas others may be subsidised to encourage their use. |
| **7. Continue to review the Council's costs in order to find further savings.** | 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.<br><br>Council agreed the COVID Recovery Plan in July 2020. This tasked officers to identify efficiency savings as the first stage in a three stage programme to address the budget position. The outcome of the first and second stage | The challenge now is to implement the savings that have been identified. This will be achieved through the governance arrangements that Council also approved in July 2020, with the Organisational Recovery Group having immediate oversight, reporting into the Leader and Chief |

| Principle | Narrative | Actions |
|---|---|---|
| | informed the budget set for 2021-22 building in savings targets for the next 3 years in the 5 year Model.<br><br>Aside from formal service reviews, service managers should normally be considering the best and most cost effective procurement methods in their service areas. | Executive and monitored by Overview and Scrutiny and Cabinet.<br><br>Phase 3 of the Future Services Framework will be used to formulate future spending plans over the medium term. |
| **8. Match Council Tax increases to a realistic and affordable base budget.** | 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.<br><br>For 2021-22 district councils were permitted to raise their council tax by the higher of the 2% 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.<br><br>The Government will confirm what rules will apply for 2022-23 in early December. | 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. |
| **9. Budgets should be pooled with other service providers to achieve more effective and cost efficient outcomes for the community.** | 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 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. | Where appropriate we should commission services with other service providers and pool our budgets to provide more effective and efficient outcomes for the customer. |
| **10. New Homes Bonus (NHB) This should be allocated annually, and only committed once received.** | The NHB 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. Furthermore, 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 | The NHB is 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 |

| Principle | Narrative | Actions |
| --- | --- | --- |
| | planning authority, to also consult with the park authority.<br><br>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 used to be paid for the following four years. This changed for 2020-21 and 2021-22 when the grant was reduced to a one year grant only. This grant is paid for development that exceeds a baseline set at 0.4% of the Council Tax Base, and is split 20% to the County Council and 80% to the Housing authority, i.e. CDC. A final legacy payment for NHB relating to 2019-20 of £0.404m (under the current arrangements) is anticipated in 2022-23. Whilst grant would be expected for 2022-23 the situation is far from certain until the outcome of SR21 is known.<br><br>The view remains that NHB may be adjusted further or even abolished altogether. It should not, therefore, be relied upon long term to resolve our budget position, and should only be committed after it is received.<br><br>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. | budget for the council. As such this will be reviewed annually.<br><br>The grants and concessions panel review the use of NHB, along with other grant funding that the Council makes available to individuals and groups. |

| 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.** | For 2021-22 the same authorities that made up the 2020-21 pool did not operate a pool due to the risks and uncertainty that COVID brought to the level of business rates.<br><br>Some of the authorities in West Sussex are considering having a pool in 2022-23. In order to maximise the gain to the County as a whole, several districts will 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.<br><br>(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 taking into account the potential risk associated with being in a pool. |
| **Resources and Capital Programme Principles** | | |
| **1. 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.**<br>**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** | 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. | Temporary sources of funding should 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. |

| Principle | Narrative | Actions |
|---|---|---|
| **income streams earned are much less volatile.** | | |
| **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.** | 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.<br><br>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 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.<br><br>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. |