

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 31 OCTOBER 2022

Financial Strategy and Plan 2023-24 to 2027-28

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 considers the Council's progress on the efficiency savings and income generation identified as part of the Recovery Plan and the Future Services Framework prioritisation tool to aid decision making. Plus updates the 5 year financial model to show the forecast over the medium term considering the current economic inflationary and service cost pressures, and is a forecast based on the information available as at 30 September. Considering those assumptions, the financial strategy is forecasting a small deficit for 2023-24 without any new policy options included, with an underlying deficit in the medium term of approximately £600k per annum.

The key recommendations from this report will help to formulate the 2023-24 budget and the level of Council Tax which will be considered by Cabinet and Council in February and March 2023 respectively. When the Council will need to set a balanced revenue budget that is sustainable and in line with the Council's key financial principles.

3. Recommendation

3.1 That the Committee considers and recommends to Cabinet:

- a) The key financial principles and actions which underpin the financial management of the Council, and the Financial Strategy set out in Appendix 1 Annex A to the agenda report.**

b) That the Council maintains a Minimum Level of Reserves of £4m for general purposed.

3.2 That the Committee:

a) Notes the updated 5 year Financial Model in appendix 2 (Part 2) and the Resources Statement in appendix 3 to the agenda.

b) 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 to consider the current and emerging financial pressures, saving plans, and review the key assumptions being used for future years' forecasts.

4.2 The annual budget for revenue spending for 2022-23 and the rolling 5 year capital and asset replacement programmes were approved by full Council on 8 March 2022. The budget incorporated the second year of the efficiency savings identified in the Future Services Framework Recovery Plan as approved in July 2020.

4.3 To cope with the expected financial impact of the pandemic the Council approved £8m to be set aside to support the revenue budget over the medium term as part of the assessment in July 2020. To date it has not been necessary to draw on this reserve, but in setting the budget for 2022-23 it was anticipated that £808,100 would be required, enabling the Council to work towards a balanced budget within 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 currently being experienced and those that will impact future financial years. This includes forecasts of future Government funding based on the information available at this time. This report also considers the Financial Strategy and actions necessary to return the Council to a balanced financial position over the medium term without the need to use reserves.

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 2023 to set the 2023-24 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 safeguard the Council's 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, and the guiding principles to be used to address the issues identified and the actions required; whilst adhering to its

key financial principles. Whilst the key financial principles are unchanged the document has been updated to reflect the current narrative and actions required.

- 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; including Government funding, council tax projections, as well as projected costs and previous planned efficiencies. It also contains the third year programme of efficiency savings to be adopted to address the budget deficit as a result of Covid-19 impact. The Council remains on course to deliver the approved savings and income generation target of £1.570m by 2024-25.
- 6.4 The model continues to reflect 75% of the proposed savings and policy options to allow some flexibility in the implementation of the proposals as this latter programme is aspirational, relating 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.
- 6.5 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 based on information available at this time. Therefore, as we are in a period of a high degree of uncertainty, which makes the strategic forecasting very difficult. This report sets out the significant risks associated with some key assumptions.
- 6.6 The strategy is based on no new proposals due to the current projections of an underlying deficit. Therefore, any new proposals must adhere to the key financial principles before being incorporated in the budget proposed to Cabinet in February 2023, and Council in March, specifically that any new cost growth or reductions of income must be funded before being agreed.
- 6.7 It will be necessary to use reserves to help balance the budget in the medium term, whilst further efficiencies and income generation options are developed in the medium term. This approach is to allow time for members and officers to develop options as this task will be challenging after already delivering the £1.570m savings target since 2021-22 in response to the impact of the pandemic.
- 6.8 The model also considers known cost pressures which the Council has no choice in budgeting for; some of which impact not only the current year but the budget for 2023-24 and beyond i.e., high inflation, pay award for 2022-23, rising fuel and utility costs.
- 6.9 In terms of Government funding there is a great deal of uncertainty as the Funding Review and the localisation of Business Rates (BR) reset has again been delayed, with no detail yet as to when these reviews will impact the local government financial settlement. It is also unclear whether the provisional settlement announcement expected in early December will be for 2023-24 only or a multi-year offer, and

whether the Council will still be awarded New Homes Bonus, the Rural Service Grant etc.

- 6.10 For Business rates a new valuation list is expected for April 2023, but the timing of when this information will be received is uncertain, along with whether the Business Rates multiplier will be frozen, and whether councils will be fully compensated or not. Against this background of uncertainty any delay in resetting the Baseline for Business Rates continues to be good news for the Council as it will continue 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, but it has been assumed in the model that this change may occur from 2025-26.
- 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. Due to the current uncertainty in the financial markets affecting the fair value of the Council's long term investments in line with the detail in paragraph 3 (f) investment income (appendix 1) and the position on the statutory override consultation which is awaited; it is recommended that £1.457m is transferred from the general fund reserve to the investment risk reserve. The balance in this reserve will be reviewed annually and adjusted in line with the movements in fair value and the risk posed of losses being charged to revenue.
- 6.12 Appendix 3 sets out the current level of reserves, anticipated grant funding, and the commitments against those 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. Whilst under the current regime operated NHB may be awarded in 2023-24, with details released in the provisional financial settlement in December, the resources statement only incorporates grant received. As awards are only for 1 year as all legacy payment for new homes added to the tax base have now ceased. It is still unclear if NHB grant will cease with any fundamental funding review by Government.
- 6.13 The outcome of the Corporate Governance & Audit Committee's recommendation for the Minimum Level of Reserves will be a verbal update as their meeting is on 31 October after the publication of the Cabinet's agenda papers. The Minimum Level of Reserves approved for 2022-23 budget was £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 balanced budget. Even with all the uncertainty and pressure faced by the Council in the current cost of living and inflationary crisis with 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. Further options will need to be explored in the short to medium term to address the forecast funding gap as indicated in appendix 2. However, there are some significant risks on some

key assumptions based on the current information available as at September 2022. However, as the Council waits for greater clarity on matters from government on future funding, the Environment Act etc. the £8m earmarked to support the revenue budget remains available, with approximately £2.736m required in 2022-23. 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 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 2023-24 the Council Tax levels will be recommended by Cabinet at their February 2023 meeting for Council to consider at their March 2023 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 to plan ahead to consider options to address the issues in a measured way rather than reactive.
- 8.2 The 2022-23 budget required an estimated £808,100 from reserves to balance the budget. In year cost pressures as detailed in the 5 year model have increased that deficit to a forecast £2.736m. While the £8m allocated to support the revenue budget is able to meet this immediate demand, and provide support in setting the 2023-24 budget, it is not sustainable to rely on using reserves indefinitely. Following the 2023 elections members and officers will need to review priorities and establish a programme of efficiencies to return the council to a balanced position without on-going reliance on reserves.

9. Consultation

- 9.1 Cabinet and all opposition Group Leaders have monthly meetings, including regular financial updates, with the Strategic Leadership Team. Specific strategy briefing days have taken place in September with members to set out the forecasts detailed in the Financial Strategy and the projections in the 5 year model.
- 9.2 The Corporate Governance and Audit Committee (CG&AC) will have considered this report at their meeting on 31 October. Due to the timing of the Committee a verbal update will be given to Cabinet on the outcome of their review and any recommendations including in relation to the Minimum Level of Reserves
- 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 2023-24, 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 2023-24. The Committee is requested to nominate 3 members for the T&FG whose terms of reference are set out in appendix 4.

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 world events, supply chain issues in the wider economy, and inflationary cost pressures that have an impact on service costs.
- 10.2 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. The Financial Strategy sets out the key financial risks both in terms of likelihood and impact.
- 10.3 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 due to the pandemic is expected to have on some income streams such as car parking.
- 10.4 To manage the financial risk, each year the Council set the minimum level of reserves it will hold specifically for unexpected costs or income losses as part of its budget spending plans for the forthcoming financial year.
- 10.5 Appendix 3 identifies the total level of reserves held, as at 31 March 2022. After taking account of anticipated new receipts, grants and commitments, including the capital programme, earmarked reserves for specific purposes, £8m allocated for the revenue budget support, and a contingency for the LEP funding agreement for Southern Gateway, the Council still has available reserves of £11.932m (with the current £4m minimum balance plus £7.932m uncommitted), which is adequate to address any shortfall as necessary, and demonstrates that the current capital programme is fully funded. It is therefore recommended to the Committee that the Minimum Level of Reserves remains at £4m.
- 10.6 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 2023-2024 to 2027-28

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

12.3 Appendix 3 – Statement of Resources

12.4 Appendix 4 – Budget Briefing Task and Finish Group Terms of Reference

13. Background Papers

13.1 None