# Financial Strategy

## Introduction

The Council's Corporate Plan 2022-2025 was last approved by Council on 25 January 2022, and is available on the Council's website here. The plan sets out the Council's priorities that represent the challenges and opportunities facing the District Council over the medium term.

This Council has absorbed funding reductions of 41% in cash terms since 2010-11 whilst still protecting frontline services for the residents of the district. The coronavirus pandemic has placed further strain on the council's finances. In response to this a deep and wide-ranging efficiency savings programme had been delivered under the Future Services Framework (FSF) which was approved by Council in July 2020. The agreed savings have been reflected in budgets since 2021-22, with further targets to be achieved in both 2023-24 and 2024-25.

The final phase of the FSF was to address any residual impact on the financial position of the council, by providing a service prioritisation tool to aid the decision making and ensure a balanced budget will be achieved over the medium term. The 5 year financial forecast is based on the latest information available to aid strategic financial planning, along with some fundamental assumptions about future government funding and changes to legislation or regulation changes such as the Environment Bill etc. Recent changes in central government in recent months, including the Levelling Up Secretary of State, has meant that expected consultations during the summer regarding the offer of a multi-year settlement have not been forthcoming.

Under the Corporate Plan the Council's priorities are:

- Homes for all
- Thriving Economy
- Supported Communities
- Financial Prudence
- A Cared-For Environment

Each of these priorities are underpinned by several objectives that set out what the Council aims to achieve and the success measures for the identified actions to be undertaken.

The key financial objective under the Corporate Plan is Financial Prudence, specifically to manage the Council's finances prudently and effectively.

The Council's aim is to:

- **Ensure prudent use of the Council's resources**.
- **Provide value for money through efficient and effective service delivery**

How the Council will achieve the aims will be to:

- Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period.
- Require compensating savings before any new unfunded revenue expenditure is approved, including capital expenditure that has revenue consequences.
- Maintain a programme of reviews for our services to ensure they are delivered efficiently and effectively.
- Provide services without the use of reserves.
- Continue to identify and develop new and appropriate income generating opportunities that are in keeping with the Corporate Plan's vision.
- Maintain an investment strategy that preserves and improves the financial resources available to the Council.
- Rigorously manage the Council's risks.
- Have sound governance arrangements in place.

The success measures agreed by Council on 25 January 2022 were:

- Return the Council to a balanced revenue position within the 5-year model period 2026-27 (target date April 2026)
- Manage and successfully deliver the 2021 to 2024 efficiency programme (target date March 2024)
- Conclude the review of governance arrangements (target date May 2022) – Completed March 2022
- Prepare budget and spending plans that are balanced and affordable (target date annually)
- Prepare treasury, investment and capital strategies that comply with regulations and make best use of Council resources (target date annually)

**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. Along with the planned spending on capital and asset replacement projects against the approved programmes.

Under the umbrella of the **Financial Strategy** are other linked key policies and strategies which assist with ensuring the robust financial management of the Council. These are:

- the **Treasury Management and Investment Strategies** – cashflow management linked to the spending plans of the Council and the investment of surplus funds

- the **Capital Strategy** – a corporate strategy that is 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.

Both these strategies are updated considering any legislative changes, or relevant 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, financial principle 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. <u>Current Financial Position</u>

   The Council continues with its plan under the Future Services Framework (FSF) developed in response to impact of the pandemic on the Council's financial position in 2020-21. The income generation opportunities and efficiency savings developed under the FSF identified £2.093m of savings over a 3 year period (starting with 2021-22), which at that time appeared to be sufficient to balance the budget over the medium term. 75% of this savings target has been built into the 5 year model to mitigate the potential risk of the achievement being lower.

However, as can be seen in 2022-23 external inflationary pressures and world events have impacted every household and businesses due to the current cost of living crisis. These cost pressures have impacted the council too, and all forecasts have been updated with the latest information or assumptions revised considering the inflationary pressures being experienced at this time.

The approved budget for 2022-23 built in the second year of the FSF efficiency savings of £267k, offset by a one-off investment cost of £245k for the CCS waste service to invest in service improvements that are expected to generate additional savings in future years. The overall efficiency savings and income generation recovery plan remains on target to achieve the identified savings by 2024-25.

The financial position remains very uncertain as some income streams are still impacted by behavioural change as a result of the pandemic, along with the continued uncertainty in the economy, and the inflationary cost pressures being experienced now.

The current cost pressures include a pay award risk as the latest employers' offer has yet to be accepted for 2022-23; in the base budget an allowance for a 2% pay award was made, however, anything above that will mean a higher draw on the general fund reserve to balance the revenue outturn. The current employer's pay offer to Local Government staff is a flat rate increase of £1,925 per employee (pro rata for part time staff), which will add a cost pressure of £976k in 2022-23 and beyond. The challenging recruitment and retention of relevant skilled staff is another potential risk for the Council which could have further cost implications.

As part of the preparation for the 2023-24 budget, the pay and some other cost pressures have a certain degree of certainty, whereas others that have been identified are still very unclear. This includes the possible introduction of mandatory food waste collections where we have assumed that we would receive 50% funding from government.

The uncertainties make the task of strategic financial planning very difficult, along with the lack of clarity about government funding for 2023-24 and beyond. The main inflationary costs pressures in the current year also includes utility costs, fuel pricing, the economic and financial impact on our leisure management arrangements and any voids of our commercial rented properties.

Due to the continued uncertainties and financial risks in the financial planning for the council, the priority setting stage of the Future Services Framework tool was completed during 2021-22. The results of this priority setting exercise were approved by the Council on 25 January 2022.

This tool is essential to aid members to determine the priorities of the Council and allocate resources accordingly, whilst complying with the legal requirement to balance the budget. During the preparation for the 2023-24 the FSF prioritisation tool will be revisited during the autumn and the results of the consultation with members reported to Council in January 2023. This is essential to aid the budget setting in March 2023 and consider the actions required over the medium term to ensure the council meets the corporate plan objective of returning to a balanced budget.

In July 2020 £8m from the General Fund Reserve was set aside to support the revenue budget due to the impact of the global pandemic over the medium term. To date we have not yet had to draw on this reserve, but in setting the budget for the current financial year (2022-23) it was anticipating that £808,100 would be required, enabling the Council to work towards a balanced budget within the medium term.

Since the budget was set for 2022-23, Cabinet & Council have approved various additional expenditure for projects or cost pressures that will need to be funded from the Council's general reserve. The items approved are listed below increasing the draw on reserves to £1,683,100:

| **Approved Transfers to or (from) the General Fund Reserve** | £ |
|---|---|
| - In year Surplus/(Deficit) transferred to/(from) the General Fund | -808,100 |
| - Retention of temporary planning agency staff | -56,600 |
| - Cost of engaging specialist professional services to support the Council defend three planning appeals | -74,200 |
| - Engagement of a specialist company to carry out stock condition surveys for Council built assets | -150,000 |
| - Bosham Car Park options appraisal | -20,000 |
| - Leisure Management Contract Support 2022-23 | -110,000 |
| - Graffiti and Fly Poster Removel | -30,000 |
| - Development Management - Workload & Resources - funding to secure interim Applications Team Manager until February 2023 | -40,000 |
| - Goss interactive to move the Council's website platform into the Cloud to improve online services and security | -37,200 |
| - Supporting You project | -300,000 |
| - Coastal Partners project (one off cost approved May 2021 - funded slippage into 2022-23) | -57,000 |
| | |
| | -1,683,100 |
| | |

Taking these known additions to the council's spending plans for 2022-23, along with the forecasts of the costs pressures currently being experienced (as indicated in the updated 5 year model in Appendix 2), the draw on reserves to balance the forecast outturn based on the current assumptions as at 30 September 2022, is estimated at £2.736m. This forecast reflects current assumptions for inflation, the pay award and utilities costs, and there is a risk that the situation for all these significant items may be different by the year end, along with any additional new funding proposals made by Cabinet/Council between now until March 2023.

Underpinning the financial strategy is the approach taken for each of the key financial principles, which considering the uncertainties and risks currently being experienced are essential in the Council's financial planning and the mitigation of the strategic risk for financial resilience.

A position statement and any further actions required, are detailed in Annex A against the Council's key financial principles.

The uncertainty and substantial risks which are the backdrop of the current year, it is important that any new policy decisions consider and adhere to the Council's key financial principles regarding any growth and are measured against the Future Services Framework prioritisation tool. This is important considering the latest forecast for the medium term and the risks associated with some of the key assumptions.

Also under Government policies the business rates retention scheme can be impacted, e.g. small business rate relief etc. and so to compensate the Council for the loss of this funding source, a grant is paid (which is known as a Section 31 grant). Future changes in this scheme have a risk that the compensation awarded may not always fully cover the financial impact.

The current approved 5 year capital and asset renewal programmes totalling £57.601m remains fully funded without the need to borrow from external sources and there is a balance of £7.932m uncommitted resources available for new projects and investment in services. In addition to this the, £8m allocated by Council in July 2020 to support the Council's budget over the medium term due to the impact of the pandemic on its finances remains available at the start of 2022-23. But as noted above, the projected deficit is estimated at £2.736m in the current year would need to be funded from this source.

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. <u>2023-24 Settlement</u>

The provisional Financial Settlement for 2023-24 is expected to be announced by the Department of Levelling Up, Housing and Communities (DLUHC) in December 2022.

Due to the recent changes in Government, it is currently unclear whether 2023-24 will be a one year or multi-year settlement offer. Also, the exact timing of any changes in Government funding due to the Funding Review (FR) and the localisation of business rates impacting future settlements is unknown; it has been assumed in the model that the impact is from 2025-26 based on current intelligence.

Annually as part of the provisional settlement the Government set the threshold criteria which would trigger a Council Tax referendum. It is likely that for 2022-23 the threshold may be set at 2%, or £5 for shire districts, and authorities can set whichever is greater. Since this information will be confirmed after the Government's technical consultation on the Local Government Financial Settlement 2022-23 expected in December, the 5 year model is assuming a £5 council tax increase per annum. Ultimately this is a decision for full Council to make each year during its budget setting in March.

There continues to be economic uncertainty both due to COVID and 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 to balance its budget but 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, but it is assumed that a recovery of approximately 50% will be achieved in the medium term.

3. <u>5 year Financial Model</u>

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, inflation, and other areas of financial risk. In addition, the efficiency savings from the COVID recovery action plan have been reviewed and updated as necessary for year 3 of this plan and reflected in the model, still with a 25% contingency to mitigate risk. The 5 year 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 forecast.

No new policy options have been included in the 5 year model for 2023-24 and future years, except to incorporate previous council decisions since the budget for 2022-23 as set in March 2022. The cost implication of these have been taken into account in the 5 year model for the current year, and beyond if they impact future years. This is because whilst there is currently a small surplus in the projections for 2023-24, over the medium term there is an underlying deficit of £565k (2025-26) to £467k (2027-28). The forecast for 2024-25 indicates a surplus of £656k, however this is not sustained and due to the deficits forecast over the medium term and the risks of the assumptions underlines the position of no new policy options.

The main assumptions in model are:

a. **Inflation** - Uplifts for inflation are given in table 1 below. Inflation this year has been extremely volatile and due to the unstable economies around the world impacting key supplies i.e., utility and fuel costs.

   **General inflation** - Is currently running at 8.8% in September (8.6% August 2022) for CPIH (Consumer Prices Index including owner occupiers' housing costs), whereas the Consumer Price Index (CPI) increased to 10.1% in September from 9.9% in August 2022. The model uses the September's CPI rate for inflation in the 2023-24 budget.

**Pay inflation** – The model builds in the impact of the current offer for 2022-23 of a flat rate increase of £1,925 for employees (pro rata for part time staff). An allowance for future pay inflation is also reflected in the model, but pay awards are subject to national negotiations annually. This is a potential risk factor if pay increases match general inflation levels creating a cyclical inflationary pressure. Currently the exact pay award for 2022-23 is out for negotiation with unions, and as such is still a major risk that the current additional costs estimated in the model could be insufficient.

**National Insurance** – The Government's recent announcement for the reversal of the 1.25% NI which was brought in in April 2022 with effect from 6 November 2022 has been reflected in the model.

**Summary** - It has therefore been extremely difficult in formulating this year's strategy to predict inflation levels over the medium term, the assumptions used are reflected in Table 1. The assumption for the 2023-24 budget for general inflation and income is based on September's CPI.

Due to the level of inflationary impact being experienced currently, the table also shows the adjustments used for in year monitoring on cost pressures and the required additional support from the Council's general fund reserve.

Table 1: Inflation Assumptions

| | 2022-23* | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---|---|---|---|---|---|
| Pay | 7% | 5% | 3% | 2.50% | 2.25% | 2% |
| Pension | 0 | (0.4%) | 0% | 0% | 0% | 0% |
| General prices | 6% | 10.1% | 5% | 3% | 2.50% | 2% |
| Income | 0 | 10.1% | 5% | 3% | 2.50% | 2% |

*Note – For 2022-23 this is the additional allowance for inflation on top of the base budget assumptions i.e. 2% pay award and 4% for general prices.

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 which have been extremely volatile in 2022-23. For utility costs the assumptions note the purchase in advance agreement that the Council has until 2024, with an annual renewal.

The model will need to take account of the recently announced Government support in the utility market once details have been received and the impact known on the Council's contract. This will impact only 2022-23 outturn, as the support in the commercial market is for 6 months only until March 2023.

**Income** – The 2022-23 budget reflected a £100k reduction in the target for Planning Services income. No adjustment was made for the Car Parking income target for 2022-23, however Q1 monitoring for 2022-23 has indicated that Car Parking income was forecast to be above their target (additional income £360k including season tickets).

The model reflects a partial recovery of income streams returning post Covid, as £1.428m was originally removed from base budgets. The assumption for income recovery for future years is based on Q1 monitoring but reducing dampened by 25% as this is a potential area of risk. It is anticipated that recovery over the medium term will be only £768k, approximately 50% recovery.

It has been assumed that the general rate of inflation is applied to all the discretionary income streams including car park income. Any difference to this assumption under the Council's charging policy will need to consider the financial impact against the Future Services Framework.

The Bank of England Base Rate is currently 2.25% (September 2022), which is the highest it has been since 2008. The anticipation is that there will be ongoing inflationary pressures in the economy, so interest rates may need to continue to rise with further rises of 0.25% in November and December, peaking at 2.75% by the end of 2022. Previous market expectations suggested the Base Rate would peak at around 4% in mid-2023, however since the recent mini budget the expectation that the rate may have to rise to 6% or higher to protect the pound and reduce inflationary pressures in the economy.

b. **Service Cost Pressures** have been identified and are set out in appendix 2 to the report. The most significant cost pressures in the current year relate to the impact of the lower rental income from commercial properties and the associated costs of void properties, including St James due to delays relating to the installation of a new sub-station, and ongoing support for the leisure management contract in the current year.

Future cost pressures include a cost of £1m from 2025-26 for potential mandatory food waste collection, offset by 50% government funding, as the impact of the Environment Acts on this matter has yet to be announced. Plus, the impact of housing growth in the district on the demand for waste collection an allowance of £100k from 2024-25 has been included in the model.

WSCC – On street parking enforcement contract. The model has assumed that the council may lose the contribution to overheads of £186k from 2024-25, if the Council no longer delivers on this service contract.

c. **Future Services Framework (Efficiency Savings)** – The remaining targets have been revisited and the model reflects the latest position for phasing, and a 25% reduction on the savings identified to mitigate risk. This savings/income generation programme remains on target.

The one-off investment cost for the expansion of the CCS waste service approved for 2022-23 has been removed from the model from 2023-24. The model assumes the achievement of the target of £1.570m (75%).

d. **Council Tax** - 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 2023-24 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 since 2020-21 has been awarded for one year only rather than the previous legacy payments for a four year period. It is anticipated that the NHB will be changed as part of any future fundamental Government funding review, which may take place in 2025-26.

f. **Investment Income** – Expectation that long term investments would be increased by a further £11m. £3m was invested in the CCLA Diversified Income Fund from 1 April 2022 and a further £3m in September 2022, with an anticipated return rate of 3% to 3.5%.

A key issue is that nothing has changed on the accounting position for pooled funds – movements in fair value will be charged to the General Fund from 2023-24 unless the statutory override is extended. The investment risk reserve has £1.429m to cover this potential real cost to revenue. Due to the volatility in fair value for these types of investments currently, and the timing and outcome of the consultation for the statutory override may not be known during the budget cycle; it is recommended that the investment risk reserve is increased up to £1.457m transferring this from the General Fund Reserve in 2022-23.

Returns will depend on the type of asset and fund for any further investments – Equity funds (UK and Global) on Arlingclose's list averaged 4% return over the past year (ranged 3.17% to 5.39%). Multi-asset funds averaged around the same time ranged from 3.25% to 5.08%.

The model reflects the extra income anticipated from the further investments undertaken since the budget was set for 2022-23. This includes the £3m invested in April, with a further £8m with an assumed rate of return of 3.5% which is planned to be invested during the latter part of 2022, following completion of due diligence checks for new counterparties.

To help mitigate some of the risk, a lower rate of return has been assumed in the model, than the expected returns set out by Arlingclose. The timing of these additional long-term investments will consider the current situation following the Government's mini budget which has caused some turmoil in the markets.

g. **Leisure Management Contract** – The model reflects the expectation to return to SLM's contractual position from 2023-24 until 2025-26 (the final year of the contract). This is a substantial risk in the model as to what occurs now and after 2025-26. Effectively, the model reflects the support in 2022-23 of £110k already approved by Cabinet, in addition to having foregone the management fee of £674,500 when the budget was originally set.

<u>Summary</u>

Whilst based on the assumptions contained in the model, the Council should be able to set a balanced budget for 2023-24 with a forecast small deficit to address. This forecast is not without some significant risks in terms of the leisure contract, inflationary pressures, and other cost pressures outside of the Council's control. Plus, the forecasts indicate that Council will need to consider future changes to bring in a balanced budget from 2025-26 to 2027-28. Taking this position the model reflects no new policy options, inflation increases on discretionary income streams in line with its fees and charges policy, and the potential maximum council tax increase in line with past government council tax referendum criteria.

In line with the Council's key financial principles the use of reserves for ongoing expenditure is unsustainable, and recurring savings and / or additional income will be required to return to a sustainable position. 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 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; the Council approved £8m from the general fund reserve to support the revenue budget.

Under the Prudential Code the Council is required to set and monitor treasury management prudential indicators in relation to its financial strategy and the assumptions being made.

| **Forecasts** | **2023-24** | **2024-25** | **2025-26** | **2026-27** | **2027-28** |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Net Revenue Stream | 13,971 | 13,261 | 14,655 | 15,041 | 15,367 |
| | | | | | |
| Estimated Financing Costs to Net Revenue Stream | 900 | 900 | 900 | 900 | 900 |

| Forecasts | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| Estimated Net Income from Commercial & Service Investments as % of Net Revenue Stream | 6.4 | 6.8 | 6.1 | 6.0 | 5.9 |

The income from commercial investments is expected to remain below 10% of the Council's net revenue stream in line with the prudential indicator of proportionality for commercial investments. It should be noted that forecasts for commercial income levels for 2023-24 and future years are not available at the time of writing this strategy. The figures quoted are the best estimates assuming no change, which is felt acceptable given the present budgetary intentions of the Council.

4. Beyond 2023-24, the Risks and Opportunities

From 2023-24 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 delayed Funding Review which will assess the financial needs for local authorities; the exact timing of this change is still 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 (2025-26 assumed), 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 will cease before these major reforms. Grant payments since 2020-21 have been for one year only.

- 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 the wider economic uncertainty. 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. An assessment for future years has been built into the five year model. This continues to 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 short 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. A recent consultation on this matter has yet to be concluded by the Government. The Council is currently carrying approximately £3m of potential losses due to the uncertainties in the market after the recent mini budget. The Investment Risk reserve currently holds £1.429m to cover this cost, but the new investments being undertake in 2022-23 may have an impact on the adequacy of this reserve, as the Council now has £40m in long-term investments. Depending on the assessment of fair value risk and SLT's view of the adequacy of the reserve could be increased to £1.478m to £2.886m, requiring an adjustment ranging between £0.049m to £1.457m. It is recommended that a further £1.457m is transferred from the General Fund Reserve to the investment risk reserve in 2022-23. The adequacy of the reserve can be reassessed once the outcome of the consultation is known regarding the statutory override.

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

- Changes in the Homeless Prevention Grant could result in reduced funding from 2025-26 of £163K or under another option a gain of £80k. Under either option dampening will occur on the gain or loss during the transitional period of 2023-25.

- Potential Industrial Action – CCS. Several Councils in the South East region have experienced industrial action by GMB members within their refuse teams over recent months. Although such industrial action at CCS is not imminent it remains a possibility. Any settlement over the national pay award negotiations would increase the structural budget deficit.

- Government Intervention on Energy Costs – Following the recent Government announcement on energy support for the non-domestic market. The Council's energy supplier has stated that the support will apply to fixed contracts agreed on or after 1 April 2022, as well as to deemed, variable and flexible tariffs and contracts. It will apply to energy usage from 1 October 2022 to 31 March 2023, running for an initial six-month period for all non-domestic energy user. This support will impact 2022-23 only.

- Additional Council Tax on Second Homes – The Government has been considering a second home premium of up to 100%, which could generate extra council tax income. However, this is subject to legislation changes which are still being discussed at the committee stage, including the scheme design etc. so details are currently unknown. The Council would need to approve any introduction of this premium by March 2023, if the legislation is in place, for a start date of 1 April 2024. So, whilst this is a potential opportunity there is a currently a lack of detail for the timing of any legislation nor any scheme details.

Summary of the Risks / Opportunities

| Risk | Probability | Impact |
|---|---|---|
| SLM Leisure Contract | High | High (TBC) |
| Green Waste service being mandated as free | Low | High (£1.3m) |
| Industrial action at CCS | Medium | Unknown |
| Delayed new long-term investments | High | High (£1.4m) |

| Opportunity | Probability | Impact |
|---|---|---|
| Government Intervention on Energy Costs | Medium | Unknown |
| Additional Council Tax from Second Homes | Medium | High (£0.6m) |

## 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 decisions agreed by Council since setting the 2022-23 budget.

It also reflects an anticipated reduction in Government funding from 2025-26 due to the expected Funding Review and the potential resetting of the Baseline for Business Rates. The timing of both major changes to local government funding is currently unknown.

The Council’s reliance on fees and charges to help balance the revenue budget continues to come under pressure because of post pandemic behavioural change and the uncertainty in the local and national economy. The Council must take account of changes in people’s behaviour in relation to home working and shopping in the high street, both of which have an impact on trends for car park income.

Whilst the 5 year Financial Model anticipates that the Council is able to set a balanced budget for 2023-24 with a small deficit. There are some significant risks associated with some of the key assumptions made, as explained in the strategy, which could be detrimental to the forecasts. The situation will continue to be updated as greater clarity and information is gained during the budget process for the development of the 2023-24 budget, which will be considered by Cabinet and Council in February 2023 and March 2023 respectively.

The model currently indicates that there is an underlining shortfall of approximately £565k to £467k during the period of 2025-26 through to 2027-28, which the Council will need to address.

Considering the key risks set out in this strategy it will be imperative for the Council to refresh the FSF prioritisation tool after the May 2023 elections to identify where future savings or income generation opportunities can help mitigate the forecast deficit.

The Council is legally required to set a balanced annual budget, any shortfall in the short to medium term will need to be considered and addressed in line with the key financial principles, and the 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 the long term.

## 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.** | Corporate Plan:<br>• Is the driver for our decision making, including the allocation of resources, and sets the Council's work plan.<br>• The objectives of the Corporate Plan for Finance are underpinned by the Council's Financial Strategy, Treasury Management and Investment Strategies and the Capital Strategy.<br>• Discretionary service priorities are assessed against the prioritisation tool developed as part of the Future Services Framework (FSF).<br>• The Corporate Plan is reviewed for performance against targets and outcomes.<br>• A resources statement details one off funding available for investment in new and emerging projects for corporate planning.<br>• 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 efficient, high-quality services (where possible), using both the Resources Statement and the rolling 5 year Model. | • Regular monitoring and reporting against the key targets and milestones by the Strategic Leadership Team (SLT) and members.<br>• New and emerging issues and service requirements will be considered by SLT and members during strategy planning events aided by the Future Services Framework as approved by Council on 21 July 2020.<br>• Members may have to make difficult decisions about service provision and competing priorities to achieve a balanced budget. |
| **2. Ensure the revenue budget and capital programme remain balanced and sustainable** | • It's a legal requirement to set a balanced revenue budget and to ensure the capital & asset replacement programmes are fully resourced. | • 5 year financial model is updated regularly in year to aid financial planning for senior officers and members. |

Annex A

| Principle | Narrative | Actions |
|---|---|---|
| **over a rolling 5 year period**. | • The Statement of Resource Allocation demonstrates that the capital & asset replacement programmes remain affordable.<br>• Minimum level of General Fund reserves currently set at £4m. The appropriateness of this is assessed by the Corporate Governance & Audit Committee (CG&AC).<br>• £8m has been set aside to support the revenue budget over the medium term for recovery after the Covid pandemic. (Council July 2020).<br>• The 5 year financial strategy model updated for strategic financial planning for the medium term, underpinning the development of the forthcoming financial year's annual budget.<br>• The CG&AC assessment of the minimum level of reserves at their autumn meeting, with their recommendations being made to the next Cabinet meeting.<br>• Future Government funding is uncertain with the expected changes and timing of the Funding Review, and the localisation of Business Rates unknown. Plus, the impact of any fiscal statements or Spending Reviews in the coming year.<br>• It's currently unclear whether the financial settlement for 2023-24 will be for one year only or a multi-year allocation. Provisional details are expected from the Government in December 2022. | • Cabinet and all Group Leaders are given regular briefings on the financial position throughout the year.<br>• Other political groups are also briefed on the current financial situation as part of the recovery plan, along with regular review by the Overview and Scrutiny Committee.<br>• Senior managers will continue to monitor the delivery of the FSF Recovery Plan.<br>• Quarterly in year budget monitoring for revenue and capital schemes undertaken and reported to all members on the Modern.gov website.<br>• CG&AC annual review of the minimum level of reserves.<br>• To update the 5 year model in light of any future Government Funding changes once information becomes available regarding future settlements, or on the Business Rates Retention Scheme.<br>• SLT & members to develop options for an action plan to address any funding gaps. |

| Principle | Narrative | Actions |
|---|---|---|
| **3. Over the next five years return the Council to a position of non-dependency on reserves.** | • To adhere to the legal requirement of a balanced budget it is essential that the Council returns to a balance budget without reliance on reserves, which is unsustainable in the long term.<br>• £8m was set aside in July 2020 by Council to support the revenue budget and to protect public services, during the phased approach for delivering the COVID Recovery Plan of efficiency savings and income generation achieved the target of £1.570m.<br>• Risk mitigation taken includes realistic targets under the recovery plan as only 75% of the savings identified built into the 5 year financial model.<br>• Minimum level of general fund reserve reviewed annually.<br>• Resources statement to identify commitments and new resources updated and reviewed regularly by members and senior officers.<br>• Annual contribution for the Asset Replacement Programme funding built into budget, and programme reviewed and updated regularly.<br>• Repairs and maintenance budgets in base budget to maintain council buildings rather than use of reserves.<br>• Similarly, other recurring items still funded from reserves must be built into future revenue budgets.<br>• Financial Services 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. | • Monitor the Recovery plan, and the availability of reserves.<br>• Regular updates on the 5 year model reviewed by SLT and Members.<br>• Resources statement reviewed and updated for strategic financial planning and the annual budget cycle.<br>• 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 2027-28.<br>• To build future demands for recurring expenditure into the 5 year Financial Model, and thereby into any potential savings target.<br>• To avoid funding recurring expenditure from reserves as a key financial principle.<br>• Annual review of asset replacement programme with responsible service/budget managers by Financial Services. |
| **4. To maintain a balanced budget in a climate of reduced funding/inflationary pressures, savings in the revenue budget or external** | To achieve some certainty about capital and revenue funding before entering into new commitments the Council has:<br>• Robust project management processes to ensure the full consequences of embarking on projects are known and understood from the outset for both revenue and capital. The whole life costs of the project must be considered. | • All Project Initiation Documents (PIDs) are to be based on whole life costs and include an exit strategy. |

| Principle | Narrative | Actions |
|---|---|---|
| **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.** | • An assessment of affordability, prudence and proportionality of the Council's Capital Programme should be undertaken in respect of the financial capacity and risks of major/significant projects before the commencement of the project (must be part of the project's PID) and maintained over the life of the project's risk register.<br>• New investment proposals should be linked to the Corporate Plan and Capital Strategy are assessed to ensure that they represent value for money and achieve corporate outcomes.<br>• Projects dependent on matched funding the terms and conditions must be fully understood and agreed by Council and the potential financial risks identified for noncompliance on the conditions set.<br>• Projects should only proceed once all funding has been secured, and the conditions have been assessed and evaluated.<br>• The relevant service must 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.<br>• Copies of all funding agreements should be sent to the Financial Services Division to ensure all possible future liabilities are considered with documentation retained for accounting purposes and external audit review. | • Adherence to the Council's Project Management procedures, and Risk Management Strategy and Policy.<br>• Projects assessed against the FSF prioritisation tool for Capital.<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. |
| **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.<br>• 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. | In year monitoring and during the annual budget process:<br>• Essential services that experience an increase in demand will be recognised and supported.<br>• Where there is an on-going reduction in demand beyond one- |

| Principle | Narrative | Actions |
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| | • This is a key principle as future changes in demand on services are bound to occur.<br>• Prioritising the Council's services will enable scarce resources to be directed to areas of need and priority over the medium term. | year resources should be reviewed 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 an approved Fees & Charges Policy (Cabinet December 2020) and has limited discretion in setting fees and charges for some services.<br>• 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.<br><br>• Key principles of the policy are:<br>- the user should pay the full cost for discretionary services unless there is a clear approved policy reason not to do so.<br>- As a minimum, services should aim to break even<br>- Services should have regard to community needs for services and affordability<br>- Fees and charges will increase in line with the assumed inflation rate stated in this Financial Strategy as a minimum, unless the market or benchmarking indicates charges could be accommodate a higher increase. | • As a minimum fees and charges are increased in line with the assumed inflation rate in the Financial Strategy,<br>• Service managers to consider their fees & charges in advance of the start of each financial year.<br>• 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.<br>• Under the policy some services will be charged at a commercial rate, whereas others may be subsidised to encourage their use.<br>• New fees and charges should be agreed as part of the annual budget process where possible. |
| **7. Continue to review the Council's costs to find further savings.** | The Council has a proven track record for identifying and achieving efficiencies and new income generation targets to protect services to the community.<br><br>• The current FSF recovery plan is still expecting to achieve a total target of £1.570m by 2024-25, the phasing of the remaining | • To achieve the remaining target of the £1.570m efficiencies detailed in the Recovery Plan (approved July 2020). |

Annex A

| Principle | Narrative | Actions |
|---|---|---|
| | balance not in 2022-23 Base Budget is reflected in the 5 year model.<br>• To address any funding gap services will seek to identify further service efficiencies or service provision changes whilst ensuring services are effective and support community need.<br>• The focus is to ensure services are delivered to an appropriate standard at a competitive unit cost.<br>• Aside from formal service reviews, service managers should normally be considering the best and most cost-effective procurement methods in their service areas. | • To consider options to balance the revenue budget funding gap indicated in the 5 year model, with immediate oversight by SLT.<br>• To use the FSF prioritisation model to aid decisions on service changes or efficiencies. |
| **8. Match Council Tax increases to a realistic and affordable base budget.** | To protect services the Council will:<br>• The Financial Strategy will reflect the most beneficial increase in Council Tax over the next 5 years, whilst accepting that such an objective may be impacted by national government policy.<br>• For 2022-23 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 2023-24 in early December. | • The 5 year model reflects the highest increase assumed before triggering a referendum under the Government's threshold criteria.<br>• The model will be updated as necessary once the Government's criteria is known for the forthcoming financial year(s).<br>• Full Council will decide the actual Council tax increase at its March budget setting meeting. |
| **9. Budgets should be pooled with other service providers to achieve more effective and cost-efficient outcomes for the community.** | • The Council has a track record for working with other agencies and key strategic partners to maximise its ability to meet strategic outcomes under the Corporate Plan and achieve community outcomes.<br>• 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 | • Key strategic partnership risks are considered by the Corporate Governance & Audit Committee<br>• Outcomes from joint working arrangements and other agencies are considered by the Overview and Scrutiny Committee. |

| Principle | Narrative | Actions |
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| | members to ensure public funds are being used in the most efficient way to achieve greatest impact for the community. | • Exit strategies must be in place as part of the agreements. |
| **10. New Homes Bonus (NHB) This should be allocated annually, and only committed once received.** | • As NHB is not ring-fenced the Council has flexibility to choose how it wants to use this source of funding.<br>• Previous Government advice was that NHB was expected to help “reward” communities that have taken housing growth.<br>• Furthermore, it was expected that councils consult with their communities on its use, and in areas where there is a national park as the planning authority, to also consult with the park authority.<br>• NHB can be used to help balance the revenue budget in the short term only since the grant is for one year only.<br>• The Council has reserved the NHB grant for community and other uses once it has been received. In the past it has been used to help reward communities by funding one off projects. | • The NHB is to be reserved for community and other uses after it has been received.<br>• To keep this funding under review considering any fundamental changes in future Government Funding proposals.<br>• To review annually during the annual budget if this funding source is required to aid setting a balanced budget.<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 |
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| **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.** | • The pooling of Business Rates is considered by the West Sussex Chief Finance Officer's Group annually, when the Government consultation is launched.<br>• Some of the authorities in West Sussex operated a pool in 2022-23. To maximise the gain to the County as a whole, several districts did 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>• For 2023-24 the same pool arrangements are being proposed as those operated for 2022-23, subject to the outcome of the provisional settlement when authorities will assess if the arrangement remains beneficial to all.<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 considering the potential risk associated with being in a pool. |
| **Resources and Capital Programme Principles** | | |
| **A. 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** | • This is a long-established principle whereby non-recurring resources are used to meet non-recurring expenditure.<br>• The revenue budget should not be reliant on reserves for recurring expenditure which is contrary to the key financial principle 4.<br>• Interest receipts are diverted to support the capital programme except for the Local Authority Property Fund (LAPF) related income and the long term multi asset bond investments.<br>• Temporary sources of funding must 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.<br>• Adhere to the Council's project management processes.<br>• All new projects proposals are assessed against the FSF prioritisation for Capital/Projects or the Investment Protocol. |

| Principle | Narrative | Actions |
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| **to support revenue as the income streams earned are much less volatile.** | | |
| **B. Ensure that a sufficient level of reserves is 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 key outcome in meeting the Corporate Plan's objective of financial resilience is:<br>• To maintain the minimum level of reserves to offer resilience against the unexpected costs and provide resources for new initiatives including one-off costs to assist with reshaping the organisation.<br>• The 5 year Capital/Projects and Asset Replacement Programmes are an estimate of the schemes' likely cost, with funding resources reflected in the Resources Statement to meet the need.<br>• The capital programme is by its nature constantly changing and the resource position will be continuously monitored to ensure it remains affordable.<br>• 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>• 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. |