

# **Chichester District Council**

**CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2016**

## **Financial Strategy and Plan 2017/18**

### **1. Contacts**

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### **2. Executive Summary**

The purpose of this report is to assist Cabinet in updating the Council's financial strategy and action plan to help guide the management of the Council's finances during a period of diminishing resources, and to build upon the work already achieved in this area in previous years.

The Council currently anticipates further government funding reductions over the course of the remainder of this parliament which, without intervention, would create a deficit in our revenue position that must be addressed if we are to comply with the legal requirement of setting a balanced budget each year. This report sets out the key financial principles and actions that will assist in this process.

The challenge facing the Council remains being able to provide services that meet community needs with a significantly reduced overall level of government resource.

The key recommendations from this report will help to formulate the 2017/18 budget, and level of Council Tax.

### **3. Recommendation**

**That the committee consider and recommend to Cabinet:**

- 3.1. In the short to medium term the Council maintains a minimum level of reserves of £5m for general purposes.**
- 3.2. To maintain the current provision of £1.3m of revenue support to smooth the impact of funding reductions, and volatility associated with localisation of Business Rates.**
- 3.3. The Council should continue to aim to set balanced budgets without the use of reserves, although some use of reserves in the short term may be necessary.**
- 3.4. That in order to achieve a balanced budget over the medium term, officers should monitor delivery of the agreed deficit reduction plan.**

## **4. Background**

- 4.1. The Council's 5 year Financial Strategy and the principles contained within it underpin the forthcoming budget cycle. Earlier this year cabinet approved a deficit reduction plan and gave delegated authority to the Head of Finance and Governance to take up the government's four year funding offer. That four year settlement will help to provide a degree of certainty. However, with much of our income being related to the state of the economy in the form of retained business rates and fees and charges a great degree of uncertainty regarding the financial position still remains. The Council, therefore, has to maintain a prudent and robust approach to medium term financial planning, in order to manage service delivery with increasing costs, whilst also addressing continuing reductions in available government resource.

### **4.2. The 2017/18 Settlement**

The 2016 spending review is not expected until 23 November, after this report will have been published, and officers will therefore provide an update at the meeting. At the time of drafting this report, DCLG have not yet confirmed to those authorities, such as Chichester, that their four year funding agreement has been secured. It is hoped that this will also be confirmed in time for the committee meeting.

- 4.3 It is also possible, although unlikely, that there may be another Council Tax freeze grant on offer for 2017/18. The government have however, confirmed that the referenda principles for excessive council tax increases for shire authorities will again be 2% or £5 whichever is greater. This helps low taxing authorities such as Chichester, as a small percentage uplift would benefit us much less than some other authorities that have higher council tax levels. This means that this authority will be able to increase council tax in 2017/18 by £5, generating approximately £250,000 of additional income. This has been assumed in the 5 year model for 2017/18, however, the government set these referenda thresholds annually, and so the five year model assumes just 2% per annum thereafter.

### **4.4 Beyond 2017/18**

The previous coalition Government pursued a very clear fiscal policy which has resulted in significant funding reductions for local government. It seems that this trend will continue for the foreseeable future.

- 4.5 The government have announced full localisation of business rates (Non-Domestic rates or NDR) by 2020, and a complete review of the operation of the New Homes Bonus scheme (NHB). Consultations have commenced but full details as to how these schemes will operate in the future are still unknown. We do however know that the government's objective with the NHB scheme is to reduce the overall cost by two thirds. We also know that full localisation of business rates will still have tariff and top-up payments. This will redistribute NDR income away from authorities such as Chichester where the income would be in excess of our perceived need for funding, to other areas where need exceeds NDR income. Neither of these scheme changes is expected to be implemented for the 2017/18 financial year.

- 4.6 The 5 year financial model (Appendix 2) has been updated to reflect the officers' best estimates of what may occur in 2017/18 and beyond. The model assumes the deficit reduction plan will be delivered on schedule, together with further savings and investment returns managed by the Commercial and Business Improvement Programme Boards. The current model also assumes the balance of savings from the leisure outsourcing project, and savings anticipated from the potential shared service project. This model will of course be kept under review so that the Council has time to respond should the situation, and government funding, deteriorate faster than currently predicted.
- 4.7 The four year funding offer that the government announced alongside the 2016/17 settlement has been built into the 5 year model. This covers the period 2016/17 to 2019/20. Officers have therefore had to make assumptions beyond that period. It is hoped that the government will confirm the four year funding is secured before the meeting.
- 4.8 This council, along with Arun, Adur, Worthing and West Sussex County councils have operated a business rate pooling arrangement. This enables the authorities to divert some business rate growth that would otherwise have been paid to the government into the local pool. The operation of the pool in 2016/17 is forecast to retain £2.7m. This is then available to fund growth related projects that benefit the whole county area. It is therefore recommended we continue to participate on the West Sussex business rates pool.
- 4.9 As reported last year, the Council's Estates Service has been pursuing a number of investment and asset realisation opportunities. In addition to the economic and community benefits that such investment brings to the district, they also help to reduce our dependence on central government funding. To supplement this, officers have also pursued investment in the Local Authority Property fund. These are pooled investments in property, and as such offer greater diversity and are backed by assets providing security over the longer term. Although offering slightly lower income returns than our own in house property investments (circa 5% versus 8 – 9%) they do offer an alternative source of relatively good returns for long term balances, with only modest capital risk, as opposed to traditional Treasury Management deposits which currently generate just 1%. The Council has invested £10m in the property fund which should return between £400,000 and £500,000 per annum to assist the deficit reduction plan.
- 4.10 Appendix 3 sets out our current level of reserves, the commitments against those reserves, and therefore the potential funds available for the Council to invest in new schemes.
- 4.11 **In addition to government funding, other uncertainties and risks still remain which will impact on the Council's financial position, and make forecasting budgets more difficult.** These include:
- **Income from Fees and Charges.** The Council currently relies on £16m pa of income from its fees and charges to balance its budget. Much of this is discretionary spending, or linked to the economy.

- **The effects of inflation.** Inflation remains extremely low at present, however, some commentators have suggested increases to around 4% during 2017, although the bank of England have indicated less dramatic increase to 2% is likely. The overall effect of inflation on the Council's budgets is fairly neutral as expenditure inflation is largely offset by income inflation. However, some services have struggled in recent years to pass on the effects of inflation in setting their fees as customers are unable or unwilling to bear the increased cost. Fee levels have not kept pace with inflation in all services.
- **Pay settlements.** Following repeated pay freezes, local government has returned to limited increases. While the current Government is still advocating pay restraint there is a risk over the longer term of increased pressure on national pay negotiations, especially if private sector pay increases outstrip the public sector. The current 5 year model assumes a further 1% increase in 2017/18, and 2% thereafter. Some services have already struggled to recruit staff, especially where we are competing with the private sector, and some limited use of market supplements has had to be offered to fill vacancies. A separate report has already been presented to Cabinet on addressing the pay structure at the Council. £300,000 has been built into the 5 year model to address this.
- **The localisation of Business Rates.** This brought both opportunity and risk, as a change in the business rate base locally will directly impact our funding. Localisation brings with it volatility as losses on collection will largely fall on local councils in future rather than on the national pool. The government's announcement to fully localise NDR by 2020 may present an opportunity to retain more growth, but all of the other associated risks are likely to remain. Consultation has commenced, but still no details are available as to how this will be implemented, or the impact it will have. However, in the interim it is proposed that we should continue to pool business rates with other authorities in West Sussex to maximise the amount of funding that can be retained.
- **The localisation of Council Tax Reduction (CTR).** Currently, expenditure on this has fallen since the 2016/17 budget was set. However, localisation means that any increase in demand for support will have to be met locally in full in future.
- **Council Tax increase.** Last year full Council took advantage to secure recurring income by option to take up the new freedom to low taxing authorities to increase their council tax by £5 rather than 2%. The government set the increase "limits" annually i.e. the limits above which a referendum must be held. It has been confirmed that for 2017/18 the £5 option will again apply, and this has been assumed in the 5 year model. Beyond that officers have assume 2% per annum.
- **Welfare reform,** including changes to Housing Benefit cap and the phased introduction of Universal Credit, which will impact on certain services such as Benefits and Housing. A review of the Council's discretionary housing payments policy is currently being carried out and Officers in the Benefits and Housing services are working together to

ensure our resources are used to best effect and to assist those most affected by the changes.

- **The New Homes Bonus** where funding is linked to growth in domestic properties, but is funded nationally by reducing the amount of government grant. This effectively, is a distribution of local government funding via a different mechanism, and is not new funding. The future of this source of funding is very uncertain, and is subject to a government review. In the current 5 year model officers have assumed reductions beyond 2017/18. Again this may become clearer after the CSR announcements on 23 November.
  - **Amended Waste Regulations and increased recycling targets.** New and tougher recycling targets and the need to separate out types of recyclate may drive substantially increased waste costs. An indicative estimate of £0.8m per year has been included in the 5 year model based on officer's current projections.
  - **Cultural grants to the Chichester Festival Theatre and Pallant House Gallery.** These are currently funded from earmarked reserves which will be exhausted in 2017/18. These are the subject of a separate report to the December Cabinet.
  - **Political environment.** The EU referendum outcome and subsequent developments including the recent legal challenge, and possibility of a parliamentary election have added greater uncertainty. It is too early to determine exactly how a withdrawal from the EU will impact on the council, and this will have to be continually reviewed and any impacts reflected in the financial model as and when they are known.
- 4.12 The Council took early action as the 2008 financial crisis started to emerge and has, from 2010/11 to 2015/16, achieved in excess of £8.6m of savings and increased income. In May 2013, members approved a £2.4m deficit reduction programme. This was exceeded and delivered £3.6m. In September of this year members received a further savings plan based on the latest five year financial plan. This sets out targets to deliver further savings / additional income of £3.8m. It has been via this medium term modelling that the Council has been able to plan ahead, and implement sensible and considered efficiencies in a timely fashion. This planning has helped to avoid making severe service cuts, yet thus far enabled us to balance our budgets, and invest in new priorities. Additionally it has enabled us to preserve the NHB funding for community benefit. A further benefit of careful planning has been that we have been able to implement localised CTR in a way that has protected claimants.
- 4.13 The current 5 year financial model (Appendix 2) has been updated to reflect current assumptions including government funding reductions and a council tax projections, as well as projected costs and planned efficiencies. This demonstrates a balanced budget over the next 5 years subject to delivery of the deficit reduction plan agreed in September and all of the other uncertainties set out above.

## **5 Outcomes to be achieved**

- 5.1 The purpose of this report is to set out the key financial principles that should be applied over the short to medium term to help maintain a robust and balanced financial position for the Council, and which will be used to underpin the annual spending report in February 2017 to set the 2017-18 budget and Council Tax requirement.
- 5.2 This will help the Council to deliver its Corporate Plan objectives by having a sound financial position that is balanced over the medium term and enable investment in priority services.

## **6 Key Financial Principles**

- 6.1 The financial principles that are used to underpin the Council's financial strategy and ensure a robust budget process are set out in Appendix 1. These are well established now, and have served us well in ensuring a sustainable balanced financial position over the medium term.

### **6.2 Treasury Management**

- 6.2.1 The Council is required to agree its treasury management policy annually, and has made further changes during the year, following a task and finish group review. Performance reports are also received during the year. The key objectives are security of the principal sums invested, and liquidity. Maximisation of investment return is a secondary objective. As such, removing revenue reliance on investment income not only strengthens the Council's financial position, but also reinforces the primary objective of the treasury management policy. However the use of a property fund would enable the council to invest balances in a long term fund which would provide a predictable return that could be used to assist in closing the projected budget deficit.
- 6.2.2 The Treasury Management Policy, together with the Minimum Revenue Provision policy and Prudential Indicators are an integral part of the Financial Planning process, but they will be reported separately to Cabinet early in the New Year.

## **7 Alternatives that have been considered**

- 7.1 The Financial Strategy is key to ensuring the Council continues to set a balanced budget even with all of the uncertainty and pressure faced by the Council in the current economic climate.
- 7.2 Various alternatives exist within the strategy and the 5 year plan. The NHB could for example be used to support revenue budgets, but this would be contrary to the financial principle of not using non-recurring income to fund recurring expenditure.
- 7.3 Although the financial model assumes certain levels of Council Tax increases, it will be for the Council to determine the appropriate level annually. For 2017/18 the Council Tax levels will be recommended by Cabinet at their February 2017 meeting for Council to consider at the March 2017 meeting.

## **8 Resource and legal implications**

- 8.1 The financial principles will help to guide the management of the Council's finances over the short to medium term, and will underpin the budget process that will be reported back to Cabinet in February.

## **9 Consultation**

- 9.1 Corporate Governance and Audit Committee are asked to consider this report and make any recommendations as appropriate to Cabinet.

## **10 Community impact and corporate risks**

- 10.1 The Council has taken action over the last five years to achieve a relatively strong financial position. However, there remains a great deal of uncertainty over the future with many different factors that may impact on the Council and change the financial forecast. The financial principles contained within this report will help the Council maintain its financial standing and protect valuable services to the community, whilst giving flexibility to respond to changes in the future.

## **11 Other Implications**

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| <b>Crime &amp; Disorder:</b>             |  | None |
| <b>Climate Change:</b>                   |  | None |
| <b>Human Rights and Equality Impact:</b> |  | None |
| <b>Safeguarding:</b>                     |  | None |

## **12 Appendices**

- 12.1 Appendix 1 – Financial Principles  
12.2 Appendix 2 - Five Year Financial Model.  
12.3 Appendix 3 – Statement of Resources.

## **13 Background Papers**

- 13.1 None