Joint Strategic Committee
17 July 2024

Key Decision [~~Yes~~/No]

Ward(s) Affected: All

New Financial Strategy

Report by the Director for Sustainability & Resources

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Executive Summary

Since 2010, the Councils have adopted and delivered a financial strategy aimed at removing dependence on central government grant support. Despite the largely successful delivery of this strategy, it has become increasingly difficult for our councils to continue to deliver service efficiencies, returns on investment, income growth and maintenance of public assets year after year, while also continuing to provide the wide range of day to day council services which are under ever-increasing pressure, for example from rises in demand for housing support.

In recent years the growing gap in the strategic financing of local government has been significantly accelerated by multiple shocks and pressures, not least the pandemic, inflationary pressures, the cost of living, housing and climate change crises. These additional pressures have been addressed only very partially by additional government support in some areas, and councils have been forced to absorb these additional costs, creating significant strain on our dedicated workforce.

The joint "Our Plan" strategic framework enables the delivery of both Administrations priorities and is supported by this, the councils' financial strategy, designed to provide a stable funding environment aligned to those priorities, maintaining core service delivery and managing key risks.

This report introduces new core principles and key goals which will be embedded across the councils' key strategic areas, helping create a coherent, more joined-up and resilient long term approach.

This report outlines a set of strategic reviews currently underway that are aimed at delivering better long term strategic direction in key areas, enabling more coordinated and realistic programmes of activity. The reviews will carefully assess and prioritise work, testing alignment to Administration priorities and creating more focused programmes. In some areas this may require a shift in delivery approach, such as housing supply or major projects, to enable delivery of outcomes with less risk and cost.

These **strategic reviews** include asset and land management, external funding and propositions, procurement and contracts, income generation and housing strategy which will be presented to the Committee in more detail in autumn/winter.

1. Purpose

1.1. This report sets out the joint financial strategy for 2025/26 and the medium term, providing an overview of the key strategic reviews currently in development that will be reported in detail in the autumn/winter.

1.2. The report sets out new core principles and key strategic goals that underpin the financial strategy and guide the development of the strategic reviews. These principles and goals enable a clear focus on the Administrations' fairer, safer and greener places priorities, supported by an increasingly resilient, adaptive and participative organisation.

1.3. The report also provides an overview of the key issues facing local government finances, and the pressures to be navigated in future years, as well as the key local budget pressures and risks that need to be carefully managed.

2. Recommendations

2.1. To adopt the new strategy and note the delivery dates for the related strategic work and updated Medium Term Financial Strategy. The key decisions in the new strategy are:

2.1.1.1. Agree the principles outlined in section 1 which will then be applied to the connected strategic reviews listed at 1.1

2.1.1.2. Agree the change in the approach to developing the capital programme and the subsequent implications of this with respect to a smaller capital programme in the short term

2.1.1.3. Agree the development of a proposition development team to pursue external funding to mitigate current funding pressures and accelerate strategic work

2.1.1.4. Agree the approach for the update of the asset strategy which will simplify the portfolio and align it with administration priorities as well as building a bigger property resource

2.2. Note the significant financial risks which the councils face which the strategy will mitigate but not eliminate

1. Designing the strategy

1.1. In developing this new strategy, officers have reflected on and designed it to reflect what needs to be seen as 'new normal' for Local Government finance. Irrespective of recent changes in national government, local government finance looks to be challenging for some time, as does the macro economic environment and the councils' financial approach needs to reflect this. Assumptions with the document are underpinned by:

1.1.1. A continuing poor economic outlook with low growth for some time, and resultant higher interest rates and inflation. These affect council finances both in terms of higher borrowing costs and cost of services but also in the impact of growing need within our communities, especially with respect to people needing support with their housing and at risk of homelessness.

The combined cost of living and housing crises have deep impacts for our communities and therefore for the councils and will take concerted action alongside others to address.

1.1.2. The long term impacts of austerity continue to be felt with respect to low levels of financial and organisational resilience, this is being addressed through this strategy and the organisational design but creates difficult operating conditions which take up considerable senior officer capacity to manage. One ongoing and structural issue that continues is the gap between inflationary pressure on the salary bill and the corresponding government grant income which has been flat.

1.1.3. This strategy, as previous ones, can only make annual assumptions with respect to government funding, distributed across multiple grants with separate rules. This lack of funding certainty reduces resilience but is ultimately more expensive as the councils are forced into short term decision making.

1.2. In common with the previous strategy the approach outlined here is proactive and is focused on creating a self-sufficient and resilient financial foundation on which to deliver each councils' priorities and commitments. This means:

1.2.1. Creating longer term funding certainty for ourselves by widening our income streams, specifically targeting income to close the gap between government funding and the impacts of inflation

1.2.2. Changing the relationship with borrowing to reduce the impact of interest rates

1.2.3. Reviewing and consolidating council assets in order to create 'flight to quality' which reduces costs while focusing on assets with the best alignment to council priorities

1.3. The financial strategy of the council provides a framework and connects together a number of different elements of the councils' financial management which will need to be reviewed. Once agreed this strategy will then need to be reflected in the following subsequent documents;

- Commercial Income strategy - Autumn/Winter 2024

- Asset & Property Investment Strategy - Autumn/Winter 2024
- Procurement strategy - Autumn/Winter 2024
- Revenue budget 2024/25 Update report - October 2024 JSC
- Revenue Budget (further) update report - December 2024 JSC
- Capital Programme 2025/26 - 2029/2030 - December JSC
- Revenue Budget Estimates 2025/26 and setting of the 2025/26 Council Tax report - January/February Cabinet & Council

1.4. Given the context that our councils are operating in, and the ongoing financial pressures, new principles have been developed that will run through each strategic review. We see opportunities for significant improvement in how we develop and plan our work - more joined-up, with better designed, realistic and fully costed projects and programmes.

1.5. Making the most of digital technology, simplifying our processes, with continual review of investments and assets, and careful assessment of income generation performance are all critical requirements.

The recommended core principles are:

1.5.1. That organisational design work should always take us “to the future faster”, maximising the use of new technologies to maximum effect and developing vital skills in the workforce such as participation, commercial and digital.

1.5.2. That financial literacy and management be supported and developed throughout the organisation, with specific focus on budget managers, to help support, develop and iterate this strategy going forward.

1.5.3. That organisational designs help strengthen and deepen relationships with partners, businesses and communities, increasing the opportunities to work together differently to deliver outcomes.

1.5.4. That strategic programme planning and financial forecasting should be undertaken with a much longer term view, at least 10 years in key areas such as asset management and strategic property investment.

1.6. There are also some changes to the design and approach to financial planning which are recommended in order to better reflect the current operating environment:

1.6.1. That we plan our capital and revenue spend in an integrated way on a category basis (e.g. asset management), so that the relationship between capital investment and revenue costs is fully understood upfront and accounted for. This is particularly important for property and technology assets, but applies elsewhere too. Hitherto, the capital programme has been developed relatively separately and there has been insufficient medium and long term planning for associated asset maintenance.

1.6.2. When developing projects, the organisation needs to more fully account for delivery costs, for example the demand on internal resources such as finance, legal and procurement. There is also a need to minimise the use of external consultants, building internal capacity where possible, and using fixed term contracts over day-rate consultants.

1.6.3. In developing high impact, realistic and deliverable programmes of work the organisation must make the most of partnership, community participation and external funding opportunities. Whilst in some areas the approach has been strong for some time, a key shift in the councils' approach to financing will be to think beyond the General Fund and Housing Revenue Account, considering other forms of funding in order to deliver community outcomes. These sources include philanthropic funding, crowd-funding and contributions from local private companies towards social and environmental outcomes.

1.7. In addition to these principles there are areas of the councils' finances which could and should work harder to deliver value against the administrations' priorities:

1.7.1. The use of strategic funds such as Community Infrastructure Levy and Section 106 should be reviewed for alignment to each Administration's priorities, and shaped by the insights and local knowledge of ward members and local communities, accessed through effective participation work in the new neighbourhood delivery model.

1.7.2. New financial opportunities such as Biodiversity Net Gain (developer contributions for nature) and Countryside Stewardship (annual payments to support nature recovery on land and farms) need to be fully understood and well exploited to help fulfil the ambition of both administrations to restore nature, tackle the biodiversity crisis, and adapt to a changing climate.

1.7.3. While financially constrained, the councils are still a significant local commissioner, customer and of course employer. The economic principles which have been adopted in Worthing and are now being developed in Adur, emphasise the need for public services to play a key role in the local economy and this financial strategy has been designed to ensure the councils play their part in the emergence of a more fair and regenerative economy.

1.7.4. The councils must also better leverage our role as regulators, and make changes to practices that could enable new ways to deliver outcomes at low cost.

2. Current estimated projections for 2025/2026 and beyond

2.1. Both councils have successfully managed to maintain a balanced budget over recent years despite the considerable financial challenges presented by the withdrawal of government funding and council tax increases restrained to below the level of inflation. In addition there has been an visible increase in demand in key council services creating real cost pressures, coupled with a reduction in some income streams as a result of changing customer needs. Current projections for the overall budget positions are:

	2025/26	2026/27	2027/28	2028/29	2029/30
ADUR	**£’000**	**£’000**	**£’000**	**£’000**	**£’000**
Overall cumulative shortfall	1,896	2,099	2,859	3,416	3,926
Total net budget funded by taxation	10,569	11,214	11,409	11,607	11,807

Savings from year 2 organisation design	(732)	(747)	(762)	(777)	(792)
Remaining shortfall	1,164	1,352	2,097	2,639	3,134
Annual remaining shortfall	1,164	188	745	542	495

	2025/26	2026/27	2027/28	2028/29	2029/30
WORTHING	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Overall cumulative shortfall	4,025	5,861	7,212	8,214	8,968
Total net budget funded by taxation	14,790	14,993	15,248	15,519	15,793
Savings from year 2 organisation design	(1,098)	(1,120)	(1,142)	(1,165)	(1,189)
Remaining shortfall	2,927	4,741	6,070	7,049	7,779
Annual remaining shortfall	2,927	1,814	1,329	979	730

	2025/26	2026/27	2027/28	2028/29	2029/30
JOINT SERVICES *	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Overall cumulative shortfall	1,434	2,559	3,449	4,322	5,211
Total net budget funded by taxation	26,234	26,234	26,234	26,234	26,234
Savings from year 2 organisation design	(1,830)	(1,867)	(1,904)	(1,942)	(1,981)
Remaining (surplus)/deficit	(396)	692	1,544	2,379	3,229
Annual remaining (surplus)/shortfall	0	1,088	853	835	850

** The Adur and Worthing share of the Joint Services budget is included withing the estimates for each council*

2.2. The above estimations are based on the following assumptions:

<u>Government funding and taxation</u>
There is no current assumption in relation to government funding. This is an intentional prudent assumption at this early stage of the budget process due to the overall reduction in central funding over the last few years, and there is currently no indication of the level of funding support that will be allocated to local authorities. The future of New Homes Bonus is uncertain

and the government only provided a 1 year settlement in 2024/25 with no confirmation of the levels of central grant funding thereafter. The medium term financial assumptions will be updated as more information becomes available over the summer/autumn from the Treasury.

Council tax is projected to increase by 2% each year. The level of increase will be determined by the referendum limit which will be confirmed by the government later in the year. Any decision to not increase council tax up to the referendum limit would have inevitable cumulative consequences to the council which need to be balanced with the need to find savings.

Inflation

Inflation is a macro economic pressure and the assumed rates within the MTFS are shown in the table below, the Bank of England target rate is 2% and this is projected from 2026/27.

	2025/26	2026/27	2027/28	2028/29	2029/30
Pay	4%	2%	2%	2%	2%
Costs and commercial income	3%	2%	2%	2%	2%

The impact of inflation on the councils budgets is not insignificant and demonstrates pressures that are beyond local control. This is no more evident than within the Joint Services budget where the savings from the organisation design programme have delivered sufficient savings to balance the 2025/26 budget, however the future year deficits are due to inflation increases. The cumulative impact based on the above assumptions is:

	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Adur*	637	956	1,314	1,664	2,022
Worthing*	1,021	1,517	2,089	2,652	3,225
Note:					
Joint Services * (included above)	1,334	2,128	2,918	3,691	4,480

The financial strategy includes a commercial income review which will look to review income generation to set realistic targets and identify opportunities beyond inflationary price increases. The aim is to set realistic and robust budgets encompassing service and product intelligence.

Interest Rates

The Bank of England interest rates remained consistently within the range 5.00- 5.25% throughout 2023/24 and into 2024/25, although as the inflation begins to fall there is an expectation that the interest rates will reduce albeit slowly with no real decreases expected until September 2024. These rates will influence both the returns that the Council is likely to get on any cash investments and the cost of any borrowing associated with the capital programme.

Assumptions are that the rate will drop marginally in 2025/26 to between 5% and 4.75% dropping further in the years beyond. However, there is uncertainty around these assumptions as much depends on the wider national and global economic performance. Assumptions in the medium term financial strategy are:

	2025/26	2026/27	2027/28	2028/29	2029/30
Average interest yield	4.92%	4.42%	3.83%	3%	3%

The current assumption is that the capital programme will need to be funded through prudential borrowing where external funding has not been secured either through grant or external contributions.

The new financial strategy will align more closely the asset management programme and the capital programme with treasury. Expectations are that this work will have a number of benefits, capital receipts from disposals will help to reduce the overall cost of borrowing and a strong asset management strategy will ensure revenue resources are invested efficiently. Additionally the strategy sets out the intention to increase external funding to benefit both the capital and revenue budgets and help to deliver council priorities.

Other assumptions
A reset of councils bereavement and planning income budgets has been included. The work associated with the commercial review as set out in section 3.14 will inform this and the estimates will be updated as we work through this element of the proposed strategy.

In addition there are cost pressures built into the MTFS to reflect the council commitments and priorities including the impact of some capital projects where revenue pressures are identified either from capital financing or loss of income. This is more applicable to Worthing where there are some assumptions associated with some key schemes including Grafton, Union Place and Worthing integrated Care Centre.

To help build reserves there is a predicted contribution for Adur and Worthing. This is important to both rebuild reserve levels in Worthing but also ensure long term stability for both councils. More detail is set out in section 3.16.

3. Developing our strategic approach

3.1. Effective alignment of the treasury function

3.1.1. A Treasury function aligned to the council's objectives is crucial for ensuring financial strategies support sustainable development and contribute to the broader goals of environmental sustainability, economic resilience, and social well-being for both councils. The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (CIPFA code) emphasises the importance of risk management, prudential indicators, and the integration of Environmental, Social, and Governance (ESG) criteria into treasury strategies. It advocates for aligning treasury management with overall strategic planning, ensuring that financial decisions support long-term sustainability goals. To deepen this alignment between long-term capital planning and treasury management decisions, we will focus on the following actions:

3.1.1.1. In the 2025/26 Treasury Management Strategy Statement, we will revise the presentation of prudential indicators. This enhanced presentation will more clearly demonstrate to members the alignment between the progression of capital schemes and movements in indebtedness.

3.1.1.2. Future treasury management reports will include debt to income ratios, following a motion from the Joint Audit and Governance Committee.

3.1.1.3. Ensure strategic finance runs as a thread through all departments making a decision on capital spend. Better informing those delivering capital schemes of the needs, risk mitigation and opportunities for savings which can be provided by an effective and informed treasury management team.

3.1.1.4. A Strategic Finance Board has been created to provide oversight over the organisation's finances, including this Financial Strategy, the financial savings of the Organisational Design programme, major business cases and commercial monitoring. Further improvement of governance is outlined in the Joint Strategic Committee - July 2024 - Organisational Design Update.

3.1.1.5. Annual delivery of treasury management training to elected members and independent members of the Joint Audit and Governance Committee.

3.1.1.6. Exploration of local financed schemes through providers like Abundance, where appropriate, providing local people with a secure investment opportunity to benefit their town.

3.1.2. Whilst implementing the actions above is a priority, the first duty of the treasury function under the CIPFA code is to the "Security, Liquidity and Yield" of councils' funds invested and to protecting the councils' from undue financial harm by monitoring and optimising the cost of borrowing and making borrowing decisions appropriate to the timing and nature of capital plans to be delivered.

3.2. Joint services

3.2.1. This strategy is underpinned by the demonstrated benefits of the now long-standing joint services arrangement. This continues to provide resilience and efficiency for both councils in terms of core service delivery and strategic leadership, while providing each council with the continued ability to provide different arrangements where individual council resources allow.

3.2.2. This is the case even in light of WBC's more challenging reserves position which has shown the strength in the joint operating arrangements being able to flex and accommodate these differences.

3.3. Alignment of financial strategies

3.3.1. In this next cycle of strategic finance development, a key goal is to <u>better align the capital strategy and the treasury management strategy with the overarching financial strategy</u>. This is both to make planning and monitoring more straightforward but also to reflect the fact that with interest rates remaining material, it's important that any borrowing decision be taken in the round and not on a project by project basis.

3.3.2. With our capital programme currently reliant on borrowing, it is critical that the correct assumptions are built into the financial strategy and this requires a tighter link between capital programme delivery (changes to delivery timescales) and a regularly refreshed medium term financial strategy.

3.3.3. In relation to the use of capital, the asset management strategic review will demonstrate a far stronger connection between the rationalisation of the estate (disposals) and the generation of capital receipts that can be used to fund investment in our core portfolio. A key goal is to <u>limit the amount of borrowing required to keep our asset portfolio better maintained</u>.

3.4. Effective budget and debt management

3.4.1. Managing costs and robust budget management is a key control throughout the organisation with a need to balance this against meeting service demand. There are a number of initiatives being introduced to address this as set out below.

3.4.2. Financial controls and skills development, building officer capabilities to ensure robust financial literacy and inform decision making and financial forecasting.

3.4.3. Alignment of organisational design with financial decision making to ensure decisions are taken with a full organisational view and avoid siloed thinking.

3.4.4. Management of housing costs as core to our budget management to address the ongoing cost pressures within the statutory service. As set out below there are a number of measures identified to be incorporated into the housing strategy including a need to reduce demand through prevention and managing the caseload.

3.4.5. A move to profit and loss reporting to reflect the full financial performance of a service which will enable better informed decision making.

3.4.6. VAT management to be a key consideration with the need to fully appraise projects and any decisions to make service changes to ensure there are no unintended tax implications.

3.4.7. Improved debt management:

3.4.7.1. While the councils enjoy good liquidity (i.e. the amount of available cash), debt management is critical to long term stability and this strategy is proposing that the organisation become more 'debt aware' and build in tighter debt management measures in order to maximise debt recovery, while working within the framework of the ethical debt policy.

3.4.7.2. New procedures on payment terms to move to a supplier payment terms process and away from immediate payment. This will have a positive impact on the council cash flow and impact positively on the interest achieved through treasury. Additionally good debt management decreases the potential for debt to become unrecoverable and crystallise into lost revenue.

3.4.7.3. The Councils developed a corporate debt policy in 2022 and work is underway to scope and improve our debt and income collection across Housing and Resident Services and address a number of issues with our systems and processes in order to do this work.

3.4.7.4. Introduction of a pay on demand model for council services where available. Customers to pay digitally for services in advance which will both support the councils cashflow but also reduce both debt and administration burden.

3.5. **Rebuilding Reserves**

3.5.1. A further key goal is to systematically rebuild reserves as soon as possible. These are essential to provide security and resilience for the councils.

The councils have a number of different types of reserves:

3.5.1.1. General fund - Working Balance and Capacity Issues Reserve: available for use as needed
3.5.1.2. Earmarked reserves: there to underwrite specific activities/risk
3.5.1.3. Property Risk Reserve: there to manage the impact of void periods in the property portfolio
3.5.1.4. Collection Fund Smoothing reserve: which is there to manage cashflow with respect to business rate collection and dispersal

3.5.2. Both councils have an established policy to maintain working balances at a minimum level of 6%. Whilst a minimum level of reserves is not set out in legislation or within statements of recommended accountancy practice the requirement for councils to 'have regard' to the level of reserves needed to meet future expenditure when calculating a budget is linked to legislation (Local Government Act 1992). At the start of the

2024/25 financial year the revenue reserves position for each council was as follows:

	Adur	Worthing
	£'000	£'000
Working Balance	1,051	0.760
Net budget	11.102	15.095
Percentage held	9.5%	5%

Other earmarked revenue reserves

	Adur	Worthing
	£'000	£'000
Capacity Issues	0.640	0.012
Local Tax Smoothing Reserves	1.058	0.729
Property Risk Reserve	0.500	0.450
Other earmarked	0.145	0.238
Grant and Contributions	0.660	0.620
Total (including working balance)	4.054	2.333
Overall percentage held	36%	15%

3.5.3. Reserves are therefore being rebuilt with a regular contribution planned within the MTFS as outlined below:

		2025/26	2026/27	2027/28	2028/29	2029/30
Adur	General	£100k	£100k	£100k	£100k	£100k
	Property Risk Reserve	£100k	£200k	£300k	£400k	£500k
Worthing	General	£200k	£200k	£200k	£200k	£200k
	Property Risk Reserve	£100k	£200k	£300k	£400k	£500k

3.5.4. However, given the volatility seen in the finances of each council over the last 3-4 years this slow rate of rebuilding, while reasonable, does mean that the councils will have to manage a very tight set of finances and considerable risk for the next few years. Therefore any opportunity to improve the reserved position, for example in the case of unplanned additional commercial income, should be taken.

4. Strategic reviews

4.1. Asset and land management, including strategic property investment

4.1.1. Each councils' asset and land portfolio plays a critical role in both the financial position of each council and the delivery of services. Assets also are a major part of the character of 'place' and the appropriate management of assets is a key element of the stewardship role which council's fulfil. This strategic review will outline a common approach to asset management across Adur and Worthing which will then be reflected in the capital programmes and asset management plans for each council.

4.1.2. It is of course critical to consider the total cost of ownership of each asset including cost of borrowing, planned and reactive maintenance as well as the core services capacity needed to run a well managed portfolio. These issues are being addressed within the organisational design work.

4.1.3. The asset portfolio is supported by the capital programme which outlines a programme of planned maintenance and improvement for those assets. In common with many organisations which have been under sustained financial pressure with respect to revenue funding, many of the assets are in need of repair and refurbishment.

4.1.4. Given the financial position of the councils, and the stated planned shift in approach to borrowing outlined in section 2 above, this requires an asset management strategy which over time provides more of the funding required to support the capital programme with respect to maintenance of the assets, with a significant reduction in the need for capital borrowing.

4.1.5. A new approach to asset management will deliver a ‘flight to quality’ with tactical <u>disposals of assets</u> alongside a programme of improvement for the assets which are retained.

4.1.6. Until this has been achieved the capital programme will need to be constrained in order to focus on this flight to quality.

4.1.7. There are a number of approaches needed to underpin this approach:

4.1.7.1. We develop guiding principles and policy(s) through each of 4 main categories of asset (SPIF (Strategic Property Investment fund); Local Commercial and Agricultural/Rural; Civic/Leisure (major); Community, Parks and Foreshore).

4.1.7.2. We develop specific strategies for specific high value, high impact assets (largely SPIF and civic/leisure, inc. MSCP, Crem, Town Hall)

4.1.7.3. Implement a ‘flight to quality’ through an acquisition, investment, and disposal strategy.

4.1.7.4. Ensure that community assets are closely aligned with the neighbourhood model, maximising community input into the management and decision making with respect to these assets.

4.1.8. This shift to active asset management and creation of a new asset management strategy will provide:

4.1.8.1. Confidence around the future of strategic assets which enables better decision making with respect to repairs and maintenance.

4.1.8.2. Greater clarity around what we can/should dispose that will create a more certain prediction with respect to capital receipts.

4.1.8.3. A strategy around community assets enabling us to work in partnership with our places.

4.1.9. The strategic property investment fund is included in this asset management approach. Given the high impact of changes within this fund to the revenue position of the councils the current portfolio is under active review. This strand of activity has been hugely important to the financial wellbeing of each council but does carry risks with it which need to be actively managed.

4.1.10. These changes will also need to be reflected in the operation, management and delivery of the asset and capital programmes.

This means:

4.1.10.1. Developing consistent rules around how we treat capitalisation of labour costs and reflecting this in the resourcing model.

4.1.10.2. Reviewing our cost recovery model for core services contribution to capital programmes as a whole.

4.1.10.3. Ensuring the organisational designs provide appropriate capacity and capability to deliver this change in strategy.

5. External funding and propositions

5.1. According to the Local Government Association, local authority core spending power in 2024/25 is now 23% lower in real terms than in 2010/11.

5.2. A current example of the funding challenge is the new statutory requirement for councils to implement domestic food waste collection by March 2026, an initiative the councils fully support.

5.3. Additional government funding is being provided to introduce the service, but falls short of the full anticipated costs, only providing funding to purchase diesel vehicles and not electric vehicles, despite national government net zero targets. Moreover, the amount of revenue funding councils will receive has not yet been announced but expected to fall short, but in order to meet the imposed implementation deadline, councils need to make decisions now.

5.4. The use of external funding such as the Shared Prosperity Fund is being used to support the way in which the councils are redesigning to enable better support for people experiencing vulnerability, along with directly supporting people with the cost of living.

5.5. The need to develop new channels of funding is clear if councils are to continue to deliver social and environmental outcomes to residents, and find ways to transition to a low carbon future.

5.6. In recent years, alongside commercial income generation and strategic property investment, Adur and Worthing Councils have been very successful in attracting external funding as a way to deliver broader strategic priorities beyond our core service delivery. This is particularly the case in economic development (£17m in recent years from GBEB and Coast to Capital LEP), DHLUC and Sport England, Gigabit (£2.5m), Heat Network & decarbonisation (£11m), nature restoration (£150k), Sussex Bay (£250k)

5.7. Funding success has often involved the Councils being first customers or “anchor tenants”, for example in the gigabit and heat network projects, or initiating larger programmes and forging new partnerships such as the Adur River Recovery Project and Sussex Bay. And in this next strategic finance period, consideration will be given to further leveraging our assets (e.g. buildings and land) and our market position (as stable long term buyer), building on this learning around anchoring and partnership working.

5.8. A key success principle has been creating a pathway from smaller projects / grant funds into larger more programmes that have attracted larger funds. Through case studies, it will be possible to explore this approach in other thematic areas across the organisation.

5.9. This learning and set of approaches will be embedded into our organisation design as a core capacity through a new team currently in design, bringing together appropriate expertise. This team will enable strategic funding skills to be developed across projects, programmes and teams, and will also develop strategic links with local partners, key philanthropic, government and institutional funders.

5.10. This work will include the development of proactive skills of developing relationships with funders, and working with potential local project partners to get Adur and Worthing “on the map” and “bid ready” rather than passively waiting for funding opportunities to be announced.

5.10.1. Once in place, the new team will develop further structured approaches

5.10.1.1. Bid partnerships with other local organisations

5.10.1.2. Fund-raising through crowdfunding and high net worth individuals

5.10.1.3. Supporting communities themselves to develop funding and investment propositions

5.10.1.4. Re-considering where outcomes could be better delivered from (i.e. external partners who may be in a better position to secure funding)

5.10.1.5. The team will also drive consolidation and improvement on council grant giving approaches. We aim to develop far greater alignment to council priorities and build on the much improved CIL grant giving process in 2023 which was well received by community leaders and groups. Council for the Community principles will be used through the new neighbourhood model to involve local communities in new neighbourhood grant schemes, and provide support where needed to develop impactful community-led propositions.

5.11. A specific development area will climate and carbon financing, where new opportunities have emerged or are expected, such as

5.11.1. Biodiversity net gain and habitat banking, working in partnership with South Downs National Park

5.11.2. Countryside Stewardship Schemes and other Defra revenue payments

5.11.3. Exploration of new funding instruments such as Retrofit Credits to support investment in the decarbonisation of social housing

5.11.4. Development of marine nature investment opportunities through the emerging Sussex Bay Blue Natural Capital Lab

6. Procurement and contracts

6.1. The Councils' spend with external providers is a key opportunity to drive improved strategic outcomes for our places, selecting suppliers with good sustainability and social principles. These criteria are embedded in the current procurement strategy, which is due to be refreshed in the autumn 2024.

6.2. In 2023/24 out of a £38m revenue spend, £25m was spent using local suppliers with a BN postal address. This compares well to 2022/23 when out of £55m revenue spend, £16m was spent using local suppliers with the same BN postal address.

6.3. The Council's refreshed procurement strategy to be presented to Committee in the autumn, will help drive better outcomes and save money by fostering ever closer relationships with local suppliers, reducing transportation costs and carbon emissions, whilst also ensuring quicker response times.

6.4. When procurement managers in local government develop skills tailored to their specific areas they can also negotiate more effectively, understand the nuances of local supply chains, and identify high-quality vendors that might otherwise be overlooked. This targeted skill development enhances the Councils' ability to secure more competitive terms and respond agilely to market changes, ultimately leading to cost savings and improved operational efficiency. Further rounds of procurement training will be given to all service managers so that the Councils can leverage local and national resources more strategically, resulting in a more resilient and cost-effective procurement process that benefits the community.

6.5. A key priority for both Worthing Borough and Adur District Councils is to go further and seek collaboration with local public sector partners to develop joint procurement opportunities, including the concept of "anchoring". Adur & Worthing Councils have used anchoring in two key projects in recent years to powerful effect. The gigabit project, where council buildings were connected to new dark fibre provided by Cityfibre, provided sufficient revenue certainty to enable the commercial provider to unlock £25m of private investment for commercial roll out to homes and businesses. Similarly, the Worthing Heat Network has seen Worthing Council partnering with Worthing Hospital as joint anchor tenants, leveraging £26m of government funding, and £500m of announced private investment in network expansion out to 2050.

6.6. In the future there may be new opportunities to explore anchoring for community owned local renewable energy suppliers to the council, or local providers of renewable fuels such as HVO or green hydrogen. There may also be opportunities to aggregate land assets between public sector partners in order to unlock payments for biodiversity net gain and carbon sequestration, or to create joint procurements around construction or other categories of supply to drive circular economy principles in the supply chain, as well as carbon emissions reduction.

6.7. With budgets under significant pressure, tight controls on external spend have been in place for almost a year, with a weekly "Budget Management Group" chaired by a member of Councils' Leadership Team for larger items, and a daily triage group reviewing every spend item, however small, before it is approved. This has both supported controlling spend but helping to understand the type of spend and the service demands.

6.8. In recent months the procurement team has been operating with reduced resources due to a key officer leaving the organisation. The team will be back to full strength from August 2024. However, the Director for Sustainability & Resources has been chairing a fortnightly Procurement & Contracts Group which has identified key opportunities to meet the £350k savings target 2024/25 from corporate contracts, and a further stretch target of £100k has been introduced on digital contracts, led by the Head of Technology & Design.

6.9. Beyond corporate contracts, analysis of contract spend has been undertaken across the organisation, and groups of contract managers are being brought together to conduct detailed assessments of opportunities to save in the near term (reducing spend), medium term (renegotiation of terms) and longer term (re-specification and re-procurement). A new Strategic Finance Board will receive action plans with the expectation of reduced spend of 3-5%.

7. Income generation

7.1. The Councils have set ambitious targets over the last few years regarding commercial income, including a growth target of £600k per annum. This target sits outside of the Strategic Property Investment Fund and seeks to build income across other commercial product lines, such as commercial waste, car parking, concessions and beach huts. The purpose of this has been to both ensure that a surplus is generated in order to mitigate budgetary pressures.

7.2. These targets were set pre-pandemic and also before the cost of living crisis became a significant factor both in terms of housing need and also income reduction in areas such as parking. These targets need to be reviewed in the current climate and tested to make sure they are still appropriate and continue to mitigate against the financial risks that the council faces with respect, in particular, to inflation.

7.3. Looking forward, the Council needs to assess robust and accurate income projections to ensure greater resilience and avoid any surprises, using data more effectively. It's vitally important that the Councils move to assessing products less on turnover but more on profit and loss.

7.4. The commercial strategic review will define this in more detail and propose realistic income targets (with stretch targets where appropriate) to provide a balanced view for the financial strategy. The review will also need to consider our commercial acumen beyond price rises (set against inflation) as there is also a requirement to truly consider customer journeys, marketing and how technology will help drive a smoother process, and therefore the opportunity for further income. Consideration also needs to be given to medium-long term planning, alignment of asset improvements to support income generation and the capability to adapt quickly.

7.5. The commercial product lines have become embedded and now form part of the overall budget position, and whilst the Council has explored different income streams and more innovative thinking, these core lines need to be reviewed in the context of income growth or whether these are close to market saturation. Income lines such as parking also need to be considered over the long term to dovetail with asset management strategy but also with respect to the 'fit' with other agendas such as decarbonisation.

7.6. The Council needs to ‘go again’ to determine whether any new lines of income can be produced, whether internally or in partnering with other organisations, with products such as pay as you go beach huts being explored. Consideration could also be given to how new products could be accelerated, yet tested, to ensure quick penetration in the market.

7.7. As part of the organisational design programme, there is a need to consider the decision making processes around commercial income, especially how the Councils react to the changing market conditions and the ability to act ‘in-year’ rather than waiting on the cyclical budget setting process. This is an important area where the Councils will need to act differently in order to ‘keep up with the market’ and, more importantly, compete in the market.

7.7.1. The Strategic Finance Board and, as a subset, the Commercial Monitoring Group, will be important governance boards to provide the strategic direction but also play an important role in analysing and monitoring the commercial performance, designing and testing new ideas and bringing in new methods of delivery (e.g. dynamic pricing) to ensure the products remain competitive.

7.7.2. It should be noted that whilst there is room for innovation and creative thinking, some commercial income lines are restricted by statutory regulations and capped pricing; these examples are notably associated with planning and licensing products. This is currently presenting a problem for the Councils as whilst the fees are broadly staying static, the overheads are not, especially in relation to staffing costs. These statutory limits are built into the overall budget position but equally continued lobbying to central government is needed to re-balance the equation for these particular areas.

7.7.3. There are opportunities that are still untapped, whether that is better use of our land, our assets or our people or indeed the council brand as a long term and reliable public body.

7.8. We have a number of successful examples of how initial investment from the Council’s have unlocked further income potential, therefore the Council will explore partnering with others in relation to income opportunities, such as the relationship that the Council has with Clear Channel regarding bus shelters.

7.9. There is a confidence that comes with a public sector body delivering services, such as commercial and green waste, but this needs to be utilised further and for the Councils to further demonstrate the capability in the products to grow consumer trust and therefore either retain the market share or grow sales. The Councils do need to act in a more commercial way, however this is against the backdrop of being 'guardians of our place', it feels there is an opportunity to greater leverage this aspect in terms of marketing and branding.

7.10. Finally, to bring this all together is imperative. The current commercial model sees different products sitting in different service areas which leads to different ways of managing the products, different levels of capability, different ways of marketing and therefore the creation of different results. As part of the strategic review, it will be important to view all commercial products as a programme as this will provide more opportunities to utilise the Councils brand and market them in a more coherent way. If we are to take commercial income more seriously we need to think about the customer journey and experience, which usually starts with our website and / or a digital application.

7.11. The strategic review will be co-designed with those Officers responsible for generating income, and will be tested against external factors and against the market. The strategy will be developed during the summer with the final strategy being agreed at a Joint Strategic Committee meeting later in the year.

8. Key Issues and risks in the financial strategy

8.1. Parking

8.1.1. Provide clarity around long term strategy for assets and technology building into the medium term financial strategy the impact of decisions relating to potential disposal, development and investment of car park sites. Such considerations would be the appropriation of any capital receipts, the loss of revenue income from any closures and the potential mitigation of displacement. In addition the capital and revenue costs of maintaining the retained assets and the benefits or introducing modern technology.

8.1.2. Link to climate emergency and the changing demand profile of customers on the car parks. This will include possible reduction in demand on parking and an increase in sustainable travel and a higher demand for electric charging spaces.

8.2. **Worthing Theatres and Museum Trust**

8.2.1. The Worthing Borough Council contract for cultural services with Worthing Theatres and Museum Trust to be reviewed with an intention that the council moves to reducing support and the trust moving to a sustainable financial position.

8.2.2. The 2025/2026 and 2026/27 contract values have seen a 10% reduction across the two financial years. The next three years from 2027/28 to 2029/30 will need to be negotiated and agreed before 31st March 2026.

8.3. **Bereavement**

8.3.1. Commercial review. Opportunity to make the service a more profitable offer. Risk that the council either retains without adapting to the market conditions. Risk is the removal of a net income generating service without a plan to meet the shortfall.

8.4. **Organisational design**

8.4.1. Potential for long term savings aligned to the new operating model. Risk that the budgeted savings will not be identified.

8.5. **Environment Act**

8.5.1. This shapes our fleet and depot strategies - cost of implementing requirements of act and local decisions impact on capital and the associated /treasury. The risk that the government funding (capital and revenue) costs will not be sufficient and the delivery options to be considered for the MTFS.

8.6. **Housing strategy** - the strategy to incorporate measures to address the drivers of the increased cost pressures:

8.6.1. Reducing demand through prevention

8.6.2. Effective service design to meet the regulatory function and moving the the case work to reduce demand

8.6.3. Increasing the supply of appropriate EA/TA through procurement and development and reducing the use of night booked accommodation. Ensuring the councils make the most efficient use of resources in decisions relating to self development or purchasing ready built or through developers

8.6.4. Invest to save opportunities are fully appraised to ensure they not only make a revenue saving overall but have immediate financial benefit once operational. The type of accommodation is also to be aligned with the demand profile - bigger savings on spot and nightly booking can come from larger family properties

8.6.5. Review of projects post completion to ensure savings are being delivered.

8.6.6. Improve our voids strategy in Adur Homes to help manage homelessness in Adur.

8.7. **Major projects**

8.7.1. Financial costs associated with major projects (including Worthing Integrated Care Centre, Worthing Heat Network and Grafton car park) are built into the Medium Term Financial Strategy. The financial elements of the major projects to be identified between the revenue cost of borrowing of associated capital elements of each scheme and any direct revenue impact.

8.8. **Strategic Property Investment Fund**

8.8.1. There are several risks that need to be considered within the Medium Term Financial Strategy

8.8.1.1. Lease terms - understanding and incorporating the financial impact of step changes in assumptions (rent reviews or leases renewal dates) into the financial assumptions

8.8.1.2. Property conditions, the need to invest to maintain the property asset

8.8.1.3. Regulations (EPC ratings), and the need to invest to meet the new regulatory requirements

8.8.1.4. Demand for the property type and the impact on revenue income streams.

8.8.1.5. The budget assumptions relating to the portfolio will link to the asset strategy to ensure that the financial impact of the investment in the assets is factored into the MTFS.

9. Engagement and Communication

9.1. The financial strategy, and the strategic reviews underway, involve a wide range of leaders and managers in a range of working groups, with the Organisational Leadership Team engaged in practical sessions, such as budget management and contract management workshops.

9.2. Regular all staff briefings are provided by the Chief Executive to keep the whole workforce informed.

9.3. A set of cabinet member working groups are enabling ongoing input and challenge into the process.

9.4. As our approach to external funding and proposition development is progressed, significant partnership development and community engagement will be required to maximise opportunities.

9.5. Our work to engage local partners, central government departments and key statutory agencies is developing well through a number of programmes and projects, and this will continue to be key to successful development of new opportunities, and new approaches to funding and investment.

10. Financial Implications

10.1 There are no other financial implications other than those outlined above.

11. Legal Implications

11.1 The Council is required to set a robust budget under the Local Government Act 2003. This report is the first step towards the Council achieving this aim for the 2025/26 budget round.

Background Papers

- Developing a revenue budget for 2024/25 in difficult economic circumstances - JSC 11 July 2023

Sustainability & Risk Assessment

1. Economic

- The budget contains funding for commitments made under Mission: Thriving Economies

2. Social

2.1 Social Value

- Matter considered and no issues identified.

2.2 Equality Issues

- Matter considered and no issues identified with the budget strategy itself. However individual proposals arising from the budget will be the subject of an equalities impact assessment.

2.3 Community Safety Issues (Section 17)

- The budget contains funding for community safety.

2.4 Human Rights Issues

- Matter considered and no issues identified.

3. Environmental

- The budget contains funding for decarbonisation initiatives

4. Governance

- Matter considered and no issues identified.

Joint Services Revenue Budget Summary Statement 2025/26- 2029/30						
	2024/25 Base	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000	£'000
Base budget	**26,234**	26,234	26,234	26,234	26,234	26,234
External Economic Factors						
Inflation on Pay:						
- Assumption of 4% increase in 25/26 and 2% in future years		1,297	2,109	2,917	3,709	4,517
Inflation on Costs:			-	-	-	-
- Assumption of 3% increase in 25/26and 2% in future years		215	319	426	534	645
Inflationary increase on income (Commercial activities and Fees and Charges):						
- Assumption of 3% increase in 25/26and 2% in future years		(178)	(300)	(425)	(552)	(682)
Council Commitments to services and long term obligations						
Increase in pension contributions - triennial review		-	231	231	231	231
Provision for Investment in Services		100	200	300	400	500
Net cost to be reallocated to the Councils	**26,234**	**27,668**	**28,792**	**29,682**	**30,555**	**31,444**
Adur District Council	10,575	10,575	10,575	10,575	10,575	10,575
Worthing Borough Council	15,659	15,659	15,659	15,659	15,659	15,659
Total income for services provided to the constituent councils	**26,234**	**26,234**	**26,234**	**26,234**	**26,234**	**26,234**
(Surplus) / Shortfall in Resources	**-**	**1,434**	**2,559**	**3,449**	**4,322**	**5,211**
Savings identified to date:						
Organisation Redesign		1,830	1,867	1,904	1,942	1,981
Total savings identified		**1,830**	**1,867**	**1,904**	**1,942**	**1,981**
Savings still to be found/ (surplus)		**(396)**	**692**	**1,544**	**2,379**	**3,229**
Savings required in each year		**1,434**	**1,125**	**890**	**873**	**889**

ADUR DISTRICT COUNCIL Revenue Budget Summary Statement 2025/26- 2029/30						
Net Spending to be Financed from Taxation	**2024/25 Base**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Base budget	**11,102**	11,102	11,102	11,102	11,102	11,102
External Economic Factors						
Inflation on Pay:						
- Assumption of 4% increase in 25/26 and 2% in future years		613	916	1,257	1,590	1,931
Inflation on Costs:						
- Assumption of 3% increase in 25/26and 2% in future years		207	349	494	642	793
Inflationary increase on income (Commercial activities and Fees and Charges):						
- Assumption of 3% increase in 25/26and 2% in future years		(183)	(309)	(437)	(568)	(702)
Investment income		29	123	104	28	(50)
Council Commitments to services and long term obligations						
Local Elections (held every other year)		-	(19)	-	(20)	-
Heat Network						
Nature restoration projects - to fund capital and revenue impacts of any proposals						
Capital programme financing costs		342	418	745	975	1,116
Impact of Trienial review: Reduction in backfunded contributions		(95)	84	84	84	84
Other items						
Review of Planning income budgets		50	50	50	50	50
Planned increase to the Strategic Property Management annual provision		100	200	300	400	500
Contingency budget - to build reserves		100	100	100	100	100
Allowance for committed growth items		100	100	170	240	310
Provision for new growth items to be agreed later in the process - Investment in services		100	200	300	400	500
Total Cabinet Member Requirements	**11,102**	**12,465**	**13,314**	**14,269**	**15,023**	**15,734**

ADUR DISTRICT COUNCIL Revenue Budget Summary Statement 2025/26- 2029/30						
Net Spending to be Financed from Taxation	**2024/25 Base**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Business Rates - Baseline funding	1,914	1,952	1,952	1,991	2,031	2,072
Add: Retained additional business rates	1,410	1,404	1,379	1,361	1,341	1,319
Add: Share of previous year's surplus / (deficit)	(94)	(500)				
Council Tax						
Council Tax income - assumed increase of 2% 2024/25	7,478	7,634	7,804	7,978	8,156	8,337
Other grants						
New homes bonus - One off payments	3	-	-	-	-	-
Lower Tier Services Grant / Revenue Support Grant	79	79	79	79	79	79
Local Tax Guarantee Scheme - Council Tax	-	-	-	-	-	-
Services Grant	11	-	-	-	-	-
Funding guarantee	447	-	-	-	-	-
Collection fund surplus/deficit (-)	(146)	-	-	-	-	-
Total Income from Grants and Taxation	**11,102**	**10,569**	**11,214**	**11,409**	**11,607**	**11,807**
(Surplus) / Shortfall in Resources		**1,896**	**2,099**	**2,859**	**3,416**	**3,926**
AMOUNT REQUIRED TO BALANCE BUDGET		**1,896**	**2,099**	**2,859**	**3,416**	**3,926**
Savings Proposed						
Asset review and rationalisation (Commercial Landlord Programme)						
Directorate Services Review - Savings (from Initiatives Tracker)						
Directorate Services Review - Additional Income (from Initiatives Tracker)						
Organisation Redesign **		732	747	762	777	792
Total initiatives identified		**732**	**747**	**762**	**777**	**792**
Cumulative savings still to be found/ (surplus)		**1,164**	**1,352**	**2,097**	**2,639**	**3,134**
Annual savings still to be found		1,164	188	745	542	495

WORTHING BOROUGH COUNCIL Revenue Budget Summary Statement 2025/26- 2029/30						
Net Spending to be Financed from Taxation	**2024/25 Base**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Base budget	**15,225**	15,225	15,225	15,225	15,225	15,225
External Economic Factors						
Inflation on Pay:						
- Assumption of 4% increase in 25/26 and 2% in future years		933	1,369	1,880	2,380	2,889
Inflation on Costs:						
- Assumption of 3% increase in 25/26 and 2% in future years		538	907	1,283	1,667	2,059
Inflationary increase on income (Commercial activities and Fees and Charges):						
- Assumption of 3% increase in 25/26 and 2% in future year		(450)	(759)	(1,074)	(1,395)	(1,723)
Investment income		75	215	216	109	(3)
Council Commitments to services and long term obligations						
Heat Network		104	104	104	104	104
Redevelopment of Union Place - Phase 1						
Loss of income from High Street surface car park		52	52	52	52	52
Grafton Site - Loss of income		83	83	83	83	83
General provision for future impact of new policy commitments		-	-	200	400	400
Capital programme financing costs		910	1,732	2,227	2,638	2,867
Impact of Trienial review: Reduction in backfunded contributions		(195)	138	138	138	138
Reduction in WTAM contract		(70)	(140)	(140)	(140)	(140)
Integrated Care Centre and car park - net of debt charges		485	483	481	347	345
Commercial Initiatives (From Initiatives Tracker)						
Other items						
Reassessment of the net cost of bereavement services		500	500	500	500	500
Review of budgets for planning income		75	75	75	75	75

WORTHING BOROUGH COUNCIL Revenue Budget Summary Statement 2025/26- 2029/30						
	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
Removal of Inflation budget						
Planned increase to the Strategic Property Management provision		100	200	300	400	500
Provision - to build reserves		200	200	200	200	200
Allowance for committed growth items		100	200	320	440	560
Provision for Investment in Services		150	270	390	510	630
Total Cabinet Member Requirements	**15,225**	**18,815**	**20,854**	**22,460**	**23,733**	**24,761**
Business Rates - Baseline funding	2,910	2,968	3,027	3,088	3,150	3,213
Add: Retained additional business rates	1,098	956	843	771	709	642
Add: Share of previous year's surplus / (deficit)	(129)	-				
Council Tax						
Council Tax income - assumed increase 2%	10,527	10,750	11,008	11,273	11,544	11,822
Other grants						
New homes bonus - One off payments	15					
Lower Tier Services Grant / Revenue Support Grant	116	116	116	116	116	116
Local Tax Guarantee Scheme - Council Tax			-	-	-	-
Services Grant	17					
Funding guarantee	602					
Collection fund surplus/deficit (-)	69		-	-	-	-
Total Income from Grants and Taxation	**15,225**	**14,790**	**14,993**	**15,248**	**15,519**	**15,793**
AMOUNT REQUIRED TO BALANCE BUDGET		**4,025**	**5,861**	**7,212**	**8,214**	**8,968**
Savings Proposed						
Organisation Redesign		1,098	1,120	1,142	1,165	1,189
Total initiatives identified		**1,098**	**1,120**	**1,142**	**1,165**	**1,189**
Cumulative savings still to be found/ (surplus)		**2,927**	**4,741**	**6,070**	**7,049**	**7,780**
Annual savings still to be found		2,927	1,814	1,329	979	731