

Arun District Council

REPORT TO:	Policy and Finance Committee - 13 December 2022
SUBJECT:	Financial Prospects 2022/23 to 2026/27
LEAD OFFICER:	Carolyn Martlew, Interim Group Head of Finance and Section 151 Officer
LEAD MEMBER:	Councillor Shaun Gunner
WARDS:	All
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: The Council's financial planning and budget promotes all of the Council's Corporate Priorities.	
DIRECTORATE POLICY CONTEXT: The Council's financial planning and budget has an effect on all Directorates of the Council.	
FINANCIAL SUMMARY: The financial forecast for the General Fund Revenue Budget predicts significant budget deficits in 2023/24 and future years. The detailed effects are contained in the body of the report with a summary in paragraph 4.12.	

1. PURPOSE OF REPORT

1.1. The purpose of this report is to update Members on the current financial and economic prospects for the Council for the period 2023/24 to 2026/27. The report also asks Members to confirm the financial parameters for the 2023/24 budget preparation. The forecast for 2023/24 has been broadly derived from the Zero Based Budgeting (ZBB) Project exercise which reviewed expenditure budgets on a line-by-line basis in the autumn of 2022.

2. RECOMMENDATIONS

2.1. Policy and Finance Committee is requested to recommend to Full Council the approval of the medium-term budget plan for the period 2023/24 to 2026/27 and to:

- I. Agree the core assumptions set out in the Medium Term Financial Strategy contained in section 4 of the report;
- II. Note that there are uncertainties around Government Funding prior to the local government settlement in December 2022 and the delay in the Local Government Funding reforms such as business rates retention and the future of the New Homes Bonus; and
- III. Agree the maximising of income including fees and charges, where possible, as part of the 2023/24 budget process.

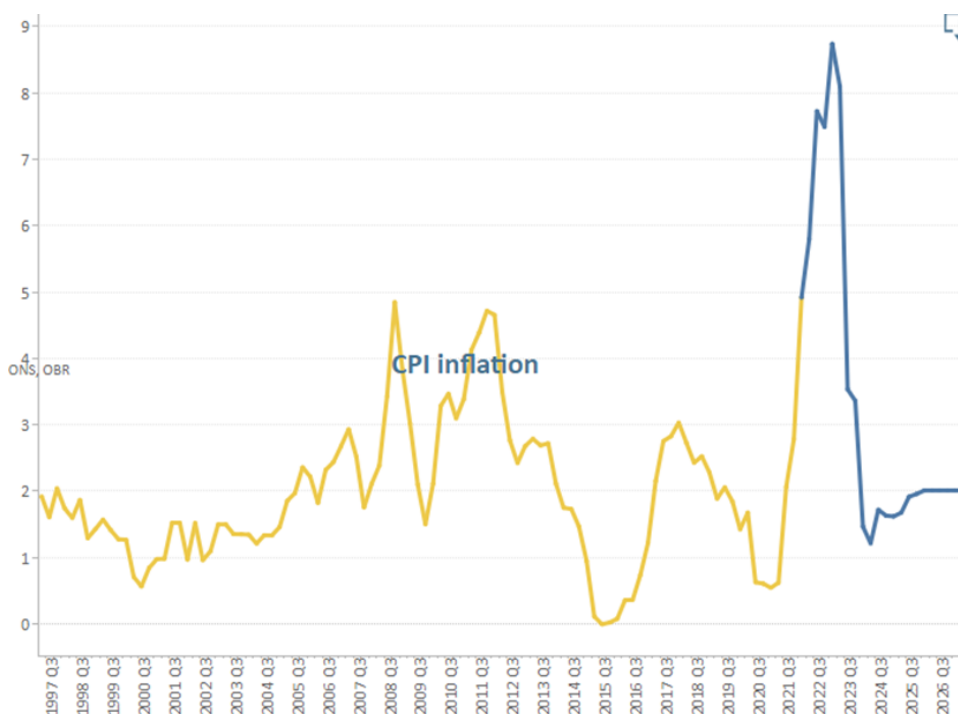
3. EXECUTIVE SUMMARY

- 3.1. The Council's Medium Term Financial Strategy (MTFS) covering the period up to 2026/27 previously rolls forward and updates the data and assumptions in the existing approved MTFS. The Strategy amends previous assumptions contained in it to reflect changes in the Council's circumstances and other issues that have a strategic bearing on the Council's financial prospects.
- 3.2. This year's MTFS has been prepared in the background of highly dynamic and fast changing circumstances. Economic uncertainty, rising inflation, the current cost of living crisis and political changes in central government have all had an effect. In addition, the Council is currently undertaking a Zero Based Budgeting (ZBB) exercise that has reviewed and rebased the Council's revenue budgets and future assumptions. It is important that these matters are considered when determining the budget parameters.

4. DETAIL

- 4.1. This report specifically covers the Council's General Fund as the Housing Revenue Account has its own business plan and financial model. The latest financial forecast has been prepared against a continuing backdrop of unprecedented uncertainty over Government funding and the economy which has, inevitably, been compounded by significant issues including the COVID-19 pandemic and increases in costs of wages and supplies brought about by the cost of living crisis and the situation in Ukraine.
- 4.2. This report contains the latest version of the MTFS which uses the most recent information available to forecast the Council's income and expenditure over the next 4 years. The ZBB Project has informed the budget preparation for 2023/24 and figures derived from this have been used as the base for the 2023/24 figures in the MTFS. ZBB has given a greater understanding of the information behind budgets and will aid budget processes in future years. It is important to note that the MTFP is a forecast and that the budget for 2023/24 is yet to be completed and considered by Service Committees in January 2023.
- 4.3. The volatility and uncertainty over government funding is continuing. Until July 2022, it was expected consultation on a two-year funding settlement for local government would commence for 2023/24 and 2024/25, based on similar principles to the 2022/23 settlement. The ministerial changes at DLUHC meant that no consultation took place before the summer parliamentary recess, so this was delayed. The further changes in central government since summer have resulted in no further information being available. It is however anticipated that the recent re-appointment of the previous Secretary of State for Levelling Up, Housing and Communities will result in the above approach being implemented. Information relevant to Local Government was contained in the Autumn Statement presented by the Chancellor of the Exchequer on 17 November 2022. This has been reflected in the forecast where the effects are known. These will be covered later in this report.

- 4.4. It is expected that a two-year settlement will be imposed, or two one-year settlements, with confirmation given later than hoped. Government is not expected to impose significant reforms in the short-term with a general election due by 2024 at the latest. It is now expected that major funding reforms, if introduced, will be from 2025/26, three years later than originally expected. These are still expected to include the Fair Funding Review, Business Rates baseline reset and the end of New Homes Bonus.
- 4.5. If a two-year settlement is provided it can reasonably be expected to include further payments of the Lower Tier Services Grant and Services Grant as per the 2022/23 settlement. However, this cannot be guaranteed and no further information on this was provided in the Autumn Statement on 17 November 2022. The Autumn Statement remained silent on the future of the New Homes Bonus which has contributed significantly to the Council's finances in the past.
- 4.6. The Council continues to deal with financial matters from the COVID19 pandemic. These are not as severe in previous years and may affect future years' projections and the impact is likely to be significantly more limited.
- 4.7. One of the major issues at present is addressing inflation. If no action is taken, damage to key public services such as the NHS and social care may happen. These are protected services, which makes extra funding for inflationary pressure in local government more unlikely, particularly District Councils which are not categorised as protected services by Central Government. This is likely to be a major issue as the latest published CPI figure is 9.1% (November 2022) and commentators disagree on how high it may reach. Obviously, any funding increase below these levels is an effective reduction for the Council. Inflation rates are expected to decline from 2023 onwards and this has been built into the financial projections. The outlook for inflation is shown in the graph of consumer prices index (CPI below)



- 4.8. Latest indications are there is no planned increase in grant funding for local government either in 2023/24 or 2024/25. Although the 2022/23 settlement was generous in cash terms (increase of 7.1% over the previous year) funding is clearly insufficient to meet expected inflationary pressure. The Council does benefit from the funds that the Council set aside in the Financial Resilience Reserve of £9.073m. A further £500k was set aside in an inflation reserve on 31 March 2022 as a result of sound financial management and a favourable outturn for 2021/22.
- 4.9 As previously stated, the Council is currently undertaking its ZBB project. This has reviewed and reshaped the General Fund Budget from 2023/24. Alongside this, the current inflationary pressures from national and international sources make predicting expenditure difficult. Any strategy is formed against the agreed policy of maintaining a General Fund Revenue balance of £5m. The General Fund balance is required to be maintained at this higher level until the future government funding is more certain (now likely from 2025/26) and the budget is balanced.
- 4.10 The principal assumptions made in providing predictions and the budget strategy are:
- Roll over funding settlements similar to 2022/23 are provided from central government for 2023/24 and 2024/25;
 - Funding reforms are implemented with effect from 2025/26;
 - Council Tax increases by a maximum of £5 per annum or 2.99%, which is currently the maximum allowed for similar District Councils;
 - There is an increase in salary costs in 2022/23 as per the current employers' offer. Thereafter inflationary increases are estimated.
 - The effect of the government's recent announcement to reverse increasing National Insurance contributions from November 2022/23 is included;
 - If possible, the model assumes cash limited sums for goods and services (no inflationary rise) for the period, otherwise inflation is provided for;
 - A triennial review of the pension fund is due with revised figures required from 2023/24. Preliminary indications have been received and the financial effects of this are favourable and are built into projections;
 - At this stage, no increase in discretionary fees and charges imposed by the Council has been assessed and included in the financial projections. This requires further consideration as increases in these fees will affect the public, who are dealing with the cost of living crisis. Equally, the Council's ability to maintain services at current levels will be impacted by the scale of any deficit and how that is to be managed including whether it is possible to support any growth bids. Difficult choices lie ahead. Options for any changes in discretionary fees and charges will be considered as part of the budget process for 2023/24.
- 4.11 It is difficult to model enhancements to the capital programme and to calculate the resources that will be available due to the funding uncertainties and slippage caused by the COVID19 pandemic. There is, inevitably, a requirement to allow for business-critical IT systems and infrastructure as systems fall out of maintenance/support and become life expired. The Council will have to take a

prudent approach regarding capital/one off schemes. It has been assumed that the Council continues with the enhanced capital programme, but this will have to be a subject for discussion and review given the financial challenges that the Council is facing. It is essential that expenditure continues to be prioritised for the essential maintenance programme to ensure that operational assets are maintained at the required standard for service delivery. Such schemes will be closely reviewed during budget preparation to ensure they are still required, deliverable and to be undertaken in the previously agreed timeframe. It is assumed that the Council changes its borrowing policy and allows the use borrowing to fund planned capital spending in the future. This will reduce the pressure on the General Fund as revenue funding of capital spending would not be required. However, borrowing will place pressure on future revenue budgets and must be prudent and affordable. The Council's revenue and capital budgets are joined up and it is known these affect each other. In view of the current financial projections, the Council will have to consider:

- Reprofilling the 2022/23 capital programme;
- Suspending all capital projects apart from those deemed essential and the use of Levelling Up Funding;
- Disposing of assets to generate capital receipts to fund the capital programme, thereby reducing borrowing and revenue funding requirements.

4.12 The following table gives a summary of the 2021/22 out turn subject to audit, the 2022/23 budget and expenditure and income projections to 2026/27. These will be adjusted and amended as more information is available and must be considered with the uncertainties and risks outlined in this report. The Council must continue to monitor local government finance closely to ensure its future financial sustainability.

	2021/22 Out turn £'000	2022/23 Projected Budget £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £,000
Net Budget Requirement	25,812	25,874	31,918	33,086	34,049	35,381
Financed by:						
Retained Business Rates	(5,963)	(6,176)	(8,096)	(8,909)	(6,339)	(6,685)
New Homes Bonus	(1,040)	(1,292)	(615)	(615)	0	0
Non-ringfenced Grants	(4,201)	(1,140)	(1,056)	(1,056)	(714)	(714)
Council Tax - Arun	(11,788)	(12,242)	(12,892)	(13,517)	(14,075)	(14,655)
Council Tax - Parishes	(4,877)	(5,024)	(5,275)	(5,540)	(5,815)	(6,106)
Total Income	(23,740)	(25,874)	(27,934)	(29,637)	(26,943)	(28,160)
(Taken from)/Added to FRR	n/a	(1,193)	(3,984)	(3,449)	(447)	0
Use of other		0	0	0	(6,659)	(7,221)

Balances/Saving requirement						
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Notes/Assumptions:

1. £2,072m was transferred to the Funding Resilience Reserve (FRR) on 31 March 2022 due to an accounting adjustment to reduce the General Fund (GF) to £5m. There was no overall change in the balance of the two reserves.
2. The forecast for 2023/24 does not include an inflationary increase to the level of fees and charges
3. The forecast assumes no revenue contributions to capital expenditure (4.13)
4. The forecast assumes no non-essential growth for 2023/24
5. The forecast assumes New Homes Bonus of (£615k) for 2023/24 and 2024/25
6. It is assumed government funding reforms will be implemented from 2025/26.
7. Assuming no changes occur, the Financial Resilience Reserve will be exhausted by 2025/26.

Comment on Financial Projections

- 4.13 The financial projections exclude capital expenditure in each year, which is currently unfinanced. It is assumed this will be funded through sources of capital financing like capital receipts or borrowing:

	2022/23 Projected Budget £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £,000	Total £,000
Capital Expenditure	52	4,579	568	1,210	801	7,210

The figure for 2023/24 includes £3.750m approved by Members on 6 September 2022 as part of the report Strategic Options for the Regeneration of The Regis Centre, Bognor Regis Using Levelling Up Grant Funding. Funding will be determined when the Council considers its capital programme as part of the 2023/24 budget setting assuming the recommendation is agreed by Full Council. This report also stated that the Council will receive a capital receipt of £1m which can be used to part fund capital spending.

The Council can borrow short term externally or internally against its cash balances. Although borrowing will commit the Council to capital financing charges in future, it will relieve some pressure on the annual revenue budget. This will be assessed during the preparation of the budget. The projections currently do not include the cost of repaying borrowing. This will require assessment during the budget process.

- 4.14 The figures in the financial projections are entirely based on the Council's current base budget. No growth items are included. The ZBB project identified a number of growth requests of significant value across the Council. Inclusion of such items in a budget currently predicted to be in deficit by £4m in 2023/24 will require careful consideration, prioritisation and possibly resource switching by officers and members as part of the budget preparation.
- 4.15 As already explained, no provision has been made in the projections for increases in discretionary fees and charges. These charges currently raise in excess of £5.3m annually. A significant proportion of these are set by government and the Council has little or no discretion on charge levels. It is recommended that income is increased by the maximum where possible having regard to current levels of inflation. As an example, current income from parking charges is £1.4m. Assuming demand remained at its present level, an increase in line with current CPI would realise additional income of £130k per annum.
- 4.16 The Chancellor's Autumn Statement included an announcement that Council Tax increases of up to 2.99% or £5 can be imposed for 2023/24; an increase from 1.99% in 2022/23. The projections at paragraph 4.12 assume the maximum increase of 2.99% is imposed in 2023/24 and all future years. The table below shows the cumulative effect of not increasing Council Tax in 2023/24 and increasing by the maximum amount in future years across the MTFS.

Council Tax Income (Arun element only)	2023/24	2024/25	2025/26	2026/27	Total
	£'000	£'000	£'000	£'000	£'000
2.99% increase	12,982	13,517	14,075	14,655	55,209
No increase 2023/24	12,605	13,125	13,666	14,229	53,626
Income foregone	377	392	409	426	1,604

- 4.17 The table shows that not increasing Council Tax in 2023/24 as opposed to the maximum allowable increase would lose £1.6m Council Tax income over the period of the MTFS. With the significant budget deficit forecast over the period of the MTFS it is imperative that the Council increases its Council Tax by the maximum level permitted by central government.
- 4.18 The draft Statement of Accounts for 2021/22 shows earmarked reserve balances of £27.533m. It must be noted that a significant proportion of these are not available to fund general revenue spending. However, those that are usable by the Council can be reviewed and if no longer required, transferred to the Financial Resilience Reserve to offset budget deficits. These will be reviewed during the 2023/24 budget preparation.

5. CONSULTATION

- 5.1 No consultation has been undertaken with external bodies.

6. OPTIONS / ALTERNATIVES CONSIDERED

- 6.1 The options available are:
- To accept the assumptions and recommendations; or
 - To reject the assumptions and recommendations.

7. COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE/SECTION 151 OFFICER

- 7.1 The financial considerations considered in the report show a significant budget deficit from 2023/24 which must be addressed. Any consideration of finances in future is subject to a number of risks which are explained in Section 8 below.

8. RISK ASSESSMENT CONSIDERATIONS

- 8.1 There are a number of risks, which are currently exacerbated owing to the current financial situation. These are summarised in the following sections.
- 8.2 At the time of drafting this report, the most significant risk facing the Council is inflation. This has a material effect on employment costs, contracts, supplies and services; in particular energy costs. These are all known to be increasing significantly beyond the Council's control. The figures affected by these costs are shown in the table below:

Cost	2022/23 Budget £'000
Employment Cost	14,812
Contracts	5,556
Energy (Gas and Electricity)	262
Total	20,630

On 16 November 2022, the Office for National Statistics published CPI rate was 9.1%. As an example, if the costs above increased by this in 2023/24, the increase in cost to the Council is £1.88m. Assuming the Council increases Council Tax by the maximum amount allowed in 2023/24, the increase in Council Tax income is £602k over 2022/23. If no further funding is available, the Council will have to increase income from other sources, find savings or use balances.

- 8.3 The major contract increase so far is the Combined Cleansing Contract. Supplementary budgets were approved for the revised contract in May 2022 and further pressures have arisen from wage negotiations and further cost increases notified by the Council's contractor. Between 2022/23 and 2023/24, the anticipated effect of these matters on the contract cost is an increase of £2.452m. The approved contract extension will expire during the MTFS period and the Council must retender the contract. The potential outcome of this will have a significant effect on the Council's projections.
- 8.4 In addition, the Council has agreed to a request from its Leisure Services provider to reduce the sum it pays to the Council by £580k in 2023/24. It is assumed that this will be reversed in 24/25. There is a risk that this will continue if the current economic conditions continue for longer than anticipated. The results of this could have a significant effect on the Council's finances in future years.
- 8.5 Prior to being removed from his post in July, the Secretary of State for Levelling Up, Housing and Communities had suggested a two-year funding settlement for local government for 2023/24 and 2024/25. Since this announcement, there has been no further information published. It is reasonable to expect that since being re-appointed to the role, the Secretary of State will pursue the same policy. Local government will have to await information. There is no indication as to what shape the funding settlement will take.
- 8.6 Should such a settlement be issued, there is no guarantee that major grant income sources such as New Homes Bonus, Services Grant and Lower Tier Services Grant would continue. These grants provided income of £1.7m in 2022/23. Withdrawing these grants would be politically difficult but is a definite risk to the Council.
- 8.7 A new Prime Minister was announced on 5 September 2022 and replaced on 25 October 2022. The new Prime Minister may decide to reform local government funding or implement further changes to local government and its funding. This is speculation but is a definite risk.
- 8.8 It is now widely expected that the funding reforms will be introduced from 2025/26 at the earliest. The projections for this show a drop in funding to the Council. This has been expected for a number of years and there is no confirmation that the original principles will still be considered valid. Ministers may revise the proposals and/or the date of implementation.
- 8.9 The maximum allowed Council Tax increase in 2022/23 was 1.99% or £5 per annum. This was increased to 2.99% for 2023/24 in the Autumn Statement. It must be noted that any maximum increase of less than current CPI is an actual cut in funding for the Council.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1 The approval of the Medium Term Financial Strategy lies with Full Council upon the recommendations of the Policy & Finance Committee.

9.2 The council has a fiduciary duty to its taxpayers to be prudent in the administration of the funds it holds on their behalf and an equal duty to consider the interests of their community which benefit from the services it provides.

10. HUMAN RESOURCES IMPACT

10.1 None.

11. HEALTH & SAFETY IMPACT

11.1 None.

12. PROPERTY & ESTATES IMPACT

12.1 The maintenance of property and estates is dependent on sufficient funding being available to finance the planned programme.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1 None.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1 No direct impact. With constrained resources, the Council must decide how much resource to apply to climate change.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1 None.

16. HUMAN RIGHTS IMPACT

16.1 None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1 None.

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BACKGROUND DOCUMENTS:

2022/23 Budget Book;

Draft 2021/22 Statement of Accounts