

Arun District Council

REPORT TO:	Policy and Finance Committee - 26 October 2023
SUBJECT:	Financial Prospects 2024/25 to 2028/29 – interim update
LEAD OFFICER:	Antony Baden, Group Head of Finance and Section 151 Officer
LEAD MEMBER:	Cllr Matt Stanley
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 affects all Directorates of the Council.	
FINANCIAL SUMMARY: The financial forecast for the General Fund Revenue Budget from 2024/25 and future years to 2028/29 is presented in this report.	

1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to provide members with a high-level update on the current financial and economic prospects arising from the financial issues affecting the Council and their impact on the financial forecast for the five years from 2024/25 to 2028/29. The report also asks members to note the financial parameters for the 2024/25 budget preparation.
- 1.2. A further detailed report will be presented to this committee at its meeting of the 6 December 2023.

2. RECOMMENDATIONS

The Committee is asked to resolve that:

- 2.1. The financial forecast be noted;
- 2.2. Delegation be granted to the Section 151 Officer to finalise the wording of the budget consultation literature in consultation with the Committee Chair of the Policy & Finance Committee;
- 2.3. The Committee agrees to delegate authority to the Section 151 Officer, Chief Executive Officers and Chair of the Policy & Finance Committee to decide future participation in the West Sussex Business Rates Pool;
- 2.4. Officers continue to develop proposals which will enable the Council to maintain and replenish an adequate level of Usable Revenue Reserves as decided by the Section 151 Officer.

3. EXECUTIVE SUMMARY

- 3.1. This document sets out the approved budget for 2023/24 and updates the budget forecasts within the Medium-Term Financial Plan (MTFP) for the period 2024/25 to 2028/29, (see Appendix A). It represents the latest view of the Council's financial position over this five-year period and is subject to confirmation of Government funding and several other factors that may affect the Council's finances. A more detailed update will be brought before this Committee on the 6 December 2023.
- 3.2. The forecast assumes that the local government funding reforms will take place in 2026-27 rather than 2025-26. Ongoing lack of certainty surrounding local government funding continues to limit the ability to produce reliable financial forecasts especially in respect of Business Rates income and Government grant. The situation is exacerbated by the continued economic crisis and wider global issues.
- 3.3. The report describes the financial pressures facing the Council and sets out how it can fulfil its statutory obligation and set a balanced budget. This will again necessitate the need to use reserves, but Members will note that this cannot be a permanent solution and the Council will need to make some difficult decisions over the next 12 months to achieve an affordable and sustainable budget.
- 3.4. Members should note that the financial forecast at Appendix A is still work in progress and subject to changes.

4. DETAIL

The Budget Process

- 4.1. Service committees have been consulted on the budget process via a series of reports presented in September and October 2023. The process for 2024/25 has seen the introduction of the service planning templates which are being compiled with a view to develop potential savings and income generation ideas, which will assist in bridging the budget gap.

The process is outlined below: The budget process consists of four phases and this report is the result of the first phase.

- a. Phase 1 – Budget consultation reports to Service Committees.
- b. Phase 2 - Update the MTFP setting out budget pressures and high-level estimates over the next five years and report to Policy and Finance Committee on 6 December 2023, (this will be followed by an all-Member briefing on the 14 December 2023);

- c. Phase 3 - Produce detailed draft budgets to be considered by the relevant service committees before consideration at Policy and Finance Committee on 8 February 2024;
- d. Phase 4 - Finalise the budget, for consideration by a Special Meeting of the Council on 21 February 2024.

Local Government Finance Settlement (LGFS) 2024/25

- 4.2. There LGFS will be announced by DLUHC in December 2023. The same principles from last year's statement have been applied to the forecasts in this report.
- 4.3. Regarding the local government funding reforms our assumption is that this will take place no earlier than 2026-27. In theory, the funding reforms could be implemented in 2025-26 after the end of the current parliament but our assessment is that this is very unlikely to be the case.

Cost Pressures

- 4.4. **Inflation** - Inflationary increases of 6.8% have been built into non-contractual budgets and fees and charges. This aligns with the July 2023 CPI rate. The base budgets for certain service contracts have been increased by £611,000 as a result of inflationary clauses built into the contracts. The largest increases are in the Waste & Recycling (£479,000) and Grounds Maintenance contracts (£132,000).
- 4.5. **Net Financing Costs** – The Council still aims to deliver a capital programme with several high-profile schemes as shown in Appendix C. Most of the programme will be financed from borrowing, which will incur financing costs and this presents an affordability risk that has been exacerbated by recent interest rate rises. The budget assumes an underlying borrowing rate of 4.94%, which is in line with forecasts received from the Council treasury management advisors.
- 4.6. **Investment Income** - Rising interest rates means that the Council will receive higher than anticipated investment income. The 2024/25 budget has been increased by £435,000 and this additional income will partially offset borrowing costs.
- 4.7. **Staffing Costs** – the forecast assumes an annual increase of 6.5% for 2024/25 and 2% per annum for each of the following years. This increases the full year budget requirement in 2024/25 by approximately £1,100,000.
- 4.8. **External Audit fees** – Local authority external audits have received much criticism in recent years from the Financial Reporting Council, mainly over the quality of audits and the delays in completing them. Audit companies responded by stating that such audits would require additional resources to rectify these problems. The contract for delivering the audit is currently with Ernst & Young, following a procurement process conducted by the Public Sector Audit Appointments (PSAA) Limited on behalf of the Council. The

Council has since been advised by the PSAA that our audit costs could increase by about £100,000 from 2024/25 onwards.

- 4.9. The Council Vision adopted by full Council in March 2022 includes several priority objectives, some of which may require further revenue and/or capital investment. The MTFP forecast does not include any additional funding to deliver these objectives, so any proposals for further investment will need to be considered for affordability. This may also necessitate a need to realign existing resources or make compensatory savings elsewhere from the budget.
- 4.10. **Business Rates** - The Council is currently a member of the West Sussex Business Rates Pool along with other West Sussex authorities. This allows member authorities retain any growth in business rates income that they collect rather than pay it over to central government for wider distribution. The scheme requires each authority to indicate its interest by the 10 October 2023 to DLUHC as to whether it wishes to remain in the pool.

Non-Specific Revenue Grants

- 4.11. This estimate uses data from a model provided by local government policy specialists, Pixel Financial Management. The table below shows the forecast net (increases)/decreases against the 2023/24 base budget in each year of the MTFP:

2024/25	2025/26	2026/27	2027/28	2028/29
£'000s	£'000s	£'000s	£'000s	£'000s
(271)	262	410	410	410

- 4.12. The main changes are due to the predicted reduction of £616,000 for the New Homes Bonus grant as this assumes that the Government will wind up the scheme by 2026/27. There is a risk to the forecast in relation to the Funding Guarantee Grant £1.2m and the Revenue Support grant £198,000 as these could be discontinued in 2026/27 when Full Funding Review (FFR) is implemented.
- 4.13. The above information will be confirmed in the local government funding settlement in December 2023 and any changes will be reported to this committee at its 8 February 2024 meeting.

Council Tax and Council Tax Base

- 4.14. For 2023/24, the Council approved the maximum increase permitted by the Local Government Finance Settlement of 2.99%. For 2024/25 and future years, the assumption is that the same rate of increase will apply.
- 4.15. The Council Tax Base allows for an annual increase in new builds from housing developments based on the Council's targets less an allowance for collection losses and Council Tax Reduction claimants. The increases for each year of the MTFP are set out in the table below:

2024/25	2025/26	2026/27	2027/28	2028/29
£'000s	£'000s	£'000s	£'000s	£'000s
532	554	578	602	628

- 4.16. The above increases will be reviewed during phase 2 of the budget process once the final council tax base figures are submitted to DLUHC in October.

Collection Fund Surplus/Deficit

- 4.17. The forecast Collection Fund outturn for 2023/24, which will impact 2024/25 financial year, will be updated during phase 2 of the budget process.

Usable Revenue Reserves

- 4.18. Appendix B sets out the impact on the Council's Usable Revenue Reserves based on the updated MTFP forecasts. By the end of the five-year forecast (2028/29), the balance of Reserves is forecast to have been exhausted if no decisions are made to address the budget shortfall.
- 4.19. Members should note that assessing the adequacy of a Council's reserves is the responsibility of the Section 151 Officer. Furthermore, Section 25 of the Local Government Act 2003 requires the Section 151 Officer to produce a statement regarding the adequacy of Reserves. This will be included in the updated report to this committee on the 6 December 2023.

Capital Programme

- 4.20. The draft Capital Programme is shown in Appendix C.
- 4.21. Capital financing costs estimates are extremely sensitive to changes in interest rates and along with inflation rises, this will have a significant impact on the affordability of some capital schemes. Therefore, larger and more complex schemes will continue to be subject to a detailed affordability review by the Section 151 Officer and Heads of Service before any proposals are reported to Members for their consideration.

Budget Consultation

- 4.22. The Council is required to consult on its budget and council tax proposals with residents and local businesses. The opinions of residents, partner organizations, businesses and other interested parties are an important part of the budget setting process. The final report will be presented to this Committee on 8 February 2024.
- 4.23. The consultation will need to highlight the continuing scale of the financial challenge facing the Council, and its response for dealing with it. The Policy & Finance Committee is requested to agree that delegation be given to the Section 151 Officer and the Chair of Policy & Finance committee to finalise the wording of the consultation.

Conclusion

- 4.24. The financial outlook has continued to deteriorate over the last twelve months. Global economic uncertainty, the cost-of-living crisis and spiraling inflation are already having a major adverse impact on budgets, and this is expected to continue over the medium term. Inflationary pressures alone are predicted to add approximately £1m to the budget deficit in 2024/25 and this will be exacerbated by increasing interest rates, although the Council will seek to offset the latter by use of capital receipts and an increase in investment income. Also, uncertainty around future levels of government grant funding may well worsen the situation.
- 4.25. Further savings are essential if the Council is to set a balanced and sustainable budget that is not reliant on the use of reserves. Furthermore, resources will probably need to be realigned if the objectives of the Corporate Plan are to be achieved. Therefore, it is essential that the Council maintains an adequate level of reserves and continues to operate within its approved budget each financial year to prevent further unplanned drawdowns. Failure to do so will impact on the Council's ability to meet its statutory obligations.
- 4.26. However, despite the multiple financial pressures, the Council can deliver a balanced budget with a combination of sound financial management and the successful delivery of Savings targets. Failure to achieve this will result in the Council having to make difficult decisions around the provision of local services.

5. CONSULTATION

- 5.1. No consultation has been undertaken with external bodies.

6. OPTIONS / ALTERNATIVES CONSIDERED

- 6.1. There are no other options available.

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

- 7.1. The financial considerations considered in the report show a significant budget deficit from 2024/25 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 several risks, which are currently exacerbated owing to the current financial situation. These are summarised in the following sections.
- 8.2. As can be seen from the table in Appendix B, the main risk to the Council is that if it fails to address the underlying budget shortfall, it will run out of Usable Revenue Reserves by 2027/28.

8.3. 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. 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	2023/24 Budget £'000
Employment Cost	17,048
Contracts	8,363
Total	25,411

8.4. On 16 July 2023, the Office for National Statistics published CPI rate was 6.8%. As an example, if the costs above increased by this in 2024/25, the increase in cost to the Council is £1.73m. Assuming the Council increases Council Tax by the maximum amount allowed in 2024/25, the increase in Council Tax income is £533k over 2023/24. If no further funding is available, the Council will have to increase income from other sources, find savings or use balances.

8.5. In 2023/24, the Council had agreed to a request from its Leisure Services provider to reduce the sum it pays to the Council by £580k. This has been reversed in 2024/25. 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.

8.6. The government confirmed in the December 2022 Policy Statement that the local government funding reforms would not take place in the current parliament and had suggested a two-year funding settlement for local government for 2023/24 and 2024/25. We do not know whether the reforms will be in 2025-26, 2026-27 or even later. Since this announcement, there has been no further information published. There is no indication as to what shape the funding settlement will take.

8.7. There is no guarantee that major grant income sources such as New Homes Bonus, Services Grant and Funding Guarantee Grant would continue beyond 2024/25. These grants provided income budgets of £2.3m in 2023/24. Withdrawing these grants would seem unlikely but is a definite risk to the Council.

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 2023/24 was 2.99%. 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 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

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

Financial Prospects 2022/23 to 2026/27 report to Policy & Finance Committee, 13 December 2023

[\(Public Pack\)Policy & Finance Committee - Supplement - Item 9 - Financial Prospects \(Medium-Term Financial Prospects\) 2022-2023 to 2026-2027 Agenda Supplement for Policy and Finance Committee, 13/12/2022 18:00 \(arun.gov.uk\)](#)

Arun District Council

2024/25 to 2029/30 Medium Term Financial Plan

	2023/24 Budget £(000)	2024/25 Budget £(000)	2025/26 Budget £(000)	2026/27 Budget £(000)	2027/28 Budget £(000)	2028/29 Budget £(000)
Cost of Service						
Corporate Support	7,678	8,416	8,245	8,463	8,738	8,648
Economy	2,449	2,915	2,927	2,822	2,824	2,898
Environment	10,810	11,426	11,775	11,993	12,221	12,446
Housing & Wellbeing	5,937	5,472	5,453	5,559	5,667	5,777
Planning Policy	906	487	544	602	661	721
Policy & Finance	2,203	2,238	2,283	2,328	2,375	2,422
Recharges to HRA	(1,526)	(1,526)	(1,526)	(1,526)	(1,526)	(1,526)
Total Cost of Services	28,456	29,428	29,702	30,241	30,959	31,386
Corporate Cost						
Parish Precepts	5,301	5,459	5,622	5,790	5,963	6,142
Other Precepts & Levies	249	249	249	249	249	249
Interest & Investment Income	(1,825)	(2,260)	(2,128)	(1,184)	(853)	(663)
Contingencies / Miscellaneous	0	0	0	0	0	0
Pension Deficit Contributions	1,323	1,323	1,323	1,323	1,323	1,323
Depreciation	0	0	0	0	(112)	0
Total Corporate Cost	5,048	4,771	5,067	6,179	6,570	7,051
Total Net Budget Requirement	33,504	34,199	34,768	36,420	37,529	38,437
Financed By						
Retained Business Rates	(7,626)	(8,032)	(8,201)	(6,485)	(6,731)	(6,995)
New Homes Bonus	(616)	(616)	0	0	0	0
Other Non-Ringfenced Grants	(1,641)	(1,912)	(1,995)	(1,847)	(1,847)	(1,847)
Council Tax income: Arun	(12,982)	(13,514)	(14,069)	(14,647)	(15,249)	(15,877)
Council Tax income: Parish Councils	(5,301)	(5,459)	(5,622)	(5,790)	(5,963)	(6,142)
Collection Fund D/(S)	(152)	(148)	(152)	(156)	(159)	(163)
Total Finance By	(28,318)	(29,682)	(30,039)	(28,925)	(29,950)	(31,024)
Funding Gap	5,186	4,516	4,729	7,495	7,580	7,413
Funding Gap - reported in December 2022	3,984	3,449	7,106	7,221	0	0
Change in Funding Gap	1,202	1,067	(2,377)	274	0	0

					Appendix B	
Revenue Reserves						
Potential Use of Reserves	2023/24 Budget £(000)	2024/25 Budget £(000)	2025/26 Budget £(000)	2026/27 Budget £(000)	2027/28 Budget £(000)	2028/29 Budget £(000)
Earmarked Reserves and General Reserves	(25,793)	(20,607)	(16,091)	(11,362)	(3,867)	3,713
Use of/(Contribution to) Reserves	5,186	4,516	4,729	7,495	7,580	7,413
Total Reserves	(20,607)	(16,091)	(11,362)	(3,867)	3,713	11,126

