

Arun District Council

REPORT TO:	Special Policy and Finance Committee - 8 January 2024
SUBJECT:	Financial Prospects 2024/25 to 2028/29 – update
LEAD OFFICER:	Antony Baden, Group Head of Finance and Section 151 Officer
LEAD MEMBER:	Councillor Matt Stanley
WARDS:	All
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: The Council's financial planning and budget promotes all the Council's Corporate Priorities.	
DIRECTORATE POLICY CONTEXT: The Council's financial planning and budget affects all Directorates of the Council.	
FINANCIAL SUMMARY: An updated financial forecast for the General Fund Revenue Budget from 2024/25 and future years to 2028/29 is presented in this report.	

PURPOSE OF REPORT

- 1.1. This report provides Members with an update on the Council's Financial Forecast for 2024/25 to 2028/29, which was first presented to this Committee on the 26 October 2023.
- 1.2. It is intended that regular updates will be reported to this Committee along with progress updates on the delivery of the Council's Savings Strategy, which is the subject of a separate report on this agenda.

2. RECOMMENDATIONS

It be RESOLVED: That:

- 2.1. The updated financial forecast be noted.

3. EXECUTIVE SUMMARY

- 3.1. This document sets out the updated Medium-Term Financial Plan (MTFP) forecast for the period 2024/25 to 2028/29, (see Appendix A). It represents the latest view of the Council's financial position and is subject to several factors that may affect the Council's finances over this period, such as local government funding reforms and the continuation of certain non-ringfenced government grants.

- 3.2. The 2024/25 budget figures are draft and subject to further changes before being presented for approval by service Committees, Policy & Finance and Full Council.
- 3.3. Paragraphs 4.1 to 4.11 detail the areas of the budgets that have been updated since the report to this Committee on the 26 October 2023.

4. DETAIL

Summary of budget changes

- 4.1. Table 1 below summarizes the changes that have been incorporated into the 2024/25 revenue budget since the MTFP forecast was reported to this committee on the 26 October 2023.

Changes between 26 October 2023 and 8 January 2024		
Savings		(2,100)
Reduction in Pay Award (6.5% to 4%)		(367)
Council Tax income		63
Recharges to the HRA		(220)
Reduction in Planning fee/CIL income		386
Temporary Accommodation		515
Supported Housing payments		505
Reduced Elections costs		(186)
Reductions in Government Grant funding		21
Other		(195)
		(1,578)

- 4.2. Savings of approximately £2.1 million have been identified as part of the service planning process undertaken by Group Heads to develop potential savings and income generation ideas. These are still draft and subject to consultation.
- 4.3. The pay award forecast has been reduced to 4%, which is deemed to be a more realistic level. Annual wage inflation fell by 0.8% to 7.2% in October, and it is expected that this fall will continue over the ensuing months.
- 4.4. Council Tax income has been adjusted downwards slightly by £63,000 to allow for a more realistic collection rate.
- 4.5. General fund recharges to the Housing Revenue Account have been increased by £220,000 to reflect a more accurate level of service activity.
- 4.6. The Quarter 2 monitoring reports explained that after three years of buoyant income levels, Planning fee income was struggling to achieve the budget target. Although significant Planning fee increases announced by central government have taken effect from the 6 December 2023 a prudent approach has been adopted for the 2024/25 budget by reducing the budget by £386,000.

- 4.7. The Quarter 2 monitoring reports have also included information about the Council's significantly increase in temporary accommodation costs. The rate of people presenting as homeless is expected to continue increasing and an additional £515,000 has been added to the budget.
- 4.8. Supported Housing is accommodation that the Council must provide alongside support, supervision, or care to help people with specific needs to live as independently as possible in the community. This includes, for example, older people, people with a learning disability, people with a physical disability, people at risk of or who have experienced homelessness, or people recovering from drug or alcohol dependence. Many councils are experiencing funding shortfalls due to how the housing benefit system operates and this is expected to increase our costs by £505,000 in 2024/25.
- 4.9. The Elections budget has been reduced by £186,000 as there are no local elections in 2024/25.
- 4.10. The government grant funding changes are explained further in Local Government Finance Settlement paragraphs 4.12 to 4.16. The expected amount of grants received is £21,000 lower than the October forecast.
- 4.11. The remaining £195,000 reduction in the budget is due to a combination of several smaller changes made across the overall budget.

Local Government Finance Settlement (LGFS) 2024/25

- 4.12. The LGFS announcement was finally made on the 18 December 2023. It is a provisional settlement and is subject to a consultation period, which finishes on the 15 January 2023.
- 4.13. As mentioned in paragraph 4.10, the total amount of non-ringfenced grants received is slightly lower than forecasted. The table below compares the grant totals between 2023/24 and 2024/25 and shows that the Council will receive £250,000 (11.07%) more than it received in 2023/24:

Other Non-Ringfenced Grants	2023/24	2024/25
Housing Benefits Administration Grant	(348)	(454)
Services Grant	(143)	(24)
Funding Guarantee Grant	(956)	(444)
Revenue Support Grant	(194)	(207)
Sub Total	(1,641)	(1,129)
New Homes Bonus	(616)	(1,378)
Total Non-Ringfenced Grants	(2,257)	(2,507)

- 4.14. The Housing Benefits Administration grant is yet to be confirmed. The Services grant and Funding Guarantee grant are £631,000 lower than 2023/24. There was an expectation that these grants might be reduced with a large element being redirected, however, the impact of this has been negated by a significantly higher than expected allocation of New Homes Bonus (NHB) grant, (£762,000). The Revenue Support Grant has been increased by 6.62%.

- 4.15. No further updates to the forecast for future years have been made at this stage. Officers still need to work through the information in the LGFS announcement especially to assess and possibly re-model likely grant allocations beyond 2024/25 as DLUHC have already indicated that the NHB grant will be discontinued after next year but have not indicated what it might be replaced with.
- 4.16. The LGFS included confirmation that the West Sussex Business Rates (WSBR) pool would continue in 2024/25 with Arun District Council being part of the pool, (Policy & Finance Committee at its meeting of the 26 October 2023 agreed to delegate authority to the Section 151 Officer and the Chief Executive Officers in consultation with the Chair of the committee to decide future participation in any WSBR pool – please see minute 326, recommendation 2.3).

Capital Financing Costs

- 4.17. As has been reported previously the Council currently has no general fund debt although the capital programme does include some schemes, which will be funded from borrowing. Nonetheless, it will still have a very low level of borrowing, which means that the amount of funding required to service that borrowing will also be very low. This means that the Council may well have scope to increase its capital programme ambitions although any new scheme will have to be supported by a robust business case, which demonstrates that it can generate additional income or avoid/reduce costs, as well as deliver value for money.
- 4.18. The table below shows the estimated annual financing costs of new capital investment projects funded from borrowing over a period of 40 years, which would need to be funded by the Council's revenue budget:

Amount borrowed	Interest Rate	Annual Repayments	Total Repayments
£5,000,000	5.39%	£305,951	£12,238,035
£10,000,000	5.39%	£611,902	£24,476,069
£15,000,000	5.39%	£917,853	£36,714,103

- 4.19. The above is purely for illustrative purposes and is based on the latest rate at the time of writing. Members will note that the Council's treasury management advisors latest high-level interest rate forecasts expect to see an across the board drop of about 1.4% over the next two years but this is very difficult to predict with great certainty.
- 4.20. If interest rates were to reduce by 1.4% and the Council decided to borrow £15 million over 50 years, the annual repayments to be funded from the revenue budget would be approximately £640,000. Members will note from this example that the length of the borrowing period and prevailing interest rate can have a significant impact on the annual financing costs.

Usable Revenue Reserves

- 4.21. Appendix B sets out the impact on the Council's Usable Revenue Reserves based on the updated MTFP forecasts. The latest projections indicate that by the end of the five-year forecast (2028/29), the balance of Reserves is forecast to be only £218,000 if no further decisions are made to address the budget shortfall.
- 4.22. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to produce a statement regarding the adequacy of a Council's Reserves. This will be formally reported to this committee on the 8 February 2024 as part to the Revenue Budget proposals.

Conclusion

- 4.23. The uncertainty that has dominated the economic landscape over the last twelve months or so is expected to continue to some extent over the medium term. Inflationary pressures have begun to abate although interest rates remain comparatively high compared to recent years. The uncertainty around future levels of government grant funding continues to hinder the Council's ability to undertake effective financial planning.
- 4.24. Despite the multiple financial pressures identified in the recent MTFP reports, much progress has been made since the last update. However, further savings are essential if the Council is to set a balanced and sustainable budget that is not reliant on the use of reserves. Failure to do so will impact on the Council's ability to meet its statutory obligations.
- 4.25. Further details will be included in the budget reports to all service committees during January and February 2024. It is intended that going forward more regular MTFP updates will be presented to Members as part of the Council's savings strategy and the monitoring of its progress.

5. CONSULTATION

- 5.1. Resolution 2.2 of minute 326 from the Policy & Finance Committee of the 26 October 2023 resolved that *'delegation be granted to the Section 151 Officer to finalize the wording of the budget consultation literature in consultation with the Committee Chair of the Policy & Finance Committee'*. This document was agreed with the Chair of this Committee early in December and the consultation on the Council's website and is open to all Arun residents and businesses for their feedback and comments.

- 5.2. Section 134 of the Local Government Finance Act 1988 requires the Council to undertake a budget consultation with representatives of non-domestic ratepayers. To this end an advertisement has been published in the Council's Business Partnership Newsletter and in the Public Notice section of the local press. The advertisement also included a link to the consultation literature referred to in paragraph 5.1.
- 5.3. The consultation period closes on the 21 January 2024 and the results will be presented to this Committee at its meeting of the 8 February 2024.

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 implications considered in the report show indicate a significant improvement since the last update but there remains a budget deficit of £2.983 million in 2024/25, which will need to be funded from Usable Revenue Reserves. Furthermore, the risks summarized in paragraph 8 will remain for the foreseeable future and will continue to be monitored regularly and reported to Members.

8. RISK ASSESSMENT CONSIDERATIONS

- 8.1. The risks detailed in the previous forecast reported to this Committee remain. They are summarized in paragraphs 8.2 to 8.7 for reference.
- 8.2. **Usable Revenue Reserves** - As can be seen from the table in Appendix B, the possibility that the Council will exhaust its Usable Revenue Reserves has reduced but remains a major risk. If no further action is taken it would run out of Usable Revenue Reserves by 2029/30.
- 8.3. **Inflation** – The latest forecasts from the Council's treasury management advisors predicts a continuing drop in inflation. However, the economic situation is still somewhat unstable, and the Council remains exposed to various external factors. The biggest areas of expenditure affected by this are employment costs and contract inflation.
- 8.4. **Financial Support to the Leisure Services provider** - In 2023/24, the Council agreed to a request for financial support from Freedom Leisure. It is not anticipated that further support will be requested but the situation will be kept under review due to the continuing economic uncertainty.
- 8.5. **Local Government funding reform** – The LGFS announcement did not include any further information on this matter.
- 8.6. **Government grants** - There is no guarantee that major grant income sources such as New Homes Bonus, Services Grant and Funding Guarantee Grant will continue beyond 2024/25. Withdrawing these grants would seem unlikely but is a risk, nonetheless.

8.7. **Council Tax increase** - The maximum Council Tax increase in 2024/25 before a referendum is required has been confirmed at 3%. If inflation remains above this level throughout next year, it will effectively mean a cut in the Council's funding. Members will also note that the Council has already experienced such a funding cut in 2023/24 because of high inflation.

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

9.1. 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:

Minutes of the Policy & Finance Committee – 26 October 2023

[Minutes of Policy and Finance Committee \(arun.gov.uk\)](https://www.arun.gov.uk/minutes-of-policy-and-finance-committee)

Financial Prospects 2024/25 to 2028/29 – Interim Report

[Item 11 - Financial Prospects Report](#)

					Appendix A	
Summary MTFP Table	2023/24 Budget £(000)	2024/25 Budget £(000)	2025/26 Budget £(000)	2026/27 Budget £(000)	2027/28 Budget £(000)	2028/29 Budget £(000)
Net Budget Requirement	33,504	32,537	32,220	33,829	35,007	35,758
Financing	-28,318	-29,598	-29,943	-28,796	-29,790	-30,835
Funding Gap to be funded from Usable Revenue Reserves	5,186	2,938	2,277	5,033	5,217	4,923
Reduction in Funding Gap since 26th October report	0	1,578	2,452	2,462	2,362	2,490

						Appendix B
Revenue Reserves						
Usable Revenue 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)
Opening Balance	25,793	20,607	17,669	15,391	10,358	5,141
Use of Reserves to fund the budget	(5,186)	(2,938)	(2,277)	(5,033)	(5,217)	(4,923)
Closing Balance	20,607	17,669	15,391	10,358	5,141	218