

Arun District Council

REPORT TO:	Policy and Finance Committee – 11 December 2024
SUBJECT:	Medium Term Financial Forecast 2025/26 to 2029/30
LEAD OFFICER:	Antony Baden, Group Head of Finance and Section 151 Officer
LEAD MEMBER:	Councillor Martin Lury
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: The financial forecast for the General Fund Revenue Budget from 2025/26 and future years to 2029/30 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 main issues affecting the Council and their impact on the financial forecast for the five years from 2025/26 to 2029/30.
- 1.2. The report also asks members to note the financial parameters for the preparation of the 2025/26 revenue budget and gives updates on the public budget consultation, Members Budget Working Group (BWG) and future participation in the West Sussex Business Rates Pool, (WSBRP).

2. RECOMMENDATIONS

3. Members are asked to consider the report and provide officers with any comments.

3. EXECUTIVE SUMMARY

- 3.1. This document sets out the updated high-level Medium-Term Financial Forecast (MTFF) for the financial years 2025/26 to 2029/30. Further detail is shown in 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 other factors that may affect the Council's finances.

- 3.2. The forecast assumes that the local government funding reforms will take place in 2026-27 rather than 2025-26. Whilst the Chancellor's speech on 30 October 2024 indicated that local government funding beyond 2025/26 would be based on multiyear settlements, this is still subject to formal confirmation and uncertainty continues to limit the ability to produce reliable financial forecasts especially in respect of Business Rates income and Government grants.
- 3.3. The report describes the financial pressures facing the Council and sets out how it can fulfil its statutory obligation to 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 in the near future to achieve an affordable and sustainable budget.
- 3.4. Officers will develop budget proposals for the consideration of each service committee, which will enable the Council to maintain and replenish an adequate level of Usable Revenue Reserves as decided by the Group Head of Finance and Section 151 Officer.
- 3.5. Members should note that the financial forecast at Appendix A is still work in progress and subject to changes.
- 3.6. The Council's 2025/26 public budget consultation was launched on 13 November 2024 with a deadline of the 26 January 2025 for responses.
- 3.7. Corporate Leadership Team discussed the feasibility of setting up a Budget Working Party, consisting of Officers and Members. The idea was welcomed but it was felt that there was insufficient time to develop a set of Terms of Reference to be agreed by this Committee.
- 3.8. The Group Head of Finance & Section 151 Officer, in conjunction with the Chief Executive and having consulted the Chair and Vice Chair of this Committee, has indicated to the Ministry of Housing, Communities & Local Government (MHCLG) that the Council wishes to participate in the West Sussex Business Rates Pool (WSBRP) in 2025/26. This is subject to confirmation in the Local Government Funding Settlement (LGFS), due to be announced later this month.

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 2024 committee cycle.

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 11 December 2024, (this will be prior to an all-Member briefing on the 5 December 2024).
- c. Phase 3 - Produce detailed draft budgets to be considered by the service committees before consideration by Policy and Finance Committee on 13 February 2025.
- d. Phase 4 - Finalise the budget, for consideration by Special Council on 26 February 2025.

Local Government Finance Settlement (LGFS) 2025/26

- 4.2. The LGFS will be announced by MHCLG in December 2024. The Chancellor's budget speech on the 30 October 2024 included several high-level announcements about sector funding for 2025/26. The key points are summarized in paragraphs 4.3 to 4.10 below.
- 4.3. **National Insurance Contributions (NIC)** – The employers' NIC rate will increase by 1.2% to 15% from April 2025 and the threshold at which NICs are payable will reduce from £9,100 to £5,000. A sum of £4.7 billion had been set aside to offset the impact of the increases on the public sector but no detail has been given as to how that funding will be distributed. The estimated increase in NIC costs is £350k on the Council's revenue budget and Members will note that there is no guarantee that this will be fully funded.
- 4.4. **Planning** – Additional funding of £50 million has been set aside for investment in the planning system to support capacity and capability. It will focus on the recruitment and training of graduate and apprentice planners. It is not expected to have a significant impact on the revenue budget.
- 4.5. **Housing and Homelessness** - £500 million was announced to deliver up to 5,000 new homes but there is no information available about how that will be allocated. The Homelessness Prevention Grant will increase by £233 million next year and this will be allocated on a 'deprivation based' approach. Again, there is no detail as to how much of this will be allocated to the Council.
- 4.6. **Local Government** – An extra £1.3 billion has been allocated to the sector in general. Of this, £600 million will go to authorities responsible for Adult & Social Care provision and the other £700 million will be allocated to all councils on a 'deprivation based' approach.

- 4.7. **Business Rates** – The budget speech indicated that the business rates system would be reformed but again, there is a lack of detail around what this means for individual authorities. It is anticipated that some limited reform may be announced in the 2025/26 LGFS. The small business multiplier rate will be frozen again (this is the rate that affects the majority of businesses in the district) and the Standard Multiplier rate will increase by the September CPI index of 1.7%. The Government will continue to compensate authorities against the impact of these changes on business rate income via the use of section 31 grants, as it has done so in the past.
- 4.8. **Extended Producer Responsibility** – Local authorities will receive £1.1 billion of new funding in 2025-26. The Treasury has said it would guarantee that if local authorities do not receive fees in line with payment estimates, they will provide an in-year top up. Further detail is expected in the Local Government Finance policy statement.
- 4.9. **Fair Funding** – The Government has stated that it will commence the Fair Funding review, affecting 2025/26 budgets to begin with and then implementing further resource redistribution in subsequent years. There is no detail yet about how this will affect the Council, but Members will note that this could have a significant adverse impact on the budget position.
- 4.10. **Funding settlements** – Whilst next year's settlement will be a 'one-off', local government has been promised multi-year settlements from 2026/27. Further details are expected in the LGFS announcement.

Key Cost Assumptions

- 4.10. **Inflation** – An increase of 2.0% has been built into non-contractual budgets and fees and charges. This aligns with the July 2024 CPI rate, but the underlying rate will be kept under review pending future changes. The base budgets for the main service contracts have been increased by £310k because of inflationary clauses built into the contracts. The increases are in Waste & Recycling (£246k) and Grounds Maintenance contracts (£64k). An increase of 0.1% in CPI would increase the Council's costs by approximately £20k so any fluctuations against the budget assumption currently present a low risk.
- 4.11. **Interest payments and Investment Income** – The Council aims to deliver an ambitious capital programme containing several high-profile schemes – see Appendix C. Part of the programme will be financed from borrowing, which will incur financing costs, and this presents an affordability risk as well as exposure to interest rate rises. The budget assumes an underlying borrowing rate of 5.31% at the time of writing, which is in line with forecasts received from the Council's treasury management advisors, but Members will appreciate that this figure fluctuates daily. A reduction in interest rates means that the Council can borrow more cheaply but conversely, it will receive less investment income. The 2025/26 budget includes £300k for borrowing costs but Members will also understand that this figure is sensitive to changes in economic conditions.

- 4.12. **Staffing Costs** – the forecast assumes an annual increase of 2% for future years from 2025/26. This increases the full year budget requirement in 2025/26 by approximately £240k.

Non-Specific Revenue Grants

- 4.13. This estimate uses data from a model provided by local government policy specialists, LG Futures. The table below shows the forecast net changes in Grant allocations against the 2024/25 base budget:

Non-Specific Revenue Grants - Year on Year changes

Grant	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000
Revenue Support Grant	(207)	(207)	(207)	(207)	(207)	(207)
New Homes Bonus	(1,378)	(997)	0	0	0	0
NNDR Collection Allowance	(188)	(188)	(188)	(188)	(188)	(188)
Funding Guarantee Grant	(464)	(1,307)	(2,050)	(1,791)	(464)	(464)
Service Grant	(23)	(23)	(23)	(23)	(23)	(23)
Housing Benefit Administration grant	(404)	(405)	(405)	(405)	(405)	(405)
Total:	(2,665)	(3,127)	(2,874)	(2,615)	(1,288)	(1,288)

- 4.14. The main change is due to the expected removal of the New Homes Bonus grant (£996k) in 2026/27. There is also a risk to the forecast in respect of the Housing Benefits Administration grant (£405k) as this may decrease as working age housing benefit recipients are migrated across to Universal Credit system of payment, which is operated by the Department for Work & Pensions.
- 4.15. The above information will be confirmed in the LGFS, and any changes will be reported to this committee at its 13 February 2025 meeting.

Council Tax and Council Tax Base

- 4.16. For 2024/25, the Council approved the maximum increase permitted by the Local Government Finance Settlement of 2.99%. For 2025/26 and future years, the assumption is that the same rate of increase will apply.
- 4.17. At its meeting of the 7 March 2024 this Committee approved that the minimum period before council tax is charged on empty properties be reduced from two years to one year. It also recommended to Full Council (and was subsequently approved) that a council tax premium of 100% in respect of second homes be introduced. Both changes are effective 1 April 2025, and it is estimated they could generate additional income of around £438k.
- 4.18. 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 estimated figures for each year of the MTFE are set out in the table below:

2025/26	2026/27	2027/28	2028/29	2029/30
66,877	66,992	67,792	68,592	69,392

- 4.19. The Council Tax Base figure for 2025/26 is 66,877 and in accordance with Part 7, Section 2, paragraph 1.2.5 of the Constitution, it has been approved in consultation with the chair of the Policy and Finance Committee.

West Sussex Business Rates Pool (WSBRP)

- 4.20. The Council is a member of the WSBRP along with several other West Sussex authorities. This allows member authorities to retain any growth in business rates income that they collect rather than pay it over to central government for wider distribution. This year each authority was required to indicate to MHCLG by the 28 October 2024 whether it wished to remain in the pool.
- 4.21. At its meeting of the 26 October 2023, this Committee agreed 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. All three parties agreed to continue the Council's participation in the pool in 2025/26. The LGFS announcement is expected to confirm this arrangement.

Collection Fund Surplus/Deficit

- 4.22. The forecast Collection Fund outturn for 2024/25, which will impact 2025/26 financial year, will be updated during next phase of the budget process.

Usable Revenue Reserves

- 4.23. Appendix B sets out the impact on the Council's Usable Revenue Reserves based on the updated MTFE forecasts. If it fails to deliver the objectives of its Financial Strategy it will exhaust its Usable Revenue Reserves (URR) by 2028/29. Therefore, continued reliance on URR to fund the budget deficit is unsustainable in the medium-term.
- 4.24. Whilst a significant structural budget gap remains, the Council's financial position can be resolved. However, it will require Members to make difficult and unpopular decisions. This is essential not only to tackle the budget deficit, but also to give the Council some headroom when dealing with future threats to funding that have been outlined elsewhere in this report. 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.
- 4.25. The table below illustrates the impact of recent decisions by Members in terms of foregone income opportunities:

Opportunity	Committee decision date	Annual Foregone Income (£)	5-year Foregone Income (£)
Car Parking disks	Environment, 19 September 2024	123,000	616,000
Little Stars Nursery	Economy, 22 October 2024	15,000	15,000
Limit free parking for Blue Badge holders	Environment, 14 November 2024	110,000	550,000
Total		248,000	1,181,000

- 4.26. The figures in the above table are approximations and exclude other foregone income opportunities, which are not possible to quantify e.g. the Harbour Park lease negotiating brief, (Economy Committee, 16 April 2024) and the provision of additional Beach Huts (Economy Committee, 22 October 2024).
- 4.27. Section 25 of the Local Government Act 2003 requires the Section 151 Officer to produce a statement regarding the adequacy of Reserves. Section 6, part 3, paragraph 2.2 of the constitution also requires the Group Head of Finance and Section 151 Officer to advise this Committee on this matter. The statement will be included in the budget report to this committee on the 13 February 2025.

Capital Programme

- 4.28. The Capital Programme is shown in Appendix C. Borrowing costs are sensitive to changes in interest rates and may have an impact on the affordability of some capital schemes. Schemes will continue to be subject to an affordability review by the Group Head of Finance and Section 151 Officer and Group Heads before any proposals are reported to Members for consideration. Please see paragraph 4.11 for further information.

Budget Consultation

- 4.29. The Council is required to consult on its budget and council tax proposals with residents and local businesses. The views of residents, partner organizations, businesses and other interested parties are an important part of the budget setting process.
- 4.30. This year's budget consultation has been prepared in liaison with the Chair and Vice-Chair of this committee as well as the Corporate Leadership Team. It has been simplified from last year, which is hoped will encourage a higher response rate. It was launched on the 13 November 2024 and the close date is the 26 January 2025. The results will be presented to this Committee on 13 February 2025. A link to the consultation is included in the background documents.

Budget Working Group

- 4.31. At its meeting of the 9 July 2024, Members passed a recommendation to delegate responsibility to the Group Head of Finance and Section 151 Officer to explore the possibility of setting up a Budget Working Party for the 2025/26 budget, consisting of Officers and Members. The recommendation was discussed at the Corporate Leadership Team, and it was felt that whilst greater involvement of Members would be beneficial, there was insufficient time to develop Terms of Reference, which would ultimately need to be agreed by this Committee. Officers will continue to explore ways in which this concept may be developed, and in the meantime, budget proposals will be reported through Service Committees in the usual way.
- 4.32. 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 MTFF forecast does not include any 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.

Conclusion

- 4.33. Whilst the financial outlook in the U.K. has stabilised over the last 12 months, much uncertainty remains over the funding of the local government sector. The recent budget speech from the Chancellor was seen as broadly positive however, the impact on small district authorities such as Arun may be less so. Central government has indicated that it wants to undertake a Fair Funding review and allocate resources on a 'deprivation basis'. It is anticipated that the LGFS announcement will provide greater clarity on this matter.
- 4.34. 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 its Financial Strategy.

5. CONSULTATION

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

6. OPTIONS / ALTERNATIVES CONSIDERED

- 7.1. There are no other options available.

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

- 8.1. The financial considerations in the report show a budget deficit from 2025/26 which must be addressed. Delivery of the Financial Strategy is essential if the Council is to balance future budgets without using of Revenue Reserves. Any consideration of finances in future is subject to several risks which are explained in Section 8 below.

8. RISK ASSESSMENT CONSIDERATIONS

- 9.1. Several risks have been outlined throughout this report. The main risks and are outlined in the following sections.
- 9.2. As can be seen from the table in Appendix B, the main risk to the Council is that it fails to address the underlying budget shortfall and runs out of URR by 2028/29.
- 9.3. In October 2024, the Office for National Statistics published CPI rate was 2.3%. As an example, if the costs of service increased by this in 2025/26, the increase in cost to the Council is £750k. If the Council increases Council Tax by 3% for 2025/26, the increase in income would be £850km. It can be seen from this that the impact of inflation would erode most of any increase in council tax.
- 9.4. There is no guarantee that grants such as the New Homes Bonus, Services Grant and Funding Guarantee Grant will continue into 2026/27 and beyond. These grants provide income of £1.865m in 2024/25. Withdrawing these grants without any transitional measures would seem unlikely but it remains a risk until the LGFS gives clarity on future funding.
- 9.5. The Fair Funding review is back on the agenda. There is no detail as to how this might affect the budget position, but Members will note that it is not anticipated to provide more funding for this Council.
- 9.6. The costs of providing Temporary Accommodation continues to create significant pressure on the revenue budget. Initiatives such as property acquisitions partly funded from LAHF grant and developer receipts are helping to drive down the costs, but volumes are unpredictable. The Chancellor's announcement of further Homelessness Prevention Grant funding is welcome, but it is not yet clear whether the Council will benefit from this. The forecast assumes no further funding at this point.

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

- 10.1. The approval of the Medium-Term Financial Strategy lies with Full Council upon the recommendations of the Policy & Finance Committee.
- 10.2. 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

- 11.1. There are no additional budgetary implications other than those already built into the base budget.

11. HEALTH & SAFETY IMPACT

- 12.1. There are no additional budgetary implications other than those already built into the base budget.

12. PROPERTY & ESTATES IMPACT

13.1. There are no additional budgetary implications other than those already built into the base budget.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

14.1. There are no additional budgetary implications other than those already built into the base budget.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

15.1. There are no additional budgetary implications other than those already built into the base budget.

15. CRIME AND DISORDER REDUCTION IMPACT

16.1. There are no additional budgetary implications other than those already built into the base budget.

16. HUMAN RIGHTS IMPACT

17.1. There are no additional budgetary implications other than those already built into the base budget.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

18.1. There are no additional budgetary implications other than those already built into the base budget.

CONTACT OFFICER:

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BACKGROUND DOCUMENTS:

Financial Prospects 2022/23 to 2026/27 report to Policy & Finance Committee, 26 October 2023:

[\(Public Pack\)Agenda Document for Policy and Finance Committee, 26/10/2023 18:00](#)

[Arun District Council Budget Consultation 2025-2026](#)

Arun District Council

Appendix A

MTFF Summary 2025/26 to 2029/30	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£'000	£'000	£'000	£'000	£'000	£'000
Policy and Finance Committee	1,722	1,722	1,722	1,722	1,722	1,722
Corporate Support Committee	8,165	8,270	8,270	8,770	8,270	8,270
Economy Committee	2,566	2,567	2,567	2,567	2,567	2,567
Environment Committee	10,859	10,769	8,874	8,729	8,681	8,630
Planning Policy Committee	704	704	704	704	704	704
Housing and Wellbeing Committee	6,188	6,289	6,338	6,164	6,106	6,093
Recharges to HRA	(1,746)	(1,553)	(1,584)	(1,616)	(1,648)	(1,681)
Adjustment for over provision of 2024/25 pay award	(285)	(285)	(285)	(285)	(285)	(285)
Pay award & National Insurance increases	0	635	798	1,179	1,568	1,964
Provision for staff vacancies	0	(640)	(640)	(640)	(640)	(640)
Non-Pay & Contract Inflation	0	382	719	975	1,236	1,502
Fees & Income inflation	0	(133)	(136)	(138)	(141)	(144)
Unavoidable growth: Temporary Accommodation	0	200	0	0	0	0
Committed growth: Financial Strategy delivery	0	300	0	0	0	0
Total Cost of Service:	28,173	29,227	27,347	28,132	28,139	28,702
	28,458					
Other precepts and levies	346	249	249	249	249	249
Interest & investment income	(2,385)	(2,385)	(1,184)	(853)	(663)	(663)
Pension deficit contributions	1,284	1,226	1,226	1,226	1,226	1,226
Parish Precepts	5,530	5,530	5,530	5,530	5,530	5,530
Total Corporate Costs:	4,775	4,620	5,821	6,152	6,342	6,342
Retained Business Rates	(8,125)	(8,131)	(4,635)	(4,714)	(4,825)	(4,825)
Revenue Support Grant	(207)	(207)	(207)	(207)	(207)	(207)
New Homes Bonus	(1,378)	(997)	0	0	0	0
Other non ringfenced grants	(1,080)	(1,923)	(2,666)	(2,407)	(1,080)	(1,080)
Council Tax income	(13,451)	(14,354)	(14,955)	(15,580)	(16,230)	(16,904)
Council Tax income (Parish/Town)	(5,530)	(5,530)	(5,530)	(5,530)	(5,530)	(5,530)
Collection Fund deficit/(surplus)	(148)	(148)	(148)	(148)	(148)	(148)
Total Finance By:	(29,919)	(31,290)	(28,142)	(28,587)	(28,020)	(28,695)
Total (Surplus) / Deficit	3,030	2,557	5,026	5,697	6,460	6,349

Appendix B

Revenue Reserves

Usable Revenue Reserves (no adjustment in 2026/27 onwards)	2024/25 Budget £'000	2025/26 Budget £'000	2026/27 Budget £'000	2027/28 Budget £'000	2028/29 Budget £'000	2029/30 Budget £'000
Opening Balance	19,677	18,153	15,596	10,570	4,874	(1,587)
Use of Reserves to fund the budget	(1,524)	(2,557)	(5,026)	(5,697)	(6,460)	(6,349)
Closing Balance	18,153	15,596	10,570	4,874	(1,587)	(7,936)

APPENDIX C

	Total Capital Project Value	Prior Years Expenditure	Budget 2024/25	Budget 2025/26	Budget 2026/27	External Funding
	£'000	£'000	£'000	£'000	£'000	£'000
Major Projects						
Alexandra Theatre	15,780	1,324	2,805	10,324	1,327	12,285
Littlehampton Seafront	7,424	762	4,362	2,300	-	7,290
Bognor Regis Arcade, Upper floors	7,991	350	1,181	6,140	320	628
Total: Major Projects	31,195	2,436	8,348	18,764	1,647	20,203
Other Projects						
Bersted Brooks	320	25	50	245	-	-
Swimming Pool Support Fund	135	-	135	-	-	-
General Fund Housing	17	-	17	-	-	-
Webcasting Equipment	62	-	62	-	-	-
Waste Collection	3,020	-	-	3,020	-	-
Parks Chipper	26	-	-	-	-	26
Total: Other Projects	3,580	25	265	3,265	26	
Rolling Programme						
Information Communication Technology (ICT)	-	-	180	120	280	
Play Areas	-	-	415	355	120	
Improvement & Discretionary Grants	-	-	1,580	1,580	1,580	
Asset Management	-	-	3,007	1,544	1,000	
Total: Rolling Programme	-	-	5,182	3,599	2,980	
Total: General Fund Capital Budget	34,775	2,461	13,794	25,628	4,653	