ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET
on 2 SEPTEMBER 2019

PART A : REPORT

SUBJECT: Financial Prospects 2019/20 to 2024/25

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DATE: August 2019
EXTN: 37558
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Council's Medium Term Financial Strategy (MTFS) covering the period up to 2024/25 rolls forward the data in the existing approved MTFS. The strategy amends certain 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.

RECOMMENDATIONS:

1. Agree the core assumptions set out in the Medium Term Financial Strategy and the current financial position
2. Note and agree the significant risks to local government finance that have been clearly outlined in the report
3. That the Medium Term Financial Strategy is to be used to set the Budgetary framework in preparing the 2020/21 budget.

1. BACKGROUND:

1.1. The latest financial forecast has been prepared against a continuing backdrop of unprecedented uncertainty over Government funding and the economy. 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 5 years. The situation is even more fluid than last year as central government spending is wholly dependent upon the three-year spending review and there has been an increased likelihood that this will not be published until next year. The Chancellor had previously announced that the process to agree a 3-year spending review would begin in early summer (July), with the outcome announced in late Autumn (probably late November). For some months this timetable has seemed unrealistic, but there are now real practical difficulties for Whitehall to deliver on time. A knock-on effect of the potential delay in the 3-year spending review is a delay in the proposed changes in local government funding that were scheduled for 2020/21. We have made the assumption that there will be a delay in the Spending Review and the

consequential changes to local government funding and modelled accordingly. Whilst the detail is not available this has, to an extent, been confirmed in a statement from the Chancellor on 8th August when he announced that there would be a 1 year settlement for 2020/21 and a multi-year settlement will be announced in 2020. These assumptions will have to be very closely monitored as they will be crucial to our position next year (2020/21) as we would not, potentially, be receiving the significant cuts to our Business Rate income that have been anticipated. It is worth stressing that this report only addresses the General Fund and that the Housing Revenue Account (HRA) has its own business plan and financial model.

1.2. A number of more detailed assumptions have been reviewed and, have been input into the financial model. This uses a wide range of strategically important financial assumptions and variables to obtain an informed view on year end balances, and to quantify the potential of any capital programme resources whilst maintaining a minimum level of General Fund balances of £4million. The assessment of the various assumptions is always considered carefully whilst taking a prudent view. An important point to appreciate with a financial strategy is that it consists of a series of assumptions using the best available information to inform a financial forecast. This year as explained above, is particularly challenging.

1.3. It has been considered necessary to make changes/updates to some of the previous assumptions to address both announcements from government and wider economic factors which affect the Council. The principal assumptions made are:

- Council Tax increases by 3% per annum which is broadly in line with the previous strategy. It has been assumed that that shire district councils will be able to increase council tax by £5 or 3% per annum (whichever is higher) in 2020/21 and it has been assumed that this will be the case for the remainder of the strategy period. This, again, will have to be closely monitored as there are suggestions that this could change.
- Salary costs increase by 2.5%, to reflect the trend in recent public sector pay awards, over the period of the strategy.
- The model assumes inflation for goods and services of 2.5% over the period of the forecast.
- It has been assumed that there will be no increase at the next pension triennial valuation and, whilst this is not confirmed, a recent meeting with the actuary indicated that this would be the case.

1.4. It has been problematic to model enhancements to the capital programme as it has been difficult to calculate the resources that will be available due to the reasons outlined above. 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. An assumption has been made that £2M is available in 20/21 for one off/capital schemes and £1M in subsequent years (which includes investment in business-critical IT). This will include any required investment in the Council's infrastructure including essential investment in areas such as public toilets, play areas,

car parks and the Arcade. The funds identified are clearly insufficient to cover everything so we will have to prioritise our investment carefully and CMT will produce a draft capital programme. In addition these funds will also have to finance the strategic aims that are currently evolving and will be reported to the November Full Council.

1.5. The most volatile and significant variables continue to be the New Homes Bonus (NHB) and Retention of Business Rates and that these are dictated by growth within the District. The assumption has been made that there will not be a reset of business rates in 2020/21, which, effectively, means that the accumulated growth will not be lost in that year and the potential loss will be postponed by a year. However, the assumption made for NHB is that the government will only pay legacy payments i.e. the system will wind down and no new years will be taken into account.

1.6. A further assumption that has been made concerns the payments from the County Council in terms of recycling credits. A cut of £186k was made in this financial year and we are anticipating that the remainder of (£857k) will be cut in 2020/21. This is a strategically significant sum and will have a huge effect upon our financial position and future spending plans.

1.7. The following section outlines a number of risks that are associated with the MTFS and how these may be mitigated.

2. **PROPOSAL(S):**

2.1 <u>Risks</u>

2.1.1 The most serious financial risk that the Council is facing is the potential implications of changes in Local Government funding as outlined in the preceding section.

2.1.2 There are a number of risks around the retention of Business Rates which is the major funding source from central government and may, ultimately, be the sole source. Whilst we have used, what we consider to be, the best available information there is also a risk that the level of business rate appeals will be more than has been anticipated and this risk lies with local government. The reset, as outlined in para. 1.5 is a major risk and we have assumed that this will not happen until 2021/22 and we will, therefore, have to monitor all the available intelligence closely in case it is introduced in 2020/21 as planned. It is probable that there will be some form of "damping" formula but it is currently impossible to predict how this might be applied. As mitigation against this risk there is a recommendation in a report, "Revenue and Capital Outturn Expenditure 2018/19", elsewhere on this agenda, which explains a Funding Resilience Reserve which currently totals £4.983M. This will provide a valuable buffer when the funding is anticipated to reduce. However, this reserve should not, solely, be used for supporting the budget as it could also, potentially, be used to pump prime transformational projects. It does have to be accepted, however, that this is only a temporary measure and the potential effect of the reset will have to be addressed. There is a comment from our External Auditors in their Audit Results Report that "**reserves can only be spent once**". They

also state that **"the Council remains resilient in the short to medium term, but it needs to remain focused on managing its level of reserves and reducing the dependency of the annual budget on withdrawing balances from those reserves."**

2.1.3 The proposals concerning NHB are a significant concern and the assumption that this will be confined to legacy payments is exactly that as there is no information currently available. Again, all that can be done is to monitor the situation closely and retain a reserve, as outlined above, to address the anticipated funding shortfall.

2.1.4 There are also other expenditure pressures in a number of areas, notably homelessness, and these will be monitored closely and reported to Cabinet at the appropriate time. An amount of £500k has been included in the strategy and a report will be submitted, in due course, to explain the reasons behind this significant increase.

2.1.5 Whilst the extent of funding cuts on Arun remains unknown it is vitally important to mitigate, as much as possible, against such significant risks. The most effective mitigation against this is to hold sufficient balances to ensure that the Council has enough time to plan and implement any reductions in expenditure and are not obliged to make ill informed decisions. It is also important to ensure that we adopt a robust approach to any investment decisions and stipulate that all are accompanied by a thorough business plan which clearly outlines all costs and benefits. In addition we need to ensure that all decisions are prudent, affordable and sustainable and that any savings are retained.

2.2 Indicative Projections

2.2.1 The following table shows the current situation given all of the assumptions and omissions outlined above. These will, inevitably, be fine-tuned as more information becomes available and have to be read in conjunction with all of the caveats and uncertainties outlined earlier in the report.

2.2.2 The effects of the above assumptions are summarised in the table below:

	2019/20 £'000	Revised 2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Net Expenditure	24,525	25,025	25,564	26,508	27,231	27,866	28,287
Surplus/ (Deficit)	0	(500)	(797)	(3,668)	(4,117)	(5,065)	(4,830)
Funding Resilience Reserve				1,890	3,093		
Balances	7,076	6,576	5,779	4,000	2,976	(2,088)	(6,918)

It should be stressed that the negative balances are purely indicative and show what the situation would be if no remedial action were to be taken. In practice, the Council will need to fully assess the implications of any

reductions in external funding and develop a strategy to make the necessary reductions in net expenditure to ensure a prudent level of balances is maintained. This will include investment in the digital agenda which will both improve the customer experience and produce sustainable savings

2.2.3 When considering the figures above it is important to consider the issues outlined earlier in the report and, especially, the uncertainty regarding central government funding and they can only be regarded as indicative at this stage. The underlying financial position is masked to a certain extent by the earmarked reserve contribution, from the Funding Resilience Reserve to cover the reduction in external funding, but the effect of that can be seen above. However, given the reduction in funding the trend of increasing deficits is not surprising. We are fortunate that the Council's prudent financial management has resulted in sufficient balances which will enable us to formulate a strategy with a measured approach. In addition, we will refresh the strategy once more detail emerges at the earliest opportunity.

3. OPTIONS:

To accept the assumptions outlined in the strategy

To not accept the assumptions outlined in the strategy

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability	✓	
Asset Management/Property/Land	✓	
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

	To formulate the Council's Financial Strategy and to inform any consequent decisions on capital investment and revenue savings plans to be taken by Full Council and Cabinet.
7.	**REASON FOR THE DECISION:** To formulate the Council's Medium Term Financial Strategy and set the financial context and framework for decisions to be taken by the Council
8.	**EFFECTIVE DATE OF THE DECISION: 11 September 2019**
9.	**BACKGROUND PAPERS:** None