AGENDA ITEM NO.

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF CABINET
on 17th October 2016

PART A : REPORT

SUBJECT: Financial Prospects 2016/17 to 2021/22
REPORT AUTHOR: Head of Finance and Property DATE: October 2015 EXTN: 37558
EXECUTIVE SUMMARY: The Council's Medium Term Financial Strategy (MTFS) covering the period up to 2021/22 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 2017/18 budget 4. Note the submission of the Council's Efficiency Plan to the Government (Appendix 1)

1. BACKGROUND:

1.1 A number of presentations have been made to groups of Members, over the last 18 months, explaining the evolving financial situation, culminating in a report to Full Council on 20th July 2016 by the Chief Executive entitled "The Council's 2020 Vision – Working together for a better future". This report explained that the Council is facing a significant deficit and that phase 1 of the Vision, details were included in a report entitled " 2020 Vision programme (including Shared Services)", would not meet this anticipated deficit and further savings would be required. This report contains the latest version of the Medium Term Financial Strategy (MTFS) which will use the most recent information available to quantify the projected deficit. There are still a number of uncertainties primarily because funding from Central Government is based upon growth and this is, inevitably, difficult to project forward. This system is dependent upon increases in housing numbers and Business Rates, but, proposed changes to the system are likely to lead to a significant decline in funding for the Council. The current assumptions based on growth have been input into the financial model which 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 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.

1.2 It has been considered necessary to make changes to some of the previous assumptions to address both announcements from government and wider economic factors which affect the Council and these have, inevitably, been affected by the "Brexit" vote. The principal assumptions made are:

- Council Tax increases by £5 (Band D equivalent) per annum which is broadly in line with the previous strategy, and will start to address the reduction, in real terms, of the Council Tax Income Base which was frozen for 5 years. It has been assumed that the £5 dispensation will last beyond 2016/17 and cover the whole 4 year settlement, but this could, potentially, be changed due to the new Secretary of State,
- Salary costs increase by 1% for 4 years until 2020/21 to reflect the Chancellor's announcements on public sector pay but this may have to be revisited if recruitment and retention difficulties are experienced.
- It has been assumed, per the Overview Select Committee (7.6.16) and subsequently Cabinet (11.7.16 ref C/011/110716)), that the Council Tax Reduction scheme will be amended which will result in savings of approximately £100k p.a. .
- There is currently no precise information available from the pension fund's actuaries surrounding the impact of the triennial revaluation but initial indications are that employer pension contributions will continue to rise at 1% per annum under the current stability agreement. The Council currently also pays approx. £1m p.a. to address pension back funding issues and this is currently financed by a specific reserve, although this is currently forecast to be exhausted by 2020/21. If we are unable to replenish this reserve there will be a commensurate increase (£1M p.a.) in the revenue budget thereafter.
- The details of major contract tendering processes are emerging and these have been reflected in the financial model which have had a significantly beneficial effect
- Following the EU referendum result and the subsequent decrease in the base rate it has been necessary to reduce the projections for interest on our balances

1.3 The strategy is also heavily influenced by the decision to proceed with the new Leisure Centre at Littlehampton. Funds totalling approx. £8.8M have been earmarked for this project and it is intended to supplement this with any one-off income/savings and it is anticipated that the remainder of the projects estimated cost (approx. £16M) will be financed through a combination of grants and borrowing. Every effort will be made to minimise the extent of the borrowing as it impacts upon the revenue account and would, effectively, negate some of the vision savings that have been made. It is important to note that savings from the new leisure contract are heavily dependent upon a new leisure facility being open in Littlehampton by no later than April 2019.

1.4 The enhancements to the capital programme which are recommended elsewhere on this agenda have also been included in the appropriate year along with the expenditure required for the Leisure Centre. The inclusion of future capital schemes, for financial modelling purposes, does not necessarily dictate that these schemes will be included in future budgets. There will also, inevitably, be a requirement for additional investment in our IT systems and infrastructure as systems fall out of maintenance/support and become life expired.

1.5 It was explained in the Financial Prospects report, to last November's (2015) Cabinet, that the most volatile and significant variables were New Homes Bonus (NHB) and Retention of Business Rates and that these are driven by the Government's growth agenda as outlined above. This remains the case and the situation has been further confused by a consultation which may, potentially, lead to significant changes to the New Homes Bonus regime and the government announcement that, by the end of this parliament, local authorities would be able to retain 100% of Business Rates. Neither of these factors can be modelled with any degree of certainty and the risk is significant as outlined below.

1.6 The short term favourable effects of both NHB and the retention of Business Rates are more than offset by a projected reduction in Revenue Support Grant (RSG) to the extent that it will be negative (£0.43M) by 2019/20. These phased reductions in RSG have been provided by Central Government and they believe that it will provide local authorities with greater certainty. The offer from the Secretary of State is that Council's need to submit an efficiency plan for this phased reduction to be guaranteed and that Councils that choose not to accept the offer, or do not qualify, will remain subject to the existing annual process for determining the Local Government Settlement. Therefore, whilst it may seem perverse to bid to receive these reductions, the DCLG have advised that those that do not accept the offer could be subject to additional reductions depending upon the economic climate. The Efficiency Plan that has been submitted to the DCLG is contained in appendix 1.

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 Risks

2.1.1 The most serious financial risk that the Council is facing is the fundamental change in Local Government funding as outlined in the preceding section. The NHB is currently subject to far-reaching consultation and there are a number of possible scenarios which give dramatically different results. Probably the most significant question within the consultation is "*Do you agree that local authorities should lose their Bonus allocation in the years during which their local plan has not been submitted?"* The opinion of our colleagues in the Planning Department is that our local plan has been submitted and this part of the consultation shouldn't affect us but there is clearly a risk as the precise wording may not reflect the intention behind it. We have followed the advice but, there will be no further information until the results of the consultation is published. The government have given no clear indication as to when the results will be published and this could easily be delayed by the additional workload due to Brexit.

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 will, ultimately, be the sole source. Whilst we have used the best available information there is a risk that the level of business rate appeals will be more than has been anticipated and this risk lies with local government. Looking ahead a future risk is around the 100% retention of Business Rates that will take effect from 2020 as referred to above. There are a number of working groups meeting nationally and it is clear that the scheme has not been formulated so it is not possible to assess the effect on this Council. Furthermore there are plans to reset the system in 2019/20 which will change the current tariffs, top ups and baselines which is likely to adversely affect the growth that Arun has experienced. **In the absence of any firm information it has currently been assumed that the new system would have a neutral impact** Therefore it is clear that there are a number of issues around Business Rates that will have to be closely monitored.

2.1.3 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 risk is firstly 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. Secondly it is to set a corporate target for reducing the forecast budget deficit and deliver agreed savings as soon as possible which is happening through the Vision programme.

2.1.4 As noted above the Vision programme is well underway and the detailed spreadsheet of 38 projects (including shared services) was presented to the Full Council Meeting of 20th July. This list has been analysed and the savings that have a high likelihood of achievement have been included. There is a degree of judgement in this assessment and the Lead for each project has been contacted to assess the likelihood of the project being achieved within that timescale. Once firm proposals emerge they can be input into the financial model and it should be stressed that early savings will have the most positive impact on the bottom line so this should be a key consideration of the Vision discussions. The Vision report to Full Council, referred to above, states the "total project opportunity" for shared services as £2.024M but at this stage this figure is tentative and the allocation across the three authorities is uncertain. Therefore, at this stage, nothing has been included in the model in respect of shared services but it is fully acknowledged that there is significant potential and a figure will be included once more detail emerges.

2.1.5 As outlined above it is not certain that the Council will be able to increase its Council Tax by £5 (Band D equivalent) per year and this remains a risk, probably, until the settlement is announced in December. It's important to note the cumulative impact of Council Tax increases. If annual increases were limited to 2% rather than the £5 assumed, the deficit in 2020/21 would increase by £0.5m and the total deficit over the length of the forecast would increase by £1.4m.

2.2 Indicative Projections

2.2.1 The following table shows the current situation given all of the assumption and omissions outlined above. These will be, inevitably, be fine tuned as more information becomes available

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

	2016/17 £'000s	**2017/18 £'000s**	**2018/19 £'000s**	**2019/20 £'000s**	**2020/21 £'000s**	**2021/22 £'000s**
Net Expenditure	23,974	22,614	22,494	23,726	25,106	25,671
(Deficit)	(719)	942	706	(666)	(2,089)	(2,833)
Balances	9,442	10,384	11,090	10,424	8,335	5,502

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. It can clearly be seen that the deficit increases sharply in 2020/21 when the earmarked reserve to cover the pension deficit is exhausted. It is anticipated that further projects will be developed as phase 2 of the vision to address the projected deficit Also the projected surpluses in 2017/18 and 2018/19 must be viewed with extreme caution given the high risks associated with New Homes Bonus highlighted above. Conversely there is no allowance made for the potential savings arising from shared services and, again, these can be included once there is more certainty and this will also apply to other vision projects so this document has to be seen as live and evolving. It is clear that the vision programme, in particular letting new contracts, is having a positive effect on the Council's finances.

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

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. BACKGROUND PAPERS:

https://www.gov.uk/government/news/spending-review-launched-by-chancellor

Arun District Council Efficiency Plan 2016/17

The Council's Efficiency Plan has been prepared in response to the Government's offer of a guaranteed minimum settlement (4 year settlement guarantee) for the period to 2019/20. The Plan forms part of the Council's Medium Term Financial Strategy as contained in the Financial Prospects 2016/17 to 2021/22 Report.

Funding
The Council is facing a significant challenge in addressing its forecasted budget deficit in an increasingly uncertain environment and increasing risk.

The Strategic Direction of the Council
The Medium Term Financial Strategy (MTFS) 2015-2021 as approved by Cabinet on 16 November 2015 identified increasing budget deficits starting in 2017/18 resulting the Council's reserves being depleted by the end of 2020/21 if the Council did not change. The Council agreed to take steps to become more self-sufficient by increasing controllable income and increasing Council Tax which had remained frozen since 2010.

The current MTFS 2016-2022 shows that the Council has already closed some of the gap, with the Council's budget forecast to remain balanced until 2019/20. However, after that date the situation becomes significantly worse an increasing reliance on reserves to provide resilience.

Full Council (13 January 2016) agreed the route to being a better Council in the future included the Council being: Easier to deal with; Getting things right first time; Doing things as quickly as possible; Better understanding of what we can and cannot deliver; Being more aware of performance and; Balancing our budget

The Council's priorities are linked to the four 2020 Vision Statements:
- Your Services
- Supporting you
- Your future
- Providing the best services we can afford to help improve your life

The Vision 2020 programme (Working together for a better future) has been established to provide strategic direction to help the Council become more effective and sustainable and to enable it to meet future demands that are placed upon it. Full Council agreed phase 1 of the Vision programme and details were included in a report entitled "2020 Vision programme (including Shared Services)". The Council is facing a challenging financial climate and changing customer expectations. The Council's aim is to strengthen relationships with local organisations and communities offering more digital opportunities to make interaction with the Council less complicated. The strands of the Vision programme are:

- Offering a better customer experience
- Strengthening external relationships
- Providing more digital online services

- Becoming smaller but more effective

The Council's Medium Term Financial Strategy Forecast

	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Net Expenditure	23,974	22,614	22,494	23,726	25,106	25,671
(Deficit)	(719)	942	706	(666)	(2,089)	(2,833)
General Fund Balance	9,442	10,384	11,090	10,424	8,335	5,502

The Council has already made significant savings (£1M) on the retendering of major contracts and other areas including the restructuring of senior management and optimising income. Total phase 1 savings have the potential of achieving between £1.9M and £3.6M (detail contained in Vision update report cabinet 17 October 2016).

In order to become more self-sufficient the Financial Strategy assumes that Council Tax is increased by £5 on Band D for the length of the forecast

Transformation investing in Assets
By investing in a new Leisure Centre in Littlehampton and improvements at the Arun Leisure Centre the Council has secured significant financial benefits through its Leisure Contract. Other areas have included the investment in Beach huts and investigation into a Local Housing Company

Transformation Shared Services
The MTFS does not reflect the phase 1 Vision savings related to Shared Services. The Council is currently working with Chichester and Horsham District Councils developing detailed business cases for shared services. The services currently under consideration are: Internal Audit; HR/ Payroll; ICT; Legal; Revenues/ Benefits and Customer Services. The outline Business Cases showed an indicative saving of in the region of £2 million (to be shared among the Authorities). It is anticipated that these proposals will go to full Council in February 2017.

The Council Transformation Programme phase 2
There will be a further service related review once phase 1 of the new management structure has been approved.

This Efficiency Plan is endorsed by:

Councillor Mrs Gillian Brown
Leader of the Council

Nigel Lynn
Chief Executive

Additional Information:

Update on the Council's 2020 Vision Report Cabinet 17 October 2016
Financial Prospects 2016/17 to 2020/21 Cabinet 17 October 2016
Budget Report 2016/17
Vision Report Council January 2016
Financial Prospects 2015/16 to 2019/20 Cabinet 11 November 2015