

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 14

meeting date: 27 SEPTEMBER 2011
 title: BUDGET FORECAST 2011/12 TO 2014/15
 submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

- 1.1 To consider the Council's latest budget forecast and decide what action needs to be considered to meet the financial challenges that lie ahead.

2 BACKGROUND

- 2.1 The budget forecast is an important tool which gives an early indication of any potential budgetary problems and also informs our Medium Term Financial Strategy accordingly.
- 2.2 It is inevitable that we need to continue to scrutinise closely our financial position in the coming months in order to best place us to face the continuing challenges that lie ahead. Therefore we will continue holding frequent Budget Working Group meetings and also produce overall budget monitoring reports for members on a regular basis.
- 2.3 In January the Government confirmed the provisional formula grant figures for local authorities for 2012/13. We therefore are in a position where we generally know the extent of Government funding we can expect to receive next year. Our Formula Grant is shown below with a comparison of recent years to show the extent of our funding cuts.

Formula Grant				
	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's
Share of Business Rates Redistributed	-3,247	-3,616	-2,473	}
Revenue Support Grant	-749	-525	-764	}
Total Formula Grant	-3,996	-4,141	-3,237	-2,823

- 2.4 The latest budget forecast (as is usually the case) is based on many assumptions. Many of these are very difficult to predict going forward.

3 CHANGES SINCE THE PREVIOUS FORECAST WAS PREPARED

3.1 Public Sector Pay and Price Inflation

The Government announced in the emergency budget that there will be pay freezes for public sector workers for the 2 years commencing 2011/12 (except for employees earning £21,000 or less, who will receive an increase of at least £250 a year). We were informed in February 2011 by the Employers side that they will not be making a pay offer for the current year 2011/12.

However despite the sharp downturn in the economy and sluggish recovery, inflation has remained a stubborn persistent problem. The rate of Consumer Prices Index (CPI) inflation rose to 4.5%, from 4.4% in July, according to figures from the Office for National Statistics (ONS). The RPI measure increased to 5.2% from 5%.

The Bank of England's target rate for CPI is 2%, and it expects inflation to return to target in the next two years. The Bank argues that inflation is above target primarily because of the rise in VAT to 20% at the start of this year and past increases in global energy prices.

In our budget forecast we have allowed 2.5% for pay and price increases for each year. Given the price increases are largely offset by not having a national pay increase I recommend we leave the allowance for both at 2.5%.

3.2 National Insurance

A 1% increase in employers' national insurance rates to 13.8% came into effect from 6 April 2011 as announced by the previous Labour Government. We had added £60,000 to the base budget from 2011/12 to reflect the 1% increase. However we reduced this amount to £20,000 following changes to thresholds announced in the Budget to meet the residual increase remaining. The applicable rates will be factored into the revised estimate for 2011/12.

3.3 Local Government Grant Funding

In addition to formula grant we currently only receive the following grants:

- New Homes Bonus
- Council Tax Freeze Grant
- Local Services Support Grant - Homelessness

The New Homes Bonus Scheme commenced in April 2011, and will match fund the additional council tax raised for new homes and properties brought back into use, with an additional amount for affordable homes, for a six year period.

We will be notified of our allocation for New Homes Bonus grant at the time of the confirmation of the Local Government Finance Settlement (probably December). This will be based on the annual movement in our taxbase up to October 2011. As reported to your last meeting the allocation for affordable dwellings was not included in the 2011/12 grant however we anticipate it will be included in our grant for 2012/13. Based on the movement in our council tax base up to July we **could** expect to receive an extra £80,000 over and above the £60,000 we are currently receiving.

For freezing our council tax in 2011/12 the Government are giving us £78,660 for a 4 year period – i.e. the duration of the Spending Review period. We have already factored this into our Budget Forecast.

For the current year we receive £50,000 Local Services Support Grant which is a new general grant paid to local authorities in relation to specific policy areas pulling together different funding streams. The area for our grant is 'Preventing Homelessness'.

This grant is un-ringfenced and therefore councils have freedom to spend it on their locally determined priorities. We are unclear what future Local Services Support Grant we will receive in the coming years.

3.4 Council Tax

In 2010, the Coalition Government agreed to freeze council tax in England for at least one year, and to seek to freeze it for a further year, in partnership with local authorities. It also agreed to give local residents the ability to veto any proposed excessive council tax increases. To deliver these agreements the Cabinet has agreed that all new burdens on local authorities should be properly assessed and fully funded by the relevant department.

We have incorporated a 2.5% increase in council tax each year for the next 3 years. Based on our current tax base a 1% increase in our council tax raises approximately £31,000.

3.5 Interest Rates

Earlier this summer, three of the nine members of the Bank's Monetary Policy Committee were voting to increase interest rates in order to combat rising prices.

However, weaker economic growth in the UK and concerns about the strength of the global economic recovery meant that all nine members voted for rates to stay at a record low of 0.5% last month. Any increase in rates is seen by many as too risky given the fragile state of the economy.

We have currently allowed £30,000 interest receipts, this includes £15,000 annual interest from Roefield Leisure. We estimate that if interest rates stay the same we will earn approximately £15,000 for the investment of our surplus cash balances. Which means that the estimates for 2012/13, 2013/14 are realistic. However we have brought in £100,000 for interest in 2014/15 in anticipation of a rise in interest rates. Whether this is achievable will depend upon the speed of any economic recovery.

4 COMMENTS ON THE LATEST FORECAST

4.1 It is important that members are aware of the assumptions made in the new updated forecast as used as a basis for the above scenarios.

4.2 The latest forecast assumes the following:

- i) Savings brought in to the 2011/12 budget are achieved and continue
- ii) Two particularly significant consultation papers have been issued recently which will have far reaching implications on our finances.

The proposal to retain business rates will replace our current formula grant funding which is our main income stream from the Government. We will be 'locked in' to a baseline funding position and therefore future business rate income depends on the level this baseline is set at.

The proposal to localise council tax benefit essentially means that local authorities have to design their own local scheme which reduces costs by 10% at the same time as protecting pensioners and vulnerable groups. This will be extremely

challenging. At this stage we have simply brought in a cash freeze in our government funding for 2013/14 and 2014/15.

- iii) Use of balances of £100,000 over the next three years taking us to £962,000 for General Fund Balances by 31 March 2015.
- iv) Interest Receipts and Interest Savings can no longer be relied upon as a significant contribution to the Council's expenditure. The forecast shows a minimal level of receipts over the next 3 years but includes £100,000 in 2014/15.
- v) A very small increase in the council taxbase over the future four year period. As stated before, based on current trends it is unwise to predict an increasing taxbase. However, as we potentially come out of the recession we would expect the number of new house builds to increase significantly. We have received a number of large planning applications recently. Looking at the very latest figures I predict a 0.25% increase in the tax base for next year and then 0.5% per year.
- vi) Council Tax Deficit – I have allowed for a council tax deficit over the next four years based on current deficits experienced by districts.
- vii) Savings from the second phase of our restructuring and other savings found during the current year have not been incorporated into the forecast at this stage but will be as we enter the budget cycle. **We anticipate that due to the measures being taken there will be a significant underspend in the current year.**

5 CONCLUSION

- 5.1 Until the outcome of the consultation process is announced for both business rates retention and also localisation of council tax support we cannot predict with any certainty the funding we could expect to receive from the Government
- 5.2 We know our updated Budget Forecast, based on the assumptions mentioned above, shows that savings in the region of £600k are needed from our base budget to ensure we are financial stable in the future. We are currently analysing our restructuring proposals to ensure they meet this target.
- 5.3 The Budget Working Group will be considering the Budget Forecast at their meeting on 19 September 2011. I will report to you any recommendations they make at your meeting.

6 RECOMMENDATION

- 6.1 Consider the Budget Forecast.



DIRECTOR OF RESOURCES

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Latest Budget Forecast - Sept 2011

Assuming inflation at 2.5%

	2011/12		2012/13		2013/14		2014/15	
	OE							
	£		£		£		£	
Net Expenditure		6,668,000		6,850,075		7,046,000		7,222,000
Interest Receipts		-30,000		-30,000		-30,000		-100,000
Reserves		-4,450		0		0		-30,000
Use of Balances		-186,459		-100,000		-100,000		-100,000
Reductions in Expenditure Required		0		-595,275		-693,803		-669,471
Budget Requirement		6,447,091		6,124,800		6,222,197		6,322,529
Governmentt Funding		3,237,040		2,823,026		2,823,026	cash freeze on formula grant	2,823,026
C Tax Freeze concession		78,660		78,660		78,660		78,660
Collection Fund Deficit		-15,000		-10,000		-10,000		-10,000
Precept		3,146,391		3,233,114		3,330,511		3,430,843
Tax Base		22,364	act	22,420	0.25%	22,532	0.50%	22,645
Band D Council Tax		140.69	ctax freeze	144.21	2.5%	147.81	2.5%	151.51

Effect of above on General Fund Balances

General Fund Balances	2011/12		2012/13		2013/14		2014/15	
	£		£		£		£	
Brought Forward		1,448,760		1,262,301		1,162,301		1,062,301
Used		-186,459		-100,000		-100,000		-100,000
Carried Forward		1,262,301		1,162,301		1,062,301		962,301