

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 8

meeting date: 9 SEPTEMBER 2014
title: BUDGET FORECAST 2014/15 TO 2017/18
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 Significant changes were made to how local authorities were funded from 1 April 2013 with the introduction of Business Rate Retention. From 2013/14 we now retain an element of Business Rate Growth generated in our area.
- 2.4 On 22 July 2014 the Local Government Finance Settlement 2015-16: Technical Consultation was published. The consultation covers proposals for changes to the illustrative 2015-16 local government finance settlement, which was published alongside the 2014-15 settlement.
- 2.5 The latest budget forecast (as is usually the case) is based on many assumptions. Many of these are very difficult to predict going forward, especially how much we will retain from the Business Rates we will collect in the year.
- 2.6 We have made several changes since the previous budget forecast was prepared. These are set out in the following sections in detail below. The forecast summary is shown at Annex 1.

3 PUBLIC SECTOR PAY AND PRICE INFLATION.

- 3.1 Future local government pay as you are aware is agreed by the Local Government Employers Association. We have included in our estimates an allowance of 1% for 2014/15 for any potential staff pay award. There has been a 1% national offer which has been rejected by the unions. A day of industrial action took place in June and a further strike is planned for October. Our forecast includes 2% for each year from 2015/16.
- 3.2 The rate of consumer prices index (CPI) inflation slowed to 1.6% in the year to July 2014, down from 1.9% in June according to the Office for National Statistics (ONS). The latest information continues the trend of below 2.0% inflation during 2014

although there has been some volatility in the rate over recent months. An overall fall in the price of clothing between June and July was the main reason behind the decrease in the rate

3.3 The rate of Retail Prices Index (RPI) inflation, which is calculated differently, was also down slightly from 2.6% to 2.5%.

3.4 According to the Bank of England in its August 2014 Quarterly Inflation Report...

Robust, broadly based, growth over the past year has taken output to above its pre-crisis peak and unemployment has fallen sharply. Spending should continue to be supported by reduced uncertainty and improved credit availability. Over time, a sustained revival in productivity and real household incomes is expected to underpin the expansion.

Inflation is close to the MPC's 2% target and is projected to remain close to the target in the period ahead. As slack has been absorbed, financial market expectations of the date of the first Bank Rate rise have moved forward. But when Bank Rate does begin to rise, the pace of rate increases is expected to be gradual, with rates probably remaining below average historical levels for some time.

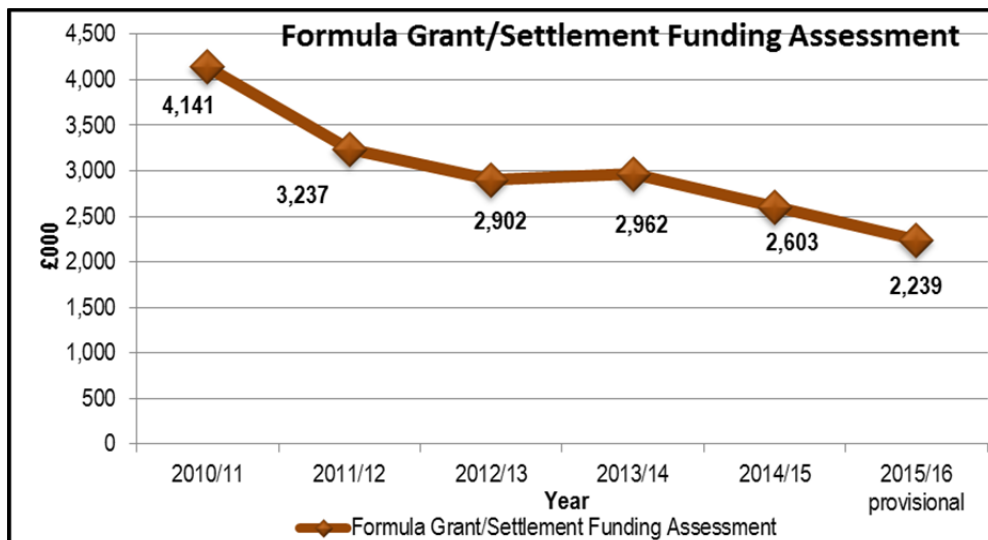
3.5 Given the continued uncertainty I have included 2% for price inflation for each of the years from 2015/16 within the budget forecast.

4 LOCAL GOVERNMENT GRANT FUNDING

4.1 On 22 July 2014 the Local Government Finance Settlement 2015-16: Technical Consultation was published. The consultation covers proposals for changes to the illustrative 2015-16 local government finance settlement, which was published alongside the 2014-15 settlement.

4.2 Exemplifications show that for Ribble Valley our grant funding will increase slightly from the original consultation figure as a result of the rolling in of the council tax freeze grant. Our funding for 2015/16 is expected to be £2.239m, a reduction of £365k on our grant for the current year (2014/15).

4.3 The table below shows how our formula grant/Settlement funding assessment has fallen since 2010/11.



If our provisional funding for next year proves correct this will mean we have faced a 46% reduction in our core government funding.

4.4 The Government will consult on proposals for the 2016/17 settlement in the light of the 2015 Budget and Spending Review

4.5 At this stage we have assumed our grant funding will fall by 10% in 2016/17 and a further 5% in 2017/18.

5 NEW HOMES BONUS (NHB)

5.1 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.

5.2 We expect to 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 2014. Based on the movement in our council tax base up to the end of July we will receive at least £836,760 in 2015/16. The table below shows how much NHB has been received to date against amounts used to support our revenue and capital budgets.

Use of New Homes Bonus monies		Received in year							
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Relates to:	2011/12	62,046	62,046	62,046	62,046	62,046	62,046		
	2012/13		117,599	117,599	117,599	117,599	117,599	117,599	
	2013/14			188,053	188,053	188,053	188,053	188,053	188,053
	2014/15				227,109	227,109	227,109	227,109	227,109
	2015/16 (at end July 14)					241,953	241,953	241,953	241,953
	Available	62,046	179,645	367,698	594,807	836,760	836,760	774,714	657,115
Allocated:									
Revenue	base budget	60,000	60,000	60,000	333,780	333,780	333,780	333,780	333,780
Capital		0	0	100,000	0	0	0	0	0
		60,000	60,000	160,000	333,780	333,780	333,780	333,780	333,780
	Spare ie unallocated	2,046	119,645	207,698	261,027	502,980	502,980	440,934	323,335
	Bal C/fwd	2,046	121,692	329,390					

5.3 Members will be aware following the setting of this year's budget we have now committed £333,780 of our New Homes Bonus each year to support our revenue budget.

6 COUNCIL TAX

6.1 Last year's Spending Round announced a continuation of the freeze in council tax levels and also the 2% referendum limits for the two years, 2014/15 and 2015/16.

6.2 The support to be paid for the freeze in council tax is equivalent to a 1% increase. Thus by accepting the Government's offer for another year we would be facing a real terms cut assuming inflation continues at the current rate.

- 6.3 Our council tax at £140.69 has been frozen since 2010/11. If we were to extend ours for a further year this would mean our council tax will have been frozen for a period of 6 years.
- 6.4 The Secretary of State has made it clear that authorities are free to increase their council tax beyond 2% providing they have a mandate from their electorate. (via a referendum). We estimate the cost of holding a referendum would be around £60,000.
- 6.5 For estimate purposes we are unsure as to members views regarding a council tax increase or freeze so therefore have shown no extra income from council tax in our forecast for next year however have forecast a modest increase of 2% for 2016/17 and a further 2% for 2017/18. Based on our current tax base a 1% increase in our council tax raises approximately £30,000 each year. ($21,391 * £140.69 * 1\%$)

7 INTEREST RATES

- 7.1 The base rate remains at a record low of 0.5%. The Governor of the Bank of England has indicated that he expects to see the base rate increase gradually perhaps as early as next February. There still seems to be considerable uncertainty and debate as to when any increase will take place.
- 7.2 We have currently allowed £30,000 interest receipts for 2015/16, £60,000 for 2016/17 and £80,000 for 2017/18.

8 BUSINESS RATES GROWTH

- 8.1 We will retain our share of any growth in our business rates baseline. The growth we originally estimated to retain in 2013/14 was £47k. At year end this materialised at £186k. The business rate retention scheme continues to be very complex and difficult to estimate with any certainty the sums we will receive. Further complications include Section 31 grant reimbursements from the Government to pay for measures introduced to assist ratepayers. The amount included in our budget forecast is £263k in each year.

9 COMMENTS ON THE LATEST FORECAST

- 9.1 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.
- 9.2 The latest forecast assumes the following:
- i) That following the General Election in May next year the party selected will continue to reduce Government funding to local authorities. At this stage we have also assumed that New Homes Bonus scheme will continue as at present.
 - ii) We have increased the use of balances to £200,000 over the next three years taking us to just over £1.3m General Fund Balances by 31 March 2018.
 - iii) Interest Receipts will steadily increase. The forecast assumes £30k next year, £60k in 2016/17 and £80k in 2017/18.
 - iv) A 1% increase in the council taxbase per annum has been assumed over the forecast period. This reflects the increase in properties in our area.

- v) Council Tax Surplus/Deficit – I have assumed the collection fund will broadly break even with a small deficit payable in 2015/16.
- vi) Business Rate Growth Retention – We have assumed we will use £262k from business rate receipts in each year of the forecast.
- vii) The Council reaches an agreement over waste disposal and recycling with the County Council which is financially broadly in line with the current budget.

10 BUDGET WORKING GROUP

10.1 The Budget Working Group will meet in the next few weeks and consider the budget forecast.

11 CONCLUSION

11.1 The savings required as shown in the Forecast if correct are significant and will require much effort by the Budget Working Group if we are to produce a balanced budget by the time the 2015/16 budget is agreed next March.

Reductions in expenditure required in order to achieve a balanced budget	
£	
2015/16	-513,200
2016/17	-900,277
2017/18	-1,092,711

11.2 Obviously if reductions are made in 2015/16 which are of a recurring nature (ie reductions to the base budget) then this will reduce the savings need to be made in the following years.

11.3 The Budget Working Group will be considering the Budget Forecast at their meeting on 23 September 2014.

12 RECOMMENDATION

12.1 Consider the Budget Forecast.

DIRECTOR OF RESOURCES

PF51-14JP/AC
2 September 2014

Latest Budget Forecast - 2 September 2014									
		2014/15 OE		2015/16		2016/17		2017/18	
		£		£		£		£	
Net Expenditure		6,456,374		6,685,000		6,972,000		7,178,260	
Interest Receipts		-28,790		-30,000		-60,000		-80,000	
Use of Superannuation reserve		-36,175		-36,175		-36,175		-36,175	
C Tax Freeze grant re 2014/15		-31,560							
C Tax Freeze grant re 2015/16				-32,600		-32,600		-32,600	
Use of New Homes Bonus		-333,780	now in base	-333,780		-333,780		-333,780	
Use of Balances		-150,000		-200,000		-200,000		-200,000	
Reductions in Expenditure Required		0		-513,200		-900,277		-1,092,711	
Budget Requirement		5,876,069		5,539,245		5,409,168		5,402,994	
Government Funding		2,603,415		2,238,724	as per tech consult july 14	2,014,852	assume 10% reduction on 15/16	1,914,109	assume 5% reduction on 16/17
Business Rate Growth		262,926		262,926		262,926		262,926	
Coll Fund (Deficit)/Surplus		228		-2,000		0		0	
Precept		3,009,500		3,039,595		3,131,391		3,225,959	
Tax Base		21,391		21,605	1%	21,821	1%	22,039	1%
Band D Ctax		140.69	0%	140.69	0%	143.50	2%	146.37	2%
Effect of above on General Fund Balances									
General Fund Balances		2014/15		2015/16		2016/17		2016/17	
		£		£		£		£	
Brought Forward		2,058,402		1,908,402		1,708,402		1,508,402	
Used		-150,000		-200,000		-200,000		-200,000	
Carried Forward		1,908,402		1,708,402		1,508,402		1,308,402	