

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 5

meeting date: 8 SEPTEMBER 2015
title: BUDGET FORECAST 2015/16 TO 2019/20
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 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.
- 2.5 The previous budget forecast was considered in February alongside the budget for 2015/16. We have now updated this forecast to reflect our latest assumptions. Details regarding each of these are set out in the following sections in detail below. The resultant forecast summary is shown at Annex 1.

3 PUBLIC SECTOR PAY AND PRICE INFLATION.

Pay

- 3.1 The Chancellor of the Exchequer announced in the Budget 2015 that public sector pay would be capped at a maximum of 1% rise each year for the next four years. He also announced a new compulsory national living wage where all businesses including the Council will be required to pay a minimum of £9 an hour by 2020. However, increases will be staged prior to this date and the first increase will be introduced in April 2016 when workers over 25 will receive a minimum £7.20 an hour. That compares to the current £6.50 an hour minimum wage for those over 21 years of age.
- 3.2 Local government pay as you are aware is determined by the Local Government Employers Association; however they do have regard to what the Chancellor says particularly as our Government funding will be based on this 1% uplift. Our previous forecast included an allowance of 2% each year for pay increases. **Based on the latest Government announcements we have adjusted this allowance to 1.5% for each year from 2016/17 which also allows for the increased national living wage.**

- 3.3 Announced in the Government's Budget 2013 was a change to state pensions with the introduction of a single tier state pension to begin in 2016/17. The ability for members of defined benefit occupational pension schemes to contract out of the state second pension will end. This affects both the Council (as an employer) and also employees who will both face increases in National Insurance contributions. We estimate this will cost the Council an extra £100k each year. This has already been included in our Budget Forecast.

Inflation

- 3.4 The rate of consumer prices index (CPI) inflation rose in July from zero to 0.1%. However the underlying measure of CPI inflation, which strips out increases in energy, food, alcohol and tobacco, rose to 1.2% in July, a five-month high.
- 3.5 The Retail Prices Index measure of inflation which is calculated differently was unchanged at 1%
- 3.6 The Bank of England expects inflation to rise gradually to much nearer its target of 2% in the medium term. By the end of next year it is forecasting inflation of 1.7%.

Growth

- 3.7 The Bank of England observed that growth is strong, but the pace of the recovery is expected to slow. The Bank revised up its 2015 growth forecast to 2.8% this year, from a projection of 2.5% in May. Growth in 2016 is expected to moderate to 2.6%, unchanged from its previous forecast.
- 3.8 **Based on the above we have based our forecast on price inflation for 2016/17 of 1.5% and 2% thereafter. Much will depend on decisions on interest rates.**

Interest Rates

- 3.9 There has been considerable speculation over when the Bank of England - which has a target inflation rate of 2% - might start to raise interest rates. Last month, the Bank of England indicated in its quarterly inflation report that it was likely to raise the cost of borrowing in the middle of next year. Meeting notes of the Bank's Monetary Policy Committee in August showed that members voted 8-1 to keep rates on hold at a record low of 0.5%
- 3.10 There is clearly much debate within the Bank of England around the timing of future interest rate increases.
- 3.11 The table below (from the August 2015 Quarterly Inflation Report) shows the implied Bank Rate based upon forward market interest rates.

Table 5.A Conditioning path for Bank Rate implied by forward market interest rates^(a)

	2015		2016				2017				2018		
	Q3 ^(b)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
August	0.5	0.5	0.6	0.7	0.9	1.0	1.2	1.3	1.4	1.5	1.6	1.7	1.7
May	0.5	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3	1.3	1.4	

(a) The data are fifteen working day averages of one-day forward rates to 29 July 2015 and 7 May 2015 respectively. The curve is based on overnight index swap rates.

(b) August figure for 2015 Q3 is an average of realised spot rates to 29 July 2015, and forward rates thereafter.

3.12 **From this we have assumed in our Budget Forecast interest rates of 0.75% for 2016/17, 1.5% for 2017/18 and 1.75% for 2018/19**

4 LOCAL GOVERNMENT GRANT FUNDING

Spending Review

4.1 The government's four-year plan to cut public spending by £20bn will be published on 25 November, George Osborne has announced, with unprotected Whitehall departments being asked to identify ways to make cuts of up to 40%.

4.2 The Chancellor has announced "*We'll invest in our priorities like the NHS and national security," he stated. "Elsewhere in government, departments will have to find significant savings through efficiencies and by devolving power, so people have a greater say over the issues that affect them and their communities. We'll deliver more with less."*

4.3 To start the review, Chief Secretary to the Treasury Greg Hands has written to government departments asking them to draw up plans to cover two possible spending projections. One will demand reductions of 25% in resource spending by 2019/20 in real terms, while the other will demand they set out a 40% saving. These are the same reductions that were requested ahead of the 2010 review, under the last coalition government.

4.4 Spending on the NHS, schools, defence and international development will be protected, which is why such large savings will be required in other areas, the Treasury stated.

4.5 Our Budget Forecast as updated in February anticipated a reduction in core government funding of 30% over the next 3 years. **The Forecast has now been extended to include the final year of the spending review, 2019/20, with a further reduction of 10% in core funding giving a total of 40% over the four year period.** Clearly the Government may choose to phase the cuts differently, and they may be more or less than I have anticipated.

4.6 The Government will consult on proposals for the 2016/17 settlement in the light of the 2015 Budget and Spending Review but if as in recent years the settlement isn't announced until just before Christmas this will result in an extremely challenging budget setting round.

5 NEW HOMES BONUS (NHB)

5.1 The New Homes Bonus Scheme commenced in April 2011, and currently match funds 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 Our total allocation for 2015/16 was £962,484, however we again managed to successfully challenge the impact of council tax rebandings on our new homes bonus and our final total allocation was £968,616.

5.3 Based on the net increase in our council tax base up to the end of July we potentially could expect to a NHB allocation for 2016/17 of £315,004, without allowing for an affordable homes premium or challenge regarding the impact of downbandings. This would result in **total** NHB in 2016/17 of £1.284m

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£	£	£	£	£	£
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
2013/14			188,053	188,053	188,053	188,053
2014/15				227,109	227,109	227,109
2015/16					373,809	373,809
2016/17						315,004
	62,046	179,645	367,698	594,807	968,616	1,283,620

5.4 We would 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). However there is a strong possibility there could be significant changes to NHB. It could be:

- Abolished
- Retained in its present form
- Reduced either in total or by changing the 80:20 split between districts and counties

5.5 Whilst we do not currently rely on our full allocation of NHB (currently use £676k to fund our revenue budget each year out of £1.284m potentially) we would be extremely concerned if the scheme were to end. The impact on our revenue budget would be serious.

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 limit for 2015/16. The support paid for the freeze in council tax was equivalent to a 1% increase.

6.2 Our council tax at £140.69 has been frozen since 2010/11 ie a six year period.

6.3 For estimate purposes we are unsure as Government plans and also members views regarding a council tax increase or freeze, however at this stage we have left the previous forecast unchanged which allowed for a modest increase of 2% for 2016/17 and a further 2% for 2017/18. We have extended this increase for future years.

7 INTEREST RATES

7.1 As stated earlier we have predicted interest rates will increase slightly as follows: 0.75% for 2016/17, 1.5% for 2017/18 and 1.75% for 2018/19.

7.2 We have currently allowed £45,000 interest receipts for 2016/17, £90,000 for 2017/18 and £105,000 for 2018/19 and 2019/20.

8 BUSINESS RATES GROWTH

8.1 We retain our share of any growth above our business rates baseline. The total business rate income retained by Ribble Valley in 2014/15 (including growth after paying a levy and receiving section 31 grant and after allowing for previous year's

surplus) was £365k. This, as projected, was higher than the amount we have relied upon to fund the revenue base budget each year which is £263k.

- 8.2 For 2015/16 we anticipated (based on our NNDR1 return) that we will retain £402k of which is above the amount we need to fund the base budget. The difference £139k was budgeted to be added to the business rate volatility reserve. Obviously the NNDR1 return is an estimate prior to the start of the financial year and the actual outturn may differ considerably depending upon many factors including appeals, growth, write-offs and collection.
- 8.3 For future years much will depend on whether the Government make any changes to the Business Rate Retention Scheme. The Budget Forecast assumes that we will continue to receive and hence rely on £263k above our baseline.
- 8.4 As previously reported this also assumes we will continue to pay a significant levy on our business rate growth to central government. If we are successful with a Lancashire Business Rate Pool a large proportion of this levy would be retained by ourselves.

9 COMMENTS ON THE LATEST FORECAST

9.1 It is important that members are aware of the assumptions made in the new updated forecast.

- i) We have increased the use of balances to £200,000 over the next four years taking us to just over £1.1m General Fund Balances by 31 March 2020.
- ii) Interest Receipts will steadily increase. The forecast assumes £45k next year, £90k in 2017/18 and £105k thereafter.
- iii) 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.
- iv) An increase each year in our band d council tax of 2%.
- v) Council Tax Surplus/Deficit – I have assumed the collection fund will broadly break even.
- vi) Business Rate Growth Retention – We have assumed we will use £263k from business rate receipts in each year of the forecast.
- vii) The recycling and waste collection cost sharing agreement with the County Council comes to an end in 2018

9.2 There are a number of factors which can have a significant impact on our forecast and these are

- Spending Review
- Local Government Finance Settlement
- Future of the New Homes Bonus Scheme
- Business Rate Retention and Pooling
- Government attitude to council tax increases

Hopefully Government thinking on these important factors will become clearer in the coming weeks/months.

10 CONCLUSION

10.1 The latest forecast indicates that based upon the assumptions above savings will be required as shown below..

Reductions in expenditure required in order to achieve a balanced budget	
£000	
2016/17	263
2017/18	445
2018/19	863
2019/20	1,048

10.2 Obviously if reductions are made in 2016/17 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.

10.3 The position for 2016/17 in particular, whilst challenging, is not as serious as previously anticipated mainly due to lower inflation, potentially lower pay awards and savings on fuel costs. Setting balanced budgets for 2017/18 and future years could cause significantly more challenges.

10.4 The Budget Working Group will be considering the Budget Forecast at their meeting on 10 September 2015.

11 RECOMMENDATION

11.1 Consider the Budget Forecast.

DIRECTOR OF RESOURCES

PF35-15/JP/AC
25 August 2015

Latest Budget Forecast - 01 September 2015										
	2015/16 OE		2016/17		2017/18		2018/19		2019/20	
	£		£		£		£		£	
Net Expenditure	6,498,800		6,702,000		6,845,272		7,205,658		7,357,385	
Interest Receipts	-25,260		-45,000		-90,000		-105,000		-105,000	
Use of Superannuation reserve	-36,175		-36,175		-36,175		-36,175		-36,175	
Council Tax Freeze grant re 2015/16	-32,380		-32,380		-32,380		-32,380		-32,380	
Use of Business Rate Growth	-262,926		-262,926		-262,926		-262,926		-262,926	
Use of New Homes Bonus	-676,065		-676,065		-676,065		-676,065		-676,065	
Use of Balances	-150,000		-200,000		-200,000		-200,000		-200,000	
Reductions in Expenditure Required	0		-262,725		-445,035		-853,185		-1,048,145	
Budget Requirement	5,315,994		5,186,729		5,102,691		5,039,927		4,996,694	
Core Government Funding										
Revenue Support Grant	1,011,321		787,262	assume 10% reduction on total core	583,149	assume 10% reduction on total core	396,941	assume 10% reduction on total core	226,795	assume 10% reduction on total core
Business Rates Baseline	1,229,274		1,253,859	assume inc by 2%	1,278,937	assume inc by 2%	1,304,515	assume inc by 2%	1,330,606	assume inc by 2%
Coll Fund Deficit/(Surplus)	-22,004		0		0		0		0	
Precept	3,053,395		3,145,608	increase	3,240,605	increase	3,338,471	increase	3,439,293	increase
Tax Base	21,703		21,920	1%	22,139	1%	22,361	1%	22,584	1%
Band D Council Tax	140.69		143.50	2%	146.37	2%	149.30	2%	152.29	2%
Effect of above on General Fund Balances										
General Fund Balances	2015/16	2016/17	2016/17	2016/17	2016/17	2016/17	2016/17	2016/17	2016/17	
	£	£	£	£	£	£	£	£	£	
Brought Forward	2,103,114	1,953,114		1,753,114		1,553,114		1,353,114		
Used	-150,000	-200,000		-200,000		-200,000		-200,000		
Carried Forward	1,953,114	1,753,114		1,553,114		1,353,114		1,153,114		