

RIBBLE VALLEY BOROUGH COUNCIL

REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 5

meeting date: 6 SEPTEMBER 2016
title: BUDGET FORECAST 2017/18 TO 2020/21
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 taken 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 The introduction in 2013 of a new Business Rate Retention scheme significantly affected how local authorities are now funded. Put simply local authorities are able to retain a share of business rates collected above a baseline target level after paying a levy to central government. However local authorities who joined together to form Business Rate Pools are allowed to retain this levy. The system is extremely complex and it is therefore difficult to predict business rates income with certainty. We have joined the Lancashire Business Rate Pool with effect from 1 April 2016 and therefore will no longer be required to pay any levy due over to central government.
- 2.4 In October 2015 the Chancellor of the Exchequer announced plans for Councils to retain all locally raised business rates by 2020 under radical local government finance reforms. The changes will also end the distribution of revenue support grant. The Treasury press release accompanying the Chancellor's announcement said that local government would have to take on new responsibilities to "ensure that the reforms are fiscally neutral".
- 2.5 The local government grant settlement announced in December gave indicative figures for a four year period. However the figures given for 2017/2018 and beyond were part of an offer to councils conditional on publishing an efficiency plan.
- 2.6 The Government announced they will reduce revenue support grant to individual local authorities in a way that ensures that councils delivering the same set of services receive the same percentage change in settlement core funding for these services. Taking council tax into account when calculating this adjustment is a significant change in central government policy. As a result of these calculations, some individual local authorities in later years will be required to contribute funding from other elements of their settlement core funding if their revenue support grant amount is reduced to a level below zero. The Government proposes that this adjustment could be made through the top-up and tariff method.
- 2.7 The latest budget forecast is based on many assumptions. As in the past these are very difficult to predict going forward. Whilst every year it is extremely difficult to predict funding, nearly all of our major income streams are currently undergoing significant and wide ranging reviews. These are:

- Business Rate Retention
- New Homes Bonus
- Government Grants (Needs Assessment)

3 PUBLIC SECTOR PAY AND PRICE INFLATION.

Pay

- 3.1 Future local government pay as you are aware is agreed by the Local Government Employers Association. The settled pay award for 2017/18 has been incorporated into the budget forecast. For the remainder of the forecast period I have assumed a 1.5% yearly increase which also allows for the increased national living wage
- 3.2 A new Apprenticeship Levy will be due from all major employers from 1 April 2017 equating to 0.5% of the total pay bill.

Inflation & Interest Rates

- 3.3 As you will be aware the Bank of England has recently reduced the base rate to 0.25%. The Inflation and Interest rates allowed in the budget forecast are our best estimates. General inflation has been included at 1.5% for 2017/18 and 2% thereafter. The impact of the reduction in the base rate will inevitably mean we will see even less investment interest from our treasury management activities.

4 LOCAL GOVERNMENT FUNDING

Outcome

- 4.1 In addition to the unknown (at this stage) reviews of 3 of our 4 major funding streams (the 4th being council tax income) we will be faced with the impact (both directly and indirectly) of BREXIT and a new Prime Minister, Chancellor, and Secretary of State for Local Government.
- 4.2 It is inevitable that our forecast will change as more information becomes available. Within our estimates I have assumed that we will be able to rely on using the same levels as currently to support our revenue budget for:
- New Homes Bonus (£767k)
 - Business Rate Growth above our baseline (£263k)

- 4.3 I have also assumed at this stage that our core government grant funding will be as set out in the 4 year provisional grant figures announced with the settlement in February this year.
- 4.4 Any announcements made as part of the Autumn Statement (usually announced at the end of November) will be analysed to consider the impact on our financial position.

5 COUNCIL TAX

- 5.1 Council tax freeze grant is no longer available.
- 5.2 Our council tax is currently £145.69 and we have assumed in our forecast a 2% increase each year.

6 COMMENTS ON THE LATEST FORECAST

- 6.1 We have updated the forecast to reflect our latest assumptions based on the limited information available. The resultant forecast summary is shown at Annex 1.
- 6.2 Assumptions made in the new updated forecast.

- i) We have increased the use of balances to £300,000 each year from 2017/18 taking us to just over £1.2m General Fund Balances by 31 March 2021.
- ii) Interest Receipts will fall. The forecast assumes £10k next year, £15k in 2018/19 and 2019/20 and £20k in 2020/21.
- 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 ends in 2018

7 CONCLUSION

7.1 Hopefully the Government will publish their outcome on the New Homes Bonus consultation in the coming weeks. We are not anticipating the outcome of the other reviews in the foreseeable future. These will have a significant impact from 2020 onwards.

7.2 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	
2017/18	265
2018/19	719
2019/20	921
2020/21	1,174

7.3 Obviously if reductions are made which are of a recurring nature (i.e. reductions to the base budget) then this will reduce the savings need to be made in the following years.

7.4 The Budget Working Group will be considering the Budget Forecast at their meeting on 14 September 2016.

8 RECOMMENDATION

8.1 Consider the Budget Forecast and ask the Budget Working Group to recommend what action to take.

DIRECTOR OF RESOURCES

PF51-16/JP/AC
26 August 2016

Latest Budget Forecast - 1 September 2016											
	2016/17 OE		2017/18		2018/19		2019/20		2020/21		
	£		£		£		£		£		
Net Expenditure		6,561,898		6,641,642		7,002,911		7,151,367		7,302,865	
Interest Receipts		-28,730		-10,000		-15,000		-15,000		-20,000	
Use of Superannuation reserve		-36,512		-36,512		-36,512		-36,512		-36,512	
Rural Services Grant		-107,254		-86,603		-66,618		-86,603		-86,603	
Use of Business Rate Growth		-262,926		-262,926		-262,926		-262,926		-262,926	
Use of New Homes Bonus		-786,961		-786,961		-786,961		-786,961		-786,961	
Use of Balances		-200,000		-300,000		-300,000		-300,000		-300,000	
Reductions in Expenditure Required		0		-264,585		-719,287		-921,378		-1,173,929	
Budget Requirement		5,139,515		4,894,055		4,815,607		4,741,988		4,635,934	
Core Government Funding											
Revenue Support Grant		623,087		304,319		109,149		-108,866		-250,000	
Transition Grant		20,424		20,345		0		0		0	
Business Rates Baseline		1,239,518		1,263,897		1,301,183		1,342,771		1,342,771	
Coll Fund Deficit/(Surplus)		-47,809		0		0		0		0	
Precept		3,208,677		3,305,494		3,405,275		3,508,083		3,543,163	
Tax Base		22,024		22,244	1%	22,467	1%	22,691	1%	22,918	1%
Band D Council Tax		145.69		148.60	2%	151.57	2%	154.60	2%	154.60	2%
Effect of above on General Fund Balances											
General Fund Balances		2016/17		2017/18		2018/19		2019/20		2020/21	
		£		£		£		£		£	
Brought Forward		2,678,832		2,478,832		2,178,832		1,878,832		1,578,832	
Used		-200,000		-300,000		-300,000		-300,000		-300,000	
Carried Forward		2,478,832		2,178,832		1,878,832		1,578,832		1,278,832	