

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 5

meeting date: 12 SEPTEMBER 2017
title: BUDGET FORECAST 2018/19 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 We need to closely scrutinise 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 joined the Lancashire Business Rate Pool with effect from 1 April 2016 and therefore will not be required to pay any levy due over to central government (as long as the pool continues).
- 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". A series of consultations were launched prior to the General Election in June. However since the election the government's plans for 100% business rates retention are in doubt after the Local Government Finance Bill, which was passing through parliament before the election, was not reintroduced in the Queen's Speech.
- 2.5 We successfully submitted an efficiency plan to the Government last year in order to take up their offer of a four year period local government grant settlement.
- 2.6 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 very difficult to forecast in the present climate. These are:

- Business Rate Retention
- New Homes Bonus
- Government Grants (Fair Funding Review)

3 PUBLIC SECTOR PAY AND PRICE INFLATION.

Pay

- 3.1 Local government pay increases are agreed by the Local Government Employers Association. Whilst a 2 year pay deal was agreed for 2016/17 and 2017/18 no deal has been agreed to date for 2018/19 onwards. The union pay claim is for a 5% increase on all spinal column points along with the deletion of pay points 6-9 (they state this is to ensure that no NJC pay points fall below the Foundation Living Wage rate of £8.45 per hour). The employers' side have been holding a series of regional meetings with local authorities to gauge views on what offer to make to the unions.
- 3.2 I have assumed for the forecast period annual pay increases of 2.0%. We should be aware however, that there is mounting pressure to see increases in public sector remuneration after many years of pay restrictions.

Inflation & Interest Rates

- 3.3 I have assumed general inflation will be in line with the bank of England target of 2% over the forecast period.
- 3.4 For investment interest I have assumed a gradual increase from the current 0.25% base rate.

4 LOCAL GOVERNMENT FUNDING

Outcome

- 4.1 For 2018/19 and 2019/20 I have assumed that the Government will honour their pledge regarding local government grant settlements. For 2020/21 the position is far from clear and much will depend on the Fair Funding Review and what the Government decide regarding business rate retention. My estimates therefore need treating with caution and the eventual position could be significantly better or worse than indicated.
- 4.2 At this stage I have assumed we will use the same levels of New Homes Bonus and Business Rates Growth as we do currently:
- New Homes Bonus (£793k)
 - Business Rate Growth above our baseline (£276k)

- 4.3 Clearly as we move forward with the budget setting process we need to consider the amounts we can safely use of both of these income streams to fund our revenue budget.

5 COUNCIL TAX

- 5.1 Our Band D council tax is currently £145.69 and we have assumed in our forecast a £5 annual increase (which may or may not be permissible). **Obviously this is a decision for members.**

6 BASE BUDGET ADDITIONS

Waste Management

- 6.1 Our previous forecast assumed that the end of cost sharing would result in lost income of £430k. However at that time we also assumed that half of this amount would be mitigated from either savings on expenditure or extra income.
- 6.2 Whilst Community Committee continues to explore various options, at this stage none have been agreed and therefore I have amended the forecast to allow for the full loss of income of £430k.

Planning Fee Income

- 6.3 Despite assurances from the Government regarding the promised 20% increase in fees nothing has been forthcoming. We are led to believe this will be delayed until at least September when Parliament reconvenes after the summer recess.
- 6.4 We have assumed that the increase will go ahead and have built in the extra income from a 20% increase in planning fees (£109k) into our forecast. However we have also included corresponding expenditure of £109k, following the Government's requirement that this extra income must be used to fund improvements to the planning service.

New Director of Planning & Economic Development

- 6.5 Following the decision of Policy and Finance Committee to create the above post, I have added £110k to the base budget forecast.
- 6.6 At this stage we have not allowed for any other staffing changes that may arise from moving to 4 departments.

Other Growth Items

- 6.7 The budget forecast assumes that, other than the above, we will continue with the policy we have had for many years that any growth items are met from corresponding savings.

7 THE LATEST FORECAST

- 7.1 We have updated the forecast to reflect our latest assumptions based on the information available. The resultant forecast summary is shown at Annex 1.
- 7.2 Other assumptions made in the latest forecast are as follows
- i) We will use balances of £250,000 each year which will take our General Fund Balances to £1.7m by 31 March 2021.
 - ii) Interest Receipts will be £20k next year, £25k in 2019/20 and £30k in 2020/21.
 - iii) At this stage a 1.5% increase in the council taxbase next year followed by 1% increases over the forecast period. This reflects the increase in properties in our area.
 - iv) Council Tax Surplus/Deficit – I have assumed our share of the collection fund will be a surplus each year of £25k.

8 CONCLUSION

8.1 Based on all the assumptions stated above the budget shortfall is as shown below.

Reductions in expenditure required in order to achieve a balanced budget	
£000	
2018/19	774
2019/20	956
2020/21	1,139

8.2 This latest budget forecast provides the **starting point** for the budget setting process and even at this early stage shows the significant savings that are required for the Council to set a balanced budget. It is important to note that this is after allowing for a £5 increase in our band d council tax each year.

8.3 Obviously if reductions are made which are of a recurring nature (ie reductions to the base budget) then this will reduce the savings needed to be made in the following years.

9 BUDGET WORKING GROUP 17 AUGUST 2017

9.1 The Budget Working Group have a key role to play in the budget process in order that we are in a position next February to agree a balanced budget.

9.2 They considered this budget forecast at their August meeting and recognised that determining the amount of New Homes Bonus and Business Rate Growth that can safely be used to fund the revenue budget would be a critical element of next year's budget setting process.

9.3 I advised the Budget Working Group that detailed reports on both our estimated Business Rate Income and latest New Homes Bonus calculations will be prepared for consideration at their meetings in September/October. A key determination will be the future of business rate pooling, the Lancashire Business Rate Pool and the New Homes Bonus baseline which should all become clear over the next few months.

9.4 The Budget Working Group considered the Council's approach to setting of fees and charges for 2018/19 and rather than simply suggest they should be increased by inflation recommended that there should be a fundamental review. They also suggested that any revenue growth items should be funded from identified savings.

11 NEXT STEPS

11.1 Our accountants and budget holders will commence their preparation of the detailed estimates shortly.

11.2 The Budget Working Group will be considering;

- How much Business Rate Growth can be relied upon
- How much New Homes Bonus can be relied upon
- Suggested council tax level for 2018/19

12 RECOMMENDED THAT COMMITTEE

12.1 Consider the Budget Forecast.

12.2 Agree with the Budget Working Group's advice to service committees regarding fees and charges

DIRECTOR OF RESOURCES

PF43-17/JP/AC
31 August 2017

**Latest Budget Forecast -
August 2017**

	2017/18		2018/19		2019/20		2020/21		
	£		£		£		£		
Net Expenditure		6,381,670		7,093,925		7,279,164		7,468,887	
Interest Receipts		-15,660		-20,000		-25,000		-30,000	
Use of Superannuation reserve		-36,512		-36,512		-36,512		-36,512	
Rural Services Grant		-86,603		-66,618		-86,603		-86,603	
Use of Business Rate Growth		-275,514		-275,514		-275,514		-275,514	
Use of New Homes Bonus		-793,079		-793,079		-793,079		-793,079	
Use of Balances		-250,000		-250,000		-250,000		-250,000	
Reductions in Expenditure Required		0		-774,059		-956,274		-1,139,049	
Budget Requirement		4,924,302		4,878,143		4,856,182		4,858,130	
Core Government Funding									
Revenue Support Grant		304,319		109,149		-108,866		-250,000	
Transition Grant		20,345		0		0		0	
Business Rates Baseline		1,264,824		1,305,517		1,351,954		1,342,771	
Coll Fund Surplus/(Deficit)		59,557		25,000		25,000		25,000	
Precept		3,275,257		3,438,477		3,588,094		3,740,359	
Tax Base		22,481		22,818	1.5%	23,046	1%	23,277	1%
Band D Council Tax		145.69	0%	150.69	£5 max	155.69	£5 max	160.69	£5 max

Effect of above on General Fund Balances

General Fund Balances	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Brought Forward	2,716,569	2,466,569	2,216,569	1,966,569
Used	-250,000	-250,000	-250,000	-250,000
Carried Forward	2,466,569	2,216,569	1,966,569	1,716,569