

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 6

meeting date: 10 SEPTEMBER 2013  
title: BUDGET FORECAST 2013/14 TO 2016/17  
submitted by: DIRECTOR OF RESOURCES  
principal author: JANE PEARSON

## 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. We were informed of our business rates baseline, safety net and tariff payable. From 2012/13 we will now be able to retain an element of Business Rate Growth generated in our area.
- 2.4 In July the Government launched a consultation paper on a range of detailed and technical issues concerning the 2014-15 and 2015-16 Local Government Finance Settlements.
- 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 The pay award for staff this year was agreed at 1%. Whilst Government seem to be continuing to limit public sector pay rises to 1% for the foreseeable future local government pay as you are aware is agreed by the Local Government Employers Association. I have included a pay award of 1% for both of the years 2014/15, 2015/16 and 2% for 2016/17.
- 3.2 The rate of consumer prices index (CPI) inflation fell to 2.8% in July, down from 2.9% in June, according to the Office for National Statistics (ONS). The fall arose as the cost of clothing and leisure and cultural activities decreased. The rate of retail prices index (RPI) inflation fell as well, to 3.1%, from 3.3% in June.

- 3.3 In its August quarterly inflation report, the Bank of England predicted inflation would average 2.82 per cent in the third quarter. The Bank of England has promised to keep interest rates low until unemployment falls below seven per cent
- 3.4 The Bank of England's target rate for CPI is 2%, and it expects inflation to return to target in the medium term. However at 2.8% the rise in the Consumer Price Index is still well above the Bank of England's target.
- 3.5 The Bank of England's view is that a sustained recovery in both demand and supply appears likely. They state that the outlook for growth is stronger than in May, mainly reflecting a marked improvement in business and consumer sentiment and go on to state that inflation is expected to fall back to around the 2% target over the forecast period. I would estimate however this may take some time and have therefore included 2.75% for price inflation for 2014/15, 2.5% for 2015/16 and 2.0% for 2016/17 within our budget forecast.

#### 4 LOCAL GOVERNMENT GRANT FUNDING

- 4.1 On 25 July 2013 DCLG published a consultation paper on the local government finance settlement for 2014/15 and 2015/16.
- 4.2 In 2014/15 the Government proposes to take a further 1% off all local authorities funding and also increase the amount held back to pay for the business rates retention safety net
- 4.3 Exemplifications show that for Ribble Valley this further reduces our forecast government funding from £2.585m to £2.558m. i.e. a reduction of £27,000.
- 4.4 The 2013 Spending Round announced reductions in overall funding of 10%. The consultation paper sets out exemplifications showing for 2015/16 how the reduction will be borne by different types of authority.
- 4.5 For Ribble Valley, the indication is that shire districts such as ourselves will see the biggest reduction in real terms of over 15%. This would reduce our forecast government funding further from £2.558m to £2.163m.
- 4.6 Whilst normally announcements on local government funding would be made in December I would anticipate that the figures quoted above are unlikely to change significantly and hence we should include them in our budget forecast. No indication has been given for the level of grant funding for 2016/17 onwards. At the moment we have assumed we will receive the same amount in 2016/17 as for 2015/16 ie a cash freeze.
- 4.7 The consultation runs for 10 weeks until 2 October 2013 and I will be preparing a draft response for consideration by the Budget Working Group at its next meeting on 24 September 2013.

#### 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 2013. Based on the movement in our council tax base up to the end of July we **could** expect to receive in 2014/15 £481,816. Assuming even a small number of extra properties are completed from now until the beginning of October we could expect to receive in excess of £500,000 for the next six years. Members will be aware that to date we have only committed £60,000 of our New Homes Bonus each year to support our revenue budget.

- 5.3 However members need to be aware that at the same time the Government announced further cuts to our grant funding they also gave notice that they intend to top slice £400m nationally (around 35%) from the New Homes Bonus from 2015/16 onwards and pass this funding to Local Enterprise Partnerships to spend on promoting growth in their area. The consultation paper sets out two options of how the top slice will work at individual local authority level. In two tier areas you will recall the county council receives 20% of the NHB and districts 80%. The eight week consultation period closes on 19 September and I will circulate a draft response at your meeting for your approval.

## 6 COUNCIL TAX

- 6.1 The Spending Round announced a continuation of the freeze in council tax levels and also the 2% referendum limits for the next two years.
- 6.2 The support to be paid for the freeze in council tax will be equivalent to a 1% increase. Thus if we were to accept the Government's offer 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 another 2 years this would mean our council tax will have been frozen for a period of 6 years.
- 6.4 The Institute of Fiscal Studies suggest overall council tax rates in England are 9% lower than they would have been had they increased in line with the CPI inflation measure since 2010. Interestingly the number of authorities which agreed to accept the support and freeze council tax decreased by around a quarter in 2013/14 compared with the previous year. From 85% to 61%.
- 6.5 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.
- 6.6 To show you how complicated the council tax freeze grant is:
- In 2011/12 the Council Tax Freeze Grant was promised for a four year period. However we were told that from 2013/14 this has been 'rolled up' into our baseline funding together with Homelessness Grant and Council Tax Support Grant.
  - The Council Tax Freeze Grant in 2012/13 was paid for one year only.
  - For freezing our council tax in 2013/14 the grant funding offered equated to a 1.0% increase in council tax foregone and will be paid for a two year period i.e. in 13/14 and 14/15.

6.7 **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 going forward.** Based on our current tax base a 1% increase in our council tax raises approximately £30,000 each year.

## 7 INTEREST RATES

7.1 The continuing weak economic growth in the UK and concerns about the strength of the global economic recovery and the problems with the Euro means that the base rate remains at a record low of 0.5%. Any increase in rates is still seen by many as too risky given the fragile state of the economy and the Governor of the Bank of England has recently told the financial markets that interest rates will remain at these low levels until unemployment falls to 7%.

7.2 We have currently allowed £30,000 interest receipts per annum for the three year forecast.

## 8 BUSINESS RATES GROWTH

8.1 We will retain our share of any growth in our business rates baseline. However at this early stage it is difficult to estimate our outturn position for the first year of the new scheme with any certainty. We will however continue to monitor our business rates income closely and report this information to the Budget Working Group. For 2013/14 we assumed a small amount of growth would be retained of £47,165. This is shown separately in our budget forecast. We are still optimistic that a section 31 grant will be paid by the Government in respect of the extension to the Small Business Rate Relief scheme.

## 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) Two important consultation papers have been issued recently which will impact on our finances. One is the finance settlement for 2014/15 and 2015/16 and the other relates to technical changes to the New Homes Bonus scheme. Both could impact significantly on our future budgets.

ii) The significant savings brought in to the 2012/13 budget continue

iii) Use of balances of £150,000 over the next three years taking us to just over £1.1m General Fund Balances by 31 March 2017.

iv) Interest Receipts continue to run at very low levels. The forecast shows an amount of £30k for each of the next 3 years.

v) 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. However this is still below the housing requirement identified in our draft core strategy. Members will recall the taxbase has now been adjusted to reflect the impact of council tax support.

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) Business Rate Collection – We have assumed minimal additional business rate income at £50,000 per annum.

## 10 BUDGET WORKING GROUP

10.1 The Budget Working Group at its recent meeting considered the budget forecast and suggested that we examine the following four areas to address the budget shortfall:

- Increase in our council tax for 2014/15
- Examine in detail our underspends/savings in 2012/13 to ensure our base budget is accurate
- Increase the amount of New Homes Bonus we use to finance our revenue budget
- How much business rate growth we can realistically expect to rely on

## 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 2014/15 budget is agreed next March.

11.2 However as reported by our external auditors following a recent audit, we meet or exceed the recommended standards across all areas in measuring financial resilience.

11.3 The Budget Working Group will be considering the Budget Forecast at their meeting on 24 September 2013.

## 12 RECOMMENDATION

12.1 Consider the Budget Forecast.

12.2 Agree the Council's response to the consultation paper on the technical changes to the New Homes Bonus scheme.

DIRECTOR OF RESOURCES

PF51-13JP/AC  
2 September 2013

Latest Budget Forecast - 10 Sept 2013								
	2013/14 OE		2014/15		2015/16		2016/17	
	£		£		£		£	
Net Expenditure	6,249,140		6,455,000		6,658,000		6,911,000	
Interest Receipts	-29,140		-30,000		-30,000		-30,000	
Superannuation reserve	-36,175		-36,175		-36,175		-36,175	
C Tax Freeze grant for freezing ctax in <u>2013/14</u>	-31,610		-31,610					
C Tax Freeze grant for freezing ctax in <u>2014/15</u>			-31,500					
Use of New Homes Bonus	-60,000		-60,000	?	-60,000	?	-60,000	?
Use of Balances	-146,023		-150,000		-150,000		-150,000	
<b>Reductions in Expenditure Required</b>	<b>0</b>		<b>-526,104</b>		<b>-1,126,152</b>		<b>-1,348,937</b>	
<b>Budget Requirement</b>	<b>5,946,192</b>		<b>5,589,611</b>		<b>5,255,673</b>		<b>5,285,888</b>	
Govt Funding	2,961,659		2,558,045	as per July 13 consultation exemp 2	2,194,191	as per July consultation exemp 4	2,194,191	assume freeze on 15/16
business Rate Growth	47,165		50,000	?	50,000	?	50,000	?
Coll Fund Deficit	-24,579		-10,000		-10,000		-10,000	
<b>Precept</b>	<b>2,961,947</b>		<b>2,991,566</b>		<b>3,021,482</b>		<b>3,051,697</b>	
Tax Base	21,053		21,264	1%	21,476	1%	21,691	1%
Band D Ctax	140.69	0%	140.69	0%	140.69	0%	140.69	0%
<b>Effect of above on General Fund Balances</b>								
<b>General Fund Balances</b>	<b>2013/14</b>		<b>2014/15</b>		<b>2015/16</b>		<b>2016/17</b>	
	£		£		£		£	
Brought Forward	1,699,748		1,553,725		1,403,725		1,253,725	
Used	-146,023		-150,000		-150,000		-150,000	
Carried Forward	1,553,725		1,403,725		1,253,725		1,103,725	