

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 7

meeting date: 21 SEPTEMBER 2010
 title: REVENUE BUDGET FORECAST UPDATED 2010/11 TO 2014/15
 submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

- 1.1 To consider the Council's latest budget forecast.

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.

3 PREVIOUS FORECAST AT 1 FEBRUARY 2010

- 3.1 The forecast was updated on 1 February to reflect the decisions made in setting our budget for 2010/11.

	2010/11 £000's		2011/12 £000's		2012/13 £000's	
Expenditure	7,432		7,726		7,957	
Interest Receipts	-15		-75		-100	
Reserves	-99		-30		-30	
Use of Balances	-118		-200		-200	
Reductions in expenditure required			-550		-669	
Net Expenditure	7,200		6,871		6,958	
Government Funding	-4,142		-3,727	-10%	-3,727	freeze
Collection Fund Deficit	11		10		10	
Precept	3,069		3,153		3,240	
Taxbase	22,357		22,413	+0.25%	22,469	
Band D Council Tax	137.26	0%	140.69	+2.5%	144.21	+2.5%

- 3.2 Effect of above on general fund balances

	2010/11 £000's	2011/12 £000's	2012/13 £000's
Brought Forward	1,610	1,492	1,292
Needed from Balances	-118	-200	-200
Carried Forward	1,492	1,292	1,092

3.3 The forecast did not include:

- Any future growth items
- Revenue implications of the forward Capital Programme
- The implications of Concessionary Travel being transferred to upper tier authorities

Also, it did assume all the savings identified for 2010/11 materialised and continue for at least the following two years.

3.4 In conclusion the forecast in February 2010 showed the base budget beyond 2010/11 only being affordable if significant reductions were made. For 2011/12 this figure was £550,000 and for 2012/13 £669,000.

3.5 The forecast also assumed a 10% reduction in external government funding. Obviously at that stage we were unclear as to exactly how much funding would be cut.

3.6 In agreeing the 2010/11 revenue budget the importance of holding regular BWG meetings throughout the year was highlighted in order that balanced budgets be set for future years. It was also recognised that an integral part of the budget calculations for 2011/12 would be the outcome of the current restructuring exercise.

4 CHANGES AFFECTING LATEST FORECAST POSITION

4.1 Obviously the change in Government since the February Forecast was prepared has meant that a number of the assumptions that were made in estimating our financial position have changed significantly. In addition we are also now in a position to update the forecast to reflect the 2009/10 outturn and the current level of general fund balances.

4.2 Public Sector Pay

You may recall we had originally allowed, in our draft budget figures, a 1.5% pay award for the current year (2010/11). However in finalising the budget in February we took out this allowance in light of the current thinking at that time, therefore assuming there would be no pay award this year. It looks at this stage that this will be the case.

For 2011/12 and 2012/13 we allowed for general inflation ie pay and prices of 2% and 3% accordingly. Given the announcement in the emergency budget that there will pay freezes for public sector workers for the 2 years commencing 2011/12 (except for employees earning £21,000 or less, who will receive an increase of at least £250 a year) we can adjust the forecast to reflect this. It is unclear whether local government workers whose pay is agreed by the Local Government Employers Organisation will be affected by this at this stage.

4.3 National Insurance

The Labour Government announced plans for National Insurance rates to increase by 1% in April 2011. The Coalition Government's Emergency Budget however, announced that the effect of the employer rate rise will be largely reversed by increasing the threshold for employer National Insurance Contributions (NICs) by

£21 a week above indexation. We had added £60,000 to the base budget from 2011/12 to reflect the 1% increase. We can therefore reduce this amount and estimate that we should leave in the base budget £20,000 to meet the residual increase remaining.

4.4 Local Government Grant Funding

As you know an announcement was made at the end of May 2010 reducing the amount of Area Based Grant authorities were expecting to receive in the current year (2010/11) to contribute to the in year savings of £6bn which the Coalition Government had announced. The impact on Ribble Valley is as follows;

- Free Swimming Grant ceased from end of July 2010. No impact on budget as charging was reintroduced from same date.
- Second tranche Performance Reward Grant will not be received. No impact on budget as not included in estimates.
- Housing and Planning Delivery Grant will cease. Again no impact on budget as not included in estimates.
- Local Authority Business Rate Growth Incentive Grant will cease. Again no impact on the budget as not included in estimates.

- 4.5 As part of the Emergency Budget announcement we were informed that Government Departments could expect grant reductions of around 25% over the forthcoming four year period. However as some areas will be protected this figure could be much higher. In fact there has been speculation the figure could be as much as 40%.

4.6 Council Tax

The announcement in the Emergency Budget confirming that the Government intended that council tax would be frozen next year affects our forecast as we had allowed for a 2.5% increase both in 2011/12 and 2012/13.

5 LATEST FORECAST POSITION

- 5.1 Given the largest impact on our finance position will be the amount our Formula Grant is to be cut by, and further that we are unlikely to know this figure until the outcome of the Spending Review on 20 October 2010, it is sensible to prepare a number of variations of our Budget Forecast reflecting the potential grant cut.
- 5.2 The difficulty for the Council is that the information on the level of grant cuts is at this stage very limited. In 2011/12 the cut in grant could be in the range of between £0 and £414,000 and this does not take account of the possibility of significant changes to the base formula. The size of the cut in grant depends on assumptions regarding timing e.g. will the cuts be spread evenly or will there be larger cuts in the early years or will these be phased in. Will there be any significant changes to formula used to distribute Revenue Support Grant and what will be the impact of the transfer of Concessionary Fares on the Council's grant?

5.3 Attached are 3 forecasts which show our updated position based on speculative amounts of grant reduction over a 4 year period;

- Annex 1 - Based on 25% reduction in Formula Grant over a 4 year period ie 6.25% reduction each year
- Annex 2 - Based on 33% reduction in Formula Grant over a 4 year period ie 8.25% reduction in grant each year
- Annex 3 - Based on 40% reduction in Formula Grant over a 4 year period ie 10% reduction in grant each year

5.4 As you would expect the corresponding resultant reductions necessary in our expenditure vary significantly between these four scenarios. In summary the level of reductions is shown below.

Savings Required					
Grant Cut Assumption	Annex	2011/12 £000's	2012/13 £000's	2013/14 £000's	2014/15 £000's
25%	1	-178	-609	-1,001	-1,396
33%	2	-261	-775	-1,249	-1,727
40%	3	-334	-920	-1,466	-2,017

5.5 It should be noted that any savings required would be hopefully recurring and impact on the base budget, ie they would be cumulative. This would mean, say for example, if we were faced with a 25% grant reduction and we were to find savings of say £178,000 in 2011/12 then the amount of savings required for the next three years would become £431,000 (609,000-178,000) in 2012/13, £823,000 in 2013/14 and £1,218,000 in 2014/15.

5.6 The Budget Timetable has been prepared to ensure sufficient provision is built in to the budget setting cycle to ensure we are best placed to consider emerging issues as and when the announcements from Central Government are made regarding our future funding.

6 COMMENTS ON THE LATEST FORECAST

6.1 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.

6.2 The latest forecast assumes the following:

- i) Savings brought in to the 2010/11 budget are achieved and continue
- ii) Use of balances of £200,000 in 2011/12, then £100,000 over the next three years taking us to £681,000 for General Fund Balances by 31 March 2015. This is the absolute minimum we should consider.
- iii) The Council continuing to use the Building Control reserve.
- iv) Interest Receipts and Interest Savings no longer can be relied upon as a significant contribution to the Council's expenditure. The forecast shows increasing over the

next 3 years to £100,000 – considerably lower than the levels experienced in recent years.

- v) Council Tax freeze for 2011/12 and then a 2.5% increase for 2012/13, 2013/14 and 2014/15. At this stage it is difficult to predict the climate for potential future increases in council tax. I have brought in to the forecast £78,000 income in recognition of the Government's commitment to work in partnership with local authorities next year to freeze council tax. Just how this amount would be compensated is not yet clear but the Government have confirmed their commitment to work in partnership to do this.
- vi) A very small increase in the council taxbase over the future four year period. As stated before, based on current trends it is unwise to predict an increasing taxbase however as we potentially come out of the recession we would expect the number of new house builds to increase significantly. Looking at the very latest figures I predict no increase in the tax base for next year, 0.25% for 2012/13 and then 0.5% per year.
- vii) The Government have stated there will be a New Homes Bonus to try to encourage local authorities to build by matching the council tax raised on each extra property. Exact details of how this will work are still unclear but it is expected to potentially raise significant sums for local authorities. As an example, 200 new houses could raise £300,000 per annum for an authority over the 6 year period of the scheme.
- viii) Council Tax Deficit – I have allowed for a council tax deficit over the next four years based on current deficits experienced by districts.
- ix) Inflation/Pay Awards – Pay freeze for 2011/12 for our employees paid more than £21,000. We have around 181 employees paid less than £21,000. 103 are paid more than £21,000. For General inflation I have allowed 3% for 2011/12 and also 3% for each of the following 3 years.
- x) Concessionary Travel – We currently receive special grant of around £150k pa for three years due to finish at the end of this year. We also receive funding via our formula grant allocation but it is not identified separately exactly how much this is and therefore it is difficult to predict how much funding we could lose. The budget forecast does not include any adjustments for the forthcoming transfer to the upper tier, however the issue will be carefully monitored and further information will be reported to members when decisions are taken. The Government have recently issued a consultation paper showing various options and exemplifications for the transfer which we are currently analysing.
- xi) Restructuring savings and other savings found during the current year have not been incorporated into the forecast at this stage but will be as we enter the budget cycle.

7 CONCLUSION

- 7.1 There remains a complete lack of information as to the level of cuts facing local government. Different opinions are held as to the severity of the cuts. In my opinion they will be somewhere between 25% and 40%. Uncertainty also surround pension costs, pay awards and of course concessionary travel. All these have a massive impact on our financial planning.
- 7.2 Uncertainty surrounding local government funding will continue until the outcome of the Spending Review is announced on 20 October 2010. Indeed it may not be until our individual formula grant allocations are announced (probably the end of November) that we will be in a position to assess the impact on Ribble Valley.
- 7.3 However it is important that we consider our financial position now in order to prepare for the inevitable savings that will have to be found.

DIRECTOR OF RESOURCES

PF52-10/JP/AC
13 SEPTEMBER 2010

Annex 1

Latest Budget Forecast as at 13 September 2010 for Policy & Finance

Based on 25% reduction in Formula Grant over a 4 year period ie 6.25% reduction each year

	2009/10 RE £		2009/10 outturn £		2010/11 OE £		2011/12 £		2012/13 £		2013/14 £		2014/15 £	
Net Expenditure	7,574,992		5,786,737	*	7,431,630		7,580,000		7,685,000		7,915,000		8,152,000	
Interest Receipts	-15,000		-15,112		-15,000		-75,000		-100,000		-100,000		-100,000	
Reserves	-150,310		2,025,580	*	-99,410		-30,000		-30,000		-30,000		-30,000	
Use of Balances	-412,042		-799,565		-41,373		-200,000		-100,000		-100,000		-100,000	
Reductions in Expenditure Required	0		0				-178,285		-609,069		-1,000,547		-1,396,092	
Budget Requirement	6,997,640		6,997,640		7,275,847		7,096,715		6,845,931		6,684,453		6,525,908	
Govt Funding	3,996,589		3,996,589		4,141,519		3,882,674	-6.25%	3,623,829	-6.25%	3,364,984	-6.25%	3,106,139	-6.25%
C Tax Freeze concess							78,635							
Coll Fund Deficit	-9,471		-9,471		-11,112		-10,000		-10,000		-10,000		-10,000	
Precept	3,010,522		3,010,522		3,145,440		3,145,406		3,232,102		3,329,469		3,421,258	
Tax Base	22,342		22,342		22,357		22,357	0%	22,413	0.25%	22,525	0.50%	22,638	0.50%
Band D Ctax	137.26		137.26		140.69	+2.5%	140.69	ctax freeze	144.21	2.5%	147.81	2.5%	151.51	2.5%

Effect of above on General Fund Balances

General Fund Balances	2009/10 £		2009/10 £		2010/11 £		2011/12 £		2012/13 £		2012/13 £		2012/13 £	
Brought Forward	2,021,659		2,021,659		1,222,094		1,180,721		980,721		880,721		780,721	
Used	-412,042		-799,565		-41,373		-200,000		-100,000		-100,000		-100,000	
Carried Forward	1,609,617		1,222,094		1,180,721		980,721		880,721		780,721		680,721	

Annex 2

Latest Budget Forecast as at 13 September 2010 for P&F

Based on 33% reduction in Formula Grant over a 4 year period ie 8.25% reduction each year

	2009/10 RE £		2009/10 outturn £		2010/11 OE £		2011/12 £		2012/13 £		2013/14 £		2014/15 £	
Net Expenditure	7,574,992		5,786,737	*	7,431,630		7,580,000		7,685,000		7,915,000		8,152,000	
Interest Receipts	-15,000		-15,112		-15,000		-75,000		-100,000		-100,000		-100,000	
Reserves	-150,310		2,025,580	*	-99,410		-30,000		-30,000		-30,000		-30,000	
Use of Balances	-412,042		-799,565		-41,373		-200,000		-100,000		-100,000		-100,000	
Reductions in Expenditure Required	0		0				-261,115		-774,730		-1,249,038		-1,727,413	
Budget Requirement	6,997,640		6,997,640		7,275,847		7,013,885		6,680,270		6,435,962		6,194,587	
Govt Funding	3,996,589		3,996,589		4,141,519		3,799,844	-8.25%	3,458,168	-8.25%	3,116,493	-8.25%	2,774,818	-8.25%
C Tax Freeze concess							78,635							
Coll Fund Deficit	-9,471		-9,471		-11,112		-10,000		-10,000		-10,000		-10,000	
Precept	3,010,522		3,010,522		3,145,440		3,145,406		3,232,102		3,329,469		3,429,769	
Tax Base	22,342		22,342		22,357		22,357	0%	22,413	0.25%	22,525	0.50%	22,638	0.50%
Band D Ctax	137.26		137.26		140.69	+2.5%	140.69	ctax freeze	144.21	2.5%	147.81	2.5%	151.51	2.5%

Effect of above on General Fund Balances

General Fund Balances	2009/10 £		2009/10 £		2010/11 £		2011/12 £		2012/13 £		2012/13 £		2012/13 £	
Brought Forward	2,021,659		2,021,659		1,222,094		1,180,721		980,721		880,721		780,721	
Used	-412,042		-799,565		-41,373		-200,000		-100,000		-100,000		-100,000	
Carried Forward	1,609,617		1,222,094		1,180,721		980,721		880,721		780,721		680,721	

Annex 3

Latest Budget Forecast as at 13 September 2010 for P&F

Based on 40% reduction in Formula Grant over a 4 year period ie 10% reduction each year

	2009/10 RE £		2009/10 outturn £		2010/11 OE £		2011/12 £		2012/13 £		2013/14 £		2014/15 £	
Net Expenditure	7,574,992		5,786,737	*	7,431,630		7,580,000		7,685,000		7,915,000		8,152,000	
Interest Receipts	-15,000		-15,112		-15,000		-75,000		-100,000		-100,000		-100,000	
Reserves	-150,310		2,025,580	*	-99,410		-30,000		-30,000		-30,000		-30,000	
Use of Balances	-412,042		-799,565		-41,373		-200,000		-100,000		-100,000		-100,000	
Reductions in Expenditure Required	0		0				-333,592		-919,683		-1,466,468		-2,017,320	
Budget Requirement	6,997,640		6,997,640		7,275,847		6,941,408		6,535,317		6,218,535		5,904,680	
Govt Funding	3,996,589		3,996,589		4,141,519		3,727,367	-10%	3,313,215	-10%	2,899,063	-10%	2,484,911	-10%
C Tax Freeze concess							78,635							
Coll Fund Deficit	-9,471		-9,471		-11,112		-10,000		-10,000		-10,000		-10,000	
Precept	3,010,522		3,010,522		3,145,440		3,145,406		3,232,102		3,329,469		3,429,769	
Tax Base	22,342		22,342		22,357		22,357	0%	22,413	0.25%	22,525	0.50%	22,638	0.50%
Band D Ctax	137.26		137.26		140.69	+2.5%	140.69	ctax freeze	144.21	2.5%	147.81	2.5%	151.51	2.5%

Effect of above on General Fund Balances

General Fund Balances	2009/10 £		2009/10 £		2010/11 £		2011/12 £		2012/13 £		2012/13 £		2012/13 £	
Brought Forward	2,021,659		2,021,659		1,222,094		1,180,721		980,721		880,721		780,721	
Used	-412,042		-799,565		-41,373		-200,000		-100,000		-100,000		-100,000	
Carried Forward	1,609,617		1,222,094		1,180,721		980,721		880,721		780,721		680,721	