

# RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 10

meeting date: 25 SEPTEMBER 2012  
 title: BUDGET FORECAST 2012/13 TO 2015/16  
 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 In July the Government began consultation on the detail of how the Business Rates Retentions Scheme will work including consultation on the baseline funding for each local authority. This on-going consultation makes it extremely difficult to calculate Government funding with any degree of accuracy.
- 2.4 We therefore are in a position where we can only speculate the level of Government funding we can expect to receive next year. Our estimate 2013/14 baseline funding is shown below with a comparison of recent years Formula Grant to show the extent of our funding cuts.

<b>Formula Grant/Baseline Funding</b>				
	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>
Formula Grant	-4,141	-3,237	-2,902	
Baseline Funding				-2,758

- 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, perhaps more than ever before.
- 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.

## 3 PUBLIC SECTOR PAY AND PRICE INFLATION

- 3.1 The Government announced in the emergency budget that there would be pay freezes for public sector workers for the 2 years commencing 2011/12 .You may

recall that there was no pay increase for Council staff in 2010/11, 2011/12 and the employers confirmed earlier this year no increase in 2012/13. The employers side suggest that there may well be an offer made for 2013/14 and we are assuming any increase will be no higher than 2.5%. The contingency of £75,000 set aside for any potential pay award in 2012/13 will not be required.

- 3.2 Despite the on-going downturn in the economy and sluggish recovery, inflation has remained a stubborn persistent problem albeit slightly better than this time last year. The rate of Consumer Prices Index (CPI) inflation rose to 2.6%, from 2.4% in July, according to figures from the Office for National Statistics (ONS). The RPI measure increased to 3.2% from 2.8%.
- 3.3 The Bank of England's target rate for CPI is 2%, and it expects inflation to return to target in the medium term.
- 3.4 Even so considerable uncertainty surrounds the inflation outlook and much depends on the Euro, economic growth and movements in commodity prices which can be highly volatile.
- 3.5 In our budget forecast we have allowed 2.5% for price increases for each year, the same as the allowance for pay mentioned earlier.

#### 4 LOCAL GOVERNMENT GRANT FUNDING

- 4.1 In addition to formula grant we currently only receive the following grants:
  - New Homes Bonus
  - Council Tax Freeze Grant
  - Local Services Support Grant - Homelessness
- 4.2 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.
- 4.3 We will 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 2012. Based on the movement in our council tax base up to August we **could** expect to receive an extra £230,000 over and above the £60,000 we currently have allocated to support our revenue budget.
- 4.4 The Council Tax Freeze Grant in 2011/12 was promised for a four year period. From next year this will be 'rolled up' into our baseline funding together with Homelessness Grant and Council Tax Support Grant. The Council Tax Freeze Grant in 2012/13 however was for one year only. We've had no indication of any suggestion that there will be a freeze grant in the future.

#### 5 COUNCIL TAX

- 5.1 For estimate purposes we have assumed a 2.5% increase in our council tax each year for the next 3 years. Based on our current tax base a 1% increase in our council tax raises approximately £31,500.

## 6 INTEREST RATES

6.1 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.

6.2 We have currently allowed £30,000 interest receipts for both the current year and 2013/14. We estimate that interest rates should start to increase in 2014/15 as the economy recovers. We have therefore brought in £50,000 for interest in 2014/15 and £75,000 the year after. Whether this is achievable will depend upon the speed of any economic recovery.

## 7 COMMENTS ON THE LATEST FORECAST

7.1 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.

7.2 The latest forecast assumes the following:

i) Savings brought in to the 2012/13 budget are achieved and continue

Two particularly significant consultation papers have been issued recently which will have far reaching implications on our finances.

The developing proposal to retain business rates will replace our current formula grant funding which is our main income stream from the Government. We will be 'locked in' to a baseline funding position and therefore future business rate income depends on the level this baseline is set at. At this stage we have brought in the latest exemplifications in our government funding for 2013/14 and assumed a cash freeze thereafter. This may be over optimistic.

The localisation of council tax benefit and the requirement to have our own local scheme which reduces costs by 10% at the same time as protecting pensioners and vulnerable groups will have far reaching consequences. This will be extremely challenging. We are currently consulting on our proposed scheme that will reduce benefit entitlement by 12% for working age claimants. This together with council tax income from second homes should meet the reduction in government support, providing the council tax can be collected.

ii) Use of balances of £100,000 over the next three years taking us to £1,295,640 General Fund Balances by 31 March 2016.

iii) Interest Receipts and Interest Savings can no longer be relied upon as a significant contribution to the Council's expenditure. The forecast shows a minimal level of receipts over the next 3 years but rising to £75,000 by 2015/16.

iv) A 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. We continue to receive significant numbers of large planning applications. Looking at the very latest figures I predict a 0.5% increase in the tax base for next year and 0.75% thereafter. Again much will depend upon the economic recovery and successful planning applications turning

into actual developments. The taxbase has also been adjusted for the impact of council tax support.

- v) Council Tax Deficit – I have allowed for a council tax deficit over the next four years based on current deficits experienced by districts. The impact of the new council tax support scheme could well make this much worse.
- vi) Business Rate Collection – We have assumed no additional funding from the collection of business rates. The system as proposed provides very little real incentive for billing authorities to increase their business rate income. However there is a very considerable downside if business rate income was to fall below our initial business rate baseline target.

## 8 CONCLUSION

8.1 Until the final outcome of the consultation process is announced for business rates retention we cannot predict with any certainty the funding we can expect to receive in the future from the Government.

8.2 We know our updated Budget Forecast, based on all the assumptions mentioned above, shows that savings in the region of £420k by 2015/16 are needed from our base budget to ensure we are financial stable in the future. As mentioned earlier forecasting the budget is probably more difficult this year than ever before because of all the uncertainties.

8.3 The Budget Working Group will be considering the Budget Forecast at their meeting on 24 September 2012. I will report to you any recommendations they make at your meeting.

## 9 RECOMMENDATION

9.1 Consider the Budget Forecast.

DIRECTOR OF RESOURCES  
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14 SEPTEMBER 2012

<b>Latest Budget Forecast - Sept 2012</b>									
<b>Assuming inflation pay &amp; prices 2.5% and Baseline Funding as per exemplification</b>									
		2012/13 OE		2013/14		2014/15		2015/16	
		£		£		£		£	
Net Expenditure		6,274,100		6,414,450		6,605,000		6,800,000	
Interest Receipts		-30,000		-30,000		-50,000		-75,000	
Reserves		-36,175		-36,175		-36,175		-36,175	
C Tax Freeze concession		-78,910							
Use of New Homes Bonus		-60,000		-60,000		-60,000		-60,000	
Use of Balances		-20,733		-100,000		-100,000		-100,000	
<b>Reductions in Expenditure Required</b>		<b>0</b>		<b>-201,279</b>		<b>-278,058</b>		<b>-430,186</b>	
<b>Budget Requirement</b>		<b>6,048,282</b>		<b>5,986,996</b>		<b>6,080,767</b>		<b>6,098,639</b>	
Govt Funding		2,901,686		2,757,500		2,757,500	cash free	2,678,840	cash free
C Tax Freeze concession		0		0		0		0	
Coll Fund Deficit		-9,643		-10,000		-10,000		-10,000	
<b>Precept</b>		<b>3,156,239</b>		<b>3,239,496</b>		<b>3,333,267</b>		<b>3,429,799</b>	
Tax Base		22,434	act	22,464	0.50%	22,551	0.75%	22,638	0.75%
Band D Ctax	+2.5%	140.69	ctax free	144.21	2.5%	147.81	2.5%	151.51	2.5%
<b>Effect of above on General Fund Balances</b>									
		2012/13		2013/14		2014/15		2015/16	
		£		£		£		£	
Brought Forward		1,616,373		1,595,640		1,495,640		1,395,640	
Used		-20,733		-100,000		-100,000		-100,000	
Carried Forward		1,595,640		1,495,640		1,395,640		1,295,640	