

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 6

meeting date: 24 SEPTEMBER 2019
title: BUDGET FORECAST 2020/21 TO 2022/23
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 2019/20 is the last year of the Government's 4 year multi settlement. From 2020/21 we were expecting substantial local government finance reforms via the Fair Funding Review and also Business Rate Retention reforms.
- 2.4 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

3 PUBLIC SECTOR PAY AND PRICE INFLATION.

Pay

- 3.1 The budget for 2019/20 allowed for the second year of a two year pay award which nationally averaged 2.802%. The previous budget forecast assumed 2% for the remainder of the forecast period.
- 3.2 The pay claim for 2020 has been lodged by the LGS NJC Trade Unions with the National Employers. The claim is for:
 - a 10% pay increase
 - a one-day increase in annual leave

- a two-hour reduction in the working week
 - a review of workplace stress and mental health
- 3.3 The cost to this Council of a 10% pay increase would be in the region of £685k which would obviously have serious financial implications. Each 1% increase would cost £68k. We have currently allowed for a 3% pay award in 2020/21 and a 2% increase each year thereafter.

Inflation & Interest Rates

- 3.4 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%.
- 3.5 Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target.
- 3.6 I have assumed general inflation will be in line with the bank of England target of 2% over the forecast period.
- 3.7 For investment interest I have assumed similar levels to those we are currently receiving of around £75,000 per annum.

4 LOCAL GOVERNMENT FUNDING

2019 Spending Round

- 4.1 The 2019 spending round announcement is set out in some detail in a separate report on your agenda. In summary the key elements are as follows:
- The Fair Funding Review, Business Rates Review and business rates reset has been deferred by 12 months to 2021/22.
 - There is a £2.9bn increase in Core Spending power overall. Most of the additional funding is for adults and children's services, but there is £54m for Homelessness.
 - The Council Tax referendum limit is proposed at 2% but this will be subject to consultation in the Provisional Settlement.
 - Baseline funding will be updated by CPI (which includes RSG).
 - Funding to remove negative RSG has been continued for 2020/21
 - New Homes Bonus – legacy payments will be honoured but the scheme for 2020/21 is still for discussion with ministers.
 - 75% business rates pilots will come to an end and there are no new pilots planned for 2020/21.
 - A technical consultation will be issued on the settlement ASAP with the provisional settlement being announced in early December. This could, of course, be subject to change depending on decisions made by Parliament.

New Homes Bonus

- 4.2 Our New Homes Bonus allocation in 2019/20 is £1.666m. The amount we are relying on to fund our revenue budget each year is £1.105m. This is safely within our **current** annual allocation however we also use our NHB allocation to fund our capital programme. Also there continues to be considerable uncertainty over the future of the scheme, including whether allocations will be reduced or even ceased altogether.

Business Rates

- 4.3 Though we have not yet been formally notified the indication from the spending round announcement is that our 75% Lancashire Pilot will cease at the end of 2019/20. We are not aware what if any pooling arrangements will be available for 2020/21. Given that business rates is now such a major income stream we eagerly await a formal announcement in order that we can ascertain with some certainty the level of business rate income available to us next year. We do know however that we will receive a business rates baseline of £1,469k in 2020/21.
- 4.4 In the current financial year, based on NNDR1 estimates and the current pilot arrangements, we expect to receive business rate income above our baseline of £2.359m. Of this we are relying on £675k to fund the revenue budget and £1.522m to fund the capital programme, with the balance of £161k added to the business rates growth reserve.
- 4.5 Based on our budget forecast we continue to assume that £875k will be required from our business rate growth to fund our revenue budget in 2020/21, and £675k each year thereafter. Whilst we have currently not allocated any business rate growth to fund the capital programme in 2020/21 we are relying on £474k in 2022/23.
- 4.6 In addition to the uncertainty surrounding 2020/21 pooling arrangements we also are unclear as to the impact of the scheduled business rates baseline resets in 2021/22 and the impact of the business rate retention reforms. I would therefore urge caution on relying on any amount higher than £675k to fund the revenue budget each year. Indeed it may be that even this amount may prove optimistic.

Summary of Business Rate Growth received and used each year							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	actual	actual	actual	actual	actual	actual	estimate
	£	£	£	£	£	£	£
Business Rate Growth	263,276	364,973	612,969	375,742	1,400,964	1,348,534	2,358,732
Used to support Revenue Budget	-47,165	-262,926	-262,926	-262,926	-275,514	-475,514	-675,514
Used to support Capital Programme						-94,508	-1,522,540
Transferred to general fund balances	-139,311	0	0	0	0	0	0
Surplus/deficit for year	76,800	102,047	350,043	112,816	1,125,450	778,512	160,678
Of which:							
Added to volatility reserve	76,800	102,047	350,043	112,816	904,390	0	0
Added to growth reserve	0	0	0	0	221,060	778,512	160,678
	76,800	102,047	350,043	112,816	1,125,450	778,512	160,678
Business Rate Volatility Reserve							
Opening Balance b/fwd	135,904	212,704	314,751	664,794	777,610	1,682,000	1,682,000
Closing Balance c/fwd	212,704	314,751	664,794	777,610	1,682,000	1,682,000	1,682,000
Business Rate Growth Reserve							
Opening Balance b/fwd					0	221,060	999,572
Closing Balance c/fwd					221,060	999,572	1,160,250

5 COUNCIL TAX

- 5.1 Our Band D council tax is currently £150.69 and we have assumed in our forecast a £5 annual increase which may or may not be permissible. The indication from the Spending Round is that the proposed Council Tax referendum limit will be 2%, however in recent years the limit has been either an increase of 2% or £5 whichever is the higher. **Obviously this is a decision for members.**

6 BASE BUDGET ADDITIONS

Refuse Collection

- 6.1 As reported to you previously we have experienced significant overspends in both 2017/18 and 2018/19 on refuse vehicle maintenance. Work has been ongoing in investigating this variance and has been reported to CMT and yourselves. Whilst monitoring is continuing there is a worrying trend in these costs and therefore I have allowed in the budget forecast an extra £50k each year.

Superannuation Triennial Review

- 6.2 The Local Government Pension Scheme (LGPS) is currently valued every 3 years with the most recent one being as at 31 March 2019. We will shortly receive notification of the impact of the valuation on the employer's superannuation contributions from the actuary. For the purposes of this budget forecast I have allowed for an increase in contributions of £100k pa. The budget for next year however will be prepared on the basis of the exact contributions due.
- 6.3 Recently a consultation was carried out by the Government proposing to change the valuation cycle to a 4 year one.

Other Growth Items

- 6.4 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 £1.683m by 31 March 2023 with the exception of next year when we only need to take £194k to balance the budget (if all other assumptions are proved correct).
- ii) Interest Receipts will be £75k each year.
- iii) At this stage a 1% increase in the council taxbase each year. However we will soon be calculating our tax base for next year which will indicate if this assumption is realistic. From 2013/14 we have benefitted from increases in our tax base averaging between 1.5% - 2% each year.
- 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	
2020/21	0
2021/22	182
2022/23	221

8.2 This latest budget forecast shows that, based on all the assumptions made, we should be in a position to set a balanced budget for 2020/21. It is very difficult however, in the current economic and political climate to forecast the Council's future finances with any certainty. Whilst this forecast provides a useful starting point for the budget setting process, the next few months could result in considerable changes to our financial position and as such will need to be monitored closely.

9 NEXT STEPS

9.1 Our accountants and budget holders will commence their preparation of the detailed estimates shortly. We have also prepared a detailed budget timetable which sets out the key dates and the role of all involved, which is a separate report on your agenda.

9.2 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. They will be reviewing this Budget Forecast at their meeting on 19 September 2019 and also considering advice to give to service committee regarding increases in fees and charges and growth items.

9.3 They will also keep under review the amounts we can safely use of New Homes Bonus and Business Rates to fund our revenue budget in line with any announcements regarding future allocations/schemes and of course the level of council tax for next year. In January/February they will consider the overall draft budget position and make recommendations to your meeting on 4 February 2020 in order that we are in a position to recommend a balanced budget to Full Council in March.

10 RECOMMENDATION

10.1 Keep under review economic and political developments and their impact on the Council's budget forecast.



DIRECTOR OF RESOURCES

JP/AC

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**Latest Budget Forecast -
September 2019**

	2019/20		2020/21		2021/22		2022/23	
	£		£		£		£	
Net Expenditure	7,010,306		7,430,876		7,623,046		7,819,907	
Interest Receipts	-100,000		-75,000		-75,000		-75,000	
Use of Superannuation reserve	-36,512		-36,512		-36,512		-36,512	
Rural Services Grant	0		0		0		0	
Use of Business Rate Growth	-675,514		-875,514		-675,514		-675,514	
Use of New Homes Bonus	-1,105,000		1,105,000		1,105,000		1,105,000	
Use of Balances	-93,896		-194,894		-250,000		-250,000	
Reductions in Expenditure Required	0		0		-182,191		-221,447	
Budget Requirement	4,999,384		5,143,956		5,298,829		5,456,435	
Core Government Funding								
Business Rates Baseline	1,440,601		1,469,413	2% CPI	1,469,413		1,469,413	
Coll Fund Surplus/(Deficit)	61,419		25,000		25,000		25,000	
Precept	3,497,364		3,649,543		3,804,416		3,962,022	
Tax Base	23,209		23,441	1%	23,676	1%	23,912	1%
Band D Council Tax	150.69	0 %	155.69	£5 max	160.69	£5 max	165.69	£5 max
Effect of above on General Fund Balances								
General Fund Balances	2019/20		2020/21		2021/22		2022/23	
	£		£		£		£	
Brought Forward	2,472,111		2,378,215		2,183,321		1,933,321	
Used	-93,896		-194,894		-250,000		-250,000	
Carried Forward	2,378,215		2,183,321		1,933,321		1,683,321	