

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

meeting date: 14 SEPTEMBER 2021
title: BUDGET FORECAST 2022/23 TO 2024/25
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.

Covid19 Pandemic

- 2.2 Councils have played a key role in supporting local communities throughout the Covid pandemic. The restrictions and lock-down periods as a result of the pandemic have been unprecedented and have had a substantial impact on both the national and local economy.

- 2.3 Council staff have delivered (and continue to deliver) a range of support measures to businesses and residents including

- i) Creation of a Community Hub to support vulnerable residents
- ii) Supporting local businesses via payment of grants
- iii) Provision of 100% business rate relief to eligible retail, hospitality, and leisure properties
- iv) Working alongside partners to contain and manage local outbreaks
- v) Enforcement
- vi) Testing and Tracing
- vii) Payment of £150 grants to Working Tax Credit Claimants
- viii) Payment of £500 Test and Trace Support payments

- 2.4 All these measures have been financed by special covid funding awarded by the Government.

- 2.5 The Government also announced various tranches of unringfenced emergency funding for local authorities for Covid related spending pressures. We received £242,180 for 2021/22 and £803,272 for 2020/21.

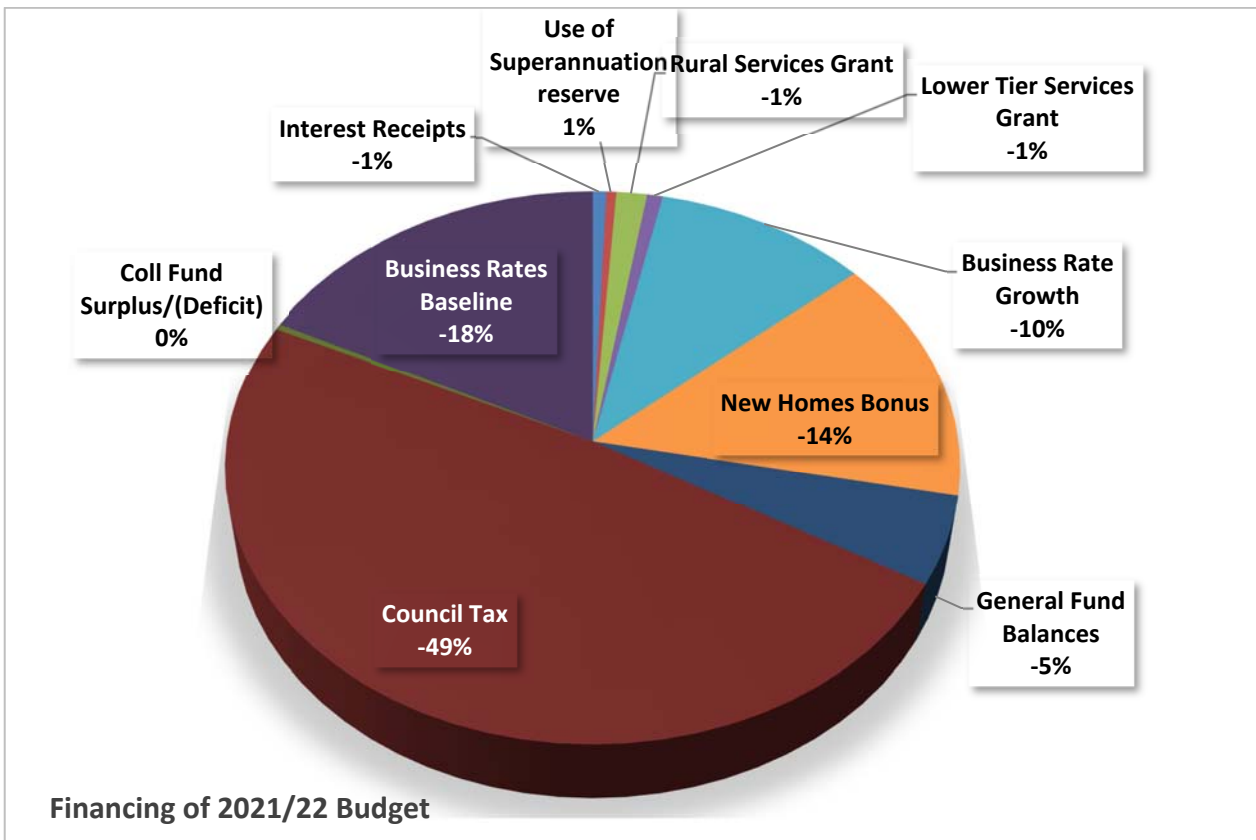
- 2.6 The Government also agreed a scheme to reimburse councils for lost income from sales, fees and charges due to Covid-19. This scheme ran for 2020/21 and the first quarter of the current year. Councils absorbed the first 5% of all relevant irrecoverable

losses compared to their original budget, with the Government compensating councils for 75 pence in every pound of loss thereafter.

- 2.7 Further 'New Burdens' grants have been awarded by the Government to meet the administration costs of carrying out various additional roles due to the pandemic eg the awarding of business support grants.
- 2.8 Many councils were in a difficult financial position before the pandemic. Fortunately, this council remains in a healthy financial position, however the ongoing unknown impact of the pandemic may continue to impact local government finances for years to come.

Key Funding Stream Uncertainty

- 2.9 The latest budget forecast is based on many assumptions. As in the past these are very difficult to predict going forward.
- 2.10 From 2020/21 we were expecting substantial local government finance reforms via the Fair Funding Review and also Business Rate Retention reforms. For the past 3 years we have received one-year only settlements. We await further information from the forthcoming Spending Round. Ideally this should provide councils with a multi-year settlement to enable more sustainable financial planning, however it seems increasingly likely we will be faced with another one year settlement.
- 2.11 Our net budget (after allowing for income from fees and charges and service specific grants) is financed as follows:



2.12 As shown above, half of our net budget is funded by council tax. The remaining key funding streams are

- Business Rate Retention (Growth and Baseline 28%)
- New Homes Bonus (14%)
- Other Government Grants

2.13 We need to closely scrutinise our financial position in the coming months in order to continue to be in a position to face the challenges that lie ahead. Therefore we will be holding frequent Budget Working Group meetings and also produce overall budget monitoring reports for members on a regular basis.

3 PUBLIC SECTOR PAY AND PRICE INFLATION.

Pay

3.1 The last round of national pay negotiations for 2020/21 was concluded in August 2020 and resulted in a 2.75% pay rise.

3.2 The NJC Trade Union side's pay claim for 2021/22 is for a minimum of 10% on all spinal column points along with other conditions.

3.3 The final offer from the Employer's side is for an increase of 2.75% for Scale 1A, 1.75% for all other staff and 1.5% for Chief Officers.

3.4 The budget for 2021/22 allowed for a 2% increase in pay with the previous budget forecast also assuming 2% for the remainder of the forecast period.

3.5 The cost to this Council of a 10% pay increase would be in the region of £700k which would obviously have serious financial implications. Each 1% increase costs £70k.

3.6 Members will be well aware that recruitment and retention of staff is proving increasingly difficult and Personnel Committee have set up a working group to review pay and conditions. The Budget Forecast does not include the potential outcome of this exercise.

Inflation & Interest Rates

3.7 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 in August 2021 it was reported that inflation has risen above the 2% target. Prices rose by 2.5% between June last year, when prices were low because of Covid, and June this year.

3.8 They expect inflation to rise further in the coming months. As countries around the world have reopened, demand for some goods and services increased sharply. Some businesses have struggled to meet this extra demand, because of things like shortages of materials used in production, pushing up costs and prices.

3.9 They expect above-target inflation to be temporary. They don't think that demand will continue to rise as fast, and some of the shortages that are currently making it difficult for businesses to produce their products should ease. They expect inflation to fall back, reaching the 2% target in around two years' time.

3.10 Based on the above report I have assumed general inflation for this budget forecast will be 3% for 2022/23 and 2023/24 and 2.5% for 2024/25.

3.11 For investment interest I have assumed £50k per year similar to levels we are currently receiving.

4 LOCAL GOVERNMENT FUNDING

2021 Spending Review

4.1 No announcement has been made regarding a date for the 2021 spending round.

New Homes Bonus

4.2 Our New Homes Bonus allocation in 2021/22 is £1.5m. The original new homes bonus scheme paid allocations relating to a six year period. The Government then revised this down to 4 years of legacy payments and more recently down to one year from 2023/24. Our approximate allocation for one year has been around £400k. However as we know the Government are consulting on the future of the scheme which may even result in the cessation of the scheme. The amount we are relying on to fund our revenue budget each year is £1.105m, which is significantly higher than the £400k we could receive even if the scheme continues.

4.3 The table below shows our New Homes Bonus allocation each year and also amounts committed to fund our revenue and capital budget.

Use of New Homes Bonus monies													
Relates to:	Received in year												
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
2011/12	62,046	62,046	62,046	62,046	62,046	62,046							
2012/13		117,599	117,599	117,599	117,599	117,599							
2013/14			188,053	188,053	188,053	188,053	188,053						
2014/15				227,108	227,108	227,108	227,108						
2015/16					373,810	373,810	373,810	373,810					
2016/17						398,268	398,268	398,268	398,267				
2017/18							389,751	389,751	389,751	389,751			
2018/19								414,079	414,079	414,079	414,079		
2019/20									464,389	464,389	464,389	464,389	
2020/21										502,733			
2021/22											637,380		
2022/23												400,000	
2023/24													400,000
	62,046	179,645	367,698	594,806	968,616	1,366,884	1,576,990	1,575,908	1,666,486	1,770,952	1,515,848	864,389	400,000
Allocated to date:													
Revenue base	60,000	60,000	60,000	333,780	676,065	786,961	793,079	1,105,000	1,105,000	1,105,000	1,105,000	1,105,000	1,105,000
Revenue in year						6,000							
Capital	0	0	100,000	85,000	35,662	57,749	175,618	139,469	361,547	229,150	241,040	70,960	306,637
	60,000	60,000	160,000	418,780	711,727	850,710	968,697	1,244,469	1,466,547	1,334,150	1,346,040	1,175,960	1,411,637
Adjustment			-10,029	10,029									
Unallocated	2,046	119,645	217,727	165,997	256,889	516,174	608,293	331,439	199,939	436,802	169,808	-311,571	-1,011,637
Bal C/fwd	2,046	121,691	339,418	505,415	762,304	1,278,478	1,886,771	2,218,210	2,418,149	2,854,951	3,024,759	2,713,188	1,701,551

Business Rates

- 4.4 We are not aware what if any pooling arrangements will be available for 2022/23. 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.
- 4.5 In the current financial year, based on NNDR1 estimates and the current business rate pooling arrangements, we expected to receive business rate income above our baseline of £1.455m. However, the Covid pandemic continues to have a serious impact on many Ribble Valley Businesses not least as a result of the revising of the Government's retail discount scheme for eligible businesses down from 100% relief to 66.67% from 1 July 2021. This may mean our business rate growth estimates prove to be inaccurate.
- 4.6 In setting the final budget for the current year it was decided not to increase the council tax but use £120k further of business rate growth to balance the budget. This takes the total amount we are relying on to fund revenue each year to £795k. We are using £57k to fund the current year's capital programme, with the balance of £602k added to the business rates growth reserve.
- 4.7 In addition to the uncertainty surrounding 2022/23 pooling arrangements, we also are unclear as to the impact of any potential business rates baseline resets and the impact of the business rate retention reforms. The Forecast currently shows we are relying on using £796k each year to fund the revenue budget. Depending on the above this amount may prove optimistic.
- 4.8 The table below shows the amount we are using for both revenue and capital to 2024/25. I have shown no growth for the next three years as we have been no indication of the future of business rates.

	2021/22	2022/23	2023/24	2024/25
	Original Estimate	Original Estimate	Original Estimate	Original Estimate
	£	£	£	£
Business Rate Growth	1,455,212	?	?	?
Used to support Revenue Budget	-675,514	-795,549	-795,549	-795,549
Additional use to support Revenue Budget	-120,035	rolled in	rolled in	rolled in
Used to support Capital Programme	-57,600	-474,387	0	-480,680
Surplus/deficit for year	602,063	-1,269,936	-795,549	-1,276,229
Of which:				
Added to volatility reserve	0	0	0	0
Taken from volatility reserve	-97,031			
Added to growth reserve	602,063	-1,269,936	-795,549	-1,276,229
<u>Business Rate Volatility Reserve</u>				
Opening Balance b/fwd	1,682,000	1,584,969	1,584,969	1,584,969
Closing Balance c/fwd	1,584,969	1,584,969	1,584,969	1,584,969
<u>Business Rate Growth Reserve</u>				
Opening Balance b/fwd	2,666,485	3,268,548	1,998,612	1,203,063
Closing Balance c/fwd	3,268,548	1,998,612	1,203,063	-73,166

5 COUNCIL TAX

- 5.1 Our Band D council tax is currently £155.69 and we have assumed in our forecast a £5 annual increase which may or may not be permissible. We await indication from the Spending Round as to the proposed Council Tax referendum limit, 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

Superannuation Triennial Review

- 6.1 The Local Government Pension Scheme (LGPS) is currently valued every 3 years with the next one due at 31 March 2022. For the purposes of this budget forecast I have allowed for an increase in contributions of £100k pa from then onwards.
- 6.2 Recently a consultation was carried out by the Government proposing to change the valuation cycle to a 4 year one.

Other Growth Items

- 6.3 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

- We will use balances of £250,000 each year which will take our General Fund Balances to £1.384m by 31 March 2025
- At this stage a 1.5% 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 2023/24 we assume this will fall to 1% each year.
- 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	
2022/23	82
2023/24	139
2024/25	230

- 8.2 This latest budget forecast shows that, based on all the assumptions made, we only require modest reductions in expenditure in order to set a balanced budget over the

next three years. **However this is providing we continue to receive New Homes Bonus and Business Rate Growth.**

- 8.3 In the event these key funding streams cease **and we receive no further funding from 2022/23** we do have sufficient funds in these particular earmarked reserves to fund our revenue budget for a three year period to give us time to reassess how to balance the Council's budget. However as you are aware these two reserves are crucially also used to fund our capital programme. You can see from the table below we would need to find funding from elsewhere to fund the shortfall to enable these capital schemes to still go ahead.

	Amount relied on each year to fund revenue Budget £000	Amount for 3 year period to fund revenue Budget 2022/23 to 2024/25 £000	Add amounts earmarked to fund capital programme 2022/23 to 2024/25 £000	Total funding requirements Revenue & Capital £000	Expected Balance of BR Growth & NHB Reserve at 1/04/2022 £000
Br Growth	795	2,385	975	3,360	3,269
NHB	1,105	3,315	378	3,693	3,025
	1,895	5,700	1,353	7,053	6,294

- 8.4 Clearly Government decisions on the future of New Homes Bonus and Business Rate Retention will have a crucial impact on the Council's future financial sustainability.

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.
- 9.3 They will also keep under review any announcements regarding New Homes Bonus and Business Rates and of course the council tax referendum limits for next year. In January/February they will consider the overall draft budget position and make recommendations to your meeting on 8 February 2022 in order that you are in a position to recommend a balanced budget to Full Council on 1 March 2022.

10 RECOMMENDATION

- 10.1 Approve the Council's Budget Forecast.
- 10.2 Consider what directions to give to Committees in preparing their budgets for 2022/23.
- 10.3 Ask the Budget Working Group to keep reforms to Business Rate Retention and the New Homes Bonus Scheme under review and the impact of any changes on this budget forecast.

DIRECTOR OF RESOURCES

PF57-21/JP/AC
6 September 2021

	2021/22		2022/23		2023/24		2024/25	
	£		£		£		£	
Net Expenditure	7,675,045		7,727,739		7,946,849		8,166,740	
Interest Receipts	-50,000		-50,000		-50,000		-50,000	
Use of Superan reserve	-36,512		-36,512		-36,514		0	falls out
Rural Services Grant	-113,250		-113,250		-113,250		-113,250	
Lower Tier Services Grant	-57,696		0		0		0	
Use of Business Rate Growth	-795,549		-795,549		-795,549		-795,549	
Use of New Homes Bonus	-1,105,000		-1,105,000		-1,105,000		1,105,000	
Use of Balances	-400,000		-250,000		-250,000		-250,000	
Reductions in Expenditure Required	0		-82,485		-139,383		-230,727	
Budget Requirement	5,117,038		5,294,943		5,457,152		5,622,214	
Core Government Funding								
Revenue Support Grant	0		0		0		0	
Business Rates Baseline	1,354,393		1,354,393	assume freeze	1,354,393	assume freeze	1,354,393	assume freeze
Coll Fund Surplus/(Deficit)	24,995		25,000		25,000		25,000	
Precept	3,737,650		3,915,550		4,077,759		4,242,821	
Tax Base	24,007		24,367	1.5% inc	24,611	1% inc	24,857	1% inc
Band D Council Tax	155.69	0%	160.69	£5 max	165.69	£5 max	170.69	£5 max
Effect of above on General Fund Balances								
General Fund Balances	2021/22		2022/23		2023/24		2024/25	
	£		£		£		£	
Brought Forward	2,534,143		2,134,143		1,884,143		1,634,143	
Used	-400,000		-250,000		-250,000		-250,000	
Carried Forward	2,134,143		1,884,143		1,634,143		1,384,143	