

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

meeting date: 12 SEPTEMBER 2023
title: BUDGET FORECAST 2024/25 TO 2026/27
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 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 In preparing the Budget Forecast we have to take into account both national and local circumstances.

Each year the budget forecast has become increasingly difficult to produce as the number of unknown factors has continued to grow.

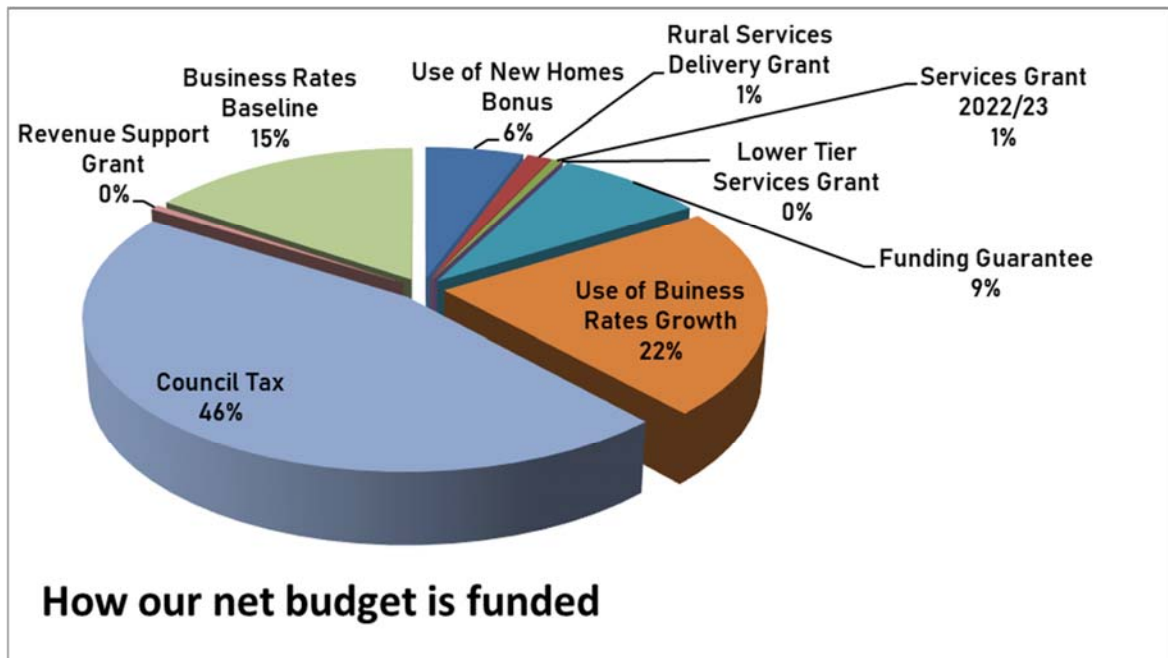
Next year's forecast will be challenging because of the following major issues:

- i) Unknown Government Funding
- ii) Changes to Government and Major Funding Streams
- iii) Inflation levels & pay rises
- iv) Cost of living and impact on demand for services
- v) Assumptions on interest rates

Any one of these issues can have a major impact on our budget and many of these are rapidly evolving.

3 FINANCING THE BUDGET

- 3.1 Our net budget for the current year 2023/24 (after allowing for income from fees and charges and service specific grants) is financed as follows:



3.2 As shown above, 46% of our net budget is funded by council tax. Our remaining budget is funded via the following funding streams.

- Business Rate Retention (Growth and Baseline 37%)
- On-off Funding Guarantee (9%)
- New Homes Bonus (6%)
- Other Government Grants

3.3 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.

4 THE MAJOR ISSUES

4.1 *Unknown Government Funding*

As members will be aware we have been awaiting key financial reforms for many years. The anticipated reforms will potentially change our income from business rates, new homes bonus and revenue support grant. Given a parliamentary election must take place before December 2024 it may be we received another one-year only settlement for the next financial year.

4.2 *Changes to Government and Major Funding Streams*

A new Government may choose to completely reform local government finance.

4.3 *Inflation levels & pay rises*

The last twelve months have seen a 41-year-high of inflation levels at 11.1 percent in October 2022. Rising food and energy costs were responsible for much of this increase. It has started to fall but is still relatively high at 6.8% in the year to July 2023 which was

down from 7.9% in June. They expect inflation to fall to around 5% by the end of 2023. Then we expect it to keep on falling and their target of 2% target by early 2025.

It is also difficult to predict future pay increases. The current offer for 23/24 is £1,925 or 3.88%/3.5% on higher paygrades. On average we estimate this is 6.5%-7% on our total paybill. It is difficult to know whether the recent other public sector pay settlements will have an impact on local government pay negotiations in the future.

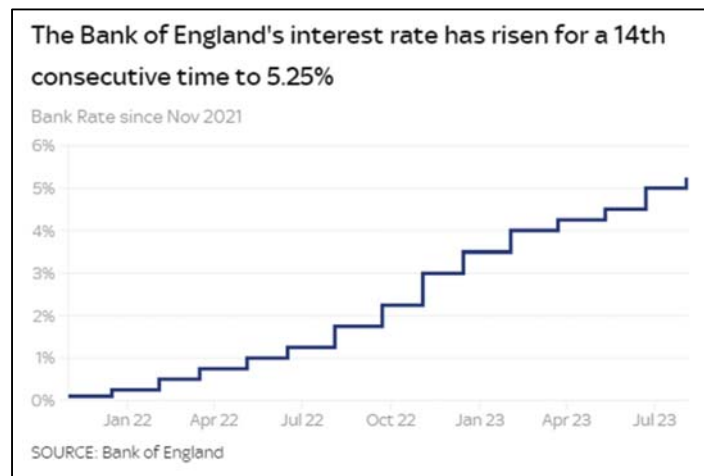
The Council will need to consider whether to increase Fees and Charges in line with inflation levels.

4.4 *Cost of Living and impact on services*

The rising costs of fuel, food and other essentials has had an impact not just on the council but also our residents. We have administered many other grant schemes such as the Household support fund to help those most vulnerable in the Ribble Valley. The longer the crisis goes on the more likelihood we will see higher numbers of benefit applications and also potentially an increase in those presenting homeless.

4.5 *Assumptions on interest rates*

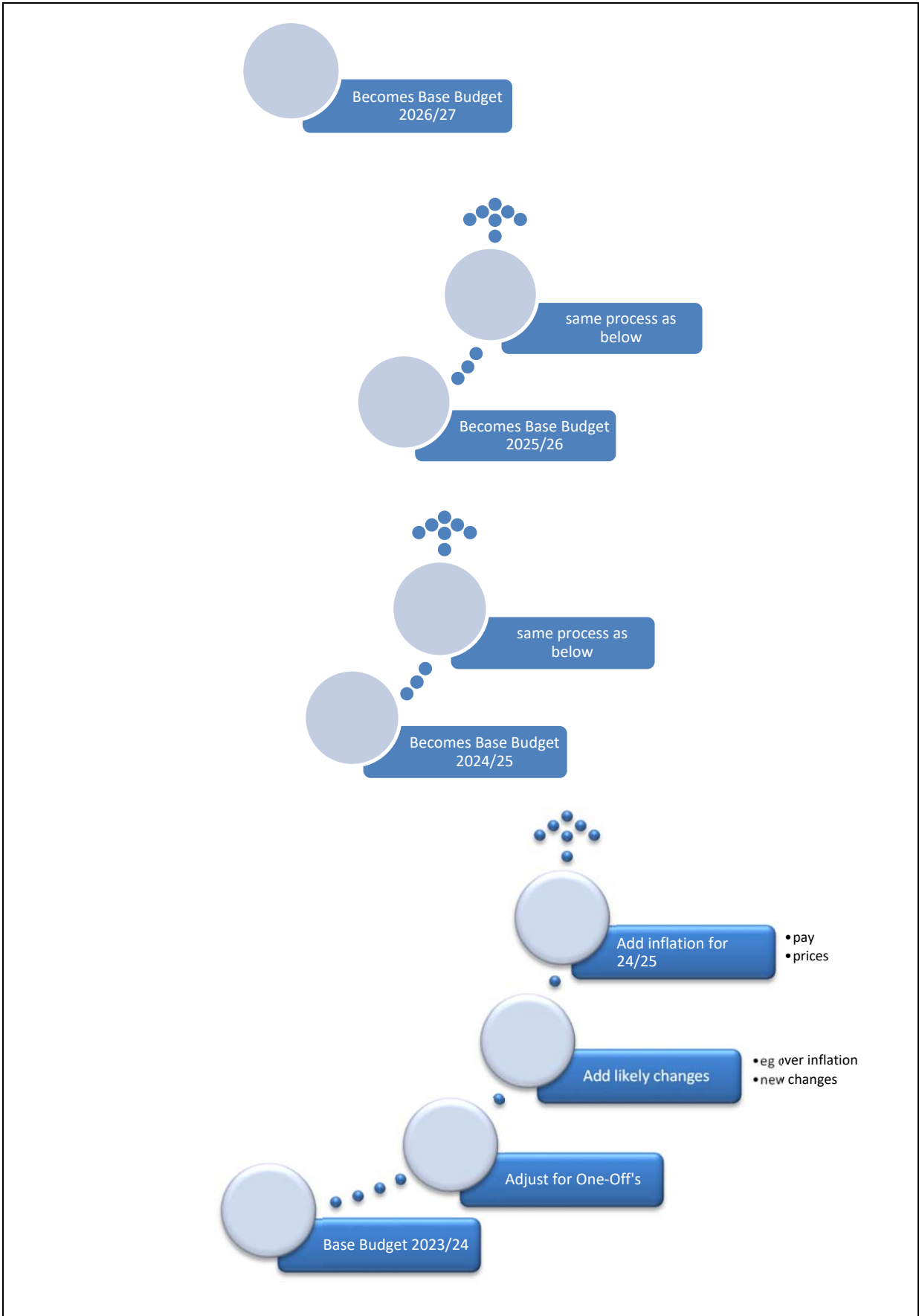
The Bank of England are forecasting that higher interest rates are having an impact on inflation levels but that they may increase further yet. Some expect interest rates to peak at 5.75%.



We have benefitted significantly from higher interest rates on our treasury management activities. We have currently approx. £25m invested on the money markets. We anticipate our investment interest for 2023/24 could be over £1m. It is difficult to predict our future levels of investment interest.

5 CREATING THE BUDGET FORECAST

5.1 *The budget process*



5.2 Pay & Price Increases

We have assumed that the Pay Offer of £1,925 per full time employee upto SCP 43 and 3.88% for Heads of Service and 3.5% for Chief Officer is accepted by the unions for the 2023/24 financial year. We estimate this will cost between £550k and £600k. We had allowed for a 5% increase which means we could anticipate another £170k in total above what we had estimated.

Individual price increases are difficult to quantify.

For future years we have allowed:

	Pay Increases	Price Increases	Fees & Charges
2024/25	4%	4%	4%
2025/26	2.5%	2.5%	2.5%
2026/27	2.5%	2.5%	2.5%

5.3 Interest Rates

The Bank of England have assumed the Bank Rate will stay higher for longer before falling back.

We have assumed average returns on our investments over the life of the forecast of

	Interest Rate	Investment Income
2024/25	4.0%	£800k
2025/26	3.0%	£600k
2026/27	2.0%	£400k

This assumes we maintain the current level of our investments of £20m.

5.4 *Business Rate Growth*

For a number of years the Council has benefited significantly from business rate growth. In simple terms the Government allows us to keep 40% of any business rates above a baseline they set. Currently we estimate we will retain £2.2m in business rate growth in 2023/24 and 2024/25 (and will use £2m to fund the revenue budget for each of the two years). Not all authorities benefit from business rate growth and the Government are considering resetting the business rates baselines which could significantly reduce the amount of future growth we retain. For 2025/26 we have assumed we could retain £1.2m (and use £1m to fund the revenue budget).

5.5 *New Homes Bonus (NHB)*

The Council has benefitted significantly from the new homes bonus scheme over many years. 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 just one year. We were informed last year that the NHB scheme was going to end and a consultation paper would be issued over the summer months. However nothing has been issued. Our future forecast assumes no NHB income.

At its peak (2020/21) we received an annual allocation of £1.770m. We have used our allocation each year fund both revenue and capital expenditure.

5.6 *Core Government Funding*

We have assumed funding continues for the life of the forecast with no increase. We also have assumed we will receive a Transition Grant in some form to reflect reduced Core Spending Power.

In 2023/24 we received a one-off Funding Guarantee which in essence was similar to transitional protection. We have assumed the following amounts could be paid as transitional protection over the life of the forecast. It must be stressed this is in the absence of information regarding key reforms.

Letter to Secretary of State

Our forecast remains unchanged since the position in February with regards to our estimates of Core Government Funding. In March the Leader hand delivered a letter (attached to this report) to the Secretary of State explaining our concerns regarding our budget outlook. Recently the Local Government Minister, Lee Rowley contacted the Leader to acknowledge his concerns and offered a meeting with his officials to discuss matters further. We have not heard anything further.

5.7 *Council Tax*

We have assumed Council Tax increases of £5 each year and a tax base increase of 1% each year for the life of the forecast. A £5 increase will generate approx. £120k each year and a 1% taxbase increase generate approx. £41k each year.

6 CONCLUSION

6.1 Based upon these assumptions the Council's three-year budget forecast is attached.

In summary it shows reductions in expenditure required to achieve a balanced budget of:

	£
2024/25	877k
2025/26	2,261k
2026/27	2,740k

Our assumptions may well prove to be too pessimistic or indeed over optimistic there are so many unknowns it is difficult to produce a reliable forecast. The additional investment interest is currently helping to finance some of the extra inflationary pressures facing the Council.

The main message from the forecast is that there is continuing uncertainty with regards to our core government funding which makes financial planning extremely challenging and therefore we will need to keep our finances under regular review.

7 BUDGET WORKING GROUP 18 AUGUST 2023

7.1 The Budget Working Group considered the budget forecast at their recent meeting. The budget gaps were explained and also the assumptions made in the forecast.

	£
2024/25	877k
2025/26	2,261k
2026/27	2,740k

7.2 It was highlighted that these budget gaps were after assuming there would be a council tax increase of £5 on a band d property each year, even though this would be a decision for members and would depend on Government capping rules.

7.3 A discussion took place around potential levels of inflation and whether fees and charges could be increased by a lower level (potentially 2%) than the amount currently assumed for inflation next year of 4%. It was explained that a 4% increase in fees and charges would bring in £141k. If therefore they were increased by 2% this would increase the budget gap further by £70k each year. The detailed fees and charges reports will be considered by service committees in the November cycle of meetings

7.4 With regard to the Capital Programme, it was recommended that new bids for the 5th year be sought.

8 RECOMMENDATION

8.1 Consider the Council's Budget Forecast.

8.2 Decide what guidance to give service committees regarding:

- Whether savings should be found to bridge the budget gaps
- The overall level of increase in fees and charges.

Director of Resources and Deputy Chief Executive

PF56-23/JP/AC
24 August 2023

Latest Budget Forecast – August 2023

ANNEX 1

	2023/24 OE £	2024/25 £	2025/26 £	2026/27 £
Net Budgeted Expenditure	9,907,810	10,470,459	10,827,250	11,281,907
Less Interest earned on investments	-450,000	-800,000	-600,000	-400,000
Net Budget	9,457,810	9,670,459	10,227,250	10,881,907
Less Funding				
Core Government Funding				
Business Rates baseline	1,405,077	1,405,077	1,405,077	1,405,077
Revenue Support Grant	48,588	48,588	48,588	48,588
Rural Services Delivery Grant	126,574	126,574	126,574	126,574
Lower Tier Services Grant	0	0	0	0
Services Grant	54,777	54,777	54,777	54,777
Other Funding				
Use of New Homes Bonus	506,197	0	0	0
Use of Business Rate Growth	2,000,000	2,000,000	1,000,000	1,000,000
Use of Business Rate Growth - Pay-line	0	0	0	0
Funding Guarantee	773,369	0	0	0
Potential Transitional Protection		577,149	579,277	581,470
Use of General Fund Balances	324,280	250,000	250,000	250,000
Collection Fund Surplus	80,012	25,000	25,000	25,000
Still to be funded	4,138,936	5,183,294	6,737,957	7,390,421
Council Tax Income:				
Assumed Band D increasing by £5 pa	165.69	170.69	175.69	180.69
Assumed Taxbase (increasing by 1% pa)	24,980	25,230	25,482	25,737
Precept (amount raised from council tax)	4,138,936	4,306,475	4,476,950	4,650,404
Budget Gap	0	876,819	2,261,007	2,740,017

Effect of above on General Fund Balances

	2023/24 OE £	2024/25 £	2025/26 £	2026/27 £
General Fund Balances				
Brought Forward	2,719,398	2,395,118	2,145,118	1,895,118
Used	-324,280	-250,000	-250,000	-250,000
Carried Forward	2,395,118	2,145,118	1,895,118	1,645,118



Ribble Valley
Borough Council

www.ribblevalley.gov.uk

Council Offices
Church Walk
Clitheroe
Lancashire
BB7 2RA

16 March 2023

Dear Secretary of State

Ribble Valley Borough Council – Budget Outlook

My Council has been Conservative controlled for over 25 years. During this time, we have followed and pursued Conservative values of:

- Sound and prudent finances
- Minimal public sector intervention
- Efficient service delivery
- Low external debt
- Low council tax

This has largely been achieved by growing our local economy and increased housebuilding rather than relying on Government 'handouts' like many of our neighbours.

We are now faced with a situation where our very success is putting our financial position in future years in jeopardy. This can be explained by the table below:

External Funding	£000	%
Use of New Homes Bonus	506	6%
Rural Services Delivery Grant	127	1%
Services Grant 2022/23	55	1%
Funding Guarantee	773	9%
Revenue Support Grant	49	1%
Business Rates Baseline	1,405	16%
Use of Business Rates Growth	2,000	22%
Council Tax	4,139	46%
	9,054	100%

You will see that nearly half of our funding comes from council tax. Historically we only increased our council tax where necessary and also froze our council tax during the era of council tax freeze funding. The consequence of these historic decisions is that we are now 'locked into' a low council tax which can only be increased marginally (currently 3% or £5). We feel we are being penalised for having not increased our council tax each year.

Due to the increase in housebuilding we have been able to rely on our New Homes Bonus allocation each year. This essence of this scheme, when it was introduced, was to incentivise local authorities to increase housebuilding in their areas.

from Councillor Stephen Atkinson, Leader of Ribble Valley Borough Council
1 Chapel Close, Brockhall Village, Old Langho, Blackburn BB6 8HU
Tel: 07718 806286 e-mail: cllr.atkinson@ribblevalley.gov.uk

However our allocation next year has fallen to just £506k from £1.8m in 2021. We understand the Government will consult over the summer on the ending of this scheme. If that were to be the case we would have problems in financing both our revenue and capital budgets.

On business rates we lead the Lancashire Business Rate Pool and as a local authority have grown our local economy. This means we have significant business rate growth above our baseline funding level. If business rate baselines are reset in 2025 we would experience huge challenges in financing our budget.

Finally we welcome this year's Funding Guarantee but we are concerned that it is only for one year.

I hope I can meet with you at a future date or with the Local Government Minister to explain my concerns in more detail.

Yours sincerely

Cllr Stephen Atkinson
Leader of the Council
Ribble Valley Borough Council