

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

meeting date: 10 SEPTEMBER 2024
title: BUDGET FORECAST 2025/26 TO 2027/28
submitted by: DIRECTOR OF RESOURCES & DEPUTY CHIEF EXECUTIVE
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1 PURPOSE

- 1.1 To accept the Council's latest budget forecast and consider any advice to service committees.

2 BACKGROUND

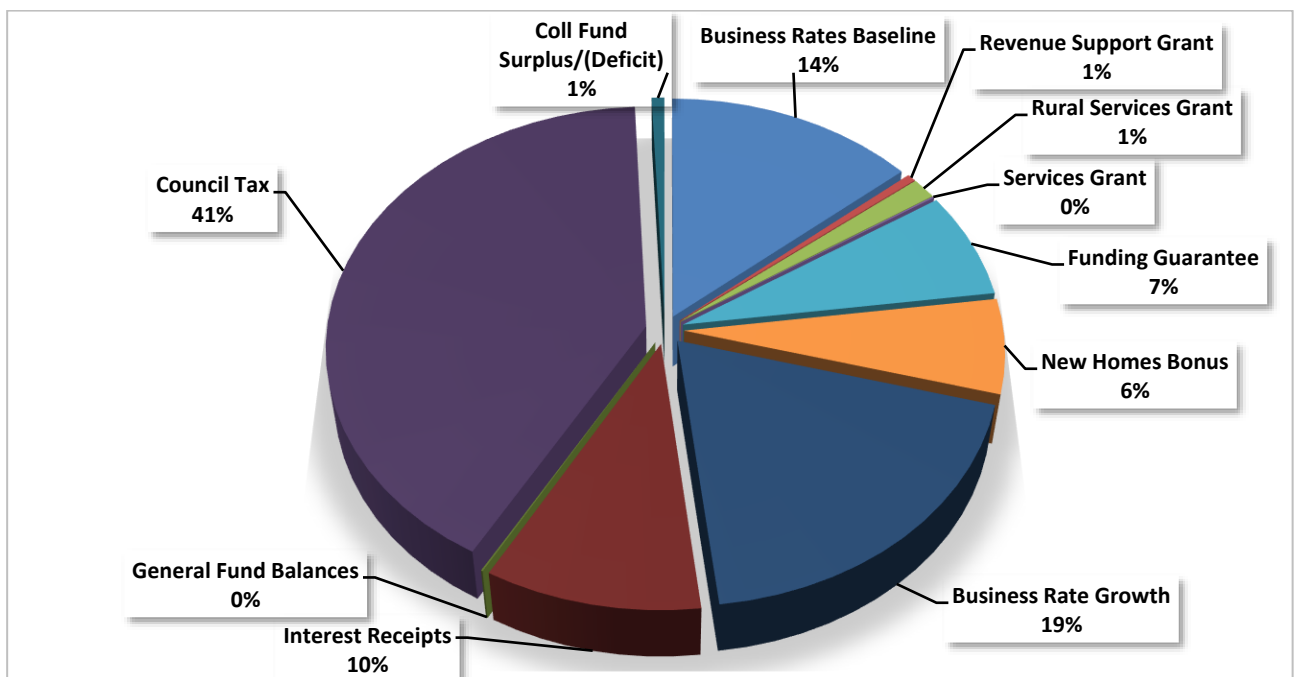
- 2.1 The budget forecast is a model of the Council's finances and a plan for the future in a complicated and dynamic environment and as such reflects a great deal of uncertainty and risk. It is therefore an important tool which gives an early indication of any potential budgetary problems and also informs our Medium Term Financial Strategy accordingly.
- 2.2 Whilst the financial planning process culminates with the submission of budget papers to Service Committees throughout January/February and Full Council in March when the budget and council tax are set, effective financial planning, especially during periods of uncertainty, demands a continuous, year-round approach.
- 2.3 This Council has a Budget Working Group who meet throughout the year to consider our finances and make any recommendations to this Committee. In addition all our service Committees receive regular reports concerning budget monitoring for all services. The ongoing budget process is influenced by new information emerging throughout the year, including performance against the current year's budget as set out in the budget monitoring reports. There is evidence that councils that have met with financial failure have often not learned the lessons of in-year overspends or reflected them adequately in forward budgets.
- 2.4 In preparing the Budget Forecast we have to take into account both national and local circumstances. It is important to understand the assumptions implicit in the budget forecast and therefore how risky the budget is. If many of the key assumptions are optimistic, then there is a greater risk of the budget not being achieved and affecting the council's financial resilience. If assumptions are pessimistic, the council may be taking decisions that may prove unnecessary.
- 2.5 Each year the budget forecast has become increasingly difficult to produce as the number of unknown factors has continued to grow.
- 2.6 In the past Councils received multi year financial settlements which made budget forecasting easier and more reliable. For some time now we have only received one year settlements which effectively results in a less reliable future forecast.
- 2.7 Next year's forecast will be even more challenging because of the following major issues:
 - i) New Government approach to Local Government Finance
 - a. Unknown Core funding levels
 - b. Reviews of key funding streams

- ii) Inflation levels & pay rises
- iii) Cost of living and impact on demand for services
- iv) Assumptions on interest rates

2.8 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 2024/25 (after allowing for income from fees and charges and service specific grants) is financed as follows:



3.2 As shown above our budget is essentially funded via the following:

- Core Government Funding (30%)
- Business Rate Growth (19%)
- Investment Interest (10%)
- Council Tax (41%)

4 CHANGES TO GOVERNMENT AND MAJOR FUNDING STREAMS

4.1 The new Government may choose to completely reform local government finance. There are already suggestions in the media that the budget announcements in October will be 'painful'.

4.2 As members will be aware we had been awaiting key financial reforms for many years. Specifically, the outcome of the Fair Funding review, review of Business Rate Retention

and also the New Homes Bonus scheme. As shown above these are all key funding streams which we rely on heavily to fund our budget.

- 4.3 The previous Government had put back the review of each of these yearly for a number of years which has made long term financial planning very challenging. We have received one year only grant settlements for a number of years with no indication of future year's support.

5 UPDATING THE BUDGET FORECAST

The base budget

- 5.1 The starting point for the budget forecast assumes we continue to provide the same level of services as in the current year. This is known as the base budget. We now need to add the appropriate pay and price inflationary increases to produce our new forecast taking into account any known changes.

Pay Increases

- 5.2 It is difficult to predict future pay increases. The current offer for 24/25 is £1,290 or 2.5% on higher paygrades. With the exception of Chief officers, all other groups have rejected the latest offer and are balloting for strike action.
- 5.3 Within our budget for 2024/25 we provided for a pay increase of 4%. On a total pay budget of £8.320m this equates to £333k, this also includes pay increases on national insurance and superannuation. In addition we set aside a contingency of £200k in case of any increase above the 4% allowed for.
- 5.4 If we were to assume that the Pay Offer of £1,290 per full time employee upto SCP 43 and 2.5% for Heads of Service and 2.5% for Chief Officers and Chief Executives is accepted by the unions for the 2024/25 financial year, we estimate the average increase on our paybill will be 4.14%. If this were to be the case we could release the pay contingency of £200k set aside at the beginning of 2024/25.
- 5.5 For future years we have allowed the following:

Pay Increases	
2025/26	4%
2026/27	2.5%
2027/28	2.5%

- 5.6 I have assumed a slightly higher increase for next year's pay award to reflect the recent trend in public sector pay and assume that the employers will not increase their offer this year but may next year offer a higher than inflation pay award.
- 5.7 The next triennial pension review of the Lancashire Pensions Fund will take place on 31 March 2025 with changes to our employers pension contributions effective from 2026/27. Our current contribution rate is 14.7%.
- 5.8 We allow for vacancy savings in year of 4% across salary budgets. We continue to experience difficulty recruiting to some posts which may mean the 4% allowance is exceeded.

Inflation levels

- 5.9 In the recent past we saw a 41-year-high inflation level at 11.1%. This made financial planning very difficult. We needed to take a view as to just how long inflation would stay at these levels and also when we anticipated them to fall.
- 5.10 In light of the volatility in energy costs we decided to provide a contingency for extra utility costs in the 2024/25 budget of £200k. This was over and above the 4% allowed for general price increases for the current year. Inflation has fallen significantly since 2022 and now stands at 2.2% to July 2024 (CPI). We therefore anticipate this contingency will not be required.
- 5.11 I have assumed increases in Fees and Charges in line with anticipated inflation levels.
- 5.12 For future years we have allowed the following:

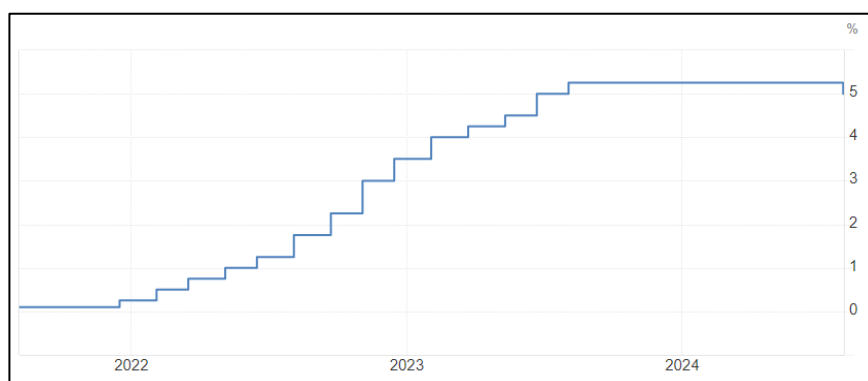
	General Inflationary Price Increases	Fees & Charges
2025/26	2.5%	2.5%
2026/27	2.5%	2.5%
2027/28	2.5%	2.5%

Cost of Living and impact on services

- 5.13 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 grant schemes over the last few years such as the Household support fund to help those most vulnerable in the Ribble Valley. Pressures also fall on housing benefit and services to prevent homelessness.

Interest Rates

- 5.14 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 2024/25 will be over £1.2m. It is difficult to predict our future levels of investment interest because of the uncertainty of how quickly and how far interest rates will fall.
- 5.15 The current Bank rate is 5% with the next review on 19 September 2024.



5.16 We have considered both the Monetary Policy Committee’s (MPC) outlook for interest rates and also those from the Office of Budget Responsibility (OBR). We have also taken the view on our levels of cash balances available for investment assuming also that the capital programme will be spent in year.

5.17 Based on the predicted interest rates and our likely investment rate, we have assumed the following returns on our investments over the life of the forecast of

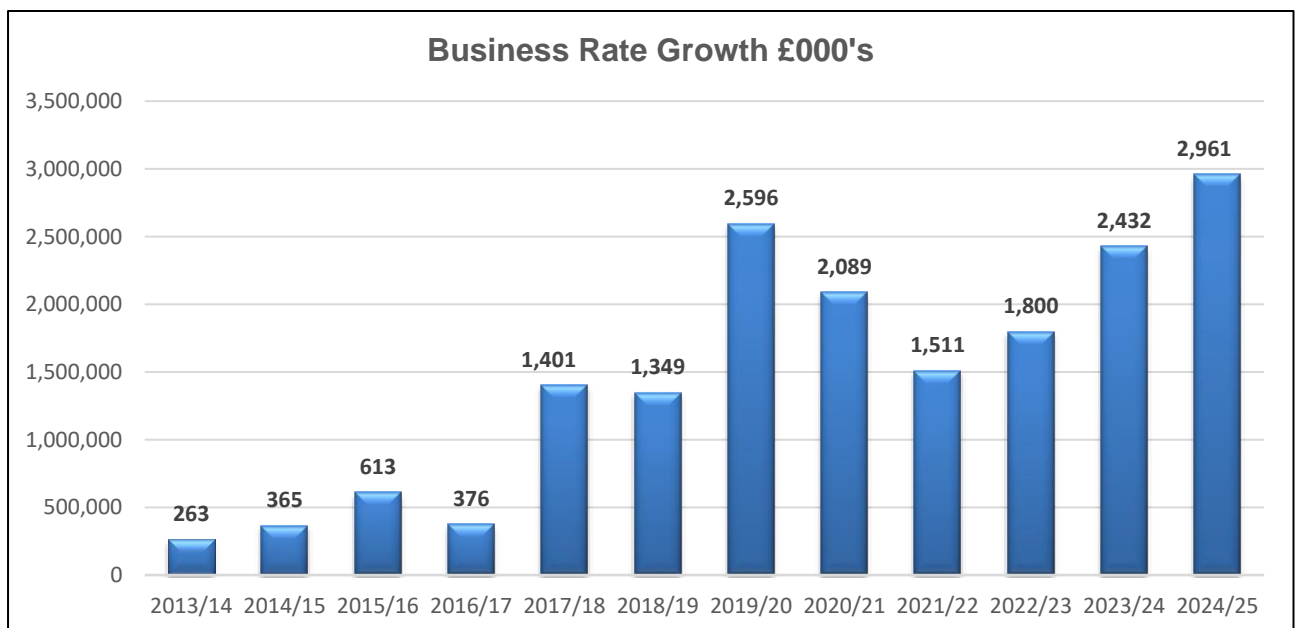
	Av Interest Rate	Investment Income
2025/26	3.44%	£835k
2026/27	3.14%	£743k
2027/28	3.14%	£727k

Business Rate Growth

5.18 For a number of years the Council has benefited significantly from business rate growth. From 2016/17 we became a member of the Lancashire Business Rate Pool along with other authorities in Lancashire. This means we benefit from not having to pay over a 50% levy on any growth above a baseline the Government set.

5.19 In 2019/20 following invitations from the Government we submitted a bid for a 75% business rate pilot for Lancashire. The bid was successful and this meant we received a higher share of our business rate income at 56% as opposed to 40% under the existing pool arrangements. In 2020/21 the Government announced that 75% pilots would be discontinued and that they would be delaying the implementation of 75% Business Rate Retention along with the Fair Funding Review. We then reverted to the previous pooling arrangements

5.20 The graph below shows our income from business rate growth each year since the start of the business rate retention scheme.



5.21 Currently we estimate we will retain £2.9m in business rate growth in 2024/25. We are planning to use £2m of this to support the revenue budget and £500k to fund the capital

programme. In 2025/26 we estimate we will receive £2.5m and therefore could continue to rely on £2m to fund our revenue budget.

- 5.22 In the lack of any information to the contrary, we assume that we will continue to receive similar levels of business rate income and also rely on £2m to fund the revenue budget for each of the two years 2026/27 and 2027/28.
- 5.23 As stated earlier the previous Government was reviewing the Business Rate Retention scheme and the new Government have also given indications that they will be looking to “overhaul” the scheme. We will keep under review any indications coming from the Government.

New Homes Bonus (NHB)

- 5.24 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 have been informed more than once that the NHB scheme would be ending prior to consultation. However nothing has been issued and we have continued to receive a yearly allocation. Our future forecast, however, assumes no NHB income beyond 2025/26 when we have estimated we will receive £650k.
- 5.25 At its peak (2020/21) we received an annual allocation of almost £1.8m.

Year Received	NHB
2011/12	£62,046
2012/13	£179,645
2013/14	£367,698
2014/15	£594,806
2015/16	£968,616
2016/17	£1,366,884
2017/18	£1,576,990
2018/19	£1,575,908
2019/20	£1,666,486
2020/21	£1,770,952
2021/22	£1,515,848
2022/23	£1,205,836
2023/24	£506,197
2024/25	£647,509

- 5.26 We have used our allocation each year fund both revenue and capital expenditure.

Core Government Funding

- 5.27 We have assumed our business rates baseline funding level, revenue support grant and rural services delivery grant continue for the life of the forecast with yearly increases of 2.5%. We have assumed we will receive a Transition Grant in some form to reflect reduced Core Spending Power.

5.28 In 2023/24 we received a one-off Funding Guarantee which in essence was similar to transitional protection. This continued in 2024/25 when it was renamed 'Funding Guarantee' and was to ensure a minimum increase in Core Spending Power of 3%. We have assumed we will receive the Funding Guarantee or some other form of transitional protection over the life of the forecast to ensure a 2.5% minimum increase in Core Spending Power. It must be stressed this is in the absence of information regarding key reforms and the Core Funding we will receive from the Government.

Council Tax

5.29 We have assumed Council Tax increases of 3% each year (which to date has been the maximum we have been allowed to increase this by) and a tax base increase of 1.5% each year for the life of the forecast. A 3% increase will generate approx. £130k each year and a 1.5% taxbase increase generate approx. £65k each year.

Growth Items

5.30 This budget forecast assumes that any proposed growth items will be funded from identified savings and/or new burdens funding.

6 CONCLUSION

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

6.2 In summary it shows the following budget surplus and gaps over the next 3 financial years.

Budget (Gap)/Surplus £	
2025/26	307k
2026/27	(52k)
2027/28	(214k)

6.3 The budgetary position clearly needs to be treated with some caution as 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.

6.4 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 continue to keep our finances under regular review.

7 BUDGET WORKING GROUP 2 SEPTEMBER 2024

7.1 The Budget Working Group will be considering the budget forecast at their meeting on 2 September 2024.

7.2 I will update Committee of their views at your meeting.

8 RECOMMENDATION

8.1 Consider the Council's Budget Forecast.

8.2 Decide what guidance to give service committees.

DIRECTOR OF RESOURCES AND DEPUTY CHIEF EXECUTIVE

PF48-24/JP/AC
28 August 2024

	2024/25 OE	2025/26	2026/27	2027/28
	£	£	£	£
Net Budgeted Expenditure	10,537,939	10,463,759	10,903,487	11,251,999
Less Interest earned on investments	-1,058,270	-835,000	-743,000	-727,000
Net Budget	9,479,669	9,628,759	10,160,487	10,524,999
Less Funding				
Core Government Funding				
Business Rates baseline	1,456,737	1,493,155	1,530,484	1,568,746
Revenue Support Grant	51,807	53,102	54,430	55,790
New Homes Bonus	665,149	650,000	0	0
Rural Services Delivery Grant	146,559	146,559	146,559	146,559
Services Grant	9,456	0	0	0
Other Funding				
Use of Business Rate Growth	2,000,000	2,000,000	2,000,000	2,000,000
Funding Guarantee/Transitional Protection	745,029	749,184	1,352,777	1,301,011
Collection Fund Surplus	73,966	75,000	50,000	50,000
Still to be funded	4,330,966	4,461,758	5,026,237	5,402,893
Council Tax Income:				
Assumed Band D increasing by 3% pa	170.69	175.81	181.09	186.52
Assumed Taxbase increasing by 1.5% pa	25,321	25,701	26,086	26,478
Precept (amount raised from council tax)	4,322,041	4,518,478	4,723,843	4,938,542
Use of General Fund Balances	8,925	250,000	250,000	250,000
Budget (Gap)/Surplus	0	306,720	(52,394)	(214,351)
Effect of above on General Fund Balances				
General Fund Balances	2024/25	2025/26	2026/27	2027/28
	£	£	£	£
Brought Forward	2,896,084	2,887,159	2,637,159	2,387,159
Used	-8,925	-250,000	-250,000	-250,000
Carried Forward	2,887,159	2,637,159	2,387,159	2,137,159