

GENERAL FUND FORECAST ASSUMPTIONS

APPENDIX F

The following assumptions have been made as part of reporting a gross deficit of £0.150m in 2021/22 and reporting a gross deficit of £1.905m and £3.290m in 2022/23 and 2023/24 respectively.

Key Assumption	21/22	22/23	23/24	Comment
INCOME/FUNDING				
Increase in Council Tax	0.00%	1.99%	1.99%	There will be 0% increase in 2021/22 with future increases dependent on the outcome of the fair funding and business rates review.
Council Tax Base Increases	0.40%	0.50%	0.50%	A prudent estimate based on housebuilding projections both past and present
Increase in Retained Business Rates through Growth	0.11%	0.00%	0.00%	Revaluations, appeals and possible changes to the baseline mean that the Council assumes no increase in the business rates base through growth in 2022/23 or 2023/24. Growth outlined in 2021/22 is based on figures up to January 2021 and may be subject to small changes.
Additional Business Rates - Lancashire Pooling Arrangements 21/22 Transitional Business Rates Income 22/23	£1.638m	£0.807m	£0.000m	The 2021/22 figure is the additional business rates retained by South Ribble Council as part of its membership to the Lancashire business rates pool. It is assumed the pool does not continue in 2022/23 as a result of the fair funding review and business rates reforms being implemented. This additional funding is assumed to be lost however it is also assumed that there will be transitional arrangements in place to enable councils to manage the implications of the new funding regime.
Business Rates Retention Reserve	£3.094m	£3.029m	£2.964m	The council has set aside resources to manage any one-off large reductions in retained business rates. A reserve of £3m equates approximately to a 53% reduction in 2021/22 levels of business rates income.

Key Assumption	21/22	22/23	23/24	Comment
New Homes Bonus	£363k	£93k	£0	The allocations assumed in the coming three years are based on the outcome of the provisional finance settlement. New Homes Bonus will be phased out by 2023/24 with no announcement regarding what might replace it to continue to incentivise councils to support housebuilding. The allocations are now paid in full to City Deal whereas in previous years an element of the historic allocations was retained by the council.
Planning Fee Income	£545k	£545k	£545k	One of the largest sources of income to the council is from planning fees. Despite the impact of Covid-19 during 2020/21, planning income has exceeded the budget. As such the budget will remain at the same level but will reviewed annually.
Garden Waste Subscription Income	£683k	£683k	£683k	Despite the reduction in the charge for the subscription income levels have exceeded budgeted levels in 2020/21. It is possible subscription levels will fall as the economy recovers from the recession and so the budget will remain at the current level and will be reviewed annually.
Income from Investment Properties	£1.105m	£1.105m	£1.105m	The council owns over 130 units across numerous sites that generate a rental income to the council. There are currently 9 units vacant however it is assumed these units will be let during 2021/22. Any temporary reduction in income from these sites will be met through a £150k reserve that has been created for 2021/22.
Income on Interest Earned	£200k	£200k	£200k	The council has historically held high cash balances and so invests these in interest earning funds as per the Treasury Management Strategy. Interest rates have fallen and are forecast to remain low over the medium-term. This budget has been reduced by £100k from £300k to £200k to account for this.

EXPENDITURE

Key Assumption	21/22	22/23	23/24	Comment
Pay Award	0.0%	2.0%	2.0%	The Government spending review announced a pay freeze in 2021/22 for the majority of public sector staff with a guaranteed a pay rise of at least £250 for all staff that earn less than £24,000 per year. These assumptions have been included in the pay budget for South Ribble Council in 2021/22 although these Government proposals are not yet agreed with public sector unions.
Vacancy Saving	£150k	£150k	£150k	The council has achieved larger savings in vacancies in prior years however some new structures have been approved and posts permanently recruited to. Other temporary structures still exist but some posts are filled by more expensive agency staff.
Future Service Pension Rate	16.4%	16.4%	16.4%	As part of a triennial pension review the Lancashire County Pension Fund announced an increase in employer pension contributions for 2020/21 to 2022/23 to meet the future costs of the scheme. The contributions increased from 14.9% to 16.4% resulting in an increase in the council's contribution. The same contribution rate is assumed for 2023/24 although this will be reviewed when the new three-year review is undertaken.
Pension Fund Deficit Recovery	£72k	£75k	£75k	South Ribble Council's share of the Lancashire Pension Fund remains in deficit however annual contributions have reduced dramatically as the pension performance has been strong. The figures for 2021/22 and 2022/23 are the confirmed contributions that are the result of the triennial pension review undertaken in 2019.
General Price Inflation	0.8% to 1.2%	Maximum 2%	Maximum 2%	Inflation forecasts from the Office of Budget Responsibility (OBR) have been used to inform the budget over the coming 3 years. The OBR forecasts inflation to remain below the Bank's 2% target rate until at least 2025. Inflation is only applied to specific council contracts including the waste collection contract.

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Leisure Services – additional expenditure over budget	£0.920m	£0.485m	£0.224m	The contract with Serco Leisure Operating Limited will terminate on 31 March 2021 after which the council will bring the services in-house. The transitional recovery from Covid-19 will mean income levels are lower than in previous years. As outlined in the budget report, the total additional cost of £1.6m will be met through the use of reserves previously set aside for repairs and maintenance and revenue funding of capital schemes.

Risk

The uncertainty in the coming years relates to primarily:

- to future government funding, due to the Fair Funding Review, the localisation of business rates expected from 2022-23
- the impact of Covid-19 and Brexit on the national and local economy and as a result on the council's budgets.

South Ribble Borough Council is becoming increasingly reliant on income generating services and therefore may be adversely affected by the current economic uncertainty as a result of Brexit and reforms to government funding.

Business Rates

The impact of Covi-19 on the national and world economy has meant the UK slipped into recession in 2020 with a risk of a double-dip recession due to the current lockdown arrangements.

The effect on the business rates retained by the council is twofold:

- Private sector investment in the local economy is reduced or the local economy shrinks
- Local businesses submit increased numbers of appeals against their rateable values. When constructing rateable values the Valuation Office assesses the rent at which the site may reasonably be expected to let.

The first outcome would result in stagnated or lower retained business rates to the council in the short and possibly medium term.

To mitigate the impact of a contraction in the local economy the council has set aside a **Business Rates Retention Reserve**. The reserve will stand at approximately £3m by 2021/22. This reserve can be used to smooth out the short-term impact that a slowdown in the local economy may present to retained business rates. However, permanent or prolonged reductions in business rates would result in a reduction in the council's budget.

The council holds a provision to mitigate the impact that appeals have on the business rates collection fund, included the backdated impact on the council's resources. It is possible that any slowdown experienced from Brexit could result in businesses appealing against their rateable value. The council's share of the provision for appeals will stand at approximately £3.29m in 2021/22, an increase of £0.6m, which is comparable to the national average. It should be noted that since the introduction of the check, challenge, appeal process the number of appeals lodged and taken fallen has reduced dramatically.

Other uncertainty to business rates comes from the proposed reforms to the business rates retention system in 2022/23. The fair funding review will change the distribution of retained income across England and the outcomes are uncertain. As well as setting aside the income equalisation reserve, the council has been prudent in its medium-term budgeting and assumed that the £1.638m benefit of being in the Lancashire Pool in 2021/22 will not be realised in future years. The outcome of the business rates reform will not be known until late in 2021 at the earliest.

Council Tax

During a recession the council could expect a reduction in council tax receipts as some council residents may experience difficulties in meeting their financial commitments. During the recession in 2020 the council's capital receipts had fallen by £0.698m representing a 1% fall in forecast receipts. South Ribble's share of this deficit is forecast to be approximately £84,000 meaning the council would be £84,000 short of its budgeted council tax income in 2020/21. This level of shortfall in council tax collection is manageable and the council expects the figures to be broadly in line with budgeted income in 2021/22 onwards.

Other Budgets

The UK in recession could bring with it a slowdown in the construction industry and Brexit could impact further on the UK construction industry as it is significantly dependent on EU migrant workers and EU construction materials. Perhaps the largest impact this may have on the council's budget is through reductions in planning fee income. An expected slow-down in developments within the borough could reduce the number of applications processed by the council. Planning income was £110k lower than budgeted in 2019/20, mainly due to pre-application fees not having the take up expected. However, income in 2020/21 is forecasted generate a surplus of £100k and so no adjustment to the budget is deemed necessary at this stage. This will be reviewed during 2021/22.

The largest contract the council will manage in 2021/22 will be with the waste collection services provider. Similar risks will present themselves in terms of availability of workers and the supply of plant. This is deemed a low risk problem as the contractor uses a local workforce and although it orders plant from within the EU, it also has a contingency fleet available to the council.

Grant Funding

The council has not European funding bids in place but will be making future bids over the medium term including:

- a bid to Homes England to enable the construction of the Extra Care Facility
- a bid of up to £25m from the Government's Town Deal. The council has already received £162k to develop the Leyland Town Deal and Investment Plan

The council does not deem any outcomes of Covid-19 or Brexit to impact on the ability of the council to successfully bid for external funding.

General Fund

As outlined in this appendix the council holds many different specific reserves to manage the financial risks it is exposed to. The largest reserve the council holds is the general fund which is forecast to be £4.2m by the end of 2020/21. South Ribble Council holds a large general fund relative to its size and is above average when compared to other Lancashire District Councils, as a result it is in a strong position to manage the financial risks it is exposed to.