

Corporate Policy & Resources Committee

11 July 2022



Title	Briefing note – 2022/23 Budget forecast adverse impact of the Cost of Living Crisis on pay, fuel, electricity & gas prices and other items.
Purpose of the report	To note the report and approve the transfer of £362,000 to an earmarked reserve.
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	<p>The Committee is asked to note the report and financial implications on the increase revenue cost burdens for 2022/23 and beyond for a number of items highlighted in section 2 and how it likely to adversely impact on the 2022/23 outturn forecasts (£321k) and 2023/24 budget (£1,195k).</p> <p>The Committee is asked to approve the transfer of £362,000 as highlighted in 3.5 below, to an earmarked reserve to be used to support the funding of the cost of living crisis during 2022/23.</p>
Reason for Recommendation	<p>Towards the end of the 2022/23 budget setting process, the Council was seeing significant increases in revenue costs, i.e., fuel (for our refuse and ground maintenance fleet and equipment), electricity and gas at Council owned premises. As well as significant capital expenditure inflation in respect of building materials and labour charges, together with an increase in the Public Works Loan Board (PWL) 50 year maturity rate.</p> <p>These pressures will also impact on the budgeted salary settlement, and officers believe that we will see a significant increase in the National Pay Award, which SBC has advised that it will try to match.</p> <p>Whilst some of this was factored in, events after the budget approval on 24 February 2022 and the subsequent forecasted increases in inflation has caused officers to revisit the budget and forecast for the year ahead.</p>

1. Summary

- 1.1 After Council approved the 2022/23 Budget on 25 February, the inflationary pressures on our revenue expenditure increased further, particularly on fuel, electricity, and gas, plus there are potential implications for our salary budget once the national employers' award is agreed. As well as on capital expenditure, in respect of materials and labour and officers have been assessing the possible impact on the Council's revenue and capital finances for this year and beyond.
- 1.2 On 13 June, the Public Works Loan Board (PWLB) 50 year maturity certainty rate had increased to 3.43% per annum, this has made it more challenging and will impact on the viability of each project going forward, as a number of the Council's development projects had still not been approved and those that have been, were prepared using an average PWLB rate of between 1.8% and 2.3%, therefore, over the next four weeks, officers will be reviewing each individual projects viability.
- 1.3 The table in 4.1 below indicates the Council will need to look to make savings of £1,195k for the 2023/24 Budget to submit a balanced budget and therefore Council will need to consider implementing a mixture of the following:
- (a) Cashable Root and Branch savings
 - (b) Digital Transformation – for example, automating and standardising processes.
 - (c) Procurement savings
 - (d) A moratorium on growth bids for additional FTEs exempt where a statutory requirement or externally funded.
 - (e) Use of reserves in a planned short to medium term way to bide time for savings to be delivered
 - (f) Collaborative working with other Councils and partners
 - (g) Energy efficiency investments which will reduce revenue running costs over time
 - (h) Delivering the Council's affordable housing targets easing pressures on the Council's Revenue Budget

The above list is not exhaustive other options including generating increased income streams should be considered.

2. Key issues

- 2.1 Officers have reviewed the main budget costs to consider the impact of the rapid rise in inflation forecasts predicted by the Consumer Price Index (backward looking), the Bank of England Index (forward looking) and individual commodity price fluctuations caused by inflation, for example, gas, electricity and fuel.
- 2.2 It is difficult for officers to predict what will happen beyond 2024/25 at this stage, so it has been assumed that these issues will continue to impact on the Council's finances.

3. The main issues considered

Officers have considered a range of issues and summarised the impact of each option on the initial balanced budget, in a table in section 4.1 below.

- 3.1 Due to the delays in planning permission for the Council's development properties, officers are forecasting that the Council's tax base (volume reduction) entitlement will be approximately two percent less than had been initially forecast.
- 3.2 The inflationary pressures on fuel (for our refuse and ground maintenance fleet and equipment), gas and electricity will have a significant impact on the Council's balanced budget for 2022/23 and the planned budget deficits from 2023/24 to 2025/26.
- Based on our current consumption, officers predict that the Council will face an increase of approximately £300,000 per annum on our fuel and heating budgets.
- 3.3 Whilst officers had originally forecast the maximum increase in Council Tax, and still recommend that from the viewpoint of protecting the Council's tax base, i.e., £5.00 (2.4%), they have modelled a slightly lower percentage increase to reflect how any subsequent Council approved reduction in Council Tax, would impact on the 2022/23 budgeted income. (For noting, that a 1% movement in Council Tax equates to approximately £80,000 of funding).
- 3.4 In 2022/23 the Council assumed that the pay award would be 2% for the majority of staff (2.5% for grades 1 to 5) with a commitment to aspire to honour the national pay award once settled. Current indications are that the National Pay Award will be around 4%.
- 3.5 As indicated in appendix A, officers on the Corporate Debts Group have been able to identify an additional £362k of unallocated cash receipts, i.e., customers had paid monies to the Council and no sales invoice had been raised for the service.
- 3.6 The Pension uplift employers' contribution figures are due to be published in the autumn for the next triennium and take effect from 1st April 2023, based on current expectations, officers are expecting to see a significant increase, and have therefore doubled the previous uplift provision assumption for 2023/24 onwards by a further £300k per annum.
- 3.7 Given that Officers are currently doing this exercise for the Council, the Finance Team have assumed that the Council will receive a request for continued financial support, in respect of additional electricity and gas costs, from the SLM our leisure centre operator and have provided for a figure of £20k, as a best estimate for the leisure centre.
- Other non-material items to consider**
- 3.8 Knowle Green Estates (KGE) – due to the delays in agreeing Oast House and Thameside, officers are not forecasting a substantial increase in funds into the Council for the next four years.
- 3.9 Spelthorne Direct Services (SDS) – while the company continues to make progress, despite the pandemic, they will not be making any material contribution that will reduce the Council's planned deficit over the next four years.

- 3.10 Officers would expect to see an increase in the annual HMRC Mileage rates, however, as the annual budget is around £40k, any increase will not impact significantly on the planned deficit.
- 3.11 Officers are assuming that the recent increase in planning fees announced by DLUHC will offset the shortfall experienced elsewhere within the Council, as demand slows because of the cost of living crisis.

4. Financial implications

- 4.1 Summarising the potential material adjustments to the planned deficit in the table below:

	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Planned revenue budget surplus	0	24	291	361
3.1 – 2% reduction in Council Tax base	-171	-178	-185	-192
3.2 – Inflationary pressures				
Fuel	-51	-51	-51	-51
Electricity	-187	-187	-187	-187
Gas	-59	-59	-59	-59
3.3 – 2.4% (£5) CT increase reduced to 2.0%	0	-40	-40	-40
3.4 – 2022/23 Pay Award- 2% extra	-426	-434	-444	-452
3.5 – Unallocated Cash	360	0	0	0
3.6 – Pension uplift	0	-300	-300	-300
3.7 – Leisure Centre	0	-20	-20	-20
Revised planned revenue budget deficit	-321	-1,195	-943	-887

- 4.2 The revised planned deficit is officers' high level best estimate of what we currently know, and it is expected to change, for the worse, over the next twelve months, because over the last twelve months the Consumer Price Index has risen sharply from 1.6% to 9.00% and Bank of England forecast inflation has dramatically increased from just over 2% to the current forecast peaking at 10% and falling back to 9% at the end of the year.
- 4.3 If the inflation forecasts from the Bank of England rise beyond 9%, officers will have to review the above figures upwards, i.e., the deficit will increase.
- 4.4 These figures do not show the whole picture, as they are based on a basket of goods on what the average family might consume, based on running a 'typical' family car, and therefore, the committees and officers must look closely at each individual item of expenditure, to establish the true rate of

inflation, i.e., the cost of fuel which has seen the average unleaded petrol prices rise from £1.26 per litre to £1.82 per litre a rise of 44%

- 4.5 Given the above pressures, the 2023-24 Budget will be extremely challenging.
- 4.6 Officers will be proposing an update to the 2023/24 budget setting process, and this will be covered by a separate report to this committee, as well as a budget briefing session being held on 21 June.

5. Risk considerations

- 5.1 The report details at a high level the material items that will impact on the Council's finances for the four years to 2025/26, turning planned budget surpluses in to revised budget deficits.
- 5.2 Council will be required to take action to make savings or use earmarked reserves to re balance the budget.

6. Legal considerations

- 6.1 There are no legal implications based on the report itself, however, any actions taken subsequently may require input from the legal team involvement.

7. Other considerations

- 7.1 None

8. Equality and Diversity

- 8.1 None

9. Sustainability/Climate Change Implications

- 9.1 None.

10. Timetable for implementation

- 10.1 None

Background papers: 2023/24 Budget Setting Process Report (this report was also submitted to this Committee meeting)

Appendices: Appendix A – Unallocated cash balances.