

Corporate Policy & Resources Committee

12 September 2022



Title	<i>2023/24 Budget assumptions in respect of the level of inflation for salaries, costs and fees and charges.</i>
Purpose of the report	To make a decision
Report Author	<i>Paul Taylor Chief Accountant</i>
Ward(s) Affected	All Wards
Corporate Priority	Community Affordable housing Recovery Environment Service delivery
Recommendations	<p>The Committee is asked to agree the following budget assumptions for 2023/24:</p> <ol style="list-style-type: none"> 1. Salaries 5% 2. Costs 3% 3. Fees & Charges <ol style="list-style-type: none"> a. 5% Concessionary b. Charge the maximum allowed for statutory fees and charges. <p><i>Based upon these calculations, as set out in 3.11 below, there would be a £1.27m deficit in the budget and officers would be required to make savings in a variety of ways as set out on 3.6 (a) to (m) below.</i></p>
Reason for Recommendation	<p><i>As part of the annual 2023/24 budget setting process Council is required to set the assumptions around inflation for Officers to follow, noting that for 2022/23, our assumptions and budget were approved, before the recent inflationary rises (Cost of Living Crisis) impacted on the Council's finances.</i></p> <p><i>Therefore, there is an element of catching up to be considered as well and a thorough assessment of the assumed rate of inflation for 2023/24.</i></p> <p><i>In such volatile conditions, it can be difficult to see a clear pathway ahead, however, with good financial management and a collaborative approach the Council will aim to mitigate the effects of soaring inflation on its residents and protect its medium term reserve position, and Officers propose to carry out a review of the</i></p>

1. Summary of the report

- 1.1 This report seeks to set out the budget assumptions in respect of inflation for: Employment, Costs (Contracted and non-contracted) and Fees and Charges income, as well as addressing the challenges from the 2022/23 budget that could impact on 2023/24 Budget Setting process.
- 1.2 The report sets out some recommendations for the budget assumptions on inflation for employment, costs and income and provides Council with an insight to the budget deficit caused by the cost of Living crisis.

2. Key issues

- 2.1 The impact of the inflationary pressures are being felt throughout the Council and no department is unaffected by its impact and according to the Chartered Institute of Public Finance & Accountancy (CIPFA) survey on the impact of inflation on councils, the use of medium to long term reserves to solve a short term challenge is not the way forward, if Council is wanting to avoid deferring even larger problems for later years.

- 2.2 In broad terms the Council budget breakdown into the following categories:

- (a) £20.6m Employment Costs
- (b) £12.7m Other Costs
- (c) (£7m) Fees & Charges Income

Subject to the comments below, particularly for fees and charges, a one percent movement in each category has the following impact on the budget:

- (a) Employment costs £206k variance
- (b) Other costs £127k variance
- (c) Fees & Charges income £70k variance

- 2.3 Therefore, should Council decide to implement a budget assumption of 9% for the 2023/24 pay award it will cost £1.854m (£206k multiplied by 9).

- 2.4 The Council has already set up a short term reserve to assist with the funding gap caused by the cost of Living crisis and that balance stands at £320k which can help partially mitigate the gap in 2022/23 on a one-off basis.

- 2.5 As set out in the 2022/23 Budget Pressures due to inflation report (CP&R 12 July 2022) there are a number of inflationary factors that are impacting on the Council, including:

- (a) Salary
- (b) 3 yearly pension valuation feeding through into employer contributions
- (c) Petrol and Diesel costs
- (d) Electricity & Gas

- 2.6 There is a significant gap between the average inflation assumptions made in the budget regarding paying the previous years, where the Council was

looking at an award of between one and two percent, which broadly matched the annual inflationary increase.

- 2.7 With the current level of inflation, as measured by the Consumer Prices Index CPI, running at just above ten percent (July 2022), and forecast by the Bank of England to peak at just over 13% in October, our local pay offer will need to be considered carefully, once we have finalised the impact of the national pay award in 2022/23 and the roll out impact of that on 2023/24 and beyond.
- 2.8 This would indicate that using average percentage figures rather than absolute figures for the national pay award, the Council is looking to an average pay uplift of 3.7%, with the lowest paid scale point averaging just under ten percent, reducing to two percent, the further up the scale point you go.
- 2.9 Fuel costs for our refuse vehicles and ground maintenance machinery have seen significant increases in prices over the last twelve months, of almost fifty percent, noting that in the last couple of weeks the average price per litre have fallen by an average seven percent.
- 2.10 Significant inflationary increases are also being seen in the Council's electricity and gas prices, noting that approximately seventy five percent of the Council's electricity and gas bills are looked after through our main supplier Laser. Each year, our charges are negotiated and fixed for twelve months (November), providing a little more certainty, and reducing our exposure to monthly inflationary increases throughout the year.
- 2.11 Other areas to challenge the Council include
 - (a) Costs – contracted and non-contracted
 - (b) Fees and charges – statutory and concessionary.
- 2.12 The Council must look at all its costs and in particular what are the contractual inflationary increases permitted with the contract.
- 2.13 This is a twin edge sword, as the Council looks to minimise any increase in the contract price, noting that this may push suppliers, particularly small local suppliers, over the edge and into bankruptcy in a worst case scenario.
- 2.14 Officers must be aware of the terms of every contract and communicate the inflationary issues on their cost centre to their finance business partner, so that this can be monitored more closely. Noting that the Council could have to operate different inflation rates, or a pooled average rate, subject to the contract, for example, food inflation is running at almost 30% and this is impacting our Meals on Wheels service, with difficult decisions ahead on how much to raise charges, or reduce our service offering, to a cohort of vulnerable residents.
- 2.15 Where appropriate and to protect the Council and the residents, officers should be working closely with suppliers to renegotiate deals.
- 2.16 Collars and Cuffs – this applies to both contracts with both our suppliers and customers. The nature of these mechanisms can seriously undermine the financial wellbeing of the Council and should be carefully avoided if the Council is to minimise its exposure to risk and ensure that it does not take on, an unfair share of either suppliers or customers inflationary risk.

- 2.17 Fees and charges, this is one of the most critical elements of our budgets and provides in excess of seven million pounds to support our services and contribute to the regeneration of the Borough.
- 2.18 Many of our fees and charges, particularly parking have suffered under during the pandemic and this new inflationary pressure will further slowdown the green shoots of recovery.
- 2.19 This was of course offset by increases in other areas, such as, planning fees as residents remained at home and invested in their properties.
- 2.20 This then leads onto the next challenge the Council faces with fees and charges, namely the impact on demand, when fees and charges are increased. At what price point does demand fall for services, reducing the contribution to service revenue? Equally we have to recognise the financial pressures residents and businesses within the Borough are under.
- 2.21 This really applies to our non-statutory fees and charges, as the Council has little or no control over the statutory fees and charges, other than where to set the fee, if provided with an upper and lower range by the regulators. Officers would be recommending that Council charge the maximum fee permitted for our statutory fees and charges.

3. Options analysis and proposal

- 3.1 Doing nothing is not an option.
- 3.2 The next key observation is that the Council, Officers and Residents are in this together and the burden should be shared, rather than applied to just one area or cohort.
- 3.3 The first issue to address is what to do about the short fall in 2022/23 as any changes to figures, for example, if Council agrees to match the national pay award, this will result in an additional £400k being required to fund this in 2022/23 and future years as the base level of salaries increases.
- 3.4 This would mean that based on the example in 2.3, we would need to add £436k (£400k multiplied by 1.09) to that figure, for the increase base salary costs from 2022/23.
- 3.5 Therefore, careful management of the actions taken to control the Cost of Living crisis in 2022/23 is required, as it will impact on the 2023/24 budget.
- 3.6 As the Council is unable to increase Council Tax for 2022/23, the remaining options to consider are:
- (a) Cashable Root and Branch savings – a fixed percentage saving may be required.
 - (b) Digital Transformation – for example, automating and standardising processes, for example, to centralise interna processes or working direct with suppliers via their supply chain. need to draw out how over Outline Budget period will result in cashable revenue savings.
 - (c) Procurement savings- a need to set some quantifiable cashable savings which will impact on the Revenue Budget and because of the potential risks and possible savings that can be achieved, perhaps ensure that Procurement considerations are added to all future reports, in the same way, Risk and Legal considerations are.

- (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 term way to bide time for savings to be delivered or, as Corporate Policy & Resources recently approved, the establishment of an earmarked support the protection and delivery of key services throughout the Borough.
- (f) Collaborative working with other Councils and partners to deliver cashable savings as well as improved resilience
- (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.
- (i) Contract renegotiations where appropriate
- (j) Using Spelthorne Direct Services (the Council's commercial waste subsidiary) to take over third party contracts and retain the 'cash' within the Council.
- (k) Explore reducing the Council's office footprint to deliver over Outline Budget period a net ongoing revenue benefit
- (l) Growing the number of residents who take up our services, for example, green waste bins, can we obtain five new customers in 'Acacia Avenue' as we are already collect other bins from that location.
- (m) What initiatives and strategies can we develop to increase the frequency of spend from our existing customer base in each cost centre, are there opportunities to cross sell some of our services?

The above needs to be quantified and plans implemented to deliver the cashable savings over the next two to four years.

- 3.7 Council should consider making a £1m emergency earmarked reserve available to ease the impact of the Cost of Living Crisis on services in 2022/23 and 2023/24.
- 3.8 No increase in inflation rates for 2022/23 is proposed and the Committee as part of the Budget process will need to form a view as to a recommendation to make to Council on whether, being mindful of the recruitment and retention challenges the Council is facing, to seek to match the national employers 22/23 uplift or to take a view as to whether that is affordable within the Budget process. As mentioned above, to match the national pay award would cost the Council approximately £400k.
- 3.9 It would also be possible to consider using the £320k set aside in the earmarked inflationary support reserve to meet the majority of the national pay award should council prefer an alternative recommendation. This would alleviate the additional risks highlighted in 5.7 and 5.8 below. Turning now to the budget assumptions for 2023/24.
- 3.10 Council should take the following balanced approach to budget assumptions, to spread the impact across all stakeholders.
 - (a) Council applies the maximum Council Tax increase

- (b) Salaries – Council applies a 5% pay award, noting that this could be weighted in favour of the lower paid grades.
- (c) Whilst it may be difficult to manage increased costs through contracts, noting that in some cases the costs are fixed for a couple of years every effort should be made to keep prices increases to 3% or under.
- (d) The Fees and Charges Income, on average, whilst the Council can increase its concessionary fees and charges, most of our fees and charges income comes from statutory income. Officers should be encouraged to charge the maxima for these services and based on previous years we have seen an average of two percent increase in the Council's aggregate fees and charges income It is recommended that Council seeks to increase discretionary fees and charges by at least five percent.

3.11 Summarising the above, the impact on the Council's 2023/24 budget is broadly:

- (a) Employment costs (excluding superannuation employer contribution rates movements) increase £1.03m (£206k multiplied by 5)
- (b) Cost increases £0.381m (£127k multiplied by 3)
- (c) Fees and charges income (£0.14m) ((£70k) multiplied by 2)

This would leave a funding gap of approximately £1.271m that would need to be funded from the items mentioned in 3.6 (a) to (m) above.

4. Financial implications

4.1 Based on applying the following 2023/24 budget assumptions for inflation:

- (a) 5% Salaries
- (b) 3% Costs
- (c) 5% Concessionary fees and charges and the maxima for statutory fees and charges

4.2 The financial implications have been set out in 3.11 above and a £1.27m funding gap will need to be closed.

5. Risk considerations

5.1 For the 2022/23 budget setting processes, the following assumptions were applied as follows:

- (a) 2% Salaries
- (b) 1.7% Costs (Contracted and Non contracted)
- (c) 1.7% fees and charges, with discretionary fees increased by approximately 5%.

5.2 After approximately twelve years of low inflation, the situation was beginning to change during the last quarter of 2021/22, which saw the actual inflation figures, as measured by CPI, rise to 7.9 and 8.2 percent for April and May respectively.

5.3 This was just after Council had approved the 2022/23 Budget, which used the assumptions in 5.1 above.

- 5.4 As a result of the difference between the budget assumptions and the actual rate of inflation, a Cost of Living Crisis was declared, which as shown in the table below sets out the main challenges over the next four years

	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

- 5.5 The work carried out in June to prepare the table above, is broadly in line with the 2023/24 budget shortfall calculated in 3.11 above at £1.27m, based on Council accepting the recommendations above.
- 5.6 There are different views circulating that the Bank of England has been too pessimistic, and inflation will not hit these highs. This would be a major concern because of the psychological impact on staff and their morale at having to deliver significant cost savings or indeed agreeing to a smaller percentage pay increase.
- 5.7 Equally, some commentators are claiming that the Bank of England has not gone far enough in their forecasts, and it will take longer for inflation to fall to around two percent.
- 5.8 Either way, officers must base their assumptions and recommendations to Council on what is known and generally accepted as the best forecast. Noting that the situation must be kept under constant review.
- 5.9 In view of the significant change to annual inflation, Officers will be reviewing the 2023/24 Budget and its inflation assumptions in early January 2023, just ahead of the final committee meetings later that month to assess if the assumed inflation rates agreed today, remain fit for purpose.

5.10 A significant risk, could be the impact on recruitment, retention and staff morale, based on not increasing the 2022/23 pay award, suggested in 3.8 above.

5.11 Further, by not matching the national pay award, Council may jeopardise the current strong relationships it has with the local unions, and therefore, this should be carefully considered.

6. Legal considerations

6.1 None.

7. Other considerations

7.1 None.

8. Equality and Diversity

8.1 No direct impact.

9. Sustainability/Climate Change Implications

9.1 No direct impact.

10. Timetable for implementation

10.1 Immediate effect.

11. Contact

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Background papers:

2022/23 Budget Pressures due to inflation report (CP&R 12 July 2022).

Appendices: There are none.