INFORMATION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO SPECIAL POLICY AND FINANCE COMMITTEE

meeting date: 22 FEBRUARY 2022
title: INFLATION AND THE REVENUE BUDGET 2022/23
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To provide members with information on the inflationary increases allowed for in the 2022/23 revenue budget, and the potential impact of further inflationary increases above that allowed for in the budget.

1.2 Relevance to the Council's ambitions and priorities:

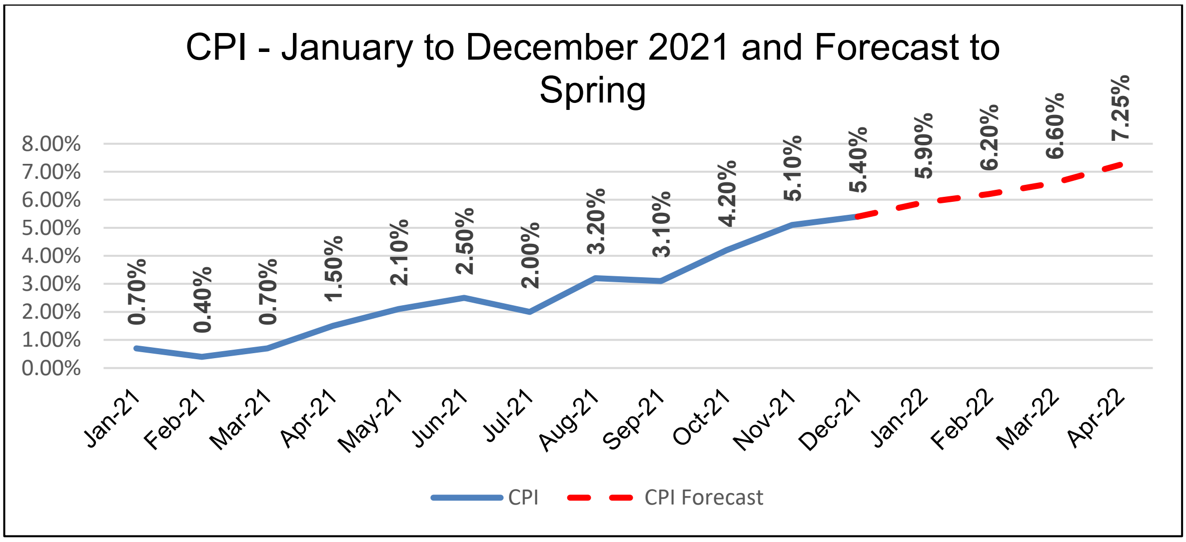
- Community Objectives – none identified.
- Corporate Priorities – to continue to be a well-managed council, providing efficient services based on identified customer needs.
- Other Considerations – none identified.

2 BACKGROUND

2.1 We have seen significant rises in inflation recently. When the budgets were discussed at service committees back in January, we reported that CPI had risen to 4.2% in October from 3.1% the previous month. In November it rose further to 5.1% and the Bank of England expected that it could peak at 6% by April which would be three times higher than the target. Consequently the Bank of England announced an increase in interest rates to 0.25% in December.

2.2 Since then, the CPI indices for December were announced on 19 January, showing that CPI had risen to 5.4%. The indices for January are due to be released on 16 February 2022. Forecasts are for CPI to reach 7.25% by spring. Interest rates have also increased again since, to 0.5%

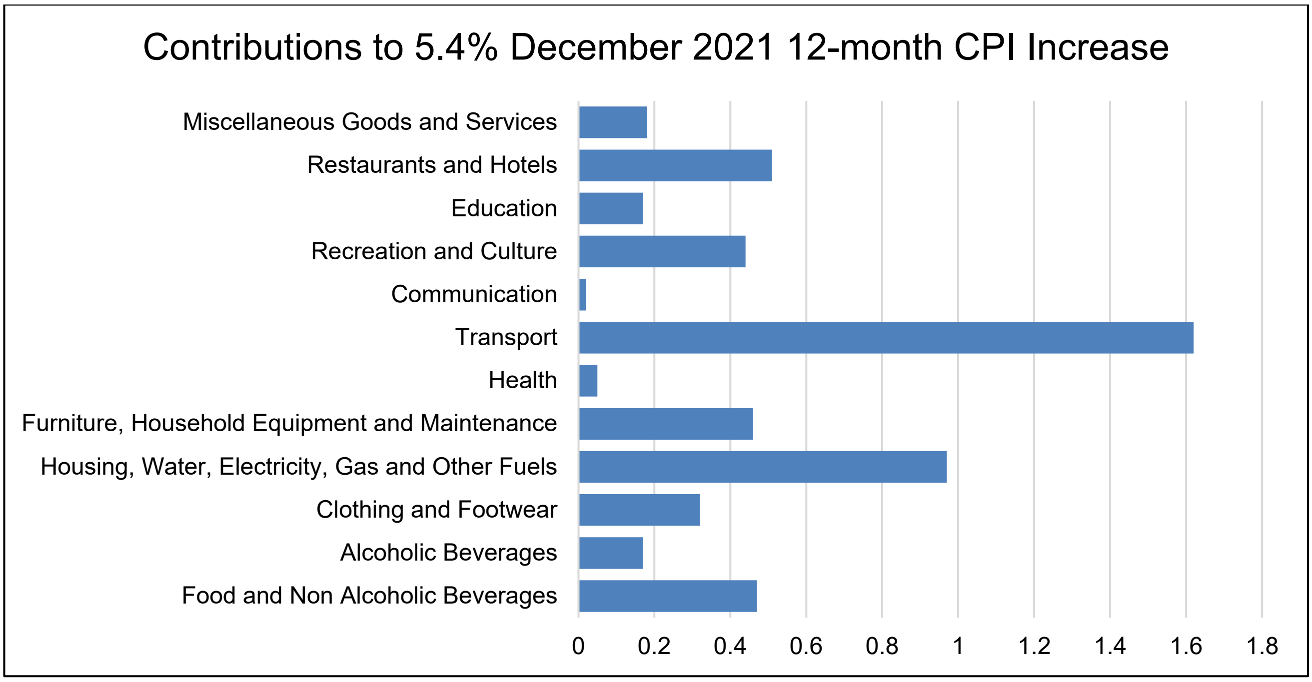
2.3 The budget forecast allowed for inflationary increases of 2% for pay and 3% for general price increases for 2022/23, which is significantly lower than the current level of inflation. Already we are seeing extra inflationary costs in excess of that allowed for in the forecast in areas such as fuel, energy and utilities.



3 INFLATION RISKS

3.1 One of the main influential factors in the CPI rises being seen is energy price increases. This is impacting not only directly on our service costs, but also indirectly through increased costs being passed on from our suppliers for most of our purchases.

3.2 A breakdown in the 12-month 5.4% CPI increase seen in December is shown below, showing how the different areas contribute to the 5.4% December increase.



3.3 The main areas above that are of concern for the council are transport costs, furniture costs, property maintenance costs and energy costs

3.4 Within the revenue budget for 2022/23 we have factored in additional costs for our own rising energy costs, this being based on information from forecast indices for diesel and also from the national public sector purchasing frameworks that we are part of, in respect of gas and electricity.

Element	Percentage increases allowed for	Equivalent approximate additional budget amount above the 3% base inflation rate
Gas	55.0%	29,440
Electricity	38.0%	46,850
Diesel	26.8%	63,970
		140,260

3.5 Whilst these are additional costs that we have factored into the budget, there is a further high risk that as inflation is sustained at the levels being seen, then suppliers pass on further costs on to their customers, which is something that we are now beginning to see to a greater extent.

3.6 This is impacting a wide variety of cost areas, from office supplies such as envelopes, through to contracted services such as sweeper hire.

3.7 Based on recently tendered prices for sweeper hire (with driver), the costs have increased by 43.5%, which is not allowed for within the budget, due to tender timings.

3.8 Building materials are another area where costs have substantially risen, but spend is perhaps tempered by the lack of availability of tradesmen to undertake work. However, it remains a high risk that costs may exceed budgets set for 2022/23.

3.9 ICT hardware, software and support costs are known price volatile areas from past experience and have the added risk of exchange rate fluctuations with many costs additionally being driven by the US dollar. Certainly, we are aware of 8% increases in software support costs from one supplier.

3.10 Further risks to increased costs are the impacts of increased borrowing costs following recent increases to bank base rate by the Bank of England to control inflation, and whether such increases may continue and be passed on by suppliers. The converse benefit to the council would be that we see increased return on our investments.

3.11 Additionally, the Bank of England Governor has urged all workers not to ask for a big pay rise this year, despite warning that rapidly increasing inflation will hit households with the worst squeeze on living standards for at least three decades. Demands for higher pay offers the risk of a wage-price spiral, leading to continuingly higher wages and higher prices.

3.12 The Bank of England is currently forecasting that inflation will reach 7.25% by spring and that at the start of next year, inflation is still expected to be above 5%. It is then projected by the Bank that inflation will fall back to below the Monetary Policy Committee's 2% target in the first half of 2024, and even then only if the Bank keeps raising interest rates to 1.5% by mid-2023 as financial markets expect.

4 IMPACTS ON THE REVENUE BUDGET 2022/23

4.1 There is a very high risk that the budget as reported to committees is under provided for in respect of inflationary increases to prices. Added to this there is uncertainty around future pay awards for staff, with 2% currently being provided for in the budget.

4.2 Based on the original budget forecast for 2022/23, a further 1% inflationary increase on top of the 2% allowed for on pay and the 3% allowed for on prices would equate to just over £140,000. Inevitably some areas may see more substantial increases and some may see little change, but a budget to help mitigate this risk would help put the council in a better position to tackle the financial uncertainty.

4.3 In order to set a prudent and affordable budget it would be recommended that a contingency for inflationary increases be provided for within the budget for 2022/23. As previously highlighted, additional allowances have already been provided for our own direct cost increases around energy, but such increases are already being seen to be also passed on to us by our suppliers through our purchases.

4.4 With inflation predicted to rise to 7.25% there is a significant gap between what we have allowed for inflation in our service committee estimates and what it is forecast to reach. We therefore need to consider how much extra to allow for inflation.

5 CONCLUSION

5.1 Inflation has been increasing substantially over the last 12 months. This has largely been driven by items such as vehicle fuel and also utilities, particularly gas and electricity costs.

5.2 Some substantial increases have already been allowed for in the budget in respect of the council's own direct costs in these areas, but suppliers are now passing on substantially more of their own costs in their prices as inflation becomes more sustained.

5.3 To be able to set a prudent and affordable budget it would be recommended that a contingency for inflationary increases be provided for within the budget for 2022/23 of at least £140,000.

HEAD OF FINANCIAL SERVICES DIRECTOR OF RESOURCES

PF3-22/LO/AC
15 February 2022