

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

meeting date: 13 SEPTEMBER 2022
title: BUDGET FORECAST 2023/24 TO 2025/26
submitted by: DIRECTOR OF RESOURCES
principal author: JANE PEARSON

1 PURPOSE

- 1.1 To consider the Council's latest budget forecast and decide what action needs to be taken to meet the financial challenges that lie ahead.

2 BACKGROUND

- 2.1 The budget forecast is an important tool which gives an early indication of any potential budgetary problems and also informs our Medium Term Financial Strategy accordingly.
- 2.2 In preparing the Budget Forecast we have to take into account both national and local circumstances. Each year the budget forecast has become increasingly difficult to produce as the number of unknown factors has continued to grow.

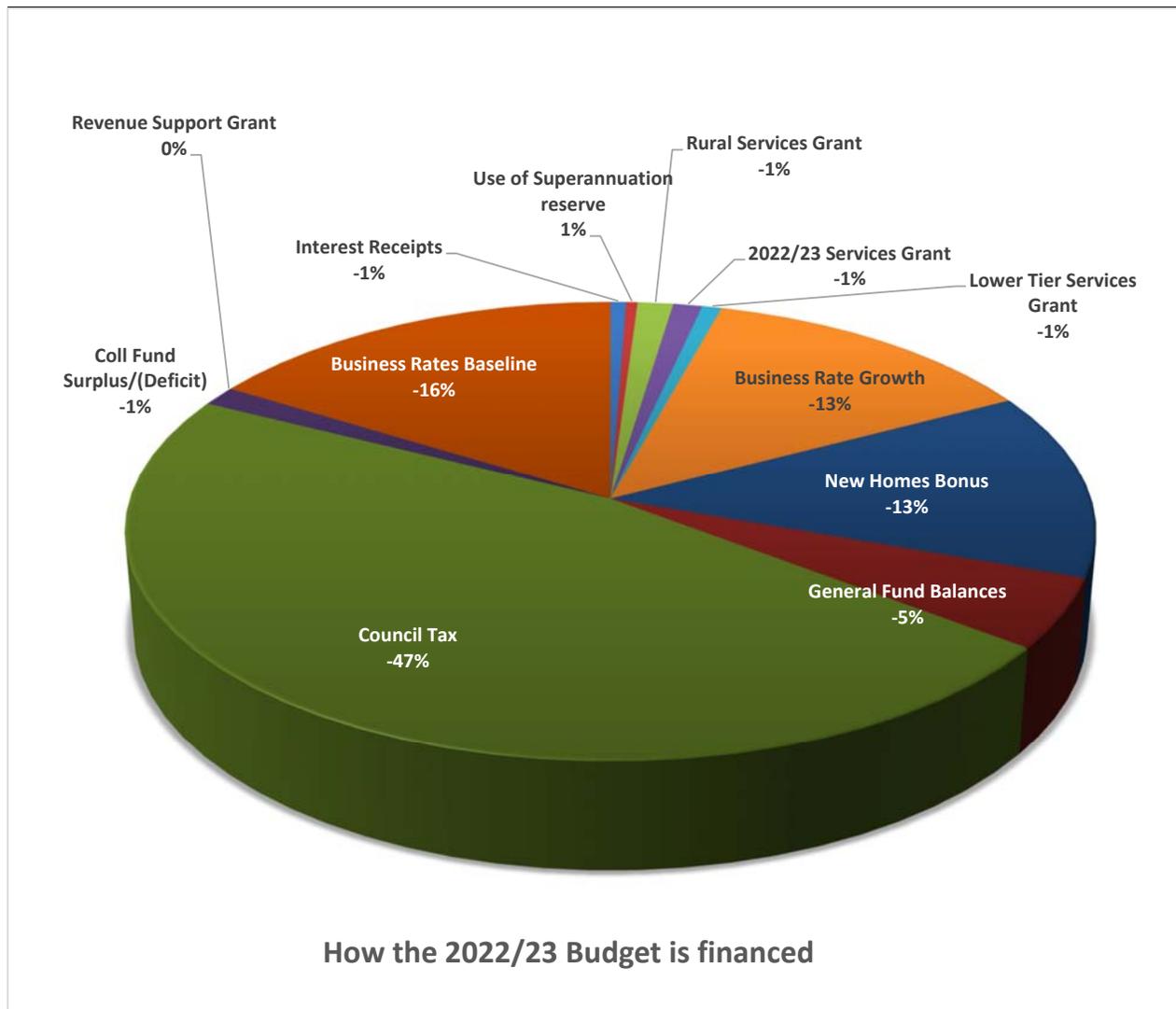
Next year's forecast will be the most challenging yet because of the following major issues:

- i) COVID19 Pandemic
- ii) Changes to the Prime Minister and Ministerial Team
- iii) Changes to Government and Major Funding Streams
- iv) Cost of living and impact on demand for services
- v) Fast moving Inflation
- vi) Potential recession and impact on income.

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 The latest budget forecast is based on many assumptions. As in the past these are very difficult to predict going forward.
- 3.2 From 2020/21 we were expecting substantial local government finance reforms via the Fair Funding Review and also Business Rate Retention reforms. For the past 4 years we have received one-year only settlements.
- 3.3 Our net budget (after allowing for income from fees and charges and service specific grants) is financed as follows:



3.4 As shown above, almost half of our net budget is funded by council tax. Our remaining budget is funded via the following funding streams.

- Business Rate Retention (Growth and Baseline 29%)
- New Homes Bonus (13%)
- Other Government Grants

3.5 We need to closely scrutinise our financial position in the coming months in order to continue to be in a position to face the challenges that lie ahead. Therefore we will be holding frequent Budget Working Group meetings and also produce overall budget monitoring reports for members on a regular basis.

4 THE MAJOR ISSUES

COVID Pandemic

4.1 At this stage we do not anticipate any major call on the Council's resources due to COVID however this Autumn will be a key test to see how successful the vaccination programme will be going forward.

Changes to the Prime Minister and Ministerial Team

- 4.2 At the time of writing this report we know that a new Prime Minister will be appointed on 5 September it is anticipated that a new cabinet will be appointed shortly afterwards and there appears a strong possibility there will be an Emergency Budget sometime in September.
- 4.3 At this stage it is impossible to predict what impact this will have on the Council's Income and Expenditure.

Changes to Government funding and other main Funding Streams

- 4.4 The consultation on changes to Local Government Funding that was due to be published in July was a victim of the changes to the PM and other Ministerial Appointments. The earliest we will receive anything is now going to be September, but it is difficult to see how there can be any meaningful consultation on changes to the Financial Settlement (usually early December) as there will be insufficient time to respond.
- 4.5 The little we know so far is:
- There is now unlikely to be a fundamental review of Local Government Finance until 2025
 - Michael Gove at the LGA Conference whilst still Secretary of State promised a two year settlement.
- 4.6 We also know that from April 2023 there will be a revaluation of all Business Rated premises. This usually results in considerable changes in Business Rates between both businesses and across the country based on the assessment of the rental market for office, retail and industrial premises.
- 4.7 It is far from clear how the impact of COVID on both turnover and ways of working will impact on Rateable Values both nationally and locally.
- 4.8 For us the impact is threefold:
- i) We have to administer the implementation of new valuations and possibly reliefs
 - ii) Our own premises will be subject to review which could mean higher or lower rates.
 - iii) We are uncertain how this will affect our Business Rate baseline and Business Rate growth.
- 4.9 As far as the other major funding streams are concerned:
- i) Council Tax
We don't know what capping level the Government will introduce for next year. Currently we've been allowed to increase Council Tax by 2% or £5 whichever is the higher.
 - ii) New Homes Bonus
We don't know whether it will continue and if it does in what form.
If it is unchanged, it will only be for one year as previous years legacy payments will have fallen out.

Cost of Living and impact on services

4.10 We have not seen a huge impact on demand for our services due to the Cost-of-Living Crisis, but we anticipate:

- i) Higher numbers of benefit cases
- ii) Higher numbers of council tax support payments
- iii) Increased homelessness

Inflation

4.11 The previous report shows the impact of inflation on the current year's budget up to July this shows already a significant increase in Council expenditure.

4.12 The full year impact is likely to be higher. The Bank of England latest quarterly forecast for CPI inflation shows:

| | 2022 | | 2023 | | | | 2024 | |
|---------------|------|------|------|------|-----|-----|------|-----|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| CPI Inflation | 9.9 | 13.1 | 12.6 | 10.8 | 9.5 | 5.5 | 4.3 | 2.6 |

4.13 Next year's forecast will need to reflect both the ongoing impact on current inflation on the base budget and make an allowance for future inflation.

Potential Recession and Impact on Income

4.14 The Bank of England are forecasting that as real incomes decline there is a strong possibility the UK Economy will go into recession.

4.15 The impact for the Council if consumer incomes are squeezed are likely to be:

- i) Lower Planning Fee income
- ii) Lower Building Control income
- iii) Lower Car Parking income
- iv) Less use of leisure facilities
- v) Difficulties collecting Council Tax and Business Rate income

4.16 At the same time the Council will need to consider whether to increase Fees and Charges to maintain pace with inflation.

Other significant items

Superannuation Triennial Review

4.17 The Local Government Pension Fund (LGPS) is currently valued every 3 years with the next one due 31 March 2022. The previous budget forecast allowed for an increase of £100k pa this may prove insufficient due to inflationary changes and stock market performance.

5 UPDATING THE BUDGET FORECAST

Impact of Inflation

- 5.1 We have assumed that the Pay Offer of £1,925 per full time employee is accepted by the unions for the 2022/23 financial year. This will add £369k to the base budget above what was allowed.
- 5.2 The Consumer Prices Index (CPI) is the UK's key inflation statistic, designed to measure changes in the prices of things that consumers regularly purchase. Inflation is calculated by the Office for National Statistics (ONS), which constructs a statistical shopping basket consisting of the hundreds of goods and services bought by a 'typical' household.
- 5.3 The Budget Working Group considered a report which highlighted the impact of inflation on the Council base budget in the current year so far. This is attached at Annex 1. Since preparing that report the rate of CPI for the 12 months upto July has been announced at 10.1%.
- 5.4 We have assumed other inflationary costs will add a further £331k to the budget.
- 5.5 Taken together this extra inflation (currently) amounts to approx £700k. After deducting the £140k contingency for inflation this results in an extra £560k being added to our based budget. When preparing our revised estimate for this year we will need to decide how to fund this extra cost.
- 5.6 For future years we have allowed:

| | Pay | Prices | Income |
|--------|------------|---------------|---------------|
| 2023/4 | 5% | 7½% | 5% |
| 2024/5 | 2½% | 2½% | 2½% |
| 2025/6 | 2% | 2% | 2% |

Interest Rates

- 5.7 The Bank of England have assumed the Bank Rate will continue to rise and then fall back slightly as follows:

| | 2022 Q3 | 2023 Q3 | 2024 Q3 | 2025 Q4 |
|-----------|----------------|----------------|----------------|----------------|
| Bank Rate | 1.6% | 3.0% | 2.5% | 2.2% |

- 5.8 As we benefit from investment interest due to the level of reserves we hold this is good news and means we can increase our estimated returns over the life of the forecast of between 2-3%. This equates to £300k for 2023/24, £250k for 2024/25 and £200k for 2025/26. This may well prove to be higher if the base rate increase above the % figures assumed.

Business Rate Growth

- 5.9 In the current financial year, based on NNDR1 estimates and the current business rate pooling arrangements, we expected to receive business rate income above our baseline of £1.880m. However many factors continue to impact on business rates and it is difficult to predict with certainty the growth we could rely on.
- 5.10 We currently rely on £795k to fund our revenue budget plus £296k this year to fund the cost of the new pay-line. We also use some of our business rate growth to finance the capital programme.

- 5.11 We have recently been invited by DHLUC to inform them of our preferred pooling preferences for next year. This must be done by 22 September 2022. They have stressed that this invitation is being extended for administrative purposes only and made clear that policy decisions around business rates pooling will be confirmed by Ministers at a future date.
- 5.12 In addition to the uncertainty surrounding 2023/24 pooling arrangements, we also are unclear as to the impact of any potential business rates baseline resets and the impact of the business rate retention reforms. We also will be impacted as a result of the 2023/24 Revaluation.
- 5.13 However we are required to assess as best we can how much business rate income we could receive. For the purposes of this budget forecast we are assuming Business Rate Growth should increase because of inflation and have therefore assumed an extra 10% on the level we received in 2021/22 for 2023/24, with the same amount in 2024/25. Thereafter we won't know whether Business Rates will be reset, pooling will continue or whether our share will remain unchanged.
- 5.14 The table below shows the amount we are using for both revenue and capital to 2024/25.

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|--|------------|-----------|-----------|-------------------|-------------------|-------------------|-------------------|
| | Actual | Actual | Actual | Original Estimate | Original Estimate | Original Estimate | Original Estimate |
| | £ | £ | £ | £ | £ | £ | £ |
| Business Rate Income | 2,595,953 | 2,088,997 | 1,510,793 | 1,879,798 | 1,661,000 | 1,661,000 | 0 |
| Used to support Revenue Budget | -675,514 | -875,514 | -795,549 | -795,549 | -875,104 | -875,104 | -875,104 |
| Additional use to support Revenue Budget | | -42,040 | -5,175 | | | | |
| To fund increase in Payline | | | | -296,100 | -369,800 | -412,100 | |
| Used to support Capital Programme | -1,345,397 | -79,572 | -57,668 | -511,677 | 0 | -480,680 | |
| Potential further to support Capital | | | | -291,440 | -4,500 | -8,000 | |
| Capital moved to 2022/23 at RE 2021/22 | | | | -37,600 | | | |
| Capital slipped to 2022/23 | | | | -7,020 | | | |
| Surplus/deficit for year | 575,042 | 1,091,871 | 652,401 | -59,588 | 411,596 | -114,884 | -875,104 |
| Of which: | | | | | | | |
| Added to volatility reserve | | | | | | | |
| Taken from volatility reserve | | | | | | | |
| Added to growth reserve | 575,042 | 1,091,871 | 652,401 | -59,588 | 411,596 | -114,884 | -875,104 |
| | 575,042 | 1,091,871 | 652,401 | -59,588 | 411,596 | -114,884 | -875,104 |
| Business Rate Volatility Reserve | | | | | | | |
| Opening Balance b/fwd | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 |
| Closing Balance c/fwd | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 | 1,682,000 |
| | | | | | | | |
| Business Rate Growth Reserve | | | | | | | |
| Opening Balance b/fwd | 999,572 | 1,574,614 | 2,666,485 | 3,318,886 | 3,259,298 | 3,670,894 | 3,556,010 |
| Closing Balance c/fwd | 1,574,614 | 2,666,485 | 3,318,886 | 3,259,298 | 3,670,894 | 3,556,010 | 2,680,906 |

New Homes Bonus

- 5.15 Our New Homes Bonus allocation in 2022/23 is £1.2m. 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. However as we know the Government are consulting on the future of the scheme which may even result

in the cessation of the scheme. The amount we were relying on to fund our revenue budget each year was £1.105m, however it is clear this is not sustainable.

- 5.16 We are assuming New Homes Bonus will now continue for 2023/24 and 2024/25 so we have brought in £420k in each of those years. This is based on our latest forecast of new and empty properties above the 0.4% baseline.
- 5.17 The table below shows our New Homes Bonus allocation each year and also amounts committed to fund our revenue and capital budget.

| Use of New Homes Bonus monies | | | | | | | | | | | | | | |
|-------------------------------|------------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|
| Relates to: | Received in year | | | | | | | | | | | | | |
| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
| 2011/12 | 62,046 | 62,046 | 62,046 | 62,046 | 62,046 | 62,046 | | | | | | | | |
| 2012/13 | | 117,599 | 117,599 | 117,599 | 117,599 | 117,599 | | | | | | | | |
| 2013/14 | | | 188,053 | 188,053 | 188,053 | 188,053 | 188,053 | | | | | | | |
| 2014/15 | | | | 227,108 | 227,108 | 227,108 | 227,108 | | | | | | | |
| 2015/16 | | | | | 373,810 | 373,810 | 373,810 | 373,810 | | | | | | |
| 2016/17 | | | | | | 398,268 | 398,268 | 398,268 | 398,267 | | | | | |
| 2017/18 | | | | | | | 389,751 | 389,751 | 389,751 | 389,751 | | | | |
| 2018/19 | | | | | | | | 414,079 | 414,079 | 414,079 | 414,079 | | | |
| 2019/20 | | | | | | | | | 464,389 | 464,389 | 464,389 | 464,389 | | |
| 2020/21 | | | | | | | | | | 502,733 | | | | |
| 2021/22 | | | | | | | | | | | 637,380 | | | |
| 2022/23 | | | | | | | | | | | | 741,447 | | |
| 2023/24 | | | | | | | | | | | | | 420,000 | |
| 2024/25 | | | | | | | | | | | | | | 420,000 |
| | 62,046 | 179,645 | 367,698 | 594,806 | 968,616 | 1,366,884 | 1,576,990 | 1,575,908 | 1,666,486 | 1,770,952 | 1,515,848 | 1,205,836 | 420,000 | 420,000 |
| Allocated to date: | | | | | | | | | | | | | | |
| Revenue base | 60,000 | 60,000 | 60,000 | 333,780 | 676,065 | 786,961 | 793,079 | 1,105,000 | 1,105,000 | 1,105,000 | 1,105,000 | 1,105,000 | 420,000 | 420,000 |
| Revenue in year | | | | | | 6,000 | | | | | | | | |
| Capital | 0 | 0 | 100,000 | 85,000 | 35,662 | 57,749 | 175,618 | 139,469 | 361,547 | 229,150 | 201,780 | 110,960 | 306,637 | 0 |
| Adjustment | 60,000 | 60,000 | 160,000 | 418,780 | 711,727 | 850,710 | 968,697 | 1,244,469 | 1,466,547 | 1,334,150 | 1,306,780 | 1,215,960 | 726,637 | 420,000 |
| Unallocated | 2,046 | 119,645 | 217,727 | 165,997 | 256,889 | 516,174 | 608,293 | 331,439 | 199,939 | 436,802 | 209,068 | -10,124 | -306,637 | 0 |
| Bal C/fwd | 2,046 | 121,691 | 339,418 | 505,415 | 762,304 | 1,278,478 | 1,886,771 | 2,218,210 | 2,418,149 | 2,854,951 | 3,064,019 | 3,053,895 | 2,747,258 | 2,747,258 |

Core Government Funding

- 5.18 We have assumed funding continues for the next 2 years with a 5% increase to reflect inflation. We also have assumed we will receive a Transition Grant in some form to reflect reduced New Homes Bonus.
- 5.19 Calculating what this floor grant may be is difficult. In this year's financial settlement no authority had a reduction in Core Spending Power in cash terms.
- 5.20 Assuming this was replicated for the next two years we would see the following.

| | Core Spending Power | |
|-------------------------------|----------------------------|-----------------------|
| | 2023/24 £m | 2024/25 £m |
| Core Spending Power 22/23 | 6.860646 | 6.860646 |
| Settlement Funding Assessment | 1.422328 | 1.422328 |
| Council Tax Requirement | 4.232861 | 4.400422 |
| New Homes Bonus | 0.420000 | 0.420000 |
| Rural Services Grant | 0.118913 | 0.118913 |
| Lower Tier Services Grant | 0.065058 | 0.065058 |
| Services Grant | 0.000000 | 0.000000 |
| Core Spending Power 23/24 | 6.259160 | 6.426721 |
| To bring up to Floor of 0% | 0.601486 | 0.433925 |

- 5.21 If the floor is set no higher than 0% we will get more but conversely the Government may decide to offer no protection.
- 5.22 Beyond 2024/25 we should have the reformed finance system so estimating what might happen is very very unclear. We've assumed £400k pa. simply to reflect NHB dropping out.

Council Tax

5.23 We have assumed the Government raises the cap on Council Tax increases to £10 in 2023/24 and thereafter £5 pa.

Capital Programme

5.24 The Council currently has a capital programme up to and including 2024/25. Beyond that we have yet to agree any new schemes.

5.25 We received new bids during last year's budget setting cycle totalling:

| | £ |
|--------------|-------------------|
| 2022/23 | 547,440 |
| 2023/24 | 50,500 |
| 2024/25 | 54,000 |
| 2025/26 | 11,540,450 |
| 2026/27 | 1,244,400 |
| Total | 13,436,790 |

6 CONCLUSION

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

6.2 In summary it shows reductions in expenditure required to achieve a balanced budget of:

| | £ |
|---------|-----------|
| 2023/24 | 1,040,966 |
| 2024/25 | 1,394,296 |
| 2025/26 | 2,412,914 |

6.3 Our 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 What the forecast does show is that action will need to be taken over the next 12 months to get the budget in balance. Reserves can be used in the short term but even our healthy reserves will be severely depleted over the next few years.

7 NEXT STEPS

7.1 The Budget Working Group met on 25 August 2022 to consider the latest forecast in detail. They recognised the rapidly changing position with regards to inflation and agreed the impact of this on the Council's budget needed to continue to be kept under close review

7.2 They made a number of recommendations for Policy and Finance Committee:

- Council tax - Depending on the capping principles announced by the Government for next year we should consider increasing the council tax by the maximum permissible – I have assumed £10 on a band d property
- Expenditure - Committees should be advised to examine their budgets carefully to see if any savings can be identified

- Income - Fees and charges should be increased by the rate of CPI in September and reports presented to services committees alongside their budget reports in January.
- Capital - The BWG recommend that the Council prepares a 5 year capital programme as follows:
 - Committees be asked to review their existing approved capital schemes in line with inflation
 - The capital bids put forward but put on hold last year be also reviewed in line with inflation and analysed between essential and other categories.
 - Committees are also asked to identify any new bids and analyse between essential and other categories
- Reserves - It was recognised that it was likely that reserves would need to be used to fund the budget shortfall next year before decisions can be made to produce a sustainable base budget going forward based on projected inflation etc

8 RECOMMENDATION

8.1 Consider the Council's Budget Forecast.

8.2 Agree the Budget Working Group's Recommendations.

DIRECTOR OF RESOURCES

PF43-22/JP/AC

1 September 2022

**RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO BUDGET WORKING GROUP**

INFORMATION

Agenda Item 4

meeting date: 25 AUGUST 2022
title: INFLATION, INTEREST RATES AND THE REVENUE BUDGET 2022/23
submitted by: DIRECTOR OF RESOURCES
principal author: LAWSON ODDIE

1 PURPOSE

- 1.1 To provide members with a summary of the impacts that have been seen so far this year in respect of inflationary increases.
- 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.

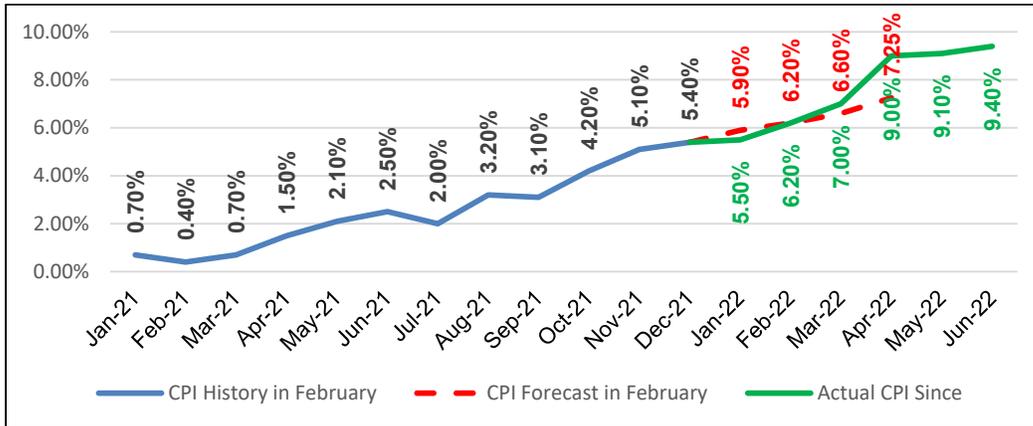
2 BACKGROUND

- 2.1 At the meeting of Budget Working Group on 10 February a number of recommendations were made to Policy and Finance Committee as part of the budget setting process. Included within those recommendations was that Budget Working Group 'closely monitor the impact of inflation on the Council's budget throughout the year'.
- 2.2 As members are aware, the budget allowed for inflationary increases of 2% for pay and 3% for general price increases for 2022/23. In addition, the budget allows a contingency of £140k for further inflationary impacts.
- 2.3 Whilst the headline rates of 2% for pay and 3% for general price increases was allowed in the budget, in some areas the budget did factor in much higher increases to prices where these were known at the time of setting the budget – for example energy and fuel costs.

3 LATEST UPDATE

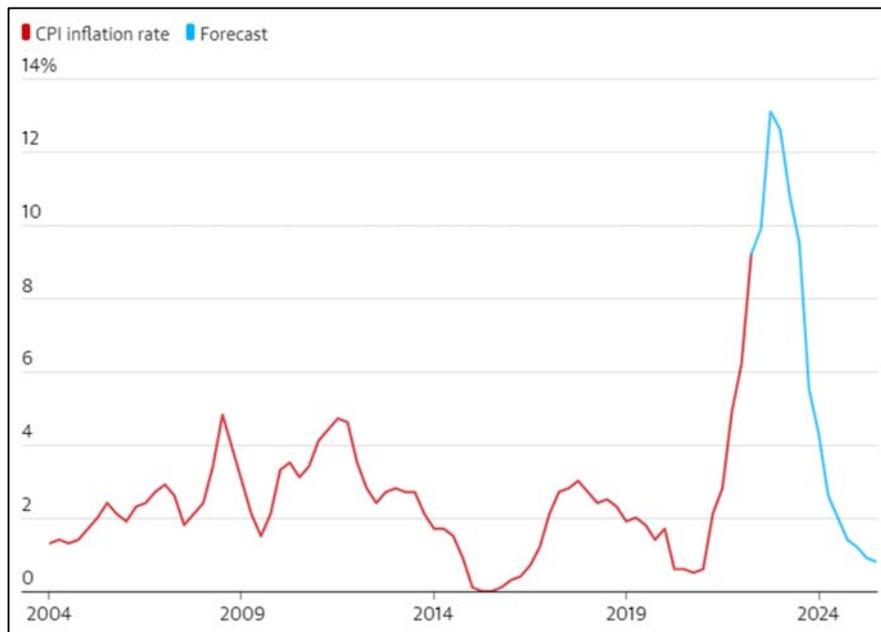
- 3.1 The most recent CPI data that is available is in respect of June 2022. The table below shows a comparison of the latest position compared to that known back in February 2022.

CPI - January to December 2021, Forecast to Spring as at February, and Actual CPI Since



- 3.2 The next CPI release will be on 17 August (in respect of July 2022) and an update on this will be provided at your meeting.
- 3.3 Current forecasts by the Monetary Policy Committee (MPC) at the Bank of England are that CPI inflation is expected to peak at 13.3% in 2022 Quarter 4 (the highest that it's been since 1980), and to remain at very elevated levels throughout much of 2023.

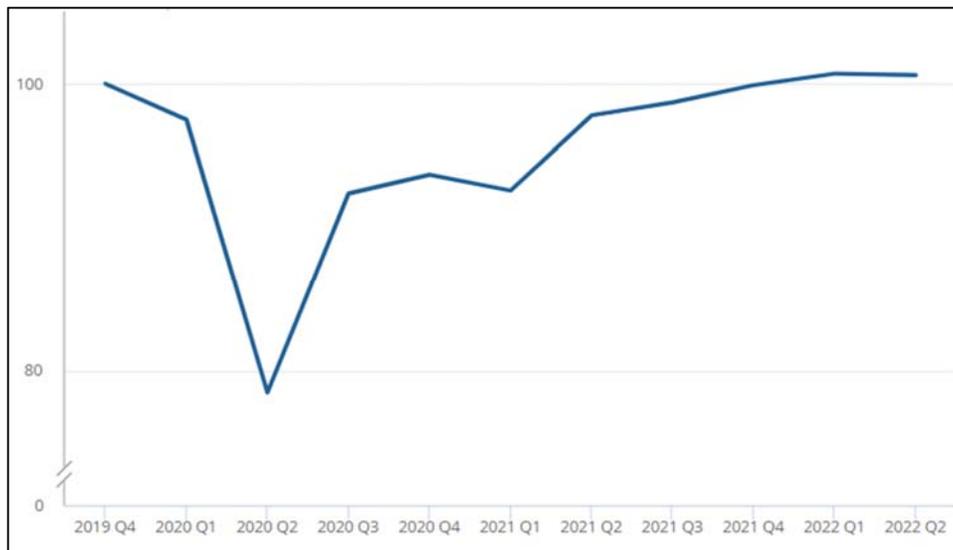
CPI Inflation and Forecast



- 3.4 Whilst this council **may not** see the full impact of price increases in energy due to the nature of our contracts through the YPO, we will likely see increased costs coming through from our suppliers of other goods and services as their own costs increase.
- 3.5 Our current energy contract arrangements for gas and electric is through the 'YPO Flexible Basket'. Using this trading basket, the volumes are bought throughout the preceding 24 months at optimum trading times when prices are seen to be lowest in order to deliver a fixed 12 month price from 1st April each year. As 100% of the volume is bought prior to each pricing year, this would ordinarily offer some level of budget certainty.

- 3.6 However, such arrangements do have the option within the terms to do reconciliations if needed if the actual price doesn't match the reference point set back in April. Usually this would be on a 6 monthly basis, and the council would be made aware if this if this were planned to be undertaken. Going forward, there is to be monthly correspondence between ourselves, suppliers and YPO to give updates on the 'basket' and also to provide market updates, as this year has been unprecedented in terms of market volatility.
- 3.7 CPI is projected to fall back to 9.5% in a year's time, as global energy prices stabilise and trade prices start to fall. It is then forecast that inflation will fall sharply to the MPC target of 2% in two years' time. It is further forecast that CPI will then fall well below the 2% target in three years' time as domestic pressures around prices and wages weaken. A high level of uncertainty is flagged against these forecasts by the MPC.
- 3.8 The increase to 13.3% is expected to be brought about by the energy price cap increase in October and it is expected that this will trigger a five-quarter recession that will last from the final three months of this year until the end of 2023.
- 3.9 In statistics just released (12 August) by the Office for National statistics (ONS) the economy contracted by 0.1% in the second quarter of 2022 (April to June).

UK, Quarter 4 (Oct to Dec) 2019 to Quarter 2 (Apr to June) 2022 (Index Q4 2019=100)



4 POTENTIAL IMPACT ON THIS COUNCIL – USING CURRENT DATA

- 4.1 An exercise has been undertaken to try and assess the overall impact of inflation on the Council's Original Estimate 2022/23.
- 4.2 Annex 1 provides a more detailed breakdown, but the table below summarises the potential impact using the information and data available at this point in time:

Potential Impact of Inflationary Increases based on data and information available as at 10 August 2022

| | Original Estimate £ | Potential Impact on Full Year Budget £ | Percentage Difference to Budget <i>(Above what has already been allowed for)</i> £ |
|-------------------------------|---------------------------|--|--|
| <u>Expenditure</u> | | | |
| Employee Related Expenditure | 7,696,990 | 368,791 | 4.79% |
| Premises Related Expenditure | 1,990,200 | 213,634 | 10.73% |
| Transport Related Expenditure | 2,163,440 | 71,264 | 3.29% |
| Supplies and Services | 2,025,710 | 39,400 | 1.94% |
| Third Party Payments | 384,690 | 7,206 | 1.87% |
| Transfer Payments | 5,440,590 | 0 | 0.00% |
| Support Services | 7,617,860 | 0 | 0.00% |
| Depreciation and Impairment | 951,320 | 0 | 0.00% |
| TOTAL EXPENDITURE | 28,270,800 | 700,295 | 2.48% |

| | Original Estimate | Potential Impact on Full Year Budget | Percentage Difference to Budget (Above what has already been allowed for) |
|---|--------------------|--------------------------------------|--|
| | £ | £ | £ |
| <u>Income</u> | | | |
| Government Grants | -5,462,220 | 0 | 0.00% |
| Other Grants Reimbursements and Contributions | -186,460 | 0 | 0.00% |
| Customer and Client Receipts | -3,423,440 | 0 | 0.00% |
| Oncosts and Recharges | -10,101,160 | 0 | 0.00% |
| Interest | -300 | 0 | 0.00% |
| TOTAL INCOME | -19,173,580 | 0 | 0.00% |
| NET EXPENDITURE | 9,097,220 | 700,295 | 7.70% |

- 4.3 The table above and at Annex 1 are based on the latest contract prices and also movements in the detailed indices within CPI which have been mapped against a high-level summary of the Council's Original Estimate for 2022/23.
- 4.4 In looking at the individual CPI indices, it is the movement from that in December 2021 when the work on the budget was being finalised by the accountants, and the average for April – June 2022 (July has yet to be released) that has been used.
- 4.5 The overall impact on the budget above looks at a potential increase in committee level costs of just over £700k for the year. This doesn't take in to account any further increases to CPI, which is forecast to potentially reach 13.3% by October/November/December.
- 4.6 The table shows potential overall inflationary increases specific to this Council of 7.7% based on information currently available, but this could substantially change as the year progresses.
- 4.7 Currently, the key areas where there is most impact are in respect of:
- Staffing costs due to the latest pay offer
 - Gas
 - Electricity
 - Vehicle fuel
 - ICT software
- 4.8 Members should also bear in mind when considering the £700k shown above, that this doesn't take in to account the £140k contingency that was brought in to the budget in respect of rising

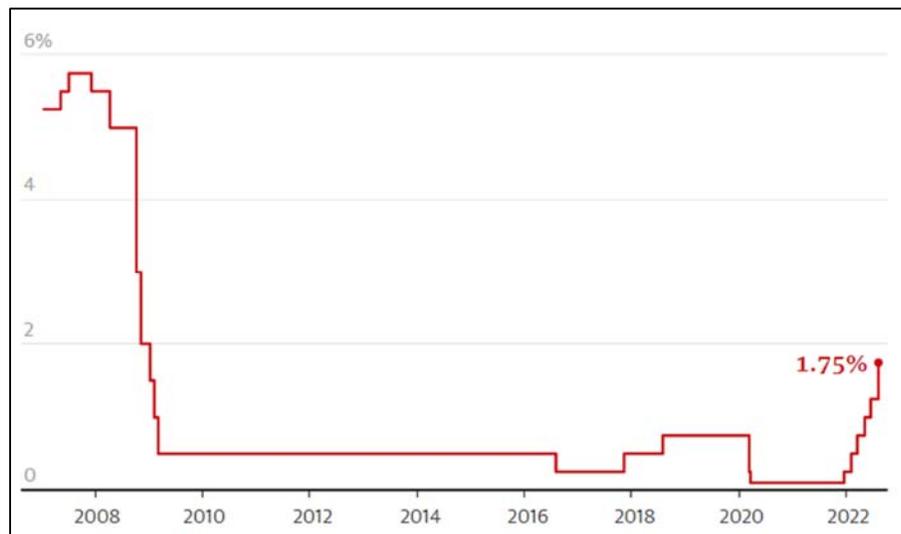
inflation at the time. Whilst this doesn't cover the potential impact over the year it would reduce it to approximately £560k.

- 4.9 Further considerations are also needed around employee costs. As members will be aware there has been a level of staff turnover above that allowed for within the Original Estimate 2022/23 and this may help in alleviating the potential overall increased committee service costs.
- 4.10 To the end of July such underspends amounted to approximately £170k
- 4.11 The concern around inflation and the impact on the Council rests with how long and sustained the heightened level of inflation could potentially be. The assessments shown here are a snapshot at this point in time, yet the forecasts show a potentially worsening picture.
- 4.12 Looking at wider implications of rising inflation, this also has a knock-on effect on the demand for certain council services as residents are hit by the rising cost of living. There is also the potential for further impact through increased council tax and business rates arrears.

5 INTEREST RATES

- 5.1 Bank base rate is currently at 1.75% following a number of rapid increases this year.

Bank Base Rate



- 5.2 There is support amongst economists for the increases in interest rates in an effort to bring down inflation, but there are also concerns around this continuing, with the potential for a recession being mooted, as noted above at paragraph 3.8.
- 5.3 In economic forecasts from the Council's bankers, HSBC UK, there are expectations that bank rate will be increased to 2.75% by the end of 2022, with a further 50bp increase in September followed by a 25bp increase in November and a 25bp increase in December.

- 5.4 After this, it is expected that interest rates will be left, as the impact of the rate increases on inflation is assessed. Financial markets are currently speculating that interest rates may go even higher, implying a peak for bank rate in May 2023 of just over 3%.
- 5.5 A forecast has been undertaken on our expected cash balances through to the end of March 2023, and the impact of the forecast rate rises on the investment of these balances. If our assumptions on available balances are correct, and the forecast interest rate rises materialise, our forecast investment interest income could potentially be approximately £400k, compared to the Original Estimate for 2022/23 of £50k, so a potential increase in investment interest income of £350k. This includes interest on the Roefield Loan.
- 6 CONCLUSION
- 6.1 Inflation has increased at levels not seen for many years and is forecast to reach levels last seen in the 1980's.
- 6.2 Currently, for this council, the key areas where there is most impact are in respect of:
- Staffing costs due to the latest pay offer
 - Gas
 - Electricity
 - Vehicle fuel
 - ICT software
- 6.3 To date there are some compensating staffing underspends due to vacant posts and staff turnover.
- 6.4 Interest rates have seen some sustained incremental rises, with more forecast in the coming months. If these materialise, there will likely be an increase in income from the investment of available balances.
- 6.5 A close watch will need to be maintained on the impacts of inflation. This will also have a substantial impact on the setting of the budget for 2023/24 and forecasting for future years, particularly with the added uncertainty currently around local government finance.

HEAD OF FINANCIAL SERVICES

DIRECTOR OF RESOURCES

BWG17-22/LO/AC
17 August 2022

Latest Budget Forecast – August 2022

ANNEX 2

| | 2023/24 | 2024/25 | 2025/26 |
|---|------------------|------------------|-------------------|
| | £ | £ | £ |
| Net Budgeted Expenditure | 9,721,516 | 10,067,146 | 10,340,013 |
| Less Interest earned on investments | -300,000 | -250,000 | -200,000 |
| Net Budget | 9,421,516 | 9,817,146 | 10,140,013 |
| Less Funding | | | |
| Core Government Funding | | | |
| Business Rates baseline | 1,422,113 | 1,422,113 | 1,422,113 |
| Revenue Support Grant | 215 | 215 | 0 |
| Rural Services Delivery Grant | 118,913 | 118,913 | 118,913 |
| Lower Tier Services Grant | 65,058 | 65,058 | 65,058 |
| Services Grant | 0 | 0 | 0 |
| Other Funding | | | |
| Use of New Homes Bonus | 420,000 | 420,000 | 0 |
| Use of Business Rate Growth | 875,104 | 875,104 | 875,104 |
| Use of Business Rate Growth - Pay-line | 369,800 | 412,100 | 0 |
| Possible Transition Grant (Floor) | 601,486 | 433,925 | 400,000 |
| Use of General Fund Balances | 250,000 | 250,000 | 250,000 |
| Collection Fund Surplus | 25,000 | 25,000 | 25,000 |
| Still to be funded | 5,273,827 | 5,794,718 | 6,983,825 |
| Council Tax Income: | | | |
| Assumed Band D increasing by £10 then £5 pa | 170.69 | 175.69 | 180.69 |
| Assumed Taxbase (increasing by 1% pa) | 24,799 | 25,047 | 25,297 |
| Precept (amount raised from council tax) | 4,232,861 | 4,400,422 | 4,570,911 |
| Budget Gap | 1,040,966 | 1,394,296 | 2,412,914 |