

POLICY AND RESOURCES COMMITTEE - 18 JULY 2022

PART I - DELEGATED

8. IMPACTS OF INFLATION ON THE COUNCIL (DoF)

1 Summary

- 1.1 The Consumer Price Index (CPI) rose by 9.1% in the 12 months to May 2022, up from 9.0% in April. This is the highest CPI 12-month inflation rate in the National Statistic series, which began in January 1997. Modelled estimates for the period prior to 1997 indicate that this is the highest rate since 1982.
- 1.2 The Council's annual budget setting process takes into account forecasts for inflation. However, where possible, the Council cash limits budgets and only applies inflation to supplies and services budgets where there is a contractual commitment so to do. This means that, for a significant proportion of the Council's budget, annual efficiencies equivalent to the rate of inflation are delivered as services manage increased costs within existing budgets. Over the last five years, annual inflationary pressures of between 1.5% (March 2021) and 9% (March 2022) have been absorbed within budgets.
- 1.3 The main exception to cash limited budgets is for the annual pay award where a contingency budget is created to fund a pay award based on available information regarding the pay settlement.
- 1.4 This report sets out the latest assumptions regarding the impact of rising inflation on the Council's services and budgets for 2022/23.

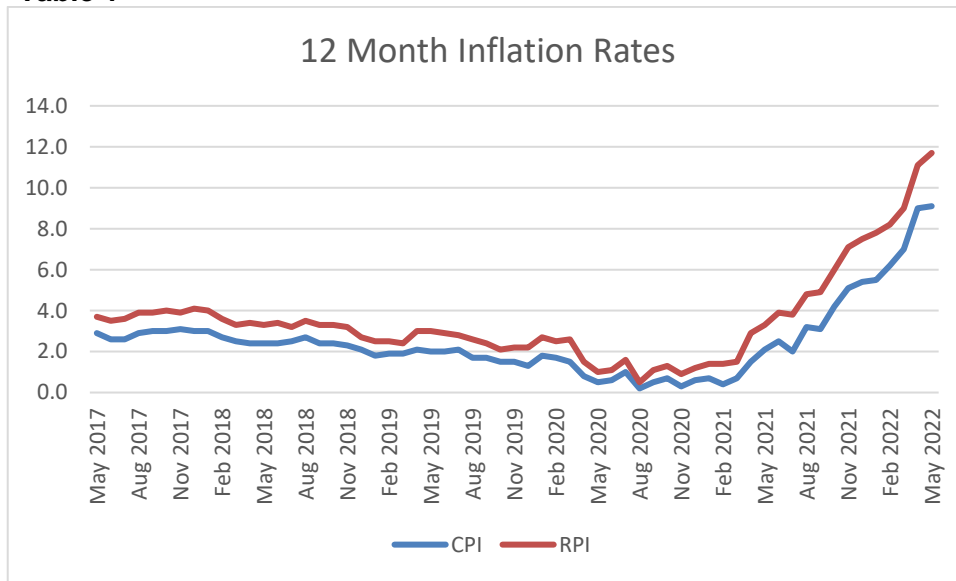
2 Details

2.1 Economic Context

- 2.1.1 Consumer price inflation is the rate at which the prices of goods and services bought by households rise or fall. The Consumer Price Index (CPI) is a measure of inflation published monthly by the National Office for Statistics. The index looks at the changing cost of a 'basket' of goods and services. The basket includes transport and energy costs and other supplies that are purchased by the Council. The latest published rate is for the 12 month period to May 2022 which showed a rise in prices of 9.1%.
- 2.1.2 CPI is used to compare to the government's target for inflation. CPI has been above the current target of 2% for the last 12 months having been below the target for all of the 2020/21 financial year.
- 2.1.3 The Retail Price Index (RPI) is an alternative measure of inflation which, prior to 2003, was the principal official measure for inflation in the UK. RPI continues to be used widely in contracts for annual price indexation. RPI is generally higher than CPI and increased by 11.7% to May 2022.
- 2.1.4 The main difference between CPI and RPI is that they look at slightly different things with RPI including the costs of housing including mortgage interest costs and council tax.

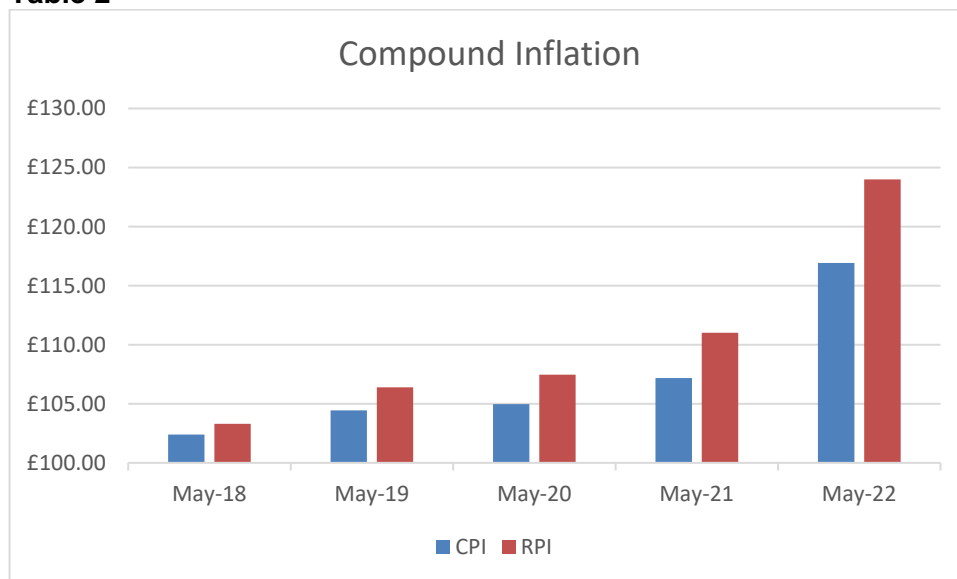
2.1.5 Table 1 below illustrates the 12 month inflation rates for the last five years.

Table 1



2.1.6 Table 2 below illustrates the compound impact of inflation over the last five years. The basket of goods used to calculate CPI costing £100 in May 2017 will now cost £117 (17% increase) and a basket of goods used to calculate RPI will now cost £124 (24% increase):

Table 2



2.1.7 Economists and commentators forecast that the headline rate of inflation will fall over the next 12 months. However, unless deflation occurs this will only result in a slowing of price increases and not price reductions meaning that price rises that have already occurred need to be factored into existing and future spending plans.

2.1.8 The impacts on specific services and council spending plans are set out in the paragraphs below.

2.2 Impact on Budget

- 2.2.1 The full impact on budgets will be reported as part of ongoing monitoring but, given the potential impact, work is ongoing in considering the most significant impacts.
- 2.2.2 The pay award remains the most significant risk to the annual budget. The unions have submitted the 2022 pay claim, which would apply from the start of April, which would see council employees receive either a £2,000 rise at all pay grades or the current rate of RPI (presently 11.1%), whichever is higher for each individual. The budget includes a 2% provision for the pay award. For each 1% above that 2% there would be a budget pressure of between £130k and £140k.
- 2.2.3 As well as pressure from the cost of living increase to pay, the Council is also experiencing some difficulties in recruiting which may put further pressure on pay. A market supplement has previously been agreed for HGV drivers and loaders within the Council's waste services and this is built into the current MTFS.
- 2.2.4 Fuel and utility prices are continuing to put pressure on budgets with an additional pressure on fuel costs at the depot of approximately £18k per month. However the market for recyclables has improved considerably since the budget was set providing additional income to offset some of the additional cost. Utilities costs will place additional pressure on budgets relating to Watersmeet and Three Rivers House.
- 2.2.5 The contract with SLM includes a utilities price mechanism, however, the contract has already been reviewed this year in relation to the pressure arising as a result of Covid, and it is against this background that any further discussions would take place.
- 2.2.6 Overall balances remain sound with the 2021/22 outturn report showing an additional £0.7M contribution to the General Fund. General Fund Balances are forecast to be at £4.4M, at the end of 2022/23 before any additional inflationary pressures, against a recommended minimum of £2M and the Economic Impact Reserve stands at £1.8M.
- 2.2.7 Measures to contain inflationary pressures, where possible, within the overall budget envelope will be brought forward as part of the ongoing budget monitoring reporting throughout the year and the impact of inflation in future years will be a key driver of the budget strategy for 2023/24 and beyond.
- 2.3 Wider Impact
 - 2.3.1 There has been a local impact with 2,300 more school children on free school meals across Hertfordshire since November 2020 although numbers in Three Rivers remain lower than most other areas of Hertfordshire.

Districts	Total pupils	FSM pupils	% FSM
Broxbourne	15776	2988	18.9%
Dacorum	23350	3868	16.6%
East Hertfordshire	27027	2626	9.7%
Hertsmere	16664	2342	14.1%
North Hertfordshire	18414	2622	14.2%
St Albans	29378	2871	9.8%
Stevenage	15465	3117	20.2%
Three Rivers	15266	1509	9.9%
Watford	14343	2074	14.5%
Welwyn Hatfield	16161	2925	18.1%
Total	191844	26942	14.0%

- 2.3.2 The TRDC managed Household Support Fund has received 44 applications since it reopened 2 weeks ago. This round of application have been received significantly quicker than the winter funding where we it took 2 months to receive the same number of applications.
- 2.3.3 The Community and Voluntary Sector are reporting increased demand for their services. Three Rivers Citizens Advice have seen 72% of clients presenting with debt problems in the first quarter of this year compared with the same period last year – a significant increase with an increasing number of those being people in employment. Watford Food Bank are seeing increasing demand in a context of decreased donations – donation are down 3 tonnes per month as for example those who would have added an item to the food bank as part of their weekly shop can no longer afford to do so.
- 2.3.4 Collection rates for Council Tax and Business Rates are currently holding up, with performance at the end of Q1 on par or slightly above the position at the same time last year. However the service is beginning to see signs that the crisis is having an effect on our residents. The service is receiving a high number of calls at the moment as customers seek assistance with claiming the Council Tax Energy Rebate. Some customers are voicing concerns that although they are able to pay their Council Tax currently they worry about how much longer they will be able to afford it as the crisis continues, they are especially concerned about the cost of food.
- 2.3.5 Conversely, we have seen a decrease in the number of new claims received for Council Tax Support (CTS) with 195 received in Q1 2022/23 compared to 276 for the same quarter 2021/22 (2021/22 we saw a lot of customers being made redundant or furloughed due to the pandemic).
- 2.3.6 As at end June 2022 13,600 council tax energy rebate payments totalling £2,040,000 have been made to households in the district. This is equivalent to 70% of households in Bands A-D identified as being eligible. Remaining customers, for whom we do not have bank details, can apply for the energy rebate on-line or at the council offices where we have officers on hand to assist where required. 2 drop-in surgeries are also being held during July where residents can drop-in and we will assist them with making a claim (19 July at the Hillside Community Hub in Abbots Langley and 20 July at the Watford Rural Parish Council offices in South Oxhey).

3 Options and Reasons for Recommendations

3.1 This paper is for information only.

4 Policy/Budget Reference and Implications

4.1 The recommendations in this report do not have any impact on Council Policy or existing budgets as this paper is for information only. Where budgetary implications are identified, these will be addressed through the quarterly financial monitoring report for 2022/23 and the budget setting process for 2023/24 onwards.

5 Financial Implications

5.1 Where the financial implications of rising inflation are known, these are set out in the main body of the report above.

6 Legal Implications

6.1 There are no legal implications arising directly from this report.

7 Equal Opportunities Implications

7.1 Relevance Test

Has a relevance test been completed for Equality Impact?	Yes
Did the relevance test conclude a full impact assessment was required?	No

8 Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications and Website Implications

8.1 There are no implications in respect of these areas arising directly from this report.

9 Risk and Health & Safety Implications

9.1 The Council has agreed its risk management strategy which can be found on the website at <http://www.threerivers.gov.uk>. In addition, the risks of the proposals in the report have also been assessed against the Council's duties under Health and Safety legislation relating to employees, visitors and persons affected by our operations. The risk management implications of this report are detailed below.

9.2 The following Financial and Budgetary risks are reported to each meeting of the Audit Committee and are included as an appendix to the quarterly Budget Monitoring Report to Policy and Resources Committee. FIN07 is also reported within the Council's Strategic Risk Register.

Nature of Risk	Consequence	Suggested Control Measures	Response <i>(tolerate, treat terminate, transfer)</i>	Risk Rating <i>(combination of likelihood and impact)</i>
FIN07 The Medium term financial position worsens.	The general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register.	Regular budget monitoring reports to committees; Budgetary and Financial Risk Register reviewed and updated as part of the budget monitoring process; identification of budgetary pressure when reviewing the medium term financial plan during the budget setting process which includes a risk assessment for the prudent level of general balances and an assessment of financial resilience with reference to the CIPFA Financial resilience index.	Treat	6
FIN08 Pay award is above budgeted amount	Revenue balances insufficient to meet estimate pay award increases	The Council's 3 year Medium term Financial Strategy includes forecast pay awards for the next three years. The Council maintains reserves to guard against risk including setting a prudent minimum level for general balances. Early identification of new pressures through Budget Monitoring	Treat	2
FIN09 Inflation creates budgetary pressures	Revenue balances insufficient to meet other inflationary increases	Monitor future inflation projections. Actively manage budgets and contracts to contain inflation. The Council maintains reserves to guard against risk including setting a prudent minimum level for general balances.	Treat	2

9.4 The above risks are scored using the matrix below. The Council has determined its aversion to risk and is prepared to tolerate risks where the combination of impact and likelihood scores 6 or less.

Very Likely ----- Likelihood ----- ▼ Remote	Low 4	High 8	Very High 12	Very High 16
	Low 3	Medium 6	High 9	Very High 12
	Low 2	Low 4	Medium 6	High 8
	Low 1	Low 2	Low 3	Low 4
Impact Low -----► Unacceptable				

Impact Score

- 4 (Catastrophic)
- 3 (Critical)
- 2 (Significant)
- 1 (Marginal)

Likelihood Score

- 4 (Very Likely (≥80%))
- 3 (Likely (21-79%))
- 2 (Unlikely (6-20%))
- 1 (Remote (≤5%))

10 Recommendation

That the contents of this report be noted.

Report prepared by: Hannah Doney (Head of Finance)

Data Quality

Data sources:

Office for National Statistics: www.ons.gov.uk

Data checked by:

Alison Scott, Shared Director of Finance

Data rating:

1	Poor	
2	Sufficient	
3	High	<input checked="" type="checkbox"/>

Background Papers

Budget Report to Council (February 2022)