



# Cabinet

<b>Report for:</b>	Cabinet
<b>Title of report:</b>	Cost of Living
<b>Date:</b>	27 <sup>th</sup> September 2022
<b>Report on behalf of:</b>	Cllr Graeme Elliot, Portfolio Holder for Corporate Services
<b>Part:</b>	I
<b>If Part II, reason:</b>	N/A
<b>Appendices:</b>	
<b>Background papers:</b>	None.
<b>Glossary of acronyms and any other abbreviations used in this report:</b>	GF – General Fund HRA – Housing Revenue Account

## Report Author

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## Responsible Officer

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<b>Corporate Priorities</b>	A clean, safe and enjoyable environment Building strong and vibrant communities Ensuring economic growth and prosperity
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	<p>Providing good quality affordable homes, in particular for those most in need</p> <p>Ensuring efficient, effective and modern service delivery</p> <p>Climate and ecological emergency</p>
<b>Wards affected</b>	All
<b>Purpose of the report:</b>	1. To update members on the current and future pressures the Council is under due to current inflationary pressures.
<b>Recommendation (s) to the decision maker (s):</b>	1. That Cabinet notes the ongoing pressures to the Council as a result of the wider macro-economic uncertainty and the potential upcoming recession.
<b>Period for post policy/project review:</b>	The Council will monitor these pressures on an ongoing basis, and they will be reflected in the Corporate Revenue Monitoring reports and Medium Term Financial Strategy.

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## 1. Background

The current levels of inflation are impacting on the services that the Council delivers to its residents and businesses. At this point in the financial year, and with key economic decisions still to be made, it is very hard to assess the specific levels of impact across the Council.

The impact of the current inflationary levels on service delivery are being closely monitored.

## 2. Council Financial Impact

2.1 The Council expects that there are 4 key areas that will be directly financially impacted as a result of rising inflation, the pressure on household finances and a potential slowing of the local economy.

### A. Funding/Tax Collection.

The Council collects circa £110 million of Council Tax on behalf of its preceptors of which circa £14m is retained by the Council to fund the baseline budget for the delivery of essential core Council services. As household budgets become more challenging, the financially vulnerable in Dacorum may need to choose which bills to pay, and Council Tax may be perceived as less essential than utilities, food and clothing. If Council Tax collection rates fall, this will impact the ongoing funding to the Council in the medium term and lead to further future funding pressures.

As at quarter 1, the Council Tax collection rates are in line with the budgeted expectations. There are, however, concerns that current collection rates have been supported by central government policies such as the energy rebate payments, as £1m of these payments were credited against Council Tax accounts. There is also a concern that the collection rate could deteriorate as the year progresses and household budgets become increasingly stretched in the autumn and winter.

Another government led funding stream is business rates. The Council retains circa £2m of the £66m in business rates collected by the Council. Although the impact on local business and economic development is unclear at this point in time, if the wider population are spending less and businesses are facing increased energy costs, this could impact on trade and potentially business rates values and collection.

### B. Supplies and Services/Third Party Delivery.

Councils are not immune from macro-economic pressures and supply chain costs are increasing. The Council has a well-developed supply chain with contracts in place for all significant suppliers so the impact in 2022/23 is limited. However there are likely to be significant inflationary increases in certain contracts in 2023/24 and beyond.

Utility costs are increasing significantly in 22/23. The procurement of the majority of gas and electricity supplies for the Council takes place annually in October, so utility costs are being monitored closely.

A full year pressure of circa £200k in relation to the cost of fuel purchased to support the in-house fleet is being projected at quarter 1 of the current financial year. With fuel prices having increased by over 50% this year compared to the previous year, these costs are expected to remain at a higher level in the medium term.

The impact on the procurement for future capital build/works is an area of significant concern, with construction projects reporting an average sector-wide increase in excess of 27% in the year to date.

### C. Employee Inflationary Pay Awards

The 2022/23 national pay awards are currently being negotiated, with an employer offer of circa 6% for the Council. This award outstrips the expectations of most Local Authorities and will cost the Council circa £850k and will be an additional ongoing baseline pressure.

The 2023/24 pay award is still very unclear, with the present MTFS assuming 4% inflationary growth.

### D. Income Reductions

The Council collects circa £17m of income from fees and charges, including £6m for commercial property, £3m for garages, £3m for parking and £1.5m for Planning services.

As household resources are stretched and residents have less disposable income, there is a risk that residents will reduce the discretionary/non-essential purchases. This could lead to less demand for parking, leisure activities and use of Council garages, and create an additional financial pressure.

In addition, if public spending levels decline, and there is a slow-down in the economy, this is likely to have an impact on local commercial property and development aspirations that drive commercial property and Planning income.

## 2.2 Scenario planning

The table below sets out some high-level scenarios for the potential financial impact to the Council if income collection reduces and if inflation levels are higher than forecast in the MTFS. It also demonstrates the impact if the present cost of living crisis leads to a reduction in wider income for the Council.

Description	Budget	Percentage above Budget Assumptions		
		2%	3.5%	5%
Income Collection - CT & NNDR	£16m retained	£0.32m	£0.56m	£0.8m
Expenditure - Inflationary Pressures	£26m	£0.52m	£0.91m	£1.3m
Income Reductions	£17m	£0.33m	£0.6m	£0.82m
<b>Total budget or budget pressure</b>	<b>£59m</b>	<b>£1.17m</b>	<b>£2.07m</b>	<b>£2.92m</b>

If inflation levels remain high, without additional government support, the ongoing medium-term impact will be significant and will create significant pressure on Council budgets, which could impact on future Council service provision.

## 3. Dacorum's response to Residents and Businesses.

### **3.1 Support to Residents.**

The Council is working in partnership with the voluntary and community sectors through Community Action Dacorum to coordinate support for residents during these challenging economic times.

Part of this work will be to raise the profile of those organisations, who can provide various means of support to the most vulnerable residents. The Council is also mindful that the voluntary and community sectors will be operating under more challenging circumstances and is therefore keen to ensure that there is a high degree of collaboration to ensure residents get the right support from the most appropriate organisation.

A Cost of Living Symposium is scheduled to take place at the Council's offices in October. The purpose of this event is to bring together Council Officers and Members with partners from Hertfordshire County Council and the voluntary sector to raise awareness and act as a call to action to support residents and businesses. An action plan will be developed and feedback on this plan will be provided to key stakeholders at a follow up session in November.

### **3.2 Response to Local Businesses.**

The Council has worked in close partnership with local businesses, partners and other agencies since the pandemic. This includes West Herts College the Chamber of Commerce and the Local Enterprise Partnership. The Dacorum Economic Recovery Board has been established, which oversees the development of key workstreams to support economic recovery in the Borough. It has developed a robust detailed economic recovery plan which is currently being implemented.

To date, in 2022/23, the Council has implemented the 22/23 business rates relief which is reducing rates bills for about 650 businesses, and it has also applied £2.9m of retrospective 21/22 Covid Additional Relief Fund support to about 200 business rate accounts for companies that received no previous support for the impact they suffered during the pandemic.

## **4. Conclusion/Next Steps**

The Council is at present finalising the 2022 – 2026/27 Medium Term Financial Strategy. It is clear that the effect of the pressures detailed above, and the general uncertainty around government policy and economic outlook, are creating a very challenging fiscal environment which will undoubtedly raise significant challenges for the Council's financial position, as well as those of its residents and businesses.

## **5. Financial and Value for Money implications**

These are contained within the body of the report.

## **6. Legal Implications**

The Council has a statutory responsibility to make arrangements for the proper administration of its financial affairs. This report forms part of these arrangements.

## **7. Equalities, Community Impact and Human Rights**

Community Impact Assessments for Council activities are carried out by relevant services with responsibility for those activities. A separate Community Impact Assessment has not been carried out in respect of this report.

There are no Human Rights Implications arising from this report.

**8. Sustainability implications**

There are no specific sustainability implications arising from this report.

**9. Council infrastructure**

The content of this report sets out the implications to the Council of the wider macro-economic financial position 2022 and beyond.

**10. Statutory Comments**

**Monitoring Officer**

No comments to add to the report.

**S151 Officer**

This is a S151 Officer report and comments are included in the body of the report.

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