

7. 2022/23 REVISED REVENUE BUDGET (JW)

1. Purpose of the report

This report presents to Members revisions to the 2022/23 revenue budget as a result of external economic factors in year.

Key Issues

- The final pay award for 2022/23 at an average of 6.8% is greater than the pay contingency of 2% Despite pay increases being offset by the reduction in National Insurance rates.
- Energy costs are increasing resulting in insufficient budget for 2022/23.
- Interest income is greater than budget due to increased interest rates.
- Recommendation of introduction of a vacancy factor.

2. Recommendations

- 1. To approve the changes to the revenue budget for 2022/23 set out in Table three of the report at paragraph 25.**
- 2. To approve the introduction of a vacancy factor at 4% when revising the Authority pay budget for 2022/23 and setting the Authority pay budget following financial years.**

How does this contribute to our policies and legal obligations?

3. The Authority is required to set a balanced revenue budget for 2022/23 which was approved on 4 February 2022 (Minute reference 10/22). External economic factors will have an influence on the pay, non-pay and income of the Authority during the financial year 2022/23 and the approved budget needs to be revised to ensure that the Authority continues to have a balanced budget for 2022/23.

Background Information

4. The UK is currently experiencing the highest rates of inflation for 40 years, this is mainly as a result of higher energy and food costs which have been impacted by the war in Ukraine. This has a direct impact on the spending power of the 2022/23 budgets currently approved.
5. The main budget pressures are the 2022/23 pay award, energy prices and interest income, although there will also be higher IT costs and other fixed costs with contractual increases linked to inflation.
6. In June 2022, the Authority was notified that the current 2% pay award included in the budget would not be sufficient. The two main reasons for this at that time were the forecast increases to the National Living Wage (NLW) and the rapid rises in inflation meaning that trade unions were unlikely to accept any wage increase below 3%.
7. On 25 July 2022 the National Employers for Local Government Services agreed to make a one-year final pay offer to the Trade Unions of an increase of £1,925 on all National Joint Committee (NJC) pay points 1 and above. What this means for the Authority is that the percentage increase for each scale point (scp) in the pay scale ranging from 10.5% for scp 1 to 3.87% for scp 45, this gives an average pay increase of 6.8%. The value of

this pay award is the amount required for scp 1 to meet the expected level of the NLW by 1st April 2023. This means that the proposed national pay award for 2022/23 is a much greater percentage increase than was budgeted for, therefore there is a risk that the current budget for 2022/23 is not sufficient to cover the pay award.

8. Using the establishment used to set the pay budget for 2022/23, the pay award will cost £452k, of which £150k (just over 2%) is allowed for as pay contingency in the 2022/23 budget. Therefore, a further £302k, plus £4k for Members will be required if the pay award is accepted.
9. The Trade Unions, Unison, Unite and GMB are meeting on 1 November 2022, following their respective consultations to members on the pay offer. In light of this the NJC will issue a pay circular not before 1 November 2022, but should the pay offer be accepted then notification will be received as soon as possible to enable employers to implement the change and pay employees at the higher rate as soon as is practical.
10. UK Interest rates have been at a low level since March 2009 until the base rate started to rise from 0.25% to 0.50% in February 2022. The Bank of England has been increasing the base rate regularly to reduce and stabilise the UK inflation rate. The latest increase in September 2022 changed the rates from 1.75% to 2.25%. The next inflation rate decision will be 3 November 2022. The Bank of England has stated that they will continue to increase the base rate as necessary to bring inflation back down to their 2% target. UK inflation (Consumer Prices Index, CPI) for September was 10.1%, which the Bank of England expects to increase up to 11% in October then reduce back to 10% for a few months before starting to reduce.

Proposals

11. The main impact of the external factors including inflation and interest rates to the 2022/23 budget affects pay, energy costs and interest received. To enable the Authority to continue to achieve a balanced budget for 2022/23 five changes are proposed to the approved budget. These are:
 - the 2022/23 pay award;
 - the increase in energy costs;
 - the introduction of a vacancy factor when setting the pay budget;
 - the reduction in National Insurance costs, and
 - the increase in income from interest.

Pay Award and National Insurance

12. Assuming that the employers final pay offer is accepted by the unions in November 2022, the approved pay budget for 2022/23 will not be sufficient and the Authority will overspend on pay. The pay award will cost approximately £452k and the approved pay contingency is £150k (approximately 2%), therefore the shortfall is £302k plus £4k for Members.
13. As a result of changes made to the National Insurance (NI) contribution rate, the Authority will have a reduction to the gross pay budget of £25k in year. The 1.25% increase to NI that was implemented in April 2022 has been reversed from 6 November 2022 and will result in savings both to employees and the Authority.

Energy Costs

14. The approved budget for energy costs (electricity and gas) is also insufficient to cover the expected charges for the whole of 2022/23. The overall budget for gas and electricity across the Authority is £85k for 2022/23, current estimates are that the budget will need to increase by £45k up to £130k.

Interest Income

15. The actual interest on balances received by the Authority up to Quarter 2 (April to September) is £37k, against a budget of £15k. Based on data from the Bank of England it is expected that interest rates will remain higher than before for the foreseeable future, therefore the estimated interest income for 2022/23 will be at least £75k.
16. The current increases in interest rates will not have an impact on any current outstanding borrowing as the Authority borrows money (internally and externally) at a fixed rate at the point of need (as per the Treasury Management Strategy), however future borrowing for the Capital Strategy is likely to be at a higher cost than in previous years.

Vacancy Factor

17. A cost reduction available to the Authority is the introduction of a Vacancy Factor when setting the pay budget. What this means is that the gross pay budget is calculated fully but this is then reduced by an agreed percentage. This is the expectation that as an entity that employs staff then vacancies will naturally occur during the year. When a vacancy does arise, there is often a gap between a person leaving and a new starter joining whilst recruitment is carried out. Therefore, this should be considered when setting pay budgets.
18. The Authority has a history of underspend on pay due to vacancies and there is currently a higher than average turnover rate in staff compared to the turnover at the Authority in previous years. This means that pay underspends are expected to continue. This is also based on the fact that there is also the natural impact when an entity is an employer.
19. The Authority's actual level of pay underspends for permanent posts in the establishment are as follows:

Table One: Pay Underspends at Outturn

Year	Underspends Including Planning		Underspends Excluding Planning	
2019/20	£851k	11.87%	£757k	12.00%
2020/21	£441k	6.61%	£273k	4.68%
2021/22	£499	7.88%	£345k	6.24%
Average	£597k	8.79%	£458k	7.64%

20. There have been recruitment difficulties specific to the Planning Service, therefore the information was prepared both including and excluding the Planning Service to allow for any skewing of the data.
21. The average value of vacant posts for the past three years including the Planning Service is almost £600k or 8.79% and excluding the Planning Service just over £455k at 7.64%.

22. Table of vacancy factor options.

Table Two: Vacancy Factor Options

Vacancy Factor Percentage	Gross Pay	
	£6.575m (Before 2022/23 Pay Award)	£7.001m (After 2022/23 Pay Award and NI Reduction)
	£000's	£000's
0.5%	33	35
3%	197	210
3.5%	230	245
4%*	263	280
4.5%	296	315
5%	329	350
5.5%	362	385

* Recommended level

23. A vacancy factor of 4% is recommended to reflect the lowest historic percentage (in 2020/21 4.68%). There is a balance to strike when setting the vacancy factor between maximising savings and not being too high to risk a pay over spend and it is felt that at this level the correct balance is made. 0.5% of gross pay for 2022/23 (after the new pay award) is £35k so for each half a percentage there would be a budget saving of £35k.
24. The introduction of a vacancy factor would result in a reduction to the baseline budget and the principle would be applied to future financial years when setting the budget.

Summary of Changes

25. The table below shows the summary of changes recommended to enable the Authority to address the 2022/23 budget issues discussed above.

Table Three: Summary of Changes to 2022/23 Budget

	2022/23 Approved Budget £000's	2022/23 Revised Budget £000's	Changes £000's
Net Expenditure	6,565	6,891	326
Funding	(6,770)	(7,110)	(340)
(Surplus)/ Deficit	(205)	(219)	(14)
<u>Reconciliation of Changes</u>			
Pay Award Additional Costs			306
Increase in Energy Costs			45
Vacancy Factor @ 4%			(280)
Reduction in NI Costs			(25)
Increase in Interest Received			(60)
Total Budget Changes			(14)

26. The overall impact to the 2022/23 budget will be a small an increase of £14k to the surplus to the Authority, however this is due to the offsetting nature of the increases in pay and energy at £306k and £45k respectively by the vacancy factor (£280k), NI reductions (£25k) and additional interest received (60k).

Are there any corporate implications members should be concerned about?

Financial:

27. The issues have been covered in the report

Risk Management:

28. The Chief Finance Officer has a statutory responsibility under Sections 25 – 28 of the Local Government Act 2003 to report to Members, the Monitoring Officer and External Auditors on the robustness of the budget setting and monitoring process, and has an express duty to monitor the budget and underlying assumptions throughout the year, and to act when significant overspends or shortfalls in income occur.
The External Auditor assesses the financial position of the Authority as part of its annual Value for Money conclusion.

Sustainability:

29. This report represents continuing to look after the sustainability of the Authority's budgets and to be able to financially manage unexpected events

Equality, Diversity and Inclusion:

30. The proposed pay award for 2022/23 favourably impacts those employees paid at lower scale points. This is because the pay award is a fixed amount (£1,925) for each scp. This means the pay increase at scp 1 is 10.5% whereas at scp 45 the increase is at 3.87%

Climate Change

31. There are no issues relevant to this report.

32. Background papers (not previously published)

None

33. Appendices

None

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