



Our Council Scrutiny Panel

20 November 2019

Report title	Medium Term Financial Strategy – Growth and Inflation Assumptions	
Cabinet member with lead responsibility	Councillor Louise Miles Resources	
Wards affected	All	
Accountable director	Claire Nye, Director of Finance	
Originating service	Strategic Finance	
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Report to be/has been considered by		

Recommendation(s) for action or decision:

The Scrutiny Panel is recommended to:

1. Review and provide feedback on the growth and inflation assumptions built into the Medium -Term Financial Strategy (MTFS).

1.0 Purpose

- 1.1 The purpose of this report is to allow Scrutiny Panel to review and comment on the assumptions built into the Medium-Term Financial Strategy (MTFS) for growth and inflation.

2.0 Background

- 2.1 The MTFS is a multi-year financial plan which sets out the Council's forecast income and expenditure. A potential budget deficit (gap) is identified where the forecast expenditure exceeds income (Council Resources).
- 2.2 There are two main reasons for a deficit; successive cuts in Government grant support which have reduced the Council's resources at the same time substantial increase in demand for council services, increasing the cost of providing services.
- 2.3 The Budget and MTFS 2019-2020 to 2023-2024 presented to Full Council in March 2019 set a balanced budget for 2019-2020 without the use of General Fund reserves. However, it was projected that the Council would be faced with finding further estimated budget reductions totalling £27.3 million in 2020-2021 rising to £40 - £50 million over the medium term.
- 2.4 In order to address the budget deficit, the Council look at identifying opportunities in line with the Five-Year Financial Strategy to support the budget strategy 2020-2021 and future years, whilst also analysing emerging pressures and growth required to support the delivery of vital services.
- 2.5 In September, Our Council Scrutiny Panel received a report detailing the assumptions in the MTFS about the main sources of income for the Council.
- 2.6 The MTFS also provides for general inflation increases, such as pay inflation, price related increases for utilities and changes to interest and investment rates. In addition, specific growth is built into the MTFS to cover emerging cost pressures which become evident during the year, as well as cost pressures due to increased demand for services. Any increase in these assumptions increases the forecast deficit.

3.0 General Inflation

- 3.1 The MTFS provides for general inflation increases, such as pay inflation and increases in utility costs. The table below details some of the assumptions currently built into the MTFS.

Table 1 –General Inflation Assumptions

Inflation	Description	Approved Assumptions March 2019
Pay related Pressures	The Council's staffing establishment stands around 3,600 full time equivalent employees. On an annual basis the cost of this establishment increases due to a combination of pay award, annual increments, changes to employer's national insurance and pension contributions along with any other pay related pressures.	The estimated annual increase for pay related pressures is in the region of £4.9 million in 2020-2021, rising to over £5 million in subsequent years. This increase assumes an annual pay award of 2%. If the pay award is in excess of this, this will result a further cost pressure.
Price Inflation – Gas and Electricity	The Council own a number of buildings. As with other utility users the Council sees an annual increase in the cost of gas and electricity. Utility costs are projected based on the Council's asset portfolio, annual usage and estimated inflation. This is reviewed on an annual basis.	The estimated annual increase for both gas and electricity for 2020-2021 is £350,000. This is based on an increase of 15% for Gas and 6% electricity.
Price Inflation – NNDR	The Council also has a responsibility to pay business rates on the properties it owns. Business Rates are set by Government and are uplift each year by inflation.	The estimated annual increase of 2% is built into the MTFS
Treasury Management Activity	Treasury Management activities include the management of the Council's borrowing, investments and cash flows. The Council has undertaken borrowing to support the Capital Programme. The Council's strategy is to use cash balances to finance capital expenditure rather than carry out new external borrowing. However,	The borrowing interest rate currently assumed at an average of 3.35% in 2020-2021 rising to 3.6% in 2023-2024. The return on investment is forecast at 0.6% over the medium term.

Inflation	Description	Approved Assumptions March 2019
	<p>any cash surplus are invested in order to generate a return.</p> <p>The MTFS forecasts the borrowing interest rate and the potential return on investment over the medium term.</p>	

4.0 Specific Growth

- 4.1 In addition to general inflation, the MTFS includes growth to support specific services such as demographic growth, increased demand for services, loss of income and growth required to finance the capital programme. The table below details some of the main areas of growth included in the MTFS.

Table 2 – Specific Growth Assumptions

Growth	Description	Approved Assumptions March 2019
Adult Social Care – Demographic Growth and increased costs	<p>The Council has a duty to provide support to meet the needs of adults requiring social care as assessed under a nationally set eligibility criteria. The growing demand for support due to the age profile of our City and complex needs see these costs increasing on an annual basis. Detailed financial and activity modelling is carried out and reviewed on a regular basis to forecast the potential cost pressures over the medium term.</p>	<p>The MTFS assumes growth to support costs pressures and demographic growth of £6.2 million in 2020-2021. This is offset by the reversal of a one-off grant of £1.4 million. Growth of £3.2 million has currently been built into subsequent years.</p>

Growth	Description	Approved Assumptions March 2019
Children and Young People in Care	Whilst the number of children and young people in care has reduced significantly over recent years, the cost of external placements has increased resulting in cost pressures within the service. Again, detailed financial and activity modelling in carried out and reviewed on a regular basis to forecast the potential cost ensures over the medium term.	The MTFS assumes growth of £1.5 million in 2020-2021, £700,000 in 2021-2022 and £100,000 in 2022-2023.
General Demographic Growth	The MTFS also makes provision for general demographic growth for pressures identified within other services due to the City's growing population.	The MTFS assumes growth of £500,000 each year from 2020-2021 to 2023-2024.
Treasury Management	The Council Capital programme is funded from a combination of funding sources such as grants, external contribution, capital receipts and prudential borrowing. Growth is built into the MTFS for any changes to the borrowing requirement of the capital programme and the impact of the Minimum Revenue Provision (the minimum amount that the Council must set aside to repay borrowing).	The MTFS assumes growth of £1.8 million in 2020-2021, £1.6 million in 2021-2022 and £277,000 in 2022-2023

5.0 Panel Recommendations

5.1 The Panel are recommended to review and comment on the assumptions included in the MTFS for inflation and growth.

6.0 Financial implications

6.1 The financial implications are discussed in the body of the report.
[RP/12112019/H]

7.0 Legal Implications

- 7.1 The Council's revenue budgets make assumptions which must be based on realistic projections about available resources, the costs of pay, inflation and service priorities.
- 7.2 The legal duty to spend with propriety falls under S.151 Local Government Act 1972 and arrangement for proper administration of their affairs is secured by the S.151 Officer as Chief Financial Officer.
[TS/12112019/Q]

8.0 Equalities implications

- 8.1 There are no relevant equalities implications arising from this report.

9.0 Environmental and climate change implications

- 9.1 There are no relevant environmental and climate change implications arising from this report.

10.0 Human resources implications

- 10.1 There are no relevant human resources implications arising from this report.

11.0 Corporate landlord implications

- 11.1 There are no relevant corporate landlord implications arising from this report.

12.0 Health and wellbeing implications

- 12.1 There are no relevant health and wellbeing implications arising from this report.

13.0 Schedule of background papers

Review of the assumptions in the MTFs in relation to Corporate Resources, briefing note to Our Scrutiny Panel 4 September 2019.