

Review of Assumptions in the 2021/22 – 2023/24 Medium Term Financial Strategy (MTFS)

Previously Agreed Directorate Budget Changes

1. The MTFS includes funding for demographic and other agreed directorate pressures and savings which were approved by Council in February 2020. Details are set out in annex 1a¹.

Existing Pressures and Investments	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Community Safety	0.2	0.0	0.0	0.2
Place & Growth	-0.3	-0.7	-0.3	-1.3
Community Operations	0.0	0.5	-0.5	0.0
Children's Services	4.0	3.5	3.1	10.6
Public Health	0.3	0.0	0.0	0.3
Customers & Organisational Development	-0.9	0.3	0.0	-0.6
Commercial Development, Assets and Investments	1.0	-0.7	-0.5	-0.2
Adult Services	5.3	8.1	8.8	22.2
Corporate Measures	0.8	6.6	6.5	13.9
Total	10.4	17.6	17.1	45.1

Existing Savings	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Community Safety	0.0	0.0	0.0	0.0
Place & Growth	-0.6	0.3	0.0	-0.3
Community Operations	1.2	-2.1	0.0	-0.9
Children's Services	-0.3	-0.2	0.0	-0.5
Public Health	-0.3	0.4	0.0	0.1
Customers & Organisational Development	0.0	0.0	0.0	0.0
Commercial Development, Assets and Investments	-0.2	-0.1	-0.2	-0.5
Adult Services	1.0	0.0	0.0	1.0
Corporate Measures	-16.6	0.6	-0.3	-16.3
Total	-15.8	-1.1	-0.5	-17.4

Existing Funding Changes	30.5	-16.5	-16.6	-2.6
---------------------------------	-------------	--------------	--------------	-------------

Existing Net Position	25.1	0.0	0.0	25.1
------------------------------	-------------	------------	------------	-------------

Balances and Reserves

2. The MTFS assumed general balances would be £25.8m at the start of 2020/21. The actual position taking into account the 2019/20 outturn was £28.7m. The Business Management & Monitoring report elsewhere on the agenda currently forecasts that general balances will be £30.3m at the end of 2020/21, assuming the corporate contingency and Covid-19 Budget for Costs and Income Losses are used in full.

¹ A negative pressure/investment relates to the fall out of a one-off investment/pressure. A positive saving represents the fall out of a one-off saving.

3. When the budget and MTFs was agreed in February 2020, earmarked reserves were estimated to be £66.6mm at 31 March 2020. Based on the 2019/20 outturn position, the actual position at 31 March 2020 was £102.9m. The 2019/20 outturn position included the transfer of £19.8m of un-ringfenced grants including the COVID-19 grant to the Grants & Contribution Reserve. The latest forecast (included in the Business Management & Monitoring Report elsewhere on the agenda) indicates that earmarked reserves will be £80.0m by the end of the 2020/21 financial year.

	Forecast Balance at 31 March 2020 £m	Actual Balance at 31 March 2020 £m	Forecast Balance at 31 March 2021 £m
Schools' Reserves	12.6	14.6	6.0
Vehicle and Equipment Reserve	0.8	2.9	0.4
Grants and Contributions Reserve *	-4.6	21.4	-13.2
Government Initiatives	0.9	0.8	0.1
Trading Accounts	0.5	0.5	0.3
Council Elections	0.5	0.5	0.7
Partnership Reserves	2.0	3.0	2.0
On Street Car Parking	2.2	2.0	2.2
Transformation Reserve	2.6	3.1	2.2
Demographic Risk Reserve	3.0	3.0	6.0
Youth Provision Reserve	0.5	1.0	0
Budget Prioritisation Reserve	1.6	3.5	2.2
Insurance Reserve	9.6	11.4	8.6
Business Rates Reserve	1.0	1.0	1.0
Capital Reserves	32.7	33.6	33.4
Budget Equalisation Reserve	0.0	0.0	0
Redundancy Reserve	0.7	0.6	2.7
Investment Pump Priming Reserve	0.0	0.0	2.0
Total Reserves	66.6	102.9	56.6
Total Reserves Excluding Schools	54.0	88.3	50.6
* Includes DSG High Needs Reserve	-12.0	-11.2	-18.6

Inflation

4. Pay inflation has been assumed at 2.5%, Contract inflation up to 3% and Income inflation at 2% for each of the remaining years of the MTFs. Funding of £6m has been included for 2021/22 and, £6.5m for 2022/23 and 2023/24.
5. Consumer Price Inflation (CPI) was 0.2% in August 2019, down from 1.7% in August 2019. The Bank of England forecast CPI² inflation to remain low in the next year rising to 1.7% in the third quarter of 2021. It is then expected to remain around 1.7% until the third quarter of 2023 when it will rise slightly to 1.9%. Retail Price Inflation (RPI) was 0.5% in August 2020 down from 2.6% in August 2019. This forecast remains uncertain as the longer-term effect of COVID-19 and Brexit are unknown.

² Bank of England Inflation Report August 2019

General Funding

6. The Council's general funding, other than from Council Tax (see below), comprises Revenue Support Grant and the Local Share of Business Rates which is collectively known as the Settlement Funding Assessment (SFA). In addition, local authorities have been able to retain the growth in business rates from the baseline established in 2013/14 up to the Business Rate Growth Reset originally planned for April 2020. The reset was delayed in the 2020/21 planning round and the current assumption in the MTFS is that this will take place in April 2021. It is also assumed that the planned Fairer Funding Review would be effective from 2021/22 resulting in a decrease to the SFA.
7. The MTFS assumes that our local share of Business Rates increases with inflation (Consumer Price Index) which is linked to the expected change in the small business multiplier. However, no assumptions about future growth in the overall collection of business rates above the reset baseline have been built in.
8. The following table shows the estimates for general funding (excluding Council Tax) included in the MTFS.

MTFS Estimates	2021/22	2022/23	2023/24
Settlement Funding Assessment (£m)	66.7	68.0	69.4
Business Rate Future Growth (£m)	0.0	0.0	0.0
Total General Funding (£m)	66.7	68.0	69.4
Percentage change from previous year	-11.8%	+2.0%	+2.0%

Council Tax

9. The MTFS is based on Council Tax increases of 1.99% across all years. No increase is assumed for Adult Social Care. A 1% change in Council Tax equates to £3.9m, with a small residual effect in subsequent years.
10. The MTFS assumes growth in the tax base of 5000 houses each year for 2021/22, 2022/23 and 2023/24, broadly equivalent to 2%. A variation of +/-0.25% results in a gain/loss of £1.0m.
11. Surpluses on Council Tax collection are estimated to be £5.0m in each remaining year of the MTFS. This is based on previous years' surpluses that have been above that level in the last five years. In 2020/21 the Council Tax collection surpluses were £8.6m.
12. The table below sets out the estimates for Council Tax included in the MTFS.

MTFS Estimates	2021/22	2022/23	2023/24
Council Tax Requirement (£m)	407.0	423.1	439.6
Council Tax Base	261,276	266,276	271,275
Council Tax (Band D equivalent) (£)	1,557.84	1,588.84	1,620.46
Increase in Council Tax (Band D)	1.99%	1.99%	1.99%
Council Tax collection surpluses (£m)	5.0	5.0	5.0
Total Council Tax Income (£m)	412.0	428.1	444.6
Percentage change from previous year	2.99%	3.89%	3.86%