

Review of Assumptions in the 2014/15 – 2017/18 Medium Term Financial Plan (MTFP)

Inflation

1. The table below sets out the inflation assumptions built into the current MTFP.

Year	Pay	Prices	Contracts (up to)	Income	In MTFP
2015/16	1.0%	0.0%	3.0%	2.0%	£4.750m
2016/17	2.5%	0.0%	3.0%	2.0%	£7.300m
2017/18	2.5%	0.0%	3.0%	2.0%	£7.400m

2. Under the new Oxfordshire Local Agreement consultations on staff pay awards (other than for teachers, youth workers and firefighters) will take place locally. The Council has guaranteed a 1% cost of living pay rise on 1 April each year and if the national negotiations agree more the Council will match this for 2014/15 and 2015/16.
3. Consumer Price Inflation (CPI) was 1.6% in July 2014, down from 1.9% in June 2014. The Office for Budget Responsibility's forecast for CPI¹ remains at 2% over the medium term.

Previously Agreed Directorate Budget Changes

4. The MTFP includes funding for demographic and other agreed directorate pressures and savings which were approved by Council in February 2014. Details are set out in annex 1b.

Funding for demographic and other agreed pressures ²	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Children, Education & Families		0.420	0.238	0.658
Social & Community Services	0.850	4.600	3.450	8.900
Environment & Economy	-1.866	1.111	-1.106	-1.861
Chief Executive's Office				0
Public Health				0
TOTAL	-1.016	6.131	2.582	7.697

Savings	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Children, Education & Families	-0.994	-2.690	-3.420	-7.104
Social & Community Services	-12.099	-5.285	-5.456	-22.840
Environment & Economy	-8.262	-4.298	-6.170	-18.730
Chief Executive's Office	-0.210	-0.361	-0.096	-0.667
Public Health		-1.250	-1.250	-2.500
TOTAL	-21.565	-13.884	-16.392	-51.841

5. In addition there are £9.471m of corporate savings over the same period, mainly through reduced inflation provision.

¹ Published in the Budget 2014

² Where a negative is shown the figure relates to previous years' funding falling out.

Balances and Reserves

6. The MTFP assumes general balances at the start of 2015/16 will be £18.4m and maintained at that level over the medium term. In the first financial monitoring report to Cabinet for 2014/15 on 15 July 2014, general balances are forecast to be £11.9m at the end of this financial year, after taking into account the £9.1m forecast overspend.
7. The table below sets out the estimates for earmarked reserves included in the MTFP.

MTFP Estimates	2015/16 £m	2016/17 £m	2017/18 £m
Estimated school reserves at start of year	16.0	5.7	5.7
Estimated reserves at start of year	47.6	35.9	23.4
Estimated total reserves at start of year	63.6	41.6	29.1
Estimated use of (-)/additions to (+) school reserves in year	-10.3	0	0
Estimated use of (-)/additions to (+) reserves in year	-11.7	-12.5	-16.5
Estimated school reserves at end of year	5.7	5.7	5.7
Estimated reserves at end of year	35.9	23.4	6.9
Estimated total reserves at end of year	41.6	29.1	12.6

8. The Budget Reserve is being used to manage the cash flow implications arising from a different profile of pressures and savings in the MTFP. The Reserve is forecast to go into £5.6m deficit in 2015/16, rising to £15.3m deficit in 2016/17. Temporary use of other reserves or other balances, such as developer contributions, may be needed to manage the cash flow position, as the Council cannot hold a deficit reserve. Any temporary use of other reserves or other balances would need to be replaced in a subsequent year.
9. Earmarked reserves at the start of 2014/15 were £27.2m higher than assumed in the MTFP, with the largest differences relating to school reserves (£4.8m) and the grants and contributions reserve (£11.1m), the latter primarily relating to increased underspends on the Dedicated Schools Grant and Public Health Grant. The latest forecast (reported to Cabinet on 15 July 2014) indicates that earmarked reserves will fall to £98.6m by the end of this financial year and this does not take into account any reductions in schools reserves at this stage or use of Pooled Budget Reserves by Social & Community Services.

General Funding

10. The Council's general funding, other than from Council Tax (see below), comprises Revenue Support Grant, Business Rates Top-Up and a 10% share of Business Rates collected by the District Councils. The MTFP assumes that Business Rates Top-Up and our local share of Business Rates both increase with inflation (Retail Price Index), whereas Revenue Support Grant (RSG) reduces over the medium term. For planning purposes, Business Rates Top-Up and Revenue Support Grant estimates for 2015/16 are based on indicative figures announced by the Government in February 2014. Estimates for future

years' reductions in general funding are broadly consistent with the level of reductions seen over the last few years.

11. The following table shows the estimates for general funding (excluding Council Tax) included in the MTFP.

MTFP Estimates	2015/16	2016/17	2017/18
Business Rates Top-Up (£m)	37.394	38.553	39.748
Business Rates from District Councils (£m)	30.212 ³	31.130	32.076
Business Rates Total (£m)	67.606	69.683	71.824
Percentage change from previous year	4.0%	3.1%	3.1%
Revenue Support Grant (£m)	61.747	50.278	39.486
Percentage change from previous year	-23.4%	-18.6%	-21.5%
Total Business Rates + RSG (£m)	129.353	119.961	111.310
Percentage change from previous year	-11.2%	-7.3%	-7.2%

Council Tax

12. The MTFP is based on Council Tax increases of 1.99% in 2015/16 and 3.0% in each of the following two years. A 1% change in Council Tax equates to £2.8m, with a small residual effect in subsequent years.
13. The MTFP assumes growth in the taxbase of 0.75% in each of the remaining three years of the MTFP. A variation of +/-0.25% results in a gain/loss of £0.7m.
14. Surpluses on Council Tax collection are estimated to be £2.0m in each remaining year of the MTFP. This is based on a prudent position, reflecting that previous years' surpluses were around that level or below in five out of the last ten years, however for 2014/15 the estimated Council Tax collection surpluses were £6.9m.
15. The table below sets out the estimates for Council Tax included in the MTFP.

MTFP Estimates	2015/16	2016/17	2017/18
Council Tax Requirement (£m)	285.387	296.154	307.326
Council Tax Base	231,558	233,294	235,044
Council Tax (Band D equivalent) (£)	1,232.47	1,269.44	1,307.53
Increase in Council Tax (Band D)	1.99%	3.00%	3.00%
Council Tax collection surpluses (£m)	2.000	2.000	2.000
Percentage change from previous year	-71.1%	0%	0%
Total Council Tax Income (£m)	287.387	298.154	309.326
Percentage change from previous year	1.0%	3.7%	3.7%

³ Includes estimated additional business rates from the Energy from Waste facility