

Review of Assumptions in the 2017/18 – 2019/20 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
2017/18	1%	0%	3%	2%	£3.400m
2018/19	1%	0%	3%	2%	£5.650m
2019/20	1%	0%	3%	2%	£5.700m

2. The Chancellor confirmed in the Spending Review 2015 that the average public sector pay increase up to 2019/20 would be 1.0%. Oxfordshire entered into a local agreement on staff pay awards¹ to cover the period 2014/15 to 2016/17. In December 2015 the Remuneration Committee agreed to support the move back to national pay arrangements from 2017/18.
3. Consumer Price Inflation (CPI) was 0.7% in July 2016, up from 0.5% in June 2015. The Bank of England forecast CPI² inflation to be below target in 2016, before returning to target in 2017 and above target in 2018. Retail Price Inflation (RPI) was 1.9% in July 2016.

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 2016. Details are set out in annex 1a.

Funding for demographic and other agreed pressures ³	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Children, Education & Families	0.238			0.238
Social & Community Services	5.515	3.940	1.183	10.638
Environment & Economy	0.229	0.650	0.500	1.379
Corporate Services	-0.100			-0.100
Public Health				0
TOTAL FUNDING	5.882	4.590	1.683	12.155

¹ The agreement covers employees who were previously employed under the National Agreement on Pay and Conditions of Service for Local Government Services (the Green Book)

² Bank of England Inflation Report August 2016

³ Where a negative is shown the figure relates to previous years' funding falling out.

Savings	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Children, Education & Families	-6.853		-0.400	-7.253
Social & Community Services	-2.968	-1.095	1.341	-2.722
Environment & Economy	-8.904	-0.320	-1.192	-10.416
Corporate Services	-0.452	-0.242		-0.694
Public Health	-1.250			-1.250
Transformation	-10.374	-6.169	1.250	-15.293
TOTAL	-37.165	-14.724	-6.467	-58.356
Adult Social Care 2% Precept (Expenditure Budget)	6.364	6.898	7.466	20.728
TOTAL SAVINGS	-30.801	-7.826	0.999	-37.628

5. In addition there are £24.466m of corporate savings⁴ over the same period, mainly through reduced inflation provision.

Balances and Reserves

6. The MTFP assumes general balances at the start of 2017/18 will be £17.5m and maintained at that level over the medium term. In the first financial monitoring report to Cabinet for 2016/17 on 19 July 2016, general balances are forecast to be £15.6m at the end of this financial year, after taking into account the directorates forecast overspend of £5.4m.
7. The table below sets out the estimates for earmarked reserves included in the MTFP.

MTFP Estimates	2017/18 £m	2018/19 £m	2019/20 £m
Estimated school reserves at start of year	18.3	15.8	12.6
Estimated reserves at start of year	46.9	50.1	37.0
Estimated total reserves at start of year	65.2	65.9	49.6
Estimated use of (-)/additions to (+) school reserves in year	-2.5	-3.2	-3.0
Estimated use of (-)/additions to (+) reserves in year	3.2	-13.1	-8.8
Estimated school reserves at end of year	15.8	12.6	9.6
Estimated reserves at end of year	50.1	37.0	28.2
Estimated total reserves at end of year	65.9	49.6	37.8

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. It is forecast to have a balance of £8.4m at the end of 2016/17 that could be used to defer savings required from the transformation programme from 2017/18 to 2018/19.
9. Earmarked reserves at the start of 2016/17 were £10.3m higher than assumed in the MTFP. The latest forecast (reported to Cabinet on 19 July 2016) indicates that earmarked reserves will fall to £96.6m by the end of this financial year.

⁴ Includes £20.728m of Adult Social Care Precept funding

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 our local share of Business Rates increases with inflation (Retail Price Index). Revenue Support Grant and Business Rate Top Up estimates for 2017/18 through to 2019/20 are based on the figures published in the four-year Local Government Finance Settlement.
11. The following table shows the estimates for general funding (excluding Council Tax) included in the MTFP.

MTFP Estimates	2017/18	2018/19	2019/20
Business Rates Top-Up (£m)	38.129	39.254	34.270
Business Rates from District Councils (£m)	30.475	31.374	32.378
Business Rates Total (£m)	68.604	70.628	66.648
Percentage change from previous year	5.2%	3.0%	-5.6%
Revenue Support Grant (£m)	18.665	5.868	0.000
Percentage change from previous year	-52.5%	-68.6%	-100.0%
Total Business Rates + RSG (£m)	87.269	76.496	66.648
Percentage change from previous year	-16.5%	-12.3%	-12.9%

Council Tax

12. The MTFP is based on Council Tax increases of 3.99% in 2017/18, 2018/19 and 2019/20. This includes a 2% increase for the Adult Social Care Precept. A 1% change in Council Tax equates to £2.9m, with a small residual effect in subsequent years.
13. The MTFP assumes growth in the taxbase of 1.63% in each of the remaining three years of the MTFP. A variation of +/-0.25% results in a gain/loss of £0.8m.
14. Surpluses on Council Tax collection are estimated to be £4.0m in each remaining year of the MTFP. This is based on previous years' surpluses that have been above that level in the last five years. In 2016/17 the Council Tax collection surpluses are £7.0m.
15. The table below sets out the estimates for Council Tax included in the MTFP.

MTFP Estimates	2017/18	2018/19	2019/20
Council Tax Requirement (£m)	323.287	341.665	361.090
Council Tax Base	242.567	246.520	250,539
Council Tax (Band D equivalent) (£)	1,332.78	1,385.95	1,441.25
Increase in Council Tax (Band D)	3.99%	3.99%	3.99%
Council Tax collection surpluses (£m)	4.000	4.000	4.000
Total Council Tax Income (£m)	327.287	345.665	365.090
Percentage change from previous year	4.6%	5.6%	5.6%