

Review of Assumptions in the 2018/19 – 2020/21 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
2018/19	1%	1%	3%	2%	£5.650m
2019/20	1%	1%	3%	2%	£5.700m
2020/21	2.5%	1%	3%	2%	£7.500m

2. The Chancellor confirmed in the Spending Review 2015 that the average public sector pay increase up to 2019/20 would be 1.0%. The pay inflation assumption is in line with this for 2018/19 and 2019/20 in the MTFP. Pay inflation for 2020/21 is assumed at 2.5% as CPI inflation is currently above the Bank of England target rate of 2% and the public sector will have had 10 years of capped pay increases.
3. Consumer Price Inflation (CPI) was 2.6% in July 2017, up from 0.6% in July 2016. The Bank of England forecast CPI¹ inflation to be above the 2% target until 2020. Retail Price Inflation (RPI) was 3.6% in July 2017.

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 2017. Details are set out in annex 1a.

Funding for demographic and other agreed pressures ²	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
People - Children	1.479	1.800	0.000	3.279
People - Adults	6.870	1.590	0.000	8.460
People - Public Health	0.000	0.000	0.000	0.000
Communities	0.604	1.238	-0.199	1.492
Resources	0.388	0.120	0.000	0.508
TOTAL FUNDING	9.341	4.748	-0.199	13.890
Additional Funding for Adult Social Care	7.299	-3.817	0.000	3.482

¹ Bank of England Inflation Report August 2017

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

Savings	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
People - Children	0.000	-0.400	0.000	-0.400
People - Adults	-11.419	-1.114	0.000	-12.533
People - Public Health	-0.500	0.000	0.000	-0.500
Communities	1.000	-1.282	0.000	-0.282
Resources	-0.242	-0.650	0.000	-0.892
Transformation	-15.000	0.000	0.000	-15.000
TOTAL SAVINGS	-26.161	-3.446	0.000	-29.607

Balances and Reserves

- The MTFP assumes general balances at the start of 2018/19 will be £17.8m and maintained at that level over the medium term. In the first financial monitoring report to Cabinet for 2017/18 on 18 July 2017, general balances are forecast to be £21.2m at the end of this financial year, after taking into account the directorate forecast overspend of £3.5m (after the use of the corporate contingency).
- The table below sets out the estimates for earmarked reserves included in the MTFP.

MTFP Estimates	2018/19 £m	2019/20 £m	2020/21 £m
Estimated school reserves at start of year	18.1	15.5	12.3
Estimated reserves at start of year	55.3	47.1	45.0
Estimated total reserves at start of year	73.4	62.6	57.3
Estimated use of (-)/additions to (+) school reserves in year	-2.6	-3.2	-2.9
Estimated use of (-)/additions to (+) reserves in year	-8.2	-2.1	-2.1
Estimated school reserves at end of year	15.5	12.3	9.4
Estimated reserves at end of year	47.1	45.0	42.9
Estimated total reserves at end of year	62.6	57.3	52.3

- 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 £1.3m at the end of 2017/18 and a planned contribution to the reserve of £5.4m in 2018/19. This gives a balance of £6.7m that could be used as one-off funding in 2018/19 or the medium term.
- Earmarked reserves at the start of 2017/18 were £16.8m higher than assumed in the MTFP. The latest forecast (reported to Cabinet on 18 July 2017) indicates that earmarked reserves will fall to £100.0m by the end of this financial year.

General Funding

- 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 2018/19 and 2019/20 are based on the figures published in Oxfordshire's four-year funding deal for the years 2016/17 to 2019/20.

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

MTFP Estimates	2018/19	2019/20	2020/21
Business Rates Top-Up (£m)	39.038	34.188	34.786
Business Rates from District Councils (£m)	32.064	33.068	33.634
Business Rates Total (£m)	71.102	67.256	68.420
Percentage change from previous year	3.8%	-5.4%	1.7%
Revenue Support Grant (£m)	5.868	0.000	0.000
Percentage change from previous year	-68.6%	-100.0%	0.0%
Total Business Rates + RSG (£m)	76.970	67.256	68.420
Percentage change from previous year	-11.7%	-12.6%	+1.7%

Council Tax

11. The MTFP is based on Council Tax increases of 4.99% in 2018/19 and 1.99% in 2019/20 and 2020/21. This includes a 3% increase for the Adult Social Care Precept in 2018/19. A 1% change in Council Tax equates to £3.3m, with a small residual effect in subsequent years.
12. The MTFP assumes growth in the taxbase of 2.0% in 2018/19 then 1.63% in the last two years of the MTFP. A variation of +/-0.25% results in a gain/loss of £0.9m.
13. 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 2017/18 the Council Tax collection surpluses are £7.3m.
14. The table below sets out the estimates for Council Tax included in the MTFP.

MTFP Estimates	2018/19	2019/20	2020/21
Council Tax Requirement (£m)	351.319	364.148	377.444
Council Tax Base	248.683	252.736	256,856
Council Tax (Band D equivalent) (£)	1,412.72	1,440.82	1,469.48
Increase in Council Tax (Band D)	4.99%	1.99%	1.99%
Council Tax collection surpluses (£m)	4.000	4.000	4.000
Total Council Tax Income (£m)	355.319	368.148	381.444
Percentage change from previous year	6.0%	3.6%	3.6%