

Review of Assumptions in the 2020/21 – 2022/23 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
2020/21	2.5%	0%	3%	2%	£6.000m
2021/22	2.5%	0%	3%	2%	£6.000m
2022/23	2.5%	0%	3%	2%	£6.500m

2. Consumer Price Inflation (CPI) was 2.1% in July 2019, down slightly from 2.5% in July 2018. The Bank of England forecast CPI¹ inflation to drop below the 2% target until June 2020 as energy costs continue to fall. It is expected it will then rise above the 2% target reaching 2.4% by June 2022. This is based on the assumption of a smooth Brexit. Retail Price Inflation (RPI) was 2.8% in July 2019.

Previously Agreed Directorate Budget Changes

3. The MTFP includes funding for demographic and other agreed directorate pressures and savings which were approved by Council in February 2019. Details are set out in annex 1a.

Pressures and Funding Reductions	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Directorate				
Children's Services	6.513	5.377	5.250	17.140
Adult Services	9.550	7.176	7.150	23.564
Public Health	0.000	0.250	0.000	0.000
Communities	1.267	0.150	0.945	2.362
Commercial Development, Assets and Investment	0.054	0.065	0.070	0.189
Corporate Measures	4.974	9.078	7.631	21.683
Total Previously Agreed Pressures and Funding Reduction	22.358	22.096	21.046	65.500

Savings	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Directorate				
Children's Services	-4.039	-1.150	-0.750	-5.939
Adult Services	-2.157	-0.625	0.000	-2.782
Public Health	0.000	0.000	0.000	0.000
Communities	-2.230	0.520	-1.045	-2.755
Commercial Development, Assets and Investment	-0.087	0.000	0.000	-0.087
Corporate Measures	-11.613	-10.415	-0.440	-22.468
Total Previously Agreed Savings	-20.126	-11.670	-2.235	-34.031

¹ Bank of England Inflation Report August 2019

Balances and Reserves

4. The MTFP assumes general balances at the start of 2020/21 will be £22.2m and maintained at that level over the medium term. In the Business Management & Monitoring report, general balances are forecast to be £22.8m at the end of this financial year, after taking into account the forecast underspend of £0.8m (after the use of corporate contingency).
5. The table below sets out the estimates for earmarked reserves. As Earmarked Reserves were £26.8m higher than assumed in the MTFP agreed by Council in February 2019, Cabinet agreed in June 2019 a revised forecast for 2019/20. The table below uses the revised forecast for 2019/20 along with the forecasts for 2020/21 to 2021/22 that were included in the MTFP.

	Forecast Balance at 31 March 2020	Forecast Balance at 31 March 2021	Forecast Balance at 31 March 2022	Forecast Balance at 31 March 2023
	£m	£m	£m	£m
Schools' Reserves	12.558	1.803	1.803	1.803
Vehicle and Equipment Reserve	0.799	0.361	0.338	0.338
Grants and Contributions Reserve	-1.330	-12.374	-16.263	-16.313
Government Initiatives	0.632	0.156	0.096	0.069
Trading Accounts	0.463	0.590	0.590	0.590
Council Elections	0.478	0.608	0.000	0.150
OxLEP	1.882	0.514	0.306	0.144
On Street Car Parking	2.247	0.561	0.561	0.561
Transformation Reserve	2.211	0.576	0.576	0.576
Demographic Risk Reserve	3.000	6.600	11.200	16.800
Youth Provision Reserve	0.500	0.000	0.000	0.000
Budget Prioritisation Reserve	1.884	5.611	7.434	7.434
Insurance Reserve	9.647	6.515	6.515	6.515
Business Rates Reserve	1.049	1.543	2.037	2.531
Capital Reserves	32.705	28.462	26.187	15.922
Budget Equalisation Reserve	0.000	0.000	0.000	0.000
Total Reserves	68.725	41.526	41.380	37.120
Total Reserves excluding Schools	56.167	39.723	39.577	35.317

6. The latest forecast (included in the Business Management Report elsewhere on the agenda) indicates that earmarked reserves will fall to £63.4m by the end of this financial year.

General Funding

7. 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 (Consumer Price Index).
8. The following table shows the estimates for general funding (excluding Council Tax) included in the MTFP.

MTFP Estimates	2020/21	2021/22	2022/23
Business Rates Top-Up (£m)	34.246	34.845	35.454
Business Rates from District Councils (£m)	30.439	30.975	31.517
Business Rates Total (£m)	64.685	65.820	66.971
Percentage change from previous year	-12.8%	+1.8%	+1.7%
Revenue Support Grant (£m)	0.000	0.000	0.000
Percentage change from previous year	0.0%	0.0%	0.0%
Total Business Rates + RSG (£m)	64.685	65.820	66.971
Percentage change from previous year	-12.8%	+1.7%	+1.7%

Council Tax

9. The MTFP 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 £3.7m, with a small residual effect in subsequent years.
10. The MTFP assumes growth in the taxbase of 2.0% in 2020/21 and 2021/22 and 1.75% in 2022/23. A variation of +/-0.25% results in a gain/loss of £1.0m.
11. Surpluses on Council Tax collection are estimated to be £4.5m 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 2019/20 the Council Tax collection surpluses are £7.3m.
12. The table below sets out the estimates for Council Tax included in the MTFP.

MTFP Estimates	2019/20	2020/21	2021/22
Council Tax Requirement (£m)	383.936	399.410	414.485
Council Tax Base	256,290	261,416	265,990
Council Tax (Band D equivalent) (£)	1,498.06	1,527.88	1,558.27
Increase in Council Tax (Band D)	1.99%	1.99%	1.99%
Council Tax collection surpluses (£m)	4.500	4.500	4.500
Total Council Tax Income (£m)	388.436	403.910	418.985
Percentage change from previous year	3.2%	4.0%	3.7%