Mole Valley District Council

Agenda Item 6

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Ward (s) affected	None specifically	**Key Decision**	No
Subject	Business Planning & Budget 2016/17 - Scene Setting		

RECOMMENDATIONS

1. To note the Scene Setting report as the starting context for the Business and Budget planning process 2016/17.
2. To endorse the forthcoming Business and Budget planning process for 2016/17.

EXECUTIVE SUMMARY

This reports sets out the starting context, and process, for Business and Budget Planning 2016/17.

The report updates the budget assumptions in relation to Council funding, and expenditure, and indicates the likely level of savings necessary to balance the budget in 2016/17.

The report is set out in three parts:

- Part 1 – Introduction & Policy Context
- Part 2 – Financial Outlook
- Part 3 – Next Steps : Business and Budget Planning 2016/17

There are two appendices:
- Appendix A – Current Capital Programme 2015/16 to 2020/21
- Appendix B – Fees and Charges Principles

CORPORATE PRIORITIES The budget proposals reflect the current corporate priorities of the Council and are consistent with the priorities in the Corporate Strategy 2015/16 to 2018/19.
The Executive has the authority to determine the Recommendations

1. INTRODUCTION & POLICY CONTEXT

1.1. This report sets out the current financial context for MVDC, as a precursor to the Business and Budget Planning process for 2016/17. It assesses the overall financial pressures facing MVDC and key national and local policy issues that will need to be considered in making plans and setting a balanced budget.

National Context

1.2. Central government has reiterated its intent to reduce public funding further in order to contribute to the national deficit reduction programme. There are a number of issues associated with this including a continued reduction in the revenue support grant and a proposed review of business rates.

1.3. State retirement pension arrangements are changing from April 2016. Under the current arrangements there are two elements to state pensions: a basic pension, available to everyone; and an enhanced pension, (known as the 'Second State Pension', and before that, SERPS', the State Earnings Related Pension Scheme). Both of these elements are funded via National Insurance, (NI), contributions. However, people in an occupational final salary scheme, (such as local government officers) do not have an entitlement to the Second State Pension, and are not required to pay the additional NI contributions necessary to fund that enhanced Second State Pension. This reduced NI rate also applies to employers of people with occupational pensions, and MVDC, like all other local authorities currently receives a rebate of 3.4% on its NI contributions. However, from April 2016 the two elements of the state pension will be combined into a single state pension available to everyone, irrespective of any other pensions that they might have. Consequently employers of staff will occupational final salary pensions will lose the 3.4% NI rebate.

1.4. The Government's Welfare reform agenda continues to be rolled out. Universal Credit starts in February 2016 and will bring with it the need for MVDC to make provision to support claimants with budgeting and debt advice together with some form of support to enable them to get on-line and gain access to claiming benefits. There will be an impact on both the delivery of existing Housing Benefit services and a likely increase in demand for the need to carry out Discretionary Assessments to establish entitlement to Discretionary Housing Payments. From April 2016 there will be a further lowering of the benefit cap to £20,000 for families outside London. This further benefit cap is likely to have a disproportionate effect on families living in areas outside London with higher rent costs, including Mole Valley.

1.5. A 'Full Employment and Welfare Benefits Bill' was announced in the Queen's Speech, July 2015. If/when enacted, this will freeze the current level of a number of working age benefits, tax credits and child tax credits, for 2016/17 and 2017/18, and will also reduce the current level of the benefits cap.

1.6. In terms of planning and housing, the national focus is on ensuring that local people have more control over planning, protection of the green belt and for brownfield land to be 'unlocked' for additional housing. A Housing Bill is due to be introduced this autumn with plans to extend the Right-to-Buy to housing association tenants. It will also include a statutory register for brownfield land and simplify the neighbourhood planning system.

1.7. MVDC, like all other local planning authorities, is able to charge for the provision of environmental information. There is currently a case in the European Court that challenges the extent to which local planning authorities can act commercially in this function, and seeks to limit the amount that planning authorities can charge for Environmental Information.

Local Context

1.8. At a local level, MVDC has a Corporate Strategy 2015-2019 that was agreed by the Council in March 2015. The Vision is for Mole Valley to be 'a place where people want to live, work, do business and spend their leisure time'. Three Priorities have been agreed that support achievement of the Vision. They are:

- Environment – a highly attractive area with housing that meets local need
- Prosperity - a vibrant local economy with thriving towns and villages
- Community Well-being – active communities and support for those who need it

1.9. The priorities are supported by three guiding principles:

- Sustainability
- Openness and effectiveness
- Cost effectiveness

1.10. One of The Council's 'Guiding Principles' set out in its Corporate Strategy 2015-19' is that that 'by applying a cost-effective approach to delivering and developing services, we are able to give residents the best deal. Reviewing the way in which we provide our services ensures that we focus on what matters most and that we deliver services that are value for money'. This is a key principle that will drive the Business and Budget planning process, 2016/17.

1.11 A portfolio of projects has been developed to enable MVDC to deliver on the priorities in the Corporate Strategy. 2016/17 will be a key year for some of these projects, as listed below, particularly the first three which are likely to involve major capital expenditure in 2016/17. The Welfare Reform project is new for 2016/17.

- <u>Meadowbank Regeneration</u> – the construction period runs across 2015/16 and 2016/17 with a target for the facility to be ready for launch and use by September 2016.
- <u>Pippbrook Refurbishment</u> – works are scheduled throughout the calendar

year 2016, commencing in January.

- Hope Springs Eternal – works have recently commenced and are expected to extend over a two-year period.
- Transform Leatherhead – the timetable envisages a preparation process of 2 years before the Masterplan is determined. This preliminary stage will be completed in the first half of 2016/17.
- Community Infrastructure Levy (CIL) – the schedule envisages a consultation in 2015/16 leading to implementation in 2016/17 with a new basis for negotiating infrastructure contributions with developers.
- Mole Valley Local Plan – work will continue during 2016/17, informed by the outcome of the Infrastructure Needs Assessment.
- Welfare Reform - the introduction of Universal Credit is planned for February 2016. The impacts for MVDC have been outlined above.

1.11. MVDC adopts an integrated approach to business and budget planning. Business and budget plans for 2016/17 will be developed that demonstrate how the priorities in the Corporate Strategy will be delivered in accordance with the guiding principles. Account will be taken of the national and local context in ensuring that a legally balanced budget is delivered.

1.12. The key dates leading to the setting of the 2016/17 budget by Council in March 2016 are set out in section 3.

2. FINANCIAL OUTLOOK

Introduction

2.1. The Council's Medium Term Financial Strategy (MTFS), approved in 2013, set MVDC's approach to managing this financial position over the period 2014/15 to 2020/21. This report updates the assumptions underpinning the MTFS, in order to provide a context within which detailed budget proposals for 2016/17 can be formulated.

2.2. The themes of the Medium Term Financial Strategy adopted by the Council in 2013 are:

- "Make best use of assets: we will progress projects that use our land and property to improve services and generate income.
- Continue to focus on efficiencies: we have been successful in recent years in identifying and realising efficiency savings to help to balance the budget.
- Optimise the level of fees and charges: we will continue to review our fees and charges annually, in accordance with our agreed Principles, recognising the potential impact of fee increases on demand.
- Moderate increases in Council Tax: the level of Mole Valley's Council Tax increases in recent years has been well below the rate of inflation, but we recognise the detrimental impact on our base finances of continuing to opt for one-off grants over the medium term, rather than implement moderate Council Tax increases.
- Improved returns on investment: without compromising unduly on the security and liquidity of our investments, we will seek to diversify in search

of a better yield, with particular consideration of property and property related funds.

- Capital spend to generate income: we will focus on opportunities to invest our capital in a way that generates benefits for our revenue budget.
- Revenue contributions to capital: when circumstances allow, contributions will be reinstated from the revenue budget, to fund the repair and maintenance of assets within the capital programme."

2.3. The Council's financial outlook continues to be challenging. The Government's 'austerity' agenda is expected to mean substantial reductions in grant. The assumptions underlying the figures for the next five years, both for funding and spending, are explored in the sections below

Funding assumptions

Council Tax

2.4. In recent years the Government has offered 'Council Tax Freeze Grants' as an incentive for Councils to implement no increases in Council Tax.

2.5. However, the issue for MVDC remains the potential temporary nature of these grants. The additional income derived from a modest increase in Council Tax is obtained in all future years, while the income from a Council Tax Freeze Grant is potentially for one year only. Further, at a time when Councils are anticipating less and less grant support from Government, income from Council Tax increasingly becomes a key source of future finance.

2.6. This is illustrated in the figures below, which show the difference in the level of Council funding by opting for Freeze Grant rather than increasing Council Tax. It demonstrates how the Council Tax base would have been eroded by £600,000 over the six year period from the introduction of the Freeze Grant in 2011/12 up until the estimated 2016/17 offer if the Freeze Grant had been consistently accepted.

	11/12	12/13	13/14	14/15	15/16	16/17
Council Tax Freeze Grant	2.5%	2.5%	1%	2%	1%	1%
Value for MVDC (£000)	150	150	60	120	60	60
Additional, cumulative value in tax base if levied as Council Tax increase (£000)	150	300	360	480	540	600

2.7. The Council accepted the grant in the first two years but not thereafter.

2.8. The assumption in the MTFS is that Council Tax continues to increase by 2% each year over the 5 year term. A marginal addition is also made to reflect the anticipated increase in the number of houses.

Revenue Support Grant

2.9. It is difficult to predict the level of central government grant over the next 5 years. The directions given to Government Departments in preparing spending plans in the context of the 2015 Spending Review indicates that overall spending in the DCLG might decrease by between 25% and 40% over the next four years. This would be equivalent, on average, to a decrease of between 6.5% and 10% per year, but is an indication of the overall total and not specific to the Council.

2.10. There is a possibility, in the near future, of the Council reaching “rock bottom” on Government Grant. Our latest estimates suggest that, if the Government holds firm on the current commitments to protect grant funding for the Council Tax Support Scheme and Freeze Grants, then the lowest point for Mole Valley DC will be reached at around £650,000. From then on we might expect an inflationary increase each year but no further erosion of funding.

2.11. The assumptions in the revised MTFS for 2016/17 onwards are based on the indications from the recent Spending Review launch. Grant is forecast to reduce by 10% per year until the £650,000 floor is reached.

New Homes Bonus

2.12. To incentivise the provision of new and recovered housing, the Government introduced a New Homes Bonus for Local Authorities in 2011/12. For every net new home, the Government awards the Council a bonus equivalent to the national average Council Tax for six years. In two tier areas, the billing authority retains 80% of this bonus. MVDC expects to receive around £1.3m in New Homes Bonus in 2016/17 based on an increase in homes of 144.

2.13. 2016/17 is the final year of the scheme as it was originally designed. There has been no definitive statement of intention as to its future. The MTFS assumes that the Government will honour the six year “tail” on new houses up to and including 2016/17. As previously planned, a sum of £1m per year will be used to supplement the revenue budget with the remainder forming a “reserve” to be drawn on to prolong the effect of the £1m per year contribution. This will be possible until 2019/20, at which point the contribution will fall to £0.5m in 2020/21 and the final phase of £0.25m in 2021/22.

Business Rates (Non-domestic rates)

2.14. A proportion of Business Rates has been retained by Local Authorities since 2013/14. The Authorities assume the risk of reductions in rates and reap the rewards of increases. A complicated system of top-ups, tariffs, safety nets and levies has been added to ensure limitations on the extent of gains and losses.

2.15. The Council entered into a Business Rates “Pooling” arrangement with Surrey County Council and three other Surrey Districts/Boroughs for 2015/16, from which Mole Valley is expected to benefit by £300,000 in the current year. Going forward, the membership of the pool may change from year to year depending on the calculation of greatest benefit amongst members. Accordingly, assuming inclusion in the pool for a third of the time, Mole Valley is anticipating an additional £100,000 annualised receipts over each of the three years from 2015/16 to 2017/18.

Interest on investments

2.16. Projected interest rates have been provided by Capita, the Council's Treasury Management Advisors. The Council invests its reserves. Rates of return are at a historic low. The average yield over recent years has steadily reduced to the reported level for 2014/15 of just over 1.5%. This return includes, and is bolstered by, the recent investment of £5m in a property fund (CCLA) which has yielded 5% to 6% per year.

Fees & Charges

2.17. The Council levies a wide range of fees and charges for a variety of services, which are collectively MVDC's largest source of income. The full list contains over 300 items. In 2012, the Council agreed a revised set of principles for fees and charges which is included at Appendix B to this document. Business Managers review the level of their fees and charges annually, in line with these principles, to ensure that relevant costs are covered and income is optimised.

2.18. Significant increases in these fees and charges, in excess of inflation are unlikely to be sustainable and can, in some cases, actually lead to a lower total level of income, particularly where the Council is competing with other providers. For this reason, the fees and charges income is assumed to increase by 1.25% per year over the next few years.

Spending assumptions

Inflation

2.19. The allowance for pay awards has been assumed at 2% in the MTFS. This provides an aggregate figure for planning purposes and does not preclude the adoption of staggered or progressive pay awards which might vary across pay bands but will be contained within the total figure.

2.20. The allowance for inflation is informed by the current level and the projections of both the Government and Capita Asset Services, our Treasury Management Advisers. Currently, the Consumer Price Index is 0%. It is expected to increase, as the distortion caused by decreased fuel prices evens out, back towards the Bank of England target of 2%.

	16/17	17/18	18/19	19/20	20/21
Price Inflation (%)	1.0	2.0	2.0	2.0	2.0

National insurance costs

2.21 For the reasons set out earlier in this report, (para 1.3), changes in the funding of state pensions will lead to an increase of around £200,000 in MVDC's cost of National Insurance.

Pension costs

2.22 The triennial actuary valuation of Surrey's Local Government Pension Fund (LGPF) is due during 2016. Initial indications are that the forecast deficit on the Fund will rise and that contribution rates will consequently increase. The rate of increase is likely to be controlled by continuation of the "stabilisation" policy adopted since the last valuation which restricts increases to 1% of the total pay bill per annum. The MTFS therefore assumes a 1% increase per year.

Other Cost/Income variations

2.23 As identified above, (para 1.7), a ruling from the European Court is expected shortly which is thought likely to reduce the Council's income from charges levied for Land Searches. Any loss of income is of course dependent on the outcome of the case, but it is currently felt likely that MVDC may experience a reduction in income of around £150,000 pa.

2.24 There are also minor reductions in the amount that can be recovered by Legal Services for work on developer agreements as well as an expected reduction in Government Grant towards Benefits Administration following the creation of the Government's own Fraud Investigation Service. These are built into the future budgets.

Revenue Implications of Capital Investment

2.25 The major capital spending in 2016/17, (referred to below, para 2.29), will lead to a reduction in interest earned on balances. However, both the Pippbrook Refurbishment and the Meadowbank Regeneration schemes have beneficial impacts on the revenue budget, significantly in excess of the lost interest.

Revenue Savings Required

2.26 The above analysis suggests that to achieve a balanced revenue budget for 2016/17, MVDC will need to identify savings of around £0.4m pa. The Executive is committed to identifying these savings without impacting on 'front line' service delivery, and by incorporating the outcome of the forthcoming Corporate Functions review.

2.27 The analysis also suggests that a further £0.4m of savings will be required across the following two years. However, given the generally challenging financial environment, and the inevitable uncertainty of some of the assumptions set out in this report, it is considered prudent to assume a further £0.6m pa of savings across 2017/18 and 2018/19, leading to a total savings requirement of perhaps £1m across the coming three years, (2016/17 to 2018/19).

Reserves

General fund revenue reserve

2.28 The level of the Council's Revenue Reserve was £4.4m on 31 March 2015. This increased from £3.4m the year before. The Council has operated a "guideline" minimum level of revenue reserves of £1.3m in recent years, as advised by the s151 Officer. Although the current level of revenue reserves is well above the minimum, it must be remembered that with financial challenges ahead, it may prove very helpful to have a somewhat higher level of reserves.

Capital Programme

2.29 The existing proposals for the Council's capital programme over the term of the MTFS are set out in Appendix A.

2.30 The Council has substantially increased its capital investment plans over the last year. Major, multi-million-pound projects are included in the current years programme at Pippbrook, Meadowbank and Deepdene. The Council has also invested £3.4m in the purchase of Claire House & James House in Leatherhead as a preliminary investment in the Transform Leatherhead project.

2.31 The stage 1 consultation of the Transform Leatherhead project has demonstrated strong public support for making more of Leatherhead's river location. The purchase of Claire House and James House clearly has the potential to address this agenda, although it is important that any development of the building/site does not pre-empt the Masterplan for the town. That said, the 'holding costs' of the building, (security/maintenance/business rates and capital financing costs), are material. It is important that the period before the site is redeveloped, and produces a financial return for MVDC, is minimised, and work will be undertaken alongside the Masterplan development to determine the long term future of the building/site.

2.32 Although each of these projects will bring beneficial returns for the Council's revenue budget, they are cumulatively depleting the capital reserves to the extent that the Council will need to borrow to fund future, additional capital expenditure. The 2013 version of the MTFS emphasised the need for the Council to invest to make best use of its assets and this intention has been followed through in the level of capital investment now envisaged.

Capital reserves

2.33 The level of capital reserves at the end of 2014/15 is £15m. The purchase of Claire & James House in Leatherhead since then (for £3.4m), together with the level of capital investment in the 2015/16 programme (see Appendix A) will deplete the reserves to a level where borrowing will be required, probably during 2016/17. The precise time and requirement will depend on the pace of spend before then and the future capital spending plans.

3 NEXT STEPS

3.1 This scene setting report marks the start of the Business and Budget Planning process for 2016/17. The key dates are set out in the table below.

Event	Date	Purpose
Standing Budget Panel	Date to be confirmed	Scene setting for Budget and Business Planning 2016/17
Scrutiny Committee	17 November 2015	Allocation of Grants to the Voluntary, Community and Faith Sectors 2016/17
Executive	1 December 2015	Allocation of Grants to the Voluntary, Community and Faith Sectors 2016/17
Standing Budget Panel	Date to be confirmed	Discussion of proposals for fees and charges
Grant Settlement announced	Mid December 2015	-
Standing Budget Panels	Date to be confirmed	Discussion of service budgets
Scrutiny Committee	26 January 2016	Business and Budget Planning 2016/17 and Council Tax Resolution
Executive	9 February 2016	Business and Budget Planning 2016/17 and Council Tax Resolution
Council	23 February	Business and Budget Planning 2016/17 and Council Tax Resolution

4. LEGAL IMPLICATIONS

Relevant potential legislation and case law is referred to in the report and there are no legal implications arising as a direct result of this report.

5. FINANCIAL IMPLICATIONS

This report is financial in its nature, and the financial issues and implications are considered as part of the report.

6. OPTIONS

The Executive has two options for consideration

Option One – to agree to the recommendations contained in this report having given consideration to the views of the Scrutiny Committee.

Option Two – To make alternative recommendations.

7. CORPORATE IMPLICATIONS

Monitoring Officer Commentary

The Monitoring Officer is satisfied that all relevant legal implications have been taken into account.

S151 Officer Commentary

The S151 Officer confirms that all financial implications have been taken into account.

Risk Implications

One of the strategic risks in the register is the failure to deliver the Medium Term Financial Strategy and a mitigating control is undertaking the annual business and budget setting process.

Equalities Implications

There are no equalities implications arising as a direct consequence of this report. An Equality Impact Assessment will accompany the Business and Budget 2016/17 report to Executive in February 2016.

Employment Issues

There are no employment implications arising as a direct consequence of this report.

Sustainability Issues

There are no sustainability implications arising as a direct consequence of this report.

Consultation

There are no consultation issues arising directly from this report, although the emerging 2016/17 service plans and budget will be shared with parish councils, residents associations, the business community and other partners at a later stage in the process.

Communications

A press release has been drafted.

BACKGROUND PAPERS

None

APPENDIX A

CAPITAL PROGRAMME 2015/16 - 2020/21 at AUGUST 2015							
		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Budget Manager	Updated Capital Programme	Capital Programme	Capital Programme	Capital Programme	Capital Programme	Capital Programme
		£000	£000	£000	£000	£000	£000
MAJOR PROJECTS							
CAPITAL PROJECTS							
Pippbrook HQ Refurbishment	P Brooks	4,500					
Meadowbank Regeneration	R Burrows	4,100					
Claire & James House (Transform Leatherhead)	P Brooks	3,410					
The Pitstop	A Wilks	425					
Emergency Accommodation	A Wilks	1,400					
HOPE Springs Eternal (HLF funded)	P Anderson	1,128					
Leatherhead High Street (s106)	J Straw	33					
Ashtead Village Centre	J Straw	49					
Carbon Reduction Project	G Kane	300					
Leatherhead Youth Football Club	P Brooks	920					
KGV Playing Fields Improvements	P Anderson	100					
Pippbrook House	P Brooks	201					
CAPITAL BLOCK SUMS							
Disability Adaptations	R Haddad	500	500	500	500	500	500
Affordable Housing	A Wilks	735	500	500	500	500	500
S106 Projects	J Straw	350	250	250	250	250	250
Community Grants	P McCord	127	74	74	74	74	74
Playground Refurbishment	P Anderson	125	60	60	60	60	60
Capitalised salaries	P Mitchell	473	473	473	473	473	473
Telecare Equipment	T Ward	151					
Dial-A-Ride Vehicle Replacement	T Ward	200					
Property Projects	P Brooks	150					
TOTAL MAJOR PROJECTS		19,377	1,857	1,857	1,857	1,857	1,857
MINOR CAPITAL PROJECTS		1,861	800	800	800	800	800
TOTAL CAPITAL		**21,238**	**2,657**	**2,657**	**2,657**	**2,657**	**2,657**

APPENDIX B

Fees and Charges Principles

Contribution to the Corporate Plan and Finances	1. Charges should maximise income unless there is a clear decision not to do so. 2. Discretionary services should be charged on the basis of full cost recovery. If not, any subsidy from the tax payer should be the result of a decision to financially support the cost of providing the service. 3. Fees and charges policies will reflect key commitments, corporate priorities and fit with the Council's Medium Term Financial Strategy. 4. The Council will take a firm stance on fee dodgers 5. Payment in advance and non cash payments will be encouraged to ease collection and minimise collection costs. 6. Fee and charge levels should not be providing subsidies to commercial operators from council tax payers. 7. Where considerations are solely commercial, the budget manager should be free to set charges to maximise income.
Concessions	8. Concessions for services should be justifiable and consistent 9. Council controlled concessions should have regard to Council objectives 10. Council controlled concessions offered to commercial operators or other local authorities should be tightly controlled
Consistency	11. Where the impact of increases in charges is high, consideration should be given to phasing over time. 12. Charges should be determined in the context of those levied by other similar providers. 13. Charges should be reviewed and revised, at a minimum, annually 14. There should be consistency between charges for similar services 15. There should be a rational scale in the charge for different levels of the same service