Agenda Item 8

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Ward (s) affected	All	**Key Decision**	Yes
Subject	**FINANCIAL SCENE SETTING 2019/20 TO 2021/22**		

RECOMMENDATION

It is recommended that Cabinet:

(A) Note the financial scene setting report as the starting point for the detailed business and budget planning for 2019/20.

(B) Approve the fees and charges principles as set out in Appendix C.

EXECUTIVE SUMMARY

The purpose of this report is to update the Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2021/22 based on the latest financial information, taking into account both national and local factors that will impact on the Council's finances. The MTFS assesses the savings or extra income that the Council will need to set a balanced budget in each of the next three years, and addresses the challenge of financial sustainability.

The report contains the following sections:

(A) Introduction & MTFS – re-stating the themes of the MTFS agreed in 2013

(B) National Factors – the factors that will determine the degree of change in local government financing in the next few years

(C) Funding Assumptions – the assumptions underlying the current forward planning income figures

(D) Spending Assumptions – the assumptions underlying the current forward planning expenditure figures

(E) Next Steps – the timetable for agreeing the detailed Business & Budget Plans for 2019/20

The report contains the following appendices:

(A) Appendix A : The Revenue Medium Term Financial Plan (MTFP) 2018/19 to 2021/22

(B) Appendix B : The Capital Programme 2019/20 to 2021/22

(C) Appendix C : The fees & charges principles

In the view of Section 151 Officer, the key conclusions of the report, and their implications for the 2019/20 budget and beyond are:

a) MVDC is facing significant reductions in Government funding over the next 2-3 years.

- The 2019 Spending Review, (which will set the future funding levels for public services);
- the Fair Funding initiative, (which will allocate that funding between local authorities);
- the Business Rates Retention initiative, (which determines the amount of any growth in Business Rates, retained by local authorities);
- and the introduction, (in 2017/18), of a threshold for the assumed growth in housing within a local authority area, before New Homes Bonus is payable;

all point to a significant reduction in Government funding. In particular It has been assumed, that New Homes Bonus will fall by almost £1m pa, (to virtually nil by 2021/22), and that MVDC's share of Business Rates will fall from £1.4m pa to £0.6m pa in 2019/20.

b) In response to this scenario, the Council has undertaken the procurement of a Joint Waste Contract, and the Asset Investment Strategy, each of which is estimated to have financial benefits of more than £1m pa.

c) Consequently, the budget set by the Council in February 2018 was potentially balanced for the next three years, taking the anticipated Government funding reductions into account.

d) However, it is important to recognise that this budget contained, and still contains, a high degree of uncertainty:

- the implementation of the changes to the local government funding system, (Fair Funding and Business Rates Retention), was originally intended for April 2019, but this has been deferred, by one year, to April 2020. Consequently the magnitude of any fall in the Business Rates retained by MVDC will not be confirmed until late 2019.
- Both the Joint Waste Contract and the Asset Investment Strategy are not yet fully implemented, and the final financial benefit is not yet confirmed, (although it is clear that both will generate a significant financial gain).
- Equally, it is too early to confirm the impact of an increase in 'pay and display' charges implemented in August 2018.

e) Therefore it is important to maintain the principles of caution, prudence and focus on value for money that have characterised the Council's approach to its budget.

f) This is particularly so in relation to the deferral of the reformed local government funding system, from 2019/20 to 2020/21. The Council's MTFP, approved in February, assumed a loss of £0.8m of Business Rates, from April 2019. This will now be deferred to April 2020. Consequently the Council will effectively have a 'one-off' 'surplus' of around £0.8m in 2019/20, with a corresponding savings requirement in 2020/21.

g) It is recommended that this one-off surplus should largely be devoted to either one-off expenditure items, or added to reserves, possibly earmarked for future one-off spending, (such as pump priming of regeneration schemes). It must be noted that any new commitment to major ongoing financial commitments is likely to create a corresponding saving requirement in 2020/21.

h) In relation to capital, the Council is nearing completion of a significant Capital Programme, based on:

- investing historic capital reserves, (which were earning very little interest, 'in the bank'), in a range of projects to produce income streams for the Council;

- and investing £100m borrowed from the Public Works Loans Board at preferential interest rates, to construct a commercial property portfolio, again aimed at producing income streams, (the Asset Investment Strategy).

i) Following completion of this Programme, the Council will have an ongoing Capital Programme of c £2m-£3m pa, financed by a range of fairly modest capital funding sources, (developer contributions; Disabled Facilities Grants; 'Right to Buy' receipts from the sale of Clarion homes; direct contributions from the revenue budget).

j) Any further significant additions to the Capital Programme in future will either require funding from a 'capital receipt', (sale of a Council asset), or from borrowing. Therefore in considering such spending it is imperative to consider the business case, and to understand/accept the impact on the revenue budget. (In broad terms, capital spending of £1m will create capital financing cost of £50,000 pa, to be funded from the revenue budget).

Corporate Priorities

While not impacting directly on any one particular corporate priority, the purpose of this report is to facilitate an effective annual (and medium term), planning process, enabling MVDC to achieve the optimum use of its resources in line with its corporate priorities.

The Cabinet has the authority to determine the recommendations.

A. INTRODUCTION AND MEDIUM TERM FINANCIAL STRATEGY

1. The Council's current Medium Term Financial Strategy (MTFS) and Medium Term Financial Plan (MTFP) was approved by Council in February 2018, and sets out the Council's approach to managing its financial position over the period 2018/19 to 2020/21.

This report updates the assumptions underpinning the MTFS and MTFP, to provide a context within which detailed budget proposals for 2019/20 to 2021/22 can be formulated.

2. The Council's current MTFS includes the following assumptions:

- *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 fees and charges 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.*
- *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.*
- *Capital spend - new projects are added to the programme, under the following principles:*
    - *To comply with a statutory or health & safety imperative*
    - *When a full business case demonstrates a positive return on the investment*
    - *When the project is related to maintenance and improvement of an existing MVDC asset, protecting its value and condition and prolonging its useful life.*

  In recent years the Council has focused on opportunities to invest capital in a way that generates benefits for the revenue budget.

3. Since 2013, the Council has managed its finances to reflect that it needed to do more than just incrementally increase its income sources (council tax, business rates, fees & charges) to keep pace with the increasing demands for service and the expected reduction in government support. Previous MTFSs have recognised the trend for reduced government grant, and this trend has been confirmed in the grant settlements, with the last payment of Revenue Support Grant (RSG) being made to the Council in 2017/18. This confirmed the imperative for the Council to take the compensating action prescribed in the MTFS assumptions.

4. There are a number of high-profile examples of action taken by the Council in recent years, that are in line with the principal themes of making best use of assets to improve services, improving returns on investment and spending capital to generate income:

- Investment of £8.4 million in the regeneration of Meadowbank.
- Investment of £4.5 million in the refurbishment of Pippbrook.
- Purchase of six investment properties, as part of the Asset Investment Strategy, totalling £92.4 million.

- Purchase of Claire House and James House for £3.4 million for the regeneration and transformation of Leatherhead.
- Purchase of Swan Centre, Leatherhead shopping centre leases for £8.6 million for the regeneration and transformation of Leatherhead.
- Utilising £4 million of reserves to make early repayments of Pension deficit.
- Investing £5 million in properties through CCLA Investment Management Ltd (Churches, Charities & Local Authorities) for improved, longer term yields.
- Other actions taken to facilitate achieving a sustainable position on revenue include procurement of a Joint Waste Initiative with three other Surrey councils from August 2018 to achieve potential savings of £1.1 million or more.

B. NATIONAL FACTORS

5. This section considers the factors that, on a national scale, will impact on the Council's finances in the medium term.

The Economy and Brexit

6. Economic growth is projected to remain modest at 1.3% in 2018 and 1.6% in 2019. There is little slack in the economy following years of strong growth, and unemployment is projected to remain below 5%, putting pressure on local economies where there is high employment, (such as Mole Valley).

7. It is not yet possible to predict financial and economic outcomes of Brexit with any certainty. However, the Chancellor indicated, in his budget of 29 October, that the nature of the UK's exit from Europe would have a material impact on future Government spending, and that 'no-deal' or a poor deal would potentially require a revised Government Budget.

8. Additionally, there are likely to be many consequences of Brexit that will impact on our procedures and policies, and which are likely to require a significant amount of resource to work through. The detail of these is not yet known.

9. One short term impact of Brexit is that a number of previous initiatives, such as consideration of the level of planning fees, have been slowed or postponed, due to lack of capacity within the Civil Service. Most significantly, implementation of the reform of the local government finance system, (Fair Funding and Business Rate Retention – see below), has been deferred from 2019/20 to 2020/21. This has created a one-off bonus to MVDC, (and all other Surrey Councils, among others), because an anticipated £0.8m reduction in the Council's retention of Business Rates will now take place a year later, from April 2020.

Inflation and interest rates

10. The rate of inflation has fallen slightly over the last year. The Retail Price Index (RPI) currently stands at 3.3% while the Consumer Price Index (CPI) is 2.4%.

11. The Bank of England has raised interest rates to 0.75% over the last year and the next announcement is due in November. Changes to the interest rate are used to influence prices and inflation. Economists are currently predicting further interest rate rises.

Public Sector pay

12. The Government has now relaxed the historic 1% ceiling on public sector pay, with an average pay award of 2% being awarded, in some cases higher for lower paid workers. In particular, a national two year pay award was agreed earlier this year for local government. The cost of this was 5.6% across the two awards in April 2018 and April 2019, (c2.8% per annum). This provided a 2% per annum increase for all staff, but with larger increases on lower salaries, (which are below the minimum level paid by MVDC).

13. MVDC, (like most South East authorities), has adopted its own local terms and conditions of employment, such that it is not bound to the national agreement. However, those local terms and conditions include the guarantee that MVDC staff will receive at least the annual inflationary increase provided by the national agreement. To meet that commitment, the pay award from 1 April 2019 will be a minimum of 2.0%.

14. The particularly low unemployment rate in the South East, means that recruiting and retaining the right staff is a challenge for most organisations in the region, and this is identified as one of the Council's key risks in its strategic risk register.

Review of Business Rates and 'Fair Funding'

15. The Government has announced its intention to establish "self sufficient local government" and is currently developing proposals for the reform of the local government funding system. This has two main elements:

    - The intention of the 'Business Rates Retention' initiative is for local government, (collectively), to retain the full amount of Business Rates collected nationally, while Revenue Support Grant will cease. It does not mean that individual local authorities will retain all the Business Rates collected in their area, although it is intended that any increase in Business Rates, above the existing level, in a particular local authority area will be retained by that local authority, in the short term.

    - The 'Fair Funding' initiative will redefine the allocation of Government funding, (essentially the nationally collected Business Rates), across all local authorities.

16. A number of pilot projects were set up in 2017/18 to explore how any new Business Rates system could work. The 11 district and borough Councils in Surrey, along with the County Council, were successful in obtaining pilot status, and this is likely to generate one-off additional Business Rates income of between £0.5m and £1.0 in 2018/19. (This was identified in the Council's 2018/19 budget, and earmarked for pump-priming regeneration projects).

17. The Government has now invited applications for further pilots in 2019/20, although perhaps significantly, these will now be on the basis of '75% retention' rather than 100%. Once again, Surrey authorities have collectively applied for pilot status.

18. It was originally intended that the reformed local government funding system would be implemented in April 2019, although this has now been deferred to April 2020.

Permitted Development, the Retail Sector and the Changing Nature of Work

19. There are a number of reasons why the overall level of income from Business Rates is under pressure. This is likely to grow over the coming years and may well, over time, lead to some significant reductions in the income from Business Rates:

    - In certain circumstances, 'Permitted Development Rights', allow the conversion of office premises into residential premises without the requirement for planning permission. (In most cases, any consequent Council Tax receipt will be lower than the previous Business Rates).
    - The very obvious pressure on 'the High Street', and the move from physical to internet shopping will have an impact both on the amount of retail space, and in all likelihood on the level of Business Rates that retail businesses can afford to pay. Indeed, the Chancellor, in his October 2018 budget, announced a short term reduction of one third of Business Rates, for all small retail businesses.
    - The nature of 'work' is changing, with many businesses increasingly adopting flexible or home working, and ultimately relying far less on large expensive buildings to deliver their services.

20. This is unlikely to directly impact on MVDC's resources under the current local government funding regime. However, as the full responsibility for reductions, (as well as growth), in Business Rates, passes to local government in general, and individual local authorities in particular, the risk of MVDC's income being impacted by reductions in Business Rates may become significant.

New Homes Bonus

21. In 2011/12 the Government introduced a New Homes Bonus, (NHB), which rewards councils for the number of new or 'recovered' homes within their boundaries, and payment is made for each home for six years. The scheme was reviewed for 2017/18 with the payment for each new or recovered home being reduced to four years. Also, a threshold of 0.4% of total dwellings was introduced. The bonus is now only received on houses above the threshold. The changes resulted in a substantial reduction in the overall amount distributed through NHB.

22. For MVDC the 0.4% threshold equates to around 150 new homes per annum. Broadly, the increase in Mole Valley's housing numbers is running at, or just below, this number, such that under the current NHB regime and the current rate of house building, Mole Valley is unlikely to receive significant future sums of NHB.

23. Due to the continued upward pressure for house building, the Government is expected to increase the threshold in 2019/20, above which NHB is payable. The decision will be made following a review of the Council Tax Base data, (which provides Government with the numbers of new homes delivered nationally in the past year), when it is published in November. Any changes in the NHB regime, and the allocation of NHB for 2019/20, will be detailed at the time of the provisional funding settlement, which is currently expected in early December.

C. THE COUNCIL'S FUNDING ASSUMPTIONS

24. This section outlines the funding assumptions in the Council's updated Medium Term Financial Plan for the period 2019/20 to 2021/22. The detailed figures are set out in Appendix A.

Council Tax

25. The MTFS currently assumes modest annual increases in the level of Council Tax. Government regulations currently state that local authorities can increase their annual Band D Council Tax by the greater of 3% or £5 without triggering a public referendum. Last year MVDC passed the point where a £5 increase is no longer greater than 3%. Consequently, MVDC's maximum increase, without triggering a referendum, is 3% and this has been assumed within the provisional base budget for 2019/20, along with a 0.25% increase in the income from Council Tax, arising from a similar increase in housing numbers

Revenue Support Grant (RSG)

26. The Government announced, in December 2015, that the level of RSG, including transitional relief, would be nil for MVDC starting in 2018/19 and going forward. The Government has been urged by Councils to extend the transitional grant but the assumption in MVDC's financial planning is that the grant level will remain at nil.
27. Government figures for forward planning of grant levels included a charge on the Council in the form of a "negative RSG" figure of £0.8m in 2019/20. This was to be implemented alongside new proposals for the retention of business rates (see below). In July 2018 the Government issued a "Technical Consultation" on the Finance Settlement for 2019/20, (Year 4 of the 4 year settlement).
28. The consultation looks at different technical options, but ultimately they all result in Negative RSG not being implemented in 2019/20. This means the Council will not have a £0.8m reduction in our funding in 2019/20, but there's no reason to believe that the same or similar funding reduction will not be implemented in 2020/21 through the Fair Funding mechanism. The revenue MTFP has been updated to reflect that there is a one-off 'reprieve' in 2019/20.

New Homes Bonus

29. As identified above, MVDC is unlikely to receive any new allocations of NHB, based on current levels of house building. However, MVDC will continue to receive the "tail" of previous bonuses, but only at four years' worth rather than six. MVDC received more than £1m in New Homes Bonus in 2016/17 but, if the current scheme remains unchanged, this is likely to reduce sharply to virtually nothing by 2021/22.
30. New Homes Bonus may potentially become more relevant to MVDC when a new Local Plan is in place and more houses are being delivered.

Business Rates and Fair Funding

31. Following the deferral of the implementation of a reformed local government funding system, to 2020/21, it is not clear whether MVDC will lose the £0.8m of funding implied by the 'negative RSG' figure included in the four-year funding Government funding settlement, from 2016/17 to 2019/20, or when that might happen. What is clear is that there will be no 'negative RSG' funding reduction in 2019/20, but the prudent assumption contained in the financial plan is that it provides the best, (only), indication of the likely 'direction of travel' when the Fair Funding initiative is finalised.

32. MVDC and Surrey CC currently retain less than 1/5 of the Business Rates paid by businesses in Mole Valley, and the indications are that South East shire authorities in general are likely to see further reductions in their share of available funding. In particular it is felt that MVDC's share of Business Rates may fall by £0.8m pa, from £1.4m pa to £0.6m pa.

Interest on financial investments

33. The Council invests its reserves to maximise income from its cashflow management. The average yield over recent years has steadily reduced to the reported level of 1.6% for 2017/18. These returns are bolstered by, the investment of £5m in a property fund which has yielded 4.5% to 5% over the last year.

34. The revised financial plan assumes a continuing low level of interest reflecting both the level of reserves and the minimal interest rates.

Fees & Charges

35. 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. The Council has an agreed set of principles for fees and charges, and this is included at Appendix C. The principles are reviewed annually and 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.

36. The assumptions for the fees and charges income in the updated MTFP are as follows:
    - Statutory fees and charges – 0% increase, unless the government has announced a change to a specific fee or charge.
    - Controllable fees and charges
        - Parking pay and display charges – 0% increase as increased charges were implemented in August 2018.
        - All other controllable fees and charges – average 2.5% increase.

Surrey County Council

37. Last year SCC notified MVDC of its intention to pay significantly lower 'recycling credits' to districts and boroughs. These have been incorporated in the updated MTFP. The

County's severe financial challenges may lead to further, as yet unidentified, reductions in payments to MVDC over the next few years. However, of equal concern, the County's financial position is likely to have significant impacts on the services they deliver, and to potentially increase costs to MVDC, (eg fly tipping costs if Community Recycling Centres are reduced or closed).

38. As a key partner to the County, pressure is likely to fall on MVDC to do what it can to support SCC and protect public services as much as possible. However, it has to be recognised that MVDC's ability to assist in a financial sense, without threatening its own financial sustainability, is extremely limited.

D. THE COUNCIL'S NET SPENDING ASSUMPTIONS

39. This section sets out the assumptions underlying the spending figures included in the updated Medium Term Financial Plan (MTFP) for the period 2019/20 to 2021/22 which is detailed in Appendix A.

Pay Inflation

40. A 2% provision for pay awards is currently included in each of the 3 years of the updated MTFP.

Price Inflation

41. The estimated rate for general price inflation in the MTFP takes into consideration, the current level of inflation in the economy and future projections. Currently, the Consumer Price Index is 2.4%. The Bank of England target rate is 2%.

	2019/20	**2020/21**	**2021/22**
General price inflation in the MTFP	2%	2%	2%

42. Any contracts that the Council has entered into, may have their own specific rate of indexation, and therefore for any significant contracts in excess of £0.5 million per annum, the specific rate has been applied in the MTFP, instead of the general price inflation rate.

Pension costs

43. The last actuarial valuation of Surrey's Local Government Pension Fund (LGPF) was undertaken in 2016 and was implemented on 1 April 2017. The contribution rate for MVDC as an employer is 15%. The next actuarial valuation is due in 2019 and will be implemented on 1 April 2020. Early indications from the actuary are that the contribution rate might not increase.

44. The additional annual contribution, that is needed to address the ongoing Pension Fund deficit, is currently £0.5 million and due to better than expected returns, the annual contribution may reduce, but this will not be confirmed until the actuarial valuation in 2019.

Joint Waste contract

45. MVDC joined the Joint Waste Initiative, with three other Surrey councils, from August 2018. A prudent full year saving on this contract of £1.1 million was built into last year's MTFP, to be achieved in full from 2019/20. The latest projections, indicate that a full year saving of £1.4 million is likely to be achieved over the updated MTFP as follows, although it needs to be recognised that the final figure is still subject to some uncertainty as the street cleaning contract doesn't go live until 1 April 2019.:

	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Savings from Joint Waste Initiative	-725	-1,445	-1,445	-1,445

46. The net cost of Waste was also adjusted in last year's MTFP to reflect the reduction to recycling rates paid by Surrey County Council (SCC). Each tonne of waste that MVDC recycles reduces SCC's landfill tax bill and generates a recycling credit from SCC. Following analysis of its income and expenditure on Waste, SCC reduced the amount paid to districts and boroughs. The estimated reduction in income from gate fees and recycling credits over the updated MTFP remains unchanged and are as follows:

	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Gate fees and recycling credits	0	100	180	180

Other joint service arrangements

47. It is currently assumed that the Council's partnership arrangements on Building Control and Environmental Health will have a broadly neutral impact on the budget in their formative years and be self sustainable in the longer term. However, the Building Control Service is currently experiencing higher than budgeted costs and lower than budgeted income. Consideration is currently being given to any appropriate remedial actions, and whether additional funding is appropriate to support the service.

Transform Leatherhead

48. The Transform Leatherhead initiative has led to a number of high profile purchases through the capital programme – Claire House, James House, the Swan Centre lease and Swan Centre Shopping Centre and Car Park improvements. The assumption going forward is that capital investment will continue with the prospect of good returns later in the process.

49. Pump priming and feasibility assessments, in advance of capital projects, will have an impact on the revenue budget. A £1 million revenue development reserve was ring-fenced for Transform Leatherhead in July 2016 and allocations of the bulk of this have been agreed in relation to the development of Claire House and James House. A further £1.55 million of funds were allocated in February 2018 to Transform Leatherhead. Cabinet approvals have been obtained for £1 million. £0.6 million has been spent to date since 2016. Expenditure against that will be monitored through the regular budget monitoring process.

Asset Investment Strategy

50. The Council's Asset Investment Strategy (AIS) was introduced during 2016/17. In October 2016 the Council approved capital expenditure of £48 million on investment properties, to yield additional annual income of £0.75 million by 2020. An increase in the level of investment, Up to a total of £100m was approved in February 2018. This brings the proposed total capital expenditure to £100 million, with a target income of £1.35 million by the end of 2019/20.

51. The first property purchase was completed in April 2017. £92.4 million has been spent to date, with £7.6m potentially still available for investment. However, due to the rises in borrowing rates, which have taken place during the last year, the net return to the Council is likely to be slightly lower than the originally targeted figure. Further, given the current borrowing rates it may not be possible to identify a potential purchase with a sufficiently low risk profile, but a sufficiently high financial yield, to support a further purchase. It is therefor possible that the remaining £7.6m remains unspent, and the final return from the AIS may be nearer £1.05m pa. This is the current working assumption in the MTFP.

Local Plan Examination

52. The Council's Local Plan is now likely to be submitted for examination by a Planning Inspector early in 2020, with the actual Examination taking place over the summer of 2020. This Examination is likely to have associated costs of up to £0.1m, which has been provided for within the attached MTFP.

	2018/19 £000	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Local Plan – Public Inquiry	0	0	100	0

Revenue budget monitoring 2018/19

53. The Council's net revenue budget is £9.1 million and the month 5 outturn projection is a £0.1 million net overspend (1.2%).

    The significant variances on revenue budgets are as follows:

£000	**Reasons for the variance**
172	Projected overspend in Property – Asset Management. Mainly due to vacant property in Swan Centre.
163	Projected under recovery of income in Parking due to initial projection of income following revised parking charges.
150	Projected overspend on employee costs of interim staff in Financial Services.
(166)	Projected underspend in Development Management due to employee costs and higher than budgeted income.
(149)	Projected underspend in waste collection mainly due to a cautious financial approach as the new contract is being rolled out.

54. The revenue budgets for Waste and Parking will be actively monitored over the next few months to determine a precise financial impact of the new Joint Waste Contract that came into effect on 6 August 2018 and the increased parking charges that came into effect on 1

August 2018. In the meantime a revised, higher assumed saving from the Joint Waste contract has been built into the MTFP as identified in paragraph 45 above.

55. Remedial measures are currently being developed and implemented for the remaining variations, some of which may lead, in due course, to consideration of additional funding in 2019/20, as part of the budget planning cycle. However, at this stage no other amendments are assumed within the MTFP.

Savings Requirement

56. The analysis above and in Appendix A indicates that the medium term financial position on revenue is a balanced budget in 2018/19 followed by a surplus of £0.9 million in 2019/20 and balanced budgets in 2020/21 and 2021/22. The surplus in 2019/20 relates to the government's deferral of a reformed local government funding systems, and consequently a deferral of the assumed funding reduction for MVDC.

57. This provides some scope for additional one-off expenditure in 2019/20. However, it needs to be recognised that if funding is provided for a significant level of ongoing commitments, this is likely to necessitate a corresponding level of savings in 2020/21.

58. So, at this stage, it is not immediately necessary to identify any savings to balance the budget over the medium term. However, this may need to be re-visited if any on-going growth bids are put forward during the growth bid process in November. Equally, the budget is currently subject to a material degree of uncertainty around some strategically significant numbers, (future Business Rates retention, Joint Waste Contract, parking pay and display income, Asset Investment Strategy). It is consequently far too early to conclude with any degree of certainty that the budget is balanced over the medium term, and that further savings will not be required. Caution, prudence and a focus on value for money need to continue to be the core principle of the Council's financial management.

General fund revenue reserves

59. The Council's revenue reserves were £13.6 million at 31st March 2018 (£12.9 million on 31st March 2017), of which £10.1 million has been earmarked for specific purposes, leaving an unallocated balance of £3.5 million. The Council continues to operate within the £1.3m minimum level of revenue reserves, advised by the Section 151 Officer.

Capital Programme and Funding

60. The existing proposals for the Council's capital programme over the term of the MTFS are £124.4m and this is detailed in Appendix B. This includes:

- £100m for Asset Investment Strategy
- £8.5m for the development of the Meadowbank stadium
- £4m for the purchase of vehicles for the Joint Waste Contract
- £4m contribution to the pension fund, significantly reducing future contributions

61. All of the above, amongst other projects, have assisted the Council in achieving a balanced revenue budget through:

- investing historic capital reserves, (which were earning very little interest, 'in the bank'), in a range of projects to produce income streams for the Council, or reduce costs;

- and investing £100m borrowed from the Public Works Loans Board at preferential interest rates, to construct a commercial property portfolio, again aimed at producing income streams, (the Asset Investment Strategy).

62. The vast majority of this spending will be completed by the end of the current financial year, following which the Council will have an ongoing Capital Programme of c £2m-£3m pa, financed by a range of fairly modest capital funding sources, (developer contributions; Disabled Facilities Grants; 'Right to Buy' receipts from the sale of Clarion homes; direct contributions from the revenue budget).

63. Any further significant additions to the Capital Programme in future will either require funding from a 'capital receipt', (sale of a Council asset), or from borrowing. Therefore in considering such spending it is imperative to consider the business case, and to understand/accept the impact on the revenue budget. (In broad terms, capital spending of £1m will create capital financing cost of £50,000 pa, to be funded from the revenue budget).

64. It is recommended that new projects are added to the programme, under the following principles:
    - To comply with a statutory or Health & Safety imperative
    - When a full business case demonstrates either a positive return on the investment, or when the net cost is understood and accepted
    - When the project is related to maintenance and improvement of an existing MVDC asset, protecting its value and condition and prolonging its useful life.

E. BUSINESS AND BUDGET PLANNING PROCESS

65. This scene setting report is part of the Business and Budget Planning process. The key events and approximate dates are set out in the table below.

Event	**Date**	**Purpose**
Consultation and engagement	10-Sep-18 to 19-Oct-18	Consultation and engagement on the draft Council Strategy.
Standing Budget Panel	06-Nov-18	Background and context session to include Corporate Strategy.
Government's Autumn Budget	23-Nov-18	Outlook and broad plans for Government spending.
Cabinet	27-Nov-18	Financial Scene Setting Report considered.
Standing Budget Panel	06-Dec-18	Scrutiny of proposals for fees and charges.
Grant Settlement announced	Mid Dec-18	Confirmation of grant allocation, New Homes Bonus methodology and business rates pilots 2019/20.

Event	Date	Purpose
Standing Budget Panels	07-Jan-18 and 10-Jan-18	Discussion of service budgets.
All Member Seminar	15-Jan-18	Seminar on Business & Budget Planning 2019/20 and presentation on Council Strategy.
Consultation	January 2018 (dates tbc)	Engagement with parish councils, resident associations and business representatives.
Scrutiny Committee	22-Jan-19	Considers Business and Budget Planning 2019/20 and Council Tax Resolution report.
Cabinet	05-Feb-19	Considers Business and Budget Planning 2018/19 and Council Tax Resolution report.
Council	12-Feb-19	Approves Business and Budget Planning 2018/19 and Council Tax Resolution report.
Publication	20-Feb-19	Council Strategy published.
Publication	31-Mar-19	Budget book and service plans published.

LEGAL IMPLICATIONS

Relevant legal implications have been taken into consideration but there are no direct legal implications arising as a result of this report.

FINANCIAL IMPLICATIONS

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

OPTIONS

The Cabinet has two options for consideration:

Option One – to agree to the recommendations contained in this report.

Option Two – To make alternative recommendations.

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 the relevant financial implications have been taken into account. Attention is also drawn to the S151 Officer's conclusions and advice as set out in the Executive Summary

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 2019/20 report to Cabinet in February 2019.

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 2019/20 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.

BACKGROUND PAPERS

None.

Appendix A

UPDATED MEDIUM TERM FINANCIAL PLAN

REVENUE BUDGET 2019/20, 2020/21 & 2021/22

		BASE BUDGET 2018/19 £000	PROPOSED BUDGET 2019/20 £000	INDICATIVE BUDGET 2020/21 £000	INDICATIVE BUDGET 2021/22 £000
1.	**FUNDING**				
1a	Council Tax	-6,867	-7,090	-7,320	-7,558
1b	Business Rates	-1,424	-1,452	-602	-614
1c	Government Revenue Support Grant (RSG)	0	0	0	0
1d	New Homes Bonus	-452	-327	-95	-70
1e	Interest on financial investments	-325	-325	-325	-325
	TOTAL INCOME	**-9,068**	**-9,194**	**-8,342**	**-8,567**
2.	**NET SPENDING**				
2a	Previous Year Base Budget				
	- pay	10,801	11,213	11,451	11,562
	- contracts and other costs	12,265	12,727	12,448	12,543
	- income from fees & charges, specific grants and recharges	-13,436	-14,927	-15,700	-15,857
		9,630	**9,013**	**8,199**	**8,248**
2b	Net inflation - pay, price and fees & charges	331	330	321	324
2c	Interest and principal repayments (Non AIS)	200	0	0	0
2d	Technical adjustments	620	150	-100	0
2e	Minor changes and amendments	8	-4	-9	0
2f	2018/19 Changes				
	- Revenue implications of Pippbrook & Meadowbank capital investment	-70	0	0	0
	- Costs and savings on new Joint Waste Contract	-725	-720	0	0
	- Family Support Programme	8	4	0	0
	- Costs of consultants and interim staff in Planning Dev. Management	150	-50	-100	0
	- Community Support Services: reduction in contract income	85	0	-85	0
	- Parks: tree inspection	38	0	-38	0
	- Economic Development: support for Prosperity & Rural Strategies	99	0	-40	0
	- Car Parking: increase rates to £1 per hour	-747	-373	0	0
	- Waste: adjusted Gate Fees and Recycling Credits	0	100	80	0
	- Planning: Local Plan consultancy and inquiry	0	0	-80	0
2g	2019/20 Proposed Changes				
	- Local Plan - Public Inquiry	0	0	100	-100
2h	Asset Investment Strategy	-610	-250	0	0
2i	Future changes beyond 2019/20				
	TOTAL SPENDING	**9,017**	**8,199**	**8,248**	**8,472**
3.	**TO BALANCE BUDGET**				
	Surplus (-) / Savings Required	**-51**	**-995**	**-93**	**-95**

Major Active Projects	Total Capital Programme £'000	Spend in previous years £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Car Parks (multi-year)	1,000	0	100	350	250	300
Deepdene Trail	929	929	0	0	0	0
Dorking Halls Refurbishment	270	0	270	0	0	0
Emergency Accommodation (Phase 1 & 2)	1,100	743	357	0	0	0
Joint Waste Services	4,000	0	4,000	0	0	0
Leatherhead Church Street (Developers Contributions)	656	787	0	0	0	0
Leatherhead High Street – Units 21 & 23	1,176	0	1,176	0	0	0
Leatherhead Youth Football Club	942	942	0	0	0	0
Meadowbank Centre Dorking	6,502	6,502	0	0	0	0
Meadowbank - land contamination	2,000	2,000	0	0	0	0
Property Projects	150	126	0	0	0	0
Transform Leatherhead - Swan Centre Car Park Refurbishment	330	28	302	0	0	0
Transform Leatherhead - Swan Centre Improvements	885	74	811	0	0	0
Total Active Major Projects	**19,940**	**12,131**	**7,016**	**350**	**250**	**300**
Annual Capital Expenditure						
Affordable Housing	1,375		60	315	300	300
Capitalised Salaries	175		175	175	175	175
Community Grants	74		74	74	74	74
Dial-a-Ride Vehicle Replacement	50		50	50	50	50
Disability Adaptions	665		665	665	665	665
Playground Refurbishments	60		60	60	60	60
Telecare Equipment	50		50	50	50	50
Total Active Major Projects & Annual Capital Expenditure	**22,389**	**12,131**	**8,150**	**1,739**	**1,824**	**1,874**
Minor Projects	1,995	568	1,092	1,332	500	500
Asset Investment Strategy	100,000	51,650	48,350	0	0	0
Total Capital Programme	**124,384**	**64,349**	**57,592**	**3,071**	**2,324**	**2,374**

Appendix C

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.