MOLE VALLEY DISTRICT COUNCIL

– MEDIUM TERM FINANCIAL STRATEGY

Foreword by Leader of the Council

Our Auditors, Grant Thornton, have recently completed their in-depth audit of the 2012/13 Accounts. They have concluded that the accounts present a true and fair view of the Council's financial position on 31st March 2013. They have also taken a wider view of the financial activity of the Council and concluded that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness. Their opinion includes favourable judgments on the Council's financial resilience, financial governance, financial control and strategic financial planning.

Our latest strategic financial plan is set out in the Medium Term Financial Strategy, which is attached. This document sets the financial scene for the medium term and explains the Council's broad strategy for balancing its income with expenditure in the years ahead. It is set against the background of a prolonged recession and anticipated reductions in the forecast levels of government grant and returns on investments.

The main themes of our latest strategy are as follows . . .

- *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 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.*

Our intention is to pursue the actions listed above in the face of the financial challenges outlined in the document. We aim to maintain, over the 7 year medium term, the sound, sensible and sustainable financial position that the Auditors have recognised and commended the Council for this year.

MOLE VALLEY DISTRICT COUNCIL

– MEDIUM TERM FINANCIAL STRATEGY

Introduction and summary: balancing income and expenditure

1. The Medium Term Financial Strategy (MTFS) sets out Mole Valley District Council's finances, in broad terms, for the next seven years. Its purpose is to set the financial scene over the medium term and to provide a context within which detailed budget proposals for 2014/15 onwards can be formulated.

2. There is a potential imbalance between expenditure and income. On the expenditure side, the cost of providing services and the demand for them continue to rise but on the income side the level of Government grant is reducing, the ability to increase Council Tax receipts is constrained and standard interest returns on investments are minimal.

3. The MTFS is set against the background of a severe and prolonged recession. The Government has recently outlined its future financial plans in the Spending Review 2013 (SR13). It is clear from these figures, supported by the Coalition, and from pronouncements made by the Opposition, that there is little prospect of release from current funding constraints for local government. All parties seem to be agreed that Government needs to be smaller and leaner, that public spending should be targeted on the needy and on infrastructure and that public service delivery should be opened up to outsiders.

4. For Mole Valley District Council (MVDC) to balance its finances, something extra is required. Within this MTFS, initiatives for making best use of the Council's assets are set out. These will be pursued over the next seven years. There are service benefits to these initiatives but they also generate income to enable MVDC to cover its expenditure commitments. The underlying rationale of recent Government funding changes, for example the retention of non-domestic rates and the New Homes Bonus, is to put the onus on local authorities to generate their own funding through development. This change is both recognised and embraced by the Council in the MTFS. The projects that will maximise the yield from MVDC's assets are listed and explained later in this report.

5. The main components of the Medium Term Financial Strategy can be summarised in the six points below:-

   - 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.

6. The MTFS figures in Annex A show that the requirement for savings in 2014/15 is likely to be fairly light, bolstered as it is by the saving on the Dorking Sports Centre re-tender. However, the anticipated grant loss in the next year creates a requirement to find savings of around £0.6m. The Strategy will be to aim to identify savings of around half of this amount (£300,000) in 2014/15 to ease the position in 2015/16.

Linking the Corporate Plan, Business Plans, 2014/15 Budget and the MTFS

7. In February 2011 the Council adopted a new Corporate Plan for the period 2011-15. Three broad thematic areas of focus were identified. They are:

   Access to Services
   Environment
   Value for Money

8. These themes provide the framework that enables the Council to set its corporate priorities, and to agree the key projects and performance indicators that will assist in achieving these priorities.

9. 2014-15 is the final year of this four-year Plan. It is proposed that there be a light-touch annual refresh of the Plan as in previous years. This refresh ensures that the Plan remains relevant to the needs of the Council and the community.

10. The Council's financial outlook continues to be challenging. The approach for the coming year and beyond is to ensure that budget and business planning are fully integrated and driven by business need, and that resources are allocated in line with the Council's corporate priorities.

11. This ensures continued alignment of Council resources, planning and performance arrangements. A timetable has been developed that aligns the 2014/15 budget and business planning processes to enable approval of both the Corporate Plan and the budget by the Council in February 2014.

12. During the Autumn, Business Managers will work with portfolio holders to develop Business Plans for 2014/15. These plans set out the core business and key strategic objectives in each business area, and are supported by key projects, performance indicators and risks. Information on staffing and budgets will be included in the

Business Plans.

13. Once drafted, the complete set of Business Plans will be reviewed against the set of ten corporate priorities that currently under-pin the three themes identified above. This will identify if any corporate priorities need to change in 2014/15, and will enable confirmation of the set of corporate projects, performance indicators and risks against which the Council will monitor progress.

14. Following agreement of the 2014/15 Corporate Plan in February 2014, progress will be reported through regular budget and performance reports to Executive, enabling Members to identify how the Council is progressing towards achieving its priorities.

15. These Plans will form a key part of the staff appraisal process which will take place during the Spring. This will help to reinforce the corporate priorities throughout our workforce and also ensure that staff who are directly contributing towards corporate priorities, performance indicators and projects are clear about their role in achieving these.

Recent financial history

16. Before setting out the ingredients in the MTFS for the next seven years, it is instructive to look back on previous years to assess the direction of travel as well as appreciate the degree of change that is possible over the medium term.

	Budget 2008/09 £m	Budget 2013/14 £m	Change £m	
Council Income				
Government Grants and Business Rates	4.0	3.3	(0.7)	18% reduction
Interest	2.8	0.3	(2.5)	89% reduction
Council Tax	5.8	6.0	0.2	3% increase
Total Income	12.6	9.6	(3.0)	24% reduction
Service Spend				
Net Cost of Services	13.4	9.7	(3.7)	28% reduction

17. The reduction in net spending has been achieved through various initiatives across the years including an intensive review of business processes (which saved £1m), investment in Fairmount House in Leatherhead (generating income of £0.6m per year), outsourcing the management of Leatherhead Leisure Centre (saving £0.4m) as well as an annual drive to trim service costs, identify efficiencies and maximise fees and charges.

Funding assumptions in the MTFS

Council Tax

18. The Government's Spending Review, published in June 2013, set out the Government's intention to provide further funds for Council Tax Freeze Grant in 2014/15 and 2015/16. The amount of funding earmarked by Government suggests that the grant available will be equivalent to a 2% increase in 2014/15 and 1% in 2015/16. The Spending Review also reiterated the requirement for Councils to organise a referendum on increases in excess of 2% in both years. The increase can only be implemented if the referendum response is positive.

19. The issue for the Council remains the temporary nature of the Freeze Grant. If an increase in Council Tax is levied, that income becomes part of the base in future years. Whereas if the Freeze Grant is accepted, then the base is eroded for the future and the limits on levels of increase prevent the Council from making up the deficit.

20. The issue 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 £540,000 over the five year period from the introduction of the Freeze Grant in 2011/12 up until 2015/16 if the Freeze Grant had been consistently accepted. Because of its temporary nature, the Council could potentially have faced a "fiscal cliff" of £0.54m reduction in funding in 2016/17.

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

21. In reality, the Council has accepted the grant in some years but not others. Further analysis of the period from 2008/09 to 2013/14 shows that the Retail Price Index increased by 17% over that period while the level of Mole Valley's Council Tax levied on residents increased by only 7% (from £144 to £154 on a Band D property).

22. The assumption in the MTFS is that Council Tax continues to increase by 2% each year over the 7 year term of the MTFS. An addition is also made to reflect the anticipated increase in the number of houses.

Revenue Support Grant

23. It is difficult to predict the level of central government grant over the next 7 years. The Spending Review indicates that overall spending in the DCLG will decrease by 10% for 2015/16. But this is an indication of the overall total and not specific to MVDC.

24. The assumptions in the MTFS for 2014/15 and 2015/16 are based on indicative grant allocations provided last year, amended by the latest consultation material recently released by Government. This suggests that the grant will reduce by around £450,000 in each of 2014/15 and 2015/16. Thereafter, the MTFS assumes continuation of the downward trend by £100,000 per year to 2020/21. This means that, by the end of the

MTFS, Revenue Support Grant will have reduced to only £350,000. Such a scenario is consistent with the current trend for Government funding to be diverted into "bid and reward" schemes (such as the New Homes Bonus or Single Local Growth Fund) or transferred to local authorities in line with the "localism" agenda (for example, business rates and the Council Tax Support Scheme).

25. It is not difficult to envisage a situation where the Revenue Support Grant for MVDC is nil.

<u>New Homes Bonus</u>

26. 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 will receive £0.75m in New Homes Bonus in 2013/14. In terms of new homes, it is anticipated that the number per year will increase by 200 in 2014/15 and by 250 each year thereafter.

27. There is some uncertainty over the future of the grant. No guarantee has been given that the grant will continue beyond its initial 6 year term (2011/12 to 2016/17). Also, the Government is looking to divert a proportion of it into the Single Local Growth Fund in 2015/16 and is currently out to consultation on how to achieve this.

28. The assumption in the MTFS is that the bonus will not continue for new houses beyond 2016/17, though the 6 year "tail" will be honoured for each new home up to that point.

29. The MTFS assumes that the New Homes Bonus will reduce by 35% in 2015/16 to fund the Single Local Growth Fund. Amounts will be set aside each year to create a New Homes Reserve beyond an annual threshold of £0.9m or 80% - whichever is the lower. (Previous budget plans envisaged a threshold of £1m per year, but the potential reduction of 35% means that the reserve will be exhausted before the end of the MTFS period if £1m annual contribution to revenue is maintained.) The reserve provides back-up funding for the Council in the event of the grant's termination after 6 years and the MTFS assumes the use of £0.6m of this reserve to augment the grant in the final two years of the Strategy. The MTFS projections anticipate a residual New Homes Bonus reserve of £0.4m in 2020/21.

30. The alternative scenario in the Government consultation is that, rather than reduce bonus by 35% across both local authority tiers, upper tier LAs will lose all of their bonus whilst lower tier LAs bonus will be reduced by 18.75%. A reduction along these lines would leave MVDC with £1.7m in the New Homes Reserve at the end of the MTFS period if an annual top-up of £0.9m is maintained.

<u>Non Domestic Rates</u>

31. 2013/14 is the first year for the Retention of Business Rates by Local Authorities. The Government has introduced a system to leave a proportion of business rates in the hands of Local Authorities. The LAs then 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. The parameters are due to be "reset" in 2020.

32. In the first year of the new system, MVDC has set its budget at the Government's safety net level which allows for a 7.5% reduction in the baseline amount. The assumption in the MTFS is that, following a bedding-in year in 2013/14, the Council's business rate yield will be equal to the baseline which will generate an extra £75,000 initially, rising by the RPI each year thereafter.

Interest on investments

33. Projected interest rates for the duration of the MTFS have been provided by Sector, the Council's Treasury Management Advisors. The Council invests a substantial amount of capital reserves and the average yield over the last few years has gradually reduced to the current level of just over 1%. The Government's "Funding for Lending" Scheme was launched in July 2012 and was designed to incentivise banks and building societies to boost their lending to the UK economy. It has resulted in a sharp fall in deposit rates to the Authority.

34. The Council has been constrained in recent years by the restrictions in the Treasury Management Strategy which have prioritised "security" and "liquidity", somewhat to the detriment of "yield". The Strategy was amended in 2012 to try to strike a better balance and, without compromising on the cautious stewardship of public funds, to achieve a better return. The Strategy allows an increase in longer term investments and widens the scope of potential counterparties as part of a plan to invest £8m at higher rates of return (around 5%). Some progress has been made against this new target with the recent investment of £5m in a property fund, though it is too soon to assess definitively.

35. The assumption in the MTFS is that the stretch target of 5% return will be achieved and the Council will earn 5% on £8m of balances from half way through 2013/14. The remainder of the balances is invested at rates slightly above Sector's estimated Bank Rate and in line with its forecast of average interest.

Interest on additional capital receipts

36. The MTFS includes reference to a potential additional capital receipt of around £20m from the development of land at North Leatherhead Bypass for residential purposes. (The scheme will add 500 houses in the area and therefore potentially generate New Homes Bonus, unless the grant scheme ends before then.) The receipt will be paid in four annual phases and the timescale will depend on progress of the scheme through planning. Recognising the complexities of the planning difficulties required for this scheme to go ahead and the high risk that it will not surmount them, the base MTFS figures do not include the receipt or the revenue income flowing from its investment. However, an additional annex (Annex B) has been added to illustrate the impact of this scheme if it is successfully implemented. The assumption in this additional scenario is that the receipt is paid in four equal instalments of £5m from 2016/17 to 2020/21. Interest on this receipt is assumed at the higher rate of 5% in line with the amendments to the Treasury Management Strategy described above.

Fees & Charges

37. The Council levies a wide range of fees and charges for a variety of services including car parking, licenses, inspections, hire of rooms and pitches, entertainment and many others. The full list contains over 300 items. In recent years, the policy of

the Council has been to increase most of these by 5% other than in exceptional circumstances. This was in recognition of the reduction in funding in other areas. In 2012, the Council agreed a revised set of principles for fees and charges which is included at Appendix D to this document.

38. Continued increases of 5% at a time when current inflation is running at 3.3% is unlikely to be sustainable and can be detrimental to income yield, particularly where the Council is competing with other providers. For this reason, the fees and charges income is assumed to increase by 2.5% per year over the duration of the MTFS. Business Managers will review the level of their fees and charges annually, in line with the principles, to ensure that relevant costs are covered and income is optimised.

Spending assumptions in the MTFS

Inflation – pay awards

39. 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.

40. The Government's Spending Review 2013 (SR13) assumed an average public sector pay award of no more than 1% in 2015/16, though the Council agrees pay levels locally and is not constrained by this.

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Pay	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Inflation – general prices

41. The allowance for inflation in the budget, informed by the current level and the projections of Sector, is as follows:

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Inflation	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5

Making the most of our assets

42. There is a potential imbalance between expenditure and income if the Council continues to deliver services in their current form. The inflation on service costs will outrun increases in income as these are constrained by Government regulation on Council Tax increases, reductions in grant and the impact of the recession on interest rates. To cover this shortfall, the Council must generate a better return through use of its assets – land, property and capital. Various initiatives are being worked on, to come to fruition over the term of this MTFS.

North Leatherhead Bypass Site

43. The Council has identified a potential site for residential development of 500 homes through a joint promotion with an adjoining landowner. The development is to be progressed through the appropriate planning processes over the next couple of years. Subject to the necessary planning agreement, the development will generate a capital receipt for the Council of around £20m as well as additional Council Tax and New Homes Bonus from the 500 homes.

44. The success of this proposal is not assumed within the MTFS figures because of the difficulties anticipated in obtaining the necessary planning permission. However, an alternative set of figures has been drawn up at Annex B to illustrate the impact on the Financial Strategy if the scheme is implemented. If successful, the development will generate £4m in interest payments, £350,000 in Council Tax and £1m awarded through the New Homes Bonus during the MTFS period. The New Homes Bonus scheme is assumed to finish after its current seven year term. If it continues, then the Council will receive additional revenue income of £0.5m during the MTFS term.

The Pippbrook site

45. The Council appointed Property Consultants (Turner & Townsend) to explore the possibilities for the Pippbrook site. Their report recognised that the current revenue running costs of the office building are high and identified the need to either upgrade the current Council HQ to remedy deficiencies in wiring, lighting, heating and access or to construct a new HQ on the same site. Other developments on the site, including the potential for housing and the future of Pippbrook House, have also been considered. Options are currently being analysed and assessed. The MTFS includes no changes to reflect this initiative at present, pending the outcome.

Relocation of the depot from Dorking to Leatherhead

46. An initiative to relocate the depot to the north of the district, with consequent savings in running costs, has been agreed by the Executive and is progressing. The business case for this move reflects the fact that over three quarters of Mole Valley's population and therefore over three quarters of activity from the depot is located in the north of the district. The initiative is currently being held up by delays around property acquisition and disposal. A net revenue saving, after taking into account the costs of running the new depot, of £50,000 per year has been included in the MTFS from 2016/17.

Town Centre regeneration in Dorking and Leatherhead

47. The Council has property interests in both St Martin's Walk, Dorking and Bull Hill, Leatherhead. In each case, the Council will aim to use its assets to create improvements in the Town Centres whilst exploring opportunities either to generate capital receipts or revenue income streams in support of its financial position.

Purchase of Emergency Accommodation for homeless

48. A revenue saving of over £60,000 per year in bed and breakfast costs has been identified through an initiative to purchase four houses for £1.4m and adapt them for use as emergency accommodation for homeless families. The service benefits of this initiative are compelling but, on the finance side alone, the revenue savings following investment of £1.4m of MVDC's capital represent a marked improvement on the current investment return.

49. The MTFS assumes that the purchases are completed in 2013/14 and 2014/15 and that the full revenue saving is achieved by half way through the 2014/15 financial year.

Improving the yield on investments

50. A number of initiatives to make a better return from investment of capital are being progressed. The Treasury Management Strategy is constructed on the three pillars of security, liquidity and yield. It was amended in 2012 to enable better yield to be pursued but not by compromising unduly on security or liquidity. MVDC maintains a healthy level of capital reserves and investment returns have been at around 1% to 1.5% over recent years. Options to achieve returns in the region of 5% have been explored including investment in property funds (£5m committed to date), the emergency accommodation outlined above (£1.4m) and, potentially, loans to local Housing Associations.

51. The MTFS assumes the successful investment of £8m at 5% from 2013/14 in line with the Strategy.

<u>Dorking Halls business plan</u>

52. The target of the Dorking Halls business plan is to gradually erode the Council's level of subsidy so that the Halls are self sufficient. The MTFS assumes that this is achieved, in line with the business plan, in 2015/16.

<u>Retendering the management and operation of Dorking Sports Centre</u>

53. The Council has undertaken a retendering of the running of Dorking Sports Centre which generated a positive outcome in terms of additional revenue income - from 2014/15, an increase of over £400,000. This has been built into the MTFS projections from 2014/15.

Other budget pressures and issues

<u>Savings and Increased Income Proposals from 2013/14</u>

54. The 2013/14 Budget included a range of initiatives to save around £0.7m. Some of these were due to be introduced on a part-year basis in 2013/14 with the first full year being 2014/15. There is a further £85,000 saving in the full year calculations and this has been included in the MTFS. The £85,000 arises mainly in relation to the car parking strategy, with some additional sums relating to staffing changes and income generation.

<u>Annual contribution towards minor capital works</u>

55. The Council spends £0.8m per year on minor capital works much of which is geared towards upkeep of assets – for example boiler replacements, playground resurfacing and vehicle replacement. It is not best practice to erode the Council's capital reserves through incurring this repetitive and routine expenditure. The preferable source of funding is an annual revenue contribution and, when affordable, this should be reinstated at £0.8m per year. This would be a priority call on the additional resources available to the Council if the scheme in North Leatherhead is successfully implemented.

<u>Inflation beyond the budget allowance</u>

56. The allowance for general inflation in the seven year plan is 2.5%. The Retail Price Index at the time of preparation of the MTFS is 3.1%. If the RPI remains consistently above the inflation allowance, then budget managers have an ongoing requirement to manage the gap. The costs of energy, in particular, are likely to outstrip the inflation

allowance. The annual increases in electric and gas prices, during 2013/14, are 5.4% and 10.1% respectively.

Pension costs

57. The triennial actuary valuation of Surrey's Local Government Pension Fund (LGPF) is due during 2013. 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% per annum. The MTFS assumes 1% increases per annum across the seven year term.

Waste Collection

58. The County will continue to gradually withdraw funding assistance on food recycling. This will cost the service £22,000 in 2014/15. In the longer term, a Joint Surrey Waste Collection Contract, involving all Surrey's Boroughs and Districts, is being explored for introduction at the end of current contract term in 2018. Amalgamation of 11 separate waste collection arrangements should lead to substantial efficiency savings, and a provisional figure of £100,000 has been included in the MTFS.

Welfare Reform

59. The first phases of the Government's Welfare Reform agenda have started to impact on Mole Valley during 2013/14 with the implementation of caps on Housing Benefits and the transfer of Council Tax support from Central Government. An extra cost of £60,000 on Housing has been provided in the MTFS to respond to the benefit changes.

60. There are wider implications further down the road. The Government plans to roll out the introduction of Universal Credit over the next four years, thereby simplifying the welfare system and breaking down the divisions between departments which currently provide separate benefits. The challenge at local level will be for Local Government and the Health Service to reflect this joined-up approach and provide residents with a local, integrated care and support service. This is likely to require expert and well-trained staff though the precise financial implications are too distant to quantify.

General Fund Revenue Reserve

61. The level of the Council's Revenue Reserve was £2.557m on 31 March 2013. The Council operates to a "guideline" minimum level of revenue reserves of £1.3m, as advised by the s151 Officer. Although the level of revenue reserve is well above the minimum, the £1.3m represents only 3 or 4 weeks of Council expenditure and has been set very much as a "minimum" rather than "target" level of revenue reserves.

62. The Medium Term Financial Plan aims to set budgets that are essentially "balanced" and does not draw excessively on the level of reserves. The preferred method is to identify sufficient savings and efficiencies in each year to bring expenditure into line with income.

Budget Monitoring 2013/14

63. The half year's monitoring position at the end of September 2013 indicates a likely underspend of around £600,000 by the end of the year. This represents around 3% of gross expenditure and may vary during the second half of the year.

64. Some elements within the 2013/14 projection are included in the MTFS scenario – e.g. the increased income on the Dorking Sports Centre. However, the size of the projected underspend, combined with the fact that there was a similar outcome last year, suggests an underlying revenue underspend that is likely to recur.

65. There is reference above to the fact that a regular contribution from revenue towards minor works capital would represent good practice and prevent the gradual erosion of our capital reserves through routine and repetitive minor works projects (playground renewal, boiler replacement etc). A budget adjustment will therefore be recommended to Council to reduce the revenue budget on underspending services in favour of the contribution towards minor works.

Capital Programme and Capital Reserves

66. The proposals for the Council's capital programme over the term of the MTFS are set out in Annex C.

67. From 2014/15, a core programme of £1.8m major works and £0.8m minor works is envisaged each year. The major works will cover annual programmes of adaptations for the disabled and affordable housing improvements. The minor works is a block sum against which bids are made each year by budget managers.

68. Further capital spend over the forecast £2.6m available resources can only be sustained if the Council determines it will either:

    borrow to fund the capital programme (thereby incurring financing costs within the revenue account) and/or;

    manages its property portfolio in order to generate capital receipts or;

    curtail other projects within the currently approved capital programme.

69. The capital programme will continue to be carefully managed and controlled. The remaining capital reserves will only be used in appropriate circumstances, supported by a robust business case demonstrating whole-life costing, impact on the revenue budget and sound investment appraisal techniques such as discounted cash flow and net present value. No new additions to the capital programme above £2.6m will be sanctioned unless a currently approved scheme is removed from the programme to finance the proposed project

Level of capital reserves

70. The level of reserves anticipated over the course of the MTFS is set out below. The gradual reduction reflects the funding of the core capital programme though the projections do not include the receipts on the North Leatherhead Bypass scheme. If planning permission is obtained for this, then the level of reserves will be boosted by £20m and the Council may consider using a proportion of the interest on the receipts to increase the annual contribution from revenue to minor capital works.

	13/14 £m	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m
Capital reserves	15.8	10.4	9.6	8.7	8.1	7.4	6.6	5.9

ANNEX A

Revenue Budget 2013/14 to 2020/21		2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
	Council Income								
	Central Government Grant								
	Revenue Support Grant	(1,724)	(1,298)	(846)	(750)	(650)	(550)	(450)	(350)
	New Homes Bonus Grant	(602)	(847)	(900)	(900)	(900)	(900)	(900)	(900)
		(2,326)	(2,145)	(1,746)	(1,650)	(1,550)	(1,450)	(1,350)	(1,250)
	Retention of Business Rates	(1,039)	(1,136)	(1,159)	(1,182)	(1,206)	(1,230)	(1,255)	(1,280)
	Council Tax	(5,999)	(6,116)	(6,271)	(6,431)	(6,594)	(6,762)	(6,934)	(7,110)
	Interest on balances	(320)	(477)	(498)	(545)	(594)	(600)	(575)	(550)
A.	**Total Council Income**	**(9,685)**	**(9,874)**	**(9,674)**	**(9,808)**	**(9,944)**	**(10,042)**	**(10,113)**	**(10,190)**
	Council Expenditure								
	Previous Year's Budget	10,336	9,685	9,874	9,674	9,808	9,944	10,042	10,113
	Inflation								
	- Employees: Pay Inflation 2%	145	176	180	183	187	191	194	198
	- Price Inflation 2.5%	306	314	321	330	338	346	355	364
	- increase on fees & charges 2.5%	(108)	(107)	(110)	(113)	(116)	(119)	(122)	(125)
	Increases, adjustments and previous year changes*	(295)	(287)	70	21	73	(26)	75	77
	Revenue contribution to Minor Capital Works	0	200	0	0	0	0	0	0
	Savings measures and new/increased fees and charges agreed in 2013/14	(691)	(85)	0	0	0	0	0	0
B.	**Total projected Council Expenditure for year**	**9,693**	**9,896**	**10,335**	**10,095**	**10,289**	**10,336**	**10,545**	**10,627**
C.	**Required budget reduction to balance**	**8**	**22**	**660**	**287**	**346**	**294**	**431**	**438**
D.	**Final budget for year**	**9,685**	**9,874**	**9,674**	**9,808**	**9,944**	**10,042**	**10,113**	**10,190**

Note: Increases, Adjustments and Previous Year Changes in 2014/15 comprise previously agreed items: Dorking Sports Centre, Pensions backfunding and Depot Relocation.

ANNEX B

Anticipated impact of North Leatherhead ByPass

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
1. If Housing project is **not** implemented . . .								
Council Income	(9,685)	(9,874)	(9,674)	(9,808)	(9,944)	(10,042)	(10,113)	(10,190)
Council Expenditure	9,693	9,896	10,335	10,095	10,289	10,336	10,545	10,627
Budget reductions required to balance	8	22	660	287	346	294	431	438
Final Projected Expenditure Budget	9,685	9,874	9,674	9,808	9,944	10,042	10,113	10,190
2. If Housing project is successfully implemented . . .								
Council Income	(9,685)	(9,874)	(9,674)	(9,972)	(10,399)	(10,790)	(11,156)	(11,360)
Council Expenditure	9,693	9,896	10,335	10,095	10,454	10,791	11,293	11,670
Budget reductions required to balance	8	22	660	123	55	1	137	310
Final Projected Expenditure Budget	9,685	9,874	9,674	9,972	10,399	10,790	11,156	11,360

ANNEX C

Capital MTFS

Start of year reserves	2013-14 £000's	2014-15 £000's	2015-16 £000's	2016-17 £000's	2017-18 £000's	2018-19 £000's	2019-20 £000's	2020-21 £000's
Ear marked reserves:								
Minor Works Reserve	4,365	4,365	4,565	4,765	4,965	5,165	5,365	5,565
Pippbrook House dilapidations	325	0	0	0	0	0	0	0
Planning Tariff/Section 106 reserve	1,150	1,145	1,145	1,145	1,145	1,145	1,145	1,145
Property Initiatives	0	0	0	0	0	0	0	0
Other capital reserves:								
Capital receipts reserve	9,088	4,321	3,317	2,363	1,409	455	-499	-1,453
Capital Grants and contributions unapplied	646	604	604	604	604	604	604	604
Total Start of Year Capital Reserves	15,574	10,435	9,631	8,877	8,123	7,369	6,615	5,861
Add contributions to reserves								
Revenue contributions to minor works		200	200	200	200	200	200	200
Section 106 contributions	250							
S106 Affordable Housing	350	350	350	350	350	350	350	350
Disabled Facilities Grant	272	270	270	270	270	270	270	270
Capital receipts, retained right to buy	350	350	350	350	350	350	350	350
Capital receipts, Leatherhead Land Development				0	0	0	0	
VAT shelter scheme	700	700	700	700	700	700	700	700
Contaminated land grant								
Heritage Lottery Fund	123							
Other External Capital Income								
Less spending, reducing reserves								
Major Works (>£50k)	6,132	1,874	1,824	1,824	1,824	1,824	1,824	1,824
Minor Works (< £50k)	1,252	800	800	800	800	800	800	800
Capital Salaries								
Total capital programme	7,384	2,674	2,624	2,624	2,624	2,624	2,624	2,624
Source of finance:								
Capital Receipts (MVDC Core funding)	5,817	2,054	2,004	2,004	2,004	2,004	2,004	2,004
Section 106/Planning Tariff	605	350	350	350	350	350	350	350
Disabled Facilities Grant	272	270	270	270	270	270	270	270
DEFRA - Kingston Rd Gasometer	42	0	0	0	0	0	0	0
Heritage Lottery Fund	123	0	0	0	0	0	0	0
Pippbrook House Dilapidations	325	0	0	0	0	0	0	0
Property Initiatives	0	0	0	0	0	0	0	0
Total financing	7,184	2,674	2,624	2,624	2,624	2,624	2,624	2,624
End of year reserves								
Ear marked reserves:								
Minor Works Reserve	4,365	4,565	4,765	4,965	5,165	5,365	5,565	5,765
Pippbrook House dilapidations	0	0	0	0	0	0	0	0
Planning Tariff/Section 106 reserve	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
Property Initiatives	0	0	0	0	0	0	0	0
Other capital reserves:								
Capital receipts reserve	4,321	3,317	2,363	1,409	455	-499	-1,453	-2,407
Capital Grants and contributions unapplied	604	604	604	604	604	604	604	604
Total End of Year Capital Reserves	10,435	9,631	8,877	8,123	7,369	6,615	5,861	5,107

ANNEX D

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