Mole Valley District Council

Agenda Item 6

Strategic Management Team Lead Officer	Nick Gray, Strategic Director		
Report of	Councillor Simon Ling, Portfolio Holder - Finance		
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To	Executive		
Date	5th February 2013		
Agenda Item	6	**Key Decision**	Yes
Ward (s) affected			
Subject	Budget Proposals - Revenue Budget and Capital Programme – 2013/14 to 2017/18		

RECOMMENDATIONS

Subject to any decisions it wishes to make in the light of the feedback from consultation, the Executive is asked to RECOMMEND the following to the Council for approval at its meeting on 19 February 2013:

1. That the proposed budget for 2013/14 be set at £9,673,000.

2. That as part of 1 above, the package of savings and increased income proposals set out in Appendix B is endorsed.

3. That the Council Tax Freeze Grant of 1.0% or £62,000, offered by Government, is rejected for 2013/14 and 2014/15.

4. That on the basis of agreeing 1, 2 and 3 above, the Band D Council Tax for 2013/14 is set at £154.53 representing a 1.9 percent increase in Council Tax for 2013/14.

5. That, in order to balance funding with expenditure, a small amount of £12,000 is transferred from the General Fund reserves in the setting of the 2013/14 budget.

6. That a capital programme of £5,042,000 is approved for 2013/14 and a total capital programme of £16,693,000 be approved for 2013/14 to 2017/18.

7. That Members' allowances for 2013/14 are frozen.

8. That the Section 151 Officer's statement regarding the 2013/14 budget and medium term financial outlook for the Council is noted.

EXECUTIVE SUMMARY

This report:

- Sets out the Council's financial position
- Presents proposals for savings and increased income
- Recommends the resultant revenue budget, capital budget and council tax;
- Identifies current risks to the Council's financial position and the outlook for 2014/15 and beyond

The Executive & Council have the authority to determine the Recommendations

The Council's Vision

1. Through working with our partners, we will help to make Mole Valley a place where people want to live, work, invest and enjoy. The 2013/14 budget is fundamental to the achievement of this vision. Our aim is to deliver good services and good value.

2013/14 Business Plan and Priorities

2. The 2013/14 budget and the 2013/14 Business Plan were developed as a single process, based on the Council's three priority areas of:

   - Access to Services e.g. an emphasis on maintaining frontline services
   - Environment e.g. expansion of the garden waste collection service
   - Value for Money e.g. driving down operating costs and finding better value through procurement solutions.

3. The Council's 2013/14 Business Plan will be presented at next month's Executive meeting.

BACKGROUND

The Medium Term Financial Strategy

4. In past years the Executive has approved a Medium Term Financial Strategy (MTFS) in the Autumn which sets out the financial outlook and assumptions over a 5 year planning period. The detailed budget proposals are then brought forward within the principles and parameters outlined in the MTFS. Due to uncertainties around the likely level of government grant in 2013/14 and potential volatility caused by government review of the allocation mechanism and continued austerity measures, it has not been feasible to draw up a meaningful MTFS in the normal timescale.

5. The MTFS will be developed in the Spring once some of the uncertainties have been resolved. However, the major principles which will feed into the development of the Council's MTFS have already been formulated as part of setting the 2013/14 budget i.e, making the most of Council assets, promoting the building of new housing and increasing investment income.

The Revenue Budget

6. In recent years, The Council has had a significant imbalance in its revenue budget, using reserves to fund the deficit between income and expenditure. The major factors contributing to this deficit included:

- Many years of virtually no annual increases, and recently major decreases, in Government funding. In particular, Revenue Support Grant (RSG), dropped from £4.0m in 2010/11 to £2.5m in 2012/13;
- Costs of circa £1.3m transferring back to the Council's responsibility from the former Housing Revenue Account;
- A reduced level of income from fees and charges for services arising from the continuing poor economic climate
- A major reduction in income from interest on balances, from £2.8m in 2008/09 to £0.3m in 2012/13

7. In order to address this imbalance, the Council has, over recent years, implemented efficiency programmes and other savings initiatives producing a total reduction in the cost of delivering services of £3.7m.

8. The proposals identified within this report will deliver further business improvement options of around £0.7m without impacting service delivery.

9. While the Council has been undertaking this process of returning the revenue budget to a balanced position, commitment to new capital spending has been carefully controlled, in order to protect levels of capital reserves, and hence the income from interest earned on those reserves.

Key Budget Assumptions

10. The following paragraphs set out the key budget assumptions underpinning the proposed Budget 2013/14. Assumptions related to FUNDING are listed first, followed by assumptions on SPENDING.

A. Funding Assumptions

11. The Council's sources of funding, excluding fees and charges, are

- Central Government Grant
- Retained Business Rates
- Council Tax
- Interest on Balances

<u>Central Government Grant</u>

Central Government Grant consists of Council Tax Freeze Grant, Revenue Support Grant, Localised Council Tax Support Grant and New Homes Bonus.

Council Tax Freeze Grant

12. The budget assumption is that the Council turns down the Government offer of 1% Council Tax Freeze Grant (in return for levying a 0% increase in Council Tax).

13. The Freeze Grant offered for 4 years from 2011/12 at 2.5% (£153,000 per year) still forms part of the Council's funding. The Council also accepted a one-year grant at 2.5% for 2012/13 (£153,000). Acceptance of the third grant, a two year 2013/14 offer at 1%, would leave the Council facing a "fiscal cliff" at the end of 2014/15 when the 2011/12 and 2013/14 grants run out concurrently. At that point, there are likely to be capping constraints on the level of council tax increases and therefore no possibility of retrieving the lost ground on the tax base.

14. If the freeze grant scenario is compared to the position assuming a 2% increase in Council Tax over the relevant years, then the Council will be £63,000 worse off in 2013/14, £189,000 worse off in 2014/15 and £378,000 worse off in 2015/16 (if no new freeze grant is offered). The shortfall arises partly as a result of the grant raising less than the proposed council tax increase and partly as a result of the temporary nature of the grant (one, two or four years) as compared to a straight council tax increase which becomes "embedded" in the base budget.

Revenue Support Grant (RSG)

15. The provisional Finance Settlement, announced just before Christmas, set out a split of the funding between direct grant (RSG) and retained business rates. Given the new arrangements around business rates and the inclusion of localised funding for Council Tax support, the amounts are difficult to compare to previous years. However, the following table shows a like-for-like comparison and a decrease of £481,000 between this year and next year.

Comparison of Government Grant 2012/13 to 2013/14

	£000	£000
2012/13 Funding		
- RSG	2,543	
- 2011/12 Council Tax Freeze Grant	152	
- 2012/13 Council Tax Freeze Grant	153	
- Homelessness Grant	50	
- Council Tax Benefit Grant	396	
		3,294
Changes to 2013/14		
- Ending of 2012/13 Council Tax Freeze Grant	(153)	
- Reduction in core funding	(288)	
- Reduction in LCTSS funding	(40)	
		(481)
Provided as:		
- Revenue Support Grant	1,689	
- Retained Business Rates	*1,124	
		2,813

See Retained Business Rates section in paragraph 28 for explanation of why this differs from budgeted figure of £1,039,000 within table above.

New Homes Bonus Grant

16. The Government introduced a “New Homes Bonus Grant” in 2011/12 to encourage and reward local authorities for developing new homes and new affordable homes. £140,000 was received by Mole Valley in 2011/12, £352,000 will be received during 2012/13 and the grant for 2013/14 has recently been announced at £753,000. The grant is calculated on the basis of the national average Council Tax for the relevant band, is payable for six years and is shared 80%:20% with the County Council. An additional premium of £350 is paid on each affordable new home.

17. As an example, the addition of one “affordable” Band D house to Mole Valley’s stock will generate grant, in the first year, of 80% of £1,444 (the Band D national average) plus 80% of £350 = £1,435. Over six years, this amounts to £8,611.

18. The grant payable for 2013/14 of £753,000 is higher than previously estimated. The 2013/14 part of the grant is based on an actual increase of 262 in the number of dwellings between October 2011 and September 2012 (the relevant period), a third of which are “affordable” homes and over half of which are banded higher than Band D.

19. Having provided an additional 262 new homes to generate the 2013/14 grant, the Council estimates that a further 202 will be added in the next year. Given the increased importance of this funding stream, and the fact that it will be deducted from the Government’s overall total, it is important that Mole Valley retains its share and keeps pace with the general level of house building across the country. Therefore, the target set in the forward budget is for an additional 250 homes to be added in 2015/16 and 300 per year thereafter. If these targets can be achieved, the estimated grant by 2016/17 will be almost £2m.

20. However, the New Homes Bonus Grant has been introduced by the Government, initially, for a six year term. There are no guarantees that it will continue thereafter, other than to complete the 6 year “tail” on each new house. It is therefore inadvisable to make the funding such a vital cornerstone of the Council’s budget. The £2M anticipated in 2016/17 would represent 20% of the Council’s income. The proposal in this budget is to channel a proportion of the New Homes Bonus Grant into a reserve. This would reduce the Council’s reliance on it in any one year and extend its benefit beyond the immediate six year horizon. The proposal is that, from 2013/14 onwards, either 20% of the grant or any amount in excess of £1m, whichever is greater, be transferred into a reserve to support budget planning in the years beyond 2016/17 when Government funds may no longer be available to support new housing development. The Council’s reliance on this grant will therefore not extend beyond around 10% of total funding in any one year.

21. By adopting this policy in relation to the 2013/14 budget proposed at Annex A, the New Homes Bonus Grant supporting Council expenditure in 2013/14 is reduced from £753,000 to £602,000 with £151,000 transferred into reserves.

22. Thereafter, over the 5 years of the MTFS, the estimated level of grant will create a reserve of £2.5m at the end of 2017/18 to continue to support the Council's funding beyond the limits of the Government's six year scheme.

<u>Business Rates Retention</u>

23. The Government will introduce its business rates retention scheme from April 2013. Its purpose is to promote localism and economic growth through providing a direct financial incentive for authorities to increase the yield of non domestic rates. As part of the new scheme, local authorities are able to join together to "pool" their business rates, to generate growth through collaborative effort and to smooth the impact of volatility in rates income across a wider area. Districts and Boroughs in Surrey have provisionally pooled together with the County Council under the new arrangements.

24. The precise impact of the new scheme on the Council is becoming clearer now that the details have been unveiled in the local government financial settlement 2013/14. Rewards and risks within the new scheme, flowing from the potential rise and fall of an authority's business rates yield, are constrained by a system of levies or safety net mechanisms. Membership of the Surrey pool will spread the risks and rewards among all members so each has a decision to make, on the basis of their latest estimates of business rate yield, as to whether its interests are best served by collaboration. If one drops out, then the "pool" is abolished.

25. The position for Mole Valley is that the Government has assessed an NDR baseline of around £14M by taking the NDR yield of approximately £35m and sharing it between the Council (40%), the Government (50%) and the County Council (10%). It has then applied a tariff of 92% to reduce this to an assessed NDR baseline "need" of £1.124m for the Council.

26. If the pool arrangement is dissolved, then Mole Valley takes independent control of gains and losses above and below the £1.124m. It will retain 50% of any excess collected, after Government and County shares of 60% cumulatively are deducted. Each 1% increase in yield (approx £350,000) will be worth an additional £70,000 to Mole Valley. It would lose 40% of any shortfall, after Government and County shares. Each 1% decrease (£350,000) will cost an additional £140,000 to Mole Valley. However, the trigger point for the safety net is collection of £1.039m which is 7.5% (£85,000) below the baseline need of £1.124m.

27. If Mole Valley remains in the pool, then 54% of any business rates collected in excess of the Government assessment will be retained by the membership but there is no safety net mechanism. The pool members must look after themselves if yields are falling.

28. The assumption in setting the budget for the retention of business rates is a cautious one. Although there is reason to believe that the annual business rate yield will exceed the Government's baseline need of £1.124m, there are no guarantees that this will be the case. Various factors may have an adverse impact on the yield such as changes in rateable values, successful appeals and losses on collection. A prudent approach, in the first year of the new system, is to

budget at the safety net level. If the pool arrangement is dissolved, then Government will protect the income level at £1.039m. If the pool exists, the members have agreed to ensure no Council is worse off than they would have been outside the pool so the safety net is again the appropriate limit.

29. The Government deadline for decisions on pooling was mid-January 2013. The potential members of the Surrey "pool" have all agreed, on the basis of the Government financial settlement and best estimates of the business rate yield next year, that it is in their mutual best financial interests to deal with their business rates on an independent basis and not to retain the pool arrangement. The Government was therefore informed that the Surrey pool would no longer exist.

<u>Localisation of Council Tax support</u>

30. The national council tax benefit scheme will cease on 31 March 2013 at which point Councils will provide support as a council tax discount. The Government's proposals are part of a wider policy of decentralisation aimed at giving councils increased financial autonomy and a greater stake in the economic future of their local area.

31. To fund the scheme, Government has distributed a grant equivalent to 90% of its estimate of benefit expenditure. Councils must therefore determine how to meet the 10% reduction, though pensioners and (to some extent) vulnerable groups must be protected. The majority of the cost that will now fall to the Council is expected to be met through the removal of Council Tax discounts for second homes and vacant properties.

32. The Council now needs to decide whether to implement the Governments default scheme which ensures no Council Tax Payer sees an increase over 8.5% and accept DCLG incentive grant or introduce a Mole Valley specific scheme, which will generate cost savings. A full report on the Council Tax Scheme options being considered will be brought to Full Council on the 30th January 2013.

33. Districts and Boroughs in Surrey have been working closely with the County Council to co-ordinate approaches to the removal of council tax benefit. The County Council is keen to minimise the impact of these changes on Council Tax payers and are currently indicating that it will underwrite any balance in cost faced by the Districts and Boroughs as a result of the changes above.

34. On the basis of this, the assumption is that the scheme will have a neutral impact on Mole Valley's finances and no specific, additional budgetary provision is required.

<u>Interest on Balances</u>

35. The Council's Treasury Management advisor, SECTOR, has advised on the forecast for interest rates over the term of the MTFS. The estimate for the base rate for 2013/14 is 0.5%. The Council's investment policy in recent years has been to adopt a cautious and short-term approach which has yielded around

1.3% return during 2012/13 to date on balances that vary between £20m and £35m.

36. The Council's principal objectives have been to ensure security, liquidity and yield, in that order. Over the term of the MTFS, the intention is to focus on improving the yield, though not at the expense of security and liquidity. A new Treasury Management Strategy has been approved by the Audit Committee, for submission to the Council, which allows for between £8m to £12m to be diverted from the current short-term investments to longer term investments with more variable returns. Various options will be explored with our advisors including the staggering of long term investments, investment in property funds and conversion of the investment funds to capital expenditure on property purchases where a revenue return is generated.

37. The budget of £320,000 assumes that, from 2014/15 onwards, £8M invested in this way can yield a 5% return. In the first year, half a year's worth of this return is built into the budget.

B. Spending Assumptions

Inflation

38. The inflation provision comprises:-

- A "progressive" pay award equivalent to 1.67% within which the lowest paid staff will receive 2.00% and the highest paid will receive 1.00% with staged increases of 1.5% and 1.75% for those in between. This pay award is intended to recognise the contribution that staff have made as well as to provide motivation going forward. As a small authority, Mole Valley is susceptible to employee mobility. The Council is contractually obliged to award the national award as a minimum annual pay increase. The national award is not anticipated to be higher than 1.00%. Provision from 2014/15 onwards is set at 2.00%

- General inflation on expenditure is set at 2.50% for the duration of the MTFS. However, higher levels of inflation on the Council's major street cleaning and waste contracts have been provided in 2013/14 where the terms of the contracts specify increases in line with retail price index (RPI) or consumer price index (CPI) inflation.

- Specific adjustments for fees and charges, whether statutorily or locally set, in line with the review of fees and charges detailed in the appendix to this report

Removal of "one-off" or temporary items from the previous year

39. In the following instances, temporary adjustments to the previous year's budget have been reversed in the roll forward of 2012/13 budgets to 2013/14:-

- Olympic costs: £464,000
- Local Development Framework costs: £145,000
- Planning, additional resources to cope with anticipated temporary increase in applications: £80,000
- IT and Building Control Partnership savings – reversal of savings taken in advance of partnerships with Waverley (IT) and Fire Risk Assessments (Building Control) which have not materialised : (£42,000)
- Withdrawal of Surrey County Council food waste contribution: (£22,000)

Pension Back Funding

40. In 2010, 'stabilisation' was introduced which effectively limited the annual additional cost to the Council of funding the Pension Fund deficit to 1% of payroll, or approximately £67,000 for 2013/14. The Pension Fund contributions will be reviewed in 2014 with changes to the system at that time.

Fees for Planning Applications

41. Additional income of £60,000 has been included to reflect the 15% increase in planning application fees agreed by Government and implemented from November 2012.

Increased Costs

42. Car parking income did not increase in line with projections during 2011/12 and the 2012/13 budget produced at that time is therefore out of step with actual yield. This shortfall has been highlighted consistently in 2012/13 budget monitoring reports. The 2013/14 budget needs to remedy the mismatch between budget and actual. A reduction of £180,000 in the expected income has been built into the new base budget for 2013/14.

43. Pay has been re-evaluated for certain staff within Community Support to bring their remuneration into line with comparable employees. This will add £63,000 to the Council's pay bill in 2013/14.

44. Compliance with a new statutory duty in relation to electoral registration will cost an additional £30,000 from 2013/14 onwards. This has been added to the budget.

Revenue contribution to minor works

45. The "best practice" approach to the funding and enhancement of capital assets is to make a contribution from revenue each year. This evens out the costs across years and prevents the gradual erosion of capital reserves. However, such a policy can only be adopted if it is affordable. The approach in the MTFS is to delay introduction of this change until the Council's financial position allows.

Proposals for 2013/14

46. Through incorporating the assumptions on funding and spending set out above in the budget plan, a shortfall of around £700,000 arises for 2013/14. This is primarily a result of the immediate impact of grant loss. The Administration has proposed a set of savings and increased income proposals which are set out in detail in Annex B.

47. These measures are a combination of savings and efficiencies in services and proposals around increasing or generating fees and charges. The total is £711,000 in 2013/14.

48. Grant Aid applications have also been considered by the Administration with a proposed reduction of £24,379 in the revenue amount allocated. These decisions were made at the meeting of the Executive on 18th December 2012 and a full listing was set out on that agenda. The reduction is included in the £711,000 saving.

Council Tax

49. The Administration is recommending that Council Tax levels increase by 1.9% 2013/14 to give a Band D Council Tax of £154.53.

Capital Programme

50. The proposed capital programme of £5,042,000 for 2012/13 includes a range of major (over £50,000) and minor (under £50,000) schemes and is detailed in Annex D. In order to protect the Council's level of Capital Reserves and hence the income from interest earned on those reserves, tight controls have been placed on any new capital spending. New schemes will now only be added to the Capital programme for health and safety reasons or if they replace an existing spending commitment.

Consultation

51. This report sets out the Administration's budget proposals for the Scrutiny Committee at its meeting on 29th January. The Standing Budget Panel met on 7th and 8th January to consider the Administration's draft proposals. The Chairman of the Standing Budget Panel will present the Panel's findings to the Scrutiny Committee at this meeting. The Chairman of the Scrutiny Committee will then present the views of the Scrutiny Committee to the Executive meeting on 5th February for consideration.

52. The recommendations of the Executive will be considered by the Council on 19th February 2013 at which meeting the budget and Council Tax for 2013/14 will be approved. In March, the Council's 2013/14 Business Plan and budgets for each Team will be considered to ensure that service delivery plans are consistent with the recommended Council budget.

Budget Summary

53. A summary of the budget changes arising from the above proposals is shown at annexes A-D:

- Annex A: revenue resource projection model 2012/13 – 2017/18
- Annex B: summary revenue savings options
- Annex C: capital resource projection model 2012/13 – 2016/17
- Annex D: detailed capital programme

RESERVES AND BALANCES

Revenue Balances

54. The Council's available revenue balances and the movements on them resulting from the Administration's proposals are detailed in Appendix A and are outlined below. The projection demonstrates that the Council fulfils the commitment contained within the MTFS to maintain a minimum of £1.3m revenue reserves.

MVDC Revenue Reserves 2011/12 - 2017/18

Financial Year End	Balance £,000	% net budget	Use of reserves
31/03/12	2,332,000	24%	Closing balance per 2011/12 accounts
31/03/13	2,384,000	23%	Contribution to reserves of £52,000 as per Month 9 monitoring
31/03/14	2,372,000	25%	Contribution from reserves of £12,000
31/03/15	2,372,000	24%	Projected shortfall to be identified through revenue savings.
31/03/16	2,372,000	24%	Projected shortfall to be identified through revenue savings.
31/03/17	2,372,000	23%	Projected shortfall to be identified through revenue savings.
31/03/18	2,372,000	23%	Projected shortfall to be identified through revenue savings.

55. The General Fund Working Balance at 31 March 2012 was £2,332,000 and at the start of the 2012/13 financial year it was originally planned to utilise £651,000 of reserves. However, due to the £703,000 underspend being reported at month 9 it is now expected that a contribution of £52,000 will occur on the 31st March 2013.

Capital Reserves

56. The Council's available capital reserves and the movement on them are detailed in appendix C and reproduced below.

MVDC Capital Reserves 2011/12 - 2016/17

	2012/13 (£000)	2013/14 (£000)	2014/15 (£000)	2015/16 (£000)	2016/17 (£000)	2017/18 (£000)
Opening Reserves	16,002	13,510	10,638	9,779	9,075	8,571
Additions to Reserves	2,470	2,170	2,170	2,170	2,370	2,370
Use of Reserves	(4,962)	(5,042)	(3,029)	(2,874)	(2,874)	(2,874)
Closing Reserves	**13,510**	**10,638**	**9,779**	**9,075**	**8,571**	**8,067**

Earmarked Reserves

57. The final accounts for 2011/12 established a list of earmarked reserves amounting to £5,428,000 at 31 March 2011 as detailed below. Of these, the repairs and renewals reserve of £4,165,000 has been earmarked to fund the capital programme in future years, as have the Pippbrook House Dilapidations and Planning Tariff reserves. These funds can also be used for revenue purposes if necessary.

58. From 2013/14 an new Earmarked Reserve will be added for the New Homes Bonus Grant Equalisation and it is estimated that over the next five years this reserve will build up to £2.5m. This will enable the Council to draw on these reserve as and when the NHB grant ceases.

Earmarked Reserve	Balance @ 31.03.12
Repairs and Renewals	4,165,000
New Burdens Fund	34,000
Self Insurance	323,000
Housing Act Advances (mortgages)	25,000
Pippbrook House Dilapidations	325,000
Planning Tariff Reserve	318,000
Subsidence	238,000
Total	**5,428,000**

Financial Administration: Adequacy of Reserves, Robustness of Estimates and Budget Monitoring

59. The Local Government Act 2003 introduced responsibilities for the Chief Financial Officer (at MVDC this is the Strategic Director / Section 151 Officer pursuant to the 1972 Local Government Act) to form a view on the robustness of the budget calculations and the adequacy of revenue and capital balances and reserves and duly report their view at the time Members are making decisions on the revenue and capital budgets.

Adequacy of Reserves

60. There is a statutory requirement for the Chief Financial Officer to report at budget time on the adequacy of reserves held by their Council. The purpose is to ensure Members have authoritative advice available to them when they make their decisions on the budget and Council Tax levels and that they take due regard of that advice in doing so. The forecast position on revenue, capital balances and earmarked reserves is outlined in paragraphs 42 to 45 above. The Section 151 Officer confirms that the stated policy of the Council to maintain appropriate earmarked reserves and to hold minimum revenue balances of £1.3m and capital reserves of £8.0m is still appropriate.

Robustness of Estimates

61. The 2003 Act requires an authority's Chief Financial Officer to make a report to the authority when it is considering its budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that Members have authoritative advice available to them when they make their decisions. The Act requires Members to have regard to the report in making their decisions. As Members are aware, local authorities decide every year how much they are going to raise from Council Tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services. However, because Members decide on the Council Tax in advance of the financial year in question, and are unable to increase it during the year, they have to consider risks and uncertainties that might force them to spend more on services than they planned. Allowance is made for these risks by:

- making prudent allowance in the estimates for each of the services, and in addition;

- ensuring that adequate reserves are available to draw on if the service estimates turn out to be insufficient

62. The Section 151 Officer’s overall view of the robustness of the estimates is that the budgets have been prepared following well-established processes based on best practice and officer’s professional judgment and this has produced robust estimates in the past.

Budget Monitoring

63. The 2003 Act also requires local authorities to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge. If monitoring establishes that the budgetary situation has deteriorated, authorities are required to take remedial action as they consider necessary. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or the authority may decide to take no action but to finance the shortfall from reserves (within the requirements of the MTFS).

64. During 2012/13 the Council has moved from a quarterly performance and budget monitoring cycle to a monthly one. Officers will continue to report financial monitoring and performance information monthly during the year to Members.

Members do not need to take any action at this stage given the adequacy of revenue and capital balances.

65. The position reported at the end of 2012/13 month 9 identified a £703,000 projected underspend. This is mainly due to a £418,000 underspend on Olympics and a £56,000 over recovery in interest on balances. Adjusting the underspend reported above to take account for the Olympics contingency and interest, results in a true service underspend of £229,000 (2%) against a budget of £9,872,000.

Prudential Indicators

66. Under the Prudential Code of Practice capital finance system introduced in April 2004, the capital programme is based on the Council's assessment of affordability, sustainability and prudence.

67. The Section 151 Officer has considered the revenue consequences of the proposed capital programme in agreeing its budget strategy for 2013/14 to 2017/18 and the resultant risk and dependency the budget has on interest earned from capital and revenue balances. The Council has a fully funded capital programme and the associated revenue costs are built into the budget for 2013/14 and future years.

68. The Prudential Code of Practice requires the Council to set a series of indicators to show that the capital programme has due regard to affordability, sustainability and prudence. The recommended indicators, including explanatory notes were presented to Audit Committee on 29th November 2012 and will be presented to Council on 19 February 2013 in the Council's Annual Investment and Treasury Management Strategy 2013/14.

Local Government Finance Settlement 2012/13

69. As identified elsewhere in this report the provisional Finance Settlement, announced just before Christmas, set out a split of the funding between direct grant (RSG) and retained business rates. Given the new arrangements around business rates and the inclusion of localised funding for Council Tax support, the amounts are difficult to compare to previous years.

70. Significant time and effort has gone into analysing the changes within the Council's Central Government funding. The Section 151 Officer is confident that adequate and prudent assumptions have been used to assess the financial impact of these changes for the Council.

OPTIONS:

71. The Executive has two options for consideration:

<u>Option One</u> – to agree to the recommendations contained in this report for recommendation to the Council having given consideration to the views of the Scrutiny and Audit Committee and Standing Budget Panel for consideration by the Council on 19th February 2013.

<u>Option Two</u> – To make alternative recommendations to the Council on 21st February 2012.

<u>Section 151 Officer's Statement</u>

<u>The Budget Improvement Agenda</u>

72. In the past four years the Council has achieved more than £4m in budget improvements, and this agenda has continued into 2013/14. In October it was identified that the Council would probably need to make £0.7m of budget improvements in 2013/14, and possibly as much as £1m, depending on the outcome of the Local Government Finance Settlement. As set out in this report, and summarised below, the Settlement was at the better end of expectations, and the resultant budget reduction target, necessary to produce a balanced budget, was confirmed at £0.7m.

73. The proposals put forward by the Administration in this report achieve this budget reduction target, effectively setting a balanced budget for 2013/14. (In practice there is a very small proposed draw on reserves, but all budgets are based on estimates and assumptions, with associated margins of error, and at this stage in the budget cycle, a budget which is within +/- £50,000 of a pure balance, should be considered balanced).

<u>Reserves</u>

74. This time last year, the Council set a budget which made a draw on revenue reserves of some £0.2m in 2012/13, although it also set aside a contingency of up to £0.5m for the cost of ensuring the successful delivery of the Olympic Cycle Road Race. It was hoped that, (much of), this would be recovered from the London Organising Committee of the Olympic Games, (LOCOG), but this was not guaranteed.

75. Had the £0.2m budget deficit and the £0.5m contingency occurred in full, the Council's reserves, (General Fund), could have fallen to £1.4m, only marginally above the £1.3m minimum level of reserves. While this was acceptable financial practice and within the Council's policies, it would have left no future room for manoeuvre for use of reserves in managing future budget demands.

76. In practice, the Olympics contingency has remained very largely unused, with LOCOG refunding virtually all the costs incurred by the Council, and the budgeted deficit has been largely avoided through robust management of the revenue budget throughout 2012/13.

77. Consequently the Council is likely to enter 2013/14 with the general Fund reserve at approximately £2.3m, rather than the £1.4m prudently planned for.

78. However, this should not be seen as a ready source of funding, available at no cost to avoid difficult budget decisions. The £1.3m reserves are very much a minimum, not an optimum figure. They represent 3-4 weeks of Council expenditure. As discussed below, there are still some very challenging financial times ahead and if reserves can be maintained at a higher level it will provide future resilience and flexibility in addressing those challenges. Simply spending the Council's reserves now is likely to do no more than defer the inevitable financial challenges, while at the same time reducing the Council's future ability to tackle them.

79. The setting of a budget for 2013/14 which is essentially balanced and does not draw materially on reserves is a prudent approach, and one which puts the Council into a good position to deliver a sustainable budget into the future.

The Local Government Finance Settlement

80. As noted above the 'bottom line' of the Local Government Finance Settlement was fairly close to what had been projected, with overall funding perhaps £0.1m less than expected. However, the structure of the Settlement creates real changes in the financial relationship between central and local government, and fundamentally changes the way in which the Council will need to think about its funding in the future.

Business Rates

81. Under the Government's Business Rates Retention Scheme, the Council will now retain 20% of any local increase in Business Rates, compared with 3% originally set out in the Government's initial proposals. The Council will also be liable for 40% of any reduction in Business Rates. This change creates a very real financial incentive to the Council to retain and increase business activity in the District. However, with funding linked directly to the Business Rates collected 'in year', it also creates considerable uncertainty. The economic climate, collection losses and successful appeals against 'rateable values' all create risk as well as opportunity. (One third of the tax base is still subject to appeal following all Rateable values being reassessed by the Valuation Office more than three years ago).

82. The Administration is recommending a prudent approach to this issue in 2013/14, only budgeting for the minimum amount of Business Rates currently underwritten by the Government. However, in future years the Council will need to consider, through its Medium Term Financial Strategy, to be developed in the spring, how to deal with this uncertain income stream in a sustainable way.

New Homes Bonus Grant

83. Although the overall Funding Settlement was some £0.1m less than anticipated, this was made up of £0.3m less than anticipated in Revenue Support Grant,

(general Government funding), and £0.2m more than expected in New Homes Bonus. This has highlighted both that MVDC has continued to do well in enabling development of housing, but also that the 'switch' from general Government funding to funding based specifically on the development of residential accommodation is proceeding significantly quicker than expected. If the current rate of transfer continues it is not inconceivable that all the Council's Government funding will be in the form of New Home Bonus (and no general Revenue Support Grant), within three years.

84. This is significant because the New Homes Bonus Grant Scheme is due to end in 2016/17 and its funding is due to taper out over the subsequent six years. There is as yet no indication of what might follow or replace it, or in fact whether it might continue. The Council will therefore need to consider the extent to which its budget can be based on a major funding stream, the future of which is uncertain.

85. In the short term, the Administration is again recommending a prudent approach by only budgeting for 80% of the 2013/14 grant. In the longer term, as with Business Rates, the Council will need to consider, through its Medium Term Financial Strategy, to be developed in the spring, how to deal with this uncertain income stream in a sustainable way.

<u>Council Tax and Council Tax Freeze Grant</u>

86. In recent years the Council has implemented a freeze on Council Tax in the District, and as such been eligible for a succession of one-off Council Tax Freeze Grants. However, purely financially, this is not an approach that can be sustained indefinitely. The Freeze Grants are one-off/short term in their nature and do not add to the Council's funding in the long term. On the other hand, a Council Tax increase is in the Council's funding for all future years.

87. The Administration is recommending that a Council Tax increase of 1.9% should be implemented, below the level at which the Council needs to hold a public referendum. Although there are other factors to be considered in making this decision, it is the most financially sustainable recommendation.

<u>2013/14 Budget Risks</u>

88. Last year's Section 151 Officer's Statement noted that as the savings/budget improvement agenda continues, it becomes difficult to achieve further savings without impacting on service delivery. Clearly, a year further on this is increasingly the case.

89. To avoid major impacts on service delivery, the proposed package of savings inevitably includes some measures that are to a degree aspirational or speculative. However, all of the measures are judged by officers to have a reasonable chance of success, although some cannot be absolutely guaranteed at this stage.

90. Any alternative approach to guarantee budget savings would almost certainly lead to a far greater impact on public services, (eg direct cuts in service provision). It is important however that the Council is aware of and accepts the

risks associated with the recommended course of action. In general terms, the most common risks in this context are:

91. Unintended service consequences may lead to some proposals being publically unacceptable and subsequently withdrawn;

- Anticipated savings not being achieved in full or at all;
- A longer lead in time than anticipated, delaying the achievement of savings;
- Limited management capacity leading to delays/failures in implementation

92. Effective management of the budget in 2013/14, and successful implementation of the savings measures will continue to require a strong focus from both Members and officers, together with prompt and effective remedial action should any of these risks materialise.

93. Overall, the recommended budget proposals are considered prudent and financially sustainable, in the context of the associated risks which need to be recognised and accepted.

<u>2014/15 and Beyond</u>

94. Looking forward to future years, this report and the accompanying budget model suggests that the 'most likely' scenario for the future is that the Council will need to identify further savings of around £1m over the next 3-4 years. There are many factors that underpin this projection, but simplistically this position arises from the fact that income looks likely to remain static at best, while inflation will continue to increase the Council's costs, year on year.

95. This projection has a large margin of error at this stage. It includes assumptions about inflation rates and interest rates that are based on the best advice available, (Bank of England, Office for Budget Responsibility), but are in reality highly speculative, particularly when looking more than one year ahead. Relatively small variations in these factors can have a significant impact on the Councils budget position.

96. Further, as well as the general increase in uncertainty of Government funding, (Business Rates and New Homes Bonus Grant discussed above), there is additional uncertainty in relation to the remaining core funding, (Revenue Support Grant). The Government has already indicated a further reduction of £0.4m in Revenue Support grant in 2014/15, but has stated that this is very provisional, (probably the minimum likely reduction), prior to the Comprehensive Spending Review 2013.

97. Consequently it is impossible to be precise about the size of future savings requirements, but it is hard to see any scenario that doesn't require significant further savings over the next three to four years.

98. In this context it is important to recognise that, as noted above, there is little scope for further 'easy' internal efficiencies that would address any major savings

requirement. The Council has already started to develop and implement a range of strategic initiatives such as:

- maximising the value of the Council's property assets;
- enabling/promoting appropriate business and residential developments in the District;
- getting a better return on the Council's investments;
- optimising income from fees and charges

99. These initiatives, and others, will need to be developed further within a new Medium Term Financial Strategy to be developed in the Spring. This, together with an ongoing focus on efficiency will be fundamental to ensuring the long term financial sustainability of the Council.

CORPORATE IMPLICATIONS

Legal Implications

100. Local authorities are required to set an annual budget as set out in the 1992 Local Government Finance Act. If the Council is not able to agree a budget at this meeting, the Council will not have secured the basis for billing Council Tax in 2013/14, will have acted illegally and will likely incur government intervention.

Financial Implications

101. This report proposes a budget that will enable the Council to continue to deliver value for money services for our communities. It proposes a balanced budget with negligible use of reserves. This ensures that the Council achieves the financial savings required as a consequence of the most recent local government finance settlement and ongoing difficult financial climate. This is detailed throughout the report.

Risk Implications

102. There are significant risks that will need careful monitoring in relation to delivery if the savings proposals recommended in this report and the overall 2013/14 budget:

- Unintended service consequences may make some proposals publicly or politically unacceptable
- Some initiatives may not achieve their full savings target
- Some initiatives may take longer than intended to come to fruition
- There may be limited management capacity to implement all of the necessary changes

103. These risks will be monitored closely through the Council's budget monitoring and project management processes.

104. The management and mitigation of these risks has been a key consideration in the development of the budget. In developing the Budget alongside the Corporate Plan and the Council's Business Plan, the Council has taken a

structured approach to managing the savings required in a way that has avoided introducing budget reductions that have not been properly developed.

Equalities Implications

105. An Equality Impact Assessment has been undertaken on the Budget. It is considered that for most of the proposals there are no positive or negative impacts on the specific diversity strands (Age, Race, Disability, Gender, Transgender, Belief/Faith, Sexual Orientation, Rural/Urban plus HR issues) that differ to the impact on the community as a whole.

Employment Issues

106. The 2013/14 budget does not include provision for redundancy exercises and no such exercises are planned over the financial year. In the event that some severance payments may be made to leaving employees, these will need to be met from within the service budget and ultimately financed from reserves. No severance payments will be made without authorisation of the relevant Strategic Director or Corporate Head of Service.

Sustainability Issues

107. The budget supports the delivery of the Corporate Plan, which includes specific priorities about the delivery of improved recycling rates and reduction of the Council's carbon footprint.

Reputational Implications

108. This is considered to be a realistic budget that will enable the Council to deliver services whilst meeting financial targets although individual savings measures always have the potential to be unpopular, in particular, if they have unintended service consequences. The Council will continue to engage with the community and partners about the Council's financial position and how this is being managed.

Consultation

109. The Council has a statutory duty to consult with the business community annually and chooses to do so with the all residents on a three year basis regarding the Council's budget proposals.

1106. The main purpose of the report is to publish the Administration's budget proposals for 2012/13, in order to facilitate further consultation upon them.

BACKGROUND PAPERS

Local Government Finance Settlement 2011/12 – 2012/13 - CLG
New Homes Bonus Provisional Grant Determination 2012/13 - CLG
Council Tax Freeze Grant 2012/13 – CLG
Proposals for Changes to Planning Application Fees - CLG
2012/13 Budget Working Papers

Annex A: Revenue resource projections 2012/13 – 2017/18

Revenue Budget	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Council Income						
Central Government Grant						
Revenue Support Grant (includes CT Freeze Grant)	(2,848)	(1,698)	(1,250)	(950)	(950)	(950)
New Homes Bonus Grant	(282)	(602)	(847)	(1,000)	(1,000)	(1,000)
	(3,130)	(2,300)	(1,950)	(1,950)	(1,950)	(1,950)
Retention of Business Rates	0	(1,039)	(1,060)	(1,081)	(1,103)	(1,125)
Council Tax	(6,248)	(6,002)	(6,114)	(6,269)	(6,427)	(6,589)
Interest on Balances	(307)	(320)	(490)	(580)	(670)	(790)
	(9,685)	(9,661)	(9,761)	(9,880)	(10,150)	(10,454)
Council Expenditure						
Previous Year's Budget	9,691	10,336	9,661	9,761	9,880	10,150
Add/ deduct previous year changes	260	(626)	22	0	0	0
Inflation	218	344	372	378	385	394
Changes & adjustments relating to budget year	167	330	150	(50)	0	0
Revenue contribution to Minor Capital Works	0	0	0	0	200	200
Savings and Increased Income Proposals		(711)	(85)			
	10,336	9,673	10,120	10,089	10,465	10,744
Required budget reduction to balance	0	(12)	(359)	(209)	(315)	(290)
Final Budget for Year	10,336	9,661	9,761	9,880	10,150	10,454

Annex B: Savings and Increased Income Proposals

	2013/14 £000
Community & Assets Portfolio	
Efficiencies on Dorking Sports Centre contract	50
Dorking Halls – income from cinema enhancements	34
Dorking Halls – business development and extra sales	28
Delete 0.5 fte vacancy for Policy & Democratic Officer	14
Democratic Services Team savings	10
Relocate archiving to reduce accommodation costs	7
Improved performance of photovoltaic panels	7
Move server to Data Centre	7
Implement UNICORN public sector WAN in Surrey	5
Reduce Emergency Planning budget	2
Policy & Planning - reduce software support budget	1
Customer Services & Wellbeing	
Relocation of Help Shop	40
Restructuring in Communications Team	15
Cease production of Mole Valley magazine to accompany Council Tax notice; produce "on-line" version only	8
Reduce Customer Services staffing budget	5
Reduction in leaflets, stationery etc expenditure	2
Environment Portfolio	
Car Parks – increased charges, primarily on season tickets	75
Efficiencies in street cleaning contract	50
Waste – increased garden waste subscriptions and bin charges	46
Car Parks - review and reduce subsidies	35
Car Parks – increased provision	14
Car Parking - introduce new charges	14
Increase in recycling credits	11
Car Parks – increase charging times	10
Car Parks - improve enforcement	10
Environmental Health and Trading Standards - joint database with Surrey CC	10
Revenue savings on new Brockham Big Field facilities	9
Partnership with Elmbridge - contaminated land	4
Charges for Food Hygiene courses	3
Parks: advertising income	2
Increased income from lettings and events	1
Charging for graffiti removal	1
Finance Portfolio	
Restructuring of Senior Management Team	100
Reductions due to change in Discretionary Rate Relief policy	15
Revenues & Exchequer: Increased recovery of Court cost charges	10
Revenues & Exchequer - postage savings on CT leaflet	4
Planning Portfolio	
Delete vacant Planning Officer post	26
Reduce training, advertising etc budgets	2
Reduced grants to Voluntary Organisations	24
Total savings and income increases	711

Annex C: Capital resource projection 2012/13 to 2017/18

Baseline Budget - Capital	Latest Forecast 2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Start of year reserves						
Ear marked reserves:						
Repairs and renewals reserve	4,165	**4,165**	4,165	4,165	4,165	4,365
Pippbrook House dilapidations	325	**325**	0	0	0	0
Transfer from internal reserves	0	**0**	0	0	0	0
Planning Tariff/Section 106 reserve	700	**700**	700	700	700	700
Other capital reserves:						
Capital receipts reserve	10,081	**7,589**	5,042	4,183	3,479	2,775
Capital Grants and contributions unapplied	731	**730**	730	730	730	730
	16,002	**13,510**	10,638	9,779	9,075	8,571
Add contributions to reserves						
Revenue contributions to minor works	0	**0**	0	0	200	200
Section 106 contributions	172	**250**	250	250	250	250
S106 Affordable Housing	400	**350**	350	350	350	350
Disabled Facilities Grant	326	**270**	270	270	270	270
Capital receipts, retained right to buy	300	**300**	300	300	300	300
Capital receipts, other	200	**200**	200	200	200	200
VAT shelter scheme	800	**800**	800	800	800	800
Contaminated land grant	172	**0**	0	0	0	0
Other External Capital Income	100	**0**	0	0	0	0
	2,470	**2,170**	2,170	2,170	2,370	2,370
Less spending, reducing reserves						
Major Works (>£50k)	3,435	**3,772**	1,799	1,644	1,644	1,644
Minor Works (< £50k)	1,094	**840**	800	800	800	800
Capital Salaries	434	**430**	430	430	430	430
Total capital programme	4,963	**5,042**	3,029	2,874	2,874	2,874
Source of finance:						
Section 106/Planning Tariff	572	**600**	600	600	600	600
Disabled Facilities Grant	326	**270**	270	270	270	270
DEFRA - Kingston Rd Gasometer	172	**0**	0	0	0	0
Other External Sources	101	**325**	0	0	0	0
Capital Receipts (MVDC Core funding)	3,792	**3,847**	2,159	2,004	2,004	2,004
Total financing	4,963	**5,042**	3,029	2,874	2,874	2,874
End of year reserves						
Ear marked reserves:						
Repairs and renewals reserve	4,165	**4,165**	4,165	4,165	4,365	4,565
Pippbrook House dilapidations	325	**0**	0	0	0	0
Transfer from internal reserves	0	**0**	0	0	0	0
Planning Tariff/Section 106 reserve	700	**700**	700	700	700	700
Other capital reserves:						
Capital receipts reserve	7,589	**5,042**	4,183	3,479	2,775	2,071
Capital Grants and cont's unapplied	730	**730**	730	730	730	730
	13,510	**10,638**	**9,779**	**9,075**	**8,571**	**8,067**

ANNEXE D - DETAILED CAPITAL PROGRAMME

CAPITAL PROGRAMME 2012/13 - 2017/18		November monitoring						
Project	**2012/13 Current Budget***	**2012/13 Latest Forecast**	**2012/13 CF into 13/14**	**2013/14 including 12/13 CF's**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£000	£000	£000	£000	£000	£000	£000	£000
Major projects (over £50K)								
Leatherhead Leisure Centre	6	6		0	0	0	0	0
Community grants	127	65		74	74	74	74	74
LINKs sports pitch	100	100		0	0	0	0	0
Dorking Halls - flat roof	0	0		0	0	0	0	0
Dorking Halls - general refurb	27	27		0	0	0	0	0
Dorking Halls - kitchen refurb	0	0		0	0	0	0	0
Dorking Halls - Grand Hall seating	0	0		0	0	0	0	0
Dorking Halls Cinema	200	180		0	0	0	0	0
Carbon Management Programme	157	60	97	97	0	0	0	0
Playground improvements	82	82		60	60	60	60	60
Multi-sports areas/skateparks	73	0	38	38	0	0	0	0
Meadowbank	0	0		0	0	0	0	0
Kingston Rd Pavilion	5	5		0	0	0	0	0
Lower Lane Rec	5	0		0	0	0	0	0
KGV Playing Field Pavilion	0	0		0	0	0	0	0
KGV Playing Field improvements	89	0	89	89	0	0	0	0
Green Waste Recycling - Wheelie Bins	0	0		0	0	0	0	0
Brockham Big Field	500	480	20	20	0	0	0	0
Betchworth Castle, management	35	35		0	0	0	0	0
Keystone House	3	0		0	0	0	0	0
Capitalised Salaries	340	434		430	430	430	430	430
Property Projects	76	76		0	0	0	0	0
Section 106 Projects	200	160		250	250	250	250	250
Gypsy Sites	0	26		0	0	0	0	0
Ashtead Village	28	10	40	40	0	0	0	0
Dial a Ride	196	46	150	45	105	0	0	0
Affordable Housing	1,620	976	644	1,144	500	500	500	500
Disability adaptations/home improvement	760	525	235	995	760	760	760	760
Poplar Rd	66	66		0	0	0	0	0
Leatherhead High Street	11	11		0	0	0	0	0
Telecare equipment	50	35	15	15	50	0	0	0
Photovoltaic Panels	14	9	5	5	0	0	0	0
Police Co-Location	0	0		0	0	0	0	0
Hit Squad Vehicle	48	48		0	0	0	0	0
Pippbrook House Dilapidations	750	0	750	750	0	0	0	0
Kingston Rd Gasometer	212	212		0	0	0	0	0
Depot Relocation	0	60		150	0	0	0	0
Property Projects Advancement	0	135		0	0	0	0	0
Sub-Total - Major Projects	**5,779**	**3,869**	**2,083**	**4,202**	**2,229**	**2,074**	**2,074**	**2,074**
Minor Works (under £50k)	**1,177**	**1,094**	**40**	**840**	**800**	**800**	**800**	**800**
Total Approved Capital Spending	**6,956**	**4,963**	**2,123**	**5,042**	**3,029**	**2,874**	**2,874**	**2,874**