Mole Valley District Council

Agenda Item 6

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Ward (s) affected:	**All**	**Key Decision:**	**Yes**

* A key decision is one which is likely to result in expenditure or savings of at least £100,000 or have a significant impact on two or more Wards within the District.

Subject	**Financial Scene Setting and the Medium Term Financial Plan 2020/21 to 2022/23**

Recommendations

The Cabinet is asked to:

a) note this financial scene setting report as the basis for 2020/21 service/ budget planning, in particular:

- the Medium Term Financial Strategy 2018/19 to 2020/21, (Annexe D);
- the specific principles for 2020/21 set out in paragraph 25.

b) Re-confirm the existing Fees and Charges Principles, (Annexe E) as the basis for setting 2020/21 fees and charges.

Corporate Priority Outcomes

Of itself, this report does not lead directly to the achievement of any specific Corporate Priority outcomes. However, the sustainable management of MVDC's budget, (within the resources available to it), is vital, in order to deliver value for money, and to ensure that the Council continues to deliver the greatest aggregate benefit to the residents, businesses of, and visitors to, Mole Valley.

The Cabinet has the authority to determine the Recommendations

1.0 Background

Purpose

1. The purpose of this report is to:

- advise the Council on the financial context of the service/budget planning cycle for 2020/21, and specifically, any constraints within which it is advised that the budget should be set.

- confirm the Council's existing 'Fees and Charges Principles', as the basis for setting 2020/21 fees and charges.

Financial Context

2. The analysis set out at Annexe A sets out the main factors influencing the Council's Medium Term Financial Plan, (MTFP), and goes on to present the 'roll-forward' MTFP for the period 2020/21 to 2022/23.

3. The resultant roll-forward Revenue Budget is shown at Annexe B, and the current Capital Programme at Annexe C.

4. The roll-forward MTFP essentially shows the position of the Council's budget based on: current spending; the future impact of previous Council decisions; and an assessment of external factors, particularly in relation to the economy and government funding.

5. The analysis at Annexe A shows that the Council is likely to have a surplus of around £0.7m going into 2020/21. That is, if the Council identifies £0.7m of new spending for 2020/21, it would have a balanced budget.

6. However, the analysis also shows that if the Council commits that spending on an on-going basis, it would probably face a savings requirement of £0.9m in 2021/22.

	Potential Budget 2020/21 £'000	**Indicative Budget 2021/22 £'000**	**Indicative Budget 2022/23 £'000**
Funding	-10,264	-9,623	-9,829
Roll-forward spending	9,556	10,527	9,944
Roll-forward Imbalance	-708	904	115

7. This rather unusual pattern is effectively due to one major assumption relating to Government funding: in recent years the Government has been developing a new local government funding regime, (Business Rates Retention and Fair Funding). It has been known for some time that if/when finally implemented these changes are likely to see a significant reduction in funding for many authorities, which is estimated at around £0.9m pa for MVDC.

8. The implementation of the new funding regime was originally intended for April 2019, and over the preceding 2-3 years, the Council put in place a financial strategy, (shown at Annexe D), and a range of saving/income generation measures, aimed at reducing net spending to the anticipated level by the 2019/20 financial year. This was achieved.

9. However, the impact of the Brexit issue on Government, Parliament and the Civil Service has led to the implementation of funding reform being delayed firstly to April 2020, and subsequently this autumn, to April 2021.

10. This created a short term 'surplus' in 2019/20, and will clearly do so again in 2020/21. The precise level of this surplus will continue to be unclear until a funding settlement is announced for 2020/21, (due in the middle of December, but currently very uncertain), but what is clear is that the deferral of the reforms will create a surplus in 2020/21

11. However, assuming the funding reforms are implemented in April 2021, and funding is reduced by a potential £0.9m pa, a savings requirement of a similar sum will be generated, if the short term surplus has been committed to spending on an on-going basis.

12. The Council has achieved some £10m pa of efficiency savings and income generation in the past decade, (in response to 'austerity' and reduced levels of external funding), and it is hard to see how a new savings requirement of nearly £1m pa could be easily found, without impacting on service delivery.

13. Equally, while reserves are felt to be sufficient for their intended purposes, they would not cover a deficit of around £1m, for anything other than a very short period. The General Fund, (the non-earmarked reserve to cover general spending in case of an emergency), is estimated to be £2.7m going into 2020/21 and it is the Section 151 Officer's advice that this should not be allowed to fall below £2.0m.

14. Conversely, if the short term surplus is either unspent in 2020/21, (increasing reserves), or is spent on one-off, time limited costs, which do not create an ongoing financial commitment in 2021/22, then the risk of having to find a challenging level of savings in 2021/22 will be materially reduced.

15. This does not mean that any ongoing spending increases are not possible. It means that any increase in the net spending of the Council, going forward into 2021/22, should be carefully considered in the context of its impact on the risk of a potential savings requirement.

Uncertainty in 2021/22 and beyond

16. So, it is clear that the Council budget will have a short term surplus in 2020/21. However, the analysis going forward into 2021/22 is subject to unprecedented levels of uncertainty:

17. A potentially declining global economy, combined with an absence of clarity of the likely impact of Brexit, means that trying to predict growth, unemployment, interest rates and inflation is currently subject to significant margins of error, all of which directly or indirectly impact on MVDC. Further uncertainty is introduced through the current valuation of the Surrey Local Government Pension Fund, which will reset MVDC contributions for the coming three years.

18. However, the uncertainty surrounding Government funding, introduces a far greater margin of error on any budget projections from 2021/22 onwards:

19. In general terms, in the run-up to the General election, all main political parties are currently committing to significant additional public spending, but even assuming this happens, it leaves questions of how much, which services, how will funding be distributed across authorities, what additional statutory duties will accompany any additional spending?

20. On a more specific level, it is unclear what level of commitment any new Government will have toward a reformed local government funding regime, which was initiated by a Government possibly three removed.

21. So, overall, it is entirely unclear how large 'the pot' might be from 2021/22, and how that

pot might be distributed. It is, at present, fairly easy to create 'plausible if not likely' scenarios in which MVDC could either be facing a significant funding reduction in 2021/22 and beyond, (the current formal position), or possibly benefiting from a material increase in funding over the same period.

22. This would again suggest caution in implementing major changes in the net spending of the Council in 2020/21, going into 2021/22:

- significant growth could lead to very challenging savings requirements in 2021/22;
- while significant, and possibly damaging, savings could prove to have been unnecessary.

  (It is, of course, always beneficial to seek efficiency savings, or income generation measures, which improve the Council's financial position, without affecting service delivery).

Medium Term Financial Strategy

23. The Council's current Medium Term Financial Strategy, (Annexe D), covers the period 2018/19 to 2020/21, and was constructed specifically to address a period of declining external funding and ensure that services could be protected while continuing to deliver a balanced and sustainable budget.

24. As such, it is perhaps opportune that the current MTFS will be in its final year in 2020/21, and will therefore be fundamentally reviewed during the coming year, enabling the Council to respond to what could be a significantly changed financial environment. (This will hopefully be resolved by the inevitable Government Spending Review in 2020, as well as clarity surrounding local government funding reforms, by the Summer/Autumn of 2020).

25. Given the uncertainty outlined above, it is proposed that the existing MTFS should not be amended for the coming year, but that the following additional principles should be taken into account in developing budget proposals for 2020/21:

- **Proposals for spending the likely surplus on the 2020/21 budget should be predominantly focused on one-off, time limited initiatives;**

- **Caution should be exercised in relation to ongoing spending which increases the net spending of the Council going forward into 2021/22, and should only be undertaken with full understanding and acceptance of the level of associated financial risk;**

- **Equally, proactive pursuit of savings is not necessary at this time, although priority should continue to be given to initiatives which generate future savings, efficiencies, or income streams.**

- **The level of the General Fund should not be allowed to fall below £2.0m.**

Fees and Charges Principles

26. As part of the annual Scene Setting report, consideration is also given to the principles adopted for the setting of the Council's fees and charges. These were consequently last approved in November 2018, and are set out at Annexe E.

27. Again, given the unprecedented uncertainty regarding the Council's financial environment going forward, it is suggested that it is not appropriate now to fundamentally change these principles.

28. However, a short web survey was undertaken, (detailed further in Annexe A), in order to test support for the principle of maximising income from fees and charges, (and also modest Council Tax increases), if the alternative would be reductions in some discretionary services.

29. While the number of responses received, (126), is relatively modest, the survey provides no evidence to suggest that the Council should change its current policies in relation to fees and charges, (and Council Tax), with the majority of respondents feeling that both these actions would be preferable to reducing discretionary services, if this was necessary, in order to balance the budget.

30. Therefore, the current Fees and Charges principles, (Annexe E), are proposed for continued adoption in setting fees and charges for 2020/21.

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

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

2.0 Options

The Cabinet has two options for consideration:

Option One – to agree to the recommendations contained in this report.
Option Two – To make alternative recommendations.

3.0 Corporate Implications

Monitoring Officer commentary

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

S151 Officer commentary

The S151 Officer, as author of the report, confirms that all the relevant financial implications have been taken into account. The Section 151 Officer would however draw Members attention to the Medium Term Financial Strategy 2018/19 to 2020/21, and the additional principles set out in paragraph 25 as the suggested basis for budget setting in 2020/21.

Risk Implications

One of the strategic risks in the register is the failure to deliver the Medium Term Financial Strategy, and to sustainably manage the Council's financial resources. A mitigating control is the annual business and budget setting process, including production of this scene setting report.

Equalities Implications

There are no equalities implications arising as a direct consequence of this report. An Equality Impact Assessment will accompany the Business and Budget 2019/20 report to Cabinet in February 2019.

Employment Issues

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

Sustainability Issues

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

Consultation

There are no consultation issues arising directly from this report, although the 2019/20 service plans and budget will be shared with parish councils, residents associations, the business community and other partners at a later stage in the process.

Communications

Background Papers

No background papers were referred to during the preparation of the report.

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Annexe A

Key Financial Assumptions, 2020/21 and Beyond

1. This note outlines the external factors and key assumptions which have been incorporated within the Council's projected budget position across the next three years. It is divided into two parts:

   - National factors that affect the Council's financial environment;
   - Mole Valley specific external funding and cost assumptions across the next three years, based on that national context, and other Mole Valley specific factors

2. The figures quoted, which have fed into the budget projections, are those considered to be 'most likely'. However, attention is also drawn to those figures that are subject to a high degree of uncertainty or variation, and which consequently could have a major effect on the Council's position going forward.

NATIONAL CONTEXT

The Economy, Public Sector Spending and Brexit

3. Economic growth is projected, by the Office for Budget Responsibility, (OBR), to remain modest at 1.4% in 2019 and 1.6% in 2020. They predict that here is little slack in the economy following years of strong growth, and unemployment is projected to remain minimal, putting pressure on local economies where there is high employment, (such as Mole Valley).

4. The rate of inflation, (CPI), is currently 1.7%, but is predicted by the OBR to rise slightly to 2.0% over the coming year.

5. Interest rates have been low and fairly stable over the recent past and the base rate currently remains at 0.75%. There are, however, few confident predictions of future trends, with some predicting rises to curb impending inflation, but others predicting reductions to stimulate economic growth. A middle ground assumption of rates remaining broadly as they are now is perhaps as good as any other.

6. However, the validity of all these forecasts is highly dependent on:

   - the uncertainty arising from Brexit;
   - the ultimate outcome of Brexit;
   - a weakening global economy;
   - the outcome of the forthcoming General Election;
   - and the consequent future direction of public sector spending.

7. Consequently, making financial and economic forecasts is currently subject to almost entirely unprecedented levels of uncertainty. Indeed, uncertainty is probably the single most significant characteristic of the Council's current Medium Term Financial Plan.

Public Sector Spending and the 'Spending Review 19'

8. The overall level of future public sector spending is more uncertain than it has been for some years. Since 2008, and the emergence of the 'age of austerity', public sector spending in general, and local government spending in particular, has been on a downward trajectory.

9. However, over the past year, successive governments of Teresa May and particularly Boris Johnson, have increasingly stated that the age of austerity is at an end, and that additional funding will be found for public services, particularly health, education, the armed forces and the police. Very similar messages are also being given by all the major political parties leading up to the December General Election.

10. While such a 'growth' message is obviously welcome in local government, it has not, yet, been delivered through specific actions and funding allocations. It is too early to be relied on, and even if additional funding materialises, there are many questions to be answered before individual local authorities can plan on the basis of any increasing resources: How much? Which services? Which authorities? Will any funding be accompanied by new responsibilities?

11. Normally, the first step in answering these questions is a 'Spending Review', in which the Government identifies its detailed spending intentions for each Government Department, generally over a 3-4 year period. Such a Review was planned for summer 2019, but the demands of the Brexit debate led to its cancellation, although the Government did undertake a very simplified Spending Review 2019 in the autumn, to identify some key one year ambitions, for 2020/21.

12. This Review identified some additional funding, specifically for health and education, although some was simply reconfirming previous announcements, and a significant element was proposing to allow social care authorities to charge a social care premium on Council Tax. Little additional funding was mentioned in relation to District/Borough delivered services, other than a small sum for the prevention of homelessness.

13. Of course, the value of this Spending Review as an indicator of future direction of travel, (growth or savings), can only be gauged following:

- the General Election;
- the production of a full Spending Review, identifying medium term public sector spending;
- and the conclusion of the work of reform of Local Government Funding, (the Fair Funding Formula and Business rates retention – see below).

14. For now, authorities can only, prudently, rely on previously announced funding allocations and policy directions.

Local Government Funding Reform

15. One such policy direction is the Government's reform of the local government funding system. For the past few years, the Government has worked to establish 'self sufficient' local government. This essentially involves Business Rates being the sole source of local government funding. This has two main elements:

- The intention of the ‘Business Rates Retention’ initiative is for local government, (collectively), to retain a specific proportion of Business Rates collected nationally, while Revenue Support Grant will cease. Initially it was intended that local government would retain 100% of Business Rates, but this has now been reduced to ‘at least 75%’.

  This does not mean that individual local authorities will retain the Business Rates collected in their area, although it is intended that any increase in Business Rates, above a specified ‘baseline’ level, in a particular local authority area will be partially retained by that local authority, in the short term.

- The ‘Fair Funding’ initiative will redefine the allocation of Government funding, (essentially the nationally collected Business Rates), across all local authorities. Possibly the single most significant change in the proposed formula is the increasing impact of an authorities ability to raise income via Council Tax. In short, higher value homes, mean more homes in higher Council tax Bands, means more income to the local authority, means less need for Government funding.

  Inevitably this will not favour local authorities such as Mole Valley, (and many others in the South East), where house prices are, on average, significantly higher than authorities in other regions of the country. Detail is not yet available, but the best information available suggests that MVDC could lose £0.9m pa of Business Rates funding if/when this formula is implemented.

16. It was originally intended that the reformed local government funding system would be implemented in April 2019, and MVDC took action to reduce its spending in anticipation of this funding reduction. However, last autumn, as a result of delays caused by Brexit, it was announced that this would be deferred to April 2020. This effectively gave MVDC a one year ‘reprieve’, with the funding reduction then due in April 2020.

17. This delay was extended a few weeks ago, when the Spending Review 2019 concluded that implementation of this formula will be deferred by a further year, to April 2021. This has created a second ‘one-off’ bonus, of £0.9m, to MVDC in 2020/21.

18. Further, although the funding reform is still ‘on the books’, there have now been two changes of Government since the funding reform was originally conceived and there will now be a third change of Government following the General Election. At this stage it is entirely unclear what the view of any new Government will be, in relation to the reforms.

A Declining Business Rates Base

19. Irrespective of the future of the local government funding reforms, there are a number of reasons why the overall level of income from Business Rates is under pressure.

    - In certain circumstances, ‘Permitted Development Rights’, allow the conversion of office premises into residential premises without the requirement for full planning permission.

- The very obvious pressure on 'the High Street', and the move from physical to internet shopping will have an impact both on the amount of retail space, and in all likelihood on the level of Business Rates that retail businesses can afford to pay.

- The nature of 'work' is changing, with many businesses increasingly adopting flexible, agile, or home working, and ultimately relying far less on large expensive buildings to deliver their services.

20. The impact of these factors is likely to be greatest in local authority areas, such as MVDC, where land is at a premium and the potential to facilitate significant new business developments is consequently very limited. This could be further compounded if companies, (particularly large national or multinational companies), decide to vacate their offices, sell their sites for potential redevelopment as residential accommodation, and relocate to other areas.

21. Overall, it is unlikely that total Business Rates will rise materially over the medium term in authorities such as Mole Valley, which means that it would not be possible to access that part of the Business Rate Retention mechanism which rewards authorities for facilitating Business Rates growth above existing levels.

Public Sector Pay

22. Alongside the apparent relaxation in the constraints on public sector spending, the past year has also seen a relaxation in the cost of living pay awards for public sector workers, with government ministers making very public statements about the need for "fair" pay awards for public sector workers and the "need for public sector workers to be properly rewarded for the job they do", (Matt Hancock, Secretary of State for Health and Social Care). These very public statements have had the effect of significantly increasing expectations of workers and unions across all parts of the public sector.

23. Consequently, following the scrapping of the 1% pay cap for public sector workers, there have been a number of significant public sector pay awards over the summer:

- Teachers 2.75%
- Doctors and dentists 2.5% - 3.5%
- Police 2.5%
- Armed forces 2.9%

24. In July, the three largest local government unions, (UNISON, GMB and Unite), submitted a joint pay claim to Government, for a 10% pay increase for all local government staff.

New Homes Bonus

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

26. For MVDC the 0.4% threshold equates to around 150 new homes per annum. Prior to 2019/20, the number of new home in Mole Valley was running at around this number, such that under the current NHB regime and the current rate of house building, Mole Valley was only receiving modest sums of NHB.

27. In 2019/20, the number of new homes rose significantly, (to 314), essentially due to Permitted Development which had led to a significant amount of office accommodation being converted into residential units. Based on figures at October 2019, (which will be used to calculate the 2020/21 NHB allocations), it would appear that the number of new homes in 2020/21 will be maintained at the new higher level of around 281.

28. However, as part of the Spending Review 2019, the Government announced that while legacy payments will be honoured, (meaning that each of the last four year's allocations will be paid for their four year period, including, it is believed, the new 2020/21 allocation), the Government has yet to form a view regarding the future of NHB beyond 2020/21.

29. Of course, the view of any other Government after the December General Election is equally unknown.

Council Tax

30. For the past few years, Government regulations have stated that local authorities can increase their annual Band D Council Tax by the greater of 3% or £5 without triggering a public referendum. Last year MVDC passed the point where a 3% increase is marginally greater than £5, and effectively, MVDC's maximum increase, without triggering a referendum became 3%.

31. However, as part of the Spending Review 2019, the Government has stated its intention that for 2020/21 the referendum limit will become the higher of 2% or a £5 increase on Band D. £5 on Band D is approximately 2.8%, which is therefore MVDC's effective referendum limit for the coming year.

LOCAL MVDC IMPLICATIONS AND BUDGET ASSUMPTIONS

32. Taking into account the national context set out above, together with local factors leads to the following assumptions being built into MVDC's Medium Term Financial Plan 2020/21 to 2022/23:

Council Tax

33. The Council has for the past five years adopted a policy of implementing modest increases in Council Tax, generally just below the referendum limit. Assuming that this policy is maintained, an increase of 2.8% is therefore assumed. This will be decided at the budget setting Council meeting in February. The income from this assumption is further increased by 0.55% to reflect the increase in the number of homes in the District, resulting from development. On this basis, the level of Council Tax will be:

2020/21 £'000	2021/22 £'000	2022/23 £'000
-7,383	-7,630	-7,886

Business Rates

34. As explained above, the current most likely assumption, (although very far from certain), is that funding from business rates will be reduced by something like £0.88m in 2021/22, (following which inflation at 2% is assumed):

2020/21 £'000	2021/22 £'000	2022/23 £'000
-2,000	-1,120	-1,142

New Homes Bonus

35. Based on the Government's commitment to fund legacy NHB payments, (including a final allocation in 2020/21), but with no commitment to any further allocations beyond 2020/21, the most likely level of NHB is:

2020/21 £'000	2021/22 £'000	2022/23 £'000
-556	-548	-476

Interest on financial investments

36. The Council invests its reserves to maximise income from its cash flow management. These returns are bolstered by, the investment of £5m in a property fund which has yielded 4.5% to 5% over the last year.

37. As noted above, arguments can be made for interest rates rising or falling in the medium terms, but the most likely scenario is probably that a major move, in either direction, is unlikely in the short to medium term. Consequently, the income from financial investments is most likely to remain fairly static:

2020/21 £'000	2021/22 £'000	2022/23 £'000
-325	-325	-325

Fees & Charges

38. The Council levies a wide range of fees and charges for a variety of services, which are collectively MVDC's largest source of income. The full list contains over 300 items. The Council has an agreed set of principles for setting fees and charges, and this is included at Appendix E. In essence, in response to many years of falling Government funding the Council has adopted a policy, (set out in the charging principles), that fees and charges for specific services should be set to maximise the level of income to the Council, unless there is a specific reason not to, (such as statutory constraints, or a conscious intention to deliver a discounted service).

39. In addition to the principles for setting fees and charges, an annual inflationary uplift is assumed for most fees and charges. The assumed inflationary increases over the next three years are:

	2020/21 %	2021/22 %	2022/23 %
Statutory fees and charges	0.0	0.0	0.0
Parking pay and display charges	0.0	0.0	0.0
Other controllable fees and charges	2.5	2.5	2.5

40. In many cases there is little regularity to increases in statutory fees, and consequently increases are not budgeted until, or unless, they are formally approved by Government.

41. Pay and display charges were increased in August 2018 and it is not anticipated that they will be increased again in the short term. It is very difficult to implement a small annual inflationary increase on say a £1 car park charge, (raising it to say £1.02 or £1.03 per hour). It is more practical to implement an inflationary increase of say 2.5% pa through a single increase of 10% every four years, raising the charge in increments of 10p. It is therefore proposed to consider implementing an inflationary increase on pay and display charges in 2023/24.

42. For all other, (directly controllable), fees and charges it has been assumed that inflationary increases will be applied in order to increase overall income by 2.5%.

Funding Survey

43. The Council has recently undertaken a short web based survey of residents, to determine the priority of actions to address any further shortfall in Council funding.

44. The survey, which had 126 respondents, asked people to prioritise three possible actions which might be necessary to maintain a balanced Council budget: reducing discretionary services; increasing fees and charges; or increasing Council Tax.

45. Overall, the results suggested support for both increasing Council Tax and increasing fees and charges, if the alternative is a reduction in the discretionary services delivered by the Council.

	1st priority %	2nd priority %	3rd priority %
Reduce discretionary services	22.6	18.5	47.6
Increase fees and charges	33.1	49.2	11.3
Increase Council Tax	44.3	23.4	29.8
No 2nd/3rd priority expressed		8.9	11.3
	100.0	100.0	100.0

46. While the number of responses received is relatively small, the survey provides no evidence to suggest that the Council should change its current policies of implementing modest increases in Council Tax, and maximising income derived from fees and charges, (as it remains the case that without these, the Council could potentially need to reduce services in order to balance its budget).

Pay Inflation

47. Paragraphs 22-24 above set out the fact that nationally:
- a number of public sector 'cost of living' pay awards of between 2.5% and 3.5% have been agreed over the summer.
- The Government, and all parties in the General Election campaign, are talking up public sector funding and the need for 'fair' pay for public sector workers, further raising expectations among trade unions and staff.
- The three biggest local government unions have submitted a pay claim of 10%.

48. While a 10% cost of living pay award is inconceivable, it seems likely that the award nationally will be higher than has been the norm in recent years. MVDC is contractually obliged to give all staff an annual cost of living pay award, of at least the award agreed nationally.

49. On this basis an assumption of a 3.0% pay award has been built into the budget for 2020/21, with smaller increases of 2.5% in the subsequent two years. However, it must be stressed that this is simply a budget provision, and does not represent any indication of a specific agreement, either nationally or locally.

	2020/21 %	**2021/22 %**	**2022/23 %**
Provision for pay inflation	3.0	2.5	2.5

Price Inflation

50. The estimated rate for general price inflation in the MTFP takes into consideration, the current level of inflation in the economy and future projections, as discussed above. The rate currently assumed over the medium term is 2.0% pa.

51. The major exception to this general provision relates to the Amey waste collection and street cleaning contract, which has a specific calculation of inflation built into the contract. This calculation is based on a weighted aggregation of inflation indices for salaries/fuel/general RPI. Based on the current values of those indices, and the OBR forecasts over the medium term, the following price inflation has been built into the MTFP.

	2020/21 %	**2021/22 %**	**2022/23 %**
General price inflation	2.0	2.0	2.0
Waste/street cleaning contract inflation	3.2	3.0	3.0

Pension costs

52. Every three years the Surrey Local Government Pension Fund is actuarially revalued. This valuation determines both the superannuation rate that MVDC has to contribute towards pension costs of current staff, and also the annual lump sum contribution to be paid towards any historic deficit.

53. The most recent actuarial valuation was undertaken in 2016 and was implemented on 1 April 2017. Consequently the contribution rate for MVDC as an employer is currently 15%, and the annual contribution towards a presumed deficit is £528,000.

54. The next actuarial valuation is due currently being undertaken and will be implemented on 1 April 2020. Early indications from the actuary, (although far from certain), are that both the contribution rate and the deficit contribution may remain the same, with the increase in Fund liabilities arising from the recent 'McCloud case', being offset by strong returns on the investment of Fund assets.

55. The assumptions built into the MTFP are consequently:

	2020/21	**2021/22**	**2022/23**
Employers superannuation contribution	15.0%	15.0%	15.0%
Lump sum deficit contribution	£0.528m	£0.528m	£0.528m

Impact of Previous Decisions

56. The 'roll-forward' budget for 2020/21 also takes account of the effect of previous Council decisions, and other factors with an ongoing financial effect. These include:

- In anticipation of a major reduction in Government Funding, the past two years have seen a significant number of one-off projects and other time limited spending which are due to come to an end, predominantly in 2020/21.
- An increasing provision for the revenue budget to fund the maintenance of assets, which has been largely funded from capital resources during the past decade of 'austerity'.
- Surrey County Council is making significant reductions in the level of recycling credits, paid to district and borough councils, in order to incentivise recycling projects. MVDC's reduction in income will rise to £180,000 pa in 2020, although there are currently no known plans to reduce recycling credits further.
- The budget provides for an annual contribution to a Rent Equalisation Reserve, to mitigate the risks associated the potential loss, at some point, of a tenant in one of the Council's property assets, and a consequent loss of income until the property is re-let.
- The budget has, for the past three years included a sum of £80,000 per annum for consultancy support to the development of the Local Plan. This consultancy budget is due to come to an end in 2019/20, which is reflected in the roll-forward budget. The Council might however wish to consider whether this should be reinstated as part of the new budget adjustments for 2020/21, given the current timetable for the finalisation of the Local Plan. However, in a similar vein, the budget for 2020/21 also provides for the estimated £100,000 specifically for the cost of undertaking an inspection of the Local Plan.

Budget Monitoring 2019/20 – Pay and Display Income

57. Budget monitoring for 2019/20 is currently projecting an overspending of £0.2m. This is made up a significant number of off-setting overspendings and underspending, and it remains the Council's intention to try to achieve an on-target budget 'outturn' at the end of March. The vast majority of these budget variations are understood, actively managed, and do not necessitate a budget adjustment going into 2020/21.

58. However, it is now understood that one variation from budget is both significant and permanent, such that a budget adjustment is necessary in coming years. In February 2018, the Council approved an increase in pay and display parking charges, for implementation in August 2018. This was estimated to potentially generate an additional £1.1m pa in income to the Council, although it was reported at the time, and consistently since, that this estimate was subject to a material margin of error.

59. It is now clear, with more than one year's experience of the new charge, that the additional income generated by the charge is nearer £0.7m pa, (rather than £1.1m pa), and there is no reason to believe that this sum might increase in future years. Consequently, the roll-forward Medium Term Financial Plan includes a reduction of £0.4m in the level of income generated from pay and display charges, from 2020/21 onwards.

Roll-Forward Medium Term Financial Plan

60. The above analysis and assumptions lead to a roll-forward Medium Term Financial Plan, (revenue budget), as set out in Annexe B.

Capital Programme and Funding

61. The Medium Term Financial Plan (Capital Programme) over the next three years is set out at Annexe C.

62. Over recent years the Council has undertaken a major capital spending programme, including:

- £100m for Asset Investment Strategy
- £8.5m for the development of the Meadowbank stadium
- £4m for the purchase of vehicles for the Joint Waste Contract

63. The above, among other projects, have assisted the Council in achieving a balanced revenue budget through:

- investing historic capital reserves, (which were earning very little interest, 'in the bank'), in a range of projects to produce income streams for the Council, or reduce costs;
- and investing £100m borrowed from the Public Works Loans Board at preferential interest rates, to construct a commercial property portfolio, again aimed at producing income streams, (the Asset Investment Strategy).

64. The vast majority of this spending will be completed by the end of the current financial year, 2019/20, following which the Council will have an ongoing Capital Programme of c £2m-£3m pa, financed by a range of fairly modest capital funding sources, (developer contributions; Disabled Facilities Grants; 'Right to Buy' receipts from the sale of Clarion homes; direct contributions from the revenue budget).

65. Any further significant additions to the Capital Programme in future will either require funding from a 'capital receipt', (sale of a Council asset), or from borrowing.

Annexe B

1: Roll-Forward Medium Term Financial Plan (Revenue Budget), 2019/20 to 2022/23

	Base Budget 2019/20 £'000	Potential Budget 2020/21 £'000	Indicative Budget 2021/22 £'000	Indicative Budget 2022/23 £'000
Funding				
Council Tax	-7,182	-7,383	-7,630	-7,886
Business Rates	-1,452	-2,000	-1,120	-1,142
New Homes Bonus	-573	-556	-548	-476
Earnings from financial investments	-325	-325	-325	-325
	-9,532	**-10,264**	**-9,623**	**-9,829**
'Roll-forward' spending				
Previous year's budget	9,017	9,130	10,256	9,627
Inflation	356	353	293	303
Impact of previous decisions/actions	-243	-427	78	14
Pay and display income shortfall		400		
Local Plan Inspection		100	-100	
	9,130	**9,556**	**10,527**	**9,944**
Initial Imbalance before action	**-402**	**-708**	**904**	**115**
Possible action to balance				
2020/21 'one-off' spending		700	-700	
2021/22 saving			-200	
2022/23 saving				-100
Possible New Year Budget	**9,130**	**10,256**	**9,627**	**9,844**
Transfer to (-) or from (+) reserves	**-402**	**-8**	**4**	**15**

2: Projected Revenue Reserves 2019/20 to 2022/23

	Budgeted Reserve 31-Mar-20 £'000	Potential Reserve 31-Mar-21 £'000	Indicative Reserve 31-Mar-22 £'000	Indicative Reserve 31-Mar-23 £'000
Non-Earmarked Reserves				
General Fund	-2,708	-2,716	-2,712	-2,697
Earmarked Reserves	-7,401	-7,324	-7,347	-7,486

Annexe C

1: Approved Capital Programme 2019/20 to 2022/23

(Figures for major projects represent remaining balance of original allocation, remaining unspent at 1 April 2019).

	Allocation 2019/20 £'000	Allocation 2020/21 £'000	Allocation 2021/22 £'000	Allocation 2022/23 £'000
Major Projects				
Car Park Refurbishment	350	250	300	
Meadowbank acoustic fence	190			
Dorking Halls refurbishment	4			
Joint waste contract vehicles	923			
Leatherhead Bypass	10			
21/23 Leatherhead High Street	184			
Swan Centre Car Park Refurb	330			
Swan Centre Improvements	811			
	2,802	**250**	**300**	
Annual Projects				
Affordable Housing	500	500	500	500
Capitalised Salaries	175	175	175	175
Community Grants	74	74	74	74
Dial-a-Ride Vehicle Replacement	50	50	50	50
Disability Adaptions	665	665	665	665
Playground Refurbishments	60	60	60	60
Telecare Equipment	50	50	50	50
	1,574	**1,574**	**1,574**	**1,574**
Asset Maintenance	**700**	**500**	**500**	**500**
Total Capital Programme	**5,076**	**2,324**	**2,374**	**2,074**

B: Projected Capital Reserves 2019/20 to 2022/23

	Budgeted Reserve 31-Mar-20 £'000	Potential Reserve 31-Mar-21 £'000	Indicative Reserve 31-Mar-22 £'000	Indicative Reserve 31-Mar-23 £'000
Non-Earmarked Reserves				
Capital receipts	-1,866	-2,732	-3,548	-4,648
Earmarked Reserves				
CIL/S106 – developer's contributions	-5,465	-5,465	-5,465	-5,465

(It is currently assumed that in-year spending will match in-year receipts)

Annexe D

Medium Term Financial Strategy 2018/19 to 2020/21

- Make best use of assets - we will progress projects that use our land and property to improve services and generate income.

- Continue to focus on efficiencies - we have been successful in recent years in identifying and realising efficiency savings to help to balance the budget.

- Optimise the level of fees and charges - we will continue to review our fees and charges annually, in accordance with our agreed fees and charges principles, recognising the potential impact of fee increases on demand.

- Moderate increases in Council Tax - the level of Mole Valley's Council Tax increases in recent years has been well below the rate of inflation, but we recognise the detrimental impact on our base finances of continuing to opt for one-off grants over the medium term, rather than implement moderate Council Tax increases.

- Improved returns on investment - without compromising unduly on the security and liquidity of our investments, we will seek to diversify in search of a better yield, with particular consideration of property and property related funds.

- Revenue contributions to capital - when circumstances allow, contributions will be reinstated from the revenue budget, to fund the repair and maintenance of assets within the capital programme.

- Capital spending - new projects are added to the programme, under the following principles:
    - To comply with a statutory or health & safety imperative
    - When a full business case demonstrates a positive return on the investment
    - When the project is related to maintenance and improvement of an existing MVDC asset, protecting its value and condition and prolonging its useful life.
    - To invest capital in a way that generates benefits for the revenue budget.

Annexe E

Fees and Charges Principles, Approved November 2018

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