Overview & Scrutiny: 28/11/17
Medium Term Financial Strategy
and 2018-19 Budget

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Session to cover

- Issues
  - Autumn Budget statement
  - Updated Budget gaps
  - Funding update
  - Impact of SCC financial position
  - 2018-19 Business rates pilot
  - Update on additional commercial income and external risks
  - Commercial asset acquisitions
  - Housing delivery

22nd Autumn Budget Statement

- Growth of national economy slowing down with lower future GDP increases, means austerity regime likely to be extended.
- **Universal credit:** modifications announced – will push back roll out in Spelthorne from August to Nov 2018
- **Planning:** Signalled reviews of aspects of planning regime
- **Business rates**: annual uplift of rate to move from RPI to CPI from April 2018, taxbase will rise more slowly but Government says will compensate local government.
- From 2022 will be three yearly business rates revaluations partly reliant on a new self assessment regime
- **Council tax:** Local authorities to be able to charge 100% premium rather than 50% on long term empty properties – Spelthorne currently has 56

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Impact on Projected Budget Gaps:

- 2017-18 Balanced
- 2018-19 £1,150k
- 2019-20 increase of £1,900k, cumulative £3,050k
- 2020-21 £100k decrease, cumulative £2,950k
- 2021-22 increase of £350k, cumulative £3,300k

- 2019-20 projected adverse movement in general grant of just under £1m

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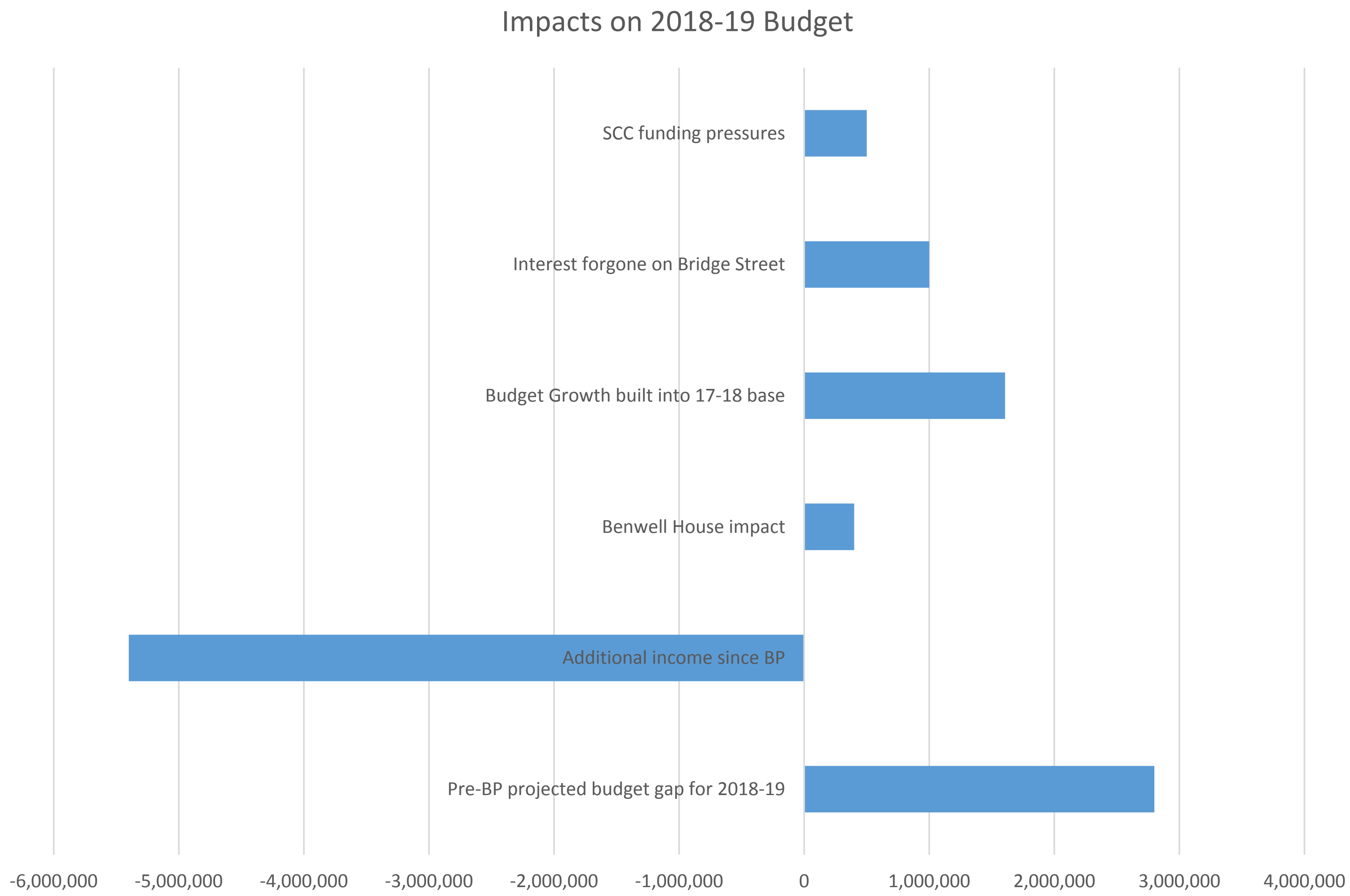
Factors behind 2018-19 Gap

Budget pressures on 2018-19 and adverse movements since BP acquisition			
		£	£
Projected budget gap for 2018-19 prior to BP			2,800,000
Additional investment income since BP			-5,400,000
Benwell short term cashflow effect			400,000
			-2,200,000
No capital receipts for Bridge Street and Ashford - interest impact			1,000,000
SCC cuts and pressures			500,000
Reduction in grant (18-19 grant reduction already anticipated prior to BP)			
Growth built in 2017-18 budget base- not anticipated prior to BP			
	Recruitment & Retention	200,000	
	Local Pay	100,000	
	HB Overpayments reduction in credit	300,000	
	Housing resource pressures	294,000	
	Streetscene pressures	294,000	
	Business rates revaluation impact	180,000	
	Legal resources	100,000	
	Employee insurance	45,000	
	Cleaning contract	93,000	
	Misc	194,000	
			1,800,000
	Net effect of above- revised budget gap 2018-19		1,100,000

Factors impacting on 18-19 Gap



Current Deficit assumptions and factors driving gap

- Band D Annual council tax increase of £5 per annum
- Base rate increased by 0.25% Interest rates may increase further although expected to be a slow rate of increase
- Stock condition of assets – backlog maintenance of £3.6m to be programmed in over future years (2018-19 further £250k increase in revenue budget)
- Staff annual pay award –move back to local agreement linked to national pay (as a minimum) – assumed 2% for 2018-19 and 1.75% thereafter- with national pay cap being eased that this may increase
- Benefits overpayment income of £0.5m per annum phased out by 2019-20 with Universal Credits- following Budget roll out pushed back a few months

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Budget Pressures including housing and recycling

- SCC pressures (recycling, street lights, verges, recycling) in total adding approx. half million to budget gap
- Continuing demand for B&B temporary housing accommodation
- Homelessness Reduction Act implemented in April 2018 adding additional responsibilities with significant resourcing implications
- Roll out of Universal Credit continuing which will mean by 2019-20 loss of the £0.5m overpayments net credit we have been achieving- delay in process benefits SBC
- Expectations around funding of Thames Flood Relief Scheme

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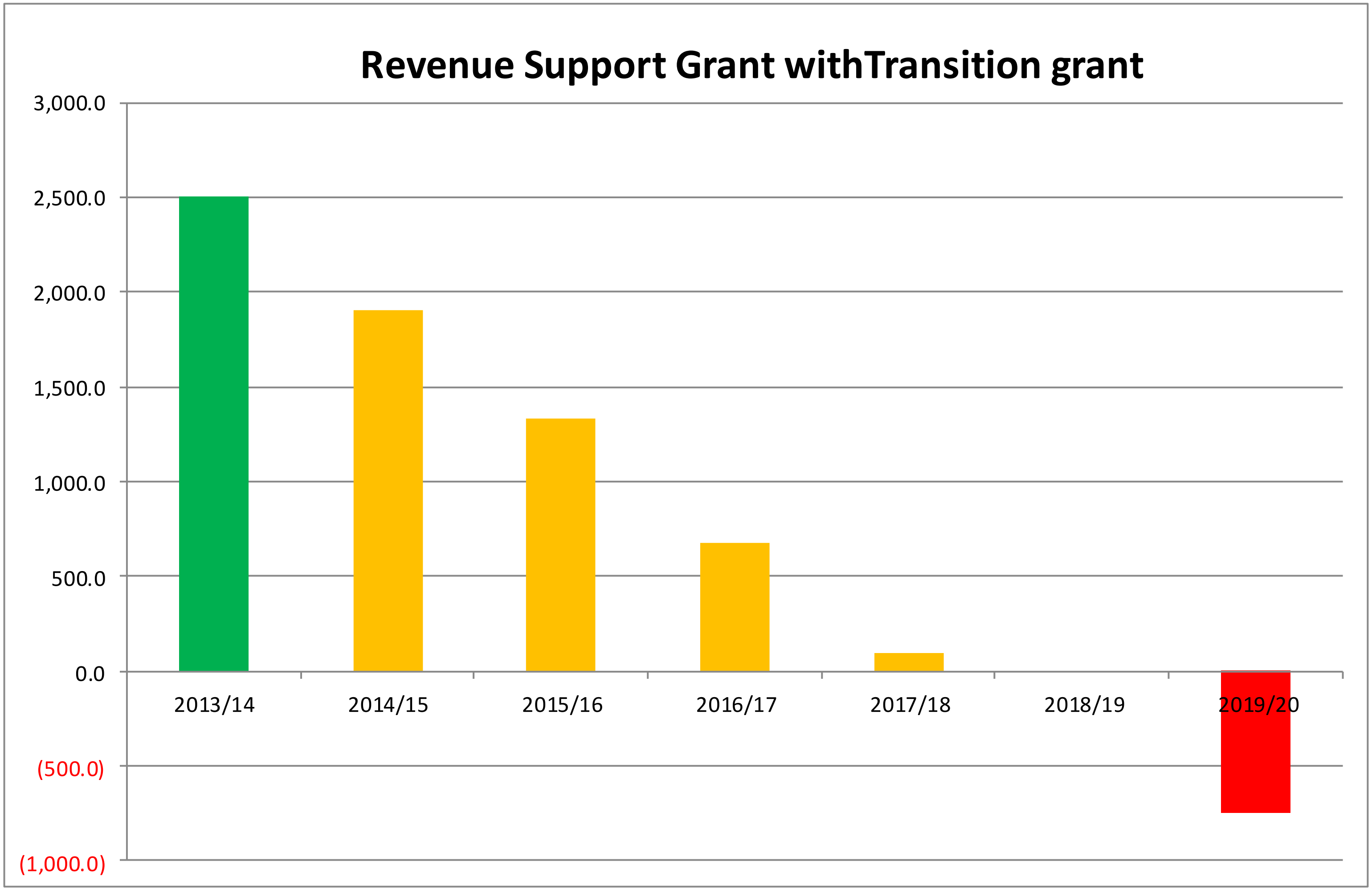
Grant Reductions:Revenue Support Grant (RSG)



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New Homes Bonus Grant (NHB)

- Paid on basis of additional residential dwellings added to the tax base (in two tier areas a 80:20 split between districts and counties)
- Government reviewed and reduced national size of the pot by a third (£800m) from 2017-18 with funds transferred to help fund adult social care
- Government also increased linkage to planning performance and reduced number of years each grant allocation paid from 6 years to 4 years
- Project to increase taxbase by reducing number of empty homes which will boost a little NHB numbers

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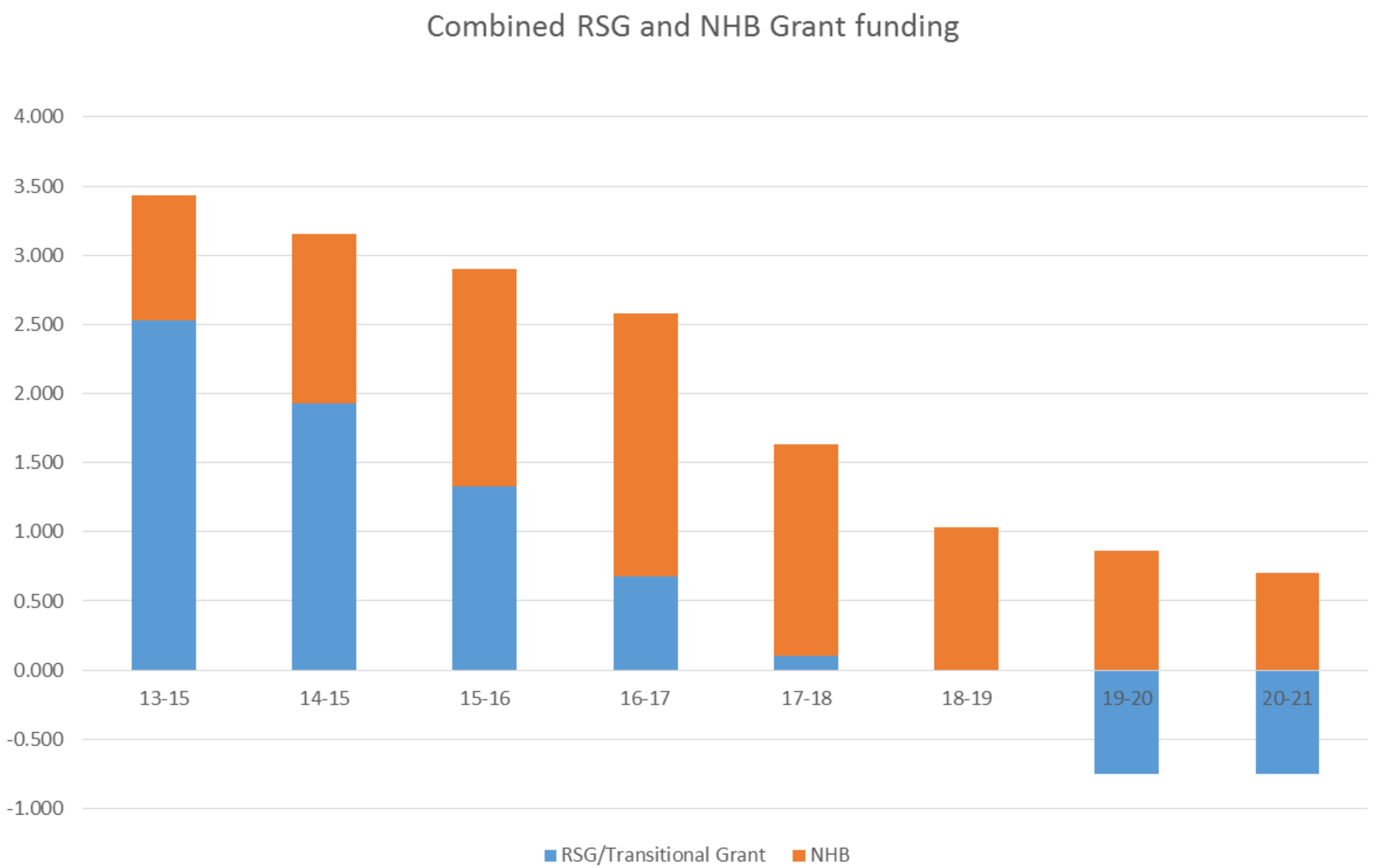
Combined RSG and NHB funding

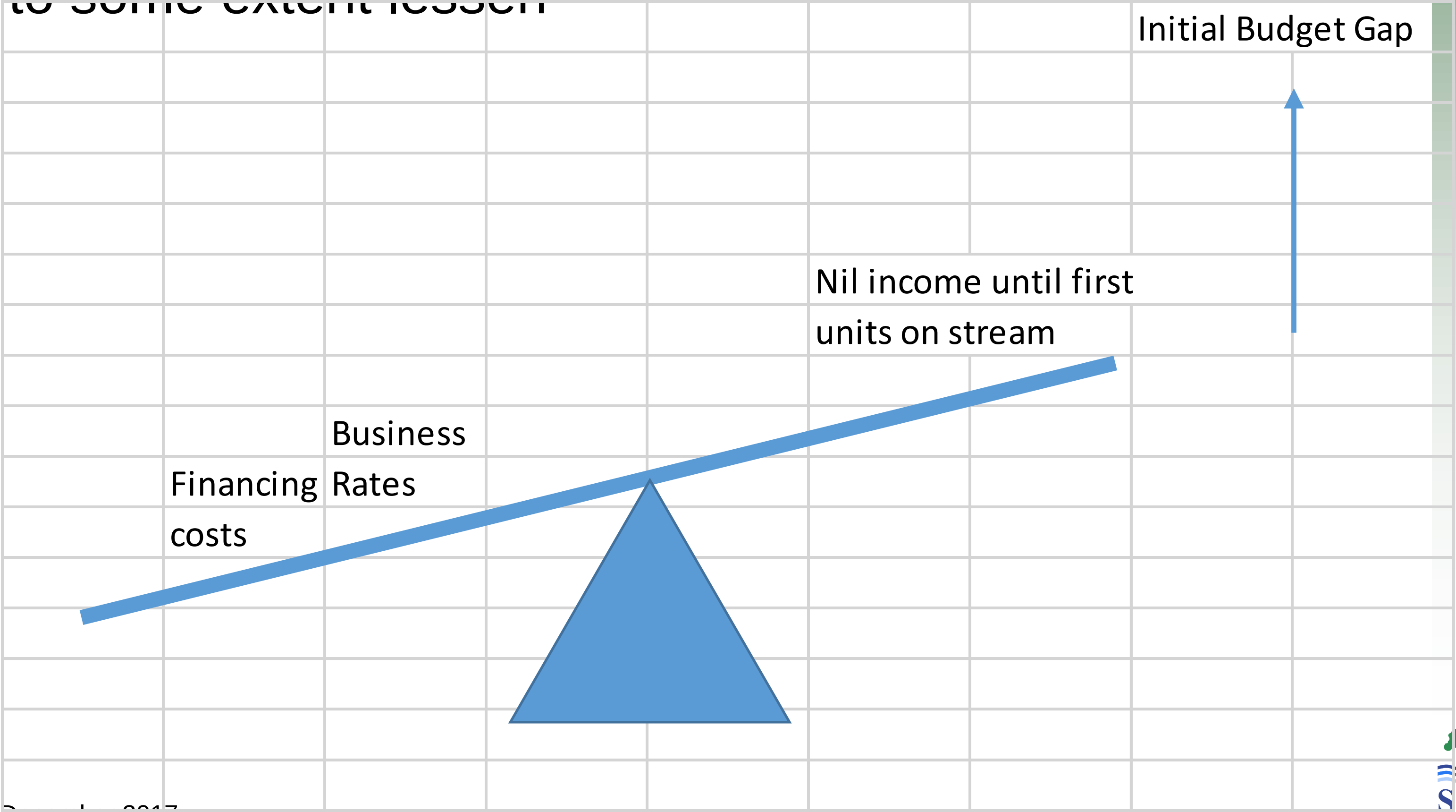


Reserves

- Usable reserves as at 31/3/17 - £11.9m
- Capital receipts used up
  - 18 months ago anticipating £25m (Bridge Street and Ashford MSCP) within following two years. Will now be longer before generate income stream on these sites
  - Constraint on Capital Programme - other than additional capital receipts generated in year (such as RTB share) we will have to either fund Capital Programme from revenue or borrowing- additional pressures on Revenue budget adding to Budget Gap
  - For some sites joint venture partner may be appropriate

Impact of generating medium term additional housing supply and rental income

- Investing to create additional supply will in short term add to revenue budget pressure – option of JVs would to some extent lessen



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Housing

- Pressure on emergency accommodation numbers (latest figure 84 families)
- Harper House has secured some supply
- Homelessness Reduction Act significant resource implications impacting on 2018-19 Budget
- Actions
  - Use of S106 funds to fund site acquisitions
  - Increasing supply of mix of tenures- Benwell House, Churchill, Bugle etc
  - Use of *Knowle Green Estates* to develop and retain affordable/social rental units

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Operational Efficiency

- Group Heads and managers being asked to review opportunities for efficiency and income generation
- Fees and Charges to be revised to focus on what market can bear whilst balancing impact on local business community
- Renewed focus on agile working and IT efficiencies – reducing our operational footprint to realise savings
- Seeking to achieve procurement savings – now have dedicated Procurement Officer in post
- Letting surplus space on short term basis

Surrey Business Rates Pilot

- Surrey councils bidding to become a 100% business rates retention pilot for 18-19
- Pilots may extend into a second year
- Does not mean 100% of rates retained (£350m still transferred out of Surrey) but will enable additional £28m to be retained across Surrey
- Bid submitted, expected to hear outcome in next week or so
- Bids need to meet criteria including setting out how supports financial sustainability and economic growth
- Estimated outcome for Spelthorne £800k non-ring fenced and approx. £1m available to fund economic growth projects – eg Small business incubator

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Additional Income Generated (approx. £100m per £1m revenue)

- Council since summer 2016 purchased:
    - BP International Campus
    - Elmbrook House, Sunbury
    - 3 Roundwood Avenue, Stockley Park
    - WBC4 , Heathrow

- Total purchase cost approx. £500m and delivers net (after interest, repayments, supervision and sinking fund for refurbishment) ongoing additional revenue stream of £5.4m per annum to support provision of services

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Closing the Budget Gap

- Salami slicing not sustainable
- Target to generate a further £4m per annum commercial property stream- increase borrowing limits to £900m
- Risks
  - Rates rising, BoE rate has risen & potential for PWLB rates to rise
  - Increased focus on councils purchasing
  - CIPFA Prudential and Treasury Manamagement Codes being revised
  - New statutory guidance under consultation to be confirmed in early 2018
- Therefore focusing on getting a number of targets across the line as quickly as possible but need to be robust in terms of risk and tenant strength etc

Longer Term income streams

- If ability to acquire commercial assets is restricted we need to consider alternative ways of generating sustainable income streams
- Housing rental on sites such as Knowle Green, contributes towards corporate Housing Priority
  - Options being worked up
- Benwell House
- Leisure Centre
- Generating income from our other sites such as Bridge Street

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Continuing to progress *Towards a Sustainable Future*

- Income Generation
  - Maximising investment returns
    - Financial investments
    - Commercial properties
  - Obtain value and ongoing income from assets
  - Grow the council tax and business rates taxbase
- Reducing office accommodation footprint and costs and generating housing rental income on current site

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