Overview and Scrutiny Budget Briefing
03/11/20
Bridging the 2021-22 Budget Gap and Affording Our Ambitions

Two Part Structure of Session

1) Update on risks, pressures and uncertainties impacting on Revenue Budget and how this feeds through to increasing budget gaps

2)Stark new reality as result of COVID-19, now a significant Budget Gap for 21-22

- Discussion on options as to how we respond to these gaps and pressures

Preview of Part Two – what we are looking to get out of the session

- Recognising that gap has arisen because of COVID-19 and that most of the £2.2m use of reserves approved by Council will not be used, make **use of reserves** to buy time for service income levels etc to recover
- Robust **prioritisation** of growth proposals – what areas/issues does Cabinet want to prioritise?
- Require services to identify **savings** – across board percentage savings?
- **Sell assets** (either individual housing units or sites) – to reduce need for additional borrowing/generate receipts to be invested
- Intensify focus on **efficiencies and continuous improvement**
- **Collaboration** with other councils- merging services, management structures?
- Clarify **level of affordable/market housing units** delivered
- Ensure as rapid as possible **delivering of housing schemes/regeneration schemes** to generate new income streams
- Review budgets which persistently underspend
- Look at **affordability of Pay offer** – 2.5% = approx. £400k

Timetable

- Late November - Comprehensive Spending Review outcome (now only one year) late
- 3 December – Cabinet receives Provisional Outline Budget Report
- Late December provisional Local Government Funding Settlement
- 19 January O&S – Early Draft budget proposals
- 27 January – Updated Outline Budget to Cabinet
- 9th February Extraordinary O&S to scrutinise Draft Budget
- 25th February Cabinet agrees Budget to recommend to Council
- 26th February Council approves Budget
- Beginning March council tax bills start to be printed

1) Risks and Uncertainties!

- COVID-19
  - Impact on tax collection
  - Impact on future fees and charges
  - Risks to commercial/retail rents- use of sinking funds
  - Impact on taxbase- level of council tax support – taxbase next year potentially smaller
  - Impact on workloads (new functions/limited additional funding)
- Brexit
- Rate of delivery of the housing/regeneration programme
- Comprehensive Spending Review
- Possible local government reorganisation/unitary councils/joint working
- Much greater health warning than normal for future years financial projections

Growing resourcing pressures- some examples

- Committee System – will add £73k per annum
- Task Group Co-Ordinator
- Sunbury Swimming Pool £250k one-off
- GDPR resourcing £40k
- Elections software £8k
- Municipal assets management £100k
- Project Management and Task Groups
- Potential drop in fees and charges income of £1.1m for 21-22- will we getting any further additional Government support?

Linkage between levels of affordable housing and Revenue Budget pressures

- *Affordable rent = 80% of market rent ; Social rental = 60-65% market rent*
- KGE finances completed developments passed to it by making loan repayments to SBC (also looking at a leasing model)
- Where units taken on by KGE are affordable the rate of interest can equate to the PWLB rate say 2.5%
- Where the units are market rental a “market rate” has to apply of say 5%
- So from KGE perspective affordable rental income 80% of market rental but borrowing rate 50% of market rate
- From SBC perspective – on market rentals earning a 100% financing mark up.
- SBC will always recharge for services provided to KGE, the higher the proportion of affordable delivered the lower the interest margin

Affordable/rental impact continued

- Using simplified example
  - Thameside if 100% market rent – initial interest margin to SBC approx. £1.78m per annum
  - Thameside if 100% affordable – zero interest margin
- Constraining factor is KGE has to be able to break even on the transfer value of the development passed across
- Previously modelled interest margins benefiting SBC of :

21-22	22-23	23-24
-561,623	-2,311,202	-2,279,369

- To refresh both KGE Business Plan and SBC budget projections we will revise to reflect new targets for affordable housing
- Cabinet have asked officers to do some modelling of impact of different Affordable Housing delivery assumptions

Capital Programme

- Council every February approves Capital Strategy and Capital Programme including Prudential Indicators in line with the CIPFA Prudential Code, setting out parameters for borrrowing
- Ambitious Programme - £323m pipeline
- Have already borrowed to acquire sites within the borough for housing. Delaying completion has a financing cost currently approx. £19k per week
- New leisure centre can only be delivered through use of borrowing to part finance
- If we are to deliver the existing items in the programme we will either need to undertake borrowing from PWLB and local authorities or shift a proportion of the completed units to sales
- Putting schemes on hold, especially on sites we have purchased has a cost as we are incurring financing costs on expenditure already incurred
- Opportunity to refresh approach – consider an element of housing unit sales?
- Looking at alternative models (i.e. leasing) to ensure that the transfer of assets from SBC to KGE works for KGE as well as SBC
- Waterfront – no capital expenditure or borrowing by SBC; will bring in approx. £1m per annum

Sources of funding for 2020-21 Capital Programme

Borrowing Summary		
	2020/21	Percentage
	£	
Borrowing	132,972,800	95%
Revenue Contribution/Reserves	1,251,700	1%
Capital Receipts	148,100	0%
Homes England Grants	2,850,000	2%
Disabled Facilities Grant	831,300	1%
S106	2,000,000	1%
Community Infrastructure Levy	0	0%
Total	140,053,900	100%

2021-22 Budget Gap Variables

Helping

- Negative grant delayed a year improves budget by £750k (+)
- Not repeating contribution to Green Belt fighting fund and Projects Delivery Fund £1,397k (+)
- Already factored in reduction in business rates in anticipation of 75% business rates retention in 21-22 now deferred £800k (+)
- Fair Funding Review delayed a year – potentially was going to hit Surrey D&Bs
- Upfront increase in pensions contributions drops out £1,120k (+)
- Any additional Government COVID-19 financial support?

Threats

- COVID-19 /Brexit
    - Scale of reduction in fees and charges income?
    - Reduction in council tax base if more on local council tax support?
    - Council tax and Business Rates deficits
    - Whilst we are doing well on rental income there is still a continuing threat to that too

COVID19- Financial impacts (1)

- 2020-21 In year impacts- £2.2m supplementary estimate
- Received to date £1.180m and estimate a further net (after a £380k deductible) of £595k for income reimbursement receivable for first 4 months
- 2021-22 and beyond impacts
- Council tax and business rates deficits to be apportioned
- Council tax SBC share 10.6% (could equate to £150k);
- Business Rates 40% (£2m)
- Option of spreading council tax/business rates deficits over 3 years
- Treasury will be looking to make savings – Comprehensive Spending Review could be tough
- 75% Business Rates retention delayed another year had anticipated £800k hit
- Negative grants (£750k) also to be delayed a year?
- New Homes Bonus phasing out to be delayed?

COVID19- Financial Impacts (2)

- Extent of economic downturn and impact on Borough?
- Full extent may not be known until autumn once furlough fully ends
- Impact on Heathrow, aviation and logistics will particularly impact on the Borough
    - Impact on benefit numbers?
    - Homeless numbers?
    - Council tax and business rates arrears?
- Economic Development Team progressing an economic recovery plan
    - Town centre manager for Ashford, Sunbury and Shepperton
    - Plan actions to be funded from set aside retained business rates
- Longer term impact on fees and charges, will parking income ever return to previous levels? Whilst partial income support scheme for 20-21 will not extend into future years
- Equally longer term impact on commercial rents?

Business Rates

21-22 onwards:

- roll out of national 75% retention scheme – deferred a year to 2022-23
- Helps Spelthorne in 21-22 as risk when happens and baseline is reset that Surrey councils will be relative losers (in Outline Budget we had allowed £800k hit)
- Government considering alternative approach to strip out uncertainty of appeals provisions will mean councils will need to make returns earlier
- Potential business rates deficit impacting on 2021-22 Budget to an extent can be mitigated by use of Business Rates Equalisation Reserve (£3m)

Council Tax

- Limit is higher of 2% or £5 on band D (2.4% for us)
- In 2020-21 we set a below inflation increase of 1.3% - lowest increase in Surrey
- CPI for August 2020 is 0.2%
- Aware that most of Surrey councils appear to be considering 1.99%
- If we assumed CPI for Jan 2021 is 1% increase at that rate would add £2.05 on to band D and raise £81,400
- An increase at maximum of £5 band D would raise £198,400
- So a difference of £117k between 1% and maximum
- In last three years have set below inflation increases
- **Current modelling assumption for 2021-22 1.2% increase in council tax**
- Potential council tax deficit arising from COVID-19 in 21-22 could be approx. £270k

Pay

- Each 1% adds approx. £170k to budget
- Our modelling upto now has assumed 2.5%
- September CPI 0.5%
- Aspiration is to nudge slightly above national settlement each year

Income returns delivered by acquisition- update

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Town	Property Address	Occupancy	Income	Interest Payable	Annual Debt Repayment	Set Aside	Sinking fund setaside in year	Total Net Contribution towards Services
			£	£	£	£	£	£
Sunbury-on-Thames	Elmbrook House, 18/19 Station Road	Single let	477,260	-56,250	-75,208	0	-50,000	295,802
Sunbury-on-Thames	BP Campus (Main), Sunbury Business Park	Single let	15,666,027	-7,404,824	-4,437,762	-50,000	-500,000	3,273,441
Sunbury-on-Thames	BP Campus (South West), Sunbury Business Park	Single let	1,905,000	-750,740	-286,000	0	-150,000	718,260
Uxbridge	3 Roundwood Avenue, Stockley Park	Multi Let	1,425,961	-559,987	-231,860	-30,000	-100,000	504,114
Staines-upon-Thames	Hanover House*	Vacant	0	-94,741	-49,920	0	0	-144,661
Heathrow	World Business Centre, Newall Road	Single let	2,446,958	-1,145,612	-552,988	-25,000	-200,000	523,358
Hammersmith	12 Hammersmith Grove	Multi Let	9,545,537	-4,249,951	-2,082,674	-225,000	-900,000	2,087,912
Staines-upon-Thames	Communications House, South Street	Multi Let	1,232,000	-273,512	-125,011	-100,000	-500,000	233,477
Reading	Thames Tower, Station Road	Multi Let	6,577,977	-3,176,707	-1,325,498	-50,000	-1,050,000	975,772
Uxbridge	The Charter Building, Vine Street(1)	Multi Let	6,634,376	-3,376,479	-1,409,880	-50,000	-1,190,000	608,017
Slough	The Porter Building, 1 Brunel Way	Multi Let	3,937,656	-1,821,309	-759,951	-25,000	-200,000	1,131,396
Sunbury-on-Thames	The Summit Centre, Hanworth Road*	Multi Let	1,040,000	-107,351	-180,467	-75,000	-250,000	427,182
			50,888,752	**-23,017,463**	**-11,517,219**	**-630,000**	**-5,090,000**	**10,634,070**
Staines-upon-Thames	The Elmsleigh Shopping Centre* (2)	Multi Let	4,368,296	-881705	-485,543	-862,824	-1,838,223	300,000
* Regeneration site								

Commercial Investment income

- Collection rates holding up well in face of biggest economic shock to the economy for 300 years
- March quarter day (April, May, June) 96.3% ; June quarter day (July, Aug, Sept) 96.7%, Sept quarter day (Oct, Nov, Dec) 95.6% - better than most other landlords.
- Nearly all of the rental not received covered by deferral agreements
- Worst case 10 year sinking fund scenarios suggest the £20m funds more than sufficient to insulate the Revenue Budget from drops in rental income
- Weekly review by Leader, Deputy and Finance Portfolio holder of rents position and sinking fund modelling
- Longer term risks- societal shift towards homeworking, reduction in use of public transport, impact on Heathrow
- Making savings on management costs by bringing work in-house

Elmsleigh

- Acquired for regeneration purposes to protect viability of Staines, with view to diversify mix, i.e. residential community facilities (e.g. library)
- COVID-19 globally has had big impact on retail
- Income shortfall on Elmsleigh could be approx. £2.8m – this can be covered without impact on Revenue Budget from commercial assets windfall
- What will be net income on Elmsleigh in future years?
  - The quicker we get regeneration work under way the quicker we can mitigate effect on income

Revised Budget gaps in COVID-19 era

• 2021-22	£ 2.03m deficit
• 2022-23 £0.14m incremental improvement	£1.88m deficit
• 2022-23 £0.1m incremental deficit	£2.0m deficit
• 2023-24 Further £0.4m incremental deficit	£2.44m deficit

Assumptions : £1.4m for Green Belt/Projects not rolled forward into 21-22 base budget; assume negative grant delayed to 22-23; assumes a 1% reduction in taxbase in 21-22; assumes 40% hit in 21-22 on a £3m Business rates deficit; assumes 22-23 last year of NHB. Assumes £1.1m reduction in fees and charges income in 21-22 and then recovers over following 3 years

Part Two: Options for responding to Revenue Gaps – views?

- Robust **prioritisation** of growth proposals – what areas/issues does Cabinet want to prioritise?
- Require services to identify **savings** – across board percentage savings?
- Recognising that gap has arisen because of COVID-19 and that most of the £2.2m use of reserves approved by Council will not be used, **make use of reserves** to buy time for service income levels etc to recover?
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Questions