

Budget Briefing : 19/1/17

Sustaining a balanced budget over the medium term

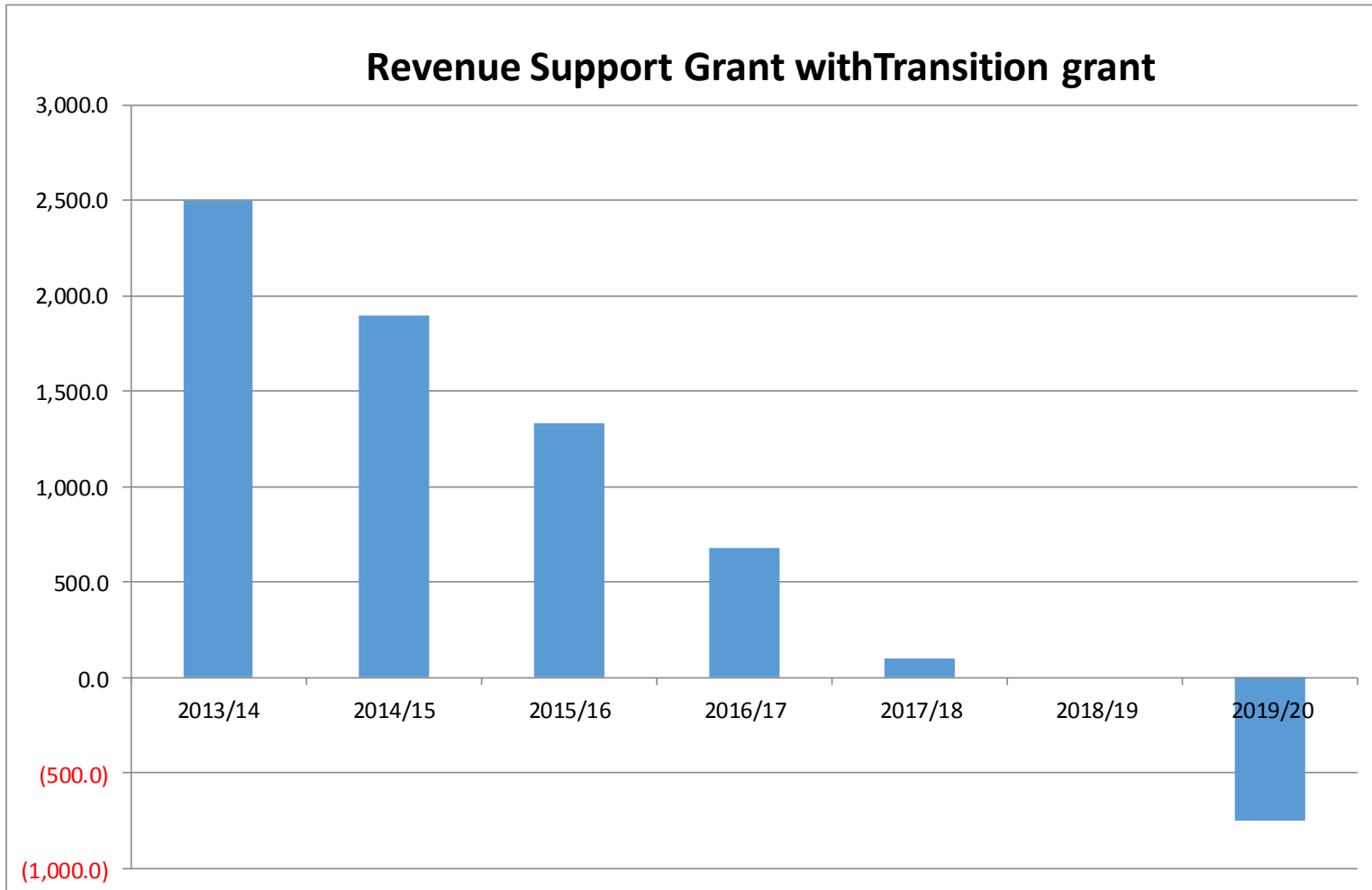
Terry Collier and Cllr Howard Williams



Session to cover

- **Context**
 - **Funding update-4 year settlement**
 - **New Home Bonus funding reductions**
 - **Business rates**
 - **Pressures and risk including staffing, assets, housing, recycling,**
 - **Impact upon of us of SCC financial position**
 - **Impact of BP deal- updated projections**
 - **Continuing strong treasury management performance**
- **Ongoing Strategies to address**
 - **Commercial asset investment strategy**
 - **Housing strategies**
- **Balanced Budget 2017-18**
- **Investment in staff, assets and housing**

Grant Reductions:Revenue Support



New Homes Bonus Grant

- 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 has 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 has also increased linkage to planning performance and reduced number of years each grant allocation paid from 6 years to 4 years

Projected New Homes allocations

Future projected allocations have been revised down significantly

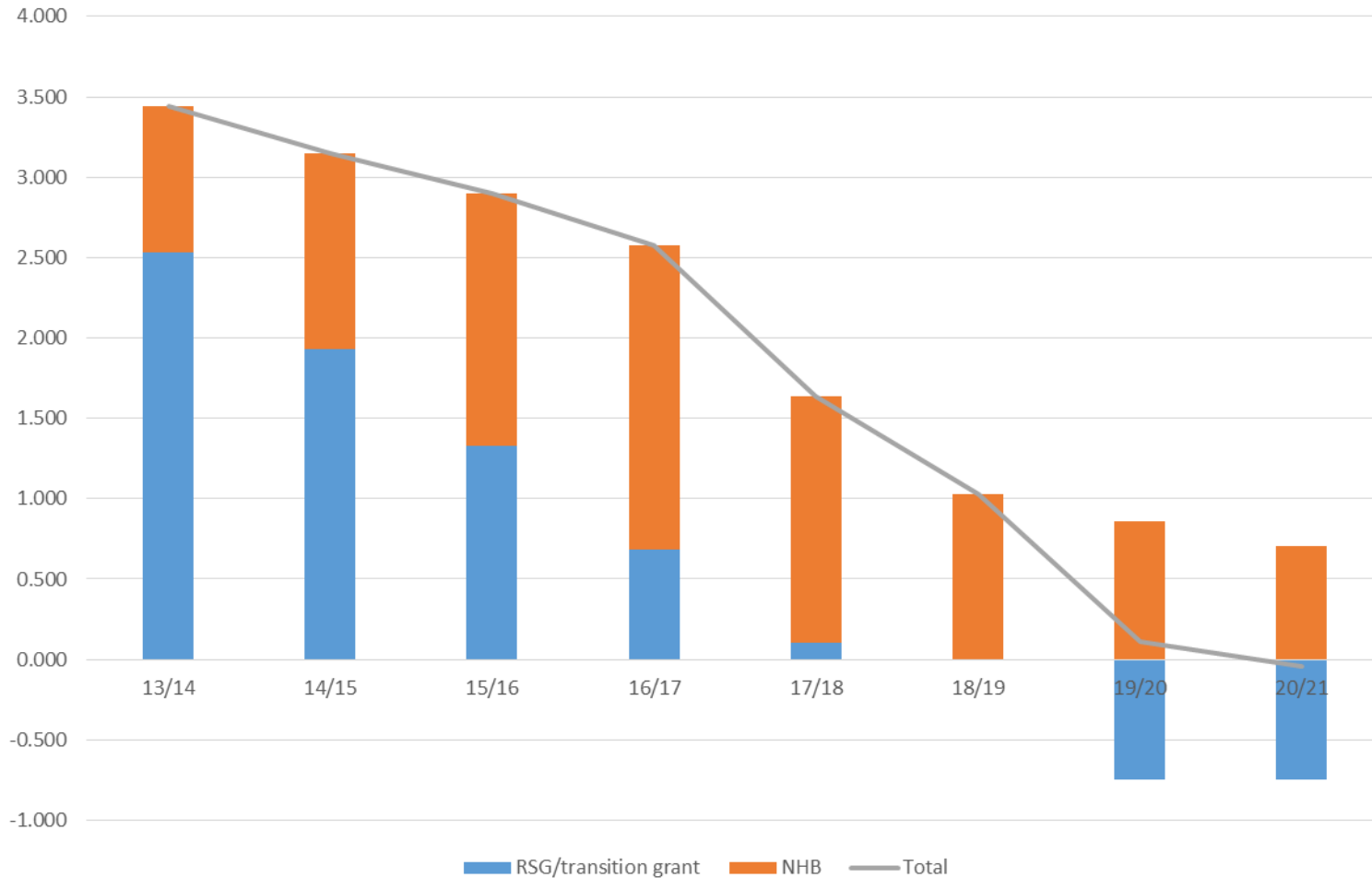
A 60% fall projected from 16-17 to 20-21

Breakdown of the previous years and projected allocations by year

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m	£m
2011/12	0.230	0.230				
2012/13	0.310	0.310				
2013/14	0.355	0.355	0.355			
2015/16	0.346	0.346	0.346	0.346		
2016/17		0.331	0.331	0.331	0.331	
2017/18			0.176	0.176	0.176	0.176
2018/19				0.176	0.176	0.176
2019/20					0.176	0.176
2020/21						0.176
Annual NHB grant	1.564	1.896	1.531	1.029	0.859	0.704

Forecast

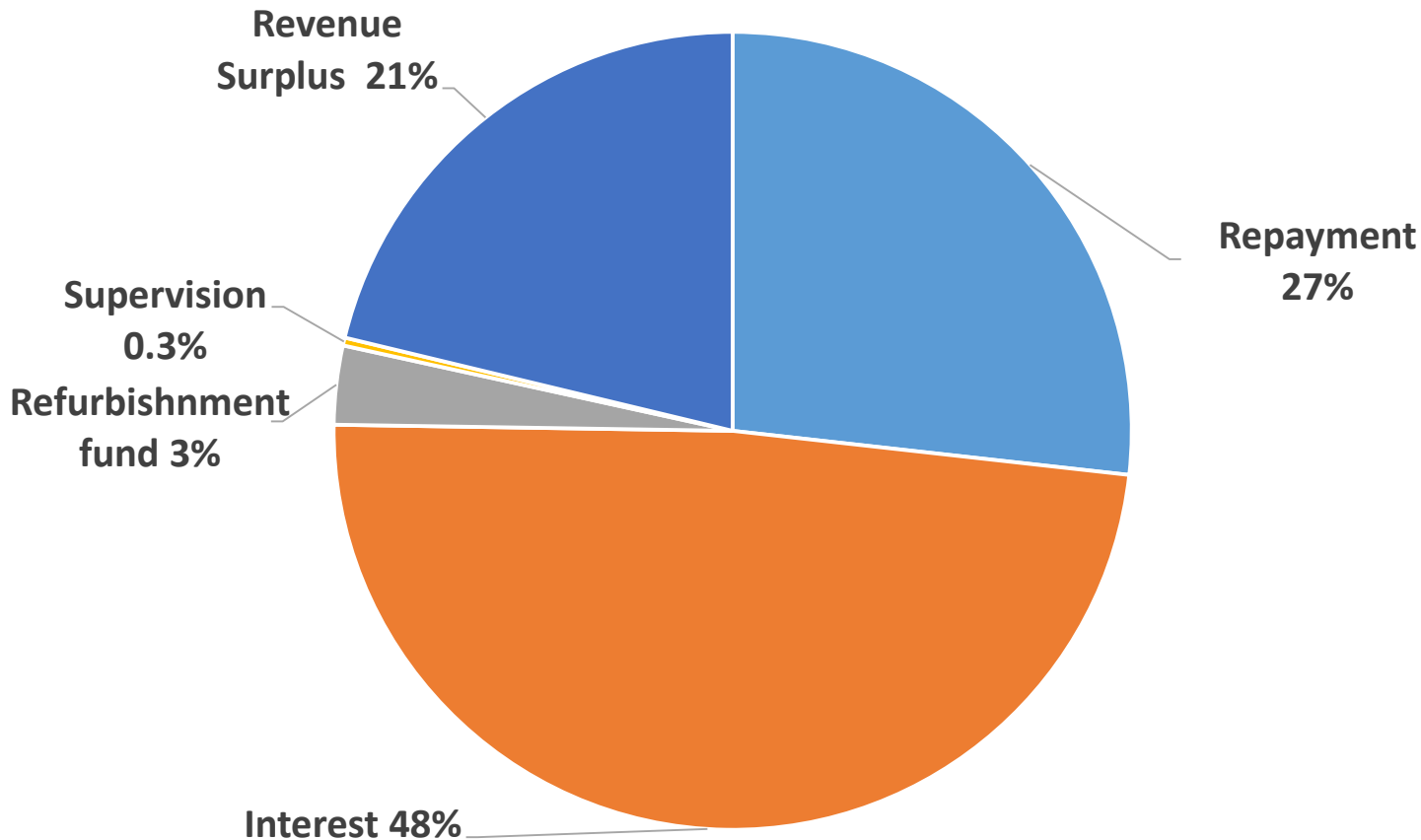
Combined RSG and NHB funding



Business rates

- Increasing reliance on business rates increases risk and volatility
- £39m rateable value linked to appeals going back to 2010 – Valuation Office taking years to process and in meantime we have to make provisions based on how much to allow for successful appeals which we will have to repay. –with 100% retention appeals may be managed nationally
- If there were an economic downturn we would take a 40% hit from businesses going into administration
- Provisional revaluation figures for April announced increases for properties in Spelthorne (overall increase of 14%) but we do not keep any of the extra. Will be some transitional relief
 - A communications challenge will need to engage with Business Community
 - Likely to result in increase in appeals and uncertainty as to how much ultimately we will retain
- **Knowle Green bill to increase by 45% in April 2017 £80k and total bill for all our assets increase of £180k**

How the BP rental income cake is sliced up: first full financial year (2017-18)



Over time repayment element will increase and interest reduce

Additional net income generated from commercial acquisitions

	2017/18	2018/19	2019/20
BP - Main Site	3,448,219	3,389,688	3,331,126
BP - SW Corner	732,798	728,116	722,914
Elmbrook House (estimated)	327,913	318,430	316,390
	<u>4,508,930</u>	<u>4,436,234</u>	<u>4,370,431</u>

Fantastic improvement to our financial position made as a result of these transactions – but we still face significant challenges

Budget Pressures and Growth (1)

- Provisionally **£2.5m of growth/pressures** are being built into the draft budget for 2017-18. These include
 - **Investment in staff** - recruitment, development and retention
 - Local Pay award £200k
 - Provision for market supplements £200k
 - Increased provision for Legal £100k
 - **Investment in assets**
 - Elmsleigh lifts £457k – one off
 - Increased maintenance provision £250k
 - Business rates valuation increase £180k

Budget Pressures and Growth (2)

- **Housing**
 - Additional resources to meet statutory pressures
£294k
 - Reducing Housing Benefits overpayments credit
£300k
- **Streetscene** – including reduced recycling income
£294k

Impact on Projected Budget Gaps: Managing expectation

■ Before

- 2016-17 **Balanced**
- 2017-18 **£1,500k funding gap**
- 2018-19 Further £1,800k (cumulative **£3,300k**)
- 2019-20 Further £1,600k (cumulative **£4,900k**)
- 2020-21 Further £100k (cumulative **£5,000k**)



After

- 2016-17 **Balanced**
- 2017-18 **Balanced**
- 2018-19 **£300k**
- 2019-20 **Further £1368k**
(cumulative **£1,668k**)
- 2020-21 **Further £246k** (cumulative **£1,912k**)

Current Deficit assumptions and factors driving gap

- Band D Annual council tax increase of £5 per annum
- Interest rates may not rise before early 2018
- Stock condition of assets – backlog maintenance of £3.6m to be programmed in over next 4 years
- Staff annual pay award –move back to local agreement linked to national pay (as a minimum) – assumed 2% for 2017-18 and 1.75% thereafter
- Benefits overpayment income of £0.5m per annum phased out by 2019-20 with Universal Credits

Budget Pressures including housing and recycling

- Continuing demand for B&B temporary housing accommodation now approx. 74 families spend recently slightly eased but awaiting to see full impact of new benefit cap in November 2016
- Triennial local govt pensions revaluation take effect from 17-18 anticipated to rise by **£50k steps per annum**
- Roll out of Universal Credit will continue which will mean by 2019-20 loss of the **£0.5m overpayments** net credit we have been achieving-delay in process benefits SBC
- Risks to recycling income with moves by SCC to reduce waste management costs and move to a single Surreywide approach-potential net increase of **£200k to £300k per annum**
- Expectations around funding of Thames Flood Relief Scheme
- Knock impacts of SCC funding pressures on boroughs for example recycling, independent living

Closing the future years £1.9m gap

Consideration needs to be given to:

- Continue to seek to generate additional income streams to close the budget gap in future years
 - be mindful of risk that borrowing costs may rise
 - that PWLB funding source possibly might be restricted
- Continue to deliver operational efficiencies
- Deliver additional housing capacity to deliver rental streams and reduce pressures on the housing budget
- Growing tax base – business rates and council tax – small incremental growth

Capital

- With Bridge Capital receipt not happening realising the Ashford MSCP £6m (less say £1m for reinvestment in parking) becomes much more important in order to replenish capital receipts to fund future capital programme
- If Ashford MSCP receipt were not to be realised then potentially we would need in future to use a combination of borrowing and revenue contributions to capital to fund the Capital Programme
- Spelthorne Leisure centre relocation – options for development being worked up

Consolidation Phase

-reducing costs whilst increasing income

- Continued pressure on budgets
- Further investment in property (commercial and residential) to generate more income
- Achieve goal of financial sustainability by 2020
- Development of our Asset Management team
- Continue to reduce our operational costs
 - Reduce our office footprint- progress masterplan for Knowle Green site, including relocation of Leisure Centre
 - Agile working

Council Tax

- Spelthorne to continue to protect its council tax base and put up by maximum amount allowed ie £5 per annum on band D or 2.7%.
- 1% increase equates to £75k
 - 2.7% increase = £194k

Towards a Sustainable Financial 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
- Alternative delivery models for services
 - Eg Public Service Mutuals, partnerships and Local Authority Trading Companies
 - Emergency Planning mutual set up and winning contracts
 - Legal business case being developed

Investments- Growing our income

- Interest rates available from counterparties to councils are low
- To mitigate impact of the above put in place diversified investment strategy
 - Equity backed funds
 - Corporate bond funds
 - Property backed funds
 - Housing associations
- Can only deposit for relatively short periods reducing returns
- On our core £9.5m pooled funds Council earned average return of 4.89% for 15-16 plus capital gain of £0.7m
- Return of **5%** provides **benchmark** for evaluating income generation proposals
- [5% on the £20m capital receipt from Bridge Street would have equated to £1m revenue income]

Growing our taxbase

- Number of dwellings projections to rise by more than 1% per annum for next two to three years (Brooklands, London Square etc)
 - 2017-18 council tax base **1.6% increase**
- This will increase council base and generate additional New Homes Bonus (although partially offset by underlying reductions in NHB)
- Similarly we need to focus on inward investment by businesses and retention of business to maximise business rates a) whilst in Surrey Pool and b) once 100% business retention commences 2019-20 or 2020-21

Operational savings

- Reducing office accommodation costs
- Squeeze into smaller footprint to reduce running costs and create opportunity for residential development to generate rental income stream
 - ICT investment
 - Flexible working, including hot desking – culture change focus on outcomes
 - Electronic document management
- Continue to explore alternative delivery models
- Greater shared services? Potential in ICT and Customer Services? – Outline business case with Runnymede to be prepared

Prioritisation

- Even with the preceding strategies there will be a need to prioritise the allocation of the budget

Questions

