

MTFS – 2017/18 budget

Presentation to Business Forum February 2017

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National position

The pace of change in LG finance has been dramatic since 2010 – and that will continue as Government seek to reduce national debt and invest in NHS, adult social care etc.

For Runnymede the change will be to Revenue Support Grant, New Homes Bonus and the business rates we retain.

Government funding for local authorities has been reducing since 2010, and will continue to reduce to 2020. council tax increase – 2017/18 is 5.9% ? (£23,247 to £24,623)

<u>Core spending power - England</u>							
	2015/16	2016/17	2017/18	2018/19	2019/20	Change	
	£m	£m	£m	£m	£m	£m	%
Settlement funding assessment	21,250	18,601	16,632	15,599	14,584		
Improved better care fund			105	825	1,500		
New Homes Bonus	1,200	1,485	1,252	938	900		
Rural Services Delivery Grant	16	81	65	50	65		
Transition grant		150	150				
Adult social care grant (from NHB)			241				
	22,466	20,317	18,445	17,412	17,049	(5,417)	-24%
Council tax	22,036	23,247	24,623	26,082	27,629	5,593	25%
Core spending power	44,502	43,564	43,068	43,494	44,678	176	0.4%
% change		-2.1%	-1.1%	1.0%	2.7%		
Cumulative % change		-2.1%	-3.2%	-2.3%	0.4%		

The RSG reduction for Runnymede is

	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
December 2016 settlement	1,322	750	289	10	(300)	(1,622)
Year on year reduction		(572)	(461)	(279)	(310)	(1,622)

If we add the loss of new homes bonus nationally, between 2015/16 and 2019/20

New Homes Bonus								
2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL
£m	£m	£m	£m	£m	£m	£m	£m	
431	750	950	1130	1485	1252	938	900	
			Reduction £		-233	-314	-38	-585
			Reduction %		-16%	-25%	-4%	-39%

The table below shows the loss of government grant, while the MTFS shows some modest increase in business rates retained, the new scheme is far from certain. At least one district council is planning on no business rates by 2021

December 2016 settlement	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL CHANGE
	£'000	£'000	£'000	£'000	£'000	£'000
RSG	1,322	750	289	10	(300)	(1,622)
New Homes Bonus	1,504	2,011	1,310	914	858	(646)
	2,826	2,761	1,599	924	558	(2,268)
Change in year		(65)	(1,162)	(675)	(366)	

This cannot be made up from an increase in council tax

The loss of government funding is £2.27 million, increase in council tax is £1.047 million. **AND** the MTFs assumes £1.9m of business rate will be retained.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Increase 2015/16 to 2019/20
	£	£	£	£	£	£	£	£	£
Band d tax per year - assumes a £5 increase per year from 2017/18	136.89	141.84	144.59	149.59	154.59	159.59	164.59	169.59	25.00
percentage increase		3.6%	1.9%	3.5%	3.3%	3.2%	3.1%	3.0%	17.3%
Council tax per week				2.88	2.97	3.07	3.17	3.26	
band D equivalent numbers for taxation (after discounts)			33,180	33,180	33,612	33,897	34,182	34,467	
Council tax income			4,797,496	4,963,396	5,196,079	5,409,622	5,626,015	5,845,259	1,047,762
Increase					232,683	213,543	216,393	219,243	
percentage increase					4.7%	4.1%	4.0%	3.9%	

HM Treasury has set the control totals of how much NHB it will pay through to 2020. Between 2015/16 and 2019/20 it must reduce the reward grant paid by a further £585 million. In the consultation it proposed a reduction through growth of 0.25%, the final scheme was set at growth over 0.4%. This figure could be increased.

DCLG also reserve the right to cancel NHB, including legacy payments, for Councils with no Local Plan in place

MTFS - I have assumed the future scheme does not change too much up to 2021 – so the NHB I assume we will benefit from is almost £1.1 million – some risk?

Not only what we do in Runnymede as part of the development/ regeneration in Addlestone, Egham, Longcross, but what others do.

	2015/16 RSG	2019/20	Change
	(prior to	'tariff	
	multi year	adjustment'	
	settlement		
	£'000	£'000	£'000
Elmbridge	1,776	-1,480	-3,256
Epsom and Ewell	1,006	-620	-1,626
Guildford	2,079	-670	-2,749
Mole Valley	903	-820	-1,723
Reigate and Banstead	1,665	-1,540	-3,205
Runnymede	1,322	-300	-1,622
Spelthorne	1,331	-750	-2,081
Surrey Heath	1,095	-930	-2,025
Tandridge	1,175	-730	-1,905
Waverley	1,574	-810	-2,384
Woking	1,483	-990	-2,473
	15,409	-9,640	-25,049

Business rates retention

Some Councils, in Surrey, are planning on no business rates by 2020. Government have yet to produce the scheme details - but it is assumed we will retain around £1.9m from the £50m we collect.

The RV of the Borough will be increased by 26% on 1 April 2017. But that overall increase masks some significant percentage increases

	Number	Valuation total		Ave value individual		Increase	
		Sep-16	Apr-17	Sep-16	Apr-17	£	%
Day Nurseries	12	398,800	760,600	33,233	63,383	30,150	91%
Hotels, Boarding Houses, ETC.	21	3,493,000	4,173,200	166,333	198,724	32,390	19%
Offices	649	41,147,885	59,269,220	63,402	91,324	27,922	44%
Private Schools and Colleges	7	2,706,000	3,223,000	386,571	460,429	73,857	19%
Sports Grounds, ETC.	16	1,516,425	1,828,425	94,777	114,277	19,500	21%
Other Leisure	59	4,413,540	5,176,210	74,806	87,732	12,927	17%
Cemetery and Premises	4	10,220	33,230	2,555	8,308	5,753	225%
Private Hospitals, Clinics, ETC.	38	2,818,800	3,795,700	74,179	99,887	25,708	35%
Local Government Offices	2	507,000	747,400	253,500	373,700	120,200	47%
Police Stations, Courts, Prisons (Non Crown)	3	199,000	292,250	66,333	97,417	31,083	47%
		57,210,670	79,299,235	1,215,690	1,595,180	379,490	31.2%

The new system in place for April 2017 will give each business a new Rateable Value , then add on a revised system of small business rate relief and transitional relief and surcharge – so if your bill increases over a threshold, you will get a reduction, if it falls too much you will be surcharged.

Below is a selection of real bills we are preparing to send out

Examples of some real bills

	2016/17		2017/18		Change				
	RV	Charge	RV	Charge	RV	Charge	RV	Charge	
	£	£	£	£	£	£	%	%	
1	8,300	0	11,000	0	2,700	0	32.5%	0	Small business Rates relief
2	10,750	5,273	14,750	5,572	4,000	299	37.2%	5.7%	Includes transitional relief
3	44,500	22,117	41,750	19,771	(2,750)	(2,346)	-6.2%	-10.6%	Transitional surcharge
4	49,500	24,602	82,000	28,557	32,500	3,955	65.7%	16.1%	Includes transitional relief
5	100,000	49,700	121,000	57,959	21,000	8,259	21.0%	16.6%	No transitional relief

Transitional relief arrangements

Final transitional arrangements on revaluation (before inflation) - Government inflation

		2017/18	2018/19	2019/20	2020/21	2021/22
Property size						
	Small	5.0%	7.5%	10.0%	15.0%	15.0%
Upwards cap	Medium	12.5%	17.5%	20.0%	25.0%	25.0%
	Large	42.0%	32.0%	49.0%	16.0%	6.0%
	Small	20.0%	30.0%	35.0%	55.0%	55.0%
Downwards cap	Medium	10.0%	15.0%	20.0%	25.0%	25.0%
	Large	4.1%	4.6%	5.9%	5.8%	4.8%

<u>2016/17</u>			rate (pence)	Tax	
		£		£	
Rateable value	74,500		0.497	37,026.50	
<u>2017/18</u>					
baseline RV	74,500		0.484	36,058.00	
Add inflation			1.02%	36,779.16	
Add transitional releif			1.42%	52,226.41	
New RV supplement	123,000		0.013	1,599.00	pays for SBBR
New rate bill				53,825.41	
Increase	48,500			16,798.91	
	65%			45%	

I do not think that in Runnymede we have 2 business rates bills the same – I have 3 officers billing and collecting the tax.

We cannot do these calculations for each taxpayer, we will need to refer you to the Government website

Check, challenge, appeal – on-line

DCLG have allowed globally 4.7% for appeals loss. Until the appeals work through by 2020/21 we may not know! But the appeals loss is of higher financial risk to the Council than all the other factors in the new system.

The appeals provision is becoming more contentious.

We have set aside cash to pay potential successful appeals, the cash is with us and has not been paid over to Government

	2013/14	2014/15	2015/16
	£ million	£ million	£ million
Value of Appeals outstanding	30.1	40.3	40.3
Provision set aside	2.2	4.3	5.9
Change		2.1	1.6

Around 2/3 of our businesses have an RV of over £6,000- so I will assume the ones with appeals in the pipeline will appeal again, then add on for new businesses who will see a significant increase in the rates due in April 2017 and the potential for future increases in 2018 and beyond.

We do appreciate rates are a fixed cost on your business – will you check, challenge, appeal?

- All of the risks so far are beyond the control of the Council – plus others we have identified in the budget report – inflation, welfare benefit reform, Homelessness etc.
- The biggest financial risk is the change in government funding. Will business rates continue to be kept in Runnymede, £1.9m as I have assumed, or are the other 2 or 3 boroughs who are predicting reductions correct?

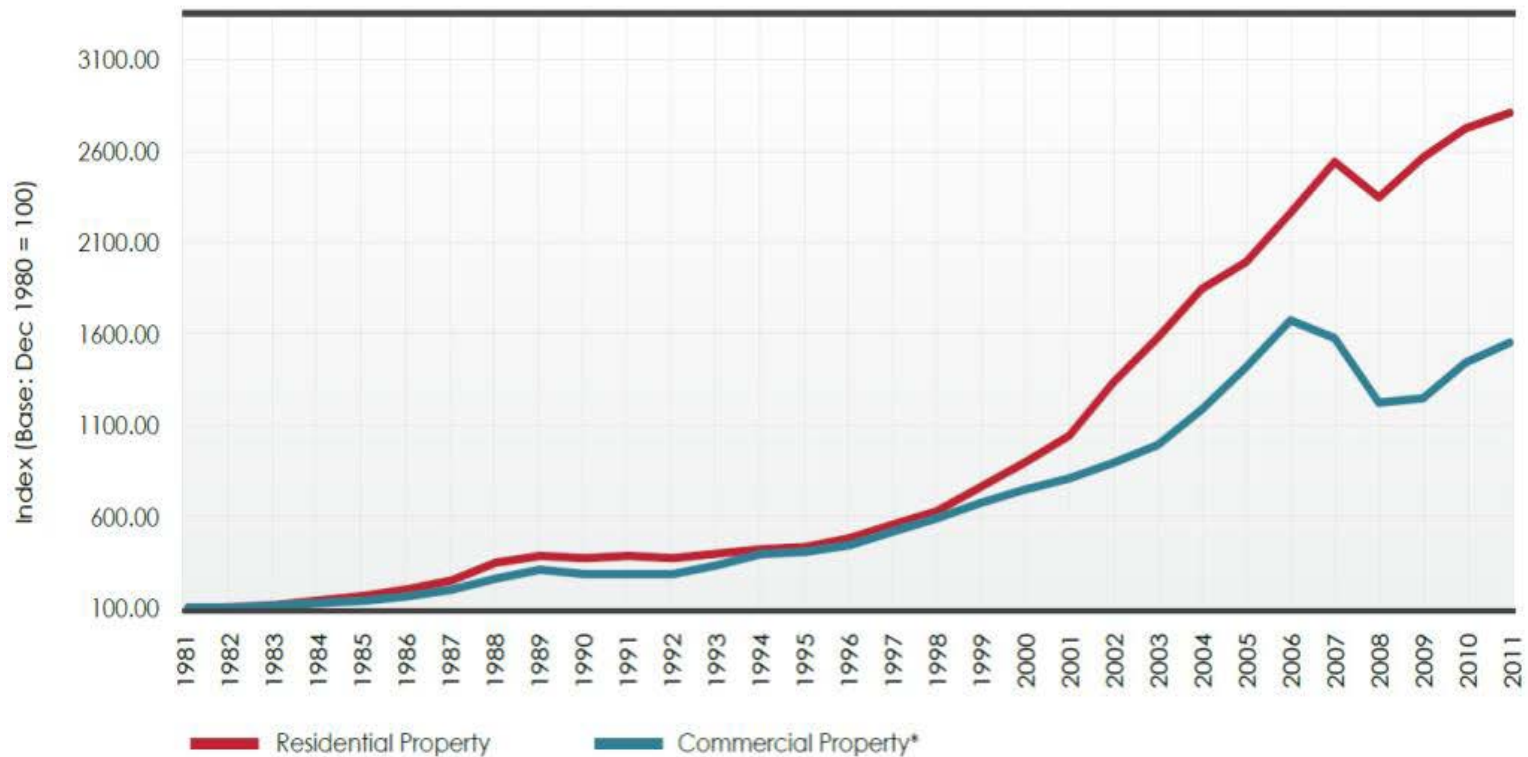
- The regeneration strategy / purchase of assets, £400m planned starting with £200m in 2017/18. This is the way Runnymede BC wish to see lost income replaced.
- There are a number of threads to this strategy – capital appreciation, timing of investments, interest rates on borrowing, future rent yields and ability to repay debt in a timely manner.

The Councils regeneration schemes and investments in property are producing the results intended – and the Councils Treasury management strategy has shown capital growth and a reasonable rate of return

Local authority property fund investment				Unit price to sell				Value Dec 2016
	Value purchased	Unit price	Number of units	Jan-16	May-16	Jun-16	Dec-16	
	£	£		£	£	£	£	£
November 2013	1,000,000	242.85	4,118	289.49	290.66	279.25	281.51	1,159,193
July 2014	1,000,000	267.85	3,733	289.49	290.66	279.25	281.51	1,050,999
	2,000,000							2,210,192
Unit price to buy Dec 16							305.24	
Capital gain £								210,192
Capital gain %								10.5%
Revenue dividend paid Jan 16 to Dec 16								4.77%
								95,400
Note - June 16 was the month the "Brexit vote" result announced								

Risk on property investments

Residential vs. Commercial Property Total Return Performance



Source: Acadametrics, ARLA, IPD

* IPD Monthly Index used for 1987 onwards

- In the medium to long term capital assets seem to appreciate in value, we acknowledge the cyclical nature of the market and unforeseen events (Brexit)
- The second risk is the timing of the investment – Runnymede is not relying on “ready made” acquisitions initially – Addlestone One and Egham phase 1 are fairly unique – we are the owner of the site from beginning to end

- A complication with the regeneration strategy is that the Council is borrowing around £50m for the Addlestone One project, with no income until later in 2017.
- The budget for Egham phase 1 is around £108m. However over 2015 to 2019 the Council will be borrowing significant sums and paying interest, while some income is lost before the new rentals kick in.

- Most Councils in Surrey seem to be doing similar things – but rather than design and build themselves – off the shelf investment properties seems to be their stance

<u>Surrey Borrowing Levels at 31 December 2016</u>		
	£m	Future requirements/comments
Elmbridge	17	
Epsom & Ewell	6	Further £20m expected during 16/17
Guildford	231	At 30 Nov, est increase by £337m by 21/22
Surrey Heath	131	
Spelthorne	418	
Waverley	187	All HRA self-financing
Woking	512	
Tandridge	61	All HRA self financing
Reigate & Banstead	-	
Runnymede	199	£200m more in 2017/18, 100m is HRA self-financing
Mole Valley	10	Further £40m expected over next year
Surrey County Council	397	
	<u>2,169</u>	

Interest rate risk

- We have minimised the risk by taking out **ONLY** fixed interest rate loans from HM Treasury.
- When a business case is prepared for members we assume a 3% interest cost, which is higher than the General Fund pool rate to date. This is taking the cautious approach.

While interest rates are expected to rise in 2017, the General fund borrowing rate is well below 3% used for business cases

General fund borrowing only							Annual interest
17/02/15	01/02/17	5	Fixed	1.97%	Project Rate	5,000,000	98,500
17/08/15	17/08/25	10	Fixed	2.56%	Project Rate	10,000,000	256,000
04/12/15	04/12/30	15	Fixed	2.76%	Project Rate	15,000,000	414,000
08/06/16	08/06/28	12	Fixed	2.16%	Project Rate	4,000,000	86,400
01/09/16	01/09/61	45	Fixed	1.88%	Certainty Rate	20,000,000	376,000
29/09/16	29/09/63	47	Fixed	2.07%	Certainty Rate	10,000,000	207,000
29/09/16	29/09/63	47	Fixed	2.07%	Certainty Rate	14,000,000	289,800
16/12/16	16/12/66	50	Fixed	2.62%	Certainty Rate	20,000,000	524,000
18/01/2017	18/01/65	48	Fixed	2.57%	Certainty Rate	20,000,000	514,000
						118,000,000	2,765,700
							2.34%

- The investment properties we have acquired have rent reviews in the future, we anticipate there will be an increase. Business cases to Members do not anticipate a review upwards.
- Every year from April 2017 we will be able to track the underlying yield on the investment, while the external valuer will give the capital appreciation.

As the Councils portfolio expands we also reduce risk of voids, the portfolio will include a mix of flats, theatre, cinema, hotels, supermarkets, retail, food and beverage outlets, light industrial as well as office / commercial

The Councils strategy has always been to set aside a prudent sum each year from its commercial income to repay debt in a timely manner. The budget explains the reasons , that the Council takes a prudent approach. In 10 to 30 years time the Council may decide to sell assets, but it will not be forced to because a loan matures and refinancing at high interest rates is not attractive

The MTFs shows the Council can set aside resources from its income in an orderly manner to repay debt when it matures, and the balance, set aside in investments, generates investment income.

Finance have extrapolated borrowing through to 2066 of around £600m. The Councils current MRP policy does repay debt when it becomes due.

	Minimum Rev Prov		loan repayment	Investment income @1.5%
Year	In year	Cumulative		
2017/18	390,549	390,549		(5,858)
2018/19	1,916,067	2,306,616		(34,599)
2019/20	2,647,729	4,954,345		(74,315)
2020/21	4,080,709	4,035,055	(5,000,000)	(60,526)
2021/22	4,243,938	8,278,992		(124,185)
2022/23	4,413,695	12,692,687		(190,390)
2023/24	4,590,243	17,282,930		(259,244)
2024/25	4,773,853	12,056,783	(10,000,000)	(180,852)
2025/26	4,964,807	17,021,590		(255,324)
2026/27	5,163,399	22,184,989		(332,775)
2027/28	5,369,935	23,554,923	(4,000,000)	(353,324)
2028/29	5,584,732	29,139,656		(437,095)
2029/30	5,808,122	19,947,777	(15,000,000)	(299,217)
2030/31	6,040,447	25,988,224		(389,823)

Since 2011/12 the Council has been increasing its General Fund working balance consciously to fund regeneration schemes

	ACTUAL					PROJECTION				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General fund balance										
at 31 March	2,993	5,860	6,174	7,968	9,421	7,981	5,479	4,782	5,627	6,954
Increase / (decrease)	2,867	314	1,794	1,453	(1,440)	(2,502)	(697)	845	1,327	4,491
	5,860	6,174	7,968	9,421	7,981	5,479	4,782	5,627	6,954	11,445

- The table below shows the estimates from the current and proposed investment strategy, assuming a yield of 5% and interest of around 3%

	Original 2016/17 £'000	Propable 2016/17 £'000	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000	Forecast 2020/21 £'000
Property investment income	(3,828)	(4,816)	(12,129)	(20,398)	(27,329)	(32,195)
Interest on loans	1,524	1,937	6,577	12,543	16,301	17,963
CASH SURPLUS	(2,304)	(2,879)	(5,552)	(7,855)	(11,028)	(14,232)
Less set aside to repay loans (MRP)	198	391	1,916	2,648	4,081	4,244
Net benefit to the general fund	(2,106)	(2,488)	(3,636)	(5,207)	(6,947)	(9,988)

- Provided the difference between yield and interest costs is 2% or more, the General Fund benefits in both revenue income and capital appreciation

At the beginning of the briefing the Council will lose £1.9m of government funding – perhaps more? We still rely on £1.9m of retained business rates. Will the new system favour councils with adult social care?

At a maximum tax rise of £5 a year for a band D , we can raise £882k between 2017 and 2021 in council tax. Over the medium term I cannot produce a balanced budget without the investment strategy. By March 2017 our GF balance will be less than £5.5m

Conclusion

Since 2012 the MTFS has been rolled forward without substantial change, the 2017/18 version is a complete re-write. While there is no change in the Councils priorities, Corporate Plan etc. the financial risk has changed significantly – this is offset by the investment strategy which has a lower risk profile.

The MTFS also includes, for the first time, a contribution of £1m a year in 2019 to fund short life assets.