

FAREHAM BOROUGH COUNCIL



Medium Term Finance Strategy 2019/20 to 2023/24

CONTENTS

	Page No.
1.OVERVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)	
1.1 PURPOSE	4
1.2 FUNDAMENTAL PRINCIPLES	4
2. REVENUE POSITION	
2.1 CORE FUNDING RESOURCES	
Local Government Settlement	7
FBC Spending Power	7
SFA (Settlement Funding Assessment)	8
Revenue Support Grant	9
Transition Grant	9
Business Rates	9
New Homes Bonus	10
Council Tax	11
Fair Funding Review and Outlook	11
2.2 OTHER FUNDING SOURCES	
Specific Government Grants	13
Financial Investments	13
Property Investments	13
Partnership Contributions	14
Fees and Charges Income	14
2.3 GENERAL CHANGES IN EXPENDITURE	
Service Budgets Added or Deleted	15
Pay Awards	15
Pension Provisions	15
Depreciation / Capital Charges	16
2.4 SERVICE OPPORTUNITIES AND PRESSURES	
Key Services	16
Other Priorities and Pressures	17
3. COPORATE PRIORITIES	
3.1 CORPORATE STRATEGY 2017-2023	19
3.2 WELBORNE	20
3.3 SOLENT AIRPORT and DAEDALUS	20
4. CAPITAL POSITION	

	Page No.
4.1 CAPITAL PROGRAMME	22
4.2 CAPITAL RESOURCES	22
4.3 MINIMUM REVENUE PROVISION	22
5. PROPOSED BUDGET 2020/21	
5.1 THE BUDGET SETTING PRINCIPLES FOR 2020/21	23
5.2 BASE BUDGET 2020/21	23
5.3 CONTRIBUTIONS TO AND FROM RESERVES	25
5.4 COUNCIL TAX 2020/21	25
6. FIVE YEAR FORECASTS	
6.1 OVERALL REVENUE POSITION	26
6.2 SENSITIVITY ANALYSIS	27
6.3 RISKS AND UNCERTAINTIES	28
6.4 THE OPPORTUNITIES PLAN	29
7. CONCLUSIONS	
Annex 1 – Budget Responsibilities	
Annex 2 – Pay Policy Statement	

1. OVERVIEW OF THE MEDIUM TERM FINANCIAL STRATEGY (MTFS)

1.1 PURPOSE

Fareham has a long history of prudent financial management which has been the subject of favourable comments from the Council's external auditors over many years.

The main focus of prudent financial management is the Council's Medium Term Finance Strategy, the overall objective of which is to structure and manage the Council's financial resources, revenue and capital, to ensure that they match and support the direction of the Council's objectives.

The Strategy must ensure that the requirement to set a balanced budget is fully met and that the Council is able to respond to year-on-year changes and short-term service delivery issues.

The Council has adopted as a corporate priority in the Corporate Strategy for 2017-2023 to "continue to work within a balanced and sustainable budget, recognising the reduction in Government funding". To meet these requirements the Medium Term Finance Strategy is supported by a strategic and long-term approach to corporate and service planning.

1.2 FUNDAMENTAL PRINCIPLES

There are a number of fundamental principles that are followed by the Council and which form the basis of the Medium Term Finance Strategy as they are key to the Council's approach to financial management. These are summarised in the table below.

Table 1 – The Fundamental Principles of FBC Financial Management

RESERVES

- **Major Repairs and Renewals (MRR) Fund:** A MRR fund will be maintained to cover emergency capital expenditure on Council Assets. The minimum balance will be **£1million**.
- **Spending Reserve:** A spending reserve will be maintained to cover unforeseen changes in revenue expenditure or income. The minimum balance will be **5% of gross expenditure**.
- The levels of these reserves to be maintained will be reviewed each year.
- These reserves should not be used to meet on-going, unsustainable levels of revenue expenditure but any surpluses on the reserves can be used for one-off projects.
- All decisions regarding the use of any significant reserve will take account of the effect on the revenue budget from a reduction in investment interest.

USE OF RESOURCES

- “Windfall” or one-off revenue resources will only be used to increase capital resources or to meet one-off revenue expenditure.
- Capital receipts from the sale of assets will be used to meet future corporate priorities rather than be retained for use on the service that has relinquished the asset.
- CIL receipts will be used to meet future community infrastructure projects in accordance with the priorities of the council.
- New Homes Bonus funding will be used to support day-to-day service delivery
- In determining the use of funds for capital investment, there should be a bias towards:
 - Investing in land & property that will generate a long term source of income;
 - Projects that support economic or employment growth;
 - Projects that support or secure further housing delivery.

CAPITAL EXPENDITURE

- All new potential capital schemes will only be considered if they make a clear contribution to the Council’s objectives and priority actions, or support the Council’s Asset Management Plan.
- The following factors need to be considered before a decision is made to include a new scheme in the capital programme:
 - On-going operational costs associated with the scheme;
 - Whole life costing implications of the scheme;
 - Cost of servicing the debt if the scheme is financed by borrowing;
 - Loss of investment interest if internal resources are used.
- Where new capital schemes are included in the capital programme there will be a need to ensure that the necessary resources are in place to meet the full capital costs and the on-going revenue costs.
- Efforts will be made to secure external (non-borrowing) sources of funding capital schemes. Internal capital resources will only be released to fund schemes once external sources of funding (such as developers’ contributions, lottery grants, etc.) have been explored and rejected.
- Capital schemes will normally be financed by use of capital reserves or external contributions. Borrowing will only be considered where there is a sound economic business case (e.g. for spend to save schemes) whereby borrowing costs are wholly offset by long term net revenue income or savings.
- New schemes will be subject to prioritisation as set out in the Council’s Capital Strategy.
- Resources allocated to particular capital projects but subsequently not required are returned to meet future corporate priorities rather than be retained for use by that service.

REVENUE EXPENDITURE

- Budget setting guidelines are maintained and approved by the Executive each year as part of this Strategy.

- New revenue spending plans will only be considered if they make a clear contribution to the Council's objectives and priority actions or to meet new statutory responsibilities and are affordable.
- All significant new revenue spending plans are considered together for inclusion at the time of Council Tax setting and are subject to a prioritisation process.
- No new revenue spending plans are included in the revenue budget without the necessary resources to meet the full capital costs and the on-going revenue costs being in place. This is particularly important because of the implications for the Council Tax of even modest increases in expenditure.

TRANSPARENCY AND OPENNESS

- It is Council policy to be transparent in the decision making process and provision of information about the Council's activities is available through the website. To this end, budgetary plans and historical spending information (including payments to third party suppliers) is published on the Council's website.
- Under the Localism Act 2011 the Council is required to prepare and publish a pay policy statement which forms part of this Strategy.

PARTNERSHIP AND AGENCY WORKING

- The Council will seek to work with partners to achieve more for less and actively pursue the achievement of the Council's priorities.
- Any deficits arising from services provided on behalf of other agencies (such as the on-street parking service), may be held on the Council's balance sheet but should be fully offset by an equivalent contribution to the spending reserve, to protect the Council's long term finances.

2. REVENUE POSITION

2.1 CORE FUNDING RESOURCES

The Council's core funding comes from 4 main sources:

- Central Government Grants
- Business Rates
- New Homes Bonus
- Council Tax

These are largely governed by Central Government Policy. The autumn statement in October 2018 heralded “the end to austerity” with short term spending increases announced for several areas ahead of the 2019 Spending Review. Areas being targeted include highways, education and social care. The Housing Revenue Borrowing Cap was also lifted and extra money was allocated to the Housing Infrastructure Fund.

Local Government Settlement

As part of the Statement, councils were offered a 4-year settlement deal in order to give some certainty around the levels of funding through to 2019/20. Fareham chose to accept the deal on offer. The Council is currently in the last year of its settlement.

The Government is carrying out a [Fair Funding Review](#) for local government, which will inform the basis of distributing resources to councils beyond 2020/21. This review has been delayed due to a general election being held in December 2019. The review will commence in time for the 2021/22 financial year with a 1 year settlement being announced for 2020/21 after the election. The Spending review announcement in September 2019 did cover an overall increase in total spending for Councils for 2020/21 but this is being targeted at non district services such as adult social care.

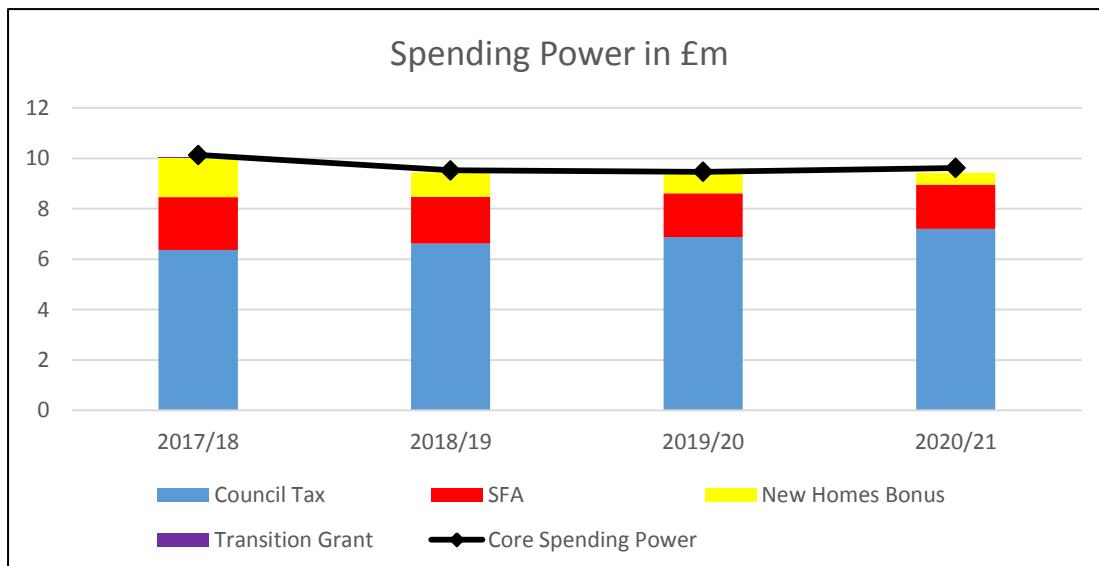
The allocation of resources is determined by the Government's assessment of the funding needs of the borough, as discussed below.

FBC Spending Power

Spending power is defined by central government as a gauge of how much money a council needs to provide its services. The spending power calculation takes into account a number of factors and the graph below shows how Fareham's spending power has reduced over the last 3 years of the current settlement arrangement.

For 2019/20 Fareham's spending power is the 9th lowest out of all 201 district councils, due to a combination of lower than average New Homes Bonus per head and a lower Council Tax income, as discussed further below.

The graph also shows how significant the Government sees Council Tax as a funding source for the Council.

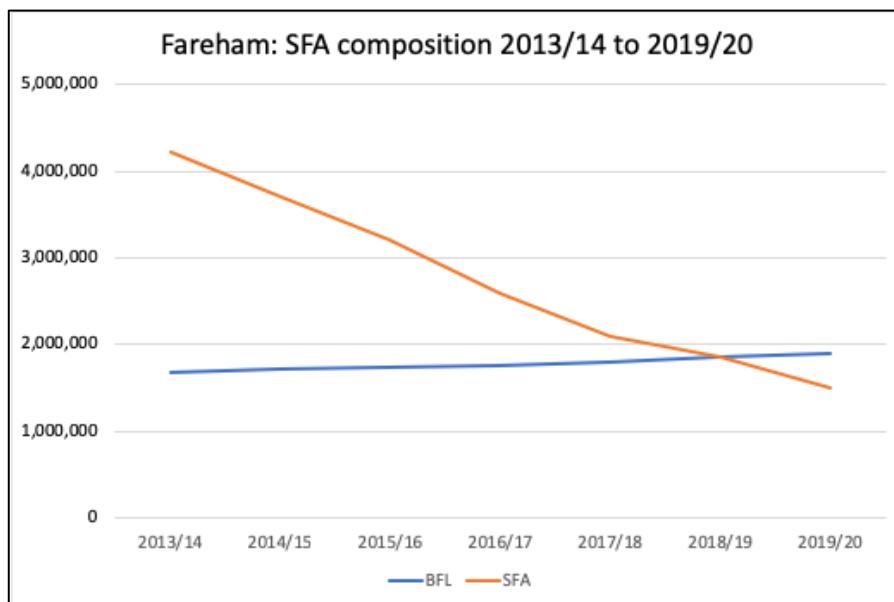


SFA (Settlement Funding Assessment)

The SFA consists of the Revenue Support Grant (RSG) and the local share of Business Rates. At a national level this is the total RSG and Estimated Business Rate Aggregate for the year.

In 2013/14 the Government introduced a [Baseline Funding Level \(BFL\)](#) for each council based on the previous 2 years net rates collections. This takes into consideration factors such as the level of deprivation, sparsity and density. This is then used to allocate the total SFA across each Council in the form of Revenue Support Grant (60%) and retained business rates (40%).

As of 2018/19, Fareham's SFA (perceived need) is below its baseline funding level which means the Council is perceived to receive too much money to run its services. This therefore affects how much Revenue Support Grant the Council will get and how much business rates it can retain.



Revenue Support Grant (RSG)

The Revenue Support Grant is the element of government funding that councils receive directly to provide their services. Since 2017/18 Fareham has not received any RSG from central government. Currently Fareham is in a position where its spending assessment is lower than its allocation in the funding formula meaning the Council should be paying money to the government (negative subsidy).

The negative subsidy was a small amount in 2018/19 of just over **£30,000** and was written off by the government so no payment was required. In 2019/20 this amount increased to approximately **£400,000**, but again the government confirmed that this payment was not required but was absorbed centrally from foregone business rates. This position is likely to continue into 2020/21 with a nil impact for Fareham.

It is then anticipated that under the Fair Funding Review negative subsidy will be removed as part of the funding reset.

Transition Grant

The Transition Grant was received in the first 2 years of the 4-year settlement and was given to authorities, like Fareham, whose funding had dropped the most from the previous funding arrangements. This is no longer available.

BUSINESS RATES

From April 2013, some business rates started to be retained locally by the billing authority. The amount depends on the difference between the council's assessed funding level (Baseline Funding Level) and the amount of rates that are collectable in the area (Business Rates Baseline).

Fareham currently collects around **£39 million** of business rates. Of this 50% (£19.4m) is paid to Central Government with 9% (£3.5m) and 1% (£0.39m) paid to the County Council and the Fire Authority respectively. The remaining 40% (£15.7m) is Fareham's initial share of the rates collected.

However, in order that authorities don't benefit from keeping too much of the rates collected there is then a series of tariffs and top-ups that are returned to the central pot for further redistribution, with a safety net threshold to prevent the tariff being too severe. Fareham is currently calculated as having the 3rd lowest needs of the 325 authorities and so has to pay a tariff to reflect its Baseline Funding Level. Once the tariff is paid to the central pot, Fareham retains around **£1.9 million (5%)** of the rates collected. The council's income is increased by Section 31 Grants. These grants are received to make up for loss of income due to Government decisions over business rates such as rate reliefs for small business that would mean local authorities are worse off through no fault of their own. These grants are expected to be approximately **£0.5 million** for 2019/20.

The government has been consulting on a potential 75% business rates retention scheme from 2020/21 and to this end has introduced a pilot scheme in which groups of councils can bid to keep 75% of the business rates locally if they work together in a pooled scheme which will provide learning information for the government. Hampshire Councils placed a bid to be a pilot scheme in 2019/20 but were unsuccessful. No further pilot opportunities are likely to be available for 2020/21, and the scheme will continue at 50% business rates retention for 2020/21.

NEW HOMES BONUS

The New Homes Bonus (NHB) was introduced in April 2011 with local authorities being rewarded for increased housing development in their area as it was seen that house building was not sufficient to meet demand. It is a non-ring-fenced grant.

The scheme commenced with council's receiving the equivalent Band D Council Tax for each additional property plus an extra £350 per affordable property. The total amount for each area for each year is split between district council (80%) and county council 20%. This amount would be received for 6 years.

In 2017 the scheme changed with a cap being introduced where the government would only pay for increased development above the cap of 0.4% of total dwellings. It is assumed that this baseline will continue for 2020/21. There was also a reduction in the term for payments being received, from 6 years down to 4 years (for payments from 2014/15 onwards) with a transition of 5 years for payments already in the system for financial years 2012/13 and 2013/14.

Fareham initially used this extra money to fund capital schemes in line with the policy that was introduced. In 2017/18 the whole of the NHB received in year (£1.5m) was used to support council revenue services.

The Government's position on NHB is not clear but it is anticipated that changes will be introduced that result in a much reduced payment to the Council. This will become clearer when the delayed funding review is announced.

The current payments are £1,671.45 per property with an affordable homes premium of £350 per unit. For 2019/20 Fareham received money from 59 units above baseline and 41 affordable units generating **£821,000** of NHB, which is its lowest payment for 9 years, due to two high years dropping out of the calculation.

This will continue to drop over the course of the Strategy period if the scheme continues in the current format. The table below shows how NHB has been made up and changed since 2011.

Table 2 – New Homes Bonus Calculations to Date

														Year of Payment	
Year of Delivery	Cumulative Payments	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23		
	Payments for Year 1	£226,565	£226,565	£226,565	£226,565	£226,565	£226,565								
	Payments for Year 2		£431,134	£431,134	£431,134	£431,134	£431,134								
	Payments for Year 3			£435,038	£435,038	£435,038	£435,038	£435,038							
	Payments for Year 4				£323,200	£323,200	£323,200	£323,200							
	Payments for Year 5					£232,066	£232,066	£232,066							
	Payments for Year 6						£415,783	£415,783	£415,783	£415,783					
	Payments for Year 7							£168,090	£168,090	£168,090	£168,090	£168,090			
	Payments for Year 8								£146,094	£146,094	£146,094	£146,094			
	Payments for Year 9									£90,892	£90,892	£90,892	£90,892		
2019/20: Total Payments														£820,860	

COUNCIL TAX

In 2017/18 the government allowed councils to increase Council Tax whereas during the previous few years it had been encouraging councils to freeze Council Tax in order to help tax payers during the recession.

Fareham has the 5th lowest Band D Council Tax for a district council when parish precepts are taken into account and is currently 16% below the national average. Government policy now allows an increase of either 3% or £5, whichever is the greatest, each year. However, this can penalise Fareham for having a low Council Tax as the maximum increase that can be approved each year, outside of a referendum, is £5. In comparison, the largest Band D for a district council stands at £362 which would see an increase of £10.86 in their Council Tax using the policy, resulting in the gap between the average authority and Fareham continuing to grow

The Council Tax for Fareham forms around 75% of its spending power showing that there is a significant reliance on it to fund the net spend. Fareham's Council Tax has risen by £5 per year for the 4 years of the 4-year settlement and is proposed to increase similarly for 2020/21.. The Council Tax for a Band D property currently stands at £160.22 which was approved by the Full Council on 22 February 2019. Of the gross expenditure budget of **£48,009,100** (net budget £8,666,400) for council services in 2019/20, £6,874,944 (14%) was budgeted to be met by Council Tax payers.

This Medium Term Finance Strategy assumes that there will be an increase of **200** Band D equivalent properties per year which will generate some additional Council Tax even if no increase in the rate is approved each year.

In November 2019 the Executive approved a report making changes to council tax discounts and premiums all of which are detailed below.

It is recommended that the Executive:

- (a) agrees the approach for the proposed policy for up to 100% of the Council Tax for properties occupied by Care Leavers under 25 years of age, to be considered as irrecoverable; and
- (b) approves the latest discretionary reductions and premiums set out in Appendix A for:

- (i) 0% discount for properties which are unoccupied and unfurnished for less than 2 years (Class C)
- (ii) 0% discount for properties requiring major works to render them habitable (Class D)
- (iii) 100% to 300% Long Term Empty property premiums for properties which have been unoccupied and unfurnished for more than 24 months

These changes have already begun to take effect through increased council tax and will continue to impact from April 2020, and provision for this has been built into the Medium Term Strategy figures

FAIR FUNDING REVIEW (FFR)

During the early part of 2019/20 a Fair Funding Review (FFR) commenced to look at how the funding for councils is distributed, as the current system is considered to be outdated and unfair. However, due to a December 2019 general election, the results of this review have been delayed and will now impact on the funding from 2021/22 onwards.

As well as the FFR coming in for 2021/22 there will also be a “reset” of the business rates system. This will allow tariffs and top-ups to be recalculated in order that new settlement figures can be issued to authorities in the provisional settlement in the latter part of 2020.

How Fareham BC will fair under the FFR is still unclear but the assumption being used is that this will not result in any significant increases in core funding.

AFFECT ON THE MEDIUM TERM FINANCE STRATEGY



Currently due to the delay in the Fair Funding Review future funding levels remain uncertain, however, we are predicting a reduction in new homes bonus of at least **£460,000** over the next 5 years. Generally, we are not expecting any increases in core funding, outside of Council Tax.

2.2 OTHER FUNDING SOURCES

Specific Government Grants

These amounts received from Central Government relate to specific services and will be paid to match expenditure or projects. Grants expected in the 2019/20 and 2020/21 financial years include; benefits, housing advice, disabled facilities grants, homelessness and Council Tax administration.

Financial Investments

This element of income comes from investments of surplus cash and through the Council's cash management opportunities. Interest rates have been below 1% since March 2009 which has meant that returns on investments have been low. Also, the amount the council has to invest has reduced due to increased capital spending in recent years.

Security of capital has remained the Council's main investment objective so the Council has sought to spread its risks, using highly rated commercial institutions or Government bodies and investing for short periods. Consequently, however, the rates of return are limited.

The Council has therefore further diversified into longer-term secure and higher yielding asset classes, moving part of the portfolio from bank and building society deposits into externally management strategic pooled diversified income funds and money market funds.

These funds are in line with the Council's investment strategy and offer potentially enhanced investment returns whilst diversifying opportunities and risks.

[We are therefore predicting a slightly higher income from financial investments in the next few years.](#)

Property Investments

In 2013 the Executive agreed a Corporate Property Investment Acquisition Strategy where the council would purchase commercial sites to bring in rental income that was at a higher rate than from financial investments. Since 2013 £31 million has been invested in various properties in and outside of the borough and this currently brings in over **£2.1 million** in rent which is at a far greater return than investing in the money markets.

It is anticipated that further purchases bringing in additional income of **£500,000** per annum will take place during 2020/21 and the income will continue to grow.

However, income from property investments is sensitive to any downturns in the economy, and this risk is spread by using a spread of property types in the investments.

Partnership Contributions

Any surplus from Portchester Crematorium Joint Committee(PCJC) is distributed among the four councils who constitute the joint committee. It is anticipated that over the period of the Strategy this amount will increase from £150,000 to £165,000 per annum. The amount received from PCJC is a non-ring fenced contribution and is used to keep the overall Council Tax at an acceptable level.

Fees and Charges Income

The Council reviews the fees and charges for its services annually and the proposed fees and charges for each Committee and Executive portfolio are reviewed by the Executive and Licensing and Regulatory Committee and approved by Full Council.

The approach taken to reviewing fees and charges for 2020/21 is as follows:

- **New Fees and Charges** – There have been new charges proposed in respect of pre-planning advice, pest control charges for those on certain benefits and charges for new and replacement refuse and recycling bins.
- **Statutory Fees** - Some fees and charges are set by statute and therefore are not under the Council's control.
- **Discretionary Charges where no increase is proposed** - There are some charges where there are no increases proposed, that are at the discretion of the Council. Many of these, such as market pitch fees have not been increased as it is believed that higher charges would be detrimental to the service or its users.

Car parking has been budgeted for in line with the Fareham Town Centre Parking Strategy and the proposed charges have not been increased for 2020/21. The charges have been at the current level since they were set in October 2010.

- **Discretionary Charges increasing** – Some discretionary charges are proposed at a level to achieve an increase in income that is deemed to be realistic. In most cases, an increase of around **5%** is proposed.

In particular, the following changes are highlighted:

- **Pest Control Rodents - Commercial and Domestic Premises.** This charge is showing a large increase due to the time taken in attending by officers and is considered to be more in line with those charges levied by commercial operators.
- **Beach Huts** - Charges for beach huts are proposed to increase after comparing other local authorities that offer the same service.
- **Bulky Waste** – A new charge is proposed for the collection of 2 small items, and the charge for collection of fridges/freezers is to be merged with the higher price of a single item collection.

- **Green Waste Sacks** – The charge for single use green waste sacks is proposed for an increase as it is seen as a premium service over and above the one sack that is collected fortnightly for free.
- **Cemeteries** – These charges have been increased to bring into line with other local authorities and to reflect the increase in providing the service.
- **Home Boarding (including Day Care for Dogs)** – It is proposed to increase the fees charged to reflect officer time spent dealing with inspecting the premises.

Where charges have been increased and volumes are known the additional income range is shown in the table below:

Fee Area	Likely Range of additional income
Pest Control	£1,000 to £2,000
Cemeteries	£2,500 to £5,800
Licences	£100
Bulky Waste	£4,000 to £9,000
Waste Collection	£20,000 to £52,000
Overall	£27,600 to £68,900

2.3 GENERAL CHANGES IN EXPENDITURE

Service Budgets Added or Deleted

There have been no new service budgets included in this Strategy, and the following service budgets have now been amalgamated or deleted:

- On-Street parking has been deleted from the budget as the service will transfer to Hampshire County Council from 1 April 2020
- Parking Strategy has been amalgamated with Off-Street Parking
- The Museum Service has been merged with Community Centres as there will only be small costs against this service

Pay Awards

The Pay Policy for 2019/20 was approved by the Executive in January 2019. The Pay Policy Statement for 2020/21 is attached at [Annex 2](#).

The rising cost of employment in future years reflects the cost of an assumed 2% pay award and other pay movements such as meeting the requirements of the National Living Wage.

Pension Provisions

During 2019, the triennial pension fund valuations will be taking place and, subject to confirmation, have concluded that the fixed contributions needed to close the past years' service gap will be reduced to zero (from over £1m per annum), while for Fareham the future service funding will increase from 16.1% of pay to 19.3%. This review showed that the funding gap of almost 20% in the 2016 valuation had closed to almost 1% in 2019.

The reduction in the fixed contribution has been partially offset by an increase in the variable contribution. The rest has been earmarked for use as an additional contribution towards capital expenditure.

The next valuation of the fund will be due in March 2022.

Depreciation / Capital Charges

Many services provided by the council will attract depreciation and capital charges that reflect the use of the assets over the period of their useful life. The depreciation charge is set against the service but an entry is made to adjust the charge so there is no overall impact on the Council Tax payers.

2.4 SERVICE OPPORTUNITIES AND PRESSURES

Key Services

There are a number of services where the costs and/or income directly correlate with service activity, some of which would have a notable impact on the Council's overall financial position if a significant variation in activity arose. These are classified as "major" or "demand led" services and account for almost £15 million of gross expenditure and £14 million of gross income.

Special arrangements are in place to track financial performance of these services and the other major services, and to take action where there is a significant deviation from plans.

Key Services with a positive effect on the budget:

- **Trade Waste Collection** - The trade waste service continues to grow with additional income being received as the customer base grows. Additional budget of **£40,000** has therefore been built into the budgets for 2020/21.
- **Ferneham Hall** – In July 2018, the Executive considered the proposals for the future development and operation of Ferneham Hall. In January 2020 the hall will close for a period of up to 2 years to enable an extensive refurbishment to take place after which an operator will be brought in to run the new facility. One of the financial aims for the proposal is to halt the escalation of the operating costs. Some budget reductions have been built into the 2020/21 budgets which includes a reduction in overheads during the period of closure in 2020.

Key services under pressure:

- **Planning Applications** – Planning applications have seen a reduction in income during the year due to issues around levels of nitrates. This situation will continue to be closely monitored. The service has also seen an increase in employee costs, consultants' costs and legal fees dealing with the applications and also an increase in the number of appeals.
- **Local Plan** – The Local Plan is due for inspection during 2020 which will see an increase in the demand for resources during that financial year. The plan works on a 5-year cycle with the inspection year having the highest demand on resources. A plan is being prepared which will smooth the effect on resources during the life of the plan.
- **Tree Management** – The demand on the tree service has increased over a number of years due to additional land that the council has taken on which includes woodland areas and open spaces after developments. Much of the work is planned after inspection work but there is also a need for emergency works particular as a result of poor weather.
- **Shopping Centre** - The assumed income from the Council's interest in Fareham shopping centre has been reduced to reflect the current lease arrangements and occupancy levels.
- **Car Parking** – The trend of reduced car park income in the town centre has continued. Estimated parking income has therefore been reduced in previous years and continues to be under pressure.
- **Other Waste Collection Services** - The cost of refuse collection continues to rise, particularly the disposal cost of waste to Hampshire County Council which also affects the trade waste service. The rest of the waste services continue to be affected as the number of properties to be collected from increases.
- **Homelessness** - The homelessness service continues to face pressures due to demands on the service. There are also issues with housing demand and the housing shortage is regularly raised both locally and nationally.
- **Climate Change** – This will impact on many council services with costs not yet determined to meet council priorities linked to climate change. Once a plan has been drawn up then detailed costs will be produced along with the impact on budgets.

Priorities and Pressures

Examples of spending requirements or income reductions which have been built into the budgets include:

- £125,000 spending on agency costs
- £70,000 spending on town centre security patrols

- £80,000 increase in the costs of works to trees
- £155,000 loss of income from rentals for town centre and other commercial properties
- £35,000 reduced income from market traders
- £50,000 loss of income due to changes in HCC recycling rates
- £100,000 loss of income from planning fees due to drop in applications around nitrates issues

3. CORPORATE PRIORITIES

3.1 Corporate Strategy 2017-2023

The latest Corporate Strategy was adopted by the Council in December 2017 and is updated each December. It currently contains 6 priorities linked to 31 project areas, as summarised in the table 3 below. New project areas added in 2019 were:

- Continue with our 'Give Plastic the Push' campaign, aiming to reduce the use of single use plastic in the Borough
- Develop an action plan to mitigate and adapt to impacts of climate change in Fareham and reduce our carbon footprint.

Table 3 – Priorities and Projects in the Corporate Strategy

Priority 1	Providing Housing Choices	NEW GARDEN VILLAGE
		LOCAL PLAN
		AFFORDABLE HOUSING STRATEGY
Priority 2	Protect and Enhance the Environment	DAEDALUS FIELDS & VERGES
		ABBEY MEADOWS
		COLDEAST WOODLAND
		COASTAL DEFENCE
		RECYCLING & WASTE REDUCTION
		REDUCTION OF SINGLE USE PLASTIC (NEW)
		CLIMATE CHANGE (NEW)
Priority 3	Strong, Safe, Inclusive and Healthy Communities	WELBORNE COMMUNITY
		HOLLY HILL CEMETERY
		COMMUNITY SAFETY
		AIR QUALITY
Priority 4	Maintain and Extend Prosperity	TOWN CENTRE
		DAEDALUS INNOVATION CENTRE
		PORTCHESTER DISTRICT CENTRE
		DAEDALUS SWORDFISH BUSINESS PARK
		STUBBINGTON BYPASS
		A LEVEL COURSES
Priority 5	Leisure Opportunities for Health and Fun	WESTBURY MANOR MUSEUM
		FERNEHAM HALL
		COLDEAST SPORTS & PLAY
		STUBBINGTON ALLOTMENT
		CAMS ALDER RECREATION GROUND
Priority 6	A dynamic, prudent and progressive Council	BALANCED BUDGET
		SYSTEMS THINKING
		CIVIC OFFICES TENANTS
		COUNCIL OWNED LAND & BUILDINGS
		PROPERTY INVESTMENTS

PARTNERSHIPS & JOINT WORKING

The financial resources needed to deliver the projects are contained with the General Fund Revenue and Capital budgets, and the Housing Revenue Account Revenue and Capital budgets. We are currently developing a costing and financing plan to make the finances earmarked to deliver the Strategy more visible.

3.2 Welborne Garden Village

The Welborne Garden Village is a key project to achieving priorities in the Corporate Strategy.

The Council's Welborne Delivery Strategy was approved by the Executive in July 2016 to secure comprehensive development of the area by implementing strategies for land assembly and procuring a development partner. This Strategy was successful and land ownership issues were resolved and the comprehensive development of the site is progressing. The development partner procurement process was terminated by the Council in October 2017.

The resources needed to implement the Delivery Strategy were funded from existing budgets plus the following:

- **£228,570** of Capacity Funding awarded by Homes England in 2016/17.
- Revenue reserves (General Fund Reserve and the Working Balances Reserve) totalling **£730,000** between 2015/16 and 2018/19. Other earmarked reserves of £680,000 have now been released for other use leaving a balance of £90,000 for Welborne use.
- Internal borrowing totalling **£1,890,000** used to purchase and repair 3 cottages in the development area. They have been added to the Council's estate investment portfolio and have been generating income since May 2017.

Since October 2017, the Council has been working closely with the Master Developer to bring forward the new community with exemplar placemaking as well as new housing delivery as key objectives. This is being funded from existing budgets and by drawing down on additional grant funding from Homes England; to date this has been **£275,000** Capacity Funding in August 2017 and **£220,000 and £300,000** Garden Towns and Villages Funding in March 2018 and March 2019. A further bid for Gardens Towns and Villages Funding of £500,000 for 2019/20 is anticipated.

3.3 Solent Airport and Daedalus

Solent Airport and development of the Daedalus site is another key project to achieving priorities in the Corporate Strategy.

Since the purchase of Daedalus from the Homes and Community Agency and the adoption of the Council's Vision for Daedalus in 2015, the site has become the largest employment site in the area. It is now arguably the premier centre of excellence for aviation, aerospace, marine and advanced engineering businesses in the south.

The number of businesses located at the site continues to grow and this is mainly due to investment by Fareham Borough Council. To date the Council has invested over **£28 million** in the site including building an innovation centre which was extended due to demand for space, new hangars and general infrastructure works to improve access to and from the site. There is another **£9 million** planned spend during the life of the Medium Term Finance Strategy.

As well as creating business and employment opportunities there will be a large community space known as Daedalus Common that will provide many benefits for the local community to enjoy.

The business opportunities are creating rental income for the council of over **£2 million** per annum although there are also operating costs required to run the site of just under **£2 million** that includes repayment of the borrowing used to fund the projects.

By 2021/22 it is anticipated that a surplus would be available to make a contribution of **£200,000** to the General Fund.

4. CAPITAL POSITION

4.1 CAPITAL STRATEGY

The Capital Strategy is now a separate document to the Medium Term Finance Strategy and demonstrates how the Council's capital programme supports its corporate priorities and sets the framework for developing the capital investment programme to deliver these priorities.

The Council agrees a rolling five-year programme each year consistent with the Medium Term Finance Strategy and the resources available along with any impact on the revenue budgets.

The capital programme for the duration of the Strategy has been amended to take into account carry forwards from 2018/19 and now totals **£63.4 million** of General Fund expenditure.

4.2 CAPITAL RESOURCES

Resources of **£70.3 million** are estimated to be available over the life of the capital programme and therefore there should be a surplus of resources of approximately **£6.9 million** in 2023/24.

Capital Financing Costs

The proposed budget for 2020/21 provides for a revenue contribution to capital of **£1.5 million**, which includes a contribution of £500,000 towards future capital commitments. The remaining amount provides for ICT, vehicle purchases, CCTV renewals and car park improvements.

4.3 MINIMUM REVENUE PROVISION

Where the Council finances capital expenditure from borrowing (debt), it must put aside resources to repay the borrowing in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP).

Borrowing costs (MRP and interest charges) for schemes funded by debt will be covered by revenue generating assets.

The budget provision reflects the capital costs relating to commercial property purchases and construction works at Daedalus including the Innovation Centre Phase 2 and new general aviation and business hangars.

5. PROPOSED BUDGET 2020/21

5.1 THE BUDGET SETTING PRINCIPLES

In addition to the fundamental principles on which the Council's Medium Term Finance Strategy is based, the Council adopts for each financial year a set of budget setting principles that form the framework for budget preparation.

It is proposed therefore that the following budget guidelines be adopted:

- No provision for the effects of inflation to be provided in revenue budgets except to cover price increases that are unavoidable or predictable, or the Council is legally obliged to accept.
- The revenue resources available to the Council will determine the spending plans for the year, taking account of any measures to reduce the net cost in the year.
- Fees and charges to be increased to achieve a realistic increase in income wherever possible and every effort to be made to identify new sources of income. The proposed charges should be considered alongside those for similar services in neighbouring authorities and, where appropriate, the charges levied by private sector providers.
- New revenue commitments and capital schemes will only be considered for inclusion in the budget where the expenditure is essential to protect the Council's assets or meet the Council's corporate priorities.
- Full weight to be given to the Council's overall position and future Council Tax levels when services are reviewed and revenue budgets, capital programmes and fees and charges are considered.

5.2 BASE BUDGET 2020/21

The proposed base budget for 2020/21 has been built up using the principles and assumptions laid out in this Medium Term Finance Strategy. A summary of the budget, compared to the base budget 2019/20 is summarised in the table below. It should, however, be noted that the revised net budget needs for 2019/20 are estimated to be £9,319,200.

Table 5 – Proposed Revenue Budget for 2020/21

	Budget	Budget	Variation
	2019/20	2020/21	Base to base
	£	£	£
<u>Committees</u>			
Licensing and Regulatory Affairs Committee	516,800	520,500	3,700
Planning Committee	485,700	472,600	-13,100
Executive - Portfolio Budgets			
- Leisure and Community	633,000	453,800	-179,200
- Housing	1,379,200	1,468,500	89,300
- Planning and Development	-333,400	1,584,800	1,918,200
- Policy and Resources	-667,000	-1,008,000	-341,000
- Health and Public Protection	2,151,600	221,100	-1,930,500
- Streetscene	4,903,500	5,101,900	198,400
Accounting Adjustments not included above	2,232,800	2,767,300	534,500
<hr/> SERVICE BUDGETS			
	11,302,200	11,582,500	280,300
Capital Charges	-2,390,300	-2,927,700	-537,400
Direct Revenue Funding	1,125,000	1,510,000	385,000
Minimum Revenue Provision	905,700	1,134,300	228,600
Interest on Balances	-515,900	-695,700	-179,800
Portchester Crematorium	-150,000	-165,000	-15,000
New Homes Bonus	-820,900	-459,900	361,000
Contribution to(+)from (-) Reserves	-789,400	-372,000	417,400
<hr/> OTHER BUDGETS			
	-2,635,800	-1,976,000	659,800
<hr/> NET BUDGET			
	8,666,400	9,606,500	940,100

5.3 CONTRIBUTIONS TO AND FROM RESERVES

These represent:

- a) one-off items in the budget that are funded from reserve accounts that the Council holds;
- b) decisions made to increase the value of specific ear-marked reserves; or
- c) areas where there are excess funds and a transfer is made into reserves.

The cost of these activities will be included in the service, and accounting regulations require the funding of the activities to be shown separately from the service cost. The table below specific contributions to and from reserves.

Table 6 – Budgeted Transfers from and to Reserve in 2020/21

	'000s
Transfer to Reserves	15
Funding from Reserves	
S106 Money to fund grounds maintenance work	- 51
Whiteley Fund	- 71
Opportunities Project Funding	- 233
Welborne Grant Funding	- 32
Total Due from Reserves	- 372

In addition, as [discussed above](#), the proposed budget for 2020/21 provides for a revenue contribution to capital (**RCCO**) of **£1.5 million**.

The value of the **Spending Reserve** as at 31/03/19 was predicted to be over the £2,421,200 which is the threshold of 5% of gross expenditure for 2019/20 (£48.4 million). Proposals on the use of the additional surplus arising will be developed for consideration in February, alongside the consolidated draft budget for 2020/21.

5.4 COUNCIL TAX 2020/21

The net revenue budget proposed for 2020/21 of £9,606,500 can mostly be funded from the collection fund as summarised below. However, there is currently a projected shortfall which may need to be met by a Council Tax increase in 2020/21.

Table 7 – Projected Funding of the 2020/21 Net Revenue Budget

	£'000
Net Budget Requirement	£9,607
Retained Business Rates	-£2,410
Council Tax at current level	-£6,875
Additional Council Tax for new properties	-£104
Total Available from the Collection Fund	-£9,389
Projected Shortfall	£217

6. FIVE YEAR FORECAST

6.1 OVERALL REVENUE POSITION

Table 8 – Financial Projections 2019/20 to 2022/23

	2019/20 R 000s	2020/21 000s	2021/22 000s	2022/23 000s	2023/24 000s
Gross Expenditure on Services					
Base Budget	£45,365	£45,365	£45,698	£46,165	£46,132
Changes for Spend Pressures and Opportunities	£2,087	£333	£467	-£33	£117
Revised Budget	£47,452	£45,698	£46,165	£46,132	£46,249
Gross Income from Services					
Base Budget	-£31,912	-£31,357	-£31,410	-£31,460	-£31,510
Changes for Income Pressures and Opportunities	-£680	-£53	-£50	-£50	-£50
Revised Budget	-£32,592	-£31,410	-£31,460	-£31,510	-£31,560
NET COST OF SERVICES					
	£14,860	£14,288	£14,705	£14,622	£14,689
Contribution to capital spend - RCCO	£1,125	£1,510	£1,510	£1,510	£1,510
Provision to repay borrowing (MRP)	£810	£1,134	£1,300	£1,532	£1,576
Accounting Adjustments	-£2,927	-£2,927	-£2,927	-£2,927	-£2,927
TOTAL NON SERVICE BUDGETS	-£992	-£283	-£117	£115	£159
NET BUDGET REQUIREMENT	£13,868	£14,005	£14,588	£14,737	£14,848
SOURCES OF FUNDING					
Revenue Support Grant	£0	£0	£0	£0	£0
Business Rates & Collection Fund Balance	-£2,444	-£2,410	-£2,457	-£2,457	-£2,457
New Homes Bonus	-£821	-£460	-£237	-£91	£0
TOTAL CORE FUNDING	-£3,265	-£2,870	-£2,694	-£2,548	-£2,457
Income from Financial Investments	-£558	-£696	-£696	-£696	-£696
Income from Property Investments	-£2,151	-£2,706	-£2,706	-£2,706	-£2,706
Contributions from Partnerships / other orgs	-£160	-£165	-£165	-£165	-£165
TOTAL OTHER FUNDING SOURCES	-£2,869	-£3,567	-£3,567	-£3,567	-£3,567
Use of Ear Marked Reserves	-£859	-£372	-£372	-£372	-£372
COUNCIL TAX REQUIREMENT	£6,875	£7,196	£7,955	£8,250	£8,452
Projection of Retained Council Tax at current level	£6,875	£6,875	£6,979	£7,029	£7,078
Additional Council Tax for new properties	£0	£104	£50	£50	£50
Council Tax available at no increase	£6,875	£6,979	£7,029	£7,078	£7,128
Projected shortfall with no increase		-£217	-£926	-£1,172	-£1,324
Council Tax available with £5 increase per year		£7,197	£7,466	£7,738	£8,012
Projected shortfall with £5 increase per year			-£489	-£512	-£440

The Five-Year Forecast indicates that there continues to be a number of spending pressures facing the Council over the coming years as core funding sources are expected to fall whilst unavoidable costs increase. Although the Council has been successful in making significant savings for a number of years now, the projections indicate that further reductions will be necessary to produce a balanced budget for the period from 2021/22 onwards.

The 2018/19 predictions were for a shortfall of approximately £524,000 by 2021/22. Since then further savings have been made/are in progress including **£711,300** from the new Opportunities Plan below which have been built into the budgets for 2018/19 to 2020/21. The highest funding gap now showing across the 5 years is **£512,000**, even with the proposed increases in council tax. There are also a number of pressures, risks and uncertainties, including delivery of some of the Corporate Priorities, for which no provision has been made in the budgets.



It should be noted that the way that the financial information is shown in the Five Year Forecast table above differs from the Net Budget figures used for the budget setting tables. This is because the sources of funding have been moved together to make their impact clearer. In the budget figures some of these appear in the Service income and Other budget income lines.

6.2 SENSITIVITY ANALYSIS

The Council has been committed to minimising increases in the overall net budget and Council Tax increases. This has proven successful in restricting the proportion of gross expenditure on general fund services that has to be met by Council Tax payers, currently **14%**.

Because the proportion is so low, the Fareham element of the Council Tax (around 10%) is very sensitive to even minor increases in expenditure. An increase in gross expenditure of 1% (approximately £1½m) would result in an increase in the amount to be met by Council Taxpayers of 7.2%. The following table highlights the gearing effect that additional expenditure has on the Council Tax.

Table 9 – Gearing Effect of Additional Spend on Council Tax

	£M	% Increase
Current Spending	49.0	
Significance of an extra £500,000 in spending		+1.0%
Council Tax Payers	6.9	
Significance of spending an extra £500,000		+7.2%

For each pressure, an assessment has been made about the possible variation above and below the "most likely" position. This allows the sensitivity of the projected totals to change. As more information becomes available about the individual pressures, the projections can be updated and made more certain.

6.3 RISKS AND UNCERTAINTIES

The budget projections indicate the susceptibility of the Council's revenue budget to changes in the level of expenditure and income caused by factors outside the control of the Council. It is clear that even a small variation in funding, expenditure or income would have a significant impact on the Council's revenue budget position.



This is why one of the fundamental principles contained in the MTFS is to maintain a minimum spending reserve equivalent to 5% of gross revenue expenditure.

In considering the budget forecasts, there are also a number of other issues that need to be borne in mind, as set out below:

- The full impact of the Fair Funding Review on the Council's core funding sources is not known.
- The funding needs of the Council's corporate priorities have not been fully costed and built into the budgets.
- There is a level of uncertainty surrounding the current economic climate.
- Demand for Council services remains volatile in some services, and this may be heightened due to economic changes.
- While the Council's capital resources are expected to exceed planned capital expenditure at the end of the programme period, future spending requirements could give rise to a shortfall. It is therefore imperative that capital reserves are replenished whenever possible in order to meet the future spending needs.
- Hampshire County Council is also having funding pressures, and some of the decision they may need to take may impact on Fareham Borough Council's finances.

There are also significant pressures that have not yet been built into the forecasts. These include:

- **Land Charges Income** – As part of the Queen's speech in June 2014 it was announced that the land charges function would be centralised and run by the Land Registry in order to support the delivery of digital services. The timetable for this is not clear but would result in a loss of income for the Council of approximately £150,000.
- **Universal Credit** – The long-term ambition for the government is for the housing benefits system to be replaced by Universal Credit administered centrally. This was introduced in Fareham in November 2018 and will be implemented gradually over time. The migration of benefit claimants to Universal Credit will have a financial impact to the Council particularly in relation to the service team and overhead costs.
- **Population Increases** – There are a number of significant planning applications

in the borough which could lead to a significant increase in the population (up to 12%) and households (up to 13%). No provision has currently been built into the budgets for the impact this will have on the services the Council provides e.g. council tax administration)

Conversely any housing growth in the borough above 300 new properties a year will bring in additional income through Council Tax.

6.4 THE OPPORTUNITIES PLAN

The Council aims to develop its efficiency plans well in advance of need to ensure that they are sufficiently reliable before being included in budgets, and to allow the full consequences of such changes to be considered and consulted upon where appropriate.

Work was undertaken during 2018 by all Senior Managers and Heads of Services to generate ideas to close the predicted funding gap in 2020/21, and build in capacity to cover future pressures and areas of spending growth.

Over 132 ideas were generated; they were then reviewed further and prioritised for delivery between 2018/19 and 2020/21 as part of the new Opportunities Plan. The Plan is being expanded as other opportunities to generate savings are identified.

This Strategy therefore includes an ‘Invest to Save’ approach to achieving the Opportunities Plan, in which reserves are invested into establishing a small project team for a two-year fixed term to lead on or assist Heads of Service in the delivery of their projects. The project team has been in place since May 2019. The cost of this, coupled with other costs such as employing additional surveyor resources, using external consultants and legal advisors, is still estimated to be **£600,000** for the two years.

The table below summarises the latest position on the Opportunities Plan in terms of potential savings being explored and how many have been realised.

Table 10 - Summary of Opportunities Plan

Project Grouping	Number of Projects	Latest Projected Potential Savings (£)	Annual Savings Realised To Date (£)	Savings Built into Budgets as at 20/21 (£)
1. Service changes already in progress	17	320,700	276,400	227,900
2. Projects needing resources led by Project Team	8	1,051,300	6,000	0
3. Projects needing resources led by Head of Service	7	830,500	373,450	483,400
4. Projects achievable within current resources	6	391,200	82,687	0
5. Good Practice Projects	3	None expected	0	0
6. Projects do as resources allow	16	Not costed	0	0
7. Other projects (additional to Plan)	12	29,500	9,500	0
Totals	69	£2,623,200	£748,037	£711,300

Current predictions are that the Opportunities Plan would address the projected funding gap for the next 5 years, with some spare capacity for pressures not yet built in.

7. CONCLUSION

The Council has a long history of prudent financial management, of achieving efficiency savings while providing a wide range of excellent services.

The projections set out in this report give a broad indication of the anticipated level of expenditure, based on the latest information available about the Government's funding intentions. This is predicting a funding gap by 2021/22 even if Council Tax is increased by £5 each year. There are also a number of budget pressures and uncertainties, both revenue and capital, which do not currently feature in the forecasts.

By having the Opportunities Plan in place, if adequately resourced, the Council would be able to meet its budget position for the next five years. The position from 2021/22 onwards will also become clearer when future government spending plans are released.

In the meantime, there will be a continued need to focus on the need to identify where capacity can be created through the delivery of more efficient services to meet demand, while protecting, as far as possible, services to the public, and delivering the priorities set for the Borough.

ANNEX 1**BUDGET RESPONSIBILITIES**

Responsibility for budgets rests formally with the Full Council but there are arrangements in place as part of the Constitution that delegates certain responsibilities to the Executive, the committees and to officers.

The timetable for the financial planning and budget process is:

Stage	Detail	
1	Consultation with residents and business representatives (incl. Chambers of Commerce, Federation of Small Businesses, the Institute of Directors, Business South and Solent Local Enterprise Partnership)	Continual
2	Member approval of corporate objectives and priority action plan	November
3	Member review of Medium Term Finance Strategy	
3	Member consideration of revised revenue budget for current year, base budget for next year, the capital programme and fees and charges.	January
4	Member consideration of new capital schemes and revenue growth items	
4	Member review of Capital Strategy (new)	
4	Member confirmation of capital programme	February
4	Member confirmation of overall revenue budget for next year	
4	Member setting of the Council Tax	
5	Outturn position for the General Fund and Housing Revenue Account revenue and capital budgets for the <u>previous year</u> .	
5	Member approval of carry forward of any revenue and capital expenditure programmes into current year.	July
5	Member approval of financing arrangements for any capital programme overspends.	
6	Six monthly monitoring against current year budgets	November

Full Council

The Full Council has the general responsibility for setting the Council's policy and budget framework. The Full Council must ensure the following:

- Corporate strategies are approved in accordance with the projected resources of the Council;
- Approved revenue budgets, capital programmes and Council Tax levels are in accordance with the Council's Medium Term Finance Strategy;
- Supplementary estimates are only approved after consideration of the Council's overall financial position.

The Executive

The Executive has general responsibility for making decisions on Council services within the policy and budget framework. The Executive must ensure the following:

- Detailed estimates of expenditure and income for all services and committees, and the proposed Council Tax levels are prepared within the context of the council's Medium Term Finance Strategy for approval by Full Council;
- Expenditure is only incurred if it forms part of the approved service revenue budget or capital programme;
- Any decision to reallocate revenue or capital budgets from one service to another does not exceed the virement rules;
- The overall revenue budget and capital programme are not exceeded.

The Committees

The Committees have general responsibility for carrying out non-Executive functions within the powers delegated to them by Full Council. The Committees must ensure the following:

- Detailed fees and charges along with estimates of expenditure and income for committee services are submitted to the Executive for approval by Full Council;
- The committee revenue budgets are not exceeded.

Employees

All budgets are allocated to a named manager who has the authority to spend the approved budget. Financial regulations also form part of the Constitution and these set out the scheme for the authorisation of expenditure.

Expenditure can only be incurred within the revenue and capital budgets approved by the Council.

Officers can delegate their power to incur expenditure but only within the limits of their own delegated powers.

The limits given to any individual employee are in accordance with the schedule of limits set out in the financial regulations. All employee powers to incur expenditure should be officially documented and authorised in a form approved by the Statutory Chief Finance Officer.

The Council's financial regulations are available to all employees on the corporate filing system giving detailed guidance on:

- The responsibilities of employees
- Financial reporting
- Revenue and capital budgets
- Budgetary control and virements.

ANNEX 2

FAREHAM BOROUGH COUNCIL PAY POLICY STATEMENT

FINANCIAL YEAR 2020 - 21

1. Purpose

This Pay Policy Statement (“Pay Statement”) is provided in accordance with the Localism Act 2011 (“Localism Act”) and this will be updated in each subsequent financial year.

This Pay Statement sets out Fareham Borough Council’s pay policies relating to its workforce for the financial year 2020-21, including the remuneration of its Chief Officers, lowest paid employees and the relationship between its Chief Officers and that of its employees who are not Chief Officers.

2. Definitions

For the purpose of this Pay Statement the following definitions apply:

Pay	includes base salary, charges, fees, allowances, benefits in kind, increases in/enhancements to pension entitlements and termination payments.
Chief Officers	<p>refers to the following roles within the Council:</p> <p>Statutory Chief Officers:</p> <ul style="list-style-type: none"> • Chief Executive Officer, as Head of Paid Service • Director of Support Services, as Monitoring Officer • Deputy Chief Executive Officer, as Section 151 Officer <p>Non Statutory Chief Officers:</p> <ul style="list-style-type: none"> • Director of Planning and Regulation • Director of Leisure and Community
Deputy Chief Officers	Heads of Service who report directly to/or accountable to a statutory or non-statutory Chief Officer in respect of all or most of their duties.
Lowest paid employees	refers to those employees employed within Grade1 of the Council’s mainstream pay structure. This definition has been adopted because Grade1 is the lowest grade on the Council’s mainstream pay structure.
Employee who is not a Chief Officer	refers to all employees who are not covered under the “Chief Officer” group above. This includes the “lowest paid employees”. i.e. employees on Grade1.

3. Pay Framework and Remuneration Levels

3.1 General approach

The pay structure and pay scales have been designed to enable the Council to recruit and retain suitably qualified employees at all levels who are dedicated to fulfilling its corporate objectives and delivering services to the public whilst operating within an acceptable financial framework.

With a diverse workforce the Council recognises that its Pay Policy needs to retain sufficient flexibility to cope with a variety of circumstances that may arise that might necessitate the use of market supplements or other such mechanisms for individual categories of posts where appropriate. The decision to apply a market premium will be approved by the Head of HR and ICT and endorsed by the Chief Executive Officer.

The Chief Executive Officer, as Head of Paid Service, has delegated power to update the pay policy in line with establishment changes.

3.2 Responsibility for decisions on pay structures

The outcome of reviews into the local pay and grading structures covering all jobs are submitted to a meeting of Full Council for approval.

The Council's locally determined pay structures are based on the outcome of a job evaluated process and were implemented for the Chief Officers, Heads of Service and all other employees in April 2008. This followed a national requirement for all Local Authorities to review their pay and grading frameworks to ensure fair and consistent practice for different groups of workers with the same employer to comply with employment legislation.

The pay structure for the Chief Executive Officer was established in 2008 having regard to the need to be fully competitive in the market and to be confident of attracting and retaining the highest calibre of employee to reflect the high level of organisational and corporate performance which the Council requires its Chief Executive Officer to deliver. Relevant labour market and comparative remuneration data was considered. This was reviewed in 2013.

3.3 Pay scales and grading framework

The **mainstream pay structure** for all employees below the level of Heads of Service was determined through a local process based on the outcome of a job evaluation scheme. The pay structure from 1 April 2019 consists of a pay spine of 44 points, comprising 11 grades containing 5 spinal column points with the exception of grade 1. Grade 1 is the lowest grade and 11 the highest. Each employee will be on one of the 11 grades based on their job evaluated role.

The **Chief Executive's** pay grade reflects the same principles as for all of the Council's pay structures consisting of 5 spinal column points.

The pay structure for **Chief Officers and Heads of Service** was determined through a local process that took into account market alignment with District Councils in Hampshire and the outcome of a job evaluated process. It followed the same principles as applied for the mainstream pay structure and consists of one pay grade for Chief Officers and three pay grades for Heads of Service with all grades containing 5 points.

The National Minimum Wage applies to those under 25 but Fareham's pay scales are not aged biased.

Details of the Council's pay structures are published on the Council's website and a copy as at 1st April 2019 is appended to this Statement (at [Annex A](#)).

3.4 Pay Awards and National Pay Awards

Pay awards are considered annually for all employees. The outcome of national consultations by the Local Government Employers in negotiation with the Trade Unions in relation to the settlement of the annual pay award is normally applied. As it stands the pay award with effect from April 2020 has not been agreed.

If there is an occasion where the Council believes that the National Pay Settlement would distort the local pay structures alternative proposals will be developed, discussed with the trade unions and brought to Elected Members for formal approval.

4. Remuneration – level and element

4.1 Salaries of Chief Officers and Deputy Chief Officers

“Chief Officers” are identified at 2 above and constitute the Council’s Corporate Management Team. They are all paid within the Council’s pay structures as follows:

- a) Chief Executive Officer, as Head of Paid Service will be paid a salary within the grade range £114,621 to £132,664.
- b) Statutory and Non-Statutory Chief Officers will be paid a salary within the grade range £81,330 to £93,412.

“Deputy Chief Officers” who are Heads of Service are all paid within the Council’s pay structures and will be paid a salary within grade ranges £53,863 to £81,330.

Typically Chief Officers and Heads of Service have received the same percentage pay award as for all other employees.

Details of Chief Officer and Heads of Service remuneration have been published since 2010 on the Council’s website.

4.2 “Lowest paid employees”

Each lowest paid employee will be paid a salary within the pay scales for Grade 1 mindful of the need to meet the National Living Wage requirements.

A very detailed review of pay and grading was undertaken on this topic along with other parts of the grading structure and the review and recommendations were reported to Full Council in December 2014.

4.3 Bonuses and Performance related pay

There is no provision for bonus payments or performance related pay awards to any level of employee.

There is, however, an honorarium provision which may be awarded where an employee performs duties outside the scope of their post over an extended period or where the additional duties and responsibilities involved are exceptionally onerous. All such payments are subject to approval by a Chief Officer (Member of Chief Executive's Management Team).

4.4 Other pay elements – Statutory Officers

The pay structure for Chief Officers does not take account of the clearly defined additional responsibilities in respect of the Section 151 and Monitoring Officer roles. Officers undertaking these roles receive payment equivalent to two spinal column points based on the incremental pay progression from the penultimate to maximum point of the pay grade for Chief Officers.

Provision for the recognition of the role of acting Head of Paid Service exists within the Chief Officers pay structure for up to two spinal column points on the same payment principle as for the Section 151 and Monitoring Officers.

These pay arrangements allow for flexibility in the allocation of the additional roles to Chief Officers and for the responsibilities to be rotated.

4.5 Charges, fees or allowances

Allowances or other payments, for example shift working, standby, etc. may be made to employees, below the level of Chief Officer, in connection with their role or the pattern of hours they work in accordance with National or Local collective agreements.

Expenses: The Council recognises that some employees incur necessary expenditure in carrying out their responsibilities, for example travel costs. Reimbursement for reasonable expenses incurred on Council business are paid in accordance with the Council's collective agreement and subsequent amendments to it.

Elections: The Chief Executive Officer has been appointed as the Council's Returning Officer for elections and he has appointed the Deputy Chief Executive Officer, Director of Leisure and Community and Head of Democratic Services as his Deputy Returning Officers. For performing elections duties the Returning Officer and Deputies receive a fee payable according to a scale of costs, charges and expenses set by the Hampshire and Isle of Wight Election Fees Working Party and allowed under the Local Government Act 1972.

Professional Subscriptions: The Chief Executive Officer and Chief Officers are entitled to receive payment for one subscription to a relevant professional body.

4.6 Benefits in Kind

Benefits in kind are benefits which employees receive from their employer during their employment which are not included as part of their salary. Fareham has a technology scheme and car leasing scheme that employees have a choice to sign up for in lieu of salary. These benefits are reportable to HMRC and taxed accordingly.

4.7 Pension

All employees as a result of their employment are eligible to join the Local Government Pension Scheme (LGPS).

4.8 Severance payments

The Council already publishes its policy on discretionary payments on early termination of employment and flexible retirement as well as publishing its policy on increasing an employee's total pension. These policies are applied in support of efficient organisational change and transformation linked to the need for efficiencies and expenditure reduction.

Details of the Council's policies are published on the Council's website.

Redundancy payments are calculated using the statutory weekly pay calculator which gives the following entitlements:

0.5 week's pay for each full year worked when you are under 22

1.0 week's pay for each full year worked when you are between 22 and 41

1.5 week's pay for each full year worked when you are 41 or older

The council will apply weekly pay to the number of entitled weeks and has a local multiplier of 2.2 which is applied to the overall calculation.

No employee who has left the Council in receipt of a redundancy or severance package will be re-employed by the Council, in any capacity, unless there are exceptional business circumstances in which case approval is required from the Chief Executive Officer.

The government has commenced the process to enforce a cap on exit payments of £95,000 with the likely implementation date to be during 2020 following consultation.

4.9 New starters joining the Council

Employees new to the Council will normally be appointed to the first point of the salary scale for their grade. Where the candidate's current employment package

would make the first point of the salary scale unattractive (and this can be demonstrated by the applicant in relation to current earnings) or where the employee already operates at a level commensurate with a higher salary, a different starting salary point within the grade may be considered by the recruiting manager in consultation with HR Services. The candidate's level of skill and experience should be consistent with that of other employees in a similar position on the salary scale within the grade.

5. Relationship between remuneration of "Chief Officers" and "employees who are not Chief Officers".

This relates to the ratio of the Council's highest paid employee (falling within the definition of "Chief Officers") and the median earnings across the whole workforce as a pay multiple. By definition, the Council's highest paid employee is the Chief Executive Officer. The median average pay has been calculated on all taxable earnings for the financial year 2019-20, including base salary, allowances, etc.

Highest paid employee	£132,664
Median earnings for remainder of workforce	£24,313
Ratio	5.46

ANNEX A (to the Pay Policy Statement)**Fareham Borough Council - Pay Scales as at 01/04/2019**

Chief Executive Grades & Salary		Directors Grades & Salary	
Spinal Column Point	Annual Salary	Spinal Column Point	Annual Salary
1	£114,621	1	£81,330
2	£119,133	2	£83,942
3	£123,643	3	£86,987
4	£128,155	4	£90,141
5	£132,664	5	£93,412

Senior Management Grades & Salary scales								
Grade	Spinal Column Point	Annual Salary	Grade	Spinal Column Point	Annual Salary	Grade	Spinal Column Point	Annual Salary
1	£71,627		1	£62,114		1	£53,863	
2	£74,135		2	£64,366		2	£55,817	
1	3	£76,728	2	3	£66,701	3	3	£57,841
4	£79,024		4	£69,120		4	£59,940	
5	£81,330		5	£71,627		5	£62,114	

Local Pay Scales					
GRADE	SPINAL COLUMN POINT	ANNUAL SALARY (APRIL 2018)	GRADE	SPINAL COLUMN POINT	ANNUAL SALARY (APRIL 2018)
1	3	£17,364			
	4	£17,711			
	5	£18,065			
2	5	£18,065	7	26	£31,871
	6	£18,426		27	£32,829
	7	£18,795		28	£33,820
	8	£19,171		29	£34,838
	9	£19,554		30	£35,876
3	9	£19,554	8	30	£35,876
	10	£19,945		31	£36,956
	11	£20,344		32	£38,058
	12	£20,751		33	£39,204
	13	£21,166		34	£40,282
4	13	£21,166	9	34	£40,282
	14	£22,021		35	£41,395
	15	£22,911		36	£42,525
	16	£23,836		37	£43,696
	17	£24,313		38	£44,772
5	18	£25,295	10	38	£44,772
	19	£25,801		39	£45,909
	20	£26,632		40	£47,058
	21	£27,502		41	£48,229
	22	£28,323		42	£48,824
6	22	£28,323	11	42	£48,824
	23	£29,175		43	£49,930
	24	£30,050		44	£51,050
	25	£30,952		45	£52,197
	26	£31,871		46	£53,375