

# FAREHAM

BOROUGH COUNCIL



## Medium Term Finance Strategy

2020/21 to 2024/25

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# 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 first year of the extension to the 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 was been delayed due to a general election being held in December 2019 and has since been delayed by another year due to the COVID-19 pandemic. The review will commence in time for the 2022/23 financial year. There was a 1 year settlement announced for 2020/21 after the election and a further 1 year announced in November 2020. The Spending review announcement in November 2020 did cover an overall increase in total spending for Councils for 2021/22 but this is being targeted at non district services such as adult social care.

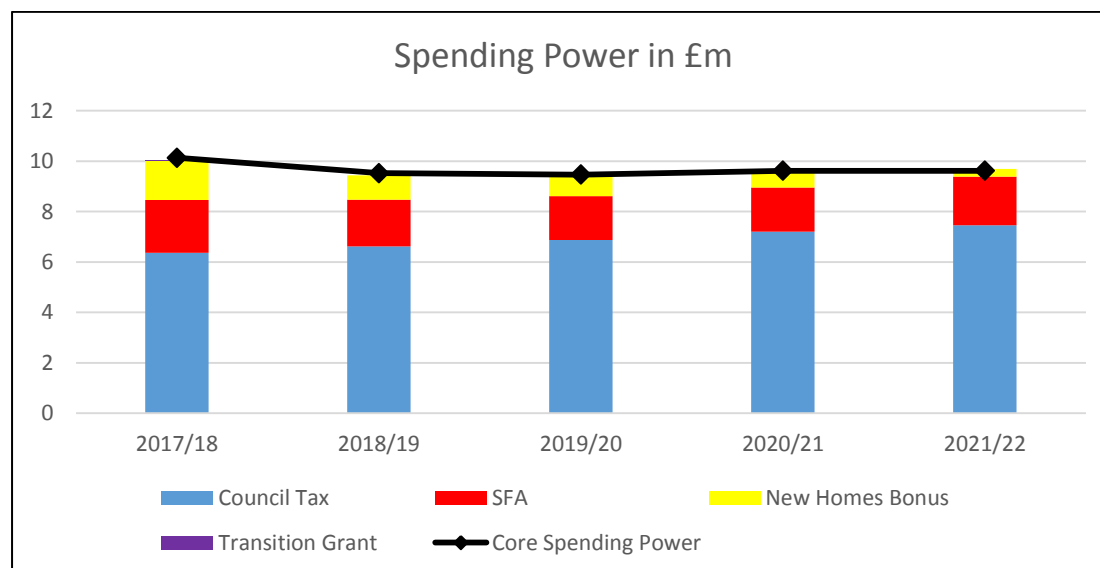
The allocation of resources is determined by the Government's assessment of the funding needs of the borough, as discussed below.

#### 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 2020/21 Fareham's spending power has reduced by 8.6% over the last 5 years and remains on of the lowest in the country, 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 2021/22 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.

## **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 **£41 million** of business rates. Of this 50% (£20.5m) is paid to Central Government with 9% (£3.7m) and 1% (£0.41m) paid to the County Council and the Fire Authority respectively. The remaining 40% (£16.3m) 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 3<sup>rd</sup> 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 **£0.7 million** for 2021/22.

## **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	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
2011/12	Payments for Year 1	£226,565	£226,565	£226,565	£226,565	£226,565	£226,565					
2012/13	Payments for Year 2		£431,134	£431,134	£431,134	£431,134	£431,134					
2013/14	Payments for Year 3			£435,038	£435,038	£435,038	£435,038	£435,038				
2014/15	Payments for Year 4				£323,200	£323,200	£323,200	£323,200				
2015/16	Payments for Year 5					£232,066	£232,066	£232,066	£232,066			
2016/17	Payments for Year 6						£415,783	£415,783	£415,783	£415,783		
2017/18	Payments for Year 7							£168,090	£168,090	£168,090	£168,090	
2018/19	Payments for Year 8								£146,094	£146,094	£146,094	£146,094
2019/20	Payments for Year 9									£90,892	£90,892	£90,892
2020/21	Payments for Year 10										£297,010	£297,010
		£226,565	£657,699	£1,092,737	£1,415,937	£1,648,002	£2,063,785	£1,574,177	£962,033	£820,860	£702,087	£236,986
												£90,892

## 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 5<sup>th</sup> 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 £165.22 which was approved by the Full Council in February 2020. Of the gross expenditure budget of **£44,180,400** (net budget £9,606,500) for council services in 2020/21, £7,196,868 (**16%**) was budgeted to be met by Council Tax payers.

This Medium Term Finance Strategy assumes that there will be an increase of **300** Band D equivalent properties per year which will generate some additional Council Tax even if no increase in the rate is approved each year.

### **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 and the subsequent COVID-19 Global Pandemic, the results of this review have been delayed and will now impact on the funding from 2022/23 onwards.

As well as the FFR coming in for 2022/23 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 **£306,000** 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 2020/21 and 2021/22 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 £39 million has been invested in various properties in and outside of the borough and this currently brings in over **£3.1 million** in rent which is at a far greater return than investing in the money markets.

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 remain at the current level of £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 2021/22 is as follows:

- **New Fees and Charges** – There have been new charges proposed in respect of pre-planning advice and coastal parking charges.
- **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 2021/22. 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.

## 2.3 GENERAL CHANGES IN EXPENDITURE

### Service Budgets Added or Deleted

There have been no new service budgets included in this Strategy.

### Pay Awards

The Pay Policy for 2021/22 was approved by the Executive in October 2020. The Pay Policy Statement for 2021/22 is attached at [Annex 2](#).

The rising cost of employment in future years reflects the cost of an assumed pay freeze from 1 April 2021 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

### Financial Impact of COVID-19 Global Pandemic

The COVID-19 pandemic has had a significant effect of the Council's Finances during 2020/21 financial year and will continue to have an effect during the remainder of the strategy period.

The Executive approved an emergency budget in September 2020 which showed an impact of over £3.6m in the budgets which was offset to some extent by £2.5m of government support but still required use of reserves to make up the rest of the £1.1m shortfall.

The crisis has caused widespread disruption to those services which generate significant income streams, for example, car parks, trade waste, commercial property, etc. For example:-

- a. Parking charges were suspended for 3 months
- b. Demand for trade waste services ceased while businesses were closed
- c. Commercial property tenants offered concessionary terms for paying rent
- d. Reduced planning applications received
- e. Market pitch fees were suspended while the markets were unable to fully trade

- f. Treasury investment income was affected by adverse cash flows and reduced interest rates.

The impact of measures taken to support individuals and businesses were also evident in the Council's cash flow position, with relaxed payment terms, immediate payments to suppliers, suspended debt collection activities, etc all reducing the net cash available on a daily basis.

In some areas, however, there have been opportunities where costs have reduced, which go some way to mitigating the impact on the Council's budgets. Postponed or cancelled events, such as the local election, Fareham In Bloom, Access All Areas, together with reduced operating costs (e.g. waste tipping charges, cleaning public buildings, etc) have all contributed positively to the net budget.

In recognition of the potential scale of the impact, the financial management and governance arrangements have been strengthened, particularly in relation to

- Cashflow monitoring
- Service financial performance
- Covid-19 response expenditure
- Income collection and arrears performance
- Government funding opportunities

Weekly monitoring and reporting to the S.151 Officer was instigated, together with a regular reporting structure to the corporate Covid-19 response group, led by the Chief Executive. These measures ensured a high degree of awareness and enabled the corporate team to closely manage the financial risks.

The second nation lockdown placed further pressure on the budgets as more support is needed for business and individuals

### **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 under pressure

- **Leisure Centres** - The impact on the leisure centres will total almost £1.2m in lost revenue and payments to the contractor in order to reopen the 2 centres and allow them to continue to operate at a reduced capacity. A report was approved by the Executive on 3 August giving details of how the changes will

operate and the financial implications.

- **Off-street Car Parking** – With multi-storey car parks being shut and other car parks not collecting income from the start of lockdown the impact on car parking has been significant. The anticipated income for the financial year has reduced by almost half with over £950,000 having been taken from the budget. There have also been some additional costs incurred in reopening the car parks and new measures being put in place to encourage social distancing by implementing one-way systems to and from the car park entrances.
- **Investment Properties** – The changes to the investment properties budget is mainly loss of income from the shopping centre and market quay. Alternative payment arrangements have been agreed for some other commercial property tenants to assist with cashflows but it is anticipated that full rental income will continue to be received.
- **Solent Airport and Daedalus** – Lower fuel sales, reduction in licence fees and reduced fees and charges due to flying being suspended have all contributed to this budget being reduced. Part of the reductions have been offset by lower purchases of fuel since lockdown.
- **Waste and Recycling services** – While these services have been running throughout lockdown, some additional costs have been incurred due to alternative operational arrangements being put in place to protect the welfare of the teams. The operating restrictions have required more agency staff to be used and additional vehicles being hired to provide the service. There has also been an impact on the income where the value of recycled goods has dropped by large percentages and a number of trade waste customers have temporarily reduced or stopped the service they receive while they have not been trading.
- **Planning Appeals** – Although not related to the COVID pandemic, the budget for planning appeals has increased for known appeals that will be taking place this financial year. The appeals in the pipeline include Newgate Lane North and South, Borderland Fencing, Tythe Barn and Newgate Lane/ Peel Common hearing.
- **Housing Benefits Payments** – The budgets have been amended to reflect changes to the level of payments and subsequent grant received but also they reflect anticipated levels of reduced income from increased benefit debts along with anticipated bad debts.
- **Homelessness** – At the end of March, the government wrote to every local authority in England asking them to accommodate all people sleeping rough or at risk of sleeping rough in order to prevent the spread of COVID-19. The budgets have been amended to reflect initial and ongoing changes to the level of payments arising as a result of this initiative.
- **Local Land Charges** - The impact of Covid has seen the income budget reduce by over £60,000 although this has been slightly offset by some



reduction in expenditure budgets where savings will be made.

- **Elections** – As a result of the local elections being postponed for a year the budget reduce by £94,000. The main changes are no costs to hire venues and no pay to staff to run the elections.
- **Other budgets** – This line covers all the non-service budgets and although there is a small change in the lines there are some large variances making up this figure. The interest on investments has reduced by £136,000 to reflect a drop in interest rates but also less money is available to invest due to a drop in income being received by the council. There will be an additional provision for bad debts of over £500,000 due to anticipated reductions in payments of council tax and business rates and also an allowance for reduced rental income from commercial premises. New Homes Bonus will see an increase of over £240,000 due to additional money being received from the government. Finally, there will be additional income from earmarked reserves that is matching additional expenditure in services of over £450,000.

### 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 &amp; JOINT WORKING

The financial resources needed to deliver the projects are contained within 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 2019/20 and now totals **£53.9 million** of General Fund expenditure.

### 4.2 CAPITAL RESOURCES

Resources of **£61.4 million** are estimated to be available over the life of the capital programme and therefore there should be a surplus of resources of approximately **£7.5 million** in 2024/25.

#### 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 2021/22

### 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 2021/22

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 £9,606,500.

Table 5 – Proposed Revenue Budget for 2021/22

	Budget 2020/21 £	Budget 2021/22 £	Variation Base to base £
<u>Committees</u>			
Licensing and Regulatory Affairs Committee	520,500	552,700	32,200
Planning Committee	472,600	482,000	9,400
Executive - Portfolio Budgets			
- Leisure and Community	453,800	1,641,400	1,187,600
- Housing	1,468,500	1,856,500	388,000
- Planning and Development	1,584,800	1,659,500	74,700
- Policy and Resources	-1,008,000	-705,100	282,300
- Health and Public Protection	221,100	557,100	336,000
- Streetscene	5,101,900	5,399,300	297,400
Accounting Adjustments not included above	2,767,300	3,249,300	496,600
<b>SERVICE BUDGETS</b>	<b>11,582,500</b>	<b>14,692,700</b>	<b>3,104,200</b>
Capital Charges	-2,927,700	-3,466,100	-538,400
Direct Revenue Funding	1,510,000	1,475,000	-35,000
Minimum Revenue Provision	1,134,300	1,315,300	181,000
Interest on Balances	-695,700	-695,700	0
Portchester Crematorium	-165,000	-165,000	0
New Homes Bonus	-459,900	-306,500	153,400
Contribution to(+)/from (-) Reserves	-372,000	-2,280,500	0
<b>OTHER BUDGETS</b>	<b>-1,976,000</b>	<b>-3,823,500</b>	<b>-1,841,500</b>
<b>NET BUDGET before COVID funding</b>	<b>9,606,500</b>	<b>10,869,200</b>	<b>1,262,700</b>
COVID Funding	0	-751,000	-751,000

NET BUDGET	9,606,500	10,118,200	511,700
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### 5.3 CONTRIBUTIONS TO AND FROM RESERVES

These represent:

- one-off items in the budget that are funded from reserve accounts that the Council holds;
- decisions made to increase the value of specific ear-marked reserves; or
- 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 2021/22**

	'000s
<b>Transfer From General Fund Reserves</b>	-1,902
<b>Funding from Reserves</b>	
S106 Money to fund grounds maintenance work	- 51
Whiteley Fund	- 71
Homelessness Grant Funding	- 104
Welborne Grant Funding	- 153
<b>Total Due from Reserves</b>	<b>- 2,281</b>

In addition, as [discussed above](#), the proposed budget for 2021/22 provides for a revenue contribution to capital (**RCCO**) of **£1.5 million**.

The value of the **Spending Reserve** as at 31/03/20 was predicted to be over the £2,426,000 which is the threshold of 5% of gross expenditure for 2020/21 (£48.5 million). Proposals on the use of the additional surplus arising will be developed for consideration in February, alongside the consolidated draft budget for 2021/22.

### 5.4 COUNCIL TAX 2021/22

The net revenue budget proposed for 2021/22 of £10,118,200 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 2021/22.

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

	£'000
<b>Net Budget Requirement</b>	<b>£10,118</b>
Retained Business Rates	-£2,577
Council Tax at current level	-£7,197
Collection Fund Surplus	-£85
Additional Council Tax for new properties	-£40
<b>Total Available from the Collection Fund</b>	<b>-£9,899</b>



Projected Shortfall	<b>£219</b>
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## 6. FIVE YEAR FORECAST

### 6.1 OVERALL REVENUE POSITION

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

	2020/21 R	2021/22	2022/23	2023/24	2024/25
	000s	000s	000s	000s	000s
<b>Gross Expenditure on Services</b>					
<b>Base Budget</b>	£44,181	£42,699	£44,461	£44,741	£45,021
Changes for Spend Pressures and Opportunities	-£32	£460	£1,640	£1,862	£1,815
Changes for COVID Spend Pressures	£2,204	£2,122	£150	£0	£0
<b>Revised Budget</b>	<b>£46,353</b>	<b>£45,281</b>	<b>£46,251</b>	<b>£46,603</b>	<b>£46,836</b>
<b>Gross Income from Services</b>					
<b>Base Budget</b>	-£28,630	-£26,452	-£28,680	-£28,730	-£28,780
Changes for Income Pressures and Opportunities	£2,143	-£524	-£1,609	-£1,883	-£1,985
<b>Revised Budget</b>	<b>-£26,487</b>	<b>-£26,976</b>	<b>-£30,289</b>	<b>-£30,613</b>	<b>-£30,765</b>
<b>NET COST OF SERVICES</b>	<b>£19,866</b>	<b>£18,305</b>	<b>£15,962</b>	<b>£15,990</b>	<b>£16,071</b>
Contribution to capital spend - RCCO	£1,510	£1,475	£1,510	£1,510	£1,510
Provision to repay borrowing (MRP)	£1,101	£1,315	£1,512	£1,555	£1,610
Accounting Adjustments	-£3,466	-£3,166	-£2,928	-£2,928	-£2,928
<b>TOTAL NON SERVICE BUDGETS</b>	<b>-£885</b>	<b>-£376</b>	<b>£94</b>	<b>£137</b>	<b>£192</b>
<b>NET BUDGET REQUIREMENT</b>	<b>£19,011</b>	<b>£17,929</b>	<b>£16,056</b>	<b>£16,127</b>	<b>£16,263</b>
<b>SOURCES OF FUNDING</b>					
Revenue Support Grant	£0	£0	£0	£0	£0
Business Rates & Collection Fund Balance	-£2,410	-£2,661	-£2,457	-£2,457	-£2,457
New Homes Bonus	-£702	-£307	-£91	£0	£0
<b>TOTAL CORE FUNDING</b>	<b>-£3,112</b>	<b>-£2,968</b>	<b>-£2,548</b>	<b>-£2,457</b>	<b>-£2,457</b>
Income from Financial Investments	-£560	-£696	-£560	-£560	-£560
Income from Property Investments	-£3,961	-£3,612	-£3,961	-£3,961	-£3,961
Contributions from Partnerships / other orgs	-£165	-£165	-£165	-£165	-£165
Contributions from Government for COVID19	-£2,993	-£751	£0	£0	£0
<b>TOTAL OTHER FUNDING SOURCES</b>	<b>-£7,679</b>	<b>-£5,224</b>	<b>-£4,686</b>	<b>-£4,686</b>	<b>-£4,686</b>
<b>Use of Ear Marked Reserves</b>	<b>-£853</b>	<b>-£2,281</b>	<b>-£378</b>	<b>-£378</b>	<b>-£378</b>
<b>COUNCIL TAX REQUIREMENT</b>	<b>£7,197</b>	<b>£7,456</b>	<b>£8,444</b>	<b>£8,606</b>	<b>£8,742</b>
Projection of Retained Council Tax at current level	£7,197	£7,197	£7,237	£7,287	£7,337
Additional Council Tax for new properties	£0	£40	£50	£50	£50
<b>Council Tax available at no increase</b>	<b>£7,197</b>	<b>£7,237</b>	<b>£7,287</b>	<b>£7,337</b>	<b>£7,386</b>
<b>Projected shortfall with no increase</b>		<b>-£219</b>	<b>-£1,157</b>	<b>-£1,269</b>	<b>-£1,356</b>

Council Tax available with £5 increase per year		£7,456	£7,738	£8,012	£8,290
Projected shortfall with £5 increase per year		£0	-£706	-£594	-£452

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 2022/23 onwards.

The highest funding gap now showing across the 5 years is **£706,000**, 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.

## 6.2 SENSITIVITY ANALYSIS



*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.*

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 £½m) 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
<b>Current Spending</b>	<b>49.0</b>	
Significance of an extra £500,000 in spending		+1.0%
<b>Council Tax Payers</b>	<b>6.9</b>	
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 with even more uncertainty as to the length of time the economy will take to recover after the COVID19 Pandemic.
- 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 **£100,000**.
- **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 2021/22 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.

Opportunities Plan Update Document					
Financial Summary of Plan					
Project group	Latest Projected Savings (£)	Actual Savings Realised (£)	Budget Adjust. 19/20 (£)	Budget Adjust. 20/21 (£)	Budget Adjust. 21/22 (£)
1. Service changes already in progress	300,700	300,700	300,700		
2. Projects needing resources led by Project Team	1,445,300	-653,035	93,500		£938,320
3. Projects needing resources to be led by HOS	652,000	376,662	-12,500	302,900	
4. Projects led by HOS achievable within current resources	391,200	20,000			
5. Good Practice Projects	None expected				
6. The 'B List' of projects to do as resources allow	Not Costed				
7. Other projects (additional to Plan)	£20,000	7,913			
8. Completed Projects	£120,700	£90,387		£5,000	
			381,700	£307,900	£938,320
<b>Totals</b>	<b>2,929,900</b>	142,627	<b>£1,627,920</b>		
Things outside of the Plan - savings		37,700			
Things outside of the Plan – costs	-400,000				

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 2022/23 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 2022/23 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.

## 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 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 Member review of Capital Strategy (new) Member confirmation of capital programme Member confirmation of overall revenue budget for next year Member setting of the Council Tax	February
5	Outturn position for the General Fund and Housing Revenue Account revenue and capital budgets for the <u>previous year</u> . Member approval of carry forward of any revenue and capital expenditure programmes into current year. Member approval of financing arrangements for any capital programme overspends.	July
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.

## FAREHAM BOROUGH COUNCIL PAY POLICY STATEMENT

### FINANCIAL YEAR 2021 - 22

## 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 2021-22, 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:

<b>Pay</b>	includes base salary, charges, fees, allowances, benefits in kind, increases in/enhancements to pension entitlements and termination payments.
<b>Chief Officers</b>	refers to the following roles within the Council:  Statutory Chief Officers: <ul style="list-style-type: none"> <li>• Chief Executive Officer, as Head of Paid Service</li> <li>• Director of Support Services, as Monitoring Officer</li> <li>• Deputy Chief Executive Officer, as Section 151 Officer</li> </ul> Non Statutory Chief Officers: <ul style="list-style-type: none"> <li>• Director of Planning and Regulation</li> <li>• Director of Leisure and Community</li> </ul>
<b>Deputy Chief Officers</b>	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.
<b>Lowest paid employees</b>	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.
<b>Employee who is not a Chief Officer</b>	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 or similar mechanism will be approved by the Director of Support Services 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 2020 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 2020 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. The pay award with effect from April 2020 allowed for a 2.75% increase across all grades.

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 £117,773 to £136,312.
- b) Statutory and Non-Statutory Chief Officers will be paid a salary within the grade range £83,567 to £95,981.

**“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 £55,344 to £83,567.

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 Grade1 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 2021 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 2020-21, including base salary, allowances, etc.

Highest paid employee	£136,312
Median earnings for remainder of workforce	£24,982
Ratio	5.46

**ANNEX A (to the Pay Policy Statement)****Fareham Borough Council - Pay Scales as at 01/04/2020**

<b>Chief Executive Grades &amp; Salary</b>		<b>Directors Grades &amp; Salary</b>	
Spinal Column Point	Annual Salary	Spinal Column Point	Annual Salary
1	£117,773	1	£83,567
2	£122,409	2	£86,250
3	£127,043	3	£89,379
4	£131,679	4	£92,620
5	£136,312	5	£95,981

<b>Senior Management Grades &amp; Salary scales</b>								
Grade	Spinal Column Point	Annual Salary	Grade	Spinal Column Point	Annual Salary	Grade	Spinal Column Point	Annual Salary
	1	£73,597		1	£63,822		1	£55,344
	2	£76,174		2	£66,136		2	£57,352
1	3	£78,838	2	3	£68,535	3	3	£59,432
	4	£81,197		4	£71,021		4	£61,588
	5	£83,567		5	£73,597		5	£63,822



Local Pay Scales					
GRADE	SPINAL COLUMN POINT	ANNUAL SALARY (APRIL 2020)	GRADE	SPINAL COLUMN POINT	ANNUAL SALARY (APRIL 2020)
1	3	£17,842			
	4	£18,198			
	5	£18,562			
2	5	£18,562	7	26	£32,747
	6	£18,933		27	£33,732
	7	£19,312		28	£34,750
	8	£19,698		29	£35,796
	9	£20,092		30	£36,863
3	9	£20,092	8	30	£36,863
	10	£20,493		31	£37,972
	11	£20,903		32	£39,105
	12	£21,322		33	£40,282
	13	£21,748		34	£41,390
4	13	£21,748	9	34	£41,390
	14	£22,627		35	£42,533
	15	£23,541		36	£43,694
	16	£24,491		37	£44,898
	17	£24,982		38	£46,003
5	18	£25,991	10	38	£46,003
	19	£26,511		39	£47,171
	20	£27,364		40	£48,352
	21	£28,258		41	£49,555
	22	£29,102		42	£50,167
6	22	£29,102	11	42	£50,167
	23	£29,977		43	£51,303
	24	£30,876		44	£52,454
	25	£31,803		45	£53,632
	26	£32,747		46	£54,843