APPENDIX A

FAREHAM
BOROUGH COUNCIL

FINANCE STRATEGY

2013/14 To 2017/18

(DRAFT)

October 2013

CONTENTS

BACKGROUND

1. The Borough of Fareham has a population of some 111,600 and it covers almost 30 square miles of southern Hampshire, bordering the northern side of Portsmouth Harbour in the east and the River Hamble in the west. From south to north, it reaches from the Solent coastline at Hill Head northwards into rural Hampshire towards Wickham.

2. The Borough has many reminders of its long history, such as the ruins of Portchester Castle, and the old market town of Fareham. This is now a flourishing commercial centre and there are several local centres based on the former villages. Although these have been surrounded by new developments, they have retained a unique identity. The Borough has grown steadily with the development of extensive new areas of housing, shops and industry. More new developments are proposed, particularly in the town centre and to the west and north of the Borough.

FAREHAM'S VISION AND OBJECTIVES

3. Fareham is a 'prosperous, safe and attractive place to live and work'. This has not happened by accident but by careful management and development, and constant attention to the environment and the needs of our communities. The vision for Fareham's future is based upon the assumption that residents want to preserve all that is good about Fareham, whilst increasing prosperity and making it an even more inclusive and attractive place to live and work.

4. After an extensive consultation process, the Council approved a new Corporate Strategy in June 2011, reaffirming the vision and values of the Council, and setting out the corporate priorities over the strategy period 2011 - 2017. Seventeen priority actions for improvement have been identified, based around the corporate priority areas, which will influence the plans for resource allocation within this Strategy document.

FINANCIAL MANAGEMENT

5. 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.

6. 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.

7. At the same time 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.

8. This can be difficult to achieve when faced with changes to government funding, an increasing population, increasing aspirations of residents, and more recently the turbulent economic conditions in which the Council operates.

9. To overcome these difficulties the finance strategy is supported by a strategic and long term approach to corporate planning that is delivered through an integrated and co-ordinated service and financial planning process set out in a later section of this document, the production of an Asset Management Plan, sophisticated budget monitoring and reporting (also set out in a later section) of the financial issues facing the Council.

10. Most importantly though, there are a number of fundamental principles that are followed by the Council and which form the basis of the finance strategy and which are key to the Council's approach to financial management.

THE FUNDAMENTAL PRINCIPLES

11. The principles cover five areas – resources, capital expenditure, revenue expenditure, consultation and openness, and partnership working.

Resources

12. A minimum balance of £1million is retained in the Major Repairs and Renewals Fund to cover major emergency capital expenditure in relation to the Council's assets.

13. A working balance of £1.4 million is retained to cover variations in cash flow.

14. A spending reserve equivalent to 5% of gross revenue expenditure (currently £2.238 million) is retained to cover unforeseen changes in revenue expenditure or income.

15. 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.

16. The need to increase the minimum balance on the Major Repairs and Renewals Fund, the working balance and the spending reserve is considered by the Executive at the end of each financial year and as part of the annual finance strategy review.

17. Reserves are not used to meet on-going, unsustainable levels of revenue expenditure.

18. "Windfall" or one-off revenue resources will only be used to increase capital resources or to meet one-off revenue expenditure.

19. 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.

20. 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.

21. All decisions regarding the use of significant reserves take account of the effect on the revenue budget from a reduction in investment interest.

Capital Expenditure

22. All new potential capital schemes are subject to the process for the prioritisation of new capital schemes, as set out in the Council's Financial Regulations.

23. New schemes will only be considered if they make a clear contribution to the Council's objectives and priority actions and support the Council's Asset Management Plan.

24. When new potential capital schemes are considered for inclusion in the capital programme during the year, this is only agreed in principle with the final decision being made at the time of council tax setting except in exceptional circumstances where a delay could jeopardize the achievement of an important priority.

25. No new capital schemes are included in the capital programme without the necessary resources to meet the full capital costs and the on-going revenue costs being in place.

26. Every effort 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.

27. Capital schemes will normally be financed by internal resources or external contributions. Borrowing will only being considered where government support is available to meet, at least in part, the capital financing costs, or where there is a sound economic business case (e.g. for spend to save schemes) whereby borrowing costs are wholly offset by long term revenue income or savings.

Revenue Expenditure

28. The Council has adopted as a corporate priority the need to save money, raise income and work in partnership with others to achieve more for less while continuing to minimise council tax increases.

29. Strict budget guidelines are maintained and are approved by the Executive each year.

30. 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.

31. When any significant new revenue spending plans are considered for inclusion in the revenue budget during the year, this is only agreed in principle with the final decision being made at the time of council tax setting.

32. 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.

33. 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.

34. As part of the Localism Act 2011 the Council is required to prepare and publish a pay policy statement. The policy for 2013/14 was approved by The Executive as part of the Medium Term Financial Strategy in October 2012. The Pay Policy Statement for 2014/15 is attached at Appendix B.

Consultation and Openness

35. Consultation is used as a powerful tool for improving the quality and cost effectiveness of services. The Council has a community engagement strategy to ensure consultations are undertaken within the corporate framework and are aimed at the correct audience to ensure valid outcomes.

36. It is Council policy to be transparent in the decision making process and provision of information about the Council's activities through the website. To this end, budgetary plans and historical spending information (including payments to third party suppliers) is published in a variety of formats on the Council's transparency portal, accessible through its website.

Partnership Working

37. The Council will seek to work with partners to achieve more for less and actively pursue the achievement of the Council's priorities. The following key partnerships have been identified:

- Portchester Crematorium Joint Committee (with Gosport BC, Havant BC and Portsmouth CC)
- Fareham & Gosport Building Control Partnership
- Fareham Community Safety Partnership (with Hampshire Police Authority, Probation Service and Hampshire CC)
- Project Integra (with other Hampshire authorities)
- Fareham and Gosport CCTV Partnership
- Partnership for Urban South Hampshire (PUSH)
- Solent Local Enterprise Partnership

38. Other important shared working arrangements have been recently developed in support of the Council’s corporate priorities and these include:

- Environmental Health Services Partnership (with Gosport BC)
- Legal Services Partnership (with Southampton CC)
- Eastern Solent Coastal Partnership (with Gosport BC, Havant BC and Portsmouth CC)

CORPORATE, SERVICE AND FINANCIAL PLANNING

39. An integrated and co-ordinated service and financial planning process supports the preparation of this finance strategy and gives the necessary flexibility to allow the Council to consider corporate objectives and priorities, as well as the maintenance of service standards and the scope for improvements where necessary, but at the same time seeking to minimise the increase in the overall net budget.

40. 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 Solent and Solent Local Enterprise Partnership)	Continual
2	Member approval review of corporate objectives and priority action plan	June 2011 (and reviewed September 2013)
3	Member review of Medium Term Finance Strategy	October
4	Member consideration of revenue budgets and local service agreements, the capital programme and fees and charges	December
5	Member consideration of new capital schemes and revenue growth items Member review of Finance Strategy Member confirmation of capital programme Member confirmation of overall revenue budget	January
6	Member approval of the council tax	February

41. This process is reviewed and scrutinised at each key stage by the Scrutiny Board. Budget responsibilities are detailed in Appendix A.

42. Quarterly reports to monitor progress against the revenue budget and capital programme are submitted to the Executive with additional reports on other finance issues as and when necessary during the year.

THE DEVELOPMENT OF THE CAPITAL PROGRAMME

43. The Council has adopted as a corporate priority the need to maximise the value gained from assets that are owned by the Council. The finance strategy 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.

44. In relation to capital expenditure, the finance strategy is designed:

- To ensure capital expenditure is aligned with the Council's priorities;
- To ensure the Strategy is aligned with the Asset Management Plan;
- To maximize the value gained from assets;
- To provide a clear framework for decisions relating to capital expenditure;
- To ensure that revenue, capital and whole life costs are fully considered;
- To encourage the consideration and use of a wide range of funding sources.

THE CURRENT GENERAL FUND CAPITAL PROGRAMME

45. The Council agrees a rolling five-year programme each year consistent with the finance strategy and the resources available.

46. Each review of the Council's finance strategy includes a review of the capital programme for non-housing services, the latest being by the Executive on 11 February 2013 when the programme for the years 2012/13 to 2016/17 was approved.

47. New capital schemes should only be considered for inclusion in the capital programme in January when they can be prioritised against the available resources and the impact on the revenue budget and council tax can be fully considered, except in exceptional circumstances where a delay could jeopardise the achievement of an important priority.

48. A number of amendments have been made to the programme to include new schemes approved since February 2013 and re-phasing of existing schemes. It also includes the Executive decision to carry forward slippage from 2012/13 of £1.76m and the inclusion of the rolling programme schemes for 2017/18. The updated programme for 2013/14 to 2017/18 is now £19.1m and is summarised in the following tables:

Portfolio	**£000s**
Public Protection	379
Streetscene	65
Leisure and Community	4,390
Health and Housing	6,065
Strategic Planning and Environment	1,071
Policy and Resources	7,050
TOTAL	**19,020**

49. The phasing of the programme is now:

Year	**£000s**
2013/14	7,543
2014/15	3,778
2015/16	1,686
2016/17	1,581
2017/18	660
Un-phased	3,772
TOTAL	**19,020**

50. Certain spending plans within the programme have been earmarked for a particular purpose, but have not been allocated to a specific year. These are referred to as "un-phased" schemes within the capital programme, which are drawn upon as specific schemes are committed against the approved funding. The un-phased schemes are:

Un-phased schemes	£000s
Enabling (Affordable Homes)	2,500
Empty Homes Strategy	100
Car Park Surface Improvements	423
Matched Funding	120
CCTV	379
Environmental Improvements	250
TOTAL	**3,772**

51. The phasing of the detailed programme will be considered in detail during the budget process to ensure that it realistically reflects the latest forecast for capital expenditure.

EXISTING CAPITAL RESOURCES

52. The Council's financial resources that are available as at 1 April 2013 to finance the capital programme are summarised in the following table:

Current Resources	£000s
Capital Receipts	6,504
Capital Fund Account	4,918
Right-to-Buy receipts for housing schemes	4,655
External Contributions	3,669
Major Repairs and Renewals Reserve	1,302
Revenue Contributions to Capital Schemes	473
Matched Funding Reserve	248
TOTAL	**21,769**

53. In addition, the following resources are estimated to be available between 2013/14 and 2017/18:

Future Resources	£000s
Revenue Contributions to Capital Schemes	3,511
Contribution to Capital Fund	2,500
Government Grants	1,250
Capital Receipts	279
TOTAL	**7,540**

THE OVERALL CAPITAL POSITION

54. Resources of £29.3 million are estimated to be available over the life of the updated capital programme and therefore there should be a surplus of resources of approximately £10.3 million in 2017/18.

55. The forecast surplus of resources has increased due to increased contributions from revenue. However, with the funding reductions placing pressure on the revenue budgets and the policy of using a proportion of New Homes Bonus to top up this shortfall, the scope to continue using revenue funds at this level will become increasingly unsustainable.

56. The surplus further assumes an estimate of future capital receipts as well as continued revenue contributions towards capital investment, totalling £7.5m. In the event that these resources do not materialise, the surplus will be significantly reduced.

57. It must also be borne in mind that the implications of some of the Council's priority actions and emerging capital spending pressures have not yet been quantified. Costs associated with approved schemes also remain provisional until tenders have been received.

58. Spending pressures in this respect include repair and refurbishment or replacement works to Council assets (for example, community centres, car parks, sports pavilions and changing accommodation) that have yet to be added to the capital programme.

AVAILABILITY OF NEW CAPITAL RESOURCES

59. If the increasing pressure on the revenue budget means that the financing of capital expenditure directly from the revenue budget has to be reduced, the use of alternative funding sources would need to be explored. This may include consideration of unsupported and prudential borrowing, together with external funding streams (for example from Government, EU and other public and private grants, or private sector investment). Each of these options could have a role to play in the continued investment in public assets in the borough, but the future consequences, including on-going revenue commitments, would be a key consideration in determining their suitability.

60. The Council will also consider how disposal of existing assets and reinvestment of sale proceeds could be used to secure delivery of corporate priorities. Again, a cautious approach should be taken in this regard, as significant asset sales could adversely affect service delivery and would prejudice future income streams. It follows, therefore, that the proceeds from future asset sales will be limited.

EXTERNAL FUNDING

61. The limited availability of capital resources from internal sources means that every effort must be made to obtain external funding for future capital priorities. Detailed consideration of external funding must be the first stage when consideration is given to the development of potential future priorities.

62. It is equally important that the availability of external funding is fully explored in relation to existing capital schemes. Any external funding obtained for these schemes will avoid the use of existing capital resources which can then be used for future priorities.

63. It is important to stress that no scheme should be put forward for consideration simply because external funding is available. Schemes should only be considered if they meet, or at least contribute towards, a corporate priority.

THE IMPACT OF CAPITAL EXPENDITURE ON THE REVENUE BUDGET

64. Quite apart from the ability to finance new capital schemes, it is important to recognise that capital expenditure can have a significant impact on the revenue budget in a number of ways.

65. When decisions are made concerning the inclusion of new schemes in the capital programme, these factors need to be considered:

    - The on-going operational costs associated with the scheme
    - The whole life costing implications of the scheme
    - The cost of servicing the debt if the scheme is financed by borrowing
    - The loss of investment interest if internal resources are used and therefore no longer available for investment.

66. In the light of these factors, it is inappropriate to consider the inclusion of non-priority schemes in the capital programme.

REVENUE BUDGET AND COUNCIL TAX FOR 2013/14

67. The revenue budgets for providing services in 2013/14 were considered by the Executive for each portfolio (and non-Executive services) on 3rd December 2012.

68. The overall budget position was reviewed by the Executive on 7 January 2013 and the scope for new one-off revenue schemes and on-going schemes to be included in the revenue budget for 2013/14 was also considered. The final proposed net budget of £9,823,300 was approved by the Executive on 11 February 2013 (taking account of council tax freeze grant received).

69. With a net budget for 2013/14 of £9,823,300 and government support of £4,152,440, the Executive recommended to Council that the council tax for 2013/14 remain at the 2012/13 level of £140.22 and this recommendation was approved by the full Council on 22 February 2013.

70. Since the budget was approved in February, a number of issues that will impact on the revenue budget for this year, and on the revenue budget and council tax for 2013/14 and later years, have arisen.

THE OVERALL REVENUE POSITION

71. 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 13%.

72. Because the proportion is so low, the Fareham element of the council tax 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 8.9%.

73. There are a number of very significant issues that will have a significant impact on the Council's overall position in the current and future years and these are listed below:

Government Support
The Spending Reserve
The Anticipated Revenue Position in 2013/14
Future Spending Pressures
Future Funding Pressures

74. These issues are examined in the following sections of this report.

GOVERNMENT SUPPORT

75. The Comprehensive Spending Review (CSR10) of 2010 set out the Government's spending plans for the period 2011/12 to 2014/15 and took into account the £1.66 billion Local Government contribution to the £6.2 billion cross-Government savings needed to tackle the UK's record deficit in order to restore confidence in the economy and support the recovery.

76. The 2013 update indicated that a further 10% real-terms cut in funding would apply for Local Government with effect from 2015/16 including business rates, RSG and New Homes Bonus.

Formula Grant

77. The new way in which local authorities receive their funding commenced in 2013/14 and placed increased financial risk on billing authorities rather than central government. In the first year Fareham's share of the local business rate pot fell below the level deemed acceptable by the government and as a result Fareham received a safety net payment from central government. It is anticipated that this scenario will continue for 2014/15 and future years.

78. The RSG element of funding will see reductions in every year with the biggest reductions being in 2014/15 and 2015/16 where levels will reduce from the amount received in 2013/14 of £2.5million to approximately £1.9million and £1.4million respectively. These are of course estimates based on recent announcements and would be confirmed nearer the time but provisions must be made in anticipation of these large reductions.

Specific Grants

79. These grants are distributed outside the main settlement and are usually to fund particular services that are a national priority. For example, Fareham receives a specific grant towards the cost of housing benefit payments and administration which is a “ring-fenced” grant that cannot be used for other services.

Grant to Freeze Council Tax

80. As an incentive for Councils to freeze council tax in 2011/12 and ongoing to 2014/15, Government made available additional funding for the period of the Spending Review, broadly equivalent to supporting a 2.5% increase in

council tax. This has now been built into the core funding calculation.

81. In 2012/13 a further one-off sum, again equivalent to a 2.5% increase in the level of council tax, was offered to local authorities to freeze their council tax for a further year.

82. For 2013/14 there was a further sum offered on a 2 year basis but this time it was only equivalent to a 1% increase in council tax.

83. The Council supported this policy by freezing council tax in all years, representing the fifth year where council tax has remained unchanged.

THE SPENDING RESERVE

84. It is Council policy to maintain the spending reserve at 5% of gross expenditure and the current balance of £3,314,000 exceeds the minimum threshold for 2013/14 which, based on the estimated gross expenditure of £44.8 million, should be £2,237,900. Proposals for the use of the surplus of £1,076,100 will be developed during the autumn, for consideration in January, alongside the consolidated draft budget for 2014/15.

THE ANTICIPATED REVENUE POSITION IN 2013/14

85. Based on the income and expenditure patterns observed in the first six months of the year, it is anticipated that there will be a modest underspend in this current year. This has arisen from vacancies within the Council's establishment structure.

86. Conversely, there remain a number of service areas which are experiencing a reduction in income flows, and also experiencing a much greater demand for their services. These services, such as homelessness, benefits, planning, car parking and commercial properties may require additional resources in order to meet the demand and maintain service quality, which will erode the net underspends in other areas.

87. The overall impact of these variations will be presented in the revised budget, later this year.

FUTURE SPENDING PRESSURES

88. The risk profile of the Council's finances has increased in recent years, and is set to increase further in the future as the demand for increased expenditure presents itself, the fundamental change in the way local government services are funded and the general reduction in the quantum of funding available.

89. To manage the financial risks effectively, the Council maintains a profile of the spending pressures it faces. This is reviewed periodically and updated as part of the budget process. This section of the strategy gives provides an outline of the impact that these pressures may have on the Council's budgetary position over the period 2014/15 to 2017/18.

90. The individual pressures are listed below and represent an increase in expenditure of nearly £0.5m per year. This is a "best estimate" as there are many unknown aspects to this, and consequently, the levels of expenditure (and losses of income) could be greater, particularly in the later years. (All figures quoted in the table below reflect movements against the 2013/14 base budget).

SPENDING PRESSURES	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£000s	**£000s**	**£000s**	**£000s**
FBC Elections	100	0	100	0
Movements in the cost of employment (excl efficiency plans)	0	150	300	450
Other Contractual Inflation	60	120	180	240
Fuel and Energy Price movements	50	100	150	200
Increased pension costs	78	240	402	564
Open Space Management	40	40	40	40
Loss of Parking income	55	55	55	105
Loss of Commercial Rental income	200	200	150	100
TOTAL	**583**	**905**	**1,377**	**1,699**

91. FBC Elections - The elections of Council members takes place every 2 years with elected members serving a 4 year term of office. The last elections took place in May 2012.

92. Movements in the cost of employment - The rising cost of employment in future years reflects the cost of an assumed pay award and incremental pay movements.

93. Fuel and Energy Price Movements - The price of fuel has been fluctuating for a number of years and this was reflected in a budget increase during 2012/13. It is anticipated that the budget will not be sufficient for fuel demands in 2014/15 and this is likely to be the case in future years.

94. Increased Pension Costs – During 2013 the triennial pension valuations will be taking place. During the last review in 2010, decisions were made to limit movements in the employers' contributions due to the volatile and less predictable nature of the economy at the time, coupled with the inevitable reductions in public sector funding. It is, however, unlikely that increased contribution rates will be required to ensure the long term sustainability of the pension fund.

95. Open Space Management – In recent years, developments within the Borough that have led to an increase in the amount of open space under the Council's control. In view of this, further resources are anticipated in the ranger service to meet the increased demand on the service.

96. Loss of Parking Income - The income from parking fees has been dropping for a number of years and more recently this has dropped off further due to the opening of the new shopping complex at Whiteley, the additional parking spaces at Tesco and also the general economic climate. Although some of this loss will be offset by the bond arrangement through the Tesco development it is anticipated that this will be used up by 2017/18.

97. Loss of Commercial Rental Income - As with car parking income the level of commercial rent has been declining particularly with the development at Whiteley and current economic conditions. This has led to retailers being able to negotiate lower rents especially in the shopping centre. As a result, this places pressure on the income budgets within the commercial property portfolio.

98. Council Tax Support Scheme - As part of the budget process for 2013/14 the former Council Tax Benefit scheme was replaced with a local scheme that was approved by Full Council in January 2013. The scheme took into account transitional arrangements that reduced the impact on individuals in the first year to 8.5%. 2014/15 sees the scheme revised to take into account the end of the transitional arrangement which will lead to further uncertainty in the budget as take up of the scheme will be unknown.

99. In addition to the spending pressures listed above, other areas have been identified which could give rise to increased costs, but have yet to be costed. These include;

- Contaminated Land
- Individual Electoral Registration
- Revocation of personal search fees
- Impact of town centre developments, including review of parking strategy
- Increase in demand for homelessness services
- Welborne – Planning and supporting delivery
- Delivery of corporate priority actions.

FUTURE FUNDING PRESSURES

Interest on Balances

100. The budget for 2013/14 is £874,500 and covers the General Fund share of interest on investments together with the notional interest payable by the Housing Revenue Account to the General Fund.

101. No base rate increases are anticipated in the current financial year or the next and therefore the achieving the budget for interest on investments remains challenging.

Commercial Property Investment Acquisition Strategy

102. At the meeting on 7 January 2013 the Executive approved the Commercial Property Investment Acquisition Strategy which is designed to increase the Council's return on investments due to the low returns being received from treasury related investments. The report agreed to allow up to £3 million of investment in commercial property to achieve returns of up to £150,000 per annum to assist in reducing funding pressures.

103. A report will be brought to the Executive in November 2013 to review the investments that have been made to date and with a view to increasing the amount available to invest by between £3 million and £5million, funded from capital reserves, to relieve the pressure on the revenue budget.

Local Government Resource Review

104. In the CSR10 paper it was announced that there would be a review of how local government services would be funded, with specific reference to the way business rates would be collected and redistributed.

105. A further announcement in July 2013 reported that funding reductions would continue through from 2015/16 with reductions in that financial year being the largest with smaller funding reductions to follow through to 2019/20.

New Homes Bonus

106. The New Homes Bonus has been introduced to encourage local government to promote housing growth, by way of a financial incentive, ensuring that the economic benefits of growth are returned to the local areas where growth takes place.

107. The Bonus commenced in April 2011, and match funds the additional council tax raised for new homes and properties brought back into use, with an additional amount for affordable homes, for the next six years.

108. The Government announcement in July put forward a proposal to top slice NHB and make this available LEPs. This could result in Fareham losing 20% of NHB from 2015/16.

109. The award for Fareham for 2013/14 will be £1.093m and this is expected to grow to £1.234m in 2014/15 before the top slicing proposal reduces this to £1.183m in 2015/16.

110. New Homes Bonus funding is used in the following way:

- Firstly, if necessary, the award is top-sliced to meet reduced central government funding, and to support service delivery (particularly where demand has grown in line with the growth in housing);
- The balance is earmarked for investment in capital schemes or other projects, which are driven by corporate priorities;
- 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.

111. If assumptions for the reduction in Government funding are correct, then a top slice of any NHB award will be necessary to support continued service delivery. This will reduce the amount currently used to support capital projects to an extent where all NHB funding will be used to support reduced Government funding by 2015/16.

Council Tax

112. A high corporate priority for the Council has been to maintain council tax increases at or below the rate of inflation. During 2009/10 inflation indices were negative so meeting the corporate priority for 2010/11 was particularly difficult. However, in spite of the spending pressures for 2010/11, the achievement of significant efficiency savings enabled the Council to approve a frozen council tax for 2010/11 at the 2009/10 level of £140.22.

113. This level of council tax was maintained for a 5th consecutive year in 2013/14. The Council has retained its corporate priority in respect of minimising council tax increases throughout the Strategy period, and will use the RPIX index as a benchmark measure of inflation when considering any rises in council tax levels.

A SUMMARY OF THE FINANCIAL PRESSURES

114. Set against Fareham's gross revenue expenditure on services for 2013/14 of over £44.8 million, the anticipated financial pressures of nearly £2 million by 2017/18 represent an increase of 4%. However, only 13% (£5.6m) of the £44.8 million expenditure is met from council tax and therefore, without taking steps to offset the cost pressures, these would represent a significantly increased burden for the council tax payer. The overall position is set out in the following table:

PROJECTIONS	2014/15	2015/16	2016/17	2017/18
	£000s	**£000s**	**£000s**	**£000s**
Amount due from Council Tax Payers for 2013/14	5,643	5,643	5,643	5,643
Spending Pressures	583	905	1,377	1,699
Funding Pressures	567	1,078	1,291	1,391
Adjusted Projection	**6,793**	**7,626**	**8,311**	**8,733**
Increase in amount due from Council Tax Payers	**-113**	**-228**	**-345**	**-466**
Cumulative Cash Increase	**+1,037**	**+1,755**	**+2,323**	**+2,624**

115. It is important to stress that these projections are based on "most likely" assumptions but should the position worsen the pressures on the budget could increase by a further estimated £1m.

116. These projections are intended to give a general indication of anticipated net revenue expenditure pressures in future years and have not been based on a detailed review of individual budgets. They include the spending pressures but do not include any growth items.

117. To ensure that future council tax increases are within acceptable levels, savings therefore need to be delivered over the strategy period in order to reduce the projected amount due from taxpayers.

PROJECTED COUNCIL TAX FOR 2014/15

118. The projections shown above indicate that measures must be taken to reduce the net service cost if council tax increases are to be minimised.

119. If no action is taken, then an increase in council tax of around 21% would occur. This is clearly unacceptable, so steps have been taken to mitigate the increase in order that council tax increases do not exceed the RPIX measure inflation and is minimised further if achievable.

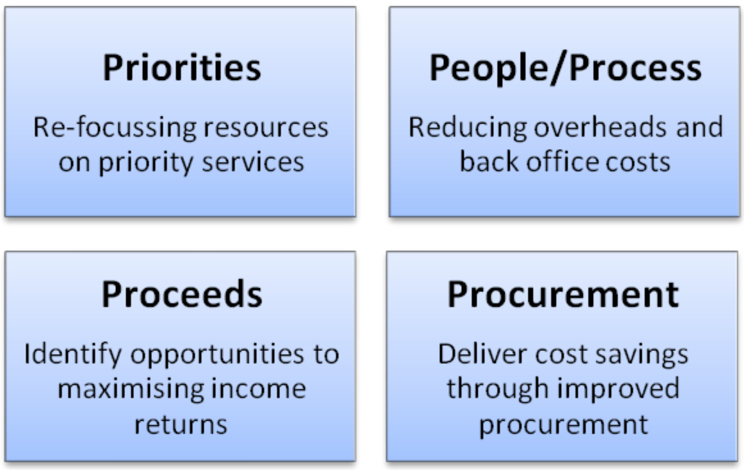
THE NEED FOR EFFICIENCY INITIATIVES

120. The forecast in this Strategy has highlighted the on-going and increasing need for savings in the Council's budget.

121. This is reflected in the Council's own local corporate priorities, in order that good quality services can continue to be provided while at the same time seeking opportunities to reduce costs and therefore minimise any extra cost burden for the taxpayer.

122. In the same way that the Council maintains a profile of spending pressures, opportunities to offset and mitigate these cost pressures are continually sought, so that a forward-planned approach can be taken to delivery. The Council also seeks to develop its efficiency plans well in advance 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.

123. Such opportunities are developed on the following basis



124. In April 2012, the Executive approved a programme of further actions totaling £636,700. Opportunities are well developed for the 2014/15 financial year, and a number of these will be captured during the current financial year. The plans to be delivered during 2014/15 are on the following basis:

- Priorities - £0
- People/Processes - £66,600

- Proceeds - £236,500
- Procurement - £105,500

125. In broad terms, it is anticipated that the savings secured for the following year will be sufficient to deliver a balanced budget and meet the Council's corporate priority concerning council tax. Further opportunities will, however, need to be undertaken to continue this in 2014/15 and beyond.

126. As part of the need for efficiencies the Executive appointed a company called Vanguard to review processes in order to release capacity and improve the customer experience. The initial phase of this project has been funded from the resources released from the spending reserve for Improving the Customer Experience and the Invest to Save fund.

127. Reviews are currently underway and as a result of this contract the work of the Business Transformation Team has been scaled back resulting in the redeployment a post holder within the team and the vacant post will be deleted with immediate effect releasing a saving of £108,000 over the 3 year term of the Vanguard contract.

THE OVERALL REVENUE POSITION

128. The following table shows the projected position for the years 2014/15 to 2017/18:

Projections for	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£000s	**£000s**	**£000s**	**£000s**
Amount due from Council Tax Payers for 2013/14	5,643	5,643	5,643	5,643
Spending Pressures	583	905	1,377	1,699
Funding Pressures	567	1,078	1,291	1,391
Adjusted Projection	**6,793**	**7,626**	**8,311**	**8,783**
Efficiency Opportunities	-408	-611	-686	-686
Interest on Balances	0	-25	-125	-125
Revised Projection	**6,385**	**6,990**	**7,500**	**7,922**
Increase in Amount payable by Council Tax Payers	**-113**	**-228**	**-345**	**-466**
Use of New Homes Bonus	**-567**	**-1,078**	**-1,291**	**-1,391**
Cumulative Cash Increase	**+62**	**+41**	**+221**	**+422**

129. Although significant savings have already been identified that total nearly over £1million over the next four years, it is clear that there are some further reductions required to produce a balanced budget for 2017/18. This will be

reviewed over the strategy period and steps taken as necessary, to deliver a balanced budget.

SENSITIVITY ANALYSIS

130. For each of the financial pressures, 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 changes on each financial pressure to be assessed. As more information becomes available about the individual pressures, the projections can be updated and made more certain.

131. For each year "best case" and "worst case" scenarios have been developed together with mid-point scenarios between these and the "most likely" position and these are set out in the following table:

SENSITITY ANALYSIS
PROJECTIONS
shown as "Amount due from council taxpayers" (£000s) and
"Year on year percentage increase in council tax" (%)

	2014/15 £000s / %	**2015/16 £000s / %**	**2016/17 £000s / %**	**2017/18 £000s / %**
Best Case	5,984 / (6%)	5,891 / (4%)	6,149 / (9%)	6,213 / (10%)
Mid point	6,251 / (11%)	6,311 / (12%)	6,675 / (18%)	6,812 / (21%)
Most Likely	**6,518 / (16%)**	**6,732 / (19%)**	**7,200 / (28%)**	**7,412 / (31%)**
Mid point	6,728 / (19%)	7,082 / (26%)	7,671 / (36%)	7,985 / (42%)
Worst Case	6,938 / (23%)	7,433 / (32%)	8,143 / (44%)	8,558 / (52%)

132. Members will note the very significant variations between the "best case" and "worst case" projections, which highlight the degree of uncertainty and volatility within the economic environment.

RISK ASSESSMENT

133. 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 expenditure or income would have a significant impact on the Council's revenue budget position.

134. The following table highlights the gearing effect that additional expenditure has on the council tax.

	£M	**% Increase**
Spending = £44.8 million	44.8	
- An extra £500,000	0.5	1.1
Council Tax Payers	5.6	
- An extra £500,000	0.5	8.9

135. 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 “volatile” services and account for £10.0m of gross expenditure and £8.9m of gross income. Special arrangements are in place to track financial performance of these services and the other major services, and take action where there is a significant deviation from plans.

136. Given the uncertain funding position and external pressures facing the Council, it is important to maintain a minimum spending reserve equivalent to 5% of gross revenue expenditure.

BUDGET SETTING PRINCIPLES FOR 2014/15

137. 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.

138. It is proposed therefore that the following budget guidelines be adopted for 2014/15:

- No provision for the effects of inflation to be provided in revenue budgets except to cover price increases that are unavoidable or the Council is legally obliged to accept,

- Revenue budgets to be cash-limited to the current level and to be reviewed to ensure that all on-going savings that have accrued in previous years and the current year are reflected in future budgets,

- Fees and charges to be increased to achieve a 5% increase in income wherever possible and desirable 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.

CONCLUSION

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

140. 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 indicates that measures are in place to achieve a balanced budget throughout most of the strategy period, but there remain significant uncertainties for 2015/16 and beyond. This is principally due to the fundamental changes in the way Local Government services are funded, and the implications of the Welfare Reform Act relating to localized support for council tax. There also remains a number of significant financial pressures linked to corporate priorities, both revenue and capital, which either need to be mitigated or resourced through reallocating funds from within the total budget envelope.

141. With the growing financial risk profile over the next four years, it is clear that firm measures are necessary to maintain a balanced and sustainable budget into the medium term. This can only be achieved by mitigating rising costs where possible, and delivering further efficiencies in sufficient time for their inclusion within the budget.

142. The focus will therefore be 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, using the four-part model highlighted in the strategy.

APPENDIX A

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.

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 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 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 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.

APPENDIX B

FAREHAM BOROUGH COUNCIL PAY POLICY STATEMENT
FINANCIAL YEAR 2014 - 15

1. Purpose

The purpose of 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 2014 -15, 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:

2.1 **"Pay"** in addition to base salary includes charges, fees, allowances, benefits in kind, increases in/enhancements to pension entitlements and termination payments.

2.2 **"Chief Officers"** refers to the following roles within the Council:

Statutory Chief Officers are:
a) Chief Executive Officer, as Head of Paid Service
b) Director of Regulatory & Democratic Services, as Monitoring Officer
c) Director of Finance & Resources, as Section 151 Officer

Non Statutory Chief Officers are:
d) Director of Planning & Environment
e) Director of Community
f) Director of Streetscene

Deputy Chief Officers are:
f) 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.

2.3 **"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.

2.4 **"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 Personnel and Development and endorsed by the Chief Executive Officer.

3.2 Responsibility for decisions on pay structures.

The outcome of reviews into the local pay and grading structures covering all jobs are considered by an Advisory Panel proportionately constituted and comprised of Councillors from the main political parties. The Advisory Panel’s recommendations 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 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. Implementation of the revised pay structure was concurrent with that for all other employees in April 2008. Relevant labour market and comparative remuneration data was considered.

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 and consists of a pay spine of 46 points, comprising 11 grades with grade1 being the lowest and grade11 the highest. Each employee will be on one of the 11 grades based on their job evaluated role. Each grade contains 5 spinal column points to allow for incremental advancement within the grade.

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 two pay grades for Heads of Service with all grades containing 5 points.

Details of the Council's pay structures are published on the Council's website and a copy as at 1st April 2013 is appended to this Statement (at annex 1).

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. If there is an occasion where to do so would distort the local pay structures alternative proposals are developed, discussed with the trade unions and brought to Elected Members for formal approval.

There was a 1% inflationary annual pay award in April 2013 for mainstream employees. Typically Chief Officers and Heads of Service receive the same percentage pay award as for all other employees. However, there has been no inflationary annual pay award to Chief Officers and Heads of Services since April 2008.

4. Remuneration – level and element

4.1 Salaries

4.1.1 "Chief Officers" are identified **at 2.2** 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 £95,280 to £107,574.

b) Statutory and Non-Statutory Chief Officers will be paid a salary within the grade range £71,968 to £79,287.

4.1.2 "Deputy Chief Officers" who are Heads of Service are all paid within the Council's pay structures as follows:

c) Heads of Service will be paid a salary within grades ranges £47,654 to £58,617.

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.

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 (Director) and the Head of Personnel and Development.

4.4 Other pay elements

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 Heads of Service, in connection with their role or the pattern of hours they work in accordance with National or Local collective agreements.

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.

The Chief Executive Officer has been appointed as the Council's Returning Officer for elections and he has appointed the Head of Customer and Democratic Services and the Head of Corporate 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. This scale is published on the Council's website.

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

There are no benefits in kind payable to any employee of the Council.

4.7 Pension

All employees as a result of their employment are eligible to join the Local Government Pension Scheme. There will be no increases or enhancement to pension entitlements.

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 membership and on awarding additional 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.

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.

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 Personnel 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 mean average earnings across the whole workforce as a pay multiple. By definition, the Council's highest paid employee is the Chief Executive Officer. The mean average pay has been calculated on all taxable earnings for the financial year 2013-14, including base salary, allowances, etc.

Highest paid employee	£107,574
Mean average earnings for remainder of workforce	£24,353
Ratio	4.41

ANNEX 1

Fareham Borough Council
Local Pay Scales as at 01/04/2013

Chief Executive

Spinal Column Point		Annual
5	1	107,574
4		104,499
3		101,427
2		98,352
1		95,280

Directors (Grade & Salary scale)

Spinal Column Point		Annual
5	1	79,287
4		77,451
3		75,628
2		73,798
1		71,968

Senior Management (Grades & Salary scales)

Spinal Column Point			Annual
5		2	58,617
4			57,111
3			55,457
2			53,794
1			52,150
5	3		53,794
4			52,150
3			50,493
2			49,050
1			47,654

Mainstream (Grades and Salary scales)

Spinal column point	Grade	Annual
46		47,316
45		46,273
44	11	45,255
43		44,262
42		43,282
41		42,755
40	10	41,715
39		40,698
38		39,690
37		38,736
36	9	37,698
35		36,696
34		35,710
33		34,753
32	8	33,738
31		32,761
30		31,804
29		30,883
28	7	29,981
27		29,103
26		28,253
25		27,438
24	6	26,639
23		25,863
22		25,109
21		24,380
20	5	23,610
19		22,864
18		22,146
17		21,449
16		20,722
15	4	20,022
14		19,347
13		18,687
12		18,061
11	3	17,452
10		16,858
9		16,295
8		15,702
7	2	15,135
6		14,621
5		14,091
4		13,551
3	1	13,031
2		12,629
1		12,380