

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision 6 January 2014

Portfolio:	Policy and Resources
Subject:	Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2014/15
Report of:	Director of Finance and Resources
Strategy/Policy:	Finance Strategy 2014/15
Corporate Objective:	A dynamic, prudent and progressive Council

Purpose:

This report reviews the Council's finance strategy and makes recommendations regarding the capital programme, the revised revenue budget for 2013/14 and the revenue budget for 2014/15.

Executive summary:

On 2 December 2013, the Executive considered the Council's capital programme, revised service budget for 2013/14 and proposed service budgets for 2014/15.

Capital Programme and Resources 2013/14 to 2017/18

The capital programme amounts to £34,601,000, and there are capital resources totalling £34,814,000 over the programme period. Whilst a surplus of capital resources exists, there are significant spending requirements emerging that require new resources to be accumulated now so that the Council can meet its future commitments.

Revised General Fund Revenue Budget 2013/14

The revised general fund revenue budget for 2013/14 amounts to £13,867,000 for service budgets with other budgets totalling £-4,043,700 giving an overall position of £9,823,300.

General Fund Revenue Budget 2014/15

The proposed general fund budget for 2014/15 totals £13,027,400 for service budgets along with £-3,640,100 for other budgets giving an overall position of £9,387,300 which is a reduction of £436,000 against the original budget for 2013/14.

Recommendation:

- (a) That the capital programme for the period 2013/14 - 2017/18, amounting to £34,601,000 be approved;
- (b) That the revised 2013/14 general fund budget, amounting to £9,823,300 be approved;
- (c) That the base 2014/15 general fund revenue budget amounting to £9,387,300 be approved;
- (d) Use of the surplus on the spending reserve as set out in paragraphs 28-30 be approved.

Reason:

To allow the Council to approve the capital programme, general fund revised revenue budget for 2013/14 and draft revenue budget for 2014/15.

Cost of proposals:

The costs are set out in the overall revenue budget and capital programme detailed in the attached briefing paper.

Appendices A: Consolidated General Fund Budget 2013/14 (revised) and 2014/15 (Base)

Background papers: None

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Executive Briefing Paper

Date: 6 January 2014

Subject: Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2014/15

Briefing by: Director of Finance and Resources

Portfolio: Policy and Resources

INTRODUCTION

1. This report brings together the revenue and capital spending plans for the Council's local service agreements, as part of the Council's co-ordinated strategic, service and financial planning process.
2. The finance strategy was considered in October 2013, in advance of the budget process. The Finance Strategy reviewed the Council's overall financial position, taking into account:
 - the actual position in the previous financial year;
 - issues that have arisen in the current year;
 - the future level of government support;
 - current and future financial pressures; and
 - timing of the Council's major capital schemes.
3. It is against this background that the budget setting principles for the forthcoming financial year were agreed.
4. This report provides a further update to the Council's overall financial position in the light of the updated capital programme and the approved service budgets and allows the ability to accommodate new revenue and capital spending plans to be considered.

FINANCE STRATEGY AND BUDGET SETTING PRINCIPLES FOR 2014/15

5. On 7 October 2013 the Executive considered a report on the Council's finance strategy that highlighted the various issues that will impact on the revenue budget and council tax for 2014/15 and later years.

6. A major corporate priority for the Council is to maintain council tax increases at or below the rate of inflation. Currently RPIX inflation is 2.7% (Oct 13) and headline RPI was 2.6%. The Government has indicated that it expects councils to freeze council tax at the 2013/14 levels and will reward councils that achieve it with additional grant to do this. The budget has been prepared in a way that will deliver a nil percent increase in council tax for a fifth year, consistent with the outcome achieved for 2013/14.
7. Gross expenditure on services in 2013/14 is £46.6 million but a minimal increase of only £60,000 (0.13%) is sufficient to increase the council tax by 1%. For 2014/15 the spending and funding pressures equate to a 15% increase in the amount due from council tax payers.

GENERAL FUND CAPITAL PROGRAMME

8. The general fund capital programme was considered by the Executive on 2 December 2013. The programme amounted to £34,601,000 for the period 2013/14 - 2017/18.
9. Resources available to fund the capital programme amount to £34,814,000 over the programme period, and therefore by 2017/18 there should be a surplus of £213,000.
10. However, while the condition of the Council's assets is generally good, there is a growing need to make a significant investment over the coming years in order to maintain the assets and meet future service needs. One of the corporate priorities is to provide a new swimming pool in the western wards. Despite the current surplus of capital resources (compared to the approved programme), the asset reviews suggest that there are insufficient resources in the future.
11. Consequently, there is a need to continue accumulating additional resources to meet the future capital demands. The Executive has previously agreed to set aside £500,000 from the revenue budget each year for this purpose and also has a policy to use New Homes Bonus money for capital and project funding once any funding shortfall or requirement to fund expenditure relating to the Welborne Project has been met. Capital resources will also be supplemented with any non-specific windfall income received during the year.

THE REVENUE BUDGET

The Base Revenue Budget 2013/14

12. The net revenue budget for 2013/14 was £9,823,300, a reduction of £783,300 on the previous year, and as a result the council tax was frozen, which was below the annual rate of inflation for the ninth consecutive year.

The Revised Service Budget 2013/14

13. The Executive and the Committees considered the revised service budgets for 2013/14 in November and December 2013. The overall service budget is £1,154,800 higher than the base budget for the year.

14. Other budgets, such as investment income, contributions to capital, etc. have increased by an equivalent amount, and the revised budget remains as £9,823,300. Further information of how this is spread across portfolios is in Appendix A.

THE SERVICE BUDGET 2014/15

Cost of Services

15. The Executive considered the draft 2014/15 revenue budget for each committee and portfolio on 2 December 2013.

Other Budgets

16. In addition to the expenditure and income required to provide Council services, there are other costs and income which need to be taken into account when establishing the overall budget requirement. These include capital financing costs, interest earned on the Council's investments, accounting adjustments, etc.
17. Capital Financing Costs: The proposed budget provides for a revenue contribution to capital of £2.2m, which includes a contribution of £500,000 towards future capital commitments. This also includes a share of the New Homes Bonus award in the year (£897,900).
18. Interest on Balances: The downturn in the economy and subsequent slow recovery along with the uncertainty within the financial markets has had a significant adverse impact on income earned on investments. The Council has taken numerous steps to protect its investment portfolio even further, by spreading risks, using highly rated commercial institutions or Government bodies and investing for short periods. Consequently, however, the rates of return are limited.
19. The reduction in the figures for the base budget for 2014/15 reflects this but also takes into account a decision made by the Executive to invest up to £8million in the Commercial Property Investment Acquisition Strategy whereby income will be received through commercial rents rather than interest on investments.
20. Portchester Crematorium Contribution: This crematorium is one of the Council's earliest partnerships with three other Councils. Each year the crematorium contributes a share of any surplus to each Council and the Joint Committee has agreed that in 2014/15 the contribution will be £150,000 which is the same as the original budget for the current year.
21. Contribution from Reserves: This represents items in the budget that are funded from reserve accounts that the Council holds. This includes funding the Welborne project from Capacity Funding money and Housing and Planning Delivery Grant. Other reserves that have been used to reflect spending in the revised and base budgets include the High Street Innovation Fund (£200,000) to be used on various projects to improve shopper experiences within Fareham Town Centre, Improving the Customer Experience (£100,000) and Invest to Save (£100,000) funds to be used for the Vanguard Projects and some Section 106 funding for an additional ranger post of £40,000.

22. The following table summarises the overall variations in the Council's net budget, with further information of how this is spread across portfolios in Appendix A:

	Base 2013/14 £000s	Base 2014/15 £000s	Variations £000s
Gross Service Expenditure	42,559	43,275	+716
Gross Service Income	-29,847	-30,248	-401
Net Service Expenditure	12,712	13,027	+315
Other budgets	-2,889	-3,640	-751
Total Budget	9,823	9,387	-436

23. Taking account of all revenue budget items, the overall budget for 2014/15 will be £9,387,300, which represents an overall decrease of £436,000 or 4.6%. Taking account of the anticipated change in the formula grant and the council tax base for 2014/15, this budget will allow the council tax to be set at the same level as in 2013/14.

SPENDING PRESSURES AND SERVICE EFFICIENCIES

24. The Finance Strategy explained that there are a number of very significant spending pressures facing the Council over the coming years. These pressures represent increasing costs that cannot be avoided (e.g. changes to rateable values on car parks, rising fuel and equipment maintenance costs, etc), reducing income from services and investments, and additional funding that is required in order to progress high corporate priority actions.
25. The proposed budget of £9,387,000 includes over £632,000 of extraordinary cost increases (or income reductions) and efficiencies have been implemented to offset these costs.
26. At the meeting of the Executive on 7 October 2013 the Executive Leader advised that he has asked the Chief Executive Officer to prepare and bring forward a range of options for the budget gap to be closed by using the four elements of the Council's Efficiency plan (Priorities, Proceeds, People/Process and Procurement) as a basis, with a view to finding £800,000 of savings by 2015.
27. To support the revenue budget before these savings are achieved £435,300 has been transferred from the spending reserve with a view to replenishing the balance once the savings are realised.

SPENDING RESERVE

28. The Spending Reserve provides for unforeseen fluctuations in revenue expenditure and income such that one-off variations can be funded without having an adverse impact on the council tax. In accordance with the Finance Strategy, the minimum balance for the reserve is 5% of the planned gross expenditure. Taking account of the proposed expenditure in 2013-14, this equates to £2,330,000 and the current balance in the reserve is £3,313,700, a surplus over the minimum balance of £983,700.
29. As part of the Medium Term Financial Strategy it was agreed that proposals for the use of the surplus would be developed during the autumn for consideration in this report.
30. Paragraphs 8-11 review the capital programme and resources needed in order to meet this programme. It is recommended that the spending reserve surplus of £983,700 is transferred to support the capital programme in respect of this project.

GOVERNMENT SUPPORT IN 2014/15

31. Currently, local councils receive their funding from 3 main sources: grants from central government; council tax; and other locally generated income such as fees and charges for services.
32. From April 2013, business rates have been retained locally by the billing authority, and the Council pay a proportion of the money collected to Hampshire County Council, Hampshire Fire and Rescue Authority and the Government.
33. The Government has also announced that there will be a one-off freeze grant available in 2014/15 for councils that keep their council tax either at or below the 2013/14 level. This grant equivalent to a 1% increase in council tax levels will enable council tax to remain low but it does mean that in order to keep spend at the same level there will be a need to reduce costs further due to 'lost' council tax income in future years.

NEW HOMES BONUS

34. On 7 October 2013 in approving the Finance Strategy, the Executive approved the following policy on the treatment of the New Homes Bonus income:
 - *“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; and*
 - *Projects that support or secure further housing delivery.*

35. *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.”*
36. In line with the policy, of the £1,106,900 received in 2013/14, £194,800 will be used to offset reductions in Government funding with the balance of £912,100 to be used for capital investment.
37. The provisional reward for 2014/15 is £1,480,000 and it is proposed that £582,100 is used to offset reductions in Government funding with the balance of £897,900 used for capital investment.

RISK ASSESSMENT

38. In considering the budget, there are a number of issues that need to be borne in mind, as set out below:-
39. The economic climate remains very uncertain, and has had a significant impact on certain services and budgets.
40. The Government continues to expect the public sector to achieve significant efficiencies, in 2014/15 and in future years due to changes in funding. The table below shows the funding changes for Fareham since 2009-10 when council tax was first set at the current level.

Financial Year	Government Grant (RSG & NNDR)	£ Change	% Change
2009/10	£6,204,530		
2010/11	£6,235,553	£31,023	+0.5%
2011/12	£4,610,248	-£1,625,305	-26.1%
2012/13	£4,000,459	-£609,789	-13.2%
2013/14	£4,090,980	+£90,521	+2.3%

41. Although 2013/14 shows a small increase in Government support this was achieved principally due to the subsidy for the Council Tax Support Scheme (£386,000) being incorporated into core funding for Local Authorities.
42. Between October 2009 and October 2013 RPIX has increased by 16.6%.
43. To add to the funding reductions the Local Government Resource Review has shifted the balance of risk away from Central Government to a local level with Councils bearing a large degree of the risk of fluctuations in business rates collected.
44. The Executive has previously agreed that the balance on the spending reserve should equate to at least 5% of gross revenue expenditure which, for 2013/14, is £2,330,000. A detailed assessment of need has been carried out, following guidance from the Chartered Institute of Public Finance and Accountancy (LAAP77), which indicates that this is an appropriate level to retain but should not be reduced, especially at this time of significant uncertainty.

45. While the Council's capital resources are expected to exceed planned capital expenditure at the end of the programme period (by approximately £200,000), future spending requirements could give rise to a very significant shortfall. It is therefore imperative that capital reserves are replenished whenever possible in order to meet the future spending needs.

THE COUNCIL TAX FOR 2014/15

46. If the proposed base budget is approved, the overall revenue budget for 2014/15 will be £9,387,300.
47. With government support of £3,641,870 the total amount to be raised from council taxpayers would be £5,745,430.
48. With the council tax base – the equivalent number of Band D properties – for 2014/15 being 40,974, this would give a council tax per Band D property for 2014/15 of £140.22, which is the same level of council that has been charged since 1 April 2009. This council tax freeze compares favourably to the current level of inflation of 2.7% (RPIX, October 2013).

ASSURANCE STATEMENT BY THE STATUTORY CHIEF FINANCIAL OFFICER

49. Section 25 of the Local Government Act 2003 states that when the Council sets a budget for the forthcoming financial year, the statutory Chief Financial Officer (CFO) must report to the authority on the robustness of the budgets and the adequacy of the financial reserves.
50. The CFO is able to confirm that the Council's co-ordinated finance strategy allows the availability of resources to finance both capital and revenue expenditure to be considered at the same time. It provides the necessary flexibility to allow resources to be allocated to both capital and revenue and this has enabled the delivery of balanced budgets for both capital and revenue.
51. The CFO can also confirm the robustness of the approved budgets and therefore major variations in expenditure and income are not anticipated. However, a risk assessment has been carried out to highlight the impact of possible variations in the level of expenditure and income and by maintaining the spending reserve at 5% of gross expenditure resources are in place to meet any likely variations that could not be met from within the Council's overall budget.

CONCLUSION

52. The Council's finances remain under pressure in the current year, and there is every indication that this situation will persist in the future not only from economic pressures but also from Central Government funding constraints.
53. Consequently, the budget setting process for 2014/15 has presented the same challenges that were experienced during the 2013/14 budget, but with careful forward planning and appropriate mitigating action being taken at the earliest opportunity, the proposed budget has been produced which is believed to be robust and sustainable.

54. Taking new priority spending into account, the proposed revenue budget for 2014/15 will provide sufficient resources to deliver the Council's services and its priorities, and enable the council tax to be frozen for 2014/15, at current levels.

Reference Papers: None

ACTUAL REVENUE BUDGET

	Budget	Revised	Variation	Budget	Variation
	2013/14	2013/14	Base to	2014/15	Base to
	£	£	Rev	£	base
			£		£
Committees					
Planning Committee	669,000	707,400	38,400	793,400	124,400
Licensing and Regulatory Affairs Committee	395,800	399,700	3,900	503,400	107,600
Executive - Portfolio Budgets					
- Leisure and Community	1,681,800	1,837,200	155,400	1,754,000	72,200
- Health and Housing	1,369,400	1,444,800	75,400	1,210,300	-159,100
- Strategic Planning and Environment	-234,100	-181,700	52,400	-580,000	-345,900
- Policy and Resources	2,113,000	2,621,900	508,900	2,374,600	261,600
- Public Protection	2,435,700	2,745,100	309,400	2,679,100	243,400
- Streetscene	4,281,600	4,292,600	11,000	4,292,600	11,000
SERVICE BUDGETS	12,712,200	13,867,000	1,154,800	13,027,400	315,200
Capital Charges	-1,763,400	-2,152,200	-388,800	-2,152,200	-388,800
Capital Financing Costs					
- Use of Housing Capital Receipts	-415,600	-495,400	-79,800	-230,000	185,600
- Direct Revenue Funding	1,301,000	1,351,800	50,800	1,301,000	0
- Direct Revenue Funding NHB	897,900	912,100	14,200	897,900	0
Interest on Balances	-874,500	-770,700	103,800	-676,900	197,600
Portchester Crematorium	-150,000	-150,000	0	-150,000	0
New Homes Bonus	-1,092,700	-1,106,900	-14,200	-1,480,000	-387,300
Contribution to(+)/from(-) Reserves	-791,600	-1,632,400	-840,800	-1,149,900	-358,300
OTHER BUDGETS	-2,888,900	-4,043,700	-1,154,800	-3,640,100	-751,200
NET BUDGET	9,823,300	9,823,300	0	9,387,300	-436,000