



Report to the Executive for Decision 7 January 2013

Portfolio:	Policy, Strategy and Finance
Subject:	Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2013/14
Report of:	Director of Finance and Resources
Strategy/Policy:	Finance Strategy 2013/14
Corporate Objective:	A dynamic, prudent, progressive and best practice Council

Purpose:

This report reviews the Council's finance strategy and makes recommendations regarding the capital programme, the revised revenue budget for 2012/13 and the revenue budget for 2013/14.

Executive summary:

On 3 December 2012, the Executive considered the Council's capital programme, revised service budget for 2012/13 and proposed service budgets for 2013/14.

Capital Programme and Resources 2012/13 to 2016/17

The capital programme amounts to £19,903,000, and there are capital resources totalling £32,100,000 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 2012/13

The revised general fund revenue budget for 2012/13 amounts to £13,253,500 for service budgets with other budgets totalling £-2,795,000 giving an overall position of £10,458,500.

General Fund Revenue Budget 2013/14

The proposed general fund budget for 2013/14 totals £12,730,200 for service budgets along with £-3,055,000 for other budgets giving an overall position of £9,675,200 which is a reduction of £783,300 against the original budget for 2012/13.

Recommendation:

- (a) That the capital programme for the period 2011/12 - 2015/16, amounting to £19,903,000 be approved;
- (b) That the revised 2012/13 general fund budget, amounting to £10,458,500 be approved;
- (c) That the base 2012/13 general fund revenue budget amounting to £9,675,200 be approved;
- (d) That the Executive recommends to Council that authority to calculate the Non-domestic rate baseline for 2013/14 and subsequent years be delegated to the Director of Finance and Resources.

Reason:

To allow the Council to approve the capital programme, general fund revised revenue budget for 2012/13 and draft revenue budget for 2013/14.

Cost of proposals:

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

Appendix A: Consolidated General Fund Budget 2012/13 (revised) and 2013/14 (Base)

Background papers: None

Executive Briefing Paper

Date: 7 January 2013

Subject: Finance Strategy, Capital Programme, Revenue Budget and Council Tax 2013/14

Briefing by: Director of Finance and Resources

Portfolio: Policy, Strategy and Finance

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 2012, 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 2013/14

5. On 1 October 2012 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 2013/14 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 3.3% (Oct 12) and headline RPI was 3.2%. The Government has indicated that it expects councils to freeze council tax at the 2012/13 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 fourth year, consistent with the outcome achieved for 2012/13.
7. Gross expenditure on services in 2012/13 is £47.8 million but a minimal increase of only £60,000 (0.13%) is sufficient to increase the council tax by 1%. For 2013/14 the spending and funding pressures equate to an 11% 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 3 December 2012. The programme amounted to £19,827,000 for the period 2012/13 - 2016/17.
9. Since the budget was set there has been a Government announcement that further funding for Disabled Facilities Grant has been made available. Fareham's element of this is an extra £76,000 and has been included in the budget figures. This brings the total capital programme to £19,903,000.
10. Resources needed to fund the capital programme, as set out in the Finance Strategy amount to £32.1 million over the programme period, and therefore by 2016/17 there should be a surplus of £12.2 million.
11. 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. Despite the current surplus of capital resources (compared to the approved programme), the asset reviews suggest that there is insufficient resources in the future.
12. 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 New Community North of Fareham 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 2012/13

13. The net revenue budget for 2012/13 was £10,458,500, a reduction of £363,800 on the previous year, and as a result the council tax was frozen, which was below the annual rate of inflation for the eighth consecutive year.

The Revised Service Budget 2012/13

14. The Executive and the Committees considered the revised service budgets for 2012/13 in November and December 2012. The overall service budget is £304,000 less than the base budget for the year.

Other budgets, such as investment income, contributions to capital, etc. have increased by an equivalent amount, and the revised budget remains as £10,458,000.

15. The following table summarises the overall variation in service budgets with further information of how this is spread across portfolios in Appendix A:-

	Base 2012/13 £000s	Revised 2012/13 £000s	Variations £000s
Service Expenditure	45,869	47,601	+1,732
Service Income	-32,312	-34,348	-2,036
Net Service Expenditure	13,557	13,253	-304
Other Budgets	-3,099	-2,795	+304
Total Budget	10,458	10,458	0

THE SERVICE BUDGET 2013/14

Cost of Services

16. The Executive considered the draft 2013/14 revenue budget for each committee and portfolio on 3 December 2012.

Other Budgets

17. 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.
18. Capital Financing Costs: The proposed budget provides for a revenue contribution to capital of £2.0m, 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 (£731,800).
19. Interest on Balances: The downturn in the economy and the uncertainty within the financial markets has had a significant adverse impact on the anticipated 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. The increase in the figures for the base budget for 2013/14 is due to an additional £300,000 received from the Housing Revenue Account for the borrowing as part of the HRA reforms.

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 have agreed that in 2013/14 the contribution will be £150,000 which is the same as the original budget for the current year.
21. 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 2012/13 £000s	Base 2013/14 £000s	Variations £000s
Gross Service Expenditure	45,869	42,577	-3,292
Gross Service Income	-32,312	-29,847	2,465
Net Service Expenditure	13,557	12,730	-827
Other budgets	-3,099	-3,055	44
Total Budget	10,458	9,675	-783

22. Taking account of all revenue budget items, the overall budget for 2013/14 will be £9,675,200, which represents an overall decrease of £783,300 or 7.5%. Taking account of the anticipated change in the formula grant and the council tax base for 2013/14, this budget will allow the council tax to be set at the same level as in 2012/13.

SPENDING PRESSURES AND SERVICE EFFICIENCIES

23. 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.
24. The proposed budget of £9,675,200 includes over £632,000 of extraordinary cost increases (or income reductions) and efficiencies have been implemented to offset these costs.

SPENDING RESERVE

25. 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 2012-13, this equates to £2,390,000 and the current balance in the reserve is £2,810,000, a surplus over the minimum balance of £420,000.

26. As part of the Medium Term Financial Strategy it was agreed to use some of the spending reserve surplus on one-off projects. These projects would focus on 4 themes; Implementing Efficiency Plans, Improving the Customer Experience, High Street Innovation and Invest to Save. Ideas for each project are still being developed but include the following:
27. Implementing Efficiency Plans: On 2nd April 2012, the Executive approved a series of efficiency proposals, amounting to £636,700. At the time, it was estimated that there were £217,000 of termination costs in relation to staff redundancies. The report explained that “in year” savings would meet this cost however, it also identified the need to possibly access the Spending Reserve if this could not be contained. A sum of £150,000 was therefore set aside to meet any shortfall in funding termination costs and to deliver the approved efficiency plan on time. Any draw down on the £150,000 will be determined at the end of the financial year.
28. Improving the Customer Experience: £100,000 was earmarked to invest in actions with a focus on making services more accessible to residents and re-designing services with the customer at the centre of the process. Examples that are being explored include
- Redesigning the Council website
 - Redesigning the layout of the ground floor
 - Increased use of Council Connect and outreach into the borough
 - 2013 Residents Survey
 - Customer services training
29. High Street Innovation: £100,000 was used to match fund an equivalent Government grant, to promote and extend the prosperity of the town centre. At the Executive on 3 December 2012 the Leader gave an update on the use of this funding. Further work will be undertaken with a view to a report being brought to the Executive early in 2013. Projects identified so far through the work undertaken with local businesses include;
- Town Centre Parking - including removal of some restrictions in Council car parks,
 - Improving signage around the town centre,
 - Streetscene improvements including new seating, cycle rack, market stalls
 - Improved information for visitors including a dedicated website for Fareham Town Centre
 - Encouraging new business through effective means of support
 - Development site and policies plans to facilitate more use of the Henry Cort area.
30. Invest To Save: £100,000 was also earmarked to identify opportunities where innovation, technology and investment can improve the efficiency of services and reduce overall costs. Ideas being investigated include:
- Proactive marketing of Economic Development and borough assets
 - Commercial Property Investment - A report detailing how this will work is also on this agenda

- Changes to Vehicle Fleet, using GPS & fuel efficiency devices
- ICT Opportunities - Use of wireless technology & mobile devices to deliver front line services
- Parking Machines - Improved payment methods for customers using car parks.

GOVERNMENT SUPPORT IN 2013/14

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. Under existing arrangements, business rates revenue is collected by local authorities but pooled nationally, to then be redistributed to Councils using a centrally determined formula. So while local authorities have a vital role to play in supporting the local economy there is little financial incentive to do so. There is also little or no financial risk at a local level associated with collecting rates.
33. From April 2013, business rates will be retained locally by the billing authority, and the Council will pay a proportion of the money collected to Hampshire County Council, Hampshire Fire and Rescue Authority and the Government. This will be based on a complex funding model, which has not yet been finalised. A large proportion of the risks and rewards will now be borne by local authorities, and any cash-flow risks will be borne in full by Fareham as the billing authority.
34. Some of the business rate growth can be retained by the Council and other preceptors. This "reward" could arise from improved collection rates, an increase in the number of non-domestic premises in the borough and revaluations. Equally, Councils must also bear the cost of any reduction in the money collected, which could arise from a reduced collection rate, business premises converting to residential or being removed from the rating list, from appeals and revaluations, etc.
35. The model represents a fundamental change in the way local government services are funded, and the risks associated with that funding.
36. It is not yet possible to quantify how much funding will be available for local services as the new regime has not been finalised, but an assumption has been made that approximately £3.9m of business rates and Government grant will be used to part-fund the budget, a reduction of approximately £250,000 compared to the current year. This funding should be clarified in readiness for the February budget report.
37. To arrive at this estimate, an estimate of the business rates baseline needs to be set. This is the first year in which such a calculation needs to be made, and it is proposed that in the same way that the council tax base is delegated to the Section 151 Officer to determine, the business rates baseline is also delegated. The baseline figure for 2013/14 will be reported for information to the February Executive.

38. The Government has also announced that there will be a one-off freeze grant available in 2013/14 for councils that keep their council tax either at or below the 2012/13 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

39. On 1 October 2012 in approving the Finance Strategy, the Executive approved the following policy on the treatment of the New Homes Bonus income:
- *“Firstly, the award should be 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 should be 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.*
40. *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. Any balance of the award for 2013/14 is likely to be required to fund expenditure relating to the New Community North of Fareham (NCNF).”*
41. In line with the policy, the £658,000 received in 2012/13 will be used for capital investment.
42. The provisional reward for 2013/14 is £1,092,700 and it is proposed that £731,800 of this will be used for capital investment, £281,000 used to offset reduced central government funding and £79,900 to fund expenditure relating to the NCNF. The NCNF element takes account of the Area Action Plan timetable of activities which was considered by the Executive in November, however work has commenced on two other issues of importance.
43. Firstly, work required to demonstrate how infrastructure to be provided can be funded has commenced. This is likely to be completed in the autumn of 2013, culminating in the production of a detailed Infrastructure Funding Strategy.
44. Secondly, as referenced elsewhere on this agenda, a design code for the new community will be produced. The Infrastructure Funding Strategy will be important supporting evidence to the Area Action Plan for the new community and both pieces of work will initially be funded from existing budgets.

45. External sources of funding will be sought to offset this additional cost, however if further use of New Homes Bonus is necessary to meet the later phases of the NCNF work programme, this will be reported as part of the revised budget process for 2013/14.

RISK ASSESSMENT

46. In considering the budget, there are a number of issues that need to be borne in mind, as set out below:-
47. The economic climate remains very uncertain, and has had a significant impact on certain services and budgets.
48. The Government continues to expect the public sector to achieve significant efficiencies, in 2013/14 and in future years due to changes in funding. The table below shows the funding changes for Fareham since 2009-10.

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%

49. Between October 2009 and October 2012 RPIX has increased by 13.8%.
50. To add to the funding reductions the Local Government Resource Review will shift 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.
51. The Council Tax Support Scheme (CTSS) adds another significant financial risk onto local authorities as the benefit being paid will no longer be funded centrally. A report detailing the proposed scheme is also on this agenda, which explains that the financial risks facing the council could arise from an increase in the take up of support, and the Council's ability to collect the extra council tax which will be due.
52. The Executive has previously agreed that the balance on the spending reserve should equate to at least 5% of gross revenue expenditure which, for 2012/13, is £2,390,000. 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.
53. While the Council's capital resources are expected to exceed planned capital expenditure at the end of the programme period (by approximately £12.3m), 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 2013/14

54. If the proposed base budget is approved, the overall revenue budget for 2013/14 will be £9,675,200.
55. With government support of £3,904,000 and other funding of £110,126, the total amount to be raised from council taxpayers would be £5,661,074.
56. With the council tax base – the equivalent number of Band D properties – for 2013/14 being 40,373, this would give a council tax per Band D property for 2013/14 of £140.22, which is the same level of council that is charged in 2010/11 and 2011/12. This council tax freeze compares favourably to the current level of inflation of 3.1% (RPIX, October 2012).

ASSURANCE STATEMENT BY THE STATUTORY CHIEF FINANCIAL OFFICER

57. 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.
58. 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.
59. 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

60. The Council's finances remain under significant 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.
61. Consequently, the budget setting process for 2013/14 has presented the same challenges that were experienced during the 2012/13 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.
62. Taking new priority spending into account, the proposed revenue budget for 2013/14 will provide sufficient resources to deliver the Council's services and its priorities, and enable the council tax to be frozen for 2013/14, at current levels.

Reference Papers: None

APPENDIX A

ACTUAL REVENUE BUDGET

	Budget 2012/13 £	Revised 2012/13 £	Variation Base to Rev £	Budget 2013/14 £	Variation Base to base £
Committees					
Planning Committee	713,700	730,400	16,700	669,000	-44,700
Licensing and Regulatory Affairs Committee	503,900	479,600	-24,300	395,800	-108,100
Executive - Portfolio Budgets					
- Leisure & Community	1,688,500	1,791,500	103,000	1,681,800	-6,700
- Housing	2,029,200	1,482,200	-547,000	1,369,400	-659,800
- Strategic Planning and Environment	-752,300	-326,300	426,000	-234,100	518,200
- Policy, Strategy and Finance	2,147,000	2,210,500	63,500	2,131,000	-16,000
- Public Protection	2,757,600	2,485,600	272,000	2,435,700	-321,900
- Streetscene	4,470,000	4,400,000	-70,000	4,281,600	-188,400
SERVICE BUDGETS	13,557,600	13,253,500	-304,100	12,730,200	-827,400
Capital Charges	-1,935,500	-1,763,400	172,100	-1,763,400	172,100
Capital Financing Costs					
- Use of Housing Capital Receipts	-1,115,000	-558,300	556,700	-415,600	699,400
- Direct Revenue Funding	1,290,000	1,385,000	95,000	1,301,000	11,000
- Direct Revenue Funding NHB	658,000	658,000	0	731,800	73,800
Interest on Balances	-591,000	-874,500	-283,500	-874,500	-283,500
Portchester Crematorium	-150,000	-150,000	0	-150,000	0
New Homes Bonus	-658,000	-658,000	0	-1,092,700	-434,700
Contribution to(+)/from(-) Reserves	-597,600	-833,800	-236,200	-791,600	-194,000
OTHER BUDGETS	-3,099,100	-2,795,000	304,100	-3,055,000	44,100
NET BUDGET	10,458,500	10,458,500	0	9,675,200	-783,300

