

**FAREHAM**  
BOROUGH COUNCIL

**FINANCE**  
**STRATEGY**

**2014/15**  
**To**  
**2018/19**  
**(DRAFT)**  
**October 2014**

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## **BACKGROUND**

1. The Borough of Fareham has a population of some 112,800 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. The strategy was most recently reviewed in September 2014, and 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 £2.274 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 jeopardise 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 be 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 2014/15 was approved by The Executive as part of the Medium Term Financial Strategy in October 2013. The Pay Policy Statement for 2015/16 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 Police and Crime Commissioner for Hampshire, 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 also been 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:

<b>Stage</b>	<b>Detail</b>	
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 (reviewed September 2014)
3	Member review of Medium Term Finance Strategy	October
4	Member consideration of revenue budgets, the capital programme and fees and charges	November/ 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 maximise 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 10 February 2014 when the programme for the years 2013/14 to 2017/18 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 2014 and re-phasing of existing schemes. It also includes the Executive decision to carry forward slippage from 2013/14 of £1.54m and the inclusion of the rolling programme schemes for 2018/19. The updated programme for 2014/15 to 2018/19 is now £36.3m and is summarised in the following tables:

<b>Portfolio</b>	<b>£000s</b>
Public Protection	429
Streetscene	628
Leisure and Community	12,513
Health and Housing	5,828
Planning and Development	941
Policy and Resources	15,969
<b>TOTAL</b>	<b>36,308</b>

49. The phasing of the programme is now:

<b>Year</b>	<b>£000s</b>
2014/15	18,670
2015/16	7,848
2016/17	2,821
2017/18	1,053
2018/19	1,020
Un-phased	4,896
<b>TOTAL</b>	<b>36,308</b>

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:



<b>Un-phased schemes</b>	<b>£000s</b>
Enabling (Affordable Homes)	3,150
Car Park Surface Improvements	489
CCTV	429
Play Area Safety Surface Replacement	350
Environmental Improvements	300
Empty Homes Strategy	100
Matched Funding	78
<b>TOTAL</b>	<b>4,896</b>

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 2014 to finance the capital programme are summarised in the following table:

<b>Current Resources</b>	<b>£000s</b>
Capital Fund Account	7,352
Right-to-Buy receipts for housing schemes	3,984
External Contributions	3,067
Capital Receipts	2,617
Major Repairs and Renewals Reserve	1,302
Community Infrastructure Levy	248
Matched Funding Reserve	133
Revenue Contributions to Capital Schemes	60
<b>TOTAL</b>	<b>17,763</b>

53. In addition, the following resources are estimated to be available between 2014/15 and 2018/19:

<b>Future Resources</b>	<b>£000s</b>
External Contributions	4,703
Borrowing	4,465
Revenue Contributions to Capital Schemes	3,918
Contribution to Capital Fund	2,500
Capital Receipts	1,635
Government Grants	1,344
<b>TOTAL</b>	<b>18,565</b>

### **THE OVERALL CAPITAL POSITION**

54. Resources of £36.328 million are estimated to be available over the life of the updated capital programme and therefore there should be a small surplus of resources of approximately £20,000 in 2018/19.
55. The forecast surplus of resources is very limited and relies partly on resources that have not yet been secured (such as future capital receipts as well as continued revenue contributions towards capital investment), totalling

£6.4m. In the event that these resources do not materialise, other funding options will need to be investigated including borrowing, or the programme scaled back. Longer term, the increasing need to use New Homes Bonus to support revenue costs will make it more difficult to continue relying upon revenue sources to fund the capital programme.

56. 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.
57. Spending pressures in this respect include repair and refurbishment or replacement works to Council assets (for example, community and leisure facilities, car parks, etc.) that have yet to be added to the capital programme.

### **AVAILABILITY OF NEW CAPITAL RESOURCES**

58. 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.
59. 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**

60. 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.
61. 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.
62. 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**

63. 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.
64. 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.
65. 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 2014/15**

66. The revenue budgets for providing services in 2014/15 were considered by the Executive for each portfolio (and non-Executive services) on 2 December 2013.
67. The overall budget position was reviewed by the Executive on 6 January 2014. The final proposed net budget of £9,454,675 was approved by the Executive on 10 February 2014 (taking account of council tax freeze grant received).
68. With a net budget for 2014/15 of £9,454,675 and government support of £3,709,301, the Executive recommended to Council that the council tax for 2014/15 remain at the 2013/14 level of £140.22 and this recommendation was approved by the full Council on 21 February 2014.
69. 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 2014/15 and later years, have arisen.

## **THE OVERALL REVENUE POSITION**

70. 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%.
71. 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 £1½m) would result in an increase in the amount to be met by council taxpayers of 8.8%.

72. There are a number of 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 2014/15  
Future Spending Pressures  
Future Funding Considerations

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

### **GOVERNMENT SUPPORT**

74. The Local Government Finance Report 2014 set out the Government's spending plans for Local Government for the period 2014/15 to 2015/16 and took into account the 10% reduction in grant funding announced at Budget 2013.
75. The 2013 update indicated that the 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**

76. The way in which local authorities now receive their funding commenced in 2013/14 and placed increased financial risk on Councils rather than central government. In the first year, Fareham's share of the local business rate fell below the level deemed adequate by the government and as a result Fareham received a safety net payment from central government.
77. 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 to £1.991million and £1.378million respectively.
78. What remains clear is that although reductions in Central Government support will slow up towards the later years of the strategy funding will still be some £1/2 million below the figure that will be received at the beginning of the strategy period.

#### **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. Council Tax Freeze Grant was introduced in 2011 as an incentive for Councils to freeze council tax from the April in the following financial year. Over the years the scheme has changed including where some of the grant

is now built into the core funding received by Central Government. The Council supported this policy by freezing council tax in all years, representing the sixth year where council tax has remained unchanged including a freeze in council tax before the grant was introduced.

81. The freeze grant related to 2014/15 will be paid to participating authorities in 2014/15 and also 2015/16 and will be equivalent to a 1% increase in Council Tax.
82. Council Tax decisions subsequently taken by authorities in respect of 2015/16 will fall under the terms of the 2015/16 scheme details of which will be released later this year.

### **THE SPENDING RESERVE**

83. It is Council policy to maintain the spending reserve at 5% of gross expenditure and the current balance of £2,892,000 exceeds the minimum threshold for 2014/15 which, based on the estimated gross expenditure of £45.4 million, should be £2,273,700. Proposals to use the surplus of £618,300 will be developed during the autumn, for consideration in January, alongside the consolidated draft budget for 2015/16.

### **THE ANTICIPATED REVENUE POSITION IN 2014/15**

84. 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.
85. 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.
86. The overall impact of these variations will be presented in the revised budget later this year.

### **FUTURE SPENDING PRESSURES**

87. 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.
88. 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 2015/16 to 2018/19.

89. 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 2014/15 base budget).

<b>SPENDING PRESSURES</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
FBC Elections	0	100	0	100
Movements in the cost of employment (excl efficiency plans)	150	300	450	600
Other Contractual Inflation	80	145	225	265
Fuel and Energy Price movements	50	100	150	200
Increased pension costs	60	125	145	307
Reduction in Parking income	50	50	155	280
Reduction in Commercial Rent income	100	100	50	50
Homelessness service	100	100	100	100
Land Charges service	250	250	250	250
<b>TOTAL</b>	<b>840</b>	<b>1,270</b>	<b>1,525</b>	<b>2,152</b>

90. 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 2014.
91. Movements in the cost of employment - The rising cost of employment in future years reflects the cost of an assumed pay award and other pay movements.
92. Fuel and Energy Price Movements – There is a long term trend of price increases relating to fuel and energy, so an allowance for this is assumed in the forecast for 2015/16, and is also likely to be the case in future years.
93. Increased Pension Costs – The Council makes fixed payments to the pension fund for retired employees along with a variable payment linked to current serving employees. During 2013, the triennial pension fund valuations took place and concluded that the fixed element of the contributions needed to increase so that the fund liabilities could be met.
94. Reduction in Parking Income - The income from parking fees has been gradually declining over recent years, mainly due to the economic downturn and to specific factors, such as the new shopping complex at Whiteley, and store parking spaces at Tesco. While a development bond arrangement has provided some protection to the Council, it is anticipated that the full impact will affect the budget from 2017/18.
95. Reduction in Commercial Rent Income - As with car parking income the level of commercial rent has steadily declined, mainly in relation to the Council's interest in the shopping centre at Fareham. As a result, this places pressure on the income budgets within the commercial property portfolio.

96. Homelessness – The council is observing an increase in the number of customers seeking housing advice and those needing assistance for housing. This is putting pressure on the homelessness budgets as demand for accommodation increases.
97. Land Charges – As part of the Queen's speech in June it was announced that the land charges function would be centralised and run by the Land Registry in order to support the delivery of digital services. The timetable for this is not clear but would result in a significant loss of income for the Council.
98. In addition to the spending pressures listed above and the changing local government environment mean that other areas of spending pressures could be identified which could give rise to increased costs. Costs will be drawn up when these pressures are known.

## **FUTURE FUNDING CONSIDERATIONS**

### **Interest on Balances**

99. The budget for 2014/15 is £677,000 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.
100. No base rate increases are anticipated in the current financial year and although interest rates are likely to rise during 2015/16 there remains uncertainty as to when these rises will happen and therefore achieving the budget for interest on investments remains challenging.
101. Equally, the amount of money invested will reduce as the capital programme is implemented, which will impact on the amount of investment income received in future years.

### **Commercial Property Investment Acquisition Strategy**

102. At the meetings on 7 January 2013 and 4 November 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 reports agreed to allow £8 million of investment in commercial property to achieve returns of up to £300,000 per annum to assist in reducing funding pressures.
103. It is likely that the full £8 million will be spent prior to the beginning of the 2015/16 financial year meaning that income from the properties will be realised during that year.

### **New Homes Bonus**

104. The New Homes Bonus was introduced to encourage Councils to promote housing growth, with a financial incentive paid to the local areas where growth takes place.
105. 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.

106. The award for Fareham for 2014/15 will be £1.4m and this is expected to grow to £1.7m in 2015/16.

107. 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.

108. If assumptions for the reduction in Government funding are correct, then the top slice of the NHB award will continue to increase, to support continued service delivery. This will reduce the amount currently used to support capital projects.

### **Council Tax**

109. A high corporate priority for the Council has been to maintain council tax increases at or below the rate of inflation. In February 2009 Council Tax was set at £140.22. This level of council tax was maintained for a 6th consecutive year in 2014/15.

110. 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.

111. Had the council tax increased in line with RPIX since February 2009 then the figure of £140.22 would have increased to £171.20 giving an increase of £30.98 for a Band D property.

### **PROJECTED COUNCIL TAX FOR 2015/16**

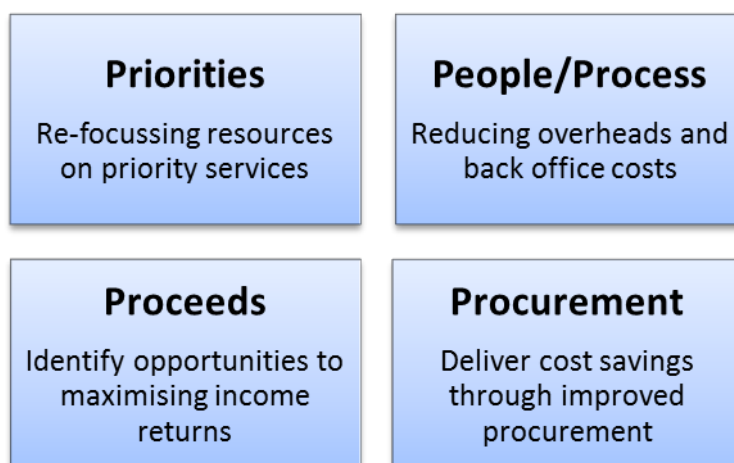
112. The projections shown above indicate that measures must be taken to reduce the net service cost if council tax increases are to be minimised.

113. If no action is taken, then an increase in council tax of around 15% 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

114. The forecast in this Strategy has highlighted the on-going and increasing need for savings in the Council's budget.
115. This is reflected in the Council's 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.
116. 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.
117. Such opportunities are developed on the following basis



118. In preparing the Finance Strategy, efficiency savings of £790,000 have been identified in 2015/16 with a further £466,000 to be implemented in the remaining years of the strategy.

## THE OVERALL REVENUE POSITION

119. The following table shows the projected position for the years 2015/16 to 2018/19:

<b>Projections for</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Base Budget for 2014/15	9,516	9,516	9,516	9,516
Spending and Funding Pressures	917	1,397	1,752	2,329
Efficiency Opportunities	-790	-1,256	-1,256	-1,256
<b>Adjusted Budget Projection</b>	<b>9,643</b>	<b>9,657</b>	<b>10,012</b>	<b>10,589</b>
Funded by:				
Government Funding	-3,461	-3,200	-3,049	-2,939
Council Tax Projection	-5,875	-6,007	-6,142	-6,280
NHB used to fund revenue spending	-310	-510	-661	-771
<b>Funding Projection</b>	<b>-9,646</b>	<b>-9,717</b>	<b>-9,852</b>	<b>-9,990</b>
<b>Shortfall/Surplus(-)</b>	<b>-3</b>	<b>-60</b>	<b>+160</b>	<b>+599</b>

120. Although significant savings have already been identified that exceed £1million over the next four years, it is clear that there are some further reductions required to produce a balanced budget for 2018/19. This will be reviewed over the strategy period and steps taken as necessary, to deliver a balanced budget.

## SENSITIVITY ANALYSIS

121. 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.

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

	<b>£M</b>	<b>% Increase</b>
Spending = £45.4 million	45.4	
- An extra £500,000	0.5	1.1
Council Tax Payers	5.7	
- An extra £500,000	0.5	8.8

## **RISK ASSESSMENT**

123. 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.
124. 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 £10.6m 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.
125. 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 2015/16**

126. 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.
127. It is proposed therefore that the following budget guidelines be adopted for 2015/16:
- 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**

128. The Council has a long history of prudent financial management, of achieving efficiency savings while providing a wide range of excellent services.
129. 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 2017/18 and beyond. 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.
130. 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.
131. 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.

## 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.

## FAREHAM BOROUGH COUNCIL PAY POLICY STATEMENT FINANCIAL YEAR 2015 - 16

### 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 2015 -16, 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 Environmental Services, as Monitoring Officer
- c) Director of Finance & Resources, as Section 151 Officer

Non Statutory Chief Officers are:

- d) Director of Planning & Development
- e) Director of Community

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

#### **3.3 Pay scales and grading framework**

The mainstream pay structure for all employees below the level of Heads of Service was determined through a local process based on the outcome of a job evaluation scheme and consists of a pay spine of 46 points, comprising 11 grades containing 5 spinal column points 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.

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 2014 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.

#### **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 £108,000 to £125,000.
- b) Statutory and Non-Statutory Chief Officers will be paid a salary within the grade range £72,688 to £80,080.

**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 £48,131 to £59,203.

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

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

##### **4.2 “Lowest paid employees”**

Each lowest paid employee will be paid a salary within the pay scales for Grade1 mindful of the need to meet the National Minimum Wage requirements.

A very detailed review of pay and grading is underway on this topic along with other parts of the grading structure and the review and recommendations will be reported to Full Council in due course.

### **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 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	£112,250
Mean average earnings for remainder of workforce	£23,840
Ratio	4.71

**Fareham Borough Council**

**Local Pay Scales as at 01/04/2014** (subject to the outcome of any national pay negotiations and local agreements)

**Chief Executive**

Spinal Column Point		Annual
5	1	125,000
4		120,750
3		116,500
2		112,250
1		108,000

**Directors (Grade & Salary scale)**

Spinal Column Point		Annual
5	1	80,080
4		78,226
3		76,384
2		74,536
1		72,688

**Senior Management (Grades & Salary scales)**

Spinal Column Point			Annual
5		2	59,203
4			57,682
3			56,012
2			54,332
1			52,672
5	3		54,332
4			52,672
3			50,998
2			49,541
1			48,131

**Mainstream (Grades and Salary scales)**

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