

# FAREHAM

## BOROUGH COUNCIL

### Report to the Executive for Decision 05 January 2015

<b>Portfolio:</b>	Policy and Resources
<b>Subject:</b>	<b>Finance Strategy, Capital Programme, Revenue Budget and Council Tax</b>
<b>Report of:</b>	Director of Finance and Resources
<b>Strategy/Policy:</b>	Finance Strategy 2015/16
<b>Corporate Objective:</b>	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 2014/15 and the revenue budget for 2015/6.

#### **Executive summary:**

On 1 December 2014, the Executive considered the Council's capital programme, revised service budget for 2014/15 and proposed service budgets for 2015/16.

#### Capital Programme and Resources 2014/15 to 2018/19

The capital programme amounts to £33,176,000, and there are capital resources totalling £34,774,000 over the programme period. Whilst a surplus of capital resources exists, there are likely to be emerging spending requirements that require new resources to be accumulated now so that the Council can meet its future commitments.

#### Revised General Fund Revenue Budget 2014/15

The revised general fund revenue budget for 2014/15 amounts to £12,958,700 for service budgets with other budgets totalling £-3,442,600 giving an overall position of £9,516,100.

#### General Fund Revenue Budget 2015/16

The proposed general fund budget for 2015/16 totals £11,773,100 for service budgets along with £-2,652,900 for other budgets giving an overall position of £9,120,200 which is a reduction of £395,900 against the original budget for 2014/15.

**Recommendation:**

That the Executive agrees:

- (a) that the capital programme for the period 2014/15 - 2018/19, amounting to £33,176,000 be approved;
- (b) that the revised 2014/15 general fund budget, amounting to £9,516,100 be approved;
- (c) that the base 2015/16 general fund revenue budget amounting to £9,120,200 be approved; and
- (d) that the use of the surplus on the spending reserve as set out in paragraphs 30-32 be approved.

**Reason:**

To allow the Council to approve the capital programme, general fund revised revenue budget for 2014/15 and draft revenue budget for 2015/16.

**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 2014/15 (revised) and 2015/16 (Base)

**Background papers:** None

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## BOROUGH COUNCIL

### Executive Briefing Paper

**Date:** 05 January 2015

**Subject:** Finance Strategy, Capital Programme, Revenue Budget and Council Tax

**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 2014, 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 2015/16

5. On 6 October 2014 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 2015/16 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 2.0% (Nov 14) and headline RPI was 2.0%.
7. The Government has indicated in previous financial years that it expects councils to freeze council tax. It is likely that this will continue through to the 2015/16 Council Tax Setting and councils that achieve it will be rewarded with additional grant equal to a council tax increase of 1%. The budget has been prepared in a way that will deliver another council tax freeze such that by the end of 2015/16 the council tax will have remained frozen for seven years.
8. Gross expenditure on services in 2014/15 is £45.4 million but a minimal increase of only £60,000 (0.13%) is sufficient to increase the council tax by 1%.

## **GENERAL FUND CAPITAL PROGRAMME**

9. The general fund capital programme was considered by the Executive on 1 December 2014. The programme amounted to £33,176,000 for the period 2014/15 - 2018/19.
10. Resources available to fund the capital programme amount to £34,774,000 over the programme period, and therefore by 2017/18 there should be a surplus of £1,598,000.
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. The capital programme reflects the corporate priority in providing a new leisure facility in the western wards as well as the ongoing works at Daedalus. Despite the current surplus of capital resources (compared to the approved programme), the asset reviews suggest that there are 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 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 2014/15**

13. The net revenue budget for 2014/15 was £9,516,100, a reduction of £307,200 on the previous year, and as a result the council tax was frozen, which was below the annual rate of inflation for the tenth consecutive year.

### **The Revised Service Budget 2014/15**

14. The Executive and the Committees considered the revised service budgets for 2014/16 in November and December 2014. The overall service budget is £68,700 lower than the base budget for the year.

15. Other budgets, such as investment income, contributions to capital, etc. have increased by an equivalent amount, and the revised budget remains as £9,516,100. Further information of how this is spread across portfolios is in Appendix A.

## **THE SERVICE BUDGET 2015/16**

### **Cost of Services**

16. The Executive considered the draft 2015/16 revenue budget for each committee and portfolio on 1 December 2014.
17. Since that meeting Full Council has approved a report from the Chief Executive Officer on the Pay and Grading Review. The report detailed a 4% pay increase for all mainstream staff and a revised pay structure for senior managers.
18. The budget implications of that decision have been built into the service budgets for 2015/16 along with the savings anticipated through the implementation of the Vanguard Method.

### **Other Budgets**

19. 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.
20. 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 proportion of the New Homes Bonus award in the year (£897,900).
21. Interest on Balances: The Council has taken numerous steps to protect its investment portfolio, by spreading risks, using highly rated commercial institutions or Government bodies and investing for short periods. Consequently, however, the rates of return are limited.
22. The reduction in the figures for the base budget for 2015/16 reflects the continuing lower interest rates but also takes into account the fact that balances available for investment will fall as spending on major capital project continues throughout 2015/16.
23. 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 2015/16 the contribution will be £125,000, which is £25,000 less than the original budget for the current year and reflects a reducing number of cremations in the year.
24. Contribution from Reserves: This represents one-off items in the budget that are funded from reserve accounts that the Council holds.
25. 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:

	<b>Base 2014/15 £000s</b>	<b>Base 2015/16 £000s</b>	<b>Variations £000s</b>
Gross Service Expenditure	43,275	42,922	-353
Gross Service Income	-30,248	-31,149	-901
<b>Net Service Expenditure</b>	<b>13,027</b>	<b>11,773</b>	<b>-1,254</b>
Other budgets	-3,511	-2,653	+858
<b>Total Budget</b>	<b>9,516</b>	<b>9,120</b>	<b>-396</b>

26. Taking account of all revenue budget items, the overall budget for 2015/16 will be £9,120,200, which represents an overall decrease of £395,900 or 4.2%. Taking account of the anticipated change in the formula grant and the council tax base for 2015/16, this budget will allow the council tax to be set at the same level as in 2014/15.

### **SPENDING PRESSURES AND SERVICE EFFICIENCIES**

27. 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, reducing income from services and investments, and additional funding that is required in order to progress high corporate priority actions.
28. 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.
29. The Executive were updated with reports in March and July 2014 giving details of how the £800,000 target would be achieved. These saving have been recognised in the budget for 2015/16.

### **SPENDING RESERVE**

30. 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 2014-15, this equates to £2,273,700 and the current balance in the reserve is £2,847,200, a surplus over the minimum balance of £573,500.
31. 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.
32. Paragraphs 9-12 review the capital programme and resources needed in order to meet this programme. It is recommended that the spending reserve surplus of £573,500 is transferred to support the capital programme.

## **GOVERNMENT SUPPORT IN 2015/16**

33. 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.
34. 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.
35. The Government has also announced that there will be a one-off freeze grant available in 2015/16 for councils that keep their council tax either at or below the 2014/15 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**

36. On 6 October 2014 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.*
37. *If assumptions for the reduction in Government funding are correct, then a top slice of any NHB award will continue to increase, to support continued service delivery. This will reduce the amount currently used to support capital projects.”*
38. In line with the policy, of the £1,421,800 received in 2014/15, £523,900 will be used to offset reductions in Government funding with the balance of £897,900 to be used for capital investment.
39. The provisional reward for 2015/16 is £1,648,000 and it is proposed that £750,100 is used to offset reductions in Government funding with the balance of £897,900 used for capital investment.

## **RISK ASSESSMENT**

40. In considering the budget, there are a number of issues that need to be borne in mind, as set out below:-

41. The economic climate remains uncertain, and has had a significant impact on certain services and budgets.
42. The Government continues to expect the public sector to achieve significant efficiencies, in 2015/16 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%
2014/15	£3,709,301	-£381,679	-9.3%

43. Between October 2009 and October 2014 RPIX has increased by 19.6%.
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 2014/15, is £2,273,700. 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 £1.6 million), 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 2015/16**

46. If the proposed base budget is approved, the overall revenue budget for 2015/16 will be £9,120,200.
47. With government support and other income of £3,282,813 the total amount to be raised from council taxpayers would be £5,837,387.
48. With the council tax base – the equivalent number of Band D properties – for 2015/16 being 41,630.2, this would give a council tax per Band D property for 2015/16 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 2.4% (RPIX, October 2014).

### **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 Central Government funding constraints but also from other economic pressures.
53. Consequently, the budget setting process for 2015/16 has presented the same challenges that were experienced during the 2014/15 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 2015/16 will provide sufficient resources to deliver the Council's services and its priorities, and enable the council tax to be frozen for 2015/16, at current levels.

### **Reference Papers:**

Report of the Director of Finance & Resources to the Executive on 6 October 2014 'Annual Review of the Council's Finance Strategy'

Report of the Chief Executive Officer to the Executive on 3 March 2014 'Efficiency Savings'

Report of the Director of Finance & Resources to the Executive on 7 July 2014 'Efficiency Savings'

Report of the Chief Executive Officer to Full Council on 11 December 2014 'Pay and Grading Review'

## APPENDIX A

## CONSOLIDATED GENERAL FUND REVENUE BUDGET 2014/15 (revised) and 2015/16 (Base)

	Budget 2014/15 £	Revised 2014/15 £	Variation Base to Rev £	Budget 2015/16 £	Variation Base to base £
Committees					
Planning Committee	793,400	801,800	8,400	753,000	-40,400
Licensing and Regulatory Affairs Committee	503,400	497,200	-6,200	490,200	-13,200
Executive - Portfolio Budgets					
- Leisure and Community	2,278,700	2,257,100	-21,600	2,112,600	-166,100
- Health and Housing	1,210,300	1,322,100	111,800	1,215,000	4,700
- Planning and Development	-537,600	-610,300	-72,700	-1,001,900	-464,300
- Policy and Resources	1,950,100	1,755,600	-194,500	1,463,400	-486,700
- Public Protection	2,455,400	2,417,400	-38,000	2,293,800	-161,600
- Streetscene	4,373,700	4,517,800	144,100	4,447,000	73,300
<b>SERVICE BUDGETS</b>	<b>13,027,400</b>	<b>12,958,700</b>	<b>-68,700</b>	<b>11,773,100</b>	<b>-1,254,300</b>
Capital Charges	-2,152,200	-1,983,000	169,200	-1,983,000	169,200
Capital Financing Costs					
- Use of Housing Capital Receipts	-230,000	-334,000	-104,000	-230,000	0
- Direct Revenue Funding	1,301,000	1,301,000	0	1,301,000	0
- Direct Revenue Funding NHB	897,900	897,900	0	897,900	0
Interest on Balances	-676,900	-706,900	-30,000	-599,900	77,000
Portchester Crematorium	-150,000	-150,000	0	-125,000	25,000
New Homes Bonus	-1,416,000	-1,421,800	-5,800	-1,648,000	-232,000
Contribution to(+)/from(-) Reserves	-1,085,100	-1,045,800	39,300	-265,900	819,200
<b>OTHER BUDGETS</b>	<b>-3,511,300</b>	<b>-3,442,600</b>	<b>68,700</b>	<b>-2,652,900</b>	<b>858,400</b>
<b>NET BUDGET</b>	<b>9,516,100</b>	<b>9,516,100</b>	<b>0</b>	<b>9,120,200</b>	<b>-395,900</b>