

Swanage Town Council Budget Report 2014/15

This report provides a commentary on the draft revenue budgets for 2014/15, which are set out line by line in the Draft Estimates Book together with future projections until March 2017.

The Finance and Performance Management Committee reviewed the draft estimates in detail at its meeting on 9th December 2013 and recommended their adoption to Full Council. The Committee also received a report on amendments to the initial draft estimates at its meeting on 15th January 2014, which were accepted. Consideration of the precept was limited on both occasions due to a lack of clarity over the tax base, and uncertainty over both the continued payment of Council Tax Support Grant and whether the government would extend council tax referendum principles to town and parish councils.

The Council's scale of charges, priority capital programme, Policy on Reserves and Balances and Treasury Management Strategy Statement were agreed at the Policy and Planning Meeting on 20th January 2014. As a result of the continued uncertainty over the government's referendum policy the setting of the precept was deferred. Confirmation that town and parish councils would not be subject to the council tax referendum principles was received on Wednesday 5th February 2014, and Members are now asked to finally adopt the Draft Estimates Book in its entirety and agree the precept to be charged to local residents for the 2014/15 financial year.

Background - Summary of 2013/14 Financial Year to date

At budget setting 2013/14 the total Council Tax precept (including the sum raised through the Council Tax Support Grant, which is explained on page 9 below) was increased by 2.5%, generating an additional £15,225. This followed previous year-on-year increases of 2.5% and 3.1%. As a result of fluctuations in the tax base the pattern of year-on-year changes to average (Band D) household bills has been 2.7%, 2.5% and 0%.

Significant savings have been made in recent financial years due to the combined effects of reduced audit costs, lower staffing levels and rigorous procurement exercises. The latter has continued in the current financial year leading to a significant reduction in I.T. costs and a move to funding this from capital expenditure. A reduction in telephone costs is also anticipated following a rationalisation of phone lines and a new contract with B.T. However, each year further savings prove harder to identify and with the easing of the recruitment and pay freezes staff costs are on the increase, albeit in line with budget expectations.

The Town Council entered the 2013/14 financial year with a surplus general fund balance of £410,000. A net operating surplus of £334,269 is projected for the current financial year, £333,659 of which will either be appropriated to earmarked reserves or go directly towards financing capital expenditure. This will result in a sum of £610 being added to the General Fund, resulting in an estimated balance at 31st March 2014 of £410,610. This

sum is in excess of the Council's risk assessed minimum balance and means that it will once again enter the new financial year in a robust financial position.

Income Analysis

The following table summarises the Council's greatest sources of income during the last four full financial years, together with the probable out-turn for 2013/14 and the draft budget estimate for 2014/15. These headings account for approximately 80% of Council income (excluding precept). The income thus generated declined by 6.7% last year, although it is now projected to have stabilised with a slight increase of 0.1% year-on-year. An increase of 4.3 % is projected during 2014/15, although this is almost entirely dependent on the letting of 28 additional beach huts pending successful completion of the seafront stabilisation scheme.

Budgeted Sources of Income in excess of £5,000	09/10 Actual	10/11 Actual	11/12 Actual	12/13 Actual	13/14 Probable Out-turn	14/15 Estimate
Car Parking (includes Co-Op net income; excludes market income)	553,411	569,035	580,456	520,979	525,057	528,475
Property Rental	154,394	184,317	186,067	197,460	200,605	208,805
Investment Income	99,850	174,260	194,783	166,667	163,000	149,000
Beach Bungalow Rents	68,828	68,810	70,635	73,236	77,417	126,000
Boat Park	37,903	37,572	42,453	40,169	39,861	41,000
Cemetery Charges	24,086	30,130	33,928	29,153	33,615	34,440
Private Beach Hut Sites	14,267	14,632	14,700	15,166	15,866	16,334
Putting Fees	20,406	17,891	19,085	16,006	15,296	15,000
Heritage Toilets	13,236	12,043	9,599	10,122	10,200	10,250
Bowls Fees	10,137	9,763	10,635	7,513	9,758	9,000
Beach Concessions	9,025	9,155	9,155	9,300	9,300	9,300
TIC Advertising Boards	9,208	9,225	8,150	8,621	8,469	8,700
TIC net income from sales and commission	9,601	11,131	9,087	8,367	8,285	8,525
Fishermen's Huts	7,694	7,123	7,598	7,978	7,764	8,185
Allotment Rents	6,207	6,506	6,966	7,168	7,547	7,645
Tennis Fees	6,211	7,771	6,097	5,581	5,611	5,600
DCC Lengthsman Contribution	0	0	6,000	10,000	5,000	0
Market Income	17,431	28,743	24,588	8,557	500	5,500
	<u>1,059,540</u>	<u>1,182,252</u>	<u>1,224,127</u>	<u>1,142,043</u>	<u>1,143,151</u>	<u>1,191,759</u>

At the Transport Committee Meeting held on 13th November 2013 it was agreed that there is no scope to increase **car parking charges**. After a sharp fall in visitor numbers in summer 2012 (down 11% on the previous year), it was anticipated that there would be an increase in car parking revenue in 2013, and with much improved summer weather expectations rose. However, despite the sunshine, usage has remained flat with only a 1% increase in income. This is in contrast to the relatively strong performance of other attractions such as Swanage Railway.

Whilst it must be remembered that the weather was not good in the spring and early summer, the decline in visitor numbers suggests that the continued squeeze on household budgets may be the over-riding factor in car park usage rather than one-off factors such as the weather or Olympic Games. The success of Swanage Railway as a park and ride option, the introduction of on-street parking on Shore Road and a growing awareness of parking at the Pier in recent years may also explain why there are fewer paying visitors to the Town Council's car parks.

2014/15 will see two significant changes in the tariff structure for the Council's long stay car parks. Firstly, following representations from the Chamber of Trade that visitors would appreciate an option to stay for longer than 4-hours but less than 24-hours, a 6-hourly charge is to be introduced. Secondly, to encourage more visitors in the shoulder months, a separate tariff for April, May, June, September and October, priced in-between the winter and peak summer charges has been re-introduced.

In calculating the estimated out-turn for the car parks in 2014/15 a 3% increase in visitor numbers has been applied to the shoulder months, whilst for other times of the year the assumptions about usage levels have remained unchanged. A small increase in income has been applied to Broad Road arising from the additional 30 spaces that are due to be created as part of the Downs stabilisation scheme. The overall impact of these changes is believed to be neutral, resulting in little change in car parking revenue.

This year for the first time all **property rentals** have been grouped together under one heading in the table above. This reveals that this is the Council's second largest income stream (excluding the precept). Income from this source has risen steadily over recent years following rent reviews and the leasing of additional properties such as the buildings on Peveril Point Road, the Town Hall Annexe and Lower Grammar School Field. The projected increase in 2014/15 is in part attributable to the new kiosk to be built on Shore Road as part of the seafront stabilisation scheme.

Investment income has remained subdued in the current low-interest-rate environment, with the priority being given to security and liquidity in the ongoing uncertain financial climate. Given forecasts of continuing low interest rates, no improvement is anticipated during 2014/15. Indeed the expenditure of approximately £2.1 million from reserves on the Council's stabilisation schemes means that investment income is projected to reduce by 8.6% in the next financial year.

The Council's seasonal income streams did not, on the whole, benefit from the improved weather. The one exception is **Beach Hut bookings** which were strong with income up 5.7%, following an increase of 3.7% the previous year. In assessing the financial impact of the construction of an additional 28 beach huts on Shore Road occupancy rates are projected to remain unchanged. Whilst peak season charges have been increased, prices for some weeks in the shoulder months have been reduced to encourage higher occupancy. Discounted rates have also been introduced for the winter season. A decrease in income is projected for Spa Bungalows as the number of huts is being reduced and the impact of the availability of additional Shore Road huts on occupancy rates at the Spa is uncertain. In all, it is anticipated that this will result in an increase of 62.8% in beach hut income in 2014/15. This is obviously dependent on the construction works being completed in time for occupation in July 2014.

Income from the **Boat Park** was little changed year on year. In the coming financial year the RNLI are planning to reconstruct their boat house and have requested use of part of the Boat Park for the construction company's compound from October 2014. If the Town Council agrees to this then careful consideration will need to be given to the fee charged to the RNLI. The Council will also need to be mindful of potential longer-term ramifications if boat park users make alternative arrangements and don't return in the future.

The picture in respect of activities at **Beach Gardens** is mixed. Putting income is at a low ebb, having fallen consistently over the last four years, resulting in a reduction of almost 25% since 2009/10. Tennis fees are also at a comparatively low level. In contrast, income from use of the bowling green increased by almost 30% year on year, taking it back to a near-average performance following a poor year in 2012/13. Income from all three activities is projected to be little changed in future years.

Income from **Swanage Market** has declined steadily over recent years as has the number of traders. As a result of the repayment of past overpayments from the Town Council to the current market operator it is anticipated that there will be very little market income in the current financial year. The Council has agreed to go out to tender for the market operation for 2014 and to seek a minimum income of £10,000 per annum. However, given its recent poor performance a lower figure has been included in the draft budgets.

The 2012/13 financial year saw the first full payment from Dorset Council for minor highway works under the **lengthsman** agreement. This was unilaterally cut by 50% in 2013/14 and will cease in April 2014. Although this situation is unsatisfactory, it is important to remember that under this scheme the Town Council has received a total contribution of £21,000 towards its works on the verges and pavements of the town over the last three financial years.

Since approval of these budgets by the Finance and Performance Management committee clarification has been received regarding a one-off payment that will be received by the Council in April 2014. Under his will the late F.J. Grace left the proceeds of the sale of a property in Swanage to the Town Council, payable following a period of investment.

This is likely to be in the region of £30,000 and has been shown in the estimates as being paid across into the Council's repairs and renewals reserve. Under the terms of the will it must be spent on the provision of additional amenities for the townspeople and visitors to Swanage.

Overall, with the exceptions of putting and the market, the Council's income streams are relatively healthy, although there remains a need to be alive to the risks posed by the declining trend in car parking usage, the still somewhat fragile international financial climate (albeit somewhat improved) and the possibility of an over-run in delivering the seafront stabilisation scheme.

In looking to **future opportunities** to raise additional revenue the Council is exploring the redevelopment of the Spa Beach Huts. It is anticipated that market income may also revive following the tender process.

Expenditure Analysis

The following table summarises the Council's greatest costs during the last four full financial years, together with the 2013/14 probable out-turn and the draft 2014/15 budget estimate. These headings account for approximately 75% of Council expenditure.

Cumulative Budgeted Expenditure in excess of £15,000	09/10 Actual	10/11 Actual	11/12 Actual	12/13 Actual	13/14 Probable Out-turn	14/15 Draft Budget
Employment Costs	781,395	704,925	663,552	677,647	722,270	782,540
Repairs and Maintenance	44,062	64,463	76,750	150,911	154,964	163,025
Rates	96,593	94,334	98,554	104,182	107,929	115,040
Public Convenience Cleaning and Toilet Requisites	63,292	65,277	65,124	60,340	60,775	61,100
Utilities	71,370	48,596	55,374	55,583	57,172	56,190
Insurance	56,586	50,916	27,889	29,241	28,257	29,100
Car Parks Cash Collection/Security	32,060	29,892	23,810	21,974	24,392	25,750
Legal and Professional Fees	31,036	13,157	25,655	26,704	20,000	20,000
Refuse Disposal	18,428	20,045	15,300	16,913	20,000	25,000
Computer Services	24,496	29,188	25,128	28,057	15,000	11,000
Seaweed Removal & Beach Raking	15,910	15,440	17,287	20,950	11,335	18,000
Total Expenditure	1,235,768	1,136,233	1,094,423	1,192,502	1,222,094	1,306,745

These costs fell by 11.4% between 2009/10 and 2011/12, largely due to reduced staffing levels. They are now projected to have increased by 2.5% in the current financial year, and to increase a further 6.9% in 2014/15. This is largely attributable to the easing of the

recruitment freeze to return to a sustainable staffing level, as agreed by the Council on 8th February 2013. The Council is also continuing with an increased level of expenditure on essential repairs and maintenance. It should be noted that total Council expenditure is projected to increase by 4.2%. This is significantly in excess of CPI inflation which stood at 2% in December 2013.

The Council's largest item of expenditure is **employment costs**. A comparison of the actual spending this year with the budget for next year shows a significant increase in the salaries and wages bill. However, budgeted wage costs for 2014/15 are only 2.5% higher (£19,155) than the original budget for 2013/14. A 1% increase in salaries (totalling £6,700) has been applied for the second year in a row, following the end of the public sector pay freeze.

Upward pressure on these costs is also coming from increased payments into the pension fund. Seasonal staff are increasingly taking up membership of the Local Government Pension Scheme (LGPS), as is their entitlement, and an additional provision of £3,500 has been made in the budgets for 2014/15. All overtime payments are also now pensionable. The budget also incorporates a lump-sum payment of £69,800 into the pension fund, as determined by the Finance and Performance Management Committee on 9th December 2013. This followed consideration of a letter dated 22nd November 2013 from the Pensions Manager at Dorset County Council regarding the impact of an actuarial valuation of the pension fund. If these payments were spread over the next three financial years this would cost an additional £5,300.

Planned **repairs and maintenance** costs for 2014/15 are little changed from the current year. A list of one-off items approved for inclusion in the budgets by the Finance and Performance Management Committee is set out at **Appendix 1**.

Non-domestic **rates** payments continue to rise, with a 2 % increase for 2014/15 announced by the Chancellor in the Autumn Statement in December 2013.

The benefits of robust procurement processes can be seen in a number of these costs. Whilst **energy bills** are set to increase, the Town Council are once again likely to be insulated from the worst of these changes due to purchasing through the LASER energy buying group. The cost of electricity rose by 3% on 1st October 2013, and gas by approximately 6%, but these prices will be frozen until 30th September 2014. As agreed during last year's budget setting process, officers completed a successful procurement of **computer services**. New equipment has now been purchased outright leading to a significant saving of approximately £15,000 per annum.

As last year, **legal and professional fees** are likely to remain a significant cost for the Council whilst the backlog of outstanding legal agreements and other matters is addressed. Nevertheless, much progress has been made over recent years and further reductions are likely in future financial years.

Although the costs of **car park cash collection** and security are now increasing, having been significantly reduced in recent years, this is largely due to the removal of the credit card payment facility. This in fact represents a saving as cash processing is a cheaper option, and the reduction in credit card costs is in excess of the increase in cash processing costs. The Council has recently entered into an agreement with a new Pay-by-Phone provider and it will be interesting to monitor the impact of this in future years. At the Transport Committee meeting held on 13th November it was agreed to absorb the 8p convenience charge to motorists with effect from 1st April 2014 and this has been included in the draft budgets at a cost of £850.

The Operations Manager keeps the costs of **refuse removal, beach raking and seaweed clearance** under review, and a significant saving has been realised in the cost of the latter in the current financial year. The increase in costs for refuse removal in 2014/15 includes a one-off allowance of £4,000 for the purchase of new bins, as set out in the list of repairs and maintenance at Appendix 1. Discussions are continuing with the Dorset Waste Partnership to seek improvements in the service which might also bring cost reductions in the longer term. Progress in this respect has, however, continued to be slow during the organisation's formative phase.

Additional savings have been achieved in the current year by entering into a new contract with B.T. for telephone services. A termination notice has also been served on Peninsula in respect of employment law advice, although this will not take effect until October 2014. In order to control its costs and realise further savings it is recognised that the Council will need to continue to devote resources to procurement exercises and partnership working.

As in previous years a sum of £10,000 has been allocated for **Grants, Donations and Contributions to Partner Organisations** in the draft estimates.

Reserves and Capital Programme

The Town Council has an obligation to ensure adequate investment is made in its property assets so that they remain fit for purpose and to establish financial reserves to meet this expenditure. In addition to the statutory Useable Capital Receipts Reserve (containing the funds received from the disposal of the Holiday Park and other assets such as Herston Public Conveniences), the Council has established the following earmarked reserves:

- Festive Lights
- Vehicle and Plant replacement
- King George's Play Area and Skate Park equipment replacement
- Forres Field changing facilities
- General Play Equipment replacement
- Car Park Machine upgrade
- Tennis Court refurbishment (to receive contributions from STC and Swanage Tennis Club)
- Repairs and Renewals Fund
- De Moulham Estate Service Road maintenance

- Public conveniences refurbishment
- Insurance and contingency reserve
- I.T. Equipment replacement

These reserves contained £1,122,326 as at 31st March 2013 and it is proposed that a contribution of £298,000 be made in the current financial year. This is an increase of £188,000 on budget, derived from savings and underspends in the current financial year. Expenditure from these reserves towards the Downs and seafront stabilisation works will, however, leave the total little changed at the end of the current financial year, at £1,124,073. The three-year capital programme requires a further £978,000 to be spent from these reserves by 31st March 2017, including a contribution towards a new Depot.

A schedule of estimated capital expenditure for the years 2014/15 – 2016/17, was agreed at the Policy and Planning Meeting on 20th January 2014. The total of programmed works is estimated at £2.7 million over the next three financial years, with a further £1.2 million in future years. This includes the final instalment of almost £1 million for the stabilisation works, £380,000 in 2015/16 for new changing facilities at Forres Field (although it is anticipated that this will be part funded from external grants) and £715,000 in 2016/17 for the purchase/construction of a new Depot.

Given the boost to reserves in the last two years and the waiving of the Council's policy to retain 85% of the capital receipt from the disposal of Swanage Bay View Holiday Park, these schemes can now be funded from Council resources without resorting to the disposal of an asset or borrowing. At the 31st March 2017 this would leave a balance of just over £4 million in the Useable Capital Receipts Reserve, meaning that the Council's long term investments in the CCLA Property Fund could remain untouched.

That said, it is important to acknowledge that there are a number of additional possible urgent capital projects that are not yet included in the capital programme. These are listed in a bullet point on page 9, below. If the Town Council is required to make a payment under the terms of the Swanage Bay View Holiday Park Business Sale Agreement this would also have a significant impact.

Precept and General Fund Balance

Under section 50 of the Local Government Finance Act 1992 a Town and Parish Council must take the following factors into account in setting its annual budget:

- the expenditure it will incur in the year in performing its functions
- an allowance for contingencies in relation to expenditure
- the financial reserves it will be appropriate to raise for meeting its future expenditure
- the financial reserves necessary to meet a revenue account deficit for any earlier financial year
- the sums which will be payable to it for the year
- the amount of the financial reserves which the authority estimates it will use.

An assessment of the General Fund Balance should take into consideration the council's level of working balances and a risk assessment of contingencies. In terms of working balances, the Practitioner's Guide for Town and Parish Councils states that it is generally accepted that councils should carry general revenue reserves of between three and twelve months of gross expenditure. On the basis of current projections for 2014/15 this would be a sum between £445,000 and £1.78 million.

This figure has also been subjected to a risk assessment (see **Appendix 2**), which suggests that £366,390 of revenue funds may be called upon in a worst case scenario during the financial year. The next financial year will see additional risks arising from the possibility for delayed completion of the new Shore Road beach huts and a reduction in car parking prices. In the current economic climate it is of utmost importance that the Council's financial position is robust enough to address the issues identified in the risk assessment and that every effort is made to withstand any unforeseen shocks.

It is acknowledged that there is considerable pressure being placed on local authorities by central government to freeze Council Tax bills, although, as in recent years, whilst a freeze grant is paid to principal authorities that take such a step this is not available to town and parish councils. If the Town Council were to freeze bills it could both maintain its services and meet the lower risk assessed General Fund Balance for the forthcoming financial year. In the short term it is the funding of reserves to support future maintenance and capital projects that would be reduced if this step were taken, and in the longer term this would have ramifications for the Council's ability to withstand unforeseen circumstances and to ensure that reserves were in place to meet future expenditure.

The Council's current Medium Term Financial Strategy and recent budget books set out 2.5% annual increases in total income from precept and Council Tax Support Grant in order to meet the Council's requirement to contribute to earmarked reserves to fund repairs and maintenance obligations as well as capital expenditure. This strategy is currently in the process of being reviewed, but the principal objectives of this policy remain unchanged.

A number of options in respect of the precept are set out at **Appendix 3** and are explained below. In considering each of these Members are asked to be mindful of the following factors:

- The proposed year-on-year increases of 2.5% in the precept set out in the Council's existing Medium Term Financial Strategy may not be achievable in future if central government extends referendum principles to town and parish councils. A de-facto cap of 2%, or even 1.5% as has been debated this year, would remove the Council's ability to raise the financial resources it requires to meet future expenditure without holding a costly referendum.
- The Town Council's income from the precept decreased by 4.2% in 2013/14 to £582,969. This was as a result of legislative changes to the calculation of the tax base, and did not lead to a reduction in household bills. This has placed the Town Council in the undesirable situation of being reliant upon the Council Tax Support

Grant from Purbeck District Council which was designed to mitigate the impact of this change.

- The District Council has set out a proposal to phase out payment of Council Tax Support Grant over the next five years (reducing from £39,110 in 2014/15 to £9,771 in 2017/18 which would be its last year). There is no legal requirement for this funding to be paid to town and parish councils and therefore it could be unilaterally withdrawn at short notice.
- As a result of the planned construction of new housing in Swanage in future years the Town Council can expect its precept income to rise as a result of a growth in the tax base. However, as the Swanage Local Plan is not scheduled to be adopted until late in 2015 such an increase is likely to be a number of years in the future.
- Given the continuing review of functions by Dorset County Council there may be a need for the Town Council to take on responsibility for devolved services. DCC is looking to secure an additional £30 million of savings over the next three years and the outsourcing of services is one of the options being considered in their 'Forward Together' programme.
- The Council is aware that it has a number of as yet un-costed capital schemes that will add to the demands on its reserves in the coming three to five years. These include the stabilisation of Sandpit Field, the Spa and Weather Station Field; the redevelopment/improvement of Spa bungalows; likely additional works to the Stone Quay and adjoining revetment; stabilisation works at the eastern end of Peveril Point Road; and the layout of the cemetery extension at Godlingston.

Options 1 and 2 (coloured yellow and blue in Appendix 3)

The yellow option illustrates the recommendation of the Finance and Performance Management Committee made at its meeting held on 9th December 2013. It delivers the projected 2.5% increase in combined precept/CTSG income to £639,600, in line with the Council's Medium Term Financial Strategy and as anticipated at budget setting last year. The total precept element is lower than was anticipated at that meeting because it was based on an estimate of the Council Tax Support Grant.

The blue option reflects the increase in band D bills that was anticipated at the meeting in December. Now that the actual tax base is known it is clear that a 3.4% increase in band D bills would in fact deliver a higher precept level of £604,925, which together with the actual level of CTSG delivers a total of £644,035.

Option 3 (coloured pink in Appendix 3)

This option is designed to protect the Town Council's finances from the imposition of referendum principles over the next three financial years. If the precept were to be increased by 2% in each of the following two financial years and the Council Tax Support Grant continues to be paid as currently proposed by the District Council (reducing year on year) this will ensure that total precept/CTSG income will remain at or above the level achievable by 2.5% year-on-year increases up to and including the 2016/17 financial year.

Option 4 (coloured orange in Appendix 3)

This option restores the precept to its anticipated level of £639,600 which would have been achieved by 2.5% year-on-year increases had the government's changes to the calculation of the tax base not been introduced. It would help protect the Town Council's finances from the combined effects of the imposition of referendum principles and withdrawal of the Council Tax Support Grant beyond 2016/17.

Option 5 (coloured green in Appendix 3)

In this option the precept would be increased by 10.4%, which would extend the period of protection into the 2018/19 financial year. This would free the Town Council from dependence on the Council Tax Support Grant which is to be phased out over the same period. By this time it is also possible that the tax base will be expanding as a result of the building of new homes as projected in the Local Plan.

Members are asked to **adopt the Draft Estimates Book and set a precept level for 2014/15.**

Martin Ayres
Town Clerk and Responsible Financial Officer

February 2014