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Policy Framework and Budget Setting for 2022/23

(Incorporating the Financial Planning and Capital Strategy)

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1 Financial Planning Strategy

Introduction

1 Ongoing delivery of priority services is the central focus of the Council's Financial Planning Strategy. Departmental Service Action Plans are produced annually, supported by detailed financial projections covering both revenue and capital cost implications. These plans are directly linked to the Council's Corporate Plan and therefore reflect the Council's key priorities and objectives for the medium term.

2 The Financial Planning Strategy sets out how the Council plans to resource the delivery of its services and is applied in compiling the Council's medium-term financial forecast, considering:

- The financial settlement for local government that determines the amount of government grant and redistributed funding the Council receives towards its expenditure.
- Developments in the economy, including key external influences and drivers.
- Changes in government policy, legislation or regulation.
- Financial risks which may or may not materialise over the lifetime of the strategy.

Key principles of the Strategy

3 The strategy is informed by detailed Departmental Service Action Plans containing the revenue and capital cost implications of the Council's services and based on the following key principles:

- Balanced and affordable budget - spending on services is contained within resources, managed by identifying efficiency savings and redirecting the use of existing resources.
- Adequate reserves – making sure the Council has enough reserves to meet identified risks, unbudgeted increases in costs and to manage the impact of cyclical spend across the Council's financial forecast.
- Council Tax levels – assuming that, unless there are inescapable cost increases above inflation or significant reductions in other funding, Council Tax levels will increase by no more than the maximum permissible without holding a council tax referendum, as set out annually by the Secretary of State (DLUHC).

Requirements of the Strategy

4 The strategy:

- Is linked with other key strategies, namely the Human Resources Strategy and the Asset Management Plan together with finance-based strategies including the Capital, Treasury Management, Investment and Commercial Strategies, and the Housing Revenue Account Business Plan.
- Shows how the Council will be responsive to national economic circumstances, government requirements and initiatives.
- Shows how the Council would deal with any future variations in funding levels and requirements to improve efficiency, while maintaining a balanced and affordable budget.
- Recognises the importance of risk assessments and financial contingency planning, understands the sensitivity of the budget and the implications of changes in operational performance and funding levels.
- Recognises the importance of sound financial management and explains the Council's policies on financial reserves.
- Identifies the Council's policy options for setting the level of the Council Tax.
- Develops the best possible estimate of future resources and ensures that financial planning takes account of both the immediate and the medium-term implications of decisions.

- Identifies additional sources of income and other resources through partnerships.
- Carries out consultation with stakeholders to inform Council priorities reflected in spending plans.
- Gives budget holders sufficiently wide delegated powers and flexibility to enable them to respond promptly to the changing needs of service delivery.
- Maintains a charging policy which is consistent, clear and fair to both the direct users of services and Council Taxpayers in the Borough.
- Ensures the budget reflects the annual impact of the management of its assets including repairs and renewals and the outcome of property reviews and stock condition surveys.

Actions to support the Strategy

5 The processes that support the Financial Planning Strategy are: -

- Rolling five-year financial forecast – based on the strategy, updated on a rolling basis and considered regularly at Cabinet meetings.
- Annual budget process – agreed each year to enable the Council's budget to be set within the guidelines of the strategy.
- Financial monitoring – budget holders are responsible for monitoring their budgets. The Executive Management Team (EMT) conduct monthly reviews of those budgets identified through risk assessment or where expenditure or income budget variances exceed certain thresholds. Reports focus on large, high risk or volatile budgets, as well as areas identified by service accountants during the monthly review of detailed management reports. Matters of exception are referred to Members.
- Member oversight - Cabinet Members receive monthly operational reports and bi-monthly high-level reports are presented to formal Cabinet meetings, including updates on the Medium-Term Financial Forecast and explanation of financial developments which may impact on the forecast going forward.
- Evaluation of new proposals – the financial and human resource implications of new proposals and their impact on the financial strategy are considered at the outset and included in relevant Cabinet reports.

2 Impact of the Pandemic

Impact of the pandemic – March 2020 to date

1 The global pandemic (covid-19) and the resulting national lockdown which commenced in March 2020, had a net impact on the Council's financial position of **£131k** in 2019/20 and **£38k** in 2020/21. The gross impact in 2020/21 of **£2.762m** was fortunately almost fully offset by various government grants and initiatives.

2 The impact in the current year remains substantial, mainly as a result of reductions in income streams. The overall net impact of **£848k** shown in the table below has been fully offset by various government grants and initiatives as well as a withdrawal from the Earmarked Reserve.

Table 2.1 covid-19 cost pressures & reduced costs

Ref.	Description of cost reduction or additional income	2020/21 £000's	2021/22 £000's
	All Services, Corporate & Democratic Core		
1	Loss of income on Investment of surplus funds due to reduction in rates	80	0
	Environment		
2	Reduced salary costs (Leisure casual staff)	(111)	0
3	Reduced leisure centre and community halls operating costs	(245)	(10)
4	Agency staff - refuse and recycling	139	0
5	Increased waste tonnages	57	12
6	Waterside income reduction	477	97
7	Runnymede income reduction	334	17
8	Leisure membership income reduction	728	196
9	Car park fees and charges reduction	540	449
10	Halls' bookings reduction/(increase)	118	(13)
11	Other leisure and parks income reductions	147	18
	Customer and Digital		
12	Reduction in cost recovered - Revenues	271	164
	Housing and Communities		
13	Increase/(decrease) in temporary accommodation costs and impact of delayed savings	140	(139)
14	Reduction in Homelessness income	68	73
	Other		
15	Cost increases and income reductions (accumulated / values less than £50k)	19	(17)
	Total cost pressures & budget increases	**2,762**	**848**

Table 2.2 covid-19 Government funding			
Ref.	**Description of cost reduction or additional income**	**2020/21 £000's**	**2021/22 £000's**
16	Grants / emergency funding	(2,251)	(713)
17	Application of Earmarked Reserve	0	(118)
18	Furlough scheme support	(473)	(17)
	Total Funding	**(2,724)**	**(848)**

Continuation into the 2022/23 financial year – lasting impact on services

3 When the Council set its budget for 2021/22 the national vaccination programme was underway and there was optimism that the country would largely return to normal during the course of that financial year. However, it was nevertheless difficult to determine what the lasting impact on the Council's financial position would be and so the Council set aside funds in an earmarked reserve to help it manage any ongoing impact that materialised. The balance on this reserve will be used to help mitigate any financial impact which may materialise during 2022/23 and 2023/24 and which is not addressed by further government funding.

4 As we look forward into the 2022/23 financial year, it has remained challenging to estimate the likely impact of covid-19 although, bar any new variants causing issues, things are starting to become a little clearer. The Council is seeing a strong recovery in leisure centres, with membership numbers now exceeding pre-pandemic levels which is likely due to the continued investment in the award-winning centres coupled with promotional discounts being offered on new memberships. This gives a degree of confidence that income levels should fully recover.

5 However, such confidence is not extended to car parking where the Council is continuing to see the impact of working from home on the School Lane car park. Pre-pandemic, the car park would typically be full each weekday with commuters parking for the train station. Now, even with no ask from Government for people to work from home, the car park is far from reaching capacity and this is resulting in a large decrease in income. It is hoped that as 2022/23 progresses and more businesses return to either full office working or hybrid working there will be greater use of the car park, but this remains an area of concern for future budgets.

Sales, fees and charges (SFC) support

6 Throughout 2020/21 and for the first quarter of 2021/22, Government have provided a package of financial support to local authorities which has included compensation for losses in sales, fees and charges revenue arising directly from the impact of the pandemic. The Council has fully utilised this scheme and it has played a large part in balancing the position.

Conclusion

7 The Council recognises that the immediate and post recovery impacts of the pandemic are different issues which will require different solutions. The Bank of England expectation is that economic growth will be slower in the remainder of the year than previously expected, lasting impacts will therefore take time to fully materialise and it is likely that the full ongoing impact of the "new normal" will not be known until late in the new financial year.

3 Medium-Term Financial Planning

1 The Corporate Plan provides the links between the aspirations of the community and individual services. Service plans are produced annually to ensure the future allocation of resources is based on the Council's key priorities. Service plans demonstrate how each service will be delivered and inform the Council's Financial Planning Strategy and Medium-Term Financial Forecast.

2 The forecast at table 3.3 shows the impact on financial resources of current service spending plans and estimated future changes to those plans. Tables 3.1 and 3.2 provide a summary of service spend at Directorate and service level before external funding and Council Tax. The final line of table 3.1 informs line 1 of the Medium-Term Financial Forecast (table 3.3).

Table 3.1 General Fund revenue summary	Note	2020/21 Actual £000's	2021/22 Revised £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Net Service Expenditure						
Chief Executive & Resources	1	1,960	1,102	1,397	1,346	1,370
Corporate Services	1	455	517	492	502	464
Environment	1	7,026	7,293	7,728	7,448	7,702
Customer & Digital Services	1	1,367	1,895	1,752	1,765	1,816
Housing	1	1,577	1,209	1,242	1,263	1,342
Place & Policy	1	1,259	1,578	1,448	1,439	1,474
Total Net Service Expenditure		**13,643**	**13,594**	**14,058**	**13,763**	**14,167**
Other Operating Expenditure	2	(217)	435	710	690	775
Financing & Investment Income & Expenditure	3	764	753	682	670	647
Total Net Statutory Adjustments	4	(3,959)	(1,811)	(1,665)	(1,679)	(2,864)
Total to be met from government grants, reserves and Council Tax		**10,231**	**12,971**	**13,784**	**13,443**	**12,725**
Total excluding Canvey Island Town Council Precept		**9,980**	**12,719**	**13,521**	**13,180**	**12,462**

Notes:

1 See table 3.2

2 Includes a discount applied to all salaries estimates to take account of vacant periods (vacancy factor), the precept payable to Canvey Island Town Council from additional Council Tax collected from Canvey residents, allowances for repairs and maintenance programmes, and other miscellaneous items.

3 Includes interest payable and receivable, and statutory pensions adjustments based on information from the Essex Pension Fund and the pension actuary.

4 Various statutory adjustments and reversals, to ensure that the Council Tax requirement amount is not affected by income and expenditure relating to non-current assets, such as depreciation, and other items such as the payment of capital receipts to central government. Also includes revenue contributions to fund capital expenditure.

Differences in cross-casting relate only to rounding of figures.

Table 3.2 General Fund net service expenditure	2020/21 Actual £000s	2021/22 Revised £000s	2022/23 Estimate £000s	2023/24 Estimate £000s	2024/25 Estimate £000s
Environment					
Cemetery & Mortuary Services	145	201	226	184	184
Environmental Health	654	848	869	892	897
Flood Defence	12	2	1	1	1
Leisure & Community Halls	2,150	2,070	2,646	2,221	2,300
Parking	(140)	(237)	(762)	(821)	(814)
Parks & Open Spaces	654	566	605	585	636
Public Conveniences	108	156	146	143	143
Refuse & Recycling	2,026	2,063	2,470	2,691	2,770
Street Scene & Operational Services	1,416	1,624	1,527	1,552	1,584
Net total - Environment	**7,026**	**7,293**	**7,728**	**7,448**	**7,702**
Customer & Digital					
First Contact	0	0	0	0	0
Housing Benefit	173	370	234	242	248
Information Technology (IT)	(0)	0	0	0	0
Revenues & Benefits	1,194	1,525	1,518	1,523	1,567
Net total - Customer & Digital	**1,367**	**1,895**	**1,752**	**1,765**	**1,816**
Housing					
Housing Development	53	91	114	123	161
Housing Options & Homelessness	1,524	1,118	1,128	1,141	1,181
Land Charges	0	0	0	0	0
Net total - Housing	**1,577**	**1,209**	**1,242**	**1,263**	**1,342**
Place & Policy					
Building Control	97	213	219	222	234
Development Control	408	433	536	511	529
Planning Policy	525	628	424	433	444
Strategic Planning	229	303	270	273	266
Net total - Place & Policy	**1,259**	**1,578**	**1,448**	**1,439**	**1,474**
Corporate Services					
Community Services	265	348	272	275	281
Estates Management	70	29	30	30	31
Events	4	0	0	0	0
Governance	0	0	0	0	0
Legal Services	0	0	0	0	0
Licensing	116	140	190	197	153
Public Health	0	0	0	0	0
Net total - Corporate Services	**455**	**517**	**492**	**502**	**464**
Chief Executive & Resources					
Corporate & Democratic Core	1,170	641	909	882	916
Democratic Services	1,133	1,302	1,436	1,379	1,367
Knightswick	(343)	(840)	(948)	(915)	(913)
Financial services	(0)	0	0	0	0
Human resources	0	0	0	0	0
Internal Audit Services	0	0	0	0	0
Policy & Performance	0	0	0	0	0
Net total - CEO & Resources	**1,960**	**1,102**	**1,397**	**1,346**	**1,370**
Total Net Service Expenditure	**13,643**	**13,594**	**14,058**	**13,763**	**14,167**

Basis of the forecast (table 3.3)

3 The key stages and assumptions in the process of producing the Financial Forecast were: -

- A review of 2021/22 estimates against actual income and expenditure for 2020/21 and 2021/22 year to date, to arrive at a core no-growth base budget for revised 2021/22, estimate 2022/23 and 2023/24 to 2024/25 (both provisional), driven by current service plans.
- Where applicable, increases for inflation of costs relating to pay, employer's pension fund contributions, contracts, rates, utilities and insurances are adjusted for. Controllable service costs have been carried forward at existing levels except in the case of inescapable increases.
- Adjustments have been made for changes to spending levels expected or known to occur over the life of the forecast including the impact of the capital programme on revenue. In compiling the forecast, account has been taken of the financial implications of wider economic developments, including the impact of interest rate reductions, changes in the housing market and the impact on the Council's various fee charging services.
- Income from fees and charges has been reviewed and recalculated taking account of latest trends, proposed price increases and the impact of the current economic climate, however, please also see section 2 relating to the impact of the pandemic.
- Provision has been made for costs or savings expected to arise from known and proposed changes in legislation as well as unavoidable service-related cost increases, some of which are detailed in tables 3.5 and 3.6.
- A review of the funding mechanism for local government has once again been deferred and it is unknown when precisely it will be implemented or what the impact on the Council's financial plans may be. Therefore, in the absence of specific information, years beyond 2022/23 are based on a continuation of existing government policy, funding mechanisms and local spending plans.

4 The forecast includes the latest information received from the Essex County Council Pension Fund in relation to employer's pension contributions. This information has been based on an actuarial valuation carried out on the Pension Fund as at 31 March 2019. These valuations are carried out every three years. This latest valuation is effective for contribution rates included in the forecast from 2020/21 onwards and is based on a 10 year recovery period. The next valuation will be undertaken by the actuary in March 2022, effective for contributions from April 2023.

5 The tax base as at December 2021 has been adopted as the basis for calculations relating to 2022/23 and includes adjustments to reflect the localised scheme for support of Council Tax, as well as the outcomes anticipated to be realised from the ongoing compliance review of discounts and exemptions granted from Council Tax. Future years assume growth based upon a historic average and therefore do not take into account the potential impact of the Castle Point Local Plan.

6 The proposed Council Tax band D value for 2022/23 is indicated at note 5 of table 3.3 and, combined with current spending plans, delivers a balanced budget for the new financial year.

7 A Council Tax referendum would be triggered by this Council if Council Tax were increased by more than **2%** or **£5** on a band D property (whichever is the greater), above the Council's relevant basic amount of Council Tax for 2021/22. The Council's proposed increase is below this threshold.

Commentary on the forecast

8 This is a forecast for the guidance of Cabinet/Council and not a policy statement that the position will be as indicated. The forecast shown at table 3.3 indicates the following:

- That the budget for 2022/23 is balanced, however future years are not, meaning that the Council will have to rely on the use of reserves to meet spending plans during these years until such time as the budget gap indicated at line 8 is closed by reducing costs or increasing income streams.

- That Council Tax levels for 2022/23 will be increased by **1.98%** and future years by the maximum increase currently permitted without holding a Council Tax referendum.
- Forecast reserves are projected to be above the minimum level of **£3.1m** recommended by the Strategic Director (Resources) at the end of 2022/23.
- From 2023/24 onwards the level of reserves and Council Tax increases indicated are dependent on the achievement of efficiency savings, additional revenue income streams and/or increases in grant funding, over and above that already incorporated within the forecast. The Council Tax increase shown for all years is within the referendum limit currently indicated by Government and subject to the agreement of Council in each respective years' Council Tax setting process.
- In view of the potential funding gap indicated for future years, there will be limited opportunities to plan the use of reserves for non-recurring expenditure, over and above those already earmarked at the present time.

Robustness of the forecast

9 The underlying spending plans for 2021/22, 2022/23 and 2023/24 to 2024/25 (both provisional), on which the forecast is based, are considered generally robust, subject to any reservations expressed above and in section 13. The figures presented for 2022/23 represent the funding notified to the Council as part of the one-year settlement.

10 The Council has already identified significant savings which will impact throughout the financial forecast. Further savings will need to be identified in order to balance the budget for years beyond 2022/23.

11 Section 2 of this report notes that the Council should be mindful of the probable long lasting impact of the pandemic on the demand for and use of some Council services and facilities.

Monitoring of the forecast

12 The forecast is approved by Cabinet and Council in February as part of this budget and Council Tax setting process. If material changes are necessary during the financial year, the Cabinet will be updated accordingly.

13 Financial and operational performance indicators are routinely monitored, and performance reported to Cabinet members and the Executive Management Team on a monthly basis. Formal reporting of performance against the financial forecast is undertaken monthly by the Strategic Director (Resources) and reported bi-monthly to Cabinet.

14 The Financial Forecast is a live document linked directly to the detailed budget and therefore reflects the impact of virements, additional revenue and/or changes in services as they occur.

Funding of priority projects

15 Table 3.4 sets out some of the priority projects / discretionary functions that the Council continues to fund during the period of the forecast. These have been reflected in the Financial Forecast.

Cost pressures and budget increases (growth)

16 Cost pressures and unavoidable / essential service increases identified during the budget process and since the budget set in February 2021 are summarised in table 3.5.

Table 3.3 Medium term financial forecast (MTFF)		2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Report Section Ref	Notes
Line	**Current policies and service plans**						
1	**Net service expenditure**	**12,719**	**13,521**	**13,180**	**12,462**	3	Fluctuations predominantly caused by phasing of expenditure some of which is "offset" by earmarked reserves.
2	Council Tax	(8,310)	(8,534)	(8,798)	(9,070)	4	
3	Business Rates (related transactions)	(2,795)	(3,161)	(2,064)	(2,014)	5	Note 1 (below)
4	Capital grants, other grants and contributions	(1,672)	(1,974)	(295)	(200)		Note 2 (below)
5	Net Collection Fund(s) (surplus) / deficit	3,451	67	37	32	6	2021/22 deficit relates to previous year and is funded by s31 grant from central government applied through earmarked reserves at line 7.
6	**Net expenditure / (income) before reserves**	**3,392**	**(81)**	**2,061**	**1,210**		
7	Transfer to / (from) Earmarked reserves (net)	(3,450)	45	(745)	930	7	Note 4 (below)
8	**(Surplus) / Deficit on General Fund**	**(58)**	**(36)**	**1,315**	**2,140**	7	Note 3 (below)
9	General Reserves balance at end of year	(5,634)	(4,169)	(2,354)	287	7	Note 3 (below)
10	Earmarked Reserves balance at end of year	(11,850)	(11,526)	(10,585)	(11,316)	7	Note 4 (below)

	Note 1 (MTFF) Business Rates Related Transactions	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Report Section Ref	Notes
1	NNDR1 (statutory return) calculation / forecast (income)	(1,972)	(1,279)	(2,064)	(2,014)	5	Includes impact of negative revenue support grant in future years
2	Business Rates Levy (payment)	343	411	0	0	5	
3	Grant received (s31) in respect of business rates government reliefs	(1,166)	(2,193)	0	0	5	
4	Business Rates pool growth	0	(100)	0	0		
5	**Business Rates related transactions**	**(2,795)**	**(3,161)**	**(2,064)**	**(2,014)**		Financial forecast line 3
6	Deficit on collection fund relating to business rates grants	3,453	0	0	0	6	Within financial forecast line 5 (COVID-19 related / offset by reserve)
7	Grant transferred to / (from) earmarked reserve	(3,453)	0	0	0	6	Within financial forecast line 7 (COVID-19 related / offsets line 5)
8	**Net value of transactions relating to business rates**	**(2,795)**	**(3,161)**	**(2,064)**	**(2,014)**		

	Note 2 (MTFF) Capital grants, other grants and contributions	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Report Section Ref	Notes
1	Preceptors' council tax share back agreement	(272)	(200)	(200)	(200)		
2	New Homes Bonus	(17)	(141)	0	0	5	Affordable homes premium only in 2021/22
3	Capital Funding Grants (Seafront and Labworth)	(469)	(1,276)	0	0	9	Includes £200k in 2022/23 being applied from earmarked reserves against expenditure
4	New Burdens Grant / Lower tier services grant / Misc.	(202)	(358)	(95)	0	5	
6	Covid related funding from government	(713)	0	0	0	2	
7	**Capital grants, other grants and contributions**	**(1,672)**	**(1,974)**	**(295)**	**(200)**		Line 4 financial forecast

	Note 3 (MTFF) General Reserve	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Report Section Ref	Notes
1	Balance at start of year	(5,596)	(5,634)	(4,169)	(2,354)		Minimum recommended balance for General Reserves is **£3.1m** for 2022/23**.**
2	Contribution to / (from) General Fund (MTFF line 8)	(58)	(36)	1,315	2,140		
3	Potential planning appeals & associated legal costs	20	1,500	500	500		
4	**(Balance) / deficit at end of year**	**(5,634)**	**(4,169)**	**(2,354)**	**287**	7	

	Note 4 (MTFF) Earmarked Reserves	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	Report Section Ref	Notes
1	Balance at start of year	(15,300)	(11,850)	(11,526)	(10,585)		The precise timing of the use of earmarked reserves is, due to their nature, is generally unknown. Earmarked reserves are reviewed annually to ensure sufficiency and where need has diminished funds will be returned to General Reserves.
2	Contribution (to) / from General Fund (MTFF line 7)	3,450	(45)	745	(930)		
3	Total other expected usage of earmarked reserves - not allocated within the detailed budget	0	369	196	199		
4	**Balance at end of year**	**(11,850)**	**(11,526)**	**(10,585)**	**(11,316)**	7	

	Note 5 (MTFF) Council Tax	2021/22	2022/23	2023/24	2024/25	Report Section Ref	Notes
1	Tax at band D £	268.38	**273.69**	279.09	284.58	14	
2	Increase %	1.98%	**1.98%**	1.97%	1.97%		

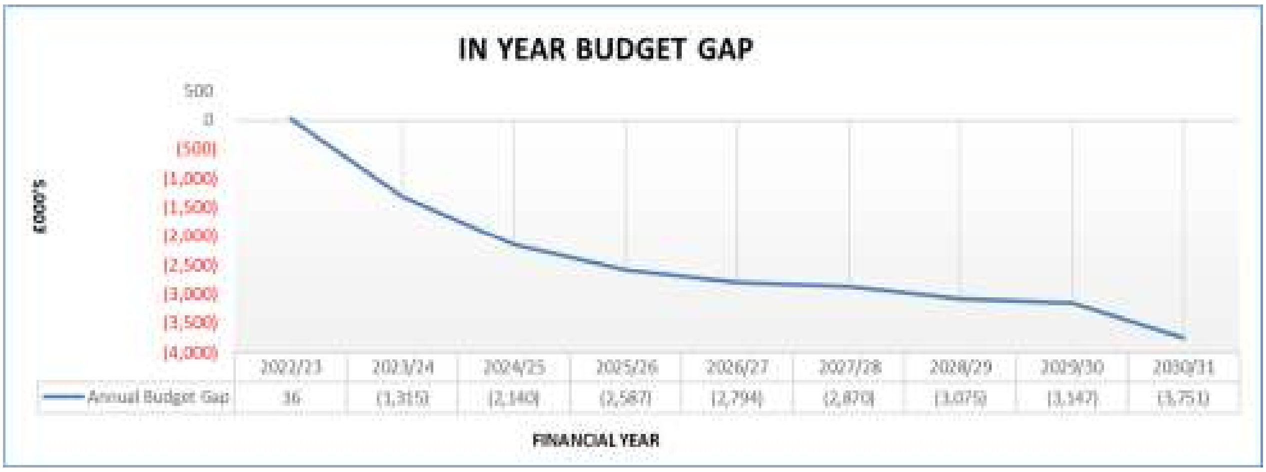
Table 3.4 Funding of priority projects & other discretionary expenditure included in line 1 of the Financial Forecast			
Ref.	**Description of priority project or discretionary item**	**2021/22 £000's**	**2022/23 £000's**
	All Services, Corporate & Democratic Core		
1	Funding of discretionary portion of business rates relief to charities and other bodies - percentage of overall relief cost applicable to this Council	48	31
	Corporate Services		
2	Funding for local and voluntary organisations	129	130
3	Contribution to Community Transport Scheme operated by Wyvern, providing transport for elderly and disabled residents of the Borough	10	10
4	Running costs of CCTV installed at various public locations around the Borough, including car parks, the Dutch Cottage, the seafront and specific residential areas	9	9
	Environment		
5	Festive lighting / decorations across the Borough	14	14
6	Black refuse sacks provided free to residents	35	28
7	Dog fouling bags provided free to residents	5	0
8	Public Conveniences across the Borough (net direct cost excluding recharges and capital charges)	130	120
9	Town Centre - enhanced street cleansing and routine maintenance (public realm resource)	120	0
	Total funding of priority projects and discretionary items	**500**	**342**

Table 3.5 Cost pressures & budget increases (Growth)	2021/22 £000's	2022/23 £000's	2023/24 £000's
Projects			
Squash Court conversion and associated works at Waterside Farm Leisure Centre	228	0	0
Labworth Car Park extension and resurfacing	88	0	0
Paddocks community hall work	36	0	0
Runnymede community hall Disability Discrimination Act works	24	0	0
Installation of soft play at Waterside Farm Leisure Centre (longer term saving to be achieved)	0	46	(19)
Increased maintenance costs			
Car park maintenance costs	39	0	0
Parks and open spaces maintenance costs	29	0	0
Playground maintenance costs	20	20	20
Various other sites	42	5	5
Refuse and Recycling			
Changes to refuse salaries and agency budgets (offset in part by vacancy savings)	366	440	444
Purchase of additional pink recycling sacks due to higher demand	42	0	0
Increase in refuse collection and operational costs	38	0	5
Purchase of dual litter bins (fully funded by grant income)	23	0	0
Other Changes			
Covid-19 related changes, predominately lost income within leisure centres and car parks, the grant funded Reopening the High Streets projects and reductions in costs recovered via courts	1,553	105	13
Housing Benefit/Homelessness demand changes, including increased use of private leased properties	208	107	110
Cost of elections (funded by grant income)	93	0	0
Accounting and financing changes, including increased external audit fees, interest payable and collection fund items	88	99	144
Place Services SLA (offset by Planning Performance Agreement income)	44	44	0
Increased insurance costs	36	43	39
IT software support costs	25	18	18
Increased utilities costs	8	110	114
Provision for pay award above budgeted value and job evaluation costs	0	200	200
Inflation rate changes	0	30	92
Increase to Members' Allowances (subject to a separate future decision by Council)	0	63	69
Various other changes individually less than £20,000	22	34	88
Total cost pressures & budget increases (Growth)	**3,052**	**1,364**	**1,342**

Table 3.6 Efficiency savings, cost reductions and additional income	2021/22 £000's	2022/23 £000's	2023/24 £000's
Refuse and Recycling			
Co-mingled waste saving arising from lower unit rates	(210)	(180)	0
Changes to refuse collection costs and recycling credits	(9)	(52)	0
Grant income for dual litter bins	(23)	0	0
Other Changes			
Salaries and vacancy savings (offset in part by increased refuse agency costs)	(782)	(149)	(267)
Covid-19 related, predominately grant income	(706)	0	0
Accounting and financing changes, including additional income arising from Council Tax and Business Rates, general government grants and interest receivable	(207)	(1,766)	(315)
Grant income to offset costs of elections	(104)	0	0
Homelessness changes, including reduction in use of B&B accommodation	(101)	(35)	(27)
Increased license fees arising from renewal cycle	(57)	0	0
Compensation from previous IT provider	(60)	0	0
Increased building/development control income	(50)	0	0
Income arising from Planning Performance Agreements (PPAs)	(44)	(10)	0
Increase in Land Charges income	(41)	(41)	(38)
Changes to the planned preventative maintenance schedule of works	(1)	(56)	(277)
Income for ECC funded posts	0	(134)	0
Inflation rate changes	0	(28)	(57)
Retiming of gym equipment replacement	0	(50)	0
Various other changes individually less than £20,000 in all years	(63)	(92)	(56)
Total efficiency savings, cost reductions and additional income	**(2,458)**	**(2,593)**	**(1,037)**

Budget Gap – Years 2023/24 and beyond

17 The medium term financial forecast shown at table 3.3 indicates on line 8 a significant budget gap in 2023/24 and beyond, which the Council must address during the course of the 2022/23 financial year. Castle Point is not unique in this position and many authorities are now embarking on significant programmes of change to address their own budget gaps. The following chart provides a visual presentation of this funding or budget gap and shows in year gaps which, if not addressed, will amount to an accumulative funding gap in the region of **£22m** over the 9 year period shown below.



18 Whilst General reserves appear relatively healthy short term, and the Council has been successful in establishing a range of earmarked reserves to support spending programmes such as asset maintenance, the effective cap on council tax increases, uncertainty around the future of local government funding, rising costs and limitations on the ability to raise fees and charges mean that the Council will shortly be "living beyond its means" and must adjust.

19 Reserves may not be used to support day to day operational spend but may be utilised to "unlock" ongoing revenue savings. For example, in order to run a new leisure activity which generates additional income it may be necessary to structurally adapt an existing facility. These initiatives are often referred to as spend to save initiatives and must be supported with a business case which considers the full implications of the initiative, including implementation costs, cashflow implications, impact on general fund and ultimately the period of return against the "investment" (e.g. period over which costs are offset by savings).

20 Such initiatives include:

- Digitalisation and automation of functions both internal to the organisation and externally facing for the benefit of our customers
- Investment in staff training and development to create new skills to improve service delivery and customer experience
- Service and organisation restructuring to refocus resources to improve delivery of services
- Engagement of consultants to supplement internal resources and skills and support the implementation of new ways of working
- Conversion of existing premises to serve an alternative purpose perhaps in order to generate additional income or improve customer experience

21 As part of the current budget process the Council has identified funds from within existing earmarked reserves which may be utilised to support and enable such initiatives during the course of the forthcoming financial year, in order to support the delivery of a balanced budget in 2023/24 and these are as follows:

- Improvement fund **£837k**
- Spend to save **£172k**
- Miscellaneous grants (un-ringfenced) **£100k**

22 Included within the Improvement Fund is **£250k** repurposed from the Joint Strategic Plan reserve (see section 8), bringing the total value of funding available for change initiatives to **£1.109m**.

4 Tax base

Tax base calculation

1 Under Section 33 of the Local Government Finance Act 1992 and supporting Regulations, the Council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged, expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed by law and made under delegated authority by the Strategic Director (Resources), in consultation with the Cabinet Member with responsibility for Finance.

2 The tax base is used in the budget requirement calculation to produce the standard amount of Council Tax for a band D property as well as by the Government in distributing certain grants and determining the Council's "spending power".

3 The calculated tax base for 2022/23, before losses on collection are deducted, is **31,981** band D equivalent properties which is an increase from the 2021/22 tax base of **31,645**. The increase reflects:

a) A reduction in the number of Council Tax discounts anticipated to be awarded during the year, assuming a continuation of the decline in caseload which has been experienced since introduction of the Local Council Tax Support scheme in April 2013.

b) The anticipated outcome of ongoing compliance reviews of the various categories of Council Tax discounts and exemptions. This work commenced during 2015/16 and is being undertaken as part of a Pan-Essex project intended to increase collectable Council Tax revenue across Essex. The resource required to undertake the work is part funded by the main precepting organisations and initially supported for the three-year period from 1 April 2015, subsequently extended a further two years. The project has been extended to include data matching across organisations.

4 Having determined the overall tax base, the estimated number of band D properties must be reduced to reflect a collection rate that takes account of losses on collection due to amounts that are uncollectable and void periods in respect of empty properties (this is not the same as the collection rate used as a performance indicator). The tax base collection rate has been reviewed and it is proposed that it should be reduced from **97.85%** to **97.50%** for 2022/23.

5 The tax base for 2022/23 is therefore **31,181** band D equivalent properties (compared with **30,965** in 2021/22) which is a year on year net increase of 216 band D equivalent properties.

Local Council Tax Support scheme – tax base yield compensation grant

6 The reduced tax yield arising directly from the Council Tax support scheme discount was originally compensated for by a government grant. From 2017/18 local authorities have been required to fund the scheme entirely from within their own resources. For the 2022/23 financial year this absorbed cost equates to **c£613k.**

5 Local Government Funding

2022/23 Local Government Finance Settlement / Settlement Funding Assessment (SFA)

1 On 7th February 2022, the Rt Hon Michael Gove MP made a written statement to Parliament confirming the publication of the 2022/23 Final Local Government Finance Settlement. The settlement was subsequently debated and confirmed. The figures in the tables below reflect the detail behind that statement.

2 The 2022/23 local government finance settlement is for one year only and is based on the Spending Review 2021 (SR21) funding levels. This is the first time since 2015 that, in the context of a multi-year spending review, the government has only provided local authorities with a single year settlement. 2022/23 represents the 10th year in which the Business Rates Retention (BRR) scheme is the principal form of external local government funding.

3 At a national level, there is a **6.9%** net increase in the core spending power for local government in 2022/23. The tables below are derived from an assessment produced by LGFutures and take into account Council Tax, Business Rates and government grants as shown in table 5.1. Table 5.2 shows how this translates at a local level to Castle Point with the net increase of **4.8%**, mainly as a result of increased New Homes Bonus (see table 5.7)**.**

Table 5.1 Core Spending Power - National Level	2021/22 £m	2022/23 £m
Settlement Funding Assessment	(14,810)	(14,882)
Council Tax	(30,327)	(31,728)
Grants	(5,255)	(7,246)
Total	**(50,392)**	**(53,856)**
Net change %		**6.9%**

Table 5.2 Core Spending Power - Castle Point	2021/22 £000's	2022/23 £000's
Settlement Funding Assessment (Business Rates)	(2,263)	(2,263)
Council Tax	(8,310)	(8,534)
Grants	(113)	(399)
Total	**(10,686)**	**(11,196)**
Net change %		**4.8%**

4 Table 5.3 shows the distribution of Business Rates (NNDR) collected within the Borough.

Table 5.3 Funding Settlement 2021/22 to 2022/23	2021/22 £000's	2022/23 £000's
Anticipated yield from NNDR for CPBC	(15,314)	(15,314)
50% Payable to Government	7,657	7,657
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	1,531	1,531
Amount left after payments	(6,126)	(6,126)
Tariff payable to Government	3,863	3,863
Business Rates Baseline / CPBC funding	**(2,263)**	**(2,263)**

Business Rates Retention (BRR)

5 The settlement no longer provides absolute funding indications for BRR and is based on an adjusted average income figure. This may or may not be reflective of the final BRR outturn for each respective year. Whilst the BRR scheme enables the Council to retain a proportion of Business Rates growth, it also requires the Council to absorb a proportion of the financial impact of successful rating valuation appeals and bad debts. Appeals may result in the repayment of backdated rates paid by businesses as well as an ongoing reduction in rates receivable by the Council in future years. This information is not known to Government at the time the settlement is announced.

6 The Council is therefore required to complete a statutory annual return to the Department for Levelling Up, Housing and Communities (DLUHC), referred to as the NNDR1, which sets out the anticipated National Non-Domestic Rates income collectible by the Council, based on more recent information than that available to Government. This return also calculates the value of section 31 grant (s31) which is payable to the Council. When Government introduce an initiative which reduces Business Rates payable by a particular type of business, s31 grant is payable in order to compensate for the reduction in business rates yield (e.g. small business rates relief).

7 The following table provides a comparison between the settlement and the NNDR1 return and indicates a difference in the amount due to the Council of **£1,020k** in 2022/23**.** The impact of this variance is cushioned through use of the Equalisation Reserve as described below.

Table 5.4 Funding Settlement 2021/22 to 2022/23 (comparison)	2021/22 £000's	2022/23 £000's	2022/23 £000's
	NNDR1	**Settlement**	**NNDR1**
Anticipated yield from NNDR for CPBC	(14,588)	(15,314)	(12,764)
50% Payable to Government	7,294	7,657	6,382
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	1,459	1,531	1,276
Amount left after payments	(5,835)	(6,126)	(5,106)
Less Tariff payable to Government	3,863	3,863	3,863
Total combined funding for CPBC	**(1,972)**	**(2,263)**	**(1,243)**

Managing fluctuations in Business Rates Revenue

8 The Council prudently established an earmarked reserve (NNDR Equalisation Reserve) in 2013/14 for the purpose of smoothing any detrimental impact which may present in respect of the NNDR collection fund, such as any levy payment which may become due, the effect of appeals on Business Rates income and the impact of any deficits on the Collection Fund. The Council maintains a rolling medium-term forecast of the reserve to support financial planning and table 5.5 sets out the transactions which are anticipated to impact on the reserve in 2021/22 and 2022/23.

9 The balance on the reserve is maintained at a maximum of **£1.4m** as shown by the final line of the table below, with the value of funds exceeding this threshold being applied directly into the General Fund (reduction in overall reserve balance).

Table 5.5 NNDR Equalisation Reserve	2020/21 £000's	2021/22 £000's	2022/23 £000's
Opening Balance	(1,200)	(4,836)	(1,400)
Application of s31 grant income	(4,737)	(1,166)	(2,193)
Surplus on collection fund in year of distribution	(12)	0	0
Total Contributions into the Reserve	**(5,949)**	**(6,002)**	**(3,593)**
Application to offset payment of Levy	434	343	411
Deficit on collection fund in year of distribution	0	3,453	0
Adjustments to levy & s31 grant (previous years)	0	0	0
Equalisation adjustment – variance in rates retained	357	291	1,021
Reduction in overall reserve balance	322	515	761
Closing Balance	**(4,836)**	**(1,400)**	**(1,400)**

10 Additional information regarding the operation of the Business Rates Collection Fund may be found below and within section 6 of this report.

Business Rates Retention Scheme & Growth

11 Under the system of local Business Rate Retention, some authorities collect more rates than the Government has determined they need in order to fund their activities. These authorities are currently required to pay over the excess to Government and are referred to as "tariff" authorities. Most district councils are in this position and for Castle Point the tariff is **£3.863m** for 2022/23.

12 Conversely, those authorities who collect insufficient income in their own area receive payments from Government and are known as "top up" authorities. The most common group of authorities receiving top ups are county councils. Where an authority sees growth in its Non-Domestic Rates it must pay a proportion of that growth into the central pool as a "levy" which is capped at **50%.**

13 Calculation and payment of the levy is undertaken following the end of the financial year, once final outturn is known. The levy calculations for 2020/21 (final), 2021/22 & 2022/23 (provisional) are shown in the table below. Any detrimental impact on the General Fund is offset by application of the NNDR Equalisation Reserve (paragraph 8 above).

Table 5.6 NNDR Levy Payment	2020/21 £000's	2021/22 £000's	2022/23 £000's
CPBC share of Business Rates receipt	(2,361)	(5,835)	(5,106)
Tariff payment to Government	3,863	3,863	3,863
s31 grants awarded to the Council	(4,633)	(977)	(1,842)
Retained income	**(3,131)**	**(2,949)**	**(3,085)**
Less baseline funding level	(2,263)	(2,263)	(2,263)
Growth above baseline	(868)	(686)	(822)
Levy Payment @ 50% of growth	**434**	**343**	**411**

14 Year to year variations in the figures shown in this table reflect the impact of the pandemic and the support provided to business rates. Growth shown in the table above is absorbed within the NNDR Collection Fund.

Essex Region Business Rates Pool

15 In a pooling arrangement, the respective baseline funding levels and baselines for the member authorities are added together and treated as one "pool" for the calculation of the levy. The levy, rather than being paid across to Government, is retained within the Pool and this is fundamentally the main advantage of a pooled arrangement.

16 The following authorities across Essex are members of an Essex Region pool:

- Basildon Borough Council
- Braintree District Council
- Brentwood Borough Council
- Castle Point Borough Council
- Chelmsford City Council
- Colchester Borough Council
- Epping Forest District Council
- Essex County Council
- Essex PFCC Fire & Rescue Authority
- Harlow District Council
- Maldon District Council
- Rochford District Council
- Southend Borough Council
- Tendring District Council
- Uttlesford District Council

17 The reduced levy resulting from the Essex Region Pool means that significantly more growth will be retained by member authorities. A participation agreement is in place which sets out the key principles of the pool as well as the basis for distribution of all proceeds.

New Homes Bonus (NHB)

18 The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

19 The NHB was previously a material source of funding for this Council however changes to the scheme announced as part of the 2017/18 Local Government Finance Settlement, coupled with the relatively low new property yield within the Borough, has meant that Castle Point has not qualified for new NHB funding in recent years. However, for 2022/23 there has been sufficient movement in the tax base to attract funding of **£141k**.

20 The table below shows the allocation to Castle Point under the current methodology and based on the existing tax base.

Table 5.7 New Homes Bonus Allocations	2020/21 £000's	2021/22 £000's	2022/23 £000's
Settlement December 2021	(218)	(17)	(141)

21 The Government has previously consulted on the future of the NHB scheme, stating that "It is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most". Changes to the scheme are therefore anticipated at some point in the future.

Lower tier services grant

22 A new un-ringfenced lower tier services grant was announced by the Minister from 2021/22. This has been allocated via 2013/14 Settlement Funding Assessment (SFA) levels and is designed to ensure that no authority has a reduction to its Core Spending Power. The value of the grant is adjusted for any increase or reduction in other grants and is **£102k** for 2022/23.

2022/23 Service Grant

23 This new grant has also been distributed via 2013/14 SFA shares but this methodology would appear to be for 2022/23 only. The value of this grant for 2022/23 is **£156k** with the value for future years unknown.

Top-up/Tariff Adjustments (Negative RSG)

24 These adjustments were first introduced in the 2016/17 provisional settlement. They reflected the need to remove funding from authorities (due to the Spending Review 2015 funding reductions) that no longer had Revenue Support Grant.

25 Due to the approach taken in making the reductions, the Top Up/Tariff adjustments tended to hit high tax base/high tax rate authorities, with an increasing number being affected each year from 2017/18 to 2019/20. However, at the 2016/17 final settlement, the adjustments up to and including 2018/19 were removed, with the 2019/20, 2020/21 and 2021/22 amounts removed at the respective settlements.

26 As per the previous five years, the negative RSG amounts have been eliminated for 2022/23 from the settlement but have been included in the Council's financial forecast for future years given the uncertainty around these future years.

Local Government Funding Reform / Business Rates Revaluation

27 The only announcement regarding funding reform was as follows:

> "Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013/14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes".

28 The lack of a set timetable for implementing the delayed Fair Funding Review and Business Rates Reset (both originally planned for 2019/20) may mean something more than just completing the previous project.

Government support – covid-19

29 Section 2 includes commentary relating to the package of funding measures provided by central government to local authorities throughout the pandemic.

6 Collection Fund

Collection fund balance

1 An estimate must be made of the balance on the Council Tax and Business Rates Collection Funds as at 31 March 2022. This is a statutory calculation that has to be made by 15 January for Council Tax and 31 January for NNDR.

2 The net impact of the respective balances relevant to Castle Point will be applied in the subsequent financial year as shown on line 5 of the financial forecast and expanded below:

Table 6.1 Collection Fund Surpluses/Deficits	2021/22 £000's	2022/23 £000's
Council Tax deficit / (surplus)	(2)	104
Business Rates deficit / (surplus)	3,453	(37)
Total deficit / (surplus) on Collection Funds	**3,451**	**67**

3 The deficit on business rates in 2021/22 is in relation to reliefs granted to businesses as part of the Government's 2020/21 covid-19 support programme and is funded by s31 grant. The deficit on council tax in 2022/23 is as a direct result of the impact of the economic effects of the pandemic on resident's ability to pay their council tax.

Council tax collection fund

4 The surplus or deficit relating to Council Tax is shared between this Council, Essex County Council, Essex PFCC Fire & Rescue Authority and Essex PFCC Policing and Community Safety. These adjustments are subtracted from or added to the amount to be raised from Council Tax for the forthcoming financial year and do not form part of the budget requirement.

5 The estimated balance on the Council Tax Collection Fund at 31 March 2022 is a **£714k deficit** of which this Council's share is **£104k.**

Business rates collection fund

6 Any surplus or deficit relating to NNDR is shared between this Council, Essex County Council, Essex PFCC Fire & Rescue Authority and Central Government. These adjustments are subtracted from or added to the amount to be raised from Council Tax and do not form part of the budget requirement.

7 A surplus or deficit balance on the NNDR Collection Fund may be caused by changes in a number of factors during the course of a financial year including new business premises, the outcome of rating appeals and changes in the total value of discretionary or mandatory reliefs granted compared to original estimates.

8 The estimated balance on the NNDR Collection Fund at 31 March 2022 is a **£91k surplus** of which this Council's share is **£37k.**

7 Reserves & Contingencies

1 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to take into account the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

2 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial (s151) Officer (Strategic Director (Resources)) is required to report to the Council on the adequacy of the proposed financial reserves and to ensure that there are clear protocols for their establishment and use. The report of the Strategic Director (Resources) is shown at paragraphs 9 to 20 below and has regard to the Guidance Note on Local Authority Reserves and Balances, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in June 2015. The Council must have regard to this report when making decisions on the Council Tax requirement calculation.

3 Reserves can be held for three main purposes:

a) General reserves: to meet the potential cost of emergencies or unexpected events, including a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

b) A contingency: to meet the costs of events that are possible, but whose occurrence is not certain - this also forms part of general reserves.

c) Earmarked reserves: to meet known or predicted liabilities, and potentially extending beyond a single financial year.

Proposed level of general reserves

4 For 2021/22 and 2022/23 General reserves are calculated as follows: -

Table 7.1 General Reserves	£000's
Actual balance 1 April 2021	**(5,596)**
Net potential movement during 2021/22	(58)
Forecast balance at 1 April 2022	**(5,654)**
Net potential movement planned during 2022/23	(36)
Forecast balance at 31 March 2023	**(5,690)**

5 The estimated balance on reserves at the end of 2022/23 represents **42%** of the Council's net budget before funding for that year. Without context this level of reserves would appear to be high, however unless significant ongoing cost reductions are achieved, the Council will be required to use general reserves in order to support day to day expenditure for years 2023/24 and beyond.

6 Use of reserves on an ongoing basis to support day to day expenditure is not good practice and it is the Council's intention to identify savings / cost reductions / additional income to fully close each year's budget gap without relying on the use of reserves. However, until these years are balanced it is prudent for the Council to maintain reserves at a higher level.

7 The pandemic has continued to prevent the progression of projects and initiatives which may have helped to reduce the budget gap in future years. The ongoing impact of the pandemic on both the demand for some council services and resident / customer ability to pay for the use of services and facilities is also unknown and may result in either an improved or worsened budget gap than is currently predicted.

Adequacy of reserves

8 There is no universally valid formula for calculating an adequate level of reserves – the relevant factors can only be assessed properly at a local level. The assessment of local factors should take account of the strategic, operational and financial risks facing the Council. This report considers these under the following headings: -

- **Corporate issues**
- **Budget assumptions**
- **Financial standing and management**
- **Other local factors of significance**

Adequacy of reserves – corporate issues

9 The Council has adopted a Risk Management Strategy and progress is regularly reported to the Audit Committee. The process includes the identification and management of strategic and operational risks. Risk Management is a key governance process as set out in the Local Code of Corporate Governance which is reviewed and adopted by the Audit Committee annually.

10 In terms of financial risks, the most significant at the current time are:

1. Ongoing and post-recovery impact of the pandemic on the Council's direct revenue streams including Council Tax and Business Rates (linked to resident and customer demand and ability to pay for the use of services and facilities).
2. New funding mechanism for local government (unknown implementation timeframe).
3. Increase in planning appeals and consequential costs.

Adequacy of reserves – financial standing and management

11 This is considered in the following table: -

Table 7.2 Adequacy of reserves - financial standing and management
Overall financial standing The Council has no difficulty in meeting the key indicator of prudence in relation to capital borrowing. Local tax collection rates have been reviewed in view of the pandemic but are satisfactory.
Record of budgeting and financial management In-year monitoring of the financial position is sound and risk rated with comprehensive reporting to budget holders. For many years, the year-end out-turn has been well within approved budgets. The Financial Planning Strategy, which forms part of this document, has assisted the Council in maintaining the Council's finances on a prudent and stable footing.
Capacity to manage in-year budget pressures The Council has an excellent record of maintaining good financial and budgetary discipline. A scheme of virements allowing resources to be reallocated within approved parameters has been used extensively. Financial procedures include flexibility to carry unspent budget into subsequent financial years in order to avoid unnecessary spend at year end.
Strength of financial information and reporting arrangements All budget holders have access to a real time financial management system that shows cumulative expenditure (including commitments) and income against profiled budgets. Cabinet is responsible for monitoring the effectiveness of budgetary control and Cabinet Members receive regular reports of variances. These reports provide Members with clear and concise information that has been informed by risk assessment and operational activity.

Adequacy of reserves – budget assumptions

12 These are considered in the following table: -

Table 7.3 Adequacy of reserves – budget assumptions

Estimate of the level and timing of capital receipts
Assumptions of new capital receipts are limited to, and based on, the current annual number of Council House sales under Right to Buy provisions.

Sensitivity of budget assumptions
The assumptions on which the financial forecast is based are sensitive to changes in factors outside the Council's influence. During the budget process the sensitivities of these assumptions are considered before determining the budget values to be adopted.

Treatment of demand led pressures
Many of the Council's revenue income streams are sensitive to changes in market conditions and therefore there will always be a risk that budgeted targets are not met. These include fees and charges for planning, building control, land charges and leisure services, recycling revenue streams and car parking income.

Estimates have been based on the latest available predictions with adjustment, where necessary, to take account of known factors that might cause changes in demand. This is a tried and tested approach. Section 2 of this report refers to the potential lasting impact on revenue streams, in particular fees and charges, and explains the Council's approach.

Adequacy of provisions
Provisions for bad and doubtful debts have been calculated in accordance with CIPFA guidelines. This is a tried and tested approach.

The provision for the value of potentially successful rating valuation appeals in relation to Business Rates is significant. There are numerous variations to methodologies for calculating this provision and the Council has adopted a prudent approach, informed where possible by historic information. Progression of appeals is slow and there is limited information available on which to base estimates of the likely impact of successful appeals, so the Council has adopted methodology provided by DLUHC.

Treatment of inflation and interest rates
The detailed budget includes provision for an average **2%** pay increase for 2022/23 and **2.5%** for subsequent years. A vacancy factor of **0.75%** has also been included in the estimates to reflect the vacancy periods during which salary costs are not incurred. A further sum of **£100k** ongoing has been included in the budget to allow for pay increases exceeding current predictions.

Budget holders have been asked to estimate outturn prices, i.e. to take account of known or expected increases in the prices of goods and services. This is a tried and tested approach.

All the Council's external debt is at fixed interest rates and the average interest rate used to estimate interest receivable from investments in 2022/23 is **0.51%.** The estimated level of investment income generated is based upon investments placed with institutions in accordance with the Council's Investment Strategy, as detailed in section 11.

Where cost increases are linked to the RPI or CPI, future year's increases are based on future RPI or CPI predictions provided by the Office for Budget Responsibility.

Adequacy of reserves – other local factors of significance

13 These are considered in the following table: -

Table 7.4 Adequacy of reserves – other local factors of significance

Equal pay review / Job evaluation
A great deal of work has been undertaken on pay harmonisation and single status. However, the Council has not undertaken a full job evaluation exercise as required by the 2004 National Agreement. This carries a potential risk that the Council will need to use general reserves to defend and/or settle any successful claims made against the Council.

At the time of writing this report the Council is at the planning stage of undertaking a job evaluation exercise across the entire workforce. This is a major project which will require additional resource and which may have ongoing financial implications for the Council.

Any pay increases may be effective immediately and may or may not be backdated. In the absence of certain data on which to determine a sound cost estimate, provision has been included in the Council's budget for an ongoing cost increase of **£100k** representing **1%** of the Council's overall staffing cost.

Pension Fund revaluation
The Council is obliged by statute to offer its employees membership of the Local Government Pension Scheme (administered by Essex County Council). The scheme changed from a final salary to a career average scheme in 2014/15. The scheme offers members a defined benefit funded by employee and employer contributions. Every three years an actuarial valuation of the fund takes place which determines the Council's contributions for current employees and a deficiency payment to make good any estimated historic shortfalls in the fund's assets measured against its expected liabilities.

The actuary undertook a valuation of the Pension Fund as at 31 March 2019 which indicated an improved deficit recovery period of 10 years (25 years predicted in March 2010) and a funding level of **96.8%**. The implications included within the Council's financial forecast are based on the recommendations of the pension fund, effective from April 2020. The next valuation will be undertaken by the actuary in March 2022, effective for contributions from April 2023.

Pension fund risks include changing economic conditions and investment returns being less than the assumptions adopted in the Pension Funds investment strategy. As a consequence this may see an increase in the employer's contribution rate from 2023/24 onwards. Provision has not been made in the Council's budget for this eventuality.

Potential for withdrawal of external or third-party revenue income
The financial forecast currently assumes the continuation of certain revenue streams from external organisations or third parties. Many of these organisations have been impacted by the pandemic and are striving to reduce their costs. It is possible that one or more of these revenue streams may be lost.

It is therefore recommended that when assessing the minimum level of reserves a sum of £100k is included in the calculations (paragraph 14 below).

Potential for incurrence of legal costs
There is potential for the Council to incur costs in relation to legal challenges including employment tribunals, equal pay claims, planning appeals and uninsured losses.

It is recommended that when assessing the minimum level of reserves a sum of £1.64m is included in the calculations (paragraph 14 below).

Table 7.4 Adequacy of reserves – other local factors of significance (continued)

Potential for cost fluctuations in relation to service contracts
A significant element of the Council's annual spend is transacted through contracts with other organisations. Fluctuations in markets (e.g. recycling), changes in legislation (e.g. new living wage) and other external events (e.g. covid-19 pandemic) can have a direct impact on the delivery costs of these contracts, necessitating an increase in the charge made to the Council. These changes are unpredictable.

The Consumer Prices Index for November 2021 (most recent to writing this report) was **5.1%** against a Bank of England target of **2%**. The rate is predicted to peak at **6%** during the new financial year before gradually reducing towards the **2%** target. The index is impacted by rising energy costs. The Council applies different inflation rates to different cost categories but there is potential for fluctuating inflation rates to have a more significant impact on contracted costs than has been determined as part of the current budget process.

The Council is currently preparing to tender for a new Grounds Maintenance and Street Cleansing contract which will become operational from April 2023. The financial forecast assumes a continuation of contract costs at existing values and therefore does not include allowance for a cost increase. A **1%** change in the value of this contract represents **£20k**.

A review of the Waste Collection service is currently in progress. Over recent years costs incurred in the delivery of this service have escalated and the budget for staffing/agency has been increased by c**£350k** ongoing. The budget does not include provision for any other additional costs which may arise from the review.

It is recommended that when assessing the minimum level of reserves a sum of £200k is included in the calculations (paragraph 14 below).

Potential for District / Borough Councils to "step into" the void left by other public organisations
The combined pressure of reductions in funding and the increasing financial impact of welfare services and reforms on public organisations are significant. These organisations are striving to reduce their costs which may result in the discontinuation or reduction in some services to the public. Consequently, there may be political pressure or public expectation that the District/Borough Councils will take on these discontinued functions.

Often, the organisation is much larger than the District / Borough Council and has undertaken its own review of functions and services, resulting in the displacement of those which it has determined to be lower priority.

The Borough Council must continue to be mindful of its own financial position and the funding gap predicted in future years. Assuming delivery of additional and unfunded functions, particularly where the District / Borough Councils have no legal responsibility for delivery, will worsen the Council's own financial position and be difficult to relinquish later.

VAT – Partial Exemption
The Council currently takes full advantage of the VAT concession in respect of recovering input tax relating to VAT-exempt activities, available to local authorities under the VAT Act 1994. The concession is only available provided this input tax remains below **5%** of VAT on all expenditure. Increased investment in the Council's assets, such as refurbishment of facilities, may result in the VAT partial exemption limit being exceeded. If this is the case, under normal circumstances, it is estimated that additional VAT would become payable to HM Revenue and Customs. A review of the Council's VAT position is undertaken annually.

It is recommended that when assessing the minimum level of reserves a sum of £400k is included in the calculations (paragraph 14 below).

Table 7.4 Adequacy of reserves – other local factors of significance (continued)

Ongoing and lasting impact of the Pandemic (covid-19) on Council Revenue Streams
It is important that the Council recognises that there may be a lasting impact from the pandemic which could manifest in a number of ways. Given the high degree of uncertainty, it is not possible to make accurate changes to the detailed budget but based on experience during the course of the current financial year, it is felt that the lasting effect may be most material in respect of car parks revenue.

An earmarked reserve was established as part of the 2021/22 budget process to give the Council flexibility to respond to financial implications as they become known. Some of this funding has been applied during the current year and the balance on the reserve will be carried forward into the new financial year.

Since the ongoing impact of the pandemic is diminishing and the government are indicating a policy of "living with the virus", it is unlikely that lockdowns and economic disruption to the degree felt in 2020 will be activated. The assessment of the potential impact on the Council's budget has therefore been reduced and for 2022/23 will be fully covered by funds set aside in an earmarked reserve.

Impact of Welfare Reforms & Universal Credit on demand for Council Services
In 2021/22 the Local Housing Allowance percentile, used to calculate average rent values, remained fixed at the 30th percentile (reduced from the 50Th percentile in 2020/21 to help support households through the covid-19 crisis). There has been no indication yet whether this will continue in 2022/23 however it is thought likely to continue, given the ongoing economic pressures on households. Other reforms (such as the introduction of Dependant Child Limitation rules, the Housing Benefit Cap, and the Spare Room Subsidy Limitations) remain in place and continue to impact households across the borough.

The timetable for mass migration of legacy Housing Benefit Claims to Universal Credit, stalled by the pandemic in 2020, has recommenced with migration underway at targeted pilot sites and full migration expected to be complete by 2025. The Authority continues to work closely with Third Sector partners to successfully mitigate the impacts of this transition.

Despite this, demand for services across Revenues, Benefits, and First Contact remains high and is expected to continue so until the full impact of covid-19 on the economy, cost of living, and levels of debt stabilises.

Nationally the impact of covid-19 has seen increases in people who are experiencing homelessness and there is uncertainty regarding the continuing and ongoing impact. With 100% occupation of its own housing stock, changes in the private rented sector, and the continuing low rate Housing Benefit Cap (**£20k**), the Council continues to experience difficulty in finding suitable family sized temporary/permanent accommodation. The emerging impact of the wider economic context brings further service demands with the cumulation and management of rent arrears and debt management provision.

It is not therefore possible to predict the full direct or indirect impact of these and other welfare changes on demand for Council Services, particularly Housing and Benefit advice longer term.

It is recommended that when assessing the minimum level of reserves a sum of £100k is included in the calculations (paragraph 14 below).

Adequacy of reserves – conclusions

14 Having evaluated all the above factors, including the sensitivity of key budget assumptions, the Strategic Director (Resources) considers that the following are significant local factors that should be taken into account when assessing the minimum level of general reserves: -

a) Potential for withdrawal of external or third party revenue income **(£100k)**
b) Potential for cost fluctuations in major contracts **(£200k)**
c) Potential for incurrence of legal costs **(£1.64m)**
d) VAT – Partial Exemption **(£400k)**
e) Impact of Welfare Reforms on demand for Council Services **(£100k)**

15 These factors would not be reflected in any formula approach such as the benchmark reported at point 18 below. It is the Strategic Director (Resources) view that, taking into account the combined value of the items identified above, plus an additional **5%** of operating expenditure (see below), an appropriate minimum level of reserves is approximately **£3.1m.**

16 Although this report on adequacy of reserves is specific to 2022/23, the Council should bear in mind that adequacy should also be judged against longer-term plans.

17 Whilst it is not permissible or feasible for the Council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short-term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer-term solution. The Council's working policy is to earmark funds (set aside) to manage specific risks once the likelihood of that those risks materialising increases to a tangible level.

Comparison with external benchmarks

18 The only previously known external benchmark for adequacy of reserves was the standard that used to be included in the criteria for auditor scored judgements on Financial Standing, this formed part of the Comprehensive Performance Assessment made by the Audit Commission. This was stated as **5%** of net operating expenditure, weighted by reference to government limits for meeting emergency expenditure. For Castle Point, this calculates at **£676k** for 2022/23.

19 A comparison of the above benchmark with the Strategic Director (Resources) assessment and the Council's target is therefore: -

Table 7.5 Adequacy of reserves 31st March 2022	£000's
Castle Point (Target)	3,100
Audit Commission (Benchmark)	676

20 The Strategic Director (Resources) considers that until the impact of the new funding regime is known, and the local factors described in table 7.4 & paragraph 14 are resolved it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level.

Exclusions

21 This opinion does not include the following items: -

- The equal pay review as there is no information currently available on which to form a view.
- The impact of the new funding regime as the implementation timeframe and proposed methodology are unknown.
- The impact of any cost variation in relation to the retendered Grounds Maintenance and Street Cleansing contract – effective from April 2023.
- The impact of a change in Waste Collection arrangements.

If, however, the circumstances surrounding any of the issues identified above change, a report setting out the financial implications to the Council must be made immediately.

In-year use of General Reserves

22 General reserves will not be applied during a financial year except under the conditions described in paragraph 3a) above.

Earmarked Reserves

23 General reserves have been earmarked for known or predicted liabilities. Individual earmarked reserves of a significant value are supported by detailed spending forecasts and may span several financial years. The following provides a short commentary on the reserves held by the Council.

- **Minute 95 Fund**
  In accordance with minute 95 of Special Council held on 16 February 2005, **£100k** of general reserves was earmarked for one-off, urgent, un-budgeted policy objectives that might arise. This is under the direct control of the Strategic Director (Resources), in consultation with the Leader and Chief Executive.

- **Spend to Save Initiatives**
  A reserve of **£100k** intended to enable the Council to establish a scheme of self-insurance was established during the 2013/14 financial year. The scope was extended as part of the 2016/17 budget process to provide a fund for “pump-priming” initiatives which would deliver an ongoing reduction in costs and / or increased revenue to the Council. Each initiative will be supported by a specific business case. The value of this reserve was increased during the 2020/21 budget process to enable more initiatives to be taken forward. As savings from initiatives are generated, the reserve is replenished up to the value of the original investment ensuring that funds are continuously recycled for new initiatives. The balance on this reserve at the start of the 2022/23 financial year is forecast to be **£172k**.

- **Planning - Local Development Scheme & Local Plan**
  The delivery of the programme set out in the Council’s Local Development Scheme has considerable staffing and financial resource implications. It was originally anticipated that these implications would cost up to **£250k** during the period ending March 2014, and provision was made in an earmarked reserve to cover these costs. A further **£154k** was added to the reserve from general reserves in March 2016, and a subsequent **£218k** was approved at Cabinet in September 2017 and a further **£86k** was added as part of the budget process for 2021/22. The reserves is anticipated to be fully expended by the end of the 2022/23 financial year

- **Planning – Joint Strategic Plan**
  A reserve created during the 2019/20 budget setting process for costs in relation to development of a Joint Strategic Plan with Brentwood, Rochford, Southend, Thurrock, Basildon and Essex County Council.

  At the time of writing this report, a review of this reserve is in progress and it is unlikely that this funding will need to remain set-aside for its original purpose. As part of the current budget process, **£250k** from this reserve has been transferred into the Improvement Fund. Please also see section 3 of this report.

- **Local Council Tax Support**
  A reserve established at the end of 2013/14 from underspends on the Castle Point element of the local scheme grant, intended to fund future scheme variances and / or hardship cases over and above existing revenue budget provision.

- **Non Domestic Rates Equalisation**
  A reserve intended to safeguard the Council from fluctuations in Business Rates income and the impact of potential levy payments and successful business rate appeals.

This reserve was originally established from s31 grants awarded to the Council to offset the financial impact of policy changes introduced by central government which resulted in discounts in Business Rates to eligible businesses. Ordinarily these grants may have been applied directly into the General Fund, but many councils chose to set them aside given the continuous uncertainty of Business Rates.

During the budget process for 2019/20 the Council established a “cap” of **£1.2m** with funds exceeding the cap being applied directly into the General Fund. During the budget process for 2020/21, the cap was increased to **£1.4m.** Surplus funds exceeding the cap are applied against the General Fund during the budget setting process.

It is currently expected that the reserve will be maintained at the level of **£1.4m**, subject to continued provision of the grant, Business Rates appeal movements, and the overall funding formula beyond 1st April 2023. A new funding regime is proposed and set to bring about fundamental changes to the overall mechanics of how local government funding is distributed. The new regime may have an impact on the continuation or value of the grant in future years. For that reason, it is not possible or prudent to assume its continuation in future years.

- **Future Asset Maintenance**
  The Council commissions stock condition surveys on a five year cycle for all buildings in order to identify future works, and inform financial and resource plans across the lifetime of the financial forecast. All works are subject to competitive tender in line with the Council’s procurement rules.

  The purpose of this earmarked reserve is to fund and manage year on year variances in the cost of works to premises operated by the Council. The Council maintains two separate primary divisions of this reserve, one for general properties and one specifically for the two leisure centres. The second division also allows for non-building costs such as periodic replacement of fitness suite equipment.

  There are also two much smaller separate elements of this reserve for car parks and playgrounds, to be applied towards future works as required.

  These reserves are used for works intended to maintain the structure of the building and are not for cyclical or reactive works which are budgeted for directly within service budgets.

  The reserve is supported by a detailed financial plan extending to the 2030/31 financial year. The reserve is healthy up to and including 2024/25 and is then seen to be virtually depleted towards the end of the forecast.

- **Pension Deficit Payment**
  To enable the Council to take advantage of significant financial incentives offered by the Essex Pension Fund, payment of three years’ deficit contributions is made in one lump sum in advance, rather than paying amounts monthly or annually. This reserve was partly applied in 2020/21 for the scheduled advance payment in that year. Funds will accumulate in advance of the next scheduled payment in 2023/24.

  The values of future years lump sum payments are estimated and may vary significantly since they are dependent on the valuation of the pension fund which takes place every three years.

- **Improvement Fund**
  A reserve established from accumulated unspent revenue budget and savings generated through service reviews and initiatives and small value miscellaneous government grants. Further funding has been added to this reserve as part of the budget process for 2022/23, transferred from the Joint Strategic Plan earmarked reserve. At the start of 2022/23 funds to the value of **£837k** are forecast to be held in this reserve.

This fund may be used to deliver improvements to services and / or “unlock” ongoing revenue savings. Costs which could be funded through this reserve include costs of engaging consultants to support initiatives, staff settlement and redundancy costs arising through reorganisation and other one off costs necessary to deliver improvements to service delivery.

- **Revenue Grants Unspent / New Burdens Funding**
  The Council receives grants from central government and other organisations, for specific purposes. Where this grant funding is not spent during the course of the year that it is received in, and in order to preserve it for future use, it is held in an earmarked reserve.

- **ICT Projects**
  Funding set aside annually for investment in ICT related projects and infrastructure across Council services – to facilitate new ways of working, improved customer experience and keep up to date with new technology.

  The reserve includes ongoing expected commitments for the lifetime of the financial forecast as part of various planned ICT replacement and enhancement programmes and is supported by a detailed financial plan up to and including the financial year 2031/32.

- **Highways Improvements & Environmental Initiatives**
  Budgets previously approved, preserved in an earmarked reserve until they are ready to be applied.

- **Knightswick Shopping Centre**
  A reserve introduced during the budget setting process for 2020/21 which will hold accumulated annual surpluses, after settlement of debt management and operational expenditure in relation to the Knightswick Centre.

- **Pandemic Response Reserve**
  A new reserve established during the budget setting process for 2021/22. The purpose of the reserve is to set aside funds which may be used to offset any short-term detrimental impact of ongoing changes in demand for, and use of, Council services.

24 Table 7.6 on the following page provides a summary of forecast movements on General Fund earmarked reserves.

25 In addition to General Fund reserves, the Council holds reserves in respect of the Housing Revenue Account (HRA), including the following earmarked reserve: -

- **Housing Revenue Account (HRA) Loan Repayments**
  Funds set aside from the HRA for the repayment of debt taken out by the Council as part of the refinancing of the HRA. The first repayment of **£7m** was made in 2021/22.

Table 7.6 Earmarked reserves movements	Balance 01/04/2021 £000's	2021/22 £000's (movement)	2022/23 £000's (movement)	2023/24 £000's (movement)	2024/25 £000's (movement)	Forecast 31/03/2025 £000's
Revenue grants unspent	(790)	235	(71)	(74)	18	**(682)**
Priority initiatives	(100)	0	0	0	0	**(100)**
Future asset maintenance	(2,780)	(18)	541	(203)	134	**(2,326)**
Pandemic response	(490)	(37)	0	0	0	**(527)**
Insurance	(348)	0	0	0	0	**(348)**
Non-domestic rates equalisation	(4,923)	3,523	0	0	0	**(1,400)**
Local council tax support scheme	(159)	(62)	0	0	0	**(221)**
Improvement fund	(468)	(369)	0	0	0	**(837)**
Pension deficit payment	(987)	(352)	(178)	1,441	(620)	**(696)**
Planning - local development scheme & plan	(110)	110	0	0	0	**0**
Planning - joint strategic plan	(360)	250	0	0	0	**(110)**
Regeneration	(258)	8	200	0	0	**(50)**
Knightswick Shopping Centre	(632)	(400)	(518)	(382)	(391)	**(2,323)**
ICT projects	(2,219)	301	362	178	155	**(1,223)**
Co-mingled waste contract	0	(210)	0	0	0	**(210)**
Spend to save initiatives	(276)	104	(12)	(19)	(28)	**(231)**
Commitments from previous year	(357)	357	0	0	0	**0**
All other earmarked reserves	(45)	11	0	0	0	**(34)**
Total General Fund Earmarked Reserves	**(15,302)**	**3,451**	**324**	**941**	**(732)**	**(11,318)**

This statement reconciles to note 4 of the Medium-Term Financial Forecast (table 3.3)

8 Charging Policy & Commercialism

Introduction

1 There are clear links between the Council's policy on charging and commercialism. For Castle Point commercialism includes not only maintaining a focus on raising and maintaining additional revenue but establishing greater financial awareness in terms of our costs, how those costs interact with and affect the associated income generated, and smarter ways of working in order to reduce those costs.

2 The Council's charging policy sets out the key principles and processes it intends to follow when setting fees and charges for services and applies to all fees and charges except for: -

- Services which have charges set by statutory legislation.
- Services which are prohibited by statutory legislation from raising any charges.
- General rental income and lease / licence income.
- Income from housing rents.

3 The Council's Constitution provides the majority of services with the authority to set their own fees and charges.

4 Section 93 of the Local Government Act 2003 provides local authorities with the power to charge for discretionary services, provided they are not covered or prohibited by other statutory legislation, and provided the services in question do not make a profit from charging.

5 The Council published a commercialism strategy during 2021/22 and this may be found on the Council's website (https://www.castlepoint.gov.uk/council-strategies-and-policies).

Income generation principles

6 Charges should be set at a level to maximise income generation. Departments should aim to set charges so that at the expected level of usage, the income generated from a service recovers the full cost of providing the service. However, charges should not be set at a prohibitively high level that would adversely affect usage, e.g. by making the Council uncompetitive.

7 Full cost consists of: -

- The direct cost of running the service, i.e. staffing, property and vehicle costs, equipment, etc.
- The indirect cost of running the service i.e. recharged costs from central and other support departments and capital charges, such as depreciation.

8 Charges set below full cost recovery levels should be fully justifiable in terms of meeting Council priorities or subject to confirmation by the Strategic Director (Resources) and Executive Management Team, as they result in the net cost of that particular service being subsidised by the Council as a whole.

Annual process

9 As part of the annual budget setting process, budget holders are required to confirm, as a minimum, the following information: -

- The rate by which charges will be inflated for the forthcoming financial year. This would normally be expected to not be less than the annual increase in inflation (CPI / RPI) prevailing at that time.
- Any changes in activity and / or usage and the expected impact on the income budget.
- Any other changes which could have an impact on the income budget.
- Proposals for any services which are currently provided free of charge for which a charge could be raised.

10 Using this information, and by analysis of income received during the previous financial year and to date in the current financial year, Financial Services will calculate a draft budget for each income line, including a revised budget for the current year and forecast budgets for the following three years.

Publication and communication

11 Each department is responsible for the establishment of a schedule of charges for the chargeable services within their jurisdiction, as well as communication of charges direct to users as appropriate. A single schedule of all charges is published on the Council's website.

Variations in standard fees

12 Budget holders may decide that on occasion there is enough rationale for providing variations on standard charges to individuals or classes of users, for example: -

- Discounts on bulk bookings.
- Off-peak discounts.

13 Variations should only be considered provided they are also consistent with Council priorities and service aims, for example, making concessions available to other local organisations who contribute to meeting Council objectives.

Periodic full review of charges

14 As well as the annual processes described above, a more in-depth review of fees and charges is undertaken at least once every three years.

15 This review aims to ensure charges are consistent with Council priorities and service aims, market and customer intelligence, and to justify any subsidy made by the Council as a whole to that service. The outcome of, and any changes arising from, the three-yearly formal reviews are to be approved by the Strategic Director (Resources) and the Executive Management Team. A review was planned to have been undertaken during 2021/22 but has been deferred to 2022/23 as a result of the pandemic and impact on priorities and workplans.

The case for financial self-sufficiency

16 Traditionally local government has been dependent on two main sources of funding in order to deliver services: Council Tax and central government funding. Restrictions on the ability to raise local taxation, and a reluctance to charge full cost for discretionary services, has historically led to dependence on central government funding. Now that government funding has diminished, greater emphasis is placed on locally raised revenue streams such as service specific fees and charges and charges for discretionary functions. Table 8.1 demonstrates how the funding proportions of the Council have altered over the last ten years.

Table 8.1 Funding profile 10 year comparison	**2012/13**		**2022/23**	
	£000's	**%**	**£000's**	**%**
Local Council Tax	(7,395)	46%	(8,534)	46%
Business Rates, Revenue Support Grant, New Homes bonus, Ctax freeze support Grant and s31 Grant - net of levy and tariffs	(4,869)	31%	(3,560)	19%
Local Fees and Charges, Sales, Rents and Memberships	(3,634)	23%	(6,313)	35%
Total funding for local services	**(15,898)**		**(18,407)**	

17 The table shows that in 2012/13 local services were funded **46%** from Local Council Tax, **31%** from Business Rates and central government grants, and **23%** from revenue raised locally. By 2022/23 the proportions will have shifted to **46%**, **19%** and **35%** respectively. It is acknowledged elsewhere in this report that the lasting impact of the pandemic on council services is still to be quantified and therefore these proportions may change.

9 Capital Strategy

1 The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made and considers risk, reward and impact on the achievement of priority outcomes. The strategy is fully integrated with revenue planning and budgeting.

2 The strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services and shows how associated risk, including future financial sustainability, is managed.

3 Decisions around capital expenditure, investments, and borrowing align with the processes for the setting and revising of the budget for the Council, hence the Capital Strategy forms part of the overall Policy Framework and Budget Setting Report. Subsequent sections in relation to Treasury Management and Investment are closely linked to the Capital Strategy and cover in detail the Council's approach to borrowing and investing.

4 New best practice guidance has been issued by CIPFA around the development of a whole organisation approach to the production of a capital strategy. This guidance will be reviewed during 2022/23 to identify improvements that can be included within the Council's existing strategy.

Asset management planning, maintenance and strategic use of the Council's asset base

5 As at 31 March 2021 the Council held assets valued at circa **£188m**, including:

- Council Houses (1,510) and garages (357): **£130m**
- Land and buildings: **£54m**. Major assets include the Council offices, Waterside Farm and Runnymede Leisure Centres and the Knightswick Centre.
- Vehicles: **£2m**, mainly refuse and recycling freighters.
- Assets let to other organisations and individuals (Investment Properties): **£2m.** These include the golf course on Canvey Island.

The above amounts represent the values used for capital accounting purposes, such as annual depreciation charges.

6 The Council regularly commission condition surveys on all its building assets to inform work programmes, financial planning and corporate decision making. All works are provided for within the medium-term financial forecast.

7 Whilst assets are managed by relevant service areas, programmed works are overseen by a central Estates team who administer inspections, surveys, and commission planned works in line with procurement rules and procedures.

8 An Asset Management Group, comprising representation from relevant service areas, consider matters such as planned or potential asset disposals and when appropriate refer matters to the Council's Strategic Asset Group which is an internal working group consisting of Senior Officers.

9 The Council's Asset Management Plan is updated every two years and provides an overarching framework for the management of the Council's corporate land and building assets. It is supported by a Commercial Strategy, which references maximising the return on the Council's building assets. Ensuring that assets are utilised to their full potential is a key principle of the Commercial Strategy.

Capital expenditure and the Council's approach to capital investment

10 Capital expenditure is expenditure that results in the provision or enhancement of assets such as land, buildings, plant and vehicles. This is subject to a de minimis limit whereby the Council will generally treat expenditure that is below **£10k** as revenue expenditure.

11 The Council must comply with the provisions of part 1 of the Local Government Act 2003 relating to capital expenditure and borrowing controls. These require local authorities to determine and keep under review the amount of their affordable borrowing. Authorities must also have regard to the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which became effective from 1 April 2004 and was most recently updated in 2017. There are associated guidance notes also published by CIPFA and these were updated in 2018. New guidance is due to be published at the time of writing this report; this will be reviewed, and changes reported, as appropriate.

12 The main issues affecting capital investment decisions are:

- The Council's capacity to borrow.
- The availability of other capital resources, such as capital receipts and grants.
- The management of debt, cash flows and investments.

13 The Council's strategy is to ensure that decisions on resource allocation are based on the corporate objectives and priorities, as detailed in the Council's Corporate Plan (available on the Council's website: https://www.castlepoint.gov.uk/council-strategies-and-policies) and reflect the views of residents and stakeholders.

14 The Council's capital investment priorities are set out below: -

Table 9.1 Prioritisation of capital investment projects

Priority	Purpose
1	Private sector improvement and disabled facilities grants.
2	Housing capital expenditure financed by the depreciation allowance, receipts from Right-to-Buy sales and contributions from revenue, with priorities determined in accordance with the HRA Business Plan and in consultation with tenants.
3	Self-financing schemes funded by specific grants and external sources.
4	Spend-to-save schemes that deliver on-going reductions to net cost.
5	On-going maintenance of assets and replacement of vehicles, equipment and plant.

15 New proposals will be evaluated in accordance with the requirements of the Prudential Code and with regard to the following criteria: -

- Service objectives, e.g. strategic planning for the Council.
- Stewardship of assets, e.g. asset management planning.
- Value for money, e.g. option appraisal.
- Prudence and sustainability, e.g. risks, whole life costing and implications for external debt.
- Affordability, e.g. implications for long-term resources and ultimately the Council Tax (and Housing rents for the Housing Revenue Account).
- Practicality, e.g. achievability of the forward plan.
- Revenue cost and income impacts.

This assessment is equally applicable to proposals which are self-financed or externally funded.

16 Different evaluation methods will be relevant for different proposals and will be undertaken as part of a comprehensive business case. These might include: -

- Options appraisal, e.g. rebuild, improve or replace an existing asset.
- Whole life costing, e.g. longer-term revenue impact.
- Sensitivity analysis, e.g. impact of cost fluctuations on an overall project.
- Effect of different borrowing options, e.g. duration and rate of interest.
- Payback calculations, e.g. how long it takes to recoup the cost incurred.

17 Contingency allowances for unexpected costs or overruns that might occur will be assessed and included as appropriate, particularly for high value projects.

18 All capital expenditure will comply with the Council's procurement rules and thresholds.

Financing of capital expenditure

19 Each item included in the capital programme is assessed to determine how it is to be financed. The term "financing" refers to the resources that are applied to ensure that the full cost is dealt with absolutely, whether short or longer term. There are a number of ways in which capital expenditure can be funded, primarily as follows: -

- External grant funding received from central government or other organisations.
- Use of capital receipts from the sale of Council owned assets. These include receipts from Council Houses sold through the Right-to-Buy (RTB) process. Certain restrictions apply on the usage of RTB receipts – see later in this section.
- Revenue contributions to capital expenditure – direct charges to revenue, in the General Fund and / or Housing Revenue Account, in the year that the capital expenditure takes place.
- Minimum Revenue Provision (MRP) - charges to revenue in subsequent years over the useful life of the asset. This is the outcome if none of the other above options apply - see later in this section for further information on MRP.
- Amortisation of Intangible Assets in HRA – charges to the HRA in subsequent years over the useful life of the asset. This method has been used to fund the Housing Management System.

Capital programme monitoring

20 Budget monitoring of the Council's capital programme is undertaken in the same manner during the year as that of the revenue budget, i.e. by officers from Financial Services in conjunction with the relevant budget holders for each item on the programme.

21 Exception reporting of positive or negative issues is made on a monthly basis to the Council's Executive Management Team (EMT) and Cabinet members.

22 The Council's financial regulations detail the procedures and authorisations required for dealing with capital programme cost variances and sets out a "fast track" process for items fully financed by external funding.

Prudential Code for Capital Finance in Local Authorities

23 The Prudential Code includes statutory requirements for the manner in which capital spending plans are considered and approved, as well as requiring the Council to set and monitor a series of Prudential Indicators. These Prudential Indicators are set out over the following paragraphs.

24 The Council has a duty under Section 3 of the Local Government Act 2003 and supporting Regulations to determine and keep under review how much it can afford to borrow. The amount so determined is called the Affordable Borrowing Limit and the Council must have regard to the Prudential Code when setting this limit. This requirement is to ensure that total capital investment remains within sustainable limits and that the impact on future Council Tax and rent levels is acceptable.

25 The following paragraphs explain the Prudential Indicators that the Council should have regard to before agreeing capital spending plans for 2022/23. The Council must approve Prudential Indicators for the next three years – 2022/23 to 2024/25 – and an appropriate recommendation appears in the accompanying formal Committee report. These indicators are, however, calculated over years beyond those three to ensure that the capital strategy is sustainable over the longer term, and to align with the timeframes used for the Medium-Term Financial Forecast and capital budgets.

26 A requirement of the CIPFA Code of Practice to bring leases currently classified as operating leases onto the Council's Balance Sheet in 2022/23 will impact on the calculation of the prudential

indicators. The indicators set out in this report do not include the impact of this change but work is underway to identify relevant leases and calculate the impact on the indicators. Following the finalisation of this work, a further report will be presented detailing the impact and changes required. This requirement does not change the costs to the Council of these lease arrangements.

27 The Prudential Indicators are classified into two main groupings – indicators for “Affordability” and indicators for “Prudence”.

- Indicators for “Affordability” – The fundamental objective in the consideration of affordability of the Council’s capital programme is to ensure that the proposed level of investment in capital assets results in the total capital investment of the Council remaining within sustainable limits. In considering the affordability of the capital programme, the Council is required to consider all resources currently available to it as well as those estimated for the future, together with the total of its capital programme and income and expenditure forecasts.

- Indicators for “Prudence” – The Council should ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it should consider arrangements for the repayment of debt and consideration of risk and the impact on the Council’s overall fiscal sustainability.

28 Where applicable the Prudential Indicators are required to be calculated separately for the General Fund and Housing Revenue Account. Where relevant these indicators are calculated on the basis that the first HRA loan repayment is in 2021/22, and a partial refinancing of repayment will be due in 2024/25. This is in line with assumptions in the HRA business plan which will be revisited periodically.

29 Prudential Indicators applicable to treasury management are shown in Section 10 of this report.

Prudential indicator (for affordability) – capital expenditure

30 Table 9.2 below shows actual 2020/21 capital expenditure, along with estimates for current and future years recommended for approval: -

Table 9.2 Capital expenditure	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
General Fund (GF)	1,266	4,467	3,812	1,657	1,552
Housing Revenue Account (HRA)	1,522	2,501	3,676	1,765	2,451
Total	**2,788**	**6,968**	**7,488**	**3,422**	**4,003**

31 The amounts shown for 2022/23 represent firm proposals for approval. Amounts shown for later years are indicative guidelines for financial planning and are subject to confirmation in each respective year’s budget process. The General Fund schemes are analysed in table 9.3 on the following pages.

32 All schemes identified in the preceding table match the priorities outlined in paragraph 14 above. These capital proposals constitute a capital plan that can be financed from revenue and capital resources and are therefore considered affordable. The position of Housing Revenue Account proposals (priority 2) is set out in a separate report to Cabinet.

Recurring and significant capital schemes

33 The capital programme has several items which recur in most years. These include: -

- Disabled Facility Grant adaptations paid for by central government grant funding.
- The vehicle replacement programme. This primarily consists of refuse and recycling freighters, but also includes a number of smaller specification vehicles. Most vehicles are replaced every 7 or 8 years on a rolling basis although there has been a significant increase in lead time for replacement vehicles due to the pandemic. This has been reflected in the plan.

- The Housing Revenue Account programme for annual improvements to Council-owned properties, covering works such as central heating, double glazing, new kitchens and bathrooms, etc.

34 In addition one-off items may also be included in the capital programme from time to time. These include:

- Spend-to-save leisure projects; Waterside squash court refit in 2020/21 and 2021/22 and Waterside soft play area in 2022/23.
- The Knightswick Shopping Centre related public realm works reprogrammed for 2022/23.
- Canvey Island seafront regeneration at Thorney Bay continuing in 2021/22 and 2022/23 with the installation of a solar powered toilet cabin on the seafront in 2021/22.
- Replacement of playground equipment at Thundersley Common in 2021/22.
- Replacement of gym equipment at Runnymede in 2022/23.
- The Housing Revenue Account capital expenditure includes several new housing developments as well as normal annual programmes of works to existing Council properties. The replacement of the Housing Management System is included from 2020/21 to 2022/23.

35 A more detailed breakdown of the HRA capital programme can be found in the Housing Revenue Account (HRA) – Rent Levels, Revenue Budget and Capital Plan report, approved at the same time as this report each February.

Table 9.3 General Fund Capital Expenditure Proposals	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
ENVIRONMENT					
Disabled Facilities Grants (Mandatory)					
Gross Capital Expenditure	299	1,000	685	686	686
Specific external funding	(299)	(1,000)	(685)	(686)	(686)
Net Capital Expenditure	0	0	0	0	0
Richmond Park Bridge					
Gross Capital Expenditure	30	0	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	30	0	0	0	0
Mobile Homes – Fit & Proper Test					
Gross Capital Expenditure	0	2,316	0	0	0
Specific external funding	0	(2,316)	0	0	0
Net Capital Expenditure	0	0	0	0	0
Playground Equipment Replacement Programme					
Gross Capital Expenditure	0	80	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	80	0	0	0

Table 9.3 General Fund Capital Expenditure Proposals	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Leisure Centres Gym Equipment (both sites)					
Gross Capital Expenditure	0	0	25	0	125
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	0	25	0	125
Drowning Detection System (both sites)					
Gross Capital Expenditure	130	0	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	130	0	0	0	0
Waterside Squash Court Refit					
Gross Capital Expenditure	6	228	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	6	228	0	0	0
Waterside Soft Play Area					
Gross Capital Expenditure	0	0	46	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	0	46	0	0
Vehicle Replacement Programme					
Gross Capital Expenditure	209	22	80	971	741
Specific external funding	0	0	0	0	0
Net Capital Expenditure	209	22	80	971	741
CUSTOMER AND DIGITAL					
ICT Hardware and software					
Gross Capital Expenditure	14	50	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	14	50	0	0	0
PLACE & POLICY					
Hadleigh Town Centre - The Crown					
Gross Capital Expenditure	50	0	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	50	0	0	0	0
Labworth Car Park					
Gross Capital Expenditure	428	571	0	0	0
Specific external funding	(428)	(310)	0	0	0
Net Capital Expenditure	0	261	0	0	0

Table 9.3 General Fund Capital Expenditure Proposals	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Seafront Regeneration					
Gross Capital Expenditure	9	91	1,476	0	0
Specific external funding	(9)	(91)	(1,276)	0	0
Net Capital Expenditure	0	0	200	0	0
Seafront Solar Powered Cabin Toilets					
Gross Capital Expenditure	0	108	0	0	0
Specific external funding	0	(67)	0	0	0
Net Capital Expenditure	0	41	0	0	0
Knightswick Shopping Centre					
Gross Capital Expenditure	0	0	1,500	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	0	1,500	0	0
HOUSING					
Development at Hatley Gardens					
Gross Capital Expenditure	91	0	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	91	0	0	0	0
Total Gross Capital Expenditure	**1,266**	**4,467**	**3,812**	**1,657**	**1,552**
Total Specific External Funding	**(736)**	**(3,784)**	**(1,961)**	**(686)**	**(686)**
Total Net Capital Expenditure	**530**	**683**	**1,851**	**971**	**866**

Prudential Indicator (for affordability) – Capital Financing Requirement (CFR)

36 The Capital Financing Requirement is a measure of capital expenditure incurred historically by the Council that has yet to be financed by capital receipts, capital grants or contributions from revenue, and represents the Council's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. At any point in time, the Council has a number of cash flows both positive and negative and manages its treasury position, in terms of borrowings and investments, in accordance with its approved treasury management strategy and practices.

37 The CFR will increase whenever the Council incurs capital expenditure that is not immediately funded in the same year by grants, capital receipts or direct revenue contributions. The CFR will reduce when Minimum Revenue Provision (MRP) charges to revenue are applied in subsequent years.

38 If the Council takes out additional borrowing to pay for capital expenditure this also causes the CFR to increase. This is because borrowing does not finance capital expenditure. Instead it merely provides the cash to enable the expenditure to take place and, since the borrowing is required to be repaid at a later date, does not provide the resource.

39 There is no statutory limit on the amount of borrowing, however, the Council is required to demonstrate affordability of new capital proposals. This should include the annual principal and interest payments and ongoing revenue impact arising from new borrowing.

40 Within day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing can arise as a consequence of all the financial transactions of the Council and not simply those arising from capital spending.

41 Estimates of the end of year capital financing requirement for the Council for the current and future years, and the actual capital financing requirement at 31 March 2021 are:-

Table 9.4 Capital Financing Requirement (CFR)	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
GF	17,913	17,102	17,799	17,710	17,337
HRA	36,571	29,968	29,984	29,908	26,832

42 The CFR for the General Fund increased significantly from 2019/20, primarily due to the purchase of the Knightswick Shopping Centre, and in future years this steadily reduces as MRP charges are applied to revenue. The impact of the repayment of the **£7m** HRA loan in 2021/22 can be seen in the table above, reducing the HRA CFR that year. The requirement remains fairly constant until a further loan repayment is made in 2024/25. It is currently anticipated that partial refinancing of this debt will be required, and the table reflects this. This requirement will be reviewed and a final decision will be taken at the appropriate time.

43 The Council's CFR, for both the General Fund and HRA, is mapped out beyond the timescale reported in the above table, and currently extends to 31 March 2031.

Prudential Indicator (for affordability) – authorised limit for external debt

44 It is recommended that the Council approves the following authorised limits for total external debt gross of investments. They are based on the current actual position adjusted by changes to the Capital Financing Requirement, potential increases in additional borrowing, plus a **5%** allowance for risks, contingencies and cash flow.

Table 9.5 Authorised limit for external debt	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Borrowing	53,399	45,080	45,262	43,438	39,060
Other long-term Liabilities (finance leases)	0	0	0	0	0
Total limit	**53,399**	**45,080**	**45,262**	**43,438**	**39,060**

45 The authorised limit shown for 2022/23 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

46 These limits separately identify borrowing from other long-term liabilities, such as finance leases. It is recommended in the accompanying report to approve the overall limit. Any breach of, or required increase in, the overall limit must be immediately reported to Council.

47 These authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, as well as with its approved Treasury Management Policy Statement and practices. They are based on the estimate of most-likely prudent, but not worst-case scenario, with sufficient headroom to allow for operational management, for example unusual cash movements.

Prudential Indicator (for affordability) – operational boundary for external debt

48 Approval is also recommended for the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, and reflects the estimated most-likely prudent, but not worst-case scenario.

Table 9.6 Operational boundary for external debt	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
Borrowing	52,139	44,018	44,222	42,422	38,140
Other long-term Liabilities (finance leases)	0	0	0	0	0
Total boundary	**52,139**	**44,018**	**44,222**	**42,422**	**38,140**

49 The operational boundary is a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. It is recommended in the accompanying report to approve the overall limit. Any breach of, or required increase in, the overall limit must be immediately reported to Council.

50 The Council's actual external debt at 31 March 2022, excluding (when applicable) any Finance Lease liabilities, is forecast at **£12.450m** for the General Fund and **£29.451m** for the Housing Revenue Account (principal amounts only), comprised wholly of external borrowing.

Prudential Indicator (for affordability) – ratio of financing costs to net revenue stream

51 Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2020/21, are: -

Table 9.7(a) Ratio of financing costs to net revenue stream	2020/21 %	2021/22 %	2022/23 %	2023/24 %	2024/25 %
GF	7	8	7	8	9
HRA	38	36	34	33	32

52 Contributions from the General Fund and Housing Revenue Account revenue budgets to fund capital schemes are included within the estimates in some years, for example, in 2021/22 towards the costs of playground equipment replacement referred to in paragraph 34. These contributions are not required to be included as part of the statutory calculation but if they were included, the ratios of financing costs to net revenue stream would become: -

Table 9.7(b) Ratio of financing costs to net revenue stream (local variant)	2020/21 %	2021/22 %	2022/23 %	2023/24 %	2024/25 %
GF	8	13	9	8	10
HRA	38	36	40	33	32

Note: The estimate of financing costs includes current commitments and the proposals in this budget report.

Prudential Indicator (for prudence) - Gross Debt and the Capital Financing Requirement

53 The Prudential Code includes the following as a key indicator of prudence:

"In order to ensure that over the medium term, debt (i.e. gross external borrowing) will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for the comparison with gross external debt."

This calculation takes into account current commitments and the proposals in this budget report, and the requirement is met for the current and forthcoming two financial years.

54 The Council will continue to monitor this requirement and will take appropriate remedial action if any difficulties were to arise. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated.

Statement of Minimum Revenue Provision (MRP)

55 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008 (with subsequent revisions at later dates). The Regulations require the Council to approve an Annual Statement of Minimum Revenue Provision (MRP) which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund.

56 The regulations place a duty on local authorities to make an amount of MRP which it considers to be “prudent” each year. The regulation itself does not define “prudent provision”, however, the MRP guidance makes recommendations to authorities on the interpretation of that term.

57 In accordance with the regulations, it is proposed to adopt the following MRP policy for the financial year 2022/23: -

- For capital expenditure incurred before 1 April 2008, or which in the future will be supported capital expenditure, it is proposed that the MRP policy will be in line with the former Regulatory Method, subject to any additional voluntary provision as appropriate. The Regulatory Method covers debt which is supported by the Government through the Revenue Support Grant (RSG) system, and authorities may continue to use the formulae in the old regulation 28 as if it had not been revoked by the 2008 Regulations. The MRP element of RSG is calculated on this basis.
- For capital expenditure incurred after 1 April 2008, for unsupported borrowing, it is proposed that the MRP policy will be the Asset Life Method with MRP being provided for on an equal annual instalment basis over the estimated life of the relevant assets. On occasion, the Council may take a more prudent approach of applying MRP charges over a shorter term than the estimated life of the associated asset. In very exceptional circumstances the Council may elect not to apply any MRP charges on a specific asset, for example, if an asset was purchased but only expected to be held for a short time and then sold, and that sale was expected to fully recover the original purchase costs incurred.
- The Council may, as an alternative to the Asset Life Method with equal annual instalments basis, use the Asset Life Method with MRP being provided under the Annuity Method. This method can be used where it is required that the total of principal and interest each year is broadly a consistent amount. The value of MRP increases year on year as the amount of interest on debt decreases year on year. It is considered a prudent basis for assets that produce a steady flow of benefits over their useful life.
- For capital expenditure incurred in relation to leases classified as finance leases, the MRP method will be the annuity method, whereby provision is applied over the primary term of the lease of the relevant asset. The MRP provision for each financial year will be equivalent to the reduction in outstanding liability held on the Balance Sheet for the corresponding lease in that year.
- The Council may also make additional Voluntary Revenue Provisions (VRP) above those calculated using the above methods. For example, if there were years where income receipts were higher than those budgeted for, then extra VRP could be applied which would reduce the amount of MRP required to be charged in later years.
- All MRP charges commence in the financial year following the year in which the associated capital expenditure occurs.

58 The Department for Levelling Up, Housing and Communities (DLUHC) issued updated statutory guidance on MRP in 2018, effective from 2019/20. There were some key changes made within this document, but they will not affect the current MRP policy used by the Council. For example, the guidance introduced a maximum useful life of 50 years for MRP purposes, but the Council does not use such a long timeframe. The guidance also introduced a requirement to disclose the amount of "overpayments" (i.e. amounts in excess of the prudent minimum) that can be used to reduce the charge in later years. There are no such amounts currently planned for 2021/22 or 2022/23.

59 Forecast MRP charges based on estimated capital expenditure up to 2030/31 are mapped out beyond the timescales reported within the Capital Strategy, and currently extend up to 2044/45.

60 The table below shows the MRP charges to General Fund and, separately, the MRP charge in respect of the Knightswick Centre which is funded by rental income from the Centre: -

Table 9.8 MRP charges	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
GF	359	344	341	305	422
Knightswick	478	478	478	628	628
Total MRP charges	**837**	**822**	**819**	**933**	**1,050**

Capital receipts

61 Capital receipts from the sale of Council houses under Right-to-Buy (RTB) provisions and surplus assets will continue to be an important capital resource for the Council. The Government has set a de-minimis level for capital receipts, and receipts of **£10k** or less are classified as revenue resources and are therefore accounted for within the revenue accounts. Receipts over **£10k** cannot be used for revenue purposes.

62 Table 9.9 shows the allocation of Non-RTB related receipts used to fund new affordable housing. Subject to agreement by the Secretary of State, specified RTB sales may also be excluded from pooling, where monies are for use in the provision of new affordable housing, regeneration or repayment of debt.

Table 9.9 Allowable use of capital receipts (Non-Right-to-Buy)		
Type of asset	***% that may be applied to new capital expenditure***	***% that must be paid over to the Government***
Other Housing land	100	0
General Fund land & property	100	0

63 From April 2012, the amount and allocation of receipts from RTB sales is subject to pooling arrangements which are calculated on a quarterly basis.

64 From any RTB receipt the following deductions are made:

1) Excess of debt supportable by the property (based upon a calculation provided by DLUHC) above the assumed level of debt within the housing self-financing settlement. This element is retained by the Council for future capital investment or HRA debt repayment.
2) Administration allowance at **£1,300** per property sold which will be treated as HRA revenue income.

65 The remaining balance is then split according to the following table:

Table 9.10 Allocation of remaining Right-to-Buy receipt	2021/22		2022/23	
Party	Allocation of receipt		Allocation of receipt	
	%	Cap £	%	Cap £
Treasury	70.1%	150,854	69.9%	150,854
Local Authority	29.9%	64,289	30.1%	64,932

66 This therefore caps the maximum contribution the Council can make towards new general capital expenditure to **£64,289** in 2021/22 and **£64,932** in 2022/23. Where receipts are insufficient to provide this, the receipts are shared in the shown ratios. These caps are applied quarterly but any deficit in income in one quarter has to be offset against the following one.

67 Where there are receipt balances above these levels the funds are held by the Council for a period of five years from the end of the year they are received. If after this time the funds are not spent on the provision of replacement properties, they are to be returned to the Treasury with interest.

68 At the time of writing this report, updated guidance was due to be released by CIPFA on the Prudential Code. Any changes required to the indicators will be reported to Council at a future date.

Chief Financial Officer's conclusion on the Capital Strategy

69 The Chief Financial (s151) Officer (Strategic Director (Resources)) considers the Capital Strategy and associated Capital programme of expenditure, as detailed within this section of the Policy Framework and Budget Setting Report, to be: -

- Affordable within the context of the Council's Medium-Term Financial Forecast and Housing Revenue Account Business Plan, and
- Deliverable within the resources available to the Council, and
- That the strategy is supported by adequate processes and procedures to ensure that risks are appropriately identified and addressed, with any residual risk (financial or other) being considered as acceptable.

10 Treasury Management Strategy

Definition of Treasury Management

1 Treasury management is:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP's) setting out how the organisation will seek to achieve those policies and objectives, prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP's.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Strategic Director (Resources), who will act in accordance with the Council's policy statement and TMP's and CIPFA's Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

Treasury Management Strategy for 2022/23

3 The Strategy has been formulated after considering the advice of the Council's consultants, Link Treasury Services (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

Balanced budget requirement

4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

Brexit, COVID-19, economic uncertainty, and interest rates

5 The United Kingdom left the EU on 31st January 2020 and the transition period ended on 31st December 2020 with a trade agreement but there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU, that now needs to be formalised on a permanent basis.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis. The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions. There is relatively little UK domestic risk of significant increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and significant increases in Bank Rate are likely to be some years away given the underlying economic expectations.

6 Over the last two years, the COVID-19 outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut the Bank Rate to **0.10%**, it left Bank Rate unchanged at its subsequent meetings until raising it to **0.25%** at its meeting on 16th December 2021. The forecast Bank Rate now includes four increases, one in quarter 2 of 2022 to **0.50%**, quarter 1 of 2023 to **0.75%**, quarter 1 of 2024 to **1.00%** and, finally, one in quarter 1 of 2025 to **1.25%**.

7 The Council adheres to strict investment criteria. As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council's budget process remain prudent. The Council may also be restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council's policies and procedures and without compromising security and liquidity.

Current debt position and requirements for 2022/23

8 A summary of external debt that is expected to be outstanding at 31 March 2022 is as follows:

Table 10.1 External debt outstanding Source	Total at 31/03/22 £000's
Public Works Loan Board – General Fund	12,450
Public Works Loan Board – Housing Revenue Account	29,451
Total	**41,901**

9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **1.08%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates are low, premature repayment of all loans would incur a huge premium in excess of **£9m**.

10 The proposed programme of capital expenditure due to be approved by Council in February 2022 is not currently anticipated to trigger a requirement for new borrowing in 2022/23. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.

11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is when the Capital Financing Requirement (CFR) exceeds the level of external borrowing. This position is known as "under-borrowed". At the end of 2022/23 for the General Fund this is expected to be **£6.2m** due partly to capital expenditure on the Knightswick Shopping Centre and associated public realm works. As cash balances are relatively high and interest earnt on investments is lower than the rate at which the Council can take out loans, borrowing internally is an efficient use of resources that also lowers the overall cost of funding for the projects. By the end of 2022/23 the HRA will be under-borrowed by approximately **£500k**. The position fluctuates from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement ") monitors and reports on this position.

Borrowing Strategy

12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.

13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.

14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the lasting impact of changes in central government policies including imposed 4-year rent reductions, as detailed within previous HRA budget setting reports.

15 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. However, on 25 November 2020 the Government reversed this. The PWLB allows local authorities to register for a preferential “certainty rate” for borrowing, which is currently **0.20%** below the standard rate or **0.80%** above gilt rates. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows it to access the preferential rate should the need arise. Although there are no current plans to borrow before 2024/25, the Council routinely registers for the preferential rate.

16 The weighted average maturity of the Council’s General Fund **£13.35m** debt is quite long at 17 years. **£0.90m** matures every year for the next 8 years, currently with no requirement to refinance. **£5.25m** of the debt portfolio does not mature before 2052. Therefore, there is little refinancing risk for the General Fund.

17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2041/42 with **£7m** repaid in 2021/22. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1m** above the **£36.5m**. The autumn 2018 budget announced that the borrowing cap would be removed so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.

Borrowing in advance of need

18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.

19 DLUHC guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:

- It will be limited to no more than **£3m** of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The Council would not look to borrow more than 18 months in advance of need.

20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

Treasury management indicators

21 The Council is required to calculate several Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

Borrowing maturity structure

22 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:

Table 10.2 Maturity structure of fixed rate borrowing	General Fund		Housing Revenue Account	
Maturity	Upper Limit %	Lower Limit %	Upper Limit %	Lower Limit %
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

Borrowing – limits of fixed and variable rate exposure

23 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council's debt position net of investments. The proposed limits are as follows: -

Table 10.3 Upper limits of fixed and variable exposures	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Upper limit – fixed rates	55	47	47	46	42	41
Upper limit – variable rates	(29)	(20)	(18)	(16)	(14)	(12)

Borrowing - interest rate sensitivity

24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios: -

- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low.
- a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

Debt management objectives

25 A summary of the Council's debt management objectives for 2022/23 is therefore as follows: -

- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code.
- to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption.
- to manage the debt maturity profile in order to avoid a high level of repayments in any one year.
- to borrow at the best interest rates achievable in relation to estimated future rates.
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements.
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change.
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison.
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

11 Investment Strategy

Investment guidance

1 This Council's investment policy has regard to the following:

- DLUHC's Guidance on Local Government Investments ("Guidance")
- CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code")
- CIPFA Treasury Management Guidance Notes 2018

Investment principles

2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:

- Firstly – the **security** of capital (protecting the capital sum invested from loss) and
- Secondly – the **liquidity** of its investments (keeping sufficient money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

3 Under the guidance, investments made by local authorities are classified into two main categories:

- Investments held for treasury management purposes
- Other investments

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2022/23 this amount is forecast to be **£5k.**

Table 11.1 General Fund investment income

	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's
Forecast investment income	(132)	(211)	(235)	(255)	(298)	(300)

4 The guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

Financial investments

5 Under the guidance financial investments fall in to three categories:

- **Specified investments** - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
- **Loans** – for example to local enterprises, charities etc. The Council has none.
- **Non-specified investments** – all others, may be less secure.

Specified investment instruments identified for use in the financial year are listed in table 11.2. Non-specified Investments are any other type of investment, i.e. not defined as specified above, are listed in tables 11.3 and 11.4.

Non-financial investments

6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

Liquidity

7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2022/23 to range between **£34m** and **£52m**.

Risk assessment and risk appetite

8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:

1. a very high average credit weighting for the portfolio, typically AA
2. a diversified portfolio
3. a weighted average maturity of approximately 250 days
4. strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£3m**.
5. Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

Credit ratings

9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 11.2 to 11.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment.

10 The Brexit agreement hopefully reduced the possibility that credit rating agencies will downgrade the sovereign rating for the UK from the current level of AA. All three agencies have the UK on stable outlook. Investments are placed with institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

Monitoring of credit ratings

11 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Treasury Services, also alert the Council to changes in ratings as they occur.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

Amendments to the 2022/23 Investment Strategy

12 The portfolio of investments maintained by the Council is very cautious and the yield is below that earned by some other councils. In recent years, a number of new investment types have been added to the counterparty list but due to uncertainty caused by Covid-19 the Council has opted to not make any investments with the new counterparties so far. This is anticipated to change in 2022/23, with appropriate investments being made which should enhance returns. For 2022/23, it is not proposed to amend the counterparty lists.

One minor change is proposed to the Non-specified investments in table 11.3 below, with the counterparty limit for term deposits with local authorities being increased from **£4m** to **£5m**. By making this small increase, it opens up a segment of the market which the Council has not previously had access to. Many local authorities only deal in amounts of **£5m** upwards, with yields on offer being greater than for amounts below **£5m**. The additional risk associated with this proposed change is assessed as being minimal given it is extremely unlikely that a local authority would default on a loan or be allowed by Government under any intervention to do so. This has recently been demonstrated with a small number of local authorities being permitted by Government to take extraordinary steps under Ministerial Direction to balance their books.

Table 11.2 Specified Investments for the Financial Year 2022/23			
Investment	**Counterparty limit**	**Security / Minimum Credit Rating**	**Maximum period of investment**
Debt Management Agency Deposit Facility (DMADF) (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
Treasury Bills issued by the UK Government (currently maximum 6-month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
Term Deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
Term Deposits with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) CNAV, LVNAV and VNAV These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
Current accounts, notice accounts or term deposits with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

11.2 Specified Investments for the Financial Year 2022/23 (cont.)			
Certificates of Deposit issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Covered bonds (maximum 364-day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Reverse repurchase agreements "repos" (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

Table 11.3 Non-specified investments for the financial year 2022/23			
Investment	**Counterparty limit**	**Security / Minimum Credit Rating**	**Maximum period of investment**
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 25% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	2 years
Current accounts, notice accounts or term deposits with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	2 years
Property Funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Bond funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Multi-Asset funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Equity Funds	The lesser of £4m or 25% of total investments	Unrated	n/a

- All Specified Investments listed above must be sterling denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure

Country, group and sector limits

13 The Council selects counterparties according to credit quality as well as the additional information in paragraph 16 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 18.

Money Market Funds

14 As has been the practice for several years, the Council continues to place a high proportion of its investments in Money Market Funds. By March 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value. Constant net asset value funds aim to preserve a stable value (such as **£1**) per share at which investors either subscribe or redeem, but under money market fund regulations they are being replaced with low volatility net assets funds where the underlying investments may have to be priced at market value, so potentially investors could get back slightly more or less than the **£1** invested, although this is very unlikely with AAA-rated funds. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

15 **Markets in Financial Instruments Directive (MiFID)**

From 3rd January 2018 changes in legislation required the Council to opt up to professional status (rather than the default status of a retail client) with several of its counterparties to continue using a range of secure and diversified investments and not be limited solely to simple bank deposits. Organisations classified as professional have a good understanding of financial products but do not have the same protection as retail clients or ordinary consumers.

Use of additional information other than credit ratings

16 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Bail-in legislation

17 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all their deposits are converted into equity which could be worth less than the original investment. Consequently, the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

Internal stricter guidance

18 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, considering information and advice supplied by Link. Changes to the internal guidance are approved by the Strategic Director (Resources).

Use of derivative instruments

19 Local authorities can use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

Investments defined as capital expenditure

20 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.

21 Investments in Money Market Funds are not treated as capital expenditure.

22 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

Provisions for credit-related losses

23 If any of the Council's investments appeared at risk of permanent loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

Investment strategy to be followed in-house

24 The Council's in-house managed funds are mainly cash-flow derived. It is expected that at least approximately **80%** of the Council's funds will be invested for periods of less than 365 days although this will be reduced should it be deemed appropriate. There are core funds of approximately **£10m** that it is very unlikely will be required for cash flow purposes for another 2 to 5 years. The recent changes to the treasury strategy will allow some or all of these funds to be invested longer-term, at higher rates, to provide additional investment income for the Council.

Investment treasury indicator and limit

25 These limits, relating to funds invested for greater than 365 days and shown in the table below, are set with regard to the Council's liquidity requirements. They are designed to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days	2022/23	2023/24	2024/25
Principal sums invested for longer than 365 days	£15m	£15m	£15m
Current investments as at **31.03.2022 in** excess of 1 year maturing in each year	£2m	£0m	£0m

The Council's banking arrangements

26 The Council's banking operations are with Lloyds Bank PLC with the current contract expiring on 31st March 2025.

Risk benchmarking

27 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.

28 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

29 **Security** – The Council's maximum-security risk benchmark for the current portfolio is:

- A credit-rating score of **6.4** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.

30 **Liquidity** – In respect of this area the Council seeks to maintain:

- The bank overdraft facility was reviewed for the new banking contract that started in April 2020 and it was decided it was not cost effective for the Council to have one permanently in place
- Liquid short-term deposits of at least **£1m** available with a day's notice
- Weighted Average Life benchmark is expected anything up to 270 days, with a maximum of 1 year

31 **Yield** – Local measures of yield benchmarks are:

- Investments – returns above SONIA (Sterling Overnight Index Average), rate. The Council previously used LIBID but this measure has been discontinued by the Bank of England in favour of SONIA.

Treasury management adviser

32 Link Treasury Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. Officers hold meetings with the advisers at least twice a year, as well as ad-hoc when required for specific purposes, and receive various briefing documents on a continual basis. The four-year contract expires in 2022 and is regularly monitored to ensure the quality of advice and service is consistent with the schedule of services agreed with Link.

33 Whilst Link provide support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

Member and officer training and experience

34 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and many years' experience in local authority treasury across the team.

Investment activity reporting and publication

35 Officers prepare a mid-year monitoring report on investment activity each autumn and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council's website.

Code Update

36 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the principles stated in paragraph 2 above.

Please note that CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that there will be a soft introduction of the Codes with Local Authorities not being expected to have to change their current TMSS/AIS reports for 2022/23 unless they wish to do that: full implementation is required for 2023/24. We will make any necessary changes in future reports

37 The 2017 edition also included:

- Three key principles of Treasury Management, which are unchanged from the previous publication.
- Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
- Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 10 and 11 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

Changes in accounting standards

38 Implemented in 2018/19 IFRS9 on Financial Instruments, specified how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting set out how it applies to Councils. Officers consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they were not material to the Financial Statements, and only affected presentation and disclosure of the financial instruments and liabilities.

12 Pay Policy

1 Introduction

1.1 The Localism Act brings together accountability, transparency and fairness in the setting of local pay. All Councils were required to publish a Pay Policy Statement for the financial year 2012/13, and for each subsequent financial year, before the 31 March immediately preceding the financial year to which it relates. The Act requires that Pay Policy Statements, and any amendments to them, are considered by an open meeting of Full Council.

1.2 New appointments to posts carrying a salary package of **£100k** and above should be approved by full Council.

1.3 Severance packages for staff leaving the authority of **£100k** and above should be approved by full Council.

1.4 In determining the Pay Policy the following key factors have been taken into consideration:

- Affordability
  The cost of staff is a significant element in the overall costs of a local authority and pay must be affordable both in the short and long term.

- Market Forces
  Pay needs to be attractive and competitive to attract and retain the right people the organisation needs to carry out a wide range of functions.

- Fairness
  Employees must be able to believe that the pay system and policies are fair, demonstrate that they are valued equally and receive proper recognition for their work to ensure morale is not affected and continuous improvement of services is maintained.

- Motivation
  The pay system must be designed to encourage excellence, innovation, flexibility, taking responsibility, teamwork and the acquisition of new skills.

2 **General policies relating to all staff**

The following policies are applicable to all staff:

- New members of staff will commence at a salary point within the range for the post dependent upon the knowledge, skills and competencies of the individual and having regard to current and previous salary levels.

- All staff will be treated equally irrespective of gender and average pay for men and women will be equal for like work. Since March 2018 we have published information on the gender pay gap on the Council Website.

- Men and women doing like work or in the same grade will receive progression through the appropriate pay scale.

- If there are bars to progression between grades/spinal column points, progression will be based on fair and objective criteria that staff are aware of.

- The Council has a Pay Protection Policy for those staff whose posts are downgraded as a consequence of changing organisational requirements where this results in a salary reduction.

- Increments will be paid on 1st April each year until the maximum of the level is reached subject to the following:

a) Increments may be accelerated within an officer's scale at the discretion of the authority on the grounds of special merit or ability, subject to the maximum of the level not being exceeded as approved by the Strategic Director (Resources).

b) An increment may be withheld due to poor performance but will only apply where correct probation or capability procedures have been followed. Any increment withheld may be paid subsequently if the officer's services become satisfactory.

c) Employees with less than six month's service in the grade by 1st April shall be granted their first increment six months from the actual date of their appointment, promotion or regarding.

Note. Any action under (a) or (b) shall not interrupt the payment of subsequent increments on 1st April.

- Where an employee is required to hold a membership of a professional body to carry out their role, one professional subscription will be paid annually by the Council on behalf of the employee.

- When an employee has worked for the Council for a continuous period of 25 years an award of **£500** is made in recognition of their service.

- In exceptional circumstances the Authority may consider awarding an honorarium.

- Where applicable, the following benefits are offered to staff as part of their salary package:

  - Flexible working arrangements (can relate to hours or time worked, or full or part home working)

  - Flexitime (allows flexibility in start, finish and lunch times as well as hours carried forward to better match the needs of the Council and employee)

  - Leave buy-back

  - Free staff membership at Waterside Leisure Centre for use of the swimming pool and fitness suite (not classes) to improve the health and wellbeing of staff working a minimum of 15 hours per week. Use of the swimming pool also free at the Runnymede Leisure Centre with access to the fitness suite at lunchtimes only.

  - Casual car user allowance or essential car user allowance.

  - Market supplements (to attract and retain the right calibre staff to key posts)

  - Retention payment (to attract and retain the right calibre staff to key posts)

  Performance related pay (see section 5)

- The Council has Redundancy and Retirement Policies and Procedures. These Policies make provision for the following.

  - Employees may voluntarily retire or resign at a time of their choosing.

  - It is the Council's policy to try to avoid compulsory redundancy and it will only resort to this when circumstances make it unavoidable. The Council will seek to ensure continuity of employment so far as it is compatible with the effective, economic and efficient provision of local government services. Due to the changing nature of local government and the reducing central government grant it is essential that the Council is suitably equipped to respond in an agile and responsive manner to the challenges presented without having to divert limited resources to defending its actions. Therefore, where the Council needs to restructure and/or downsize its workforce in order to save costs or improve efficiency in the short to medium term, the Council hereby expressly agrees to waive any cap imposed on exit payments or flexible retirements (see below) to ensure that any changes can be delivered in the required timescales & agreed business cases. The agreed procedures are followed where compulsory redundancies are contemplated.

- The Council also operates a flexible retirement policy. The Local Government Pension Scheme Regulations 2007 permit flexible retirement where the member has attained the age of 55 and who, with the employer's consent, reduces their hours of work by at least 25% or there is a reduction in grade. Flexible retirements are entirely discretionary and therefore a full business case must be completed and submitted to the Strategic Director (Resources) for consideration.

- The Council will not discriminate against an applicant who has previously been employed by the Council or another Local Authority or who has previously received a redundancy, severance payment or flexible retirement. The Council's recruitment process is used to select and appoint the best applicant to carry out a role.

3 Remuneration (including levels, elements, increases and additions)

3.1 Chief Executive

- All general policies set out in section 2 (above) apply to the Chief Executive.

  In addition to these, the following specific policies also apply.

- The Chief Executive will receive the annual national pay increase for Chief Executives if, and when offered and agreed by the Local Government Employers.

- The Chief Executive also receives a (Deputy) Returning Officer fee in respect of District, County and Town Council elections. Payment for Local election duties are based on a locally determined scale according to the number of electorate and payment is in addition to the Chief Executives basic pay. Fees for conducting Parliamentary/European and Police & Crime Commissioner elections and referenda are determined by way of a Statutory Instrument.

3.2 Chief Officers

- All general policies set out in section 2 (above) apply to Chief Officers.

  In addition to these, the following specific policies also apply.

- Strategic Directors will receive the annual national pay increase for Chief Officers if, and when offered and agreed by the Local Government Employers.

3.3 All staff including the lowest paid staff

- All general policies set out in section 2 (above) apply to all staff including the lowest paid staff.

  In addition to these, the following specific policies also apply.

- All staff including the lowest paid staff (see also 3.1 and 3.2 above) will receive the annual national pay increase for Local Government Services if and when offered and agreed by the Local Government Employers.

3.4 **Relationship between the Chief Executive/Other Chief Officers and all other staff**

The Hutton report discussed the merits or otherwise of putting a ceiling on managers from earning more than 20 times the pay of the lowest paid person in their organisation. The Council's current ratios are:

- The ratio of the highest earning officer (Chief Executive) to the lowest paid full-time equivalent employee in the Council is 8:1.

- The ratio of the highest earning officer (Chief Executive) to the average of all other staff in the Council is 6:1. The median is based on the annual gross pay of all employees in post as at 31 March 2021.

- The ratio of the average of the Chief Executive and other Chief Officers earnings to the average of all other employees is 5:1.

The Council will ensure that the ratios remain below the guideline ceiling.

Limitation of the ratio's

The ratio's set out above should be used as a general guide only. The data used to calculate the ratios for the different categories of employees may differ for a variety of reasons (see examples below) which makes direct comparisons difficult.

- Average earnings will vary according to the mix of employees at any given point in time.

- The Chief Executive and other Chief Officers work a significant amount of additional hours for which no additional payment is made. If this were to be taken into account this would have the effect of reducing the ratio's stated above.

4 **Publication of and access to information relating to remuneration of Chief Executive and Chief Officers**

The remuneration of the Chief Executive and Chief Officers is disclosed in the Annual Statement of Accounts and published on the Councils website, www.castlepoint.gov.uk.

5 **Definitions**

5.1 **Lowest paid staff**

A member of staff performing duties of an unskilled nature will receive a salary determined by scale point 1 on the NJC pay scale structure. This definition has been chosen as scale point 1 is the lowest grade paid to an employee of the Council. From 1 April 2019, the Council adopted the National Joint Council Pay Spine which means that the lowest grade is scale point 1. Apprentices are paid in accordance with the HMRC National Minimum Wage Rates which are based on age.

5.2 **Chief Officer**

- The head of its paid service designated under section 4(1) of the Local Government and Housing Act 1989
- The monitoring officer designated under section 5(1) of that Act
- The statutory chief officer mentioned in section 2(6) of that Act
- A non-statutory chief officer mentioned in section 2(7) of that Act
- A deputy chief officer mentioned in section 2(8) of that Act

5.3 **The use of performance-related pay**

5.3.1 There is a delicate balance to be struck between defending the attractiveness of public service careers while ensuring taxpayers can be confident that public money is being wisely used. Performance-related pay allows pay to vary down as well as up with performance, and ensure that failure is not rewarded.

5.4 **The use of bonuses**

No bonus payments are awarded.

13 Chief Financial Officer's report under Section 25 of the Local Government Act 2003

1 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial (s151) Officer (Strategic Director (Resources)) is required to report to the Council on: -

- the robustness of the estimates made for the purpose of the calculation of Council Tax requirement, and
- the adequacy of the proposed financial reserves.

2 The Council must have regard to this report when making decisions on the Council Tax requirement calculation.

3 The report on the adequacy of reserves appears at section 7 and the report on the robustness of the estimates appears below.

General Fund services

4 Estimates in respect of General Fund services for the following expenditure types have generally been calculated by the Council's Financial Services department, based on a full recalculation of relevant factors: pay and related costs; insurances; leasing charges; interest payable and receivable. Business Rate charges on Council owned properties are calculated by the Council's Revenue Services Unit. These estimates are considered robust for current service levels.

5 Estimates in respect of the Local Council Tax Support Scheme, Housing Benefit payments, government reimbursement of these payments and respective administration subsidy have been calculated by the Council's Revenue Services Unit. These are based on the latest information available about take up of benefits and caseload data, the latest levels of correctly paid benefits and government notifications of reimbursement and subsidy levels. These estimates are considered robust for current service levels.

6 Estimates in respect of service controlled income and expenditure have generally been calculated jointly by Financial Services and respective service departments, subject to final agreement and acceptance by budget holders in service departments. This has been a sound process and based on experience of past estimates prepared by a similar process, these estimates are considered generally robust.

Housing Revenue Account

7 Housing Revenue Account estimates, as set out in a separate report to Cabinet, have been prepared by Housing and Financial Services staff as appropriate and in accordance with procedures that are tried and tested and have proved robust previously.

Overall conclusions

8 The Strategic Director (Resources) overall view of the robustness of the estimates is therefore that the processes followed have been generally sound and identical to those that have produced robust estimates in the past.

9 In order to ensure accountability is exercised in relation to financial management, it is essential that Cabinet continues to ensure that budgets are monitored diligently and accountable officers (budget holders) are reminded of their personal responsibility for budget compliance in line with Financial Regulations and Procedures. Breaches of these regulations should be considered extremely serious and Cabinet is tasked with monitoring compliance.

14 Calculation of the Council Tax Requirement

1 The Localism Act 2011 requires the billing authority to calculate a Council Tax requirement for the year. This calculation is prescribed by Sections 31A and 31B of the Local Government Finance (LGF) Act 1992 (as amended by the Localism Act 2011) and is as follows: -

Table 14.1 Council Tax requirement calculation LGF Act 1992		£
s31A(2)(a)	Gross spending on services	57,947,337
s31A(3)(a)	Less gross income from services	(44,163,000)
s31A(3)(a)	Less Government grant & business rates	(3,859,644)
	Less Capital and other grants & contributions	(1,275,600)
s31A(3)(b)	Less net Collection Fund surplus / plus deficit	67,320
s31A(3)(d)	Net amount taken to / (from) general and earmarked reserves	80,852
	Council Tax Requirement	**8,797,265**

2 The above figures include internal charges between services and **£263,337** relating to the Canvey Island Town Council precept. The tax base (see section 4 of this report) is then used to calculate the amount of Council Tax (including the Town Council) at band D, in accordance with Section 31B of the Act: -

Section 31B - Band D charge	
Council Tax (including Town Council) £	8,797,265
Tax base (property number)	31,181
Band D charge £	**282.14**

3 The resultant figure is required by statute but does not actually represent the Council Tax payable by either a Canvey Island or mainland resident. A further calculation that sets out the actual amount of tax payable at band D as well as other bands is set out in table 14.2 below.

4 The calculation of Council Tax at band D, including and excluding the Town Council, is prescribed by Sections 34 and 35 of the Local Government Finance Act 1992. The calculation of Council Tax for other bands (shown below) is prescribed by Section 36 of the Act and is made by adjusting the basic amount of tax for band D by the ratio (in ninths) applicable to all other valuation bands.

Table 14.2 Council Tax Band	Ratio in 9ths	Canvey Residents Council Tax Including Town Council	Mainland Residents Council Tax Excluding Town Council
A	6	197.04	182.46
B	7	229.88	212.87
C	8	262.72	243.28
D	**9**	**295.56**	**273.69**
E	11	361.24	334.51
F	13	426.92	395.33
G	15	492.60	456.15
H	18	591.12	547.38

5 The Council Taxes set by other precepting authorities are added to these amounts to calculate the total amount of Council Tax due for the year, as shown in section 15.

15 Precepts & Council Tax levels

The information set out below is based on proposed information received from preceptors. This is due to be confirmed at a series of meetings being held during January and February. A substitute report will be issued if there is any change.

Introduction

1 The Council is required by law to approve the calculation of Council Tax requirement for the Council's services (including that required by Canvey Island Town Council) and set the Council Tax level to be levied in the Borough that takes account of the following preceptors:

- Essex County Council
- Essex PFCC – Policing & Community Safety
- Essex PFCC – Fire & Rescue Authority
- Canvey Island Town Council

Essex County Council

2 The County Council has a duty to issue a precept to billing authorities before 1 March each year. The County Council set its budget and level of precept on 10 February 2022.

Essex PFCC – Policing & Community Safety

3 The PFCC has been elected to oversee Essex Police and is responsible for setting the Essex Police budget. The PFCC set its budget and precept on 3 February 2022.

Essex PFCC – Fire & Rescue Authority

4 The Fire & Rescue Authority operates as an independent body and is responsible for setting its own budget. The PFCC set its budget and precept on 3 February 2022.

Canvey Island Town Council

5 The Town Council is a separate and autonomous body within the Borough which approves its own spending and precept levels for each financial year, based on a separate tax base (calculated by the Council) consisting of Canvey Island properties only. The Town Council resolved its precept for the forthcoming financial year at its meeting on 17 January 2022.

6 There are currently no specific government controls over the Town Council's budget requirement or Council Tax level although the Government has consulted in recent years on the introduction of a referendum limit for Town and Parish Council's.

7 The Council is required to include the net expenditure relating to the Town Council in the Council's net overall budget requirement.

8 The Town Council's precept is added to the statutory calculation as an average for the overall Borough but is levied only on properties that are situated on Canvey Island.

Council Tax Levels 2022/23

9 Castle Point, as the billing authority for the area, is also responsible for the collection of Council Tax on behalf of the three major precepting authorities, as well as Canvey Island Town Council which is a local precepting authority.

10 Tables on the following page set out the individual and combined council tax charges by property band.

11 A summary of precepts notified and corresponding Council Tax levels is shown in the following table:

Table 15.1 Precepts and Council Tax Levels	Council Tax at Band D 2021/22 £	Council Tax at Band D 2022/23 £	Change from 2021/22 £	Change from 2021/22 %	Share %
Castle Point Borough Council (proposed)	268.38	**273.69**	5.31	1.98	13.75
Essex County Council	1,340.91	**1,401.12**	60.21	4.49	70.39
Essex PFCC - Fire and Rescue Authority	73.89	**75.33**	1.44	1.95	3.78
Essex PFCC - Policing and Community Safety	208.53	**218.52**	9.99	4.79	10.98
Total (excluding Canvey Island Town Council)	**1,891.71**	**1,968.66**	**76.95**	**4.07**	**98.90**
Canvey Island Town Council	21.06	**21.87**	0.81	3.85	1.10
Total (including Canvey Island Town Council)	**1,912.77**	**1,990.53**	**77.76**	**4.07**	**100.00**

12 The table below shows the amount of Council Tax each authority has set for 2022/23:

Table 15.2 Council Tax for each band

Band	Castle Point Borough Council £	Essex County Council £	Essex PFCC - Fire and Rescue Authority £	Essex PFCC - Policing and Community Safety £	Total excluding Town Council £	Canvey Island Town Council £	Total including Town Council £
A	182.46	934.08	50.22	145.68	**1,312.44**	14.58	**1,327.02**
B	212.87	1,089.76	58.59	169.96	**1,531.18**	17.01	**1,548.19**
C	243.28	1,245.44	66.96	194.24	**1,749.92**	19.44	**1,769.36**
D	**273.69**	**1,401.12**	**75.33**	**218.52**	**1,968.66**	**21.87**	**1,990.53**
E	334.51	1,712.48	92.07	267.08	**2,406.14**	26.73	**2,432.87**
F	395.33	2,023.84	108.81	315.64	**2,843.62**	31.59	**2,875.21**
G	456.15	2,335.20	125.55	364.20	**3,281.10**	36.45	**3,317.55**
H	547.38	2,802.24	150.66	437.04	**3,937.32**	43.74	**3,981.06**