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**David Marchant** LLB (Hons) BSc (Hons) CEng FICE FCMI  
**Chief Executive**

**A SPECIAL MEETING OF THE COUNCIL** of the Borough of Castle Point will be held in the Council Chamber, Council Offices, Kiln Road, Thundersley, on **WEDNESDAY, 27TH FEBRUARY, 2019** at **7.30 p.m.**, and all Members of the Council, listed below, are hereby summoned to attend to transact the undermentioned business.

Councillors, A.C.Walter, (The Worshipful the Mayor), C.G. Riley, (Deputy Mayor), A.J. Acott, J. Anderson, D.A. Blackwell, Mrs.J.A Blissett, B. Campagna, S. Cole, D.T. Cross, W.J.C. Dick, Ms.N.B.Drogman, Mrs B. Egan, E. Egan, Mrs W. Goodwin, P.C. Greig, S.Hart, N.R. Harvey, Mrs P. Haunts, R.C. Howard, G.I. Isaacs, W.Johnson, N.E.Ladzrie, C.A. MacLean, P.J. May, C.E. Mumford, B.A. Palmer, J.A.Payne, Mrs. J. Payne, A. Partridge, Mrs C.J Sach, W.K.Sharp, A.G. Sheldon, T.F. Skipp, N.G. Smith, J.A. Stanley, A. Taylor, P.E.Varker, Mrs L. Wass, Mrs G. Watson, N. Watson and B.S. Wood.

**Chief Executive**

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## **AGENDA**

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### **PART I**

**(Business to be taken in public)**

**1. Apologies for absence**

**2. Members' Interests**

**3. Policy Framework & Budget Setting for 2019/20**

A report is attached. Council is asked to consider recommendations from the Cabinet meeting held on 20th February 2019. Council is reminded that as result of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 voting on the recommendations will be a recorded vote.

**SPECIAL COUNCIL**

**27th February 2019**

**Subject: Policy Framework and Budget Setting for 2019/20**

**Cabinet Member: Councillor Stanley – Finance, Policy & Resources**

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**1. Purpose of Report**

This report supplements the report to Cabinet made on 20th February 2019. Members are reminded to bring with them the report to Cabinet at Item 8(b) and the accompanying document which forms part of that report.

**2. Links to Council's priorities and objectives**

- 2.1 This report is linked to the Council's priority of A Commercial and Democratically Accountable Council. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

**3. Recommendations**

**Implementation of Council policies and related spending plans**

1. That Council note the efficiency savings, cost reductions and additional income summarised in table 2.3.
2. That Council approves the continued funding of priority projects and other items of discretionary expenditure, as set out in table 9.1.
3. That Council notes the cost pressures and other budget increases (growth) as set out in table 9.2.
4. That subject to recommendations 1 to 3 above, the revenue spending plans for 2018/19 (revised) and 2019/20, set out in section 9, tables 9.3 (summary) and 9.4 (net services expenditure) of the accompanying report, are approved.

**Capital spending plans and prudential indicators**

5. That the capital spending plan described in section 11 of the accompanying report (tables 11.2 and 11.3) is approved in respect of 2018/19 (revised) and 2019/20.
6. That as required by section 3 of the Local Government Act 2003, and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), the following Prudential Indicators are approved as set out in the appropriate sections of the accompanying report:

<b>Prudential Indicator - Reference to sections 11, 12 and 13 of accompanying report</b>	
Capital expenditure	Tables 11.2 and 11.3
Capital financing requirement (CFR)	Table 11.4
Authorised limit for external debt	Table 11.5
Operational boundary for external debt	Table 11.6
Ratio of financing costs to new revenue stream	Table 11.7 (a & b)
Gross external borrowing does not exceed CFR	Section 11 – paragraph 52
Maturity structure of fixed rate borrowing - upper and lower limits	Table 12.2
Upper limits of fixed and variable interest rate exposures	Table 12.3
Maximum period and counterparty limits for specified investments	Table 13.2

7. That the Statement of Minimum Revenue Provision for 2019/20, as stated in paragraphs 54 to 58 of section 11 of the accompanying report is approved.
8. That no new capital proposals are allowed until:
  - the proposal has been evaluated in accordance with all relevant evaluation criteria;
  - the Cabinet has confirmed affordability and compliance with the Prudential Code for Capital Finance in Local Authorities;
  - the Cabinet has considered and approved details of the proposal.
9. That, as stated in paragraph 66 of section 11 of the accompanying report, and as required by the Prudential Code, the statement of the Strategic Director (Resources) in respect of the affordability, deliverability and appropriateness of risk management arrangements with respect to the Capital Strategy is noted.
10. That the policies and strategies supporting the budget framework and contained within the accompanying report are approved.

#### **Statutory report of the Strategic Director (Resources)**

11. That as required by section 25 of the Local Government Act 2003, the report of the Strategic Director (Resources) set out in section 16 of the accompanying report in respect of robustness of the estimates is noted.
12. That as required by section 25 of the Local Government Act 2003, the report of the Strategic Director (Resources) set out in section 8 of the accompanying report in respect of the adequacy of proposed financial reserves is noted.

#### **Statutory calculations in respect of the budget requirement & Council Tax as required by the Local Government Finance Act 1992, as amended (“the Act”)**

13. That as set out in section 5 of the accompanying report it is noted that acting under delegated authority and in consultation with the Cabinet Member responsible for Finance, Policy & Resources, the Strategic Director (Resources) has calculated:
  - a) A tax base for the Borough of Castle Point of **30,787** being the amount **T** required by section 31B of the Act; and
  - b) A tax base for Canvey Island to which a Town Council precept applies as **11,872**.

14. That the following amounts be calculated for the year 2019/20 in accordance with sections 31 to 36 of the Act:

Ref	Amount £	Item
(a)	<b>56,913,504</b>	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish (Town) Councils.
(b)	<b>48,724,852</b>	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	<b>8,188,652</b>	being the amount by which the aggregate at 14(a) above exceeds the aggregate at 14(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year.  (Item <b>R</b> in the formula in Section 31B of the act)
(d)	<b>265.97</b>	being the amount at 14(c) above (item <b>R</b> ), divided by item <b>T</b> (14(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish (Town) precepts).
(e)	<b>244,682</b>	being the aggregate amount of the (Parish (Town) precepts) referred to in Section 34(1) of the Act.
(f)	<b>258.03</b>	being the amount at 14(d) above less the result given by dividing the amount at 14(e) above by item T (14(a) above), calculated by the Council in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

15. That the Cabinet recommends that Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2019/20 for each part of its area and for each category of dwelling. This information is included within section 17 of the accompanying report:

Castle Point Borough Council Tax 2019/20, including and excluding Town Council precept, for each of the following categories of dwelling:

Band	Council Tax Including Town Council £	Council Tax Excluding Town Council £
<b>A</b>	185.76	172.02
<b>B</b>	216.72	200.69
<b>C</b>	247.68	229.36
<b>D</b>	278.64	258.03
<b>E</b>	340.56	315.37
<b>F</b>	402.48	372.71
<b>G</b>	464.40	430.05
<b>H</b>	557.28	516.06

16. To note that the County Council, the Police Authority and the Fire Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwelling in the Council's area, as indicated in the table below:

<b>Band</b>	<b>Castle Point Borough Council</b>	<b>Essex County Council</b>	<b>Essex PFCC - Fire and Rescue Authority</b>	<b>Essex PFCC - Policing and Community Safety</b>	<b>Total excluding Town Council</b>	<b>Canvey Island Town Council</b>	<b>Total including Town Council</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>A</b>	172.02	846.96	48.30	128.64	<b>1,195.92</b>	13.74	<b>1,209.66</b>
<b>B</b>	200.69	988.12	56.35	150.08	<b>1,395.24</b>	16.03	<b>1,411.27</b>
<b>C</b>	229.36	1,129.28	64.40	171.52	<b>1,594.56</b>	18.32	<b>1,612.88</b>
<b>D</b>	258.03	1,270.44	72.45	192.96	<b>1,793.88</b>	20.61	<b>1,814.49</b>
<b>E</b>	315.37	1,552.76	88.55	235.84	<b>2,192.52</b>	25.19	<b>2,217.71</b>
<b>F</b>	372.71	1,835.08	104.65	278.72	<b>2,591.16</b>	29.77	<b>2,620.93</b>
<b>G</b>	430.05	2,117.40	120.75	321.60	<b>2,989.80</b>	34.35	<b>3,024.15</b>
<b>H</b>	516.06	2,540.88	144.90	385.92	<b>3,587.76</b>	41.22	<b>3,628.98</b>

17. To note that, in accordance with the requirements of section 52ZC of the Act the Council has determined whether it's Relevant Basic Amount of Council Tax for 2019/20 is excessive.

For 2019/20, the relevant basic amount of Council Tax for Castle Point would be deemed excessive if the authority's relevant basic amount of Council Tax for 2019/20 is:

- (a) 3%, or more than 3%, greater than its relevant basic amount of Council Tax for 2018/19; and
- (b) More than **£5.00** greater than its relevant basic amount of Council Tax for 2018/19.

<b>Ref</b>	<b>Amount £</b>	<b>Item</b>
(a)	<b>250.56</b>	being the Relevant Basic Amount of Council Tax for 2018/19, excluding local precepts.
(b)	<b>3.0%</b>	being the percentage increase above which the Secretary of State has determined the Relevant Basic Amount of Council Tax for 2019/20 would be excessive.
(c)	<b>258.07</b>	being the amount above which the Relevant Basic Amount of Council Tax for 2019/20, excluding local precepts, would be excessive (rounded down to the nearest penny).
(d)	<b>258.03</b>	being the Relevant Basic Amount of Council Tax for 2019/20, excluding local precepts.

The Relevant Basic Amount of Council Tax for 2019/20 is therefore, not excessive and the duty to make substitute calculations and hold a referendum does not apply (Chapter 4ZA of Part 1 of the Act).

**Resolution required.**

#### **4. Background**

- 4.1 At the Cabinet meeting held on 20th February 2019, the Cabinet considered the report on the Policy Framework and Budget Setting for 2019/20. The Cabinet recommended that Council resolve recommendations 1 to 17 as set out in the report.

#### **5. Corporate Implications**

- 5.1 The Council must make certain statutory calculations in relation to the budget requirement and Council Tax for 2019/20. These are set out in full in the Policy Framework and Budget Setting report.
- 5.2 The corporate implications are as set out in the report presented to Cabinet on 20th February 2019.

#### **6. Conclusion**

- 6.1 Council should consider and resolve the recommendations previously submitted to Cabinet numbered 1 to 17 (above). This will complete the budget process for 2019/20.

#### **Background Papers:**

- MHCLG notification(s) dated 13 December 2018 containing 2019/20 Local Government Finance Settlement, and Provisional New Homes Bonus allocations.

**Report Author:** Chris Mills – Strategic Director (Resources), Section 151 Officer

**CABINET**

**20th February 2019**

**Subject: Policy Framework and Budget Setting for 2019/20**

**Cabinet Member: Councillor Stanley – Finance, Policy & Resources**

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**1. Purpose of Report**

1.1 This report (including the accompanying document which forms part of this report) submits proposals and recommendations for the Council's Policy Framework and Budget Setting for 2019/20. The Cabinet should consider these and make appropriate recommendations to Council for the Special meeting to be held on 27th February 2019.

1.2 At the time of preparing this report for despatch, not all precepting organisations have confirmed decisions on their precepts for 2019/20, although all have provided proposed information. It may therefore be necessary to provide supplementary information on the night of the meeting. This will not affect the Council's own budget or Council Tax deliberations. Their respective deadlines are advised as follows:

- 26 November Canvey Island Town Council;
- 24 January Essex PFCC - Fire and Rescue Authority;  
(Fire Authority)
- 24 January Essex PFCC – Policing and Community Safety;  
(Police Authority)
- 12 February Essex County Council.

1.3 Section 18, of the accompanying report contains information which has been received from the above precepting organisations, together with the Borough Council's own information. This page will be amended should the information change.

1.4 Local Authorities are expected to receive confirmation of their allocation within the 2019/20 Local Government Finance Settlement, in early February 2019. It is not anticipated that there will be any significant changes to the information contained within this report.

**2. Links to Council's priorities and objectives**

2.1 This report is linked to the Council's priority of A Commercial and Democratically Accountable Council. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.

- 2.2 This report is designed to provide Members with the latest information on the future cost of spending plans and levels of resources.

### 3. Recommendations

#### **Implementation of Council policies and related spending plans**

1. That the Cabinet note the efficiency savings, cost reductions and additional income summarised in table 2.3.
2. That the Cabinet approves the continued funding of priority projects and other items of discretionary expenditure, as set out in table 9.1.
3. That the Cabinet notes the cost pressures and other budget increases (growth) as set out in table 9.2.
4. That subject to recommendations 1 to 3 above, the revenue spending plans for 2018/19 (revised) and 2019/20, set out in section 9, tables 9.3 (summary) and 9.4 (net services expenditure) of the accompanying report, are approved.

#### **Capital spending plans and prudential indicators**

5. That the capital spending plan described in section 11 of the accompanying report (tables 11.2 and 11.3) is approved in respect of 2018/19 (revised) and 2019/20.
6. That as required by section 3 of the Local Government Act 2003, and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), the following Prudential Indicators are approved as set out in the appropriate sections of the accompanying report:

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7. That the Statement of Minimum Revenue Provision for 2019/20, as stated in paragraphs 54 to 58 of section 11 of the accompanying report is approved.
8. That no new capital proposals are allowed until:
  - the proposal has been evaluated in accordance with all relevant evaluation criteria;
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  - the Cabinet has considered and approved details of the proposal.

9. That, as stated in paragraph 66 of section 11 of the accompanying report, and as required by the Prudential Code, the statement of the Strategic Director (Resources) in respect of the affordability, deliverability and appropriateness of risk management arrangements with respect to the Capital Strategy is noted.
10. That the policies and strategies supporting the budget framework and contained within the accompanying report are approved.

**Statutory report of the Strategic Director (Resources)**

11. That as required by section 25 of the Local Government Act 2003, the report of the Strategic Director (Resources) set out in section 16 of the accompanying report in respect of robustness of the estimates is noted.
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(e)	<b>244,682</b>	being the aggregate amount of the (Parish (Town) precepts)

		referred to in Section 34(1) of the Act.
(f)	<b>258.03</b>	being the amount at 14(d) above less the result given by dividing the amount at 14(e) above by item T (14(a) above), calculated by the Council in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

15. That the Cabinet recommends that Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2019/20 for each part of its area and for each category of dwelling. This information is included within section 17 of the accompanying report:

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16. To note that the County Council, the Police Authority and the Fire Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwelling in the Council's area, as indicated in the table below:

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17. To note that, in accordance with the requirements of section 52ZC of the Act the Council has determined whether it's Relevant Basic Amount of Council Tax for 2019/20 is excessive.

For 2019/20, the relevant basic amount of Council Tax for Castle Point would be deemed excessive if the authority's relevant basic amount of Council Tax for 2019/20 is:

- (a) 3%, or more than 3%, greater than its relevant basic amount of Council Tax for 2018/19; and
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Ref	Amount £	Item
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(b)	<b>3.0%</b>	being the percentage increase above which the Secretary of State has determined the Relevant Basic Amount of Council Tax for 2019/20 would be excessive.
(c)	<b>258.07</b>	being the amount above which the Relevant Basic Amount of Council Tax for 2019/20, excluding local precepts, would be excessive (rounded down to the nearest penny).
(d)	<b>258.03</b>	being the Relevant Basic Amount of Council Tax for 2019/20, excluding local precepts.

The Relevant Basic Amount of Council Tax for 2019/20 is therefore, not excessive and the duty to make substitute calculations and hold a referendum does not apply (Chapter 4ZA of Part 1 of the Act).

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#### **4. Background**

4.1 The accompanying report consolidates the following information in one single presentation:

- The background to the key policy issues including the assumptions adopted in formulating the financial forecast around Government support, price increases and assessment of minimum level of general fund reserves.
- The Council's financial targets and the medium term financial forecast.
- Revenue and capital spending plans.
- Prudential indicators.
- The various policies and strategies which support the budget framework including the Capital Strategy.
- The statutory budget and Council Tax calculations required for 2019/20.

#### **5. Proposals**

5.1 The key features of the budget proposals are summarised below:

- The budget is supported by Directorate and Service Action Plans which support delivery of the Council's key priorities.
- The budget for 2019/20 is balanced, meaning that the Council does not need to rely on the use of reserves to meet ongoing spending plans during this year.
- The level of general reserves planned for the end of the 2019/20 financial year, exceed the minimum recommended level of **£2.9m**.
- The budget continues to support priority services.
- Efficiencies and/or additional resources are required to deliver a balanced budget and maintain/restore reserves to the recommended minimum levels for years 2020/21 and beyond.

#### **6. Corporate Implications**

##### **a) Financial Implications**

6.1 The Council must make certain statutory calculations in relation to the Council Tax requirement for 2019/20. These are set out in full in the Policy Framework and Budget Setting 2019/20 report attached.

6.2 The tables shown at recommendations 16 & 17 set out the proposed Council Tax charges to be made to residents in respect of the Borough Council, the Town Council and the other precepting authorities.

##### **b) Legal Implications**

6.3 This report is presented by the Strategic Director (Resources) as "Section 151 Officer" – the officer appointed to have responsibility for the Council's financial administration. It covers all those matters required by legislation for setting a budget and Council Tax.

6.4 The Cabinet's attention is drawn particularly to sections 8, 11 and 16 of the accompanying report containing statutory reports that the "Section 151 Officer" has have a duty to provide in respect of the adequacy of reserves and the robustness of spending plans. The Council must have regard to this advice before making the decisions required by this report.

6.5 The proposals in this report are based on a Council Tax increase of **2.98%** resulting in the Borough Council Band D charge of **£258.03**.

### Council Tax Referendums

- 6.6 Schedule 5 of the Localism Act introduced a new chapter into the 1992 Act, making provision for Council Tax referendums to be held if an authority increases its Council Tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons. The Localism Act also abolished the capping regime in England.
- 6.7 In summary, for 2019/20 the principles are that the Council would be required to seek the approval of the local electorate in a referendum if, compared with 2018/19, it set Council Tax increases of **3.0%** or **£5** whichever is the greater.
- 6.8 The Council's calculations in this regard are given at recommendation 18 above.

### **c) Human resource implications**

- 6.9 There are no new implications within this report.

### **d) Equality implications**

- 6.10 There are no new recommendations within this report which require an equality impact assessment to be undertaken.

### **e) Timescale for implementation and risk factors**

- 6.11 Having considered this report, the Cabinet should submit its recommendations to the Council meeting to be held later this evening. At this meeting, the Council will also set the full amount of Council Tax, to include the precepts issued by Essex County Council, Essex PFCC Fire and Rescue Authority, Police, Fire & Crime Commissioner for Essex and Canvey Island Town Council (where appropriate).
- 6.12 Although the date of the Council meeting is well within the legal deadline for setting the budget, it is the latest date that will allow adequate preparation for the timely despatch of Council Tax bills to give due notice for first instalments due on 1 April.

## **7. Conclusion**

- 7.1 The recommendations set out above are classified as to:
- those required to implement Council policies and to approve the related spending plans;
  - those required in respect of capital spending plans and treasury management;
  - those requiring the Council to have regard to the statutory reports of the Strategic Director (Resources);
  - the statutory calculations in respect of the budget requirement and Council Tax.

### **Background Papers:**

- MHCLG notification(s) dated 13 December 2018 containing 2019/20 Local Government Finance Settlement, and Provisional New Homes Bonus allocations.

**Report Author:** Chris Mills – Strategic Director (Resources), Section 151 Officer



castlepoint

benfleet | canvey | hadleigh | thundersley

## ***Policy Framework and Budget Setting for 2019/20***

(Incorporating the Financial Planning and Capital Strategy)

Report of Chris Mills FCPFA, Strategic Director (Resources)



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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, taking into account:
  - 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 as a whole, 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 based on the following key principles:
  - Informed by detailed Departmental Service Action Plans containing the revenue and capital cost implications of the Council's services.
  - 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 sufficient 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 be increased in line with inflation.

## Requirements of the Strategy

- 4 The strategy:-
  - Is linked with the Council's 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.
  - Policy and Consultation – carries out consultation with stakeholders to inform Council priorities reflected in spending plans.

- Flexibility – gives budget holders sufficiently wide delegated powers to enable them to respond promptly to the changing needs of service delivery.
- Charges for services – maintains a charging policy which is consistent, clear and fair to both the direct users of services and Council Tax payers in the Borough.
- Asset Management – ensures the budget reflects the annual impact of 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 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.
- Cabinet monitors the effectiveness of budgetary control and operational performance, keeping budget holders accountable and taking appropriate action to reduce identified risks. 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.
- Operation of flexible arrangements for amending budgets in response to changes in circumstances that affect service delivery.

## 2 Commercial Strategy

### Introduction & Background

- 1 Reductions in central government funding, higher user expectations and increased demand for welfare related services has meant that the public sector, and local government in particular, continues to face a challenging time on many fronts.
- 2 As our residents feel the impact of austerity and welfare reforms in particular, demand for services such as housing and homelessness support has increased. Often these services are costly to deliver with a statutory responsibility falling on local government. To demonstrate the enormity of this increasing cost pressure, costs associated with these services have increased in the region of **£212k** per year or **113%** since 2013/14.
- 3 Over the last decade, the Council has seen dramatic reductions in funding from central government. For example, in 2007/08 Castle Point received combined Revenue Support Grant and Redistributed Business Rates in the region of **£6m**. Distribution mechanisms and formula have changed in this time but the nearest equivalent comparison for 2019/20 is only **£1.7m**, i.e. less than a third of what it was. Furthermore, Castle Point's reductions have been even more severe than the average for shire districts, as shown in table 6.4.
- 4 At the same time, councils have been required to absorb financial pressures of responsibilities displaced / transferred from central government and other partner organisations, as they too respond to the impact of austerity on their own organisations. The most significant example of this has been the replacement of Council Tax Benefit, formerly fully funded by central government, with a discretionary, locally-funded Council Tax support scheme. The net impact to Castle Point of this scheme for 2019/20 is in the region of **£700k**. The County Council's request for Districts and Boroughs to provide **£100k** match funding for specific highways related works during 2018/19, a statutory responsibility of the County Council, is a further example where cost pressures are displaced to other organisations.
- 5 Whilst the Council has made impressive savings, certain cost increases, for example inflation and those associated with the requirement to comply with new and legislative changes, are unavoidable. Table 9.1 provides a summary of cost pressures recognised during 2018/19 and anticipated for 2019/20. This table also shows new earmarked reserves established during the course of the budget process.
- 6 Formulating a balanced budget for 2019/20 was not without its difficulties and the Council has managed this only through increasing fees and charges and releasing funding from earmarked reserves (see below). The Council's financial forecast reflects all of the aforementioned pressures and currently indicates that whilst its budget is balanced for 2019/20, significant funding gaps of circa **£900k** rising to **£1.5m** are forecast for future years.

### The case for financial self-sufficiency

- 7 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 led to significant dependence on central government funding with dire consequences for some authorities now that external funding has diminished substantially. Greater emphasis is now placed on locally raised revenue streams such as service specific fees & charges, and charges for discretionary functions. Table 2.1 demonstrates how the funding proportions of the Council have altered over the last ten years in order to provide context.

<b>Table 2.1 Funding Profile - 10 year comparison</b>	<b>2009/10</b>		<b>2019/20</b>		<b>Change</b>	
	<b>£000's</b>	<b>%</b>	<b>£000's</b>	<b>%</b>	<b>£000's</b>	<b>%</b>
Local Council Tax	7,343	44%	7,944	52%	601	8%
Business Rates & Revenue Support Grant (net of levy and relevant s31 grants)	6,485	39%	2,600	17%	(3,885)	-60%
New Homes Bonus	0	0%	569	4%	569	
Local Fees & Charges, Sales, Rents & Memberships	2,912	17%	4,119	27%	1,207	41%
<b>Total funding for local services</b>	<b>16,740</b>		<b>15,232</b>		<b>(1,508)</b>	<b>-9%</b>

- 8 As the table shows, in 2009/10 local services were funded by 44% Local Council Tax, 39% Business Rates and central government grants and 17% revenue raised locally. By 2019/20 the proportions will have shifted to 52%, 17% and 27% respectively, with 4% relating to the New Homes Bonus (now in decline). Overall, these funding sources have reduced by 9% matched by a corresponding reduction in net operational service costs.
- 9 For comparison, the change in RPI & CPI over the same period is reported as 39% and 31% respectively which clearly demonstrates the financial pressure which local government has needed to respond to in order to continue delivering services.
- 10 This response has been through streamlining services, adopting smarter ways of working, smarter procurement and reducing discretionary spend. Castle Point embarked on a programme of organisation-wide service reviews, including exploration of shared service arrangements with neighbouring authorities. The Council continues with this programme of work in order to keep pace with ongoing funding reductions.
- 11 Examples of successful projects during this period include refurbishment of leisure facilities at Waterside Farm and Runnymede Leisure Centres, enabling the redesign and re-launch of services provided at these facilities; service reviews for Revenues and Benefits, First Contact, Environment, Facilities and Fraud; and re-procurement of key external contracts in respect of Grounds Maintenance & Street Cleansing and the managed service for Information, Communications and Technology (ICT). These have all contributed significantly to reducing the Council's net operational spend. In total approximately **£8m** of accumulated cost reductions have been achieved through this work programme.
- 12 From 2018/19 the Council continued to focus on projects with a longer delivery timeframe. These include the Paddocks community facility on Canvey Island. This project has potential to significantly reduce net operational cost but will also require significant capital investment. Regeneration of the Canvey seafront has potential to enhance the seafront for residents and visitors, whilst also increasing overall economic gain. This project will also require significant investment and the Council has recently submitted a bid for Coastal Communities Funding in support of the project.
- 13 A cabinet meeting in January 2019 presented the outcome of a review of car parks within the borough and resulted in the extension of chargeable periods of parking at the Council's seafront car parks, provision of new chargeable car parking at the seafront (as part of the Canvey Island seafront masterplan), and increases to car parking charges to the Council's car parks throughout the borough. The revised charging structure will potentially result in an additional annual revenue of around **£72k** per year after costs, as shown in table 2.3.
- 14 One of the most significant cost pressures faced by local authorities in recent years is in respect of the provision of temporary accommodation for homeless families. Given the Council's own limited housing stock, the placement of homeless individuals and families in temporary accommodation, often outside the borough, is unavoidable and very costly. The introduction of

benefit caps has meant that a greater proportion of this cost is ultimately borne by the Council. In response, the Council has procured and converted one facility into temporary accommodation and work is just about to commence on a second facility. Placement of individuals and families within the Council's own facilities will hopefully have a more positive effect and also significantly reduce the cost of temporary accommodation to the Council.

- 15 The Council recognises that it needs to continue to actively pursue other sources of income, maximise fees & charges and introduce innovative and radical changes to the way in which services are delivered in order to achieve financial self-sufficiency in the medium to longer term.

### **Commercialism key principles**

- 16 The methods by which financial self-sufficiency may be achieved fall broadly within the theme of commercialism. How commercialism might be applied within this Council has been set down in a series of draft key principles. These are summarised below and also expressed in more detail in a standalone document.

- Reputation & behaviour: Operate at the highest standard of efficiency and effectiveness and encourage confidence and trust as a service provider.
- Promote the borough & the Council: Actively promote our borough and the services the Council provides.
- Deliver services in the most appropriate ways: Consider new and more effective ways of service delivery.
- Procure goods & services in the best way: Purchase only goods and services that are essential, and at the best available cost.
- Maximise return on our existing assets: Use the assets we have to their full potential.
- Maximise income from fees and charges: Ensure we obtain the maximum income we can for the services we deliver.
- Maximise Council Tax and Business Rates revenue: Ensure services are paid for fairly.

- 17 Commercialism means different things to different organisations but for Castle Point it includes a focus on raising and maintaining additional revenue, 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.

- 18 The following paragraphs focus on three of the key principles and provide contextual information as well as detail about how the principle is intended to be applied.

### **Maximise income from fees and charges**

- 19 Councils have legal powers to charge for a wide range of the services they provide in order to recover the costs of providing those services. Where users of services are not charged for the full associated cost (as is the case at Castle Point), the shortfall is borne by all Council Tax payers in the borough.
- 20 Self-sufficiency will require the Council to maximise cost recovery for discretionary and chargeable functions so that a larger proportion of Council Tax revenue may be utilised to fund non-chargeable and mandatory services.
- 21 There is a wide variation in levels of charging between district councils with the same responsibilities. A recent benchmarking exercise undertaken by LGFutures, based on data for 2017/18, identified that Castle Point's overall income to expenditure ratio was 18.4% compared to the all England average of 25.9% - ranking 150 out of 201 authorities.
- 22 Table 2.2 shows the value of revenue raised by the Council in fees & charges in 2009/10 and budgeted for 2019/20 as a proportion of the funding profile shown above. The Council has made significant gains in key areas, for example Leisure Services and Car Parks, largely driven by fundamental service reviews.

<b>Table 2.2 Local Revenue</b>	<b>2009/10</b>		<b>2019/20</b>		<b>Change</b>	
	<b>£000's</b>	<b>%</b>	<b>£000's</b>	<b>%</b>	<b>£000's</b>	<b>%</b>
Local Fees & Charges, Sales & Rents (excluding Leisure and Car Parks)	869	5.2%	1,084	7.1%	215	24.64%
Local Fees & Charges, Sales & Rents (including Leisure and Car Parks)	2,912	17.4%	4,119	27.0%	1,207	41.45%

- 23 The Council will therefore look to maximise revenue through fees & charges by:
- Regularly revisiting its charging policy to ensure that it is consistent, clear and fair to both the direct users of services and the general Council Tax payers in the borough.
  - Understanding the true cost of discretionary and chargeable functions and levels of subsidisation.
  - Working to reduce the level of subsidisation of chargeable and discretionary services to ensure that Council Tax is fully utilised in support of non-chargeable and mandatory services and functions.
  - Adopt appropriate procedures for the collection of fees & charges to minimise the risk of non-collection.
  - Ensuring that these principles and procedures are fully and consistently applied by all applicable services.
  - Identifying new sources of revenue.
- 24 Section 10 of this report provides information regarding the Council's charging policy.
- Deliver services in the most appropriate ways**
- 25 Customer expectations regarding the quality and scope of public services are increasing. Customers now expect more personalised and convenient ways to access the services they require, in particular through the use of smart technology. Local authorities are expected to do new things with reduced resources and to be accessible 24/7.
- 26 The Council will look at more innovative ways to deliver services to residents whilst also reducing costs, principally by:
- Reviewing service delivery methods to ensure that they focus on customer need and reduce waste within the confines of a traditional service.
  - Using technology to transform the way that the Council currently works.
  - Reducing spending commitments by delivering more for less.
  - Utilising "invest to save" initiatives.
  - Reviewing workforce planning and management to ensure staff resources are effectively employed.
  - Seeking new opportunities, for example cost sharing with partners.
- 27 Work either in progress or planned for 2019/20 and future years includes:
- Replacement of telephony system with Skype for Business. Calls between residents and businesses and the Council will be at nil cost and Skype enables additional functionality which may be appealing to residents e.g. chat / messaging functions.
  - New Customer Relationship Management system linked to a new website, with potential for expanded use and application across the organisation. This project will commence during 2019/20 and will lead to the procurement of new systems intended to enhance customer engagement.
  - Automated communication bulletins between the Council and its residents & businesses. This will be a subscription based service.

- Installation of LED lighting in leisure facilities to reduce energy costs.
- Increased use of smart phone technology to access systems remotely.
- Enabling greater mobile and remote working for our workforce through adopting up to date technology.

**Maximise return on our existing assets**

- 28 Owning assets costs money. If the income generated by their use does not cover the cost of running the assets then the shortfall is borne by all Council Tax payers in the borough. As budgets are squeezed still further the Council will have to proactively review its assets to ensure that they are being used to their full potential and are affordable in terms of both ongoing capital and revenue costs. The Council will therefore continue to review its assets to ensure that the best outcomes are achieved for the Council Tax payer.
- 29 The Council will:
- Be proactive in its asset management, rationalising assets used and maximising revenue.
  - Maintain our buildings and facilities so that they are attractive to hirers and users of our facilities.
  - Promote our facilities.
  - As far as possible, ensure that our facilities are self-funded.
  - Undertake a “gap analysis” and ensure that current practices are brought into line with our commercial principles.
- 30 Examples of work in progress or planned to commence during 2019/20 include:
- Review of the Paddocks community facility.
  - Upgrade to gym equipment at Waterside Leisure Centre during 2018/19 in order to maintain customer base and maximise revenue.
  - Negotiations with third party organisations for occupancy of vacant office accommodation at Kiln Road.

<b>Table 2.3 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast</b>					
<b>Ref.</b>	<b>Description of cashable efficiency item, cost reduction or additional income</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>2020/21 £000's</b>	<b>Total £000's</b>
	<b>All services, Central &amp; Corporate areas</b>				
<b>1</b>	Insurances - reduction in premiums notified during 2018/19 renewal process	(8)	(10)	(10)	(28)
<b>2</b>	External audit fees - reduction in costs	(3)	(9)	(9)	(21)
<b>3</b>	Increased interest on investments (shared between the General Fund and the HRA)	(81)	(78)	(68)	(227)
<b>4</b>	Procurement Hub - additional rebates from third party use of Hub frameworks	(30)	(11)	(11)	(52)
<b>5</b>	The White House - additional rental income	0	(7)	(10)	(17)
<b>6</b>	Canvey Offices - additional revenue from extension of rental to Southend Hospital NHS Foundation Trust	(23)	(17)	0	(40)
<b>7</b>	Council Tax revenue share back agreement with preceptors - one year continuation of agreement	(50)	(300)	0	(350)
<b>8</b>	Council Tax - additional income from 2019/20 tax base and from forecast 2018/19 surplus position	0	(118)	(10)	(128)
	<b>Environment</b>				
<b>9</b>	Refuse and recycling vehicles - reduction in operational costs	(8)	(8)	(9)	(25)
<b>10</b>	Refuse and recycling vehicles - savings in charges to revenue from extended vehicle life cycles for replacement	(2)	(3)	(12)	(17)
<b>11</b>	Refuse and recycling staffing - vacant supervisor post removed from staffing structure	0	(28)	(29)	(57)
<b>12</b>	Refuse and recycling fees and charges - additional income from Trade Waste and Bulky Waste	0	(13)	(13)	(26)
<b>13</b>	Car Park charges - changes to charges as reported to Cabinet in January 2019	0	(64)	(72)	(136)

<b>Table 2.3 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast</b>					
<b>Ref.</b>	<b>Description of cashable efficiency item, cost reduction or additional income</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>2020/21 £000's</b>	<b>Total £000's</b>
	<b>Governance, Law, Planning and Regeneration</b>				
<b>14</b>	Building Control and Development Control - additional income	(87)	(12)	(15)	(114)
<b>15</b>	Building Control - reduction in overtime budget	(5)	(6)	(6)	(17)
<b>16</b>	Reduction in central provision for Regeneration related costs	(14)	(14)	(14)	(42)
	<b>Housing &amp; Communities</b>				
<b>17</b>	Reduction in funding required for advice services procured by the Council	(22)	(13)	(13)	(48)
<b>18</b>	Women's Refuge - cessation of contribution	(4)	(8)	(8)	(20)
<b>19</b>	Homelessness - net saving on costs from new development at Hatley Gardens (cost in 2019/20)	0	14	(118)	(104)
<b>20</b>	Land Charges - savings on training and other budgets (SLA arrangement with Thurrock Council)	(6)	(5)	(5)	(16)
	<b>Total cashable efficiency savings, cost reductions and additional income</b>	<b>(343)</b>	<b>(710)</b>	<b>(432)</b>	<b>(1,485)</b>

### 3 **Budget consultation**

- 1 There is a statutory requirement under Section 65 of the Local Government Finance Act 1992 to consult with the representatives of Business Rate payers on proposed spending plans. These representatives are considered to be:-
  - Federation of Small Businesses.
  - Essex Chamber of Commerce & Industry.
- 2 The Council consults service users as part of service reviews, as part of normal service operation, and on the introduction of new policies or material changes to existing policies. Many services conduct regular surveys to inform decision making and gauge levels of satisfaction. During the last year the following consultations were undertaken by services:

**Table 3.1 Service Specific Consultation**

<b>Service Aspect</b>	<b>Responses</b>
Foreshore / access for dog walking	731
Local Plan Consultation	650
Housing Service Star Survey	460
General satisfaction survey in respect of Leisure	88
Centres, Open Spaces and Street Scene	
Playground design Swans Green	407

- 3 In the summer of 2017 a public consultation was held on the corporate plan and members of the public were asked to complete a questionnaire which asked questions on the relative importance of council services, service objectives and service satisfaction. There were about 350 responses, and the results are consistent with previous consultations as summarised below:

**Table 3.2 Top 5 most important services**

<b>Rank</b>	<b>Service</b>
1	Waste collection, recycling and composting service
2	Tackling Crime and anti-social behaviour
3	Streets & public areas clean of litter and refuse
4	Controlling & removing dog fouling in public places
5	Environmental Health Services

**Table 3.3 Top 5 least important services**

<b>Rank</b>	<b>Service</b>
1	Events like the Castle Point Show and Fireworks Fiesta
2	Land charge services
3	Processing applications for housing benefit
4	Processing a planning application
5	Graffiti removal and flyposting

- 4 In general, all service areas received significant scores for importance, with even the lowest getting an average of 6 out of 10. Environmental Services (including Refuse Collection, Street Scene and Environmental Health) and Crime Reduction continue to be seen as key services for residents. Partnership working to reduce crime and anti-social behaviour also feature strongly. The areas which receive least importance tend to be the statutory services which are not used by significant numbers of the population, as well as events. However, it should be noted that events tend to generate high customer satisfaction by those that attend.
- 5 When asked what the priorities for improvement were, environment featured strongly, as did Town Centre improvements and reducing empty homes in the borough.

## 4 **Medium term financial forecast**

- 1 A key element of the Financial Planning Strategy is the maintenance of a medium term financial forecast. The forecast shows the impact on financial resources of current spending plans and estimated future changes to those plans, as well as adjustments that would be required to bring spending within the parameters of the Council's financial targets.
- 2 The forecast presented within this report covers the period of the current parliament and corresponding multi-year financial settlement up to 2019/20, plus future years up to 2021/22. A new funding mechanism is anticipated to be in place from 2020/21 but it is not known how this may impact on the Council.
- 3 The key features of the forecast are:-
  - That it is informed by current service plans and corresponding costs up-rated by inflation predictions and other known cost and/or service changes.
  - That it is based on the Council's financial targets and Government support announcements for 2018/19 and 2019/20.
  - That it reflects the revenue impact of capital expenditure.
  - That years beyond 2019/20 are based on a continuation of existing Government policy, funding mechanisms and local spending plans.
- 4 The latest forecast (excluding the Canvey Island Town Council precept) is shown in table 4.1 on page 13 and covers the period from 2018/19 through to 2021/22. The Central Government settlement for 2016/17 included an offer of a multi-year funding settlement for the period 2017/18 to 2019/20 which Castle Point, along with the majority of Councils, accepted.

### **Basis of the forecast**

- 5 The starting point for the forecast is the draft revised estimates for 2018/19 and draft estimates for 2019/20 to 2021/22 (provisional), informed by the service planning process for 2019/20. Adjustments are then made for changes to spending levels expected or known to occur over the life of the forecast. 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. No assumptions have been included in relation to implications which may arise from Brexit.
- 6 An annual inflationary increase is assumed where appropriate for pay, rates, insurances, utilities, contracts and income from fees & charges. There is no allowance for inflation for other items, implying that the relevant budget heads would be subject to a cash freeze.
- 7 The forecast includes the latest information received from 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 2016. These valuations are carried out every three years. This latest valuation is effective for contribution rates included in the forecast from 2017/18 onwards and is based on a 13.2 year recovery period. The next valuation will be undertaken by the actuary in March 2019, effective for contributions from April 2020.
- 8 The forecast also includes the estimated financial impact of the proposed Capital Plan set out in section 11. Any new capital proposals will require evaluation against the criteria laid down in the Prudential Code, as well as being ranked using the Council's capital scoring system.
- 9 The tax base as at December 2018 has been adopted as the basis for calculations relating to 2019/20 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.

- 10 The proposed Council Tax band D value for 2019/20 is indicated at line 20 of table 4.1 and, combined with current spending plans, delivers a balanced budget for the financial year.
- 11 A Council Tax referendum would be triggered by this authority if Council Tax were increased by more than 3% (previously 2%) or £5 on a band D property (whichever is the greater), above the authority's relevant basic amount of Council Tax for 2018/19. The Council's proposed increase is below this threshold.

### **Commentary on the forecast**

- 12 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 4.1 indicates the following:-
- That the budget for 2019/20 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 11 is closed by reducing costs or increasing income streams.
  - That Council Tax levels for 2019/20 will be increased by **2.98%**.
  - Forecast reserves are projected to be above the minimum level of **£2.9m** recommended by the Strategic Director (Resources) at the end of 2019/20.
  - From 2020/21 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.
  - In view of the potential funding gap indicated for future years, there will be no opportunities to plan the use of reserves for non-recurring expenditure, over and above those already earmarked at the present time.
- 13 The forecast incorporates budget reductions and savings recommended by the Executive Management Team as set out in table 2.3 on pages 8 & 9. It is assumed that additional changes in service delivery that are driven by Council priorities are met from surplus resources or increased efficiencies.

### **Robustness of the forecast**

- 14 The underlying spending plans for 2019/20 and 2020/21 to 2021/22 (both provisional), on which the forecast is based, are considered generally robust, subject to any reservations expressed above and in section 16. The figures presented represent the funding notified to the Council as part of the four year settlement.
- 15 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 2020/21 and beyond.

### **Monitoring of the forecast**

- 16 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 course of the financial year, the Cabinet will be updated accordingly.
- 17 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.
- 18 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.

Table 4.1 Medium term financial forecast						Notes
Line	Current policies and service plans	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	
1	<b>Total net expenditure / estimated exp. for future</b>	<b>11,088</b>	<b>10,406</b>	<b>13,026</b>	<b>10,496</b>	Fluctuations year to year are predominantly caused by phasing of maintenance spend and other expenditure "offset" by earmarked reserves
	<b>Funding sources</b>					
2	Council Tax	7,628	7,944	8,183	8,428	Provisional announcement December 2018
3	Baseline Funding Level - Redistributed Business Rates	1,864	1,717	2,283	2,340	
4	Business Rates - Levy on retained income	(238)	(251)	0	0	Legacy payment and affordable homes premium
5	New Homes Bonus	691	569	218	13	
6	Capital grants and other grants and contributions	1,343	1,436	0	0	
7	Net Collection Fund(s) surplus / (deficit)	5	(68)	0	0	
8	Transfer (to) / from General reserve	952	(4)	0	0	Net movement on earmarked reserves, including application of NNDR Equalisation Reserve - used to offset specific business rates related transactions and variances
9	Transfer (to) / from Earmarked reserves	(1,157)	(937)	1,418	(1,393)	
10	<b>Total funding sources</b>	<b>11,088</b>	<b>10,406</b>	<b>12,102</b>	<b>9,388</b>	
11	<b>Budget / Funding Gap</b>	<b>0</b>	<b>0</b>	<b>(924)</b>	<b>(1,108)</b>	
	<b>General Reserve</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	
12	Balance at start of year	5,672	4,400	3,204	1,080	Minimum recommended balance for General Reserves is <b>£2.9m</b>
13	Contribution (to) / from General Fund (line 8 & 11)	(952)	4	(924)	(1,108)	
14	Potential planning appeals & associated legal costs	(320)	(1,200)	(1,200)	(400)	Likely cost to the Council in the absence of an up to date local plan
15	<b>Balance / (deficit) at end of year</b>	<b>4,400</b>	<b>3,204</b>	<b>1,080</b>	<b>(428)</b>	
	<b>Earmarked Reserves</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	
16	Balance at start of year	7,710	8,378	7,394	5,431	The precise timing of the use of earmarked reserves is, due to their nature, generally unknown.
17	Contribution (to) / from General Fund (line 8)	1,157	937	(1,418)	1,393	
18	Other expected usage of earmarked reserves - not allocated in the detailed budget	(489)	(1,921)	(545)	(1,005)	Earmarked reserves are reviewed annually to ensure sufficiency and where need has diminished funds will be returned to General Reserve
19	<b>Balance at end of year</b>	<b>8,378</b>	<b>7,394</b>	<b>5,431</b>	<b>5,819</b>	
	<b>Council Tax</b>					
20	Tax at band D	250.56	258.03	263.16	268.38	Target increases within Council Tax referendum limits. The tax at band D does not include the amount charged by Canvey Island Town Council.
21	<b>Increase</b>	<b>2.96%</b>	<b>2.98%</b>	<b>1.99%</b>	<b>1.98%</b>	

## 5 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 2019/20, before losses on collection are deducted, is **31,304** band D equivalent properties which is an increase from the 2018/19 tax base of **31,064**. 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 the ongoing intensive compliance review of the various categories of Council Tax discounts and exemptions. This work commenced during the course of 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, now extended for a further year. 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 this should increase to **98.35%** for 2019/20 (compared to **98.00%** for 2018/19).
- 5 The tax base for 2019/20 is therefore **30,787** band D equivalent properties (compared with **30,443** in 2018/19).
- 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.

## 6 Local Government funding

### 2019/20 Local Government Finance Settlement / Settlement Funding Assessment (SFA)

- On 13 December 2018, the Secretary of State for the Ministry for Housing, Communities and Local Government (MHCLG) made a statement to Parliament on the provisional local government settlement for 2019/20. Some figures may change once the final settlement is announced but are unlikely to be materially different to those shown within the tables below.
- At a national level, for the period 2016/17 to 2019/20, there is a reduction to the England Settlement Funding Assessment (SFA) of **21.8%** as shown in the table below.

**Table 6.1 Settlement Funding Assessment (SFA) - National Level**

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
SFA	18,602	17,905	16,943	14,551
Net reduction %		-3.7%	-5.4%	-14.1%
Cumulative reduction %		-3.7%	-8.9%	-21.8%

- The SFA consists of both Revenue Support Grant (RSG) and Business Rates. The RSG element has been the focus of the Government's funding reductions, and after 2017/18 the Council no longer receives any RSG. Table 6.2 summarises the SFA for Castle Point. Whilst nationally the % change in funding is **21.8%**, the equivalent change for Castle Point is significantly more at **25.5%**.

**Table 6.2 Settlement Funding Assessment (SFA) – Castle Point**

Ref		2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
1	Revenue Support Grant	918	287	0	0
2	Business Rates	2,071	2,113	2,177	2,227
	<b>Total funding</b>	<b>2,989</b>	<b>2,400</b>	<b>2,177</b>	<b>2,227</b>
	Net reduction £		(589)	(223)	50
	Cumulative net reduction £		(589)	(812)	(762)
	Net reduction %		-19.7%	-9.3%	2.3%
	Cumulative reduction %		-19.7%	-27.2%	-25.5%

- Table 6.3 shows the distribution of Business Rates collected within the Borough, which when combined with RSG (up to and including 2017/18, thereafter nil), arrives at the overall total funding allocation for Castle Point.

<b>Table 6.3 Funding Settlement 2016/17 to 2019/20</b>				
	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Anticipated yield from NNDR for CPBC	15,237	14,177	14,870	15,071
50% Payable to Government	(7,618)	(7,088)	(7,435)	(7,536)
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	(1,524)	(1,418)	(1,487)	(1,507)
<b>Amount left after payments</b>	<b>6,095</b>	<b>5,671</b>	<b>5,948</b>	<b>6,028</b>
Tariff payable to Government	(4,024)	(3,558)	(3,771)	(3,801)
<b>Business Rates Baseline</b>	<b>2,071</b>	<b>2,113</b>	<b>2,177</b>	<b>2,227</b>
Revenue Support Grant	918	287	0	0
<b>Total combined funding for CPBC</b>	<b>2,989</b>	<b>2,400</b>	<b>2,177</b>	<b>2,227</b>

- 5 The following table shows the accumulative reductions in SFA (based on the provisional settlement) by authority type, alongside the actual reduction specifically for Castle Point, since 2015/16.

<b>Table 6.4 SFA reductions from previous year by authority type</b>			
	<b>2018/19</b>	<b>2019/20</b>	<b>Cumulative change since 2015/16</b>
	<b>%</b>	<b>%</b>	
England	-6.3	-6.5	-31.4
Inner London Boroughs including City	-4.7	-5.6	-25.1
Outer London Boroughs	-6.8	-7.4	-33.2
Metropolitan Districts	-5.6	-6.4	-28.4
Shire Unitaries	-7.4	-8.4	-35.4
Shire Counties	-9.9	-9.9	-41.7
<b>Shire Districts</b>	<b>-8.0</b>	<b>-5.8</b>	<b>-38.8</b>
<b>Castle Point Borough Council</b>	<b>-9.3</b>	<b>2.3</b>	<b>-40.9</b>

#### **Revenue Support Grant (RSG) / Top Up / Tariff Adjustments (Negative RSG)**

- 6 Rather than all authorities receiving the same percentage reduction in RSG, the Government adopted a mechanism which takes into account the amount that can be raised locally by each authority from Council Tax. This methodology resulted in an increased reduction in RSG funding for higher tax base authorities and a lower reduction for lower than average tax base authorities. This methodology favours upper tier services and results in higher funding reductions for district councils. For some authorities including Castle Point, the methodology resulted in negative RSG or a tariff payment.
- 7 Negative RSG for 2019/20 totalled **£153m** nationally, split over 168 local authorities of which **£515k** was allocated to Castle Point. Fortunately, during the autumn of 2018 the Government consulted on proposals to remove the negative RSG / tariff and the provisional settlement indicates that Negative RSG has been removed from the formula and the consequential funding gap absorbed by central government.

#### **Business Rates Retention (BRR)**

- 8 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 backdated repayment of 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.

- 9 The Council is therefore required to complete a statutory annual return to the Ministry for Housing, Communities and Local Government (MHCLG), referred to as an NNDR1, which sets out the anticipated National Non Domestic Rates income collectible for each authority, based on more recent information than that available to Government. This return is used to inform the Council's financial forecast and budget for the forthcoming financial year.
- 10 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 **£430k** in 2019/20. The impact of this variance is cushioned through use of the Equalisation Reserve as described in paragraph 13 below.

<b>Table 6.5 Funding Settlement 2018/19 to 2019/20 (comparison)</b>			
	<b>2018/19 NNDR1 £000's</b>	<b>2019/20 settlement £000's</b>	<b>2019/20 NNDR1 £000's</b>
Anticipated yield from NNDR for CPBC	13,949	14,870	13,796
50% Payable to Government	(6,975)	(7,435)	(6,898)
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	(1,395)	(1,487)	(1,380)
<b>Amount left after payments</b>	<b>5,579</b>	<b>5,948</b>	<b>5,518</b>
Less Tariff payable to Government	(3,771)	(3,801)	(3,801)
<b>Total combined funding for CPBC</b>	<b>1,808</b>	<b>2,147</b>	<b>1,717</b>

### **Business Rates Retention – Revaluation**

- 11 Revaluations are intended to take place every five years with the most recent effective from April 2017, when top up/tariff amounts were adjusted to ensure a revenue neutral impact for individual authorities.
- 12 Unfortunately there is no ability within the existing funding mechanism to compensate authorities for the impact of rating appeals and consequential refunds to businesses which are likely to arise subsequent to revaluation.

### **Managing fluctuations in Business Rates Revenue**

- 13 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 the following table sets out the transactions anticipated to impact on the reserve in 2018/19 and 2019/20.
- 14 Effective from 2019/20 the balance on the reserve will be maintained at a maximum of **£1.2m** with the value of funds exceeding this threshold being applied directly into the General Fund, as shown by the final line of table 6.6 below.

<b>Table 6.6 NNDR Equalisation Reserve</b>		
	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>
<b>Opening Balance</b>	<b>(955)</b>	<b>(1,291)</b>
Application of s31 grant income	(973)	(1,136)
<b>Total Contributions into the Reserve</b>	<b>(1,928)</b>	<b>(2,427)</b>
Application to offset payment of Levy	224	251
Deficit on collection fund in year of distribution	110	171
Adjustments to levy & s31 grant (for previous years) in 2018/19	(10)	0
Equalisation adjustment – variance in rates retained	313	509
Reduction in overall reserve balance	0	296
<b>Closing Balance</b>	<b>(1,291)</b>	<b>(1,200)</b>

- 15 Additional information regarding the operation of the Business Rates Collection Fund may be found below and within section 7 of this report.

### **New Homes Bonus (NHB)**

- 16 The NHB was previously a material source of funding for this authority, utilised to support ongoing revenue spending plans. 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 and many other authorities in a similar position will not qualify for any new NHB funding from 2018/19, although will continue to receive historic payments.
- 17 The table below shows the allocation to Castle Point under the current methodology and based on the existing tax base (i.e. not including future new build).

<b>Table 6.7 New Homes Bonus Allocations</b>				
	<b>2017/18 £000's</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>2020/21 £000's</b>
Settlement December 2018	975	691	569	218

### **Business Rates Retention Scheme & Growth**

- 18 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 **£3.801m** for 2019/20. The tariff is shown in tables 6.3 and 6.5.
- 19 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 has to pay a proportion of that growth into the central pool as a “levy” which is capped at **50%**.
- 20 Calculation and payment of the levy due for each year is undertaken following the end of the financial year when final outturn is known. The levy calculations for 2018/19 & 2019/20 (provisional for both years) are shown in the table below. Any detrimental impact on the General Fund is offset by application of the NNDR Equalisation Reserve (paragraph 13 above).

<b>Table 6.8 NNDR Levy Payment</b>		
	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>
CPBC share of Business Rates receipt	5,427	5,518
Tariff payment to Government	(3,771)	(3,801)
Tariff adjustment in 2018/19	56	0
Adjustments for s31 grants awarded to the Council	914	1,012
<b>Retained income</b>	<b>2,626</b>	<b>2,729</b>
Less baseline funding level determined by Government	(2,177)	(2,227)
<b>Growth above baseline</b>	<b>449</b>	<b>502</b>
<b>Levy Payment @ 50% of growth</b>	<b>224</b>	<b>251</b>

21 Growth shown in the table above is absorbed within the NNDR collection fund.

### **Essex Region Business Rates Pool**

22 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.

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

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

24 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.

### **Local Government Funding Reform**

25 As part of the finance settlement 2019/20, the government published the consultation paper “Sharing risk and reward, managing volatility and setting up the reformed system”, a technical Business Rates Retention (BRR) consultation.

26 The main points of note within the consultation paper are as follows:

- There is a full reset planned for 2020/21, which will see the “growth” within the current business rates system up to 2019/20 transferred into Baseline Need.
- Future resets could be on a quite different basis, seeing a proportion of the growth retained by local government (partial reset), with the determination of the NNDR Baseline possibly being on a phased basis (i.e. to avoid the timing of when growth occurs locally being a factor in the size of the growth retained locally).
- The safety net is to continue, at a level to be set at the end of the process.
- There will be no levy, but a growth threshold (not yet determined) above which all “growth” would be lost (the paper uses illustrative figures such as 150%, 200% and 250% of Baseline Need, so this is likely to be a factor that will affect only a very small number of authorities).

- Tier splits – the government hopes that the sector can propose its own splits with the potential for a default position if no agreement can be agreed.
- There would appear to be significant issues (that may not be able to be overcome) to nationalising appeals under the current system. There are also concerns regarding how authorities' NNDR Baselines would be determined under a reset (any type)
- A modified version of the BRR system is proposed that would effectively nationalise appeals and establish a more objective method of setting the starting point for each authority (and therefore capture growth more accurately).

**Risks arising from Local Government Funding Reform**

- 27 The precise implications of the new mechanism and its impact on individual authorities is not currently known. However, there are certain known aspects which, depending on their weighting in the final formula, would have a detrimental impact on Castle Point:
- a) Central Government are unlikely to absorb the financial consequence of the negative RSG/tariff adjustment indefinitely. This funding reduction will likely therefore be offset when deriving the overall funding to be allocated to local government.
  - b) An effective solution to fund increasing costs of social care has been elusive. The new mechanism is likely to favour single tier authorities with social care responsibilities.
- 28 Updates will be reported to Members when available via the routine financial update to Cabinet.

## 7 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 2019. 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 8 of the financial forecast and expanded below:

<b>Table 7.1 Collection Fund Surpluses/Deficits</b>	<b>2018/19 £000s</b>	<b>2019/20 £000s</b>
Council Tax surplus / (deficit)	115	103
Business Rates surplus / (deficit)	(110)	(171)
<b>Total (deficit) / surplus on Collection Funds</b>	<b>5</b>	<b>68</b>

### Council Tax Collection Fund

- 3 Any 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.
- 4 The estimated balance on the Collection Fund at 31 March 2019 is a surplus of **£687,479**, of which this Council's share is **£103,352**.

### Business Rates Collection Fund

- 5 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.
- 6 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 properties, the outcome of rating appeals and changes in the total value of discretionary or mandatory reliefs granted compared to original estimates.
- 7 The estimated balance on the Collection Fund at 31 March 2019 is a deficit of **£427,936**, of which this Council's share is **£171,174**.

## 8 Reserves and contingencies

- 1 Section 31A of the Local Government Finance Act 1992 requires the Council to have regard to the level of reserves needed when calculating the Council Tax requirement for the forthcoming financial year.
- 2 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

- 3 For 2018/19 and 2019/20, General reserves are calculated as follows:-

<b>Table 8.1 General reserves</b>	
	<b>£000s</b>
<b>Actual balance at 1 April 2018</b>	<b>5,672</b>
Net potential movement during 2018/19	(952)
<b>Forecast balance at 1 April 2019</b>	<b>4,720</b>
Net potential movement planned during 2019/20	4
<b>Forecast balance at 31 March 2020</b>	<b>4,724</b>

- 4 The estimated balance on reserves at the end of 2019/20 represents **45.4%** of the Council's net budget before funding for that year. General Reserves are predicted to be greater than the minimum recommended level at the end of 2019/20 but this position rapidly diminishes by 2021/22 to **25.6%** and less than the current recommended level. 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 2020/21 and beyond. An influx of planning appeals and associated costs (as shown in shown in row 14 on the Medium Term Financial Forecast) would further impact on the Council's reserve position as may a significant change in the business rates funding mechanism to be introduced from 2020/21 (see section 6, paragraph 27).
  - 5 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 sufficient 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.
- Adequacy of reserves**
- 6 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 have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
  - 7 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.

- 8 There is no universally valid formula for calculating an adequate level of reserves – the relevant factors can only be assessed properly at 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**
- **Financial standing and management**
- **Budget assumptions**
- **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 risk, the most significant at the current time are:

1. Increase in planning appeals and consequential costs.
2. New business rates funding mechanism to be introduced from 2020/21 where precise implications are not known.

#### **Adequacy of reserves – Financial standing and management**

- 11 This is considered in the following table:-

**Table 8.2 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 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.

## 12 Adequacy of reserves – Budget assumptions

These are considered in the following table:-

**Table 8.3 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 course of 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 charge 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.

### **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 based where possible on historic information. The appeals process changed from 2017/18 to a new "Check, Challenge, Appeal" process. At this time there is limited information as to how this will impact on the level of appeals that the Council can expect and how successful they may ultimately be, so the Council has adopted estimates provided by MHCLG.

### **Treatment of inflation and interest rates**

The detailed budget includes provision for an average **2%** pay award for 2018/19 and 2019/20, followed by **2%** in subsequent years. Also included are the financial implications arising from nationally proposed restructuring of lower pay scales and increases above **2%** for lower graded staff. A vacancy factor of **0.75%** has been included in the estimates and is reflective of the current experience of staff turnover.

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 of the Council's external debt is at fixed interest rates and the average interest rate used to estimate interest receivable from investments in 2018/19 is **0.59%**. 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 13.

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

**Table 8.3 Adequacy of reserves – budget assumptions (continued)****Brexit**

At the time of writing this report, the precise implications of Brexit are subject to much speculation. There are various different scenarios which may or may not have an impact on interest rates, the base rate and inflation. No allowance has been made for the potential financial implications as these are not quantifiable.

**Adequacy of reserves – Other local factors of significance**

13 These are considered in the following table:-

**Table 8.4 Adequacy of reserves – other local factors of significance****Equal pay review**

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. Since a job evaluation exercise has not been undertaken, there is no information available that can be used to form a view on the estimated future likely costs that the Council could face.

**Pension Fund Revaluation**

The actuary undertook a valuation of the Pension Fund as at 31 March 2016 which indicated an improved deficit recovery period of 13.2 years, compared to 25 years predicted in March 2010. The implications included within the Council's financial forecast are based on the recommendations of the pension fund, effective from April 2017. The next valuation will be undertaken by the actuary in March 2019, effective for contributions from April 2020.

**Potential for withdrawal of external or third party revenue income**

The financial forecast currently assumes the continuation of a number of revenue streams from external organisations or third parties. Many of these organisations are striving to reduce their costs and it is possible that one or more of the aforementioned 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 (see below).**

**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) and changes in legislation (e.g. new living wage) 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.

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

**Table 8.4 Adequacy of reserves – other local factors of significance (continued)****Potential for District Council 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. As a consequence there may be political pressure or public expectation that the District Council will take on these discontinued functions.

Often, the organisation is much larger than the District 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 District Council must continue to be mindful of its own financial position and the significant funding gap predicted from 2020/21. Assuming delivery of additional and unfunded functions, particularly where the District Council has no legal responsibility for delivery, will worsen the council's own financial position and be difficult to relinquish at a later date.

**Potential for incurrence of costs as a result of “New Burdens”**

As public sector / government organisations respond to their own funding pressures, there is a growing drive to devolve functions and responsibilities formerly undertaken by these organisations to local government. Conversely, centralisation of responsibilities formerly held by local government, to central government, intended to reduce costs at central government level may result in additional costs at a local level.

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

**Potential for incurrence of legal costs**

There is potential for the Council to incur costs in relation to legal challenges including employment tribunals and planning appeals.

**It is recommended that when assessing the minimum level of reserves a sum of £1,255k is included in the calculations (see below).**

**VAT – Partial Exemption**

The Council currently takes full advantage of the VAT concession in respect of 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 (see below).**

**Potential for the loss of revenue income as a result of Planning Intervention**

It is possible that should it occur, intervention will result in revenue income normally payable to the local Council being diverted to central government. Notification pending.

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

**Table 8.4 Adequacy of reserves – other local factors of significance (continued)****Impact of Welfare Reforms on demand for Council Services**

These include the continuing freeze on Local Housing Allowance rates and the implementation of Dependant Child Limitation rules which affect residents on benefit who are in private rented accommodation and those with more than two dependent children, reducing in the amount of Housing Benefit they receive.

Universal Credit Full Service was introduced in Castle Point on 25th July 2018. Whilst it is too early to see any particular impact on services yet, it is anticipated that there may indeed be an increase in demand across Revenues, Benefits and First Contact in the short/medium term, as customers adapt to digital and budgeting aspects of the new benefit. A number of mitigating measures have been put in place to manage this.

Following the introduction of the Homeless Reduction Bill in April 2018 numbers presenting as homeless appear to have plateaued, however 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 temporary and permanent accommodation.

It is not 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 (see 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 incurrence of costs as a result of “New Burdens” (**£100k**)
  - c) Potential for cost fluctuations in major contracts (**£200k**)
  - d) Potential for incurrence of legal costs (**£1,255k**)
  - e) Impact of Welfare Reforms on demand for Council Services (**£100k**)
  - f) VAT – Partial Exemption (**£400k**)
- 15 These factors would not be reflected in any formula approach such as the benchmark reported at point 18 below. Taking account of this, it is the Strategic Director (Resources)’ view that an appropriate minimum level of reserves is approximately **£2.9m**.
- 16 Although this report on adequacy of reserves is specific to 2019/20, the Council should bear in mind that adequacy should also be judged against longer-term plans. The impact of the new funding regime to be introduced from 2020/21 is unknown. The Council is already predicting a funding gap for that year (and beyond) which does not take into account the potential impact of a reduction in business rates funding.
- 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. Until the impact of the new funding regime is known and the budget for 2020/21 and beyond is balanced, it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level at paragraph 15 above.

**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 **£520k** for 2019/20.
- 19 A comparison of the above benchmark with the Strategic Director (Resources) assessment and the Council's target is therefore:

<b>Table 8.5 Adequacy of reserves at 31/3/20</b>	
<b>Castle Point target £000's</b>	<b>Audit Commission benchmark £000's</b>
2,884	520

- 20 The Strategic Director (Resources) considers that this higher level of reserves should be maintained until the local factors described at table 8.4 & paragraph 14 have been resolved and the impact of paragraph 16 has been quantified.

**Exclusions**

- 21 This opinion does not include the following items:-

- The equal pay review as there is no information available on which to form a view.
- The impact of the new funding regime, planned for implementation from 2020/21.
- The impact of Brexit as there is no information available on which to form a view.

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 the course of a financial year except under the conditions described in paragraph 2 a) 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 each of the material 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 Initiative Reserve**

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.

- **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. Over this period costs have been incurred and the reserve applied accordingly. A large portion of this budget is expected to be drawn down during 2019/20 as related work is commissioned.

- **Planning - Intervention**

A reserve set up during 2017/18 as a contingency for potential costs should Central Government take intervention action due to the failure to approve a Local Plan.

- **Planning – Joint Strategic Plan**

A new 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. Also included in the growth items reported in table 9.2.

- **Local Council Tax Support Reserve**

A reserve established at the end of 2013/14 from under spends on the Castle Point element of local scheme grant, intended to fund future scheme variances and / or hardship cases over and above existing revenue budget provision.

- **NNDR Equalisation Reserve**

A reserve intended to safeguard the authority from fluctuations in business rates income and impact of potential levy payments and successful business rate appeals.

This reserve was originally established from s31 grants awarded in relation to the business rates scheme as described in section 6 of the Council's annual budget setting report to Council.

During the budget process for 2019/20 a “cap” of **£1.2m** has been applied to the reserve with funds exceeding the cap being applied into the General Fund.

It is currently expected that the reserve will be maintained at this level, subject to future changes in S31 grants, business rate appeals movements, and other changes in the various elements of business rates income and expenditure.

- **Future Asset Maintenance Reserve**

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 one 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 on these facilities as required.

- **Pension deficit payment reserve**

To enable the authority to take advantage of significant financial incentives offered by the Essex Pension Fund, in return for the payment of 3 years deficit contributions in one lump sum in advance rather than paying amounts monthly or annually. This reserve will be partly applied in 2020/21 for the next scheduled advance payment, and will then accumulate in advance of anticipated future payments every three years after that.

- **Improvement Fund**

A reserve established from accumulated unspent revenue budget and savings generated through service reviews and initiatives. It is usually planned to apply the value of funds within the reserve during the course of the financial year and / or return them to general reserves. A number of small Central Government non ring-fenced grants, received in earlier financial years and not used, have been moved into this reserve from the Revenue grants unspent reserve described below during the 2019/20 budget setting process, so that they can be applied towards future initiatives as required.

- **Revenue grants unspent**

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 and in order to reserve it for future use, it is held in an earmarked reserve.

- **Regeneration initiatives fund / projects**

Funding set aside for costs associated with the Hadleigh Regeneration project, as reported to Cabinet in January 2017.

- **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 abreast of developments in technology, such as increased usage of “smart” 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 currently predicted to fall to a level of **£163k** by 31 March 2027.

- **Highways Improvements & Environmental Initiatives**

Budgets previously approved, preserved in an earmarked reserve until they are ready to be applied.

- **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** is due in 2021/22.

24 Table 8.6 on the following page provides a summary of the forecast movements on the General Fund earmarked reserves.

	Actual balance 01/04/2018 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Other expected usage £000s	Forecast balance 31/03/2022 £000s
Revenue grants unspent	513	(79)	3	2	(7)	(324)	108
Future asset maintenance reserves	2,145	(94)	(177)	(321)	148	0	1,701
Insurance repayments reserve	348	0	0	0	0	(348)	0
Non-Domestic Rates equalisation reserve	956	336	(92)	0	0	0	1,200
Council Tax Support Scheme reserve	114	0	0	0	0	(114)	0
Improvement fund	0	179	(100)	0	0	(79)	0
Pension reserve	500	792	750	(1,562)	750	0	1,230
Planning - Local Development Scheme costs	330	(91)	0	0	0	(239)	0
Planning - Central Government intervention	500	0	0	0	0	(500)	0
Planning - Joint Strategic Plan	0	200	0	0	0	(200)	0
Highways Improvements	0	164	75	0	0	(239)	0
and Environment Initiatives funds							
Commitments from previous year	313	(313)	0	0	0	0	0
Other earmarked reserves	1,991	63	478	463	502	(1,917)	1,580
<b>Total General Fund Earmarked Reserves</b>	<b>7,710</b>	<b>1,157</b>	<b>937</b>	<b>(1,418)</b>	<b>1,393</b>	<b>(3,960)</b>	<b>5,819</b>

This statement reconciles to lines 16 and 19 of the Medium Term financial forecast (table 4.1)

## 9 Revenue spending plans

- 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. These service plans demonstrate how each service will be delivered and how they support one or more of the following key priorities as set out within the Corporate Plan 2018-2021: -
  - Environment
  - Housing and Regeneration
  - Health and Community Safety
  - A Commercial and Democratically Accountable Council
- 2 The method of calculating revenue spending plans has been broadly in-line with that set out in the Council's Financial Planning and Capital Strategy as described in section 1.
- 3 The Council's application for a multiyear financial settlement was accepted by Government in November 2016, giving greater certainty over funding for the period up to and including 2019/20.
- 4 The key steps in the process of producing the base budget for 2019/20 were:-
  - A review of 2018/19 estimates against actual income and expenditure for 2017/18 and 2018/19 year to date, to arrive at a core no-growth base budget for revised 2018/19, estimate 2019/20 and 2020/21 to 2021/22 (both provisional), driven by current service plans. This includes where applicable, increases for inflation of costs relating to pay, employer's pension fund contributions, contracts, rates, utilities and insurances. Controllable service costs have been carried forward at existing levels except in the case of inescapable increase.
  - Service providers were then required to review their services to identify options for reductions in net expenditure (without reducing service levels).
  - 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.
  - Provision has been made for costs or savings expected to arise from known and proposed changes in legislation.

### Efficiency work programme and savings identified

- 5 The efficiency work programme for 2017/18 and 2018/19, supported by the Council's Commercial Council strategy, as detailed within section 2 of this report, has identified general cost reductions and efficiency savings relating to the current and future financial years, and these have been incorporated into the Medium term financial forecast at table 4.1.

### Funding of priority projects

- 6 Table 9.1 sets out some of the priority projects that the Council continues to fund during the period of the forecast. These have been reflected in the financial forecast.

### Cost pressures and other increases

- 7 Cost pressures and essential service increases identified during the course of the budget process are summarised in table 9.2 and these are also reflected in the financial forecast.

### Revenue spending plans

- 8 The resultant proposed net summary revenue spending plan for the General Fund, which incorporates the savings and cost reductions shown in table 2.3, is shown in the financial forecast at table 4.1. Service summaries which have been based on Directorate and Service/Team Action Plans, are shown at tables 9.3 and 9.4. These reflect the new Council structure which came into place in January 2018.

<b>Table 9.1 Funding of priority projects &amp; other discretionary expenditure included in line 1 of the Financial Forecast</b>					
<b>Ref.</b>	<b>Description of priority project or discretionary item</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>2020/21 £000's</b>	<b>Total £000's</b>
	<b>All services, Central &amp; Corporate areas</b>				
1	Production of one issue of external newsletter "Viewpoint" per year	8	8	8	24
2	Funding of discretionary portion of business rates relief to charities and other bodies - percentage of overall relief cost applicable to this Council	40	47	47	134
	<b>Housing &amp; Communities</b>				
3	Funding for local and voluntary organisations	118	121	121	360
4	Contribution to Community Transport Scheme operated by Wyvern, providing transport for elderly and disabled residents of the Borough	10	10	10	30
5	Community events such as the Fireworks Fiesta, Castle Point Show and Easter & Summer activities (net direct cost excluding recharges)	11	10	10	31
6	Running costs of CCTV installed at various public locations around the Borough, including car parks, the Dutch Cottage, the seafront and specific residential areas	22	22	22	66
	<b>Environment</b>				
7	Festive lighting / decorations across the Borough	14	14	14	42
8	Black refuse sacks provided free to residents	24	24	25	73
9	Dog fouling bags provided free to residents	7	7	7	21
10	Public Conveniences across the Borough (net direct cost excluding recharges and capital charges)	42	39	40	121
	<b>Total funding of priority projects and discretionary items</b>	<b>296</b>	<b>302</b>	<b>304</b>	<b>902</b>

Table 9.2 Cost pressures & budget increases (Growth) identified and included in line 1 of the Financial Forecast					
Ref.	Description of cost pressure/budget increase item	2018/19 £000's	2019/20 £000's	2020/21 £000's	Total £000's
<b>1</b>	<b>All services, Central &amp; Corporate areas</b>				
	Estimated cost of conversion to National Joint Council (NJC) pay scales from 2019/20	0	20	20	40
<b>2</b>	Utilities (primarily gas and electricity) - increase in costs across all Council operated buildings	26	40	44	110
<b>3</b>	Bad debts - increase in provision	57	0	0	57
	<b>Environment</b>				
<b>4</b>	Recycling contract - estimated increase in costs	197	277	277	751
<b>5</b>	Trade waste payments to ECC - increase in charge payable per tonne	0	7	7	14
<b>6</b>	Recycling staff and agency - additional costs incurred (2018/19 only)	74	0	0	74
<b>7</b>	Green waste bin rental scheme - reductions in forecast levels of participation	10	62	(4)	68
<b>8</b>	Pinnacle contract - adjustments to match Council Tax increase percentages and National Living Wage changes	5	32	36	73
<b>9</b>	Car parks - increased transaction processing charges	11	3	4	18
<b>10</b>	Parks and open spaces - reduction in income, primarily football clubs use of pitches	10	8	8	26
<b>11</b>	Canvey Island seafront/foreshore - reduction in rental income	39	42	45	126
<b>12</b>	Cost of Legal proceedings relating to an encroachment onto recreation ground (2018/19)	10	0	0	10
<b>13</b>	Purchase of IDOX software to support GDPR in Environmental Health & Planning Departments	10	0	0	10

<b>Table 9.2 Cost pressures &amp; budget increases (Growth) identified and included in line 1 of the Financial Forecast</b>					
<b>Ref.</b>	<b>Description of cost pressure/budget increase item</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>2020/21 £000's</b>	<b>Total £000's</b>
<b>14</b>	Leisure Centres - budget adjustments included in 19 September 2018 Financial Update Report to Cabinet - • Increased utilities budget • Increased business rates budget • Decrease in membership income	13 11 39	13 11 54	13 11 55	39 33 148
<b>15</b>	Leisure Centres - subsequent additional decrease in predicted membership income	64	142	144	350
	<b>Governance, Law, Planning and Regeneration</b>				
<b>16</b>	The Crown - ongoing cost of business rates, until such time as a decision re future of the property is acted on (2018/19 previously budgeted for)	0	14	14	28
<b>17</b>	Elections - increased ongoing cost	20	25	25	70
<b>18</b>	Members training - increase in costs to support delivery of duties	7	8	0	15
<b>19</b>	South Essex Joint Strategic Planning (Association of South Essex Local Authorities - ASELA) - Increase in contribution (included in 19 September 2018 Financial Update Report to Cabinet)	40	40	40	120
<b>20</b>	Establishment of a new earmarked reserve for Joint Strategic Plan costs	200	0	0	200
	<b>Housing &amp; Communities</b>				
<b>21</b>	Costs recovered - reduction in income (2018/19 only) (included in 21 November 2018 Financial Update Report to Cabinet)	80	0	0	80
<b>22</b>	Housing department staffing - cost of previously approved restructure	43	45	46	134
<b>23</b>	Card processing - estimated increase in transaction costs	22	8	8	38
<b>24</b>	Land Charges - decrease in income due to use of agents for information requests (2018/19 only)	29	0	0	29
<b>25</b>	Housing Benefits - variation in net expenditure and subsidy income based on latest forecast position	(5)	110	110	215
	<b>Total cost pressures &amp; budget increases (growth)</b>	<b>1,012</b>	<b>961</b>	<b>903</b>	<b>2,876</b>

No	Table 9.3 General Fund revenue summary	Note	2017/18 ACTUAL	2018/19 ESTIMATE	2018/19 REVISED	2019/20 ESTIMATE	2020/21 ESTIMATE	2021/22 ESTIMATE
			£000s	£000s	£000s	£000s	£000s	£000s
	<b>Net Service Expenditure</b>							
1	Environment	1	6,879	6,349	5,882	6,037	5,771	5,879
2	Governance, Law, Planning and Regeneration	1	872	1,803	1,636	1,345	1,346	1,294
3	Housing and Communities	1	2,177	2,638	2,576	2,787	2,697	2,752
4	Resources	1	83	124	88	96	97	99
5	Central and corporate services	1	1,974	2,261	1,988	2,084	2,039	2,096
	<b>Total Net Service Expenditure</b>		<b>11,985</b>	<b>13,175</b>	<b>12,170</b>	<b>12,349</b>	<b>11,950</b>	<b>12,120</b>
5	<b>Savings and / or additional revenue income / grant funding to be identified</b>	2	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(924)</b>	<b>(1,108)</b>
6	Total Other Operating Expenditure	3	475	582	390	435	1,064	603
7	Total Financing and Investment Income and Expenditure	4	924	1,189	943	965	997	1,015
8	Total Net Statutory Adjustments	5	536	(3,011)	(2,172)	(3,098)	(741)	(2,997)
	<b>Total to be met from government grants, earmarked reserves and Council Tax</b>		<b>13,920</b>	<b>11,935</b>	<b>11,331</b>	<b>10,651</b>	<b>12,346</b>	<b>9,633</b>
	<b>Notes</b>							
1	See table 9.4							
2	The amount required in order to deliver a balanced budget and maintain reserves at the minimum level recommended.							
3	Includes a discount applied to all salaries estimates to take account of vacant periods, 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.							
4	Includes interest payable and receivable, and statutory pensions adjustments based on information from Essex Pension Fund and the pension actuary.							
5	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.							

No	<b>Table 9.4 General Fund Net Service Expenditure</b>	<b>2017/18 ACTUAL</b>	<b>2018/19 ESTIMATE</b>	<b>2018/19 REVISED</b>	<b>2019/20 ESTIMATE</b>	<b>2020/21 ESTIMATE</b>	<b>2021/22 ESTIMATE</b>
		<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
	<b>Environment</b>						
1	Environmental health	652	774	692	824	830	854
2	Street scene and operational services	1,270	1,523	1,334	1,408	1,381	1,408
3	Refuse & recycling	1,690	1,772	1,841	1,825	1,780	1,798
4	Parks & open spaces	979	856	745	777	756	709
5	Leisure centres, golf course and community centres	2,791	1,962	1,793	1,809	1,626	1,702
6	Public conveniences	117	128	129	130	132	135
7	Parking	(620)	(666)	(652)	(736)	(734)	(727)
	<b>Net total - Environment</b>	<b>6,879</b>	<b>6,349</b>	<b>5,882</b>	<b>6,037</b>	<b>5,771</b>	<b>5,879</b>
	<b>Governance, Law, Planning and Regeneration</b>						
1	Strategic director	0	24	0	0	0	0
2	Civic Governance	114	213	224	266	267	185
3	Legal services	0	0	0	0	0	0
4	Development control and Planning policy	432	1,095	1,005	723	721	739
5	Building control	91	182	100	116	117	123
6	Regeneration	235	289	307	240	241	247
	<b>Net total - Governance, Law, Planning and Regeneration</b>	<b>872</b>	<b>1,803</b>	<b>1,636</b>	<b>1,345</b>	<b>1,346</b>	<b>1,294</b>
	<b>Housing and Communities</b>						
1	Head of Housing and Communities	0	0	0	0	0	0
2	Homelessness and Housing advice	700	638	673	983	861	862
3	Strategic housing and Housing management	10	10	10	10	10	10
4	Revenues and Benefits	1,115	1,555	1,457	1,335	1,365	1,439
5	Local land charges	(25)	27	40	19	19	22
6	Concessionary travel	0	0	0	0	0	0
7	Partnerships, community engagement and community safety	301	338	290	302	321	331
8	Licensing and public transport schemes	76	70	106	138	121	88
	<b>Net total - Housing and Communities</b>	<b>2,177</b>	<b>2,638</b>	<b>2,576</b>	<b>2,787</b>	<b>2,697</b>	<b>2,752</b>
	<b>Resources</b>						
1	Financial services	0	11	0	0	0	0
2	Information technology	0	0	0	0	0	0
3	Facilities and asset management	83	103	88	96	97	99
4	Human resources	0	0	0	0	0	0
5	Internal audit	0	10	0	0	0	0
	<b>Net total - Resources</b>	<b>83</b>	<b>124</b>	<b>88</b>	<b>96</b>	<b>97</b>	<b>99</b>
	<b>Central and corporate services</b>						
1	Chief Executive	0	12	0	0	0	0
2	Other corporate costs	1,974	2,249	1,988	2,084	2,039	2,096
	<b>Net total - Central and corporate services</b>	<b>1,974</b>	<b>2,261</b>	<b>1,988</b>	<b>2,084</b>	<b>2,039</b>	<b>2,096</b>

# 10 Charging Policy

## Introduction

- 1 This charging policy sets out the key principles and processes departments should follow when setting fees and charges for services. It applies to all fees and charges with the exception of:
  - 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.
- 2 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 (“...subject to a duty to secure that, taking one financial year with another, the income from charging under that subsection does not exceed the costs of provision.”)

## Income generation principles

- 3 Charges should be set at a level to maximise income generation. With this proviso in mind, departments should aim to set charges so that at the expected level of usage, the income generated from a service recovers the full cost (see below) 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.
- 4 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.
- 5 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

- 6 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 be not 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.
- 7 The above should be provided in accordance with timescales set out in the detailed estimates timetable issued to departments annually. Using this information and by analysis of income received during the previous financial year and to date in the current financial year, Financial Service Unit (FSU) officers 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.
- 8 FSU officers will subsequently meet with budget holders to review and agree the draft income budgets which budget holders are then required to sign off to confirm acceptance.

- 9 The income budgets will then be approved as part of this Policy Framework and Budget Setting process annually in February.
- 10 The Council Constitution provides the majority of services with the authority to set their own fees and charges. There are exceptions to this, for example, Car Parks, specifically, the setting of parking charges and fixed penalty notices, for which Member consultation is required.

**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. Financial Services co-ordinate publication of a single schedule of all charges published on the Council's website.

**Variations in standard fees**

- 12 Budget holders may decide that on occasion there is sufficient 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.
- 14 Any such proposals should be reviewed to ensure the cost of reduced income does not exceed the benefit, such as improved usage, and should be submitted to the Strategic Director (Resources) for agreement by the Executive Management Team (EMT) prior to implementation, including the estimated impact on the income budget.

**Periodic full review of charges**

- 15 As well as the annual processes described in paragraph 3, departments also undertake a more in-depth review of fees and charges, at least once every three years.
- 16 This review should aim 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 3 yearly formal reviews are to be approved by the Strategic Director (Resources) and the Executive Management Team. The Financial Services Unit will co-ordinate a review of fees and charges across all service areas during 2019/20.

# 11 Capital Strategy

- 1 The Capital Strategy sets out the long term context in which capital expenditure and investment decisions are made and gives consideration to risk, reward and impact on the achievement of priority outcomes. As such, 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.

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

- 4 As at 31 March 2018 the Council held assets valued at circa **£165m**, including:
  - Council Houses (1,500) and garages (400): **£116m**
  - Land and buildings: **£45m**. Major assets include the Council offices and Waterside Farm and Runnymede Leisure Centres.
  - 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.

- 5 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.
- 6 Whilst assets are managed by relevant service areas, programmed works are overseen by a central Facilities team who administer inspections, surveys and commission planned works in line with procurement rules and procedures.
- 7 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.
- 8 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 and is supported by a Commercial Strategy which references maximising the return on the Council's building assets and ensuring that they are utilised to their full potential as a key principle.

## **Capital expenditure and the Council's approach to capital investment**

- 9 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 all such expenditure that is below **£10,000** as revenue expenditure.
- 10 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.

- 11 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.
- 12 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.
- 13 The Council's capital investment priorities are classified in order of priority and set out below:

**Table 11.1 Prioritisation of capital investment priorities**

<b>Priority</b>	<b>Purpose</b>
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.

- 14 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 authority.
  - 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.

- 15 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 overall project
  - Effect of different borrowing options, e.g. duration and rate of interest, and
  - Payback calculations, e.g. how long it takes to recoup the cost incurred
- 16 Contingency allowances for unexpected costs or overruns that might occur will be assessed and included as appropriate, particularly for high value projects.
- 17 All capital expenditure will comply with the Council's procurement rules and thresholds.

### **Financing of Capital Expenditure**

- 18 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.

### **Capital Programme monitoring**

- 19 Budget monitoring of the Council's capital budgets and spending is undertaken in the same manner during the year as that of the revenue budgets, i.e. by officers from the Financial Services Unit in conjunction with the relevant budget holders for each item on the programme.
- 20 Exception reporting of positive or negative issues is made on a monthly basis to the Council's Executive Management Team (EMT) and Cabinet members.
- 21 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**

- 22 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.
- 23 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.
- 24 The following paragraphs explain the Prudential Indicators that the Council should have regard to before agreeing capital spending plans for 2019/20. The Council must approve prudential indicators for the next three years – 2019/20 to 2021/22 – 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. Accordingly provisional indicators are also shown for years beyond 2021/22.
- 25 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 in the capital programme 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 of the resources currently available to it and 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 of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it should take into account arrangements for the repayment of debt and consideration of risk and the impact on the Council's overall fiscal sustainability.

26 Where applicable the prudential indicators are required to be calculated separately for each of the General Fund and Housing Revenue Account. Where relevant these indicators are calculated on the basis that the first HRA loan repayment in 2021/22 is not replaced with new borrowing. This is in line with assumptions in the HRA business plan.

27 Prudential Indicators applicable to treasury management are shown in section 12 of this report.

### **Prudential indicator (for affordability) – capital expenditure**

28 Table 11.2 below shows actual 2017/18 capital expenditure, along with estimates for current and future years recommended for approval:

<b>Table 11.2 Capital expenditure</b>							
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
General Fund (GF)	3,909	1,301	2,061	1,356	387	696	350
Housing Revenue Account (HRA)	2,007	1,889	2,799	1,472	1,792	1,792	1,792
<b>Total</b>	<b>5,916</b>	<b>3,190</b>	<b>4,860</b>	<b>2,828</b>	<b>2,179</b>	<b>2,488</b>	<b>2,142</b>

29 The amounts shown for 2019/20 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 11.3 on the following pages.

30 All schemes identified in the preceding table match the priorities outlined at paragraph 13 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**

- 31 The Capital programme has a number of items which recur in most years. These include:
- Disabled Facility Grant adaptations, partly 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.
  - 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.
- 32 In addition one-off items may also be included in the capital programme from time to time. These include:
- In 2017/18, the gym extension project at Runnymede Leisure Centre.
  - New homelessness development at Hatley Gardens in 2018/19 and 2019/20, as well as a large scale ICT hardware and software upgrade (to Windows 10) in 2018/19.
  - The Housing Revenue Account capital expenditure includes in 2018/19 and 2019/20 new housing developments at Church Close and Windsor Gardens, as well as all the normal annual programmes of works to existing Council properties.
- 33 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 11.3 General Fund Capital Expenditure proposals							
Project	2017/18 Actual £000's	2018/19 Revised £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
ENVIRONMENT							
Disabled Facilities Grants (Mandatory)							
Gross Capital Expenditure	513	571	685	585	350	350	350
Specific external funding	(513)	(571)	(585)	(485)	(250)	(250)	(250)
Net Capital Expenditure	0	0	100	100	100	100	100
Regional Housing Grant							
Gross Capital Expenditure	1	0	0	0	0	0	0
Specific external funding	(1)	0	0	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
Leisure Centres Gym equipment (both sites)							
Gross Capital Expenditure	0	122	0	0	0	75	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	122	0	0	0	75	0
Runnymede Pool Gym extension and Gym equipment							
Gross Capital Expenditure	1,608	0	0	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	1,608	0	0	0	0	0	0
Halls demolition costs							
Gross Capital Expenditure	103	0	0	0	0	0	0
Specific external funding	(25)	0	0	0	0	0	0
Net Capital Expenditure	78	0	0	0	0	0	0

Table 11.3 General Fund Capital Expenditure proposals							
Project	2017/18 Actual £000's	2018/19 Revised £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's
<b>Vehicle Replacement Programme</b>							
Gross Capital Expenditure	1,604	34	742	771	37	271	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	1,604	34	742	771	37	271	0
<b>GOVERNANCE, LAW, PLANNING AND REGENERATION</b>							
<b>Regeneration projects (Industrial estate signage)</b>							
Gross Capital Expenditure	0	81	0	0	0	0	0
Specific external funding	0	(81)	0	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
<b>HOUSING AND COMMUNITIES</b>							
<b>Development at Hatley Gardens</b>							
Gross Capital Expenditure	17	70	634	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	17	70	634	0	0	0	0
<b>RESOURCES</b>							
<b>ICT Hardware and software</b>							
Gross Capital Expenditure	63	423	0	0	0	0	0
Specific external funding	(16)	(16)	0	0	0	0	0
Net Capital Expenditure	47	407	0	0	0	0	0
<b>Total Gross Capital Expenditure</b>	<b>3,909</b>	<b>1,301</b>	<b>2,061</b>	<b>1,356</b>	<b>387</b>	<b>696</b>	<b>350</b>
<b>Total specific external funding</b>	<b>(555)</b>	<b>(668)</b>	<b>(585)</b>	<b>(485)</b>	<b>(250)</b>	<b>(250)</b>	<b>(250)</b>
<b>Total Net Capital Expenditure</b>	<b>3,354</b>	<b>633</b>	<b>1,476</b>	<b>871</b>	<b>137</b>	<b>446</b>	<b>100</b>

**Prudential indicator (for affordability) – Capital Financing Requirement (CFR)**

- 34 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.
- 35 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 Payment (MRP) charges to revenue are applied in subsequent years.
- 36 If the Council takes out additional borrowing to fund 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, but does not provide the resource as the borrowing is required to be repaid at a later date.
- 37 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.
- 38 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 authority and not simply those arising from capital spending.
- 39 Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2018 are:

<b>Table 11.4 Capital financing requirement</b>							
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
GF	6,517	6,086	6,904	7,310	6,919	6,758	6,313
HRA	36,418	36,418	36,350	36,350	29,350	29,350	29,350

- 40 It can be seen that the CFR is relatively static for the General Fund over the longer term, with some increases or decreases from year to year, depending on the level of capital spend, MRP charges, etc during each year. The CFR for the HRA remains constant until such time as the first loan repayment is made in 2021/22, at which point it will decrease accordingly. As stated above it is not currently expected that any further HRA borrowing will be taken out for additional HRA capital expenditure when that repayment occurs, but if it were to then the HRA CFR would increase as additional expenditure was incurred.
- 41 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 2025.

**Prudential indicator (for affordability) – authorised limit for external debt**

- 42 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.

<b>Table 11.5 Authorised limit for external debt</b>							
	<b>2017/18 Actual £000's</b>	<b>2018/19 Revised £000's</b>	<b>2019/20 Estimate £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
Borrowing	47,301	46,817	47,568	47,223	39,075	38,914	38,469
Other long term Liabilities (finance leases)	0	0	0	0	0	0	0
<b>Total limit</b>	<b>47,301</b>	<b>46,817</b>	<b>47,568</b>	<b>47,223</b>	<b>39,075</b>	<b>38,914</b>	<b>38,469</b>

- 43 The authorised limit shown for 2019/20 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.
- 44 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 limit, or required increase in the overall limit, must be immediately reported to Council.
- 45 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 over and above this to allow for operational management, for example unusual cash movements.

**Prudential indicator (for affordability) – operational boundary for external debt**

- 46 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.

<b>Table 11.6 Operational boundary for external debt</b>							
	<b>2017/18 Actual £000's</b>	<b>2018/19 Revised £000's</b>	<b>2019/20 Estimate £000's</b>	<b>2020/21 Estimate £000's</b>	<b>2021/22 Estimate £000's</b>	<b>2022/23 Estimate £000's</b>	<b>2023/24 Estimate £000's</b>
Borrowing	44,664	44,205	44,956	44,611	37,030	37,030	37,030
Other long term Liabilities (finance leases)	0	0	0	0	0	0	0
<b>Total boundary</b>	<b>44,664</b>	<b>44,205</b>	<b>44,956</b>	<b>44,611</b>	<b>37,030</b>	<b>37,030</b>	<b>37,030</b>

- 47 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.

- 48 The Council's actual external debt at 31 March 2019, excluding when applicable any Finance Lease liabilities, is forecast at £5.250m for the General Fund and £36.451m 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**

- 49 Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2017/18 are:

<b>Table 11.7(a) Ratio of financing costs to net revenue stream</b>							
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
GF	4	5	5	4	6	5	4
HRA	34	35	35	35	33	33	32

- 50 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 2018/19 towards the hardware and software update referred to in paragraph 32. 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:

<b>Table 11.7(b) Ratio of financing costs to net revenue stream (local variant)</b>							
	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>Actual</b>	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
GF	17	10	5	4	5	5	4
HRA	34	35	35	35	33	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**

- 52 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.

- 53 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)**

- 54 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.

- 55 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.
- 56 In accordance with the regulations, it is proposed to adopt the following MRP policy for the financial year 2019/20, which is unchanged from recent years:
- 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.
  - 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.
- 57 The Ministry for Housing, Communities and Local Government (MHCLG) 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 time frame. 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 2019/20.
- 58 Forecast MRP charges based on estimated capital expenditure up to 2024/25 are mapped out beyond the timescales reported within the Capital Strategy, and currently extend up to 2035/36.
- Capital receipts**
- 59 Capital receipts from the sale of Council houses under Right to Buy (RTB) provisions and surplus assets will continue to be an important source of capital resource for the Council. The Government has set a de-minimis level for capital receipts, and receipts of £10,000 or less are classified as revenue resources and are therefore accounted for within the revenue accounts. Receipts over £10,000 cannot be used for revenue purposes.
- 60 Table 11.8 shows the allocation on 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 11.8 Allowable use of capital receipts (Non-Right to Buy)**

<b>Type of asset</b>	<b>% that may be applied to new capital expenditure</b>	<b>% that must be paid over to the Government</b>
Other Housing land	100	0
General Fund land & property	100	0

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

62 From any RTB receipt the following deductions are made:

- 1) Excess of debt supportable by the property (based upon a calculation provided by MHCLG) 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.

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

<b>Party</b>	<b>2018/19</b>		<b>2019/20</b> <b>(draft - to be confirmed)</b>	
	<b>Allocation of receipt</b>		<b>Allocation of receipt</b>	
	<b>%</b>	<b>Cap £</b>	<b>%</b>	<b>Cap £</b>
Treasury	70.7%	150,854	70.5%	150,854
Local Authority	29.3%	62,398	29.5%	63,022

64 This therefore caps the maximum contribution the Council can make towards new general capital expenditure to **£62,398** in 2018/19 and **£63,022** (draft figure) in 2019/20. 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.

65 Where there are receipt balances above these levels the funds are held by the Council for a period of 3 years from the end of the quarter 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.

#### **Chief Financial Officer's conclusion on the Capital Strategy**

66 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.

## 12 Treasury Management Strategy

### Definition of Treasury Management

- 1 Treasury management is:-  
*“The management of the organisation’s 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 the manner in which the organisation will seek to achieve those policies and objectives, and 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 2019/20

- 3 The Strategy has been formulated after considering the advice of the Council's consultants, Link Treasury Solutions Ltd. trading as Link Asset 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, economic uncertainty and interest rates

- 5 It will be some time until it is clear what the country's trading arrangements will be with the EU and rest of the world post Brexit, and consequently it is likely there will be prolonged economic uncertainty.
- 6 The Bank of England base rate started 2018/19 at **0.50%** and was increased in August 2018 to **0.75%**. Growth in the UK economy is expected to remain low and Link expects five **0.25%** increases in the base rate over the next three years and that rates may hit **2.00%** by March 2022. It is expected that the 50-year Public Works Loan Board (PWLb) long-term rate for maturity loans will be in the range of **2.80%** to **3.10%** during 2019/20.
- 7 The Council adheres to strict investment criteria. It is anticipated that investments will continue to have an overall short-term average maturity (less than 3 months). 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 2019/20

- 8 A summary of external debt that is expected to be outstanding at 31 March 2019 is as follows:-

<b>Table 12.1 External debt outstanding</b>	
<b>Source</b>	<b>Total at 31/03/19 £000's</b>
Public Works Loan Board – General Fund	5,250
Public Works Loan Board – Housing Revenue Account	36,451
<b>Total</b>	<b>41,701</b>

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **3.70% 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 also the unexpired period at the time of repayment.
- 10 The proposed programme of capital expenditure due to be approved by Council in February 2019 is not currently anticipated to trigger a requirement for new borrowing in 2019/20. 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 the difference between the Capital Financing Requirement (CFR) and the level of external borrowing. At the end of 2019/20 this is expected to be **£1.5m**. This is a very low proportion of the total investments and debt and is, in the opinion of the S151 Officer and Link, a satisfactory situation financially. This position is called moderately "under-borrowed". If external debt exceeded the CFR then the Council would be "over-borrowed". The position will fluctuate 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 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 Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the impact of changes in Central

Government policies including the 4 year rent reductions, as detailed within the separate HRA budget setting report.

- 15 The PWLB periodically allows local authorities to register for a preferential “certainty rate” for borrowing, which is below the standard rate. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows them to access the preferential rate should the need arise. Although there are no current plans to borrow, the Council routinely registers for the preferential rate.
- 16 The weighted average maturity of the Council’s General Fund debt is long at **35 years**, and none of the debt portfolio is due to mature before 2052 so there is no refinancing risk in the foreseeable future. Subject to any future changes in borrowing or planned capital projects the General Fund will not be affected by increased borrowing margins in the short or medium term.
- 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. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1.0m** above the **£36.5m**. The autumn 2018 budget announced that, subject to final consultation, 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 MHCLG 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 **£2m** 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 a number of 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:-

<b>Table 12.2 Maturity structure of fixed rate borrowing</b>				
<b>Maturity</b>	<b>General Fund</b>		<b>Housing Revenue Account</b>	
	<b>Upper limit</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>Lower limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
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:-

<b>Table 12.3 Upper limits of fixed and variable exposures</b>						
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper limit – fixed rates	47	47	47	47	40	40
Upper limit – variable rates	(16)	(16)	(16)	(8)	(10)	(9)

### **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 2019/20 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.

# 13 Investment Strategy

## Investment guidance

- 1 This Council has regard to the MHCLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

## 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 the 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 2019/20 this amount will be **£50k**.

**Table 13.1 General Fund investment income**

	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Forecast investment income	180	165	139	110	122	120

- 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.
  - 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 13.2 on the following page. Non-specified Investments are any other type of investment, i.e. not defined as Specified above, however the Council will have no Non-specified Investments in the foreseeable future.

## 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 2019/20 to range between **£21m** and **£36m**.

### **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:

- a very high average credit weighting for the portfolio, typically AA+
- a diversified portfolio
- short-term weighted average maturity typically 1 to 2 months
- strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£6m**.
- 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. Table 13.2 also sets out the Council's minimum credit ratings that it considers appropriate for each category of investment. All funds are invested in 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**

- 10 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Asset 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.

**Table 13.2 Specified Investments for the Financial Year 2019/20**

<b>Investment</b>	<b>Counterparty limit</b>	<b>Security / Minimum Credit Rating</b>	<b>Maximum period of investment</b>
<b>Debt Management Agency Deposit Facility (DMADF)</b> (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)
<b>Treasury Bills</b> 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
<b>Term deposits</b> 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
<b>Term Deposits</b> 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
<b>Money Market Funds</b> (i.e. a collective investment scheme as defined in SI 2004 No 534) 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)
<b>Current accounts, notice accounts or term deposits</b> 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)
<b>Forward deals</b> 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
<b>Certificates of Deposit</b> 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
<b>Covered bonds</b> (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
<b>Reverse repurchase agreements "repos"</b> (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

- 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**

- 11 The Council selects counterparties according to credit quality as well as the additional information in paragraph 14 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 16.

**Money Market Funds**

- 12 As has been the practice for a number of 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.

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

- 13 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**

- 14 Additional requirements under the Code of Practice now require the Council to supplement credit rating information. Whilst the above criteria relies 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**

- 15 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 of 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**

- 16 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, taking into account information and advice supplied by Link Asset Services, the Council's treasury adviser. Changes to the internal guidance are approved by the Strategic Director (Resources).

**Use of derivative instruments**

- 17 Local authorities have the ability to 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**

- 18 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.
- 19 Investments in Money Market Funds are not treated as capital expenditure.
- 20 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**

- 21 If any of the Council's investments appeared at risk of 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**

- 22 The Council's in-house managed funds are mainly cash flow derived. Due to the level of these funds and uncertainty in the current climate, the Council has no proposals to invest for periods over 364 days. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

**The Council's banking arrangements**

- 23 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31<sup>st</sup> March 2020 and so will be reviewed in 2019/20 in accordance with the Council's Contract Procedure Rules.

**Risk benchmarking**

- 24 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.
- 25 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.

- 26 **Security** – The Council's maximum security risk benchmark for the current portfolio is:-
- A credit-rating score of **4.0** 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.
- 27 **Liquidity** – In respect of this area the Council seeks to maintain:-
- Bank overdraft - **£200,000**. Higher overdraft facilities are available on request.
  - Liquid short term deposits of at least **£1.0m** available with a day's notice.
  - Weighted Average Life benchmark is expected to be up to 4 months, with a maximum of one year.
- 28 **Yield** – Local measures of yield benchmarks are:-
- Investments – returns above the 7-day LIBID rate.

**Treasury management adviser**

- 29 Link Asset 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.
- 30 Whilst Link Asset Services 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**

- 31 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link Asset Services both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and an average of over 10 years' experience in local authority treasury.

**Investment activity reporting and publication**

- 32 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**

- 33 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.
- 34 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 12 and 13 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**

- 35 IFRS9 Financial Instruments becomes effective from 2018/19 and replaces IAS 39 Financial Instruments: Recognition and Measurement. It specifies how an entity should classify and measure financial assets and financial liabilities and the CIPFA 2018/19 Code of Practice on Local Authority Accounting sets out how it applies to Councils. Officers have consulted with auditors and treasury advisers and made a thorough assessment of the changes required and they are not expected to be material to the Financial Statements, only affecting presentation and disclosure of the financial instruments and liabilities.

# 14 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 **£100,000** and above should be approved by full Council.
- 1.3 Severance packages for staff leaving the authority of **£100,000** 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. In March 2018 the Council published information on the gender pay gap on the Council website, and will continue to do so annually thereafter
- 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 place of work)
  - 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, essential car user allowance, car 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 employers 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. In the absence of this the Chief Executive will receive the annual national pay increase applicable to all other staff.
- 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.

- The Strategic Directors will receive the annual national pay increase for Chief Officers if and when offered and agreed by the Local Government Employers. In the absence of this the Strategic Directors will receive the annual national pay increase applicable to all other staff.

### 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 2018.
- 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](http://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 6 on the locally adopted pay scale structure. This definition has been chosen as scale point 6 is the lowest grade paid to an employee of the Council. From 1 April 2019, the Council will be adopting the National Joint Council Pay Spine which means that the lowest grade will be 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**

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.

## 15 Preceptors

### 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. It is currently anticipated that the County will set its budget and level of precept on 12 February 2019.

### 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 24 January 2019.

### 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 24 January 2019.

### 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 26 November 2018.
- 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.

## **16 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 purposes 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 8 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 Unit, based on a full recalculation of all 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 the Financial Services Unit 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.

# 17 Calculation of Council Tax Requirement 2019/20

- 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 Act 1992 (as amended by the Localism Act 2011) and is as follows:-

<b>Table 17.1 Council Tax requirement calculation</b>		
<b>LGF Act 1992</b>	<b>Item</b>	<b>£</b>
s31A(2)(a)	Gross spending on services	55,971,982
s31A(3)(a)	Less gross income from services	(45,321,300)
s31A(3)(a)	Less Government grant & business rates	(3,471,374)
s31A(3)(b)	Less net Collection Fund surplus / plus deficit	67,822
s31A(3)(d)	Net amount taken to / (from) general and earmarked reserves	941,522
	<b>Council Tax Requirement</b>	<b>8,188,652</b>

- 2 The above figures include internal charges between services and **£244,682** relating to the Canvey Island Town Council precept. The tax base (see section 5 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:-

$$\text{Council Tax (including Town Council)} = (£8,188,652 / 30,787) = £265.97$$

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 17.2 below.

- 3 The calculation of Council Tax at band D (shown below), 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.

<b>Band</b>	<b>Ratio in 9ths</b>	<b>Canvey Residents Council Tax Including Town Council £</b>	<b>Mainland Residents Council Tax Excluding Town Council £</b>
<b>A</b>	6	185.76	172.02
<b>B</b>	7	216.72	200.69
<b>C</b>	8	247.68	229.36
<b>D</b>	9	278.64	258.03
<b>E</b>	11	340.56	315.37
<b>F</b>	13	402.48	372.71
<b>G</b>	15	464.40	430.05
<b>H</b>	18	557.28	516.06

- 4 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 18.

## 18 Precepts and 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.

- 1 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. A summary of precepts notified and corresponding Council Tax levels is as follows:-

**Table 18.1 Precepts and Council Tax Levels**

	<b>Council Tax at Band D 2018/19 £</b>	<b>Council Tax at Band D 2019/20 £</b>	<b>Change from 2018/19 £</b>	<b>Change from 2018/19 %</b>	<b>Share %</b>
Castle Point Borough Council (proposed)	250.56	258.03	7.47	2.98	14.22
Essex County Council	1,221.75	1,270.44	48.69	3.99	70.02
Essex PFCC - Fire and Rescue Authority	70.38	72.45	2.07	2.94	3.99
Essex PFCC - Policing and Community Safety	169.02	192.96	23.94	14.16	10.63
<b>Total (excluding Canvey Island Town Council)</b>	<b>1,711.71</b>	<b>1,793.88</b>	<b>82.17</b>	<b>4.80</b>	<b>98.86</b>
Canvey Island Town Council	20.61	20.61	0.00	0.00	1.14
<b>Total (including Canvey Island Town Council)</b>	<b>1,732.32</b>	<b>1,814.49</b>	<b>82.17</b>	<b>4.74</b>	<b>100.00</b>

- 2 The table below shows the amount of Council Tax each authority has set for 2019/20:-

**Table 18.2 Council Tax for each band**

<b>Band</b>	<b>Castle Point Borough Council £</b>	<b>Essex County Council £</b>	<b>Essex PFCC - Fire and Rescue Authority £</b>	<b>Essex PFCC - Policing and Commun- ity Safety £</b>	<b>Total excluding Town Council £</b>	<b>Canvey Island Town Council £</b>	<b>Total including Town Council £</b>
<b>A</b>	172.02	846.96	48.30	128.64	<b>1,195.92</b>	13.74	<b>1,209.66</b>
<b>B</b>	200.69	988.12	56.35	150.08	<b>1,395.24</b>	16.03	<b>1,411.27</b>
<b>C</b>	229.36	1,129.28	64.40	171.52	<b>1,594.56</b>	18.32	<b>1,612.88</b>
<b>D</b>	258.03	1,270.44	72.45	192.96	<b>1,793.88</b>	20.61	<b>1,814.49</b>
<b>E</b>	315.37	1,552.76	88.55	235.84	<b>2,192.52</b>	25.19	<b>2,217.71</b>
<b>F</b>	372.71	1,835.08	104.65	278.72	<b>2,591.16</b>	29.77	<b>2,620.93</b>
<b>G</b>	430.05	2,117.40	120.75	321.60	<b>2,989.80</b>	34.35	<b>3,024.15</b>
<b>H</b>	516.06	2,540.88	144.90	385.92	<b>3,587.76</b>	41.22	<b>3,628.98</b>