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**Chief Executive**

## **CABINET AGENDA**

**Date:      Wednesday 14th February 2018**

**Time:      6.00pm NB Time**

**Venue:     Council Chamber**

**This meeting will be webcast live on the internet.**

### **Membership:**

<b>Councillor Riley</b>	<b>Chairman - Leader of the Council</b>
<b>Councillor Stanley</b>	<b>Finance, Policy and Resources</b>
<b>Councillor Dick</b>	<b>Health &amp; Wellbeing</b>
<b>Councillor Mrs Egan</b>	<b>Housing and Council Homes</b>
<b>Councillor Howard MBE</b>	<b>Street Scene, Waste, Floods and Water Management</b>
<b>Councillor Isaacs</b>	<b>Neighbourhoods &amp; Safer Communities</b>
<b>Councillor MacLean</b>	<b>Customer Engagement and Commercialism</b>
<b>Councillor Skipp</b>	<b>Environment &amp; Leisure</b>
<b>Councillor Smith</b>	<b>Regeneration &amp; Business Liaison</b>

<b>Cabinet Enquiries:</b>	<b>John Riley Ext 2417/Ann Horgan ext. 2413</b>
<b>Reference:</b>	<b>7/2017/2018</b>
<b>Publication Date:</b>	<b>Tuesday 6th February 2018</b>



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**AGENDA**  
**PART I**  
**(Business to be taken in public)**

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- 1. Apologies**
- 2. Members' Interests**
- 3. Minutes**  
To approve the Minutes of the meeting held on 17th January 2018.
- 4. Forward Plan**  
To review the Forward Plan.
- 5. Public Health and Wellbeing**
- 6. Environment**
- 7. Transforming Our Community**
- 7(a) Housing Rent Account (HRA)-2018/19 Rent Levels Revenue Budget and Capital Plan for 2018/19 and 2017/18 Revised**  
*(Report of the Cabinet Member for Finance, Policy and Resources  
Report of the Cabinet Member for housing and Council Homes)*
- 8. Efficient and Effective Customer Focused Services**
- 8(a) Discretionary Rate Relief – Relief for Pubs and Local Discretionary Fund**  
*(Report of the Cabinet Member for Finance, Policy and Resources)*
- 8(b) Policy Framework & Budget Setting for 2018/19**  
*(Report of the Cabinet Member for Finance, Policy and Resources)*
- 9. Matters to be referred from /to Policy & Scrutiny Committees**  
A report from the Environment Policy & Scrutiny Committee held on 29.11.2017 has been postponed to the next Cabinet meeting as a further meeting is scheduled on 20.2.2018
- 10. Matters to be referred from /to the Standing Committees**



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**PART II**  
**(Business to be taken in private)**  
**(Item to be considered with the press and public excluded from the meeting)**

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**INFORMAL**  
**CABINET SESSION**

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There will not take place as a Special Council meeting is to follow this meeting.





## **CABINET**

**17TH JANUARY 2018**

### **PRESENT:**

Councillor Riley	Chairman	Leader of the Council
Councillor Stanley		Finance, Policy and Resources
Councillor Dick		Health and Wellbeing
Councillor Isaacs		Neighbourhoods & Safer Communities
Councillor Howard		Street Scene, Waste, Floods and Water Management
Councillor MacLean		Customer Engagement and Commercialism
Councillor Skipp		Environment & Leisure
Councillor Smith		Regeneration & Business Liaison

**APOLOGIES:** Councillor Mrs Egan

### **ALSO PRESENT:**

Councillors: Acott, Anderson, Bayley, Blackwell, Campagna, E. Egan, Grieg, Hart, May, Mumford, Palmer, Mrs Sach, Varker, Taylor, Walter and Wood.

### **57. MEMBERS' INTERESTS:**

There were none.

### **58. MINUTES:**

The Minutes of the Cabinet meeting held on 15.11.2017 were approved and signed by the Chairman as a correct record.

### **59. FORWARD PLAN:**

To comply with regulations under the Localism Act 2011, the Leader of the Council presented a revised Forward Plan to the meeting which outlined key decisions likely to be taken within the next quarter 2018. The Plan was reviewed each month.

Under this item the Cabinet Member for Street Scene, Waste, Floods and Water Management briefed Cabinet on actions being taken to progress the final phase of Roscommon Way.

**Resolved** – To note and approve the Forward Plan as amended.



**60. DISABLED FACILITIES GRANT - UPDATE**

The Cabinet considered a report providing an update on the current status of the Disabled Facility Grant (DFG) function undertaken through the Environmental Health Service.

**Resolved:**

To note the content of the report and seek further updates from the Head of Environment on a periodic basis.

**61. SOUTH ESSEX STRATEGIC PLANNING**

A report was before the Cabinet seeking approval to recommend to the Special Council to be held later that evening endorsement of the Memorandum of Understanding (MOU) to take forward the collaborative work being undertaken by South Essex Councils - Basildon, Brentwood, Castle Point, Rochford, Southend-on-Sea, Thurrock and Essex County Council.

**Resolved:**

To refer the report and recommend to the Special Council endorsement of the Memorandum of Understanding (MOU) to take forward the collaborative work being undertaken by South Essex Councils - Basildon, Brentwood, Castle Point, Rochford, Southend-on-Sea, Thurrock and Essex County Council - to create a vision and sense of place for South Essex through the Association of South Essex Local Authorities

**62. THE PADDOCKS**

The Cabinet considered a report on proposals for the Paddocks site. Cabinet had approved a further phase of feasibility work for proposals for a new community space and facilities. Certain key principles were established in undertaking this further work.

The conclusion of feasibility work revealed that the Paddocks Community Centre building had reached the end of its design life and was beyond economic repair. Operationally, the facility had limited flexibility, did not meet modern hire requirements, was energy inefficient and costly to run and it suffered from periodic recurrent anti-social behaviour issues. The feasibility work showed however that it was possible to construct a new community facility immediately to the south-east of the existing building. This would have the benefit of improving security around the southern boundary of the site and the rear of the new building.

The new layout would also allow the future redevelopment of the Paddling Pool facility for enabling development with potential access from Clifton Road to the west.



Finally it would be possible to re-configure the car parking layout across the whole site, to increase capacity and provide an indicative capacity of approximately 380 spaces.

Cabinet considered the next steps to test the financial viability of the feasibility study to prepare a detailed business case setting out the likely costs of developing the site in the way envisaged, the likely contribution from the potential future “enabling development” and the potential future arrangements with the NHS regarding car parking for the Canvey Primary Care Centre.

In discussion of the report and responding to questions, it was confirmed that consultation would be undertaken including the various users regarding proposals for this site much valued by the community.

**Resolved:**

1. That Cabinet note the current condition of the existing Paddocks building;
2. That Cabinet note the opportunities afforded by a careful analysis of the wider site area;
3. That Cabinet note the preparation of a detailed business case for a new community hall on the Paddocks site;
4. That Cabinet receive further reports on the proposal as the business case evolves.

**63. CONSTRUCTION OF FOUR BUNGALOWS CHURCH CLOSE GARAGE SITE**

The Cabinet considered a report seeking authority from Cabinet to pursue the development of 4 two bedroomed dormer bungalows at Church Close garage site. A detailed business case was attached as a confidential appendix and summarised in the report. The proposal was presented to the Cabinet against a background of acute demand for affordable housing within the Borough with a total of 530 households on the housing needs waiting list.

**Resolved:**

To agree in principle to the development of four new two bedroomed dormer bungalows at Church Close garage site, subject to all relevant legal, financial and probity issues being considered to the satisfaction of the Chief Executive.



**64. UPDATE: CUSTOMER ENGAGEMENT & COMMERCIALISM**

The Cabinet considered a report providing an overview to Cabinet of the work which is currently in progress and/or planned within the scope of Customer Engagement and Commercialism.

**Resolved:**

To note the report and support the various initiatives described.

**65. AUTUMN BUDGET & LOCAL GOVERNMENT FINANCE SETTLEMENT – HIGH LEVEL UPDATE**

The Cabinet considered a report a precursor to the Budget and Council Tax setting report which would be presented to Cabinet and Council in February, providing Cabinet with highlights from both the Autumn Budget (November 2017) and the Local Government Finance Settlement 2018/19 (December 2017) with an indication of the financial implications specific to Castle Point.

**Resolved:** To note the report.

**66. MATTERS TO BE REFERRED FROM/TO POLICY SCRUTINY COMMITTEES:**

A report from the Environment Policy & Scrutiny Committee held on 29.11.2017 has been postponed to the next Cabinet meeting.

**67. MATTERS TO BE REFERRED FROM /TO THE STATUTORY COMMITTEES:**

There were no matters.

Chairman





# **Castle Point Borough Council**

## **Forward Plan**

**FEBRUARY 2018**



# **CASTLE POINT BOROUGH COUNCIL**

## **FORWARD PLAN**

**FEBRUARY 2018**

This document gives details of the key decisions that are likely to be taken. A key decision is defined as a decision which is likely:-

- (a) Subject of course to compliance with the financial regulations, to result in the local authority incurring expenditure which is, or the savings which are, significant having regard to the local authority's budget for the service or function to which the decision relates subject to a threshold of £100,000; or
- (b) To be significant in terms of its effects on communities living or working in an area comprising two or more Wards in the area of the local authority.

The Forward Plan is a working document which is updated continually.



<b>Date</b>	<b><u>Item</u></b>	<b>Council Priority</b>	<b>Decision by Council/ Cabinet</b>	<b>Lead Member(s)</b>	<b>Lead Officer(s)</b>
February 2018	<u>Treasury Management Report –</u> Included in Budget and Policy Item below	Efficient and Effective Customer Focussed Services	Cabinet	Finance, Policy & Resources	Head of Resources
February 2018	<u>Budget and Policy Framework</u> To make recommendations to Council on the Council Tax and Budget setting.	All	Cabinet/ Council	Finance, Policy & Resources	Head of Resources
February 2018	<u>Housing Revenue Account Rent Levels 2017/2018 Housing Capital Programme etc</u>	Transforming Our Community Efficient and Effective Customer Focussed Services	Cabinet	Housing and Council Homes / Finance, Policy & Resources	Head of Resources Head of Housing and Communities
March 2018	<u>Regeneration &amp; Assets Update</u>	Transforming Our Community	Cabinet	Strategic Partnerships Regeneration & Business Liaison	Local Plan & Regeneration Advisor
March 2018	<u>Canvey Seafront Update</u>	Transforming Our Community	Cabinet	Regeneration & Business Liaison	Local Plan & Regeneration Advisor
March 2018	<u>Planning Policy Update</u>	Transforming Our Community	Cabinet	Regeneration & Business Liaison	Local Plan & Regeneration Advisor



March 2018	<u>Flooding Update</u>	Environment	Cabinet	Street Scene, Waste, Floods and Water Management	Head of Environment
March 2018	<u>Leisure &amp; Recreation Strategy Update</u>	Public Health &Wellbeing	Cabinet	Environment and Leisure	Head of Environment



**CABINET**

**14th February 2018**

**Subject: Housing Revenue Account (HRA) – 2018/19 Rent Levels, Revenue Budget and Capital Plan for 2018/19 and 2017/18 Revised**

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

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**1. Purpose of Report**

It is Cabinet's role to determine the rent levels for Council dwellings and garages and approve a budget for the Housing Revenue Account (HRA) that meets legal requirements and delivers the approved HRA Business Plan and associated policies and strategies.

This report submits the following for the Cabinet's consideration:

- Rent levels for Council dwellings and garages for 2018/19.
- HRA Revenue budget for 2017/18 (revised) and 2018/19.
- HRA Capital Plan for 2017/18 (revised) and 2018/19.

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

The approval of the HRA Revenue and Capital budget supports the Council priorities of Public Health and Wellbeing, Environment, Transforming our Community and Efficient and Effective Customer Focused Services.

**3. Recommendations**

**That:**

- 1. A rent reduction of 1% for all social rent HRA dwellings be agreed, resulting in an average reduction of £0.89 per week.**
- 2. A rent reduction of 1% for all affordable rent HRA dwellings be agreed, resulting in an average reduction of £1.70 per week.**
- 3. The HRA revenue budget for revised estimate 2017/18 and estimate 2018/19, as set out in Annexe A, is approved.**
- 4. The HRA capital plan for revised estimate 2017/18 and estimate 2018/19, as set out in Annexe B, is approved.**



#### **4. Introduction and background**

4.1 From April 2012, HRA self-financing replaced the former subsidy system and, as a consequence, Castle Point and many other authorities with housing stocks were required to take on a significant amount of HRA debt which was to be serviced by future receipts of income from housing rents. In support of the arrangement each authority was required to establish a 30 year business plan and demonstrate long term viability, which by necessity included assumptions around future rent revenue.

4.2 It was understood that there would be greater freedom for local authorities to manage and invest in their housing stock. However, central control over rent setting continues and since self-financing was introduced there have been a number of changes to the original “deal” which authorities entered into.

4.3 The rent-restructuring framework introduced by the Government in 2002/03 set out a common basis on which all rents in the social sector should be set. The aim was that social rents for similar houses in the same area should be the same, irrespective of the landlord. This is known as the “formula” or “common” rent and following a number of timeframe changes convergence has now been reached.

- **Limit Rent:** This is set by the Government and defines the average rent beyond which rent rebate subsidy is not payable (known as rent rebate subsidy limitation).
- **Formula or Common Rent:** This is based on a Government national formula for calculating social rents.

As rent convergence has been reached and no further transitional adjustments are to be made, the “limit” rent will now remain roughly equal to the formula or common rent. Actual rents are slightly lower due to a number of properties that currently are not at formula rent, this is highlighted below.

4.4 The Limit rent and Formula rent must be taken into consideration when the Council sets its actual rent for the forthcoming financial year, as shown in paragraph 5.1.

#### **Changes to Rent Setting Formula and Impact on the HRA Business Plan**

4.5 In 2015/16 a revised rent setting formula was introduced which prescribed annual rent increases based on September CPI + 1% as opposed to the previous method of September RPI + 0.5% (original basis of self-financing and HRA business plan). Originally this formula was to remain for a period of 10 years however the Welfare Reform and Work Act replaced this with a formula from 2016/17 of 1% reductions to rent over the following four years. The ability to adjust rents where actual rents are not equal to formula rent has been retained upon the vacation of a property and subsequent letting to a new tenant.

4.6 The financial impact of the Welfare Reform and Work Act has been reported to Cabinet on a number of occasions as being a reduction in rental income of approximately **£2.6m** over the four year period from 2016/17 to 2019/20. The



impact is significantly more across the lifetime of the HRA business plan and threatens overall long term viability.

- 4.7 The previous formula based on CPI + 1% would have resulted in a rent increase for 2018/19 of **3.8%** as opposed to the **1%** reduction. This means that the annual reduction in income compared to the previous formula is actually **4.8%**, or a total of **9.7%** over the three years from the implementation of the policy. If CPI remains at current levels the total reduction in rent will be in the region of **14%**.
- 4.8 This loss of revenue is being managed over the initial four year period by reducing capital expenditure to a level that would not require additional contributions from the Housing Revenue Account. The Council is also undertaking a review of long-term options to ensure the viability of the business plan.
- 4.9 In October 2017 it was announced that there would be a five year rent settlement from April 2020 that will see a return to the CPI + 1% rent increases applied prior to the current policy of rent reductions being applied. This change has been reflected in the detailed budget for 2020/21, which is outside the timeframe of the budget to be approved as part of this report, and in the business plan.

#### **Supporting People Funding**

- 4.10 As reported last year, funding for supporting people services was ceased with effect from April 2017. Where the recipient is in receipt of Housing Benefit, the cost of these services deemed eligible will also be covered by Housing Benefit.
- 4.11 There are a small number of tenants whose accounts pre-date the introduction of Supporting People charges. These will continue to be protected from paying the charge if they are not in receipt of Housing Benefit.
- 4.12 A Government consultation was issued in October 2017 regarding the future of supported housing, including sheltered accommodation. The consultation includes proposals for a "Sheltered Rent" which will introduce controls over the basic rent plus service charges made to tenants with effect from April 2020. Further announcements will be monitored and any potential impact reported to Cabinet.

#### **Repairs and maintenance**

- 4.13 A programme of planned maintenance for 2018/19 has been prepared by South Essex Homes in conjunction with Housing Services. The programme is informed by a stock condition survey undertaken by South Essex Homes in early 2013, which is to be updated in early 2018. The condition survey assesses the capital and revenue investment requirements for the Council's housing stock over the next 30 years, and informs the 30 year HRA Business Plan and detailed Housing Revenue Account budget.
- 4.14 The HRA budget includes provision in current and future years to reflect the ongoing Property Management Service currently provided by South Essex Homes.
- 4.15 The Capital Plan submitted for approval at Annexe B has also been prepared on the basis of the aforementioned stock condition survey. It was previously envisaged that the capital plan would include provision for future development



opportunities which would be undertaken by utilising receipts from right to buy sales and contributions from the HRA revenue budgets. With the restrictions imposed on capital expenditure as highlighted in 4.8 above the ability to undertake this type of work is limited but Cabinet will be aware of the project at Lawns Court that is nearing completion.

- 4.16 The Capital Plan constitutes an affordable core plan that can be financed within the HRA business plan.

#### **Basis for preparation of estimates**

- 4.17 Estimates have generally been prepared by the Resources Department in consultation with and agreed by the Housing and Communities Department, and are:

- based on the current staffing establishment and current service delivery.
- based on out-turn prices, i.e. to include anticipated pay and price increases.

- 4.18 The estimates are submitted to Cabinet as officers' recommendations on the net spending necessary to deliver approved HRA policies and strategies in 2018/19. These estimates have been tested in the HRA business plan and have been shown to be sustainable over the Medium Term.

- 4.19 The Cabinet is encouraged to concentrate on the policy aspects of the estimates in order to link spending plans to Council policies and strategic objectives, e.g. appropriate resources are directed to housing management and maintenance services respectively.

## **5. Proposals**

### **HRA Social Rent**

- 5.1 The table below provides a comparison between Castle Point's "formula", "limit" and actual rents, based upon all properties having the 1% decrease in rent applied.

	Rent 2017/18 £	Decrease £      %		Rent 2018/19 £
Formula rent	<b>89.00</b>	<b>0.89</b>	<b>1.00</b>	<b>88.11</b>
Limit rent	<b>89.11</b>	<b>0.97</b>	<b>1.09</b>	<b>88.14</b>
Actual rent	<b>88.96</b>	<b>0.89</b>	<b>1.00</b>	<b>88.07</b>

- 5.2 The decrease on the formula rent is equal to that on actual rent, thus mirroring the new universal rent adjustment level. The decrease on limit rent is higher than the actual rent decrease thus bringing actual rents closer to limit rent and minimising potential issues around rent rebate subsidy limitation.
- 5.3 The proposed 2018/19 average weekly rent for Castle Point is **£88.07**, a reduction of **£0.89** on the actual average 2017/18 rent of **£88.96**.



### **HRA Affordable Rent**

- 5.4 Affordable rent properties are not subject to the Formula and Limit rent calculations, but are subject to the 1% rent reduction policy. These rents are set locally below the maximum of the appropriate Local Housing Allowance (LHA) cap.

	Rent 2017/18 £	Decrease £      %		Rent 2018/19 £
Actual rent	<b>169.95</b>	<b>1.70</b>	<b>1.00</b>	<b>168.25</b>

### **Garage Rents**

- 5.5 It is not proposed to implement a rent increase for Council owned garages for 2018/19. The last increase applied was in 2017/18.

### **Revenue and Capital Estimates**

- 5.6 Annexe A presents the HRA revenue estimates and Annexe B presents the HRA Capital Plan. There are columns on both annexes for:
- Actual expenditure / income for 2016/17.
  - Original estimate for 2017/18 as approved by Cabinet on 15th February 2017, updated where applicable for any subsequent approved amendments since that date.
  - Revised estimate for 2017/18 now submitted for approval.
  - Estimate for 2018/19 now submitted for approval.

### **HRA Reserves**

- 5.7 The advice of the Head of Resources on HRA reserves is that a safe minimum level would be approximately **£505k** as at 31 March 2018 and **£519k** as at 31 March 2019. These are based on previous Government guidance for an amount per property uprated for inflation.
- 5.8 Whilst the HRA budget provides for levels of reserves at the end of 2017/18 and 2018/19 in excess of these balances, the ongoing impact of the four year annual rent reduction will ensure that reserves will reduce significantly over future years and in the medium to longer term will fall below the minimum level recommended.
- 5.9 The HRA also maintains a separate earmarked reserve consisting of sums set aside for the scheduled repayment of debt in future years.

## **6. Corporate Implications**

### **a. Financial implications**

Financial implications are outlined in sections 4 and 5 above. Whilst HRA reserves for the period as reported above are currently at a satisfactory level, the rent reduction policy imposed from 2016/17 continues to have a detrimental financial impact on the overall HRA business plan.



**b. Legal implications**

The HRA is “ring-fenced” by legislation and must therefore be self-financing. There is no general power to transfer surpluses to the General Fund or to meet a deficit by contribution from the General Fund.

The Council has a statutory duty to set a budget for the HRA that avoids a deficit. This includes provision for a prudent level of reserves to call upon in the event of unforeseen circumstances, emergency expenditure or major budget variations. Failure to maintain adequate reserves could possibly result in an additional mid-year rent increase; this may push rent levels above limit rents and thus result in the loss of rent rebate subsidy on part of the rental income.

**c. Human resources and equality implications**

The Council has a responsibility to deliver the Government’s Decent Homes Standard and to work towards the national provision of 1 for 1 replacement of homes sold through the Right to Buy. The 2018/19 Capital Plan is currently prioritised towards those programmes of repair, maintenance and modernisation which tackle identified non-decency issues in the housing stock, but may be required to support the Right to Buy objective as well in combination with additional funds being allocated from revenue.

**d. Timescale for implementation and risk factors**

The proposed rent level for 2018/19 must be approved at this meeting so that the statutory notice to tenants is given in order for the new rents to be effective from 2<sup>nd</sup> April 2018.

Preparation for implementation of the 2018/19 Capital programme will commence immediately following Cabinet’s approval.

The implications of not approving the proposed programmes would be a failure in the Council’s responsibility to tackle known non-decency issues in its stock.

The implication of not approving the recommended rent increases for dwelling rents would be that the Council would not receive additional income to the Housing Revenue Account. This would have a direct impact on service delivery. Furthermore, if the dwelling rent increase is not approved, the Council’s actual rent levels would diverge further from social housing rent policy and due to the restrictions on increases would result in ongoing lower income levels, with limited opportunity to recoup the lost income.

The reduction in rental income resulting from the Government guidance on rent levels represents a risk to the viability of the HRA business plan and the long-term delivery of social housing services by the Council within the borough.

**7. Background Papers:**

HRA Business Plan and associated ODPM/DCLG guidance (now MHCLG)  
Housing Strategy and associated ODPM/DCLG guidance (now MHCLG)  
ODPM/DCLG guidance (now MHCLG) on the delivery of the Decent Homes Standard and options appraisals  
Guidance on Rents for Social Housing (consultation)  
Welfare Reform and Work Act

**Report Author:** Chris Mills – Head of Resources







## Housing Revenue Account - Revenue budgets

No	Housing Revenue Account summary	Note	2016/17 Actual	2017/18 Estimate	2017/18 Revised	2018/19 Estimate
			£000s	£000s	£000s	£000s
	<b>Income</b>					
	Gross dwelling rents		(7,054)	(6,966)	(6,969)	(6,840)
	Gross non-dwelling rents		(136)	(141)	(133)	(137)
	Charges for services and facilities		(484)	(533)	(585)	(596)
1	<b>Total Income</b>		<b>(7,674)</b>	<b>(7,640)</b>	<b>(7,687)</b>	<b>(7,573)</b>
	<b>Expenditure</b>					
	Supervision and management		2,201	2,168	2,200	2,206
	Repairs and maintenance		1,053	1,228	1,436	1,201
	Increased provision for bad or doubtful debts		89	23	100	75
	Rents rates taxes and other charges		149	235	149	153
	Sheltered housing transitional protection		94	46	46	19
	Depreciation and revaluation/impairment of fixed assets	1	(3,137)	1,466	1,596	1,571
2	<b>Total Gross Expenditure</b>		<b>449</b>	<b>5,166</b>	<b>5,527</b>	<b>5,225</b>
3	<b>Net cost of HRA services</b>		<b>(7,225)</b>	<b>(2,474)</b>	<b>(2,160)</b>	<b>(2,348)</b>
4	Total other operating Income and Expenditure	2	<b>1,071</b>	<b>1,577</b>	<b>1,566</b>	<b>1,576</b>
5	Total Net Statutory Adjustments	3	<b>4,772</b>	<b>(352)</b>	<b>(374)</b>	<b>(574)</b>
6	<b>(Surplus) on HRA services</b>		<b>(1,382)</b>	<b>(1,249)</b>	<b>(968)</b>	<b>(1,346)</b>
	<b>Reserves</b>					
	<b>HRA Main Reserve</b>					
7	Reserve balance brought forward		2,356	2,824	3,106	3,296
8	Surplus/(deficit) for the year		1,382	1,249	968	1,346
9	Transfer (to) / from HRA Earmarked Reserves		(632)	(778)	(778)	(778)
	<b>Reserve balance carried forward</b>		<b>3,106</b>	<b>3,295</b>	<b>3,296</b>	<b>3,864</b>
	<b>HRA Earmarked Reserves</b>	4				
10	Reserve balance brought forward		3,258	3,890	3,890	4,668
11	Net transfer to / (from) HRA Earmarked Reserves		632	778	778	778
	<b>Reserve balance carried forward</b>		<b>3,890</b>	<b>4,668</b>	<b>4,668</b>	<b>5,446</b>
	<b>Notes</b>					
1	Figures in brackets are caused where revaluation of the HRA dwelling stock has resulted in an increase in value above the level of annual depreciation					
2	Various including interest payable and receivable and asset valuation adjustments					
3	Various statutory adjustments and reversals, to ensure that rental income is not affected by income and expenditure relating to non-current assets, such as gains and losses on revaluations and disposals, and other similar items					
4	HRA earmarked reserves including a specific reserve for sums set aside for future repayment of loans					



## Housing Revenue Account - Capital Plan

Housing Revenue Account Capital Plan summary	2016/17 Actual	2017/18 Estimate	2017/18 Revised	2018/19 Estimate
<b>Annual Programmes for replacement and repair</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Disabled adaptations to council properties	105	146	144	120
Central heating replacement	361	453	502	257
Kitchen replacement and improvements	25	336	440	136
Environmental improvements	0	0	0	100
Roofing maintenance	321	167	167	15
Structural repairs	3	110	60	0
Electrical rewiring	8	57	37	121
Replacement Doors	63	52	21	200
Bathroom replacement and improvements	63	231	190	66
Maintenance and redevelopment of communal areas	59	242	208	0
Water supply and tank replacements	3	0	0	0
UPVC fascias and soffits	(7)	176	176	0
Wall finishes	0	0	0	231
Refurbishment at Gowan Court	0	0	3	0
Affordable Housing	8	0	10	10
Conversion of vacant ex-wardens accommodation	85	0	0	0
New Build at St Christopher's Mews	264	0	0	0
New Build at Lawns Court	0	356	356	0
Fire and CO2 Detector installation	0	0	15	30
Unallocated Provision	0	62	59	91
	<b>1,361</b>	<b>2,388</b>	<b>2,388</b>	<b>1,377</b>



**CABINET**

**14th February 2018**

**Subject: Discretionary Rate Relief – Business Rates –Relief for Pubs and Local Discretionary Fund**

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

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**1. Purpose of Report**

**This report sets out further changes to the Council's Discretionary Rate Relief Policy which was approved in October 2017.**

**The Chancellor subsequently announced on 22nd November 2017 an extension of the £1,000 business rate discount for pubs into 2018/19.**

**Following the 2017 Business Rate revaluation, local Councils were provided with an allocation of funding to provide support to those ratepayers who were adversely affected by an increase in their bills following the revaluation. The original scheme approved in October 2017, introduced a threshold of a maximum 8% increase above which relief would be awarded given certain criteria. In order to maximise relief to local businesses the aim of this report is to now lower that threshold to 3%.**

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

**This report is linked to the Council priority Efficient and Effective Customer Focussed Services.**

**2. Recommendations**

**That Cabinet note and approve the proposed revised Policy for the granting of Discretionary Rate Relief Policy – Annex A**

**4. Background**

**The Chancellor announced in the Spring Budget 2017 that a discretionary fund would be made available to support those businesses that face the steepest increases in their business rates as a result of the 2017 revaluation. Such relief to be targeted to:**

- **New Business Rate Relief Scheme for Pubs**
- **'Local' Discretionary Rate Relief Scheme.**



## 5. Amendments to the Discretionary Rate Relief Scheme

- **Public House Relief** – This relief of £1,000 was originally for one year only (1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018) for all eligible public houses that have a rateable value of less than £100,000 on 1<sup>st</sup> April 2017. This has now been extended for the period 1<sup>st</sup> April 2018 to 31<sup>st</sup> March 2019.
- **Discretionary ‘Local’ Business Rate Relief Scheme** – In line with the Government’s recommendations following consultation, support will be provided only to those ratepayers who are facing an increase in their bills following revaluation (this is a condition of the central Government grant). Therefore, taking into account the Government’s assumptions in relation to the distribution of funding the Council will compare the following:
  - I. The rate liability of the ratepayer at 31<sup>st</sup> March 2017 after any reliefs and reductions; and
  - II. The rate liability of the ratepayer as at 1<sup>st</sup> April 2017 taking into account any transitional relief or discretionary reliefRelief will be awarded where the calculation above results in an increase of more than 3%. Relief will only apply to those properties with a rateable value of less than £200,000.

The Council has consulted with the major preceptors in relation to this Scheme and has taken their comments into account when determining the eligibility criteria.

## 6 Government funding for revaluation support schemes

The Government funding was allocated by a formula that took account of the increase in rateable value for properties where the increase is more than 12.5% (before reliefs) and the rateable value is less than £200k. On this basis Castle Point’s share of the funding being provided by the Government is:

Amount of discretionary pot awarded (£000s)			
2017-18	2018-19	2019-20	2020-21
106	52	21	3

Note: in 2017-18, the Government grant actually to be paid to Castle Point is £53,217, which reflects the 40% share for Castle Point and the total 10% share for Essex County Council and Essex Fire Authority, which will be adjusted and applied over to them at the end of the financial year.

## 7. Corporate Implications

### a. Financial implications

Depending on which type of relief is awarded will dictate whether there is a cost to the Council and/or central Government shown as follows:



<b>Relief Type</b>	<b>% cost borne by Central Govt</b>	<b>% cost borne by ECC and EFA</b>	<b>% cost borne by the Council</b>
Discretionary relief granted to Mandatory Relief recipients ('top up')	50%	10%	40%
Non profit making organisations	50%	10%	40%
Sports clubs and societies	50%	10%	40%
Other Localism Act Rate Relief	50%	10%	40%
Supporting Small Businesses (funded by Government grant)	100%	0%	0%
Relief scheme for pubs (funded by Government grant)	100%	0%	0%
'New' Discretionary relief scheme (funded by Government grant, up to maximum of £106k in 2017/18)	100%	0%	0%
'New' Discretionary relief scheme (any relief awarded above £106k)	50%	10%	40%

The Government will, in line with the eligibility criteria set out in the guidance, reimburse local authorities that use their discretionary relief powers, under Section 47 of the Local Government Finance Act 1988, as amended, to grant relief. It will be for individual local billing authorities to adopt a local scheme and decide in each individual case when to grant relief under Section 47. Central Government will fully reimburse local authorities for the local share of the discretionary relief (using a grant under Section 31 of the Local Government Act 2003). In view of the fact that such expenditure can be reimbursed, the Government expects local government to grant discretionary relief to qualifying ratepayers.

**b. Legal implications**

The Council has responsibilities under Section 47 of the Local Government Finance Act 1988 to consider applications for Discretionary Rate Relief. Section 69 of the Localism Act 2011 amended Section 47 to give local authorities the power to grant relief in any circumstances provided that it would be reasonable to do so having regard to the interests of council tax payers in its area. Failure to have a policy in place to deal with such cases on an individual basis or a scheme for relief could lead the Council open to a charge of maladministration.

**c. Human resources and equality implications**

None as a result of this report

**d. Timescale for implementation and risk factors**

The main risk relates to ensuring that the local rules for revaluation support do not lead to costs greater than the Government funding being made available, as that would add to the financial pressures facing the Council.

Relief from taxes, including non-domestic rates can constitute State Aid



## **8. Background Papers:**

Discretionary Rate Relief Policy – Annex A

Local Government Finance Act 1988

Localism Act 2011

8 March 2017 Budget:

<https://www.gov.uk/government/publications/spring-budget-2017-documents>

Business Rates Information Letter (2/2017): Spring Budget:

<https://www.gov.uk/government/publications/22017-spring-budget-support-for-business>

Business Rates Information Letter (4/2017): Spring Budget Update:

<https://www.gov.uk/government/publications/42017-spring-budget-update>

Business Rates Information Letter (8/2017): Autumn Budget

<https://www.gov.uk/government/publications/82017-autumn-budget>

**Report Author: Gary Burns – Revenues Manager**



**CABINET**

**14th February 2018**

**Subject: Policy Framework and Budget Setting for 2018/19**

**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 2018/19. The Cabinet should consider these and make appropriate recommendations to Council at the meeting to be held later this evening.

1.2 At the time of preparing this report for despatch, not all precepting organisations have confirmed decisions on their precepts for 2018/19, 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:

- 27 November Canvey Island Town Council;
- 22 January Essex PFCC Fire and Rescue Authority;  
(the Fire Authority)
- 22 January Police, Fire and Crime Commissioner for Essex;  
(the Police Authority)
- 13 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 2018/19 Local Government Finance Settlement, late January / early February 2018. 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 Efficient and Effective Customer Focused Services. 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 2.1.
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 2017/18 (revised) and 2018/19, 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 2017/18 (revised) and 2018/19.
6. That it is noted that as stated in paragraphs 21 to 23 of section 11 of the accompanying report, and based on current plans and proposals, gross external borrowing is not expected to exceed the capital financing requirement in the current or forthcoming two financial years.
7. That as required by Section 3 of the Local Government Act 2003 and the Prudential Code for Capital Finance in Local Authorities, 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
Ratio of financing costs to net revenue stream	Table 11.4
Capital financing requirement	Table 11.5
Authorised limit for external debt	Table 11.6
Operational boundary for external debt	Table 11.7
Incremental impact of capital investment	Table 11.8
Housing Revenue Account limit on indebtedness	Section 11 para 34
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 13.1

8. That the Statement of Minimum Revenue Provision for 2018/19, as stated in paragraphs 35 to 37 of section 11 of the accompanying report is approved.
9. 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.

10. That the policies and strategies supporting the budget framework and contained within the accompanying report are approved.

**Statutory report of the Head of Resources**

11. That as required by Section 25 of the Local Government Act 2003, the report of the Head of 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 Head of 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 Head of Resources has calculated:
- a) A tax base for the Borough of Castle Point of **30,443** 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 **11,768**.
14. That the following amounts be calculated for the year 2018/19 in accordance with Sections 31 to 36 of the Act:

Ref	Amount £	Item
(a)	<b>57,057,438</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>49,187,102</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>7,870,336</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>258.53</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>242,538</b>	being the aggregate amount of the (Parish (Town) precepts) referred to in Section 34(1) of the Act.
(f)	<b>250.56</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 2018/19 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 2018/19, including and excluding Town Council precept, for each of the following categories of dwelling:

<b>Band</b>	<b>Council Tax Including Town Council £</b>	<b>Council Tax Excluding Town Council £</b>
<b>A</b>	180.78	167.04
<b>B</b>	210.91	194.88
<b>C</b>	241.04	222.72
<b>D</b>	271.17	250.56
<b>E</b>	331.43	306.24
<b>F</b>	391.69	361.92
<b>G</b>	451.95	417.60
<b>H</b>	542.34	501.12

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>Police, Fire &amp; Crime Commissioner for Essex</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>	167.04	814.50	46.92	112.68	<b>1,141.14</b>	13.74	<b>1,154.88</b>
<b>B</b>	194.88	950.25	54.74	131.46	<b>1,331.33</b>	16.03	<b>1,347.36</b>
<b>C</b>	222.72	1,086.00	62.56	150.24	<b>1,521.52</b>	18.32	<b>1,539.84</b>
<b>D</b>	250.56	1,221.75	70.38	169.02	<b>1,711.71</b>	20.61	<b>1,732.32</b>
<b>E</b>	306.24	1,493.25	86.02	206.58	<b>2,092.09</b>	25.19	<b>2,117.28</b>
<b>F</b>	361.92	1,764.75	101.66	244.14	<b>2,472.47</b>	29.77	<b>2,502.24</b>
<b>G</b>	417.60	2,036.25	117.30	281.70	<b>2,852.85</b>	34.35	<b>2,887.20</b>
<b>H</b>	501.12	2,443.50	140.76	338.04	<b>3,423.42</b>	41.22	<b>3,464.64</b>



17. To note that, in accordance with the requirements of Section 52ZC of the Act the Council has determined whether its Relevant Basic Amount of Council Tax for 2018/19 is excessive.

For 2018/19, 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 2018/19 is:

- (a) 3%, or more than 3%, greater than its relevant basic amount of Council Tax for 2017/18; and
- (b) More than **£5.00** greater than its relevant basic amount of Council Tax for 2017/18.

Ref	Amount £	Item
(a)	<b>243.36</b>	being the Relevant Basic Amount of Council Tax for 2017/18, 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 2018/19 would be excessive.
(c)	<b>250.66</b>	being the amount above which the Relevant Basic Amount of Council Tax for 2018/19, excluding local precepts, would be excessive (rounded down to the nearest penny).
(d)	<b>250.56</b>	being the Relevant Basic Amount of Council Tax for 2018/19, excluding local precepts.

The Relevant Basic Amount of Council Tax for 2018/19 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).



#### **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.
- The statutory budget and Council Tax calculations required for 2018/19.

#### **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 2018/19 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 2018/19 financial year exceed the minimum recommended level of **£1.9m**.
- 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 2019/20 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 2018/19. These are set out in full in the Policy Framework and Budget Setting 2018/19 report attached.

6.2 The tables shown at recommendations 15 & 16 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 Head of 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 and 16 of the accompanying report containing statutory reports that the Head of Resources as Section 151 Officer has 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 **2.96%** resulting in the Borough Council Band D charge of **£250.56**.



### 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 2018/19 the principles are that the Council would be required to seek the approval of the local electorate in a referendum if, compared with 2017/18, 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 17 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 Head of Resources;
  - the statutory calculations in respect of the budget requirement and Council Tax.

### **Background Papers:**

- Report of the Head of Resources to Cabinet dated September 2017 – Budget and Policy Framework for 2018/19.
- MHCLG notification(s) dated 19 December 2017 containing 2018/19 Local Government Finance Settlement, and Provisional New Homes Bonus allocations.

**Report Author:** Chris Mills – Head of Resources, Section 151 Officer





# ***Policy Framework and Budget Setting for 2018/19***

(Incorporating the Financial Planning and Capital Strategy)

Report of Chris Mills CPFA, Head of Resources





# Contents

Report section	Page
1 Financial Planning and Capital Strategy.....	1
2 Austerity and Commercial Strategy .....	3
3 Budget consultation .....	8
4 Medium term financial forecast.....	9
5 Tax base.....	12
6 Local Government funding .....	13
7 Collection Fund .....	18
8 Reserves and contingencies .....	19
9 Revenue spending plans .....	28
10 Charging policy.....	34
11 Capital finance.....	36
12 Treasury management .....	45
13 Investment Strategy.....	49
14 Pay policy .....	54
15 Preceptors .....	59
16 Chief Financial Officer's report under Section 25 of the Local Government Act 2003 .....	60
17 Calculation of Council Tax Requirement .....	61
18 Precepts and Council Tax levels .....	62



# 1 **Financial Planning and Capital Strategy**

## **Introduction**

- 1 The Financial Planning and Capital Strategy (the strategy), forecasts how, within a balanced budget and taking into account key external influences and drivers, the Council expects to use its resources over the following five years to deliver the community's key priority areas for service provision.

The principles of the strategy are applied in the establishment of the Council's medium term financial forecast, which is produced as part of the annual budget setting process. The strategy is incorporated within the Policy Framework and Budget Setting report. The remaining paragraphs of this section set out the key elements of the strategy.

The strategy, and therefore the Policy Framework and Budget Setting process, takes into account factors such as:-

- Developments in the economy as a whole.
- Changes in Government policy, legislation or regulation.
- Delivery of services as set out in departmental service action plans.
- Funding made available for schemes to be included in the Capital Programme.
- The Financial Settlement for Local Government that determines the amount of Government Grant and redistributed funding the Council receives towards its expenditure.

The establishment of the medium term financial forecast is supported by detailed financial projections for each service area, informed by departmental service action plans. 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.

## **Key Principles of the Strategy**

- 2 The strategy is based on the following key principles:-

- **Balanced Budget** – containing spending on services within estimated resources by identifying efficiency savings and redirecting the use of resources.
- **Affordable Budget** – setting budgets that are affordable to residents.
- **Risk Assessments/Robustness** – identifying the sensitivity of the budget, so the risk of possible changes to costs, external funding and operational activity can be taken into account.
- **Adequate Reserves** – making sure the Council has sufficient reserves to meet identified risks and unbudgeted increases in costs.
- **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 unless Government funded “freezes” are adopted by the Council.
- **Policy and Consultation** – carrying out consultation with stakeholders to inform Council priorities reflected in spending plans.
- **Flexibility** – giving budget holders sufficiently wide delegated powers to enable them to respond promptly to the changing needs of service delivery.
- **Asset Management** – ensuring the budget reflects the annual impact of repairs and renewals and the outcome of property reviews and stock condition surveys.
- **Charges for services** – maintaining a charging policy which is consistent, clear and fair to both the direct users of services and Council Tax payers in the Borough.



**Requirements of the Strategy****3 The strategy:-**

- Is linked with the Council's other key strategies, namely the Human Resources Strategy and the Asset Management Plan together with financial strategies for Treasury Management, Investment, Austerity & Commercial, and the Housing Revenue Account Business Plan.
- Shows how the Council will be responsive to national economic circumstances, Government requirements and initiatives.
- Is integrated with strategic and service planning processes on a medium to long term basis.
- Identifies how the Council will take account of the revenue consequences of its Capital Programme.
- 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.
- Recognises the importance of sound financial management and explains the Council's policies on the level of 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.

**Actions to support the Strategy****4 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 concern 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.
- Operation of flexible arrangements for amending budgets in response to changes in circumstances that affect service delivery.



## 2 Austerity and Commercial Strategy

### Introduction & Background

- 1 Reductions in central government funding, greater user expectations and increased demand for welfare related services has meant that the public sector and local government in particular, is facing a challenging time on many fronts.
- 2 As our residents feel the impact of austerity generally 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. Costs associated with these services have increased in the region of **£230k** per year, representing a 95% increase 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 2018/19 is only **£1.8m**, i.e. less than a third of what it was.
- 4 At the same time, councils have been required to absorb financial pressures 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 2018/19 is in the region of **£680k**.
- 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.
- 6 The Council's financial forecast reflects all of the aforementioned pressures and currently indicates that whilst its budget is balanced for 2018/19, significant funding gaps of circa **£700k** rising to **£1.5m** are forecast for future years.

### The case for financial self-sufficiency

- 7 Reductions in funding from central government have fundamentally altered the way in which local services are resourced, putting a greater emphasis on locally raised revenue streams such as Council Tax and service specific fees and charges as demonstrated by table 2.1.

<b>Table 2.1 Funding Source</b>	<b>2007/08</b>		<b>2018/19</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	6,723	39%	7,628	51%	905	13%
Business Rates & Revenue Support Grant	6,067	36%	1,808	12%	(4,259)	-70%
Local Fees & Charges, Sales, Rents & Memberships	4,243	25%	5,458	37%	1,215	29%
	<b>17,033</b>		<b>14,894</b>		<b>(2,139)</b>	

- 8 In 2007/08 local services were funded by 39% Local Council Tax, 36% Business Rates and central government grants and 25% locally raised revenue. By 2018/19 the proportions will have shifted to 51%, 12% and 37% respectively.
- 9 Whilst revenue raised locally has grown as a proportion of overall funding, overall funding has in fact reduced by 13% during this timeframe. Further analysis of fees and charges revenue is provided below.



- 10 For comparison purposes, the RPI & CPI for the same period is reported as 35% and 27% respectively.
- 11 At the same time as imposing significant reductions in grant funding, the Government has continued to control the amount by which local councils may increase Council Tax. This control is no longer exerted through “capping principles” but by a process whereby authorities are required to undertake a public referendum if they wish to increase their Council Tax charge beyond a level determined annually by central government. For a number of years this cap has been set at 2%, rising to 3% for 2018/19.
- 12 In response to the accumulated impact of the issues described above, the Council established some years ago a continuous programme of work designed to improve efficiency and reduce costs in order to keep pace with funding reductions and continue to set a balanced budget each year. The success of this work has been acknowledged through external inspection and has so far ensured that the Council has been able to continue to deliver a full range of traditional local services to its residents.
- 13 Examples of successful projects include refurbishment of leisure facilities at Waterside Farm and Runnymede, 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 has been achieved through this work programme.
- 14 However, given the level of spending reductions and subsequent changes that have already taken place, it is becoming increasingly apparent that any further sizeable savings will be much more difficult to deliver.
- 15 The Council has therefore now reached a stage where it needs to be prepared to actively pursue other sources of income, maximise fees & charges and introduce innovative and radical changes to the way in which services are delivered, including giving serious consideration to how it can best use its assets.
- 16 In short, the Council will need to achieve financial self-sufficiency in the medium to longer term.

### **Commercialism key principles**

- 17 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



18 Commercialism is a relatively new term in the context of local government, and it is fair to say that the Council is just starting out on this particular journey. The programme which is forming under this theme as expected includes a focus on raising and maintaining additional revenue, but will also include 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.

19 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**

20 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.

21 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.

22 There is a wide variation in levels of charging between district councils with the same responsibilities. The most recent data available shows that in 2016/17 the Council's income from sales, fees and charges represented 18.4% of its total spend. This was a slight decrease on the 2015/16 figure of 19.5%; however the overall trend is still an increase over recent years.

23 The Council is however still below the average of all district councils, which for 2016/17 was 22.9%, based on around 200 authorities.

24 Table 2.2 shows the value of revenue raised by the Council in fees and charges in 2007/08 and budgeted for 2018/19. The Council has made significant gains in key areas, for example Leisure Services and Car Parks, largely driven by fundamental service reviews and these have been removed from this analysis as their inclusion masks the underlying trend which is a reduction in fees and charges revenue of some 11%.

<b>Table 2.2 Local Revenue</b>	<b>2007/08</b>		<b>2018/19</b>		<b>Change</b>	
	<b>£000's</b>	<b>%</b>	<b>£000's</b>	<b>%</b>	<b>£000's</b>	<b>%</b>
Fees & charges, sales & rents	1,892	44.6%	1,120	20.5%	(772)	-11%

25 The Council will therefore look to maximise revenue through fees and 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 and 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.

26 Section 10 of this report provides information regarding the Council's charging policy.



**Deliver services in the most appropriate ways**

- 27 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.
- 28 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.

**Maximise return on our existing assets**

- 29 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 pro-actively 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.
- 30 The Council will:
- Be pro-active 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.



Table 2.1 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast					
Ref.	Description of cashable efficiency item/cost reduction/additional income	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's
	<b>All services, Central &amp; Corporate areas</b>				
1	Reduction in insurance premiums following tender exercise in spring 2017	(143)	(118)	(123)	(384)
2	Accumulated cost reductions resulting from service reviews and restructurings	(44)	(170)	(173)	(387)
3	Additional revenue from continuation of the Council Tax revenue share back arrangement with preceptors	(130)	(300)	0	(430)
4	Continued occupation of Canvey Island Offices by the Health Authority, rent paid to 31/12/17	(17)	0	0	(17)
	<b>Environment</b>				
5	Savings on electricity costs at Waterside Farm following installation of LED lighting (To be applied back into the "Spend to Save" reserve which funded the up-front cost)	0	(20)	(20)	(40)
6	Net additional income of the new gym facility at Runnymede Pool	(50)	(169)	(274)	(493)
	<b>Governance, Law, Planning and Regeneration</b>				
7	Additional Building Control and Development Control income	(94)	0	0	(94)
	<b>Housing &amp; Communities</b>				
8	Savings achieved through Transformation Project within Revenues & Benefits	(21)	(22)	(23)	(66)
	<b>Resources</b>				
9	Increase in interest earned on investments (Note - this is shared between the General Fund and HRA)	(30)	(43)	(37)	(110)
	<b>Total cashable efficiency savings/cost reductions/additional income</b>	<b>(529)</b>	<b>(842)</b>	<b>(650)</b>	<b>(2,021)</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.
- 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 3.1 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 3.2 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 further years. A new funding mechanism is anticipated to be in place from 2020/21 but there is great uncertainty as to 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 2017/18 to 2019/20.
  - That it reflects the revenue impact of capital expenditure.
  - 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 11 and covers the period from 2017/18 through to 2020/21. 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 2017/18 and draft estimates for 2018/19 to 2020/21 (provisional), informed by the service planning process for 2018/19. 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.
- 6 An annual inflationary increase is assumed where appropriate for pay, rates, insurances, utilities, contracts and income from fees and 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.
- 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 2017 has been adopted as the basis for calculations relating to 2018/19 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, as described in more detail in section 5 of this report.
- 10 The proposed Council Tax band D value for 2018/19 is indicated at line 21 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 2017/18. Line 22 of table 4.1 shows that the Council's 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 2018/19 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 12 is closed by reducing costs or increasing income streams.
  - That Council Tax levels for 2018/19 will be increased by **2.96%**.
  - Forecast reserves are projected to be above the minimum level of **£1.9m** recommended by the Head of Resources at the end of 2018/19.
  - From 2019/20 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 2.1 on page 7. 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 2018/19 and 2019/20 (provisional), on which the forecast is based, are considered generally robust, subject to any reservations expressed above and in section 16.
- 15 The figures presented represent the funding notified to the Council as part of the four year settlement.
- 16 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 2019/20 and beyond.

### **Monitoring of the forecast**

- 17 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.
- 18 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 Head of Resources and reported bi-monthly to Cabinet.
- 19 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	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	
1	<b>Total net expenditure / estimated exp. for future</b>	<b>14,166</b>	<b>10,367</b>	<b>9,940</b>	<b>12,843</b>	<b>10,566</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	7,319	7,628	7,934	8,172	8,418	
3	Formula Grant - Revenue Support Grant / (tariff)	287	0	(515)	(528)	(541)	Subject to consultation in Spring 2018
4	Baseline Funding Level - Redistributed Business Rates	2,012	1,808	2,225	2,281	2,338	
5	Business Rates - Levy on retained income	(204)	(126)	0	0	0	Offset by a contribution from the NNDR equalisation reserve
6	New Homes Bonus	975	691	556	206	0	Legacy payment only
7	Capital grants and other grants and contributions	1,439	1,231	0	0	0	
8	Net Collection Fund(s) surplus / (deficit)	192	5	0	0	0	NNDR deficit offset by a contribution from the NNDR equalisation reserve
9	Transfer (to) / from General reserve	330	(38)	0	0	0	
10	Transfer (to) / from Earmarked reserves	1,816	(832)	(989)	1,883	(937)	
11	<b>Total funding sources</b>	<b>14,166</b>	<b>10,367</b>	<b>9,211</b>	<b>12,014</b>	<b>9,278</b>	
12	<b>Budget / Funding Gap</b>	<b>0</b>	<b>0</b>	<b>(729)</b>	<b>(829)</b>	<b>(1,288)</b>	
	<b>General Reserve</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>Minimum recommended balance for General Reserves is £1.9m</b>
13	Balance at start of year	5,839	5,509	5,227	4,298	3,269	
14	Contribution (to) / from General Fund (line 9 & 12)	(330)	38	(729)	(829)	(1,288)	
15	Potential planning appeals & associated legal costs	0	(320)	(200)	(200)	(200)	
16	<b>Balance / (deficit) at end of year</b>	<b>5,509</b>	<b>5,227</b>	<b>4,298</b>	<b>3,269</b>	<b>1,781</b>	
	<b>Earmarked Reserves</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	
17	Balance at start of year	9,314	7,498	6,707	5,293	2,780	The precise timing of the use of earmarked reserves is, due to their nature, generally unknown.
18	Contribution (to) / from General Fund (line 9)	(1,816)	832	989	(1,883)	937	
19	Other expected usage of earmarked reserves - not allocated to the detailed budget	0	(1,623)	(2,403)	(630)	(589)	Earmarked reserves are reviewed annually to ensure sufficiency and where need has diminished funds will be returned to General Reserves
20	<b>Balance at end of year</b>	<b>7,498</b>	<b>6,707</b>	<b>5,293</b>	<b>2,780</b>	<b>3,128</b>	
	<b>Council Tax</b>						
21	Tax at band D	243.36	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.
22	<b>Increase</b>	<b>1.96%</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 Head of 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 2018/19, before losses on collection are deducted, is **31,064** band D equivalent properties which is an increase from the 2017/18 tax base of **30,691**. 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. 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 remain at **98%** for 2018/19.
- 5 The tax base for 2018/19 is therefore **30,443** band D equivalent properties (compared with **30,077** in 2017/18).
- 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. With the exception of the Town Council, each precepting organisation received their equivalent grant direct. The element estimated to relate to the Town Council was included within the District Council grant, which therefore paid it across to the Town Council.
- 7 Government no longer separately identify Council Tax support grant from overall grant funding. Given the scale of reductions applied to the Revenue Support Grant up to 2017/18, and its complete depletion from 2018/19, it is assumed that local authorities are now required to fund the scheme entirely from within their own resources. Therefore the District Council payments of grant to the Town Council have reduced proportionately with the final grant payment made in 2017/18.



## 6 Local Government funding

### 2018/19 Local Government Finance Settlement / Settlement Funding Assessment (SFA)

- 1 On 19 December 2017, the Secretary of State for the Department for Communities and Local Government (now Ministry for Housing, Communities and Local Government (MHCLG)) made a statement to Parliament on the provisional local government settlement for 2018/19. Some figures may change once the final settlement is announced but are unlikely to be materially different to those shown within the tables below.
- 2 At a national level, for the period 2016/17 to 2019/20, there is a reduction to the England Settlement Funding Assessment (SFA) of 21.3% 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	18,767	16,782	15,824	14,773
Net reduction %		-10.6%	-5.7%	-6.6%
Cumulative reduction %		-10.6%	-15.7%	-21.3%

- 3 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. Table 6.2 summarises the SFA for Castle Point and shows that whilst nationally the % change in funding is **21.3%**, the equivalent change for Castle Point is significantly more at **42.8%**.

**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 / (Tariff Adjustment)	918	287	0	(515)
2	Business Rates	2,071	2,113	2,177	2,225
	<b>Total funding</b>	<b>2,989</b>	<b>2,400</b>	<b>2,177</b>	<b>1,710</b>
	Net reduction £		(589)	(223)	(467)
	Cumulative net reduction £		(589)	(812)	(1,279)
	Net reduction %		-19.7%	-9.3%	-21.5%
	Cumulative reduction %		-19.7%	-27.2%	-42.8%

- 4 Table 6.3 shows the distribution of Business Rates collected within the Borough, which when combined with RSG, 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	15,066
50% Payable to Government	(7,618)	(7,088)	(7,435)	(7,533)
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>6,026</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>2,225</b>
Revenue Support Grant / (Tariff adjustment)	918	287	0	(515)
<b>Total combined funding for CPBC</b>	<b>2,989</b>	<b>2,400</b>	<b>2,177</b>	<b>1,710</b>

### Revenue Support Grant (RSG)

- 5 Rather than all authorities receiving the same percentage reduction in Revenue Support Grant funding, the Government have adopted a mechanism which takes into account the amount that can be raised locally by each authority from Council Tax. This methodology results 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. The following table shows the accumulative reductions in RSG (based on the provisional settlement) by authority type, alongside the actual reduction specifically for Castle Point.

<b>Table 6.4 SFA reductions from previous year by authority type</b>		
	<b>2018/19</b>	<b>2019/20</b>
	<b>%</b>	<b>%</b>
England	-6.4	-7.6
Inner London Boroughs including City	-4.8	-5.7
Outer London Boroughs	-6.8	-8.3
Metropolitan Districts	-5.6	-6.5
Shire Unitaries	-7.1	-8.5
Shire Counties	-10.0	11.7
<b>Shire Districts</b>	<b>-7.9</b>	<b>-14.9</b>
<b>Castle Point Borough Council</b>	<b>-9.3</b>	<b>-21.4</b>

- 6 This methodology has resulted in the withdrawal of RSG for individual authorities in different financial years. For Castle Point, RSG discontinues from 2018/19.
- 7 In years where the Council is still receiving RSG, it is no longer possible to identify specific funding in respect of Council Tax support grant, homelessness prevention funding or Council Tax freeze compensation. In reality reductions to RSG are so significant that very little of these separate grants can remain.

### Top Up/Tariff Adjustments (Negative RSG)

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



- 9 At the final settlement for 2016/17, the adjustments up to and including 2018/19 were removed, leaving only the adjusted amounts for 2019/20, a reduction of **£153m** nationally, split over 168 local authorities of which **£515k** is allocated to Castle Point, as shown in table 6.2 above.
- 10 The Secretary of State confirmed that a consultation will take place in spring 2018 on these amounts, with the outcome informing the 2019/20 local government finance settlement. The Secretary of State stated that this was “so I can confirm that my department will be looking at fair and affordable options for dealing with Negative RSG”. However, for now, the negative RSG amounts remain with the 2019/20 individual authority figures.

### Business Rates Retention (BRR)

- 11 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 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.
- 12 The Council is therefore required to complete a statutory annual return to Ministry for Housing, Communities and Local Government (MHCLG), referred to as 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.
- 13 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 **£368k** in 2018/19. The impact of this variance is cushioned through use of the Equalisation Reserve as described in paragraph 16 below.

<b>Table 6.5 Funding Settlement 2017/18 to 2018/19 (comparison)</b>			
	<b>2017/18 NNDR1 £000's</b>	<b>2018/19 settlement £000's</b>	<b>2018/19 NNDR1 £000's</b>
Anticipated yield from NNDR for CPBC	13,924	14,870	13,949
50% Payable to Government	(6,962)	(7,435)	(6,975)
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	(1,392)	(1,487)	(1,395)
<b>Amount left after payments</b>	<b>5,570</b>	<b>5,948</b>	<b>5,579</b>
Less Tariff payable to Government	(3,558)	(3,771)	(3,771)
<b>Business Rates retained by CPBC</b>	<b>2,012</b>	<b>2,177</b>	<b>1,808</b>
Add Revenue Support Grant	287	0	0
<b>Total combined funding for CPBC</b>	<b>2,299</b>	<b>2,177</b>	<b>1,808</b>

### Business Rates Retention – Revaluation

- 14 Within the Business Rates retention system, the NNDR baseline and top up/tariff amounts have been amended to reflect the revaluation which took place in 2017. The adjusted amounts are intended to make Rateable Value revenue changes neutral for individual authorities; with changes to authorities’ NNDR Baseline (and therefore tariff/top up) being equal and opposite to the forecast change in the ability to raise Business Rates locally.



- 15 Unfortunately there is no ability within the existing funding mechanism to compensate authorities for the impact of further rating appeals and consequential refunds to businesses which are likely to arise from the revaluation.

### Managing fluctuations in Business Rates Revenue

- 16 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 2017/18 and 2018/19.

<b>Table 6.6 NNDR Equalisation Reserve</b>		
	<b>2017/18 £000's</b>	<b>2018/19 £000's</b>
<b>Opening Balance</b>	<b>(473)</b>	<b>(1,082)</b>
Application of s31 Grant Income	(912)	(932)
Surplus on collection fund in year of distribution	(3)	0
<b>Total Contributions into the Reserve</b>	<b>(1,388)</b>	<b>(2,014)</b>
Application to offset payment of Levy	204	126
Deficit on collection fund in year of distribution	0	110
Adjustments to safety net & s31 grant (previous years)	0	0
Equalisation adjustment – variance in rates retained	102	369
<b>Closing Balance</b>	<b>(1,082)</b>	<b>(1,409)</b>

- 17 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)

- 18 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 did not qualify for any new NHB funding for 2018/19, although will continue to receive historic payments.
- 19 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>2016/17 £000's</b>	<b>2017/18 £000's</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>
Settlement December 2017	1,172	975	691	556

### Business Rates Retention Scheme & Growth

- 20 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 **£3.771m** for 2018/19. The tariff is shown in tables 6.3 and 6.5.



- 21 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%**.
- 22 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 2017/18 & 2018/19 (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 16 above).

<b>Table 6.8 NNDR Levy Payment</b>		
	<b>2017/18 £000's</b>	<b>2018/19 £000's</b>
CPBC share of Business Rates receipt	5,453	5,580
Tariff payment to Government	(3,558)	(3,771)
Adjustments for appeals & s31 grants awarded to the Council	626	621
<b>Retained income</b>	<b>2,521</b>	<b>2,430</b>
Less baseline funding level determined by Government	(2,113)	(2,177)
<b>Growth above baseline</b>	<b>408</b>	<b>253</b>
<b>Levy Payment @ 50% of growth</b>	<b>204</b>	<b>126</b>

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

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

- 24 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.
- 25 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 Fire 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

- 26 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**

- 27 The government has published the consultation paper “Fair funding review: a review of relative needs and resources”, a technical consultation on relative need. The Secretary of State stated that the result of the review will be introduced in 2020/21.
- 28 The Secretary of State also confirmed that there will be a Business Rates baseline reset in 2020/21 and, from 2020/21, Business Rates retention will be at 75% (with existing grants, including RSG and Public Health Grant incorporated into Business Rates retention).



## 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 2018. 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>2017/18 £000s</b>	<b>2018/19 £000s</b>
Council Tax surplus / (deficit)	189	115
Business Rates surplus / (deficit)	3	(110)
<b>Total (deficit) / surplus on Collection Funds</b>	<b>192</b>	<b>5</b>

### Council Tax Collection Fund

- 3 Any surplus or deficit relating to Council Tax is shared between this Council, Essex County Council, Essex Fire Authority and Essex Police. 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 2018 is a surplus of **£753,278**, of which this Council's share is **£115,366**.

### Business Rates Collection Fund

- 5 Any surplus or deficit relating to NNDR is shared between this Council, Essex County Council, Essex Fire 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 2018 is a deficit of **£275,752**, of which this Council's share is **£110,301**.



## 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 2017/18 and 2018/19, General reserves are calculated as follows:-

<b>Table 8.1 General reserves</b>	
	<b>£000s</b>
<b>Balance at 1 April 2017</b>	<b>5,839</b>
Net potential movement during 2017/18	(330)
<b>Balance at 1 April 2018</b>	<b>5,509</b>
Net potential movement planned during 2018/19	(282)
<b>Balance at 31 March 2019</b>	<b>5,227</b>

- 4 The estimated balance on reserves at the end of 2018/19 represents **50.4%** of the Council's net budget before funding. 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 2019/20 and beyond.
- 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. 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 (Head of 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 Head of 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.

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

- 10 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.

#### **Adequacy of reserves – Budget assumptions**

- 11 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.



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

Provision is also included for changes arising from the national minimum wage, national living wage, apprenticeship levy, statutory changes to employer national insurance rates in respect of pension scheme members and changes to pension contribution rates in respect of the Essex Pension Fund. 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 **0.32%**. 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.

The sums included in the financial forecast for utilities are based on actual payments made and anticipated during 2017/18, adjusted in future years by current inflationary information. These costs are extremely volatile.

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.



## 12 Adequacy of reserves – Other local factors of significance

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).**

### **Adequacy of insurance arrangements for major unforeseen risks**

During 2003/04 it was discovered that no action was taken on written advice received from external consultants in April 2002 to close Waterside Farm Sports Centre in order to analyse and deal with a perceived asbestos problem. There was also a further issue relating to the premature opening of the centre before receipt of clearance certificates in respect of remedial work. No sums have been taken into account in assessing the minimum level of reserves for these potential costs.

### **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 2019/20. 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.



**Table 8.4 Adequacy of reserves – other local factors of significance (continued)****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 (e.g. Land Registry assuming responsibility for aspects of Local Land Charges, requiring local authorities to digitalise information previously held in hard copy form – potentially at their own expense.)

**It is 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 £350k 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 £285k is included in the calculations (see below).**

**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 roll out to all working age claimants is now planned to be complete by March 2022 with Full service expected to be implemented in Castle Point in May 2018.

The Council continues to see steadily increasing numbers presenting as homeless and with 100% occupation of its own housing stock, changes in the private renting sector, and implementation of a lower Housing Benefit Cap (£20k from November 2016), it 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).**



**Table 8.4 Adequacy of reserves – other local factors of significance (continued)****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).**

**Adequacy of reserves – conclusions**

- 13 Having evaluated all the above factors, including the sensitivity of key budget assumptions, the Head of Resources considers that the following are significant local factors that should be taken into account when assessing the minimum level of general reserves:-
- Potential for withdrawal of external or third party revenue income (**£100k**)
  - Potential for incurrence of costs as a result of "New Burdens" (**£100k**)
  - Potential for cost fluctuations in major contracts (**£350k**)
  - Potential for incurrence of legal costs (**£285k**)
  - Impact of Welfare Reforms on demand for Council Services (**£100k**)
  - VAT – Partial Exemption (**£400k**)
- 14 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 Head of Resources view that an appropriate minimum level of reserves is approximately **£1.9m**.
- 15 Although this report on adequacy of reserves is specific to 2018/19, the Council should bear in mind that adequacy should also be judged against longer-term plans.
- 16 The Council is currently predicting a funding gap for years 2019/20 and beyond. 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 budget for 2019/20 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 14 above.
- Comparison with external benchmarks**
- 17 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 **£518k** for 2018/19.



- 18 A comparison of the above benchmark with the Head of Resources assessment and the Council's target is therefore:

<b>Table 8.5 Adequacy of reserves at 31/3/19</b>	
<b>Castle Point Target £000's</b>	<b>Audit Commission Benchmark £000's</b>
1,862	518

- 19 The Head of Resources considers that this higher level of reserves should be maintained until the local factors described at table 8.4 and in point 13 above have been resolved.

### Exclusions

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

- The possible impact on insurance arrangements of the asbestos non-disclosure as currently there is no claims history or information on which to form a view.
- The equal pay review 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

- 21 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

- 22 General reserves have been earmarked for known or predicted liabilities. The following provides a short commentary on each of the material reserves held by the Council at 31<sup>st</sup> March 2018.

- **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 Head of Resources, in consultation with the Leader and Chief Executive. Any reserves allocated in this way, will be retrospectively shown in the forecast of net spending and resources that is regularly reported to Cabinet. Any balance remaining at the end of the current financial year will be automatically carried forward into the next.

- **Insurance / 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 is supported by a specific business case which is assessed by the Head of Resources and Executive Management Team. Successful initiatives have included review of empty properties for Council Tax purposes and installation of LED lighting at Waterside Farm Leisure Centre. Savings achieved on successful initiatives will be repaid into the reserve to restore it to **£100k**.

The reserve is currently fully applied with repayments due to be made, from savings generated by successful initiatives, from 2018/19 to 2020/21.



- **Local Development Scheme / Local Plan**

The delivery of the programme set out in the Council's Local Development Scheme has both human and financial resource implications. It was originally anticipated that these implications would have a total cost of up to **£250k** during the period ending March 2014, and provision was made in an earmarked reserve accordingly. A further **£154k** was added to the reserve from general reserves in March 2016, and various costs have been incurred since that time. As reported to Cabinet during 2017/18 the reserve was increased again during the year to cover all expected Local Development Scheme costs, and the unallocated balance on the earmarked reserve is anticipated to be in the region of **£330k** at March 2018.

- **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, as described in section 6 of this report.

This reserve was originally established from Section 31 grants awarded in relation to the business rates scheme as described in section 6 of this report. Operation of the reserve is supported by a detailed financial model. The unallocated balance on the earmarked reserve is anticipated to be in the region of **£1m** at March 2018.

- **Local Council Tax Support Reserve**

A reserve established at the end of 2013/14 from underspends 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. The reserve has been "capped" at **£114k**.

- **Future Asset Maintenance Reserve**

The Council commissions five yearly stock condition surveys on its buildings in order to identify future works and inform financial and resource plans across the lifetime of the financial forecast – and beyond. 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 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. Operation of this reserve is supported by a detailed financial model.

Separate, smaller reserves are maintained for future maintenance of car parks and playgrounds.

At March 2018 these earmarked reserves are anticipated to be in the region of **£2.1m** in total.

- **Pension deficit payment reserve**

The purpose of the reserve is to set aside funds in order to take advantage of significant financial incentives offered by the pension fund, in return for the payment of 3 years deficit contributions in advance, in one lump sum.

The next advance payment will be made in April 2020. The balance anticipated to be in this reserve at March 2018 is **£500k**.

- **Hadleigh Regeneration Project**

A reserve containing funds set aside to cover costs associated with the project. The balance anticipated to be in this reserve at March 2018 is **£87k**.



- **Information Technology Investment**

A reserve established from savings on the re-procurement of the current ICT managed contract. The purpose of this earmarked reserve is to fund ongoing and one off ICT related projects such as re-cabling works, upgrades to corporate systems, replacement of equipment and transformational projects. The balance held in this reserve is not published for commercial reasons.

- **Planning Intervention**

Castle Point is one of 15 authorities facing intervention – as announced by the government within the 2017 autumn budget.

There are likely to be financial implications arising from this action, the extent of which will only become clear in time. For the time being a “best estimate” of these implications has resulted in a sum of **£500k** being set aside in a new earmarked reserve.



## 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, which is currently subject to review: -
    - Public Health & Wellbeing
    - Environment
    - Transforming our Community
    - Efficient and Effective Customer Focussed services
  - 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 2018/19 were:-
    - A review of 2017/18 estimates against actual income and expenditure to arrive at a core no-growth base budget for 2018/19, 2019/20 and 2020/21 (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, supported by the Council's Austerity & Commercial Council strategy, has identified general cost reductions and efficiency savings relating to the current and future financial years, and these have been incorporated into the 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 2.1, 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>					
Ref.	Description of priority project or discretionary item	2017/18 £000's	2018/19 £000's	2019/20 £000's	Total £000's
	<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	37	41	41	119
	<b>Housing &amp; Communities</b>				
3	Funding towards the support of the Women's Refuge in Basildon	8	8	8	24
4	Funding for local and voluntary organisations	135	135	135	405
5	Contribution to Community Transport Scheme operated by Wyvern, providing transport for elderly and disabled residents of the Borough	10	10	10	30
6	Community events such as the Fireworks Fiesta, Castle Point Show and Easter & Summer activities (net direct cost excluding recharges)	11	8	8	27
7	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>				
8	Festive lighting / decorations across the Borough	20	20	20	60
9	Public Conveniences across the Borough (net direct cost excluding recharges and capital charges)	36	35	36	107
	<b>Total funding of priority projects and discretionary items</b>	<b>287</b>	<b>287</b>	<b>288</b>	<b>862</b>



<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>2017/18 £000's</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>Total £000's</b>
<b>1</b>	<b>All services, Central &amp; Corporate areas</b> Increase in bad debts provision for 2017/18. A significant proportion of the provision relates to homelessness debtors	57	0	0	57
<b>2</b>	As members of the Braintree Procurement Hub, the Council receives a proportion of revenue income (rebates) earned when organisations utilise the procurement frameworks established by the Hub. The value of these rebates has reduced significantly due to competition between frameworks within the procurement market	10	35	21	66
<b>3</b>	Reduction in external fee paying work undertaken by Legal Services	12	0	0	12
<b>4</b>	CPBC contribution to South Essex Strategic Planning joint resource	0	20	20	40
<b>5</b>	Return into "Spend to Save" earmarked reserve relating to additional Council Tax revenue from a project reviewing empty properties	16	33	33	82
<b>6</b>	Increase to the Planned Preventative Maintenance programme for 2017/18, including: additional essential electrical safety works (various properties) and urgent flooring works at King George Pavilion	70	0	0	70
<b>7</b>	Financial impact of pending two year pay offer for 2018/19 and 2019/20 (subject to Union acceptance) A) Impact of 2% per year on all grades over and above current budgeted cost increase B) Additional impact of higher increases on lower graded posts, and merging of specific scale points	0 0	76 82	38 227	114 309
<b>8</b>	<b>Housing &amp; Communities</b> Net increase in Housing Benefit expenditure resulting from increased caseload and cap on amount of subsidy receivable from central government in respect of Rent Rebate benefit payments for non-HRA recipients	0	85	85	170



<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>2017/18 £000's</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>	<b>Total £000's</b>
<b>9</b>	Net increase in Homelessness temporary accommodation and prevention costs	52	60	60	172
<b>10</b>	Update to Civica (revenues and benefits system) to ensure compliance with GDPR requirements	17	3	3	23
<b>11</b>	<b>Environment</b> Environmental initiatives fund (2018/19 and 2019/20 only)	0	75	75	150
<b>12</b>	John H Burrows playing field cricket netting replacement	15	0	0	15
<b>13</b>	Shortfall in cemeteries income	16	0	0	16
<b>14</b>	Canvey Island foreshore public conveniences cleaning during summer holiday period	4	7	7	18
<b>15</b>	Pinnacle contract enhancement - provision of two staff during October to March for Canvey Island foreshore	12	15	16	43
<b>16</b>	Pinnacle contract enhancement - locking / unlocking of Northwick Road gate	2	6	6	14
<b>17</b>	Increase in requirement for security at the community halls, particularly the Paddocks	21	21	21	63
<b>18</b>	Decrease in memberships revenue at Waterside Farm, and removal of inflation increase on membership prices for 18/19 (previously budgeted for)	28	25	13	66
<b>19</b>	LED lighting upgrade at Waterside Farm Sports Centre (funded from the "Spend to Save" reserve)	60	0	0	60
<b>Total cost pressures &amp; budget increases (growth)</b>		<b>392</b>	<b>543</b>	<b>625</b>	<b>1,560</b>



No	Table 9.3 General Fund revenue summary	Note	2016/17 ACTUAL	2017/18 ESTIMATE	2017/18 REVISED	2018/19 ESTIMATE	2019/20 ESTIMATE	2020/21 ESTIMATE
			£000s	£000s	£000s	£000s	£000s	£000s
	<b>Net Service Expenditure</b>							
1	Environment	1	5,075	6,637	6,977	5,700	5,499	5,487
2	Governance, Law, Planning and Regeneration	1	962	1,266	1,100	1,289	1,273	1,300
3	Housing and Communities	1	2,280	2,404	2,328	2,480	2,568	2,670
4	Resources	1	82	100	84	88	89	90
5	Central and corporate services	1	2,224	2,954	1,460	2,283	2,132	2,122
	<b>Total Net Service Expenditure</b>		<b>10,623</b>	<b>13,361</b>	<b>11,949</b>	<b>11,840</b>	<b>11,561</b>	<b>11,669</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>(729)</b>	<b>(829)</b>
6	Total Other Operating Expenditure	3	(28)	446	471	650	719	1,292
7	Total Financing and Investment Income and Expenditure	4	1,131	1,410	1,135	1,189	1,189	1,209
8	Total Net Statutory Adjustments	5	(605)	654	851	(3,070)	(3,286)	(1,084)
	<b>Total to be met from government grants, earmarked reserves and Council Tax</b>		<b>11,121</b>	<b>15,871</b>	<b>14,406</b>	<b>10,609</b>	<b>9,454</b>	<b>12,257</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, allowances for future National Living Wage changes and pay awards, 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 ECC 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	Table 9.4 General Fund Net Service Expenditure	2016/17 ACTUAL	2017/18 ESTIMATE	2017/18 REVISED	2018/19 ESTIMATE	2019/20 ESTIMATE	2020/21 ESTIMATE
		£000s	£000s	£000s	£000s	£000s	£000s
	<b>Environment</b>						
1	Environmental health	678	1,110	657	774	878	891
2	Street scene and operational services	1,228	1,312	1,279	1,413	1,386	1,337
3	Refuse & recycling	1,060	1,592	1,816	1,756	1,610	1,614
4	Parks & open spaces	1,029	912	971	828	814	777
5	Leisure centres, golf course and community centres	1,522	2,206	2,750	1,486	1,361	1,410
6	Public conveniences	100	123	121	124	126	128
7	Parking	(542)	(618)	(617)	(681)	(676)	(670)
	<b>Net total - Environment</b>	<b>5,075</b>	<b>6,637</b>	<b>6,977</b>	<b>5,700</b>	<b>5,499</b>	<b>5,487</b>
	<b>Governance, Law, Planning and Regeneration</b>						
1	Strategic director	0	24	0	0	0	0
2	Civic Governance	165	132	108	220	221	223
3	Legal services	0	2	0	0	0	0
4	Development control and Planning policy	534	618	562	665	668	687
5	Building control	97	177	138	183	177	179
6	Regeneration	166	313	292	221	207	211
	<b>Net total - Governance, Law, Planning and Regeneration</b>	<b>962</b>	<b>1,266</b>	<b>1,100</b>	<b>1,289</b>	<b>1,273</b>	<b>1,300</b>
	<b>Housing and Communities</b>						
1	Homelessness and Housing advice	691	581	605	635	634	642
2	Strategic housing and Housing management	10	10	10	10	10	10
3	Revenues and Benefits	1,254	1,334	1,266	1,437	1,486	1,571
4	Local land charges	(20)	25	17	27	27	29
5	Concessionary travel	0	0	0	0	0	0
6	Partnerships, community engagement and community safety	274	346	315	310	303	306
7	Licensing and public transport schemes	71	108	115	61	108	112
	<b>Net total - Housing and Communities</b>	<b>2,280</b>	<b>2,404</b>	<b>2,328</b>	<b>2,480</b>	<b>2,568</b>	<b>2,670</b>
	<b>Resources</b>						
1	Financial services	0	0	0	0	0	0
2	Information technology	0	0	0	0	0	0
3	Facilities and asset management	82	92	84	88	89	90
4	Human resources	0	0	0	0	0	0
5	Internal audit	0	8	0	0	0	0
	<b>Net total - Resources</b>	<b>82</b>	<b>100</b>	<b>84</b>	<b>88</b>	<b>89</b>	<b>90</b>
	<b>Central and corporate services</b>						
1	Chief Executive	0	12	0	0	0	0
2	Other corporate costs	2,224	2,942	1,460	2,283	2,132	2,122
	<b>Net total - Central and corporate services</b>	<b>2,224</b>	<b>2,954</b>	<b>1,460</b>	<b>2,283</b>	<b>2,132</b>	<b>2,122</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 Head of 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 approval is required. Changes in these charges would be subject to separate approval, outside of the Policy Framework and Budget Setting process.

**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 via 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 Head of 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 Head of Resources and the Executive Management Team.



# 11 Capital finance

- 1 Capital expenditure is expenditure that results in the provision or enhancement of assets such as land, buildings, plant and vehicles. This is subject to limitations of scale and the Council treats all expenditure below **£10,000** as revenue expenditure.
- 2 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. They 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 2011.
- 3 There is no statutory limit on the amount of borrowing; however, the Council is required to demonstrate the affordability of new capital proposals. This should include the annual principal and interest payments and ongoing revenue impact arising from new borrowing.
- 4 The main issues affecting capital investment decisions are:
  - The Council's capacity to borrow.
  - The availability of other capital resources, such as capital receipts.
  - The management of debt, cash flows and investments.

## **The Capital strategy/approach to capital investment**

- 5 The Council's strategy is to ensure that decisions on resource allocation are based on the Council's corporate objectives and priorities and reflect the views of residents and stakeholders.
- 6 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.

- 7 Any new proposals must be evaluated for affordability in accordance with the requirements of the Prudential Code and in considering such proposals the Council must have regard to:
  - Service objectives, e.g. strategic planning for the authority.
  - Stewardship of assets, e.g. asset management.
  - 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.
  - Practicality, e.g. achievability of the forward plan.

This assessment includes proposals said to be self-financing from external sources.

## **Prudential Code for Capital Finance in Local Authorities**

- 8 The Prudential Code introduced new statutory requirements for the manner in which capital spending plans are considered and approved, as well as requiring the Council to set a number of Prudential Indicators, some of which replace previous statutory borrowing limits. These Prudential Indicators are set out below.



- 9 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.
- 10 Paragraphs 12 to 33 below explain the Prudential Indicators that the Council should have regard to before agreeing capital spending plans for 2018/19. The Council must approve prudential indicators for the next three years – 2018/19 to 2020/21 – and an appropriate recommendation appears in the accompanying formal Committee report. Provisional indicators are also shown for years beyond 2020/21, for information only.
- 11 There are also some Prudential Indicators that apply to treasury management activity. These are shown in section 12.

#### **Prudential indicator – capital expenditure**

- 12 Table 11.2 below shows actual 2016/17 capital expenditure, along with estimates for current and future years recommended for approval:

<b>Table 11.2 Capital expenditure</b>							
	<b>2016/17</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>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)	632	3,872	1,512	658	1,086	496	560
Housing Revenue Account (HRA)	1,361	2,388	1,377	1,402	1,427	1,427	1,427
<b>Total</b>	<b>1,993</b>	<b>6,260</b>	<b>2,889</b>	<b>2,060</b>	<b>2,513</b>	<b>1,923</b>	<b>1,987</b>

- 13 The amounts shown for 2018/19 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.
- 14 All schemes identified in the preceding table match the priorities outlined at paragraph 6 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.

#### **Significant capital schemes**

- 15 Included within the General Fund capital expenditure for 2017/18 are a large number of refuse and recycling freighters replaced as part of the ongoing vehicle replacement programme and the new gym extension at Runnymede Pool. Not yet included is the proposed development at Hatley Gardens, bar a small amount of initial costs in 2017/18, as this will be subject to a separate report. The Housing Revenue account capital expenditure includes in 2017/18 the development at Lawn's Court approved by Cabinet in January 2017.



Table 11.3 General Fund Capital proposals							
Project	2016/17 Actual £000's	2017/18 Revised £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's
ENVIRONMENT							
Disabled Facilities Grants (Mandatory)							
Gross Capital Expenditure	371	550	550	487	450	397	350
Specific external funding	(321)	(550)	(550)	(287)	(250)	(250)	(250)
Net Capital Expenditure	50	0	0	200	200	147	100
TGSE Decent / Warm / Healthy Homes project							
Gross Capital Expenditure	0	0	252	0	0	0	0
Specific external funding	0	0	(252)	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
Regional Housing Grant							
Gross Capital Expenditure	42	1	93	0	0	0	0
Specific external funding	(42)	(1)	(93)	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
Leisure Centres Gym equipment							
Gross Capital Expenditure	0	0	75	0	0	75	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	0	75	0	0	75	0
Runnymede Pool Gym extension and Gym equipment							
Gross Capital Expenditure	0	1,495	0	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	1,495	0	0	0	0	0
Halls demolition costs							
Gross Capital Expenditure	85	103	0	0	0	0	0
Specific external funding	0	(25)	0	0	0	0	0
Net Capital Expenditure	85	78	0	0	0	0	0



<b>Table 11.3 General Fund Capital proposals</b>									
<b>Project</b>	<b>2016/17 Actual £000's</b>	<b>2017/18 Revised £000's</b>	<b>2018/19 Estimate £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>Vehicle Replacement Programme</b>									
Gross Capital Expenditure	0	1,620	449	171	636	24	210		
Specific external funding	0	0	0	0	0	0	0		
Net Capital Expenditure	0	1,620	449	171	636	24	210		
<b>GOVERNANCE, LAW, PLANNING AND REGENERATION</b>									
<b>Regeneration projects</b>									
Gross Capital Expenditure	0	0	65	0	0	0	0		
Specific external funding	0	0	(65)	0	0	0	0		
Net Capital Expenditure	0	0	0	0	0	0	0		
<b>HOUSING AND COMMUNITIES</b>									
<b>Development at Hatley Gardens (initial costs pre-commencement)</b>									
Gross Capital Expenditure	0	15	0	0	0	0	0		
Specific external funding	0	0	0	0	0	0	0		
Net Capital Expenditure	0	15	0	0	0	0	0		
<b>RESOURCES</b>									
<b>ICT Hardware and software</b>									
Gross Capital Expenditure	134	88	28	0	0	0	0		
Specific external funding	(16)	(16)	(16)	0	0	0	0		
Net Capital Expenditure	118	72	12	0	0	0	0		
<b>Total Gross Capital Expenditure</b>	<b>632</b>	<b>3,872</b>	<b>1,512</b>	<b>658</b>	<b>1,086</b>	<b>496</b>	<b>560</b>		
<b>Total specific external funding</b>	<b>(379)</b>	<b>(592)</b>	<b>(976)</b>	<b>(287)</b>	<b>(250)</b>	<b>(250)</b>	<b>(250)</b>		
<b>Total Net Capital Expenditure</b>	<b>253</b>	<b>3,280</b>	<b>536</b>	<b>371</b>	<b>836</b>	<b>246</b>	<b>310</b>		



**Prudential indicator – ratio of financing costs to net revenue stream**

- 16 Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2016/17 are:

<b>Table 11.4(a) Ratio of financing costs to net revenue stream</b>							
	<b>2016/17</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>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	7	4	7	7	4	6	6
HRA	0	0	0	0	0	0	0

- 17 Contributions from the General Fund and Housing Revenue Account revenue budgets to fund respective capital schemes are included within the estimates in some years, for example, in 2017/18 towards the purchase of vehicles and the gym extension referred to in paragraph 15. 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 11.4(b) Ratio of financing costs to net revenue stream (local variant)</b>							
	<b>2016/17</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>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	9	15	8	7	4	6	6
HRA	37	33	34	35	35	33	34

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

**Prudential indicator – capital financing requirement**

- 18 The capital financing requirement is a measure of the capital expenditure incurred historically by the Council that has yet to be financed 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. Where relevant these indicators currently assume that when the first HRA loan repayment is made in 2021/22, it will not be replaced with additional borrowing, in line with the current assumptions within the HRA business plan.
- 19 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.
- 20 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 2017 are:

<b>Table 11.5 Capital financing requirement</b>							
	<b>2016/17</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>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	6,059	6,549	6,455	6,288	6,671	6,331	6,123
HRA	36,418	36,418	36,418	36,418	36,418	29,418	29,418



### Gross Debt and the Capital Financing Requirement

- 21 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.”*

- 22 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.
- 23 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.

### Prudential indicator – authorised limit for external debt

- 24 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 11.6 Authorised limit for external debt</b>							
	<b>2016/17</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>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>
Borrowing	46,123	47,304	46,720	46,647	47,197	39,124	39,255
Other long term Liabilities (finance leases)	0	0	0	0	0	0	0
<b>Total limit</b>	<b>46,123</b>	<b>47,304</b>	<b>46,720</b>	<b>46,647</b>	<b>47,197</b>	<b>39,124</b>	<b>39,255</b>

- 25 The authorised limit shown for 2018/19 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.
- 26 These limits separately identify borrowing from other long-term liabilities such as finance leases. It is recommended in the accompanying report to approve the overall limit. Any breach of, or required increase in the overall limit must be immediately reported to Council.
- 27 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 – operational boundary for external debt

- 28 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 11.7 Operational boundary for external debt</b>							
	<b>2016/17</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>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>
Borrowing	44,205	44,695	44,205	44,205	44,588	37,030	37,030
Other long term Liabilities (finance leases)	0	0	0	0	0	0	0
<b>Total boundary</b>	<b>44,205</b>	<b>44,695</b>	<b>44,205</b>	<b>44,205</b>	<b>44,588</b>	<b>37,030</b>	<b>37,030</b>

- 29 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.
- 30 The Council's actual external debt at 31 March 2018, 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 – incremental impact of capital investment decisions on the Council Tax and Housing Rents**

- 31 The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

Table 11.8 Incremental impact of capital investment									
			2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
			Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
			£	£	£	£	£	£	£
Band D	Council	Tax	10.73	42.66	-52.40	-2.94	-2.62	4.26	-2.10
Average	weekly	housing rents	-6.40	0.00	0.00	0.00	0.00	0.00	0.00

- 32 The table shows the incremental impact of capital investment with fluctuations from one year to the next being caused by one-off capital projects or changes in the value of annual budgets such as the vehicle replacement programme.
- 33 The 2017/18 estimate included above has been calculated by comparing 2017/18 revised estimate to the actual expenditure for 2016/17. The comparison of 2017/18 revised estimate against the original budget for 2017/18 is **£15.50** for Band D Council Tax.

#### **Housing Revenue Account limit on indebtedness**

- 34 The debt limit imposed by the Department for Communities and Local Government as at the date of implementation of self financing is **£37.470m**. This limit of indebtedness exceeds the value of the HRA self financing settlement (**£36.451m**) and therefore allows some flexibility to accommodate additional future investment (subject to affordability).

#### **Statement of Minimum Revenue Provision (MRP)**

- 35 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008 (with revisions effective from 31 March 2010). 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.

- 36 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.
- 37 In accordance with the regulations, it is proposed to adopt the following MRP policy for the financial year 2018/19 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 from 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 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.

### Capital receipts

- 38 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.
- 39 Table 11.9 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

<b>Table 11.9 Allowable use of capital receipts (Non-Right to Buy)</b>		
<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

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



- 41 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 money 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.
- 42 The remaining balance is then split according to the following table:

<b>Table 11.10 Allocation of remaining Right to Buy receipt</b>				
<b>Party</b>	<b>2017/18</b>		<b>2018/19</b>	
	<b>Allocation of receipt</b>		<b>(draft - to be confirmed)</b>	
	<b>%</b>	<b>Cap £</b>	<b>%</b>	<b>Cap £</b>
Treasury	70.9%	150,854	70.7%	150,854
Local Authority	29.1%	61,780	29.3%	62,398

- 43 This therefore caps the maximum contribution the Council can make towards new general capital expenditure to **£61,780** in 17/18 and **£62,398 (draft figure)** in 18/19. 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.
- 44 Where there are receipt balances above these levels this money is held by the council for a period of 3 years from the end of the quarter they are received, for the replacement of council properties. If after this time the money is not spent on the provision of replacement properties it is to be returned to the treasury with interest.



## 12 Treasury management

### 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 Head of 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 2018/19

- 3 The Strategy has been formulated after considering the advice of the Council's consultants, Link Treasury Solutions Ltd. trading as Link Asset Services (formerly Capita Asset Services). 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 had remained at **0.50%** since March 2009 until the Monetary Policy Committee (MPC) reduced it to **0.25%** in August 2016. It was subsequently returned to **0.50%** in November 2017. Growth in the UK economy is expected to remain low and Link Asset Services, the Council's Treasury Management Advisor, expects only one 0.25% increase in the base rate each year until 2020. It is expected that the 50-year Public Works Loan Board (PWLb) long-term rate for maturity loans will be in the range of **2.6%** to **2.9%** during 2018/19.
- 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 complying with the Council's policies and procedures and without compromising security and liquidity.

### Current debt position and requirements for 2018/19

- 8 A summary of external debt that is expected to be outstanding at 31 March 2018 is as follows:-

<b>Table 12.1 External debt outstanding</b>	
<b>Source</b>	<b>Total at 31/03/18 £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 External borrowing can arise as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The proposed programme of capital expenditure due to be approved by Council in February 2018 is not anticipated to trigger a requirement for new borrowing in 2018/19. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.

### Borrowing Strategy

- 11 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its Treasury Strategy.
- 12 If a need to borrow should arise, the Head of 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.
- 13 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. Therefore the financial impact on the longer-term budget positions for both the General Fund on the Medium Term Financial Forecast and the Housing Revenue Account on the HRA Business Plan, would need to be taken in to account in any borrowing decisions. As shown elsewhere within this report the General Fund has annual budget 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.
- 14 With the likelihood of long-term rates increasing, debt restructuring is likely to focus on switching from longer-term fixed rates to cheaper shorter term debt, although the Head of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year.
- 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 **36 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 taken out in March 2012 is set to mature at different times between 2021/22 and 2041/42.

### **Borrowing in advance of need**

- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Head of 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.
- 19 MHCLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Head of 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>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</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	47	40
Upper limit – variable rates	-15	-13	-15	-10	-6	-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 2018/19 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 All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. 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.

- 3 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.

### Specified and Non-specified Investments

- 4 Specified Investments are high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year. Specified Investment instruments identified for use in the financial year are listed in table 13.1 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.

### Liquidity

- 5 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2018/19 to range between **£19m** and **£33m**.

### Investment risk and creditworthiness

- 6 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 13.1 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

- 7 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Asset Services, also alerts 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 13.1 Specified Investments for the Financial Year 2018/19**

<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**

- 8 The Council selects counterparties according to credit quality as well as the additional information in paragraph 11 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 13.

**Money Market Funds**

- 9 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. In 2018/19 the valuation method for Money Market Funds will change, with the result that the principal value could slightly increase or decrease whereas before it remained constant. The Council will assess 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)**

10 From 3<sup>rd</sup> January 2018 changes in regulatory legislation has required the Council to opt up to “professional” status (rather than the default status of “retail” client) with several of its counterparties in order to continue using some investments other than simple deposits. This process has been completed.

**Use of additional information other than credit ratings**

- 11 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**

- 12 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**

- 13 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 Head of Resources.

**Use of derivative instruments**

- 14 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**

- 15 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.

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

17 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**

18 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**

19 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**

20 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31<sup>st</sup> March 2020.

#### **Risk benchmarking**

21 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.

22 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.

23 **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.

24 **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.

25 **Yield** – Local measures of yield benchmarks are:-

- Investments – returns above the 7-day LIBID rate.

#### **Treasury management adviser**

26 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 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.

- 27 Whilst Link Asset Services provides 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**

- 28 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.

### **Investment activity reporting and publication**

- 29 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**

- 30 A new 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes has recently been published by CIPFA and this supersedes the previous 2011 edition. The new edition reaffirms 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 Investment principles stated in paragraph 2 above.
- 31 The 2017 edition also includes:
- Three key principles of Treasury Management, which are unchanged from the previous publication.
  - Four clauses that all public services must 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.
- 32 The Council's Treasury Management Practices will be updated to incorporate any necessary amendments arising from the 2017 edition.

### **Changes in accounting standards**

- 33 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. The exact accounting requirements will not be known until the CIPFA 2018/19 Code of Practice on Local Authority Accounting is published. Once that is available, officers will assess any potential impact on relevant assets and liabilities held by the Council and if necessary report any required changes through the reporting cycle described in paragraph 2 of section 12 of this report.



## 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 we will be publishing information on the gender pay gap on the Council Website.
- Men and women doing like work or in the same grade will receive progression through the appropriate pay scale.
- If there are bars to progression between grades/spinal column points, progression will be based on fair and objective criteria that staff are aware of.
- The Council has a Pay Protection Policy for those staff whose posts are downgraded as a consequence of changing organisational requirements where this results in a salary reduction.



- Increments will be paid on 1st April each year until the maximum of the level is reached subject to the following:
  - a) Increments may be accelerated within an officer's scale at the discretion of the authority on the grounds of special merit or ability, subject to the maximum of the level not being exceeded as approved by the Head of 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 regrading.

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 Council leisure facilities for use of swimming pools and fitness suites to improve the health and wellbeing of staff working more than 15 hours per week.
  - Child care vouchers (tax efficient way of paying for childcare)
  - 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 voluntary 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 Head of 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 9:1.
- 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 2017.
- The ratio of the average of the Chief Executive and other Chief Officers earnings to the average of all other employees is 4.5:1

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 Council's 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 2016, all employees will receive no less than the National Living Wage with the exception of apprentices who are paid in accordance with the HMRC National Minimum Wage Rates.



**5.2 Chief Officer**

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

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

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

**5.4 The use of bonuses**

No bonus payments are awarded.



# 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.
    - Police and Crime Commissioner for Essex.
    - Essex PFCC Fire and 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 13 February 2018.

## Police Fire & Crime Commissioner for Essex

- 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 22 January 2018.

## Essex PFCC Fire and Rescue Authority

- 4 The Fire & Rescue Authority operates as an independent body and is responsible for setting its own budget. It is currently anticipated that the Fire Authority will set their budget and level of precept on 22 January 2018.

## 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 27 November 2017.
- 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 (Head of 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 Head of 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

- 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	57,057,438
s31A(3)(a)	Less gross income from services	(46,448,000)
s31A(3)(a)	Less Government grant & business rates	(3,604,747)
s31A(3)(b)	Less net Collection Fund surplus / plus deficit	(5,065)
s31A(3)(d)	Net amount taken to / (from) general and earmarked reserves	870,710
	<b>Council Tax Requirement</b>	<b>7,870,336</b>

- 2 The above figures include internal charges and **£242,538** relating to the Canvey Island Town Council precept. The tax base (see section 5) 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:-

$$\text{Council Tax (including Town Council)} = (£7,870,336 / 30,443) = £258.53$$

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>Table 17.2 Council Tax</b>			
<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	180.78	167.04
<b>B</b>	7	210.91	194.88
<b>C</b>	8	241.04	222.72
<b>D</b>	9	271.17	250.56
<b>E</b>	11	331.43	306.24
<b>F</b>	13	391.69	361.92
<b>G</b>	15	451.95	417.60
<b>H</b>	18	542.34	501.12

- 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:-

<b>Authority</b>	<b>Council Tax at Band D 2017/18 £</b>	<b>Council Tax at Band D 2018/19 £</b>	<b>Change from 2017/18 £</b>	<b>Change from 2017/18 %</b>	<b>Share %</b>
Castle Point Borough Council (proposed)	243.36	250.56	7.20	2.96	14.46
Essex County Council	1,163.70	1,221.75	58.05	4.99	70.53
Essex PFCC Fire and Rescue Authority	69.03	70.38	1.35	1.95	4.06
Police, Fire & Crime Commissioner for Essex	157.05	169.02	11.97	7.62	9.76
<b>Total (excluding Canvey Island Town Council)</b>	<b>1,633.14</b>	<b>1,711.71</b>	<b>78.57</b>	<b>4.81</b>	<b>98.81</b>
Canvey Island Town Council	20.61	20.61	0.00	0.00	1.19
<b>Total (including Canvey Island Town Council)</b>	<b>1,653.75</b>	<b>1,732.32</b>	<b>78.57</b>	<b>4.75</b>	<b>100.00</b>

- 2 The table below shows the amount of Council Tax each authority has set for 2018/19:-

<b>Band</b>	<b>Castle Point Borough Council</b>	<b>Essex County Council</b>	<b>Essex PFCC Fire and Rescue Authority</b>	<b>Police, Fire &amp; Crime Commissioner for Essex</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>	167.04	814.50	46.92	112.68	<b>1,141.14</b>	13.74	<b>1,154.88</b>
<b>B</b>	194.88	950.25	54.74	131.46	<b>1,331.33</b>	16.03	<b>1,347.36</b>
<b>C</b>	222.72	1,086.00	62.56	150.24	<b>1,521.52</b>	18.32	<b>1,539.84</b>
<b>D</b>	250.56	1,221.75	70.38	169.02	<b>1,711.71</b>	20.61	<b>1,732.32</b>
<b>E</b>	306.24	1,493.25	86.02	206.58	<b>2,092.09</b>	25.19	<b>2,117.28</b>
<b>F</b>	361.92	1,764.75	101.66	244.14	<b>2,472.47</b>	29.77	<b>2,502.24</b>
<b>G</b>	417.60	2,036.25	117.30	281.70	<b>2,852.85</b>	34.35	<b>2,887.20</b>
<b>H</b>	501.12	2,443.50	140.76	338.04	<b>3,423.42</b>	41.22	<b>3,464.64</b>