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Chief Executive

CABINET AGENDA

Date: **Wednesday 19th February 2020**

Time: **6.00pm NB Time**

Venue: **Council Chamber**

This meeting will be webcast live on the internet.

Membership:

Councillor Smith	Chairman - Leader of the Council
Councillor Stanley	Finance, Policy and Resources
Councillor Mrs Egan	Housing and Council Homes
Councillor Hart	Streets, Waste, Floods and Water Management
Councillor Isaacs	Neighbourhoods & Safer Communities
Councillor Johnson	Youth & Tourism
Councillor MacLean	Health & Wellbeing
Councillor Mumford	Regeneration & Business Liaison
Councillor Sheldon	Commercial Contracts and Commercial Opportunity
Councillor Varker	Environment & Leisure

Cabinet Enquiries:	Ann Horgan ext. 2413
Reference:	8/2019/2020
Publication Date:	Tuesday 11th February 2020

AGENDA
PART I
(Business to be taken in public)

1. Apologies

2. Members' Interests

3. Minutes

To approve the Minutes of the meeting held on 22nd January 2020.

4. Forward Plan

To review the Forward Plan.

5. Health and Community Safety

6. Environment

7. Housing and Regeneration

7(a) Housing Revenue Account (HRA) 2020/21 Rent Levels, Revenue Budget and Capital Plan for 2020/21 and 2019/20 Revised

(Report of the Cabinet Members for Housing and Council Homes and Finance, Policy & Resources)

7(b) Oikos Marine and South Side Development – Development Consent Order

(Report of the Cabinet Member Regeneration and Business Liaison)

8. A Commercial and Democratically Accountable Council

8(a) Policy Framework and Budget Setting for 2020/21

(Report of the Cabinet Member for Finance, Policy & Resources)

9. Matters to be referred from /to Policy & Scrutiny Committees

There are no matters.

10. Matters to be referred from /to the Standing Committees

There are no matters.

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

There were no items at time of publication of this agenda.

INFORMAL
CABINET SESSION

There will be no informal session as a Special Council meeting is to take place to approve the budget.



CABINET



22ND JANUARY 2020

PRESENT:

Councillor Smith	Chairman – Leader of the Council
Councillor Stanley	Finance, Policy and Resources
Councillor Mrs Egan	Housing and Council Homes
Councillor Hart	Streets, Waste, Floods and Water Management
Councillor Isaacs	Neighbourhoods and Safer Communities
Councillor Johnson	Youth and Tourism
Councillor Mumford	Regeneration and Business Liaison
Councillor Sheldon	Commercial Contracts and Commercial Opportunities
Councillor Varker	Environment & Leisure

ALSO PRESENT: Councillors: Acott, Blackwell, Campagna, Greig, May, Palmer and Mrs Sach.

66. MEMBERS' INTERESTS:

No declarations were made.

67. MINUTES:

The Minutes of the Cabinet meeting held on 20th November 2019 were approved and signed by the Chairman as a correct record.

68. FORWARD PLAN:

To comply with regulations under the Localism Act 2011, the Leader presented a revised Forward Plan to the meeting which outlined key decisions likely to be taken within the next quarter of 2020. The Plan was reviewed each month.

Resolved – To note and approve the Forward Plan.

69. SUICIDE POLICY & PROTOCOL

Cabinet considered a report advising Members of a new Suicide Policy and Protocol to assist Council staff dealing with people at risk of suicide or self-harm.

Resolved:

To approve the Suicide Policy and Protocol for publication by the Council following consideration by the Cabinet.

70. REVISED TENANCY STRATEGY

Cabinet considered a report presenting details of a revised Tenancy Strategy and seeking authority to implement a change in policy relating to the issuing of flexible (fixed term) tenancies.

Resolved:

1. That Cabinet approves the new Tenancy Strategy including ceasing the issue of fixed term tenancies (FTT) and converting existing FTTs to lifetime tenancies.
2. Furthermore, to approve the option of using Introductory (12 month) Tenancies.

71. PLANNING POLICY & REGENERATION UPDATE

Cabinet received a report providing an update on Planning Policy matters including work in progress and highlighting new matters which might be subject to a later decision by the Council.

Resolved:

1. That the Cabinet notes the consultations on the Local Plan and the Essex Coast Recreational Disturbance Avoidance and Mitigation Strategy (RAMS)
2. That the Cabinet notes the Brownfield Register 2019/20 and that any additional sites proposed for future registers and or the proposed inclusion of sites for Part 2 Permission in Principle will be reported to Cabinet and Council as appropriate for approval.
3. That a report is made to the next Cabinet on the Development Consent Order for the expansion of the Oikos Port Facility on Canvey Island
4. That the Cabinet decision on the 18 September 2019 to establish a Working Group for Canvey Town Centre and Canvey Seafront, is amended to establish two groups: one for Canvey Town Centre and one for Canvey Seafront and to amend the Terms of Reference accordingly.

72. PLANNING IMPROVEMENT PEER CHALLENGE

Cabinet considered a report presenting the Peer Challenge report arising from the Planning Improvement Peer Challenge undertaken by Local Government Association (LGA) in co-operation with the Planning Advisory Service (PAS).

Resolved:

1. That Cabinet notes the Peer Challenge Report.
2. That Cabinet notes the ten recommendations in the Peer Review report.
3. To appoint the Peer Challenge Framework Delivery Group and approve the terms of reference of the Peer Challenge Framework Delivery Group reporting to the Council and the Cabinet as appropriate.

73. AUTHORITY TO REPRESENT COUNCIL

Cabinet considered a report seeking authorisation to allow two members of the Council's Law Team employed by the Council to represent the Borough Council in proceedings before the Magistrates' Court and County Court.

Resolved:

That the following members of the Law team be authorised to appear before the Magistrates' Court and County Courts to represent the Borough Council in legal proceedings pursuant to Section 223 Local Govt Act 1972 and Section 60(2) County Courts Act 1984: -

Hayley Morgan– Trainee Solicitor

Tia Ojo – Trainee Solicitor

74. DISCRETIONARY RATE RELIEF – BUSINESS RATES

Cabinet considered a report setting out an amendment to the Council's Discretionary Rate Relief Policy to reflect Government proposals on increasing the level of Retail Discount relief for occupied retail properties with a rateable value of less than £51,000 in the year 2020-2021. Full details of the proposed Retail Discount scheme were set out in a separate addendum, which broadly followed Government guidance.

A relief scheme for public houses was also being reintroduced from 1 April 2020.

Resolved:

That Cabinet notes the content of the report and approves the following changes to the existing Discretionary Rate Relief Policy (subject to formal Government announcement):

1. Increase in the Business Rate Retail Discount Scheme from 33% to 50% to take effect from 1 April 2020 in accordance with Government proposals.
2. Business Rate Relief Scheme for Public Houses to take effect from 1 April 2020 in accordance with Government proposals.

75. MATTERS TO BE REFERRED FROM / TO POLICY & SCRUTINY COMMITTEES

There were no matters.

76. MATTERS TO BE REFERRED FROM / TO THE STANDING COMMITTEES

The Cabinet Member for Neighbourhoods and Safer Communities made a report explaining that no further action would be taken on the Petition presented at the Ordinary Council meeting, on 22nd October 2019, seeking the restoration of the knowledge test for Private Hire Vehicle Drivers.



Castle Point Borough Council

Forward Plan

FEBRUARY 2020

CASTLE POINT BOROUGH COUNCIL

FORWARD PLAN

FEBRUARY 2020

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 continual

Date	<u>Item</u>	Council Priority	Decision by Council/ Cabinet	Lead Member(s)	Lead Officer(s)
February 2020	<u>Oikos – Development Consent Order</u>	Housing and Regeneration	Cabinet	Regeneration and Business Liaison	Head of Place and Policy
February 2020	<u>Budget and Policy Framework</u> To make recommendations to Council on the Council tax and budget setting.	All	Cabinet/ Council	Finance, Policy & Resources	Strategic Director (Resources)
February 2020	<u>Housing Revenue Account Rent Levels 2020/2021</u> <u>Housing Capital Programme etc</u> - For approval	A Commercially and Democratically Accountable Council Housing and Regeneration	Cabinet	Housing and Council Homes / Finance, Policy & Resources	Strategic Director (Resources) Head of Housing and Communities
March 2020	<u>Housing Management System Procurement – for approval</u>	Housing and Regeneration	Cabinet	Housing and Council Homes Finance, Policy & Resources	Head of Housing and Communities
March 2020	<u>Housing Allocations Policy – For approval</u>	Housing and Regeneration	Cabinet	Housing and Council Homes	Head of Housing and Communities
March 2020	<u>Private Sector Housing Strategy Report</u>	Housing and Regeneration	Cabinet	Housing and Council Homes	Head of Environment

CABINET

19th February 2020

Subject: Housing Revenue Account (HRA) – 2020/21 Rent Levels, Revenue Budget and Capital Plan for 2020/21 and 2019/20 Revised

**Cabinet Member: Councillor Stanley – Finance, Policy and Resources
Councillor Mrs Egan – Housing and Council Homes**

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 2020/21.
- HRA Revenue budget for 2019/20 (revised) and 2020/21.
- HRA Capital Plan for 2019/20 (revised) and 2020/21.

2. Links to Council's priorities and objectives

The approval of the HRA Revenue and Capital budget supports the Council priorities of Environment, Housing and Regeneration, Health and Community Safety and A Commercial and Democratically Accountable Council.

3. Recommendations

That:

- 1. A rent increase of 2.7% for all social rent HRA dwellings be agreed, resulting in an average increase of £2.35 per week.**
- 2. A rent increase of 2.7% for all affordable rent HRA dwellings be agreed, resulting in an average increase of £4.50 per week.**
- 3. A rent increase of £1 for all council owned garages is applied in 2020/21.**
- 4. The HRA revenue budget for revised estimate 2019/20 and estimate 2020/21, as set out in Annexe A, is approved.**
- 5. The HRA capital plan for revised estimate 2019/20 and estimate 2020/21, as set out in Annexe B, is approved.**

Resolution required.

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 several changes to the original “deal” which authorities entered.

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, but as a result of work undertaken to phase capital repairs identified in the stock condition survey the business plan is sustainable, but does identify a period between 2023/24 and 2032/33 where budget gaps exist that will require detailed work to be undertaken so that proposals to address these gaps can be prepared.

4.7 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 proposed rents for 2020/21 in this report.

4.8 As reported last year most social landlords charge rent on a weekly basis with the weekly rent debited to the tenants rent account on the Monday of each week. In most years there are 52 Mondays in the financial year from 1 April to 31 March but every six to seven years 53 Mondays fall in a financial year and this is the case in 2019/20. It has been highlighted that this may cause an issue for tenants in receipt of Universal Credit as this is paid monthly, so would not recognise the additional weeks rent charged in 2019/20. Representations continue to be made to Government around this issue, that would potentially see one weeks rent for UC applicants (approximately **72** accounts totalling **£8,000**) not being paid, the Council will monitor the outcome of these discussions to ensure that they are not disadvantaged.

Supporting People Funding

4.9 As reported previously, 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.

4.10 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.

Repairs and maintenance

4.11 A programme of planned maintenance for 2020/21 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 during 2018 and updated based on work undertaken. 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 HRA budget.

4.12 The HRA budget includes provision in current and future years to reflect the ongoing Property Management Service currently provided by South Essex Homes.

4.13 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 4.6 above the ability to undertake this type of work is limited. Cabinet will however be aware that despite these limitations, construction of two 2 bedroomed homes at a previous garage site in Windsor Gardens totalling **£441k** and four 2 bedroomed bungalows at a previous garage site in Church Close totalling **£913k** were commenced in 2019/20, due for completion by early 2020/21. Both of these developments are funded principally from capital receipts received in relation to right to buy sales, open market sales and s106 obligations from developers.

- 4.14 Within the General Fund Capital Plan (see the overall Policy Framework and Budget Setting report) provision is also made for a 9 bedroomed development to be used for the provision of temporary accommodation for homeless households totalling **£805k**. This is being partly funded from replacement housing receipts from right to buy receipts with the balance being funded by Minimum Revenue Provision charges to the General Fund over a 20-year period.
- 4.15 The Capital Plan constitutes an affordable core plan that can be financed within the HRA business plan.
- 4.16 In April 2012 and as part of the implementation of HRA self-financing, a borrowing cap of **£37.5m** was placed on the authority, meaning that the authority could borrow up to a further **£1m**. The autumn 2018 budget announced that, subject to final consultation, this borrowing cap would be removed so that local authorities would be permitted to undertake additional borrowing to enable investment in new homes. Any additional borrowing will be subject to financial viability and be affordable within the 30-year HRA Business Plan.

Basis for preparation of estimates

- 4.17 Estimates have generally been prepared by the Housing and Communities Department and agreed with the Resources 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 2020/21. 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.
- 4.20 It should be noted that Housing Services are currently evaluating the viability of implementing a new Housing Management System, as part of which the project costs are currently being prepared for Cabinet approval in March 2020. These are not reflected in the attached estimates.

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 2.7% increase in rent applied based up September 2019 CPI of 1.7% + 1% as per the rent setting formula.

	Rent 2019/20 £	Increase £ %		Rent 2020/21 £
Formula rent	87.22	2.34	2.68	89.56
Limit rent	87.23	2.37	2.72	89.60
Actual rent	87.17	2.35	2.70	89.52

- 5.2 The increase on the three rental levels are all moving in unison with Actual rent still being below Limit rent thus minimising the risk of any Housing Benefit subsidy loss and below Formula rent indicating that there are still some unconverged rent levels being charged.
- 5.3 The proposed 2020/21 average weekly rent for Castle Point is **£89.52**, an increase of **£2.35** on the actual average 2019/20 rent of **£87.17**.

HRA Affordable Rent

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

	Rent 2019/20 £	Increase £ %		Rent 2020/21 £
Actual rent	166.57	4.50	2.70	171.07

Garage Rents

- 5.5 It is proposed to implement a £1 rent increase for Council owned garages for 2020/21. The last increase applied was in 2019/20.

Revenue and Capital Estimates

- 5.6 Annexe A presents the HRA revenue estimates and Annexe B presents the HRA Capital Plan, the latter should be read in conjunction with the Corporate Capital Strategy section of the Policy Framework and Budget Setting. There are columns on both annexes for:

- Actual expenditure / income for 2018/19.
- Original estimate for 2019/20 as approved by Cabinet on 20th February 2019, updated where applicable for any subsequent approved amendments since that date.
- Revised estimate for 2019/20 now submitted for approval.
- Estimate for 2020/21 now submitted for approval.

HRA Reserves

- 5.7 The advice of the Strategic Director (Resources) on HRA reserves is that a safe minimum level would be approximately **£533k** as at 31 March 2020 and **£545k** as at 31 March 2021. 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 2019/20 and 2020/21 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 through to 2019/20 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 2020/21 Capital Plan is currently mainly 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 2020/21 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 6th April 2020.

Preparation for implementation of the 2020/21 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

Direction on the rent standard from 1 April 2020 (MHCLG)

Welfare Reform and Work Act

Report Author: David Randerson – Housing Development and Finance Manager & Chris Mills – Strategic Director (Resources)

Housing Revenue Account - Revenue budgets

No	Housing Revenue Account summary	Note	2018/19 Actual	2019/20 Estimate	2019/20 Revised	2020/21 Estimate
			£000s	£000s	£000s	£000s
	Income					
	Gross dwelling rents		(6,873)	(6,893)	(6,892)	(6,908)
	Gross non-dwelling rents		(122)	(143)	(115)	(116)
	Charges for services and facilities		(609)	(612)	(625)	(627)
1	Total Income		(7,604)	(7,648)	(7,632)	(7,651)
	Expenditure					
	Supervision and management		2,333	2,359	2,738	2,630
	Repairs and maintenance		1,665	1,483	1,546	1,405
	Increased provision for bad or doubtful debts		3	50	80	25
	Rents rates taxes and other charges		184	157	157	161
	Sheltered housing transitional protection		7	7	7	7
	Depreciation and revaluation/impairment of fixed assets		1,629	1,683	1,777	1,834
2	Total Gross Expenditure		5,821	5,739	6,305	6,062
3	Net cost of HRA services		(1,783)	(1,909)	(1,327)	(1,589)
4	Total other operating Income and Expenditure	1	924	1,290	1,034	1,034
5	Total Net Statutory Adjustments	2	86	(41)	26	24
6	(Surplus) on HRA services		(773)	(660)	(267)	(531)
	Reserves					
	HRA Main Reserve					
7	Reserve balance brought forward		3,499	3,494	3,494	2,983
8	Surplus/(deficit) for the year		773	660	267	531
9	Transfer (to) / from HRA Earmarked Reserves		(778)	(778)	(778)	(778)
	Reserve balance carried forward		3,494	3,376	2,983	2,736
	HRA Earmarked Reserves	3				
10	Reserve balance brought forward		4,668	5,446	5,446	6,224
11	Net transfer to / (from) HRA Earmarked Reserves		778	778	778	778
	Reserve balance carried forward		5,446	6,224	6,224	7,002
	Notes					
1	Various including interest payable and receivable and asset valuation adjustments					
2	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					
3	HRA earmarked reserves including a specific reserve for sums set aside for future repayment of loans					

Housing Revenue Account - Capital Plan

No	Housing Revenue Account Capital Plan summary	Note	2018/19 Actual	2019/20 Estimate	2019/20 Revised	2020/21 Estimate
			£000s	£000s	£000s	£000s
1	Annual Programmes for replacement and repair					
	Disabled adaptations to council properties	1	171	168	168	120
	Central heating replacement	2	353	396	404	200
	Window Replacements		0	65	65	122
	Insulation		0	50	76	10
	Kitchen replacement and improvements	2	138	340	340	311
	Environmental improvements		33	73	30	50
	Roofing maintenance	2	0	80	80	229
	Structural repairs		0	0	0	0
	Electrical rewiring	2	32	43	43	38
	Chimney Replacement		0	5	9	14
	Replacement Doors		0	663	423	55
	Bathroom replacement and improvements	2	31	241	241	228
	Maintenance and redevelopment of communal areas	2	116	73	73	60
	UPVC fascias and soffits		188	0	76	70
	Wall finishes	2	0	36	10	99
2	New Build construction and Periodic Programmes					
	Affordable Housing		17	20	30	20
	New Build at Lawns Court		22	0	0	0
	New Build at Church Close	3	45	867	867	0
	New Build at Windsor Gardens	4	37	404	404	0
	Refurbishment of ex-wardens accommodation		0	0	40	0
	Purchase 60 North Avenue	5	0	295	295	0
	Demolition at Linden Way		0	0	43	0
	Fire and CO Detector installation	6	141	59	20	0
	Digital TV		0	0	3	125
	Lifts		0	0	0	15
	Unallocated Provision	7	0	100	50	100
			1,325	3,978	3,791	1,864
Notes						
1	Two cases requiring significant adaptations, such as an extension to a property, have arose in 2018/19 based on occupational therapist recommendations, completed 2019/20					
2	Changes resulting from the updated stock condition survey					
3	Budget approved by Cabinet June 2018					
4	Provision for new development agreed as part of report to Cabinet in January 2019					
5	Purchase of property for provision of temporary accommodation agreed at Cabinet September 2019					
6	Programme completed in 2019/20.					
7	Unallocated provision used to support updated programmes					
8	2019/20 Estimate figures include budgets rolled forward from 2018/19 approved by Cabinet in June 2019					

CABINET

19th February 2020

**Subject: Oikos Marine and South Side Development –
Development Consent Order**

**Cabinet Member: Councillor Smith – Leader of the Council;
Councillor Mumford – Regeneration and Business
Liaison.**

1. Purpose of Report

To provide an overview of the Development Consent Order (DCO) process for the proposed expansion of the Oikos Port on Canvey Island and to approve the inclusion within the DCO the hazardous substances consent.

2. Links to Council's Priorities and Objectives

Environment – the DCO process will thoroughly assess the environmental impacts on the expanded port.

Health and Community Safety – the DCO process can include other consents within one consent.

3. Recommendations

1 That the Cabinet notes the Development Consent Order process and the role of the Council.

2 To approve the inclusion within the Development Consent Order the Hazardous Substances Consent and waive the Council's determination of such a consent only in respect to the matters identified in the Development Consent Order.

3 That a report is made to Cabinet in respect of the Council's representation to the Development Consent Order.

4. Background

OIKOS

- 4.1 Oikos Storage Limited is a nationally significant oil, fuel and bulk liquid import and storage facility, located on Canvey Island. The port was first established in 1936 and has grown to include two jetties; over 35 storage tanks; road loading facilities; and connections into national fuel pipelines.
- 4.2 The facility imports, stores and distributes refined liquid fuels, principally diesel and aviation fuel – including to London Heathrow, Gatwick and Stansted Airports.
- 4.3 The port and storage facilities have been expanding, with the last expansion completed in 2018, which included Jetty 2 to take larger ships, and the refurbishment of 12 storage tanks. Old tanks near the seawall have also been removed.
- 4.4 In order to meet future demand Oikos propose to expand the port and storage facilities. This expansion is by up to 5 million cubic tonnes and is known as the Oikos Marine and South Side Development (OSMSSD)
- 4.5 The scale of the proposal means that the application **must** be made using the Development Consent Order process rather than a planning application to the Council as the local planning authority. This requirement is set out in planning law.

Development Consent Order

- 4.6 The Development Consent Order (DCO) was introduced in the Planning Act 2008. The explanatory memorandum to Part 3 of the Act defines that the Orders can apply to projects '*within one of the following fields: energy, transport, water, waste water and waste.*'
- 4.7 The purpose of the DCO is to speed up the consenting process for large and complex infrastructure projects. Applications for developments within the categories in para 4.6 above, and over the size thresholds, require, by law, that they are considered by the Planning Inspectorate through a Development Consent Order, rather than a planning application to the local planning authority.
- 4.8 Therefore, the Council will not determine the DCO application, but would be a key consultee engaged in all stages of the DCO process.
- 4.9 The DCO process is divided into 6 stages:

1 Pre-application

Applicants have a statutory duty to undertake consultation on their proposals. This is the best time for stakeholders to seek to influence the application. To date the Oikos project has been launched, but further pre-application consultation is planned for later this year when there are further details on the proposals.

2 Acceptance

When the application is submitted to the Planning Inspectorate, the Inspectorate has 28 days within which it must decide whether the application meets the standards required to be accepted for examination.

3 Pre-examination

Following successful submission of the application, the applicant must publicise their proposals and allow for a period during which Interested Parties may make a 'Relevant Representation.' These must be made in writing.

At this stage an Examining Authority (Inspectors) will be appointed and all Interested Parties will be invited to attend a Preliminary Meeting held by the Examining Authority. Although there are no statutory timescales for this period, it usually takes approximately three months from applicant's formal notification and publicity of an accepted application.

4 Examination

The Planning Inspectorate has six months within which to carry out the examination. During this period Interested Parties are invited to submit more details of their views. The Examining Authority must consider all of the representations, including those posed at the hearing(s). The Examining Authority will identify what specific issues will be discussed and who will be invited to attend. The Hearings are normally held in the local area.

5 Recommendation and Decision

The Planning Inspectorate must prepare a report on the application and recommendation within three months of the close of the Examination stage. The relevant Secretary of State (depending on the development) has a further three months to decide on whether to grant or refuse the Development Consent Order.

6 Post decision

Once a decision has been issued by the relevant Secretary of State, there is a six-week period within which the decision can be challenged in the High Court.

The contents of the DCO – Hazardous Substances Consent

- 4.10 Complex infrastructure projects of national importance require a multitude of consents. The DCO process allows for the inclusion in one application a wide range of consents. This helps to streamline the consent process, whilst also providing an appropriate level of scrutiny for each consent through Examination.
- 4.11 In this instance, the applicants have indicated that they are seeking various planning, marine and environmental approvals.

- 4.12 As the proposed use of the expanded site is for the importation, storage and distribution of hazardous materials (fuels) a Hazardous Substances Consent (HSC) is also required. A HSC is a standalone consent, determined by the hazardous substances authority – Castle Point Borough Council.

- 4.13 Hazardous Substances are defined in Schedule 1 of the Planning (Hazardous Substances) Regulations 2015. National guidance states:

The hazardous substances consent process ensures that necessary measures are taken to prevent major accidents and limit their consequences to people and the environment. This is a key part of the controls for storage and use of hazardous substances which could, in quantities at or above specified limits, present a major off-site risk. The system of hazardous substances consent does not replace requirements under health and safety legislation.

Hazardous substances consent provides control over the presence of hazardous substances whether or not an associated planning permission is required. Where the presence of a hazardous substance is directly associated with a proposed development, local planning authorities can exercise control through the decisions on applications for planning permission.

The consent process regulates the storage and use of hazardous substances and enables breaches of control, which may present serious risks, to be dealt with quickly and effectively.

Separate health and safety law ensures measures are in place for the safe use of hazardous substances. However, even after measures have been taken to prevent major accidents, there will remain the residual risk of an accident which cannot entirely be eliminated. Hazardous substances consent ensures that this residual risk to people in the vicinity or to the environment is taken into account before a hazardous substance is allowed to be present in a controlled quantity. The extent of this risk will depend upon where and how a hazardous substance is present; and the nature of existing and prospective uses of the application site and its surroundings.

(Hazardous Substances Planning Guidance – last updated December 2019)

- 4.14 The applicant has requested that the HSC is included within the DCO. In doing so, the Council must agree to its inclusion within the DCO and allow for the need for a separate HSC to be removed.
- 4.15 Planning policy on Hazardous Substances does allow for such a consent to be granted by a DCO to ‘provide a ‘one stop shop’ for consenting for nationally significant infrastructure projects.’ This is also supported by Paragraph 27 of the Planning Act 2008 Guidance on the pre-application process, which required that the relevant authority ‘should make every effort to facilitate this’ and they should ‘only object to the inclusion of such non-planning consents with good reason, and after careful consideration of reasonable alternatives.’
- 4.16 Its inclusion in the DCO will allow for the HSC to be given full and proper scrutiny through the examination process. This allows local residents, the Council and stakeholders (such as the COMAH Authority – the Health and

Safety Executive and Environment Agency) to make representations on the proposals.

- 4.17 The reasonable alternative will be for the Council to determine the HSC as a separate consent. To do so would still involve consultation with the COMAH Authority (the Health and Safety Executive and the Environment Agency), and consultation with a wide range of local stakeholders (such as the police and fire and rescue service) as well as local residents. All of these will be consulted on the DCO.
- 4.18 Given that the DCO application will involve widespread engagement and consultation, transparency in terms of the operation and use of the site, with the highest level of scrutiny through the examination process, it is prudent that the Hazardous Substances Consent is included within the DCO.
- 4.19 This does not diminish the Council's influence over the use of the site. As a consultee on the DCO, the Council will be a very active participant in the DCO process and will be able to influence, negotiate and control the terms of the Hazardous Substances Consent. It also ensures that there is consistency in the decision making and conditions applied; avoids duplication; and avoids the confusion of multiple consents.
- 4.20 It is recommended that the Council agrees to the inclusion of the Hazardous Substances Consent within the Development Control Order for the OMSSD.

Next Steps

- 4.21 As outlined in the report, the applicant for the DCO will undertake further pre-application consultation when the proposals have been developed.
- 4.22 It is proposed that the applicant enters into a Planning Performance Agreement with the Council which will set out the details of Council's role and inputs, resource requirements and funding.
- 4.23 The Council will be formally asked to comment when the DCO application has been submitted. That response together with project updates will be reported to Cabinet.

5. Corporate Implications

(a) Financial Implications

The Council will have a considerable input into the DCO. A planning performance agreement will be agreed with the applicant which will set out how the Council will resource its input and the funding contribution to be made by the developer to ensure that the Council can resource the project.

(b) Legal Implications

The DCO process is governed by the Planning Act 2008 and relevant amendments through other Acts, and by regulations. Details on legal implications as they may affect the Council will be set out in further reports.

(c) Human Resources and Equality Implications

The Planning Performance Agreement will provide scope for the resourcing of the Council's inputs into this project.

(d) IT and Asset Management Implications

The publicity of this project and data stores for this project will be set up and held by the applicant and the Planning Inspectorate.

6. Background Papers

None unless stated in the report

Report Author:

Ian Butt – Head of Place and Policy

CABINET

19th February 2020

Subject: Policy Framework and Budget Setting for 2020/21

Cabinet Member: Councillor Stanley – Finance, Policy & Resources

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 2020/21. The Cabinet should consider these and make appropriate recommendations to Council at the meeting to be held later this evening.
- 1.2 All precepting organisations with the exception of Essex County Council (ECC) have confirmed decisions on their precepts for 2020/21 and these are included within section 18 of the accompanying report, together with the Borough Council's own information. Information in respect of ECC is (at the time of writing this report) unconfirmed but unlikely to change from that contained within this report. However, should a change occur it will be tabled on the night of the meeting.
- 1.3 The Rt Hon Robert Jenrick MP made a written statement to Parliament on 6 February 2020, confirming the publication of the 2020/21 Final Local Government Finance Settlement.

2. Links to Council's priorities and objectives

- 2.1 This report is linked to the Council's priority of A Commercial and Democratically Accountable Council. Sound and strategic financial management is essential in order to ensure that resources are available to support the Council's priorities and maintain or improve services.
- 2.2 This report is designed to provide Members with the latest information on the future cost of spending plans and levels of resources.

3. Recommendations

Implementation of Council policies and related spending plans

- 1. That the Cabinet note the efficiency savings, cost reductions and additional income summarised in table 2.3.
- 2. That the Cabinet approves the continued funding of priority projects and other items of discretionary expenditure, as set out in table 9.2.
- 3. That the Cabinet notes the cost pressures and budget increases (growth) as set out in table 9.3.

4. That subject to recommendations 1 to 3 above, the revenue spending plans for 2019/20 (revised) and 2020/21, set out in section 9, tables 9.4 (summary) and 9.5 (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 2019/20 (revised) and 2020/21.
6. That as required by section 3 of the Local Government Act 2003, and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), the following Prudential Indicators are approved as set out in the appropriate sections of the accompanying report:

Prudential Indicator - Reference to sections 11, 12 and 13 of accompanying report	
Capital expenditure	Tables 11.2 and 11.3
Capital financing requirement (CFR)	Table 11.4
Authorised limit for external debt	Table 11.5
Operational boundary for external debt	Table 11.6
Ratio of financing costs to new revenue stream	Table 11.7 (a & b)
Gross external borrowing does not exceed CFR	Section 11 – para 52
Maturity structure of fixed rate borrowing - upper and lower limits	Table 12.2
Upper limits of fixed and variable interest rate exposures	Table 12.3
Maximum period and counterparty limits for specified and non-specified investments	Table 13.2, 13.3 & 13.4

7. That the Statement of Minimum Revenue Provision for 2020/21, as stated in paragraphs 54 to 58 of section 11 of the accompanying report is approved.
8. That no new capital proposals are allowed until:
- the proposal has been evaluated in accordance with relevant evaluation criteria;
 - the Cabinet has confirmed affordability and compliance with the Prudential Code for Capital Finance in Local Authorities;
 - the Cabinet has considered and approved details of the proposal.
9. That, as stated in paragraph 66 of section 11 of the accompanying report, and as required by the Prudential Code, the statement of the Strategic Director (Resources) in respect of the affordability, deliverability and appropriateness of risk management arrangements with respect to the Capital Strategy is noted.
10. That the policies and strategies supporting the budget framework and contained within the accompanying report are approved.

Statutory report of the Strategic Director (Resources)

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

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

13. That as set out in section 5 of the accompanying report it is noted that acting under delegated authority and in consultation with the Cabinet Member responsible for Finance, Policy & Resources, the Strategic Director (Resources) has calculated:
- a) A tax base for the Borough of Castle Point of **30,969** 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 **11,952**.
14. That the following amounts be calculated for the year 2020/21 in accordance with sections 31 to 36 of the Act:

Ref	Amount £	Item
(a)	50,056,309	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)	47,654,798	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	8,401,511	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 R in the formula in Section 31B of the act)
(d)	271.29	being the amount at 14(c) above (item R), divided by item T (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)	251,709	being the aggregate amount of the (Parish (Town) precepts) referred to in Section 34(1) of the Act.
(f)	263.16	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 2020/21 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 2020/21, including and excluding Town Council precept, for each of the following categories of dwelling:

Band	Council Tax Including Town Council £	Council Tax Excluding Town Council £
A	189.48	175.44
B	221.06	204.68
C	252.64	233.92
D	284.22	263.16
E	347.38	321.64
F	410.54	380.12
G	473.70	438.60
H	568.44	526.32

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:

Band	Castle Point Borough Council	Essex County Council	Essex PFCC - Fire and Rescue Authority	Essex PFCC - Policing and Community Safety	Total excluding Town Council	Canvey Island Town Council	Total including Town Council
	£	£	£	£	£	£	£
A	175.44	880.74	49.26	132.42	1,237.86	14.04	1,251.90
B	204.68	1,027.53	57.47	154.49	1,444.17	16.38	1,460.55
C	233.92	1,174.32	65.68	176.56	1,650.48	18.72	1,669.20
D	263.16	1,321.11	73.89	198.63	1,856.79	21.06	1,877.85
E	321.64	1,614.69	90.31	242.77	2,269.41	25.74	2,295.15
F	380.12	1,908.27	106.73	286.91	2,682.03	30.42	2,712.45
G	438.60	2,201.85	123.15	331.05	3,094.65	35.10	3,129.75
H	526.32	2,642.22	147.78	397.26	3,713.58	42.12	3,755.70

17. To note that, in accordance with the requirements of section 52ZC of the Act the Council has determined whether it's Relevant Basic Amount of Council Tax for 2020/21 is excessive.

For 2020/21, 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 2020/21 is:

- (a) 2%, or more than 2%, greater than its relevant basic amount of Council Tax for 2019/20; and
- (b) More than **£5.00** greater than its relevant basic amount of Council Tax for 2019/20.

Ref	Amount £	Item
(a)	258.03	being the Relevant Basic Amount of Council Tax for 2019/20, excluding local precepts.
(b)	2.0%	being the percentage increase above which the Secretary of State has determined the Relevant Basic Amount of Council

		Tax for 2020/21 would be excessive.
(c)	263.19	being the amount above which the Relevant Basic Amount of Council Tax for 2020/21, excluding local precepts, would be excessive (rounded down to the nearest penny).
(d)	263.16	being the Relevant Basic Amount of Council Tax for 2020/21, excluding local precepts.

The Relevant Basic Amount of Council Tax for 2020/21 is therefore not excessive and the duty to make substitute calculations and hold a referendum does not apply (Chapter 4ZA of Part 1 of the Act).

Resolution required.

4. Background

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

- The background to the key policy issues including the assumptions adopted in formulating the financial forecast around government support, price increases and assessment of minimum level of general fund reserves.
- The Council's financial targets and the medium-term financial forecast.
- Revenue and capital spending plans.
- Prudential indicators.
- The various policies and strategies which support the budget framework including the Capital Strategy.
- The statutory budget and Council Tax calculations required for 2020/21.

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 2020/21 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 2020/21 financial year, exceed the minimum recommended level of **£2m**.
- 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 2021/22 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 2020/21. These are set out in full in the Policy Framework and Budget Setting 2020/21 report attached.

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

b) Legal Implications

6.3 This report is presented by me in my role as "section 151 officer" – the officer appointed to have responsibility for the Council's financial administration. It covers all those matters required by legislation for setting a budget and Council Tax.

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

6.5 The proposals in this report are based on a Council Tax increase of **1.99%** resulting in the Borough Council Band D charge of **£263.16**.

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 2020/21 the principles are that the Council would be required to seek the approval of the local electorate in a referendum if, compared with 2019/20, it set Council Tax increases of **2.0%** or **£5** whichever is the greater.
- 6.8 The Council's calculations in this regard are given at recommendation 18 above.

c) Human resource implications

- 6.9 There are no new implications within this report.

d) Equality implications

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

e) Timescale for implementation and risk factors

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

7. Conclusion

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

Background Papers:

- Draft local government finance report 2020 to 2021, December 2019 Ministry of Housing, Communities and Local Government

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



Policy Framework and Budget Setting for 2020/21

(Incorporating the Financial Planning and Capital Strategy)

Report of Chris Mills FCPFA, Strategic Director (Resources)



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1 Financial Planning Strategy

Introduction

- 1 Ongoing delivery of priority services is the central focus of the Council's Financial Planning Strategy. Departmental Service Action Plans are produced annually, supported by detailed financial projections covering both revenue and capital cost implications. These plans are directly linked to the Council's Corporate Plan and therefore reflect the Council's key priorities and objectives for the medium term.
- 2 The Financial Planning Strategy sets out how the Council plans to resource the delivery of its services and is applied in compiling the Council's medium-term financial forecast, considering:
 - The Financial Settlement for Local Government that determines the amount of Government Grant and redistributed funding the Council receives towards its expenditure.
 - Developments in the economy, including key external influences and drivers.
 - Changes in Government policy, legislation or regulation.
 - Financial risks which may or may not materialise over the lifetime of the strategy.

Key principles of the Strategy

- 3 The strategy is based on the following key principles:
 - Informed by detailed Departmental Service Action Plans containing the revenue and capital cost implications of the Council's services.
 - Balanced and Affordable Budget - spending on services is contained within resources, managed by identifying efficiency savings and redirecting the use of existing resources.
 - Adequate Reserves – making sure the Council has enough reserves to meet identified risks, unbudgeted increases in costs and to manage the impact of cyclical spend across the Council's financial forecast.
 - Council Tax Levels – assuming that, unless there are inescapable cost increases above inflation or significant reductions in other funding, Council Tax levels will increase by no more than the maximum permissible without holding a council tax referendum as set out annually by the Secretary of State (MHCLG).

Requirements of the Strategy

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

- Flexibility – gives budget holders sufficiently wide delegated powers to enable them to respond promptly to the changing needs of service delivery.
- Charges for Services – maintains a charging policy which is consistent, clear and fair to both the direct users of services and Council Taxpayers in the Borough.
- Asset Management – ensures the budget reflects the annual impact of repairs and renewals and the outcome of property reviews and stock condition surveys.

Actions to support the Strategy

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

- Rolling Five-Year Financial Forecast – based on the strategy, updated on a rolling basis and considered regularly at Cabinet meetings.
- Annual Budget Process – agreed each year to enable the Council's budget to be set within the guidelines of the strategy.
- Financial Monitoring – budget holders are responsible for monitoring their budgets. The Executive Management Team conduct monthly reviews of those budgets identified through risk assessment or where expenditure or income budget variances exceed certain thresholds. Reports focus on large, high risk or volatile budgets, as well as areas identified by service accountants during the monthly review of detailed management reports. Matters of exception are referred to Members.
- Cabinet monitors the effectiveness of budgetary control and operational performance, keeping budget holders accountable and taking appropriate action to reduce identified risks. Cabinet Members receive monthly operational reports and bi-monthly high-level reports are presented to formal Cabinet meetings, including updates on the Medium-Term Financial Forecast and explanation of financial developments which may impact on the forecast going forward.
- Evaluation of New Proposals – the financial and human resource implications of new proposals and their impact on the financial strategy are considered at the outset and included in relevant Cabinet reports.
- Operation of flexible arrangements for amending budgets in response to changes in circumstances that affect service delivery.

2 Commercial Strategy

Introduction and background

- 1 Reductions in central government funding, higher user expectations and increased demand for welfare-related services has meant that the public sector continues to face a challenging time on many fronts.
- 2 Over the last decade, the Council has seen dramatic reductions in funding from central government. For example, in 2010/11 Castle Point received combined Revenue Support Grant and Redistributed Business Rates in the region of **£6.7m**. Distribution mechanisms and formulae have changed in this time but the nearest equivalent comparison for 2020/21 is only **£1.5m**, i.e. less than a quarter of what it was. Furthermore, Castle Point's reductions have been even more severe than the average for shire districts.
- 3 Local authorities are also expected to absorb the financial pressures of responsibilities displaced / transferred from central government and other partner organisations as they too strive to deliver services with less resources, and whilst the Council has made impressive savings, certain cost increases, for example inflation and those associated with new and legislative changes, are unavoidable.
- 4 Formulating a balanced budget each year is becoming increasingly more difficult particularly when the organisation is dependent on funding which is not confirmed until literally weeks before the start of each financial year. In this context financial planning beyond a single year is extremely difficult and naturally results in a more cautious approach. The Council's financial forecast currently indicates that whilst its budget is balanced for 2020/21, funding gaps are predicted for future years. Table 2.3 below summarises the savings, cost efficiencies and or additional revenue which have effectively closed the funding gap for 2020/21.
- 5 The Council is not a commercial organisation but is a democratically accountable provider of services that are publicly funded. However, the services which it delivers could be managed with a commercial ethos as a way of at least partly overcoming the challenges described above.

The case for financial self-sufficiency

- 6 Traditionally local government has been dependent on two main sources of funding in order to deliver services: Council Tax and central government funding. Restrictions on the ability to raise local taxation and a reluctance to charge full cost for discretionary services, has historically led to dependence on central government funding. Now that funding has diminished, greater emphasis is placed on locally raised revenue streams such as service specific fees and charges and charges for discretionary functions. Table 2.1 demonstrates how the funding proportions of the Council have altered over the last ten years.

Table 2.1 Funding profile 10 year comparison				
	2010/11		2020/21	
	£000's	%	£000's	%
Local Council Tax	7,265	41%	8,150	45%
Business Rates, Revenue Support Grant and s31 Grant - net of levy and tariffs	6,650	38%	2,815	15%
Local Fees and Charges, Sales, Rents and Memberships	3,712	21%	7,227	40%
Total funding for local services	17,627		18,191	

- 7 The table shows that in 2010/11 local services were funded by **41%** Local Council Tax, **38%** Business Rates and central government grants and **21%** revenue raised locally. By 2020/21 the proportions will have shifted to **45%**, **15%** and **40%** respectively.

8 Whilst the overall financial value for both years is similar, the change in the Consumer Prices Index (CPI) over the same period is reported as **22.4%** which clearly demonstrates the financial pressure which local government has needed to respond to in order to maintain services.

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

Commercialism key principles

10 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 key principles. These are summarised below, and work is currently in progress to set these out within a Commercial Strategy for the Council.

- 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.

11 Commercialism means different things to different organisations but for Castle Point it includes a focus on raising and maintaining additional revenue, establishing greater financial awareness in terms of our costs, how those costs interact with and affect the associated income generated, and smarter ways of working in order to reduce those costs.

12 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

13 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 Taxpayers in the borough.

14 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.

15 Table 2.2 shows the value of revenue raised by the Council in fees and charges in 2010/11 and budgeted for in 2020/21 as a proportion of the funding profile shown above. The Council has made significant gains in key areas, for example Leisure Services and Car Parks, largely driven by fundamental service reviews and changes in policy.

Table 2.2 Local Revenue	2010/11		2020/21		Change	
	£000's	%	£000's	%	£000's	%
Local Fees and Charges, Sales and Rents (Including Leisure and Car Parks)	3,712	21%	7,227	40%	3,514	49%
Local Fees and Charges, Sales and Rents (Excluding Leisure and Car Parks)	1,775	10%	3,615	20%	1,840	51%
Leisure Income	1,377	8%	2,539	14%	1,162	46%
Car Parks Fees and Charges	561	3%	1,073	6%	512	48%

Note: percentages shown in columns headed 2010/11 and 2020/21 indicate the revenue category as a percentage of the total funding for local services for the respective year.

- 16 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 Taxpayers in the borough.
 - Understanding the true cost of discretionary and chargeable functions and levels of subsidisation.
 - Working to reduce the level of subsidisation of chargeable and discretionary services to ensure that Council Tax is fully utilised in support of non-chargeable and mandatory services and functions.
 - Adopt appropriate procedures for the collection of fees & charges to minimise the risk of non-collection.
 - Ensuring that these principles and procedures are fully and consistently applied by all applicable services.
 - Identifying new sources of revenue.
- 17 Section 10 of this report provides information regarding the Council's charging policy.
- Deliver services in the most appropriate ways**
- 18 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 using smart technology. Local authorities are expected to do new things with reduced resources and to be accessible 24/7.
- 19 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**
- 20 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 Taxpayers in the borough. As budgets

are squeezed still further the Council will have to proactively review its assets to ensure that they are being used to their full potential and are affordable in terms of both ongoing capital and revenue costs. The Council will therefore continue to review its assets to ensure that the best outcomes are achieved for the Council Taxpayer.

21 The Council will:

- Be proactive in its asset management, rationalising assets used and maximising revenue.
- Maintain our buildings and facilities so that they are attractive to hirers and users of our facilities.
- Promote our facilities.
- As far as possible, ensure that our facilities are self-funded.
- Undertake a “gap analysis” and ensure that current practices are brought into line with our commercial principles.

Table 2.3 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast

Ref.	Description of cashable efficiency item, cost reduction or additional income	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
	All services, Central & Corporate areas				
1	Resources - review of service and salary savings	(28)	(24)	(25)	(77)
2	Council Tax revenue share back agreement with preceptors (confirmed for 2020/21)	0	(300)	(200)	(500)
3	Increased interest on investments	(41)	(95)	(95)	(231)
4	External audit fees - reduction in costs	(3)	(10)	(11)	(24)
5	Savings on utility costs following re-procurement (major sites)	(22)	(74)	(67)	(163)
6	Business Rates - reduction in budget	(8)	(9)	(9)	(26)
7	Pension - net impact of transactions arising from valuation of pension fund and implications for general fund and earmarked reserve	(8)	(26)	(276)	(310)
8	Saving from cessation of contribution to Disabled Facilities Grants and other Capital adjustments	0	(13)	(26)	(39)
9	Savings on administrative costs	(12)	(26)	(18)	(56)
10	Application of surplus on NNDR Equalisation reserve	0	(352)	0	(352)
	Environment				
11	Environmental Health - salary savings (charged to capital)	(17)	(20)	(11)	(48)
12	Leisure Services - increase in income	(76)	(91)	(93)	(260)
13	Environmental Health - discontinuation of automatic air quality monitoring	0	(7)	(7)	(14)
14	Waterside - savings on utility costs due to improvements (LED lighting and pool covers)	(25)	(16)	(19)	(60)

Table 2.3 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast

Ref.	Description of cashable efficiency item, cost reduction or additional income	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
15	Community Halls, Parks and Open Spaces - increase in income	(38)	(72)	(73)	(183)
16	Structure review - building cleaning and environmental rangers	(10)	(21)	(21)	(52)
17	Refuse and Recycling - additional income (ECC contamination payment)	(1)	(27)	(1)	(29)
18	Car Parks - increase in charges	0	0	(63)	(63)
19	Drowning detection technology - net financial benefit (implementation costs funded from spend to save earmarked reserve £121k)	0	(3)	(44)	(47)
20	Conversion of Waterside squash courts - net financial benefit (implementation costs funded from spend to save earmarked reserve £145k)	0	(10)	(63)	(73)
21	Savings on administrative costs	(66)	(79)	(80)	(225)
	Governance, Law, Planning and Regeneration				
22	Legal Services - salary savings	(9)	(2)	(5)	(16)
23	Discontinuation of Borough Newspaper	(8)	(8)	(8)	(24)
24	Civic Governance - salary savings	(18)	(13)	(10)	(41)
25	Development Control - additional income	(102)	(57)	(58)	(217)
26	Development Control - reduction in overtime budget	0	(2)	(2)	(4)
27	Business Rates savings following demolition of The Crown	0	(14)	(15)	(29)
28	Savings on administrative costs	(31)	(5)	(6)	(42)

Table 2.3 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast					
Ref.	Description of cashable efficiency item, cost reduction or additional income	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
	Housing & Communities				
29	Land Charges - SLA savings	(10)	(6)	(4)	(20)
30	Homelessness - savings on costs from use of 60 North Avenue	0	(20)	(20)	(40)
31	Savings on administrative costs	(36)	(22)	(2)	(60)
32	Homelessness - savings on temporary accommodation	(34)	(34)	(34)	(102)
33	Housing Benefits - reduction in bad debts provision	(91)	0	0	(91)
	Total cashable efficiency savings, cost reductions and additional income	(694)	(1,458)	(1,366)	(3,518)

3 **Budget consultation**

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

Table 3.1 Service Specific Consultation

Service Aspect	Responses
Keeping Dogs on Leads on the Foreshore, Canvey Island	285
Local Plan Consultation	Ends 14/02/20
General satisfaction survey in respect of Leisure Centres, Open Spaces and Street Scene	Ends 31/03/20
Housing – Tennant and Leaseholder Forum	Held bimonthly
Housing – Satisfaction with Responsive Repairs	160

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

Table 3.2 Top 5 most important services

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

Table 3.3 Top 5 least important services

Rank	Service
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 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 years 2019/20 through to and including 2022/23. A new funding mechanism is anticipated to be in place from 2021/22 but it is not known how this may impact on the Council.
- 3 The key features of the forecast are: -
 - That it is informed by current service plans and corresponding costs up rated by inflation predictions and other known cost and/or service changes.
 - That it is based on the Council's financial targets and Government support announcements for 2019/20 and 2020/21.
 - That it reflects the revenue impact of capital expenditure.
 - That years beyond 2020/21 are based on a continuation of existing Government policy, funding mechanisms and local spending plans.
- 4 The latest forecast (excluding the Canvey Island Town Council precept) is shown in table 4.1 on page 13.

Basis of the forecast

- 5 The starting point for the forecast is the revised estimates for 2019/20 and draft estimates for 2020/21 to 2022/23 (provisional), informed by the service planning process for 2020/21. Adjustments are then made for changes to spending levels expected or known to occur over the life of the forecast. In compiling the forecast, account has been taken of the financial implications of wider economic developments, including the impact of interest rate reductions, changes in the housing market and the impact on the Council's various fee charging services. No assumptions have been included in relation to implications which may arise from Brexit.
- 6 An annual inflationary increase is assumed where appropriate for pay, rates, insurances, utilities, contracts and income from fees & charges. There is no allowance for inflation for other items, implying that the relevant budget heads would be subject to a cash freeze.
- 7 The forecast includes the latest information received from Essex County Council Pension Fund in relation to employer's pension contributions. This information has been based on an actuarial valuation carried out on the Pension Fund as at 31 March 2019. These valuations are carried out every three years. This latest valuation is effective for contribution rates included in the forecast from 2020/21 onwards and is based on a 10 year recovery period. The next valuation will be undertaken by the actuary in March 2022, effective for contributions from April 2023.
- 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 2019 has been adopted as the basis for calculations relating to 2020/21 and includes adjustments to reflect the localised scheme for support of Council Tax, as well as the outcomes anticipated to be realised from the ongoing compliance review of discounts and exemptions granted from Council Tax.
- 10 The proposed Council Tax band D value for 2020/21 is indicated at line 20 of table 4.1 and, combined with current spending plans, delivers a balanced budget for the financial year.

- 11 A Council Tax referendum would be triggered by this authority if Council Tax were increased by more than **2%** (previously **3%** in 2019/20) or **£5** on a band D property (whichever is the greater), above the authority's relevant basic amount of Council Tax for 2019/20. The Council's proposed increase is below this threshold.

Commentary on the forecast

- 12 This is a forecast for the guidance of Cabinet/Council and not a policy statement that the position will be as indicated. The forecast shown at table 4.1 indicates the following:
- That the budget for 2020/21 is balanced, however future years are not, meaning that the Council will have to rely on the use of reserves to meet spending plans during these years until such time as the budget gap indicated at line 11 is closed by reducing costs or increasing income streams.
 - That Council Tax levels for 2020/21 will be increased by **1.99%**.
 - Forecast reserves are projected to be above the minimum level of **£2m** recommended by the Strategic Director (Resources) at the end of 2020/21.
 - From 2021/22 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 limited opportunities to plan the use of reserves for non-recurring expenditure, over and above those already earmarked at the present time.
- 13 The forecast incorporates budget reductions and savings recommended by the Executive Management Team as set out in table 2.3 on pages 7 to 9. It is assumed that additional changes in service delivery that are driven by Council priorities are met from surplus resources or increased efficiencies.

Robustness of the forecast

- 14 The underlying spending plans for 2019/20, 2020/21 and 2021/22 to 2022/23 (both provisional), on which the forecast is based, are considered generally robust, subject to any reservations expressed above and in section 16. The figures presented for 2020/21 represent the funding notified to the Council as part of the one-year settlement.
- 15 The Council has already identified significant savings which will impact throughout the financial forecast. Further savings will need to be identified in order to balance the budget for years 2021/22 and beyond.

Monitoring of the forecast

- 16 The forecast is approved by Cabinet and Council in February as part of this budget and Council Tax setting process. If material changes are necessary during the financial year, the Cabinet will be updated accordingly.
- 17 Financial and operational performance indicators are routinely monitored, and performance reported to Cabinet members and the Executive Management Team on a monthly basis. Formal reporting of performance against the financial forecast is undertaken monthly by the Strategic Director (Resources) and reported bi-monthly to Cabinet.
- 18 The financial forecast is a live document linked directly to the detailed budget and therefore reflects the impact of virements, additional revenue and/or changes in services as they occur.

Table 4.1 Medium term financial forecast		2019/20	2020/21	2021/22	2022/23	Notes
Line	Current policies and service plans	£'000s	£'000s	£'000s	£'000s	
1	Total net expenditure / estimated exp. for future years	11,124	12,839	10,374	10,469	Fluctuations year to year are predominantly caused by phasing of maintenance spend, pension payments and other expenditure "offset" by earmarked reserves
	Funding sources					
2	Council Tax	7,944	8,149	8,376	8,637	New funding regime to be introduced from 2021/22
3	Baseline Funding Level - Redistributed Business Rates	1,717	1,907	2,297	2,331	
4	Business Rates - Levy on retained income	(277)	(393)	0	0	
5	New Homes Bonus	569	218	17	13	Legacy payment and affordable homes premium
6	Capital grants and other grants and contributions	1,753	3,065	200	200	Includes s31 grant (moved into earmarked reserve) & preceptors shareback agreement
7	Net Collection Fund(s) surplus / (deficit)	(68)	49	0	0	Net movement includes NNDR Equalisation Reserve - used to offset specific business rates related transactions and variances and Pension Reserve (every 3 years).
8	Transfer (to) / from General reserve	(398)	(13)	0	0	
9	Transfer (to) / from Earmarked reserves	(116)	(143)	(737)	(1,111)	
10	Total funding sources	11,124	12,839	10,153	10,070	
11	Budget / Funding Gap	0	0	(221)	(399)	
	General Reserve	£'000s	£'000s	£'000s	£'000s	
12	Balance at start of year	5,039	5,437	5,245	4,609	Minimum recommended balance for General Reserves is £2m
13	Contribution to / (from) General Fund (line 8 & 11)	398	13	(221)	(399)	
14	Potential planning appeals & associated legal costs	0	(205)	(415)	(910)	
15	Balance / (deficit) at end of year	5,437	5,245	4,609	3,300	
	Earmarked Reserves	£'000s	£'000s	£'000s	£'000s	
16	Balance at start of year	10,077	9,899	8,993	9,185	The precise timing of the use of earmarked reserves is, due to their nature, generally unknown
17	Contribution (to) / from General Fund (line 9)	116	143	737	1,111	
18	Total other expected usage of earmarked reserves - not allocated within the detailed budget	(294)	(1,049)	(545)	(715)	Earmarked reserves are reviewed annually to ensure sufficiency and where need has diminished funds will be returned to General Reserves
19	Balance at end of year	9,899	8,993	9,185	9,581	
	Council Tax					
20	Tax at band D	258.03	263.16	268.38	273.69	Target increases within Council Tax referendum limits. The tax at band D does not include the amount charged by Canvey Island Town Council.
21	Increase	2.98%	1.99%	1.98%	1.98%	

5 Tax base

Tax base calculation

- 1 Under Section 33 of the Local Government Finance Act 1992 and supporting Regulations, the Council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged, expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed by law and made under delegated authority by the Strategic Director (Resources), in consultation with the Cabinet Member with responsibility for Finance.
 - 2 The tax base is used in the budget requirement calculation to produce the standard amount of Council Tax for a band D property as well as by the Government in distributing certain grants and determining the Council's "spending power".
 - 3 The calculated tax base for 2020/21, before losses on collection are deducted, is **31,489** band D equivalent properties which is an increase from the 2019/20 tax base of **31,304**. 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 2015/16 and is being undertaken as part of a Pan-Essex project intended to increase collectable Council Tax revenue across Essex. The resource required to undertake the work is part funded by the main precepting organisations and initially supported for the three-year period from 1 April 2015, subsequently extended a further two years. The project has been extended to include data matching across organisations.
 - 4 Having determined the overall tax base, the estimated number of band D properties must be reduced to reflect a collection rate that takes account of losses on collection due to amounts that are uncollectable and void periods in respect of empty properties (this is not the same as the collection rate used as a performance indicator). The tax base collection rate has been reviewed and it is proposed that this should remain unchanged at **98.35%** for 2020/21.
 - 5 The tax base for 2020/21 is therefore **30,969** band D equivalent properties (compared with **30,787** in 2019/20).
- Local Council Tax Support scheme – tax base yield compensation grant**
- 6 The reduced tax yield arising directly from the Council Tax support scheme discount was originally compensated for by a Government grant. From 2017/18 local authorities have been required to fund the scheme entirely from within their own resources.

6 Local Government funding

2020/21 Local Government Finance Settlement / Settlement Funding Assessment (SFA)

- On 6th February 2020, the Rt Hon Robert Jenrick MP made a written statement to Parliament confirming the publication of the 2020/21 Final Local Government Finance Settlement. The figures in the tables below reflect the detail behind that statement.
- At a national level, for the period 2016/17 to 2020/21, there is a reduction to the England Settlement Funding Assessment (SFA) of **12.9%** as shown in the table below.

Table 6.1 Settlement Funding Assessment (SFA) - National Level					
	2016/17	2017/18	2018/19	2019/20	2020/21
	£000's	£000's	£000's	£000's	£000's
SFA	18,602	17,905	16,943	15,958	16,198
Net change %		-3.7%	-5.4%	-5.8%	1.5%
Cumulative reduction %		-3.7%	-8.9%	-14.2%	-12.9%

- The SFA consists of both Revenue Support Grant (RSG) and Business Rates. The RSG element has been the focus of the Government's funding reductions, and after 2017/18 the Council no longer receives any RSG. Table 6.2 summarises the SFA for Castle Point. Whilst nationally the percentage change in funding is **12.9%**, the equivalent change for Castle Point is significantly more at **24.3%**.

Table 6.2 Settlement Funding Assessment (SFA) – Castle Point						
Ref		2016/17	2017/18	2018/19	2019/20	2020/21
		£000's	£000's	£000's	£000's	£000's
1	Revenue Support Grant	918	287	0	0	0
2	Business Rates	2,071	2,113	2,177	2,227	2,263
	Total funding	2,989	2,400	2,177	2,227	2,263
	Net change £		(589)	(223)	50	36
	Cumulative net reduction £		(589)	(812)	(762)	(726)
	Net change %		-19.7%	-9.3%	2.3%	1.6%
	Cumulative reduction %		-19.7%	-27.2%	-25.5%	-24.3%

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

Table 6.3 Funding Settlement 2016/17 to 2020/21					
	2016/17	2017/18	2018/19	2019/20	2020/21
	£000's	£000's	£000's	£000's	£000's
Anticipated yield from NNDR for CPBC	15,237	14,177	14,870	15,071	15,316
50% Payable to Government	(7,618)	(7,088)	(7,435)	(7,536)	(7,658)
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	(1,524)	(1,418)	(1,487)	(1,507)	(1,532)
Amount left after payments	6,095	5,671	5,948	6,028	6,126
Tariff payable to Government	(4,024)	(3,558)	(3,771)	(3,801)	(3,863)
Business Rates Baseline	2,071	2,113	2,177	2,227	2,263
Revenue Support Grant	918	287	0	0	0
Total combined funding for CPBC	2,989	2,400	2,177	2,227	2,263

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

- 5 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.
- 6 Due to the approach taken in making the reductions, the top up / tariff adjustments tended to hit high tax base / high tax rate authorities, with an increasing number being affected each year from 2017/18 to 2019/20. However, at the 2016/17 final settlement, the adjustments up to and including 2018/19 were removed, with the 2019/20 amounts removed at the 2019/20 provisional settlement.
- 7 As previously proposed in the provisional settlement technical consultation, the negative RSG amounts have been eliminated for 2020/21.

Business Rates Retention (BRR)

- 8 The settlement no longer provides absolute funding indications for BRR and is based on an adjusted average income figure. This may or may not be reflective of the final BRR outturn for each respective year. Whilst the BRR scheme enables the Council to retain a proportion of Business Rates growth, it also requires the Council to absorb a proportion of the financial impact of successful rating valuation appeals and bad debts. Appeals may result in the backdated repayment of rates paid by businesses as well as an ongoing reduction in rates receivable by the Council in future years. This information is not known to Government at the time the settlement is announced.
- 9 The Council is therefore required to complete a statutory annual return to the Ministry for Housing, Communities and Local Government (MHCLG), referred to as an NNDR1, which sets out the anticipated National Non-Domestic Rates income collectible for each authority, based on more recent information than that available to Government. This return is used to inform the Council's financial forecast and budget for the forthcoming financial year.
- 10 The following table provides a comparison between the settlement and the NNDR1 return and indicates a difference in the amount due to the Council of **£356k** in 2020/21. The impact of this variance is cushioned through use of the Equalisation Reserve as described in paragraph 13 below.

Table 6.4 Funding Settlement 2019/20 to 2020/21 (comparison)			
	2019/20 NNDR1 £000's	2020/21 Settlement £000's	2020/21 NNDR1 £000's
Anticipated yield from NNDR for CPBC	13,796	15,316	14,424
50% Payable to Government	(6,898)	(7,658)	(7,212)
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	(1,380)	(1,532)	(1,442)
Amount left after payments	5,518	6,126	5,770
Less Tariff payable to Government	(3,801)	(3,863)	(3,863)
Total combined funding for CPBC	1,717	2,263	1,907

Business Rates Retention – Revaluation

- 11 The Government is committed to a review of the business rates system and to move to three-yearly revaluations, beginning in 2021 (currently every five years). The 2017 revaluation saw adjustments to top up / tariff amounts to offset the changes in the RV locally. This made the initial impact of the revaluation revenue neutral locally. However, as appeals on the new RV amounts are paid for locally the impact of the revaluation 2017 will not be equal across all authorities.
- 12 Unfortunately there is no ability within the existing funding mechanism to compensate authorities for the impact of rating appeals and consequential refunds to businesses which are likely to arise subsequent to revaluation.

Managing fluctuations in Business Rates Revenue

- 13 The Council prudently established an earmarked reserve (NNDR Equalisation Reserve) in 2013/14 for the purpose of smoothing any detrimental impact which may present in respect of the NNDR collection fund, such as any levy payment which may become due, the effect of appeals on business rates income and the impact of any deficits on the collection fund. The Council maintains a rolling medium-term forecast of the reserve to support financial planning, and the following table sets out the transactions which are anticipated to impact on the reserve in 2019/20 and 2020/21.
- 14 Effective from 2020/21 the balance on the reserve will be maintained at a maximum of **£1.4m** with the value of funds exceeding this threshold being applied directly into the General Fund, as shown by the final line of table 6.5 below.

Table 6.5 NNDR Equalisation Reserve			
	2018/19 £000's	2019/20 £000's	2020/21 £000's
Opening Balance	(955)	(1,291)	(1,200)
Application of s31 grant income	(973)	(1,136)	(1,301)
Total Contributions into the Reserve	(1,928)	(2,427)	(2,501)
Application to offset payment of Levy	224	251	393
Deficit on collection fund in year of distribution	110	171	0
Adjustments to levy & s31 grant (for previous years) in 2018/19	(10)	0	0
Equalisation adjustment – variance in rates retained	313	509	357
Reduction in overall reserve balance	0	296	351
Closing Balance	(1,291)	(1,200)	(1,400)

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

New Homes Bonus (NHB)

- 16 The NHB was previously a material source of funding for this authority, utilised to support ongoing revenue spending plans. However, changes to the scheme announced as part of the 2017/18 Local Government Finance Settlement, coupled with the relatively low new property yield within the borough, has meant that Castle Point has not qualified for new NHB funding from 2018/19, although will continue to receive historic payments.
- 17 The table below shows the allocation to Castle Point under the current methodology and based on the existing tax base (i.e. not including future new build).

Table 6.6 New Homes Bonus Allocations				
	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's
Settlement December 2019	975	691	569	218

- 18 The ministerial statement announced a Spring 2020 consultation on the future of the scheme with the intention of replacing it with a scheme that better incentivises and rewards local authorities where they are ambitious in delivering new homes and which is aligned with other measures around planning performance.

Business Rates Retention Scheme & Growth

- 19 Under the system of local business rate retention, some authorities collect more rates than the Government has determined they need in order to fund their activities. These authorities are currently required to pay over the excess to Government and are referred to as "Tariff" authorities. Most district councils are in this position and for Castle Point the tariff is **£3.863m** for 2020/21. The tariff is shown in tables 6.3 and 6.4.

- 20 Conversely, those authorities who collect insufficient income in their own area receive payments from Government and are known as “top up” authorities. The most common group of authorities receiving top ups are county councils. Where an authority sees growth in its non-domestic rates it must pay a proportion of that growth into the central pool as a “levy” which is capped at **50%**.
- 21 Calculation and payment of the levy due for each year is undertaken following the end of the financial year when final outturn is known. The levy calculations for 2018/19 (final) & 2019/20 & 2020/21 (provisional for both years) are shown in the table below. Any detrimental impact on the General Fund is offset by application of the NNDR Equalisation Reserve (paragraph 13 above).

Table 6.7 NNDR Levy Payment			
	2018/19 £000's	2019/20 £000's	2020/21 £000's
CPBC share of Business Rates receipt	5,427	5,518	5,770
Tariff payment to Government	(3,771)	(3,801)	(3,863)
Tariff adjustment in 2018/19	56	0	0
Adjustments for s31 grants awarded to the Council	914	1,012	1,143
Retained income	2,626	2,729	3,050
Less baseline funding level determined by Government	(2,177)	(2,227)	(2,263)
Growth above baseline	449	502	787
Levy Payment @ 50% of growth	224	251	393

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

Essex Region Business Rates Pool

- 23 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.
- 24 The following authorities across Essex are members of an Essex Region pool:
- Basildon Borough Council
 - Brentwood Borough Council
 - Chelmsford City Council
 - Epping Forest District Council
 - Essex PFCC Fire & Rescue Authority
 - Maldon District Council
 - Southend Borough Council
 - Uttlesford District Council
 - Braintree District Council
 - Castle Point Borough Council
 - Colchester Borough Council
 - Essex County Council
 - Harlow District Council
 - Rochford District Council
 - Tendring District Council
- 25 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

- 26 The Government have indicated in the technical consultation on the 2020/21 Local Government Finance Settlement that it still intends to introduce funding reform for local government, and that this will be introduced from April 2021. The government has previously stated that it does not believe these reforms will require legislation.

Risks arising from Local Government Funding Reform

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

7 Collection Fund

Collection Fund balance

- 1 An estimate must be made of the balance on the Council Tax and Business Rates Collection Funds as at 31 March 2020. 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 7 of the financial forecast and expanded below:

Table 7.1 Collection Fund Surpluses/Deficits	2019/20 £000's	2020/21 £000's
Council Tax surplus / (deficit)	103	36
Business Rates surplus / (deficit)	(171)	13
Total surplus / (deficit) on Collection Funds	(68)	49

Council Tax Collection Fund

- 3 Any surplus or deficit relating to Council Tax is shared between this Council, Essex County Council, Essex PFCC Fire & Rescue Authority and Essex PFCC Policing and Community Safety. These adjustments are subtracted from or added to the amount to be raised from Council Tax for the forthcoming financial year and do not form part of the budget requirement.
- 4 The estimated balance on the Council Tax Collection Fund at 31 March 2020 is a surplus of **£246,714**, of which this Council's share is **£36,419**.

Business Rates Collection Fund

- 5 Any surplus or deficit relating to NNDR is shared between this Council, Essex County Council, Essex PFCC Fire & Rescue Authority and central government. These adjustments are subtracted from or added to the amount to be raised from Council Tax and do not form part of the budget requirement.
- 6 A surplus or deficit balance on the NNDR Collection Fund may be caused by changes in a number of factors during the course of a financial year including new properties, the outcome of rating appeals and changes in the total value of discretionary or mandatory reliefs granted compared to original estimates.
- 7 The estimated balance on the NNDR Collection Fund at 31 March 2020 is a surplus of **£31,099**, of which this Council's share is **£12,440**.

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 2019/20 and 2020/21, General reserves are calculated as follows:

Table 8.1 General reserves	
	£000's
Actual balance at 1 April 2019	5,039
Net potential movement during 2019/20	398
Forecast balance at 1 April 2020	5,437
Net potential movement planned during 2020/21	13
Forecast balance at 31 March 2021	5,450

- 4 The estimated balance on reserves at the end of 2020/21 represents **42.5%** of the Council's net budget before funding for that year. This assumes that the potential planning appeals and associated legal costs indicated on line 14 of the forecast do not materialise. 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 2021/22 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 savings / cost reductions / additional income to fully close each year's budget gap without relying on the use of reserves. However, until these years are balanced it is prudent for the Council to maintain reserves at a higher level.

Adequacy of reserves

- 6 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 7 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial (s151) Officer (Strategic Director (Resources)) is required to report to the Council on the adequacy of the proposed financial reserves and to ensure that there are clear protocols for their establishment and use. The report of the Strategic Director (Resources) is shown at paragraphs 9 to 20 below and has regard to the Guidance Note on Local Authority Reserves and Balances, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in June 2015. The Council must have regard to this report when making decisions on the Council Tax requirement calculation.

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

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

Adequacy of reserves – Corporate issues

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

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

1. Increase in planning appeals and consequential costs.
2. New business rates funding mechanism to be introduced from 2021/22 (originally planned for introduction from 2020/21) where precise implications are not known.

Adequacy of reserves – financial standing and management

- 11 This is considered in the following table: -

Table 8.2 Adequacy of reserves - financial standing and management

Overall financial standing

The Council has no difficulty in meeting the key indicator of prudence in relation to capital borrowing. Local tax collection rates are satisfactory.

Record of budgeting and financial management

In-year monitoring of the financial position is sound, and risk rated with comprehensive reporting to budget holders. For many years, the year-end out-turn has been well within approved budgets. The Financial Planning Strategy, which forms part of this document, has assisted the Council in maintaining the Council's finances on a prudent and stable footing.

Capacity to manage in-year budget pressures

The Council has an excellent record of maintaining good financial and budgetary discipline. A scheme of virements allowing resources to be reallocated within approved parameters has been used extensively. Financial procedures include flexibility to carry unspent budget into subsequent financial years in order to avoid unnecessary spend at year end.

Strength of financial information and reporting arrangements

All budget holders have access to a real time financial management system that shows cumulative expenditure (including commitments) and income against profiled budgets. Cabinet is responsible for monitoring the effectiveness of budgetary control and Cabinet Members receive regular reports of variances. These reports provide Members with clear and concise information that has been informed by risk assessment and operational activity.

Adequacy of reserves – budget assumptions

12 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 budget process the sensitivities of these assumptions are considered before determining the budget values to be adopted.

Treatment of demand led pressures

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

Estimates have been based on the latest available predictions with adjustment, where necessary, to take account of known factors that might cause changes in demand. This is a tried and tested approach.

Adequacy of provisions

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

The provision for the value of potentially successful rating valuation appeals in relation to Business Rates is significant. There are numerous variations to methodologies for calculating this provision and the Council has adopted a prudent approach based where possible on historic information. The appeals process changed from 2017/18 to a new "Check, Challenge, Appeal" process. Progression of appeals is slow and there is limited information available on which to base estimates of the likely impact of successful appeals, so the Council has adopted methodology provided by MHCLG.

Treatment of inflation and interest rates

The detailed budget includes provision for an average **2%** pay award for 2019/20 and 2020/21, followed by **2%** in subsequent years. 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 the Council's external debt is at fixed interest rates and the average interest rate used to estimate interest receivable from investments in 2020/21 is **0.66%**. The estimated level of investment income generated is based upon investments placed with institutions in accordance with the Council's Investment Strategy, as detailed in section 13.

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

Brexit

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

Adequacy of reserves – other local factors of significance

13 These are considered in the following table: -

Table 8.4 Adequacy of reserves – other local factors of significance

Equal pay review

A great deal of work has been undertaken on pay harmonisation and single status. However, the Council has not undertaken a full job evaluation exercise as required by the 2004 National Agreement. This carries a potential risk that the Council will need to use general reserves to defend and/or settle any successful claims made against the Council. Since a job evaluation exercise has not been undertaken, there is no information available that can be used to form a view on the estimated future likely costs that the Council could face.

Pension Fund revaluation

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

Potential for withdrawal of external or third-party revenue income

The financial forecast currently assumes the continuation of certain revenue streams from external organisations or third parties. Many of these organisations are striving to reduce their costs and it is possible that one or more of these revenue streams may be lost.

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

Potential for cost fluctuations in relation to service contracts

A significant element of the council's annual spend is transacted through contracts with other organisations. Fluctuations in markets (e.g. recycling) and changes in legislation (e.g. new living wage) can have a direct impact on the delivery costs of these contracts, necessitating an increase in the charge made to the Council. These changes are unpredictable.

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

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

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.

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

Potential for incurrence of legal costs

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

It is recommended that when assessing the minimum level of reserves a sum of £450k is included in the calculations (see below).

VAT – Partial Exemption

The Council currently takes full advantage of the VAT concession in respect of input tax relating to VAT-exempt activities available to local authorities under the VAT Act 1994. The concession is only available provided this input tax remains below **5%** of VAT on all expenditure.

Increased investment in the Council's assets, such as refurbishment of facilities, may result in the VAT partial exemption limit being exceeded. If this is the case, under normal circumstances, it is estimated that additional VAT would become payable to HM Revenue and Customs. A review of the Council's VAT position is undertaken annually.

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

Impact of Welfare Reforms & Universal Credit on demand for Council Services

Reforms, such as the freeze on Local Housing Allowance rates, the introduction of Dependant Child Limitation rules (affecting households with more than two dependent children), and the implementation of the Housing Benefit Cap, continue to impact households across the borough.

These, and the short / medium term impacts of Universal Credit Full Service (which went 'live' in Castle Point in July 2018) have been successfully managed so far through a range of mitigating measures, including working in partners within the Third Sector. Despite this it is anticipated that demand for services across Revenues, Benefits, and First Contact will remain high in the short / medium term whilst customers and Officers adapt to the digital and budgeting impacts of the new digitised benefit system and await confirmation of the Universal Credit mass migration timetable.

Following the introduction of the Homeless Reduction Bill (2018) numbers presenting as homeless appear to have plateaued, however with **100%** occupation of its own housing stock, changes in the private rented sector, and the continuing low rate Housing Benefit Cap (**£20k**), the Council continues to experience difficulty in finding suitable temporary/permanent accommodation.

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

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

Adequacy of reserves – conclusions

- 14 Having evaluated all the above factors, including the sensitivity of key budget assumptions, the Strategic Director (Resources) considers that the following are significant local factors that should be taken into account when assessing the minimum level of general reserves: -
- a) Potential for withdrawal of external or third party revenue income (**£100k**)
 - b) Potential for incurrence of costs as a result of “New Burdens” (**£100k**)
 - c) Potential for cost fluctuations in major contracts (**£200k**)
 - d) Potential for incurrence of legal costs (**£450k**)
 - e) Impact of Welfare Reforms on demand for Council Services (**£100k**)
 - f) VAT – Partial Exemption (**£400k**)
- 15 These factors would not be reflected in any formula approach such as the benchmark reported at point 18 below. Taking account of this, it is the Strategic Director (Resources)’ view that an appropriate minimum level of reserves is approximately **£2m**.
- 16 Although this report on adequacy of reserves is specific to 2020/21, the Council should bear in mind that adequacy should also be judged against longer-term plans.
- 17 Whilst it is not permissible or feasible for the Council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short-term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer-term solution.

Comparison with external benchmarks

- 18 The only previously known external benchmark for adequacy of reserves was the standard that used to be included in the criteria for auditor scored judgements on Financial Standing, this formed part of the Comprehensive Performance Assessment made by the Audit Commission. This was stated as **5%** of net operating expenditure, weighted by reference to Government limits for meeting emergency expenditure. For Castle Point, this calculates at **£642k** for 2020/21.
- 19 A comparison of the above benchmark with the Strategic Director (Resources) assessment and the Council’s target is therefore:

Table 8.5 Adequacy of reserves at 31/3/21	
Castle Point	Audit Commission
target	benchmark
£000’s	£000’s
2,000	642

- 20 The Strategic Director (Resources) considers that until the impact of the new funding regime is known, and the local factors described at table 8.4 & paragraph 14 are resolved it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level.

Exclusions

- 21 This opinion does not include the following items: -
- The equal pay review as there is no information available on which to form a view.
 - The impact of the new funding regime planned for implementation from 2021/22 (originally 2020/21).
 - The impact of Brexit as there is no information available on which to form a view.

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

In-year use of General Reserves

- 22 General reserves will not be applied during a financial year except under the conditions described in paragraph 2 a) above.

Earmarked Reserves

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

- **Minute 95 Fund**

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

- **Spend to Save Initiatives**

A reserve of **£100k** intended to enable the Council to establish a scheme of self-insurance was established during the 2013/14 financial year. The scope was extended as part of the 2016/17 budget process to provide a fund for “pump-priming” initiatives which would deliver an ongoing reduction in costs and / or increased revenue to the Council. Each initiative will be supported by a specific business case. The value of this reserve is increased by **£266k** during the 2020/21 budget process to enable more initiatives to be taken forward e.g. implementation of drowning detection technology to enhance existing safety measures at the Council’s pools and conversion of squash courts at Waterside into more useable space, thus increasing revenue.

- **Planning - Local Development Scheme & Local Plan**

The delivery of the programme set out in the Council’s Local Development Scheme has considerable staffing and financial resource implications. It was originally anticipated that these implications would cost up to **£250k** during the period ending March 2014, and provision was made in an earmarked reserve to cover these costs. A further **£154k** was added to the reserve from general reserves in March 2016, and a subsequent **£218k** was approved at Cabinet in September 2017. Over this period costs have been incurred and the reserve applied accordingly. The reserve is expected to be fully utilised during 2019/20 and 2020/21 as related work is commissioned.

- **Planning - Intervention**

A reserve established during 2017/18 as a contingency for potential costs should central government take intervention action due to the Council’s failure to approve a Local Plan. Following the decision by Council in November 2019 to progress with a Local Plan the threat of intervention has diminished. The funds in this earmarked reserve have therefore been released into General Reserves as part of the budget process for 2020/21.

- **Planning – Joint Strategic Plan**

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

Funds of **£160k** were added to this reserve during the 2020/21 budget process (as shown in the growth items schedule reported in table 9.3) bringing the value of the reserve to **£360k**. It is anticipated that **£120k** will be allocated from the reserve in each of the years 2020/21, 2021/22 and 2022/23.

- **Local Council Tax Support Reserve**

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

- **NNDR Equalisation Reserve**

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

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

During the budget process for 2019/20 the Council established a "cap" of **£1.2m** with funds exceeding the cap being applied directly into the General Fund. During the budget process for 2020/21, the cap was increased to **£1.4m** and surplus funds to the value of **£351k** were applied against the General Fund which assisted in setting a balanced budget for that year.

It is currently expected that the reserve will be maintained at this level, subject to continued provision of the grant, business rate appeal movements and the overall funding formula beyond 1st April 2021. The new funding regime is set to bring about fundamental changes to the overall mechanics of how local government funding is distributed and may also have an impact on the continuation or value of the grant in future years. For that reason, it is not possible or prudent to assume its continuation in future years.

- **Future Asset Maintenance Reserve**

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

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

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

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

The reserve is supported by a detailed financial plan extending to the 2027/28 financial year.

- **Pension Deficit Payment Reserve**

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

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

- **Improvement Fund**

A reserve established from accumulated unspent revenue budget and savings generated through service reviews and initiatives and small value miscellaneous government grants.

- **Revenue Grants Unspent**

The Council receives grants from central government and other organisations, for specific purposes. Where this grant funding is not spent during the course of the year that it is received and in order to reserve it for future use, it is held in an earmarked reserve.

The Council will receive a grant of **£82k** in respect of “new burdens – preventing homelessness” which has been added to this earmarked reserve pending a decision on how it will be spent.

- **Regeneration Initiatives Fund / Projects**

Two separate regeneration related reserves have been established.

Funding set aside for costs associated with the Hadleigh Regeneration project, as reported to Cabinet in January 2017. The reserve will be fully applied during 2019/20.

A second reserve relating to **£200k** which was approved by Cabinet as the Council's contribution towards the regeneration of Canvey Island Seafront.

- **ICT Projects**

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

The reserve includes ongoing expected commitments for the lifetime of the financial forecast as part of various planned ICT replacement and enhancement programmes and is supported by a detailed financial plan up to and including the financial year 2029/30. The reserve also includes provision for potential cost increases which may arise from the retender of the ICT Managed Service contract, effective from March 2021.

- **Highways Improvements & Environmental Initiatives**

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

- **Housing Revenue Account (HRA) Loan Repayments**

Funds set aside from the HRA for the repayment of debt taken out by the Council as part of the refinancing of the HRA. The first repayment of **£7m** is due in 2021/22.

- **Knightswick Shopping Centre**

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

Further financial information relating to the Knightswick Shopping Centre is set out in section 9.

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

	Net movement each year					Forecast balance as at 31/03/2023 £000s
	Actual balance as at 01/04/2019 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	
Revenue grants unspent	532	100	51	(7)	0	676
Future asset maintenance reserves	2,193	(260)	313	(115)	229	2,360
Priority initiatives reserve	0	0	0	0	0	0
VAT Partial Exemption reserve	0	0	0	0	0	0
Insurance repayments reserve	348	0	0	0	0	348
Non-Domestic Rates equalisation reserve	1,342	(142)	200	0	0	1,400
Council Tax Support Scheme reserve	114	0	0	0	0	114
Improvement fund	374	(106)	(2)	(2)	(2)	262
Pension reserve	1,292	750	(892)	276	276	1,702
Planning - Local Development Scheme costs	239	0	(239)	0	0	0
Planning - Central Government intervention	500	(500)	0	0	0	0
Planning - Joint Strategic Plan	200	160	(120)	(120)	(120)	0
Highways Improvements and Environmental Initiatives	170	(50)	0	0	0	120
Knightswick Shopping Centre	0	278	340	198	208	1,024
ICT projects reserve	1,812	(184)	(103)	(38)	(195)	1,292
Co-mingled waste contract	0	150	0	0	0	150
Insurance / Spend to Save	73	280	(253)	0	0	100
Commitments from previous year	744	(744)	0	0	0	0
All other earmarked reserves	144	90	(200)	0	0	34
Total General Fund Earmarked Reserves	10,077	(178)	(905)	192	396	9,582

This statement reconciles to line 19 of the Medium-Term financial forecast (table 4.1)

9 Revenue spending plans

- 1 The Corporate Plan provides the links between the aspirations of the community and individual services. Service plans are produced annually to ensure the future allocation of resources is based on the Council's key priorities. These service plans demonstrate how each service will be delivered and how they support one or more of the following key priorities as set out within the Corporate Plan: -
 - Environment
 - Housing & Regeneration
 - Health & Community Safety
 - A Commercial & Democratically Accountable Council
- 2 The method of calculating revenue spending plans has been broadly in-line with that set out in the Council's Financial Planning and Capital Strategy as described in section 1.
- 3 The key steps in the process of producing the base budget for 2020/21 were: -
 - A review of 2019/20 estimates against actual income and expenditure for 2018/19 and 2019/20 year to date, to arrive at a core no-growth base budget for revised 2019/20, estimate 2020/21 and 2021/22 to 2022/23 (both provisional), driven by current service plans. This includes where applicable, increases for inflation of costs relating to pay, employer's pension fund contributions, contracts, rates, utilities and insurances. Controllable service costs have been carried forward at existing levels except in the case of inescapable increase.
 - Service managers were then required to review their services to identify options for reductions in net expenditure (without reducing service levels) or increases in revenue income. An organisation wide efficiency target of **£350k** (ongoing) against operational service budgets was set for 2020/21.
 - 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 as well as unavoidable service-related cost increases.
- 4 **Efficiency work programme and savings identified**
The Council's culture of continuously improving efficiency through reviewing costs and working practices, supported by the Council's Commercial Council strategy as detailed within section 2 of this report, has resulted in general cost reductions and efficiency savings as set out in table 4.1.
- 5 **Funding of priority projects**
Table 9.2 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.
- 6 **Cost pressures and other increases**
Cost pressures and unavoidable / essential service increases identified during the budget process are summarised in table 9.3.
- 7 **Significant changes from previous years – The Knightswick Shopping Centre**
On the 31st October 2019 the Council purchased the Knightswick Shopping Centre on Canvey Island as a going concern. The Council's intention is to continue to operate the centre whilst implementing improvements to the town centre as part of its Regeneration Programme. A member led working party has been established to take this work forward.
- 8 The operational costs and revenues relating to the centre have been incorporated into the Council's budget but the Council decision to purchase the facility included a requirement that there should be no financial impact on the General Fund i.e. no additional costs will fall to the General Fund and

the revenue stream associated with the centre would be utilised fully towards the operation or improvement of the centre.

- 9 Therefore, the net cost or surplus associated with operating the centre, including costs of servicing the associated debt, will be “swept” into an Earmarked Reserve – held for the Knightswick Shopping Centre.
- 10 The following table summarises the financial implications associated with operating the centre and show the corresponding movement to the earmarked reserve.

Table 9.1 Knightswick Shopping Centre					
Ref.	Description	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
	Revenue Account				
1	External legal services	50	0	0	0
2	Management fees	16	40	40	40
3	Central support services recharge	6	6	6	6
4	Rent income	(388)	(942)	(942)	(942)
5	Car park income	(25)	(50)	(50)	(50)
	Net movement transferred to earmarked reserve	(341)	(946)	(946)	(946)
	Earmarked Reserve				
6	Opening balance	0	(278)	(618)	(816)
7	Debt costs	63	606	748	738
8	Net revenue movement	(341)	(946)	(946)	(946)
	Closing Balance on earmarked reserve	(278)	(618)	(816)	(1,024)

Revenue spending plans

- 11 The proposed net summary revenue spending plan for the General Fund, which incorporates the savings and cost reductions shown in table 2.3, is shown in the financial forecast at table 4.1. Service summaries based on Directorate and Service/Team Action Plans, are shown at tables 9.4 and 9.5.

Table 9.2 Funding of priority projects & other discretionary expenditure included in line 1 of the Financial Forecast

Ref.	Description of priority project or discretionary item	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
	All services, Central & Corporate areas				
1	Funding of discretionary portion of business rates relief to charities and other bodies - percentage of overall relief cost applicable to this Council	47	48	48	143
	Housing & Communities				
2	Funding for local and voluntary organisations	125	126	126	377
3	Contribution to Community Transport Scheme operated by Wyvern, providing transport for elderly and disabled residents of the Borough	10	10	10	30
4	Community events such as the Fireworks Fiesta, Castle Point Show and Easter & Summer activities (net direct cost excluding recharges)	11	15	15	41
5	Running costs of CCTV installed at various public locations around the Borough, including car parks, the Dutch Cottage, the seafront and specific residential areas	23	23	24	70
	Environment				
6	Festive lighting / decorations across the Borough	14	14	14	42
7	Black refuse sacks provided free to residents	23	23	24	70
8	Dog fouling bags provided free to residents	7	7	7	21
9	Public Conveniences across the Borough (net direct cost excluding recharges and capital charges)	40	38	39	117
	Total funding of priority projects and discretionary items	300	304	307	911

Table 9.3 Cost pressures & budget increases (Growth) identified and included in line 1 of the Financial Forecast

Ref.	Description of cost pressure/budget increase item	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
	All services, Central & Corporate areas				
1	Emergency Planning increased costs of service level agreement (SLA) with ECC	2	3	3	8
2	Reinstatement of 10th Cabinet position	6	7	7	20
3	Impact of holiday pay ruling	11	12	12	35
4	Increase in cost of insurance premiums	4	3	3	10
5	Potential cost arising from Housing Options Service Review	30	60	60	150
6	Upgrade of Smart devices	6	10	10	26
7	IT Department - additional salary costs	5	22	23	50
8	IT Department - Idox subscription increase (Environmental Health system)	2	2	2	6
9	Co-mingled waste contract - establishment of new earmarked reserve	150	0	0	150
	Environment				
10	Car Parks - additional card processing costs	10	10	10	30
11	Refuse and Recycling - additional administration costs to meet health and safety requirements	7	7	7	21
12	Refuse and Recycling - additional recycling charges	41	0	0	41
13	Environment Health - training	0	14	5	19
14	Cemeteries - reduction in income in line with trend	6	6	6	18

Table 9.3 Cost pressures & budget increases (Growth) identified and included in line 1 of the Financial Forecast					
Ref.	Description of cost pressure/budget increase item	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
15	Parks and open spaces - reduction in income, due primarily football pitch use	6	7	7	20
16	Leisure - Relief Duty Managers - increase in salary grades	0	8	8	16
17	Chapman Sands Costs	4	9	0	13
18	Grounds Maintenance and Street Cleansing - increase in National Living Wage	0	20	55	75
19	Leisure - increase in casual staffing hours & training backfill hours	18	70	72	160
20	Leisure - additional running costs	14	28	29	71
21	Halls - additional building maintenance and equipment costs	12	0	0	12
22	Waterside Leisure Centre sewerage pump station replacement	0	35	0	35
23	Leisure centres - planday rota management system, set up and on going costs	2	5	5	12
24	Enforcement Officer posts and associated costs (new service)	0	62	63	125
25	Thundersley Playground capital charges	0	0	8	8
26	Increase to spend to save earmarked reserve to fund items 19 and 20 on table 2.3.	266	0	0	266
27	Installation of pathway at Smallgains open space	0	9	0	9
28	Runnymede Hall - Disability Discrimination Act compliance works	0	40	0	40
	Governance, Law, Planning and Regeneration				
29	Legal service subscription increase	2	2	2	6

Table 9.3 Cost pressures & budget increases (Growth) identified and included in line 1 of the Financial Forecast					
Ref.	Description of cost pressure/budget increase item	2019/20 £000's	2020/21 £000's	2021/22 £000's	Total £000's
30	Planning Policy and Regeneration team restructure (new posts)	(69)	13	15	(41)
31	Joint Strategic Plan increased contribution	160	0	0	160
32	Local Full fibre Network (LFFN) costs, management and on going service costs	13	27	15	55
33	Members training - increase in costs to support delivery of duties	0	9	9	18
34	Planning - new scanner, Windows 10 compatible	8	0	0	8
	Housing & Communities				
35	Castlepoint Show and Fireworks Fiesta - increased ongoing costs	2	6	6	14
36	Implementation of automated payment system	5	14	14	33
37	Upgrade of systems to meet Payment Card Industry security standards	27	0	0	27
38	Revenues - reduction in costs recovered	10	10	10	30
39	Land Charges - reduction in income due to reduced volume of requests.	10	10	10	30
40	Revenues - new administration support post	0	14	15	29
41	Revenues - hybrid mail costs	7	7	7	21
42	Housing Benefits subsidy adjustment	3	25	26	54
43	Community Safety - Upgrade of CCTV cameras across the Borough	0	45	0	45
	Total cost pressures & budget increases (growth)	780	631	524	1,935

No	Table 9.4 General Fund revenue summary	Note	2018/19 ACTUAL	2019/20 ESTIMATE	2019/20 REVISED	2020/21 ESTIMATE	2021/22 ESTIMATE	2022/23 ESTIMATE
			£000s	£000s	£000s	£000s	£000s	£000s
	Net Service Expenditure							
1	Environment	1	5,711	6,391	6,457	5,903	5,763	5,911
2	Governance, Law, Planning and Regeneration	1	1,453	1,530	1,037	506	429	548
3	Housing and Communities	1	2,301	2,961	2,783	2,771	2,786	2,921
4	Resources	1	69	390	90	80	82	84
5	Central and corporate services	1	1,908	1,989	2,145	1,919	1,967	2,029
	Total Net Service Expenditure		11,443	13,262	12,511	11,178	11,027	11,493
5	Savings and / or additional revenue income / grant funding to be identified	2	0	0	0	0	(220)	(399)
6	Total Other Operating Expenditure	3	368	435	476	453	941	530
7	Total Financing and Investment Income and Expenditure	4	814	965	941	875	882	863
8	Total Net Statutory Adjustments	5	(2,583)	(2,597)	(2,560)	585	(2,224)	(2,165)
	Total to be met from government grants, earmarked reserves and Council Tax		10,042	12,065	11,368	13,091	10,406	10,322
	Notes							
1	See table 9.5							
2	The amount required in order to deliver a balanced budget and maintain reserves at the minimum level recommended.							
3	Includes a discount applied to all salaries estimates to take account of vacant periods, the precept payable to Canvey Island Town Council from additional Council Tax collected from Canvey residents, allowances for repairs and maintenance programmes, and other miscellaneous items.							
4	Includes interest payable and receivable, and statutory pensions adjustments based on information from Essex Pension Fund and the pension actuary.							
5	Various statutory adjustments and reversals, to ensure that the Council Tax requirement amount is not affected by income and expenditure relating to non-current assets, such as depreciation, and other items such as the payment of capital receipts to central government. Also includes revenue contributions to fund capital expenditure.							

No	Table 9.5 General Fund Net Service Expenditure	2018/19	2019/20	2019/20	2020/21	2021/22	2022/23
		ACTUAL	ESTIMATE	REVISED	ESTIMATE	ESTIMATE	ESTIMATE
		£000s	£000s	£000s	£000s	£000s	£000s
	Environment						
1	Environmental health	680	824	727	747	778	788
2	Street scene and operational services	1,313	1,459	1,382	1,473	1,464	1,493
3	Refuse & recycling	1,820	1,855	1,988	1,842	1,866	1,904
4	Parks & open spaces	685	970	985	715	700	714
5	Leisure centres, golf course and community centres	1,803	1,870	1,904	1,754	1,637	1,685
6	Public conveniences	122	150	178	123	125	129
7	Parking	(713)	(736)	(707)	(750)	(807)	(801)
	Net total - Environment	5,711	6,391	6,457	5,903	5,763	5,911
	Governance, Law, Planning and Regeneration						
1	Strategic director	0	24	0	0	0	0
2	Civic Governance	207	263	259	293	209	301
3	Legal services	(0)	0	0	0	0	0
4	Development control and Planning policy	861	870	737	798	809	826
5	Building control	116	116	138	141	145	151
6	Regeneration	269	257	(98)	(726)	(734)	(729)
	Net total - Governance, Law, Planning and Regeneration	1,453	1,530	1,037	506	429	548
	Housing and Communities						
1	Head of Housing and Communities	0	0	0	0	0	0
2	Homelessness and Housing advice	700	1,005	1,094	930	930	942
3	Strategic housing and Housing management	10	10	10	10	10	10
4	Revenues and Benefits	1,225	1,468	1,204	1,310	1,397	1,468
5	Local land charges	11	18	34	42	47	51
6	Concessionary travel	0	0	0	0	0	0
7	Partnerships, community engagement and community safety	270	318	285	337	296	299
8	Licensing and public transport schemes	85	142	156	141	106	151
	Net total - Housing and Communities	2,301	2,961	2,783	2,771	2,786	2,921
	Resources						
1	Financial services	(0)	11	0	0	0	0
2	Information technology	0	214	0	0	0	0
3	Facilities and asset management	69	96	90	80	82	84
4	Human resources	(0)	2	0	0	0	0
5	Internal audit	0	9	0	0	0	0
6	Strategy, policy and performance	0	58	0	0	0	0
	Net total - Resources	69	390	90	80	82	84
	Central and corporate services						
1	Chief Executive	(0)	0	0	0	0	0
2	Other corporate costs	1,908	1,989	2,145	1,919	1,967	2,029
	Net total - Central and corporate services	1,908	1,989	2,145	1,919	1,967	2,029

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 except for:
 - Services which have charges set by statutory legislation.
 - Services which are prohibited by statutory legislation from raising any charges.
 - General rental income and lease / licence income.
 - Income from housing rents.
- 2 Section 93 of the Local Government Act 2003 provides local authorities with the power to charge for discretionary services, provided they are not covered or prohibited by other statutory legislation, and provided the services in question do not make a profit from charging (“...subject to a duty to secure that, taking one financial year with another, the income from charging under that subsection does not exceed the costs of provision.”)

Income generation principles

- 3 Charges should be set at a level to maximise income generation. With this proviso in mind, departments should aim to set charges so that at the expected level of usage, the income generated from a service recovers the full cost (see below) of providing the service. However, charges should not be set at a prohibitively high level that would adversely affect usage, e.g. by making the Council uncompetitive.
- 4 Full cost consists of:
 - The direct cost of running the service, i.e. staffing, property and vehicle costs, equipment, etc.
 - The indirect cost of running the service i.e. recharged costs from central and other support departments and capital charges, such as, depreciation.
- 5 Charges set below full cost recovery levels should be fully justifiable in terms of meeting Council priorities or subject to confirmation by the Strategic Director (Resources) and Executive Management Team, as they result in the net cost of that particular service being subsidised by the Council as a whole.

Annual process

- 6 As part of the annual budget setting process budget holders are required to confirm, as a minimum, the following information:
 - The rate by which charges will be inflated for the forthcoming financial year. This would normally be expected to be not less than the annual increase in inflation (CPI/RPI) prevailing at that time.
 - Any changes in activity and / or usage and the expected impact on the income budget.
 - Any other changes which could have an impact on the income budget.
 - Proposals for any services which are currently provided free of charge for which a charge could be raised.
- 7 The above should be provided in accordance with timescales set out in the detailed estimates timetable issued to departments annually. Using this information and by analysis of income received during the previous financial year and to date in the current financial year, Financial Services will calculate a draft budget for each income line, including a revised budget for the current year and forecast budgets for the following three years.
- 8 Financial Services will subsequently meet with budget holders to review and agree the draft income budgets which budget holders are then required to sign off to confirm acceptance.
- 9 The income budgets will then be approved as part of this Policy Framework and Budget Setting process annually in February.

- 10 The Council Constitution provides the majority of services with the authority to set their own fees and charges. There are exceptions to this, for example, Car Parks, specifically, the setting of parking charges and fixed penalty notices, for which Member consultation is required.

Publication and communication

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

Variations in standard fees

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

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

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

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

Periodic full review of charges

- 15 As well as the annual processes described above, departments also undertake a more in-depth review of fees and charges, at least once every three years.

- 16 This review should aim to ensure charges are consistent with Council priorities and service aims, market and customer intelligence, and to justify any subsidy made by the Council as a whole to that service. The outcome of and any changes arising from the 3 yearly formal reviews are to be approved by the Strategic Director (Resources) and the Executive Management Team. Financial Services will co-ordinate a review of fees and charges across all service areas during 2020/21.

11 Capital Strategy

- 1 The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made and considers risk, reward and impact on the achievement of priority outcomes. The strategy is fully integrated with revenue planning and budgeting.
- 2 The strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services and shows how associated risk, including future financial sustainability is managed.
- 3 Decisions around capital expenditure, investments and borrowing align with the processes for the setting and revising of the budget for the Council, hence the Capital Strategy forms part of the overall Policy Framework and Budget Setting Report. Subsequent sections in relation to Treasury Management and Investment are closely linked to the Capital Strategy and cover in detail the Council's approach to borrowing and investing.

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

- 4 As at 31 March 2019 the Council held assets valued at circa **£173m**, including:
 - Council Houses (1,511) and garages (357): **£126m**
 - Land and buildings: **£43m**. Major assets include the Council offices and Waterside Farm and Runnymede Leisure Centres.
 - Vehicles: **£2m**, mainly refuse and recycling freighters.
 - Assets let to other organisations and individuals (Investment Properties): **£2m**. These include the golf course on Canvey Island.

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

- 5 The Council regularly commission condition surveys on all its building assets to inform work programmes, financial planning and corporate decision making. All works are provided for within the medium-term financial forecast.
- 6 Whilst assets are managed by relevant service areas, programmed works are overseen by a central Facilities team who administer inspections, surveys and commission planned works in line with procurement rules and procedures.
- 7 An Asset Management Group, comprising representation from relevant service areas, consider matters such as planned or potential asset disposals and when appropriate refer matters to the Council's Strategic Asset Group.
- 8 The Council's Asset Management Plan is updated every two years and provides an overarching framework for the management of the Council's corporate land and building assets and is supported by a Commercial Strategy which references maximising the return on the Council's building assets and ensuring that they are utilised to their full potential as a key principle.

Capital expenditure and the Council's approach to capital investment

- 9 Capital expenditure is expenditure that results in the provision or enhancement of assets such as land, buildings, plant and vehicles. This is subject to a de minimis limit whereby the Council will generally treat expenditure that is below **£10k** as revenue expenditure.
- 10 The Council must comply with the provisions of part 1 of the Local Government Act 2003 relating to capital expenditure and borrowing controls. These require local authorities to determine and keep under review the amount of their affordable borrowing. Authorities must also have regard to the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which became effective from 1 April 2004 and was most recently updated in 2017. There are associated guidance notes also published by CIPFA and these were updated in 2018.

- 11 The main issues affecting capital investment decisions are:
- The Council's capacity to borrow.
 - The availability of other capital resources, such as capital receipts and grants.
 - The management of debt, cash flows and investments.
- 12 The Council's strategy is to ensure that decisions on resource allocation are based on the corporate objectives and priorities, as detailed in the Council's Corporate Plan (available on the Council's website: <https://www.castlepoint.gov.uk/council-strategies-and-policies>) and reflect the views of residents and stakeholders.
- 13 The Council's capital investment priorities are set out below:

Table 11.1 Prioritisation of capital investment projects	
Priority	Purpose
1	Private sector improvement and disabled facilities grants.
2	Housing capital expenditure financed by the depreciation allowance, receipts from Right to Buy sales and contributions from revenue, with priorities determined in accordance with the HRA Business Plan and in consultation with tenants.
3	Self-financing schemes funded by specific grants and external sources.
4	Spend-to-save schemes that deliver on-going reductions to net cost.
5	On-going maintenance of assets and replacement of vehicles, equipment and plant.

- 14 New proposals will be evaluated in accordance with the requirements of the Prudential Code and with regard to the following criteria:
- Service objectives, e.g. strategic planning for the Authority.
 - Stewardship of assets, e.g. asset management planning.
 - Value for money, e.g. option appraisal.
 - Prudence and sustainability, e.g. risks, whole life costing and implications for external debt.
 - Affordability, e.g. implications for long-term resources and ultimately the Council Tax (and Housing rents for the Housing Revenue Account).
 - Practicality, e.g. achievability of the forward plan.
 - Revenue cost and income impacts.

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

- 15 Different evaluation methods will be relevant for different proposals and will be undertaken as part of a comprehensive business case. These might include:
- Options appraisal, e.g. rebuild, improve or replace an existing asset
 - Whole life costing, e.g. longer-term revenue impact
 - Sensitivity analysis, e.g. impact of cost fluctuations on overall project
 - Effect of different borrowing options, e.g. duration and rate of interest, and
 - Payback calculations, e.g. how long it takes to recoup the cost incurred
- 16 Contingency allowances for unexpected costs or overruns that might occur will be assessed and included as appropriate, particularly for high value projects.
- 17 All capital expenditure will comply with the Council's procurement rules and thresholds.

Financing of capital expenditure

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

- Use of capital receipts from the sale of Council owned assets. These include receipts from Council Houses sold through the Right-to-buy (RTB) process. Certain restrictions apply on the usage of RTB receipts – see later in this section.
- Revenue contributions to capital expenditure – direct charges to revenue, in the General Fund and/or Housing Revenue Account, in the year that the capital expenditure takes place.
- Minimum Revenue Provision (MRP) - charges to revenue in subsequent years over the useful life of the asset. This is the outcome if none of the other above options apply - see later in this section for further information on MRP.

Capital programme monitoring

- 19 Budget monitoring of the Council's capital programme is undertaken in the same manner during the year as that of the revenue budget, i.e. by officers from Financial Services in conjunction with the relevant budget holders for each item on the programme.
- 20 Exception reporting of positive or negative issues is made on a monthly basis to the Council's Executive Management Team (EMT) and Cabinet members.
- 21 The Council's financial regulations detail the procedures and authorisations required for dealing with capital programme cost variances and sets out a "fast track" process for items fully financed by external funding.

Prudential Code for Capital Finance in Local Authorities

- 22 The Prudential Code includes statutory requirements for the manner in which capital spending plans are considered and approved, as well as requiring the Council to set and monitor a series of Prudential Indicators. These Prudential Indicators are set out over the following paragraphs.
- 23 The Council has a duty under Section 3 of the Local Government Act 2003 and supporting Regulations to determine and keep under review how much it can afford to borrow. The amount so determined is called the Affordable Borrowing Limit and the Council must have regard to the Prudential Code when setting this limit. This requirement is to ensure that total capital investment remains within sustainable limits and that the impact on future Council Tax and rent levels is acceptable.
- 24 The following paragraphs explain the Prudential Indicators that the Council should have regard to before agreeing capital spending plans for 2020/21. The Council must approve Prudential Indicators for the next three years – 2020/21 to 2022/23 – and an appropriate recommendation appears in the accompanying formal Committee report. These indicators are however calculated over years beyond those three to ensure that the capital strategy is sustainable over the longer term, and to align with the timeframes used for the Medium-Term Financial Forecast and capital budgets. Accordingly, provisional indicators are also shown for years beyond 2022/23.
- 25 The Prudential Indicators are classified into two main groupings – indicators for "Affordability" and indicators for "Prudence:"
 - Indicators for "Affordability" – The fundamental objective in the consideration of affordability of the Council's capital programme is to ensure that the proposed level of investment in capital assets results in the total capital investment of the Council remaining within sustainable limits. In considering the affordability of the capital programme the Council is required to consider all resources currently available to it and estimated for the future, together with the total of its capital programme and income and expenditure forecasts.
 - Indicators for "Prudence" – The Council should ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it should consider arrangements for the repayment of debt and consideration of risk and the impact on the Council's overall fiscal sustainability.
- 26 Where applicable the Prudential Indicators are required to be calculated separately for each of the General Fund and Housing Revenue Account. Where relevant these indicators are calculated on the basis that the first HRA loan repayment in 2021/22 is not replaced with new borrowing. This is in line with assumptions in the HRA business plan which will be revisited periodically.

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

Prudential indicator (for affordability) – capital expenditure

- 28 Table 11.2 below shows actual 2018/19 capital expenditure, along with estimates for current and future years recommended for approval:

Table 11.2 Capital expenditure							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
General Fund (GF)	948	14,908	4,589	325	659	364	1,098
Housing Revenue Account (HRA)	1,325	3,791	1,864	1,792	1,792	1,792	1,792
Total	2,273	18,699	6,453	2,117	2,451	2,156	2,890

- 29 The amounts shown for 2020/21 represent firm proposals for approval. Amounts shown for later years are indicative guidelines for financial planning and are subject to confirmation in each respective year's budget process. The General Fund schemes are analysed in table 11.3 on the following pages.
- 30 All schemes identified in the preceding table match the priorities outlined at paragraph 13 above. These capital proposals constitute a capital plan that can be financed from revenue and capital resources and are therefore considered affordable. The position of Housing Revenue Account proposals (priority 2) is set out in a separate report to Cabinet.
- Recurring and significant capital schemes**
- 31 The capital programme has a number of items which recur in most years. These include:
- Disabled Facility Grant adaptations, paid for by central government grant funding;
 - The vehicle replacement programme. This primarily consists of refuse and recycling freighters, but also includes a number of smaller specification vehicles. Most vehicles are replaced every 7 or 8 years on a rolling basis.
 - The Housing Revenue Account programme for annual improvements to Council-owned properties, covering works, such as central heating, double glazing, new kitchens and bathrooms, etc.
- 32 In addition one-off items may also be included in the capital programme from time to time. These include:
- New homelessness development at Hatley Gardens in 2018/19 and 2019/20, as well as a large-scale ICT hardware and software upgrade (to Windows 10) in 2018/19 and 2019/20.
 - The purchase of the Knightswick Shopping Centre on Canvey Island in 2019/20 with related public realm works planned for 2020/21.
 - Canvey Island seafront regeneration at Thorney Bay in 2019/20 and 2020/21.
 - Replacement of playground equipment at Thundersley Common in 2020/21
 - The demolition of The Crown Public House in Hadleigh is planned for 2019/20 although this may not be fully completed by 31st March 2020.
 - The Housing Revenue Account capital expenditure includes in 2018/19 and 2019/20 new housing developments at Church Close and Windsor Gardens, as well as all the normal annual programmes of works to existing Council properties.
- 33 A more detailed breakdown of the HRA capital programme can be found in the Housing Revenue Account (HRA) – Rent Levels, Revenue Budget and Capital Plan report, approved at the same time as this report each February.

Table 11.3 General Fund Capital Expenditure proposals

Project	2018/19 Actual £000's	2019/20 Revised £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
ENVIRONMENT							
Disabled Facilities Grants (Mandatory)							
Gross Capital Expenditure	609	650	641	325	325	325	250
Specific external funding	(609)	(650)	(641)	(325)	(325)	(325)	(250)
Net Capital Expenditure	0	0	0	0	0	0	0
Regional Housing Grant							
Gross Capital Expenditure	0	11	0	0	0	0	0
Specific external funding	0	(11)	0	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
Leisure Centres Gym equipment (both sites)							
Gross Capital Expenditure	122	0	0	0	75	0	125
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	122	0	0	0	75	0	125
Playground equipment replacement programme							
Gross Capital Expenditure	0	0	80	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	0	80	0	0	0	0
Vehicle Replacement Programme							
Gross Capital Expenditure	32	799	786	0	259	39	723
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	32	799	786	0	259	39	723

Table 11.3 General Fund Capital Expenditure proposals

Project	2018/19 Actual £000's	2019/20 Revised £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
GOVERNANCE, LAW, PLANNING AND REGENERATION							
Regeneration projects (Industrial estate signage)							
Gross Capital Expenditure	80	0	0	0	0	0	0
Specific external funding	(50)	(30)	0	0	0	0	0
Net Capital Expenditure	30	(30)	0	0	0	0	0
Knightswick Shopping Centre							
Gross Capital Expenditure	0	12,025	1,500	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	12,025	1,500	0	0	0	0
Hadleigh Town Centre - The Crown							
Gross Capital Expenditure	0	160	0	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	160	0	0	0	0	0
Seafront regeneration							
Gross Capital Expenditure	0	140	1,582	0	0	0	0
Specific external funding	0	(140)	(1,382)	0	0	0	0
Net Capital Expenditure	0	0	200	0	0	0	0
HOUSING AND COMMUNITIES							
Development at Hatley Gardens							
Gross Capital Expenditure	43	762	0	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	43	762	0	0	0	0	0

Table 11.3 General Fund Capital Expenditure proposals

Project	2018/19 Actual £000's	2019/20 Revised £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
RESOURCES							
ICT Hardware and software							
Gross Capital Expenditure	62	361	0	0	0	0	0
Specific external funding	(16)	0	0	0	0	0	0
Net Capital Expenditure	46	361	0	0	0	0	0
Total Gross Capital Expenditure	948	14,908	4,589	325	659	364	1,098
Total specific external funding	(675)	(831)	(2,023)	(325)	(325)	(325)	(250)
Total Net Capital Expenditure	273	14,077	2,566	0	334	39	848

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

- 34 The Capital Financing Requirement is a measure of capital expenditure incurred historically by the Council that has yet to be financed by capital receipts, capital grants or contributions from revenue, and represents the Council's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. At any point in time, the Council has a number of cash flows both positive and negative and manages its treasury position, in terms of borrowings and investments, in accordance with its approved treasury management strategy and practices.
- 35 The CFR will increase whenever the Council incurs capital expenditure that is not immediately funded in the same year by grants, capital receipts or direct revenue contributions. The CFR will reduce when Minimum Revenue Provision (MRP) charges to revenue are applied in subsequent years.
- 36 If the Council takes out additional borrowing to pay for capital expenditure this also causes the CFR to increase. This is because borrowing does not finance capital expenditure. Instead it merely provides the cash to enable the expenditure to take place and, since the borrowing is required to be repaid at a later date, does not provide the resource.
- 37 There is no statutory limit on the amount of borrowing, however, the Council is required to demonstrate affordability of new capital proposals. This should include the annual principal and interest payments and ongoing revenue impact arising from new borrowing.
- 38 Within day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing can arise as a consequence of all the financial transactions of the authority and not simply those arising from capital spending.
- 39 Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2019 are:

Table 11.4 Capital Financing Requirement (CFR)							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
GF	6,100	18,893	20,321	19,235	18,286	17,263	16,796
HRA	36,418	36,350	36,350	29,350	29,350	29,350	23,350

- 40 The CFR for the General Fund has increased significantly from 2019/20 and this is primarily due to the purchase of the Knightswick Shopping Centre. In future years this steadily reduces as MRP charges are applied to revenue. The CFR for the HRA remains constant until such time as a loan repayment is made, the first being in 2021/22, at which point it will decrease accordingly and will remain constant until 2024/25 when the next payment is due. As stated above it is not currently expected that any further HRA borrowing will be taken out for additional HRA capital expenditure when these repayments occur, although restructuring of existing debt may be prudent, but if it were to then the HRA CFR would increase as additional expenditure was incurred.
- 41 The Council's CFR, for both the General Fund and HRA, is mapped out beyond the timescale reported in the above table, and currently extends to 31 March 2026.

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

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

Table 11.5 Authorised limit for external debt							
	2018/19 Actual £000's	2019/20 Revised £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Borrowing	44,866	58,459	56,115	45,308	44,499	43,480	36,792
Other long term Liabilities (finance leases)	0	0	0	0	0	0	0
Total limit	44,866	58,459	56,115	45,308	44,499	43,480	36,792

- 43 The authorised limit shown for 2020/21 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.
- 44 These limits separately identify borrowing from other long-term liabilities, such as finance leases. It is recommended in the accompanying report to approve the overall limit. Any breach of limit, or required increase in the overall limit, must be immediately reported to Council.
- 45 These authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, as well as with its approved Treasury Management Policy Statement and practices. They are based on the estimate of most likely prudent, but not worst-case scenario, with sufficient headroom to allow for operational management, for example unusual cash movements.

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

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

Table 11.6 Operational boundary for external debt							
	2018/19 Actual £000's	2019/20 Revised £000's	2020/21 Estimate £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's
Borrowing	43,787	57,156	54,835	44,225	43,438	42,442	35,926
Other long term Liabilities (finance leases)	0	0	0	0	0	0	0
Total boundary	43,787	57,156	54,835	44,225	43,438	42,442	35,926

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

- 48 The Council's actual external debt at 31 March 2020, excluding when applicable any Finance Lease liabilities, is forecast at **£14.250m** for the General Fund and **£36.451m** for the Housing Revenue Account (principal amounts only), comprised wholly of external borrowing.

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

- 49 Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2018/19 are:

Table 11.7(a) Ratio of financing costs to net revenue stream							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
GF	6	4	8	12	12	9	10
HRA	35	37	37	35	35	34	33

- 50 Contributions from the General Fund and Housing Revenue Account revenue budgets to fund capital schemes are included within the estimates in some years, for example, in 2019/20 towards the hardware and software update referred to in paragraph 32. These contributions are not required to be included as part of the statutory calculation but if they were included, the ratios of financing costs to net revenue stream would become:

Table 11.7(b) Ratio of financing costs to net revenue stream (local variant)							
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
GF	7	9	9	12	13	9	12
HRA	35	39	37	35	35	34	33

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

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

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

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

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

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

Statement of Minimum Revenue Provision (MRP)

- 54 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008 (with subsequent revisions at later dates). The Regulations require the Council to approve an Annual Statement of Minimum Revenue Provision (MRP) which

is the amount set aside from revenue for the repayment of debt principal relating to the General Fund.

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

56 In accordance with the regulations, it is proposed to adopt the following MRP policy for the financial year 2020/21:

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

57 The Ministry for Housing, Communities and Local Government (MHCLG) issued updated statutory guidance on MRP in 2018, effective from 2019/20. There were some key changes made within this document, but they will not affect the current MRP policy used by the Council. For example, the guidance introduced a maximum useful life of 50 years for MRP purposes, but the Council does not use such a long-time frame. The guidance also introduced a requirement to disclose the amount of “overpayments” (i.e. amounts in excess of the prudent minimum) that can be used to reduce the charge in later years. There are no such amounts currently planned for 2019/20.

58 Forecast MRP charges based on estimated capital expenditure up to 2025/26 are mapped out beyond the timescales reported within the Capital Strategy, and currently extend up to 2044/45.

Capital receipts

59 Capital receipts from the sale of Council houses under Right to Buy (RTB) provisions and surplus assets will continue to be an important capital resource for the Council. The Government has set

a de-minimis level for capital receipts, and receipts of **£10k** or less are classified as revenue resources and are therefore accounted for within the revenue accounts. Receipts over **£10k** cannot be used for revenue purposes.

- 60 Table 11.8 shows the allocation on Non-RTB related receipts used to fund new affordable housing. Subject to agreement by the Secretary of State, specified RTB sales may also be excluded from pooling where monies are for use in the provision of new affordable housing, regeneration or repayment of debt.

Table 11.8 Allowable use of capital receipts (Non-Right to Buy)

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

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

- 62 From any RTB receipt the following deductions are made:

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

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

Table 11.9 Allocation of remaining Right to Buy receipt

Party	2019/20		2020/21	
	Allocation of receipt		Allocation of receipt	
	%	Cap £	%	Cap £
Treasury	70.5%	150,854	70.3%	150,854
Local Authority	29.5%	63,022	29.7%	63,652

- 64 This therefore caps the maximum contribution the Council can make towards new general capital expenditure to **£63,022** in 2019/20 and **£63,652** in 2020/21. Where receipts are insufficient to provide this the receipts are shared in the shown ratios. These caps are applied quarterly but any deficit in income in one quarter has to be offset against the following one.

- 65 Where there are receipt balances above these levels the funds are held by the Council for a period of 3 years from the end of the quarter they are received. If after this time the funds are not spent on the provision of replacement properties they are to be returned to the treasury with interest.

Chief Financial Officer's conclusion on the Capital Strategy

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

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

12 Treasury Management Strategy

Definition of Treasury Management

- 1 Treasury management is:
“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 2 The Council includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

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

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

Treasury Management Strategy for 2020/21

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

Balanced budget requirement

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

Brexit, economic uncertainty and interest rates

- 5 It will be some time until it is clear what the country’s trading arrangements will be with the EU and rest of the world post Brexit, and consequently it is likely there will be prolonged economic uncertainty.
- 6 The Bank of England base rate has been at **0.75%** throughout 2019/20. Growth in the UK economy is expected to remain low and Link expects the base rate to rise to **1.00%** in 2021 and **1.25%** in March 2022. It is expected that the 50-year Public Works Loan Board (PWLb) long-term rate for maturity loans during 2020/21 will range between **3.20%** and **3.50%**.
- 7 The Council adheres to strict investment criteria. It is anticipated that investments will have an overall average maturity of approximately 270 days. As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council’s budget process remain prudent. The Council may also be restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council’s policies and procedures and without compromising security and liquidity.

Current debt position and requirements for 2020/21

- 8 A summary of external debt that is expected to be outstanding at 31 March 2020 is as follows:

Table 12.1 External debt outstanding	
Source	Total at 31/03/20 £000's
Public Works Loan Board – General Fund	14,250
Public Works Loan Board – Housing Revenue Account	36,451
Total	50,701

- 9 The Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **1.08%** to **4.10%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates are low, premature repayment of all loans would incur a huge premium in excess of ten million pounds.
- 10 The proposed programme of capital expenditure due to be approved by Council in February 2020 is not currently anticipated to trigger a requirement for new borrowing in 2020/21. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- 11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is the difference between the Capital Financing Requirement (CFR) and the level of external borrowing. At the end of 2020/21 this is expected to be **£5.4m**, a significant increase from previous years. This position is known as "under-borrowed". Most of this amount, **£4.5m** relates to the purchase of the Knightswick Shopping Centre and associated public realm works. Total capital expenditure on this project will be **£13.5m** of which **£9.0m** was funded externally by a PWLB 10-year, equal instalment loan, fixed at a preferential "certainty rate" of **1.08%**. As cash balances are relatively high and interest earned on investments is lower than the rate at which the Council can take out loans, borrowing **£4.5m** internally is an efficient use of resources that also lowers the overall cost of funding for the project to less than **1%**. If external debt exceeded the CFR then the Council would be "over-borrowed". The position will fluctuate from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.

Borrowing Strategy

- 12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.
- 13 If a need to borrow should arise, the Strategic Director (Resources), under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.
- 14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing

Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the impact of changes in central government policies including imposed 4-year rent reductions, as detailed within the separate HRA budget setting report.

- 15 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. The PWLB periodically allows local authorities to register for a preferential “certainty rate” for borrowing, which is currently **0.20%** 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 **£14.25m** debt is quite long at 19 years. **£0.90m** matures every year for the next 10 years, currently with no requirement to refinance. **£5.25m** of the debt portfolio does not mature before 2052. Therefore, there is little refinancing risk for the General Fund.
- 17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2041/42. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1m** above the **£36.5m**. The autumn 2018 budget announced that, subject to final consultation, the borrowing cap would be removed, so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.

Borrowing in advance of need

- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Strategic Director (Resources) may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.
- 19 MHCLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Strategic Director (Resources) does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:
 - It will be limited to no more than **£2m** of the expected increase in borrowing need (CFR) over the three-year planning period; and
 - The Council would not look to borrow more than 18 months in advance of need.
- 20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council’s Investment Strategy.

Treasury management indicators

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

Borrowing maturity structure

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

Table 12.2 Maturity structure of fixed rate borrowing				
Maturity	General Fund		Housing Revenue Account	
	Upper limit	Lower limit	Upper limit	Lower limit
	%	%	%	%
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

Borrowing – limits of fixed and variable rate exposure

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

Table 12.3 Upper limits of fixed and variable exposures						
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
Upper limit – fixed rates	56	56	55	47	47	46
Upper limit – variable rates	(22)	(18)	(12)	(13)	(12)	(7)

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 2020/21 is therefore as follows: -
- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
 - to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption;
 - to manage the debt maturity profile in order to avoid a high level of repayments in any one year;
 - to borrow at the best interest rates achievable in relation to estimated future rates;
 - to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
 - if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
 - to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
 - to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

13 Investment Strategy

Investment guidance

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

Investment principles

- 2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:
 - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
 - Secondly – the **liquidity** of its investments (keeping the money readily available for expenditure when needed).

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

- 3 Under the guidance investments made by local authorities are classified into two main categories:
 - Investments held for treasury management purposes.
 - Other investments.

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2020/21 this amount will be **£56k**.

Table 13.1 General Fund investment income						
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's	£000's	£000's
Forecast investment income	196	200	172	181	170	137

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

Financial investments

- 5 Under the guidance financial investments fall in to three categories:
 - Specified investments - high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year.
 - Loans – for example to local enterprises, charities etc. The Council has none.
 - Non-specified investments – all others, may be less secure.

Specified investment instruments identified for use in the financial year are listed in table 13.2. Non-specified Investments are any other type of investment, i.e. not defined as specified above, are listed in tables 13.3 and 13.4.

Non-financial investments

- 6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess

whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

Liquidity

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2020/21 to range between **£23m** and **£36m**.

Risk assessment and risk appetite

- 8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:
- a very high average credit weighting for the portfolio, typically AA
 - a diversified portfolio
 - weighted average maturity approximately 250 days
 - strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£6m**.
 - Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

Credit ratings

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 13.2 to 13.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment.
- 10 The United Kingdom left the EU on 31st January 2020 and entered into an implementation or transition period when negotiations take place on the future relationship between the UK and the EU. If there were to be a "no deal" Brexit by the end of the transition period on 31st December 2020, then it is possible that credit rating agencies could downgrade the sovereign rating for the UK from the current level of AA. Most 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

- 11 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Asset Services, also alert the Council to changes in ratings as they occur.
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

Amendment to the 2020/21 Investment Strategy to add three new investments to the approved list of investment counterparties

- 12 The portfolio of investments maintained by the Council is very cautious and the yield is below that earned by some other councils. During 2019/20 the Treasury Management Strategy was amended to allow investing for longer periods than the original 364-day limit with banks and other local authorities, to increase the return on investments without significantly compromising security. The Strategic Director (Resources) now recommends adding three further types of non-specified investment to the approved list of counterparties from 2020/21, as detailed below in paragraphs 13, 14 and 15. Non-specified investments may not have the high credit quality of specified investments.
- 13 This is to achieve more diversification and yield with new investments, which are used regularly by other councils, whilst maintaining reasonable levels of security. It is anticipated the new investments will provide approximately **£100k** of additional investment income per annum. Some non-specified investments are more complex instruments, requiring greater consideration and due diligence by Officers and Members. Therefore, Officers will consult with Link Asset Services and may engage the adviser to provide a Multi-Asset Fund Selection Service, before investing in these new asset classes, to ensure a full appraisal is made of all products and any associated risks.
- 14 **Property funds**
Property funds are similar to other collective investment funds in many ways. Consumers make lump-sum investments, which are pooled together and used to purchase a range of assets. Some property funds invest directly in commercial property - they buy actual properties including offices, shops, factories and warehouses. Other funds invest indirectly - meaning that instead of buying properties, they buy shares in property companies or other property funds. Both these types of fund are usually unit-linked. This means that they are divided into units, with each unit representing a share of the underlying investment pool. Consumers buy a certain number of units, and the unit price will change over time to reflect the value of the underlying assets. The funds are sold as general investment products and as part of pension plans. So, they are usually managed by pension providers, investment companies or life assurance companies. However, property funds can differ from other collective investment funds because there can be lengthy delays between a consumer asking to withdraw money from a property fund and that money being paid out; and the pricing of the units can be quite difficult to understand.
- 15 **Bond funds**
A bond fund is a fund invested primarily in bonds and other debt instruments. The exact type of debt the fund invests in will depend on its focus, but investments may include government, corporate, municipal and convertible bonds, in addition to other debt securities like mortgage-backed securities.
- A bond fund is simply a mutual fund that invests solely in bonds. For many investors, a bond fund is a more efficient way of investing in bonds than buying individual bond securities. Unlike individual bond securities, bond funds do not have a maturity date for the repayment of principal, therefore, the principal amount invested may fluctuate from time to time. In addition, investors indirectly participate in the interest paid by the underlying bond securities held in the mutual fund. Interest payments reflect the mix of all the different bonds in the fund, which means that the interest income distribution will vary monthly. An investor who invests in a bond fund is putting his money into a pool managed by a portfolio manager. Typically, a bond fund manager buys and sells according to market conditions and rarely holds bonds until maturity.
- Many bond funds comprise a certain type of bond, such as corporate or government bonds, and are further defined by time period to maturity, such as short-term, intermediate-term, and long-term.
- Due to the inverse relationship between interest rates and bond prices, a bond due to mature in the long-term has greater interest rate risk than a short-term bond. Therefore, the net asset value of bond funds with longer term maturities will be impacted greatly by changes in interest rates. This, in turn, will affect how much interest income the fund can distribute to its participants monthly.

16 Multi-asset funds

These funds are pooled investment vehicles investing in a mixture of assets, such as cash, bonds, property, equity and various other income producing products. Most funds will include non-sterling investments, hedged back to sterling. Risk is diversified via the spread of investments, with 'risk-return efficiency' above average. They can be sold on a daily basis, with settlement typically after 3 days. Funds hold a variety of extremely liquid assets to meet investor liquidity requirements and dividend payments.

Returns can be variable, although diversity in assets aims to give stability to income payments and managers typically aim for **4-6%** in yield, but in the current low interest rate environment it may be lower. Annual management fees are typically **0.75% to 1.50%**. Unrated credit, derivatives and other complex instruments are regularly used. They are relatively new products; most funds are 5 to 10 years old.

Table 13.2 Specified Investments for the Financial Year 2020/21			
Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Debt Management Agency Deposit Facility (DMADF) (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
Treasury Bills issued by the UK Government (currently maximum 6-month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
Term Deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
Term Deposits with institutions, part nationalised by the UK Government	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) CNAV, LVNAV and VNAV These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
Current accounts, notice accounts or term deposits with credit-rated deposit takers (UK banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Certificates of Deposit issued by UK institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Covered bonds (maximum 364-day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Reverse repurchase agreements "repos" (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

Table 13.3 - Non-specified Investments for the financial year 2020/21
(Note – added in 2019/20)

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

Table 13.4 - Non-specified Investments for the financial year 2020/21
(Note – new additions from 2020/21)

Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Property Funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Bond funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Multi-Asset funds	The lesser of £4m or 25% of total investments	Unrated	n/a

- 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

- 17 The Council selects counterparties according to credit quality as well as the additional information in paragraph 19 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 21.

Money Market Funds

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

Markets in Financial Instruments Directive (MiFID)

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

Use of additional information other than credit ratings

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

Bail-in legislation

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

Internal stricter guidance

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

Use of derivative instruments

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

Investments defined as capital expenditure

- 24 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.
- 25 Investments in Money Market Funds are not treated as capital expenditure.
- 26 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

- 27 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

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

The Council's banking arrangements

- 29 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31st March 2020 and officers are reviewing a new tariff from Lloyds and considering all feasible alternatives to ensure the Council obtains value for money, in accordance with the Council's Contract Procedure Rules.

Risk benchmarking

- 30 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.
- 31 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.

- 32 **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.

- 33 **Liquidity** – In respect of this area the Council seeks to maintain:
- Bank overdraft - **£200k**. Higher overdraft facilities are available on request. This will be reviewed for the new banking contract due to start in April 2020
 - Liquid short-term deposits of at least **£1m** available with a day's notice
 - Weighted Average Life benchmark is expected to be about 270 days, with a max of 1 year

- 34 **Yield** – Local measures of yield benchmarks are:
- Investments – returns above the 7-day LIBID rate.

Treasury management adviser

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

Member and officer training and experience

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

Investment activity reporting and publication

- 38 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

- 39 The 2017 edition of the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes reaffirmed CIPFA's previous view that "throughout the public services the priority for treasury management is to protect capital rather than to maximise return." The Council complies with this view, as shown in the principles stated in paragraph 2 above.
- 40 The 2017 edition also included:
- Three key principles of Treasury Management, which are unchanged from the previous publication.
 - Four clauses that CIPFA recommends all public services formally adopt. These are as stated in paragraph 2 of section 12 of this report.
 - Twelve main practices, which cover matters such as risk management, performance measurement, decision making, approved instruments, cash flow management, and others. The requirements of these twelve practices feature throughout sections 12 and 13 of this report. Elements of these practices have been updated or expanded upon in the 2017 edition but have no fundamental impact on current procedures undertaken by the Council's officers in performing their treasury management and investment duties.

Changes in accounting standards

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

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. Since March 2018 we have published information on the gender pay gap on the Council Website.
- Men and women doing like work or in the same grade will receive progression through the appropriate pay scale.
- If there are bars to progression between grades/spinal column points, progression will be based on fair and objective criteria that staff are aware of.
- The Council has a Pay Protection Policy for those staff whose posts are downgraded as a consequence of changing organisational requirements where this results in a salary reduction.

- Increments will be paid on 1st April each year until the maximum of the level is reached subject to the following:
 - a) Increments may be accelerated within an officer's scale at the discretion of the authority on the grounds of special merit or ability, subject to the maximum of the level not being exceeded as approved by the Strategic Director (Resources).
 - b) An increment may be withheld due to poor performance but will only apply where correct probation or capability procedures have been followed. Any increment withheld may be paid subsequently if the officer's services become satisfactory.
 - c) Employees with less than six month's service in the grade by 1st April shall be granted their first increment six months from the actual date of their appointment, promotion or regarding.

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

- Where an employee is required to hold a membership of a professional body to carry out their role, one professional subscription will be paid annually by the Council on behalf of the employee.
- When an employee has worked for the Council for a continuous period of 25 years an award of £500 is made in recognition of their service.
- In exceptional circumstances the Authority may consider awarding an honorarium.
- Where applicable the following benefits are offered to staff as part of their salary package:
 - Flexible working arrangements (can relate to hours or time worked, or place of work)
 - Flexitime (allows flexibility in start, finish and lunch times as well as hours carried forward to better match the needs of the Council and employee)
 - Leave buy-back
 - Free staff membership at Waterside Leisure Centre for use of the swimming pool and fitness suite (not classes) to improve the health and wellbeing of staff working a minimum of 15 hours per week. Use of the swimming pool also free at the Runnymede Leisure Centre with access to the fitness suite at lunchtimes only.
 - Casual car user allowance, essential car user allowance, car allowance
 - Market supplements (to attract and retain the right calibre staff to key posts)
 - Retention payment (to attract and retain the right calibre staff to key posts)
 - Performance related pay (see section 5)
- The Council has Redundancy and Retirement Policies and Procedures. These Policies make provision for the following.
 - Employees may voluntarily retire or resign at a time of their choosing.
 - It is the Council's policy to try to avoid compulsory redundancy and it will only resort to this when circumstances make it unavoidable. The Council will seek to ensure continuity of employment so far as it is compatible with the effective, economic and efficient

provision of local government services. Due to the changing nature of local government and the reducing central government grant it is essential that the Council is suitably equipped to respond in an agile and responsive manner to the challenges presented without having to divert limited resources to defending its actions. Therefore, where the Council needs to restructure and/or downsize its workforce in order to save costs or improve efficiency in the short to medium term, the Council hereby expressly agrees to waive any cap imposed on exit payments or flexible retirements (see below) to ensure that any changes can be delivered in the required timescales and agreed business cases. The agreed procedures are followed where compulsory redundancies are contemplated.

- The Council also operates a flexible retirement policy. The Local Government Pension Scheme Regulations 2007 permit flexible retirement where the member has attained the age of 55 and who, with the employer's consent, reduces their hours of work by at least **25%** or there is a reduction in grade. Flexible retirements are entirely discretionary and therefore a full business case must be completed and submitted to the Strategic Director (Resources) for consideration.
- The Council will not discriminate against an applicant who has previously been employed by the Council or another Local Authority or who has previously received a redundancy, severance payment or flexible retirement. The Council's recruitment process is used to select and appoint the best applicant to carry out a role.

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

3.1 Chief Executive

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

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

- The Chief Executive will receive the annual national pay increase for Chief Executives if and when offered and agreed by the Local Government Employers. In the absence of this the Chief Executive will receive the annual national pay increase applicable to all other staff.
- The Chief Executive also receives a (Deputy) Returning Officer fee in respect of District, County and Town Council elections. Payment for local election duties are based on a locally determined scale according to the number of electorate and payment is in addition to the Chief Executives basic pay. Fees for conducting Parliamentary/European and Police & Crime Commissioner elections and referenda are determined by way of a Statutory Instrument.

3.2 Chief Officers

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

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

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

3.3 All staff including the lowest paid staff

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

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

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

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

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

The Council's current ratios are:

- The ratio of the highest earning officer (Chief Executive) to the lowest paid full-time equivalent employee in the Council is 8:1.
- The ratio of the highest earning officer (Chief Executive) to the average of all other staff in the Council is 7:1. The median is based on the annual gross pay of all employees in post as at 31 March 2019.
- The ratio of the average of the Chief Executive and other Chief Officers earnings to the average of all other employees is 5:1

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

Limitation of the ratio's

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

- Average earnings will vary according to the mix of employees at any given point in time.
- The Chief Executive and other Chief Officers work a significant amount of additional hours for which no additional payment is made. If this were to be taken into account this would have the effect of reducing the ratio's stated above.

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

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

5 Definitions

5.1 Lowest paid staff

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

5.2 Chief Officer

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

5.3 The use of performance-related pay

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

5.4 The use of bonuses

No bonus payments are awarded.

15 Preceptors

Introduction

- 1 The Council is required by law to:
 - approve the calculation of Council Tax requirement for the Council's services (including that required by Canvey Island Town Council) and
 - set the Council Tax level to be levied in the Borough that takes account of the following preceptors:
 - Essex County Council.
 - Essex PFCC – Policing & Community Safety.
 - Essex PFCC – Fire & Rescue Authority.
 - Canvey Island Town Council.

Essex County Council

- 2 The County Council has a duty to issue a precept to billing authorities before 1 March each year. It is currently anticipated that the County will set its budget and level of precept on 11 February 2020.

Essex PFCC – Policing & Community Safety

- 3 The PFCC has been elected to oversee Essex Police and is responsible for setting the Essex Police budget. The PFCC set its budget and precept on 6 February 2020.

Essex PFCC – Fire & Rescue Authority

- 4 The Fire & Rescue Authority operates as an independent body and is responsible for setting its own budget. The PFCC set its budget and precept on 6 February 2020.

Canvey Island Town Council

- 5 The Town Council is a separate and autonomous body within the Borough which approves its own spending and precept levels for each financial year, based on a separate tax base (calculated by the Council) consisting of Canvey Island properties only. The Town Council resolved its precept for the forthcoming financial year at its meeting on 26 November 2019.
- 6 There are currently no specific Government controls over the Town Council's budget requirement or Council Tax level although the Government has consulted in recent years on the introduction of a referendum limit for Town and Parish Council's.
- 7 The Council is required to include the net expenditure relating to the Town Council in the Council's net overall budget requirement.
- 8 The Town Council's precept is added to the statutory calculation as an average for the overall Borough but is levied only on properties that are situated on Canvey Island.

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

- 1 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial (s151) Officer (Strategic Director (Resources)) is required to report to the Council on: -
 - the robustness of the estimates made for the purposes of the calculation of Council Tax requirement, and
 - the adequacy of the proposed financial reserves.
- 2 The Council must have regard to this report when making decisions on the Council Tax requirement calculation.
- 3 The report on the adequacy of reserves appears at section 8 and the report on the robustness of the estimates appears below.

General Fund services

- 4 Estimates in respect of General Fund services for the following expenditure types have generally been calculated by the Council's Financial Services Department, 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 Financial Services and respective service departments, subject to final agreement and acceptance by budget holders in service departments. This has been a sound process and based on experience of past estimates prepared by a similar process, these estimates are considered generally robust.

Housing Revenue Account

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

Overall conclusions

- 8 The Strategic Director (Resources) overall view of the robustness of the estimates is therefore that the processes followed have been generally sound and identical to those that have produced robust estimates in the past.
- 9 In order to ensure accountability is exercised in relation to financial management, it is essential that Cabinet continues to ensure that budgets are monitored diligently and accountable officers (budget holders) are reminded of their personal responsibility for budget compliance in line with Financial Regulations and Procedures. Breaches of these regulations should be considered extremely serious and Cabinet is tasked with monitoring compliance.

17 Calculation of the Council Tax Requirement

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

Table 17.1 Council Tax requirement calculation		
LGF Act 1992	Item	£
s31A(2)(a)	Gross spending on services	56,056,309
s31A(3)(a)	Less gross income from services	(42,965,600)
s31A(3)(a)	Less Government grant & business rates	(3,415,154)
	Less Capital and other grants & contributions	(1,381,600)
s31A(3)(b)	Less net Collection Fund surplus / plus deficit	(48,859)
s31A(3)(d)	Net amount taken to / (from) general and earmarked reserves	156,415
	Council Tax Requirement	8,401,511

- 2 The above figures include internal charges between services and **£251,709** relating to the Canvey Island Town Council precept. The tax base (see section 5 of this report) is then used to calculate the amount of Council Tax (including the Town Council) at band D, in accordance with Section 31B of the Act: -

$$\text{Council Tax (including Town Council)} = (£8,401,511/30,969) = £271.29$$

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.

Table 17.2 Council Tax			
Band	Ratio in 9ths	Canvey Residents Council Tax Including Town Council £	Mainland Residents Council Tax Excluding Town Council £
A	6	189.48	175.44
B	7	221.06	204.68
C	8	252.64	233.92
D	9	284.22	263.16
E	11	347.38	321.64
F	13	410.54	380.12
G	15	473.70	438.60
H	18	568.44	526.32

- 4 The Council Taxes set by other precepting authorities are added to these amounts to calculate the total amount of Council Tax due for the year, as shown in section 18.

18 Precepts and Council Tax levels

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

- 1 Castle Point, as the billing authority for the area, is also responsible for the collection of Council Tax on behalf of the three major precepting authorities, as well as Canvey Island Town Council which is a local precepting authority. A summary of precepts notified and corresponding Council Tax levels is as follows: -

Table 18.1 Precepts and Council Tax Levels

	Council Tax at Band D 2019/20 £	Council Tax at Band D 2020/21 £	Change from 2019/20 £	Change from 2019/20 %	Share %
Castle Point Borough Council	258.03	263.16	5.13	1.99	14.01
Essex County Council	1,270.44	1,321.11	50.67	3.99	70.35
Essex PFCC - Fire and Rescue	72.45	73.89	1.44	1.99	3.93
Essex PFCC - Policing and Community	192.96	198.63	5.67	2.94	10.58
Total (excluding Canvey Island Town Council)	1,793.88	1,856.79	62.91	3.51	98.88
Canvey Island Town Council	20.61	21.06	0.45	2.18	1.12
Total (including Canvey Island Town Council)	1,814.49	1,877.85	63.36	3.49	100.00

- 2 The table below shows the amount of Council Tax each authority has set for 2020/21: -

Table 18.2 Council Tax for each band

Band	Castle Point Borough Council	Essex County Council	Essex PFCC - Fire and Rescue Authority	Essex PFCC - Policing and Communi-ty Safety	Total excluding Town Council	Canvey Island Town Council	Total including Town Council
	£	£	£	£	£	£	£
A	175.44	880.74	49.26	132.42	1,237.86	14.04	1,251.90
B	204.68	1,027.53	57.47	154.49	1,444.17	16.38	1,460.55
C	233.92	1,174.32	65.68	176.56	1,650.48	18.72	1,669.20
D	263.16	1,321.11	73.89	198.63	1,856.79	21.06	1,877.85
E	321.64	1,614.69	90.31	242.77	2,269.41	25.74	2,295.15
F	380.12	1,908.27	106.73	286.91	2,682.03	30.42	2,712.45
G	438.60	2,201.85	123.15	331.05	3,094.65	35.10	3,129.75
H	526.32	2,642.22	147.78	397.26	3,713.58	42.12	3,755.70