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## ***Policy Framework and Budget Setting for 2016/17***

(Incorporating the Financial Planning and Capital Strategy)

Report of Chris Mills CPFA, Head of Resources



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# 1 **Financial Planning and Capital Strategy**

## **Introduction**

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

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

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

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

The establishment of the medium term financial forecast is supported by detailed financial projections for each service area, informed by departmental service action plans. These plans are directly linked to the Council's Corporate Plan and therefore reflect the Council's key priorities and objectives for the medium term.

## **Key Principles of the Strategy**

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

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

### Requirements of the Strategy

#### 3 The strategy:-

- Is linked with the Council's other key strategies, namely the Human Resources Strategy and the Asset Management Plan together with financial strategies for Treasury Management, Investment, Austerity and Commercial and the Housing Revenue Account Business Plan.
- Shows how the Council will be responsive to national economic circumstances, Government requirements and initiatives.
- Is integrated with strategic and service planning processes on a medium to long term basis.
- Identifies how the Council will take account of the revenue consequences of its Capital Programme.
- Shows how the Council would deal with any future variations in funding levels and requirements to improve efficiency, while maintaining a balanced and affordable budget.
- Recognises the importance of risk assessments and financial contingency planning.
- Recognises the importance of sound financial management and explains the Council's policies on the level of financial reserves.
- Identifies the Council's policy options for setting the level of the Council Tax.
- Develops the best possible estimate of future resources and ensures that financial planning takes account of both the immediate and the medium term implications of decisions.
- Identifies additional sources of income and other resources through partnerships.

### Actions to support the Strategy

#### 4 The processes that support the Financial Planning Strategy are:-

- Rolling five year financial forecast – based on the strategy, updated on a rolling basis and considered regularly at Cabinet meetings.
- Annual Budget Process – agreed each year to enable the Council's budget to be set within the guidelines of the strategy.
- Financial Monitoring – budget holders are responsible for monitoring their budgets. 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 the detailed management reports. Matters of concern are referred to Members.
- Cabinet monitors the effectiveness of budgetary control and operational performance, keeping budget holders accountable and taking appropriate action to reduce identified risks. Cabinet Members receive monthly operational reports and bi-monthly high level reports are presented to formal Cabinet meetings, including updates on the medium term financial forecast and explanation of financial developments which may impact on the forecast going forward.
- Evaluation of new proposals – the financial and human resource implications of new proposals and their impact on the financial strategy are considered at the outset.
- Operation of flexible arrangements for amending budgets in response to changes in circumstances that affect service delivery.

## 2 Austerity and Commercial Strategy

### Introduction

- 1 The public sector and local government in particular is facing a challenging time on many fronts including reduced central government funding and ever increasing customer expectations.
- 2 To put this into some context, over the previous parliament Castle Point received £3m, or 53% less in grant from central government. This trend is set to continue with the Chancellor recently announcing further cuts over the next four years. As well as losing all of its Revenue Support Grant by 2018/19, Castle Point will have to hand over an increasing portion of its retained business rates and New Homes Bonus to central government.
- 3 The Council has a long established programme of work designed to improve efficiency and reduce costs. Historically, this consistent approach has delivered an enviable track record of continuous improvement and balanced budgets. This has been acknowledged through external inspection and has so far ensured that the Council has been able to deliver a full range of traditional local services to its residents.
- 4 Given the level of cuts and subsequent changes that have already taken place further savings are however becoming increasing more difficult to deliver. The Council will therefore need to be prepared for other sources of income such as fees & charges to be maximised, the introduction of more innovative and radical changes to the way in which services are delivered and a pro-active review of assets.

### Balancing the Books

- 5 The Council's financial forecast currently indicates that its budgets are largely balanced for 2016/17 and 2017/18. However, significant budget gaps of £1.1m and £1.9m are forecast for 2018/19 and 2019/20 respectively. In the recent Spending Review and Autumn Statement the Government indicated that if Councils set out their efficiency plans they could qualify for a four year rather than two year settlement (full details still awaited). The advantage of this would be that the Council would have much greater certainty about the latter years of the forecast thereby aiding its medium term planning. What is guaranteed however is that although the Council can continue to work towards delivering the savings that are required in a measured way, given that budgets are largely balanced for the next two years, it must reduce costs and therefore existing services will have to be delivered in a different way in order to balance the books. It also needs to recognise that given the level of savings already required to achieve this, it will not be in a position to step into the gaps left by other Council's and organisations who choose to withdraw funding or support due to their own difficult financial positions.
- 6 Table 2.1 on page 7 provides a summary of cost reductions and additional income which have enabled a contribution into general reserves in 2015/16 and the achievement of a balanced budget for 2016/17. These changes are ongoing (unless indicated otherwise) and therefore also have a positive impact on the Council's budget for years 2017/18 and beyond.

### Efficiency programme

- 7 As mentioned above, the Council has a long established programme of work that has been used to improve efficiency and reduce costs. The programme of work has focussed on three core principals:
  - A modern lean and efficient business approach.
  - Effective services that focus on the customer.
  - The right people to deliver the job.

So far, initiatives have included:

- Seeking procurements that maximise value for money.

- Reducing spending commitments by delivering more for less.
  - Reviewing service delivery methods to ensure that they focus on customer need and reduce waste within the confines of a traditional service.
  - Reviewing workforce planning and management to ensure staff resources are utilised in the most effective way.
  - Seeking new opportunities, for example cost sharing with partners.
  - Investing to save.
- 8 This work will continue, however it will become increasingly more difficult for the Council to balance the books on traditional service methods alone. Additionally, customer expectations are increasing as a result of the way that technology is transforming all aspects of their lives. Citizens now expect more personalised and convenient ways to access the services they require. It is therefore no longer enough to do more with less; local authorities are expected to do new things with less and this can only be delivered by changing the way that services are delivered.
- 9 The Council will therefore need to look at a more radical approach to income generation, rationalisation and innovation to deliver services. This will include:
- Using more technology to transform the way that the Council currently works.
  - Introducing a consistent and clear charging policy.
  - Major restructuring of the way services are delivered.
  - Maximising new and existing income streams.
  - Pro-active asset management including rationalisation of assets and maximising revenue.
  - Maximising Council Tax / grants.
  - Seeking further grants that meet Council priorities.

### **Work planned for 2016/17**

#### **Service Reviews**

- 10 Service reviews have become one of the key features of the Council's efficiency programme. This has ensured that continuous improvement and cost reduction is always at the forefront of service delivery. The resources available to undertake service reviews are limited and therefore these are targeted to the areas that will deliver the best outcomes in terms of the customer and savings.
- 11 It should also be noted that due to the limited resources available for service reviews these resources may be re-allocated at very short notice if priorities change or new information comes to light.
- 12 Independent reviews of the Council's Revenues & Benefits and Planning services have recently concluded. The reviews have identified a number of changes that could be made to the services to further improve efficiency and reduce costs. In view of this both services will undergo a major restructuring during 2016/17.
- 13 All service reviews will include some or all of the following:
- Exploiting technology to its full potential (see 15 below).
  - Capturing information at the first point of contact.
  - Standardising processes.
  - Reviewing staffing structures (see 14 below).
  - Providing staff with access to the right information at the right time.
  - Empowering all staff to make appropriate decisions

- 14 Unfortunately, as staffing structures are reviewed it is inevitable that some staff may have to be made redundant. Depending on the particular circumstances surrounding each review this could be at short notice. However, the Council does have agreed policies in place to deal with such events and will ensure that these are followed carefully.

### **Technology**

- 15 People's lifestyles and the way they want to do business are changing. An Ofcom report published in August 2015 found that Smartphones have become the hub of our daily lives and are now in the pockets of two thirds (66%) of UK adults, up from 39% in 2012. The vast majority (90%) of 16-24 year olds own one; but 55-64 year olds are also joining the smartphone revolution, with ownership in this age group more than doubling since 2012, from 19% to 50%. Smart phones are typically used for nearly two hours every day to browse the internet, access social media, bank and shop online as well as access public services.
- 16 Locally, nationally and globally businesses have seized these opportunities to radically improve their efficiency and effectiveness in how they do business and ultimately how they "connect" not just physically, but digitally with their customers.
- 17 The Council now needs to follow suit. The Council needs to accept that it has to reflect itself as a digitally competent organisation to its customers. It needs to review key utilities, on-line capabilities and collaborative ways in which to work, in order to reduce costs and transform the way citizens access information and services online and also help the Council respond to citizens' requests.
- 18 Information and communication technology (ICT) is therefore one of the key ingredients to the successful delivery of the Council's efficiency programme and will accordingly feature heavily in all service reviews.

### **Sales, Fees & Charges**

- 19 Council's have legal powers to charge for a wide range of the services they provide, to recover the costs of providing those services. Where users of services are not charged for the full cost of using those services (as is the case at Castle Point), the shortfall falls on all of the Council Tax payers in the Borough.
- 20 There is a wide variation in the levels of charging between district councils with the same responsibilities. The most recent data available shows that in 2013/14 Castle Point's income from sales and fees and charges was very low at only 14.31% as a percentage of its total spend. This falls in the lowest 25% of district councils in the Country with the average being 21.48%.
- 21 As the Council's Revenue Support Grant is withdrawn, it will be more important than ever to re-assess the income generated from sales and fees and charges to help towards balancing the books. The Council will therefore revisit its charging policy to ensure that it is consistent, clear and fair to both the direct users of services and the general Council Tax payers in the Borough.
- 22 Section 10 of this report provides information regarding the Council's charging policy.

### **Asset Management**

- 23 Owning assets costs money. If the income generated by the use of those assets does not cover the cost of running those assets then the shortfall falls on all of the general Council Tax payers in the Borough. As budgets are squeezed still further the Council will have to pro-actively review its assets to ensure that they are being used to their full potential and are affordable in terms of both ongoing capital and revenue costs. The Council will therefore review a number of assets during this forthcoming year to ensure that the best outcomes are achieved for the general Council Tax payer.

## 2 Austerity & Commercial Council

**Table 2.1 Cashable efficiency savings, cost reductions and additional income included in line 1 of the Financial Forecast (table 4.1)**

Ref.	Description of efficiency item/cost reduction/additional income	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's
1	<b>All services, Central &amp; Corporate areas</b> Increase in New Homes Bonus from Central Government compared to previously budgeted amount.	0	(216)	(774)	(990)
2	Additional revenue income arising from extension of "council tax revenue share-back" agreement between CPBC and major precepting organisations. Three year agreement for 2015/16 to 2017/18.	(163)	(250)	(250)	(663)
3	Ongoing reduction in staffing related costs for all services, largely relating to a lower assumed pay increase for 2016/17 and later years than originally budgeted for, following Chancellor's summer 2015 budget announcements.	0	(80)	(211)	(291)
4	Reduction in expected cost of Planned Preventative Maintenance (PPM) programme for Council properties.	0	0	(50)	(50)
5	Impact of changes in assumptions around future inflation.	(32)	(100)	(140)	(272)
6	Reduction in Members training and course fees and hospitality budget to reflect level of usage.	(6)	(6)	(6)	(18)
7	Savings on insurance management contract and on insurance premiums.	(13)	(24)	(25)	(62)
	<b>Environment</b>				
8	Annual increase in grounds maintenance and street cleansing contract is capped at CPBC council tax increase, therefore no increase in 2015/16 with ongoing implications.	(22)	(27)	(27)	(76)
9	Reduction in Refuse and Recycling fuel and other direct transport costs.	(36)	(47)	(48)	(131)
10	Net increase in car parking income, including changes in charges reported to November Cabinet. Income also partly to be used to fund £100k for second phase of improvement works at School Lane.	(127)	(184)	(184)	(495)
11	Removal of parking partnership provision for deficits.	(15)	(15)	(15)	(45)
	<b>Regeneration &amp; Neighbourhoods</b>				
12	Increase in Development Control Fees & Charges.	(110)	(30)	(30)	(170)
13	Increase in Building Control Fees & Charges.	(13)	(10)	(1)	(23)



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Ref.	Description of efficiency item/cost reduction/additional income	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total £000's
14	<b>Housing &amp; Communities</b> Reduction in homelessness costs, contract savings and corporate surveys & strategies budget.	(11)	(11)	(11)	(33)
15	<b>Resources</b> Treasury Management savings including increase in interest earned on investments and ongoing reduction in bank charges.	(34)	(33)	(33)	(100)
16	Facilities Management savings including window cleaning contract.	(22)	(26)	(33)	(81)
	<b>Total cashable savings/cost reductions/additional income</b>	<b>(603)</b>	<b>(1,059)</b>	<b>(1,838)</b>	<b>(3,500)</b>

### 3 **Budget consultation**

- 1 There is a statutory requirement under section 65 of the Local Government Finance Act 1992 to consult with the representatives of Business Ratepayers on proposed spending plans. These representatives are considered to be:-
  - Federation of Small Businesses.
  - South Essex Chamber of Trade.
- 2 The Council consults service users as part of service reviews, as part of normal service operation and on the introduction of new policies or material changes to existing policies. Many services conduct regular surveys to inform decision making and gauge levels of satisfaction.
- 3 In the summer of 2013 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 approximately 500 responses and the results are consistent with previous consultations as summarised below:

**Table 3.1 Top 5 most important services**

<b>Rank</b>	<b>Service</b>
1	Refuse collection
2	Keeping public land clear of litter and refuse
3	Environmental Health Services
4	Parks and Open Spaces
5	Working with the Police to reduce crime and anti-social behaviour

**Table 3.2 Top 5 least important services**

<b>Rank</b>	<b>Service</b>
1	Events like the Castle Point Show and Fireworks Fiesta
2	Land charge services
3	Local meetings with Councillors
4	Easter & summer out of school activities for young people
5	Benefits payments

- 4 Consultation on a new Corporate Plan is planned to be undertaken in the autumn of 2016.

## 4 Medium term financial forecast

- 1 A key element of the Financial Planning Strategy is the maintenance of a medium term financial forecast covering a period of five years. The forecast shows the impact on financial resources of current spending plans and estimated future changes to those plans.
- 2 The key features of the forecast are that it:-
  - is informed by current service plans and corresponding costs through to 2019/20, up-rated by inflation predictions and other known cost and/or service changes.
  - is based on the Council's financial targets.
  - is based on Government support announcements for 2015/16 and 2016/17 through to and including 2019/20.
  - reflects the revenue impact of capital expenditure.
- 3 The forecast enables the Council to see the future impact of spending plans on its financial resources. It shows any adjustment that would be required to bring spending within the parameters of the Council's financial targets.
- 4 The latest forecast (excluding the Canvey Island Town Council precept) is shown in table 4.1 on page 12 and covers the period from 2015/16 through to 2019/20. The settlement for 2016/17 included an offer of a four year funding settlement, open to all authorities. The precise terms of the offer are not yet available but are understood to include a requirement for the authority to have in place an efficiency plan. It is also understood that those authorities who accept the offer will be guaranteed to receive at least the level of grant funding indicated. Authorities have until 14<sup>th</sup> October 2016 to respond to the offer.

### **Basis of the forecast**

- 5 The starting point for the forecast is the draft revised estimates for 2015/16 and draft estimates for 2016/17 to 2019/20 (provisional), informed by the service planning process for 2016/17. Adjustments are then made for changes to spending levels expected or known to occur over the life of the forecast. In compiling the forecast, the Council has taken into account the financial implications of wider economic developments, including the impact of interest rate reductions, and changes in the housing market and impact on the Council's various fee charging services.
- 6 An annual inflationary increase is assumed where appropriate for pay, rates, insurances, utilities, contracts and income from fees and charges. There is no allowance for inflation for other items, implying that the relevant budget heads would be subject to a cash freeze.
- 7 The forecast includes the latest information received from Essex County Council in relation to employer's pension contributions. This information has been based on an actuarial valuation carried out on the Essex County Council Pension Fund as at 31 March 2013. These valuations are carried out every three years. The contribution rates currently included in the forecast reflect information provided by the actuary and the Essex County Council Pension Fund, and are based on a 19.5 year recovery period with no stepping arrangement.
- 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 2015 has been adopted as the basis for calculations relating to 2016/17 and includes adjustments to reflect the localised scheme for support of council tax, as well as the outcomes anticipated to be realised from an intensive compliance review of discounts and exemptions granted from Council tax, as described in greater detail in section 5 of this report.
- 10 The proposed Council Tax level for 2016/17 is indicated at line 21 of table 4.1 and combined with current spending plans, delivers a balanced budget for the financial year.

- 11 A council tax referendum would be triggered by this authority if council tax were increased by 2% or more above the authority's relevant basic amount of council tax for 2015/16. There is no funding available for authorities who freeze their council tax in 2016/17.

#### **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.
- 13 The forecast shown at table 4.1 indicates the following:-
- That the budget for 2016/17 is balanced, however future years are not, meaning that the Council will have to rely on the use of reserves to meet spending plans during these years until such time as the budget gap indicated at line 12 is closed by reducing costs or increasing income streams.
  - That Council Tax levels for 2016/17 will be increased by 1.96%.
  - Forecast reserves are projected to be above the minimum level of £2.7m recommended by the Head of Resources at the end of 2016/17.
  - From 2017/18 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 2017/18 is within the referendum limit currently indicated by government.
  - In view of the potential funding gap indicated for future years, there will be no opportunities to plan the use of reserves for non-recurring expenditure, over and above those already earmarked at the present time.
- 14 The forecast incorporates budget reductions and savings recommended by the Executive Management Team as set out in table 2.1 on page 7. It is assumed that additional changes in service delivery that are driven by Council priorities are met from surplus resources or increased efficiencies.

#### **Robustness of the forecast**

- 15 The underlying spending plans for 2016/17 and 2017/18 (provisional), on which the forecast is based, are considered generally robust, subject to any reservations expressed above and in section 16.
- 16 The figures presented represent the funding notified to the Council, and assume an acceptance of the four year settlement offer from government.
- 17 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 2017/18 and beyond.

#### **Monitoring of the forecast**

- 18 Financial and operational performance indicators are routinely monitored and performance reported to Cabinet members and the Executive Management Team on a monthly basis. Formal reporting of performance against the financial forecast is undertaken monthly by the Head of Resources and reported bi-monthly to Cabinet.
- 19 The financial forecast is a live document linked directly to the detailed budget and therefore reflects the impact of virements, additional revenue and/or changes in services as they occur.

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

**Table 4.1 Medium term financial forecast**

2015/16 2016/17 2017/18 2018/19 2019/20 Notes

Line	Current policies and service plans	£'000s	£'000s	£'000s	£'000s	£'000s
1	Total net expenditure / estimated exp. for future years	9,649	12,883	12,673	10,266	10,745
	<b>Funding sources</b>					
2	Council Tax	6,862	7,094	7,305	7,523	7,747
3	Formula Grant - Revenue Support Grant / (tariff)	1,716	917	287	0	(515)
4	Baseline Funding Level - Redistributed Business Rates	2,059	2,046	2,112	2,174	2,244
5	Business Rates - Levy on retained income	(122)	(159)	0	0	0
6	New Homes Bonus	820	1,172	774	485	351
7	Capital grants and other grants and contributions	933	738	336	0	0
8	Net Collection Fund(s) surplus / (deficit)	(119)	(839)	0	0	0
9	Transfer (to) / from General reserve	(285)	(286)	0	0	0
10	Transfer (to) / from Earmarked reserves	(2,215)	2,200	1,853	(974)	(970)
11	<b>Total funding sources</b>	<b>9,649</b>	<b>12,883</b>	<b>12,667</b>	<b>9,208</b>	<b>8,857</b>
12	<b>Budget / Funding Gap</b>	<b>0</b>	<b>0</b>	<b>(6)</b>	<b>(1,058)</b>	<b>(1,888)</b>
	<b>General Reserve</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
13	Balance at start of year	4,887	4,966	3,883	3,677	2,419
14	Contribution (to) / from General Fund (line 9 & 12)	285	286	(6)	(1,058)	(1,888)
15	Potential planning appeals & associated legal costs	(206)	(1,369)	(200)	(200)	0
16	<b>Balance / (deficit) at end of year</b>	<b>4,966</b>	<b>3,883</b>	<b>3,677</b>	<b>2,419</b>	<b>531</b>
	<b>Earmarked Reserves</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
17	Balance at start of year	5,289	6,089	2,886	250	1,224
18	Contribution (to) / from General Fund (line 10)	2,215	(2,200)	(1,853)	974	970
19	Other expected usage of earmarked reserves - not allocated to the detailed budget	(1,415)	(1,003)	(783)	0	(100)
20	<b>Balance at end of year</b>	<b>6,089</b>	<b>2,886</b>	<b>250</b>	<b>1,224</b>	<b>2,094</b>
21	<b>Council Tax</b>					
22	Tax at band D Increase	234.09 0.00%	238.68 1.96%	243.36 1.96%	248.13 1.96%	252.99 1.96%

Fluctuations year to year caused by phasing of maintenance spend and other expenditure "offset" by earmarked reserves (line 10)

Offset by a contribution from the NNDR equalisation reserve (line 10)  
Subject to consultation currently underway  
Includes transitional grant in respect of withdrawal of RSG  
Separate funds for council tax and business rates

Minimum recommended balance for General Reserves is £2.7m

Based on assessment of potential appeal costs for 2015/16 & 2016/17 and indicative amounts for future years.

The precise timing of the use of earmarked reserves is, due to their nature, generally unknown.

Earmarked reserves are reviewed annually to ensure sufficiency and where need has diminished the reserve will be returned to General Reserves.

Target increases of approximately 1.96% in future years (assuming a 2.0% referendum limit remains in place). The tax at band D does not include the amount charged by Canvey Island Town Council.

## 5 Tax base

### Tax base calculation

- 1 Under section 33 of the Local Government Finance Act 1992 and supporting Regulations, the Council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed by law and made under delegated authority by the Head of Resources, in consultation with the Cabinet Member responsible for Resources and Performance.
  - 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 including Revenue Support.
  - 3 The calculated tax base for 2016/17, before losses on collection are deducted, is **30,329** band D equivalent properties which is an increase from the 2015/16 tax base of **29,943**. 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 an ongoing intensive compliance review of the various categories of council tax discounts and exemptions. This work 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.
  - 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 be set at **98%** for 2016/17 (**97.9%** in 2015/16).
  - 5 The tax base for 2016/17 is therefore **29,722** band D equivalent properties (compared with **29,314** in 2015/16).
- Impact of local council tax support scheme on the tax base calculation**
- 6 The reduced tax yield arising directly from the council tax support scheme discount was originally compensated for by a government grant. With the exception of the Town Council, each precepting organisation received their equivalent grant directly and it was specifically identified within the overall finance settlement. An amount was paid over from this Council to the Town Council based on an estimate of the amount relating to them. From 2015/16 the grant has not been specified separately and given the scale of reductions applied to Revenue Support Grant up to 2017/18 and its complete depletion from 2018/19 it can be assumed that local authorities are now required to fund this scheme entirely from their own resources. Therefore the Council payments of grant to the Town Council will reduce proportionately as grant received by the Council from central government reduces. The Town Council will receive £10,557 in 2016/17.
  - 7 The number of discounts awarded under the local scheme has steadily reduced throughout the period since the scheme was launched in April 2013 and this has been reflected in the tax base as referenced at paragraph 3(b) above.

## 6 Local Government funding

### 2016/17 Local Government Finance Settlement / Settlement Funding Assessment (SFA)

- 1 On 9 February 2016 the local government finance settlement for 2016/17 and allocations for years up to 2019/20 were announced. The overall reduction to the settlement for England for the period is **31.8%** as shown in table 6.1.

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

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
SFA	21,250	18,601	16,622	15,558	14,500
Change %		-12.5%	-10.6%	-6.4%	-6.8%
Cumulative %		-12.5%	-21.8%	-26.8%	-31.8%

- 2 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 through the annual spending assessment. Table 6.2 summarises the SFA for Castle Point and shows that whilst nationally the % change in funding is **31.8%**, the equivalent change for Castle Point is significantly more at **54.2%**. This is explained in greater detail below.

**Table 6.2 Castle Point's Settlement Funding Assessment (SFA)**

Ref		2015/16	2016/17	2017/18	2018/19	2019/20
		£000's	£000's	£000's	£000's	£000's
1	Revenue Support Grant / (Tariff Adjustment)	1,716	917	287	0	(515)
2	Business Rates	2,059	2,071	2,112	2,174	2,244
	<b>Total Funding</b>	<b>3,775</b>	<b>2,988</b>	<b>2,399</b>	<b>2,174</b>	<b>1,729</b>
	£ Net (Reduction)		(787)	(589)	(225)	(445)
	£ Accumulative (Reduction)			(1,376)	(1,601)	(2,046)
	% Net Reduction		-20.8%	-19.7%	-9.4%	-20.4%
	% Accumulative Reduction		-20.8%	-36.5%	-42.4%	-54.2%

Note: 2015/16 figures have been compared to the current financial forecast, not the original settlement for that year.

- 3 The 2016/17 settlement represents the fourth year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding.
- 4 Table 6.3 includes the allocation of business rates collected within the Borough.

**Table 6.3 Funding Settlement 2016/17 to 2019/20**

	2016/17	2017/18	2018/19	2019/20
	£000's	£000's	£000's	£000's
Anticipated yield from NNDR for Castle Point BC	15,237	15,540	15,999	16,510
50% Payable to Central Government	(7,618)	(7,770)	(8,000)	(8,255)
10% Payable to Essex County Council and Essex Fire Authority	(1,524)	(1,554)	(1,600)	(1,651)
<b>Amount left after payments</b>	<b>6,095</b>	<b>6,216</b>	<b>6,399</b>	<b>6,604</b>
<b>Tariff payable to Central Government</b>	<b>(4,024)</b>	<b>(4,104)</b>	<b>(4,225)</b>	<b>(4,360)</b>
Business Rates Baseline	2,071	2,112	2,174	2,244
Revenue Support Grant / (Tariff adjustment)	917	287	0	(515)
<b>Total combined funding for Castle Point BC</b>	<b>2,988</b>	<b>2,399</b>	<b>2,174</b>	<b>1,729</b>



**Revenue Support Grant (RSG)**

- 5 Rather than all authorities receiving the same percentage reduction in Revenue Support Grant funding, the government have adopted a mechanism which takes into account the amount that can be raised locally by each authority from Council Tax. This methodology results in an increased reduction in RSG funding for higher tax base authorities and a lower reduction for lower than average tax base authorities. The new methodology also favours upper tier services and results in higher funding reductions for district councils. The following table shows the accumulative reductions in RSG across the four years (based on the provisional settlement) by authority type, alongside the actual reduction specifically for Castle Point.

**Table 6.4 SFA accumulative reductions by authority type**

	%
England	-31.8
Inner London Boroughs including City	-24.6
Outer London Boroughs	-33.4
Metropolitan Districts	-28.0
Shire Unitaries	-32.9
Shire Counties	-42.4
<b>Shire Districts</b>	<b>-44.3</b>
<b>Castle Point Borough Council</b>	<b>-54.2</b>

- 6 This methodology has resulted in the withdrawal of RSG for individual authorities in different financial years. For Castle Point, RSG discontinues from 2018/19. Furthermore, there will be a requirement for those authorities who will no longer receive RSG to still continue to contribute funding from the other core element(s) of their settlement in order to meet the overall reductions to local government funding set in the Spending Review. This is shown as a tariff adjustment in line 1 of table 6.2 above, in the columns for 2019/20.
- 7 During 2016/17 and 2017/18, where the Council is still receiving some RSG, it is no longer possible to identify specific funding in respect of Council Tax Support Grant, homelessness prevention funding or council tax freeze compensation, although reductions to RSG are so significant that very little of these separate grants can remain.

**Transitional Grant**

- 8 The final settlement includes an additional **£150m** in both 2016/17 and 2017/18 in the form of a transitional grant which has been distributed to those councils most adversely affected by the change in revenue support grant. Castle Point has received **£87k** in each year.

**Business Rates Retention (BRR)**

- 9 The settlement no longer provides absolute funding indications for BRR and is based on an adjusted average income figure. This may or may not be reflective of final BRR outturn for each respective year. Whilst the BRR scheme enables the Council to retain a proportion of business rates growth, it also requires the Council to absorb a proportion of the financial impact of successful rating valuation appeals and bad debts. Appeals may result in the backdated repayment of rates paid by businesses as well as an ongoing reduction in rates receivable by the Council in future years. This information is not known to government at the time the settlement is announced.
- 10 The Council is therefore required to complete a statutory annual return to DCLG, referred to as NNDR1, which sets out the anticipated National Non Domestic Rates income collectible for each authority, based on more recent information than that available to government. This return is used to inform the council's financial forecast and budget for the forthcoming financial year.

- 11 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 **£24k**.

<b>Table 6.5 Funding Settlement 2015/16 to 2016/17 (comparison)</b>			
	<b>2015/16 NNDR1 £000's</b>	<b>2016/17 settlement £000's</b>	<b>2016/17 NNDR1 £000's</b>
Anticipated yield from NNDR for Castle Point BC	15,124	15,237	15,177
50% Payable to Central Government	(7,562)	(7,618)	(7,588)
10% Payable to Essex County Council and Essex Fire Authority	(1,512)	(1,524)	(1,518)
<b>Amount left after payments</b>	<b>6,050</b>	<b>6,095</b>	<b>6,071</b>
<b>Tariff payable to Central Government</b>	<b>(3,991)</b>	<b>(4,024)</b>	<b>(4,024)</b>
Business Rates	2,059	2,071	2,047
Revenue Support Grant	1,716	917	917
<b>Total combined funding for Castle Point BC</b>	<b>3,775</b>	<b>2,988</b>	<b>2,964</b>

- 12 The Council prudently established an earmarked reserve (NNDR Equalisation Reserve) 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. The Council maintains a rolling medium term forecast of the reserve to support financial planning, and the following table sets out the transactions anticipated to impact on the reserve in 2015/16 and 2016/17.

<b>Table 6.6 NNDR Equalisation Reserve</b>		
	<b>2015/16 £000's</b>	<b>2016/17 £000's</b>
<b>Opening Balance</b>	(1,071)	(1,242)
Application of s31 Grant Income	(587)	(401)
<b>Total Contributions into the Reserve</b>	<b>(1,658)</b>	<b>(1,643)</b>
Application to offset payment of Levy	121	160
Application to offset deficit on Collection fund (previous years)	280	1,016
Adjustments to Safety net & Section 31 grant (previous years)	15	0
Equalisation adjustment – variance in business rates retained	0	24
<b>Closing Balance</b>	<b>(1,242)</b>	<b>(443)</b>

- 13 More information regarding the operation of the Business Rates Collection Fund may be found from paragraph 25 below and section 7 of this report.

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

- 14 The New Homes Bonus scheme was introduced in April 2011 and is intended to provide incentives and rewards for councils and communities who wish to build new homes in their area. Nationally, funding for the scheme has been allocated across the period of the spending review as follows:

- 2016/17      **£1.485bn**
- 2017/18      **£1.493bn**
- 2018/19      **£938m**
- 2019/20      **£900m**

- 15 The number of properties attracting the bonus is determined by calculating the increase in dwellings on the Council's valuation list multiplied by an amount representing the national average Council tax charge. The methodology ensures that empty properties brought back into use attract grant. Payment is split 80% to Castle Point and 20% to Essex County Council. The bonus is intended to be paid for a rolling six year period and is not ring fenced.
- 16 Table 6.7 sets out the total NHB allocation to the Council since introduction of the scheme including the 2016/17 allocation notified by the DCLG in December 2015. This information is included in the Council's financial forecast, table 4.1 at line 6.

**Table 6.7 New Homes Bonus**

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£000's	£000's	£000's	£000's	£000's	£000's
First year allocation	255	255	255	255	255	255
Second year allocation		142	142	142	142	142
Third year allocation			136	136	136	136
Fourth year allocation				153	153	153
Fifth year allocation					134	134
Sixth year allocation						352
<b>Total funding</b>	<b>255</b>	<b>397</b>	<b>533</b>	<b>686</b>	<b>820</b>	<b>1,172</b>

- 17 Alongside the provisional NHB figures for 2016/17, DCLG released indicative allocations for 2017/18 to 2019/20 and a technical consultation paper titled "New Homes Bonus: sharpening the Incentive".
- 18 The consultation includes a number of considerations and proposals intended to reduce the value of the scheme to a target annual cost of **£900m** by 2019/20, as shown in paragraph 13 above. The proposals that are being considered are:
- Reduction in the number of years the funding is allocated for, from six to four years with a possible transitional stage of five years.
  - Reform the bonus amount awarded to reflect local authorities performance on housing growth.
- 19 The current scheme rewards all net additions to the tax base regardless of the path leading to their inclusion. This means that authorities are able to attract the bonus without achieving significant housing growth. The consultation suggests three ways of tackling this:
1. Withholding new allocations in areas where no local plan is in place in accordance with the Planning and Compulsory Purchase Act 2004.
  2. Reducing payments for homes built on appeal. This is because government believe that the bonus payments received for homes allowed under appeal do not always reflect positive decisions to allow development.
  3. Only making payments for delivery above a baseline representing "deadweight". The government believes that a baseline could be determined which would represent the level of new properties which would be built irrespective of the bonus scheme.
- 20 Whilst the Government have stated points 1 & 2 to be their preferred option, the consultation does take point 2 further and asks if payments should be reduced by 50%, 100% or some other amount.
- 21 NHB is a material source of local authority funding. In many respects it has replaced RSG and certainly a large number of authorities, Castle Point included, are now dependent on NHB to support spending plans and balance the budget.

- 22 Table 6.8 below demonstrates the impact of a reduction in payment years from six to four and also adjusts assumptions in the figures used by DCLG in respect of 2017/18. The figures below are based on existing tax base and commitments under the current scheme and do not include assumptions around future new build.

**Table 6.8 New Homes Bonus Projection Based on Government "Preferred" Option.**

	2015/16 £000's	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
Suggested in the settlement	820	1,172	1,172	700	700
Adjustment – incl. reduction in years		0	(398)	(215)	(349)
<b>CPBC Forecast based on consultation</b>		<b>1,172</b>	<b>774</b>	<b>485</b>	<b>351</b>

- 23 The table indicates a steady reduction in NHB from 2016/17 through to 2019/20. This is based on the adoption of the Government's preferred option for the future of the scheme and the assumption that the Council's position in relation to the local plan remains unchanged. Since the consultation options around payment of funding for properties built on appeal are quite broad, these have not been applied in the table above. It is hoped that the table therefore reflects a worst case scenario. This information is included in the Council's financial forecast, table 4.1 at line 6.
- 24 It should be noted that, under the Government's preferred option and without a local plan in place, the Council will not receive any bonus from 2020/21.

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

- 25 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 central government and are referred to as "Tariff" authorities. Most district councils are in this position and for Castle Point the tariff is **£4.024m** for 2016/17.
- 26 Conversely, those authorities with insufficient income in their own area receive payments from central government and are known as "top up" authorities. The most common group of authorities receiving top ups are county councils.
- 27 Where an authority sees growth in its non-domestic rates it has to pay a proportion of that growth into the central pool as a "levy". The levy rate is calculated using the following formula:
- $$\text{Levy rate} = 1 - \frac{\text{baseline funding level}}{\text{business rates base line}}$$
- CPBC Levy Rate**  
 $\frac{£2,071k}{£6,095k} = 0.34 \quad 1 - 0.34 = 66\%$
- 28 The levy is capped at **50%** and so this is the effective amount of growth that districts will be able to retain if they do not pool.
- 29 Calculation and payment of the levy due for each year is undertaken following the end of the financial year when final out-turn is known. The levy calculation for 2015/16 and 2016/17 (provisional) is shown below.

**Table 6.9 2014/15 NNDR Levy Payment**

	2015/16 £000's	2016/17 £000's
CPBC share of NNDR receipt	5,757	6,071
Tariff payment to central government	(3,991)	(4,024)
Adjustments for appeals & s31 grants awarded to the Council	531	343
<b>Retained income</b>	<b>2,297</b>	<b>2,390</b>

Baseline funding level determined by central government	2,054	2,071
Growth	243	319
Levy Payment @ 50%	122	159

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

### Essex Region Business Rates Pool

- 31 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 central government, is retained within the Pool and this is fundamentally the main advantage of a pooled arrangement.
- 32 Authorities across Essex gained approval from DCLG for an Essex Region pool for 2015/16 and based on performance at the end of the third quarter the arrangement is anticipated to deliver a small financial gain in the first year of operation. On this basis the arrangement will continue for 2016/17 but with some changes to pool membership as shown in the following table.

<b>Table 6.10 – Essex region pool membership</b>		
	<b>Members 2015/16</b>	<b>Members 2016/17</b>
Essex County Council	✓	✓
Essex Fire Authority	✓	✓
Brentwood Borough Council	✓	✓
Braintree District Council	✓	✓
Castle Point Borough Council	✓	✓
Chelmsford City Council	✓	
Colchester Borough Council	✓	✓
Epping Forest District Council	✓	✓
Maldon District Council		✓
Rochford District Council	✓	✓
Tendring District Council	✓	✓
Uttlesford District Council		✓

- 33 The levy resulting from the Essex Region Pool is estimated to be **0%** meaning that all additional growth will be retained by member authorities. A participation agreement is in place to set out the key principles of the pool as well as the basis for distribution of all proceeds.
- 34 It is proposed that the Essex Region Pool distributes its funds on a 'no worse off' basis. Each member authority will receive the same payments it would have received as if it were not in the Pool, subject to available resources within the Pool. This includes the treatment of growth in enterprise zones and new renewable energy schemes.
- 35 All member authorities are required to fund any reduction in their Business Rates income up to the level of their safety net (currently set as a 7.5% reduction in an authority's baseline funding level). Funds from the Pool will not be allocated until the audited NNDR3 is available, around September after the end of the relevant financial year. At this stage any safety net payments will be made prior to the distribution of any remaining surplus of the Pool to member authorities.
- 36 The balance of the Business Rates income after the payment of the administration costs to the Lead Authority and any safety net payments will be shared between pool members using these allocations:
- 37 Any surplus remaining after payment of the pool levy is applied on this basis:
- 25% of the net gain will be distributed using each authority's baseline funding level.

- 25% of the net gain will be distributed using each authority's local share of Business Rates income (based on the audited NNDR3).
  - The remaining 50% of the net gain will be distributed on the growth in Business rates income achieved in each district.
- 38 The distributed surplus for an authority which pays a tariff will be capped at the amount of levy the authority would have had to pay if they were not in the pool. Any remaining surplus will be distributed to the remaining authorities on the same basis as above.
- 39 Where the pooling of the Business Rates income results in a net loss, this will be funded by the member authorities as follows:
- 50% of the net loss to be funded using each authority's baseline funding level.
  - 50% of the net loss will be funded using each authority's gross contribution to the pool.
- 40 If the Pool runs a cash deficit the Pool members in deficit will reimburse the central co-ordinating authority (ECC) any lost interest at the Bank of England base rate.
- 41 Quarterly reports are produced to monitor performance and updates provided to Cabinet via the bi-monthly financial update report. Whilst performance at the end of the third quarter has been satisfactory, it is not possible to predict accurately the final outturn due to the unpredictable impact of rating appeals on the overall pool.
- The Chancellor's Autumn Statement 2015 and implications on Business Rates**
- 42 The Chancellor reiterated earlier announcements regarding the move to 100% business rates retention by the end of this Parliament. The financial settlement does not reflect this move and consultation is expected on this shortly.
- 43 Also confirmed within the Autumn Statement was an extension to the doubling of the Small Business Rate Relief in England for 12 months to April 2017.
- Business Rates Retention - Revaluation**
- 44 The next business rates revaluation will come into effect on 1 April 2017 and will re-assess all business properties in England and Wales based on rental value as at 1 April 2015.
- 45 The Valuation Office undertakes the revaluation by issuing statutory questionnaires to ratepayers seeking information about their business. Data such as rent cost and income figures are used to assist the valuation of 1.8 million business properties across the UK.
- 46 All rateable values are reassessed at a general revaluation to ensure bills paid by any one ratepayer reflect changes over time in the value of their property relative to others. This helps maintain fairness in the rating system by updating valuations in line with changes in the market. The current rating list is based on the 2010 revaluation.
- 47 In the year of revaluation the multipliers are rebased to account for overall changes to total rateable value and to ensure that the process is revenue neutral at a national level.
- 48 Change at a local level is inevitable and there will be a need to recalculate the current system of top-ups and tariffs within the overall scheme.

## 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 2016. This is a statutory calculation that has to be made by 15 January for Council Tax and 31 January for NNDR.

The net impact of the respective balances relevant to Castle Point is shown on line 8 of the financial forecast as follows:

**Table 7.1 Collection Fund Surpluses/Deficits**

	2015/16 £000s	2016/17 £000s
Council Tax Collection Fund surplus / (deficit)	161	177
Business Rates Collection Fund surplus / (deficit)	(280)	(1,016)
<b>Total net deficit on Collection Funds</b>	<b>(119)</b>	<b>(839)</b>

### Council Tax Collection Fund

- 2 Any surplus or deficit relating to Council Tax is shared between this Council, Essex County Council, Essex Fire Authority and Essex Police. These adjustments are subtracted from or added to the amount to be raised from Council Tax for the forthcoming financial year and do not form part of the budget requirement.
- 3 The estimated balance on the Collection Fund at 31 March 2016 is a surplus of **£1,159,184**, of which this Council's share is **£176,845**.

### Business Rates Collection Fund

- 4 Any surplus or deficit relating to NNDR is shared between this Council, Essex County Council, Essex Fire Authority and Central Government. These adjustments would normally be subtracted from or added to the amount to be raised from Council Tax and would not form part of the budget requirement.
- 5 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 the outcome of rating appeals and changes in the total value of discretionary or mandatory reliefs granted compared to original estimates. The large deficit recognised in 2016/17 is largely due to a prudent increase made in the value of the provision for appeals as at 31 March 2015.
- 6 The estimated balance on the Collection Fund at 31 March 2016 is a deficit of **£2,539,292**, of which this Council's share is **£1,015,717**. This amount is charged in 2016/17 as shown within line 8 of the financial forecast and is offset by a contribution from the NNDR Equalisation Reserve within line 10 of the financial forecast (see table 6.6).

## 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 2016/17, General reserves are calculated as follows:-

<b>Table 8.1 General reserves</b>	
	<b>£000s</b>
<b>Balance of General reserves at 1 April 2015</b>	<b>4,887</b>
Net movement planned during 2015/16	79
<b>Balance of General reserves at 1 April 2016</b>	<b>4,966</b>
Net movement planned during 2016/17	(1,083)
<b>Balance of General reserves at 31 March 2017</b>	<b>3,883</b>

- 4 The estimated balance on reserves at 31 March 2017 is dependent on the achievement of the spending plans as set out within this report and recognises the potential for the incurrence of high value legal costs in relation to planning appeals. These are shown in line 15 of the financial forecast in table 4.1.
- 5 For years beyond 2016/17, the financial forecast indicates the use of general reserves in supporting day to day expenditure. This is not prudent practice on an ongoing basis and it is the Council's intention to identify sufficient savings/cost reductions/additional income to fully close each year's budget gap without relying on the use of reserves. Until these years are balanced it is prudent for the Council to maintain reserves at a higher level.
- 6 The balance on reserves predicted for the end of 2016/17 represents **30.1%** of the Council's net budget for 2016/17 before funding.
- Adequacy of reserves**
- 7 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.
- 8 Under section 25 of the Local Government Act 2003, the Council's Chief Financial (s151) Officer (Head of Resources) is required to report to the Council on the adequacy of the proposed financial reserves and to ensure that there are clear protocols for their establishment and use. The report of the Head of Resources is shown at paragraphs 10 to 21 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 July 2014. The Council must have regard to this report when making decisions on the Council Tax requirement calculation.

- 9 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
- Budget assumptions
- Financial standing and management
- Other local factors

#### **Adequacy of reserves – corporate issues**

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

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

- 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. External auditors have commended the Council's record of financial management. 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 generally has an excellent record of maintaining good financial and budgetary discipline in the face of mid-year pressures. A scheme of virements allowing resources to be reallocated within approved parameters has been used extensively. Financial procedures also include flexibility to carry unspent budget forward into subsequent financial years in order to avoid unnecessary spend at financial year end.

##### **Strength of financial information and reporting arrangements**

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

## 12 Adequacy of reserves – budget assumptions

These are considered in the following table:-

**Table 8.3 Adequacy of reserves – budget assumptions**

### **Estimate of the level and timing of capital receipts**

Assumptions of new capital receipts in 2016/17 are limited to, and based on, the current annual number of Council House sales under Right to Buy provisions. Adjustments have been made to interest to take account of the pooling arrangements.

### **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 planning fees, building control fees, land charge fees, fees and charges from leisure services, recycling revenue streams and car parking income, which all respond directly to the fluctuating characteristics of the economy.

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. It is noted that there is no precise science.

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

The detailed budgets include provision for an average 1% pay award for four years provision for changes arising from the new national living wage, apprenticeship levy and statutory changes to employer national insurance rates in respect of pension scheme members. 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 out-turn prices, i.e. to take account of known or expected increases in the prices of goods and services. This is a tried and tested approach.

All of the Council's external debt is at fixed interest rates and the average interest rate used to estimate interest receivable from investments in 2016/17 is 0.37%. The estimated level of investment income generated is based upon investments placed with institutions in accordance with our Investment Strategy, as detailed in section 13.

The sums included in the financial forecast for utilities are based on actual payments made and anticipated during 2015/16, adjusted in future years by current inflationary information. These costs are extremely volatile.

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

### **Sensitivity of budget assumptions**

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

### 13 Adequacy of reserves – other local factors of significance

These are considered in the following table:-

**Table 8.4 Adequacy of reserves – other local factors of significance**

#### **Equal pay review**

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

#### **Pension Fund Revaluation**

A valuation of the Pension Fund was performed by the actuary as at 31 March 2013 and information was provided in November 2013. The valuation indicated an improved deficit recovery period of 19.5 years, compared to 25 years predicted in March 2010. The financial implications included within the Council's financial forecast are based on the recommendations of the pension fund and were effective from April 2014. The next valuation of the Pension Fund will be undertaken by the actuary in March 2016, effective for contributions from April 2017.

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

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

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

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

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

#### **Potential for cost fluctuations in relation to service contracts**

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

**It is recommended that when assessing the minimum level of reserves a sum of £350k is included in the calculations (see below).**

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

The next business rates revaluation will come into effect on 1 April 2017 and will re-assess all business properties in England and Wales based on rental value as at 1 April 2015.

In the year of revaluation the multipliers are rebased to account for overall changes to total rateable value and to ensure that the process is revenue neutral at a national level.

Change at a local level is inevitable and there will be a need to recalculate the current system of top-ups and tariffs within the overall scheme.

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

These include a reduction in the local housing allowance affecting residents on benefit who are in private rented accommodation and which will result in a reduction in the amount of housing benefit they receive. Implementation of universal credit and complete roll out to working age claimants is now planned for 2021.

Current information indicates that the number of claimants falling within Universal Credit for Castle Point exceeds original estimates by the DWP.

The Council has seen a steady increase in the number of homeless cases presented and with 100% occupation of its own housing stock, and changes in the private renting sector, has experienced difficulty in finding suitable temporary and permanent accommodation to meet the increasing demand.

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

**Potential for incurrence of legal costs**

The Council anticipates an increase in the number of planning applications received. There is potential for a proportion of these applications not to be approved by the Council resulting in an appeals process. The appeals process will necessitate the Council incurring legal costs and, should the outcome of the appeal not be favourable to the Council, there is potential for the Claimants legal costs to be awarded against the Council. (£1.6m)

There is also potential for the Council to incur costs in relation to other legal challenges including employment tribunals. (£60k)

**It is recommended that when assessing the minimum level of reserves a sum of £1.660m 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 Head of Resources considers that the following are significant local factors that should be taken into account when assessing the minimum level of general reserves:-
- Potential for withdrawal of external or third party revenue income (£100k)
  - Cost fluctuations in major contracts (£350k)
  - Potential for incurrence of legal costs (£1.660m)
- 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 Head of Resources view that an appropriate minimum level of reserves is approximately £2.7m.
- 16 Although this report on adequacy of reserves is specific to 2016/17, the Council should bear in mind that adequacy should also be judged against longer-term plans.
- 17 The Council is currently predicting a funding gap for years 2017/18 and beyond. Whilst it is not permissible or feasible for the Council to rely on the use of reserves on an on-going basis to balance its budget, it may apply reserves as part of a short-term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer term solution. Until the budget for 2017/18 and beyond is balanced it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level at paragraph 15 above.

**Comparison with external benchmarks**

- 18 The only previously known external benchmark for adequacy of reserves was the standard that used to be included in the criteria for auditor scored judgements on Financial Standing, this formed part of the Comprehensive Performance Assessment made by the Audit Commission. This was stated as **5%** of net operating expenditure, weighted by reference to Government limits for meeting emergency expenditure. For Castle Point, this calculates at **£559k** for 2016/17.
- 19 A comparison of the above benchmark with the Head of Resources assessment and the Council's target is therefore:

<b>Table 8.5 Adequacy of reserves at 31/3/17</b>	
<b>Castle Point</b>	<b>Audit Commission</b>
<b>target</b>	<b>benchmark</b>
<b>£000's</b>	<b>£000's</b>
2,669	559

- 20 The Head of Resources considers that this higher level of reserves should be maintained until the local factors described at table 8.4 and in point 14 above have been resolved.

**Exclusions**

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

- The possible impact on insurance arrangements of the asbestos non-disclosure as currently there is no claims history or information on which to form a view.
- The equal pay review as there is no information available on which to form a view.
- Impact of Welfare Reforms on demand for Council Services.
- Potential impact of Business Rates Revaluation.

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

**In-year use of General Reserves**

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

**Earmarked Reserves**

- 23 General reserves have been earmarked for known or predicted liabilities. The following reserves are worthy of specific explanation:-

- **Minute 95 Fund**

In accordance with minute 95 of Special Council held on 16 February 2005, **£100k** of general reserves was earmarked for one-off, urgent, un-budgeted policy objectives that might arise. This is under the direct control of the Head of Resources, in consultation with the Leader and Chief Executive. Any reserves allocated in this way, will be retrospectively shown in the five-year rolling forecast of net spending and resources that is regularly reported to Cabinet. Any balance remaining at the end of 2015/16 will be automatically carried forward to 2016/17.

- **Priority Initiatives Fund**

During the course of 2011/12 the Council successfully reclaimed VAT previously paid in respect of certain categories of income. The receipts from these claims have been ring-fenced in a fund for use on one-off, priority initiatives, identified by the Council.

- **Insurance / Spend to Save Initiative Reserve**

A reserve of £100k intended to enable the Council to establish a scheme of self insurance was established during the 2013/14 financial year and has been 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.

- **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. Provision has been made in the medium term financial forecast to cover this potential cost. A review of the Council’s VAT position is undertaken annually.

- **Local Development Scheme/Local Plan**

The delivery of the programme set out in the Council’s Local Development Scheme has both human and financial resource implications. It was originally anticipated that these implications would have a total cost of up to £250k during the period ending March 2014, and provision was made in an earmarked reserve to cover these costs. Of this provision £36k remains in the reserve yet to be applied.

- **NNDR Equalisation Reserve**

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

This reserve was originally established from s31 grants awarded in relation to the business rates scheme as described in section 6 of this report.

- **Car Park Refurbishment Works Reserve**

A reserve of £240k established at the end of 2012/13 to support a programme of refurbishment for specific Council car parking facilities. Funding from the reserve is applied as and when works are undertaken. During the course of 2014/15 and 2015/16 further funds to the value of £175k were added to the reserve from parking fees received in excess of budget, to enable further works to the Council’s car parks. Over the same timescale £301k of works have been undertaken, leaving £114k in the reserve at 31 March 2016. The majority of the reserve is scheduled to be used during the summer of 2016 on the second phase of resurfacing works at School Lane car park, leaving only a small contingency sum in the reserve.

- **Local Council Tax Support Reserve**

A reserve established at the end of 2013/14 from underspends on the Castle Point element of local scheme grant, intended to fund future scheme variances and/or hardship cases over and above existing revenue budget provision. The reserve has been “capped” at £114k.

- **Future Asset Maintenance Reserve**

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

The purpose of this earmarked reserve is to fund and manage year on year variances in the cost of works to premises operated by the Council. The Council maintains two separate

divisions of this reserve, one for general properties and one specifically for the two Leisure Centres. The second one also allows for non-building costs such as periodic replacement of fitness suite equipment.

- **Pension deficit payment reserve**

A reserve established during the budget process for 2016/17, from surpluses budgeted in 2015/16 and 2016/17. The purpose of the reserve is to set aside funds in order to take advantage of significant financial incentives offered by the pension fund, in return for the payment of 3 years deficit contributions in one lump sum in 2017/18, rather than paying amounts monthly or annually across 2017/18 to 2019/20.

Ongoing, contributions will be made into the fund in advance of each three year payment, and funds will then be drawn back out when payment is due.

The balance anticipated to be in this reserve at the end of 2016/17 is **£1.8m**. The pension payment due in 2017/18 is expected to be **£2.8m**.

## 9 Revenue spending plans

- 1 The Corporate Business Plan provides the links between the aspirations of the community and individual service plans. These plans demonstrate how each service will be delivered and how that service links to one or more of the Council's key priorities. Each year service plans are produced and used to drive budget planning, to ensure that the future allocation of resources is based on the Council's four key priorities. Within the current Corporate plan, the four key priorities are shown as: -
  - Public Health & Wellbeing
  - Environment
  - Transforming our Community
  - Efficient and Effective Customer Focussed services
- 2 The method of calculating revenue spending plans has been broadly in-line with that set out in the Council's Financial Planning and Capital Strategy as described in section 1.
- 3 The Government announced the local government grant settlement for 2016/17 in December 2015 and this is referred to in section 6 of this report.
- 4 The key steps in the process of producing the base budget for 2016/17 were:-
  - A review of 2015/16 estimates to arrive at a core no-growth base budget for 2016/17, 2017/18 and 2018/19 (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 any case of inescapable increase.
  - Service providers were then required to review their services to identify options for reductions in net expenditure (without reducing service levels).
  - Income from fees and charges has been reviewed and recalculated against latest trends, taking account of any proposed price increases and the impact of the current economic climate.
  - Provision has been made for any costs or savings expected to arise from known and proposed changes in legislation. These included introduction of the apprenticeship levy and changes to the national living wage.
  - The forecast for 2019/20 is based on 2018/19 rolled forward with adjustments for known changes and assumptions around future years funding.
- 5 **Efficiency work programme and savings identified**  
The efficiency work programme for 2015/16, supported by service and budget holder reviews has identified general cost reductions and efficiency savings relating to the current and future financial years, which have been incorporated into the financial forecast at table 4.1.
- 6 **Funding of priority projects**  
Table 9.1 sets out some of the priority projects that the Council continues to fund during the period of the forecast. These have been reflected in the financial forecast.
- 7 **Cost pressures and other increases**  
Cost pressures and essential service increases identified during the course of the budget process are summarised in table 9.2 and these are also reflected in the financial forecast.
- 8 **Revenue spending plans**  
The resultant proposed net summary revenue spending plan for the General Fund, which incorporates the savings and cost reductions shown in table 2.1, is shown in the financial forecast at table 4.1. Service summaries, which have been based on Directorate and Service/Team Action Plans, are shown at tables 9.3 and 9.4.



## 9 Revenue spending plans

**Table 9.1 Funding of priority projects & other discretionary expenditure included in line 1 of the Financial Forecast (table 4.1)**

Ref.	Description of priority or discretionary item	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total
<b>1</b>	<b>All services, Central &amp; Corporate areas</b> Production of one issue of external newsletter "Viewpoint" per year	8	8	8	24
<b>2</b>	<b>Housing &amp; Communities</b> Funding towards the support of the Women's Refuge in Basildon	8	8	8	24
<b>3</b>	Funding of discretionary portion of business rates relief to charities and other bodies - percentage of overall relief cost applicable to this Council	41	42	42	125
<b>4</b>	<b>Environment</b> Festive lighting across the Borough	19	17	17	53
<b>5</b>	Public Conveniences across the Borough (net direct cost excluding recharges and capital charges)	41	44	44	129
<b>6</b>	<b>Regeneration &amp; Neighbourhoods</b> Running costs of CCTV installed at various public locations around the Borough including car parks, the Dutch Cottage, the seafront and specific residential areas	19	16	16	51
<b>7</b>	Funding for local and voluntary organisations: • Citizens Advice Bureau • Carers Choices (Formerly Crossroads Care) • Castle Point Association of Voluntary Services	59 34 42	59 34 42	59 34 42	177 102 126
<b>8</b>	Contribution to Community Transport Scheme in conjunction with ECC and Wyvern, providing transportation for elderly and disabled residents of the Borough	10	10	10	30
<b>9</b>	Community events such as the Fireworks Fiesta, Castle Point Show and Easter & Summer activities (net direct cost excluding recharges)	12	8	8	28
<b>Total funding of priority projects and discretionary expenditure</b>		<b>293</b>	<b>288</b>	<b>288</b>	<b>869</b>

## 9 Revenue spending plans

**Table 9.2 Cost pressures & budget increases (Growth) identified and included in line 1 of the Financial Forecast (table 4.1)**

Ref.	Description of cost pressure/budget increase item	2015/16 £000's	2016/17 £000's	2017/18 £000's	Total
	<b>All services, Central &amp; Corporate areas</b>				
1	Discontinuation of grant funding in respect of changes to electoral registration	0	25	25	50
2	Apprenticeship levy from April 2017	0	0	27	27
3	Estimated increase in salary cost due to government introducing a new National Living Wage of over £9 an hour by 2020. Cost includes staff charged through grounds maintenance and street cleansing contract	0	31	40	71
4	Establishment of earmarked reserve for future pension deficiency payments, in expectation of making a 3 year lump sum contribution in 2017/18 to achieve savings of approximately £400k across 3 year period	1,200	600	0	1,800
5	Domestic Homicide Review – appointment of statutory Chairman	0	21	0	21
	<b>Housing &amp; Communities</b>				
6	Reduction in costs recovered through court action	65	65	65	195
	<b>Environment</b>				
7	Extension of Thorney Bay Car Park as reported to January 2016 Cabinet meeting	45	0	0	45
8	Castle Point's contribution to the cost of the Essex Waste Partnership review programme	4	11	0	15
9	Decrease in recycling income resulting from reduced tonnage	71	33	31	135
10	Additional budget required for ongoing cost of playground & equipment maintenance	28	10	10	48
11	Environmental projects to ensure visible improvements to communities	0	50	0	50
	<b>Regeneration &amp; Neighbourhoods</b>				
12	CPBC regeneration Service Level Agreement with Essex County Council	0	19	19	38
	<b>Resources</b>				
13	Upgrade of central accounting system to latest version. Current version due to be de-supported summer 2016	0	32	0	32
	<b>Total cost pressures/budget increases</b>	<b>1,413</b>	<b>897</b>	<b>217</b>	<b>2,527</b>

## 9 Revenue spending

No	Table 9.3 General Fund revenue summary	Note	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19
			ACTUAL	ESTIMATE	REVISED	ESTIMATE	ESTIMATE	ESTIMATE
			£000s	£000s	£000s	£000s	£000s	£000s
	<b>Net Service Expenditure</b>							
1	Central and corporate services	1	1,815	3,584	2,287	4,005	2,686	2,642
2	Housing and Communities	1	1,180	1,749	1,665	1,886	1,922	1,973
3	Environment	1	4,740	6,136	6,041	6,041	5,289	5,412
4	Regeneration and Neighbourhoods	1	1,312	1,435	1,350	1,475	1,411	1,380
5	Resources	1	71	91	83	85	86	88
	<b>Total Net Service Expenditure</b>		<b>9,118</b>	<b>12,995</b>	<b>11,426</b>	<b>13,492</b>	<b>11,394</b>	<b>11,495</b>
6	Savings and / or additional revenue income / grant funding to be identified	2	0	0	0	0	(91)	(1,149)
7	Total Other Operating Expenditure	3	1,054	481	590	534	477	473
8	Total Financing and Investment Income and Expenditure	4	1,113	1,538	1,552	1,304	1,332	1,349
9	Total Net Statutory Adjustments	5	(1,418)	(2,967)	(3,688)	(2,211)	(295)	(2,815)
	<b>Total to be met from government grants, earmarked reserves and Council Tax</b>		<b>9,867</b>	<b>12,047</b>	<b>9,880</b>	<b>13,119</b>	<b>12,817</b>	<b>9,353</b>
<b>Notes</b>								
1	See table 9.4							
2	The amount required in order to deliver a balanced budget and maintain reserves at the minimum level							
3	Includes a discount applied to all salaries estimates to take account of vacant periods, allowances for future National Living Wage changes, the precept payable to Canvey Island Town Council from additional Council Tax collected from Canvey residents, allowances for repairs and maintenance programmes, and other miscellaneous items							
4	Includes interest payable and receivable, and statutory pensions adjustments based on information from ECC and the pension actuary							
5	Various statutory adjustments and reversals, to ensure that the Council Tax requirement amount is not affected by income and expenditure relating to non-current assets, such as depreciation, and other items such as the payment of capital receipts to central government. Also includes revenue contributions to fund capital expenditure							

## 9 Revenue spending

No	Table 9.4 General Fund Net Service Expenditure	2014/15	2015/16	2015/16	2016/17	2017/18	2018/19
		ACTUAL	ESTIMATE	REVISED	ESTIMATE	ESTIMATE	ESTIMATE
		£000s	£000s	£000s	£000s	£000s	£000s
	<b>Central and corporate services</b>						
1	Strategic directors	0	0	0	0	0	0
2	Chief Executive / Performance and Service Support	0	0	0	0	0	0
3	Internal audit	0	2	0	0	0	0
4	Civic Governance and Democratic Representation	1,090	1,273	1,238	1,329	1,249	1,328
5	Legal services	0	0	0	0	0	0
6	Other corporate costs	725	2,309	1,049	2,676	1,437	1,314
	<b>Net total - Central and corporate services</b>	<b>1,815</b>	<b>3,584</b>	<b>2,287</b>	<b>4,005</b>	<b>2,686</b>	<b>2,642</b>
	<b>Housing and Communities</b>						
1	Homelessness and Housing advice	445	406	483	406	406	411
2	Strategic housing and Housing	10	10	10	10	10	10
3	Revenues and Benefits	744	1,321	1,262	1,446	1,481	1,524
4	Local land charges	(19)	12	(90)	24	25	28
5	Concessionary travel	0	0	0	0	0	0
	<b>Net total - Housing and Communities</b>	<b>1,180</b>	<b>1,749</b>	<b>1,665</b>	<b>1,886</b>	<b>1,922</b>	<b>1,973</b>
	<b>Environment</b>						
1	Environmental health	644	996	861	824	730	751
2	Street scene and operational services	1,166	1,353	1,348	1,340	1,249	1,263
3	Refuse & recycling	1,033	1,435	1,264	1,401	1,453	1,463
4	Parks & open spaces	843	889	1,196	872	791	778
5	Leisure centres, golf course and community centres	1,266	1,715	1,616	1,984	1,537	1,622
6	Public conveniences	117	132	118	129	129	130
7	Parking	(329)	(384)	(362)	(509)	(600)	(595)
	<b>Net total - Environment</b>	<b>4,740</b>	<b>6,136</b>	<b>6,041</b>	<b>6,041</b>	<b>5,289</b>	<b>5,412</b>
	<b>Regeneration and Neighbourhoods</b>						
1	Development control	420	575	469	549	552	567
2	Building control	144	191	171	202	202	206
3	Regeneration	345	303	332	324	255	258
4	Partnerships, community engagement and community safety	331	381	325	304	308	308
5	Licensing and public transport schemes	72	(15)	53	96	94	41
	<b>Net total - Regeneration and Neighbourhoods</b>	<b>1,312</b>	<b>1,435</b>	<b>1,350</b>	<b>1,475</b>	<b>1,411</b>	<b>1,380</b>
	<b>Resources</b>						
1	Financial services	0	4	0	0	0	0
2	Information technology	0	0	0	0	0	0
3	Facilities and asset management	71	87	83	85	86	88
4	Human resources	0	0	0	0	0	0
	<b>Net total - Resources</b>	<b>71</b>	<b>91</b>	<b>83</b>	<b>85</b>	<b>86</b>	<b>88</b>

## 10 Charging policy

### Introduction

- 1 This charging policy sets out the key principles and processes departments should follow when setting fees and charges for services. It applies to all fees and charges with the exception of:
  - Services which have charges which are set by statutory legislation.
  - Services which are prohibited by statutory legislation from raising any charges.
  - General rental income and lease/licence income.
  - Income from housing rents.
- 2 Section 93 of the Local Government Act 2003 provides local authorities with the power to charge for discretionary services, provided they are not covered or prohibited by other statutory legislation, and provided the services in question do not make a profit from charging ("...subject to a duty to secure that, taking one financial year with another, the income from charging under that subsection does not exceed the costs of provision.")

### Income generation principles

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

### Annual process

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

- 10 The Council Constitution provides the majority of services with the authority to set their own fees and charges. There are exceptions to this, for example Car Parks, specifically the setting of parking charges and fixed penalty notices, for which Member approval is required. Changes in these charges would be subject to separate approval, outside of the Policy Framework and Budget Setting process.

**Publication and communication**

- 11 Each department is responsible for publication of a schedule of its charges via the Council website or other means and ensuring that all such schedules are kept up-to-date with any changes. They should also ensure communication of charges direct to users as appropriate. Published information about charges must also provide details of how the customer can make payments.

**Variations in standard fees**

- 12 Budget holders may decide that on occasion there is sufficient rationale for providing variations on standard charges to individuals or classes of users, for example:
- Discounts on bulk bookings.
  - Off-peak discounts.
- 13 Variations should only be considered provided they are also consistent with Council priorities and service aims, for example making concessions available to other local organisations who contribute to meeting council objectives.
- 14 Any such proposals should be reviewed to ensure the cost of reduced income does not exceed the benefit such as improved usage, and be submitted to the Head of Resources for agreement at Executive Management Team (EMT) prior to implementation, including the estimated impact on the income budget.

**Periodic full review of charges**

- 15 As well as the annual processes described in paragraph 3, departments also undertake a more in-depth review of fees and charges, at least once every three years.
- 16 This review should aim to ensure charges are consistent with Council priorities and service aims, market and customer intelligence, and to justify any subsidy made by the Council as a whole to that service. The outcome of and any changes arising from the 3 yearly formal reviews are to be approved by the Head of Resources and Executive Management Team (EMT).

# 11 Capital finance

- 1 Capital expenditure is expenditure that results in the provision or enhancement of assets such as land, buildings, plant and vehicles. This is subject to limitations of scale and the Council treats all expenditure below **£10,000** as revenue expenditure.
- 2 The Council must comply with the provisions of part 1 of the Local Government Act 2003 relating to capital expenditure and borrowing controls. These require local authorities to determine and keep under review the amount of their affordable borrowing. They must also have regard to the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which became effective from 1 April 2004 and was most recently updated in 2011.
- 3 There is no statutory limit on the amount of borrowing, however the Council is required to demonstrate the affordability of new capital proposals. This should include the annual principal and interest payments and ongoing revenue impact arising from new borrowing.
- 4 The main issues affecting capital investment decisions are:
  - the Council's capacity to borrow.
  - the availability of other capital resources, such as capital receipts.
  - the management of debt, cash flows and investments.

## The Capital strategy/approach to capital investment

- 5 The Council's strategy is to ensure that decisions on resource allocation are based on the Council's corporate objectives and priorities and reflect the views of residents and stakeholders.
- 6 The Council's capital investment priorities are classified in order of priority and set out below:

**Table 11.1 Prioritisation of capital investment priorities**

<b>Priority</b>	<b>Purpose</b>
1	Private sector improvement and disabled facilities grants.
2	Housing capital expenditure financed by the depreciation allowance and contributions from revenue, with priorities determined in accordance with the HRA Business Plan and in consultation with tenants.
3	Self-financing schemes funded by specific grants and external sources.

- 7 Any new proposals must be evaluated for affordability in accordance with the requirements of the Prudential Code and in considering such proposals the Council must have regard to:
  - service objectives, e.g. strategic planning for the authority.
  - stewardship of assets, e.g. asset management.
  - value for money, e.g. option appraisal.
  - prudence and sustainability, e.g. implications for external borrowing and whole life costing.
  - affordability, e.g. implications for Council Tax or rent levels.
  - practicality, e.g. achievability of the forward plan.

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

## Prudential Code for Capital Finance in Local Authorities

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

- 9 The Council has a duty under section 3 of the Local Government Act 2003 and supporting Regulations to determine and keep under review how much it can afford to borrow. The amount so determined is called the Affordable Borrowing Limit and the Council must have regard to the Prudential Code when setting this limit. This requirement is to ensure that total capital investment remains within sustainable limits and that the impact on future Council Tax and rent levels is acceptable.
- 10 Paragraphs 12 to 32 below explain the Prudential Indicators that the Council should have regard to before agreeing capital spending plans for 2016/17. The Council must approve prudential indicators for the next three years – 2016/17 to 2018/19 – and an appropriate recommendation appears in the accompanying formal Committee report. Provisional indicators are also shown for years beyond 2018/19, for information only.
- 11 There are also some Prudential Indicators that apply to treasury management activity. These are shown in section 12.

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

- 12 Table 11.2 below shows actual 2014/15 capital expenditure, along with estimates for current and future years recommended for approval:

<b>Table 11.2 Capital expenditure</b>							
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Actual</b>	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
General Fund (GF)	474	1,124	1,861	378	392	546	1,011
GF– Assets acquired under Finance Leases			595				
Housing Revenue Account (HRA)	4,077	2,244	1,869	1,351	1,377	1,402	1,427
<b>Total</b>	<b>4,551</b>	<b>3,368</b>	<b>4,325</b>	<b>1,729</b>	<b>1,769</b>	<b>1,948</b>	<b>2,438</b>

- 13 The amounts shown for 2016/17 represent firm proposals for approval. Amounts shaded for later years are indicative guidelines for financial planning and are subject to confirmation in each respective year's budget process. The General Fund schemes are analysed in table 11.3 on the following pages.
- 14 All schemes identified in the preceding table match the priorities outlined at paragraph 6 above. These capital proposals constitute a capital plan that can be financed from revenue and capital resources and are therefore considered affordable. The position of Housing Revenue Account proposals (priority 2) is set out in a separate report to Cabinet.

#### **Significant capital schemes**

- 15 Included within the General Fund capital proposals are a large number of refuse and recycling freighters due for replacement in 2016/17 as part of the ongoing vehicle replacement programme. The Housing Revenue account capital expenditure for 2014/15 included **£2.36m** for the purchase of 25 flats at Drapers Court, Long Road on Canvey Island.



# 11 Capital Finance

Table 11.3 General Fund Capital proposals

Project	2014/15 Actual	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>ENVIRONMENT</b>	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Disabled Facilities Grants (Mandatory)</b>							
Gross Capital Expenditure	350	484	450	350	350	350	350
Specific external funding	(272)	(346)	(250)	(250)	(250)	(250)	(250)
Net Capital Expenditure	78	138	200	100	100	100	100
<b>DEFRA Repair &amp; Renew (Flood) Grants</b>							
Gross Capital Expenditure	14	132	0	0	0	0	0
Specific external funding	(14)	(132)	0	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
<b>TGSE Decent / Warm / Healthy Homes project</b>							
Gross Capital Expenditure	0	0	252	0	0	0	0
Specific external funding	0	0	(252)	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
<b>Regional Housing Grant</b>							
Gross Capital Expenditure	0	36	100	0	0	0	0
Specific external funding	0	(36)	(100)	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
<b>Waterside Farm Gym Equipment</b>							
Gross Capital Expenditure	0	0	0	0	0	25	25
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	25	25
<b>Waterside Farm modernisation</b>							
Gross Capital Expenditure	13	0	0	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	13	0	0	0	0	0	0

# 11 Capital Finance

Table 11.3 General Fund Capital proposals

Project	2014/15 Actual	2015/16 Revised	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>Vehicle Replacement Programme</b>							
Gross Capital Expenditure	21	39	866	0	14	171	636
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	21	39	866	0	14	171	636
<b>John Burrows Hall - Demolition</b>							
Gross Capital Expenditure	0	0	100	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	0	100	0	0	0	0
<b>HOUSING AND COMMUNITIES</b>							
<b>General Fund Housing purchase</b>							
Gross Capital Expenditure	0	405	0	0	0	0	0
Specific external funding	0	0	0	0	0	0	0
Net Capital Expenditure	0	405	0	0	0	0	0
<b>NEIGHBOURHOODS AND REGENERATION</b>							
<b>Industrial Estate Refurbishment</b>							
Gross Capital Expenditure	0	0	65	0	0	0	0
Specific external funding	0	0	(65)	0	0	0	0
Net Capital Expenditure	0	0	0	0	0	0	0
<b>RESOURCES</b>							
<b>ICT Hardware and software</b>							
Gross Capital Expenditure	76	28	28	28	28	0	0
Specific external funding	(12)	(16)	(16)	(16)	(16)	0	0
Net Capital Expenditure	64	12	12	12	12	0	0
<b>Total Gross Capital Expenditure</b>	<b>474</b>	<b>1,124</b>	<b>1,861</b>	<b>378</b>	<b>392</b>	<b>546</b>	<b>1,011</b>
<b>Total specific external funding</b>	<b>(298)</b>	<b>(530)</b>	<b>(683)</b>	<b>(266)</b>	<b>(266)</b>	<b>(250)</b>	<b>(250)</b>
<b>Total Net Capital Expenditure</b>	<b>176</b>	<b>594</b>	<b>1,178</b>	<b>112</b>	<b>126</b>	<b>296</b>	<b>761</b>

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

- 16 Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2014/15 are:

**Table 11.4 Ratio of financing costs to net revenue stream**

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
GF	6	6	6	5	7	6	5
HRA	31	30	31	31	32	33	32

Contributions from the General Fund and Housing Revenue Account revenue budgets to fund respective capital schemes are included within the estimates in some years, for example in 2014/15 the purchase at Drapers Court was partly funded by a contribution from HRA revenue balances. 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 11.4(b) Ratio of financing costs to net revenue stream (local variant)**

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
GF	6	6	11	5	7	6	5
HRA	49	40	36	31	32	33	32

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

**Prudential indicator – capital financing requirement**

- 17 The capital financing requirement is a measure of the capital expenditure incurred historically by the Council that has yet to be financed, and represents the Council's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. At any point in time the Council has a number of cash flows both positive and negative and manages its treasury position in terms of borrowings and investments in accordance with its approved treasury management strategy and practices.
- 18 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.
- 19 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 2015 are:

**Table 11.5 Capital financing requirement**

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Revised	Estimate	Estimate	Estimate	Estimate	Estimate
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
GF	6,766	6,812	7,250	6,788	6,349	6,067	6,231
HRA	36,451	36,451	36,451	36,451	36,451	36,451	36,451

**Gross Debt and the Capital Financing Requirement**

- 20 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."*

- 21 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.
- 22 The Council will continue to monitor this requirement and will take appropriate remedial action if any difficulties were to arise. Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated.

**Prudential indicator – authorised limit for external debt**

- 23 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 11.6 Authorised limit for external debt**

	2015/16 Revised £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Borrowing	46,855	46,758	45,858	45,883	46,038	46,485
Other long term Liabilities (finance leases)	305	595	595	595	595	595
<b>Total limit</b>	<b>47,160</b>	<b>47,353</b>	<b>46,453</b>	<b>46,478</b>	<b>46,633</b>	<b>47,080</b>

- 24 The authorised limit shown for 2016/17 will be the statutory limit determined under section 3(1) of the Local Government Act 2003.
- 25 These limits separately identify borrowing from other long-term liabilities such as finance leases. A recommendation appears 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.
- 26 These authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing as well as with its approved Treasury Management Policy Statement and practices. They are based on the estimate of most likely prudent, but not worst case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements.

**Prudential indicator – operational boundary for external debt**

- 27 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 11.7 Operational boundary for external debt**

	2015/16 Revised £000's	2016/17 Estimate £000's	2017/18 Estimate £000's	2018/19 Estimate £000's	2019/20 Estimate £000's	2020/21 Estimate £000's
Borrowing	43,815	44,206	43,769	43,769	43,769	43,933
Other long term liabilities (finance leases)	305	595	595	595	595	595
<b>Total</b>	<b>44,120</b>	<b>44,801</b>	<b>44,364</b>	<b>44,364</b>	<b>44,364</b>	<b>44,528</b>

- 28 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. A recommendation appears 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.
- 29 The Council's actual external debt at 31 March 2016, excluding Finance Lease liabilities, is forecast at **£5.250m** for the General Fund and **£36.451m** for the Housing Revenue Account (principal amounts only), comprised wholly of external borrowing.

**Prudential indicator – incremental impact of capital investment decisions on the Council Tax and Housing Rents**

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

<b>Table 11.8 Incremental impact of capital investment</b>						
	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>Revised</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Band D Council Tax	-0.64	26.34	-25.68	-0.02	0.34	0.67
Average weekly housing rents	-7.80	-4.91	-4.83	0	0	0

- 31 The table shows the incremental impact of capital investment with fluctuations from one year to the next being caused by one-off capital projects or changes in the value of annual budgets such as the vehicle replacement programme.
- 32 The 2015/16 estimate included above has been calculated by comparing 2015/16 revised estimate to the actual expenditure for 2014/15. The comparison of 2015/16 revised estimate against the original budget for 2015/16 is **-£0.35** for Band D Council Tax.

**Housing Revenue Account limit on indebtedness**

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

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

- 34 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008 (with revisions effective from 31 March 2010). The Regulations require the Council to approve an Annual Statement of Minimum Revenue Provision (MRP) which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund.
- 35 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.
- 36 In accordance with the regulations, it is proposed to adopt the following MRP policy for the financial year 2016/17, which is unchanged from recent years:
- For capital expenditure incurred before 1 April 2008, or which in the future will be supported capital expenditure, it is proposed that the MRP policy will be in line with the former Regulatory Method, subject to any additional voluntary provision as appropriate. The Regulatory Method covers debt which is supported by the Government through the Revenue Support Grant (RSG) system, and authorities may continue to use the formulae

in the old regulation 28 as if it had not been revoked by the 2008 Regulations. The MRP element of RSG is calculated on this basis.

- For capital expenditure incurred from 1 April 2008, for unsupported borrowing, it is proposed that the MRP policy will be the Asset Life Method with MRP being provided for on an equal annual instalment basis over the estimated life of the relevant assets. On occasion, the Council may take a more prudent approach of applying MRP charges over a shorter term than the estimated life of the associated asset. In exceptional circumstances the Council may elect not to apply any MRP charges on a specific asset, for example, if an asset was purchased but only expected to be held for a short time and then sold, and that sale was expected to fully recover the original purchase costs incurred.
- For capital expenditure incurred in relation to leases classified as finance leases, the MRP method will be the annuity method, whereby provision is applied over the primary term of the lease of the relevant asset. The MRP provision for each financial year will be equivalent to the reduction in outstanding liability held on the Balance Sheet for the corresponding lease in that year.

### Capital receipts

- 37 Capital receipts from the sale of Council houses under Right to Buy (RTB) provisions and surplus assets will continue to be an important source of capital resource for the Council. The Government has set a de-minimis level for capital receipts, and receipts of **£10,000** or less are classified as revenue resources and are therefore accounted for within the revenue accounts.
- 38 Table 11.9 shows the allocation on Non-RTB related receipts used to fund new affordable housing. Subject to agreement by the Secretary of State, specified RTB sales may also be excluded from pooling where monies are for use in the provision of new affordable housing, regeneration or repayment of debt

<b>Table 11.9 Allowable use of capital receipts (Non-Right to Buy)</b>		
<b>Type of asset</b>	<b>% that may be applied to new capital expenditure</b>	<b>% that must be paid over to the Government</b>
Other Housing land	100	0
General Fund land & property	100	0

- 39 From April 2012, the amount and allocation of receipts from RTB sales is subject to new pooling arrangements which are calculated on a quarterly basis.
- 40 From any RTB receipt the following deductions are made:
- 1) Excess of debt supportable by the property (based upon a calculation provided by DCLG) above the assumed level of debt within the housing self-financing settlement. This money is retained by the Council for future capital investment or HRA debt repayment.
  - 2) Administration allowance at **£1,300** per property sold which will be treated as HRA revenue income.
- 41 The remaining balance is then split according to the following table:

<b>Table 11.10 Allocation of remaining Right to Buy receipt</b>				
<b>Party</b>	<b>2015/16</b>		<b>2016/17 (proposed)</b>	
	<b>% allocation of receipt</b>	<b>Cap on allocation of receipt</b>	<b>% allocation of receipt</b>	<b>Cap on allocation of receipt</b>
Treasury	72%	£152,421	71%	£152,421
Local Authority	28%	£60,557	29%	£61,171

- 42 This therefore caps the maximum contribution the Council can make towards new general capital expenditure to **£60,557** in 15/16 and **£61,171** in 16/17. 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.
- 43 Where there are receipt balances above these levels this money is held by the council for a period of 3 years from the end of the quarter they are received, for the replacement of council properties. If after this time the money is not spent on the provision of replacement properties it is to be returned to the treasury with interest.

## 12 Treasury management

### Definition of treasury management

- 1 Treasury management is:-

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

- 2 The Council has adopted the following Treasury Management clauses as recommended by the Treasury Management in the Public Services: Code of Practice:

The Council:

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

### Treasury Management Strategy for 2016/17

- 3 The Strategy has been formulated after considering the advice of the Council's consultants, Sector Treasury Services Ltd trading as Capita Asset Services. All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement. Officers are required to follow policies and procedures.

### Balanced budget requirement

- 4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that the associated financing and operational costs arising from new capital projects must be affordable within the projected income of the Council for the foreseeable future.

### Prospects for interest rates

- 5 The Bank of England base rate has been 0.5% since March 2009. Growth in the UK economy is expected to continue to be at best weak and Capita, the Council's Treasury Management Advisor, does not expect the base rate to increase until at least the last quarter of 2016. Therefore it remains difficult to predict longer-term rates with any certainty and as such the interest rates used to forecast investment income will continue to be very prudent. It is expected that the 40-50yr Public Works Loan Board (PWLb) long-term rate for maturity loans will be in the range of 3.6% to 4.0% during 2016/17.



**Current debt position and requirements for 2016/17**

- 6 A summary of external debt that is expected to be outstanding at 31 March 2016 is:-

<b>Table 12.1 External debt outstanding</b>	
	<b>Total at 31 March 2016 £000's</b>
Public Works Loan Board – General Fund	5,250
Public Works Loan Board – Housing Revenue Account	36,451
<b>Total</b>	<b>41,701</b>

- 7 All of the Council's General Fund borrowing consists of fixed rate loans at interest rates ranging from **3.70%** to **4.10%** per annum. All of the Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.49%** per annum. If loans are repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and also the unexpired period at the time of repayment.
- 8 External borrowing can arise as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. The proposed programme of capital expenditure due to be approved by Council in February 2016 is not at this time anticipated to trigger a requirement for new borrowing in 2016/17. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- Borrowing Strategy**
- 9 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its Treasury Strategy.
- 10 Long-term fixed interest rates are at risk of being higher over the medium-term, and short-term rates are unlikely to change significantly. The Head of Resources, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.
- 11 With the likelihood of long-term rates increasing, debt restructuring is likely to focus on switching from longer term fixed rates to cheaper shorter term debt, although the Head of Resources and treasury consultants will monitor prevailing rates for any opportunities during the year.
- 12 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt has been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates to **1%** over gilt yields from typically **0.15%**. This has meant that PWLB debt restructuring is now much less attractive than it was before both of these events.
- 13 The PWLB periodically allows local authorities to register for a preferential "certainty rate" for borrowing, which is below the standard rate. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows them to use the preferential rate if they do undertake borrowing. Although there are no current plans to borrow the Council will continue to register for the preferential rate in the future when it is offered, so that the Head of Resources may take advantage of the offer if borrowing is needed.
- 14 The weighted average maturity of the Council's General Fund debt is long at **38 years**, and all the debt portfolio is not due to mature before 2052 so there is no refinancing risk in the foreseeable future. Subject to any future changes in borrowing or planned capital projects the General Fund will not be affected by increased borrowing margins in the short or medium term.

- 15 The Housing Revenue Account debt taken out in March 2012 is set to mature at different times between 2021/22 and 2041/42.

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

- 16 The Council has some flexibility to borrow funds this year for use in future years. The Head of Resources may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Head of Resources will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so, borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
- 17 CLG guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Head of Resources does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:-
- It will be limited to no more than £2m of the expected increase in borrowing need (CFR) over the three year planning period; and
  - The Council would not look to borrow more than 18 months in advance of need.
- 18 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**

- 19 The Council is required to calculate a number of Treasury Management Indicators as part of the Treasury Management Code of Practice. Draft indicators are reported in the following paragraphs and final calculations will be included when this report is submitted to Council in February.

### **Borrowing maturity structure**

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

<b>Table 12.2 Maturity structure of fixed rate borrowing</b>				
<b>Maturity</b>	<b>General Fund</b>		<b>Housing Revenue Account</b>	
	<b>Upper limit</b>	<b>Lower limit</b>	<b>Upper limit</b>	<b>Lower Limit</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
within 1 year	50	0	50	0
within 2 years	50	0	50	0
within 5 years	60	0	60	0
within 10 years	80	0	80	0
after 10 years	100	0	100	0

### **Borrowing – limits of fixed and variable rate exposure**

- 21 The Prudential Code 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**

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'m	£'m	£'m	£'m	£'m
Upper limit – fixed rates	47	47	47	47	47
Upper limit – variable rates	-12	-11	-7	-8	-9

**Borrowing - interest rate sensitivity**

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

- a sudden sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low;
- a sudden 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.

**Borrowing objectives**

23 A summary of our borrowing objectives for the year 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 CLG's Guidance on Local Government Investments ("Guidance") and CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

### Investment principles

- 2 All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are (a) the **security** of capital (protecting the capital sum from loss) and (b) **liquidity** of its investments (keeping the money readily available for expenditure when needed). Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities.
- 3 The Guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

### Specified and non-specified investments

- 4 Specified Investments are high security, high liquidity investments in sterling with high credit quality, and with a maturity of no more than a year. Specified Investment instruments identified for use in the financial year are listed in table 13.1. Non-specified Investments are any other type of investment, i.e. not defined as Specified above, however the Council will have no Non-specified Investments in the foreseeable future.

### Liquidity

- 5 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2016/17 to range between **£16.3m** and **£27.4m**.

### New investments

- 6 The following two categories of investment were added for the 2015/16 Strategy, and will continue to be used in 2016/17. There are no changes to the list of Specified Investments for 2016/17:
- 7 Treasury bills (T-bills) are an AA+ rated short-dated form of Government debt issued by the Debt Management Office (DMO) via a weekly tender. They are normally issued for one, three and six month duration and enable councils to invest in the same counterparty at a better rate than the Debt Management Agency Deposit Facility, currently on the approved list. There is a very active secondary market for T-bills and they may be sold before maturity, so they are a very liquid and flexible investment. However, like Gilts (UK Government bonds) there can be a realised capital loss or gain if sold before maturity, as the capital value may fluctuate as interest rates vary.
- 8 Certificates of Deposit (CD's) are a negotiable form of fixed deposit, ranked equally with ordinary fixed deposits. The primary difference is that you are not obliged to hold the CD to maturity and may realise the cash by selling into an active secondary market. CD's are issued by a number of UK and international banks and building societies. If held to maturity, the coupon interest will be the same whether you buy a fixed deposit or CD. A CD gives you the option to get out of that investment before maturity, if the counterparty is downgraded, unlike a fixed deposit. However if sold before maturity there may be a capital gain or loss.

**All "Specified Investments" listed below must be sterling-denominated.**

**Table 13.1 Specified Investments for the Financial Year 2016/17**

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

All investments are managed in-house. No shares or loan capital is held by the Council and none of the investments is classed as capital expenditure.

**Investment risk and creditworthiness**

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Table 13.1 sets out the Council's minimum credit ratings that it considers appropriate for each category of investment. All funds are invested in institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.
- 10 Monitoring of credit ratings:
- All credit ratings will be monitored on a regular basis, including when investments are made. The Council's external adviser, Capita, also alerts the Council to changes in ratings as they occur.
  - If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

**Country, group and sector limits**

- 11 The Council selects counterparties according to credit quality as well as the additional information in paragraph 13 below. The Council will only invest in UK Government or local authority deposits; UK Government treasury bills; UK-regulated banks and building societies; or funds which adopt the Institutional Money Market Funds Association (a trade body for European fund managers) Code of Conduct for triple-A rated funds. A Money Market Fund is a pooled source of funds invested in a wide range of short term investments, and managed by an independent fund management company, as defined in SI 2004 No 534. Frequently these are well known banks or investment houses. The funds are domiciled in the United Kingdom, Ireland or Luxembourg. The Council will only invest in jurisdictions and institutions where the financial sector is, in the opinion of the s151 Officer, thought to be well regulated and relatively secure.
- 12 Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 16.

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

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

**Bail-in legislation**

- 14 To avoid Government bailouts (ie. where governments injected monetary support into institutions to keep them solvent) that were prevalent during the financial crisis, bail-in legislation has now been fully implemented in the UK. In future large investors may contribute to the rescue of failing banks rather than taxpayers, as some or all of their deposits are converted into equity which could be worth less than the original investment. Consequently the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

**Bank stress tests**

- 15 In December 2015 the Government released results of stress tests on major UK banks to measure whether they would survive a financial shock. Out of the seven banks tested, RBS and Standard Chartered were found not to have enough capital strength, but both took steps to raise capital. No bank was ordered to come up with a new capital plan. The Bank of England believes that the UK's major banks are in a relatively resilient state and are now handling risk more prudently. However, all banks were told they would have to set aside capital to protect their UK exposures as part of a new measure that the bank is phasing in, called a "countercyclical capital buffer".

**Internal stricter guidance**

- 16 Due to the ongoing, relatively weak economic situation, with resulting uncertainty in the money markets and lack of confidence in counterparties, the Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. The situation is reviewed regularly, taking into account information and advice supplied by Capita, the Council's treasury adviser. Changes to the guidance are decided by the Head of Resources. These measures will remain in place for as long as they are required.

**Use of derivative instruments**

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

**Investments defined as capital expenditure**

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

- 19 Investments in Money Market Funds, as defined in paragraph 11, will not be treated as capital expenditure.

- 20 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure.

**Provisions for credit-related losses**

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

**Investment strategy to be followed in-house**

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

**The Council's banking arrangements**

- 23 The Council's banking operations are all with Lloyds Bank PLC. The current contract expires on 31 March 2018 with the option of a two-year extension to 31 March 2020.

**Risk benchmarking**

- 24 The most recent version of the CIPFA TM Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.
- 25 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the Mid-Year or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.
- 26 Security - The Council's maximum security risk benchmark for the current portfolio is:-
- A credit-rating score of **4.0** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.
- 27 Liquidity – In respect of this area the Council seeks to maintain:-
- Bank overdraft - **£200k**. Higher overdraft facilities are available on request.
  - Liquid short term deposits of at least **£1.0m** available with a day's notice.
  - Weighted Average Life benchmark is expected to be up to 4 months, with a maximum of one year.
- 28 Yield - Local measures of yield benchmarks are:-
- Investments – returns above the 7-day LIBID rate.

**Treasury management adviser**

- 29 Capita, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets.
- 30 Whilst Capita provides support to the internal treasury function, under current market rules and the CIPFA TM Code, the final decision on treasury matters remains with the Council. This service is subject to regular review.

**Member and officer training**

- 31 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Capita both to maintain and improve their knowledge and expertise.

**Investment activity reporting and publication**

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



## 14 Pay policy

### 1 Introduction

- 1.1 The Localism Act brings together accountability, transparency and fairness in the setting of local pay. All Council's 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 proceeding 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.
- 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 (Transformation and Resources). Payment of increments to the staff in the Benefits team are dependent on performance which is determined by regular tests.
  - 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 months 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.
- Where an employee has successfully completed a relevant professional qualification that been previously approved by their Head of Service an award of £350 is made in recognition of their achievement.
- In exceptional circumstances the Authority may consider awarding an honorarium.
- Where applicable the following benefits are offered to staff as part of their salary package:
  - Flexible working arrangements (can relate to hours or time worked, or place of work)
  - Flexitime (allows flexibility in start, finish and lunch times as well as hours carried forward to better match the needs of the Council and employee)
  - Leave buy-back
  - Free staff membership at Council leisure facilities for use of swimming pools and fitness suites to improve the health and wellbeing of staff working more than 15 hours per week.
  - Child care vouchers (tax efficient way of paying for childcare)
  - Casual car user allowance, essential car user allowance, car allowance
  - Market supplements (to attract and retain the right calibre staff to key posts)
  - Retention payment (to attract and retain the right calibre staff to key posts)
  - Performance related pay (see section 6)
- 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 employers consent, reduces their hours of work by at least 25% or there is a reduction in grade. Flexible retirements are entirely discretionary and therefore a full business case must be completed and submitted to the Strategic Director (Transformation & 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 policy also applies:

- 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 policy also applies:

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

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

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

The Council's current ratios are:

- The ratio of the highest earning officer (Chief Executive) to the lowest paid full time equivalent employee in the Council is 9:1.
- The ratio of the highest earning officer (Chief Executive) to the average of all other staff in the Council is 6:1. The median is based on the annual gross pay of all employees in post as at 31 March 2015.
- The ratio of the average of the Chief Executive and other Chief Officers earnings to the average of all other employees is 4:1.

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

### 3.5 Limitation of the ratios

The ratios 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 ratios stated above.

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

The remuneration of the Chief Executive and Chief Officers is disclosed in the Annual Statement of Accounts and published on the Councils website, [www.castlepoint.gov.uk](http://www.castlepoint.gov.uk).

## 5 Definitions

### 5.1 Lowest paid staff

A member of staff performing duties of an unskilled nature will receive a salary determined by scale point 6 on the locally adopted pay scale structure. This definition has been chosen as scale point 6 is the lowest grade paid to an employee of the Council. From 1 April 2016, all employees will receive no less than the National Living Wage with the exception of apprentices who are paid in accordance with the HMRC National Minimum Wage Rates.

### 5.2 Chief Officer

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

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

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

**5.4 The use of bonuses**

No bonus payments are awarded.

## 15 Preceptors

### Introduction

1 The Council is required by law to:

- approve the calculation of Council Tax requirement for the Council's services (including that required by Canvey Island Town Council) and
- set the Council Tax level to be levied in the Borough that takes account of the following preceptors:
  - Essex County Council.
  - Police and Crime Commissioner for Essex.
  - Essex Fire 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 9 February 2016.

### Police and Crime Commissioner (PCC) for Essex

3 The PCC has been elected to oversee Essex Police and is responsible for setting the Essex Police budget. It is currently anticipated that the PCC will advise its budget and precept by 29 January 2016.

### Essex Fire Authority

4 The Fire Authority operates as an independent body and is responsible for setting its own budget. It is currently anticipated that the Fire Authority will set their budget and level of precept on 17 February 2016.

### 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 set its budget and level of precept on 11 January 2016.

6 There are currently no specific Government controls over the Town Council's budget requirement or Council Tax level although the provisional grant settlement for the last two years has included consultation around 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 Borough as a whole but is levied only on properties that are situated on Canvey Island.

## **16 Chief Financial Officer's report under section 25 of the Local Government Act 2003**

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

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

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

3 The report on the adequacy of reserves appears at section 8 and the report on the robustness of the estimates appears below.

### **General Fund services**

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

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

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

### **Estimates for direct works**

7 These estimates have been prepared by relevant staff in accordance with procedures that are tried and tested and have proved robust.

### **Housing Revenue Account**

8 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**

9 The Head of Resources' overall view of the robustness of the estimates is therefore that the processes followed have been generally sound and identical to those that have produced robust estimates in the past.

10 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 should be tasked with monitoring compliance.

## 17 Calculation of Council Tax Requirement

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

<b>Table 17.1</b>	<b>Council Tax requirement calculation</b>	
<b>LGF Act 1992</b>	<b>Item</b>	<b>£</b>
s31A(2)(a)	Gross spending on services	60,219,900
s31A(3)(a)	Less gross income from services	-47,101,300
s31A(3)(a)	Less Government grant & business rates	-4,713,274
s31A(3)(a)	Less Capital and other grants & contributions	0
s31A(3)(b)	Less Collection Fund surplus / plus deficit	838,872
s31A(3)(d)	Net amount taken to / (from) general and earmarked reserves	-1,914,208
	<b>Council Tax Requirement</b>	<b>7,329,990</b>

- 2 The above figures include internal charges and **£246,500** relating to the Canvey Island Town Council precept. The tax base (see section 5) is then used to calculate the amount of Council Tax (including the Town Council) at band D, in accordance with section 31B of the Act:-

$$\text{Council Tax (including Town Council)} = (£7,329,990 / 29,722) = £246.62$$

The resultant figure is required by statute but does not actually represent the Council Tax payable by either a Canvey Island or mainland resident. A further calculation that sets out the actual amount of tax payable at band D as well as other bands is set out in table 17.2 below.

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

<b>Table 17.2</b>		<b>Council Tax</b>	
<b>Band</b>	<b>Ratio in 9ths</b>	<b>Canvey Residents Council Tax Including Town Council £</b>	<b>Mainland Residents Council Tax Excluding Town Council £</b>
A	6	172.86	159.12
B	7	201.67	185.64
C	8	230.48	212.16
D	9	259.29	238.68
E	11	316.91	291.72
F	13	374.53	344.76
G	15	432.15	397.80
H	18	518.58	477.36

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



## 18 Precepts and Council Tax levels

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

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

<b>Table 18.1 Precepts and Council Tax levels</b>					
<b>Authority</b>	<b>Council Tax at band D 2015/16</b>	<b>Council Tax at band D 2016/17</b>	<b>Change from 2015/16</b>	<b>Change from 2015/16</b>	<b>Share</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>	<b>%</b>
Castle Point Borough Council (proposed)	234.09	238.68	4.59	1.96	14.83
Essex County Council	1,086.75	1,130.13	43.38	3.99	70.23
Essex Fire Authority	66.42	67.68	1.26	1.90	4.21
Police & Crime Commissioner (PCC) Essex	147.15	152.10	4.95	3.36	9.45
<b>Total (excluding Canvey Island Town Council)</b>	<b>1,534.41</b>	<b>1,588.59</b>	<b>54.18</b>	<b>3.53</b>	<b>98.72</b>
Canvey Island Town Council	20.61	20.61	0.00	0.00	1.28
<b>Total (including Canvey Island Town Council)</b>	<b>1,555.02</b>	<b>1,609.20</b>	<b>54.18</b>	<b>3.48</b>	<b>100.00</b>

- 2 The table below shows the amount of Council Tax each authority has set for 2016/17:-

<b>Table 18.2 Council Tax for each band</b>							
<b>Band</b>	<b>Castle Point Borough Council</b>	<b>Essex County Council</b>	<b>Essex Fire Authority</b>	<b>Essex PCC</b>	<b>Total Excluding Town Council</b>	<b>Canvey Island Town Council</b>	<b>Total Including Town Council</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>A</b>	159.12	753.42	45.12	101.40	<b>1,059.06</b>	13.74	<b>1,072.80</b>
<b>B</b>	185.64	878.99	52.64	118.30	<b>1,235.57</b>	16.03	<b>1,251.60</b>
<b>C</b>	212.16	1,004.56	60.16	135.20	<b>1,412.08</b>	18.32	<b>1,430.40</b>
<b>D</b>	238.68	1,130.13	67.68	152.10	<b>1,588.59</b>	20.61	<b>1,609.20</b>
<b>E</b>	291.72	1,381.27	82.72	185.90	<b>1,941.61</b>	25.19	<b>1,966.80</b>
<b>F</b>	344.76	1,632.41	97.76	219.70	<b>2,294.63</b>	29.77	<b>2,324.40</b>
<b>G</b>	397.80	1,883.55	112.80	253.50	<b>2,647.65</b>	34.35	<b>2,682.00</b>
<b>H</b>	477.36	2,260.26	135.36	304.20	<b>3,177.18</b>	41.22	<b>3,218.40</b>