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A SPECIAL MEETING OF THE COUNCIL of the Borough of Castle Point will be held in the **Council Chamber, Council Offices, Kiln Road, Thundersley**, on **WEDNESDAY, 15TH FEBRUARY 2023 at 7.p.m or on the rising of Cabinet whichever is later NB Time** and all Members of the Council, listed below, are hereby summoned to attend to transact the undermentioned business.

Councillors, M.A Tucker (The Worshipful the Mayor), Ms L. McCarthy-Calvert,(Deputy Mayor), A. Acott, Ms S.A Ainsley, J. Anderson, Ms H.L Barton-Brown, D. Blackwell, Mrs. J.A Blissett, K. Bowker, B. Campagna, S. Cole, J.M. Cutler, M. Dixon, A.E Edwards, Mrs. B. Egan, E. Egan, M. J Fuller, T.Gibson, W. Gibson, P.C. Greig, S. Hart, N. Harvey, G.I. Isaacs, C.A. MacLean, P. May, S Mountford, C. Mumford, Mrs. S. Mumford, B.A. Palmer, J.A. Payne, Mrs. J Payne, C.R Riley, Mrs. C.J Sach, R. Savage, T.F. Skipp, A. Taylor, D.J. Thomas, A. Thornton, Mrs. J Thornton, Walter and G.St.J. Withers

Angela Hutchings
Chief Executive

AGENDA

PART I

(Business to be taken in public)

1. Apologies for absence

2. Members' Interests

3. Policy Framework and Budget Setting for 2023/24

A report is attached. Council is asked to consider recommendations from the Cabinet held earlier.

Council is reminded that as result of the Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 voting on the recommendations will be a recorded vote.

SPECIAL COUNCIL

15th February 2023

Subject: Policy Framework and Budget Setting for 2023/24

Cabinet Member: Councillor Mountford – Resources

1. Purpose of Report

This report supplements the report to Cabinet earlier this evening and presents the budget to Council for approval.

2. Links to Council's priorities and objectives

- 2.1 This report is explicitly linked to all Council priorities as it recommends the budget for the Council to operate within when delivering against all of its priorities.

3. Recommendations

Implementation of Council policies and related spending plans

1. That Council approves the continued funding of priority projects and other items of discretionary expenditure, as set out in table 2.4.
2. That Council note the changes from the previously published budget as set out in table 2.5.
3. That Council note the key items causing the changes in table 2.5, as summarised in table 2.6.
4. That subject to recommendations 1 to 3 above, the revenue spending plans for 2022/23 (revised) and 2023/24, set out in section 2, tables 2.1 (summary) and 2.2 (net services expenditure) of the accompanying report, are approved.

Capital spending plans and prudential indicators

5. That the capital spending plan described in section 8 of the accompanying report (tables 8.2 and 8.3) is approved in respect of 2022/23 (revised) and 2023/24
6. That as required by section 3 of the Local Government Act 2003, and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code), the following Prudential Indicators are approved as set out in the appropriate sections of the accompanying report:

Prudential Indicator - Reference to sections 8, 9 and 10 of accompanying report	
Capital expenditure	Tables 8.2 and 8.3
Capital financing requirement (CFR)	Table 8.4
Authorised limit for external debt	Table 8.5
Operational boundary for external debt	Table 8.6
Ratio of financing costs to new revenue stream	Table 8.7 (a & b)
Gross external borrowing does not exceed CFR	Section 8 – para 55
Maturity structure of fixed rate borrowing - upper and lower limits	Table 9.2
Upper limits of fixed and variable interest rate exposures	Table 9.3
Maximum period and counterparty limits for specified and non-specified investments	Table 10.2 & 10.3

7. That the Statement of Minimum Revenue Provision for 2023/24, as stated in paragraphs 57 to 62 of section 8 of the accompanying report is approved.
8. That no new capital proposals are allowed until:
 - the proposal has been evaluated in accordance with relevant evaluation criteria;
 - the Cabinet has confirmed affordability and compliance with the Prudential Code for Capital Finance in Local Authorities.
 - the Cabinet has considered and approved details of the proposal.
9. That, as stated in paragraph 69 of section 8 of the accompanying report, and as required by the Prudential Code, the statement of the Chief Financial (s151) Officer in respect of the affordability, deliverability and appropriateness of risk management arrangements with respect to the Capital Strategy is noted.
10. That the policies and strategies supporting the budget framework and contained within the accompanying report are approved.

Statutory report of the Strategic Director (Resources)

11. That as required by section 25 of the Local Government Act 2003, the report of the Strategic Director (Resources) set out in section 12 of the accompanying report in respect of robustness of the estimates is noted.
12. That as required by section 25 of the Local Government Act 2003, the report of the Strategic Director (Resources) set out in section 6 of the accompanying report in respect of the adequacy of proposed financial reserves is noted.

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

13. That as set out in section 3 of the accompanying report it is noted that acting under delegated authority and in consultation with the Cabinet Member responsible for Finance, the Strategic Director (Resources) has calculated:

- A tax base for the Borough of Castle Point of **31,258** being the amount **T** required by section 31B of the Act; and
- A tax base for Canvey Island to which a Town Council precept applies as **12,049**.

14. That the following amounts be calculated for the year 2023/24 in accordance with sections 31 to 36 of the Act:

15.

Ref	Amount £	Item
(a)	62,149,909	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) of the Act taking into account all precepts issued to it by Parish (Town) Councils.
(b)	53,067,361	being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) of the Act.
(c)	9,082,548	being the amount by which the aggregate at 14(a) above exceeds the aggregate at 14(b) above, calculated by the Council in accordance with Section 31A(4) of the Act as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the act)
(d)	290.57	being the amount at 14(c) above (item R), divided by item T (14(a) above), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish (Town) precepts).
(e)	274,359	being the aggregate amount of the (Parish (Town) precepts) referred to in Section 34(1) of the Act.
(f)	281.79	being the amount at 14(d) above less the result given by dividing the amount at 14(e) above by item T (14(a) above), calculated by the Council in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

15. That the Cabinet recommends that Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2023/24 for each part of its area and for each category of dwelling. This information is included within section 13 of the accompanying report.

Castle Point Borough Council Tax 2023/24, including and excluding Town Council precept, for each of the following categories of dwelling:

Council Tax			
Band	Ratio in 9ths	Canvey Residents Council Tax Including Town Council	Mainland Residents Council Tax Excluding Town Council
A	6	203.04	187.86
B	7	236.88	219.17
C	8	270.72	250.48
D	9	304.56	281.79
E	11	372.24	344.41
F	13	439.92	407.03
G	15	507.60	469.65
H	18	609.12	563.58

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

Council Tax for each band							
Band	Castle Point Borough Council	Essex County Council	Essex PFCC - Fire and Rescue Authority	Essex PFCC - Policing and Community Safety	Total excluding Town Council	Canvey Island Town Council	Total including Town Council
	£	£	£	£	£	£	£
A	187.86	966.78	53.52	155.64	1,363.80	15.18	1,378.98
B	219.17	1,127.91	62.44	181.58	1,591.10	17.71	1,608.81
C	250.48	1,289.04	71.36	207.52	1,818.40	20.24	1,838.64
D	281.79	1,450.17	80.28	233.46	2,045.70	22.77	2,068.47
E	344.41	1,772.43	98.12	285.34	2,500.30	27.83	2,528.13
F	407.03	2,094.69	115.96	337.22	2,954.90	32.89	2,987.79
G	469.65	2,416.95	133.80	389.10	3,409.50	37.95	3,447.45
H	563.58	2,900.34	160.56	466.92	4,091.40	45.54	4,136.94

17. To note that, in accordance with the requirements of section 52ZC of the Act the Council has determined whether it's Relevant Basic Amount of Council Tax for 2023/24 is excessive.
18. For 2023/24, the relevant basic amount of Council Tax for Castle Point would be deemed excessive if the authority's relevant basic amount of Council Tax is:
- 3%, or more than 3%, greater than its relevant basic amount of Council Tax for 2022/23; and
 - More than **£5.00** greater than its relevant basic amount of Council Tax for 2022/23.

Ref	Amount £	Item
(a)	273.69	being the Relevant Basic Amount of Council Tax for 2022/23, excluding local precepts.
(b)	3.0%	being the percentage increase above which the Secretary of State has determined the Relevant Basic Amount of Council Tax for 2023/24 would be excessive.
(c)	281.87	being the amount above which the Relevant Basic Amount of Council Tax for 2023/24, excluding local precepts, would be excessive (rounded down to the nearest penny).
(d)	281.79	being the Relevant Basic Amount of Council Tax for 2023/24, excluding local precepts.
(e)	2.96%	being the percentage increase in Council Tax for 2023/24, excluding local precepts.

The Relevant Basic Amount of Council Tax for 2023/24 is therefore not excessive and the duty to make substitute calculations and hold a referendum does not apply (Chapter 4ZA of Part 1 of the Act).

Resolution required.

4. Background

- 4.1 At the meeting held earlier this evening, Cabinet considered the report on the Policy Framework and Budget Setting for 2023/24. The Cabinet recommended that Council resolve recommendations 1 to 18 as set out in the report.

5. Corporate Implications

- 5.1 The corporate implications are as set out in the report presented to Cabinet earlier this evening.

6. Conclusion

- 6.1 Council should consider and resolve recommendations 1 to 18 (above) previously submitted to Cabinet. This will complete the budget process for 2023/24.

Background Papers:

Final local government finance settlement: England, 2023 to 2024

The Referendums Relating to Council Tax Increases (Principles) (England) Report 2023 to 2024

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



Policy Framework and Budget Setting for 2023/24

(Incorporating the Financial Planning and Capital Strategy)

Report of Chris Mills FCPFA, Strategic Director (Resources)



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Please note that in this report many of the tables display rounded figures. The totals in those tables are based on the unrounded figures and therefore it may give the appearance that some totals do not correctly sum the presented figures.

1 Financial Planning Strategy

Introduction

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

Key principles of the Strategy

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

Requirements of the Strategy

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

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

Actions to support the Strategy

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

- Rolling five-year financial forecast – based on the strategy, updated on a rolling basis and considered regularly at Cabinet meetings.
- Annual budget process – agreed each year to enable the Council's budget to be set within the guidelines of the strategy.
- Financial monitoring – budget holders are responsible for monitoring their budgets. The Leadership Team conduct monthly reviews of those budgets identified through risk assessment or where expenditure or income budget variances exceed certain thresholds. Reports focus on large, high risk or volatile budgets, as well as areas identified by service accountants during the monthly review of detailed management reports. Matters of exception are referred to Members.
- Member oversight - Cabinet Members receive monthly operational reports and bi-monthly high-level reports are presented to formal Cabinet meetings (quarterly from 2023/24 onwards), including updates on the Medium-Term Financial Forecast and explanation of financial developments which may impact on the forecast going forward.
- Evaluation of new proposals – the financial and human resource implications of new proposals and their impact on the financial strategy are considered at the outset and included in relevant Cabinet reports.

2 Medium-Term Financial Planning

- 1 The Corporate Plan provides the links between the aspirations of the community and individual services. Service plans are produced annually to ensure the future allocation of resources is based on the Council's key priorities. Service plans demonstrate how each service will be delivered and inform the Council's Financial Planning Strategy and Medium-Term Financial Forecast (MTFF).
- 2 The forecast at table 2.3 shows the impact on financial resources of current service spending plans and estimated future changes to those plans. Tables 2.1 and 2.2 provide a summary of service spend at Directorate and service level before external funding and Council Tax. The final line of table 2.1 informs line 1 of the MTFF (table 2.3).

Table 2.1 General Fund revenue summary	Note	2021/22 Actual £000's	2022/23 Revised £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Net Service Expenditure						
Chief Executive & Resources	1	2,613	1,572	1,548	1,588	1,743
Corporate Services	1	276	326	526	465	493
Environment	1	6,522	7,356	8,327	7,369	8,036
Customer & Digital Services	1	1,069	1,410	1,375	1,373	1,497
Housing	1	1,268	1,376	1,401	1,437	1,466
Place & Policy	1	1,219	1,495	1,994	2,096	1,925
Total Net Service Expenditure		12,967	13,535	15,171	14,327	15,160
Other Operating Expenditure	2	417	644	560	513	710
Financing & Investment Income & Expenditure	3	308	(8)	(157)	(124)	(103)
Net Statutory Adjustments	4	(465)	(2,345)	(1,334)	(2,017)	(2,339)
Total to be met from government grants, reserves and Council Tax		13,228	11,827	14,240	12,700	13,428
Total excluding Canvey Island Town Council Precept		12,976	11,563	13,966	12,426	13,154

Notes:

- 1 See table 2.2
- 2 Includes a percentage applied to all salaries estimates to take account of vacant periods (vacancy factor), the precept payable to Canvey Island Town Council from additional Council Tax collected from Canvey residents, allowances for repairs and maintenance programmes, and other miscellaneous items.
- 3 Includes interest payable and receivable, and statutory pensions adjustments based on information from the Essex Pension Fund and the pension actuary.
- 4 Various statutory adjustments and reversals, to ensure that the Council Tax requirement amount is not affected by income and expenditure relating to non-current assets, such as depreciation, and other items such as the payment of capital receipts to central government. Also includes revenue contributions to fund capital expenditure.

Table 2.2 General Fund net service expenditure	2021/22 Actual £000s	2022/23 Revised £000s	2023/24 Estimate £000s	2024/25 Estimate £000s	2025/26 Estimate £000s
Environment					
Cemetery & Mortuary Services	188	189	233	197	308
Environmental Health	723	824	888	891	911
Flood Defence	0	0	0	0	0
Leisure & Community Halls	1,797	2,014	2,728	2,121	2,066
Parking	(405)	(437)	(831)	(821)	(817)
Parks & Open Spaces	727	715	776	633	751
Public Conveniences	147	166	157	157	161
Refuse & Recycling	1,712	2,308	2,618	2,503	2,942
Street Scene & Operational Services	1,634	1,577	1,756	1,688	1,714
Net total - Environment	6,522	7,356	8,327	7,369	8,036
Customer & Digital					
First Contact	0	0	0	0	0
Housing Benefit	(33)	263	188	173	190
Information Technology (IT)	0	0	0	0	0
Revenues & Benefits	1,102	1,147	1,187	1,199	1,307
Net total - Customer & Digital	1,069	1,410	1,375	1,373	1,497
Housing					
Housing Development	88	162	144	150	125
Housing Options & Homelessness	1,181	1,214	1,258	1,286	1,341
Land Charges	0	0	0	0	0
Net total - Housing	1,268	1,376	1,401	1,437	1,466
Place & Policy					
Building Control	144	190	245	257	284
Development Control	358	496	480	508	560
Planning Policy	643	641	1,050	1,107	849
Strategic Planning	75	167	218	225	231
Net total - Place & Policy	1,219	1,495	1,994	2,096	1,925
Corporate Services					
Community Services	286	287	279	280	286
Estates Management	20	28	27	28	28
Events	1	0	0	0	0
Governance	0	0	0	0	0
Legal Services	0	0	0	0	0
Licensing	(32)	12	219	158	180
Public Health	0	0	0	0	0
Net total - Corporate Services	276	326	526	465	493
Chief Executive & Resources					
Corporate & Democratic Core	301	1,074	1,049	1,041	1,104
Democratic Services	1,282	1,383	1,446	1,457	1,552
Knightswick	1,027	(884)	(947)	(910)	(912)
Financial services	0	0	0	0	0
Human resources	3	0	0	0	0
Internal Audit Services	0	0	0	0	0
Policy & Performance	(0)	0	0	0	0
Net total - CEO & Resources	2,613	1,572	1,548	1,588	1,743
Total Net Service Expenditure	12,967	13,535	15,171	14,327	15,160

Basis of the forecast (table 2.3)

- 3 The key stages and assumptions in the process of producing the Financial Forecast were: -
- A review of 2022/23 estimates against actual income and expenditure for 2021/22 and 2022/23 year to date, to arrive at a core no-growth base budget for revised 2022/23, estimate 2023/24 and 2024/25 to 2025/26 (both provisional), driven by current service plans.
 - Where applicable, increases for inflation of costs relating to pay, employer's pension fund contributions, contracts, rates, utilities and insurances are adjusted for. Controllable service costs have been carried forward at existing levels except in the case of inescapable increases.
 - Adjustments have been made for changes to spending levels expected or known to occur over the life of the forecast including the impact of the capital programme on revenue. In compiling the forecast, account has been taken of the financial implications of wider economic developments, including the impact of interest rate increases, changes in the housing market and the impact on the Council's various fee charging services.
 - Income from fees and charges has been reviewed and recalculated taking account of latest trends, proposed price increases and the impact of the current economic climate.
 - Provision has been made for costs or savings expected to arise from known and proposed changes in legislation as well as unavoidable service-related cost increases.
 - A review of the funding mechanism for local government has once again been deferred and it is unknown when it will be implemented or what the impact on the Council's financial plans may be. Therefore, in the absence of specific information, years beyond 2023/24 are based on a continuation of existing government policy, funding mechanisms and local spending plans.
- 4 The forecast includes the latest information received from the Essex County Council (ECC) Pension Fund in relation to employer's pension contributions. This information has been based on an actuarial valuation carried out on the Pension Fund as at 31 March 2022. These valuations are carried out every three years. This latest valuation is effective for contribution rates included in the forecast from 2023/24 onwards and is based on a 10 year recovery period. The next valuation will be undertaken by the actuary in March 2025, effective for contributions from April 2026.
- 5 The tax base as at December 2022 has been adopted as the basis for calculations relating to 2023/24 and includes adjustments to reflect the localised scheme for support of Council Tax, as well as the outcomes anticipated to be realised from the ongoing compliance review of discounts and exemptions granted from Council Tax.
- 6 The proposed Council Tax band D value for 2023/24 is indicated at note 5 of table 2.3 and, combined with current spending plans, delivers a balanced budget for the new financial year.
- 7 A Council Tax referendum would be triggered by this Council if Council Tax were increased by more than **3%** on a band D property, above the Council's relevant basic amount of Council Tax for 2022/23. The Council's proposed increase is below this threshold.

Commentary on the forecast

- 8 This is a forecast for the guidance of Cabinet/Council and not a policy statement that the position will be as indicated. The forecast shown at table 2.3 indicates the following:
- The budget for 2023/24 is not initially balanced and the Council is having to rely on the use of reserves to meet its spending plans. The General Reserve is being used to fund two items. First, the use of the reserve demonstrates the impact of decisions taken by Full Council in relation to the unadopted Local Plan and its successor, the Castle Point Plan. Second, the use of the reserve includes the **£80k** impact of funding for one year only the Highways Rangers service previously funded by ECC. The budget is balanced excluding these one-off costs.
 - The **£80k** cost of the Highways Rangers can effectively be met from the forecast 2022/23 underspend. Any residual underspend after all required adjustments at the end of 2022/23 will

be applied to the General Reserve and carried forward in the reserve balance. The **£80k** cost of the Highways Rangers is then able to be met from within the brought forward amount.

- The budgets for future years are not balanced even after allowing for the forecast costs associated with the Castle Point Plan, meaning that the Council will have to rely on the use of reserves to meet spending plans during these years until such time as the budget gap indicated at line 8 is closed by reducing costs or increasing income streams.
- The Council, like all local authorities, has been delivering savings and efficiencies for many years but is now at the point where the smaller or easier options have been exhausted. Consequently, the Council is commencing a transformation programme which is able to look at thematic workstreams at strategic level, and at a detailed level identify new and improved ways of working and managing resources. Detailed transformation budget plans are not yet available although an allowance for the cost of change has been made within reserves. Additionally, in the absence of detailed plans, no savings have yet been assumed in the budget although it is possible that ongoing savings will start accruing during 2023/24.
- That Council Tax levels for 2023/24 will be increased by **2.96%** and future years by the maximum increase currently permitted without holding a Council Tax referendum.
- Forecast reserves are projected to be above the minimum level of **£2.6m** recommended by the s151 Officer at the end of 2023/24.
- From 2024/25 onwards the level of reserves and Council Tax increases indicated are dependent on the achievement of savings, additional revenue income streams and/or increases in grant funding, over and above that already incorporated within the forecast. The Council Tax increase shown for all years is within the referendum limit currently indicated by Government and subject to the agreement of Council in each respective years' Council Tax setting process.
- In view of the potential funding gap indicated for future years, there will be limited opportunities to plan the use of reserves for non-recurring expenditure, over and above those already earmarked at the present time.

Robustness of the forecast

- 9 The underlying spending plans for 2022/23, 2023/24 and 2024/25 to 2025/26 (both provisional), on which the forecast is based, are considered generally robust, subject to any reservations expressed above. The figures presented for 2023/24 represent the funding notified to the Council as part of the one-year settlement.
- 10 The Council has already identified significant savings which will impact throughout the financial forecast. Further savings will need to be identified in order to balance the budget for years beyond 2023/24.

Monitoring of the forecast

- 11 The forecast is approved by Cabinet and Council in February as part of this budget and Council Tax setting process. If material changes are necessary during the financial year, the Cabinet will be updated accordingly.
- 12 Financial and operational performance indicators are routinely monitored, and performance reported to Cabinet members and the Leadership Team on a monthly basis. Formal reporting of performance against the financial forecast is undertaken monthly by the s151 Officer and reported quarterly to Cabinet.
- 13 The Financial Forecast is a live document linked directly to the detailed budget and therefore reflects the impact of virements, additional revenue and/or changes in services as they occur.

Funding of priority projects

- 14 Table 2.4 sets out some of the priority projects / discretionary functions that the Council continues to fund during the period of the forecast. These have been reflected in the Financial Forecast.

Cost pressures and budget increases (growth)

- 15 The movement caused by cost pressures and unavoidable/essential service increases identified during the budget process and since the budget set in February 2022 is summarised in table 2.5, with the more material items or items of interest listed in table 2.6.

Table 2.3 Medium term financial forecast (MTFF)		2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Report Section Ref	Notes
Line	Current policies and service plans						
1	Net service expenditure	11,563	14,166	12,426	13,154	2	Fluctuations predominantly caused by phasing of expenditure some of which is "offset" by earmarked reserves.
2	Council Tax	(8,534)	(8,808)	(9,170)	(9,454)	3	
3	Business Rates (related transactions)	(3,161)	(3,912)	(2,014)	(2,014)	4	Note 1 (below)
4	Capital grants, other grants and contributions	(1,090)	(1,935)	(392)	(298)		Note 2 (below)
5	Net Collection Fund(s) (surplus) / deficit	1,358	973	32	0	5	2022/23 and 2023/24 deficits relate to the previous year and are funded by s31 grant from central government applied through earmarked reserves at line 7.
6	Net expenditure / (income) before reserves	136	484	882	1,398		
7	Transfer to / (from) Earmarked reserves (net)	(498)	147	308	10	6	Note 4 (below)
8	(Surplus) / Deficit on General Fund	(362)	631	1,190	1,398	6	Note 3 (below)
9	General Reserves balance at end of year	(6,126)	(4,995)	(3,305)	(1,407)	6	Note 3 (below)
10	Earmarked Reserves balance at end of year	(14,770)	(14,721)	(14,830)	(14,660)	6	Note 4 (below)

Note 1 (MTFF) Business Rates Related Transactions		2022/23 £000's	2023/24 £000's	2025/25 £000's	2025/26 £000's	Report Section Ref	Notes
1	NNDR1 (statutory return) calculation / forecast (income)	(1,279)	(1,878)	(2,014)	(2,014)	4	Includes impact of negative revenue support grant in future years
2	Business Rates Levy (payment)	411	396	0	0	4	
3	Grant received (s31) in respect of business rates government reliefs	(2,193)	(2,430)	0	0	4	
4	Business Rates pool growth	(100)	0	0	0		
5	Business Rates related transactions	(3,161)	(3,912)	(2,014)	(2,014)		Financial forecast line 3
6	Deficit on collection fund relating to business rates grants	1,300	936	0	0	5	Within financial forecast line 5 (COVID-19 related / offset by reserve)
7	Grant transferred to / (from) earmarked reserve	(1,300)	(936)	0	0	5	Within financial forecast line 7 (COVID-19 related / offsets line 5)
8	Net value of transactions relating to business rates	(3,161)	(3,912)	(2,014)	(2,014)		

Note 2 (MTFF) Capital grants, other grants and contributions		2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Report Section Ref	Notes
1	Preceptors' council tax share back agreement	(472)	(200)	(200)	(200)		
2	New Homes Bonus	(141)	(83)	0	0	4	
3	Capital Funding Grants (Seafront and Labworth)	(50)	(1,200)	(94)	0	8	Includes £200k in 2024/25 being applied from earmarked reserves against expenditure
4	New Burdens Grant / Services grant / Misc.	(424)	(452)	(98)	(98)	4	
6	Covid related funding from government	(3)	0	0	0		
7	Capital grants, other grants and contributions	(1,090)	(1,935)	(392)	(298)		Line 4 financial forecast

Note 3 (MTFF) General Reserve		2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Report Section Ref	Notes
1	Balance at start of year	(5,764)	(6,126)	(4,995)	(3,305)		Minimum recommended balance for General Reserves is £2.6m for 2023/24.
2	Contribution to / (from) General Fund (MTFF line 8)	(362)	631	1,190	1,398		
3	Potential planning appeals & associated legal costs	0	500	500	500		
4	(Balance) / deficit at end of year	(6,126)	(4,995)	(3,305)	(1,407)	6	

Note 4 (MTFF) Earmarked Reserves		2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Report Section Ref	Notes
1	Balance at start of year	(15,538)	(14,770)	(14,721)	(14,830)		The precise timing of the use of earmarked reserves is, due to their nature, is generally unknown. Earmarked reserves are reviewed annually to ensure sufficiency and where need has diminished funds will be returned to General Reserves.
2	Contribution (to) / from General Fund (MTFF line 7)	498	(147)	(308)	(10)		
3	Total other expected usage of earmarked reserves - not allocated within the detailed budget	270	196	199	180		
4	Balance at end of year	(14,770)	(14,721)	(14,830)	(14,660)	6	

Note 5 (MTFF) Council Tax		2022/23	2023/24	2024/25	2025/26	Report Section Ref	Notes
1	Tax at band D £	273.69	281.79	290.16	295.92	14	
2	Increase %	1.98%	2.96%	2.97%	1.99%		

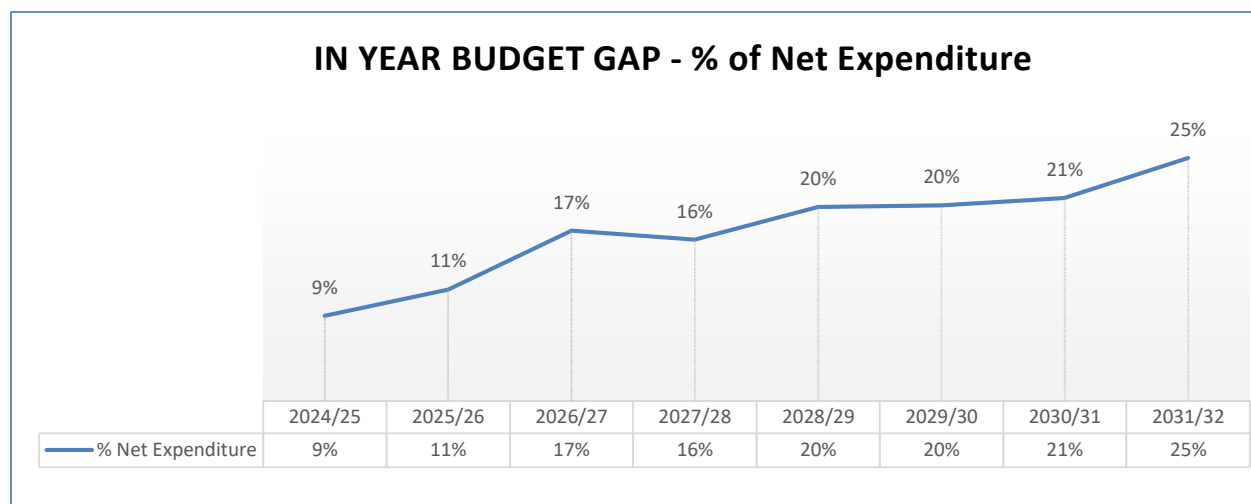
Table 2.4 Funding of priority projects & other discretionary expenditure included in line 1 of the Financial Forecast			
Ref.	Description of priority project or discretionary item	2022/23 £000's	2023/24 £000's
	All Services, Corporate & Democratic Core		
1	Funding of discretionary portion of business rates relief to charities and other bodies - percentage of overall relief cost applicable to this Council	31	28
2	Funding to move to a zero-carbon electric tariff	0	9
	Corporate Services		
3	Funding for local and voluntary organisations	126	128
4	Contribution to Community Transport Scheme operated by Wyvern, providing transport for elderly and disabled residents of the Borough	10	10
5	Running costs of CCTV installed at various public locations around the Borough, including car parks, the Dutch Cottage, the seafront and specific residential areas	17	12
	Environment		
6	Festive lighting / decorations across the Borough	14	14
7	Black refuse sacks provided free to residents (actual cost)	39	0
8	Public Conveniences across the Borough (net direct cost excluding recharges and capital charges)	149	140
9	Highways Rangers (previously funded by Essex County Council)	0	80
	Total funding of priority projects and discretionary items	386	421

Table 2.5 - Changes from previously published budget								
2022/23 Increases / (Decreases)	Chief Executive & Resources £'000s	Corporate Services £'000s	Customer & Digital Services £'000s	Environment £'000s	Housing £'000s	Place & Policy £'000s	Non-Service & Financing £'000s	Total £'000s
Staffing - Pay/NI/Pension	2	31	(239)	59	42	(62)	0	(167)
Staffing - Other	173	(24)	150	(380)	26	(45)	0	(101)
Premises	(17)	(113)	0	(405)	0	0	0	(534)
Other Expenditure	64	(13)	5,102	1,184	(55)	267	1,763	8,313
Income	89	(214)	(4,945)	(146)	65	(96)	(1,024)	(6,271)
Recharges	(136)	167	(410)	(685)	57	(16)	0	(1,023)
	175	(166)	(342)	(371)	135	47	739	217
Earmarked reserves								(544)
Overall change from previously published budget								(327)
2023/24 Increases / (Decreases)	Chief Executive & Resources £'000s	Corporate Services £'000s	Customer & Digital Services £'000s	Environment £'000s	Housing £'000s	Place & Policy £'000s	Non-Service & Financing £'000s	Total £'000s
Staffing - Pay/NI/Pension	39	28	144	329	74	109	0	723
Staffing - Other	110	(53)	(70)	(266)	17	(20)	0	(282)
Premises	26	172	0	923	12	0	0	1,132
Other Expenditure	2	(16)	(62)	1,527	(57)	522	721	2,636
Income	15	8	(29)	(1,270)	31	(97)	(3,707)	(5,048)
Recharges	10	(114)	(373)	(363)	95	41	0	(704)
	202	25	(390)	879	172	555	(2,986)	(1,543)
Earmarked reserves								892
Overall change from previously published budget								(651)

Table 2.6 Key changes from previously published budget		2023/24 £000's	2024/25 £000's
Favourable movements, savings and efficiencies			
Increase in net interest receivable		(624)	(568)
Government grants in Local Government Financial Settlement		(438)	0
Increase in leisure services income		(333)	(333)
Net increase in retained business rate income		(284)	0
Reduced interest payable due to early repayment of PWLB debt		(207)	(207)
Change in VAT treatment for leisure services		(200)	(202)
Triannual pension valuation showing fully funded scheme		(178)	(400)
Saving on financing cost of vehicle replacement programme		(150)	(118)
Reduced disposal cost for comingled waste		(100)	(100)
Reduction in use of temporary accommodation		(87)	(87)
Review of Members' allowances postponed for one year		(69)	0
Ceasing provision of free black sacks (budgeted cost)		(28)	(28)
Adverse movements, pressures and growth			
Staffing – above budget pay award in 2022/23, increased assumption for 2023/24, increased pension contribution rate		474	474
Staffing – contingency for 2023/24 pay award being above budgeted assumption		200	0
Inflation – increased electricity cost		187	187
Inflation – increased gas cost		161	161
Inflation – other		210	210
Highways Rangers previously funded by ECC		80	0
Tax base changes		75	75
Increased costs associated with elections		50	0
Review of Council's constitution		40	0
Street Scene Enforcement & Education Officer – extension of fixed term contract		13	21
Moving to a zero-carbon energy tariff		9	9

Budget Gap – Years 2024/25 and beyond

- 16 The medium term financial forecast shown at table 2.3 indicates on line 8 a significant budget gap in 2024/25 and beyond, which the Council must address during the course of the 2023/24 financial year. The Council is not unique in this position and many authorities are working on significant programmes of change to address their own budget gaps. The Council is indeed commencing its own transformation programme as mentioned in Section 2, paragraph 8. The following chart provides a visual presentation budget gap and shows in year gaps which, if not addressed, will amount to a cumulative funding gap in the region of **£20.5m** over the 8-year period shown below.



- 17 Whilst General reserves appear relatively healthy short term, and the Council has been successful in establishing a range of earmarked reserves to support spending programmes such as asset maintenance, the effective cap on council tax increases, uncertainty around the future of local government funding, rising costs and limitations on the ability to raise fees and charges mean that the Council will shortly be “living beyond its means” and must adjust.
- 18 Reserves may not be used to support day to day operational spend but may be utilised to “unlock” ongoing revenue savings. For example, in order to run a new leisure activity which generates additional income it may be necessary to structurally adapt an existing facility. These initiatives are often referred to as spend to save initiatives and must be supported with a business case which considers the full implications of the initiative, including implementation costs, cashflow implications, impact on general fund and ultimately the period of return against the “investment” (e.g. period over which costs are offset by savings).
- 19 Such initiatives include:
- Digitalisation and automation of functions both internal to the organisation and externally facing for the benefit of our customers
 - Service and organisation restructuring to refocus resources to improve delivery of services
 - Engagement of specialists and consultants to supplement internal resources and skills and support the implementation of new ways of working
 - Investing in our assets to serve an alternative purpose perhaps in order to generate additional income, reduce costs or improve customer experience
- 20 As part of the current budget process the Council has identified funds totalling **£1.3m** from within existing earmarked reserves which may be utilised to support and enable such initiatives during the course of the forthcoming financial year, in order to support the delivery of a balanced budget in 2024/25 and beyond. These are as follows:
- Improvement fund **£937k**
 - Spend to save **£189k**
 - Carbon reduction **£200k**

3 Tax base

Tax base calculation

- 1 Under Section 33 of the Local Government Finance Act 1992 and supporting Regulations, the Council must make an annual calculation of its tax base. The tax base is the total number of properties on which Council Tax will be charged, expressed as a band D equivalent, after allowing for discounts, exemptions and losses on collection. The method of calculation is prescribed by law and made under delegated authority by the Strategic Director (Resources), in consultation with the Cabinet Member with responsibility for Finance.
- 2 The tax base is used in the budget requirement calculation to produce the standard amount of Council Tax for a band D property as well as by the Government in distributing certain grants and determining the Council's "spending power".
- 3 The calculated tax base for 2023/24, before losses on collection are deducted, is **32,059** band D equivalent properties which is an increase from the 2022/23 tax base of **31,981**. The increase reflects:
 - a) An increase in the total number of dwellings on the valuation list caused by, for example, new properties being built.
 - b) The above being offset by a 25% increase in the number of exempt dwellings, predominately in relation to unoccupied pitches linked to ongoing development work at Thorney Bay and empty properties where the liable person has passed away.
 - c) The anticipated outcome of ongoing compliance reviews of the various categories of Council Tax discounts and exemptions. The resource required to undertake the work is part funded by the main precepting organisations.
- 4 Having determined the overall tax base, the estimated number of band D properties must be reduced to reflect a collection rate that takes account of losses on collection due to amounts that are uncollectable and void periods in respect of empty properties (this is not the same as the collection rate used as a performance indicator). The tax base collection rate has been reviewed and it is proposed that it should be maintained at **97.50%** for 2023/24.
- 5 The tax base for 2023/24 is therefore **31,258** band D equivalent properties (compared with **31,181** in 2021/22) which is a year on year net increase of 77 band D equivalent properties.

4 Local Government Funding

2023/24 Local Government Finance Settlement / Settlement Funding Assessment (SFA)

- 1 At time of writing this report, the Rt Hon Michael Gove MP is expected to make a written statement to Parliament on 8th February 2023 confirming the publication of the 2023/24 Final Local Government Finance Settlement. The figures in the tables below reflect the detail within the draft Local Government Finance Settlement. If there are any material changes between the draft and final settlements, an updating paper will be produced and published as soon as possible.
- 2 The 2023/24 local government finance settlement is for one year only although does also set out the Government's intentions and proposals for the 2024/25 settlement which has assisted with the budget setting process.
- 3 At a national level, there is a **9.2%** net increase in the core spending power for local government in 2023/24, with every Council seeing at least a **3%** increase before taking into account any decisions on Council Tax rates. The national position is as shown in table 4.1 whilst table 4.2 shows how this translates at a local level to Castle Point, with the net increase of **4.3%**, mainly as a result of increased business rates and Council Tax.

Table 4.1 Core Spending Power - National Level		2022/23 £m	2023/24 £m
Settlement Funding Assessment		(14,882)	(15,671)
Council Tax		(31,923)	(33,838)
Grants		(7,736)	(10,035)
Total		(54,541)	(59,544)
Net change %			9.2%

Table 4.2 Core Spending Power - Castle Point		2022/23 £000's	2023/24 £000's
Settlement Funding Assessment (Business Rates)		(2,263)	(2,434)
Council Tax		(8,834)	(8,808)
Grants		(400)	(438)
Total		(11,197)	(11,681)
Net change %			4.3%

- 4 Table 4.3 shows the distribution of Business Rates (NNDR) collected within the Borough.

Table 4.3 Funding Settlement 2021/22 to 2022/23		2022/23 £000's	2023/24 £000's
Anticipated yield from NNDR for CPBC		(15,314)	(16,898)
50% Payable to Government		7,657	8,449
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority		1,531	1,690
Amount left after payments		(6,126)	(6,759)
Tariff payable to Government		3,863	4,325
Business Rates Baseline / CPBC funding		(2,263)	(2,434)

Business Rates Retention (BRR)

- 5 The settlement no longer provides absolute funding indications for BRR and is based on an adjusted average income figure. This may or may not be reflective of the final BRR outcome for each respective year. Whilst the BRR scheme enables the Council to retain a proportion of Business Rates growth, it also requires the Council to absorb a proportion of the financial impact of successful rating valuation appeals and bad debts. Appeals may result in the repayment of backdated rates paid by businesses as well as an ongoing reduction in rates receivable by the Council in future years. This information is not known to Government at the time the settlement is announced.
- 6 The Council is therefore required to complete a statutory annual return to the Department for Levelling Up, Housing and Communities (DLUHC), referred to as the NNDR1, which sets out the anticipated National Non-Domestic Rates income collectible by the Council, based on more recent information than that available to Government. This return also calculates the value of section 31 grant (s31) which is payable to the Council. When Government introduce an initiative which reduces Business Rates payable by a particular type of business, s31 grant is payable in order to compensate for the reduction in business rates yield (e.g. small business rates relief).
- 7 The following table provides a comparison between the settlement and the NNDR1 return and indicates a difference in the amount due to the Council of **£857k** in 2023/24. The impact of this variance is cushioned through use of the Equalisation Reserve as described below.

Table 4.4 Funding Settlement 2021/22 to 2022/23 (comparison)	2022/23 £000's	2023/24 £000's	2023/24 £000's
	NNDR1	Settlement	NNDR1
Anticipated yield from NNDR for CPBC	(12,764)	(16,898)	(14,755)
50% Payable to Government	6,382	8,449	7,378
10% Payable to Essex County Council and Essex PFCC Fire and Rescue Authority	1,276	1,690	1,476
Amount left after payments	(5,106)	(6,759)	(5,902)
Less Tariff payable to Government	3,863	4,325	4,325
Total combined funding for CPBC	(1,243)	(2,434)	(1,577)

Managing fluctuations in Business Rates Revenue

- 8 The Council prudently established an earmarked reserve (NNDR Equalisation Reserve) in 2013/14 for the purpose of smoothing any detrimental impact which may present in respect of the NNDR collection fund, such as any levy payment which may become due, the effect of appeals on Business Rates income and the impact of any deficits on the Collection Fund. The Council maintains a rolling medium-term forecast of the reserve to support financial planning and table 4.5 sets out the transactions which are anticipated to impact on the reserve.
- 9 The balance on the reserve is to be maintained at a maximum of **£3m** as shown by the final line of the table below, with the value of funds exceeding this threshold being applied directly into the General Fund (reduction in overall reserve balance). This is an increase from prior years, with the Council taking a prudent position given a new ratings list is coming into effect, along with generally increased risk and uncertainty around collectable rates which could cause volatility in income levels. The position will be monitored throughout the year and updates provided to Cabinet in the quarterly Financial Update reports if required.

Table 4.5 NNDR Equalisation Reserve	2021/22 £000's	2022/23 £000's	2023/24 £000's
Opening Balance	(4,923)	(3,626)	(2,336)
Application of s31 grant income	(3,392)	(2,193)	(2,430)
Surplus on collection fund in year of distribution	0	0	0
Total Contributions into the Reserve	(8,315)	(5,819)	(4,766)
Application to offset payment of Levy	462	411	396
Deficit on collection fund in year of distribution	3,453	1,290	635
Equalisation adjustment – variance in rates retained	292	1,020	771
Reduction in overall reserve balance	482	762	0
Closing Balance	(3,626)	(2,336)	(2,964)

- 10 Additional information regarding the operation of the Business Rates Collection Fund may be found below and within section 5 of this report.

Business Rates Retention Scheme & Growth

- 11 Under the system of local Business Rate Retention, some authorities collect more rates than the Government has determined they need in order to fund their activities. These authorities are currently required to pay over the excess to Government and are referred to as “tariff” authorities. Most district councils are in this position and for Castle Point the tariff is **£4.325m** for 2023/24.
- 12 Conversely, those authorities who collect insufficient income in their own area receive payments from Government and are known as “top up” authorities. The most common group of authorities receiving top ups are county councils. Where an authority sees growth in its Non-Domestic Rates it must pay a proportion of that growth into the central pool as a “levy” which is capped at **50%**.
- 13 Calculation and payment of the levy is undertaken following the end of the financial year, once final outturn is known. The levy calculations for 2021/22 (final), 2022/23 & 2023/24 (provisional) are shown in the table below. Any detrimental impact on the General Fund is offset by application of the NNDR Equalisation Reserve (paragraph 8 above).

Table 4.6 NNDR Levy Payment	2021/22 £000's	2022/23 £000's	2023/24 £000's
CPBC share of Business Rates receipt	(4,767)	(5,106)	(5,902)
Tariff payment to Government	3,863	3,863	4,325
s31 grants awarded to the Council	(2,282)	(1,842)	(1,563)
Retained income	(3,186)	(3,085)	(3,140)
Less baseline funding level	(2,263)	(2,263)	(2,348)
Growth above baseline	(923)	(822)	(792)
Levy Payment @ 50% of growth	462	411	396

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

Essex Region Business Rates Pool

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

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

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

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

New Homes Bonus (NHB)

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

19 The NHB was previously a material source of funding for this Council however changes to the scheme announced as part of the 2017/18 Local Government Finance Settlement, coupled with the relatively low new property yield within the Borough, has meant that Castle Point has not qualified for significant new NHB funding in recent years.

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

Table 4.7 New Homes Bonus Allocations	2021/22 £000's	2022/23 £000's	2023/24 £000's
Settlement December 2022	(17)	(141)	(83)

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

Lower tier services grant / Funding Guarantee

22 A new un-ringfenced lower tier services grant was introduced for 2021/22 and 2022/23. This had been allocated via 2013/14 Settlement Funding Assessment (SFA) levels and was designed to ensure that no authority has a reduction to its Core Spending Power. For 2023/24, this grant has ceased but was replaced by the Funding Guarantee which ensures no Council has an increase in the Core Spending Power of below 3% before Council Tax decisions are taken. The value of this grant for 2023/24 is **£268k**.

Services Grant

23 This new grant in 2022/23 has also been distributed via 2013/14 SFA shares. The value of this grant for 2023/24 is **£88k**, a reduction from 2022/23 when it was **£156k**. The value for future years unknown.

Top-up/Tariff Adjustments (Negative RSG)

- 24 These adjustments were first introduced in the 2016/17 provisional settlement. They reflected the need to remove funding from authorities (due to the Spending Review 2015 funding reductions) that no longer had Revenue Support Grant.
- 25 Due to the approach taken in making the reductions, the Top Up/Tariff adjustments tended to hit high tax base/high tax rate authorities, with an increasing number being affected each year from 2017/18 to 2019/20. However, at the 2016/17 final settlement, the adjustments up to and including 2018/19 were removed, with the 2019/20, 2020/21, 2021/22 and 2022/23 amounts removed at the respective settlements.
- 26 As per the previous six years, the negative RSG amounts have been eliminated for 2023/24 from the settlement but have been included in the Council's financial forecast for future years given the uncertainty around these future years.

Local Government Funding Reform / Business Rates Revaluation

- 27 The only announcement regarding funding reform was as follows:
- “Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013/14 to a large degree, and even as far back as 2000. Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes”.
- 28 The lack of a set timetable for implementing the delayed Fair Funding Review and Business Rates Reset (both originally planned for 2019/20) may mean something more than just completing the previous project.

5 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 2023. This is a statutory calculation that has to be made by 15 January for Council Tax and 31 January for NNDR.
- 2 The net impact of the respective balances relevant to Castle Point will be applied in the subsequent financial year as shown on line 5 of the financial forecast and expanded below:

Table 5.1 Collection Fund Surpluses/Deficits	2022/23 £000's	2023/24 £000's
Council Tax deficit / (surplus)	58	37
Business Rates deficit / (surplus)	1,300	936
Total deficit / (surplus) on Collection Funds	1,358	973

- 3 The deficit on business rates in both years is in relation to reliefs granted to businesses as part of the Government's 2021/22 covid-19 support programme and is funded by s31 grant. The deficit on council tax in 2022/23 is as a direct result of the impact of the economic effects of the pandemic on resident's ability to pay their council tax, with 2023/24 being caused by the current cost of living crisis.

Council tax collection fund

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

Business rates collection fund

- 5 Any surplus or deficit relating to NNDR is shared between this Council, Essex County Council, Essex PFCC Fire & Rescue Authority and Central Government. These adjustments are subtracted from or added to the amount to be raised from Council Tax and do not form part of the budget requirement.
- 6 A surplus or deficit balance on the NNDR Collection Fund may be caused by changes in a number of factors during the course of a financial year including new business premises, the outcome of rating appeals and changes in the total value of discretionary or mandatory reliefs granted compared to original estimates.

6 Reserves & Contingencies

- 1 The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to take into account the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 2 Under Section 25 of the Local Government Act 2003, the Council's Chief Financial (s151) Officer 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 s151 Officer is shown at paragraphs 4 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 June 2015. The Council must have regard to this report when making decisions on the Council Tax requirement calculation.
- 3 Reserves can be held for three main purposes:
 - a) General reserves: to meet the potential cost of emergencies or unexpected events, including a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
 - b) A contingency: to meet the costs of events that are possible, but whose occurrence is not certain - this also forms part of general reserves.
 - c) Earmarked reserves: to meet known or predicted liabilities, and potentially extending beyond a single financial year.

Proposed level of general reserves

- 4 For 2022/23 and 2023/24 General reserves are calculated as follows: -

Table 6.1 General Reserves		£000's
Actual balance 1 April 2022		(5,764)
Net potential movement during 2022/23		(362)
Forecast balance at 1 April 2023		(6,126)
Net potential movement planned during 2023/24		631
Forecast balance at 31 March 2023		(5,495)

- 5 The estimated balance on reserves at the end of 2023/24 represents **42%** of the Council's net budget before funding for that year. Without context this level of reserves would appear to be high, however unless significant ongoing cost reductions are achieved, the Council will be required to use general reserves in order to support day to day expenditure for years 2024/25 and beyond.
- 6 Use of reserves on an ongoing basis to support day to day expenditure is not good practice and it is the Council's intention to identify savings / cost reductions / additional income to fully close each year's budget gap without relying on the use of reserves. However, until these years are balanced it is prudent for the Council to maintain reserves at a higher level.
- 7 The covid-19 pandemic delayed the progression of projects and initiatives which may have helped to reduce the budget gap in future years. The impact of the pandemic and more recently the cost of living crisis on both the demand for some council services and resident / customer ability to pay for the use of services and facilities is also unknown and may result in either an improved or worsened budget gap than is currently predicted.

Adequacy of reserves

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

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

Adequacy of reserves – corporate issues

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

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

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

Adequacy of reserves – financial standing and management

- 11 This is considered in the following table: -

Table 6.2 Adequacy of reserves - financial standing and management

Overall financial standing

The Council has no difficulty in meeting the key indicator of prudence in relation to capital borrowing. Local tax collection rates have been reviewed in view of the pandemic but are satisfactory.

Record of budgeting and financial management

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

Capacity to manage in-year budget pressures

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

Strength of financial information and reporting arrangements

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

Adequacy of reserves – budget assumptions

12 These are considered in the following table: -

Table 6.3 Adequacy of reserves – budget assumptions

Estimate of the level and timing of capital receipts

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

Sensitivity of budget assumptions

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

Treatment of demand led pressures

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

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

Adequacy of provisions

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

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

Treatment of inflation and interest rates

The detailed budget includes provision for an average **4%** pay increase for 2023/24 and **2.5%** for subsequent years. A vacancy factor of **1.5%** has also been included in the estimates to reflect the vacancy periods during which salary costs are not incurred. There is a risk that the 2023/24 pay award ultimately agreed with unions is higher than budgeted, with every additional **1%** equating to **£120k**.

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

All the Council's external debt is at fixed interest rates and the average interest rate used to estimate interest receivable from investments in 2023/24 is **2.67%**. The estimated level of investment income generated is based upon investments placed with institutions in accordance with the Council's Investment Strategy, as detailed in section 10.

Where cost increases are linked to the RPI or CPI, future year's increases are based on future RPI or CPI predictions provided by the Bank of England.

13 Adequacy of reserves – other local factors of significance

These are considered in the following table: -

Table 6.4 Adequacy of reserves – other local factors of significance

Equal pay review / Job evaluation

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

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

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

Pension Fund revaluation

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

The actuary undertook a valuation of the Pension Fund as at 31 March 2012 which indicated a funding level of **106.3%** and has required an increase in the employer's contribution rate from **20.2%** to **21.9%**. The implications included within the Council's financial forecast are based on the recommendations of the pension fund, effective from April 2023. The next valuation will be undertaken by the actuary in March 2025, effective for contributions from April 2026.

Pension fund risks include changing economic conditions and investment returns being less than the assumptions adopted in the Pension Funds investment strategy. As a consequence this may see an increase in the employer's contribution rate from 2026/27 onwards. Provision has not been made in the Council's budget for this eventuality.

Potential for withdrawal of external or third-party revenue income

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

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

Potential for incurrence of legal costs

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

It is recommended that when assessing the minimum level of reserves a sum of £640k is included in the calculations (paragraph 14 below).

Table 6.4 Adequacy of reserves – other local factors of significance (continued)**Potential for cost fluctuations in relation to service contracts**

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

The Consumer Prices Index for December 2022 (most recent to writing this report) was **10.5%** against a Bank of England target of **2%**. The rate is predicted to fall during the new financial year before gradually reducing towards the **2%** target. The index is significantly impacted by rising energy costs. The Council applies different inflation rates to different cost categories but there is potential for fluctuating inflation rates to have a more significant impact on contracted costs than has been determined as part of the current budget process.

As the Council tenders contracts during the year, it is likely that pricing will exceed existing budget provision. Whilst budgets have been inflated where contracts set out an inflationary element, many contracts cover a multi-year period at a fixed price. Where possible, estimates have been made of any additional cost on retender but there is a risk that prices received are significantly higher than expected.

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

Potential for District / Borough Councils to “step into” the void left by other public organisations

The combined pressure of reductions in funding and the increasing financial impact of welfare services and reforms on public organisations are significant. These organisations are striving to reduce their costs which may result in the discontinuation or reduction in some services to the public, an example this year being ECC's decision to cease funding the Highways Rangers. Consequently, there may be political pressure or public expectation that the District/Borough Councils will take on these discontinued functions.

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

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

VAT – Partial Exemption

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

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

Table 6.4 Adequacy of reserves – other local factors of significance (continued)**Ongoing and lasting impact of the Pandemic (covid-19) on Council Revenue Streams**

An earmarked reserve was established as part of the 2021/22 budget process to give the Council flexibility to respond to financial implications arising from the lasting impact of the pandemic as they become known.

The most apparent lasting impact has been on the Council's School Lane car park. This car park was previously heavily used by commuters, but the shift to hybrid/home working has reduced utilisation of the car park with the inevitable reduction in income this brings. The car park income level has been improving throughout 2022/23 whilst for 2023/24 the detailed budget has retained income at the pre-pandemic level. As the year goes on and the impact becomes clearer, funding will be applied from the earmarked reserve to offset the impact.

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

A number of reforms (such as the introduction of Dependant Child Limitation rules, the Housing Benefit Cap, and the Spare Room Subsidy Limitations) have been introduced in recent years and continue to impact households across the borough.

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

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

Nationally the impact of covid-19 and cost of living crisis has seen increases in people who are experiencing homelessness and there is uncertainty regarding the continuing and ongoing impact. With 100% occupation of its own housing stock, changes in the private rented sector, and the continuing low rate Housing Benefit Cap (£22k for 2023/24), the Council continues to experience difficulty in finding suitable family sized temporary/permanent accommodation. The emerging impact of the wider economic context brings further service demands with the cumulation and management of rent arrears and debt management provision.

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

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

Economic volatility

With the cost of living crisis, the war in Ukraine, the lasting impact of the pandemic, changes in Government fiscal policies and the impact of Brexit, there has been and continues to be a lot of economic volatility. The Council has also experienced significant impacts, most notably inflation on pay and energy budgets

However, the Council has also been able to benefit as interest receivable, driven by increases in the Bank of England base rate, has significantly increased and assisted with reducing the budget gap. Additionally, high gilt yields in October 2022 enabled the Council to repay PWLB debt at a discount and therefore reduce its interest payable.

Given the rapid ascent of the Bank of England base rate from its record lows, there is a risk that the increases have a quicker or harder impact than the Bank expects and therefore reduces the rate, or at least does not increase it as higher as expected

It is recommended that when assessing the minimum level of reserves a sum of £300k is included in the calculations (paragraph 14 below).

Adequacy of reserves – conclusions

- 14 Having evaluated all the above factors, including the sensitivity of key budget assumptions, the s151 Officer considers that the following are significant local factors that should be taken into account when assessing the minimum level of general reserves: -
- a) Potential for withdrawal of external or third party revenue income (£100k)
 - b) Potential for cost fluctuations in major contracts (£400k)
 - c) Potential for incurrence of legal costs (£640k)
 - d) VAT – Partial Exemption (£400k)
 - e) Impact of Welfare Reforms on demand for Council Services (£100k)
 - f) Impact of economic volatility (£300k)
- 15 These factors would not be reflected in any formula approach such as the benchmark reported at point 18 below. It is the s151 Officer's view that, taking into account the combined value of the items identified above, plus an additional 5% of operating expenditure (see below), an appropriate minimum level of reserves is approximately £2.6m.
- 16 Although this report on adequacy of reserves is specific to 2023/24, the Council should bear in mind that adequacy should also be judged against longer-term plans.
- 17 Whilst it is not permissible or feasible for the Council to rely on the use of reserves on an ongoing basis to balance its budget, it may apply reserves as part of a short-term strategy to manage, for example, a period of transition during which efficiency savings are identified to provide a longer-term solution. The Council's working policy is to earmark funds (set aside) to manage specific risks once the likelihood of that those risks materialising increases to a tangible level.

Comparison with external benchmarks

- 18 The only previously known external benchmark for adequacy of reserves was the standard that used to be included in the criteria for auditor scored judgements on Financial Standing, this formed part of the Comprehensive Performance Assessment made by the Audit Commission. This was stated as 5% of net operating expenditure, weighted by reference to government limits for meeting emergency expenditure. For Castle Point, this calculates at £708k for 2023/24.
- 19 A comparison of the above benchmark with the s151 Officer's assessment and the Council's target is therefore: -

Table 6.5 Adequacy of reserves 31st March 2022		£000's
Castle Point (Target)		2,600
Audit Commission (Benchmark)		708

- 20 The s151 Officer considers that until the impact of the new funding regime is known, and the local factors described in table 6.4 & paragraph 14 are resolved it is prudent for the Council to maintain a level of reserves in excess of the minimum recommended level.

Exclusions

- 21 This opinion does not include the following items: -
- The equal pay review as there is no information currently available on which to form a view.
 - The impact of the new funding regime as the implementation timeframe and proposed methodology are unknown.
 - The impact of a change in Waste Collection arrangements.
 - The impact arising from the Council's transformation programme.

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

In-year use of General Reserves

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

Earmarked Reserves

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

- **Spend to Save Initiatives**

A reserve of **£100k** intended to enable the Council to establish a scheme of self-insurance was established during the 2013/14 financial year. The scope was extended as part of the 2016/17 budget process to provide a fund for “pump-priming” initiatives which would deliver an ongoing reduction in costs and / or increased revenue to the Council. Each initiative will be supported by a specific business case. The value of this reserve was increased during the 2020/21 budget process to enable more initiatives to be taken forward. As savings from initiatives are generated, the reserve is replenished up to the value of the original investment ensuring that funds are continuously recycled for new initiatives. The balance on this reserve at the start of the 2023/24 financial year is forecast to be **£189k**.

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

The delivery of the programme set out in the Council's Local Development Scheme has considerable staffing and financial resource implications. Full Council approved the creation of the Castle Point Plan in November 2022 and this reserve is anticipated to be utilised to meet the costs of this.

- **Planning – Joint Strategic Plan**

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

At the time of writing this report, a review of this reserve is in progress and it is unlikely that this funding will need to remain set-aside for its original purpose. As part of the current budget process, **£110k** has been retained in the reserve as a contingency.

- **Local Council Tax Support**

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

- **Non Domestic Rates Equalisation**

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

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

A new funding regime is proposed and set to bring about fundamental changes to the overall mechanics of how local government funding is distributed. The new regime may have an impact on the continuation or value of the grant in future years. For that reason, it is not possible or prudent to assume its continuation in future years.

- **Future Asset Maintenance**

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

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

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

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

The reserve is supported by a detailed financial plan extending to the 2030/31 financial year whilst during 2023/24 new condition surveys will be conducted to refresh and update the work plans and values. The reserve is currently seen to be virtually depleted towards the end of the forecast but will be reviewed in the context of the updated surveys.

- **Pension Deficit Payment**

To enable the Council to take advantage of significant financial incentives offered by the Essex Pension Fund, payment of three years' deficit contributions is made in one lump sum in advance, rather than paying amounts monthly or annually. This reserve was partly applied in 2020/21 for the scheduled advance payment in that year. Funds were accumulated in advance of the anticipated payment in 2023/24 but as the most recent valuation has shown a funding level of **106.3%** no deficit payment is required. Instead, funds will be held and added into in advance of the anticipated payment in 2026/27.

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

- **Improvement Fund**

A reserve established from accumulated unspent revenue budget and savings generated through service reviews and initiatives and small value miscellaneous government grants. At the start of 2023/23 funds to the value of **£937k** are forecast to be held in this reserve.

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

With the Council commencing a transformation programme in 2023/24, it is likely that this reserve, along with the spend to save reserve, will be heavily utilised during the next couple of years to fund the required changes and deliver long term savings.

- **Revenue Grants Unspent / New Burdens Funding**

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

- **ICT Projects**

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

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

- **Co-mingled waste contract**

Disposal costs of co-mingled (pink sack) waste can be highly volatile. Although prices have settled during 2022/23, it is prudent to hold this reserve in case costs significantly increase again.

- **Carbon Reduction**

A new reserve created as part of the 2023/24 budget setting process, funded by an anticipated underspend in 2022/23. Its purpose is to fund projects which aim to reduce the Council's carbon footprint which may therefore reduce energy usage and subsequently costs. It may also be utilised to fund the gap between traditional and green options, for example covering the additional cost of purchasing electric vehicles compared to the cost of internal combustion engine vehicles.

- **Knightswick Shopping Centre**

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

It is anticipated that this reserve may be utilised during 2023/24 and 2024/25 to deliver improvements to the centre, subject to business case and governance processes.

- **Pandemic Response Reserve**

A new reserve established during the budget setting process for 2021/22. The purpose of the reserve is to set aside funds which may be used to offset any short-term detrimental impact of ongoing changes in demand for, and use of, Council services. As the risk of impacts has now reduced, the reserve has been reduced by **£200k** in 2023/24.

- **Public Realm and Play Spaces**

Initially created as the Priority Initiatives reserve, the **£100k** that was held in the reserve has been released to the general fund in 2023/24 and replaced by a new **£140k** Public Realm and Play Spaces reserve funded from the Council's 2022/23 New Homes Bonus allocation. It is anticipated that this reserve will be fully utilised in 2023/24.

24 Table 6.6 on the following page provides a summary of forecast movements on General Fund earmarked reserves.

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

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

Funds set aside from the HRA for the repayment of debt taken out by the Council as part of the refinancing of the HRA.

Table 6.6 Earmarked reserves movements	Balance 01/04/2022 £000's	2022/23 £000's (movement)	2023/24 £000's (movement)	2024/25 £000's (movement)	2025/26 £000's (movement)	Forecast 31/03/2026 £000's
Revenue grants unspent	(585)	(77)	(74)	18	0	(718)
Public Realm and Play Spaces	(100)	(140)	240	0	0	0
Future asset maintenance	(3,027)	(227)	610	86	599	(1,958)
Pandemic response	(613)	0	200	0	0	(413)
Insurance	(348)	0	0	0	0	(348)
Non-domestic rates equalisation	(3,626)	1,290	(628)	0	0	(2,964)
Local council tax support scheme	(221)	20	0	0	0	(201)
Improvement fund	(937)	0	0	0	0	(937)
Pension deficit payment	(1,339)	(178)	0	(220)	(220)	(1,958)
Planning - local development scheme & plan	(326)	0	0	0	0	(326)
Planning - joint strategic plan	(110)	0	0	0	0	(110)
Regeneration	(258)	0	0	200	0	(58)
Knightswick Shopping Centre	(1,063)	(409)	(459)	(320)	(333)	(2,584)
ICT projects	(2,162)	430	178	155	124	(1,274)
Co-mingled waste contract	(210)	0	0	0	0	(210)
Spend to save initiatives	(172)	(17)	(19)	(28)	0	(235)
Carbon reduction	0	(200)	0	0	0	(200)
Commitments from previous year	(363)	264	0	0	0	(99)
All other earmarked reserves	(80)	11	0	0	0	(68)
Total General Fund Earmarked Reserves	(15,538)	768	49	(109)	170	(14,660)

This statement reconciles to note 4 of the Medium-Term Financial Forecast (table 2.3)

7 Charging Policy & Commercialism

Introduction

- 1 There are clear links between the Council's policy on charging and commercialism. For Castle Point commercialism includes not only maintaining a focus on raising and maintaining additional revenue but establishing greater financial awareness in terms of our costs, how those costs interact with and affect the associated income generated, and smarter ways of working in order to reduce those costs.
- 2 The Council's charging policy sets out the key principles and processes it intends to follow when setting fees and charges for services and applies to all fees and charges except for: -
 - Services which have charges set by statutory legislation.
 - Services which are prohibited by statutory legislation from raising any charges.
 - General rental income and lease / licence income.
 - Income from housing rents.
- 3 The Council's Constitution provides the majority of services with the authority to set their own fees and charges.
- 4 Section 93 of the Local Government Act 2003 provides local authorities with the power to charge for discretionary services, provided they are not covered or prohibited by other statutory legislation, and provided the services in question do not make a profit from charging.
- 5 The Council published a commercialism strategy during 2021/22 and this may be found on the Council's website (<https://www.castlepoint.gov.uk/council-strategies-and-policies>).

Income generation principles

- 6 Charges should be set at a level to maximise income generation. Departments should aim to set charges so that at the expected level of usage, the income generated from a service recovers the full cost of providing the service. However, charges should not be set at a prohibitively high level that would adversely affect usage, e.g. by making the Council uncompetitive.
- 7 Full cost consists of: -
 - The direct cost of running the service, i.e. staffing, property and vehicle costs, equipment, etc.
 - The indirect cost of running the service i.e. recharged costs from central and other support departments and capital charges, such as depreciation.
- 8 Charges set below full cost recovery levels should be fully justifiable in terms of meeting Council priorities or subject to confirmation by the s151 Officer and Leadership Team, as they result in the net cost of that particular service being subsidised by the Council as a whole.

Annual process

- 9 As part of the annual budget setting process, budget holders are required to confirm, as a minimum, the following information: -
 - The rate by which charges will be inflated for the forthcoming financial year. This would normally be expected to not be less than the annual increase in inflation (CPI / RPI) prevailing at that time, although given the current high levels of inflation it was agreed to use a lower rate of **7%**, that being equal to the cap on housing rents set by Government.
 - Any changes in activity and / or usage and the expected impact on the income budget.
 - Any other changes which could have an impact on the income budget.
 - Proposals for any services which are currently provided free of charge for which a charge could be raised.

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

Publication and communication

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

Variations in standard fees

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

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

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

Periodic full review of charges

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

- 15 This review aims to ensure charges are consistent with Council priorities and service aims, market and customer intelligence, and to justify any subsidy made by the Council as a whole to that service. The outcome of, and any changes arising from, the three-yearly formal reviews are to be approved by the s151 Officer and the Leadership Team. A review is planned to take place during 2023/24 as part of the Council's transformation programme and a focus on commercialism.

The case for financial self-sufficiency

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

- 17 Such is the importance of income from fees and charges, a review will be undertaken during 2023/24 of all of the Council's fees and charges to ensure they are set at the appropriate levels (giving due regard to amongst other things full-cost recovery, competitiveness in the market and legislative requirements). Where it is identified that any fee or charge is not at the appropriate level, plans will be put in place to amend as required.

8 Capital Strategy

- 1 The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made and considers risk, reward and impact on the achievement of priority outcomes. The strategy is fully integrated with revenue planning and budgeting.
- 2 The strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services and shows how associated risk, including future financial sustainability, is managed.
- 3 Decisions around capital expenditure, investments, and borrowing align with the processes for the setting and revising of the budget for the Council, hence the Capital Strategy forms part of the overall Policy Framework and Budget Setting Report. Subsequent sections in relation to Treasury Management and Investment are closely linked to the Capital Strategy and cover in detail the Council's approach to borrowing and investing.
- 4 New best practice guidance has been issued by CIPFA around the development of a whole organisation approach to the production of a capital strategy. This guidance will be reviewed during 2023/24 to identify improvements that can be included within the Council's existing strategy.

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

- 5 As at 31 March 2022 the Council held assets valued at circa **£209m**, including:
 - Council Houses (1,490) and garages (293): **£148m**
 - Land and buildings: **£57m**. Major assets include the Council offices, Waterside Farm and Runnymede Leisure Centres and the Knightswick Centre.
 - Vehicles: **£2m**, mainly refuse and recycling freighters.
 - Assets let to other organisations and individuals (Investment Properties): **£2m**. These include the golf course on Canvey Island.

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

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

Capital expenditure and the Council's approach to capital investment

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

- 11 The Council must comply with the provisions of part 1 of the Local Government Act 2003 relating to capital expenditure and borrowing controls. These require local authorities to determine and keep under review the amount of their affordable borrowing. Authorities must also have regard to the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which became effective from 1 April 2004 and was most recently updated in 2021 as were the associated guidance notes also published by CIPFA.
- 12 The main issues affecting capital investment decisions are:
- The Council's capacity to borrow.
 - The availability of other capital resources, such as capital receipts and grants.
 - The management of debt, cash flows and investments.
- 13 The Council's strategy is to ensure that decisions on resource allocation are based on the corporate objectives and priorities, as detailed in the Council's Corporate Plan (available on the Council's website: <https://www.castlepoint.gov.uk/council-strategies-and-policies>) and reflect the views of residents and stakeholders.
- 14 The Council's capital investment priorities are set out below: -

Table 8.1 Prioritisation of capital investment projects	
Priority	Purpose
1	Private sector improvement and disabled facilities grants.
2	Housing capital expenditure financed by the depreciation allowance, receipts from Right-to-Buy sales and contributions from revenue, with priorities determined in accordance with the HRA Business Plan and in consultation with tenants.
3	Self-financing schemes funded by specific grants and external sources.
4	Spend-to-save schemes that deliver on-going reductions to net cost.
5	On-going maintenance of assets and replacement of vehicles, equipment and plant.

- 15 New proposals will be evaluated in accordance with the requirements of the Prudential Code and with regard to the following criteria: -
- Service objectives, e.g. strategic planning for the Council.
 - Stewardship of assets, e.g. asset management planning.
 - Value for money, e.g. option appraisal.
 - Prudence and sustainability, e.g. risks, whole life costing and implications for external debt.
 - Affordability, e.g. implications for long-term resources and ultimately the Council Tax (and Housing rents for the Housing Revenue Account).
 - Practicality, e.g. achievability of the forward plan.
 - Revenue cost and income impacts.
- This assessment is equally applicable to proposals which are self-financed or externally funded.
- 16 Different evaluation methods will be relevant for different proposals and will be undertaken as part of a comprehensive business case. These might include: -
- Options appraisal, e.g. rebuild, improve or replace an existing asset.
 - Whole life costing, e.g. longer-term revenue impact.
 - Sensitivity analysis, e.g. impact of cost fluctuations on an overall project.
 - Effect of different borrowing options, e.g. duration and rate of interest.
 - Payback calculations, e.g. how long it takes to recoup the cost incurred.
 - Savings, e.g. scope to generate future savings or income.

- 17 Contingency allowances for unexpected costs or overruns that might occur will be assessed and included as appropriate, particularly for high value projects.
- 18 All capital expenditure will comply with the Council's procurement rules and thresholds.

Financing of capital expenditure

- 19 Each item included in the capital programme is assessed to determine how it is to be financed. The term "financing" refers to the resources that are applied to ensure that the full cost is dealt with absolutely, whether short or longer term. There are a number of ways in which capital expenditure can be funded, primarily as follows: -
- External grant funding received from central government or other organisations.
 - Use of capital receipts from the sale of Council owned assets. These include receipts from Council Houses sold through the Right-to-Buy (RTB) process. Certain restrictions apply on the usage of RTB receipts – see later in this section.
 - Revenue contributions to capital expenditure – direct charges to revenue, in the General Fund and / or Housing Revenue Account, in the year that the capital expenditure takes place.
 - Minimum Revenue Provision (MRP) - charges to revenue in subsequent years over the useful life of the asset. This is the outcome if none of the other above options apply - see later in this section for further information on MRP.
 - Amortisation of Intangible Assets in HRA – charges to the HRA in subsequent years over the useful life of the asset. This method has been used to fund the Housing Management System.

Capital programme monitoring

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

Prudential Code for Capital Finance in Local Authorities

- 23 The Prudential Code includes statutory requirements for the manner in which capital spending plans are considered and approved, as well as requiring the Council to set and monitor a series of Prudential Indicators. These Prudential Indicators are set out over the following paragraphs.
- 24 The Council has a duty under Section 3 of the Local Government Act 2003 and supporting Regulations to determine and keep under review how much it can afford to borrow. The amount so determined is called the Affordable Borrowing Limit and the Council must have regard to the Prudential Code when setting this limit. This requirement is to ensure that total capital investment remains within sustainable limits and that the impact on future Council Tax and rent levels is acceptable.
- 25 The following paragraphs explain the Prudential Indicators that the Council should have regard to before agreeing capital spending plans for 2023/24. The Council must approve Prudential Indicators for the next three years – 2023/24 to 2025/26 – and an appropriate recommendation appears in the accompanying formal Committee report. These indicators are, however, calculated over years beyond those three to ensure that the capital strategy is sustainable over the longer term, and to align with the timeframes used for the Medium-Term Financial Forecast and capital budgets.
- 26 A requirement of the CIPFA Code of Practice to bring leases currently classified as operating leases onto the Council's Balance Sheet has been delayed until 2024/25. This change will impact

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

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

- Indicators for “Affordability” – The fundamental objective in the consideration of affordability of the Council’s capital programme is to ensure that the proposed level of investment in capital assets results in the total capital investment of the Council remaining within sustainable limits. In considering the affordability of the capital programme, the Council is required to consider all resources currently available to it as well as those estimated for the future, together with the total of its capital programme and income and expenditure forecasts.
- Indicators for “Prudence” – The Council should ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it should consider arrangements for the repayment of debt and consideration of risk and the impact on the Council’s overall fiscal sustainability.

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

29 Prudential Indicators applicable to treasury management are shown in Section 9 of this report.

Prudential indicator (for prudence) – capital expenditure

30 Table 8.2 below shows actual 2021/22 capital expenditure, along with estimates for current and future years recommended for approval: -

Table 8.2 Capital expenditure	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
General Fund (GF)	3,159	2,921	3,563	2,665	1,462
Housing Revenue Account (HRA)	1,955	2,998	4,564	2,419	2,478
Total	5,114	5,919	8,127	5,084	3,940

31 The amounts shown for 2023/24 represent firm proposals for approval. Amounts shown for later years are indicative guidelines for financial planning and are subject to confirmation in each respective year's budget process. The General Fund schemes are analysed in table 8.3 on the following pages.

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

Recurring and significant capital schemes

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

- Disabled Facility Grant adaptations paid for by central government grant funding.
- The vehicle replacement programme. This primarily consists of refuse and recycling freighters, but also includes a number of smaller specification vehicles. Most vehicles are replaced every

7 or 8 years on a rolling basis although there has been a significant increase in lead time for replacement vehicles due to the pandemic. This has been reflected in the plan.

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

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

- The Knightswick Shopping Centre related works reprogrammed for 2023/24.
- Canvey Island seafront regeneration at Thorney Bay continuing through to 2024/25.
- Replacement of playground equipment at Thundersley Common in 2021/22.
- Replacement of gym equipment at Runnymede in 2022/23 and at Waterside in 2023/24.
- The Housing Revenue Account capital expenditure includes several new housing developments as well as normal annual programmes of works to existing Council properties.

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

Table 8.3 General Fund Capital Expenditure Proposals	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
ENVIRONMENT					
Disabled Facilities Grants (Mandatory)					
Gross Capital Expenditure	351	250	686	686	687
Specific external funding	(351)	(250)	(686)	(686)	(687)
Net Capital Expenditure	0	0	0	0	0
Mobile Homes – Fit & Proper Test					
Gross Capital Expenditure	1,796	0	0	0	0
Specific external funding	(1,796)	0	0	0	0
Net Capital Expenditure	0	0	0	0	0
Mobile Homes – Warm Homes					
Gross Capital Expenditure	0	2,483	0	0	0
Specific external funding	0	(2,483)	0	0	0
Net Capital Expenditure	0	0	0	0	0
Playground Equipment Replacement Programme					
Gross Capital Expenditure	80	0	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	80	0	0	0	0

Table 8.3 General Fund Capital Expenditure Proposals	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Leisure Centres Gym Equipment (both sites)					
Gross Capital Expenditure	0	25	60	0	50
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	25	60	0	50
Waterside Squash Court Refit					
Gross Capital Expenditure	223	0	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	223	0	0	0	0
Waterside Soft Play Area					
Gross Capital Expenditure	0	41	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	41	0	0	0
Vehicle Replacement Programme					
Gross Capital Expenditure	0	22	117	1,685	725
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	22	117	1,685	725
CUSTOMER AND DIGITAL ICT Hardware and software					
Gross Capital Expenditure	0	50	0	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	50	0	0	0
PLACE & POLICY					
Labworth Car Park					
Gross Capital Expenditure	579	0	0	0	0
Specific external funding	(311)	0	0	0	0
Net Capital Expenditure	268	0	0	0	0
Seafront Regeneration					
Gross Capital Expenditure	22	50	1,200	294	0
Specific external funding	(22)	(50)	(1,200)	(26)	0
Net Capital Expenditure	0	0	0	268	0
Seafront Solar Powered Cabin Toilets					
Gross Capital Expenditure	108	0	0	0	0
Specific external funding	(67)	0	0	0	0
Net Capital Expenditure	41	0	0	0	0

Table 8.3 General Fund Capital Expenditure Proposals	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Knightswick Shopping Centre					
Gross Capital Expenditure	0	0	1,500	0	0
Specific external funding	0	0	0	0	0
Net Capital Expenditure	0	0	1,500	0	0
Total Gross Capital Expenditure	3,159	2,921	3,563	2,665	1,462
Total Specific External Funding	(2,547)	(2,783)	(1,886)	(712)	(687)
Total Net Capital Expenditure	612	138	1,677	1,953	775

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

- 36 The Capital Financing Requirement is a measure of capital expenditure incurred historically by the Council that has yet to be financed by capital receipts, capital grants or contributions from revenue, and represents the Council's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. At any point in time, the Council has a number of cash flows both positive and negative and manages its treasury position, in terms of borrowings and investments, in accordance with its approved treasury management strategy and practices.
- 37 The CFR will increase whenever the Council incurs capital expenditure that is not immediately funded in the same year by grants, capital receipts or direct revenue contributions. The CFR will reduce when Minimum Revenue Provision (MRP) charges to revenue are applied in subsequent years.
- 38 If the Council takes out additional borrowing to pay for capital expenditure this also causes the CFR to increase. This is because borrowing does not finance capital expenditure. Instead it merely provides the cash to enable the expenditure to take place and, since the borrowing is required to be repaid at a later date, does not provide the resource.
- 39 There is no statutory limit on the amount of borrowing, however, the Council is required to demonstrate affordability of new capital proposals. This should include the annual principal and interest payments and ongoing revenue impact arising from new borrowing.
- 40 Within day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing can arise as a consequence of all the financial transactions of the Council and not simply those arising from capital spending.
- 41 Estimates of the end of year capital financing requirement for the Council for the current and future years, and the actual capital financing requirement at 31 March 2022 are:-

Table 8.4 Capital Financing Requirement (CFR)	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
GF	17,092	16,283	17,055	17,615	17,143
HRA	29,317	26,866	26,866	25,366	25,366

- 42 The impact of the early repayment of external debt in 2022/23, General Fund **£5.2m** and HRA **£2.5m**, can be seen on the CFR. The HRA requirement remains fairly constant until a further loan repayment is made in 2024/25. It is currently anticipated that partial refinancing of this debt will be required, and the table reflects this. This requirement will be reviewed and a final decision will be taken at the appropriate time.

- 43 The Council's CFR, for both the General Fund and HRA, is mapped out beyond the timescale reported in the above table, and currently extends to 31 March 2032.

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

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

Table 8.5 Authorised limit for external debt	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Borrowing	44,611	40,483	36,229	33,497	31,520
Other long-term Liabilities (finance leases)	0	0	0	0	0
Total limit	44,611	40,483	36,229	33,497	31,520

- 45 The authorised limit shown for 2023/24 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.
- 46 These limits separately identify borrowing from other long-term liabilities, such as finance leases. It is recommended in the accompanying report to approve the overall limit. Any breach of, or required increase in, the overall limit must be immediately reported to Council.
- 47 These authorised limits are consistent with the Council's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, as well as with its approved Treasury Management Policy Statement and practices. They are based on the estimate of most-likely prudent, but not worst-case scenario, with sufficient headroom to allow for operational management, for example unusual cash movements.

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

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

Table 8.6 Operational boundary for external debt	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Borrowing	43,551	39,998	35,406	32,734	30,780
Other long-term Liabilities (finance leases)	0	0	0	0	0
Total boundary	43,551	39,998	35,406	32,734	30,780

- 49 The operational boundary is a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. It is recommended in the accompanying report to approve the overall limit. Any breach of, or required increase in, the overall limit must be immediately reported to Council.
- 50 The Council's actual external debt at 31 March 2023, excluding (when applicable) any Finance Lease liabilities, is forecast at **£6.3m** for the General Fund and **£27m** for the Housing Revenue Account (principal amounts only), comprised wholly of external borrowing.

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

- 51 Estimates of the ratio of financing costs to the net revenue stream for the current and future years, and the actual figures for 2021/22, are: -

Table 8.7(a) Ratio of financing costs to net revenue stream	2021/22 %	2022/23 %	2023/24 %	2024/25 %	2025/26 %
GF	8	0	0	2	3
HRA	34	32	33	32	32

- 52 The impact of the early repayment of loans and the increase in the interest rates for surplus funds can be seen in the table above from 2022/23.

- 53 Contributions from the General Fund and Housing Revenue Account revenue budgets to fund capital schemes are included within the estimates in some years, for example, in 2023/24 towards the costs of replacement gym equipment referred to in paragraph 34. These contributions are not required to be included as part of the statutory calculation but if they were included, the ratios of financing costs to net revenue stream would become: -

Table 8.7(b) Ratio of financing costs to net revenue stream (local variant)	2021/22 %	2022/23 %	2023/24 %	2024/25 %	2025/26 %
GF	13	5	1	4	4
HRA	34	32	34	32	32

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

Prudential Indicator (for affordability) – ratio of net income from commercial investments to net revenue stream

- 54 Estimates of the ratio of net income from commercial investments to net revenue stream for the current and future years, and the actual figures for 2021/22, are: -

Table 8.8 Ratio of net income from commercial investments to net revenue stream	2021/22 %	2022/23 %	2023/24 %	2024/25 %	2025/26 %
GF	2	1	2	1	1
HRA	0	0	0	0	0

This new indicator shows the impact on the authority of the income generated from its investment properties.

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

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

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

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

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

Statement of Minimum Revenue Provision (MRP)

- 57 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008 (with subsequent revisions at later dates). The Regulations require the Council to approve an Annual Statement of Minimum Revenue Provision (MRP) which is the amount set aside from revenue for the repayment of debt principal relating to the General Fund.
- 58 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.
- 59 In accordance with the regulations, it is proposed to adopt the following MRP policy for the financial year 2023/24: -
- For capital expenditure incurred before 1 April 2008, or which in the future will be supported capital expenditure, it is proposed that the MRP policy will be in line with the former Regulatory Method, subject to any additional voluntary provision as appropriate. The Regulatory Method covers debt which is supported by the Government through the Revenue Support Grant (RSG) system, and authorities may continue to use the formulae in the old regulation 28 as if it had not been revoked by the 2008 Regulations. The MRP element of RSG is calculated on this basis.
 - For capital expenditure incurred after 1 April 2008, for unsupported borrowing, it is proposed that the MRP policy will be the Asset Life Method with MRP being provided for on an equal annual instalment basis over the estimated life of the relevant assets. On occasion, the Council may take a more prudent approach of applying MRP charges over a shorter term than the estimated life of the associated asset. In very exceptional circumstances the Council may elect not to apply any MRP charges on a specific asset, for example, if an asset was purchased but only expected to be held for a short time and then sold, and that sale was expected to fully recover the original purchase costs incurred.
 - The Council may, as an alternative to the Asset Life Method with equal annual instalments basis, use the Asset Life Method with MRP being provided under the Annuity Method. This method can be used where it is required that the total of principal and interest each year is broadly a consistent amount. The value of MRP increases year on year as the amount of interest on debt decreases year on year. It is considered a prudent basis for assets that produce a steady flow of benefits over their useful life.
 - For capital expenditure incurred in relation to leases classified as finance leases, the MRP method will be the annuity method, whereby provision is applied over the primary term of the lease of the relevant asset. The MRP provision for each financial year will be equivalent to the reduction in outstanding liability held on the Balance Sheet for the corresponding lease in that year.
 - The Council may also make additional Voluntary Revenue Provisions (VRP) above those calculated using the above methods. For example, if there were years where income receipts were higher than those budgeted for, then extra VRP could be applied which would reduce the amount of MRP required to be charged in later years.
 - All MRP charges commence in the financial year following the year in which the associated capital expenditure occurs.
- 60 MRP is calculated in line with current statutory guidance.

- 61 Forecast MRP charges based on estimated capital expenditure up to 2031/32 are mapped out beyond the timescales reported within the Capital Strategy, and currently extend up to 2044/45.
- 62 The table below shows the MRP charges to General Fund and, separately, the MRP charge in respect of the Knightswick Centre which is funded by rental income from the Centre: -

Table 8.9 MRP charges	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
GF	344	339	303	204	504
Knightswick	478	478	478	628	628
Total MRP charges	822	817	781	832	1,132

Capital receipts

- 63 Capital receipts from the sale of Council houses under Right-to-Buy (RTB) provisions and surplus assets will continue to be an important capital resource for the Council. The Government has set a de-minimis level for capital receipts, and receipts of **£10k** or less are classified as revenue resources and are therefore accounted for within the revenue accounts. Receipts over **£10k** cannot be used for revenue purposes.
- 64 Table 8.9 shows the allocation of Non-RTB related receipts used to fund new affordable housing. Subject to agreement by the Secretary of State, specified RTB sales may also be excluded from pooling, where monies are for use in the provision of new affordable housing, regeneration or repayment of debt.

Table 8.10 Allowable use of capital receipts (Non-Right-to-Buy)		
Type of asset	% that may be applied to new <i>capital expenditure</i>	% that must be paid over to <i>the Government</i>
Other Housing land	100	0
General Fund land & property	100	0

- 65 The proceeds from sales where Housing tenants have exercised the right to purchase their dwellings under the Right to Buy (RTB) scheme, the following deductions are made:
- 1) An amount based on a Central Government calculation which is intended to compensate the Council for debt which may be still outstanding against the sold property, as determined by the original self-financing of the HRA. This amount is available to use for future HRA capital expenditure or HRA debt repayment.
 - 2) Administration allowance at **£1,300** per property sold which will be treated as HRA revenue income.

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

Table 8.11 Allocation of remaining Right-to-Buy receipt			2022/23		2023/24	
Party	Allocation of receipt		Allocation of receipt			
	%	Cap £	%	Cap £		
Treasury	69.9%	150,854	69.7%	150,854		
Local Authority	30.1%	64,932	30.3%	65,581		

67 This therefore caps the maximum contribution the Council can make towards new general capital expenditure to **£64,932** in 2022/23 and **£65,581** in 2023/24. Where receipts are insufficient to provide this, the receipts are shared in the shown ratios.

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

Chief Financial Officer's conclusion on the Capital Strategy

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

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

9 Treasury Management Strategy

Definition of Treasury Management

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

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

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable Treasury Management Practices (TMP’s) setting out how the organisation will seek to achieve those policies and objectives, prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMP’s.
- Delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the Council’s policy statement and TMP’s and CIPFA’s Standard of Professional Practice on Treasury Management.
- Nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

Treasury Management Strategy for 2023/24

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

Balanced budget requirement

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

Economic uncertainty, and interest rates

- 5 Economic uncertainty and a cost of living crisis currently exists in the UK caused by a wide range of factors including the war in Ukraine. As a result of these factors and the subsequent increases in the Bank of England base rate in an attempt to control inflation, the coming year is expected to be challenging for the economy. Any relevant impacts will be reported in the quarterly update reports.
- 6 The Council’s treasury management advisers Link Asset services forecast that the base rate will reach a peak of 4.5% in 2023/24. This is shown in table below:

Link Group Interest Rate View 08.11.22		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE		3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings		3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings		4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings		4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB		4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB		4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB		4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB		4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

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

Current debt position and requirements for 2023/24

- 8 A summary of external debt that is expected to be outstanding as at 31 March 2023 is as follows:

Table 9.1 External debt outstanding		Total at 31/03/23 £000's
Public Works Loan Board – General Fund		6,300
Public Works Loan Board – Housing Revenue Account		27,000
Total		33,300

- 9 The Council made early repayments of some of General Fund and HRA Loans in September 2022 to take advantage of discounts which were available, giving a net saving of just over £3.4m. The Council's General Fund borrowing now consists of a single fixed rate loan (in relation to the Knightswick) at interest rate of **1.08%** per annum. The Council's HRA borrowing consists of fixed rate loans at interest rates ranging from **2.31%** to **3.43%** per annum. If remaining loans are to be repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates and gilt yields are increased, premature repayment of all loans would incur a total discount of approximately **£820K** but this is not advised when taking into consideration the Council's liquidity requirements.
- 10 The proposed programme of capital expenditure due to be approved by Council in February 2023 is not currently anticipated to trigger a requirement for new borrowing in 2023/24. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.
- 11 Internal borrowing is the use of the Council's own temporary investments for capital expenditure and is when the Capital Financing Requirement (CFR) exceeds the level of external borrowing. This position is known as "under-borrowed". At the end of 2023/24 for the General Fund this is expected to be **£11.5m** due partly to capital expenditure on the Knightswick Shopping Centre and associated public realm works. As cash balances are relatively high and interest earned on investments is lower than the rate at which the Council can take out new loans, borrowing internally is an efficient use of resources that also lowers the overall cost of funding for the projects. By the end of 2023/24 the HRA will be over-borrowed by approximately **£134k**. The position fluctuates from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy ("Gross Debt and the Capital Financing Requirement") monitors and reports on this position.
- Borrowing Strategy**
- 12 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.
- 13 If a need to borrow should arise, The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.

- 14 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the lasting impact of changes in central government policies including imposed 4-year rent reductions, as detailed within previous HRA budget setting reports.
- 15 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. However, on 25 November 2020 the Government reversed this. The PWLB allows local authorities to register for a preferential “certainty rate” for borrowing, which is currently **0.20%** below the standard rate or **0.80%** above gilt rates. Registering for this preferential rate does not commit an authority to undertake any borrowing, it just allows it to access the preferential rate should the need arise. Although there are no current plans to borrow before 2024/25, the Council routinely registers for the preferential rate.
- 16 The weighted average maturity of the Council’s General Fund **£6.3m** debt is at **7** years. This has changed significantly due to the early repayments of three loans totalling **£5.25m** in September 2022 leaving one loan with repayments of **£0.9m** every year for the next 7 years, currently with no requirement to refinance.
- 17 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2021/22 and 2035/36 with **£7m** repaid in 2021-22, **£2.5m** repaid early in September 2022. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1m** above the **£36.5m**. The autumn 2018 budget announced that the borrowing cap would be removed so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.
- Borrowing in advance of need**
- 18 The Council has some flexibility to borrow funds in advance for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.
- 19 DLUHC guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Section 151 Officer does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:
- It will be limited to no more than £3m of the expected increase in borrowing need (CFR) over the three-year planning period; and
 - The Council would not look to borrow more than 18 months in advance of need.
- 20 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus

funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

Treasury management indicators

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

Borrowing maturity structure

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

Table 9.2 Maturity structure of fixed rate borrowing				
	General Fund		Housing Revenue Account	
	Upper limit %	Lower limit %	Upper limit %	Lower limit %
Within 1 year	50	0	0	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

Borrowing – limits of fixed and variable rate exposure

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

Table 9.3 Upper limits of Fixed and Variable exposures						
	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Upper limit – fixed rates	42	39	38	36	35	34
Upper limit – variable rates	(14)	(24)	(22)	(20)	(18)	(16)

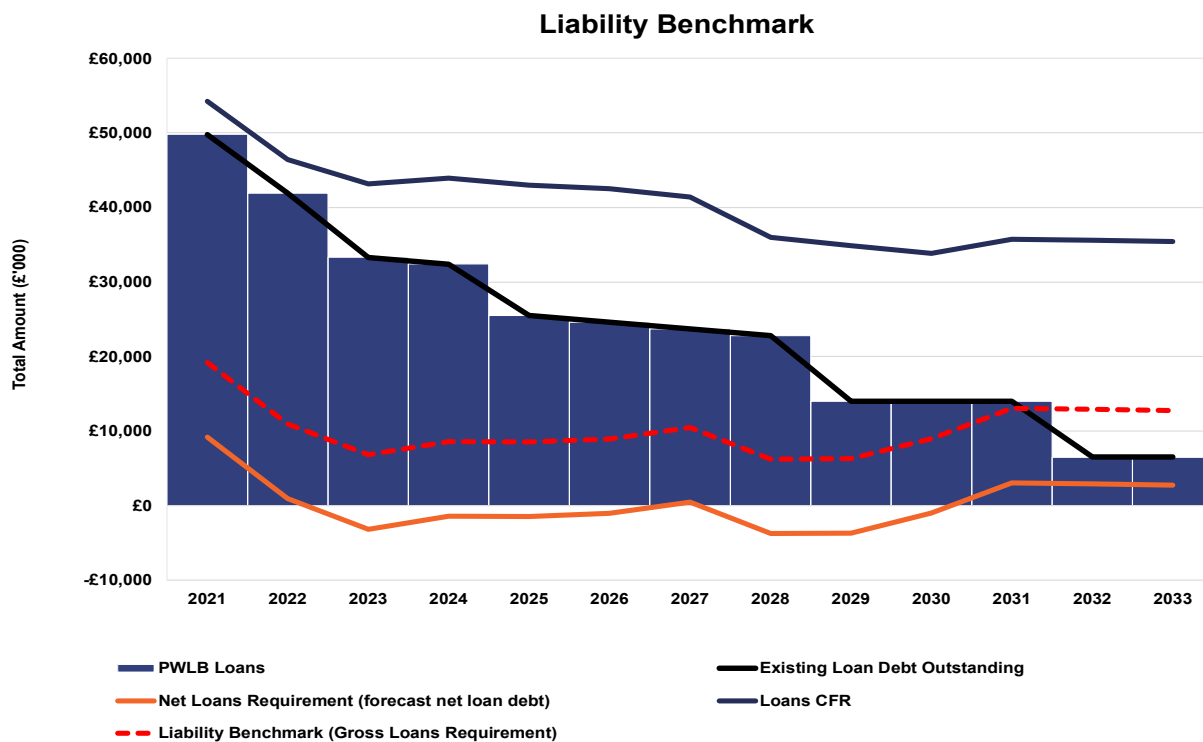
Borrowing - interest rate sensitivity

- 24 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios: -
- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low.
 - a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

Liability Benchmark

- 25 The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

The Liability Benchmark establishes whether the Council is likely to be a long-term borrower or long-term investor in the future, to help shape its strategic focus and decision making. The benchmark is shown in the chart below which also shows that the Council does not need to externally borrow in the near future. The benchmark will be updated quarterly taking into account the actual in the year to date and the forecast for the remainder of the financial year as well as any updates made to future years.



Debt management objectives

- 26 A summary of the Council's debt management objectives for 2023/24 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.

10 Investment Strategy

Investment guidance

- 1 This Council's investment policy has regard to the following:
 - DLUHC's Guidance on Local Government Investments ("Guidance")
 - CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code")
 - CIPFA Treasury Management Guidance Notes 2021

Investment principles

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

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

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

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2023/24 this amount is forecast to be **£60k**.

Table 10.1 General Fund Investment Income						
	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's
Forecast investment income	655	1,069	966	920	670	431

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

Financial investments

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

Specified investment instruments identified for use in the financial year are listed in table 10.2. Non-specified Investments are any other type of investment, i.e. not defined as specified above, are listed in tables 10.3 and 10.4.

Non-financial investments

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

Liquidity

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2023/24 to range between **£29m** and **£44m**.

Risk assessment and risk appetite

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

Credit ratings

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 10.2 to 10.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment.
- 10 The sovereign rating for the UK is AA. All three agencies have the UK on negative outlook. Investments are placed with institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

Monitoring of credit ratings

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

Amendments to the 2023/24 Investment Strategy

- 12 The portfolio of investments maintained by the Council is very cautious and the yield is below that earned by some other councils. It is proposed to diversify the investment portfolio to include international institutions and not only limit the Council to UK institutions. Paragraph 13 describes the geographical considerations.

Table 10.2 Specified Investments for the Financial Year 2023/24

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

Table 10.3 Non-Specified Investments for the Financial Year 2023/24			
Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 25% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	2 years
Current accounts, notice accounts or term deposits with credit-rated deposit takers (banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	2 years
Property Funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Bond funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Multi-Asset funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Equity Funds	The lesser of £4m or 25% of total investments	Unrated	n/a

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

Country, group and sector limits

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

Whilst there are no specific limitations on which countries the Council can or will invest in, consideration will be given to Environmental, Social and Governance (ESG) issues. For example, the Council will avoid investing in institutions based in or strongly linked to countries with questionable human rights practices. As always, any investments made will be with institutions meeting the required credit ratings and will always be in GBP.

Money Market Funds

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

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

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

Use of additional information other than credit ratings

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

Bail-in legislation

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

Internal stricter guidance

- 18 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, considering information and advice supplied by Link. Changes to the internal guidance are approved by the s151 Officer.

Use of derivative instruments

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

Investments defined as capital expenditure

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

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

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

Provisions for credit-related losses

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

Investment strategy to be followed in-house

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

Investment treasury indicator and limit

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

Table 10.4 Upper limit for principal sums invested for longer than 365 days			
	2023/24	2024/25	2025/26
Principal sums invested for longer than 365 days	£15m	£15m	£15m
Current investments as at 31.03.2023 in excess of 1 year maturing in each year	£0m	£0m	£0m

The Council's banking arrangements

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

Risk benchmarking

- 27 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.
- 28 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the quarterly or Annual Report. Use of these benchmarks will be reviewed and amended or added to if necessary.
- 29 **Security** – The Council's maximum-security risk benchmark for the current portfolio is:
- A credit-rating score of **6.4** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.
- 30 **Liquidity** – In respect of this area the Council seeks to maintain:
- The bank overdraft facility was reviewed for the new banking contract that started in April 2020 and it was decided it was not cost effective for the Council to have one permanently in place
 - Liquid short-term deposits of at least **£1m** available with a day's notice
 - Weighted Average Life benchmark is expected anything up to 270 days, with a maximum of 1 year
- 31 **Yield** – Local measures of yield benchmarks are:
- Investments – returns above SONIA (Sterling Overnight Index Average), rate. The Council previously used LIBID but this measure has been discontinued by the Bank of England in favour of SONIA.

Treasury management adviser

32 Link Treasury Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council's current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. The current contract expires in 2023 and a procurement exercise will be undertaken to ensure a treasury management adviser is in place at the end of the current contract.

33 Whilst Link provide support to the internal treasury function the final decision on all treasury matters remains with the Council.

Member and officer training and experience

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

Investment activity reporting and publication

35 Officers prepare a quarterly monitoring report on investment activity 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.

11 Pay Policy

1 Introduction

- 1.1 The Localism Act 2011 (the “Act”) brought together the strands of increasing accountability, transparency and fairness in the setting of local pay.

All Councils were required to publish a Pay Policy Statement for the financial year 2012/13, and for each subsequent financial year, before the 31 March immediately preceding the financial year to which it relates.

The Act requires that Pay Policy Statements, and any amendments to them, are considered by an open meeting of Full Council.

This also applies to:-

- New appointments to posts carrying a salary package of £100,000 and above will be presented for approval by full Council.
 - Severance packages for staff leaving the authority of £100,000 and above will be presented for approval by full Council. Full detail of the severance package should be presented including PILON, redundancy compensation, pension entitlements, holiday pay and any performance pay/bonus, fees or allowances.
- 1.2 The Localism Act 2011 requires the Pay Policy Statement to include the Council’s policies relating to:-
- The remuneration of its Chief Officers
 - The remuneration of its lowest paid employees
 - The relationship between the remuneration of the Chief Officers and other officers
 - The specific aspects of the officers’ remuneration such as remuneration on recruitment, use of performance related pay and bonuses, termination payments and transparency.
- 1.3 The Pay Policy Statement must also set out the definition of “lowest-paid employees” and the Council’s reasons for adopting that definition.
- 1.4 This Pay Policy Statement is produced in accordance with Chapter 8 of the Act. It is made available on the Council’s website which also includes separately published data on salary information relating to the Leadership Team. The Pay Policy Statement complies with the requirements of the Act and relevant guidance.

2 Definitions

- 2.1 A Chief Officer is defined as:-

- 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

- 2.2 Definition of Lowest paid staff:-

A member of staff performing duties of an unskilled nature will receive a salary determined by scale point 1 on the NJC pay scale structure. This definition has been chosen as the lowest grade paid to an employee of the Council.

In April 2023, scale point 1 is to be removed from the NJC pay scale and then scale point 2 will become the lowest pay point.

Apprentices are paid in accordance with the HMRC National Minimum Wage Rates which are based on age.

3. General policies relating to all staff

The following policies are applicable to all staff:

- 3.1 All staff (except the Chief Executive and Chief Officers) will receive the annual national NJC pay increase for Local Government employees, if and when offered and agreed by the Local Government Employers.
- 3.2 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.
- 3.3 In accordance with the principle of equal pay, all staff will be treated equally irrespective of gender and average pay for men and women will be equal for like work. The Council has a legal duty to report on the gender pay gap and this information is published on the Council's website.
- 3.4 The Council uses pay benchmarking and the principles of the NJC Job Evaluation Scheme to set pay grades for new posts and regradings. A formal job evaluation exercise is planned for 2023.
- 3.5 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.
- 3.6 Increments will be paid on 1st April each year until the maximum of the level is reached subject to the following:
 - a) Increments may be accelerated within an officer's scale at the discretion of the authority on the grounds of special merit or ability, subject to the maximum of the level not being exceeded as approved by the Strategic Director (Resources).
 - b) An increment may be withheld due to poor performance but this will only be applied where correct probation or capability procedures have been followed. Any increment withheld may be paid subsequently if the officer's services become satisfactory.
 - c) Employees with less than six month's service in the grade by 1st April shall be granted their first increment six months from the actual date of their appointment, promotion or regarding.

Note. Any action under (a) or (b) shall not interrupt the payment of subsequent increments on 1st April.
- 3.7 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.
- 3.8 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.
- 3.9 In exceptional circumstances, the Council may consider awarding an honorarium, solely at the discretion of the HOPS.
- 3.10 Annual Leave, on entry 22 days plus 2 statutory days, increasing to 25 days plus 2 statutory days after five years' service. (This will increase by one day on 1 April 2023 as part of the pay agreement).

- 3.11 Membership of the Local Government Pension Scheme (Employees can exercise the right to opt out)
- 3.12 The Council has agreed policies in place for Redundancy, Redeployment and Retirement.
- 3.13 Where applicable, the following benefits are offered to staff as part of their salary package:
- Flexible working arrangements (can relate to hours or time worked, or full or part home working)
 - Flexitime (allows flexibility in start, finish and lunch times as well as hours carried forward to better match the needs of the Council and employee)
 - Free staff membership at Waterside Leisure Centre for use of the swimming pool and fitness suite (not classes) to improve the health and wellbeing of staff working a minimum of 15 hours per week. Use of the swimming pool also free at the Runnymede Leisure Centre with access to the fitness suite at lunchtimes only.
 - Casual car user allowance or essential car user allowances.
 - Market supplements (to attract and retain the right calibre staff to key posts) There are market supplements in place for four employees and one job group (Refuse Drivers) paid in accordance with a policy which will continue to be reviewed as part of the Council's planned transformation programme.
 - Retention payments (to retain essential skills in key posts). There is a retention payment in place for one employee in addition to the payments included in Section 4. As part of transformation, the application of these payments will also be reviewed.

4 Remuneration for the Leadership Team

The Leadership Team's salary range is published on the Council's website and detailed below and is subject to ongoing appraisal.

4.1 Chief Executive and Head of Paid Service

All general policies set out in section 2 (above) apply to the Chief Executive who also performs the statutory role of Head of Paid Service.

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

- The salary scale for the Chief Executive is:-

CEX1	126,925
CEX2	129,425
CEX3	131,925

This scale was agreed by the Staff Appointment & Review Panel in 2022 as part of the recruitment exercise for a new Chief Executive.

- The Chief Executive will receive the annual national pay increase for Chief Executives if, and when offered and agreed by the Local Government Employers.
- The Chief Executive also receives a (Deputy) Returning Officer fee in respect of District, County and Town Council elections. Payment for Local election duties are based on a locally determined scale according to the number of electorate and payment is in addition to

the Chief Executives basic pay. Fees for conducting Parliamentary/European and Police & Crime Commissioner elections and referenda are determined by way of a Statutory Instrument.

- The Chief Executive does not receive any additional payments such as performance related pay, retention or market supplement payments.
- The Chief Executive receives 35 days annual leave plus 2 statutory days.

4.2 **Chief Officers and Heads of Service**

The Council employs two Strategic Directors as part of the Leadership Team one of whom performs the statutory role of Monitoring Officer and the other performs the statutory role of Section 151 Officer. The Council also employs four Heads of Service as part of the Leadership Team

All general policies set out in section 3 (above) apply to the Leadership Team. In addition to these, the following specific policies also apply.

- The Strategic Directors will receive the annual national pay increase for Chief Officers if, and when offered and agreed by the Local Government Employers.
- The Strategic Directors receive 35 days annual leave plus 2 statutory days.
- The Heads of Service will receive the annual national pay increase for local government employees if, and when offered and agreed by the Local Government Employers.
- The Leadership Team's contractual arrangements vary by member but include entitlement to retention payments, market supplements and performance related pay.

4.3 **Publication of and access to information relating to remuneration of Chief Executive and Chief Officers and senior posts paid over £50k**

The remuneration of the Chief Executive and Chief Officers is disclosed in the Annual Statement of Accounts (Page 51) and published on the Councils website:

[Statement of Accounts](#)

Details of the remuneration of the senior posts are published in the Data Transparency section of the Council's website.

[Senior Salaries over 50k](#)

4.4 **Relationship between the remuneration of the Chief Executive 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, based on annual gross pay of all employees in post as at 31 March 22 and the then vacant Chief Executive position, are:

- The ratio of the highest earning officer (Chief Executive) to the lowest paid full time equivalent employee in the Council is 7:1.
- The ratio of the highest earning officer (Chief Executive) to the average of all other staff in the Council is 5:1.

- The ratio of the average of the Chief Executive and other Chief Officers earnings to the average of all other employees is 3:1

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

4.5 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 which makes direct comparisons difficult. Average earnings will vary according to the mix of employees at any given point in time.

5. Performance related pay and Bonuses

Performance related pay of an additional 5% payment based on performance, is assessed annually by the Chief Executive against the achievement of agreed objectives.

No bonus schemes are in place.

6. Review of Pay Policy

The Council's proposed transformation programme is likely to require amendments to be made to the existing Pay Policy Statement during the course of the year, when this happens then an appropriate recommendation will be made to Full Council.

12 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 is required to report to the Council on: -
- the robustness of the estimates made for the purpose of the calculation of Council Tax requirement, and
 - the adequacy of the proposed financial reserves.

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

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

General Fund services

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

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

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

Housing Revenue Account

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

Overall conclusions

- 8 The s151 Officer's overall view of the robustness of the estimates is therefore that the processes followed have been generally sound and identical to those that have produced robust estimates in the past.

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

13 Calculation of the Council Tax Requirement

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

Table 13.1 Council Tax requirement calculation LGF Act 1992		£
s31A(2)(a)	Gross spending on services	61,176,856
s31A(3)(a)	Less gross income from services	(46,736,400)
s31A(3)(a)	Less Government grant & business rates	(4,647,165)
	Less Capital and other grants & contributions	(1,200,000)
s31A(3)(b)	Less net Collection Fund surplus / plus deficit	973,053
s31A(3)(d)	Net amount taken to / (from) general and earmarked reserves	(483,796)
	Council Tax Requirement	9,082,548

- 2 The above figures include internal charges between services and **£274,356** relating to the Canvey Island Town Council precept. The tax base (see section 3 of this report) is then used to calculate the amount of Council Tax (including the Town Council) at band D, in accordance with Section 31B of the Act: -

Section 31B - Band D charge	
Council Tax (including Town Council) £	9,082,548
Tax base (property number)	31,258
Band D charge £	290.57

- 3 The resultant figure is required by statute but does not actually represent the Council Tax payable by either a Canvey Island or mainland resident. A further calculation that sets out the actual amount of tax payable at band D as well as other bands is set out in table 13.2 below.
- 4 The calculation of Council Tax at band D, including and excluding the Town Council, is prescribed by Sections 34 and 35 of the Local Government Finance Act 1992. The calculation of Council Tax for other bands (shown below) is prescribed by Section 36 of the Act and is made by adjusting the basic amount of tax for band D by the ratio (in ninths) applicable to all other valuation bands.

Band	Ratio in 9ths	Canvey Residents Council Tax Including Town Council	Mainland Residents Council Tax Excluding Town Council
A	6	203.04	187.86
B	7	236.88	219.17
C	8	270.72	250.48
D	9	304.56	281.79
E	11	372.24	344.41
F	13	439.92	407.03
G	15	507.60	469.65
H	18	609.12	563.58

- 5 The Council Taxes set by other precepting authorities are added to these amounts to calculate the total amount of Council Tax due for the year, as shown in section 14.

14 Precepts & Council Tax levels

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

Introduction

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

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

Essex County Council

- 2 The County Council has a duty to issue a precept to billing authorities before 1 March each year. The County Council set its budget and level of precept on 9 February 2023.

Essex PFCC – Policing & Community Safety

- 3 The PFCC has been elected to oversee Essex Police and is responsible for setting the Essex Police budget. The PFCC set its budget and precept on 7 February 2023.

Essex PFCC – Fire & Rescue Authority

- 4 The Fire & Rescue Authority operates as an independent body and is responsible for setting its own budget. The PFCC set its budget and precept on 7 February 2023.

Canvey Island Town Council

- 5 The Town Council is a separate and autonomous body within the Borough which approves its own spending and precept levels for each financial year, based on a separate tax base (calculated by the Council) consisting of Canvey Island properties only. The Town Council resolved its precept for the forthcoming financial year at its meeting on 12 December 2022.
- 6 There are currently no specific government controls over the Town Council's budget requirement or Council Tax level although the Government has consulted in recent years on the introduction of a referendum limit for Town and Parish Council's.
- 7 The Council is required to include the net expenditure relating to the Town Council in the Council's net overall budget requirement.
- 8 The Town Council's precept is added to the statutory calculation as an average for the overall Borough but is levied only on properties that are situated on Canvey Island.

Council Tax Levels 2023/24

- 9 Castle Point, as the billing authority for the area, is responsible for the collection of Council Tax on behalf of the three major precepting authorities, as well as Canvey Island Town Council which is a local precepting authority.
- 10 Tables on the following page set out the individual and combined council tax charges by property band.

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

Table 14.1 Precepts and Council Tax Levels	Council Tax at Band D 2022/23 £	Council Tax at Band D 2023/24 £	Change from 2022/23 £	Change from 2022/23 %	Share %
Castle Point Borough Council (proposed)	273.69	281.79	8.10	2.96	13.62
Essex County Council	1,401.12	1,450.17	49.05	3.50	70.12
Essex PFCC - <u>Fire</u> and Rescue Authority	75.33	80.28	4.95	6.57	3.88
Essex PFCC - <u>Policing</u> and Community Safety	218.52	233.46	14.94	6.84	11.29
Total (excluding Canvey Island Town Council)	1,968.66	2,045.70	77.04	3.91	98.90
Canvey Island Town Council	21.87	22.77	0.90	4.12	1.10
Total (including Canvey Island Town Council)	1,990.53	2,068.47	77.94	3.92	100.00

- 12 The table below shows the amount of Council Tax each authority has set for 2023/24:

Table 14.2 Council Tax for each band							
Band	Castle Point Borough Council	Essex County Council	Essex PFCC - Fire and Rescue Authority	Essex PFCC - Policing and Community Safety	Total excluding Town Council	Canvey Island Town Council	Total including Town Council
	£	£	£	£	£	£	£
A	187.86	966.78	53.52	155.64	1,363.80	15.18	1,378.98
B	219.17	1,127.91	62.44	181.58	1,591.10	17.71	1,608.81
C	250.48	1,289.04	71.36	207.52	1,818.40	20.24	1,838.64
D	281.79	1,450.17	80.28	233.46	2,045.70	22.77	2,068.47
E	344.41	1,772.43	98.12	285.34	2,500.30	27.83	2,528.13
F	407.03	2,094.69	115.96	337.22	2,954.90	32.89	2,987.79
G	469.65	2,416.95	133.80	389.10	3,409.50	37.95	3,447.45
H	563.58	2,900.34	160.56	466.92	4,091.40	45.54	4,136.94