

**MALDON DISTRICT COUNCIL**  
**MEDIUM TERM FINANCIAL STRATEGY**

**2019 / 20 TO 2022 / 23**



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## **1 INTRODUCTION**

- 1.1 Medium term financial planning is an important component of the Council's strategic planning framework. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are constrained in what they can achieve.
- 1.2 The Medium Term Financial Strategy (MTFS) provides the foundation against which the Council will strive to deliver the best possible value for money in the provision of efficient and cost-effective services across the District. Through the effective development and delivery of the Council's financial and other resource strategies it seeks to build upon past achievements as well as provide clear direction to the attainment of the Council's longer-term goals.
- 1.3 The medium-term financial planning process has been in place for several years and is an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It identifies any shortfalls and sets out how this will be managed. This document is reviewed at least annually; regular review and update is essential to ensure the MTFS takes full account of any changes in the Council's aspirations, strategic and service delivery priorities, changes in government legislation, financial regulation and funding streams.
- 1.4 The Medium Term Financial Strategy (MTFS) sets out how the Council will manage its revenue finances up to 2022/23 and covers a five-year capital programme. The MTFS supports the delivery of the Council's objectives and priorities as set out in the Council's Corporate Plan.
- 1.5 Underpinning the Corporate Plan are the individual service plans and several other key strategies and plans as set out below. In each case, these set out the detail of how the Council will achieve its objectives and the relevant milestones that will measure progress.
  - Information Technology Strategy
  - Workforce Development Strategy
  - Procurement Strategy
  - Risk Management Strategy
  - Treasury Management Strategy
  - Investment Strategy
  - Capital Strategy
- 1.6 The development of the 2019/20 budget has taken place within the context of a longer term strategic and resource planning process. It takes account of the latest settlement data and the uncertain economic climate. The review of the MTFS reported to the Finance and Corporate Services Committee throughout the year identified the financial pressures facing the Council in the medium term and projected the level of resources that would be available to meet them.

- 1.7 These reports concluded that the Council's future financial outlook was likely to be more challenging over the next few years, because of reductions in overall public spending and the continued high expectation of public service delivery from the public. Council agreed on 9 August 2018 the delivery vehicle for the required savings.

**OBJECTIVES**

1.8 The objectives of the Medium Term Financial Strategy are:

- To ensure priorities identified as part of the Corporate Planning process inform the MTFS including importance, timing and financial implications
- To provide projections of spending, including spending pressures and income; and set expectations on council tax increases, over the next three years
- To provide projections for our investment in assets, (our capital spend) and its impact on general day to day revenue spending
- To test sensitivity of, and apply risk analysis, to projections.
- To provide a framework for consultation with the public and partners about our service priorities and resources allocated to them.

**2 VISION FOR MALDON**

2.1 The MTFS aims to support the Council's overall vision for the District:

2.2 "To make the Maldon District a better place to live, work and enjoy."

### **3 LOCAL CONTEXT**

- 3.1 The Maldon District covers some 138 square miles and has a resident population of some 61,600 (2011 Census). With one of the lowest population densities in Essex, the District offers a wide range of residential properties, from period country cottages to brand new executive homes.
- 3.2 Maldon is an attractive and predominantly rural district. It retains an unspoilt nature and its own special character, forged largely by the principal waterways of the Blackwater and Crouch estuaries. Much of the District's 60 miles of coastline of tidal salt marshes and mudflats is recognised as of international and national environmental significance and protected as such.

## **4 MALDON DISTRICT COUNCIL CORPORATE PLAN**

- 4.1 The Corporate Plan 2015-19 (2017/18 update) identifies all local and many national priorities.
- 4.2 Maldon has a list of Corporate Priorities which are
- Strengthening communities to be safe, active and healthy
  - Protecting and shaping the District
  - Creating opportunities for economic growth and prosperity
  - Delivering good quality, cost effective and valued services
- 4.3 These priorities also represent the challenges faced by the council as it seeks to improve local quality of life for everyone who lives, works or visits the district.
- 4.4 The budget setting process considers the priority framework and the priorities have a direct implication on the acceptability of the budget.
- 4.5 The Workforce Strategy sets out the key priorities for improving the way in which the Council manages its workforce to achieve the corporate targets. Our greatest asset is our employees and we must have committed skilled and empowered employees to provide the best possible service standards to the residents of the District.
- 4.6 The medium term financial strategy therefore provides the resources required to deliver the priorities stated within the Business Plan.

## 5 ECONOMIC OUTLOOK

- 5.1 The Chancellor's economic outlook as announced in Autumn Statement 2018 is shown below:

Year	Economic Growth ( GDP)
2017/18	1.3%
2018/19	1.6%
2019/20	1.4%
2020/21	1.4%
2021/22	1.5%
2022/23	1.6%

- 5.2 The forecasts for the Consumer Prices Index (CPI<sup>1</sup>) and Retail Price Index (RPI<sup>1</sup>) are shown below:

Year	CPI (% change)	RPI (% change)
2017/18	2.6%	3.5%
2018/19	2.0%	3.1%
2019/20	2.0%	3.1%
2020/21	2.1%	3.2%
2021/22	2.1%	3.1%
2022/23	2.0%	3.1%

- 5.3 In the medium term, the CPI inflation is forecast to be above the Bank of England's target of 2%. It is important to note that the Council's major contracts are linked to CPI as an inflationary increase with others linked to RPI. It is likely that the contractual inflation will see an increase in the council's costs in the medium term based on the forecasts.
- 5.4 The Bank of England base rate was increased for the first time since 2009 in November 2017 to 0.50% from 0.25% and a further 0.25% to 0.75% in August 2018. The low levels have had a major impact on the Council's investment income. The Council are diversifying its investment portfolio to benefit from higher returns.

## 6 GENERAL FUND REVENUE BUDGET

### Financial Context

- 6.1 The development of the 2019/20-22/23 Medium Term Financial Strategy has taken place at a time which continues to be one of the most challenging periods for Local Government.
- 6.2 While there have been some signs of improvement in the economic outlook the continuing austerity measures have led to unprecedented reductions in local authority funding. The austerity programme is likely

<sup>1</sup> Chancellor's Autumn 2018 Statement

to last until the end of the decade although the government has stated that it will not meet its target for debt reduction by the end of the current parliament. The public sector and the local government sector is under increasing and relentless pressures in respect of funding for the adult social care services and a significant shift of resources is taking place from non-social care authorities such as Maldon to social care authorities. Funding pressures for mental health services has also been in the news recently. Additionally, the government is progressing preparations for changing the local government finance system.

At the time of the 2016/17 Local Government Finance Settlement the government offered local authorities four-year funding settlements which Maldon agreed to accept. The 2019/20 provisional finance settlement therefore confirms the settlement as announced in 2016/17 in so far as the Business Rates Baseline Funding Level and the Revenue Support Grant (RSG) is concerned adjusted for inflation.

### **Risks and Opportunities**

6.3 This section highlights the risks and opportunities facing the Council in the medium term.

- Demographic
- External Income
- Inflation
- Service Demand
- Business Rates Retention
- Other Developments
- Fairer Funding Review

### **Demographic**

- 6.4 Demographic factors affect the Council's planning in several ways:
- Changes in the number of households affect the taxbase for Council Tax purposes, and hence the total amount which will be raised from this source
  - The characteristics of both population and households can help identify specific implications for the type and nature of many services provided by the Council
  - All the above factors affect the level of demand for, and use of, services provided by the Council
- 6.5 The total population in Maldon, according to the 2014 based ONS Sub-national population projections, is projected to grow by 12%, 7,000 more people by 2039.

### **External Income**

- 6.6 The Council relies on several external income sources. During the past few years, the economic downturn had an adverse impact on some of our income streams.

Several income streams to the council are at risk whereby they can be reducing year on year or subject to significant variances between years. The reasons for these are mainly outside the direct control of the Council such as macro-economic and/or seasonal conditions. These income streams are principally, from development control, building control, land charges, leisure and car parking related such as from the Splash Park and Promenade Park.

Historically a key income stream for the council has been the income generated from investment of cash balances. The low interest rate has seen a large reduction in this income in recent years. Every 1% of movement in interest rates is equivalent to approximately £0.1m in income; however the actual interest earned is also be affected by the level of free cash flow balances during the year.

The Council has a policy to maximise income from fees and charges where possible and practicable.

### **Inflation**

- 7.7 The financial impact of a 2% movement in pay inflation represents a £0.152m change in the general fund employee budget.

- 7.8 For the 2019/20 budget setting process, the contract prices have been uplifted by appropriate indices as stated in the conditions of the contracts. A 2% uplift has been built into the pay inflation. The financial impact of a 1% movement in contractual inflation is around £0.047m. No inflationary increase has been applied to the general services budget, except known specific items such as utilities.
- 7.9 For future years, the projection assumes an overall averaged inflation rate of around 3% in each year (including a 1% pay award for 2020/21 onwards).

**Service demand**

- 7.10 Under the current economic climate the pressure on the Council to deliver services within a constrained financial base remains high compared to historic levels. There is also an imposed demand by Central Government on local authorities to take a major part to revitalise the local economy and at the same time bear a significant part of the governments overall austerity measures from reduced funding.
- 7.11 While there has been a recent improvement in UK growth it is unknown whether this will be sustained, however the increase in the demand on our services coupled with the loss of external income will restrict our ability to make radical improvements to our discretionary services.

**2019/20 Provisional Finance Settlement**

- 7.13 The provisional 2019/20 local government finance settlement was announced on 13 December 2018. The table below shows Maldon’s provisional settlement for the next two years.

<b>Provisional Settlement 2017/18 to 2019/20</b>	2015/16 Adjusted Settlement £m	2016/17 Final Settlement £m	2017/18 Provisional Settlement £m	2018/19 Provisional Settlement £m	2019/20 Provisional Settlement £m
Settlement Funding Assessment of which:	2.447	1.964	1.601	1.474	1.508
Revenue Support Grant (RSG)	1.056	0.561	0.170	-	-
Baseline Funding Level (Business Rates)	1.391	1.403	1.431	1.474	1.507
Tariff/Top-up Adjustment	-	-	-	-	-
<b>Annual Change (%)</b>		<b>-19.7%</b>	<b>-18.5%</b>	<b>-7.9%</b>	<b>2.3%</b>
<b>Cumulative Change (%)</b>		<b>-19.7%</b>	<b>-34.6%</b>	<b>-39.8%</b>	<b>-38.4%</b>
New Homes Bonus – DCLG Allocations	0.633	0.796	0.797	0.696	0.832
Compensation for under indexing the Business Rates multiplier	0.020	0.020	0.021	0.034	0.049
Rural Services Delivery Grant	0.006	0.031	0.025	0.031	0.031
Transition Grant	-	0.040	0.040	-	-

Council Tax Requirement excluding parish precepts (incl. base growth and levels increasing by CPI)	4.122	4.278	4.440	4.635	4.845
Potential additional Council Tax from £5 referendum principle for all Districts	-	-	0.032	0.034	0.035
<b>Total Core Spending Power</b>	<b>7.232</b>	<b>7.131</b>	<b>6.956</b>	<b>6.866</b>	<b>6.904</b>
Change over the Spending Review Period					<b>-0.328</b>
Change over the Spending Review Period (%)					<b>-4.5%</b>

7.14 Under the current Spending Review, the Government has altered the distribution of funding between tiers of local government, which has shifted resources from lower tier to upper tier authorities. The level of reduction for Maldon is 52% (or £1.2m) and this is mainly caused by a new methodology used for determining authorities' RSG allocations. Rather than applying the same percentage cut to all authorities, the new approach considers individual authorities' council tax raising ability and the type of services they provide. The change in methodology has led to a fundamental shift of resources from authorities such as Maldon.

**New Homes Bonus Scheme**

7.15 The New Homes Bonus Scheme (NHB) was introduced in 2011/12 to encourage local authorities to facilitate housing growth. For every additional property built or brought back into use, the government match funds the additional council tax, with an additional amount for affordable homes, for the following six years. The grant is not ring-fenced and is split 80% to the lower tier and 20% to the upper tier. Other than the reduction in duration of legacy payments, the Provisional Finance Settlement has not made any additional changes to the NHB Scheme.

**Other Developments**

**Pension**

7.17 Maldon District Council employees are eligible to be members of the Local Government Pension Scheme (LGPS), for which the Government sets the terms and conditions nationally. This is a statutory condition of employment available to all local government employees. Essex County Council is the administering authority of the LGPS in Essex. In accordance with statutory requirements the Essex Pension Fund of which this Council is a member has been actuarially valued as at 31 March 2016.

7.18 The 2016 Valuation shows that there has been a decrease in the Council's deficit position by 21.3% to £8.178m. This means that the funding level of the Council's element of the Fund has increased from

73.6% in 2013 to 81.7% in 2016. Funding levels are taken as the ratio of assets to liabilities. In general, for the 2016 valuation, funding levels have increased due to:

- Salary increases being lower than expected
- Investment returns have been better than expected
- Deficit contributions paid by the Council to the Fund

The recovery period for the deficit is also being reduced from 18 years set at the 2013 Valuation to 15 years or less in the 2016 Valuation depending on the individual circumstances of the Council.

- 7.19 The 2016 Valuation shows an increase in the employer's ongoing contribution rate from 13.5% of pensionable pay to 15.9% of pensionable pay (£90k). Whilst the recovery of deficits covers up to a date, an ongoing contribution rate is also needed to obtain the level of contributions required to meet the cost of new pension benefits and this is usually based on the same assumptions as are used for the deficit.
- 7.20 Automatic Enrolment has been established by the Government as a requirement for employers to provide a pension scheme for employees. The Local Government Pension Scheme (LGPS) is a qualifying scheme for the purposes of Automatic Enrolment within the terms set out by the Pension Regulator.
- 7.21 The Pensions Act 2008 includes a duty on employers to automatically enrol their eligible jobholders into a workplace pension scheme that meets certain requirements and provide a minimum employer contribution. From early 2014, the Council must have:
- Enrolled any new employees into the qualifying approved scheme;
  - Enrolled any employees who are not a member of the scheme but reach the age of 22; and
  - Enrolled any employee who is passing the rate of salary to £9,440 per annum for the first time
- 7.22 It should be noted the employee can still choose to opt out of the scheme, but the Council must not mention any option of how to opt out of the scheme during enrolment as it could be seen as an inducement not to join the scheme and could expose the council to a fine from the pensions regulator.

### **Universal Credits**

- 7.23 Universal Credit (UC) is being rolled out through the Welfare Reform Bill and this is the biggest shake up of the system for 60 years. UC is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance. For local authorities, this means the link between

Housing Benefit and Council Tax Support will be broken for working age customers and that UC will be administered by the Department of Work and Pensions.

- The digital roll out of Universal Credits for Maldon, using the newer software started in December 2018 for new claims only
- The precise details of the full transfer date of all claims are yet unclear, and the timescales have slipped on several occasions. New legislation has been approved that allows a small number of cases to be rolled out to test.
- The Council would retain responsibility for Local Council Tax Support, as well as pensioner claims, and some working age claims, even after a full transfer of claims to UC. As such the Council would retain 70-80% of existing workload even after UC has been fully introduced.

7.24 The transition to universal credit will have significant implications for local Council and its systems. There will be reduction in Administration Grant going forward, but this may not be proportional to the reduction in the workload or staffing. The financial impact of Universal Credits will continue to be monitored on an ongoing basis.

#### **Land Charges (transfer of responsibility to Land Registry)**

7.24 The Infrastructure Act 2015 provides for the transfer of some of the Land Charges responsibilities from local authorities to the Land Registry. The implications for the Council are:

- Loss of local land charges income
- Incurring on-going costs for the supply of standardised accurate information related to local land charges to Land Registry to keep the register updated.
- Legal liability will rest with Local Authorities for any inaccurate information provided
- Transfer requires digital and business transformation
- Local authorities will continue to provide Con 29 searches

7.25 The timing of the transfer is still not confirmed, with relevant legislation being required, there is not yet a go live date.

7.26 The financial implication on the land charges transfer will continue to be monitored on an ongoing basis.

#### **2019/20 General Fund Budget**

7.27 As part of the budget setting process, Members have examined information provided by officers relating to the level of existing resources. All budget options have been considered in the context of current service performance and priorities and all the growth, savings and capital bids went through a challenge process.

7.28 The details of the 2019/20 general fund revenue budget, including growth and savings can be found in the Revised 2018/19 Budget

Estimates and Original 2019/20 Budget Estimates and Council Tax 2019/20 reports to the Council on 14 February 2019.

## 8 RISK MANAGEMENT

- 8.1 Risk Management is a key feature of the Council's financial planning process.
- 8.2 The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has an adopted Risk Management Strategy in place, and the financial risks to the Council are assessed in the context of the Council's overall approach to risk management.
- 8.3 To mitigate risk the Council regularly monitors its budgets, the TEN system is used by the Council to identify, monitor and reports on risks. The quarterly performance clinics provide a platform for the Corporate Leadership Team to scrutinise the financial and non-financial performance (e.g. local and national indicators)
- 8.4 Details of the risks facing the Council are highlighted in section 7 and the table below summarises the financial implications if assumptions made in the MTFS change in the future (the details of which are included in section 7 also). This gives some indications to the kind of risks which need to be allowed for in considering the level of reserves in future years.

Scenario	Estimated Financial Impact		
	2019/20	2020/21	2021/22
	£m	£m	£m
Inflation - Pay award 1% higher than assumed*	0	0.072	0.078
Inflation on contracts - 1% higher than assumed	0.068	0.070	0.072
Average investment interest rate - 0.5% lower than assumed	0.059	0.050	0.048
Savings (10% of savings not delivered)	0.073	0.074	0.020
Retained Business Rates income - 2% lower than assumed**	0.013	0.049	0.049
Net Operating Expenditure- 1% overspent	0.080	0.072	0.074

\* Pay award for 2019/20 has been agreed and accepted by Maldon District Council, therefore no risk for 2019/20.

\*\* Risk for 19/20 is only on the business rates growth income as the main element is a demand on the Collection Fund approved ahead of the financial year.

## 9 COUNCIL TAX

### Council Tax

9.1 It is important to note that the Council has limited income generated from council tax, for every 1% increase in the average Band D council tax; an additional £0.048m of income is raised. The MTFS assumes the increase in the Basic Amount of Council Tax will be £4.43 (2.30%) for 2019/20 and then 1.95% for the rest of the MTFS period.

### Taxbase for Council tax setting

9.2 The taxbase for council tax setting assumed in the MTFS is shown below:

Year	2020/21	2021/22	2022/23
	Projected	Projected	Projected
<b>Band D Equivalents</b>	24,750.6	25,138.6	25,648.6

9.3 Using past trends together with information on already approved and likely future planning applications, projected housing growth has been used to forecast the council taxbase for the period of the MTFS. The taxbase forecast has been arrived at by considering the completion dates of the strategic housing developments in the District.

9.4 A copy of the medium term financial forecast on the general fund is attached in appendix A.

## 10 VALUE FOR MONEY AND EFFICIENCY

- 10.1 Value for Money (VFM) is an assessment of whether we obtain the maximum benefit from the goods and services we both acquire and provide, within the resources available to achieve it. This assessment includes considerations about suitability, quality, whole life costs and the relationship between economy, efficiency and effectiveness.
- 10.2 Value for money remains an integral part of the external audit opinion. The general feedback was that the council had consolidated previous improvements and demonstrates good value for money across our services.

### Efficiencies

- 10.3 A key part of the Council's ethos is its focus on achieving efficiencies. This is a main driver during the budget and planning process; ensuring resources are directed in the appropriate areas and is embedded across the whole authority. Services are monitored and reviewed for efficiencies with a view to identify where savings and or productivity gains can be made. The Council is committed to delivering efficiencies to drive costs down and maintain or improve services.

Finding efficiencies year on year to deliver a balanced budget and invest in services is a significant challenge. The Council's approach to identify and implement efficiencies will be via a Transformation Programme which will include but not limited to the following considerations

- Alternative delivery model of our services, where practicable and there is a financial business case to do so
- Effective use of assets – challenging the asset base and the use of assets, looking to manage and plan maintenance in the most effective way
- Working in partnership with both private and public bodies to improve quality and scope of service and reduce costs.
- Improving efficiency where possible but the scale of the financial constraint will almost certainly require considerations on the number and levels of services that the Council provides.
- Exploring new areas of income generation and adopting the 'commercial council' approach
- Smarter procurement processes and ways of working.
- The Council uses several service review methods to identify efficiency savings, for example, best value reviews, benchmarking performance with other authorities, testing costs in a range of alternative service delivery options.

## 11 INCOME GENERATION

### Forecasting Income

- 11.1 The assumptions built into the MTFS regarding grants from central government are highlighted in section 7. This section covers the income from fees and charges.

### Policy on Fees and Charges

- 11.2 The Council is looking to maximise the potential from fees and charges. A significant proportion of its income is from fees and charges and a balance must be struck between meeting statutory responsibilities and the subsidy on providing discretionary services. The Council takes the view that raising charges to recover part or all the costs of providing is preferable to removing the service completely. Charges are set after considering local circumstances (including economic conditions) and the user's ability to pay. The Council's fees and charges will normally increase at least in line with inflation or where appropriate statutory defined fees and charges increases. Increased or reduced income due to volume changes or charge proposals above or below inflation are addressed through the budget setting process.
- 11.3 The full list of fees and charges is shown in the Discretionary Fees and Charges 2019 / 20 report to the Council on 14 February 2019.
- 11.4 It is recognised that in developing a strategy for specific charges it is important to consider several factors on an options appraisal basis i.e. considering affordability, equality impact assessments, comparability and the implications of changing charges on forecasted income levels.
- 11.5 Concessionary charges should be as appropriate to the circumstances of the customer while encouraging increased participation for less advantaged groups. This should not lead to unjustifiable preferential treatment.
- 11.6 The Council's longer-term policy has three fundamental principles:
- Services should raise income wherever there is a power or duty to do so.
  - The income raised should cover the full costs of providing the service including all overheads.
  - Any departures from this policy must be justified in a transparent manner with reference to the Council's priorities and policies.

- 11.7 When the Council does not raise income in areas where it has the power to do so, it foregoes the opportunity to raise money to improve services and leaves less money available for spending on high priority services. A decision to forego income or to subsidise a service is a policy decision about resources as significant as any decision made in the budget setting process.

### **Income and Debt Management**

- 11.8 The Council has a good history of debt collection. The Council continues to build on this to maximise income received and minimise income written off. Monitoring information has been enhanced to provide information on evaluating the effectiveness of debt recovery actions, associated costs, and the cost of not recovering debt promptly.

## 12 USE OF RESERVES

- 12.1 The minimum General Fund Reserve is set at £2.6m. This will be reviewed regularly in the light of changing financial risk assessment.
- 12.2 Risks to the Council's financial position could derive potentially from budget overspend, loss of investment income, contractual/legislative failure or challenge and emergency events. Historically, the Council has a very good record of outturn financial position being within budget and of predicting investment income well; therefore, this is not seen as a high risk to the Council and it is not necessary to make additional significant provision.
- 12.3 The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact and whenever possible and practically able to do so, a performance bond/Parent Company Guarantee has been built into major contracts. Therefore, it is not appropriate to set aside large amounts of reserve against the possibility of this happening.
- 12.4 In setting budgets and projections for individual years, it is important that the use of reserves is not increasing and creating an unsustainable future problem. To achieve this, it is important to note the requirement to meet the budget gap savings identified in Appendix A.
- 12.5 A summary of the proposed use of reserves is shown in the table below and is based on a budget projection that includes aspects such as inflation, pension fund contributions and several priority and statutory growth pressures offset by savings identified. The overall aim is to ensure that reserves do not fall below £2.6m and the current projections keep well within this target. A copy of the policy for reserves and balances can be found in appendix C.

Predicted General Fund Balance Movement	2018/19	2019/20	2020/21	2021/22	2022/23
	£000	£000	£000	£000	£000
Balance b/f					
General Fund Reserves	3,225	2,659	2,950	3,018	3,018
Earmarked Reserves	3,491	2,011	2,254	1,135	1,135
<b>Total</b>	<b>6,716</b>	<b>4,670</b>	<b>5,204</b>	<b>4,153</b>	<b>4,153</b>
<b>Projected Movement</b>					
General Fund Reserves	-566	291	68	0	0
Earmarked Reserves	-1,480	243	-1,119	0	0
<b>Total</b>	<b>-2,046</b>	<b>534</b>	<b>-1,051</b>	<b>0</b>	<b>0</b>
<b>Balance c/f</b>					
General Fund Reserves	2,659	2,950	3,018	3,018	3,018
Earmarked Reserves	2,011	2,254	1,135	1,135	1,135
<b>Total</b>	<b>4,670</b>	<b>5,204</b>	<b>4,153</b>	<b>4,153</b>	<b>4,153</b>

## 13 CAPITAL

### Capital spend and funding

- 13.1 The Council's Capital Programme is agreed on an annual basis and serves the following purposes:
- It sets out how capital projects contribute to the achievement of the Council's corporate objectives.
  - It establishes the criteria for the allocation of capital resources.
  - It provides a framework for the administration of capital projects and monitoring of outcomes.
- 13.2 It is important to note that all capital investment and disposal decisions have been made with reference to the strategic objectives.
- 13.3 The Council's capital programme has in general always been funded using capital receipts, external contributions or from capital grants and the current five-year capital programme is underpinned mainly by capital receipts.
- 13.4 The programmes for 2019/20 to 2022/23 have been set in detail, any schemes above this level would need to seek alternate external funds or new capital receipts from the sale of assets. However it should be noted that the diminishing levels of capital receipts in future years would warrant a comprehensive review of the way the capital programme is supported in the long term. The financing of the indicative five-year capital programme as shown would leave a projected £1.781m of capital resources remaining at 31 March 2023.
- 13.5 A summary of the programme and funding is given at Appendix B.

### Revenue implications of capital programme

- 13.6 The key driver for the Council's approach to capital expenditure is revenue affordability.
- 13.7 Most Capital Projects have financial implications on the annual Revenue Budget. The revenue implications can take a variety of forms and they include:
- Capital financing costs
  - Loss of investment income
  - Annual non-capital financing costs, e.g.
    - Salaries
    - Rent
    - Rates
    - Energy costs
    - On-going maintenance costs
    - Income generated from the scheme or project

- 13.8 The revenue implication of the capital programme has been built into the MTFS.

#### **14 TREASURY MANAGEMENT LINKS WITH FINANCIAL STRATEGY**

- 14.1 The Council will continue to invest in accordance with the approved Treasury Management Strategy and will plan any consideration of borrowing closely through the MTFS and five-year Capital Budget.
- 14.2 Investment income is used to support the budgets of the authority and movements in interest rates can result in significant changes. This is considered in more detail in the Treasury Management Strategy and Investment Strategy which will be submitted for Finance and Corporate Services Committee and Council Approval.

#### **15 EQUALITY IMPACT ASSESSMENTS (EIA)**

- 15.1 The council is committed to ensuring equality and diversity issues are given proper consideration. Equality Impact Assessments form an important part of our decision making to enable us to assess the impact of decisions on our residents, stakeholders and customers. Where the impact is high mitigation plans can be developed to reduce that impact of decisions. These are completed in accordance with national guidance and best practice.

## 16 CONCLUSION

6.1 The MTFS should be considered in the context of the following issues:

- The unprecedented reductions to local government funding as announced in the 2015 Spending Review and the four-year settlement introduced by the government from 2016/17.
- The Council's current satisfactory financial strength as shown by the General Fund reserves, robust financial management and excellent track record in achieving efficiency savings
- That challenging decisions will still need to be made to safeguard frontline services and maintain a balanced budget together with an adequate level of General Fund reserves.
- That the Usable Capital Receipts Reserve will be utilised over the MTFS period leaving an estimated balance of £2.042m as at 31 March 2022.

6.2 The financial position over the medium term is shown in Appendix A. This also shows that the level of General Fund un-ringfenced reserves is expected to be £3m over the medium term at 31 March 2023. This needs to be considered in the context that for 2020/21 – 2022/23 the budget estimates have been constructed with high level assumptions and the detailed work will be undertaken in line with the Council's budget cycle timetable for those years and taking into account the government grants announced at the time.

### List of Appendices

Appendix A sets out medium term projections for the General Fund

Appendix B sets out the medium-term projections for Capital

Appendix C shows the Policy on reserves and balances

## Appendix A - Medium Term Financial Strategy 2019/20 - 2022/23

Medium Term Financial Strategy					
	2019/20	2020/21	2021/22	2022/23	Total
	£000	£000	£000	£000	Savings
<b>Baseline net expenditure</b>	<b>6,637</b>	<b>7,439</b>	<b>8,228</b>	<b>7,354</b>	<b>Required</b>
<b>Costs Future Model</b>	<b>774</b>	<b>-774</b>			
<b>Savings Future Model</b>	<b>-733</b>	<b>-739</b>	<b>-195</b>	<b>-82</b>	
Impact of Forward Pension Deficit Funding	0	1,722	-1,119	0	
Temporary Posts ending	0	0	0	0	
Other Cost Pressures	-412	71	-22	0	
Staff Inflation	152	72	78	79	
Inflation provision	242	154	158	163	
Change in level of specific grants	704	25	0	0	
Projected (net) movement in income from fees and charges	-80	35	44	-29	
Projected movement in misc income	33	33	0	0	
Change in level of investment income	62	27	5	6	
New Homes Bonus Fluctuation in Annual Payment	60	163	253	0	
Contribution to/(Use) of General Fund balances	291	68	0	0	
Contribution to/(Use) of Earmarked Reserves	243	-1,119	0	0	
<b>Projected net expenditure to be funded</b>	<b>7,973</b>	<b>7,177</b>	<b>7,429</b>	<b>7,491</b>	
<b>Additional efficiency/income/saving required</b>	<b>-0</b>	<b>0</b>	<b>-76</b>	<b>69</b>	<b>-6</b>
<b>Net efficiency/income/saving required</b>	<b>-0</b>	<b>0</b>	<b>-76</b>	<b>69</b>	<b>-6</b>
Revenue Support Grant	0	0	0	0	
Tariff Adjustment	0	330	330	330	
Renewable Energy	-670	-670	-670	-670	
New Homes Bonus					
Business Rates Baseline Funding	-1,508	-1,508	-1,508	-1,508	
Business Rates Growth incl S31	-1,049	-600	-600	-600	
Business Rates levy/benefit	386	351	351	352	
Estimated Ctax collection fund surplus / deficit	-290	-100	-100	-100	
Estimated Yield from Council Tax	-4,843	-4,981	-5,158	-5,365	
<b>Total Funding</b>	<b>-7,973</b>	<b>-7,177</b>	<b>-7,354</b>	<b>-7,560</b>	
<b>Band D council tax charge</b>	<b>197.4</b>	<b>201.25</b>	<b>205.17</b>	<b>209.17</b>	
Taxbase	24,536.1	24,750.6	25,138.6	25,648.6	
Council Tax Target increase	2.30%	1.95%	1.95%	1.95%	

## Appendix B – Capital Programme

<b>Capital Programme 2019/20 - 2022/23</b>				
<b>Project Title</b>	<b>Original</b>	<b>Original</b>	<b>Original</b>	<b>Original</b>
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£001</b>
<b>Vehicle &amp; Plant Replacement</b>				
Parks Vehicle - Rolling replacement programme	118	22	22	22
<b>Information &amp; Communication Technology</b>				
PC and Printer Replacement Programme	35	35	35	35
Provision of Superfast Broadband	45			
<b>Maldon Promenade</b>				
New accessible play site	48			
Splash Park new elements	10	10		
<b>Housing</b>				
Mandatory Disabled Facilities Grants	420	420	420	420
<b>Cemeteries</b>				
Maldon Cemetery foundation work	25			
<b>Total Capital Programme</b>	<b>701</b>	<b>487</b>	<b>477</b>	<b>477</b>
<b>Funding</b>				
Capital Receipts	281	67	57	57
Govt Grant	420	420	420	420
Empty homes to New Homes				

## Appendix C – Policy on Reserves and Balances

### Purpose

A Policy for Reserve and Balances represents good financial management and should be reviewed annually.

### Application

The general principles set out in this Reserves and Balances Policy apply to the General Fund for Maldon District Council. It applies to reserves only and not provisions.

### The Existing Legislative/Regulatory Framework

The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

The Local Government Finance Act 1992 and Local Government Act 2003 set out that a range of safeguards to mitigate against local authorities over-committing themselves financially. These include:

- the balanced budget requirement
- Chief Finance Officers' duty to report robustness of estimates and adequacy of reserves when considering the budget requirement.
- Requirement for local authority to make arrangements for proper administration of their financial affairs and that the Chief Finance Officer is that responsible person (section 151 duties)
- the requirements of the prudential code .
- the auditor will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

Generally, the balanced budget requirement is sufficient discipline for the majority of local authorities. This requirement is reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a section 114 notice by the Chief Finance officer cannot be taken lightly and has serious operational implications.

The prudential code requires chief finance officers to have full regard to affordability when making recommendations about future capital programmes.

Guidance on specific levels of reserves and balances is not given in statute or by CIPFA (the recognised accountancy body for local government finance) or the Audit Commission. There is no statutory minimum level of reserves. It is up to local

authorities themselves to set their own level of reserves and balances on the advice of the Chief Finance Officer.

### The Role of the Director of Resources

Within the existing statutory and regulatory framework, it is the responsibility of Director of Resources to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

The Council then, acting on the advice of Director of Resources must make its own judgements on the level of reserves and balances taking into account all the relevant local circumstances. These include the operational and financial risks, and the arrangements in place to manage them, including adequate and effective systems of internal control. The duties of the Chief Finance Officer in relation to the level of reserves are covered by the legislative framework described in 3 above. Under the Local Government Act 2003, the Chief Finance Officer must report to the Council on the adequacy of reserves(section 27) and reserve transactions must be taken account of within the required budget monitoring arrangements (section 28).

### Types of Reserves

Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

The Council also holds other reserves that arise out of the interaction of legislation and proper accounting practice. These reserves are not resource backed and cannot be used for other purposes include:

- a Pensions Reserve (required under IAS19). This is a specific accounting mechanism used to recognise the Council's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance Council expenditure.
- a Revaluation Reserve – this records unrealised gains in the value of fixed assets.
- a Capital Adjustment Account – this is a specific accounting mechanism used to reconcile different rates at which assets are depreciated under proper accounting practice and financed through the capital controls system.

For each earmarked reserve held by the Council there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control

- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

This Reserves and Balances Policy ensures that when establishing reserves, Maldon District Council complies with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the need to distinguish between reserves and provisions.

### Policy and Principles to Assess the Adequacy of Reserves

The principles used by the Chief Finance Officer to assess the adequacy of unallocated general reserves when setting the budget, ensure that account is taken of the strategic, operational and financial risks facing the authority.

Setting the level of reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a year. This is carried out as part of the four-year Service and Resource Planning Process. Account is taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors are considered:

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings / productivity gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions.
- The economic situation, unforeseen events etc.
- The risks identified by the authority as part of its risk management arrangements

The Council holds two types of reserves

- General non-earmarked reserves (the Council's General Fund Balances)
- Earmarked reserves held for specific purposes

It is the current policy of Maldon District Council for the *General Fund reserves* (the General Fund Balances) to be held at a level of, at least, £2.6m. This is reviewed at least annually, during the setting of the budget. Factors which are considered during the review include; the level of balances as a percentage of the net revenue requirement, budget management and monitoring procedures, risk levels and financial projections for future years.

Reserves can be created or increased to ensure that the Service and Resource Planning Process takes account of any need to increase due to factors which may arise and to fully account for these factors.

In addition, the regular budget monitoring process carried out by the Council throughout the year will report on any changes in the level of balances or reserves.

The Reserves and Balances Policy is set in the context of the authority's Medium Term Financial Strategy and does not focus exclusively on short-term considerations. Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, where reserves are to be deployed to finance recurrent expenditure this will be made explicit. Advice will be given by the Chief Finance Officer on the adequacy of reserves over the lifetime of the medium term financial projections. This is addressed in the Medium Term Financial Strategy.

### A New Reporting Framework

The Chief Finance Officer has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds. Compliance with this Reserves and Balances Policy assists in allowing the Chief Finance Officer to be satisfied that there is proper stewardship of public funds. The level and utilisation of reserves is determined formally by the Council at its meetings to approve the annual budget and the final accounts. These decisions are informed by the advice and judgement of the Chief Finance Officer.

The Reporting Policy for Maldon District Council is:

- The Medium Term Financial Strategy report to the Council includes a statement showing the proposed use of, or contribution to, general and earmarked reserves for the year ahead. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure
- The budget report itself includes a statement from the Chief Finance Officer on the adequacy of reserves in respect of the forthcoming financial year and the authority's medium term financial strategy.
- The Councils' annual statement of accounts includes a schedule of all reserves in the balance sheet, showing opening balance, net movement in year and year-end balance. Notes to individual reserves are given in the accounts and significant reserve movements are explained in the Chief Finance Officer's foreword to the accounts and the covering report to Council which accompanies the presentation of the accounts.
- The regular in-year Budget Monitoring reports to Committee include details of any transactions affecting the Council's reserves.

### Good Governance

It is important that local authority councillors take responsibility for ensuring the adequacy of reserves and provisions when they set the budget. This will be subject to the advice of the Chief Finance Officer and the arrangements for reviewing and reporting on the level of reserves and balances as set out above.