

**MALDON DISTRICT COUNCIL
MEDIUM TERM FINANCIAL STRATEGY**

2021/22 TO 2023/24

(FEBRUARY 2021)



**MALDON DISTRICT
COUNCIL**

CONTENTS

	Page
INTRODUCTION	2
OBJECTIVES	3
VISION	4
LOCAL CONTEXT	4
CORPORATE BUSINESS PLAN	5
ECONOMIC OUTLOOK	6
GENERAL FUND REVENUE BUDGET	7
RISK MANAGEMENT	14
COUNCIL TAX	15
VALUE FOR MONEY AND EFFICIENCY	15
INCOME GENERATION	16
USE OF RESERVES	17
CAPITAL	19
TREASURY MANAGEMENT LINKS WITH FINANCIAL STRATEGY	20
EQUALITIES IMPACT ASSESSMENT	21
CONCLUSION	21
Appendix A - Medium term financial strategy 2020/21- 2023/24	23
Appendix B – Summary of Capital Programme and Funding 2020/21- 2023/24	25
Appendix C – Policy on Reserves and Balances	27

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 current financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are limited 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 is an established part of the budget setting and financial review processes. It sets out a forecast of the cost of continuing provision of 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 and the general socio/economic environment that the Council operates in.
- 1.4 This MTFS reviews how the Council will manage its revenue finances up to 2023/24 and covers a five-year capital programme. The MTFS supports the delivery of the Council's 32 outcomes as set out in the Council's Corporate Plan 2019-23 and delivered and measured through the three strategic themes of Place; Community; Prosperity.
- 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 under the thematic strategies of Place; Community; Prosperity.
 - Information Technology Strategy
 - Workforce Development Strategy
 - Procurement Strategy
 - Risk Management Strategy
 - Treasury Management Strategy
 - Investment Strategy
 - Capital Strategy

The base position for this MTFS is the current 2020/21 budget. The development of the 2020/21 budget took place within the context of a longer term strategic and resource planning process. It took account of the latest settlement data and the uncertain economic climate. However, it did not take into account the impact of the Coronavirus Pandemic, as it was completed before the outbreak and subsequent social distancing measures imposed by the Government in March 2020.

- 1.6 Those reports concluded that the Council's future financial outlook was forecast to be more challenging over the next few years, because of continuing financial constraints in the public sector and the continued high expectation of public service delivery from the public. Council agreed on 9 August 2018 the Future Model Transformation Programme to achieve the required savings of £1.89m by 2022/23 when compared to the 2018/19 net budget. These already challenging financial targets have become significantly more challenging with the arrival of the pandemic.

2 OBJECTIVES

2.1 The objectives of this updated Medium-Term Financial Strategy are:

- To ensure outcomes and priorities identified in the Corporate Plan inform the MTFS including importance, timing and financial implications, and reconsider them in the light of emergency measures required due to the pandemic
- To provide updated 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 expenditure) 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.

3 VISION FOR MALDON

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

“Sustainable Council – Prosperous Future.”

4 LOCAL CONTEXT

- 4.1 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.

- 5 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.

MALDON DISTRICT COUNCIL CORPORATE PLAN

- 5.1 The Corporate Plan 2019-23 identifies all local and many national priorities.
- 5.2 The Corporate Plan will be delivered through three thematic strategies – Place, Community and Prosperity. The three thematic strategies are underpinned by a focus on ‘Performance and Value’ with the aim of providing:
- excellent services and value for money; and
 - becoming a financially independent and sustainable Council in the future.
- 5.3 The aims of the thematic strategies are:
- Place:**
- A protected and improved environment for residents and visitors;
 - Sustainable growth and new infrastructure in the District
- Community:**
- Healthy, safe and vibrant communities
- Prosperity:**
- Local businesses are supported and new ones are attracted into the District
- 5.4 The three thematic strategies have the detailed outcomes and impacts that the Council is seeking to achieve over the period of the Corporate Plan.
- 5.5 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. The Council’s new organisational structure, which went fully live from November 2019 as a result of the Future Model Transformation Programme, will deliver this aim.
- 5.6 The MTFS therefore provides the resource strategy required to deliver the priorities and outcomes set out in the Corporate Plan through the three thematic strategies.

6 ECONOMIC OUTLOOK

- 6.1 Due to the impact of Coronavirus, HM Treasury's economic outlook as released in the Forecasts for the UK Economy Report, December 2020, is understandably more pessimistic than the Chancellor's economic outlook as announced in Spring Statement in March 2019 and is shown in the table below. The 2020 growth of -10.9% reflects the plummeting of economic growth by 20.4% during lockdown and then approximately half of this being recovered during the remainder of the year. This is now expected to be followed by a continued yet incomplete recovery during 2021. HM Treasury have not forecast beyond 2021.

Year	Economic Growth (GDP)	
	Chancellor (March 2019)	HM Treasury (December 2020)
2018	1.4%	1.4%
2019	1.2%	1.2%
2020	1.4%	-10.9%
2021	1.6%	5.4%
2022	1.6%	N/A
2023	1.6%	N/A

- 6.2 The change of forecasts for the Consumer Prices Index (CPI¹) are shown below:

Year	CPI (% change)	
	Chancellor (March 2019)	HM Treasury (December 2020)
2018	2.5%	2.5%
2019	2.1%	2.1%
2020	1.9%	0.7%
2021	2.0%	1.9%
2022	2.0%	N/A
2023	2.0%	N/A

- 6.3 In the medium term, the CPI inflation is forecast to be at or below 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.

¹ Chancellor's Spring Statement – March 2019

- 6.4 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 is diversifying its investment portfolio to benefit from higher returns but at all times giving due regard to the security and liquidity of its funds over yields/returns. Since the MTFs reported in February 2020, the Bank of England has decreased its base rate. First down to 0.5% and then to 0.1%, due to corona virus. The interest base rate is expected to remain at this level for the foreseeable future.

7 GENERAL FUND REVENUE BUDGET

Financial Context

- 7.1 The development of the 2020/21 to 2023/24 Medium Term Financial Strategy took place at a time which continued to be one of the most challenging periods for Local Government. This MTFs for the period 2021/22 to 2023/24 has since become even more challenging with the onset of Coronavirus.
- 7.2 Ten years of austerity measures have led to unprecedented reductions in local authority funding. The public sector and the local government sector are under increasing and relentless pressures in respect of funding for adult social care and children's 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. All this before the financial impact of the pandemic.

Local government is transitioning away from a world where councils were dependent on central government grants and towards greater self-sufficiency.

The 2021/22 Local Government Financial Settlement was published on 4 February 2021. The result was that Maldon District Council will not receive any Revenue Support Grant but its Business Rates Pool (consisting of the Essex Councils) will retain 50% of Business Rates collected.

Risks and Opportunities

7.3 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

7.4 Demographic factors affect the Council's planning in several ways:

- Changes in the number of households affect the tax base 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

7.5 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

7.6 The Council relies on several external income sources. During the past few years, the economic downturn had an adverse impact on some 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.

The garden waste collection service is now a significant source of income to the Council which goes to support the costs of providing the overall waste collection function, the costs of which are increasing with the growth of housing in the District.

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 0.5% of movement in interest rates is equivalent to approximately £140k in income; however, the actual interest earned is also dependant on the level of free cash flow balances during the year.

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

The recent social distancing measures imposed by Central Government and reduction of base interest rates by the Bank of England have had a significant adverse effect on these external income sources.

Inflation

- 7.7 The financial impact of a 2% movement in pay inflation represents around a £0.153m change in the general fund employee budget. A 2.75% pay increase was approved from 1 April 2020, based on the increase in cost of living, but pay inflation is estimated to return to 2% for 2021/22 onwards.
- 7.8 For the 2021/22 budget setting process, the contract prices have been uplifted by appropriate indices as stated in the conditions of the contracts. The financial impact of a 1% movement in contractual inflation is £0.093m. 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 0.7% for 2021/22 based on CPI and 2% in each year thereafter.

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 in revitalising the local economy whilst, at the same time, bearing a significant part of the government's overall austerity measures, via reduced funding.

- 7.11 While there has been a recent massive fall in UK growth, economic forecasts show a recovery, although the pandemic is slowing this recovery significantly. However, the increase in the demand on our services, coupled with the loss of external income, will restrict the Council's ability to make radical improvements to our discretionary services.

2021/22 Local Government Finance Settlement

- 7.13 The 2021/22 LGFS was announced on 4 February 2021. The table below shows Maldon's final settlement for 2021/22.

Local Government Financial Settlement 2017/18 to 2021/22	2018/19 Final LGFS £m	2019/20 Final LGFS £m	2020/21 Final LGFS £m	2021/22 Final LGFS £m
Settlement Funding Assessment of which:	1.474	1.508	1.532	1.532
Revenue Support Grant (RSG)	-	-	-	-
Baseline Funding Level (Business Rates)	1.474	1.508	1.532	1.532
Tariff/Top-up Adjustment	-	-	-	-
Annual Change (%)	-7.9%	2.3%	1.6%	0.0%
Cumulative Change (%)	-25.0%	-23.2%	-22.0%	-22.00%
New Homes Bonus – MHCLG	0.696	0.832	0.898	0.930
Compensation for under indexing the Business Rates multiplier	0.034	0.049	0.061	0.080
Rural Services Delivery Grant	0.031	0.031	0.031	0.032
Council Tax Requirement excluding parish precepts (incl. base growth and levels increasing by CPI)	4.635	4.809	4.982	5.292
Potential additional Council Tax from £5 referendum principle for all Districts	0.034	0.035	0.062	0.065
Total Core Spending Power	6.904	7.264	7.566	7.932
Change since 2018/19 (£ million)				1.028
Change since 2018/19 (% change)				14.9%

- 7.14 Over the period of the previous Spending Review the government used a new methodology to determine authorities' Revenue Support Grant (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 (NHBS) 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. Previous changes to the NHBS were the introduction of a baseline housing growth of 0.4% before NHBS would be payable and a reduction in duration of legacy payments from the six years to five years and to four years. The government has announced a consultation on the future of the NHB in 2021/22. The Council will continue to receive legacy payments for previous years of £0.418m in 2021/22 and £0.198m in 2022/23. However, in the 2021/22 LGFS the government has announced a further one-off NHB payment of £0.512. In 2018/19 a NHB reserve was established which by the start of the financial year 2021/22 will total £1.3m. This will be run down by 31 March 2023 unless the current scheme is extended.

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, was actuarially valued as at 31 March 2019 as part of the triennial valuation cycle.

7.18 The 2019 Valuation shows that there has been a decrease in the Council's deficit position by 35% to £5.318m. This means that the funding level of the Council's element of the Fund will have increased from 81.7% in 2016 to 90.2% in 2019. Funding levels are taken as the ratio of assets to liabilities. In general, for the 2019 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 was reduced from 15 years, set at the 2016 Valuation, to 12 years or less in the 2019 Valuation, depending on the individual circumstances of the Council. The effects of the pandemic on the Pension Fund are yet to be determined.

- 7.19 The 2019 Valuation showed an increase in the employer's ongoing contribution from 15.9% of pensionable pay to 19.9% of pensionable pay (£221k). 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. Claimants affected by Covid-19 will have meant the rate of migration to UC will have increased recently.
- 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 UC has had significant implications for local Council and its systems. There will continue to be a reduction in the Housing Benefit Administration Grant going forward, but this may not be proportional to the reduction in the workload or staffing. The financial impact of Universal Credits continues to be monitored on an ongoing basis.

Land Charges (transfer of responsibility to Land Registry)

7.24 The Infrastructure Act 2015 provided 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 but the Council is making preparations and has put in a growth bid of £50,000 for 2021/22 to fund this.

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

2021/22 General Fund Budget

7.27 As part of the financial planning process, Members examine information provided by officers relating to the level of existing resources. All budget options are considered in the context of current service performance and priorities. Also, all the growth, savings and capital bids have gone through a challenge process, including being reviewed by the newly formed Finance Working Group.

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 performance management system is used by the Council to identify, monitor and reports on risks. Regular reporting of the Corporate Risks, financial and non-financial performance occurs on at least a quarterly basis to the Corporate Leadership Team and the Performance, Governance and Audit Committee, and is programmed in the annual timetable.

8.4 The table below summarises the financial implications if assumptions made in the MTFS change in the future. This gives some indications to the kind of risks which need to be allowed for in considering the level of reserves in future years.

Estimated Financial Impact

Sensitivity Scenario	2021/22	2022/23	2023/24
	£m	£m	£m
Inflation - Pay award 1% higher than assumed	0.078	0.079	0.079
Other Inflation - 1% higher than assumed	0.064	0.065	0.067
Average investment interest rate - 0.5% lower than assumed (ave £21m invested)	-0.105	-0.105	-0.105
Council Tax Collection - 1% lower than assumed	-0.052	-0.053	-0.055
NNDR Collection - 1% lower than assumed	-0.030	-0.030	-0.030

Net Operating Expenditure - 1% overspent	0.901	0.945	0.979
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9 COUNCIL TAX

Council Tax

9.1 It is important to note that the Council has limited income generated from council tax. As shown in paragraph 8.4, for every 1% increase in the average Band D council tax; an additional £0.053m of income is raised. The MTFS allows an increase in the Basic Amount of Council Tax of £5 for 2021/22 and subsequently 1.99% for the rest of the MTFS period in accordance with Council Tax Referendum Principles.

Tax base for Council tax setting

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

Year	2020/21	2021/22	2022/23	2023/24
	Calculated	Projected	Projected	Projected
Band D Equivalents	25,090.8	24,959.9	25,159.9	25,359.9

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 tax-base for the period of the MTFS. The tax-base 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 at 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 services.

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 commenced the implementation of the Future Model Transformation Programme in August 2018 to achieve savings and additional income totalling £1.89m by the end of the financial year 2022/23. Of this £1m has been achieved from the salaries cost by reducing the establishment headcount from 219.5 FTE to 181.5 FTE with a new salary structure.

The Transformation Programme included, but was not limited to, the following considerations:

- Alternative delivery model of our services - where practicable and where there was a financial business case to do so
- Effective use of assets – challenging the asset base and the use of assets, and 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 This section covers the income from fees and charges.

Policy on Fees and Charges

11.2 The Council has looked to maximise the potential from fees and charges. A significant proportion of its income comes 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 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 increase. 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 2021/22 report to Council on 23 February 2021.

11.4 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.

11.5 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 especially since the Council is expected to be become more self-sufficient. The cost will eventually fall on the council taxpayer if the service is to be protected to any extent.

11.6 Although volumes of transactions incurring Fees and Charges are affected by Covid 19, the policies themselves are not anticipated to be altered. The Fees and Charges Policy is reported to Strategy & Resources Committee and Council separately to the MTFs.

Income and Debt Management

11.7 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.

USE OF RESERVES

12.1 The minimum General Fund Reserve is set at £2.6m. A minimum level is intended to allow sufficient resources to respond to un-forecast

events such as Coronavirus, however even during this pandemic we aim to maintain this minimum reserve as far as possible.

- 12.2 Risks to the Council’s financial position could derive potentially from a budget overspend due to higher than budgeted expenditure or lower than budgeted income or a combination of both, loss of investment income, contractual/legislative failure or challenging/emergency events. Historically, the Council has had a very good record of outturn financial position being within budget and of predicting investment income well so hasn’t had to make additional significant provision. However, Covid-19 has brought about an unprecedented emergency response from the Council, which will test its reserves if Central Government do not reimburse MDC for its losses. The Reserves Table in paragraph 12.4 shows that the General Fund Reserve will fall below the minimum level in 2023,24 without the use of earmarked reserves or additional government funding.
- 12.3 Equally, it is important that the use of reserves is not increasing year on year, creating an unsustainable future problem. Normally, it is a Council goal to meet the budget gap by making savings.
- 12.4 A summary of the proposed use of reserves is shown in the table below and is based on a budget projection that includes Covid-19 pressures, other pressures, aspects such as inflation, further salary increase, pension fund contributions and savings identified.

It is worth noting that the financial impact of Coronavirus is not as great as reported in July as further reliefs have since been announced by the Government, some of which have already been received, but is still significant, as shown in the table below.

*Reported £872k plus £759k impact due to Covid-19 less net £54k improvement in position.

Predicted General Fund Balance Movement	Revised 2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Balance b/f				
General Fund Reserves	5,481	3,904	3,904	3,102
Earmarked Reserves	4,151	4,003	3,567	3,579
Total	9,632	7,907	7,471	6,681
Projected Movement				
General Fund Reserves	-1,577*	0	-802	-1,178
Earmarked Reserves	-148	-436	12	-1,383
Total	-1,725	-436	-790	-2,561
Balance c/f				
General Fund Reserves	3,904	3,904	3,102	1,925
Earmarked Reserves	4,003	3,567	3,579	2,196

Total	7,907	7,471	6,681	4,121
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12 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 2021/22 to 2025/26 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 indicative five-year capital programme as shown would cost the Capital Receipts Reserve a total of £1.377m. The Capital Receipts Reserve will be £1.740m from 1 April 2021 meaning more capital receipts may be required for the capital programme to continue beyond 31 March 2026. It should be noted that the capital programme for 2021/22 to 2025/26 has been developed by Officers and the Finance Working Group, and bids for asset acquisitions and improvements have been recommended by the Strategy & Resources Committee. However, the capital programme is reviewed annually and the use of capital receipts may change over the period and may be required sooner.
- 13.5 Although the Capital Projects report is a separate report to Council, 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 implications of the previously approved capital programme have been built into this MTFS. For the proposed future capital programme, there are no revenue implications for 2021/22 and any revenue implications beyond that will be built in upon approval.
- 13.9 However, there have been new maintenance issues identified relating to the existing capital assets. These are known as Repairs & Renewals, some of which are essential to avoid service failure and others are to improve service levels. A list of bids for these works are set out at **APPENDIX 3** to the report.

Members need to be aware that 2021/22 repairs and renewals bids recommended by the Finance Working Group total £128k with £217k further bids to be considered during 2021/22, but there is currently only £203k in the repairs and renewals earmarked reserves. Therefore, the approved 2021/22 repairs and renewal work will not draw down from this reserve at this stage. This will allow the reserves to cover any emergency repairs and renewals that may emerge.

13 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. Since the MTFS reported in February 2020, the Bank of England has decreased

its base rate down to 0.1%, following the arrival of Coronavirus in the UK. This is expected to reduce MDC's investment income by more than 50% for the foreseeable future.

14 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.

15 CONCLUSION

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

- The impact of Covid-19 since government and local measures were imposed from March 2020, many of which will remain in place for many months to come.
- The unprecedented reductions to local government funding since the 2010 Comprehensive Spending Review.
- 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 fully utilised over the MTFS period but bearing in mind the comment in paragraph 13.4 above.

16.2 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 not expected to remain above the minimum level of balance of £2.6m over the medium term to 31 March 2024. This needs to be considered in the context that for 2021/22 – 2023/24 budget estimates have been constructed with great economic uncertainty, 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 further government grants announced at the time.

List of Appendices

Appendix A sets out medium term projections for the General Fund (below)

Appendix B sets out the medium-term projections for Capital (below)

Appendix C shows the Policy on reserves and balances (below)

APPENDIX 2 shows the a of proposed Budget Growth items 2021/22 to 2023/24 (separate document)

APPENDIX 3 shows a list of proposed Repairs and Renewals items 2021/22 to 2023/24 (separate document)

Appendix A - Medium Term Financial Strategy 2021/22 - 2023/24

	2021/22 £000	2022/23 £000	2023/24 £000
Prior Year Net Expenditure Before Reserves	9,945	11,916	11,899
Pension Fund Statutory Adjustment	242		
Car Parking Fees			
Other fees and charges	21		
Staff Inflation	215	155	158
Non-Staff inflation	110	201	206
<i>Pressures:</i>			
Reversal of Prior Year Growth	-100		
Unachievable Savings	133		
Increase in external audit fees	50		
Reduced recycling income	20		
Reduction in HB Admin Grant	20		
Town Centre Car Parks card processing fee	19		
Electronic Payment Processing Fees	14		
Recycling sacks Food	5		
<i>Repairs & Renewals:</i>			
Prom Park Galleon	15		
Boat lake decking replacement	20		
Replacement power unit / board in the plant room	15		
District Parks - replacement steps	18		
Replacement fencing works at parks & playsites at Riverside Park	20		
Playsite sand / bark top ups	20		
Memorial Safety	20		
<i>Growth Items:</i>			
Safeguarding System	3		
Emergency Planning System	4		
Toilet cleaning contract	5	-5	
Revs and Bens Specialist	10		
Housing Register system	11		
Public Engagement Software	25		
Commercial L1 Caseworker	27		
Parks & Countryside Officer	27	-27	
Customer, Community and Casework Lead	50		

Project Manager	56	-56	
Continue process improvement team	83		
<i>Projects Funded from Earmarked Reserves:</i>			
Land Charges Registry Project	50	-50	
Local Development Scheme 2020-2022	410	-235	-166
LDP Review	333		1
Net Cost of Services	11,916	11,899	12,098
Pension Fund Deficit Contribution			1,556
Investment Income	-133	-133	-133
Statutory Adjustments	-2,330	-2,330	-2,330
Net Expenditure Before Reserves	9,453	9,436	11,191
Contributions to/(from) Earmarked Reserves	-436	12	-1,379
Expenditure to Be Funded	9,017	9,448	9,812
Funding			
New Homes Bonus	-930	-198	0
Rural Services Delivery Grant	-32	-32	-32
Compensation for NNDR under-indexing	-80	0	0
Local Council Tax Support	-88	0	0
Renewable Energy	-744	-756	-768
Business Rates Baseline Funding	-1,532	-1,557	-1,582
Business Rates Growth incl S31	-987	-987	-987
Business Rates levy/benefit	205	205	205
CTAX and NDR collection fund (surplus) / deficit	347	0	0
Estimated Yield from Council Tax	-5,176	-5,322	-5,471
Total Funding	-9,017	-8,646	-8,634
Budget Gap	0	802	1,178
<i>Potential COVID Pressures:</i>			
Leisure Centre Management Fee	486	414	222
Town Centre Car Parking	225	225	225
Promenade Park Events & Activities	146	0	0
Income from Other Events	96	0	0
Council Tax Sharing Agreement	69	69	35
Budget Gap with COVID Pressures	1,022	1,510	1,660

Appendix B – Capital Programme

Capital Programme 2020/21 - 2023/24					
Project Title	Original	Original	Original	Original	Original
	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Vehicle & Plant Replacement					
Parks Vehicle - Rolling replacement programme	56	22	22	22	22
Cemetery dumper truck		18			
Information & Communication Technology					
PC and Printer Replacement Programme	47	47	47	47	47
Maldon Promenade					
Installation of outdoor gym equipment / zone		15			
Wind shelter development		100			
Blackwater Leisure Centre					
New Car park entrance and drainage works	25				
Removal and renovation of Jungle river ride			80		
New sports hall floor			60		
Parks & open Spaces					
Oaktree Meadow and Orchard Meadow resurfacing improvement	35				
Riverside Park youth activity site		65			
Rivers					
River Bailiff Hut into seafood kiosk		40			
New River Baliff WorkBoat			50		
Removal old slipway at St Lawrence	10				
Burnham on crouch Houseboats berth	120				
Housing					
Mandatory Disabled Facilities Grants	420	420	420	420	420
Cemeteries					
Structural repairs to Burnham Cemetery Chapel		150			

APPENDIX 1

Maldon District Council Medium Term Financial Strategy 2020/21 to 2023/24

Sport					
Replacement and update to 5G Carpet - AGP Plume school			80		
Maldon Town AGP replacement and update carpet					150
Total Capital Programme	713	877	759	489	639
Funding					
Capital Receipts Applied	293	457	339	69	219
Government Grant	420	420	420	420	420
Total Funding	713	877	759	489	639

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). 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 Section 151 Officer

Within the existing statutory and regulatory framework, it is the responsibility of Section 151 Officer 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 and giving due regard to the advice of the Section 151 Officer 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.

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 tax-payers 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 Strategy & Resources 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.