

MALDON DISTRICT COUNCIL
MEDIUM TERM FINANCIAL STRATEGY

2023/24 TO 2025/26

(JANUARY 2023)



**MALDON DISTRICT
COUNCIL**

CONTENTS

	Page
INTRODUCTION	2
OBJECTIVES	3
VISION	3
LOCAL CONTEXT	3
CORPORATE BUSINESS PLAN	4
ECONOMIC OUTLOOK	5
GENERAL FUND REVENUE BUDGET	5
RISK MANAGEMENT	11
COUNCIL TAX	12
VALUE FOR MONEY AND EFFICIENCY	12
INCOME GENERATION	13
USE OF RESERVES	14
CAPITAL	15
TREASURY MANAGEMENT LINKS WITH FINANCIAL STRATEGY	16
EQUALITIES IMPACT ASSESSMENT	17
CONCLUSION	17
Appendix A - Medium term financial strategy 2022/23- 2024/25	18
Appendix B – Summary of Capital Programme and Funding 2022/23- 2026/27	20
Appendix C – Policy on Reserves and Balances	21

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 2025 / 26 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 2022 / 23 budget. The development of the 2022 / 23 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.

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 66,200 (2021 UK 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 updated Corporate Plan 2021-23 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 outcomes and impacts that the Council is seeking to achieve over the period of the Corporate Plan.
- 5.5 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 continues to keep its structure under review to ensure it is fit for purpose and able to deliver its priorities.
- 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 Cost-of-Living crisis, the British Chamber of Commerce economic outlook, as released in the Forecasts for the UK Economy Report December 2022, is not a positive one. Forecast Economic Growth is shown in the table below.

Year	Economic Growth (GDP)	
	British Chamber of Commerce (December 2021)	British Chamber of Commerce (December 2022)
2022	4.2%	4.2%
2023	2.3%	-1.3%
2024	N/A	0.7%

- 6.2 However, UK individuals and businesses continue to feel the effects of the pandemic on supply chains which has led to soaring inflation. The change of forecasts for the Consumer Prices Index (CPI¹) are shown below:

Year	CPI (% change)	
	British Chamber of Commerce (December 2021)	British Chamber of Commerce (December 2022)
2022	5.2%	10.7%
2023	2.0%	5.0%
2024	N/A	1.5%

- 6.3 The BCC expects the UK economy to remain in recession for 5 quarters before an anaemic recovery in 2024, but inflation has likely peaked at 11%. 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 therefore expected that the contractual inflation will see an increase in the council's costs in the medium term based on the forecasts.
- 6.4 Due to soaring inflation post Coronavirus, the Bank of England has increased its base rate progressively over the past 12 months from 0.1% to the current rate of 3.5% to counter it. The Council has no borrowing but a relatively large amount of Treasury Investments, so increasing interest rates are good news as they help to offset the large cost increases driven by inflation.

7 GENERAL FUND REVENUE BUDGET

Financial Context

¹ Chancellor's Spring Statement – March 2019

- 7.1 The development of the 2022/23 to 2025/26 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 2023/24 to 2025/26 has since become even more challenging with the onset of the cost-of-living crisis and high inflation.
- 7.2 Local government is transitioning away from a world where councils were dependent on central government grants and towards greater self-sufficiency, although support through the pandemic has certainly bucked that trend.

The 2023/24 Provision Local Government Financial Settlement was published on 21 December 2022. 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. The final 2023/24 settlement is not expected until February 2023.

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 refuse and recycling, 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 £125k 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 1.0% movement in pay inflation represents around a £0.102m change in the general fund employee budget. A 2.5% uplift was built into the 2022 / 23 pay inflation. This ended up being 5.25% after the pay award was confirmed by the National Joint Council. In the meantime, there has been an increase in the cost of living and pay inflation meaning the Council is forecasting a further 5.0% increase in employee salaries for 2023 / 24. However, this is estimated to return to 2.5% for 2024 / 25 and 2.6% for 2025 / 26.

7.7 For the 2023 / 24 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 £0.076m.

No inflationary increase has been applied to the general services budget, except known specific items such as utilities and IT costs.

7.8 For future years, the projection assumes an overall averaged inflation rate of around 12.3% for 2022 / 23 based on RPI and 2.5% for 2024 / 25 and 2.6% for 2025 / 26.

Service demand

7.9 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.

7.10 While there has been a recent massive fall in UK growth, economic forecasts show a strong recovery, although the new variants could always slow 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.

2023/24 Provisional Local Government Finance Settlement

7.11 The provisional 2023 / 24 LGFS was announced on 21 December 2022. The table below shows Maldon’s final settlement for 2023 / 24. The final settlement for 2023 / 24 and future years is expected to be announced in February 2023.

Local Government Financial Settlement 2017/18 to 2023/24	2019/20 Final LGFS £m	2020/21 Final LGFS £m	2021/22 Final LGFS £m	2022/23 Provisional LGFS £m	2023/24 Provisional LGFS £m
Settlement Funding Assessment of which:	1.508	1.532	1.532	1.532	1.670
Revenue Support Grant (RSG)	-	-	-	-	-
Baseline Funding Level (Business Rates)	1.508	1.532	1.532	1.532	1.670
Tariff/Top-up Adjustment	-	-	-	-	-
Annual Change (%)	2.3%	1.6%	0.0%	0.0%	9.0%
Cum. Change from 17/18 (%)	-23.2%	-22.0%	-22.0%	-22.0%	-15.0%
New Homes Bonus – MHCLG	0.832	0.898	0.930	0.961	0.474
Compensation for under indexing the Business Rates multiplier	0.049	0.061	0.080	0.126	0.271
Rural Services Delivery Grant	0.031	0.031	0.032	0.032	0.032
Funding Guarantee	-	-	-	-	0.607
Lower Tier Services Grant	-	-	0.065	0.069	-
Services Grant	-	-	-	0.106	0.060
Council Tax Requirement excluding parish precepts (incl. base growth and levels increasing by CPI)	4.809	4.982	5.293	5.361	5.659
Potential additional Council Tax from £5 referendum principle for all Districts	0.035	0.062	0.000	0.000	0.000
Total Core Spending Power	7.264	7.566	7.932	8.187	8.773
Change since 2019/20 (£ million)					1.509
Change since 2019/20 (% change)					20.8%

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 completed a consultation on the future of the NHB in 2021/22. The Council received its last legacy payments for previous years of £0.198m in 2022 / 23 and now only receives one off annual NHB payments. In the 2023 / 24 Provisional LGFS the government has announced a one-off NHB payment of £0.474. In 2020 / 21 the Council decided to support its 2021 / 22 to 2023 / 24 Local Development Scheme expenditure from the NHB. Therefore, there is no longer any NHBS reserve.

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 2022 as part of the triennial valuation cycle.

7.18 The 2022 Valuation shows that there has been a decrease in the Council's deficit position by 82% from £5.32m to £0.94m. This means that the funding level of the Council's element of the Fund will have increased from 90.2% in 2019 to 98.4% in 2022. Funding levels are taken as the ratio of assets to liabilities. In general, for the 2022 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 12 years, set at the 2019 Valuation, to 9 years or less in the 2022 Valuation, depending on the individual circumstances of the Council.

7.19 The 2022 Valuation showed an increase in the employer's ongoing contribution from 19.9% of pensionable pay to 20.9% of pensionable pay (up £78k). 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 £10,000 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) was rolled out through the Welfare Reform Bill and was 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 and migration to UC has been ongoing since.
- The Council retains 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 will retain 70-80% of pre-UC workload even after all qualifying claimants have been migrated to UC.

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 This project got underway during 2022 / 23 after MDC made preparations by putting 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.

2023 / 24 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 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	2023/24	2024/25	2024/25
	£m	£m	£m
Inflation - Pay award 1% higher than assumed	0.102	0.103	0.104
Other Inflation - 1% higher than assumed	0.041	0.041	0.41
Average investment interest rate - 0.5% lower than assumed (ave £25m invested)	-0.125	-0.126	-0.127

Council Tax Collection - 1% lower than assumed	-0.056	-0.057	-0.058
NNDR Collection - 1% lower than assumed	-0.036	-0.036	-0.036
Net Operating Expenditure - 1% overspent	0.163	0.165	0.167

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 £0.056m of income is raised. The MTFS allows an increase in the Basic Amount of Council Tax of £6.35 (2.99%) for 2023 / 24 and subsequently 1.99% for the rest of the MTFS period in accordance with current District Council Tax increase allowance principles.

Tax base for Council tax setting

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

Year	2022/23	2023/24	2024/25	2025/26
	Calculated	Calculated	Projected	Projected
Band D Equivalents	25,524.3	25,892.3	26,407.6	26,933.1

- 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.

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 2023 / 24 report to Strategy & Resources Committee on 10 November 2022.

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 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.

12 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 events such as post-Coronavirus recovery and the new cost-of-living crisis, however we still 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, since Covid-19 and now with record inflation, the economic environment has brought about high levels of emergency response, soaring costs and lost income for the Council, which has and continues to test its reserves where Central Government do not reimburse MDC for its losses. The Reserves Table in paragraph 12.4 shows that the General Fund Reserve should not fall below the minimum level before 2024-25 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 budget pressures, aspects such as inflation, further salary increase, pension fund contributions and savings identified.

Predicted General Fund Balance Movement	Revised 2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000
Balance b/f				
General Fund Reserves	5,796	4,720	4,298	1,426
Earmarked Reserves	7,439	5,349	3,208	3,328
Total	13,235	10,069	7,506	4,754
Projected Movement				

General Fund Reserves	-1,076	-421	-2,872	-3,507
Earmarked Reserves	-2,090	-2,141	120	120
Total	-3,166	-2,562	-2,752	-3,387
Balance c/f				
General Fund Reserves	4,720	4,298	1,426	-2,081
Earmarked Reserves	5,349	3,208	3,328	3,448
Total	10,069	7,506	4,754	1,367

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 2023 / 24 to 2027 / 28 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 £0.711m. The Capital Receipts Reserve will be £1.152m from 1 April 2023 meaning capital receipts are sufficient for the capital programme to continue beyond 31 March 2028, unless the programme is increased. It should be noted that the capital programme for 2023 / 24 to 2027 / 28 has been developed by Officers and bids for asset acquisitions are then considered by the Strategy & Resources Committee for recommendation to Council. This is reviewed annually so the use of capital receipts will change over the 5-year period and more may be required sooner.

- 13.5 Although the Capital Projects report is a separate report to Strategy & Resources Committee, 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 2023 / 24 and any revenue implications beyond that will be built in upon approval.
- 13.9 However, new maintenance issues frequently get identified relating to the existing capital assets. These are known as Repairs and Renewals, some of which are essential to avoid service failure and others are to improve service levels. Expenditure on these is expected to be contained within the existing £0.128m annual revenue budget.

Members need to be aware that there is currently also £177k in the repairs and renewals earmarked reserves. This would allow the reserves to cover any emergency repairs and renewals that may emerge.

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. Since December 2021, the Bank of England has increased its base rate from 0.1% to the current level of 3.5% to address record high inflation. The Council is debt free, so interest rates do not affect its level of expenditure. However, it

improves MDC's investment income significantly compared with the last couple of years.

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

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

- The impact of the cost-of-living crisis on inflationary costs and local taxation collection. Most government and local measures are temporary.
- The reductions to local government funding over the past decade and uncertainty around further reductions in the near future.
- The Council's current and future budget gaps, despite historical 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 return to sustainable balanced budgets together with an adequate level of General Fund reserves.
- The possibility that Usable Capital Receipts Reserve will be fully utilised over the MTFS period, bearing in mind the comments 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 expected to fall below the minimum level of balance of £2.6m over the medium term to 31 March 2026. This needs to be considered in the context that for 2023 / 24 – 2025 / 26 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 2023 / 24 to 2025 / 26 (separate document)

Appendix A - Medium Term Financial Strategy 2023 / 24 – 2025 / 26

	2023/24	2024/25	2025/26
	£000	£000	£000
Prior Year Net Expenditure Before Reserves	14,581	16,434	17,089
Operational Service Pressures:			
Staff Inflation	1,111	336	349
Non-Staff inflation	744	333	141
Contractual Pressures	416	400	0
Car Parking Machine Transaction Fees	37	0	0
Surplus from Council Tax Sharing Agreement	72	0	0
Pressures Contingency	150	0	0
Growth Items:			
Reversal of Non-Recurring Prior Year Growth	-569	0	0
Head of Environment Services	81	0	0
HR Fixed Term Post	39	-39	0
Customer Service resource	28	0	0
Ezytreev Software	12	-12	0
Member's Training	3	0	0
Projects Funded from Earmarked Reserves:			
Reversal of Prior Year Non-Recurring Reserve Funding	-359	0	0
Completion of Local Development Scheme	0	-9	0
Completion of LDP Review	0	-334	0
Savings:			
Reduce use of temporary staff	-14	0	0
Budget underspends	-4	0	0
Rental of Office Space	-18	0	0
Office car park charges	-1	0	0
Elections Resources	-26	-20	0
Grantfinder Subscription	-5	0	0
Vacant Posts	-50	0	0
Budget reductions	-28	0	0
Recycling income	-150	0	0
Card payment fees	-6	0	0
Temporary Staffing	-18	0	0

APPENDIX 1

Government Audit Grant	-15	0	0
Pest Control	-12	0	0
Performance & Governance	-8	0	0
Highways	-4	0	0
Brickhouse Farm	-30	0	0
<i>Fees & Charges Inflationary Increases:</i>			
Pest control	-3	0	0
Cemeteries	-14	0	0
Town centre car parks	-106	0	0
Prom	-53	0	0
Building control	-25	0	0
Hackney carriages	-4	0	0
Licences	-7	0	0
Rivers	-4	0	0
<i>Non-Operational Service Pressures:</i>			
Increased Pension Service Costs	693	0	0
Net Cost of Services	16,434	17,089	17,579
Investment Income	-750	-660	-400
Pension Fund Deficit Contribution	351	0	0
Statutory Adjustments	-3,893	-3,893	-3,893
Net Expenditure Before Reserves	12,142	12,538	13,286
Contributions to/(from) Earmarked Reserves	-2,141	120	120
Expenditure to Be Funded	10,001	12,656	13,406
Funding			
New Homes Bonus	-474	-474	-474
Rural Services Delivery Grant	-32	-32	-32
Compensation for NNDR under-indexing	-271	-271	-271
Services Grant	-60	0	0
Renewable Energy	-746	-746	-746
Funding Guarantee	-607	0	0
Business Rates Baseline Funding	-683	-683	-683
Business Rates Growth incl S31	-2,050	-2,050	-2,050
Business Rates levy/benefit	250	250	250
CTAX and NDR collection fund (surplus) / deficit	758	0	0
Estimated Yield from Council Tax	-5,664	-5,776	-5,891

Total Funding	-9,579	-9,784	-9,899
Budget Gap	421	2,872	3,507

Appendix B – Capital Programme & Capital Receipts Reserve

Capital Programme 2023/24 - 2027/28					
Project Title	Original	Original	Original	Original	Original
	2023/24	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Vehicle & Plant Replacement					
Parks Vehicle - Rolling replacement programme	89	22	22	22	22
Information & Communication Technology					
PC and Printer Replacement Programme	47	47	47	47	47
Maldon Promenade					
New accessible play site	100				
New Galleon in the Valley	226				
Riverside Park					
Skate Park Equipment and Surface	140				
Play site equipment	45				
Sport					
Replacement and update to 5G Carpet - AGP Plume school		80			
Housing					
Mandatory Disabled Facilities Grants	539	420	420	420	420
Total Capital Programme	1,186	569	489	489	489
Funding					
Capital Receipts Applied	355	149	69	69	69
s.106 Funded	292	0	0	0	0
Government Grant	539	420	420	420	420
Total Funding	1,186	569	489	489	489

Capital Receipts Reserves Movements	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000

Opening Balance	1,152	797	648	579	510
Capital Receipts Utilised	-355	-149	-69	-69	-69
Closing Balance	797	648	579	510	441

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 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.