



**REPORT of
INTERIM CHIEF FINANCE OFFICER**

**to
STRATEGY AND RESOURCES COMMITTEE
23 NOVEMBER 2023**

MEDIUM-TERM FINANCIAL STRATEGY UPDATE 2024 / 25 TO 2026 / 27

1. PURPOSE OF THE REPORT

- 1.1 To present the revised Medium-Term Financial Strategy Update for 2024 / 25 to 2026 / 27.

2. RECOMMENDATIONS

- (i) That the assumptions underpinning the Medium-Term Financial Strategy Summary Update for 2023 / 24 to 2025 / 26 at **Table 1** be reviewed.
- (ii) That the projected impact on the General Fund Balance at **Table 5** be noted.

3. SUMMARY OF KEY ISSUES

- 3.1 The Council's Three Year Medium-Term Financial Strategy (MTFS) sets out how the Council will manage its revenue finances up to the 2026 / 27 financial year. The MTFS supports the delivery of the Council's objectives and priorities as set out in the Council's Corporate Plan.
- 3.2 This MTFS builds on the MTFS for 2023 / 24 to 2025 / 26 that was approved by the Council on 22 February 2023.
- 3.3 There remains a great level of uncertainty around the global economy and the impact this will have on the Council's finances, especially inflationary pressures, and the potential knock-on impact on collection of Council Tax and Business Rates. Therefore the MTFS will need to be regularly updated and kept under review.

4. MEDIUM TERM FINANCIAL STRATEGY 2023 / 24 TO 2025 / 26

- 4.1 A detailed review of budgets has been undertaken to identify changes required from the 2023 / 24 budget, which are summarised at Table 1 below.

4.2 Table 1 – MTF5 Summary

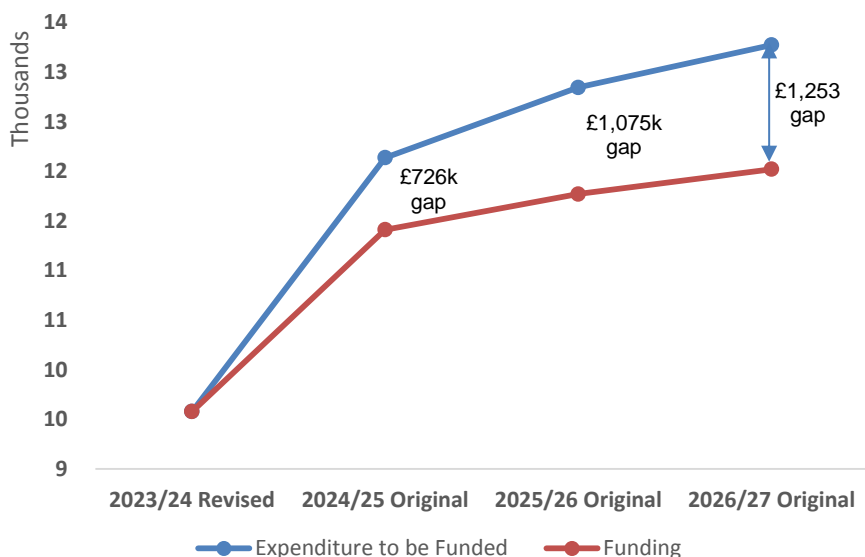
Components	2023/24 Original £000	2023/24 Revised £000	2024/25 Original £000	2025/26 Original £000	2026/27 Original £000
Prior Year Exp to be Funded	14,581	14,581	17,914	16,911	17,407
Additional Inflation - including Salaries and Waste Contract	1,855	1,855	742	491	367
Contractual Pressures (Waste, Leisure and Audit)	416	416	0	0	0
2022/23 Revenue Commitments and Additional Reserve Funded Expenditure	-359	1,121	-1,481	0	0
Repaiamd & Renewals and Supplementary Estimates	-353	-353	6	-6	0
New Growth less Expired Non-Recurring Growth	56	56	-231	11	20
Increased Pension Service Costs	693	693	0	0	0
Savings and Increased Fees & Charges*	-455	-455	-40	0	0
Cost of Services	16,434	17,914	16,911	17,407	17,794
Investment Income	-750	-750	-1,000	-788	-738
Forward Funding of Pension Fund Deficit	351	351	0	0	351
Statutory Adjustments	-3,893	-3,893	-3,893	-3,893	-3,893
Contribution to Reserves	0	0	120	120	0
Contribution from Reserves for Commitments & Drawdowns	0	-1,481	0	0	0
Contribution from Reserves for Pension Fund Deficit	-1,040	-1,040	0	0	-240
Contribution from Reserves for Growth	-343	-343	0	0	0
Contribution from Reserves for Collection Fund Deficit	-758	-1,179	0	0	0
Expenditure to be Funded	10,001	9,580	12,138	12,846	13,272
Funding	9,580	9,580	11,412	11,771	12,021
Gap to be Funded from General Fund	421	0	726	1,075	1,253

****Note this does not yet include the impact of savings proposals or proposed uplifts to Fees and Charges set out in the separate reports to the Strategy and Resources Committee on 23 November 2023***

4.3 The summary shows the revised position for this financial year along with projections for the next three years. Higher expenditure is now budgeted for this year which will be funded from approved drawdowns from reserves including a £421k drawdown from the Business Rates Equalisation Reserve as reported to the Council on 13 July 2023. This prevents a General Fund gap this financial year, before any reported in-year variances.

4.4 For future years, investment income is showing an improved position due to high interest rates, and ongoing funding assumptions have improved as set out to the Council on 13 July 2023. The revised projected budget gap position is illustrated at Chart 1 below.

Chart 1 – MTFS Budget Gap Projections



4.5 Changes to MTFS assumptions since February 2023

4.5.1 The MTFS that was approved by the Council on 22 February 2023, projected a significantly higher gap for future years than is now being reported, at £2.8m in 2024 / 25 rising to £3.5m in 2025 / 26. The main changes assumed since then are:

4.5.1.1 **Funding improvement** – as reported to the Council in July 2023, and following feedback from the Finance Peer Review, a review of the overall funding available to the Council in future years was undertaken and it is now assumed that the core spending power available to the Council, including New Homes Bonus, will not decrease in future years compared to the 2023 / 24 settlement. This has the effect of decreasing the gap by £600k. In addition assumptions around council tax growth and business rates inflation have now been built in. The total estimated impact of the funding changes reported to the Council in July 2023 was £1.3m in 2024 / 25; however having now carried out further estimations of the likely business rates income in 2024 / 25, it is assumed that a further £0.3m of business rates can be built in, improving the position by £1.6m compared to that reported in February 2023.

4.5.1.2 **Waste Contract costs.** Although the waste contract is still subject to inflationary pressures, the underlying contractual pressure of £400k assumed in the 2023 / 24 budget is now not expected to materialise, based on the latest cost information available following the extension of the contract. This pressure has therefore been removed from future years’ budgets, improving the gap.

4.5.1.3 **Investment Income.** The MTFS approved in February 2023 assumed investment income of £660k; however based on projections of interest rates remaining higher for longer and increased cash balances, it is now assumed that £1m of income will be achieved in 2024 / 25, reducing in future years as interest rates are projected to fall.

4.5.2 The combined impact of the above accounts for most of the change in the reported 2024 / 25 gap since the MTFS was agreed in February 2023 but is offset slightly by increased inflationary pressures / growth items set out below.

4.5.3 The residual projected gap will need to be met from a combination of increased income from fees and charges, and commercial projects, as well as savings proposals.

5. GROWTHS AND UNAVOIDABLE PRESSURES

- 5.1 During the budget review the below budget pressures and growths were identified as being required to meet service demand. These have been added to the MTFS.

Table 2 - Growths & Unavoidable Pressures

Description	2024/25	2025/26	2026/27
	Amount £000	Amount £000	Amount £000
Recycling bags	60	80	100
North Essex Economic Board contribution	20	20	20
North Essex Alliance contribution	20	20	20
Temporary Accommodation	20	20	20
Car Parking Card Transaction Fees	20	20	20
Fire Risk Assessments	10	0	0
Other	13	14	14
Total	163	174	194

6. REPAIRS AND RENEWALS

- 6.1 In addition to unavoidable pressures the below repairs and renewal expenditure projects have been identified and added to the MTFS. These can be largely contained within the current budget but £6,000 is requested as growth for 2024 / 25.

Table 3 - Repairs and Renewals (R&R)

Site	Description	Cost 2024/25 £000
Brickhouse Farm	Brickhouse Farm – Nursery building requires new timber frame / glass windows throughout.	10
West Maldon Community Centre	West Maldon Community Centre – Requires a project of work to replace all high level and low level windows due to severe rot.	36
Various Play Sites	Play Site – Replacement steel bow to fencing.	55
Prom Park	Prom Park – Relining throughout the park.	18
Public Conveniences	Butt Lane – New flooring throughout men's, ladies, disabled and passages. New service room pipework and systems. New urinal in Men's, new cubicles throughout.	15
Total		134
R&R budget 2024 / 25		(128)
Growth Request		6

7. INFLATION AND INTEREST RATES

- 7.1 Inflation is one of the biggest challenges currently facing households and businesses alike. Although rates have reduced significantly compared to the same time last year, inflation (Consumer Price Index (CPI)) was 7.4% in August 2023 and HM Treasury forecasts say this may only come down to 3.1% over the coming year, which is still above the 2% Bank of England target. This directly impacts the Council in fuel,

energy and maintenance / supplies costs. The knock-on effect is rising contract costs and salaries. Forecasts have been reviewed using these figures.

- 7.2 The Bank of England has increased the base interest rate from 2.25% to 5.25% over the past year. Most forecasts expect this to level off and begin falling midway through next financial year. As the Council is currently debt-free and has over £30m in Treasury investments, this will still result in higher investment income than recent years.

8. AREAS OF UNCERTAINTY

8.1 Pension Contributions

- 8.1.1 In April 2023 the Council forward paid its £351k triennial contribution towards the pension fund deficit. The next payment is due in April 2026. The Council currently puts aside £120k per year in a Pensions earmarked reserve to fund this payment, but the fund will be revalued before the next contribution is paid and so whether the next triennial payment will be £351k or more or less is uncertain at this point, so the assumption in this report is that it will remain the same.

8.2 New Homes Bonus

- 8.2.1 Government has stated its ambition to replace this scheme; however it seems likely that the current scheme may continue into next year. The future method of distribution of any New Homes Bonus is unlikely to be known until the Local Government Finance Settlement in December 2023. Legacy payments ceased last financial year and the current grant of £474k is assumed to remain the same, as part of the overall 'Core Spending Power' available to local authorities, which included a 'Funding Guarantee' in 2023 / 24. The actual grant could be higher or lower than this but the indications to local authorities are that overall funding allocations should be maintained although possibly redistributed under another methodology with the settlement.

8.3 Waste

- 8.3.1 The Waste Contract was due to expire at the end of January 2024 but has been extended. The main change is that waste vehicles will be purchased by the Council rather than leased, as the Council can finance them at a lower cost. Overall revenue costs of the contract are significantly lower than forecast in the last MTFS, based on the best information available to the Council at the date of this report. The income and expenditure relating to Refuse and Recycling is subject to inflationary impact, market pricing and demand, all of which are difficult to forecast. The MTFS reflects the latest position but will need to be kept under review as this information changes.

8.4 Staff Pay

- 8.4.1 This is the Council's largest area of expenditure and a 1% increase in pay equates to an additional cost of £102k. The 2024 / 25 pay award is currently estimated at 5% taking into consideration the projected inflation rate and the award for 2023 / 24. Evidence to basis this on is limited so there is high uncertainty around this.

8.5 Council Tax

- 8.5.1 This is a key component of the forecast funding of the Council's services. It is based on the current Council Tax Base calculation (including the estimated growth) to be

agreed by the Council. It also assumes a 3% increase in 2024 / 25, the maximum increase below the referendum threshold, to be confirmed by the Council in February 2024.

8.6 Business Rates

- 8.6.1 The government's National Non Domestic Rates Return (NNDR1) is due in January 2024 and informs the budget setting for this area. Currently, there are no significant variations expected year to year except for inflationary impacts, although there has been a general trend of slight improvement in the collection rate. This could yet be tempered by the cost of living crisis so, due to the amounts involved, the impact on the MTFS will be reviewed when setting the final budget.

9. GENERAL FUND

- 9.1 Central Government has not been clear about their level of support to Local Government in future years so it is assumed their funding levels will continue as previously announced until such a time as new announcements are made. The next of these will be the Chancellor's Autumn Statement, scheduled for 22 November 2023. The provisional Local Government Settlement is expected to be delivered in late December. An updated MTFS will be reported to the Strategy and Resources Committee in January 2024.
- 9.2 The MTFS approved by the Council on 22 February 2023, contained a budget gap of £421k. The revised projected budget gap is set out in the following table:

Table 4 – Budget Gap Reconciliation 2023 / 24

Description	Amount £000
Original Budget Gap	421
Drawdown on Business Rates Equalisation Reserve (reported to the Council on 13 July 2023)	(421)
Revised Budget Gap 2023 / 24	-
Projected 2023 / 24 underspend at Quarter 2	(742)

- 9.3 The Budgetary Control report taken to the Strategy and Resources Committee on 23 November 2023 is showing a net budget underspend of £686k for 2023 / 24 which favourably impacts on the General Fund.

Table 5 – Projected General Fund Balance

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Opening General Fund Balance	5,081	5,823	5,097	4,022
Budget Gap (Table 1)	0	-726	-1,075	-1,253
Current Financial Year Budget Pressure	742	0	0	0
Closing General Fund Balance	5,823	5,097	4,022	2,770

- 9.4 The projections in the above table show that the general Fund Balance will not fall below the recommended minimum of £2.6m by 2026 / 27 but is in gradual decline, so, if no further action is taken to mitigate this, the Council's finances will not be sustainable in the longer term. However, these figures could still be heavily impacted by the areas of uncertainty discussed in section 7 of this report.

10. CONCLUSION

- 10.1 Medium-Term financial planning is an important component of the Council's strategic planning framework particularly in the uncertain economic climate and with unprecedented financial pressures in the public sector. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are limited in what they can achieve.

11. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2023 - 2027

11.1 Smarter finances

- 11.1.1 The 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.

- 11.1.2 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.

12. IMPLICATIONS

- (i) **Impact on Customers** – None identified.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – Risks and uncertainty have been discussed in this report. A more in-depth risk assessment will come in the full MTFS report in January 2024.
- (iv) **Impact on Resources (financial)** – The financial implications are set out in this report.
- (v) **Impact on Resources (human)** – None identified.

Background Papers:

Budgetary Control Report to the Strategy and Resources Committee, 23 November 2023.
MTFS to the Council, 22 February 2023.

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