

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

**2024/25 TO 2026/27**

**(FEBRUARY 2024)**



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## 1. INTRODUCTION

- 1.1 Medium term financial planning is an important component of the Council's strategic planning framework. Key financial decisions need to be set in the context of a plan that looks beyond the 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 the 2026/27 financial year and covers a five-year capital programme. The MTFS supports the delivery of the Council's 6 priorities as set out in the Council's Corporate Plan 2023-27.
- 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 describe in detail 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
- 1.6 The base position for this MTFS is the current 2023 / 24 budget. The development of the 2024 / 25 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:

*"To be a sustainable council, promoting growth and investment at every opportunity. To support our communities through excellent partnership working and to maintain and improve quality of life."*

## 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.

4.2 Maldon is an attractive and predominantly rural district. It retains an unspoilt nature and its own special character, forged largely by the principal waterways of the Blackwater and Crouch estuaries. Much of the District's 60 miles of coastline of tidal salt marshes and mudflats is recognised as of international and national environmental significance and protected as such.

## 5. MALDON DISTRICT COUNCIL CORPORATE PLAN

5.1 The updated Corporate Plan 2023-27 identifies all local and many national priorities.

5.2 The Corporate Plan will be delivered through six key priorities:

1. Supporting our communities
2. Enhancing and connecting our place
3. Helping the economy to thrive
4. Smarter finances
5. A greener future
6. Provide good quality services.

- 5.3 The Council's greatest asset is its 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.
- 5.4 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 ongoing cost of living crisis, the British Chamber of Commerce (BCC) economic outlook, as released in the Forecasts for the UK Economy Report December 2023, projected growth remains fragile as shown in the table below.

| Year | Economic Growth (GDP)                       |   |
|------|---|---|
|      | British Chamber of Commerce (December 2022) | British Chamber of Commerce (December 2023) |
| 2023 | -1.3%                                       | 0.6%  |
| 2024 | 0.7%  | 0.4%  |
| 2025 | 0.7%  | 0.6%  |

- 6.2 UK individuals and businesses have continued to feel the effects of the pandemic on supply chains which led to soaring inflation; however this began to ease towards the end of the 2023/24 financial year and is forecast to return to Bank of England target levels by 2025. The change of forecasts for the Consumer Prices Index (CPI<sup>1</sup>) are shown below:

| Year | CPI (% change)                              |   |
|------|---|---|
|      | British Chamber of Commerce (December 2022) | British Chamber of Commerce (December 2023) |
| 2023 | 5.0%  | 4.6%  |
| 2024 | 1.5%  | 3.1%  |
| 2025 | N/A   | 1.9%  |

- 6.3 The BCC expects the UK economy to continue with very mild growth for the next two years, with inflation to continue to fall until below 2% by the end of 2025. 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 interest rate progressively over the past 24 months from 0.1% to the current rate of 5.25% to counter it, with rates held at this level since August 2023. The Council has no borrowing but a relatively large amount of Treasury Investments, so increasing interest rates has helped to offset the Council's inflationary pressures. The Council's treasury advisors, Link Group, have forecast that interest rates have now peaked and will begin to decline from the second half of 2024.

## 7. GENERAL FUND REVENUE BUDGET

### Financial Context

- 7.1 The development of the 2023/24 to 2026/27 Medium Term Financial Strategy took place at a time which continued to be a very challenging period for Local Government with the continuing cost-of-living crisis and high inflation after the global pandemic. Many Councils have issued s114 notices indicating they no longer have sufficient resources to fund their statutory services. This MTFS for the period 2024/25 to 2026/27 continues to be challenging with Government funding levels not matching the increasing cost of services. This Council's reserves are forecast to be sufficient to support the funding gap over the MTFS period but it should be noted that this financial scenario is not sustainable over the longer term.
- 7.2 The 2024/25 Final Local Government Financial Settlement was published on 5 February 2024 and set out a small overall increase in grant funding of £148k compared to 2023/24 (£88k more than announced at the Provisional Financial Settlement). The Essex Business Rates Pool is planned to continue; which allows for greater retention of any growth across the county.

### 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 The total population in Maldon grew by £1,200 over the last year (1.8%).
- 7.5 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

### External Income

- 7.6 The Council relies on several external income sources which are at risk of 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.
- 7.7 Historically a key income stream for the council has been the income generated from investment of cash balances. The high interest rates have seen a large increase in this income in the last year. 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.
- 7.8 The Council has a policy to maximise income from existing and new fees and charges where possible and practicable. These are mainly tied to inflation rates.

### Inflation

- 7.9 The financial impact of a 1.0% movement in pay inflation represents around a £0.108m change in the general fund employee budget. A 5% uplift was assumed for 2023 / 24 pay inflation and this average was confirmed following agreement by the National Joint Council. There has been continued increases in the cost of living and pay inflation meaning the Council is forecasting a further 5.0% increase in employee salaries for 2024 / 25. However, this is estimated to return to 2.5% for 2025 / 26 and 2.0% for 2026 / 27.
- 7.10 For the 2024 / 25 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 £0.056m.
- 7.11 No inflationary increase has been applied to the general services budget, except known specific items such as utilities and IT costs.
- 7.12 For future years, the projection assumes an overall averaged inflation rate of around 7.4% for 2023 / 24 based on RPI and 2.5% for 2025 / 26 and 2.0% for 2026 / 27.

### Service demand

- 7.13 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.
- 7.14 Increases in the demand for services, coupled with the loss of external income, will restrict the Council's ability to make overall cost reductions.

### 2024/25 Final Local Government Finance Settlement (LGFS)

7.15 The final 2024 / 25 LGFS was announced on 5 February 2023. The table below shows Maldon's final settlement for 2024 / 25.

| Local Government Financial Settlement 2020/21 to 2024/25   | 2020/21<br>Final<br>LGFS<br>£m | 2021/22<br>Final<br>LGFS<br>£m | 2022/23<br>Final<br>LGFS<br>£m | 2023/24<br>Final<br>LGFS<br>£m | 2024/25<br>Final<br>LGFS<br>£m |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Settlement Funding Assessment of which:  | 1.532                          | 1.532                          | 1.532                          | 1.670                          | 1.731                          |
| Revenue Support Grant (RSG)  | -                              | -                              | -                              | 0.081                          | 0.086                          |
| Baseline Funding Level (Business Rates)  | 1.532                          | 1.532                          | 1.532                          | 1.590                          | 1.645                          |
| (Tariff)/Top-up Adjustment   | (3.867)                        | (3.867)                        | (3.867)                        | (4.758)                        | (4.699)                        |
| <b>Annual Change (%)</b>   | <b>1.6%</b>                    | <b>0.0%</b>                    | <b>0.0%</b>                    | <b>9.0%</b>                    | <b>5.0%</b>                    |
| <b>Cum. Change from 17/18 (%)</b>  | <b>-22.0%</b>                  | <b>-22.0%</b>                  | <b>-22.0%</b>                  | <b>-14.9%</b>                  | <b>-11.8%</b>                  |
| New Homes Bonus – MHCLG  | 0.898                          | 0.930                          | 0.961                          | 0.474                          | 0.495                          |
| Compensation for under indexing the Business Rates multiplier                                      | 0.061                          | 0.080                          | 0.126                          | 0.271                          | 0.337                          |
| Rural Services Delivery Grant  | 0.031                          | 0.032                          | 0.032                          | 0.036                          | 0.042                          |
| Funding Guarantee  | -                              | -                              | -                              | 0.601                          | 0.774                          |
| Lower Tier Services Grant  | -                              | 0.065                          | 0.069                          | -                              | -                              |
| Services Grant   | -                              | -                              | 0.106                          | 0.062                          | 0.011                          |
| Council Tax Requirement excluding parish precepts (incl. base growth and levels increasing by CPI) | 4.982                          | 5.293                          | 5.361                          | 5.664                          | 5.913                          |
| Potential additional Council Tax from £5 referendum principle for all Districts                    | 0.062                          | 0.000                          | 0.000                          | 0.000                          | 0.000                          |
| <b>Total Core Spending Power</b>   | <b>7.566</b>                   | <b>7.932</b>                   | <b>8.187</b>                   | <b>8.778</b>                   | <b>9.301</b>                   |
| Change since 2015/16 (£ million)   |                                |                                |                                |                                | <b>2.0</b>                     |
| Change since 2015/16 (% change)  |                                |                                |                                |                                | <b>27.5%</b>                   |

### New Homes Bonus Scheme

7.16 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 2024 / 25 Final LGFS the government has announced a one-off NHB payment of £0.495m. In 2021 / 22 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 showed 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 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
- 7.19 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.
- 7.20 The 2022 Valuation brought about 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.
- 7.21 Automatic Enrolment has been established by the Government as a requirement for employers to provide a pension scheme for employees. The LGPS is a qualifying scheme for the purposes of Automatic Enrolment within the terms set out by the Pension Regulator.
- 7.22 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
- 7.23 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 Credit

- 7.24 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.
- 7.25 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)

- 7.26 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
- 7.27 This project got underway during 2022 / 23 after Maldon District Council (MDC) made preparations by putting in a growth bid of £50,000 for 2021 / 22 to fund this. The local land charges income has now begun to fall, so this has reduced the overall increase in Fees and Charges forecast for the MTFS period.
- 7.28 The financial implication on the land charges transfer continues to be monitored on an ongoing basis to ensure that budgets reflect latest income expected.

### 2024 / 25 General Fund Budget

- 7.29 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 and recommended by the Strategy & Resources Committee.

## **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.

| <b>Sensitivity Scenario</b>  | <b>2024/25</b> | <b>2025/26</b> | <b>2026/27</b> |
|--|----------------|----------------|----------------|
|  | <b>£m</b>      | <b>£m</b>      | <b>£m</b>      |
| Inflation - Pay award 1% higher than assumed                                   | 0.113          | 0.114          | 0.115          |
| Other Inflation - 1% higher than assumed                                       | 0.061          | 0.073          | 0.074          |
| Average investment interest rate - 0.5% lower than assumed (ave £25m invested) | -0.125         | -0.125         | -0.125         |
| Council Tax Collection - 1% lower than assumed                                 | -0.059         | -0.061         | -0.063         |
| NNDR Collection - 1% lower than assumed  | -0.046         | -0.046         | -0.046         |
| Net Operating Expenditure - 1% overspent                                       | 0.126          | 0.129          | 0.133          |

## **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 £0.059m of income is raised. The MTFS allows an increase in the Basic Amount of Council Tax of £6.52 (2.98%) for 2024 / 25 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                      | 2023/24    | 2024/25    | 2025/26   | 2026/27   |
|---------------------------|------------|------------|-----------|-----------|
|                           | Calculated | Calculated | Projected | Projected |
| <b>Band D Equivalents</b> | 25,892.3   | 26,400.2   | 26,664.2  | 26,930.8  |

- 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 2024 / 25 report to the Strategy and Resources Committee on 23 November 2023.
- 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.
- 11.6 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. 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, with high inflation, the economic environment has continued to test the Council's 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 2026-27 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 any 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.

| <b>Predicted General Fund Balance Movement</b> | <b>2023 / 24 (Revised)</b> | <b>2024 / 25</b> | <b>2025/26</b> | <b>2026/27</b> |
|--|----------------------------|------------------|----------------|----------------|
|  | <b>£000</b>                | <b>£000</b>      | <b>£000</b>    | <b>£000</b>    |
| Balance b/f                                    |                            |                  |                |                |
| General Fund Reserves                          | 5,081                      | 5,823            | 5,673          | 5,251          |
| Earmarked Reserves                             | 8,106                      | 3,973            | 6,720          | 6,542          |
| <b>Total</b>                                   | <b>13,187</b>              | <b>9,796</b>     | <b>12,392</b>  | <b>11,792</b>  |
| <b>Projected Movement</b>                      |                            |                  |                |                |
| General Fund Reserves                          | 742                        | -151             | -422           | -591           |
| Earmarked Reserves                             | -4,134                     | 2,747            | -178           | -538           |
| <b>Total</b>                                   | <b>-3,391</b>              | <b>2,597</b>     | <b>-600</b>    | <b>-1,129</b>  |
| <b>Balance c/f</b>                             |                            |                  |                |                |
| General Fund Reserves                          | 5,823                      | 5,673            | 5,251          | 4,659          |
| Earmarked Reserves                             | 3,973                      | 6,720            | 6,542          | 6,004          |
| <b>Total</b>                                   | <b>9,796</b>               | <b>12,392</b>    | <b>11,792</b>  | <b>10,663</b>  |

### **13. CAPITAL**

#### **Capital spend and funding**

- 13.1 The Council's Capital Programme is agreed on an annual basis and serves the following purposes:
- It sets out how capital projects contribute to the achievement of the Council's corporate objectives.
  - It establishes the criteria for the allocation of capital resources.
  - It provides a framework for the administration of capital projects and monitoring of outcomes.

- 13.2 It is important to note that all capital investment and disposal decisions have been made with reference to the strategic objectives.
- 13.3 The Council's capital programme has in general always been funded using capital receipts, external contributions or from capital grants and the current five-year capital programme is underpinned mainly by capital receipts.
- 13.4 The programmes for 2024 / 25 to 2028 / 29 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 £0.473m. The Capital Receipts Reserve will be £1.683m from 1 April 2024 meaning capital receipts are sufficient for the capital programme to continue beyond 31 March 2029, unless the programme is increased. It should be noted that the capital programme for 2024 / 25 to 2028 / 29 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 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 2024 / 25 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 £6k higher than the existing £0.128m annual revenue budget, £134k.



- 13.10 Members need to be aware that there is currently also £172k 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 5.25% to address high inflation. The Council is debt free, so interest rates do not affect its level of expenditure. However, from March 2024, the Council will be utilising c.£4m of its Treasury Investments to internally borrow for Waste vehicles; this will cost the Council the amount of interest that would have been earned if those funds were invested externally. For its Treasury investments, the Council's interest returns are currently higher than in recent years, as interest rates have been higher.

#### **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 a half, and uncertainty around further reductions in the near future.
  - The Council's future budget gaps, despite historical 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 could be fully utilised over the MTFS period if the programme needs to expand in future years, 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 2027.



## **APPENDIX 1**

This needs to be considered in the context that for 2024 / 25 – 2026 / 27 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 the MTFS 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 A - Medium Term Financial Strategy 2024 / 25 – 2026 / 27

|  | 2024/25<br>£000 | 2025/26<br>£000 | 2026/27<br>£000 |
|--|-----------------|-----------------|-----------------|
| <b>Prior Year Net Expenditure Before Reserves</b>      | <b>14,112</b>   | <b>12,658</b>   | <b>12,853</b>   |
|  |                 |                 |                 |
| <b>Reversal of One-Off Reserve Funded Expenditure:</b> |                 |                 |                 |
| Commitments  | -1,341          | 0               | 0               |
| Other Drawdowns  | -231            | 0               | 0               |
|  |                 |                 |                 |
| <b>Operational Service Pressures:</b>                  |                 |                 |                 |
| Staff Inflation  | 435             | 277             | 227             |
| Non-Staff inflation                                    | 305             | 225             | 149             |
| Contractual Pressures                                  | 73              | 0               | 0               |
|  |                 |                 |                 |
| <b>Growth Items:</b>                                   |                 |                 |                 |
| Reversal of Non-Recurring Prior Year Growth            | -51             | -9              | 0               |
| Repairs & Renewals                                     | 6               | -6              |                 |
| North Essex Economic Board                             | 20              | 0               |                 |
| North Essex Alliance                                   | 20              | 0               |                 |
| Recycling bags   | 60              | 20              | 20              |
| Temporary Accommodation                                | 20              | 0               |                 |
| Princes Road depot                                     | 3               | 0               |                 |
| Prom depot   | 1               | 0               |                 |
| Volunteer training                                     | 2               | 0               |                 |
| Emergency lighting                                     | 4               | 0               |                 |
| HAWS (Hand-Arm Vibration Syndrome) testing             | 3               | 0               |                 |
| Fire Risk Assessments                                  | 10              | 0               |                 |
| Car Parking Card Transaction Fees                      | 20              | 0               |                 |
| Backwater Leisure Centre                               |                 |                 |                 |
| Additional Local Development Plan (LDP) Costs          |                 |                 |                 |
|  |                 |                 |                 |
| <b>Projects Funded from Earmarked Reserves:</b>        |                 |                 |                 |
| Reversal of Prior Year Non-Recurring Reserve Funding   | -343            | -182            |                 |
| Backwater Leisure Centre                               | 14              | 0               |                 |
| Additional LDP Costs                                   | 168             | 0               |                 |
|  |                 |                 |                 |
| <b>Savings:</b>  |                 |                 |                 |
| Elections  | -20             | 0               |                 |
| IT Software  | -58             | 0               |                 |
| Corporate Contingency                                  | -178            | 0               |                 |
|  |                 |                 |                 |
| <b>Fees &amp; Charges Inflationary Increases:</b>      |                 |                 |                 |

**APPENDIX 1**

|  | <b>2024/25</b> | <b>2025/26</b> | <b>2026/27</b> |
|--|----------------|----------------|----------------|
|  | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    |
| Parks & Open Spaces                              | -58            | -24            | -16            |
| Cemeteries                                       | -36            | -15            | -10            |
| Development Control                              | -299           | -125           | -81            |
| Building Control                                 | 27             | 11             | 7              |
| Off-street Parking                               | 59             | 25             | 16             |
| Housing Services                                 | -1             | 0              | 0              |
|  |                |                |                |
| <b>Commercial Income Increases:</b>              |                |                |                |
| Attractions                                      | -22            | 0              |                |
| Council Offices                                  | -67            | 0              |                |
|  |                |                |                |
| <b>Net Cost of Services</b>                      | <b>12,658</b>  | <b>12,853</b>  | <b>13,166</b>  |
|  |                |                |                |
| Pension Fund Deficit Contribution                | 0              | 0              | 351            |
| Investment Income                                | -1,000         | -788           | -738           |
| <b>Net Expenditure Before Reserves</b>           | <b>11,658</b>  | <b>12,066</b>  | <b>12,780</b>  |
|  |                |                |                |
| Contributions to/(from) Earmarked Reserves       | 2,747          | 120            | -240           |
| <b>Expenditure to Be Funded</b>                  | <b>14,405</b>  | <b>12,186</b>  | <b>12,540</b>  |
|  |                |                |                |
| <b>Funding</b>                                   |                |                |                |
| New Homes Bonus                                  | -495           | -495           | -495           |
| Rural Services Delivery Grant                    | -42            | -42            | -42            |
| Compensation for NNDR under-indexing             | -372           | -372           | -372           |
| Services Grant                                   | -10            | -10            | -10            |
| Renewable Energy                                 | -957           | -957           | -957           |
| Funding Guarantee                                | -774           | -774           | -774           |
| Business Rates Baseline Funding                  | -1,305         | -1,305         | -1,305         |
| Business Rates Growth incl S31                   | -2,011         | -2,011         | -2,011         |
| Business Rates levy/benefit                      | 329            | 329            | 329            |
| CTAX and NDR collection fund (surplus) / deficit | -2,671         | 0              | 0              |
| Estimated Yield from Council Tax                 | -5,947         | -6,126         | -6,311         |
| <b>Total Funding</b>                             | <b>-14,255</b> | <b>-11,764</b> | <b>-11,948</b> |
|  |                |                |                |
| <b>Budget Gap</b>                                | <b>151</b>     | <b>422</b>     | <b>591</b>     |

## Appendix B – Capital Programme &amp; Capital Receipts Reserve

| Capital Programme 2024/25 - 2028/29                                  |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|
| Project Title  | Original | Original | Original | Original | Original |
|  | 2024/25  | 2025/26  | 2026/27  | 2027/28  | 2028/29  |
|  | £'000    | £'000    | £'000    | £'000    | £'000    |
| <b>Vehicle &amp; Plant Replacement</b>                               |          |          |          |          |          |
| Trimas Pegasus - Grass cutting machine                               | 35       |          |          |          |          |
| John Deere Gator Vehicle replacement                                 | 30       |          |          |          |          |
|  |          |          |          |          |          |
| <b>Information &amp; Communication Technology</b>                    |          |          |          |          |          |
| PC and Printer Replacement Programme                                 | 47       | 47       | 47       | 47       | 47       |
|  |          |          |          |          |          |
| <b>Parks</b>   |          |          |          |          |          |
| Promenade Park Amphitheatre Strengthening                            | 85       |          |          |          |          |
| Goldhanger – Decommission garages                                    | 35       |          |          |          |          |
| Seawall and Coach Park toilets – replacement lighting                | 12       |          |          |          |          |
| Matting Play surfacing for 4 sites                                   | 75       |          |          |          |          |
| Longfields pathways tarmacing  | 45       |          |          |          |          |
| Remembrance Avenue – Road resurface.                                 | 32       |          |          |          |          |
|  |          |          |          |          |          |
| <b>Brickhouse Farm</b>   |          |          |          |          |          |
| Scout Hut – New flooring   | 36       |          |          |          |          |
| St Georges Play Site – Equipment renewal relocation and installation | 17       |          |          |          |          |
|  |          |          |          |          |          |
| <b>Rivers</b>  |          |          |          |          |          |
| New Navigation buoys   | 14       |          |          |          |          |
|  |          |          |          |          |          |
| <b>Leisure &amp; Sports</b>  |          |          |          |          |          |
| Plume school - Replacement Carpet Astro pitch                        |          | 125      |          |          |          |
|  |          |          |          |          |          |
| <b>Cemeteries</b>  |          |          |          |          |          |
| Renovation of garden of remembrance                                  | 10       |          |          |          |          |
|  |          |          |          |          |          |
| <b>Play Equipment (s106 Funded)</b>                                  |          |          |          |          |          |
| Maldon Skate Park/BMX Track refurbishment Resurfacing                | 500      |          |          |          |          |
| Riverside Skate Park Equipment and                                   | 186      |          |          |          |          |

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| Project Title                        | Original     | Original   | Original   | Original   | Original   |
|--------------------------------------|--------------|------------|------------|------------|------------|
|                                      | 2024/25      | 2025/26    | 2026/27    | 2027/28    | 2028/29    |
|                                      | £'000        | £'000      | £'000      | £'000      | £'000      |
| Surface                              |              |            |            |            |            |
| West Maldon skate park / BMX track   | 50           |            |            |            |            |
| New accessible play site (Sensory)   |              | 100        |            |            |            |
|                                      |              |            |            |            |            |
| <b>Housing</b>                       |              |            |            |            |            |
| Mandatory Disabled Facilities Grants | 539          | 539        | 539        | 539        | 539        |
|                                      |              |            |            |            |            |
| <b>Total Capital Programme</b>       | <b>1,748</b> | <b>811</b> | <b>586</b> | <b>586</b> | <b>586</b> |
|                                      |              |            |            |            |            |
| <b>Funding</b>                       |              |            |            |            |            |
| Capital Receipts Applied             | 473          | 172        | 47         | 47         | 47         |
| s.106 Funded                         | 736          | 100        | 0          | 0          | 0          |
| Government Grant                     | 539          | 539        | 539        | 539        | 539        |
| <b>Total Funding</b>                 | <b>1,748</b> | <b>811</b> | <b>586</b> | <b>586</b> | <b>586</b> |

| Capital Receipts Reserves Movements | 2024/25    | 2025/26    | 2026/27    | 2027/28    | 2028/29    |
|-------------------------------------|------------|------------|------------|------------|------------|
|                                     | £000       | £000       | £000       | £000       | £000       |
| Opening Balance                     | 1,271      | 798        | 626        | 626        | 579        |
| Capital Receipts Utilised           | -473       | -172       | -47        | -47        | -47        |
| <b>Closing Balance</b>              | <b>798</b> | <b>626</b> | <b>579</b> | <b>579</b> | <b>532</b> |

## 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.
- A Collection Fund Adjustment Account – as a Billing Authority within Essex, this accounts for all monies and surpluses/deficits held on behalf of the Council's preceptors.

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.



## 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.