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CITY OF Lincoln COUNCIL

EXECUTIVE

Monday, 17 October 2022	6.00 pm	Committee Rooms 1 and 2, City Hall, Beaumont Fee, Lincoln, LN1 1DD

Membership: Councillors Ric Metcalfe (Chair), Donald Nannestad (Vice-Chair), Chris Burke, Sue Burke, Bob Bushell and Neil Murray

Officers attending: Angela Andrews, Democratic Services, Kate Ellis, Jaclyn Gibson, Daren Turner, Simon Walters and Carolyn Wheater

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A G E N D A

SECTION A **Page(s)**

1. Confirmation of Minutes -3 October 2022 **3 - 10**

2. Declarations of Interest

   Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.

OUR PEOPLE AND RESOURCES

3. Setting the 2022/23 Budget and Medium Term Financial Strategy 2023/24 – 2027/28 **11 - 44**

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ECONOMIC GROWTH

5. Western Growth Corridor-Next Steps **To Follow**

6. Exclusion of the Press and Public **59 - 60**

   You are asked to resolve that the press and public be excluded from the meeting during the consideration of the following items because it is likely that if members of the press or public were present, there would be disclosure to them of 'exempt information'.

   In accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, notice is hereby given of items which will be considered in private, for which either 28 days' notice has been given or approval has been granted by the appropriate person specified in the Regulations. For further details please visit our website at http://www.lincoln.gov.uk or contact Democratic Services at City Hall, Beaumont Fee, Lincoln.

This item is being considered in private as it is likely to disclose exempt information, as defined in Schedule 12A of the Local Government Act 1972. No representations have been received in relation to the proposal to consider this item in private.

SECTION B

ECONOMIC GROWTH

7. Western Growth Corridor-Next Steps **To Follow**

[Exempt Para(s) 3]

Executive **3 October 2022**

Present: Councillor Ric Metcalfe *(in the Chair)*, Councillor Donald Nannestad, Councillor Chris Burke, Councillor Sue Burke, Councillor Bob Bushell and Councillor Neil Murray

Apologies for Absence: None.

33. Confirmation of Minutes - 22 August 2022

RESOLVED that the minutes of the meeting held on 22 August 2022 be confirmed and signed by the Leader as a correct record.

34. Declarations of Interest

No declarations of interest were received.

35. Financial Performance-Quarterly Monitoring

Purpose of Report

To present the first quarter's performance (up to 30 June 2022) on the Council's General Fund, Housing Revenue Account, Housing Repairs Service and Capital Programmes, and to seek approval for changes to the capital programmes.

Decision

1. That the financial performance for the period 1 April 2022 to 30 June 2022 and the projected outturns for 2022/23 be noted.

2. That the underlying impact of the pressures and underspends identified in paragraphs 3.2 (and Appendix B), 4.2 (and Appendix D), and 5.2 (and Appendix F) be noted.

3. That the changes to the General Investment Programme approved by the Chief Finance Officer as detailed in paragraph 7.4 be noted.

4. That the changes to the General Investment programme and the Housing Investment programme as detailed in paragraphs 7.3, 7.10 and 7.11 be approved.

Alternative Options Considered and Rejected

None.

Reason for Decision

The Council approved a balanced budget earlier this year, but much had changed since that point. Critically, inflation had risen to the highest level in forty years, driven in part by the effects of Covid19, global supply chain disruptions, Brexit and the war in Ukraine. The consequence of this spiralling inflation on pay, contractual and energy costs had resulted in growing financial pressures for the Council, with the General Fund forecasting a significant financial shortfall for

2022/23 and with cost pressures also in the Housing Revenue Account and Housing Repairs Service.

As a result, the Council needed to consider a range of mitigation actions if it was to retain a sustainable financial position in 2022/23. Alongside this the Council would focus on lobbying Central Government for funding to support councils through these inflationary pressures, and for long-term sustainable funding settlements for local government.

The impact of these new financial pressures the Council faced could not be underestimated and were not solely related to 2022/23. These inflationary increases would permanently increase the cost base of the Council and would have implications for the Medium-Term Financial Strategy and, in the absence of additional financial support from Central Government, implications for the range and level of services that the Council could continue to provide. A further report setting out the financial impact beyond 2022/23 would be presented to the Executive later in October.

Whilst there were a significant number of planning variables which were subject to unprecedented levels of uncertainty, based on the latest set of assumptions as at the end of the first quarter (up to 30th June) the forecast financial position of the Council was detailed at paragraph 2.6 of the officer's report

Updates were reported as follows:

General Fund Revenue Account

For 2022/23 the Council's net General Fund revenue budget was set at £8,907,490 including a planned contribution to balances of £60,700 (resulting in an estimated level of general balances at the year-end of £2,731,299 after allowing for the 2021/22 outturn position).

The General Fund Summary was currently projecting a forecast overspend of £1,035,343 (Appendix A provided a forecast General Fund Summary), resulting in general balance at the year-end of £1,695,956.

There were a number of forecast year-end variations in income and expenditure against the approved budget; as detailed at paragraphs 3.3- 3.4 of the report, with the main variances provided in Appendix B to the report.

In addition, other service costs and income were subject to fluctuation during the year as the cost-of-living crisis and external economic factor impacted both directly and indirectly on households and businesses. This could lead to; an increased demand for council services, as the more vulnerable in the City looked to the Council for support; and a reduction in both income for services and collection rates as household and business incomes became under pressure.

Despite the high level of uncertainty, it was clear that the General Fund faced a significant financial shortfall for 2022/23. In response to this a range of options and mitigations were currently being explored and developed. These would focus on both short-term measures to ensure a balanced budget could be maintained for 2022/23, as well as looking at more medium-term options to ensure the Council's ongoing financial sustainability. These mitigations would not be without impacts on services in terms of both performance levels and the range of services the Council could continue to provide. They also brought with them their own financial risks e.g., the depletion of reserves and increased exposure, etc. An update on these options would be presented to the Executive in due course.

Alongside the development of these options, a key strand would be to lobby Central Government for additional financial support for Local Government and to support sector campaigns/lobbying regarding sustainable funding mechanisms and medium-term financial settlements for Local Government. After a decade of austerity cuts and after cushioning the impacts of Covid19 on the Council's finances, in the absence of additional financial support from Central Government, the Council would be forced to look closely at the range and level of services it could continue to provide.

Towards Financial Sustainability Programme

The savings target included in the MTFS for 2022/23 was £1,050,000. Total savings secured and brought forward from last financial year were £716,410 leaving an in-year target of £333,590. Progress against this target, based on quarter 1 performance showed that secured savings totalled £20,180. As part of the development of options to mitigate the forecast budget shortfall, it may be necessary to increase the level of savings required in year. This would form part of a future report to the Executive.

A summary of the specific reviews that had contributed to this target were shown in Appendix K.

Housing Revenue Account

For 2022/23 the Council's Housing Revenue Account (HRA) net revenue budget was set at a £38,670 use of balances, resulting in an estimated level of general balances at the year-end of £1,063,872, after allowing for the 2021/22 outturn position.

The HRA was currently projecting a forecast overspend of £161,365 (Appendix C provided a forecast Housing Revenue Account Summary), which would decrease the General Balances to £902,507 at the end of 2022/23.

There were a number of forecast year-end variations in income and expenditure against the approved budget as outlined at paragraph 4.3 of the report, with full details of the main variances provided in Appendix D of the report.

The HRA was currently forecasting an overspend at the end of the financial year. However, the largest variance for the HRA was the current forecast underspend on Repairs and Maintenance. This was as a direct result of the issues that were currently being experienced in the Housing Repairs Services (HRS), as set out in Section 5 of the officer's report. This had led to a significant reduction in the level of repairs that were being undertaken and a consequent reduction in expenditure recharged to the HRA. This was in part offset by the large forecast deficit by HRS, as seen in the repatriation variance above, due to a reduction in rechargeable works. The HRA and HRS were working hard to address these issues, continuing to implement a range of previously agreed actions. This may result in this underspend being reduced over the remainder of the year.

In addition, other major variances were as a direct result of the inflationary pressures that the Council was facing, which the HRA was also impacted by. These included; an estimate of pay inflation, over and above the assumptions included within the MTFS, based on the latest pay offer made by the National Employers, alongside an increase in inflation on utilities as a result of the escalating cost of gas and electricity supplies (although this was in part mitigated by reduced usage levels due to flexible working).

At this stage no additional mitigations, other than those currently being implemented in response to the issues faced by the HRS, were recommended. Strong budgetary control also remained a focus in this financial year to ensure expenditure and income were balanced within budget

Housing Repairs Service

For 2022/23 the Council's Housing Repairs Service net revenue budget was set at zero, reflecting its full cost recovery nature..

At quarter 1 HRS ware forecasting a deficit of £550,765 in 2022/23 as detailed within the forecast HRS summary at Appendix E, with full details of the main variances provided in Appendix F of the report.

The main contributory factor for this deficit was still the ongoing impact of Covid19 and the inability to recruit to the workforce, and the resulting increased use of sub-contractors. The cost of subcontractors was more expensive that the HRS's own workforce, due to the ongoing impact of Covid19, the current inflationary crisis and a reduced pool of contractors from which to secure services. These additional costs were therefore not fully offset by the vacancy and material savings achieved by not carrying out the work internally. Furthermore, the increased subcontractor costs were not reflected in the service hourly rate and resulted in an under recovery of costs from the HRA, coupled with a reduction in jobs being carried out and the ability to recoup overhead costs.

The forecast deficit also includes an estimate of pay inflation, over and above the assumptions included within the MTFS, based on the latest pay offer made by the National Employers, alongside an increase in inflation on utilities as a result of the escalating cost of gas and electricity supplies.

It should be noted that due to the interconnection of the HRS and HRA, the consequential costs in the HRA were also greatly reduced (as noted earlier in the report) and therefore financial picture for the Directorate was not unhealthy.

General Fund Investment Programme

The original General Investment Programme for 2022/23 in the MTFS 2022-27 amounted to £19.407m which was increased to £30.913m following quarter 4 approvals and year end re-profiles from 2021/22. At quarter 1 the programme had been increased by £1.429m to £32.342m.

Financial changes delegated to the Chief Finance Officer for the first quarter 2022/2023, together with those requiring Executive approval were detailed at paragraphs 7.3-7.4 of the report.

The overall spending on the General Investment Programme for the first quarter of 2022/23 was £1.68m, which was 2.65% of the 2022/23 active programme (excluding externally delivered schemes), as detailed further at Appendix J of the report

Although this was a low percentage of expenditure at this stage of the financial year, further expenditure was expected in quarter 2 on Disabled Facilities Grants, Town's Deal Schemes and various capitalised maintenance schemes. At 31st July, a further £0.27m had been spent on the active programme

Housing Investment Programme

The original Housing Investment Programme for 2022/23 in the MTFS 2022-27 amounted to £21.72m. This was increased to £23.17m following approvals and year end re-profiles as part of the 2021/22 outturn. This has been further adjusted to £23.25m during the first quarter of 2022/23.

There were no financial changes delegated to the Chief Finance Officer for approval for the first quarter 2022/2023; those requiring Executive approval were detailed at paragraphs 7.10-7.12 of the officer's report.

Expenditure against the HIP budget to the first quarter was £1.37m, which was 5.88% of the revised programme. A further £0.67m had been spent as at the end of July 2022 as detailed further at Appendix L of the report.

Although this was a lower percentage than would be expected at this stage of the financial year, works had been constrained by the availability of contractors and materials however new contracts were in place and spend was expected to increase in future periods.

36. CCTV Code of Practice Update

Purpose of Report

To share the revised CCTV Code of Practice with the Executive, seeking its formal adoption.

Decision

1. That members adopt the revised Code of Practice.

2. That the Code of Practice be reviewed again in response to any changes made by the Data Protection and Digital Information Bill if/when it became law.

Alternative Options Considered and Rejected

The Council was required to have a clear policy for the operation of its CCTV system.

By not adopting the new Code the Council would be at risk of challenge relating to operating to an out of date Code, and the Code would not properly reflect operational changes and legislative changes which had already been delivered in practice.

Reason for Decision

The Council's CCTV service was bound by various legislative requirements, including the Data Protection Act, Human Rights Act, Protection of Freedoms Act and Regulation of Investigatory Powers Act.

The Council's CCTV service operated under a Code of Practice which brought together the various legislative requirements of a public CCTV system and ensured that the service operated lawfully and appropriately, providing a robust, reliable, trustworthy service.

This revision took into account operational and legislative changes since the last full review in 2014, ensuring compliance with the Surveillance Camera Commissioner's (SCC) Code and all relevant legislation. Members, residents of Lincoln and visitors to the City could therefore be assured that the service was operating appropriately, efficiently and in a manner that maximised opportunities to help detect and reduce crime, and to make Lincoln a safer place, whilst protecting the privacy of individuals.

At the time of drafting this report, the Data Protection and Digital Information Bill was making its way through parliament. If this bill became law there were implications for CCTV, including changes to the role of Surveillance Camera Commissioner. The Code of Practice would be reviewed again in light of those changes.

37. Exclusion of the Press and Public

RESOLVED that the press and public be excluded from the meeting during consideration of the following items of business because it was likely that if members of the public were present there would be a disclosure to them of 'exempt information' as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

38. Bulky Items Collections

Purpose of Report

As detailed in the exempt report to the Executive.

Decision

That the recommendations to the Executive, as set out in the exempt report, be approved.

Alternative Options Considered and Rejected

As detailed in the exempt report to the Executive.

Reasons for the Decision

As detailed in the exempt report to the Executive.

39. Disposal of Unused Land for Provision of Supported Accommodation

Purpose of Report

As detailed in the exempt report to the Executive.

Decision

That the recommendations to the Executive, as set out in the exempt report, be approved.

Alternative Options Considered and Rejected

As detailed in the exempt report to the Executive.

Reasons for the Decision

As detailed in the exempt report to the Executive.

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Item No. 3

EXECUTIVE COMMITTEE **17th OCTOBER 2022**

SUBJECT:	**SETTING THE 2023/24 BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2023/24 – 2027/28**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**JACLYN GIBSON, CHIEF FINANCE OFFICER**

1. Purpose of Report

1.1 This report updates the Executive on the latest Medium Term Financial Strategy (MTFS) position for the Council, including; the challenges in preparing for the 2023/24 and future years budget, setting out the parameters within which the Council will prepare these budgets, and confirms the Council's approach to development of the budget and MTFS.

1.2 Included in the report is an update on the current economic position and developments in national policy, specifically the recent fiscal statement and the implications for public sector and local government spending. This, along with the unavoidable, and unprecedented, costs pressures, cost of living crisis and rising demand for Council services, will inform the development of the MTFS.

2. Executive Summary

2.1 The Council's Vision 2025 and five strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's strategy and priorities.

2.2 The refreshed MTFS will include financial projections for the five-year financial planning period through to 2027/28. It will set out the financial parameters within which the Council is required to work and the recommended approach to addressing the financial challenges the Council faces to develop a balanced, sustainable, budget and set a Council Tax for 2023/24.

2.3 In March 2022, the Council agreed the budget for 2022/23 and MTFS 2022-2027. At that point the Council was in a robust financial position with a balanced MTFS, based on delivering a remaining budget gap of £0.750m, in the General Fund, by 2024/25.

2.4 Much has changed since March 2022, with spiralling inflation, soaring energy prices and nationally agreed pay proposals set to add significant cost pressures to the Council's budgets. These are in the main part caused by national issues, beyond the Council's control, and are impacting all Councils. In addition, the current cost of living crisis has the potential to increase demand for the Council's services by those who rely on the safety net provided by local government. These unforeseen and unavoidable pressures have seriously impacted the assumptions that underpin the MTFS. These new pressures come at a time when the Council is still recovering from the detrimental financial effects of Covid19 pandemic and after facing a decade of austerity measures.

2.5 Furthermore, there still remains uncertainty around the level of funding for local government beyond the current financial year. The Fair Funding Review and Business Rates Retention Policy remain unresolved, whilst plans for the re-set of the Business Rates tax base originally planned for 2020 are also still unknown. Despite a three-year Spending Review announced for 2022/23 to 2024/25 the Local Government Financial Settlement was for only one year. These reforms have the ability to fundamentally alter the course of the MTFS. Providing certainty on these issues would make a significant difference to the Council’s financial planning and therefore the services it delivers.

2.6 As a result of these factors, the Council, and local government as a whole, are yet again having to update their medium-term financial strategies in a very uncertain environment. The rise in inflation of (of over 6%) since the Spending Review has all but wiped out any real terms increase in core spending power. With inflation still yet to peak, with latest forecasts predicting this to reach 11% by October, the impact on the Council’s running costs are forecasted to be hugely significant. The LGA has warned that the impact on council services could be extremely challenging with reductions to services due to £3.6bn of inflation and energy price pressures across local government over the next few years.

2.7 Against this backdrop of significant uncertainty and volatility, this report sets out the current financial planning assumptions that will form the basis of the MTFS refresh. This medium-term financial planning is critical to ensuring that the Council has an understanding of the likely level of available resources and the potential costs of delivering services, identifying budget shortfalls at the earliest opportunity to ensure appropriate action can be taken in advance.

2.8 Based on the current financial planning assumptions it is estimated that the Council will need to make reductions in the annual net cost base of the General Fund of c£2.75m. This is a significant target for the Council to achieve, particularly in light of the annual revenue reductions of £10m that have been delivered over the past decade. The Council will ultimately have to make some difficult decisions over the next 12 months as it prioritises which services it can afford to continue to deliver, doing so in the midst of a cost of living crisis.

2.9 Now more than ever, careful and prudent financial management will be required if the Council is to balance the reductions required in the net cost base, ensuring it remains in a sustainable financial position, whilst still aspiring towards Vision 2025.

3. Background

Economic Climate

3.1 The UK’s economy is currently in a precarious position and is dominated by the rising cost of living pressures for UK households, with high inflation, weak growth and rising interest rates. Against this backdrop, the new Chancellor of the Exchequer made a ‘fiscal statement’ on 23rd September and published a new Growth Plan 2022.

3.2 Following this, on 30th September 2022, the Office for National Statistics (ONS) published revised UK GDP statistics which showed a 0.2% increase in the second quarter (April to June) of 2022, revised up from an earlier quarterly estimate of a 0.1% decrease. This revised figure was better than expected and reversed an assessment by the Bank of England that the UK was in recession by June (defined as two consecutive quarters of contraction). Despite this upwards revision it was not enough to boost GDP growth sufficiently to recover from the first lockdowns in 2020. The ONS stated that, due to a combination of a deeper recession during the pandemic and a weak recovery, the UK economy was the only G7 economy which had not returned to pre-Covid19 levels of real GDP. Given the current economic conditions, forecasters say it is a case of ‘when’ rather than ‘if’ the UK eventually falls into recession.

3.3 The Chancellor’s fiscal statement set out a range of tax cuts and national insurance reductions, steps that would reduce the country’s tax revenue. This came on top of increased spending on a package to cap energy prices as a way to help households and firms facing higher costs. With income down and spending up, the implication would be more borrowing, although this was not specifically stated. The chancellor did not request that the Office for Budget Responsibility (OBR) produce a full fiscal and economic forecast to accompany the fiscal statement. In the absence of the OBR’s assessment, it was left to the financial markets to determine, resulting in turmoil with the pound plummeting, banks withdrawing mortgages and a £65bn bail-out, from the Bank of England to save pension funds from collapse.

3.4 The OBR’s independent analysis of the fiscal statement is expected to be delivered to the Government on 7th October, although will not be published until the Chancellor’s Medium-Term Fiscal Plan and update on progress of the Growth Plan are announced on the 23rd November. Until then there is likely to remain uncertainty as to whether the tax cutting proposals can deliver the required economic growth and shore up market confidence in the UK’s economic outlook.

3.5 Inflationary pressures have been mounting in the UK economy over the past year, largely due to the war in the Ukraine, the effects of Covid19 and Brexit, but specifically due to a number of factors, including; increasing energy prices; petrol and diesel prices, food prices, the cost of raw materials, household goods and furniture, the cost of hotel and restaurant prices and higher mortgage costs due to increased interest rates. Consumer price index (CPI) inflation has already crept above 10% in July 2022, although has slightly fallen back to 9.9% in August. It was set to peak at 14% in Autumn and go as high as 18% in 2023. But, there are encouraging signs that this will not happen, oil and food prices have already fallen from their peaks and the Government’s plans to limit rises in energy bills also means prices will go up more slowly. Revised forecasts now expect inflation to peak at 11% in October and then remain above 10% for a few months before starting to come down, with an expectation that it will be close to the Bank’s target level of 2% in around two years

3.6 In response to this rampant inflation and in an effort to bring inflation back down to the target rate of 2%, the Bank of England has tightened monetary policy more quickly than expected. Following an emergency rate cut in March 2020 the Bank of England Base Rate had been at a 325-year low of 0.1%. However, in December 2021, the Bank voted to raise interest rates by 0.15% to 0.25%, this was followed by further increases of 0.25% in March, May and June 2022. With the inflationary pressures continuing to intensify, further increases of 0.5% (the biggest hikes in 27 years) were applied in August and September. The Base Rate currently stands at 2.25%, it's highest level since 2008.

3.7 There is currently much speculation around further expected increases. The Chancellor's fiscal statement, and resulting impact on the pound falling to a record low against the dollar, is largely expected to trigger the Bank to raise rates in an attempt to curb inflation and to stabilise the financial markets. The Bank have said there will need to be a significant monetary response to the fiscal statement but would prefer this to be done as part of the regular decision-making cycle. The current expectation is that the rates will increase by as much as one percentage point when the Bank next votes on 3rd November, with a further increase again in December. Further increases are likely over the course of the next year with some economists expecting rates to rise above 4% by the end of 2022 and as high as 5.5% by July 2023.

Public Sector and Local Government

3.8 <u>Public Sector Expenditure</u>

Following two years of single-year Spending Reviews, with 2019 being a single year due to the political turbulence around Brexit, and 2020 being a single year given the pandemic, the Government set out it's first return to multi-year spending reviews in Autumn 2021. The SR21 set out the Government's intent to Build Back Better, with a key focus on the Levelling Up agenda. Since the publication of the SR21 there has been both political and economic turmoil cumulating in the new Government announcing a fiscal statement, as set out above. It was also widely expected that, in response to the considerable changes in the economy and inflationary pressues, that the new Government would hold a new Spending Review. The Treasury has, however, now confirmed that the Government is "sticking to spending settlements for this Spending Review period" and is expected to instruct departments to find savings where possible.

3.9 The Government's decision to not go ahead with a Spending Review this year, that recognises inflation, is extremely concerning and means that the various government departments will need to make difficult decisions on services as inflation erodes budgets. The SR21 provided 3.3% real-terms growth (based on inflation predictions at the time) in departmental budgets between 2022/23 and 2024/25. However, with the inflation estimates being outstripped the funding increases are far less generous than intended. The Institute for Fiscal Studies (IFS) have forecast that price rises will erode 60% of the planned increase in departmental budgets and that to match the real-terms funding increase pledged last year, the Government would need to allocate a further £44bn over the period up to 2024/25.

3.10 Local government is unlikely to be immune from any spending reductions. After a decade of austerity where councils delivered a disproportionate share of the burden of public expenditure cuts (having faced a £15 billion real terms reduction to core government funding between 2010 and 2020), and on top of the unprecedented budget pressures created over the last two years as a result Covid19, there are an unprecedented number of councils in financial crisis.

3.11 It comes as councils face demand for services continuing to rise just as the price of providing them is also escalating dramatically. This risks hampering councils efforts to level up communities and support residents, and businesses, through the cost of living crisis. Without government support to meet inflationary pressures, coupled with the growing demand councils face huge financial uncertainty and will face difficult decisions as to whether to let quality standards slip or to reduce the scope of services they provide. This sharp spike in inflation and energy prices is an unprecedented crisis which could not have been predicted by either central of local government when the Government finalised the Local Government Finance Settlement earlier this year and councils set their budgets in March.

3.12 Analysis undertaken by the Local Government Association (LGA) has shown that, inflation, energy and projected pay increases will add £2.4bn in extra cost pressures onto council budgets in this year alone, rising to £3.6bn in 2024/25. This is forcing councils to reset budgets with potential cuts to the essential services people rely on. The Chair of the LGA has said "as our analysis shows, the impact on our local services could be disastrous, this will stifle our economic recovery, entrench disadvantage, and undermine government ambitions to level up the country".

3.13 <u>Local Government Funding</u>

Whilst the SR21 set out the overall quantum for local government funding, the specific allocation of funding to individual authorities is affected by a number of mechanisms. Prior to the outbreak of Covid19 the Government had intended on making a number of fundamental reforms to these mechanisms, which will have significant impacts on the level of funding each local authority. These reforms have been pending now since 2019, having also been delayed by one year due to the impact of Brexit. These reforms are:

- The Fairer Funding Review
- Business Rates System Reset and introduction of 75% Rates Retention

3.14 The Fairer Funding Review is expected to deliver both a new set of formulas for estimating the relative spending needs (the current formulas are based on spending needs from 2013/14) of different local authorities, and a more rational overall funding system that better takes into account spending needs and revenue-raising capacity. The Review should establish new baselines at the start of a reset to the Business Rates Retention scheme. Although previous technical consultations had been published, prior to the pandemic and current economic and cost of living crisis, which indicated a shift in resources from district councils towards statutory social services at county and unitary level, there has been no new consultation on any proposed new formula. More recently the former Secretary of State for Local Government had indicated that the Review would seek to support the

Government's levelling up policy agenda. Until further consultations are announced there remains significant uncertainty as to the direction and impacts of the Review.

3.15 Business Rate Reform, including the Business Rates Reset and future plans for Business Rates Retention were also planned to be introduced alongside the Fair Funding Review and as part of a multi-year settlement. A full business rate baseline reset of accumulated growth is expected to take place, with the intention of better reflecting how much local authorities are actually collecting in business rates. This reset has the effect of wiping out any business rate gains that individual authorities have built since the launch of the current system in 2013/14. This has significant financial implications for the majority of local authorities, for those below their baselines this would be a positive move, but it presents a serious threat to those with high growth above baselines, with a punitive, cliff-edge reset.

3.16 It was hoped that a multi-year Finance Settlement for local government would provide some much-needed clarity in terms of the future of local government funding and on the timing of these funding reforms. However, despite the announcement of the three-year SR21, this was not followed up with a three-year Finance Settlement for local government, who instead received a one-year settlement. As such there is still no specific timetable for implementing the Fair Funding Review or Business Rates Reset. In recent days, the Local Government Minister, whilst speaking at a conference, has stated that there will be no Fair Funding Review during this Spending Review period. It would be reasonable to presume that this also relates to the Business Rates Reset and Retention forms, but until this is officially announced Local authorities continue to wait for clarity over whether and when each of the planned local government finance reforms will be implemented. Providing certainty on these issues would make a significant difference to the Council's financial planning and therefore the services it delivers.

4. Integrating Strategic, Service and Financial Planning

4.1 The Council's Vision 2025 and five strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's Vision and priorities.

4.2 The MTFS is central to identifying the Council's financial capacity to deliver it's vision and strategic priorities, this requires a balance to be struck between the need to support the delivery of the vision with the need to maintain a sustainable financial position. This balance has become extremely difficult in recent years given the Council's financial position and a need to continue to reduce the net cost base. During the development of the MTFS striking this balance manifests itself in two main ways; it guides decision making in terms of proposals presented in order to achieve any savings targets; and it determines the allocation of resources towards strategic priority areas both in operational service delivery and project implementation.

4.3 The three-year Annual Delivery Plan (ADP) for the remaining period of Vision 2025 has been developed following a mid-term review of the proposals in the original vision. This review was an opportunity to review and relaunch Vision 2025 and ensure that the actions taken to meet the priorities will help tackle the needs of the City's residents and businesses. As part of this work, the effect of Covid19 on the health of residents was considered – and as a result resources were refocused towards prevention and addressing those areas, including health inequalities, that will be needed most in the next three-year period.

4.4 The new three-year ADP includes a significant amount of new investment, primarily of a capital nature, aimed at supporting the economic prosperity of the City and is largely funded through external grant funding. In addition, through the refocusing of existing resources and allocation of the Vision 2025 earmarked reserve, there are also a number of new revenue schemes. Critically though, the ADP also recognises the need to reduce the Council's net cost base alongside the further new investment to support the priorities.

4.5 Despite the challenges posed to the Council's financial position it remains committed to seeking to deliver the schemes included in the three-year ADP. The capital schemes in the plan continue to be fundamental to the Council's role within the city, however due to escalating construction costs, there may be need to rephase elements of the programme that have not yet been started. All opportunities to contain costs and/or seek alternative funding opportunities will be undertaken. In addition, the revenue schemes in the plan will also be reviewed to identify whether there are alternative funding sources available. Whilst these initiatives remain the Council's priority areas for the allocation of resources, there may inevitably need to be some re-prioritisation of resources if alternative funding cannot be found.

5. Development of the Budget and MTFS

5.1 As set out earlier in this report, local councils are facing dramatically escalating costs along with rising demand for services. The Council's own financial position is no different to this. The costs of soaring inflation, energy prices and nationally agreed pay increases have created unforeseen extra cost pressures, which will require budgets to be reset.

5.2 These escalating costs are across a number of key areas of which the Council largely has no influence over, these affect both day to day services and capital investment schemes:

- Pay inflation - the proposed pay offer made by the National Employers side, whilst recognising the below inflation pay increases of local government workers in recent years, places a significant additional burden on local authorities. Nationally the average pay assumption for 2022/23 was 2.4%, the proposed pay offer far outstrips this with increases of 10.5% for the lowest paid grades.

- Contractual commitments - the Council has a number of key service contracts, for front line services e.g. waste collection, that are linked to annual contractual inflationary increases. Given the current and forecast levels of CPI/RPI there is a significant gap between the cost increases the Council is incurring, and the budget assumptions made.

- Gas and Electricity prices – utility costs have dramatically increased, gas prices have risen by 70% since April 2022, with further increases of between 180-200% forecasted for April 2023 and electricity prices are set to increase by 80-100% from October 2022. Whilst the Council seeks to secure economies of scale through the use of framework agreements, it is not immune to the current escalating cost of energy prices. Whilst the Energy Bill Relief Scheme will provide some support, this is only for a short period of six-months.

- Construction and capital costs – the cost of delivering capital schemes is escalating due to inflationary pressures borne by contractors as well as labour shortages, material shortages and supply chain issues. In addition, the cost of borrowing to fund capital schemes is also increasing impacting on the affordability of projects.

5.3 In terms of service delivery, the Council is facing growing demands for some of it's key services as those more vulnerable in the city, a client group that was impacted the hardest during Covid19, look to the council for support as the cost-of-living crisis hits household incomes. Due to Lincoln's specific set of local socio-economic factors this places a greater demand on key services and resource allocation than in most other places.

5.4 These inflationary and service pressures are taking a toll on the financial resilience of the Council, at a point in time when it is still in the process of rebuilding reserves and balances following the impact of Covid19. These new financial challenges are though even more severe than the impacts of the pandemic, they are not temporary cost pressure spikes that will fall away as the economy stabilises, they represent structural changes in the Council's ongoing net cost base and will have implications beyond the period of the MTFS.

5.5 In light of developments over the last 12 months there is a need to fundamentally review and reset the assumptions that underpin the MTFS and to address the impact of the new and emerging challenges on the overall level of resources available to support the Council's budget. The strategy also needs to roll-on for a further year so that it now incorporates the five years to 2027/28.

5.6 In conjunction with the review of underlying budget assumptions, the development of the budget and MTFS will include the preparation by the Directorates and Financial Services of indicative service base budgets. These budgets will be prepared on an incremental basis and will only be updated in accordance with the assumptions set out in Appendix A. Officers will also review existing savings and pressures in the indicative base budgets and identify any further new/emerging pressures for consideration. At this stage in the development of the MTFS, additional service and demand pressures of c£0.380m have been estimated. The intention is though that any new service pressures identified which have not already been taken account of in the revised assumptions will, as much as possible, need to be managed within existing base budgets.

5.7 Alongside this the overall level of resources from Council Tax, Business Rates, Housing Rents, Government Grants etc will be estimated in line with the assumptions detailed in Appendix A.

5.8 General Fund

As referred to above the preparation of the base budgets and resource levels are based on a range of assumptions for key variables, e.g., inflation, interest rates, council tax base, business rates base etc. These assumptions are reviewed on a continual basis and will be subject to change as the development of the budget progresses. The key changes to the assumptions (further detail of which are set out in Appendix A) for the General Fund, at this point in time, which will have a financial impact are set out below:

Figures in ( ) equate to a surplus	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Reduction in Council Tax income	115	75	80	70
Contractual inflationary increase	680	930	950	970
Utility price increases	620	640	650	660
Pay inflation increases	720	860	870	880
National Insurance reductions	(105)	(110)	(110)	(110)
Fees & Charges increases	(350)	(360)	(370)	(380)
Emerging service demands/pressures	350	360	370	380
Total Budget Pressures	**2,030**	**2,395**	**2,440**	**2,470**

5.9 The most critical of the assumption uncertainties is the Local Government Finance Settlement and implementation of the national funding reforms. Whilst it was anticipated that these would be in place, and a two-year settlement announced, it now seems increasingly unlikely that this will be the case, certainly for 2023/24. On the basis of a one-year delay in these reforms, the estimated additional resources would be as follows:

Scenario 1

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Business Rates Retention	(1,970)	0	0	0
Specific Grants	(310)	0	0	0

This would result in the following total budget pressures/surplus:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Net overall budget pressure/ (surplus)	**(250)**	**2,395**	**2,440**	**2,470**

If it were to be assumed that there would be a delay of a further year, as recently stated by the Local Government Minister, and that no reforms were to be instigated

until the next Spending Review for 2025/26 onwards, this would result in the following additional resources and revised budget gap:
Scenario 2

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Business Rates Retention	(1,970)	(1,360)	0	0
Specific Grants	(310)	(310)	0	0

This would result in the following total budget pressures/surplus:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Net overall budget pressure/ (surplus)	**(250)**	**725**	**2,440**	**2,470**

5.10 Whilst the change in underlying assumptions above identifies that the General Fund is facing a budget gap from 2024/25 onwards, the current MTFS was based on an existing savings target of £1.5m, of which c£0.750m remained to be delivered at the time the budget was set in March 2022. Since then, work has continued on implementing the programme, with progress against the target as follows:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Savings Target MTFS 2022-27	1,300	1,500	1,500	1,500
Savings secured/business case approved	(820)	(840)	(860)	(875)
Savings subject to business case	(280)	(315)	(320)	(330)
Balance of savings outstanding	**200**	**345**	**320**	**295**

This balance of outstanding savings is still required to be delivered as part of the revised MTFS and will need including in the overall budget pressures.

5.11 Including the balance of outstanding savings will result in the following total budget gaps:

Scenario 1

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Net overall budget pressure/ (surplus)	**(50)**	**2,740**	**2,760**	**2,765**

Scenario 2

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Net overall budget pressure/ (surplus)	**(50)**	**1,070**	**2,760**	**2,765**

5.12 Whilst there are still a significant number of uncertainties and unknowns, what is certain is that the Council is facing a significant financial challenge, one which it must address by 2024/25, if it is to remain financially sustainable in the medium term. On the basis of scenario 1 the General Fund must reduce it's overall net budget by c£2.740m by 2024/25, potentially, as per Scenario 2, this could reduce to a minimum of £1.070m subject to confirmation of a further one-year delay in the funding reforms. However, until clarity around the timing of the reforms is announced, the MTFS will be developed on the basis of scenario 1. Whilst this allows 'lead in' time during 2023/24 to deliver the required reductions, given the level of uncertainties and volatility, the ability to deliver savings as early as possible will provide further financial resilience and the ability to cushion any further financial pressures. Consideration will therefore be given to including a savings target in 2023/24.

5.13 In the absence of additional, ongoing, financial support from the Government, the Council will have little choice but to face some difficult decisions about the size and scope of the essential services it provides. It will need to review and revisit decisions over it's investment priorities and will be forced to look closely at the services it provides and will inevitably have to stop some of these in order to balance the books.

5.14 The ability to deliver these further, significant, budget reductions must be set in the context of the Council having already delivered, over the last decade, annual revenue savings of nearly £10m. This is a significant amount in comparison to the net General Fund budget. This has already involved the Council having to take difficult decisions in terms of which services it can continue to provide. Further service cuts and revisions to investment plans will have even more far reaching and detrimental impacts on the City's residents and businesses. This comes at a time when the support of the Council is needed more than ever to support not only those who rely upon the safety net of local government, but also whilst the Council is still supporting the rebuilding of the local economy following the impact of the Covid19 pandemic.

5.15 The Council has therefore commenced work on a financial recovery programme that includes reviews of fees and charges, reserves, recruitment and retention, procurement and contracts, capital financing, grants, buildings/estates and service reductions/withdrawal. Every possible effort is being made to find the least painful solutions and minimise the impact on jobs and services, but it simply isn't possible to achieve the level of savings required without there being an impact. Individual, specific proposals will be presented for approval as appropriate as the full programme is delivered.

5.16 Alongside the development of these options, the Council will continue to lobby the Government and call upon them to increase local government funding in recognition of the unprecedented and unavoidable pressures that local government are facing. The Council has already written to the Secretary of State setting out the significant financial strain it is facing. The Council will also support sector campaigns/lobbying regarding sustainable funding mechanisms and medium-term financial settlements for local government.

5.17 <u>Housing Revenue Account</u>

A key element of the HRA self-financing regime is the Council's 30-year Business Plan. The Council's latest Housing Revenue Account Business Plan, 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. Since adoption of the Plan, in 2016, a number of issues e.g. Covid19 and the current economic factors have had a fundamental impact on the way the Council delivers it's housing and landlord services and the underlying financial assumptions. In addition, the refreshed and repurposed strategic plan, Vision 2025, includes a much greater focus on health outcomes and the environment, with implications for the delivery of housing services. As a result, an interim high-level refresh of the Business Plan was undertaken during 2021 with work now taking place to fundamentally re-write the 30-year Plan to reflect the current operating and economic environment and to reflect the Councils current aims and ambitions in Vision 2025.

5.18 The revised MTFS and Business Plan (for the first 5-year period) will be based on the revised financial assumptions (as outlined in Appendix A), along with updated development and investment profiles and other emerging service pressures. The main changes to the assumptions for HRA, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

<u>Scenario 1</u>

Figures in ( ) equate to a surplus	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Contractual inflationary increase	190	260	310	350
Utility price increases	460	470	480	490
Pay inflation increases	690	820	830	850
National Insurance reductions	(50)	(50)	(50)	(50)
Total Budget Pressures	**1,290**	**1,500**	**1,570**	**1,640**

5.19 The most critical of the assumption uncertainties is the potential implementation of a housing rent cap (further details are set out in Appendix A). The current MTFS assumes annual rental increases of 3% p.a, if the rent cap were to be introduced at this level, then the budget gap would be as above. On the basis of one year cap at 5% with future increases at CPI+1%, the estimated additional resources would be as follows:

<u>Scenario 2</u>

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
5% cap in 2023/24	(620)	(1,290)	(1,490)	(1,530)

This would result in the following budget impact:

	2023/24	**2024/25**	**2025/26**	**2026/27**

	£'000	£'000	£'000	£000
Net overall budget pressure/ (surplus)	**670**	**210**	**80**	**110**

Scenario 3

On the basis of one year cap at 7% with future increases at CPI+1%, the estimated additional resources would be as follows:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
7% cap in 2023/24	(1,240)	(1,940)	(2,160)	(2,210)

This would result in the following budget gap:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £000**
Net overall budget pressure/ (surplus)	**50**	**(440)**	**(590)**	**(570)**

5.20 It is therefore essential that the Council's response to the Government's consultation on a potential housing rents cap states that rent decisions should be subject to local determination. Social housing landlords are best placed to make decisions about rent increases, reflecting the unique nature of each council's tenants, homes and financial strategies and housing business plans.

5.21 It is clear that a rent cap of 3% would create a significant budget gap for the HRA, and one that the Council will need to develop a response too. This will mirror the work being undertaken on the General Fund in reviewing the options to reduce the net cost base of the HRA, primarily though due to the nature of the HRA the reductions will be in the form of reduced contributions to the Housing Investment Programme. These options will form part of the Housing Business Plan refresh. Rent caps imposed at 5% or 7% allow the HRA some flexibility to set a rent increase that reflects the unavoidable cost pressures that it is facing.

5.22 Investment Programmes and Capital Strategy

The development of the General Investment Programme (GIP) for 2023-28 will focus on the affordability and delivery of schemes in Vision 2025 and essential investment in existing assets to either maintain service delivery or existing income streams. Due to a lack of available capital receipts and the lack of revenue resources to fund prudential borrowing (and the escalating cost of borrowing) it is essential that other sources of funding such as grant allocations and partner contributions continue to be sought.

5.23 External grant funding is enabling the delivery of a considerable number of capital schemes for the Council e.g. Lincoln Town Deal Programme, Local Authority Accelerated Construction funding for Western Growth Corridor, Heritage Lottery Fund for Re-imaging Greyfriars, English Heritage for the High Street Health Action Zone, and Green Homes/Sustainable Warmth. The most significant of these schemes is the Town Deal Programme, Lincoln Towns Deal Board were successful in securing £19m of funding to support a number of projects to deliver long-term economic growth in the City. Of this £19m, £6.24m is being utilised on projects delivered directly by the Council, those being the redevelopment of the Central Market and the Tentercroft Street redevelopment feasibility works. The Council has also submitted an application to the Levelling Up Fund for £20m for a bridge on Tritton Road to open up the eastern side of the Western Growth Corridor, the outcome of which is still awaited.

5.24 The development of the Housing Investment Programme (HIP) for 2023-28 will continue to be split across the two main priority areas of housing strategy and housing investment. In terms of housing strategy, the focus continues to be on maximising the use of 1-4-1 retained right to buy receipts, assessing the use of prudential borrowing (at an escalating cost) and seeking government grant funding for new build schemes or purchase & repair schemes that generate a positive net rental stream. In relation to housing investment the HIP will continue to focus on the allocation of resources to the key elements of decent homes (in line with the 2020 Stock Condition Survey) and supporting the Lincoln Standard. The development of the refreshed 30-year business plan, will for the first 5 years focus on the priority areas above, but beyond this there will be wider scope for investment in improving and regenerating estates as well as decarbonisation schemes.

5.25 With inflationary pressures also affecting the construction costs, as well as the rising cost of borrowing, all schemes across both the GIP and HIP, that have not yet started will be re-evaluated as they come forward for delivery. This will ensure that they still demonstrate value for money and remain affordable. Given the importance of investment in the City, to support the local economy, all opportunities to contain costs and/or seek alternative funding to ensure schemes are delivered will be undertaken.

5.26 The Capital Strategy, which summarises the Investment Programmes as well as outlining how the Council deploys and subsequently manages its capital resources, will be updated to reflect revised reporting requirements, announced in December 2021, in the Prudential and Treasury Management codes.

5.27 The culmination of the above processes will result in a set of budget proposals, including revised savings target, that will deliver a balanced budget in line with the Council's strategic priority areas. This will then be subject to public consultation and Member engagement.

Consultation and Engagement

5.28 The Council is under a duty to annually consult externally as part of its council tax setting process. Therefore, consultation will be undertaken in December – February, this will be based on an online survey and through the Citizens Panel, the key purpose of which will be to;

1. Highlight the proposed budget and Council Tax for 2023/24, seeking views on the proposed increase.

2. Outline the scale of significant financial challenges facing the Council.

5.29 In addition to the public consultation the Council will also consult directly with the business community, specific plans will be developed prior to January.

5.30 Following the success in recent years of the all Member workshops and Budget Scrutiny process a similar process will be followed in early 2023 to ensure that all Members have the opportunity to consider and fully understand the proposed budget, MTFS and council tax recommendations and that a robust scrutiny of the proposals is undertaken.

5.31 A financial planning timetable to deliver a balanced and affordable five-year revenue budget strategy and capital programme, in line with Vision 2025, is attached at Appendix B.

6. Strategic Priorities

6.1 The Medium-Term Financial Strategy seeks to deliver the key priorities of the Council within the available level of resource, both revenue and capital.

7. Organisational Impacts

7.1 Finance

The financial implications are as set out in the report.

7.2 Legal Implications including Procurement Rules

Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority's estimated revenue expenditure for the year in order to perform it's functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from the General Fund to the Collection Fund.

These proposals will eventually be referred to Council so that it can approve the budget and set the Council Tax, which it is required under statute to do so for 2023/24 by 11th March 2023.

7.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

This report provides a summary of the financial planning activities across the Council. As a consequence of the development of the MTFS and budget for 2023/24 there may be an impact on certain council services which will be subject to review through the Towards Financial Sustainability Programme. Where individual projects or reviews are being developed, specific equalities implications will be assessed and relevant impact assessments and/or statutory consultation with service users will be carried out accordingly. As the overarching strategic document, a separate equality impact assessment will not be undertaken for the MTFS 2023-2028.

7.4 Human Resources

There are staffing implications associated with the report, especially in relation to the Financial Services Team, where staff will be significantly involved in the preparation of the budgets and MTFS. This resource has been provided for within the Service Plan of the team.

Specific staffing implications may arise where certain Council services are subject to review through the Towards Financial Sustainability Programme. In such cases the Council's Management of Change Policy will be adhered to.

8. Risk Implications

8.1 There are significant, unprecedented risks to the Council's budget strategy, particularly in the short-term as a result of;

- The cost of living crisis, and Government policy interventions, giving rise to increased demand for Council services, as well as the impact on income streams as household/business incomes are squeezed.

- The uncertainty regarding the second two years of the current Spending Review period along with the uncertainty as to when the Fair Funding Review and Business Rates Reset/75% Retention will be implemented.

- Government intervention in Social Rents Policy, potentially imposing a cap on the level of annual rent increases and removing the ability for Councils to set rents in light of their local financial circumstances and housing business plans.

- The Government's future fiscal plans, and the overall trajectory for public sector expenditure.

- The effect of the current economic climate on the Council's escalating costs, with further increases in inflation increasing service contracts, the costs of goods/materials/construction costs, and placing further pressures on pay settlements.

- Impact of variations to forecast interest rates, both in terms of investment returns and also on assumptions made on borrowing costs.

- Volatility in the cost of the Council's energy supplies

- The capacity and ability to continue to deliver a significant level of savings.

The budget process includes the recognition of these risks in determining the 2023/24 budget and MTFS, but it will be imperative that the Council continues to build upon its record of delivering significant savings and maintains a strong financial management discipline in order to ensure a sustainable financial position.

9. Recommendation

9.1 Executive are asked to;

a) note the significant financial challenges and risks that the Council faces, particularly the unplanned, and unavoidable increasing cost pressures.

b) note the projected budget parameters for 2023/43 and future years and note the planning assumptions, as set out in Appendix A,

c) note the budget, strategic and service planning preparation programme, set out in Appendix B.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	None
Lead Officer:	Jaclyn Gibson, Chief Finance Officer Telephone (01522) 873258

KEY BUDGET ASSUMPTIONS MTFS 2023 – 2028

1. The base budget estimates will be prepared on the basis of a number of key assumptions as follows;-

2. Business Rate Tax Base

2.1 The current Business Rates Retention scheme was introduced by the government in April 2013 and replaced an element of grant funding. The calculation of income to be received through the scheme is critical in determining the amount of resources that the Council will have available to fund local services.

2.2 <u>Deficit position 2021/22</u>

When forecasting the position on the Council's share of the Business Rates Collection Fund balance for 2021/22, a deficit of £4.160m was declared, on the basis of the in-year monitoring position and estimated appeals provisions at that point in time. By the time of closing the 2021/22 accounts the situation had reduced the deficit by £0.487m. This reduction in the deficit will be released to the General Fund in 2023/24, and in the first instance will be used to offset any deficit declared for 2022/23.

2.3 <u>In year position 2022/23</u>

In relation to the business rate base for 2022/23 this was estimated to be £38.753m. Movements in this base are monitored on a monthly basis so that the Council has an early indication of any significant changes. There has been a significant reduction in the level of business rates payable in year primarily due to the Government extending the rate reliefs that were given to ratepayers to provide financial support during Covid19. Councils will be compensated through s.31 grant payments for this loss of income.

2.4 It should be noted that due to the nature of Government rate reliefs awarded, in 2020/21, 2021/22 and 2022/23, it is extremely difficult to make any meaningful comparisons between each year's collection rate. However, the collection rate as at August 2022 was 53.62%, which is 7.09% higher than at the same point in 2021. It is also evident that there are a lower number of businesses currently in arrears than at the same point in 2021.

2.5 In addition to a loss of business rates payable through reliefs there also continues to be a reduction in rates payable in 2022/23 due to a significant level of properties claiming empty property rate relief. In 2021/22 empty property relief of £2.934m was awarded for the full year, year to date in 2022/23 £2.228m has been awarded.

2.6 Despite the pressures on business rates income in year, as a result of prudent assumptions made when setting the 2022/23 budget the levels of income currently forecasted from business rates remains largely in line with budget expectations, with the anticipation of a slight deficit on the in-year position.

2.7 The Council maintains a Business Rates Volatility Reserve to cushion the impact of fluctuations in retained income and collection fund deficits. The estimated available balance on the reserve is £0.314m. This reserve has been significantly reduced over the past two years in order to absorb the deficits arising due to covid19 and the subsequent economic impacts. This was done so on the basis that it would leave the reserve depleted with limited ability to cushion future fluctuations in business rates until the Council is in a position to be able to rebuild the reserve. The current MTFS assumes that the reserve begins to be replenished from 2024/25 onwards, with contributions totalling £0.350m.

2.8 <u>2023/24 – 2027/28</u>

As set out in the main body of this report the move to a 75% retention scheme, along with a full reset of business rate baselines and the Fairer Funding Review, looks likely to be now to be delayed until at least 2024/25 and potentially pushed back further until 2025/26. These changes, when implemented, will wipe out gains the Council has built up since the launch of the current system in 2013/14 and reset the level of assumed business rates to be collected and the level of underlying spending need of the Council. Clarity over the timing of the reset is essential for the Council to be able to undertake financial planning with a greater degree of certainty. The financial implications of these reforms and the impact on the level of business rates retained by the Council are critical to it’s financial position and have the ability to alter the course of the MTFS.

2.9 The current MTFS was prepared on the basis of this full reset and subsequent loss of gains made from 2023/24. The delay in implementation by at least one further year will result in additional one-off resources in 2023/24. In addition, further gains as a result of the potential extension to pooling arrangements (as set out in the next paragraph) generate further additional resources in 2023/24.

2.10 The Council is currently part of a Business Rates Pool for 2021/22 along with the County Council and the six other Lincolnshire District Councils. The benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. The arrangements for the current pool are that this retained levy is allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The current MTFS had assumed that as a result of the introduction of 75% retained business rates that pooling would cease from 2023/24 onwards. However, the Government has sought proposals for business rate pools in 2023/24, this is though on the basis that no formal agreement has yet been made for 2023/24. The Council has therefore expressed an interest in continuing the current pool arrangements. This is estimated to generate the Council an additional £0.455m in 2023/24. The MTFS already assumes that there will be no further pooling gains from 2024/25 onwards.

2.11 The level of outstanding appeals continues to create a high level of uncertainty both in respect of the outstanding appeals from the 2010 ratings list, already lodged with Valuation Office, but also in relation to appeals against the 2017 list that are submitted under the new Check, Challenge Appeal process. The Collection Fund is required to fully provide for the expected result of all appeals and using external assessments as to the likely level and value of these appeals. The current provision of outstanding appeals stands at £5.167m, of which the Council's share is £2.067m. In relation to the 2017 list, Government has stated that it intends the last day on which ratepayers will be able to initiate the appeal process will be 31st March 2023. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council. The current MTFS assumes a £1.250m p.a. reduction in retained rates due to outstanding appeals, this has slowly reduced each year as appeals have been settled. As a new ratings list will be in place for 2023, a new assessment of the level of likely appeals, based on national assumptions, will need to be undertaken to inform the overall level of resources for 2023/24 onwards.

2.12 Although a new ratings list will be in place from April 2023, this will not alter the overall level of business rates retained by the Council as the Govt will adjust the level of resources retained locally to offset any increase/decrease in the local ratings list so that the effect is cost neutral. Until the new ratings list is released, estimated to be 31st December 2022, the modelling for the MTFS will be undertaken on the basis of the existing valuations.

2.13 In terms of annual business rates increases, these are set nationally by the Government and are usually increased in line with CPI as at September of the preceding year. In recent years the Government have intervened to either cap or freeze the level of annual increases. In these circumstances Council's have been compensated for loss of income up the level of RPI (as historically annual business rates increases were linked to RPI). With CPI forecasted to be around 10% at the end of September 2022, it is likely that there will again be intervention from Government to cap the level of increases payable by businesses. What is less clear is, if this is the position, what level of compensation the Government would provide to local government. At this point, the MTFS will be prepared on the assumption that compensation up to the level of CPI, at September 2022, will be received. There does however remain a risk that the Government could implement a different policy approach and look to limit the level of compensation payable to local government. Based on the assumption of income compensation up to CPI, this generates estimated additional resource, above the assumptions in the current MTFS, of £0.420m in 2023/24.

2.14 Beyond 2023/24 it becomes increasingly difficult to accurately estimate the level of business rates resources due to the number of uncertainties and variables around; the timing of the reset; the calculation of baseline need; the assessment of the business rates baseline; assumptions around appeals; multiplier caps, levels of growth/decline etc. Beyond 2023/24, at this stage in the development of the MTFS the forecasts for retained business rates will remain as per the existing MTFS. As clarity on some of these uncertainties is provided (key to this will be Local Government Finance Settlement and confirmation of the implementation or not of the funding reforms) these estimates will be updated.

2.15 Based on these changes in underlying assumptions for 2023/24, the estimated impact to the level of retained business rates is as follows:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Current MTFS 2022-27	(4,140)	(4,930)	(5,570)	(6,060)
Latest forecast	(6,110)	(4,930)	(5,570)	(6,060)
Change in resources	**(1,970)**	**0**	**0**	**0**

What can be currently estimated is that any further delay of the reset and funding reforms until 2025/26 could result in additional resources of c£1.360m in 2024/25.

3. Revenue Support Grant

3.1 The Council's Revenue Support Grant (RSG) was set to cease in 2019/20 at the end of the previous four-year funding settlement period. However, due to delays in the implementation of the national funding reforms the grant, adjusted for inflation, has been rolled over for each of the last 3-years, a total of c£0.024m p.a. Beyond this the MTFS assumed that there will be no further RSG payable by the Government. On the basis of, at least, a further one-year delay in the implementation of the new funding mechanisms a further roll forward of RSG at £0.026m in 2023/24 only will be assumed.

3.2 Should the implementation of the proposed finance reforms be delayed to 2025/26, then it could be assumed RSG of c£0.026m would be payable in 2024/25.

4. Council Tax

4.1 This increased importance of Council Tax, alongside Business Rates, as the principle means of raising revenue makes decisions taken in relation to the levels of Council Tax critical to the delivery of a sustainable MTFS.

4.2 Council Tax collection rates suffered as a result of Covid19 and only began to show signs of improvement from early 2022. As at the end of August 2022 the collection rate was 42.21% which is 1.01% above the same point last year, although it is still 2.04% below the same point pre-Covid19. However, as a result of the current cost of living crisis it is now likely that there will be a stagnation in this recovery and potentially a further decline in collection rates. Whilst support is available through the Local Council Tax Support Scheme and Council's CT Hardship Fund, it is inevitable that there will be some impact.

4.3 The current collection rates assumed in the MTFS are set at 98.75% from 2023/24 onwards. Based on the performance of the collection rates during the current year and the likely ongoing impact on household incomes it is considered prudent to reduce the collection rate by 0.5% in 2023/24 to 98.25%

returning to the current assumption of 98.75% from 2024/25 onwards. These will however be kept under review.

4.4 In calculating the Council Tax base the overall yield is reduced by the estimated numbers of claimants entitled to support under the Council's Local Council Tax Support (LCTS) scheme and the eligibility criteria of the scheme. The more Council Tax support that is awarded the more the taxbase is reduced, limiting the ability to raise Council Tax.

4.5 Since the introduction of the scheme in 2013/14 the number of claimants had as at April 2020 decreased by over 20%. However, as a result of Covid19 and the impact on the economy and households's income, caseloads rose sharply in 2020 and 2021. The caseload then plateaued somewhat before beginning to fall and has now returned back to pre-pandemic levels, this is much earlier than had been assumed in the current MTFS. But, with the now ongoing cost of living pressures on household incomes there is the potential that the number of claimants may begin to increase again.

4.6 The current MTFS assumed a gradual reduction of 0.5% p.a. over the period to 2025/26. Based on the latest caseload numbers and allowing for a further increase in 2022/23 due to the cost of living crisis, the cost of the LCTS is still in line with the current MTFS assumption. However, the further reduction in caseload numbers estimated for 2023/24 will no longer be assumed, and will instead be built in from 2024/25 onwards at 0.5% pa.

4.7 At this stage in the development of the MTFS current entitlements under the LCTS Scheme are being reviewed with public consultation taking place during November/December. Any adjustments to the scheme or indeed to the Council Tax discretions that are applied will be reflected in the final MTFS following consultation and subsequent Executive approval. These are not yet included in the Council Tax modelling below.

4.8 The current MTFS assumes an annual increase in the council tax base of 1.25% as a result of new property development. Although the Council aims to bring forward significant housing development on the Western Growth Corridor site the majority of the development is beyond the period of the current MTFS. The revised MTFS will therefore continue to be based on the assumption of growth of 1.25% p.a.

4.8 It is anticipated that the Government will consult on the Council Tax Referendum Principles later in the year as part of the Local Government Finance Settlement. At this stage it is assumed, as per announcements in the SR21, that the existing levels for district councils of a increases of less than 2% will remain in place. The current MTFS assumes Council Tax increases from 2023/24 onwards of 1.9% p.a. Until further details are released in the Finance Settlement the MTFS will continue to be prepared on this basis.

4.9 Based on the assumptions as set out above and using the latest Council Tax base position, estimated Council Tax yields are as follows:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Current MTFS 2022-27	(7,665)	(7,935)	(8,210)	(8,485)
Latest forecast	(7,550)	(7,860)	(8,130)	(8,415)
Change in resources	**115**	**75**	**80**	**70**

5. Other Government Grants

5.1 New Homes Bonus

Previously Government announced that a Spring 2020 consultation on the future of the New Homes Bonus scheme would be undertaken, stating that 'it is not clear that the NHB in its current form is focused on incentivising homes where they are needed most' and the consultation will 'include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance'. Due to Covid19 this consultation was delayed until February 2021.

5.2 The consultation, when launched, focused on a continuation of the scheme but with reform of some of the key elements of the existing scheme, including:

- raising the baseline percentage
- rewarding improvement on average past housing growth
- rewarding improvement or high housing growth
- support infrastructure investment in areas with low land values
- introducing a premium for modern methods of construction (MMC)
- introducing an MMC condition on receipt of funding
- requiring an up-to-date local plan

Due to the number of variables being considered it is not possible to assess what future funding might be attributable to the Council. An announcement on the outcome of the consultation was expected as part of the Local Government Settlement 2022/23. However, no such announcement was made, presumably due to a delay in other funding reforms and a further years allocation for 2022/23 was instead announced, based on the existing scheme parameters.

5.3 The current MTFS assumes no further NHB funding beyond the 2022/23 allocation and until further announcements on the future of the scheme are made this assumption will remain.

Housing Benefit/Council Tax Support Admin Grant

5.4 It continues to be difficult to forecast the likely level of future funding in respect of Housing Benefit Admin Grant due to the gradual and delayed roll out of Universal Credit (UC). The Council began roll out of the full service for UC in March 2018, in respect of new UC claims previously eligible for the six separate benefits. All new UC claimants have their housing cost element included in their monthly UC payment which is administered by the DWP, and as a result, they will not make a Housing Benefit claim but can still make a claim for Local Council Tax Support. The next stage requires the migration of all remaining existing claimants to full UC by the end of 2024. This process commenced in 2019 but, due to Covid19, the pilot was suspended until April 2022 when the programme restarted with the revised target date of 2024. There is still much debate and decisions to be made by the Government as to what role local authorities will play in the longer term, but there is a commitment from the DWP to work with authorities until at least all of the working age claimants are transferred.

5.5 Although this commitment has been made the DWP have yet to announce a permanent funding model going forward and the Council continues to face the issue of one-year funding announcements, supplemented by New Burdens arrangements. In addition, the Council also receives a grant from the DLUCH in respect of the Council Tax Support element of administration funding, again this is only announced on a one-year funding basis.

5.6 As there is no clear position on what future grant levels are likely to be, at this stage, the MTFS will be prepared on the basis of the current level of overall core grant funding, which may ultimately be received through a combination of Administration Grant and any New Burdens funding. Once the grant allocations are announced due regard will need to be taken of this in terms of the service planning for the revenues and benefits service.

5.7 <u>Lower Tier Services Grant</u>

A new grant of £111m was awarded in 2021/22 to all lower tier authorities, the Council's allocation was £0.266m. Although no further announcements on the grant were made in the SR21, due to the delays in the implementation of the national funding reforms, the grant continued into 2022/23 with the total amount allocated and methodology remaining unchanged. However, individual council allocations altered, to reflect changes in Core Spending Power. The Council's allocation reduced to £0.174m, beyond this the MTFS assumed no further allocations.

5.8 On the basis of a likely further delay, of at least one year, in the implementation of the funding reforms, then the revised MTFS will assume a further allocation of the Lower Tier Services Grant of £0.171m in 2023/24, but then no further funding through this grant stream. Should the implementation of the proposed finance reforms be delayed to 2025/26, then it could be assumed that further grant of c£0.0171m would be payable in 2024/25.

5.9 <u>2022/23 Services Grant</u>

A new 'one-off' Services Grant worth £822 million was announced for 2022/23. The grant was intended to provide funding to all tiers of local government in recognition of the vital services, including social care, delivered at every level of local government. It also included funding for local government costs for the increase in employer NIC's, although this was not separately identifiable. The grant was not ring-fenced. The Council's allocation was £0.262m in 2022/23, with an ongoing assumption of £0.150m on the basis that an level of funding to compensate for the increase in employer NIC's would be received.

5.10 On the basis of a likely further delay, of at least one year in the implementation of the funding reforms, then the revised MTFS will assume an increase in the 2023/24 assumed allocation to the 2022/23 level, an increase of £0.112m. Although this funding included an element to compensate councils for the increased employer NIC's, which have now been scrapped, it is assumed that this resource remains within the local government funding settlement in 2023/24. Beyond this the assumption of £0.150m pa will remain. Should the implementation of the proposed finance reforms be delayed to 2025/26, then it could be assumed that further grant of c£0.0112m would alao be payable in 2024/25.

6. Inflation

6.1 The cost of soaring inflation affects the price of the goods and services that the Council purchases. Many of the Council's service contracts are index linked to CPI, RPI or other industry standard indices, at a defined date in the year (specific dates vary between contracts). In addition, the general inflationary increase applied within the MTFS is normally maintained in line with CPI projections.

6.2 CPI currently stands of 9.9% as at August 2022, slightly down from a 40-year high of 10.1% in July. The latest forecasts from the Bank of England are that inflation is expected to peak at 11% in October and then remain above 10% for a few months before starting to come down, with an expectation that it will be close to the Bank's target level of 2% in around two years.

6.2 This huge spike in inflation has led to soaring costs for the Council's key service contracts, in particular Waste/Recycling, Street Cleansing and Grounds Maintenance. In addition, there are other contractual cost increases arising from existing/retendered contracts as well as significant increases in material and subcontractor costs, which is a particular issue for the HRA. The current levels of CPI and RPI assumed for budget planning purposes are as follows:

Inflation Point for contractual increases	**CPI**
Sept 22	10%
Mar 23	7.5%
Sept 23	4%
Mar 24	3%
Sept 24	2.5%
Mar 25	2%
Mar 26	2%
Mar 27	2%

Average Annual Increase	**CPI**	**RPI**
2023/24	5%	6%
2024/25	3%	3%

2025/26	2%	3%
2026/27	2%	3%
2027/28	2%	3%

These will continue to be reviewed as part of the development of the MTFS.

6.3 These higher levels of inflation result in a significant additional cost burden for the Council for both the General Fund and the HRA. Although the level of inflation is anticipated to fall back to target levels in around two years, the increases in service contracts are permanent and will increase the Council's ongoing cost base as follows:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
General Fund	680	930	950	970
Housing Revenue Account	190	260	310	350

7. Utilities

7.1 The Council currently procures the majority of it's gas and electric supplies through a Framework Agreement, which brings with it the benefit of economies of scale. In recent years the Council has benefited from significant cost savings with supply costs considerably below the wholesale market prices.

7.2 However, as a result of the sharp spike in energy prices the Council is set to experience substantial increases in the cost of gas and electric. For gas increases, the Council has already seen an increase from April 2022, with an average increase of 70%. These prices are forecasted to increase by a further 180-200% from April 2023. For electricity the next price increase is due in October 2022 and is currently estimated to be between 80-100%.

7.3 In response to the impact of escalating wholesale prices, the Government updated the Energy Bill Relief Scheme for businesses and other non-domestic customers. The scheme, which applies to local authorities, will provide support for everyone on a non-domestic contract which is either a fixed price contract agreed on or after 1 April 2022; a new fixed contract being signed; a deemed or variable tariff; or a flexible purchase/similar contract. The scheme does not cap unit costs, which include network charges and operating costs, but is applied to "the estimated wholesale portion of the unit price", which will be capped at £211 per megawatt hour for electricity and £75 per megawatt hour for gas. The guidance notes that current forecasts for market prices this winter are £600 and £180 respectively. The scheme applies for six months, from 1st October to 31st March and is due to be reviewed within 3 months. The guidance indicates that support will likely only continue for "the most vulnerable non-domestic customers".

7.4 Whilst the scheme applies to local authorities, the Council will not benefit from this scheme on it's gas charges this winter, as the prices secured through the Framework Agreement are so far below the wholesale cap level, that it is not applicable. There will though be some assistance with the new electricity rates from October 22 onwards, through until at least 31st March 23. Further details of this support are currently awaited.

7.5 As the Energy Bill Relief Scheme is only initially in place until 31st March 2023, it cannot be assumed that there will be any support towards energy costs from 2023/24 onwards. On the basis of the latest forecast increase in costs provided from the framework provider (as set out the above), the increased costs for both gas and electric are as follows:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
General Fund	620	640	650	660
Housing Revenue Account	460	470	480	490

8. Pay

8.1 Following an agreed 1.75% pay award in 2021/22, the offer made by the National Employers for 2022/23 has proposed a flat rate pay rise for all 'Green Book' and 'Red Book' employees of £1,925. Along with an increase of 4.04% on all allowances.

8.2 This flat rate increase represents a 10.5% increase for the lowest pay point, with all employees on the NJC pay spines up to scp 50 (service manager level) receiving at least 3.48%. Chief Officers and Chief Executive increases range from 3.06% - 1.73%.

8.3 The pay offer is currently being considered by each of the NJC Trade Unions, UNISON's members have voted by 63.5 per cent to 36.5 per cent to accept the pay offer for Green Book employees. In order for the pay deal to be finalised GMB and/or Unite must also vote to accept the employers' offer. Unite's membership consultation closes on 14th October and GMB's on 21st October.

8.4 The current MTFS assumed a pay increase of 1.75% for 2022/23, in line with the award agreed in 2021/22. This then increases to 2% pa from 2023/24 onwards. The proposed pay award by the National Employers is significantly in excess of these assumptions, with the majority of the council's workforce set to receive pay rises above 5%. Based on the latest pay offer, and with an increased assumption of a 3% pay award for 2023/24 and 2024/25, reverting to 2% p.a. thereafter, the additional costs to the MTFS, over and above the budget assumptions are as follows:

	2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
General Fund	720	860	870	880
HRA	690	820	830	850

8.5 In addition, the Council remains committed to paying its lowest paid workers at the level of the Living Wage, as recommended by the Living Wage Foundation as opposed to the Government's National Living Wage. An assumption of annual increases of 3%, in line with RPI projections, are currently built into the MTFS to reflect this commitment to maintain the Living Wage. The latest increase in the Living Wage Foundation has been announced at 10.1% from January 2023. These additional costs are included in the additional pay costs above. Beyond 2023/23, the annual increases will be assumed to be in line with RPI.

8.6 In September 2021 the Government announced a new social care package, funded through a UK-wide 1.25% health and social care levy, based on National Insurance contributions. The Levy was introduced in April 2022, when NICs for working age employees, self-employed and employers increased by 1.25%. However, following the establishment of a new Government in September 2022, it was subsequently announced that the levy would be reappealed with effect from 6th November 2022. This results in an annual saving as follows:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
General Fund	(105)	(110)	(110)	(110)
HRA	(50)	(50)	(50)	(50)

9. Local Government Pension Scheme

9.1 The last triennial review of the Council's Pension Fund took place as at 31st March 2019 and the results identified that there had been a significant increase in the funding position since the last actuarial review from a 69% funding level to 84%. Although the overall funding position had improved the employer contribution rates were increased to improve the funding position further. For employers such as local authorities the actuary, because of the guaranteed nature of the funding, was able to recommend a stabilisation approach whereby the employer contribution is capped at an affordable level. This has allowed the contribution rate to be capped at 1% p.a. for the three years covering the valuation period 2020/21 – 2022/23.

9.2 A further actuarial review is currently underway, which will inform the employer contributions from 2023/24 onwards. On the basis of initial work undertaken, prior to the escalating levels of inflation, the Actuaries were not anticipating any increases in the contribution rates. Despite the current high levels of inflation, the valuation should not be significantly impacted. The valuation approach allows for shorter periods of large spikes in inflation within it's stress testing, so it should not impact any of the 2022 valuation results. The MTFS will therefore continue to be prepared on this basis of no increase in annual contributions rates, until the initial valuation results are available in late Autumn.

10. Fees and Charges

10.1 Fees and charges income budgets are increased by a set percentage per annum based on their total yield. This increase does not preclude individual fees and charges being increased by more or less than this percentage. In addition, some income budgets have greater increases due to stepped changes that reflect the recovery of income streams post Covid19.

10.2 As a result of the significant increased service operating costs that the Council is now experiencing, it is inevitable that these will need to be reflected in the fees and charges for those services. As in previous years a set percentage increase will be applied to each of the budgets. For 2023/24 this will be set at 5%. However, each service will assess whether further increases in individual fees and charges can be sustained to, where possible, reflect the additional service costs. On the basis of this proposed increase, additional income of c£0.350m is estimated. Beyond 2023/24 an annual increase of 3% p.a. will continue to be assumed.

11. Commercial Income

11.1 Covid19 had a significant impact on many of the businesses in premises owned by the Council. Despite the financial support provided by the Government, and through the assistance of the Council, it was inevitable that there would be some impact on the Council's commercial income. These impacts were factored into the current MTFS with a temporary reduction of resources in 2021/22, returning to existing levels of yield from 2022/23 onwards. This assumption will remain for the revised MTFS. Individual commercial leases will continue to be increased in line with the lease agreements.

12. Investment Interest and Borrowing Costs

12.1 As set out in the main body of the report, there has been rapid and significant increases in the Bank of England base rate and future forecasts, in an effort to curb the soaring levels of inflation.

12.2 The Council's sensitivity to these changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates and borrowing costs incurred on any short-term borrowings are minimal. There will however be a revenue impact from future capital schemes where the borrowing requirements have not yet been financed.

12.3 Due to the current high levels of uncertainty surrounding interest rates and the instability in the financial markets, assessing the impact on the council's investment income is extremely difficult. Work on assessing the impact on the Council's investments and future borrowing requirements will continue during the development of the budget.

13. Housing Rents

13.1 Historically the MTFS has assumed that housing rents (both social and affordable) will increase in line with Government Rent Guidelines, that being a maximum increase of CPI+1% p,a, for a period of 5 years until 2025. However, for 2022/23, mindful of the pressure on household incomes, the rent increase applied was 3.6% rather than the maximum allowable of 4.1%. From 2023/24 onwards the MTFS assumed an annual increase of 3%.

13.2 The applicable date of the CPI increase is as at 30 September each year. Based on the current levels of CPI, 9.9% as at 31st August, the maximum allowable rent (under Government Rent Guidelines) could be in the region of 11%. In response to this, the Government announced a Social Housing Rents consultation in August 2022. The consultation seeks views on a proposed rent cap with options at 3%, 5% and 7% being considered and whether this should be in place for one or two years. Following the consultation, a final decision will be announced later this year to ensure there is sufficient time to factor this into rent decisions for April 2023. The Government is also committed to reviewing social rent policy beyond 2025, via a separate consultation to be launched next year.

13.3 As the current MTFS is based on an increase of 3% p.a., there will be no significant change to the forecasted level of rental income. The impact of a 5% and 7% rent cap, with increased levels of CPI in 2024/25 and 2025/26, is as follows:

	2023/24 £'000 Rent cap	**2024/25 £'000** CPI 4% + 1%	**2025/26 £'000** CPI 2.5% + 1%	**2026/27 £'000** CPI 2% + 1%
5% Cap in 2023/24	(620)	(1,290)	(1,490)	(1,530)
7% Cap in 2023/24	(1,240)	(1,940)	(2,160)	(2,210)

This forecast is based on rent uplift only and does not model any changes in the assumptions on stock numbers due to RTB sales or acquisitions/new builds. Until the outcome of the current consultation is known, the HRA budgets will be modelled on the basis of the three rent cap scenarios.

13.4 Included in the Council's housing stock are a number of properties that were partly funded by Homes England grants on the condition that they are to be let on the basis of an affordable rent rather than on social rents. In addition, there are a number of other dwellings that are let on the basis of an affordable rather than social rent. Affordable rents are not subject to Government Rent Restructuring Policies and are let at 80% of market rent levels in the local area. The current MTFS assumes rental increases in line with social rents for its affordable rents and will continue to be developed on this basis.

13.5 At the end of 2021/22 rent collection levels were at 100.18%, with overall rent arrears of 3.63% of the net debit. The in-year collection rate at the end of September 2022 was 97.69% compared to 95.27% at September 2021. Looking ahead, the current cost of living crisis is likely to detrimentally effect household incomes reducing some tenants' ability to pay their rents, particularly with the potential for higher rent increases. Whilst Tenancy Services will continue to support tenants through DHP's and general advice and guidance, there is anticipated to be an impact on collection rates. The current MTFS assumes a collection rate of 99% p.a., a 0.5% increase in the level of non-collection equates to an income loss of c£0.160m p.a. This will be considered further as part of the development of the MTFS, dependent on the outcome of the rent cap consultation.

14. **Level of Revenue Reserves** - The prudent minimum level of reserves for the General Fund has been increased in recent years, in light of the increased level of volatility in funding and the level of the increased risk to which the Council is now exposed, to between £1.5m-£2m. This increase has allowed the Council to cushion the impact that Covid19 has had on it's finances and will continue to do so in future years, as well as now respond to the emerging inflationary pressures. Whilst the overall level of balances are budgeted to be maintained over the period of the MTFS there are planned use of balances in 2023/24 and 2024/25, with a positive contribution forecasted in 2025/26. In light of the significant changes in assumptions set out in this report the use of/contribution to balances will be assessed as part of the budget development. However, the overriding principle of maintaining a balance between £1.5m-£2m and seeking to make positive contribution in the medium term will remain. In terms of the HRA it is currently assumed that the optimum level of reserve holdings will be maintained at c£1m.

APPENDIX B

BUDGET AND FINANCIAL PLANNING TIMETABLE 2023/24

No.	Target Date	Group	Deliverable	Responsible Officer
1.	**Member Briefing Sessions**			
1.1	23rd Jan 23	All Members	All member workshop presenting the draft budget proposal for 2022/23 and Medium Term Financial Strategy 2023-2028.	CFO
2.	**Base Budget Preparation**			
2.1	23rd Sept 22	AD's/ Service Managers	Budget guidance and working papers circulated to Assistant Directors and Service Managers for preparation of base budgets, including notification of Directorate Cash Limits.	Finance Team
2.2	28th Oct 22	AD's/ Service Managers	Completion of service cash limit budgets by budget managers.	Finance Team
2.3	11th Nov 22	DMT's	Review of summary cash limit budgets and appropriate revisions made with AD's and DMT's.	Finance Team
2.4	22nd Nov 22	CMT	Review of summary cash limit budgets and consideration of unfunded budget items. Review of funding assumptions of capital programme.	FSM
2.5	29th Nov 22	CMT	Review of Fees & Charges Schedules for 2023/24	FSM
2.5	9th Dec 22	Financial Services	Completion of consolidated base budgets and capital programmes.	Finance Team
2.6	20th Dec 22	CMT	Review of draft budget proposals for 2023/24 and Medium Term Financial Strategy 2023-2028.	CFO
3.	**Service Planning Preparation**			
3.1	End Nov 22	CMT	Corporate priorities reviewed in CMT for year ahead, derived from V2025, One Council priorities, service priorities and budget challenge.	CMT
3.2	Dec 22	Portfolio Holders	Key priorities agreed for year ahead	CX
3.3	Early Jan 23	Directorates	Directorates to identify local projects that need to be included without impacting the key corporate ones.	AD's
3.4	Mid Jan 23	CMT	identify 'Top 10 key priorities' for each directorate	Directors

APPENDIX B

No.	Target Date	Group	Deliverable	Responsible Officer
3.5	Early Feb 23	Portfolio Holders	Ensure that all PH's have signed up to their own sections in each service plan	Directors and AD's
3.6	24th Feb 23	EDMT's	Draft service plans for the year ahead reflecting the projects identified for delivery over the year ahead	AD's
3.7	Early Mar 23	CLT	Progress on service plans	Corporate Policy
3.8	28th Mar 23	DMT's	Final service plans completed and signed off by Director.	AD's
3.9	4th Apr 23	A/Wide or HUB	Service plans agreed in CMT and then published.	Corporate Policy
3.10	Oct 23	AD's/ Service Managers	Service planning for 2024/25 launched.	Corporate Policy
4.	**Consultation and Scrutiny**			
4.1	Dec-Feb 23 *– dates to be confirmed*	General Public Stakeholders	Online budget consultation Specific stakeholder events	CFO CMT
4.2	31st Jan 23	Audit Committee	Consider and review: • Prudential Indicators 2023/24-2025/26 • Treasury Management Strategy 2023/24 with responses to the Executive	FSM
4.3	1st Feb 23	Budget Scrutiny Review Group	Consider and review the draft budget proposal for 2023/24 and Medium Term Financial Strategy 2023-2028, making any recommendations to the Executive.	CFO
4.4	16th Feb 23	Performance Scrutiny Committee	Performance Scrutiny Committee – Consider response from Budget Review Group and refer to the Executive.	CFO
5.	**Committee Approval Process**			
5.1	17th Oct 22	Executive	Consideration of the budget strategy to be adopted for the 2023/24 process, including; • Update on economy and financial environment, • A revision of MTFS assumptions • Consultation proposals (both public and with Members)	CFO

APPENDIX B

No.	Target Date	Group	Deliverable	Responsible Officer
5.2	12th Dec 22	Portfolio Holders	Assessment of Fees & Charges Schedules for 2023/24	FSM
5.3	3rd Jan 23	Executive	Approval of Council Tax Base for 2023/24, Council Tax Support Scheme 2023/24 and Estimated Collection Fund Balance for 2023/24 for Council Tax.	FSM/HSRB
5.4	3rd Jan 23	Portfolio Holders	Assessment of overall capital and revenue budgets	CFO
5.5	16th Jan 23	Executive	Approval of a draft budget proposal for 2023/24 and Medium Term Financial Strategy 2023-2028 for formal consultation.	CFO
5.6	16th Jan 23	Executive	Approval of Estimated Collection Fund Balance for 2022/23 for Business Rates.	FSM/HSRB
5.7	16th Jan 23	Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2023/24.	AD-H
5.8	17th Jan 23	Council	Approval of Council Tax Base for 2023/24 and Council Tax Support Scheme 2023/24.	FSM/HSRB
5.9	20th Feb 23	Executive	Approval for referral to Council of: • Final budget proposals for 2023/24 • Medium Term Financial Strategy 2023-2028 • Treasury Management Strategy 2023/24 & Prudential Indicators • Council Tax levels for 2023/24 • Fees and Charges levels for 2023/24	CFO
5.10	20th Feb 23	Council	Approval of the Housing Rent Levels for 2023/24.	AD-H
5.11	28th Feb 23	Council	Approval of; • Final budget proposals for 2023/24 • Medium Term Financial Strategy 2023-2028 • Treasury Management Strategy 2023/24 & Prudential Indicators • Council Tax levels for 2023/24 • Fees and Charges levels for 2023/24	CFO

EXECUTIVE **17 OCTOBER 2022**

SUBJECT:	**LOCALISED COUNCIL TAX SUPPORT SCHEME 2023/24**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**MARTIN WALMSLEY, HEAD OF SHARED REVENUES AND BENEFITS**

1. Purpose of Report

1.1 Proposes options for Executive to consider for consultation in respect of a 2023/24 Council Tax Support scheme and accompanying Exceptional Hardship Payments scheme.

2. Background

2.1 The Council Tax Benefit system was abolished on 31st March 2013 and replaced by the Council Tax Support (CTS) Scheme. This scheme can be determined locally by the Billing Authority having had due consultation with precepting authorities, key stakeholders and residents. There are currently (as at 24th August 2022) 8,441 residents claiming Council Tax Support in the City of Lincoln. 2,636 are pensioners who are protected under the legislation and receive Council Tax Support as prescribed by the Government (broadly similar to the level of Council Tax Benefit). It is the 5,805 working age (including those classified as 'vulnerable' for CTS purposes) claimants where a local scheme can be determined which can change the level of support provided.

2.2 Unless a decision by the Council is made to apply scheme changes to vulnerable working-age customers, the localised CTS scheme would historically only be applied to non-vulnerable working age. Vulnerable working-age customers are those that have one of the following for CTS purposes:

- Disability Premium;
- Enhanced Disability Premium;
- Severe Disability Premium;
- Disabled Child Premium;
- In receipt of a war pension;
- Qualifies for disabled or long-term sick earnings disregard;
- Employment and Support Allowance (income-related, where the support or work-related component is received and has been recorded separately).

The current split of the 5,805 working age CTS recipients is as follows:

- Working age – vulnerable: 3,110;
- Working age (not vulnerable): 2,695.

2.3 The initial City of Lincoln CTS Scheme from 2013/14 effectively 'protected' working age Council Tax payers seeking support, retaining eligible entitlement of up to 100%

and not restricting other areas of entitlement calculation. However, in recent years the scheme has changed in light of increasing scheme costs and budget pressures.

2.4 The proposed CTS scheme must go through certain steps to comply with the provisions stated in the Local Government Finance Act 2012, before it can be adopted by this Council as a Billing Authority:-

- *Before making a scheme, the authority must (in the following order):-*
    - *Consult any major precepting authority which has power to issue a precept to it,*
    - *Publish a draft scheme in such manner as it thinks fit, and*
    - *Consult such other persons as it considers are likely to have an interest in the operation of the scheme*.

3. Changes in Caseload

3.1 Whilst for a period of time claimant levels remained stable, Covid-19 had an impact on the amount of CTS awarded, with significant increases in caseload and cost of the scheme.

3.2 The table below shows how Lincoln's CTS caseload has changed over the last three years.

	Working age	**Pension age**	**Total**
September 2019	5,639	2,903	8,542
October 2019	5,626	2,878	8,504
November 2019	5,578	2,881	8,459
December 2019	5,578	2,881	8,459
January 2020	5,601	2,865	8,466
February 2020	5,586	2,865	8,451
March 2020	5,638	2,853	8,491
April 2020	5,684	2,840	8,524
May 2020	5,972	2,835	8,807
June 2020	6,197	2,842	9,039
July 2020	6,159	2,832	8,991
August 2020	6,177	2,814	9,021
September 2020	6,225	2,806	9,031
October 2020	6,163	2,797	8,969
November 2020	6,193	2,786	8,979
December 2020	6,182	2,773	8,955
January 2021	6,227	2,754	8,981
February 2021	6,227	2,754	8,981
March 2021	6,227	2,747	8,974
April 2021	6,253	2,726	8,979
May 2021	6,250	2,726	8,976
June 2021	6,220	2,720	8,940
July 2021	6,191	2,718	8,909
August 2021	6,166	2,704	8,870

September 2021	6,120	2,679	8,799
October 2021	6,081	2,664	8,745
November 2021	6,042	2,653	8,695
December 2021	5,993	2,649	8,642
January 2022	5,924	2,642	8,566
February 2022	5,901	2,638	8,539
March 2022	5,898	2,645	8,543
April 2022	5,912	2,640	8,552
May 2022	5,882	2,636	8,518
June 2022	5,891	2,618	8,509
July 2022	5,846	2,626	8,472

3.3 The level of CTS caseload is an important factor when considering the potential cost of a local CTS scheme – as effectively an increase in caseload increases the cost of the scheme, and vice versa the cost decreases when the CTS caseload reduces. Understandably, the Covid-19 pandemic had a direct impact on the number of residents claiming CTS. It can be seen that caseloads rose sharply in 2020 and 2021 as an outcome of the impact of Covid-19 on the economy and residents' incomes. The caseload then plateaued somewhat before falling and returning back to pre-pandemic levels. However, with the ongoing cost of living pressures on residents there is the potential that the number of claimants may begin to increase again.

4. City of Lincoln Council 2022/23 CTS Scheme

4.1 The current, 2022/23 scheme has the following restrictions for working age customers: -

- Capital limit £6,000;
- Minimum entitlement of £2 per week;
- Property banding capped at Band B e.g. a customer in Band C (and above) property, will only have their CTS calculated on Band B liability;
- Backdating restricted to 1 month; and
- Temporary absence from home in line with Housing Benefit regulations.

5. Council Tax Support Scheme options for 2023/24

5.1 In this Council's Medium Term Financial Strategy (MTFS), the budgeted cost of the 2023/24 CTS scheme is £1,277,300 (i.e. City of Lincoln Council's share 14.5%, - (with the estimated total scheme cost of c£8.8m dependent on increases in the main preceptors levels of Council Tax).

If the Council wishes to continue protecting vulnerable working age CTS recipients, then any changes to the CTS scheme will only apply to 2,695 customers or 34.92% of the caseload. Changes to the CTS scheme may be made for vulnerable working age customers too, however pension age residents are 'protected' and the 'default' government scheme effectively applies.

City of Lincoln's CTS caseload as at 24th August 2022, can be broken down as follows:

Caseload breakdown	Caseload	% of total caseload
Total caseload	8,441	
Pensioner	2,636	31.23%
Working age vulnerable	3,110	36.84%
Working age non-vulnerable	2,695	34.92%

5.2 Based on the current core elements of the existing scheme, caseload increases of 0% and 5% have been modelled, along with Council Tax increases of 1.9% and 2.5%. These are summarised in **Appendix 1**, giving an indication of the potential cost and savings to City of Lincoln Council. Also included is the potential value for non-collection, based on the collection figure currently included in the MTFS (98.75%).

5.3 As a billing authority the Council can decide whether or not to amend core elements of its scheme each year. Proposed options for consultation are included at in Appendix 1 to this report.

There will be some technical changes that will still need to be applied to ensure that the Council's scheme complies with the Prescribed Scheme Regulations (for example, covering Universal Credit, premiums and discounts). These details are awaited from the Department for Levelling Up, Housing and Communities (DLUHC).

Technical amendments to the scheme in relation to uprating incomes, applicable amounts, disregards and allowances are to be collated once statutory details have been released by the Secretary of State.

5.4 In developing the modelling for each of the CTS scheme options a number of assumptions have been made, as follows:

- **No uprating of benefits figures** - although the national benefits uprating figure is 3.1% for 2022/23 and there could be an assumption made that this may be the same for 2023/24, by applying this uprating % but not applicable amounts would put modelled calculations 'out of sync'.

- As the Council and major preceptors are likely to set differing levels of Council Tax increases, this creates a variety of modelling scenarios. **Council Tax increases of 1.9% and 2.5%** have therefore been assumed for modelling purposes. The final costs of the scheme will though be increased by the actual level of Council Tax increases applied. The modelling does not though take into consideration that the Council's percentage share of the overall cost of the scheme would slightly reduce if other preceptors increase their Band D by a greater percentage than the Council, this would in effect reduce the cost of the scheme to the Council.

- **No increase in caseload for 2023/24, also a 5% caseload increase**. These caseload projections would effectively allow for the currently-slightly decreasing CTS caseload to continue, then potentially rise due to forecast increased cost of living pressures. Of course, officers can only predict the economy and subsequent impacts on CTS caseload, particularly in the current climate this cannot be an 'exact science'.

- **Collection rate of 98.75%.** The MTFS assumes a collection rate of 98.75% for 2023/24 (this is same as the 2022/23 figure, as the MTFS includes reference to 'maintaining current base'). Given the cost of living crisis, the collection rate will be reviewed as part of the development of the updated MTFS.

Another key factor to be considered is to ensure our software supplier, NEC, can accommodate the changes being proposed. Normally, NEC would need to know about any potential significant changes required to the software system by the end of September preceding the new year a CTS scheme is being proposed – i.e. by the end of September 2022, for the 2023/24 scheme.

5.5 The options proposed to be considered, are as follows, (all options are modelled including the factors as set out in paragraph 5.4 (above):

- **Option 1: No change to the current scheme;**

- **Option 2: Introduction of a 'banded scheme' for Universal Credit recipients based on earnings income** - *see paragraph 5.6 (below) for further information.

5.6 **Universal Credit Banded Scheme based on earnings income**

For 2023/24, an option being put forward for consideration is to make a fundamental change to the way CTS is calculated for customers who are in receipt of Universal Credit (UC).

Due to the way UC is re-assessed on a monthly basis by Department for Work and Pensions (DWP) – this means some Council Taxpayers have their UC entitlement altered each month – for example, where they have a fluctuating wage. If the UC recipient is also receiving CTS, this subsequently means that they then have a re-assessment of their CTS entitlement – meaning that it is possible to keep having a new bill sent each month, with instalments for repayment being 're-set' – which can be confusing for customers, as well as administratively inefficient for officers – and preventing recovery progressing where there is non-payment of Council Tax. This is a particular issue with customers who have opted to pay by direct debit, as month after month the instalment resets and the direct debit is never taken. This moves their whole debt to the end of the year where potentially they are asked to pay more than they can afford, when they may have made every effort to pay this during the year.

Therefore, an option for consideration is to adopt an income-banded local CTS scheme for UC recipients based on claimant and partners earnings. Above this, an option could also be to have fixed non-dependant deductions for these claims. Key objectives would be to move towards a scheme that is more adaptable to UC regulations, - and to provide clarity to UC claimants as to what their entitlement to CTS will be.

This scheme looks purely at whether a Universal Credit claimant (and partner, if applicable) is working and if so, what their net monthly earnings are. Officers would receive this information directly from the Department for Work and Pensions.

This modelled scheme option has a series of 'income bands' and a customer's entitlement to CTS is based on what band their earned income falls within. A banded scheme means that small changes in a claimant's income will not necessarily change their entitlement to CTS.

To give this some context in terms of numbers, the current CTS working age caseload as at 24th August 2022 is 8,441, and of this figure 3,414 customers are in receipt of UC – equating to 40.45%.

For the purposes of modelling such a scheme, the following parameters have been included. However, if this option is taken forward for further consideration/ consultation – further work will be carried out on these income bands and levels of non dependant deduction.

Income bands – monthly earnings	**Contribution towards Council Tax (monthly)**
Not in work or less than £290	£0
£290 to £609.99	£35
£610 to £1,159.99	£80
£1,160 to £1,844.99	£120
£1,845 to £2,369.99	£185
£2,370 to £2,899.99	£240
Over £2,900	No entitlement to Council Tax Support

5.7 Whilst the UC banded scheme modelled as part of this report (paragraph 5.6 (above)), is likely to achieve some efficiencies, - potentially now is not the right time to change to this scheme. There are variables around entitlement which would result in some customers receiving an increased CTS award, and with some receiving a reduced CTS award. The initial modelling of the UC banded scheme also shows that the banded scheme could actually cost more due to there being more increased than decreased awards, also due to claimant numbers potentially increasing due to the cost of living crisis – which could be a further financial pressure for the Council at a time when it is facing escalating costs due to current economic factors.

Also, UC numbers are still relatively low – however, with the government announcing an intention to complete a managed migration from legacy benefits to UC by the end of 2024, the UC banded scheme would potentially achieve further efficiencies from either 2024/25 or 2025/26;

5.8 **Continuation of the Exceptional Hardship Scheme:** Exceptional Hardship Payments (EHP) assist persons who have applied for CTS and who are facing 'exceptional hardship' – it is similar to the Discretionary Housing Payment scheme (DHP) for Housing Benefit shortfalls. EHP provides a further financial contribution where an applicant is in receipt of CTS but the level of support being paid by the Council does not meet their full Council Tax liability.

The Council is required to provide financial assistance to the most vulnerable residents, who have been disproportionately affected by the changes made in 2023 to the CTS Scheme. Since April 2013, the Council has agreed to introduce an EHP scheme each year, in order to provide a safety net for customers, in receipt of Council Tax Support who were experiencing difficulty paying their Council Tax. Exceptional Hardship falls within Section 13A(1) of the Local Government Finance Act 1992 and forms part of the CTS Scheme.

The cost of EHP awards is borne solely by City of Lincoln. As at 26th August 2022, a total of £11,551.44 EHP has been awarded for 2022/23. It is proposed that an EHP budget of £25,000 be in place for 2022/23.

The EHP scheme could be particularly vital if the option proposed in paragraph 5.6 is implemented – as this could potentially be used in appropriate circumstances to make payments to CTS recipients with reduced awards under the scheme and suffering exceptional hardship as a result.

5.9 **Committee and Consultation Timetable**

5.10 The timetable to approve any changes to the new scheme takes into account the existing calendar of meetings. Full Council of the Billing Authority needs to approve the scheme after consultation as outlined in paragraph 2.4.

5.11 The timetable is as follows:

- Executive: 17th October 2022*, to consider/approve options for consultation*
- Consultation starts (6 weeks): 19th October 2022*, including consultation with public, other appropriate organisations (e.g. Citizens Advice), and major precepting authorities*
- Policy Scrutiny Committee: 22nd November 2022*, as part of consultation process*
- Consultation Ends: 29th November 2022
- Executive: 3rd January 2023*, to refer to Council a recommendation on a proposed 2022/23 scheme*
- Council: 17th January 2023*, the Local Government Finance Act 2012 requires a full review of the scheme by the Billing Authority. City of Lincoln Council will need to approve a new scheme after consultation by 31st January 2023*.

6. Significant Policy Impacts

6.1 **Strategic Priorities**

Let's drive inclusive economic growth - Council Tax Support has a key role in Reducing poverty and disadvantage by ensuring residents in those households who cannot afford to pay their Council Tax receive financial support. The changes to Council Tax Support form part of the national welfare reform agenda, with the risks of changes to numbers of claimants due to economic change and funding gap costs being passed from central government to local authorities. Central government now has a fixed cost funding arrangement whereas local government must set a scheme in advance of the financial year it applies to but cannot change it should circumstances change unexpectedly or if the assumptions used to decide the scheme are not realised. Central government states that this places responsibility for the local economy such as creating businesses and jobs on local government as part of the localism agenda

Let's reduce all kinds of inequality - The Authority will be obliged to comply with its general equality duty under the Equality Act 2010. The scheme is being amended in line with statutory requirements and uprating the financial allowances. Early modelling shows the number of customers affected and pay how much (total and average per week). Once a decision has been made regarding the options of modelling, an equality impact assessment will be undertaken.

Council Tax Support awards are notified on Council Tax bills. If the scheme were likely to change, consultation with precepting authorities, stakeholders (such as Citizens Advice and Financial Inclusion Partnership) and residents would be required. Once a decision has been made, notification within Council Tax bills and annual CTS uprating letters would be issued advising claimants of the decision once their award for the new financial year is known.

6.2 **Organisational Impacts**

Finance (including whole life costs where applicable)

The actual cost of the discount scheme in 2023/24 will not be known for certain until the end of the financial year and will be dependent on the actual caseload in year as well as the levels of Council Tax set by the City Council and the major precepting authorities.

An indicative range of costs for 2023/24 based on various scenarios and the options set out in section 5 of this report are set out in Appendix 1.

The estimated cost of the scheme, based on current caseload, is taken into consideration when calculating the Council's tax base for the financial year and will impact on the estimated Council Tax yield for the year. Any difference in the actual cost of the discount scheme to that estimated in the tax base calculation will be accounted for within the Collection Fund and will be taken into account when future years surpluses or deficits are declared.

It is proposed an Exceptional Hardship Fund of £25,000, be made available during 2023/24 – the cost of this fund is wholly borne by City of Lincoln Council as Billing Authority.

6.3 **Legal implications inc Procurement Rules**

The Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012, laid before Parliament on 22nd November 2012, set out the regulations for a default scheme and this was adopted by the Council subject to local policy needs in January

2013. The Secretary of State has issued amendment regulations setting out some changes that must be adopted by the Council for pensioners and the Council has also decided in 2013 to keep the schemes allowances and premiums in line with those for Housing Benefit for working age claimants. These are incorporated into amendments to the local scheme for approval by the Council.

The regulations for the City of Lincoln Council scheme proposed to be adopted are to be collated and made available for Council in January 2023.

6.4 **Equality, Diversity and Human Rights**

The Authority will be obliged to comply with its general equality duty under the Equality Act 2010 – an Equality Impact Assessment will be undertaken before this report is referred to Executive.

6.5 **Staffing**

No change to current staffing arrangements as a result of this policy

7. Risk Implications

The Council, along with the other preceptors, bears the risk of the cost of the Council Tax Support scheme should caseload increase causing the cost to increase more than predicted.

Any revisions to the scheme must be approved by 31st January 2023 before the financial year begins.

The scheme cannot be changed mid-year and therefore it is vital an appropriate scheme is in place.

8. Recommendations

8.1 Executive is asked to:

1) Consider and comment on options for a 2023/24 Council Tax Support scheme.

   Although the Universal Credit (UC) banded scheme option modelled as part of this report would appear to have some potential positive aspects and efficiencies moving forward, there are variables around entitlement which would result in some customers receiving an increased CTS award, and with some receiving a reduced CTS award. Due to the following reasons it is recommended by the Head of Shared Revenues and Benefits Service to not move forward with this option for 2023/24 and to maintain a ‘no change’ scheme:

   - Economic climate and cost of living pressures;

   - UC numbers are still relatively low – however, with the government announcing an intention to complete a managed migration from legacy benefits to UC by the end of 2024, this scheme would potentially achieve further efficiencies from either 2024/25 or 2025/26;

- Current ‘no change’ CTS scheme works – it is affordable, Council Tax collection remains high, and protects working age vulnerable customers.

2) Agree a ‘no change’ scheme for 2023/24 to be the preferred option for public consultation and scrutiny.

3) Agree that further detailed modelling of a Universal Credit banded scheme takes place, with a view to adopting such a scheme from 2024/25.

4) Consider and comment on maintaining an Exceptional Hardship Fund of £25,000 for 2023/24.

Key Decision	Yes
Do the Exempt Information Categories Apply	No
Call In and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes
If Yes, how many Appendices?	1 Appendix 1 – Council Tax Modelling 2023/24
List of Background Papers:	None
Lead Officer:	Martin Walmsley – Telephone 01522 873597

Appendix 1: 17th October 2022 – Executive - City of Lincoln Council – Council Tax Support 2023/24 scheme

Option 1: No change to the current scheme	Estimated Total Spend (all preceptors)	City of Lincoln Spend – 14.5%	Difference to MTFS (£1,277,300) – (saving) / cost	Amount expected to be collected using collection figure of 98.75%
• 0% caseload change • 1.9% Council Tax increase	£8,381,407	£1,215,304	(£61,996)	(£61,221)
• 0% caseload change • 2.5% Council Tax increase	£8,554,088	£1,240,343	(£36,957)	(£36,495)
• 5% caseload increase • 1.9% Council Tax increase	£9,335,984	£1,353,718	£76,418	£75,463
• 5% caseload increase • 2.5% Council Tax increase	£9,395,275	£1,362,315	£85,015	£83,952

Appendix 1: 17th October 2022 – Executive - City of Lincoln Council – Council Tax Support 2023/24 scheme

Option 2: Universal Credit Banded Scheme based on earnings income	Estimated Total Spend (all preceptors)	City of Lincoln Spend – 14.5%	Difference to MTFS (£1,277,300) – (saving) / cost	Amount expected to be collected using collection figure of 98.75%
• 0% caseload change • 1.9% Council Tax increase	£8,421,750	£1,221,154	(£56,146)	(£55,444)
• 0% caseload change • 2.5% Council Tax increase	£8,594,431	£1,246,193	(£31,107)	(£30,718)
• 5% caseload increase • 1.9% Council Tax increase	£9,376,327	£1,359,567	£82,267	£81,239
• 5% caseload increase • 2.5% Council Tax increase	£9,435,620	£1,368,165	£90,865	£89,729

Further information re Option 2:

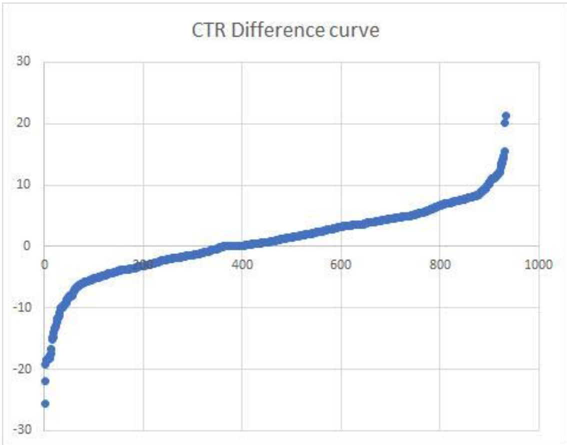
This UC Banded Scheme based on earnings would result in some Council Taxpayers receiving a higher level of CTS than under the current scheme, and some customers would receive a reduction in CTS. Based on the modelling that has taken place:

- Biggest increase for a resident: £21.37 per week
- Biggest decrease for a resident: £25.56 per week
- 536 have an increased award, 36 no change, 361 have a reduced award.

Appendix 1: 17th October 2022 – Executive - City of Lincoln Council – Council Tax Support 2023/24 scheme

Difference in weekly entitlement range: From (£) *(- decrease, + increase)*	Difference in weekly entitlement range: To (£)*(- decrease, + increase)*	Number of customers
-20.01	-30.00	2
-10.01	-20.00	32
0.01	-10.00	327
0	0	36
+0.01	+10.00	499
+10.01	+20.00	35
+20.01	+30.00	2

Below: Council Tax Support (also known as Council Tax Reduction (CTR)) ‘distribution curve’ of potential increased and decreased awards from initial modelling:



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SUBJECT:	**EXCLUSION OF THE PRESS AND PUBLIC**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**CAROLYN WHEATER, MONITORING OFFICER**

1. Purpose of Report

1.1 To advise members that any agenda items following this report are considered to contain exempt or confidential information for the reasons specified on the front page of the agenda for this meeting.

2. Recommendation

2.1 It is recommended that the press and public be excluded from the meeting at this point as it is likely that if members of the press or public were present there would be disclosure to them of exempt or confidential information.

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