**COUNCIL** **1 MARCH 2022**

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| **SUBJECT:** | **MEDIUM TERM FINANCIAL STRATEGY 2022 - 2027** |
| **DIRECTORATE:** | **CHIEF EXECUTIVE AND TOWN CLERK** |
| **REPORT AUTHOR:** | **JACLYN GIBSON, CHIEF FINANCE OFFICER** |

## 1. Purpose of Report

1.1 To seek approval of the Medium-Term Financial Strategy for the period 2022-2027 and the budget for 2022/23.

1.2 To seek approval of the Capital Strategy 2022-2027.

## 2. Executive Summary

2.1 The financial landscape for local government continues to pose an unprecedented challenge to the Council and is set in the context of significant, inherent, uncertainty with the ongoing impact of the Covid19 pandemic on income and expenditure assumptions and a lack of any form of clarity on future funding settlements from Government. It is a long time since the Council had any medium-term certainty during budget setting which makes financial planning in this climate extremely challenging.

2.2 The Covid19 pandemic continues to cast a shadow on the Council's finances with budget pressures arising from demand for services, the availability of goods and services, escalating costs and ongoing, permanent, reductions in income. Coupled with the state of flux in the economy with; rising inflation; labour shortages; and supply chains issues the level of uncertainty has never been so high.

2.3 Alongside these service pressures, there continues to be a lack of clarity over whether and when each of the planned local government finance reforms will be implemented. These reforms, together, 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.

2.4 In this current exceptionally difficult financial situation, faced with volatility, complexity and uncertainty, the Council's overriding financial strategy has been, and will continue to be, to drive down its net cost base to ensure it maintains a sound and sustainable financial position. The key mechanism for carrying out this strategy is through the Towards Financial Sustainability (TFS) Programme which seeks to bring service costs in line with available funding.

2.5 Although there is a significant level of uncertainty about future funding, based on what is currently known, or can be reasonably assumed, there still remains a current savings target of £1.5m on the General Fund, which the Council must deliver to ensure it's financial sustainability. Whilst this is a significant target for the Council to achieve, particularly in light of the annual revenue reductions of nearly £10m that have already been delivered over the last decade, considerable progress has already been made with over 50% of the target already achieved. In the longer term the Council is seeking to deliver transformational changes as well as using it's influence and direct investment to create the right conditions for the City's economy to recover and once again grow, thus increasing tax bases and ensuring it's financial sustainability. However, due to the short term need to close the budget gap the Council is left with little option but to revert to more traditional cost cutting measures in order to deliver the reductions required, this is an approach that will continue through 2022/23.

2.6 The Council will continue to build on it's successful financial planning to date and will seek to protect the core services for the people of Lincoln, whilst at the same time allowing for significant investment in the City, and its economy, and driving forward Vision 2025. Adopting this approach will ensure that it carefully balances the allocation of resources to it's vision and strategic priorities, whilst ensuring it maintains a sustainable financial position.

2.7 Prior to submission of the MTFS 2022-2027 and budget to the Executive and Full Council, public consultation and member scrutiny has been undertaken.

## 3. Background

3.1 The MTFS sets out the overall framework on which the Council plans and manages its financial resources to ensure that they fit with, and support, the direction of the Council's vision and strategic priorities.

3.2 The MTFS integrates revenue allocations, savings targets and capital investment and provides the budget for the next financial year and provides indicative budgets and future council tax and housing rent levels for the period covered by the strategy.

3.3 In response to the unprecedent impact of Covid19 on the Council's finances and the inherent uncertainty in financial planning, the existing objectives of the MTFS were reviewed to ensure they remained relevant. The key overriding objective continues to be;

- To continue to drive down the net cost base, in line with available resources, to ensure the Council maintains a sound and sustainable financial base, delivering a balanced budget over the life of the MTFS;

The further objectives that the MTFS seeks to achieve are as follows:

- To ensure the Council uses its reserves and balances carefully, seeking to maintain robust levels and replenishing where necessary, to address any future risks and unforeseen events without jeopardising key services and the delivery of outcomes;

- To seek to maximise income levels, including maintaining in the short term and growing over the medium term, the Council Tax and Business Rates tax bases, whilst ensuring that Council Tax rate increases are kept an acceptable level;

- To ensure that the Council's limited resources are directed towards its Vision and strategic priorities, redirecting where necessary to allow for improvement and investment.

- To ensure the Council provides efficient, effective and economic services which demonstrate value for money.

3.4 Over the last decade the Council, alongside the majority of other local authorities, has experienced unprecedented financial challenges in various forms. They have had to to adapt to; the impact of severe, unprecedented, central government funding reductions; radical reform of the methodology for funding local government - where councils are self-sufficient funded from local taxes with limited reliance on Central Government, changes in the use and demand for services; as well as escalating costs. The reform of the methodology of funding local government has in particular transferred a significant amount of financial risk and uncertainty to local authorities, creating a greater degree of uncertainty over the budget planning parameters for the Council than has been experienced previously.

3.5 In response to this challenging financial environment the Council has embraced a forward thinking, ambitious and commercial approach in maintaining a sound financial position. This is an approach that has served the Council well and allowed savings of nearly £10m to be delivered over the last decade.

3.6 Looking ahead the financial landscape for local government continues to pose a high level of uncertainty, there continues to be a number of unknowns, which have been exacerbated in recent months; in terms of how long the pandemic will continue to affect communities and the economy; will further restrictions be imposed; will the bounce back recovery further dampen or re-bounce, and by how much; and how will customers, residents, businesses behave over time and how will their needs change. Coupled with the state of flux in the economy with; rising inflation; labour shortages; and supply chains issues the level of uncertainty has never been so high. Layered on top of this is the lack of clarity on further Government funding reforms, which have the ability to fundamentally alter the direction of the MTFS. Therefore, in order to ensure that the Council maintains a robust and sustainable financial position and is able to respond to the impact of volatile external events and increased financial risks that it faces, the MTFS needs to remain flexible, the council's reserves resilient and the sound track record of delivering savings needs to be sustained, whilst ensuring that resources are directed towards its vision and strategic priorities.

## 4. The General Fund

4.1 The Council's spending requirement, after capital charges and contributions to/from reserves are taken into account, for 2022/23 amounts to £8.907m. Due to the impact of significant fluctuations in the Collection Fund deficits and Section 31 grant funding it is not possible to make direct comparisons to prior or future financial years. The provisional forecast spending requirements for the remaining four years of the MTFS are, £11.279m for 2023/24, £12.862m for 2024/25, £13.789m for 2025/26 and £14.549m for 2026/27.

4.2 The following paragraphs outline the key elements and assumptions on which the

General Fund Revenue estimates have been prepared.

4.3 **Finance Settlement 2022/23**

The 2022/23 Local Government Finance Settlement is for one year only, the fourth consecutive one-year local government finance settlement and is based on the Spending Review 2021 (SR21) funding levels. This is the first time since 2015 that, in the context of a multi-year Spending Review, the government has only provided local authorities with a single-year settlement. The Settlement sets out the Council's Core Spending Power which consists of; it's Settlement Funding Assessment (SFA) made up of Revenue Support Grant (RSG) and Business Rates baselines figures; along with other specific grant allocations; and an assumed level of Council Tax. Overall, the Council's Core Spending Power has increased by 6.6% in comparison to an increase of 7.4% across all English local authorities.

4.4 **Revenue Support Grant**

In terms of the Council's RSG element of the SFA, as a result of the one-year settlement and further delay in the implementation of funding reforms, RSG has been extended for a further year and is at the same level as the 2021/22 allocations but uplifted by 3.1% in line with CPI inflation. The Council's allocation for 2022/23 is £0.024m, beyond this RSG is no longer assumed in the MTFS.

4.5 **Business Rates Retention**

The calculation of income to be received through Business Rates Retention (BRR) is critical in determining the amount of resources that the Council will have available to fund local services. The level of net rates payable by businesses in the City continues to be at reduced levels during 2021/22 due to a significant number of Government funded reliefs as well as an increase in empty property reliefs and business closures. These reductions in net retainable rates will continue to impact over the period of the MTFS until the City's economy is able to recover and once again grow.

4.6 The Council has undertaken an assessment of the amount of business rates that it expects to collect during 2022/23, based on this and after allowing for the allocation of resources to Central Government and to the County Council it is estimated that £5.573m of the £38.898m of business rates generated within the City will be retained by the Council. Beyond 2022/23, assumptions have been made in relation to the reform of the BRR system, these will continue to be assessed as further details of the changes are released by the Government. Although no specific implementation date has yet been confirmed the MTFS assumes this will be effective from 2023/24. However, as much of the design and relative starting positions in the new scheme are as yet unknown, it is extremely challenging to forecast the likely level of resources.

4.7 As reported to the Executive on 17th January 2022, the Business Rates element of the Collection Fund has declared a deficit in relation to 2021/22 of £8.907m of which the Council's share is £3.563m. Whilst this is a significant deficit, £9.473m (£3.789m City Council share) of the deficit is offset by Government grants received to compensate local authorities in respect of the expanded retail rate reliefs awarded to business in response to the Covid19 pandemic. The remaining net surplus of £0.566m, of which the Council's share is £0.226m, has arisen due to the final year end position on the 2020/21 Collection Fund, which was more positive than estimated, offset by an in year increase in empty property reliefs, which has been adversely affected by the pandemic.

4.8 This level of retained business rates is calculated on the basis that the Council participates in the Lincolnshire Business Rate Pool in 2022/23. The pool consists of this Council, Lincolnshire County Council and the six other Lincolnshire District Councils. Membership of this pool allows the Council to retain an element of growth that would have otherwise been payable via a levy to the Government, this equates to retained resources of £0.455m in 2022/23.

4.9 **Council Tax**

The Localism Act 2011 introduced a power for residents to approve or veto excessive council tax increases. This means that any local authority setting an excessive increase, as set by the Secretary of State, would trigger a referendum of all registered electors in their area. The Government confirmed in the Settlement that there will continue to be differential limits that will trigger the need for a referendum. There will be a core referendum principle of up to 2% but for District Councils, as in previous years, there will be additional flexibility with increases of less than 2% or up to and including £5 (whichever is higher).

4.10 In view of this and taking into consideration the Council's need to protect its financial position from further decline and maintain its local income streams, the MTFS for consideration proposes a 1.89% rise in Council Tax for 2022/23, and a further 1.9% p.a. in each of the subsequent years. An increase of 1.89% in 2022/23 equates to an additional 7p per week for a Band A property and 8p per week for a Band B property (80% of properties fall within Band A and B), with a Band D equivalent of £290.79.

4.11 **Other Specific Grants**

In addition to RSG the Council also receives other specific grants. Further New Homes Bonus allocations for 2022/23 have been announced and the Council will receive £0.421m. The Lower Tier Services grant has been rolled over for a further year with an allocation for 2022/23 is £0.174m.

In addition, a new one-off Services Grant worth £822 million has been announced for 2022/23. The grant is intended to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government. It includes funding for local government costs for the increase in employer NIC's. The grant is not ring-fenced. The allocation for 2022/23 is £0.263m, beyond 2022/23 although the funding amount is expected to be in each of the next two years at Core Spending Power level, the methodology for allocation is likely to change. However, given within this amount there is the funding for the increased NICs burden, an assumption of £0.150m p.a. has been made.

4.12 **Fees & Charges**

The fees and charges levied by the Council are an important source of income, however the impact of Covid19 had a significant detrimental impact on fees and charges income over the last two years, with levels plummeting across a range of discretionary services as a result of multiple lockdowns and the impact on the economy and the uneven path to recovery. Although many sources of fees and charges are expected to bounce back to their pre-covid levels it is the car parking income that poses the greatest financial risk to the Council's MTFS. Whilst initial assumptions have been made over the 5-year period, at this stage there is a significant level of uncertainty as to how these income sources will perform.

This current forecast has identified an increase in income levels of £0.256m from the levels previously assumed for 2022/23. This increase is primarily as a result of the introduction of new charges e.g. extension to residents parking schemes, rather than increased levels of existing charges.

4.13 **Spending Plans**
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. 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 existing Visions 2025 earmarked reserve, there are also a number of new revenue schemes. Further details of the specific projects and investments in Visio 2025 are included elsewhere on this agenda.

4.14 The following other key assumptions have been used in formulating the General Fund revenue estimates for 2022/23 – 2026/27 as follows:

- Non-Statutory fees and charges mean average increase is 2.2% in 2021/22 with a 3% p.a. increase in yield thereafter. Although individual service income budgets have been re-based to reflect the impact of Covid19, with significant reductions forecasted.
- An increase in employer pension contribution rates capped at 1% p.a. for the period 2022/23.
- A provision for pay awards of 1.75% p.a. for 22/23 and 2.0% p.a thereafter.
- A provision for inflation of 4% for 22/23 and the 3%p.a. thereafter for contractual commitments linked to RPI based
- A provision for 3% for 22/23 and then 2%p.a. thereafter for general inflationary increases and contractual commitments linked to CPI
- Average interest rates on investments have been assumed at 0.44% in 2022/23, 0.56% in 2023/24, 0.64% in 2024/25, 0.72% in 25/26 and 0.80% in 2026/27.
- Staff turnover targets of 1% pa

**Towards Financial Sustainability**

4.15 The Council has a successful track record in delivering savings and has, over the last decade, delivered nearly £10m of annual revenue savings. Despite this success, the Council faces the challenge of having to further reduce it's net cost base if it is to remain financially sustainable.

4.16 Whilst there are still significant uncertainties in financial planning, the additional resources made available due to the ongoing delay in implementation of Government funding reforms and the additional grant allocations in the Finance Settlement, have meant that the existing savings targets can be reduced slightly, without impacting overall financial sustainability. On the basis of the revised financial planning assumptions assumed in this MTFS, the savings targets will be revised as set out below:

| | 2022/23 £'000 | 2023/24 £'000 | 2024/25 £'000 | 2025/26 £'000 | 2026/27 £'000 |
|---|---|---|---|---|---|
| Savings required as per MTFS 2020-25 | 1,050 | 1,300 | 1,500 | 1,500 | 1,500 |
| Savings delivered in 2021/22 | (716) | (736) | (756) | (778) | (792) |
| **Balance of savings to be achieved** | **334** | **564** | **743** | **721** | **708** |

Although the savings targets have been reduced, and considerable progress has already been made towards the above targets, the Council still has a budget gap that it must address and must continue to focus on measures to drive down it's net cost base to ensure it maintains a sound and sustainable financial position.

4.17 The key mechanism for delivering the required budget savings is through the Towards Financial Sustainability (TFS) Programme, which seeks to bring net service costs in line with available funding. Previously the Council has been able to achieve savings by re-investing in more efficient ways of working; adopting a more commercial approach; and prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps. However, after a decade of delivering efficiency savings it is much harder to extract such savings and many now being considered are to be delivered as part of longer-term transformational changes to the organisation, there have been additional restrictions imposed on Council's in terms of commercial activity; and the delivery of benefits from economic development measures cannot be realised in the short term. The Council is therefore left with little option but to revert to more traditional cost cutting measures in order to deliver the scale of reductions required in the short term, this is an approach that will continue through 2022/23.

4.18 The focus of the TFS programme remains on two key strands:

- "One Council" – this defines how the Council, as an organisation, will need to work in the future to meet changing demands. Through four themes of, organisational development, technology, creating value processes and better use of resources, cross organisational programmes of work explore common to all issues and how these can best be combined to a deliver a 'one organisational' approach more efficiently and cost effectively.

- Service Withdrawal/Reduction - withdraw from some services or reduce the level of service provided for those services not deemed to be of sufficient priority or any longer affordable.

4.19 Alongside this programme the Council still believes that the longer-term approach to finding efficiencies to close the funding gap is fundamentally through economic growth and investment. This is ever more critical in light of the crippling effect Covid19 has had on the local economy. As part of the recovery of the City from the pandemic the

Council, through Vision 2025, will continue to seek ways to maximise it's tax bases by creating the right conditions for the economy to recover and grow, to increase Business Rates income, and to encourage housebuilding to meet growing demand, generating additional Council Tax.

**Robustness and Adequacy of the Budget and Reserves – General Fund**

4.20 In presenting the budget to the Council, the Executive must take account of the advice of the Council's Chief Finance Officer in relation to the robustness and adequacy of the budget and reserves.

4.21 The level of earmarked reserves is shown in Appendix 6, which shows the estimated closing balances at the end of each of the next five financial years. These reserves will only be used for the specific purposes for which they were set up. In response to the financial challenges the General Fund faces there are a number of earmarked reserves, having been established for such a purpose, that will be used in 2022/23 and 2023/24 to support the General Fund whilst the ongoing reductions in the net cost base are delivered. Having reviewed the level of earmarked reserves the Chief Finance Officer has concluded that they are adequate to fund the planned expenditure identified by the Council.

4.22 As a result of the level of financial risk currently faced by the Council and the threat this poses to the Council's financial position the prudent minimum level of general reserves remains at an increased level. Based on an assessment of the estimated exposure, likelihood and possible mitigation of the financial risks that the Council faces it is deemed prudent to hold general reserves around £1.5m-£2m. Over the MTFS general reserves are maintained in line with (in excess of) this prudent minimum and show an estimated balance of £2.422m by the end of 2026/27.

4.23 Whilst the overall level of balances will still be maintained over the period of the MTFS there are planned uses of balances in the General Fund of £0.073m in 2023/24 and £0.670m in 2024/25. This use of balances, in the short term, along with the application of specific earmarked reserves will provide the Council the opportunity to deliver ongoing reductions in it's net cost base, and also providing the flexibility to adjust the savings targets if there is a more positive outcome from the funding reforms. Based on the current trajectory of savings targets, by 2025/26 the General Fund will be in the position of making positive contributions to balances, with forecasted contributions of £0.072m in 2025/26 and £0.840m in 2026/27. The careful use of balances, along with earmarked reserves, in supporting the General Fund is seen as a short-term measure only to ensure a balanced budget position is maintained whilst savings are delivered, it is not foreseen as a long-term solution.

## 5. The Housing Revenue Account

5.1 The Council's Housing Revenue Account Business Plan 2016-2046 was approved in February 2016, since it's adoption a number of issues e.g., Brexit and the Covid19 pandemic have had a fundamental impact on the way the Council delivers it's housing and landlord services, now and in the future. In addition, the Vision 2025 and Annual Delivery Plan 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 has been undertaken during 2021 with work now taking place to fundamentally rewrite the 30-year Plan to reflect the changes to the local, regional and national operating environment and to reflect the Councils current aims and ambitions in Vision 2025.

5.2 **Housing Rents**

In line with the Housing Business Plan and Government Rent Guidelines, that announced that from April 2020 social rents will increase by a maximum of CPI+1% for 5 years, the MTFS has historically been based on this assumption. The approach from 2025 remains uncertain but there is an expectation that social rent increase will remain.

5.3 The Council has historically set the rent levels in line with the requirement to increase rents by CPI + 1% (CPI being as at September each year) for general purpose accommodation and also increase sheltered accommodation and affordable rents, by the same. With CPI +1 % as at September 2021 levels this would mean an increase in rents of 4.1%. An increase of this level, in light of other impacts on household incomes arising from the current economic climate, could have a severe impact the Council's tenants and as such rent increases of 3.6% for 2022/23 are proposed. The assumption in the MTFS from 2023/24 onwards reverts to CPI + 1%. The average 52-week rent will be £73.44 per week for general purpose and sheltered accommodation, and £116.91 for affordable rents.

5.4 **Financing the capital programme**

Under HRA self-financing, the primary sources of funding for capital investment in the Council's housing stock is from the revenue account through asset depreciation charges and direct revenue contributions. This has however been lessened to some extent by the removal of the HRA borrowing cap but based on the current Housing Investment Programme (HIP), the need for £55.326m of revenue support is still anticipated over the MTFS period.

5.5 The following other key assumptions have been used in formulating the HRA estimates for 2022/23 – 2026/27 as follows:

- Assumptions for price inflation, interest rates, pay awards, vacancy savings and employer pension contributions are as per the General Fund
- Average Garage Rents increase of 3% pa
- Housing voids assumed at 1.23% for 2022/23, then 1% for 2023/24 – 2026/27.
- A collection rate of 99% p.a.
- Additional rental income from 42 new build properties.

**Robustness and Adequacy of the Budget and Reserves – HRA**

5.6 In presenting the budget to the Council, the Executive must take account of the advice of the Council's Chief Finance Officer in relation to the robustness and adequacy of the budget and reserves.

5.7 The level of earmarked reserves is shown in Appendix 6, which shows the estimated closing balances at the end of each of the next five financial years. These reserves will only be used for the specific purposes for which they were set up. The Chief Finance Officer has reviewed the level and purpose of the reserves as part of the budget setting process and has concluded that these are adequate to fund the planned expenditure identified by the Council.

5.8 The prudent level of general reserves on the Housing Revenue Account is considered to be £1m - £1.5m. Whilst in 2022/23 to 2025/26 the level of reserves are within this prudent level, by the end of the MTFS period they are forecasted to be significantly in excess of this level, with an estimated balance of £2.012m at the end of 2026/27. These additional resources will be taken into consideration as part of the Business Plan refresh.

## 6. The General Investment Programme

6.1 The General Investment Programme (GIP) for the period 2022/23 – 2026/27 is included within the MTFS at Appendix 2. The total allocated capital programme over the next five years is £22.954m of which £19.406m is estimated to be spent in 2022/23.

6.2 The capital spending plans for the next five years include the delivery of schemes from Vision 2025, with a focus on supporting the recovery of the City or key One Council projects, and investment in existing assets to either maintain service delivery or existing income streams.

- Western Growth Corridor - £8.694m
- Disabled Facilities Grants - £1.500m
- Planned asset maintenance - £1.130m
- Sustainable Warmth - £2.2m
- Lincoln Central Market - £6.666m
- Heritage Action Zone - £0.476m

6.3 Further schemes in support of Vision 2025 will be included in the GIP at the relevant stage in their development e.g. grant funding secure, design stage completed etc. Further details of the investment plans are provided in the Capital Strategy.

## 7. The Housing Investment Programme

7.1 The Housing Investment Programme (HIP) for the period 2022/23 – 2026/27 is included within the MTFS at Appendix 4. The total allocated capital programme over the next five years is £70.521m of which £21.721m is estimated to be spent in 2022/23.

7.2 The 5-year HIP is based on the HRA 30-year business plan, updated to reflect revised spending and funding profiles of approved schemes as detailed schemes are developed. The key elements of the HIP are split into 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 and seeking government grant funding for new build schemes or purchase & repair schemes that generate a 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 and supporting the Lincoln Standard.

7.3 Future spending plans for the HIP are expected to include capital investment in further progression of the Council House New Build Programme, initiatives through the Council's carbon neutral ambition, other new schemes emerging through Vision 2025 and implications arising from the Social Housing White Paper, particularly a revision to Decent Homes Standard, and the Building and Fire Safety regulations. As set out above the HRA 30 year business plan, which has had a light touch refresh in 2021 and will have a full refresh in 2022, will shape the direction of the HIP and its priority areas.

7.4 As set out in paragraph 5.4 above, the primary sources of financing for the HIP are from depreciation, with financing of £45.388m applied over the 5-year period and from revenue contributions applied, totaling £15.664m over the 5-year period. In addition the HIP is set to utilise £5.972m of prudential borrowing to fund the Council House New Build Programme this is further supported by capital receipts (including Right-to-Buy receipts) of £3.002m.

## 8. Capital Strategy

8.1 The CIPFA Prudential and Treasury Management Code ( revised 2017) now requires all local authorities to prepare a Capital Strategy which will provide the following;

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability.

8.2 The Capital Strategy should complement other key documents such as the MTFS, the Asset Management Plan, the Council's Strategic Plan, and Treasury Management Strategy, etc. by defining the approach, structure and governance for the effective management of the Council's capital investment needs and ambitions.

8.3 The Capital Strategy is attached at Appendix B.

8.4 In December 2021 CIPFA published revised Prudential and Treasury Management Codes. These new codes apply with immediate effect, except where authorities may defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. Whilst the Council will ensure it's borrowing and investment activity during 2022/23 will be in accordance with the revised provisions, it has as opted to defer full implementation of the revised reporting requirements until the 2023/24.

## 9. Consultation and Scrutiny

9.1 Budget consultation has been undertaken alongside consultation on the interim review of Visions 2025. The consultation, which consisted of an online questionnaire was undertaken with the public, businesses and the voluntary sector over a period of three week. The consultation primarily asked for prioritisation of key existing projects, prioritisation of the key strands of the TFS Programme, as well as seeking views on Council Tax proposals and value for money. The detailed results of the consultation are attached at Appendix C. In terms of the specific question in relation to Council Tax increases:

- 15.5% of respondents would support a 0% increase
- 22.6% of respondents would support a 1% increase
- 33.6% of respondents would support a 1.9% increase (as per the proposed increase)
- 28.3% of respondents would support a 3%.

The Executive have considered the results and comments from the consultation in arriving at its recommendations in relation to the final budget.

9.2 In terms of member budget scrutiny an all member workshop was undertaken during January 2022 to ensure that as large a number of members as possible had the opportunity to fully understand the financial position of the Council. This was followed in February by a Budget Review Group who focused on the detail of the draft MTFS, proposed budget and Council Tax recommendation.

9.3 The minutes of the Budget Review Group are attached at Appendix D, there were a number of specific recommendations made by the Group, as set out below, but none that were specific to the MTFS and 2022/23 budget proposals:

- That once the full financial implications of the Environment Act were known that Performance Scrutiny Committee were updated.

- That the Internal Drainage Boards be invited to attend an all-member briefing on the work of the drainage boards and use of council tax payers resources

- That the relevant Portfolio Holder included reference to the work of the Internal Drainage Board's in their annual report to Council

- That the Director of Major Developments gave consideration to the oversight of performance monitoring for the Western Growth Corridor.

## 10. Strategic Priorities

10.1 The MTFS underpins this policy and financial planning framework and set out the overall framework on which the Council plans and manages its financial resources to ensure that they fit with, and support, the direction of the Council's vision and strategic priorities.

## 11. Organisational Impacts

11.1 Finance - The financial implications are as set out in the body of the report.

11.2 Legal Implications including Procurement Rules - Local authorities must decide, prior to the $11^{th}$ March, each year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the council tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:

- making prudent allowance in the estimates for services; and
- ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

11.3 Local government legislation requires an authority's Chief Finance Officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so Members will have authoritative advice available to them when they make their decisions.

11.4 Land, property and accommodation - Specific implications for the deployment and management of the Council’s assets are included within the Capital Strategy and Asset Management Plan which support the achievement of the objectives of the MTFS.

11.5 Equality, Diversity and Human Rights –

This report provides a summary of the financial planning activities across the Council. As a consequence of the approval of the MTFS and budget for 2022/23 there may be an impact on certain council services which will be subject to review. Planning work undertaken to develop the Towards Financial Sustainability Programme and strands and investment in the Vision 2025 and strategic priorities, set out above, involves taking an overview of the potential cumulative impact. This is further expanded and built upon as the specific reviews and projects are developed and so detailed equalities implications will be assessed at the individual service level.

## 12. Risk Implications

12.1 The Council has a very proactive approach to managing risk and there are effective arrangements for financial control already in place. That said, there is always a risk that the Council will become liable for expenditure that it has not budgeted for or face a reduction in resource available (as was experienced during 2020/21), the impact of which must be mitigated by holding reserves. Due to the significant reduction in forecast income levels, forthcoming changes in core funding mechanisms for local authorities and uncertainty around future funding settlements, the level of volatility and risk to which the Council is exposed has increased exponentially, the MTFS therefore needs to remain flexible and the council’s reserves resilient.

12.2 The financial risks, Appendix 5 of the MTFS, have been identified and an assessment of the estimated exposure, likelihood and possible mitigation has been made in the context of the Council’s overall approach to risk management and internal financial controls. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

## 13. Recommendation

13.1 That Full Council approves, the

- The Medium Term Financial Strategy 2022-2027, and.
- The Capital Strategy 2022-2027

Including the following specific elements:

- The Council is member of the Lincolnshire Business Rates Pool in 2022/23.
- The General Fund Revenue Forecast 2022/23-2026/27 as shown in Appendix 1 and the main basis on which this budget has been calculated (as set out in paragraph 4).
- The General Investment Programme 2022/23-2026/27 as shown in Appendix 2, and the main basis on which the programme has been calculated (as set out in paragraph 6).
- The Housing Revenue Account Forecast 2022/23-2026/27 as shown in Appendix 3 and the main basis on which this budget has been calculated (as set out in paragraph 5).
- The Housing Investment Programme 2022/23-2026/27 as shown in Appendix 4, and the main basis on which the programme has been calculated (as set out in paragraph 7).

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| **Is this a Key Decision?** | No – Referral to Full Council |
| **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?** | Four |
| **List of Background Papers**: | Medium Term Financial Strategy 2021-26 – Executive 22nd February 21<br>Setting the 2022/23 Budget and Medium Term Financial Strategy 2022-27 – Executive 22nd November 2022<br>Draft Medium Term Financial Strategy 2022-27 – Executive 17th January 22 |
| **Lead Officer:** | Jaclyn Gibson, Chief Finance Officer<br>Jaclyn.gibson@lincoln.gov.uk |