EXECUTIVE **16 JANUARY 2023**

SUBJECT:	**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2023 - 2028**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
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1. Purpose of Report

1.1 To recommend to the Executive the draft Medium-Term Financial Strategy for the period 2023-2028 and the draft budget and council tax proposal for 2023/24, for consultation and scrutiny.

1.2 To present the draft Capital Strategy 2023-2028 for consideration.

2. Executive Summary

2.1 Much has changed since the Council approved the previous MTFS, with spiralling inflation, soaring energy prices and nationally agreed pay proposals set to add significant cost pressures to the it's budgets. These are in the main caused by national issues, which are beyond the Council's control and that are impacting all Councils.

2.2 In addition, the Council is facing growing demands for some of its 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.

2.3 Alongside these cost and demand pressures, there still remains uncertainty around the level of funding for local government beyond the current Spending Review period and the implementation of the planned national funding reforms. These reforms, together, have the ability to fundamentally alter the course of the MTFS. Although it has now been confirmed that these fundamental reforms will not be implemented until 2025/26 at the earliest, and the Autumn Statement announced some much-needed additional funding for local authorities for the next two years (providing some limited and short-term stability), there can be no certainty beyond 2024/25.

2.4 As a result of these factors, the financial landscape for local government continues to pose an unprecedented challenge to the Council and is set in the context of this significant, inherent uncertainty. 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.

2.5 Despite this significant level of uncertainty, based on what is currently known, or can be reasonably assumed, the Council continues to face a significant and widening gap between its spending requirements and the level of resources it estimates to receive. The additional resources announced by the Government for 2023/24 and 2024/25, the delay in implementation of national funding reforms, and the use of earmarked reserves, has provided some financial capacity to smooth the level of reductions required, but it does not alter the underlying need to reduce the net cost base of the General Fund by £1.750m by 2026/27 if the Council is to remain sustainable in the medium term. 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.

2.6 The Council still believes that the longer-term approach to closing the funding gap is fundamentally through economic growth and investment. Through Vision 2025 the Council will continue to seek ways to maximise its 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. In addition, the Council also continues to focus on transformational changes to the way in which it operates and delivers services. However, these measures are only likely to yield significant additional resources beyond the lifetime of this MTFS. If the Council is to deliver the level of savings required by 2026/27, it will have little choice but to face further difficult decisions about the size and scope of the essential services it will be able to continue to provide. It will need to review and revisit its investment priorities, beyond Vision 2025, and will be forced to look closely at the service it provides and will inevitably have to stop some of these to balance the books.

2.7 The Council will though continue to build on its 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 its vision and strategic priorities, whilst ensuring it maintains a sustainable financial position and delivers the required reductions in its net cost base.

2.8 Prior to submission of the MTFS 2023-2028 and budget and council tax proposal for 2023/24 to Full Council, on 21st February 2023, this initial draft will be subject to public consultation and member scrutiny.

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 impact that current economic conditions are having on the Council's finances and the inherent uncertainty in financial planning, the existing objectives of the MTFS have been 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. Although, given the scale of the savings delivered, this has already required the Council to take difficult decisions in terms of which services it continues to provide.

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 over the past twelve months, the current cost-of-living crisis and the state of flux in the economy with soaring inflation; rising interest rates; labour shortages and supply chains issues, means that the level of uncertainty has never been so high. Layered on top of this is the lack of clarity on further Government funding reforms, and the level of overall resources for local government beyond the current spending review period. 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 2023/24 amounts to £14.407m which is £5.500m (38%) higher than the current year's budget, although direct comparisons between the two years cannot be made due to the impact of significant fluctuations in the Collection Fund deficits. The provisional forecast spending requirements for the remaining four years of the MTFS are, £14.498m for 2024/25, £13.224m for 2025/26, £13.818m for 2026/27 and £14.343m for 2027/28.

4.2 The following paragraphs outline the key elements and assumptions on which the General Fund Revenue estimates have been prepared.

4.3 Provisional Finance Settlement 2023/24

The 2023/24 Settlement is for one year only and is based on the Spending Review 2021 (SR21) funding levels updated for the 2022 Autumn Statement. Whilst the provisional settlement only shows figures for 2023/24, there is scope to forecast 2024/25 amounts, given what is known regarding 2024/25 control totals for funding and the certainty provided regarding the delay to reform of the system. The Settlement represents a holding position until next Parliament, with the emphasis on providing stability. 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 4.7% in comparison to an increase of 9.2% 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 uplifted by 10.1% in line with CPI inflation. In addition, there have also been a number of grants rolled into the RSG using their existing allocation methodology, for the Council this includes the Local Council Tax Administration Support Grant. The Council's allocation for 2023/24 is £0.175m, for 2024/25 it is assumed that RSG will continue and be uplifted with inflation to £0.185m. Beyond 2024/25 it is assumed that only the rolled in grants will remain, at a level of £0.156m per annum.

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.

4.6 The Council has undertaken an assessment of the amount of business rates that it expects to collect during 2023/24, based on this and after allowing for the allocation of resources to Central Government and to the County Council it is estimated that £6.130m of the £41.9m of business rates generated within the City will be retained by the Council.

4.7 Beyond 2024/25, assumptions have been made in relation to the reform of the BRR system, these reforms will if implemented wipe out the accumulated gains the Council has achieved since the launch of the current system in 2013/14 and return income to the Council's baseline levels. In 2023/24 the accumulated growth to the Council is c£1.5m p.a. The assumptions will continue to be assessed as and when further details of the reforms are released by the Government. Although no specific implementation date has yet been confirmed the MTFS assumes this will be effective from 2025/26. 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.

4.8 This level of retained business rates is calculated on the basis that the Council participates in the Lincolnshire Business Rate Pool in 2023/24. 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 £0.461m in 2023/24. As the BR Reset will not now happen until 2025/26 at the earliest, it has been assumed that the BR pool will remain in place for 2024/25, with a further benefit of £0.486m to the Council.

4.9 Forecast business rates in the draft MTFS 2023-28 are based on the most recent available estimates of Lincoln's business rates base. However, until the business rates base for 2023/24 is finalised at the end of January 2023 the estimates in the draft MTFS are subject to change.

4.10 **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 Provisional Local Government Finance Settlement that they are giving local authorities in England additional flexibility in setting Council Tax by increasing the referendum limit for increases in Council Tax to the higher of 3% or £5 per year for 2023/24 and 2024/25 (previous referendum limit was 2%). In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2 per cent per year. This will give local authorities greater flexibility to set Council Tax levels based on the needs, resources and priorities of their area.

4.11 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 2.90% rise in Council Tax for 2023/24, and a further 1.9% p.a. in each of the subsequent years. An increase of 2.90% in 2023/24 equates to an additional 9p per week for a Band A property and 11p per week for a Band B property (80% of properties fall within Band A and B), with a Band D equivalent of £299.25.

4.12 **Other Specific Grants**

In addition to RSG the Council also receives other specific grants. Further New Homes Bonus allocations for 2023/24 have been announced and the Council will receive £0.224m. Beyond 2023/24 the Government are due to set out the future position of the New Homes Bonus, ahead of the 2024/25 Settlement. The MTFS does not assume any grant beyond 2023/24.

The Services Grant, worth £464 million remains in the Settlement, with its previous distribution methodology. The grant is 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. Although the grant remains and the methodology is unchanged, the total amount of grant has reduced, this is to adjust out the resources allocated to fund the pressures of the increased National Insurance contributions, which have now been cancelled, and to fund other parts of the Settlement. The Council's allocation for 2023/24 is £0.148m. It is as yet unclear what will happen to the grant from 2024/25, however the MTFS assumes that the allocation for 2023/24 will remain for 2024/25 and thereafter.

In addition, as part of a boost to overall local government funding, the Settlement announced a new grant for 2023/24, the Minimum Funding Guarantee. This is intended to provide a funding floor for all local authorities, so that no local authority will see an increase in core spending power that is lower than 3%, this is before any decision they make about organisational efficiencies, use of reserves, and council tax levels. The Council's allocation for 2023/24 is £0.328m. The MTFS assumes a grant allocation at the same level for 2024/25 but does not assume any grant allocation beyond this.

4.13 **Fees & Charges**

The fees and charges levied by the Council are an important source of income, however, the impact of Covid19 has had a significant detrimental impact on fees and charges income over the last few years, with monthly 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 of the discretionary income areas have, or continue, to bounce back there are some income areas that are unlikely to ever return to their pre-covid levels. This pressure is further compounded by the current cost-of-living crisis and economic factors affecting household incomes and overall growth in the economy and business activity, this is beginning to impact on certain sources of fees and charges income, such as building regulations and development control.

The MTFS assumes that the Council will raise £11.468m from fees and charges in 2023/24. The mean average overall increase in the non-statutory fees and charges is 5.2%, with a modal increase of 0%.

4.14 **Spending Pressures**

Over the past twelve months the impacts of spiralling inflation, soaring energy prices and nationally agreed pay proposals have added significant cost increases 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 is driving a growing demand for Council's services, by those who rely on the safety net provided by local government. These factors have created unforeseen and unavoidable budget pressures, these 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 have required budgets to be reset as part of this MTFS. In total these pressures have increased the Council's cost base by c£1.2m in 2023/24, increasing to c£1.6m in 2024/25 and by nearly £2m p.a by 2026/27.

4.15 **Spending Plans**

The three-year ADP, through to 2025, 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, the ADP included a number of revenue schemes. In light of the longer-term financial challenges the Council faces, a continual review of whether alternative funding sources are available to resource these schemes is in place. Consideration will also now be given to the use of the Vision 2025 earmarked reserve to resource some new interventions in response to the cost-of-living crisis.

Since the time of refreshing Vision 2025 and developing the three-year ADP, the Council has been successful in securing approval of its UK Shared Prosperity Fund Investment Plan. Of the total £2.811m allocation, £2.330m is revenue funding, work will now commence on finalising the details of the schemes within the Investment Plan. Securing this new funding will contribute towards the Councils strategic objectives.

4.16 The following other key assumptions have been used in formulating the draft General Fund revenue estimates for 2023/24 – 2027/28 as follows:

- Non-Statutory fees and charges mean average increase is 5.2% in 23/24 with a 3% p.a. increase in yield thereafter.
- An increase in employer pension contribution rates capped at current levels for the period of the MTFS.
- A provision for pay awards of 3% p.a. for 23/24 and 24/25 and 2.0% p.a thereafter.
- Average interest rates on investments have been assumed at 4.44% in 23/24, 3.63% in 24/25 and 2.69% for the remainder of the MTFS.

- Staff turnover targets of 1% pa
- Inflation and pay increases – individual inflation rates have been applied for specific items of expenditure due to the extreme differences in inflation rates. For details, please refer to the table in Appendix A.

There still remains a significant level of uncertainty and volatility to these assumptions that underpin the budgets estimates, creating an inherent risk in the MTFS projections.

Towards Financial Sustainability

4.17 Whilst there are still a significant number of uncertainties and variables in the Council's financial planning assumptions, what is certain is that the Council is still facing a significant financial challenge, due to its increasing cost pressures, one which it must address if it is to remain financially sustainable in the medium term.

4.18 Confirmation that the national funding reforms will not now take place until 2025/26, at the earliest, and that the accumulated business rate growth will instead be retained, has cushioned the impact of the cost pressures for 2023/24 and 2024/25. However, beyond this with the cliff edge reduction in business rates resources a reduction of grant funding, the Council faces a significant and widening gap between its spending requirements and the level of resources it estimates to receive.

4.19 Although the position for 2023/24 and 2024/25 is currently more positive, savings targets for those years will still be included in order to provide further financial resilience and the ability to cushion any further financial pressures that may arise (due to the current risks to the financial planning assumptions). It will also allow capacity to deliver the higher levels of savings needed towards the end of the MTFS period to be spread more evenly over the years. On the basis of the revised financial planning assumptions assumed in this MTFS, the following level of savings targets will be required to ensure the financial sustainability of the General Fund:

2023/24 £'000	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**	**2027/28 £'000**
185	500	1,000	1,750	1,750

The phasing of these savings targets mirrors the Autumn Statement position, with a more manageable position over the next two years and much of the tougher decisions needing to be taken in the next Spending Review period, starting in 2025/26. This also means that these savings targets are likely to change dependent on a spending review taking place and the potential for a further delay in funding reforms. These assumptions will be kept under review, with the savings targets reviewed as part of each subsequent MTFS. Despite this potential for change, the Council must still continue to develop and implement a savings programme in order to ensure it is fully prepared to be able to deliver against these targets

4.20 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. Over the last decade, it is through the TFS

Programme and precursor programmes, the Council has delivered the annual savings of nearly £10m.

4.21 Whilst in the longer term the Council's still believes that the approach to closing the funding gap is fundamentally through economic growth and investment, increasing the Council's tax bases and revenue streams, this is unlikely to yield significant resources over the period of the MTFS to meet the funding gap. The Council will therefore continue to have little choice but to face further difficult decisions about the size and scope of the essential services it provides. It will need to review and revisit its investment priorities, beyond Vision 2025, and will be forced to look closely at the service it provides and will inevitably have to stop some of these to balance the books. There is sufficient 'lead in time' to the need to deliver these savings, allowing every possible effort to be made to find the least painful solutions and minimise the impact on jobs and services, but inevitably there will be some difficult decisions to be made.

Robustness and Adequacy of the Budget and Reserves – General Fund

4.22 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.

4.23 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 over the period of the MTFS 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.

4.24 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 £1.583m by the end of 2027/28.

4.25 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 £0.162 m in 2023/24, £0.037m in 2024/25, £0.415m for 2025/26 and £0.079m for 2026/27. The use in 2025/26 is as a result of the forthcoming funding reforms and the assumption that the accumulated gains on Business Rate income will be reset, leaving the Council at a significant financial detriment. Whilst the Council has assumed an increased level of savings will be required to mitigate the ongoing impacts of this income loss, in the short term the use of balances and earmarked reserves provides the Council the opportunity to deliver ongoing reductions in its 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 2027/28 the General Fund will be in the position of making positive contributions to balances, with forecasted contributions of £0.013m in 2027/28. 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 Plans will include 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 a further refresh in 2022, with work now taking place to fundamentally rewrite the 30-year Plan during 2023/24, 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, which announced that from April 2020 social rents should increase by a maximum of CPI+1% for 5 years, the MTFS has historically been based on this assumption. For 2023/24 the Government, in light of the current inflation levels, imposed a cap on rent increases of 7%, which without CPI +1% would have allowed for rent increases of up to 11.1%. The Government's approach for 2024/25, and whether a further cap will be implemented is as yet unclear, in addition beyond 2025 when the 5-year period of increases at CPI+1% ends it is uncertain what Rent Guidelines may be in place.

5.3 Although the Government have introduced the rent cap of 7% for 2023/24, taking into consideration the impacts on household incomes arising from the current cost-of-living crisis, but balancing this with the economic and financial pressures the HRA has in delivering services to its customers with, it is proposed to increase rents by 6.5% for 2023/24. This proposed increase also takes into consideration the lower level of rent increase last year (i.e., the actual increase was below CPI+1%) and that the HRA was subject to the government-imposed rent reduction policy between 2016/17 and 2019/20 which saw the council have to reduce rents by 1% per annum rather than increase at CPI plus 1% as previously agreed. The average 52-week rent will be £81.18 per week for general purpose and sheltered accommodation, and £125.99 for affordable rents. The assumption in the MTFS from 2023/24 onwards reverts to CPI + 1%.

5.4 Spending Pressures

Like the General Fund, the HRA has been severely impacted by the unforeseen and unavoidable cost pressures have arisen over the last 12 months. These escalating costs in relation to pay inflation, contractual inflation, utility price increases and material and labour increases, have taken their toll on the financial resilience of the Housing Revenue Account. These new pressures come at a time when the HRA is still responding to the legacy effects of Covid19 and Brexit both in relation to service delivery, in terms of backlogs of outstanding housing repairs work, and also due to the ongoing impact on supply chains and availability of labour. Given the significant level of annual repairs and maintenance and planned capital maintenance to the Council's housing stock the impact of these factors is causing both income losses and cost increases for the HRA. These pressures have seriously impacted the assumptions that underpin the HRA and Housing Business Plan and have required budgets to be reset within this MTFS. In total these pressures have increased the HRA's cost base by c£0.950m in 2023/24, increasing to c£1.350m in 2024/25 and by over c£1.6m in 2026/27.

5.5 **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 been lessened to some extent by the removal of the HRA borrowing cap, however £62.529m of revenue support is still anticipated over the MTFS period.

5.6 The following other key assumptions have been used in formulating the HRA estimates for 2023/24 – 2027/28 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 5% for 2023/24 and then 3% thereafter.
- Housing voids assumed at 1.05% for 2023/24, then 1% for 2024/25 – 2027/28.
- A collection rate of 99% p.a.
- Additional rental income from 42 new build properties.

Robustness and Adequacy of the Budget and Reserves – HRA

5.7 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.

5.8 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.

5.9 The prudent level of general reserves on the Housing Revenue Account is considered to be £1m - £1.5m. Throughout the MTFS period balances are expected to remain within these levels.

6. The General Investment Programme

6.1 The General Investment Programme (GIP) for the period 2023/24 – 2027/28 is included within the MTFS at Appendix 2. The total allocated capital programme over the next five years is £25.070m of which £17.341m is estimated to be spent in 2023/24.

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 - £7.599m
- Disabled Facilities Grants - £4.260m
- Planned asset maintenance - £1m
- Greyfriars - £2.638m
- Lincoln Central Market - £3.184m
- Heritage Action Zone - £0.054m
- Lincoln Town Deal (External Schemes) - £4.999m

6.3 The largest scheme delivered directly by the Council is Phase 1a of the Western Growth Corridor sustainable urban extension. Whilst the current GIP budget of £7.599m was approved in March 2019, work is currently underway to update this based on revised costs and scheme details. It is expected that revised budgets will be presented to the Executive in February 2022 and included within the final version of this MTFS.

6.4 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 2023/24 – 2027/28 is included within the MTFS at Appendix 4. The total allocated capital programme over the next five years is £62.529m of which £13.746m is estimated to be spent in 2023/24.

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 Government regulations/legislation, particularly the Building Fire Safety Bill & Fire Safety Act. As set out above the HRA 30-year business plan, which has had a light touch refresh in 2021 and a further refresh in December 2022, will have a full refresh in 2023/24, this 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 £38.694m over the 5-year period and from revenue contributions, totaling £11.744m over the 5-year period. In addition, the HIP is set to utilise £2.930m of prudential borrowing to fund the Council House New Build Programme this is further supported by capital receipts (including Right-to-Buy receipts) of £2.019m.

8. Capital Strategy

8.1 The CIPFA Prudential and Treasury Management Code 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 A draft Capital Strategy is attached at Appendix B.

9. Consultation and Scrutiny

9.1 Budget consultation will be undertaken via 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.

9.2 In terms of member budget scrutiny an all-member workshop will be undertaken during January 2023, to ensure that as large a number of members as possible have the opportunity to fully understand the financial position of the Council. This will be followed by a Budget Review Group who will focus on the detail of the draft MTFS, proposed budget and Council Tax recommendation.

9.3 Consultation and scrutiny comments and responses will be considered when the Executive makes its final budget recommendations on 20th February 2023.

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 - There are no direct financial implications arising from the approval of the Draft MTFS 2023-2028 for consultation and scrutiny. The strategy provides information on the Council's spending, income, and key financial challenges.

11.2 Legal Implications including Procurement Rules - Local authorities must decide, prior to the 11th 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 2023/24 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, the impact of which must be mitigated by holding reserves. Due to the current economic conditions, 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. Recommendations

13.1 That the Executive agree, for consultation and scrutiny, the

- The Draft Medium Term Financial Strategy 2023-2028, and.
- The Draft Capital Strategy 2023-2028

Including the following specific elements:

- A proposed council tax Increase of 2.9% for 2023/24.
- A proposed housing rent increase of 6.5% for 2023/24.
- The Council is member of the Lincolnshire Business Rates Pool in 2023/24.
- The Draft General Fund Revenue Forecast 2023/24-2027/28 as shown in Appendix 1 and the main basis on which this budget has been calculated (as set out in paragraph 4).
- The Draft General Investment Programme 2023/24-2027/28 as shown in Appendix 2, and the main basis on which the programme has been calculated (as set out in paragraph 6).
- The Draft Housing Revenue Account Forecast 2023/24-2027/28 as shown in Appendix 3 and the main basis on which this budget has been calculated (as set out in paragraph 5).
- The Draft Housing Investment Programme 2023/24-2027/28 as shown in Appendix 4, and the main basis on which the programme has been calculated (as set out in paragraph 7).

13.2 That Executive agree to delegate to the Chief Finance Officer approval of the final Business Rates Base for the financial year commencing 1st April 2023 and ending 31st March 2024 and submission of the base (via the NNDR1 return) to the DLUCH by 31st January 2023. All changes to the base estimated in the Draft MTFS 2023-28 will be reported to the Executive as part of the Final MTFS 2023-28 on 20th February 2023.

Is this a Key Decision?	No – Draft proposals only
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:	Medium Term Financial Strategy 2022-27 – Executive 21st February 22 Setting the 2023/24 Budget and Medium Term Financial Strategy 2023-28 – Executive 17th October 2022
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