COUNCIL **28 FEBRUARY 2023**

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

1.1 To seek approval of the Medium-Term Financial Strategy for the period 2023-2028 and the budget for 2023/24.

1.2 To seek approval of the Capital Strategy 2023-2028.

2. Executive Summary

2.1 Much has changed since the Council approved the previous MTFS in March 2022, with spiralling inflation, soaring energy prices and national pay agreements all adding significant cost pressures to 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 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. This is further compounded by the risk of a new round of public expenditure austerity measures. The funding outlook for local authorities therefore remains volatile and uncertain.

2.4 As a result of these factors, the financial landscape for local government continues to pose an unprecedented challenge to the Council and this MTFS is set in the context of significant and 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 Set against this backdrop and in line with the Council's overall financial objectives, the key elements of the 2023/24 budget, Medium-Term Financial Strategy 2023-28 and Capital Strategy are as follows:

- Delivery of a phased savings target, requiring total annual savings of £1.75m to be delivered by 2025/26, in order to ensure the Council achieves its overriding objective of driving down its net cost base to ensure a sound and sustainable financial position is maintained. This will unfortunately require some difficult decisions about the size and scope of services it can continue to provide.

- Facilitating capital investment in the City of £100m over the 5 year MTFS, supporting the local economy by providing opportunities for business, providing employment opportunities, encouraging inward investment in the city, promoting growth and the overall attractiveness of Lincoln as a place to live, work and visit, all of which should result in increased revenue streams to the Council in future years.

- Continuing with the One Council approach to service transformation, for instance, making new use of technology and improving how these systems operate, continuing with our progress to enabling access to more services electronically online and self- service by customers and reviewing the use of our buildings and assets championing shared facilities and co-location.

- Reprioritising and reallocating resources to the strategic priorities and in particular at this current time towards providing further support in response to the cost-of-living crisis.

- Balancing the need to increase levels of Council Tax and Housing Rents to reflect the Council's increased operating costs, whilst ensuring increases are kept at an acceptable level and that support it provided to the most vulnerable. Council Tax increases of 2.91% and Housing Rent increases of 6.5% are proposed for 2023/24.

- The use of reserves to bridge gaps in the finances and to smooth the level of savings required. This is a short-term measure only.

2.6 This includes the following highlights, against the Council's Strategic Priorities:

- Let's drive inclusive economic growth
  - Delivering the (Government funded) UK Shared Prosperity Fund, totalling £2.3m, aimed at improving life chances in the city by providing equality of opportunity.
  - Acting as the Accountable Body for the Lincoln Town Deal, delivering £19m of investment within the City.
  - Specifically delivering the restoration of the Central Market and City Square environment, with a direct contribution from the Council of £1.9m.
  - Delivery of Phase 1a of the Western Growth Corridor, a total gross cost of £18.1m, providing the infrastructure to open up the overall site and delivery of the first 52 homes (this will be primarily funded from sales values and external grants).

- Let’s reduce all kinds of inequality
  - Maintaining a no change scheme in respect of Local Council Tax Support. The scheme still provides a maximum entitlement of 100% and costs the Council c£1.2m per year
  - Delivery of a range of new initiatives in response to the current cost of living crisis.
  - Facilitating the delivery of £4.3m of Disabled Facilities Grants to private sector households.
  - The creation of new Housing Tenancy Sustainment Officers, at £0.120m per year, aimed at ensuring that tenants are set up to thrive in their tenancy with assistance with welfare benefits forms, signposting to necessary support, and assistance with furniture through local charities

- Let’s deliver quality housing
  - Delivering a range of Homelessness & Rough Sleeping Initiatives (funded through Government grant) totalling £1.4m in 2023/24 and £1.2m in 2024/25.
  - Investment of £49.5m in existing council housing to maintain the Decent Homes Standard and to further enhance this with the Lincoln Standard.
  - Investment of £8.5m set aside for new build developments, including plans to redevelop Hermit Street and future schemes such as QER.

- Let’s enhance our remarkable place
  - Delivery, alongside key partners, of a £2.6m investment in the Re-Imagining Greyfriars project to bring the important Heritage Asset back into use (this includes a significant element of external grant funding).
  - Annual spend of c£2.1m on street cleansing covering 350km of roads/paths and 30,000sqm of pedestrian areas, including a new annual City Centre Spring Clean.
  - Annual spend of £1.5m on providing and maintaining parks and open spaces within the City, including Hartsholme County Park, Boultham Park, the Arboretum and the Lawn, recreational grounds and commons, including creating an entirely new woodland areas called Hope Wood.

- Let’s address the challenge of climate change
  - Facilitating and delivering a range of climate change initiatives, through a dedicated Climate Change Manager, including electric vehicle charging points, decarbonisation projects in our buildings and Green Homes grant retrofit measures.

2.7 The Council will continue to build on its successful financial planning to date, driving down the net cost of services (by changing the way in which it delivers services, but inevitably through reductions in the range and scale of services it can continue to deliver), whilst continuing to prioritise investment in the City and its economy. Adopting this approach will ensure that the Council 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 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 Over the last decade the Council, alongside the majority of other local authorities, has experienced unprecedented financial challenges in various forms. It has 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.

3.4 Despite the significant reduction in income and increasing expenditure, the Council has, in recent years, been successful in protecting core services most needed by local residents and businesses, whilst still developing plans for growth and maintaining a sound financial position. . Although, given the scale of the savings delivered, this has required the Council to take some difficult decisions in terms of which services it continues to provide. This is an approach that has served the Council well and allowed savings of nearly £10m to be delivered over the last decade

3.5 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 with the risk of a new round of austerity measures. 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 General Fund budget covers the day to day running cost of providing all of its services with the exception of Council Housing. Excluding the cost of Housing Benefit payments, the gross expenditure budget of the General Fund is c£40m per year. After allowing for service income through fees and charges, contributions and grants etc, the net budget for the General Fund in 2023/24 will be £14.403m. This net budget is then funded through Business Rates and Council Tax.

4.2 **Spending Pressures**

Over the past twelve months the impacts of spiralling inflation, soaring energy prices and nationally agreed pay proposals have resulted in significant increases to the cost of delivering Council services. These increased costs 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.

4.3 **Spending Plans**

Despite these additional cost pressures, the Council's continues to ensure that its limited resources are directed towards its strategic plan. The current strategic plan, Vision 2025, is supported by annual delivery plans (ADP's), which set out the specific, new schemes to be delivered each year. This 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. The ADP's do though include a number of revenue schemes, including newly added interventions in response to the current cost-of-living crisis, which have been possible through the refocusing of existing resources and allocation of the Vision 2025 earmarked reserve. Full details of the schemes can be found in the latest ADP's, highlights of which are included in the following paragraph.

4.4 Alongside the schemes including in Vision 2025, the Council also continues to deliver its day to day services in support of its strategic priorities. Key highlights from both annual service delivery and the ADP's, against each of the five strategic priorities, include:

- Let's drive inclusive economic growth
    - Provision of a small business support team and workspaces for start-up and small businesses costing £0.250m per year.
    - Delivering the UK Shared Prosperity Fund, totalling £2.3m, aimed at improving life changes in the city by providing equality of opportunity.

- Let's reduce all kinds of inequality
  - Provision of a Welfare Advice and Welfare Reform Support Services costing £270k per year enabling over c£1.4m of additional benefits entitlement to be claimed within the City and administrating cost-of-living support schemes, financial inclusion projects and welfare advice.
  - Maintaining a no change scheme in respect of Local Council Tax Support. The scheme still provides a maximum entitlement of 100% and costs the Council c£1.2m per year
  - Undertaking neighbourhood working, focusing on the Sincil Bank revitalisation, working in partnership and with the community to make it a better place to live and work, with a dedicated team and community chest funding of £0.180m per year.

- Let's deliver quality housing
  - Delivery of Homelessness & Rough Sleeping Initiatives totalling £1.4m in 2023/24 and £1.2m in 2024/25.

- Let's enhance our remarkable place
  - Annual spend of c£2.1m on street cleansing covering 350km of roads/paths and 30,000sqm of pedestrian areas, including a new annual City Centre Spring Clean.
  - Annual spend of £3.1m on refuse and recycling, collecting from around 46,000 domestic properties
  - Annual spend of £1.5m on providing and maintaining parks and open spaces within the City, including Hartsholme County Park, Boultham Park, the Arboretum and the Lawn, recreational grounds and commons, including a new tree planting scheme at Hope Wood.
  - Provision of a range of public protection, regulatory and anti-social behaviour services focussed on ensuring community and environmental safety and protection of the built environment, totalling £1.5m per year.

- Let's address the challenge of climate change
  - Facilitating and delivering a range of climate change initiatives, through a dedicated Climate Change Manager, including electric vehicle charging points, decarbonisation projects in our buildings and Green Homes grant retrofit measures.

4.5 **Resources**

<u>Local Government Finance Settlement 2023/24</u>

The 2023/24 Settlement is for one year only (the 5th one-year settlement) and is based on Spending Review 2021 funding levels, updated for the 2022 Autumn Statement. Whilst the settlement only shows figures for 2023/24, there is some scope to forecast 2024/25 amounts, given what is known regarding 2024/25 control totals for funding and the certainty provided regarding the delays in the implementation of the national reforms to the system. The Settlement represents a holding position until the 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 9.4% across all English local authorities.

This increase in Core Spending Power is as a result additional grant funding in the Settlement, predominately aimed towards social care but with a funding guarantee that all councils will see a minimum increase of at least 3% (prior to local Council Tax decisions). In addition, the Settlement compensated councils for the business rate increases that would have otherwise been received had the rates not been frozen. These increases will provide councils with some much needed, short-term funding to deal with the inflationary and other cost pressures they face. However, this comes with the expectation that Council Tax will also need to increase in order to help fund the pressures.

4.6 Revenue Support Grant (RSG)

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.

4.7 Business Rates Retention

The calculation of income to be received through BRR is critical in determining the amount of resources that the Council will have available to fund local services.

4.8 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 £6.125m of the £37.6m of business rates generated within the City will be retained by the Council.

4.9 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.

4.10 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 £0.488m 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 £0.513m to the Council.

4.11 Other Specific Grants

In addition to RSG the Council also receives a number of other specific grants as part of its CSP, these include:

- New Homes Bonus – an allocation of £0.224m has been awarded for 2023/24. Beyond this the Government are due to set out the future position of the NHB.
- Service Grant – intended to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government. The Council's allocation for 2023/24 is £0.154m. Allocations beyond this have not been announced.
- Minimum Funding Guarantee – a new grant announced as part of the Settlement, intended to provide a funding floor for all local authorities so that no council will see an increase in CSP that is lower than 3%. The Council's allocation for 2023/24 is £0.321m. Allocations beyond this have not been announced.

4.12 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 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.

4.13 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 2.91% rise in Council Tax for 2023/24, and a further 1.9% p.a. in each of the subsequent years. An increase of 2.91% 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.

4.14 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 £12.116m from fees and charges in 2023/24. The mean average overall increase in the non-statutory fees and charges is 5.3%, with a modal increase of 0%.

4.15 **Provision for the Repayment of Debt**

A review of the Council's Minimum Revenue Provision Policy (MRP) has been undertaken in 2022/23. MRP is a statutory charge to the Council's revenue account to make provision for the repayment of the outstanding capital debt liabilities. The Council is required by law to set aside an amount for this provision which it considers to be prudent. Statutory Guidance which accompanies Regulations provides options for the calculation of MRP and gives Council's significant discretion in determining the level of MRP.

4.16 As a result of the review the Council's Treasury Management Strategy now proposes a change to the Council's MRP Policy, and the MTFS is predicated on the revised MRP Policy. The key proposed change to the policy is to change from calculating MRP on a straight-line basis to one based on an annuity basis. The application of this policy change, to capital expenditure incurred prior to 1st April 2022, will provide £4.1m additional resources over the MTFS period.

4.17 **Bridging the Funding Gap**

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. In addition, the short-term additional funding announced for local authorities has further strengthened stability over the next two years. However, beyond this with the cliff edge reduction in business rates resources and the uncertainties arising from the next Spending Review, 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 adopt a number of both short- and longer-term options in order to deliver the required reductions over the period of this MTFS. However, given the scale of the gap the Council faces and the level of savings already delivered, it will 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.

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

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 this prudent minimum and show an estimated balance of £1.532m 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 £0.191m in 2023/24, £0.001m for 2024/25, £0.397m for 2025/26 and £0.145m for 2026/27. The higher 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 £0.003m 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 Housing Revenue Account (HRA) is a ring-fenced account separate from the Council's General Fund that contains the income and expenditure relating to the management and maintenance of its housing stock. The gross expenditure budget of the HRA is c£34m per year, this is funded primarily from housing dwelling rents.

5.2 **Spending Plans**

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.

5.3 **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.

5.4 **Financing the Capital Programme**

Within the HRA the greatest cost demands arise from the day-to-day repairs and maintenance to the housing stock and the requirement to resource the capital investment in existing stock and new housing. 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. Whilst this reliance has been lessened to some extent, by the removal of the HRA borrowing cap allowing a greater level of prudential borrowing, £60.149m of revenue support is still required to be set aside for capital investment over the period of this MTFS. With increased regulatory requirements, investment needs of existing stock, priorities from Vision 2025 and the impact of the current economic climate driving the capital investment needed, the HRA needs to ensure that it maintains it's sound revenue position in order to allow the required contributions to be released.

5.5 **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.

5.6 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, both social and affordable rents will increase 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, resulting an estimated £17m of rental income forgone.

5.7 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%.

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

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.

5.9 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.

5.10 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 and show an estimated balance of £1.010m by the end of 2027/28.

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 £32.918m of which £14.114m 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, key One Council projects and investment in existing assets to either maintain service delivery or existing income streams. This includes the following key schemes:

- Western Growth Corridor Phase 1a - £13.768m
- 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) - £6.863m

6.3 Whilst the Council received notification in January 2022 that it had been successful in it's Levelling Up Fund Round 2 bid, to secure £20m to open up the eastern access to the Western Growth Corridor site, this has not yet been included in the GIP and will be subject to separate Executive consideration.

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 £66.765m of which £16.462m 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, funded primarily through revenue contributions.

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 net zero 2030 commitment, 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 £45.836m being utilised over the 5-year period and revenue contributions, totaling £14.980m being utilised 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 £3.019m.

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 Public consultation on the draft budget, MTFS and Council Tax proposals has been undertaken, this consisted of an online questionnaire available over a period of three week in addition to direct consultation with the Council's Citizens Panel. The consultation sought views on the value for money of council services, prioritisation of services, views on approaches to delivering reductions in the net cost based as well as seeking views on the Council Tax proposal for 2023/24. The detailed results of the consultation are attached at Appendix C (To Follow). In terms of the specific question in relation to Council Tax increases:

- 14% of respondents would support a 0% increase
- 16% of respondents would support a 1% increase
- 21% of respondents would support a 2% increase
- 49% of respondents would support a 2.91% (as per the proposed increase)

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 was one specific recommendation made by the Group, as set out below, but none that were specific to the MTFS and 2023/24 budget proposals:

- be presented with an update on the number of consultation responses from the Citizen's Panel at future Budget Scrutiny Meetings going forward.

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. Recommendation

13.1 That Full Council approves, the:

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

Including the following specific elements:

- The Council is member of the Lincolnshire Business Rates Pool in 2023/24.
- The 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 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 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 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).

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 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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