

The Medium Term Financial Strategy

1. Introduction

- 1.1. The Medium Term Financial Strategy (MTFS) sets out how we plan to manage our finances for the period 2021/22 – 2023/24 and support the delivery of the Council's Corporate Plan. The MTFS will be refreshed annually to take account of the current circumstances and context affecting our financial resources.
- 1.2. Local government has been in a period of austerity since 2010 and has seen its funding reduced in real terms over this time with more reliance on one-off specific grants and on local taxation to fund essential services. Council Tax income now represents around 63% of our net expenditure (it was 51% in 2010/11).
- 1.3. The funding review of Local Government and business rates review which had initially been planned for 2020/21 has had further delay due to the Covid-19 pandemic. This has meant that we have had single year financial settlements for 2020/21 and 2021/22 and we continue to have uncertainty in our longer term financial envelope.
- 1.4. In March 2020, Covid-19 was declared a global pandemic by the World Health Organisation. The government recognised the significant role Local Authorities needed to play to support the response to the pandemic and has put a number of financial measures in place to support the cost pressures that Local Authorities have incurred as the pandemic has continued.
- 1.5. The Council has a strong record of good financial management and delivery of savings and efficiencies with a level of reserves that demonstrates financial resilience.
- 1.6. In this context, it is essential that we plan for the future to maintain our strong financial position and ensure our financial sustainability going forward. This Medium Term Financial Strategy (MTFS) aims to help us do this.

2. The Objectives of the Medium Term Financial Strategy

- 2.1. The MTFS is a flexible strategy which will allow us to forecast our future financial resources and then plan to use these to both deliver core services and to invest in future improvements to service delivery. The objectives of the strategy are to:
 - a) Ensure that we are financially resilient now and in the future and can respond positively to adverse financial impacts;
 - b) Support the provision of Value for Money services to our communities;
 - c) Support sustainable service delivery using a combination of Revenue and Capital Budgets and Reserves;
 - d) Maintain Council Tax in the lowest quartile for county councils;
 - e) Support other Council strategies;
 - f) Deliver assets to improve and maintain services and also to achieve future savings;
 - g) Enable the setting of an annual balanced budget. The annual Revenue Budget must be affordable and can be supported by the use of Reserves,

but only as part of a medium term plan moving towards a future budget which is balanced without the support of reserves;

- h) Support good decision making;
- i) Recognise financial risks and identify how these will be managed; and
- j) Allow for emerging opportunities to be exploited within the affordable budget.

2.2. Corporate Plan – Our Vision: Working for a better future. Our Corporate Plan underpins our 'One Council' approach which ensures all services are working towards shared goals and will help different areas of the council work together more effectively. We are identifying key priorities for this council to support our ambitions for Lincolnshire in that our People and Communities will have:

- High aspirations;
- The opportunity to enjoy life to the full;
- Thriving environments; and
- Good value Council services.

The Council has embarked on a programme of transformation to support the delivery of the corporate plan and to consider how we can best deliver services in Lincolnshire. This MTFS will underpin the Corporate Plan by ensuring that financial resources are identified and made available to deliver its ambitions and programme of transformation.

2.3. Appended to this strategy is our Medium Term Financial Plan (MTFP), which will set out our forecast budget surplus or deficit for the medium term financial years 2021/22 – 2023/24. Whilst there continues to be a large element of uncertainty over our future funding from Government, longer term financial planning becomes more challenging, so our financial plans cover the medium term at this point in time. We aim to extend our financial planning to cover a longer term period once funding reforms are in place.

3. The Current Financial Context

3.1. The past ten years have been a period of austerity for councils, with Government funding reducing significantly over this period. Councils like ours, with Social Care responsibilities, have seen new Government grants introduced to help deal with increasing Social Care pressures, but, over this time, the balance of our sources of funding has changed and we are now more reliant on Council Tax and Business Rates funding to support the provision of services

3.2. The table below shows a summary of how our funding has changed since 2011/12 and the cost pressures built into our budget and savings achieved over this same period:

Financial Trends							
Year	General Government Grant £m	Other Govt. Grants received £m	Total Govt. Grant income £m	Savings £m	Cost Pressures £m	Council Tax Increase	Planned Use of Reserves £m
2011/12	211	16	227	57	52	0.00%	0
2012/13	195	17	212	51	23	0.00%	0
2013/14	146	19	165	28	61	0.00%	12
2014/15	125	22	147	40	22	0.00%	8
2015/16	95	25	120	31	31	1.90%	22
2016/17	70	28	98	42	31	3.95%	20
2017/18	48	42	90	39	26	3.95%	18
2018/19	34	49	83	23	30	4.95%	5
2019/20	20	61	81	16	26	4.95%	3
2020/21	20	78	98	45	15	3.50%	0

- 3.3. The current regime for funding councils has been in place since 2013 and is now out-dated. The Government has proposed two major reforms to the system: the Review of Relative Needs and Resources (formerly known as the Fair Funding Review) and Business Rates Retention Review and reset. These reforms were initially delayed for a year due to Brexit, and have been delayed a further year to allow the focus to remain on the current Covid-19 pandemic response.
- 3.4. There have been no further announcements on a much needed review of the national funding of Adult Social Care. In lieu of these reforms the government has continued to provide specific grants to support the costs of Social Care and has continued to allow Local Authorities with Social Care responsibilities the ability to levy an Adult Social Care precept on local tax payers, which was initially introduced in 2016/17.
- 3.5. **Covid-19** – In March 2020 the Government's budget 2020 set out a number of financial measures to support the economic impact of the Covid-19 outbreak. The government has introduced restrictions during the year to reduce the spread of the virus, and the financial support measures put in place by the government alongside these restrictions have continually emerged during the year. A number of government grants to support the Local Authority response to the pandemic have been made. During 2020/21 the Council has received £44.508m of general covid support grant as well as a number of specific grants including those supporting hardship, vulnerable groups, infection control, and Covid-19 testing. As the pandemic continues the economic outlook for the UK is uncertain and further complicated by the Brexit transition period which came to an end in December 2020.

4. The Forward View

- 4.1. In October 2020, the Chancellor announced the decision to conduct a one-year only Spending Review (SR2020), in order to prioritise the response to Covid-19. The SR2020 was announced in November, with the Provisional Local Government Settlement following on 17th December 2020.
- 4.2. As anticipated the SR2020 confirmed a 'roll-over' one year settlement for Local Authorities. The Chancellor has ruled out returning to a programme of austerity to tackle the budget deficit, however the Chancellor announced a pay freeze for most public sector employees, with the exceptions being NHS staff and employees with a

full time basic salary up to £24,000 receiving a flat uplift of £250. Other announcements included:

An overall real terms increase in core spending power in 2021/22 of 4.4% (with a large proportion of this coming from local taxation);

The National Living Wage will increase to £8.91 per hour from April 2021 for people aged 23 years and over;

Council tax referendum limits set at 2% for General Tax increase and 3% for an Adult Social Care increase, the latter of which can be deferred to 2022/23;

£300m of new Social Care Grant to be made available to Local Authorities; and

£4m increase nationally for the Rural Services Delivery Grant.

4.3. The government also set out continued support for the impacts of Covid-19 which included:

£1.55bn of Covid Funding for cost pressures in 2021/22;

Covid related losses on sales fees and charges can continue to be claimed for the first quarter of 2021/22;

£670m available nationally to support Local Council Tax Reduction Schemes; and

£762m available nationally for a Tax Income Guarantee Scheme to cover 75% of irrecoverable tax losses.

4.4. We have been through a detailed budget exercise during the year, reviewing our cost pressures and budget assumptions. In some areas additional income and efficiencies have been included in the MTFP, which can be delivered without having a negative impact on service delivery.

4.5. With regard to the proposed funding reforms, we have lobbied Government to increase the total amount of funding coming to the sector as a whole and have specifically requested that Government look at the distribution of funding to this Council with a view to addressing past inequalities between authorities. Whilst we believe that the Government understands the challenges of delivering services in a large rural county, we are still cautious about future funding levels given the amount of current uncertainty.

5. Delivering the Medium Term Financial Strategy

- 5.1. The Strategy provides a framework within which we can manage the financial resources available to deliver our priorities for our communities over the medium term. To deliver this successfully requires a culture of good financial management within the Council, which is led by the Executive Director of Resources (the Section 151 Officer) and the Leadership Team, which includes our elected Members as well as Chief Officers. The Section 151 Officer has certain responsibilities for financial management which are set out in regulations, and must follow CIPFA's Codes of Practice.
- 5.2. To support this culture we have a set of financial regulations and procedures, as well as schemes of authorisation, which give guidance to Officers about their financial responsibilities.
- 5.3. The Strategy supports the Council's other key strategies, by setting the financial context for the Council and by clarifying the levels of investment that we can make in the future to deliver services and improve and maintain our assets.
- 5.4. We have an Earmarked Reserve, called the Financial Volatility Reserve, which can be used to support the Revenue Budget in any given year if the requirement to spend is higher than the resources available. Our strategy is that this will only be a temporary solution to balance the budget whilst we work towards finding budget savings or increased funding to ensure that our budgetary position is sustainable. We also have a Corporate Contingency and General Reserves which can be called upon to meet any unexpected financial pressures in the year, if these cannot be funded from any other source.
- 5.5. The Strategy is supported by financial performance indicators, which are approved by Council with the budget in February each year. These are monitored during the year and performance is reported at the end of the year.
- 5.6. During each financial year, the approved Revenue Budget and the approved Capital Programme are monitored, and performance against each is regularly reported to the Corporate Leadership Team and the Executive, with scrutiny applied by the Overview and Scrutiny Management Board.

6. Key Considerations for the Medium Term Financial Strategy

Council Tax

- 6.1. As part of its Spending Review 2020 the Government has proposed a referendum limit for general Council Tax of 2%, and is once again allowing the raising of local tax to support Adult Social Care with an additional 3% precept (which can be deferred until 2022/23). This gives a potential total Council Tax increase of 5%.
- 6.2. We are proposing to implement a 1.99% general Council Tax increase for 2021/22 but we are not proposing to include the Adult Social Care precept increase for 2021/22. Our modelling assumes that beyond 2021/22 our Council Tax increases will be 2% each year.

Business Rates

- 6.3. Our Business Rates funding is made up of two elements, an amount actually collected by the seven District Councils in Lincolnshire, and a top up Grant from central Government, as the total Business Rates collected in Lincolnshire are not sufficient to cover Local Authority spending in the area.
- 6.4. Any surpluses or deficits on the Business Rates element of the Collection Fund are not received from the Lincolnshire District Councils until 31 January each year and can vary year on year. We maintain a Business Rates Volatility Earmarked Reserve to support any large negative variances. We have assumed a neutral position for the Business Rates element of the Collection Fund in our budget assumptions. It is worth noting that only 10% of the Business Rates collected locally are passed to Lincolnshire County Council and any share of surpluses or deficits will also be on this basis.
- 6.5. In addition to the above Business Rates funding, the Council receives Section 31 government grant as compensation of central government caps and reliefs offered to small and rural businesses. It is anticipated that Government will continue to compensate local authorities in full for the extension of Small Business Rate Relief and new Rural Rate Relief and has confirmed an additional Section 31 grant will be made to compensate councils for the freeze of the business rates multiplier in 2021/22.
- 6.6. We are planning to continue to be part of the Business Rates Pool with the District Councils whilst this continues to forecast benefits. Pooling should provide us with additional Business Rates growth income although we have assumed a neutral position for 2021/22.

Government Funding

- 6.7. We receive General Grant from the Government in the form of Revenue Support Grant. This grant has reduced from its level of £70.351m in 2016/17 to £20.467m in 2020/21. The future of Revenue Support Grant is uncertain given the Government's funding reform agenda, but we have assumed that it will continue at the current level plus inflation for future years.
- 6.8. In addition to Revenue Support Grant we receive a number of other specific Government grants to support our expenditure, the largest of these being the Better Care Fund and the Public Health grants. For the purposes of forecasting our medium term position, where grants had been inflated for 2020/21 we have assumed a continuation of funding at current levels plus inflation for these grants, however a number of grants we receive are cash flat allocations.

Fees and Charges

- 6.9. The charges made to service users form a significant part of our total gross income, making an important contribution to the funding of services with £105.892m planned income from these charges in 2020/21. This income relates to a number of our services, with over half of it coming from users of Adult Social Care services.

Reserves

- 6.10. We hold two types of reserves: General Reserves, which are held as a fund of last resort to cover unexpected and unbudgeted costs which cannot be funded from our Revenue Budget, and Earmarked Reserves, which are funds held for specific

purposes and to cover future costs relating to those purposes. Earmarked Reserves are either created from grants and financial contributions received by the Council, or from underspends in the Revenue Budget at year end.

- 6.11. Our General Reserves currently stand at £16.050m, and our strategy is to maintain these reserves at a level which is between 2.5% and 3.5% of the budget requirement each year. The current level is 3.3% of the 2020/21 budget requirement. We take a risk based approach to ensure that the General Reserves alongside Earmarked reserves are at an appropriate level.
- 6.12. We will budget for an estimated contribution to or from General Reserves each year to ensure that the level of these reserves keeps pace with the budget requirement.
- 6.13. Our Earmarked Reserves are currently valued at £219.329m, which includes an Earmarked Reserve which is ring-fenced for Schools of £24.808m. The Council approves the creation of any new Earmarked Reserves. Our strategy is to regularly review Earmarked Reserves so that they are used for the purposes originally intended, or removed if no longer required, with the funding diverted for a new agreed purpose.
- 6.14. Within Earmarked Reserves there is a Financial Volatility Reserve which exists to deal with volatility in costs and to support the budget whilst savings are being delivered. There are a number of other Earmarked Reserves which are also used to cover volatility in costs and these support our financial resilience.

Flexible Use of Capital Receipts

- 6.15. In September 2016 the Council approved the Efficiency Plan, and the flexible use of Capital Receipts, to fund transformation for the three year period from 2016/17 to 2018/19. This plan allowed the Council to sign up to the four year funding deal offered by Government for the period 2016/17 to 2019/20. In December 2017, the Government set out further measures to support councils to deliver services. One of these measures was an extension to the use of Capital Receipts to help meet the Revenue costs of transformation for a further 3 years to April 2022.
- 6.16. From 2020/21, we have no longer planned to use Capital Receipts to fund transformation projects. Instead, we plan to use our Earmarked Reserves for this purpose. This will allow us to revert to using Capital Receipts to repay borrowing or to finance new Capital expenditure.

Financial Performance

- 6.17. We have a strong financial foundation upon which to build future years' budgets. Indicators of this are:
- We have prepared for this eventuality by setting aside money in reserves to help smooth the transition to a lower budget base;
 - We have a culture of financial management which generally results in expenditure being contained within budgets;
 - Prompt action has been taken to reduce budgets in the early years of austerity;

- A prudent approach has been taken to budgeting and this often results in underspends at the end of the year. This in turn has allowed for Earmarked Reserves levels to be increased;
- The CIPFA Financial Resilience Index has indicated that this Council has a reasonable level of financial resilience;
- The Leader of the Council is the Executive Portfolio Holder for finance and has a good understanding of financial issues. The Executive is involved in the budget process.
- We have reviewed our practice against the newly developed CIPFA Financial Management (FM) Code, with an aim to being fully compliant at the point at which code is implemented. The code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. Our analysis and compliance will initially be reported to the Audit Committee in March 2021.

Governance, Risk and Opportunities

6.18. As set out in section 5 above, we have a strong culture of good financial management and this is supported by a governance framework as follows:

Constitution and Financial Regulations

All Council business is conducted in accordance with the policies and procedures set out in our Constitution, which defines how we operate, how decisions are made, and the procedures that must be followed.

Financial Procedures

In order to conduct our business efficiently, we need to ensure that we have sound financial management policies and procedures in place and this is done through our Financial Procedures. These set out the financial accountabilities of individuals and the procedures to be followed.

Council

The Council's financial affairs are operated through a number of Member committees which have delegated powers. Decisions that cannot be delegated are taken at meetings of full Council.

The Executive

Each year, the Council agrees a policy framework and budget, and it is the responsibility of the Executive to implement the framework and budget. The Executive has special responsibilities for financial matters.

Scrutiny Committee

The Overview and Scrutiny Management Board reviews and scrutinises any decision made by the Executive, Executive Councillor or key decision made by an officer.

The key aim of scrutiny is to:

- Provide healthy and constructive challenge

- Give voice to public concerns
- Support improvement in services
- Provide independent review

Audit Committee

The Council's Audit Committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done. It provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done and make sure the right processes are in place. It works closely with both internal audit and senior management to continually improve the Council's governance, risk and control environment.

Internal Audit

The Council maintains an adequate and effective system of internal audit of the accounting records and the systems of internal control in line with the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011.

External Audit

An external audit service to the Council is currently provided by Mazars, who report on an annual basis to the Audit Committee on their findings in respect of the Statement of Accounts and on the Council's Value for Money arrangements.

Chief Finance Officer

The Council has designated the Executive Director – Resources as the Chief Finance Officer under Section 151 of the Local Government Act 1972. He leads and directs the financial strategy of the Council. He is a member of the Leadership Team and has a key responsibility to ensure that the Council controls and manages its money well. He is able to operate effectively and perform his core duties, complying with the CIPFA Statement on the role of the Chief Finance Officer.

Monitoring Officer

The Chief Legal Officer is the designated Monitoring Officer, with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the Constitution. The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by Members and co-opted Members of the authority.

Risk Management Strategy

The Audit Committee has overall responsibility for ensuring that the Council's risk management framework is robust, and provides assurance that strategic and operational risks which the Council faces have been identified and managed. Our financial risk register is at MTFS Appendix VII.

- 6.19. Our strategy is to take account of risk when preparing the MTFP. We have a number of budgets which are volatile because the amount we spend in each year depends on either demand for services or on other factors which we do not control e.g. the weather. We hold a corporate contingency budget to support these variables and can also support any unforeseen expenditure that we have not been

able to plan for. The current Covid-19 pandemic has increased the risks around our budget assumptions, and whilst the immediate costs have been covered by the provision of government grants the longer term impacts on our tax base and service costs are still unknown.

6.20. Our MTFP is supported by assumptions about a number of factors affecting the budget, and we model scenarios based on differing levels of risk for each major assumption: high risk (the outcome which results in a higher risk to our financial position); medium risk (the most realistic outcome); low risk (the outcome which results in a lower risk to our financial position). This provides us with a range of possible financial positions for the future, which we can take account of when making major decisions. We update the MTFP as detailed information about our future costs, income and funding is confirmed.

6.21. We need to ensure that we can grow and develop as a Council, as well as maintain existing core services. To do this we need to be able to make the most of opportunities when they arise. The MTFP allows us to do this by establishing funding for investing in new ideas. Examples of this are:

- Budget holders can bid for investment in new opportunities (either revenue or capital) as part of the annual budget process. These will be considered in the context of the business case and affordability.
- Council Directorates can carry forward up to 1% of their budgets to the following year to the extent that they have delivered a budget underspend.
- We have a New Development Capital Fund of £7.5m each year. Budget Holders can bid for funding from this to spend on new capital schemes.
- There are a number of earmarked reserves which can be used to fund investment in new opportunities.

7. Medium Term Financial Plan (MTFP)

MTFS Appendix A

7.1. Due to continued uncertainty in our levels of future funding, we are only setting a detailed budget for one year 2021/22. To support our summary budget position the MTFP table below sets out our expected budget position for the period 2021/22 – 2023/24.

SUMMARY REVENUE BUDGET	2021/22 £m	2022/23 £m	2023/24 £m
EXPENDITURE:			
Net Base Budget	489.894	502.783	514.813
Cost Pressures (<i>including inflation</i>)	26.736	16.585	17.622
Savings & Additional Income	-14.664	-5.351	-2.236
Other Movements (PH Grant & BCF Grant)	0.817	0.796	0.000
Total Expenditure	502.783	514.813	530.199
Use of Reserves	1.912	-5.744	-8.775
Transfer to/from General Reserve	0.200	0.200	0.200
Budget Requirement	504.895	509.269	521.624
INCOME:			
Business Rates Local Retention	120.354	121.015	121.682
Revenue Support Grant	20.580	20.693	20.807
Other Grants	44.416	37.551	37.476
County Precept	319.545	330.010	341.659
Total Income	504.895	509.269	521.624

7.2. The MTFP table shows how our base budget each year during 2021/22 – 2023/24 is increased by cost pressures and reduced by savings or additional income. It also shows the total funding income in each of these years which determines the net budget requirement and use of reserves to balance the difference between the total income and total funding.

7.3. The MTFP shows that following the settlement from government we are expecting to have a budget surplus in 2021/22 of £1.912m, but expect to have a budget deficit in the following years of £5.744m in 2022/23 and £8.775m in 2023/24.

7.4. Whilst we are expecting a surplus budget in 2021/22, this is still very reliant on council tax and business rates updates that will be provided by the District Councils. To reach a sustainable budget position for future years an assessment of further likely savings will need to be made during 2021/22. This can be supported by our Financial Volatility Earmarked Reserve to smooth the delivery of future savings required

7.5. We have a ten year Capital Programme, which is a budget set aside to deliver new or improved assets and to maintain existing assets used to deliver services. The proposed Capital Programme is affordable over the longer term, within the context of our budget assumptions and in line with our Capital Strategy, which also covers a longer term period up to ten years. The table below is a summary of our proposed Capital Programme and its proposed funding:

Capital Programme (2020/21 plus Future Years)	Revised Gross Programme 2020/21 £m	Gross Programme 2021/22 £m	Gross Programme Future Years £m
Gross Capital Programme	203.502	204.302	322.097
Funded by:			
Grants and Contribution	101.105	90.119	39.289
Revenue Funding	1.316	0.071	1.035
Use of Reseve	20.172	0.000	0.000
Borrowing	80.909	114.113	281.773
TOTAL FUNDING	203.502	204.302	322.097

Key Assumptions in Medium Term Financial Plan

Funding / Expenditure Area	Assumption	2021/22 £000's
Funding		
Revenue Support Grant	2021/22 per Provisional Settlement, increased by 0.55% each following year	20,580
Rural Services Delivery Grant	2021/22 per Provisional Settlement, remains at this level thereafter	7,277
New Homes Bonus Grant	2021/22 per Provisional Settlement, decreased by 2.5% each following year	1,469
Independent Living Fund	2021/22 not yet confirmed. 2020/21 amount decreased by 2.5% each following year	1,515
Social Care Support Grant	2021/22 per Provisional Settlement, remains at this level thereafter	20,485
Public Health Grant	2021/22 not yet confirmed. 2020/21 amount assumed to continue in 2021/22 then increased by CPI each following year	33,546
Better Care Funding	2021/22 not yet confirmed, increased by CPI each following year	18,984
Improved Better Care Funding	2021/22 per Provisional Settlement, then increased by CPI each following year	33,250
Council Tax Collection Fund Surplus	Assume no surplus in any year of MTFP	0
Council Tax	Taxbase 2021/22 estimated as at Nov 20, increased by 1.3% / 1.5% / 1.5% in following 3 years	319,545
BR Collection Fund Surplus	Assume no surplus in any year of MTFP	0
BR collected locally	2021/22 not yet confirmed. 2020/21 amount increased by 0.55% each following year	21,874
BR Top Up Grant	2021/22 per Provisional Settlement, increased by 0.55% each following year	91,302
BR S31 Grant	2021/22 not yet confirmed. 2020/21 amount increased by 0.55% each following year	7,178
BR Pooling Gain	Assume no pooling gain in any year of MTFP	0
Expenditure		
Pay Inflation	1% in 2021/22 to cover salaries up to £24k, 2% in each following year	1,580
LGPS Employers Contribution	2.0% increase 2021/22, 1.1% increase 2023/24	1,130
Total		

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