

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 2022/23 – 2025/26 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. Although the Spending Review 2021 has provided an increase in government grant funding, Local government has seen its government funding reduced significantly in real terms over the last decade with more reliance on one-off specific grants and on local taxation to fund essential services. Council Tax income now represents around 62% of our net expenditure (it was 51% in 2010/11).
- 1.3. The government review of Local Government funding and business rates retention was not implemented for 2022/23 however, indications are that government will undertake a review of relative needs and resources during 2022 for future funding settlements. This has meant that in 2022/23 we have had single year financial settlement for third year running and we continue to have uncertainty in our longer-term financial envelope.
- 1.4. Since March 2020 when Covid-19 was declared a global pandemic, the government has responded with a number of financial measures to support Local Authority cost pressures. Following a positive vaccination programme restrictions are being lifted and no further government funding for Covid-19 costs is planned for 2022/23. We will continue to monitor closely any on-going cost implications of the pandemic following the cessation of the financial support from the government.
- 1.5. The government has announced the most significant change to Adult Social Care in a number of years, with changes to equalise the cost of care between those funded by local councils and those funded privately, and capping the contributions individuals make to that care provision. The government has introduced a new health and social care levy to fund these changes with £3.6bn of funding identified for Local Government to support these costs, however, this is a significant change for the sector and brings with it a significant financial and service delivery risk.
- 1.6. 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.
- 1.7. 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 requirement for the medium term financial years 2022/23 – 2025/26. 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 decade has 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 and the last two years has seen a small increase in overall grants received, however 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	15	45	3.50%	0
2021/22	21	88	109	12	31	1.99%	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 further whilst we have responded to the current Covid-19 pandemic. Indications are that a review of needs and resources will be undertaken during 2022 and reflected in future local government funding settlements.
- 3.4. During 2021 the government set out its new plan for adult social care reform in England. This included a lifetime cap on the amount people in England will need to contribute to their personal care and a more generous means test for local authority financial support. The government also announced that it would be providing funding to support local authorities move towards paying providers a fair rate of care. A new Health and Social Care Levy was introduced by the government to support these reforms, but there is still a clear message that inflationary growth and increasing demand will still need to be met by local council tax and budgets. To support this the government continues 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** – Since March 2020 the Government has set out a number of financial measures to support the economic impact of the Covid-19 outbreak. A number of government grants to support the Local Authority response to the pandemic have been made. Over the last two years the council has received £60m 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 Covid restrictions start to lift, the government has made no commitment to further funding to support Covid-19 costs beyond the current year.

- 3.6. **Inflation** – price increases on items such as consumer goods saw the consumer price index (CPI) jump to 5.4% in the 12 months to December 2021, its highest level in thirty years which exceeds the Bank of England target of 2% set by the government. This rate is forecast to increase further by the spring, being driven in the main by large energy price increases.

4. The Forward View

- 4.1. In October 2021, the Chancellor announced his Autumn Budget and three year Spending Review (SR2021). Whilst a three year SR was announced a single year Local Government Settlement for 2022/23 has been provided.

- 4.2. The settlement is positive for local government, in that it has created some level of stability in an uncertain period, offering a roll over of the majority of government funding streams with some new funding albeit short term. Announcements included:

An overall real terms increase in core spending power in 2022/23 of 6.9% (which included an increase of £2.1b grant funding as well as expected council tax increases);

Local Government in England will receive £1.6b in 2022/23 (£4.8b over SR period) to support social care and other services. This has mainly been broken down into £822m of 'Services Grant' (for 2022/23 only) and £636m of additional Social Care Support Grant. Grants will also be provided for 'Supporting Families' (£45m) and 'Cyber Security' (£12m).

The National Living Wage will increase to £9.50 per hour from April 2022 for people aged 23 years and over;

Council tax referendum limits for 2022/23 set at 2% for General Tax increase and 1% for an Adult Social Care (ASC) increase. Any of the 3% ASC increase deferred from 2021/22 can also be applied (for LCC this is 3%);

- 4.3. 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.

- 4.4. We have adopted a longer-term savings strategy to deliver efficiency savings with an aim to manage future demand, reduce processing time and ensuring back office functions are fully optimised. This will in the main be delivered through the councils' transformation programme and whilst is challenging, will allow the council to continue to invest in valued front line services at a time when other councils are still reducing theirs

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 2021 the Government has proposed a referendum limit for general Council Tax of 2%, and continues to allow the raising of local tax to support Adult

Social Care with an additional 1% precept. Councils who deferred the 3% ASC precept allowable in 2021/22 are permitted add this to their total increase. For Lincolnshire County Council this gives a potential total Council Tax increase of 6% (2% General increase and 4% ASC).

- 6.2. Our budget proposals are to implement the deferred 3% Adult Social Care Council Tax increase for 2022/23 with no general increase to support non-ASC services. Our modelling assumes that beyond 2022/23 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 small deficit for the Business Rates element of the Collection Fund in our budget assumptions, which relates to part of the deficit from 2021/22 which was allowed to be spread over three years. 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 reliefs offered to business. The government has announced the freeze of the business rates multiplier for 2022/23 and we are expecting to be compensated for this and other rates reliefs offered.
- 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 and we have assumed an income position of £2.8m for 2022/23.

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 £20.580m in 2021/22. 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 2021/22 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 £98.311m planned income from these charges in 2021/22. 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 £16.200m, 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 3.21% of the 2021/22 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, if required, to ensure that the level of these reserves keeps pace with the budget requirement.

6.13. Our Earmarked Reserves are currently valued at £257.360m, which includes an Earmarked Reserve which is ring-fenced for Schools of £26.115m. 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. The government has not at present extended this flexibility to future years.

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. This position has continued in the current year (2021/22) and is assumed to continue in future years.

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 proactive 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 supporting financial resilience to be maintained;
- 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 is required by CIPFA. 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 has been reported to Audit Committee who will continue to review our proportionate approach to full compliance as recommended.

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 delegations set out in the Constitution. 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 of 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.

- 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 such as cost increases due to inflation or supply issues.
- 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. Our assumptions are included in the MTFP Appendix B.
- 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. Our financial planning includes a Transformation programme, that allows us to invest time and resource to look at how we can improve how we deliver our services ensuring they are as efficient and effective as possible. The following examples are part of our financial planning and MTFP to support transformation and continuous improvement:
- 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 2022/23. To support our summary budget position the MTFP table below sets out our expected budget position for the period 2022/23 – 2025/26.

SUMMARY REVENUE BUDGET	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
EXPENDITURE:				
Net Base Budget	502.809	534.516	548.353	559.578
Cost Pressures (<i>including inflation</i>)	41.249	21.301	17.441	16.702
Savings & Additional Income	-4.818	-6.344	-5.125	-1.363
Other Movements (PH Grant, BCF Grant & Market Sustainability Grant)	-4.725	-1.120	-1.089	-1.000
Total Expenditure	534.515	548.353	559.580	573.917
Transfer to Earmarked Reserves	0.000	-9.335	-6.480	-6.909
Transfer to/from General Reserve	0.000	0.000	0.000	0.000
Budget Requirement	534.515	539.018	553.100	567.008
INCOME:				
Business Rates Local Retention	124.265	125.690	127.246	128.492
Revenue Support Grant	21.220	20.807	20.921	21.036
Other Grants	55.884	47.608	47.535	47.465
County Precept	333.146	344.913	357.397	370.014
Total Income	534.515	539.018	553.099	567.007

7.2 The MTFP table shows how our base budget each year during 2022/23 – 2025/26 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 balanced budget with no use of reserves in 2022/23, but expect to have a budget shortfall in the following years of £9.335m in 2023/24, £6.480m in 2024/25 and £6.909m in 2025/26.

7.4 Whilst we are expecting a balanced budget in 2022/23, this is still very reliant upon 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 2022/23. 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 (2021/22 plus Future Years)	Revised Gross Programme 2021/22 £m	Gross Programme 2022/23 £m	Gross Programme Future Years £m
Gross Capital Programme	229.688	150.364	276.569
Funded by:			
Grants and Contribution	124.939	35.812	7.494
Capital Receipts	2.690	0.000	0.000
Revenue Funding	1.071	0.115	0.920
Use of Reseve	16.525	0.000	0.000
Borrowing	84.463	114.437	268.155
TOTAL FUNDING	229.688	150.364	276.569

MTFS Appendix B

Key Assumptions in the Medium Term Financial Plan for 2022/23

Funding / Expenditure Area	Assumption	2022/23
Funding		
Independent Living Fund	Assume falls by 2.5% pa	-2.50%
Public Health Grant	Assume maintained at 2021/22 level	0.00%
Better Care Funding	Increased by assumed Minimum Income Guarantee	
Council Tax Collection Fund Surplus	Assume no surplus. Deficits from 2020/21 built into MTFP	0.00%
Council Tax	Taxbase - assume 1.5% increase pa	1.50%
Council Tax Increase	Council Tax Band D Increase 3% 2022/23 (3% ASC Precept), 2% thereafter	3.00%
BR Collection Fund Surplus	Assume no surplus	0.00%
BR collected locally	Assume 2% 22/23 then 1% thereafter (based on CPI capped at 2%), assume multiplier freeze covered by S31 grant	2.00%
BR S31 Grant	Assume pooling gain £2.8m 22/23 then £2.5m thereafter	2.00%
BR Pooling Gain		0.00%
Expenditure		
Pay Inflation	2.0% pa Pay Inflation	2.00%
LGPS Employers Contribution	2.0% increase 2023/24	0.00%
Total		