

Medium Term Financial Strategy (MTFS)

Cabinet Member for Finance and Commissioning

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Agenda Item: 10

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Key Decision? YES

Local Ward All Wards

Members



Council

1. Executive Summary

- 1.1 The ability to deliver the outcomes set out in the **Lichfield District Council Strategic Plan**, and beyond, is dependent on the resources available in the MTFS.
- 1.2 The MTFS was approved by Council on 22 February 2022 and this is refreshed each year to:
 - Remove the previous financial year and in this MTFS this is 2021/22
 - Formally add the new financial year and in this MTFS this is 2026/27 and;
 - Refresh and update assumptions to reflect the latest information available.
- 1.3 The MTFS is the overall budget framework and consists of the Revenue Budget, Capital Strategy and Capital Programme, Earmarked Reserves and General Reserves.
- 1.4 There have been reports to Cabinet and Council that have updated the MTFS since its initial approval.
- 1.5 The Treasury Management Strategy Statement and Annual Investment Strategy are also important components of the MTFS. These components, under the Constitution are the responsibility of the Audit and Member Standards Committee and therefore will be considered by that Committee as part of the development of the Draft MTFS.
- 1.6 The timetable for consideration of the various elements of financial planning is shown in detail at **APPENDIX A** and the elements related to MTFS development are summarised below:

Date	Meeting	Topics	
Budget Consultation (June to December)	05/07/2022	Cabinet	Budget timetable, Budget principles, MTFS update, Budget consultation and Budget assumptions for 2023/24
	15/09/2022	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	04/10/2022	Cabinet	An update on the Draft Medium Term Financial Strategy
	17/11/2022	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	06/12/2022	Cabinet	Set the Council Taxbase for 2023/24
	19/01/2023	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	02/02/2023	Audit and Member Standards Committee	To review the Treasury Management Strategy Statement
	14/02/2023	Cabinet	To recommend the Medium Term Financial Strategy and Council Tax increase to Council
	28/02/2023	Council	Approve the Medium Term Financial Strategy, updated Local Council Tax Support Scheme and set the Council Tax

- 1.7 There remains an inherently high level of uncertainty surrounding the Local Government Finance regime with the residual impact of the COVID-19 pandemic, the cost of living crisis and other potential Government Policy changes.

- 1.8 The Council has a statutory duty to undertake budget consultation, set a balanced budget and to calculate the level of Council Tax for its area.
- 1.9 This report will include recommended updates to the Medium Term Financial Strategy to ensure it provides sufficient investment to deliver Council priorities.

2. Recommendations

- 2.1. That Council approves an update to the Medium Term Financial Strategy to include the additional net investment needs of **£1,263,000** identified at paras 3.22 and 3.23.

3. Background

The Medium Term Financial Strategy (MTFS)

- 3.1. Council approved the MTFS (Revenue and Capital) 2021-26 on 22 February 2022 which covers the financial years 2021/22 to 2025/26 (with a further projection for 2026/27 prepared by Finance for forward planning purposes).
- 3.2. The MTFS includes:
- **The Revenue Budget** related to the day to day delivery of the Council's services such as waste collection
 - **General Reserves** related to the amount of money available to balance the budget in the short term or fund short term initiatives
 - **The Capital Programme** and its financing for longer term expenditure in relation to the Council's assets, such as property.
- 3.3. The Revenue Budget and Capital Programme are connected by:
- Any financing of the Capital Programme from the Revenue Budget
 - The repayment of borrowing and the receipt of income from investments
 - Expenditure, income and savings resulting from capital investment.
- 3.4. The Council updates its Budget forecasts at 3, 6 and 8 month intervals.
- 3.5. To assist in understanding the level of uncertainty or risk present, in relation to the Local Government Funding Regime, we allocate each financial year a risk rating:
- **Low** – all significant components of the Local Government Funding Regime are known and understood
 - **Medium** – all significant components of the Local Government Funding Regime are known although there is some uncertainty around how specific elements will operate
 - **High** – there is uncertainty around all significant components of the Local Government Funding Regime.

MTFS Budget Principles

- 3.6. To assist in preparing the MTFS, in common with a number of Councils, a set of principles were established to guide the preparation and management of the MTFS.
- 3.7. Council, on 15 October 2019, approved the budget principles identified below:
- Council will consider the medium term outlook when setting the level of Council Tax to ensure that a sustainable budget position is maintained;
 - Council will prioritise funding for statutory and regulatory responsibilities to ensure these are delivered in a way that meets our legal requirements and customer needs;
 - Council will continue to seek continuous improvement to enable further savings, efficiencies and income gains and provide budgets that are appropriate to service needs;
 - Council will ensure that all growth in the staffing establishment will be fully understood through robust business cases in order to ensure our resources match service and customer needs. Growth will usually be allowed where costs are offset by external funding, savings or additional income;
 - Council will not add to other ongoing revenue budgets unless these are unavoidable costs or corresponding savings are identified elsewhere;
 - Council will use robust business cases to prioritise capital funding so that we have a sustainable Capital Programme that meets statutory responsibilities, benefits the Council's overall revenue budget position, and ensures that existing assets are properly maintained;
 - Council will maintain an overall level of revenue reserves that are appropriate for the overall level of risks that the organisation faces, in order to overcome any foreseeable financial impact.

MTFS Budget Assumptions

- 3.8. There are a number of Cost and Demand Drivers at a corporate level that are likely to influence the level and cost of services provided and therefore the budgets contained in the MTFS.
- 3.9. The updated Cost and Demand Drivers (with negative changes from the current MTFS shaded in red and positive changes shaded in green) initially identified for development of the MTFS are shown below:

Cost Drivers						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Full Time Equivalents ¹	321	321	321	321	321	321
Pay Award	1.75%	4.00%	2.00%	2.00%	2.00%	2.00%
Employers National Insurance	8.76%	8.87%	8.97%	9.07%	9.16%	9.16%
Employers Pension (%)	16.20%	16.20%	22.00%	22.00%	22.00%	22.00%
Employers Pension (Past Service)	£1,102,060	£1,206,520	£746,000	£767,000	£788,000	£809,000
Employers Pension (Other)	£109,180	£109,260	£112,540	£115,920	£119,400	£121,790
Non Contractual Inflation (CPI)	3.88%	8.01%	2.36%	1.65%	1.96%	2.00%
Non Contractual Inflation (RPI)	5.71%	10.27%	3.62%	2.38%	2.60%	2.73%
Applicable Fees and Charges	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Council Tax Increase	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Base Rate	0.20%	1.43%	1.85%	1.63%	1.39%	1.25%
Demand Drivers						
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Population Projections	105,293	105,709	106,073	106,432	106,749	107,070
Residential Properties	47,437	47,939	48,488	49,183	49,918	50,420
Business Properties	3,053	3,053	3,053	3,053	3,053	3,053
Number of visitors to the district	2,000,000	2,200,000	2,500,000	2,600,000	2,700,000	2,800,000
						% Increase
Population Projections						1.69%
Residential Properties						6.29%
Business Properties						0.00%
Number of visitors to the district						40.00%

¹ Excluding the impact of the Voluntary Severance Policy.

An Update on Local Government Finance Reform

- 3.10. The Strategic Risk Register includes a risk in relation to the non-achievement of the Council's key priorities contained in the Strategic Plan due to the availability of finance.
- 3.11. In March 2022, this risk was outside of the risk appetite and in the red zone principally due to:
- The uncertainty around Local Government Finance Reform.
 - The residual impact of COVID-19 on the MTFS including areas such as car parking use.
 - The geo political events increasing inflationary pressures in the economy.
- 3.12. Local Government Finance Reform remains the most significant area of uncertainty and includes:
- **Social Care Funding and Reform** – a significant element of Local Government Spending with demand increasing and funding not keeping pace.
 - **A Review of New Homes Bonus** – a further one year allocation for 2022/23 was provided as part of the one year Local Government Finance Settlement for 2022/23. Indications from the consultation document were that the level of reward will be significantly lower than the current scheme. The MTFS assumes no receipts from any replacement scheme from 2023/24 onwards.
 - **A Review of Business Rates** – this area has two elements, firstly the ongoing review of the Business Rates system and possible alternatives, such as a land based tax or an online based tax and secondly how the income from Business Rates is distributed.
 - **A Review of Needs and Resources (the Fair Funding Review)** – how more up to date information on needs and resourcing is utilised to update how Local Government Funding is distributed.
- 3.13. The MTFS assumes based on expert advice, that Local Government Finance reform was to be implemented in 2023/24. It also assumes District Councils generally and specifically Councils such as Lichfield DC who are classed as relatively 'low need' i.e. population size, levels of deprivation and other factors and 'high tax base' i.e. a £1 Council Tax increase raises higher levels of income compared to others, will be detrimentally impacted by these changes through lower funding.
- 3.14. However the timescales for implementation in 2023/24 are challenging. To date there has been no development work taking place in the Government, there have been changes in personnel, no papers or working groups have taken place, and there really needs to be a pre-Summer consultation paper with numbers. Therefore the likelihood is that a further one or two year Finance Settlement will be provided or reform will be implemented using a phased approach.
- 3.15. A one or two year settlement could result in significant additional income for the Council in 2023/24 and 2024/25. This is because negative Revenue Support Grant would likely be abated, business rates growth would be retained rather than being redistributed, Business Rates cap compensation could be paid, there could be a further payment of New Homes Bonus and Lower Tier and Services grant could also be paid.
- 3.16. An indication of the level of additional funding that could be received is shown below:

Approved Budget		Detail	Funding Scenarios	
2023/24 £000	2024/25 £000		2023/24 £000	2024/25 £000
1,791	1,826	Baseline Funding Level	2,117	2,117
550	654	Retained Business Rate Growth	1,667	2,002
0	0	Business Rates Cap Compensation	476	0
0	0	Lower Tier Services Grant	202	202
0	0	New Homes Bonus	681	700
2,341	2,480	Total Government Funding	5,143	5,021
		Potential additional income	2,802	2,541

- 3.17. One policy option available to the Council as part of the development of the new Medium Term Financial Strategy, would be to set aside any 'windfall' or additional resources to fund further capital investment in line with Strategic Priorities.

The Medium Term Financial Strategy

- 3.18. The Medium Term Financial Strategy was approved by Council on 22 February 2022.
- 3.19. A number of new and additional investment needs in line with strategic priorities have been identified since the approval of the Medium Term Financial Strategy.
- 3.20. This report will identify these current additional investment needs for inclusion in the Medium Term Financial Strategy.
- 3.21. It is likely that further additional investment needs will be identified as the development of the Medium Term Financial Strategy progresses throughout the financial year in line with the timetable provided at para 1.6.
- 3.22. At this stage, the recommended net additional investment needs and funding is detailed below:

	Element	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000	2025/26 Budget £000	2026/27 Projection £000	Total £000
Voluntary Severance	Revenue	1,200					1,200
Coach Park	Capital	(313)	(37)				(350)
Meeting Equipment	Capital	13					13
ICT - Investment	Capital	300	50	50			400
Net Additional Investment		1,200	13	50	0	0	1,263

Funding:							
Strategic Priorities Earmarked Reserve	Revenue	(1,200)					(1,200)
	Capital	0	(13)	(50)	0	0	(63)
Total Funding		(1,200)	(13)	(50)	0	0	(1,263)

- 3.23. These additional net investment needs are explained in more detail below:
- **BABC Voluntary Severance Policy (Invest to Save Proposal)** – short term investment to provide funding to implement the policy approved by Employment Committee on 1 June 2022.
 - **Coach Park Site** – there is an approved budget of £1,473,000, to acquire the site £300,000 and a budget to enhance the site to enable coach parking £1,173,000. The funding for this budget is £973,000 of Council resources and £500,000 of grant. The latest plans are that **(£350,000)** of the approved budget funded by Council resources can be released.
 - **Hybrid Meeting Equipment** – in addition, to the Approved Budget of **£72,000** (following the first phase of investment), a further **£13,000** is required to deliver the second phase.
 - **ICT Investment** – additional capital investment in ICT of **£400,000** related infrastructure to further support agile working.

The Revenue Budget and General Reserves

3.24. The Revenue Budget is shown in detail at **APPENDIX B** and the projected Funding Gap based on approved updates is summarised below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
LEVEL OF UNCERTAINTY / RISK	MEDIUM	HIGH	HIGH	HIGH	HIGH
Original MTFS Funding Gap	0	726	765	732	905
Approved Updates	0	(32)	(151)	(272)	10
Approved MTFS Funding Gap	0	694	614	460	915

3.25. The projected level of general reserves based on the approved funding gap is also shown below:

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
LEVEL OF UNCERTAINTY / RISK	MEDIUM	HIGH	HIGH	HIGH	HIGH
Available General Reserves Year Start	5,246	5,526	4,832	4,218	3,758
Approved MTFS (Funding Gap)	(0)	(694)	(614)	(460)	(915)
New Homes Bonus in excess of the 'Cap'	280	0	0	0	0
Available General Reserves Year End	5,526	4,832	4,218	3,758	2,843
Minimum Level	1,600	1,600	1,600	1,600	1,600
Total Projected General Reserves	7,126	6,432	5,818	5,358	4,443

3.26. **There is currently a risk of high inflation being persistent for a prolonged period. This would increase pressure not only on the delivery of existing services, but also on construction and asset management costs of projects in the Capital Programme. In addition, monetary policy counter measures to reduce inflation by increasing interest rates will also impact on the cost of any future external borrowing.**

Alternative Options	In the main, the options are focused on the level of resource allocated to Strategic Priorities, the strategy to be utilised to achieve a balanced budget and the level of Council Tax increase and these will be considered as part of the refresh of the Medium Term Financial Strategy.
Consultation	<p>There is a duty under S65 Local Government Finance Act 1992 to consult ratepayers (or bodies appearing to represent ratepayers) about proposed expenditure, prior to calculating the Council Tax requirement under S31a (England).</p> <p>It is proposed that consultation project will commence in June 2022 running through to December 2022. This could facilitate rapid analysis of the results of the consultation before a final feedback report is submitted in January 2022.</p> <p>It is proposed that the consultation be delivered through a combination of online promotion focused on a questionnaires aimed at residents, businesses and the community/voluntary sector, and a series of engagement events/discussions hosted by Cabinet members with stakeholder audience groups to discuss specific themes e.g. business support, health, sustainability and/or stakeholder issues e.g. businesses, young people.</p> <p>Running through the publicity of the consultation will be a narrative to engage stakeholders on the budget setting and funding process for Lichfield district Council to raise awareness of the realities of funding sources, funding levels and the decisions that have to be made to deliver a budget for the district.</p>

Financial Implications	The projections for the strategic priorities earmarked reserve are shown below:							
	Strategic Priorities Reserve:	Element	2022/23 Budget £000	2023/24 Budget £000	2024/25 Budget £000	2025/26 Budget £000	2026/27 Projection £000	Total £000
	Opening Balance		(590)	(1,383)	(1,370)	(1,320)	(1,320)	(590)
	Contributions		(1,993)					(1,993)
	Planned Use	Revenue	1,200	0	0	0	0	1,200
		Capital	0	13	50	0	0	63
	Closing Balance		(1,383)	(1,370)	(1,320)	(1,320)	(1,320)	(1,320)

Approved by Section 151 Officer	Yes
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Legal Implications	No specific legal implications. The recommended Medium Term Financial Strategy, is part of the Budget Framework and will therefore require the approval of Full Council.
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Approved by Monitoring Officer	Yes
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Contribution to the Delivery of the Strategic Plan	The report directly links to overall performance and especially the delivery of the Strategic Plan.
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Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in the Strategic Plan.
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Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in the Strategic Plan.
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Environmental Impact	These areas are addressed as part of the specific areas of activity prior to being included in the Strategic Plan.
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GDPR/Privacy Impact Assessment	There are no specific implications related to the Medium Term Financial Strategy.
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	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
Strategic Risk SR1 - Non achievement of the Council's key priorities contained in the Strategic Plan due to the availability				
A	Council Tax is not set by the Statutory Date of 11 March 2023	Likelihood : Green Impact : Red Severity of Risk : Yellow	Full Council set with reference to when major preceptors and Parishes have approved their Council Tax Requirements.	Likelihood : Green Impact : Red Severity of Risk : Yellow
B	Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations	Likelihood : Yellow Impact : Red Severity of Risk : Red	To closely monitor the level of appeals. An allowance for appeals has been included in the Business Rate Estimates.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
C	The review of the New Homes Bonus regime	Likelihood : Red Impact : Red Severity of Risk : Red	The Council responded to the recent consultation. Not all of the projected New Homes Bonus is included as core funding in the Base Budget. In 2022/23 £400,000 is included with the balance transferred to general reserves. At this stage, no income is assumed from 2023/24 onwards.	Likelihood : Red Impact : Yellow Severity of Risk : Yellow

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
D	The increased Localisation of Business Rates and the Review of Needs and Resources	Likelihood : Red Impact : Red Severity of Risk : Red	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Likelihood : Red Impact : Red Severity of Risk : Red
E	The affordability and risk associated with the Capital Strategy	Likelihood : Yellow Impact : Red Severity of Risk : Red	An estates management team has been recruited to provide professional expertise and advice in relation to property and to continue to take a prudent approach to budgeting.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
F	Sustained higher levels of inflation in the economy	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow	To maintain a watching brief on economic forecasts, ensure estimates reflect latest economic projections and where possible ensure income increases are maximised to mitigate any additional cost.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
Strategic Risk SR3: Capacity and capability to deliver / adapt the news				
G	The financial impact of COVID-19 is not fully reimbursed by Government and exceeds the reserves available resulting in a Section 114 notice	Likelihood : Yellow Impact : Red Severity of Risk : Yellow	The use of general and earmarked reserves to fund any shortfall	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
H	The Council cannot achieve its approved Delivery Plan for 2022/23	Likelihood : Yellow Impact : Red Severity of Risk : Red	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the ongoing impact of the pandemic	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
I	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	Likelihood : Yellow Impact : Red Severity of Risk : Red	The MTFs will be updated through the normal review and approval process	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
J	Government and Regulatory Bodies introduce significant changes to the operating environment	Likelihood : Red Impact : Red Severity of Risk : Red	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

Background documents

Medium Term Financial Strategy (Revenue and Capital) 2021-2026 (MTFS) – Cabinet 8 February 2022

Pension Contributions – Cabinet 5 April 2022

Money Matters: 2020/21 Review of Financial Performance against the Financial Strategy – Cabinet 7 June 2022

Relevant web links

The Financial Planning Timetable

The Financial Planning Timetable and Governance Responsibility				
Service and Financial Planning		July	←	Medium Term Financial Strategy
		August		
	→	September	←	Money Matters as at 30 June
Review Medium Term Financial Strategy	→			
		October	←	Medium Term Financial Strategy
Review Medium Term Financial Strategy	→	November		
Mid Year Treasury Management Report	→			
		December	←	Money Matters as at 30 September
			←	Medium Term Financial Strategy
			←	Set Council Taxbase and approve Collection Fund Projections
Review Medium Term Financial Strategy	→	January		
Review Treasury Management and Capital Strategies	→	February	←	Money Matters as at 30 November
Approve the Medium Term Financial Strategy and set the Council Tax	→		←	Recommend Medium Term Financial Strategy and Council Tax to Council
		March		
		April		
Draft Statement of Accounts	→	May		
		June	←	Money Matters as at 31 March
Annual Treasury Management Report	→	July		
		August		
Statement of Accounts (was 31 July but for 2 years extended to 30 September)	→	September		
Key: Pink = internal timelines Blue = Cabinet Salmon = Cabinet & Overview and Scrutiny Committee Amber = Overview and Scrutiny Committee Green = Audit & Member Standards Committee Purple = Council				

Revenue Budget

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
LEVEL OF UNCERTAINTY / RISK	MEDIUM	HIGH	HIGH	HIGH	HIGH
Developing prosperity	(436)	(373)	(346)	(290)	11,740
A good council	6,463	6,697	6,991	7,310	
Enabling people	1,513	1,547	1,579	1,538	
Shaping place	4,083	4,348	4,449	4,580	
MTFS Savings and Bids	(1,523)	(1,702)	(1,760)	(1,844)	
Windfall Income allocated to Strategic Priorities	1,993	0	0	0	0
COVID-19 - General Recovery	377	189	189	189	189
Net Cost of Services	12,470	10,706	11,102	11,483	11,929
Corporate expenditure	(198)	1	78	68	64
Net Operating Cost	12,271	10,708	11,180	11,551	11,993
Retained Business Rates Baseline Funding	(3,311)	(2,341)	(2,480)	(2,628)	(2,681)
Business Rates Cap	(174)	0	0	0	0
Lower Tier Services Grant	(95)	0	0	0	0
Services Grant	(146)	0	0	0	0
New Homes Bonus - Base Budget	(400)	0	0	0	0
New Homes Bonus - to General Reserve	(280)	0	0	0	0
New Homes Bonus - Contingency Budget	(721)	0	0	0	0
Collection Fund (Surplus)/Deficit	32	52	0	0	0
Council Tax	(7,456)	(7,693)	(7,935)	(8,190)	(8,407)
Total Funding	(12,551)	(9,982)	(10,415)	(10,819)	(11,088)
New Homes Bonus to general reserves	280	0	0	0	0
Original MTFS Funding Gap	0	726	765	732	905

Approved Updates:					
Pension Contributions - Cabinet 05/04/2022	0	(32)	(151)	(272)	10
Approved MTFS Funding Gap	0	694	614	460	915