APPENDIX A

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Medium Term Financial Strategy

2016/17 to 2020/21

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Foreword

Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2016-2021.

This Strategy sets out how the Council will use its financial resources to play an appropriate part in delivering the vision and priorities that it, and key partners, hold for the City and that reflect the priorities and aspirations of the local people.

Since 2010 the Council, alongside the majority of other local authorities has experienced unprecedented financial challenges in various form; central government funding reductions, all time low returns on investments and a national economic downturn affecting jobs, housing and business growth, which has in turn created pressure on the generation of local income streams together with a rising demand for council services from customers who rely on the safety net provided by local government.

During this same period the basis on which local government is funded has undergone radical reform with changes that affect the council's financial position both directly and indirectly including National Welfare Reform, Localisation of Council Tax Relief, Business Rates Retention, New Homes Bonus and of course reduction and in some cases removal of a range of grant funding sources. Each change bringing elements of uncertainty in terms of impact, with further fundamental and radical changes through the 100% devolution of Business Rates Retention set to come by 2020.

The financial outlook for the Council continues to be extremely challenging. The Chancellor of the Exchequer's November 2015 Spending Review and subsequent Local Government Finance Settlement confirmed that funding cuts to local government would continue until 2019/20 and on scale far greater than any other Government department.

The distribution of funding cuts across local government has not been uniform with some types of authorities being significantly more affected, with this Council being one of those suffering a greater proportionate loss. The Council's grant from central government is set to dramatically reduce over the next four years from £2.585m in 2015/16 to £22,354 in 2019/20, a drop of 99%. Whilst the Council have been planning for and preparing for considerable reductions in central government funding, the sheet scale and speed of the reductions announced in the Finance Settlement were hugely unexpected by the majority of local authorities.

This austere Finance Settlement and fundamental changes to the basis of local government funding represents a new era for local authorities with a move to local government funded by local taxes. Although transferring significant financial risk and an inherent uncertainty it also presents opportunities for authorities with the freedom from and removal of reliance on Central Government.

Notwithstanding this the Council faces a difficult financial path to navigate in the forthcoming years in order to deliver a sustainable financial position and will need to deliver further savings of £1m in excess of its current target, by 2018/19. It already has a proven track record in delivering against challenging financial positions and has recent year's undergone significant reviews of its services delivering savings through smarter procurement, generating additional income, improvements in efficiency and inevitably through the withdrawal of non-priority services. After delivering the further £1m of savings required this will take total savings achieved since 2009 to £8m, a significant reduction in comparison to the size of the overall net expenditure budget.

The Council will continue to do all that it can to minimise the effect of these reductions on the public, and will prioritise those services that are needed the most. This will not be an easy task and will require the Council to make some increasingly difficult decisions about the services it provides, where it provides them and the way in which it provides them. It faces the challenge constructively, with imagination and in the context of its role as an "ensuring council" and will ensure that at the heart of this decision making there remains a focus on four main strands of growth, poverty, affordable housing and financial sustainability.

The result will no doubt be a more efficient, more sustainable, more resilient, "ensuring council" that delivers its priorities.

Section 1 – Introduction

The purpose of the MTFS is to 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 Strategic Priorities.

The MTFS looks ahead over the coming five financial years to identify the resource likely to be required by the Council to finance its priorities and meet its spending pressures. It also looks ahead to determine the resources likely to be available to the Council over the same period. This plays a critical role in ensuring that the Council "lives within its means" in developing its key plans and strategies, and enables decisions to be made about its finances ensuring it maintains a sustainable budget.

The MTFS integrates revenue allocations, savings targets, reserves and capital investment and provides indicative budgets and future Council Tax and Housing Rent levels for the period covered by the plan. This approach has been in place for a number of years now and is an essential part of the budget setting process.

Although the Strategy is set against a medium-term time frame, to fit with the Council's corporate planning framework, in principle it will exist for longer as it provides the overall direction and parameters for financial management at the Council.

Inevitably the Council's plans will need to evolve and develop in response to new financial opportunities and risks and new policy directions during the period of the Strategy. Therefore, the Strategy will be reviewed on a regular basis and at least annually.

Objectives

The MTFS seeks to achieve a number of specific objectives;

- Ensure the Council maintains a sound and sustainable financial base, delivering a balanced budget over the life of the MTFS,

- Maintain income levels and increase them where possible, including growing the Council Tax and Business Rates tax base, whilst ensuring that Council Tax rate increases are kept an acceptable level;

- Continue to manage down the Council's recurrent cost base, in line with reductions in overall resources by ensuring the provision of efficient, effective and economic services which demonstrate value for money.

- Ensure the Council maintains robust, but not excessive, levels of reserves and balances to address any future risks and unforeseen events without jeopardising key services and the delivery of outcomes;

- Ensure the Council's limited resources are directed towards its strategic priorities, redirecting where necessary to allow for improvement and investment;

Policy and Financial Planning Framework

The Council's Strategic Plan is the thread that links the Council's integrated policy and financial planning framework. It is underpinned by the MTFS, which is driven by the outcome requirements of the Strategic Plan and flows through to the Council's other key plans and strategies, service planning and individual staff performance appraisals. This ensures that the Council's vision and strategic priorities drive the activity and allocation of resources of the Council.

The Strategic Plan promotes a clear view of the Council's strategic focus and in particular its key priorities. These priorities are a commitment by the Council to use the resources it has available to take 'action on the ground' through the services it provides to make a difference for local people.

The current Strategic Plan 2012-2017 was approved in March 2012 with an anticipated lifespan of 5 years and so will remain in place until March 2017. The Plan confirmed a new vision, core values and strategic priorities and was initially supported by a two year delivery plan through to March 2014. This initial delivery plan has now been replaced by an updated and refreshed plan outlining the focus for activity over the remaining three years of the strategic plan. Work will commence during 2016 to undertake a comprehensive review of the priorities and prepare a new Strategic Plan for 2018 onwards.

Section 2 – Context

In order to set the framework for the Council's approach to policy and financial planning it is important to understand the overall national policy context, and economic conditions as well as the policy and delivery priorities for the Council over the MTFS period.

Economic Climate

The Government's long term economic plan is to secure the recovery. Since 2013 the recovery has become well established and the UK's economy has continued to grow at a relatively strong rate.

The UK was the fastest growing G7 economy in 2014 growing by 2.9%, and has been on average since 2010 the joint fastest growing economy. This growth continued through into 2015, albeit it at a much slower rate, with official growth figures of 0.4% in the first quarter, 0.5% in the second quarter, 0.4% in the third quarter and 0.5% in the final quarter. This is the eleventh successive quarter of positive economic growth and the longest sustained run since the onset of the economic downturn in 2008.

Forecasts from the Office of Budget Responsibility (OBR) at the time of the Spending Review 2015 were for growth of 2.4% in total for 2015. However this was based on growth figures in the earlier quarters, which have since been downgraded to those above, for 2015 as a whole GDP growth was 2.2%. Forecasts for 2016 remain at 2.4%, increasing to 2.5% in 2017, 2.4% in 2018 and 2.3% pa thereafter.

Key to the UK economic prospects is the strength and stability of the global economic. The UK is inevitably affected by problems in the world economy. The global economic recovery remains uneven, with weakness driven by the slowdown in emerging markets, particularly in China, political instability in the Middle East and growth in the US economy being less than expected . The latest forecast for the global economy is an expansion of 2.9% for 2016, down from previous forecasts in the region of 3.3%. This increased risks in the world economy demonstrates the need to continue to repair the UK economy and stick to the deficit reduction plan, in order to withstand future shocks.

Elsewhere in the economy the Office of National Statistic (ONS) latest figures have seen positive improvements in the employment rate which is at its highest ever level, the unemployment rate is down to the lowest level in 10 years to 5.1% and earnings continue to grow in real terms.

The latest Consumer Price Index (CPI) for December 2015 showed an annual rise of 0.2%, the highest rate since January 2015. Since the turn of 2015, the rate of inflation has been low, varying between a positive 0.3% (January) and negative 0.1% (October), the lowest level for the last fifteen years. Calculating an average inflation rate for the year to date gives a figure of 0.0%. In other words, there has been little to no inflation during 2015. The most recent forecasts from the OBR indicate that CPI will sharply increase during 2016 and 2017, albeit remaining below the 2% target, gradually returning to target by 2019. After periods of mild deflation during 2015 the Retail Prices Index (RPI) for December 2015 showed an annual increase rise of 1.2%. Its forecast is set to follow a similar profile to CPI, increasing sharply during 2016 and 2017 to 2% and 2.9% and then remaining at 3.2% from 2018 onwards.

Short term interest rates remain at historically low levels with The Bank of England's Monetary Policy Committee in February 2016 voting to hold the Bank Base Rate at 0.5%, where it has been since March 2009. There is little prospect of any imminent increase in interest rates with expectations of the first increase unlikely to occur in mid to late 2016.

Despite the slight reduction in levels of the economic growth in 2015 the UK economic recovery is now well established and the focus of the Government is now to repair the economy, returning to a surplus positon by 2019/20. It is in this overall context that the Spending Review (SR) 2015 has been set.

National Priorities

As set out above the key driver for government policy since 2010 has been securing the recovery of the economy through the deficit reduction programme, primarily focussing on public spending control. Local government bore a disproportionate brunt of this programme with reductions of 40% in core government funding over the period 2011/12 – 2015/16.

Despite the progress made and reductions suffered the key message in the SR 2015 was clear that 'the job was not yet complete', although huge progress has been made in rescuing the economy, the deficit remains too high and the economy is still too unbalanced, the task was now to rebuild it. The SR builds on the progress made over the previous Parliament and seeks to return the country to a surplus by 2020 and run a healthy economy that starts to pay down its debt. The deficit reduction plan will therefore continue, with no change in the long term plan. Key to this is the continuation of significant reductions in public sector expenditure. Local government is set to once again experience deeper cuts than the rest of the public sector, through until 2019/20, at the same time as preparing itself for the implementation of radical changes to its funding mechanisms.

Summer Budget 2015

The Chancellors Summer Budget announcements in July 2015 set out the first purely Conservative budget in more than 18 years.

The Chancellor's statement set out the need to deliver around £37bn of savings if a budget surplus is to be achieved by 2019/20. The Budget set out the detail of £17bn of these measures including £12bn by 2019/20 from welfare reform and £5bn by 2019/20 from tackling tax avoidance and tax planning, evasion and compliance, and imbalances in the tax system. Plans to deliver the remaining £20bn of savings required were to be set out in the SR15 and would primarily being delivered from departmental expenditure limits.

Key announcements with an impact on local government, particularly around welfare and housing, were as follows:

- With an intention of reducing the cost of Housing Benefits, social housing rents are to be reduced by 1% a year for the next four years. This places a considerable financial pressure on local authorities and will no doubt have detrimental impacts on its new house building programmes.

- Social tenants with household incomes of at least £40k in London and at least £30k elsewhere, will have to 'pay to stay' at a market or near market rent. Local authorities will repay the rent subsidy that they recover from high income tenants to the Exchequer, contributing towards the deficit reduction. Housing Associations will be able to use the rent subsidy that they recover to reinvest in new housing.

- A review of use of lifetime tenancies in social housing to limit their use and ensure that households are offered tenancies that match their needs, and ensure the best use is made of the social housing stock is to be undertaken.

- The government will provide £800m for Discretionary Housing Payments over the next five years. For 2015/16, the national central government DHP grant totalled £125 million – indicating an overall increase in DHP budget.

- Working age benefits will be frozen for four years from 2016/17 to 2019/20. This includes tax credits and Local Housing Allowances.

- There are a number of other changes to Housing Benefit and the housing element of Universal Credit. These include removing entitlement for larger families with children born after April 2017, limiting backdating and removing automatic entitlement for new claims by out-of-work 18- to 21-year olds.

- The household benefit cap will be reduced to £20,000.

- Public sector pay will increase by 1% per year for 4 years from 2016/17.

- From April 2016 a new National Living Wage of £7.20 an hour for the over 25's will be introduced – a rise of 70p relative to the current National Minimum Wage. This will rise to over £9 an hour by 2020.

Spending Review and Autumn Statement 2015

The Chancellor of the Exchequer published the government's joint Spending Review 2015 and Autumn Statement in November 2015, setting out public expenditure plans for 2016/17 to 2019/20.

The changes to the underlying Office of Budget Responsibility (OBR) forecasts since the Summer Budget in July 2015 showed a £27bn improvement in the level of public finances. This is based on the underlying forecast for tax receipts being stronger and lower debt interest.

The improvements to the OBR forecast since Summer Budget 2015 mean that the remaining consolidation measures required have reduced from £20bn to £18bn. These measures will be delivered through; £12bn of savings to the overall Departmental Expenditure Limits (DELs); £3bn from the introduction of an apprenticeship levy; and the remaining £3bn to be delivered through reforms such as Making Tax Digital and further measures to tackle tax avoidance.

These improvements in the forecasts also allowed the Chancellor to abandon plans announced in the Summer Budget to reduce expenditure on Tax Credits by £4bn.

As in previous spending reviews and budget announcements the government has protected a number of core priorities from the spending reductions, those included in the SR15 were as follows:

- Spending 2% of Gross Domestic Product (GDP) on defence for the rest of this decade;

- Spending 0.7% of Gross National Income on overseas aid;

- Providing the NHS in England with £10bn per year more in real terms by 2020-21 than in 2014-15;

- Increasing the basic State Pension by the triple lock in April 2016, so that it rises to £119.30 a week;

- Protecting schools' funding in England in real terms over the Spending Review period;

- Protecting overall police spending in real terms over the Spending Review period;

- Maintaining funding for the arts, national museums and galleries in cash terms over this Parliament.

Despite the improved forecasts, Local Government was hit particularly hard in the spending review. Total funding is set to reduce by £6.1bn from £11.5bn in 2015/16 to £5,4bn in 2019.20, equivalent to a 56% reduction in revenue support grant, or 27.5% reduction in Settlement Funding Assessment (SFA).

Other sources of income such as council tax and business rates are forecast to grow in cash terms by £6.3 billion by 2019/20, based on the OBR's forecast for local authority self-financed expenditure. Local government spending is therefore forecast to be higher in cash terms by 2019/20 than in 2015/16, this is reflected in the headline announcements made in the subsequent Local Government Finance Settlement focussing on the Core Spending Power of local authorities as opposed to reductions in central grants.

A key theme within the SR was the Government's commitment to a devolution revolution, transforming local government by enabling it to be self-sufficient by the end of the Parliament and paving the way for 100% business rate retention, giving local authorities the power to cut business rates to boost growth and empowering elected city-wide mayors. This is a radical change to the funding mechanisms of local government and heralds a new era where local government is funded from local taxes with limited reliance on Central Government (further details on Business Rates are set out below).

Other significant key announcements included;

- Reforms to the New Homes Bonus Scheme are to be made, with a preferred option of saving £800m to be top sliced and contributed to the Better Care Fund, as well as a move from a 6 year funding period to a 4 year funding period, and proposals introduced to 'sharpen the incentives'. Further details were to be set out the Local Government Finance Settlement.

- Councils will be subject to the apprenticeship levy on larger employers announced from April 2017 onwards. It will be set at a rate of 0.5% of an employer's pay bill. Employers will receive an allowance of £15,000 to offset against their levy payment.

- The government will allow local authorities with adult social care responsibilities the power to raise an additional 2% through council tax to fund adult social care. The 2% is in addition to the council tax referendum limit and needs to be used for adult social care only.

- New flexibilities are to be given to local authorities to allow them to use up to 100% of capital receipts (excluding RTB's) to fud the revenue costs of transformational projects that result in a reduction of costs or generate of additional income.

- New guidance will be issued to local authorities to encourage them to rein in 'excessive' salaries and do more to drive efficiencies for local taxpayers.

- Confirmation that despite the U-turn in Tax Credits the £12bn in targeted welfare savings will be delivered in full, although the Government is set to breach the overall welfare cap it set itself in the first years of parliament. New measures to deliver the required reductions in the welfare system included;

    - Housing benefit for new social tenants to be capped at same level as private sector i.e at the Local Housing Allowance level.

    - Housing benefit and pension credit payments to be stopped for people who leave the country for more than one month from April 2016.

    - Extension of the local authority Fraud and Error Reduction Incentive Scheme with funding extended until the end of 2017/18 to reward local authorities for reducing fraud and error in housing benefit.

- A key priority of the Government is to support home ownership and a range of measures and investment was announced in order to deliver 400,000 housing starts. Through starter homes, help to buy, shared ownership and affordable homes, by 2020/21,

- Councils are set to receive an extra £10m to help homeless people while ending the current management fee for temporary accommodation, giving local authorities greater flexibility to invest in preventing homelessness.

Business Rates

April 2013 heralded a fundamental change in the funding of local authorities with the introduction of the Business Rates Retention system (BRR), whereby authorities are now incentivised through the retention of an element of the business rates they collect to promote business growth. Although the system presents opportunities for local authorities to also brings with it a level of financial uncertainty and risk never before experienced by local authorities. That said, local government have long since been calling for the full retention of the business rates at a local level and the financial independence from government.

On the 5th October 2015 the Chancellor announced a forthcoming package of reforms to the BRR system with a move to local government retaining 100% of business rates collected by 2020 and an end to Revenue Support Grant. Key features of the move to 100% business rates retention will include the ability for directly elected Mayors to increase the local rate for specific infrastructure projects and the ability for local authorities to be able to reduce rates locally.

Nationally the amount collected through business rates is in the region of £26bn which far outweighs the amount given back to local authorities through the Revenue Support Grant. This will be phased out altogether but extra powers and responsibilities will also need to be transferred to local authorities to reflect the increase in resource they will receive. The SR15 provided some further detail on this point suggesting that the government would consider transferring responsibility for funding the administration of Housing Benefit for pensioners and Public Health funding. These transfers will happen at the onset of the new system, but thereafter all the real growth in business rates revenue will be kept by local authorities.

No further details have since been released on these new, radical reforms with consultation on the design of the scheme not due to start until summer 2016 at the earliest.

As well as preparing for the full devolution of business rates the Government is also running a wide-ranging review of business rates to ensure that they remain fit for purpose in a 21st century economy. This will be fiscally neutral (it remains to be seen if this is neutral nationally, or at an individual council level) and will report at Budget 2016. In addition, the government has now published progress updates on action it is taking to improve the administration of business rates, including the appeals system, and on tackling business rates avoidance. Both of these reviews will be implemented from April 2017 onwards. April 2017 also signals the date at which the new ratings lists will come into effect, although this too will be fiscally neutral in the first instance it will no doubt result in a significant number of appeals and involve heightened levels of financial risk and uncertainty for local authorities.

Local Priorities

Lincoln is a cathedral city, and is one of the oldest cities in Britain, with a population of around 96,200. Lincoln is one of seven Districts in Lincolnshire and, being an urban area located within a predominantly rural county, faces both unique challenges and opportunities.

Although the population of Lincoln is around 96,200, the city actually serves a significantly higher 'Greater Lincoln' population of 204,726 (the economic zone around Lincoln where residents have close links with the city either through work, education, shopping or recreational use). Almost twice as many people visit the city during the daytime as live here, boosting the local economy but also putting immense pressure on local services and infrastructure.

In the last ten years Lincoln has seen a significant increase in the number of people who live here, with a larger proportionate increase than England as a whole. Lincoln has also had a bigger increase proportionately than many cities and towns in England that are considered characteristically similar.

There continues to be an increase in the number of residents aged 20-29 since 2001. This is likely to have been influenced by the university, which was established as the University of Lincoln in that same year. There are well over twelve thousand students at the University of Lincoln. Lincoln has a higher than average proportion of its population aged in their 20's years due to the continuing expansion of the University. This age group accounts for 21% of the city's total population, compared to only 11% of Lincolnshire's.

Like many places, Lincoln is made up of areas of relative affluence, and relative deprivation. The Indices of Multiple Deprivation tells us that 10 areas of the city (from a total of 57) are amongst the 10% most deprived nationally. Many of these areas have a proportionately large young population.

In terms of the economy, the city faces a number of challenges. One of these is Lincoln's child poverty rate which is above the county, regional, and national rate. Fuel poverty rates are above the regional and national average. Additionally, Lincoln's high rate of 16-18 year olds not in education, employment or training, and above average unemployment rate, impact on the economic well-being of people in the city

Overall, approximately 28% of council tax payers receive Housing Benefit and/or Council Tax support. Only around 0.4% of properties fall within council tax bands G and H, and 80% fall within the lowest bands A or B, currently paying £3.74 or less per week. This low Council Tax base has a significant limiting impact on the Council's ability to raise revenue via the Council Tax and creates a higher dependency on other sources of income.

Both male and female life expectancies were low in comparison to our nearest neighbours and the national average. Early deaths due to heart disease and stroke had been reducing rates have seen an increase since 2010 and Lincoln still ranks high amongst our nearest neighbours. The early deaths due to cancer rate have fluctuated over the last few year. Lincoln has the highest rate of mortality for cancer in Lincolnshire and is forth highest compared to our nearest neighbours.

There are approximately 39,825 households in the city – the City Council is landlord to approximately 7,840 of these, with more than one thousand more belonging to Registered Social Landlords. Despite the fact that housing is generally more affordable in Lincoln than elsewhere, there is still substantial demand for social housing of different types.

These factors place significant demands on key services and resource allocation and are a key driver in the development of the Council's Strategic Plan and its vision and priorities.

A Comprehensive Strategic Plan was published in 2012 and is supported by an updated Delivery Plan 2014-19 published in 2014. The Plan explains the council's key strategic priorities for action over the following five years, each developed to tackle the most pressing issues facing the city. The Plan was produced following a comprehensive review of the council's vision and details the development of five key priority areas where the Council will take a lead in tackling the issues faced by the city. It has been informed by extensive research into these issues and has been supported by research through a range of public engagement activities to ensure these are the right areas to focus on over the coming years.

The Council's vision statement is;

"A city with a strong sense of history committed to sustainable growth and social justice"

This short vision statement highlights three important aspects:

- The long and proud history of the city, dating back to Roman times – a history that we passionately understand must be preserved for generations to come not only in terms of the natural and built heritage, but also the traditions we value.

- A pressing need for the city to look to the future and to grow, which in turn will strengthen the local economy and meet the housing needs of local people. However, this has to be done in a carefully managed way that ensures the city is successful for generations to come.

- The need to ensure every resident in the city has their human rights respected and is afforded equality of opportunity to improve their quality of life.

The supporting Strategic Priorities are;

Strategic Priority	**Aim**
Reduce poverty and disadvantage	Working with, and on behalf of, the most vulnerable members of the community to provide access to a range of financial inclusion opportunities to tackle low income, help people out of worklessness, reduce educational disadvantage and improve health equalities through access to a wide range of leisure opportunities. This priority will also seek to improve community cohesion and deliver specific interventions at the neighbourhood level

	to tackle issues of most local concern.
Seek to increase the supply of affordable housing to rent or to buy	To use the Council's role as housing provider, strategic housing authority and strategic planning body to increase the supply of affordable housing to rent or buy and to improve the standards within the existing housing stock in the city.
Improve the performance of the Council's housing landlord function	As landlord of a significant number of homes within the city, we will work hard to improve all aspects of the council's landlord function, whilst maximising the opportunities available to secure a more financially sustainable future to look after council homes.
Reduce the City's carbon footprint	To reduce the carbon footprint of the Council's own activity to make financial savings from reduced energy use. To then use this as a platform to provide community leadership and lead a drive to reduce, with partners, the city's overall carbon footprint. In particular, we will focus our effort on reducing the fuel bills of the poorest people in the city and reduce fuel poverty.
Develop a fit for purpose Council	To redefine the shape and purpose of the Council to ensure it is financially stable, meets our customers' needs and is prepared to meet the future demands likely to be placed on it by the current economic environment and changes imposed from central government.

In light of the financial pressures that the Council is facing and the requirement to deliver a significant level of savings it was recognised that a review of how much the Council was able to continue to do was necessary.

Whilst the Council is not changing the current five broad strategic priorities, as set out above, the focus of the Council's efforts in the remaining years of the current strategy will concentrate on:

- **Grow the local economy** – to do what the Council can do to bring employment to the City and help people, particularly in deprived areas, compete successfully in a very competitive labour market and hence help lift them out of a cycle of poverty and its associated negative impacts on health and well being.

- **Protect the poorest in our society** from the hardship effects of the current recession.

- **Increase the provision of affordable housing** to meet increasing demand**.**

- **Build a financially sustainable future for the Council** in the face of fundamental changes to Local Government funding and continued unprecedented reductions in public expenditure levels.

Section 3 – Revenue (General Fund)

Spending Plans

Given its current financial position it is vital that the Council continues to deliver against the significant savings targets that it faces. However, the Council has to also ensure that the correct balance is struck between the need to maintain a sustainable financial position whilst ensuring that it directs resources towards its strategic priorities. Striking the correct balance between these two requirements becomes ever more difficult as the period of steep reductions in funding is set to continue through to at least 2019/20 and the level of financial uncertainty is at heightened levels in anticipation of the 100% devolution of business rates as well as a result of volatility in the business rate base.

In line with the Strategic Plan 2012-17 and the development of a second phase 3-year delivery plan (2014-17) the General Fund revenue account includes an allocation of resources towards a number of schemes contained within the plan, which support the delivery of the Council's strategic priorities. As the resourcing of the delivery plan has been provided for within the current MTFS and in light of the financial pressures facing the Council no further revenue resources are being released as part of this MTFS.

Spending Pressures

A high level review of the financial pressures facing the Council over the planning period of the MTFS has been undertaken. This information has been drawn from experience in previous years, the advice of Directors and Assistant Directors, the current economic climate and other local and national issues that are likely to influence the financial outcomes.

Inflation – Pay and Prices

The budget estimate for 2016/17 includes a pay increase in line with the Chancellor's announcement to limit public sector pay to 1%, also included is an increase to the living wage for those on the lowest scale points. Included in the MTFS for 2017/18 – 2019/20 is a 1% rise and 2020/21 a 2% rise.

Automatic inflationary increases of budgets are not provided for all goods and services, instead individual inflation rates have been applied for specific items of expenditure, all remaining areas of expenditure are maintained at the previous year's levels, which is in effect a real terms reduction in spending power. The following rates of inflation have been assumed over the period of the MTFS

	2016/17 % per year	2017/18 % per year	2018/19 % per year	2019/20 % per year	2020/21 % per year
Pay	1%	1%	1%	1%	2%
General	1.0%	1.5%	2.0%	2.0%	2.0%
Contractual Commitments	1.0%	2.5%	3.0%	3.0%	3.0%
Non domestic rate	2%	2.5%	3%	3%	3%

These rates have been based on the Bank of England's target rate of inflation of 2% and a forecast of RPI, at the time of revising the MFTS assumptions, of 1% for 2016/17, increasing to 2.5% for 2017/18 and 3% for 2018/19 onwards. A number of the Council's contractual commitments are linked to the RPI at a defined date in the year, primarily December and March; any movement in RPI by these dates will result in an inflationary pressure for the Council. Every 0.5% increase in RPI will equate to approximately an additional £38k pa, this will have a cumulative impact.

Employer's Pension Fund Contributions

The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2013, and the results identified that there has been a deterioration in the funding position since the last actuarial review from a 76% funding level to 71%.

Since the previous valuation of the fund at 31 March 2010 a number of events have taken place which have had an effect on the estimated cost of the fund, key impacts are as follows –

Assets - the performance of the funds investments has been more than the expected return over the three year period to 31 March 2013. This has had a positive effect on the past service position of the fund.

Liabilities – the decrease of the gilt yield has served to increase the value of the funds liabilities having a negative effect on the fund.

Pre retirement experience – an increase in early leavers, a decrease in ill health retirements and a decrease in salary increases have all had a positive effect on the valuation of the fund.

Post retirement experience – an increase in pension increases and pensioner longevity have both had a negative effect on the fund.

From April 2014 the way in which benefits accrue in the Local Government Pension Scheme (LGPS) has fundamentally changed. The main change is that benefits are no longer be based on members' final salary at retirement, but are based on members Career Average Revalued Earnings (CARE).

In addition, as part of the changes to the scheme all employees are automatically enrolled into the pension scheme and have to opt out if they do not wish to participate. Previously employees had to opt in to the scheme. The MTFS has been prepared on the basis of auto enrolment.

Having assessed the events that have affected the fund since the previous valuation, the actuary has formulated an approach to the 2013 valuation which incorporates this information into its long term assumptions for the fund.

As a consequence of the deterioration in the funding position the employer contribution rates are required to increase, however, because of the guaranteed nature of funding from the Council, the Actuary is able to recommend a mechanism whereby the employer's current contribution rate is capped at an affordable level.

Based on this stabilisation approach, the MTFS assumes an increase in contribution rate of 1% pa over for 2015/16 and 2016/17.

A further actuarial review will take place in April 2016, which will inform the employer contributions from 2017/18 onwards. At this stage an increase in contributions of 0.5% p.a. over the period 2017/18 – 2019/20 has been provided for.

Employer's National Insurance Contributions

Plans for the introduction of the single tier state pension from April 2016 (announced in the 2013 Budget) remain on track. From this date employers offering defined benefit pensions schemes (such as the LGPS) will no longer receive the National Insurance (NI) rebate of 3.4% on employer NI contributions will end, resulting in a significant increase in the NI contribution the Council currently pays.

This change has been estimated to cost local government employers £1 billion nationally. The Chancellor stated at the time that "public sector employers will have to absorb the burden, as is always the case with tax changes", before adding that "any spending review in the next Parliament will, of course, take the £3.3 billion cost into account". Based on the current number of contracted out employees, the cost for the Council is estimated to be £200k per annum. This pressure had already been reflected in the previous MTFS.

Net Interest Receipts

Net interest receipts incorporate the cost of financing the capital programme (via internal and external borrowing) and interest paid and earned on revenue balances during the year.

Historically investment income, which is heavily dependent on how the Council uses its reserves and the prevailing interest rates, was an important source of income for supporting the Council's service expenditure. However, as a result of the ongoing economic difficulties in both the domestic market and the Eurozone, the Council has seen a significant reduction in the interest rates offered on new investments. The prevailing risk in the financial markets has reduced the credit ratings of many institutions so there are also fewer counterparties available for investment purposes, and investments are being kept short and liquid to reduce the overall risk of the investment portfolio. The total interest income received has been falling since 2008 and the average interest rate achieved is barely above base rate.

Interest rates are forecast to remain at historically very low levels until mid-2016 and then the expectation for a very slow recovery in the money markets. This is reflected in investment income forecasts in the MTFS.

Borrowing costs incurred on any short-term borrowings are minimal as they are only undertaken to bridge temporary cash flow shortfalls. The Council's portfolio of long-term borrowings currently includes only loans of greater than 5 years, which are on fixed rates, six of which do have lender options to vary their terms at six monthly intervals.

The sensitivity of the General Fund to changes in interest rates is linked more markedly to investment rather than to the portfolio of borrowing as all borrowing is at fixed interest rates. As an indication, a change in interest rates of +/- 0.5% would have an estimated combined impact of approximately £57k on the General Fund and £48k on the HRA in 2015/16.

Average interest rates on investments assumed within the MTFS are as follows:

	2015/16 %	**2016/17 %**	**2017/18 %**	**2018/19 %**	**2019/20 %**	**2020/21 %**
Interest Rate	0.69%	1.75%	2.47%	2.88%	2.82%	2.75%

Based on the current forecasts for interest payable on new borrowing (averaging around 4.2%) and receivable on investments (averaging around 0.5%), and the estimated level of balances available for investment, it is currently anticipated that no new borrowing will be taken to fund the borrowing requirement for the General Fund Investment Programme over the 5 year strategy apart from that required for key strategic projects, which are not yet reflected in the MTFS due to the stage of their development, e.g. Central Lincoln Transport Hub. Internal balances will be used to fund the borrowing existing requirement, so this will reduce the amount of interest that would have been payable on new debt, partially offset by a reduction in interest receivable (due to reduced balances available for investments).

Repairs and Maintenance

The Council's current Asset Management Plan 2011-16 identified the need for significant investment to ensure that its assets are properly maintained and safe for use. Additional resources have been allocated in previous Strategic Plans/MTFS and although these have tackled the most urgent issues arising in those years there still remains a considerable amount of work to be undertaken in the medium to longer term and this does place an increased pressure on responsive day to day repairs and maintenance budgets.

A structured approach to corporate property maintenance is being taken with the prioritisation of the urgent, essential and desirable works and consideration of the overall resources available. Alongside this the Council is undertaking a review programme of all assets which has the potential to dispose/transfer assets with significant repair liabilities.

Resources

Revenue Support Grant/National Non-Domestic Rates

The final Local Government Finance Settlement for 2016/17 was announced on 8th February 2016 and represents the fourth year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding. The settlement sets out the distribution of centrally allocated resources for local authorities, and as in the previous three years, the settlement provides authorities with a combination of grant allocations and their baseline figures within the BRR scheme. The Settlement has been designed in the context of the overall SR15 package, which addressed the particular pressures experienced by councils which provide social care and children's services and allocates resources in a way that reflects the different sets of services that councils provide.

The provisional settlement consultation set out a number of technical changes the Government planned to make, which could not be consulted on over the summer due to the autumn Spending Review.

The Settlement provides allocations for 2016/17 along with an offer of a four year settlement, to 2019/20, to any local authority that wishes to take it up. Councils will need to request this and have an efficiency plan in place in order to do so, although the Government have since announced a deadline of 14th October 2016 to respond to this offer there are no further details as to what such plans should look like, what the governance arrangements are and what the alternative is.
I

Core Spending Power

The Minister announced that the Spending Power calculation that has been published in previous years has been amended to exclude funding that is not directly controlled by local government and is now known as Core Spending Power. The calculation now only includes:

- Settlement Funding Assessment (comprising NNDR Baseline funding level and Revenue Support Grant)
- Estimated Council Tax income,
- Improved Better Care Fund,
- New Homes Bonus,
- Rural Services Delivery Grant.

The table below shows the national changes to Core Spending Power between 2015/16 and 2019/20. Overall, spending power will decrease by £0.2bn from £44.5bn to £44.3bn, an overall reduction for the period 2015/16 to 2019/20 of 0.4%, effectively a cash freeze settlement for local government. However within this, the Settlement Funding Assessment (SFA) will reduce by £6.8bn (32%) and NHB by £0.3bn (25%), which is largely offset by the governments estimate of council tax increasing by £5.3bn (24%).

The council tax assumptions include both an increase in the charge each year based in CPI inflation forecasts and an estimate for an increase in the taxbase based on the average levels of growth between 2013/14 and 2015/16.

	2015/16 adj	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**	**£m**
Settlement Funding Assessment	21.250	18.601	16.622	15.536	14.500
Council Tax	22.036	23.163	24.459	25.853	27.353
Improved Better Care Fund	0	0	0.105	0.825	1.500
New Homes Bonus and returned funding	1.200	1.485	1.493	0.938	0.900
Transition Grant	0	0.150	0.150	0	0
Rural Services Delivery Grant	0.016	0.081	0.065	0.050	0.065
Core Spending Power	**44.501**	**43.480**	**42.896**	**43.225**	**44.318**
Change %		**-2.3%**	**-1.3%**	**0.7%**	**2.5%**
Cumulative change %		**-2.3%**	**-3.6%**	**-2.9%**	**-0.4%**

Core Spending Power for Lincoln is set out in the table below. This shows a total change in core spending power of 15.6% over the four year period to 2019/20. This is the 2nd worst reduction nationally, the worst reduction being 17.1%.

	2015/16 adjusted	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**	**£m**
SFA	6.0	5.2	4.5	4.2	3.8
Council Tax;	5.6	5.8	6.0	6.2	6.4
NHB	2.1	2.3	2.3	1.4	1.4
Core Spending Power	**13.8**	**13.3**	**12.9**	**11.8**	**11.6**
Change over the period (£m)					**-2.1**
Change over the period (%)					**-15.6%**

Settlement Funding Assessment – Revenue Support Grant

As set out above the SFA for local authorities has on a like for like basis, between 2015/16 and 2019/20 been reduced by £6.8bn, a reduction of 32%, as shown below. However due to the technical changes in the distribution of resources the actual reduction across the different types of authorities and individual authorities varies greatly reflecting a shift in funding from lower to upper tier authorities. As the table over the page shows Shire Districts have been the worst affected;

In previous years changes to RSG have been carried out by comparing the current year's RSG allocation to the previous year. However, for 2016/17 there is a new funding distribution methodology. This new approach takes into account two different aspects;

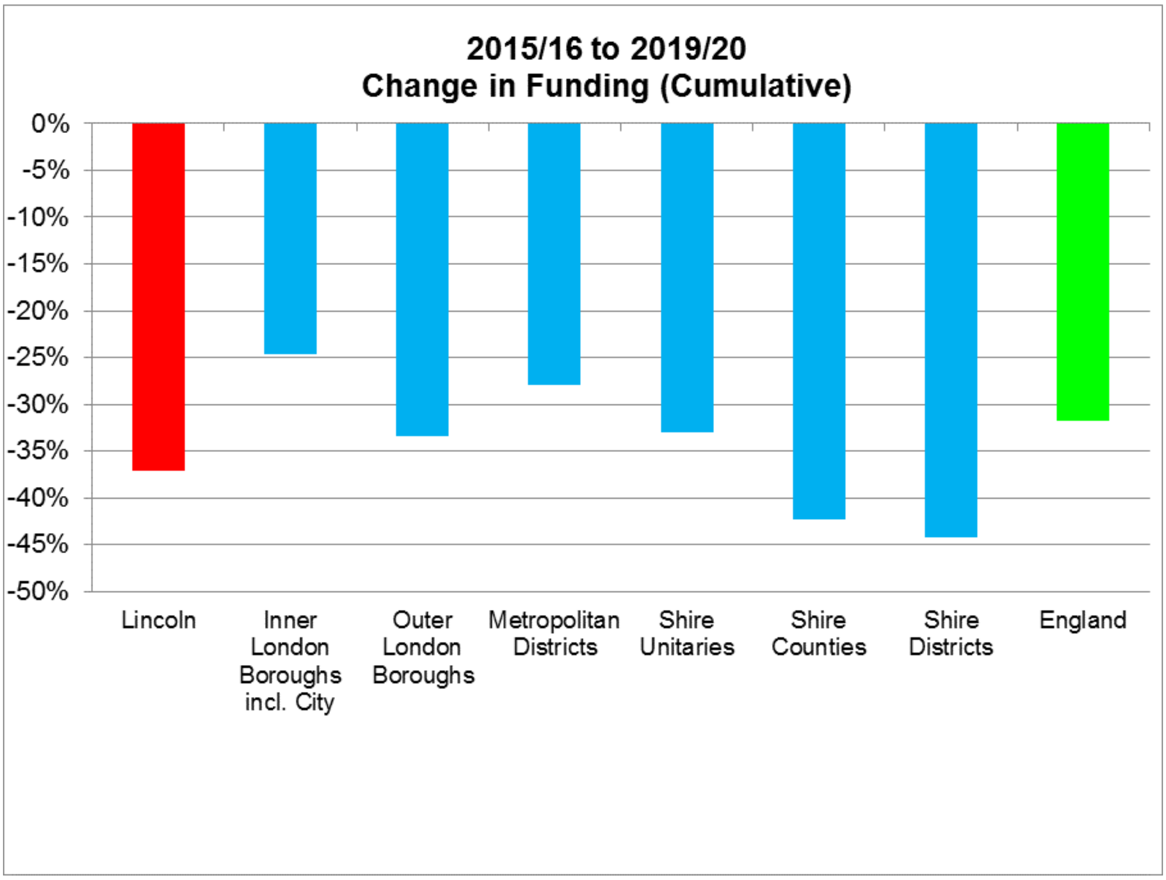
- individual authorities' council tax raising ability – those authorities with a greater proportion of their core funding coming from Council Tax receive less RSG
- the type of services provided - this would appear to favour upper tier authorities, with significantly larger funding reductions for district councils.

In addition the topslice of the Rural Services Grant announced in the provisional settlement was set to increase from £16m in 2015/16 to £65m by 2019/20, reducing the amount available for distribution. The final settlement saw this grant increasing by a further £61m in 2016/17 and £30m in 2017/18, although these additional allocations were not funded through redistributing SFA further.

The provisional settlement initially proposed no damping or scaling arrangements for the changes in distribution. However the final settlement announced additional £150m for 2016/17 and 2017/18 in the form of a transitional grant. This was not funded from topsliced existing allocations so had no further re-distributional effect. There have been no details has to how the allocation of this grant has been determined, but the Council did not receive an allocation.

Impact on the Council

The Council's SFA over the period to 2019/20 is set to reduce by £2.2m, equivalent to 37.1%. The graph below shows how the Council's reduction for the SR15 period compares with the average for England and the other types of local authorities. As can be seen Shire Districts have fared amongst the worst of all authority types with average reductions of 44.3%, with Lincoln's reduction being slightly below this at 37.1%.



In terms of the Council's RSG element of the SFA this is set to reduce by 99.1% over the period from £2.585m in 2015/16 to £0.022m in 2019/20, as shown in the table below.

	2015/16 adjusted £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
RSG	2.585	1.698	0.981	0.528	0.022
Change %		-34.3%	-42.2%	-46.2%	-95.8%
Cumulative change %		-34.3%	-62.1%	-79.6%	-99.1%

Based on the allocation for 2016/17 and the remaining three years of the SR15 period the MTFS will assume this levels of RSG. Beyond the SR15 period, i.e. 2020/21 it will assume that there will be no further RSG payable by the Government.

Business Rates Retention

Due to the variable nature of the BRR element of local authority funding, the settlement no longer provides the absolute funding level for authorities. It is ultimately the level of business rates collected by the Council that will determine the funding received for this element of its funding.

The calculation of income to be received through the BRR systems is critical in determining the amount of resources that the Council will have available to fund local services. The Council has undertaken a detailed assessment of the amount of business rates that it expects to collect during 2016/17 and based on the principles of the BRR system it estimates the following levels of NDR will be retained each year.

Income Forecast	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Forecast NDR Income	17.285	18.242	18.963	19.759	20.589
Top-up/(Tariff)	(12.936)	(13.191)	(13.580)	(14.014)	(14.462)
S31 Grant	0.518	0	0	0	0
Pre-levy income	**4.866**	**5.052**	**5.383**	**5.746**	**6.127**
Levy	(0.618)	(0.677)	(0.859)	(0.982)	(1.112)
Gain from Pooling	0.371	0.406	0.516	0.589	0.667
Retained Income	**4.680**	**4.781**	**5.039**	**5.353**	**5.682**

Under BRR scheme local authorities are able to come together on a voluntary basis to pool their business rates. Authorities within the pool are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments. In many cases, authorities that pool can be better off collectively, with local autonomy as to how to distribute any resources amongst pool members, this is because the levy rate for a pool as a whole can be lower than that for individual pool members if they remain outside the pool and hence they will experience a reduction in their levy paid.

For 2016/17 the Council along with the County Council, who are a top up authority, and five other Lincolnshire District Councils have received designation to act as a BRR pool. The governance arrangements for the pool allow for the allocation of any retained levy to be allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The estimated benefit of this to the Council is £371k in 2016/17, and a total of £2.549m over the period of the MTFS.

Under BRR a safety net will guarantee individual authorities a set level of resources irrespective of the actual level of NDR collected, and will be triggered if an authority sees its income (from the business rates element of funding) in any year decline by more than a set percentage below its NDR baseline. This protection is however removed when entering into a pool arrangement with any protection being instead funded by the pool. The safety net threshold is set at -7.5% below the NDR baseline, up to this point individual authorities have to absorb the reduction in income, this is also the case in a pool arrangement. Any reduction in income beyond this level would the met by the pool, preventing the Council's funding from falling below £3.229m. Therefore the estimated income, pre levy, of £4.866m would need to fall by £1.663m before the pool would protect against further losses, this equates to a reduction of 3.8% in the total NDR collected. This is a significant financial risk to the Council as the actual amount of NDR collected is very sensitive to changes that arise from business start-ups/closures and ratings appeals.

During 2015/16 there has been an emerging risk relating the required provision for the expected result of NNDR appeals (including providing for the refund of backdated elements). Following an announcement in the Autumn Statement 2015 that the deadline for appeals against the 2010 ratings list would be 31 March 2015 the Council saw an unprecedented influx of appeals in March 2015. The Collection Fund is required to fully provide for the expected result of all appeals, and had already identified the need to provide for its share of the deficit on the fund at £575k. However the situation has continued to deteriorate significantly during 2015/16 with indications from the results of appeals settled across the country that a significant increase is required to the provision. As a result there will be a deficit on the Business Rates Collection Fund of £4.267m for 2015/16, of which the Council's share will be £1.707m to be distributed in 2016/17 and 2017/18. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council, an estimate of this impact has been assumed in the BRR forecasts set out above.

Beyond 2016/17 the Council has estimated that growth in its annual level of NDR collected will be 0.5% pa in 2017/18, increasing to 1% pa from 2018/19 onwards.

As set out in the National Priorities section above, there are a number of key and dramatic changes to Business Rates due in the forthcoming years, including, the full devolution of business rate, a review of business rates administration, a review of the appeals systems and the 2017 revaluation (which affects by the Council's income levels but also expenditure in relation to the operational assets it holds). Each of these have the potential to significantly affect the level of business rates retained by the Council, no assumptions have yet been made in the MTFS regarding the potential impacts and as such they remain a high risk to the future sustainability of the MTFS.

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 have stated, at the time of announcing the final Settlement, that local authorities will be required to seek the approval or veto of their local electorate in a referendum if, compared with 2015/16, should they seek to raise the relevant basic amount of council tax by 2% or more. There are a number of exceptions to this e.g. authorities with social care responsibilities who are able to levy an additional 2% to fund social care pressures and all district councils who are able to increase to the higher of 2% or £5, over the four year period – this specific exception applies to the Council.

In light of the financial position of the Council and mindful of the referendum thresholds to be applied for 2016/17, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
% Increase	1.91%	1.91%	1.91%	1.91%	1.90%
Council Tax Base	23,244	23,654	23,965	24,251	24,539
Council Tax Yield	£5.916m	£6.135m	£6.334m	£6.532m	£6.735m
Band D	£254.52	£259.38	£264.33	£269.37	£274.50
Band D £ Increase	£4.77	£4.86	£4.95	£5.04	£5.13

For 2016/17 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £254.52, a 1.91%/£4.77 increase from 2015/16.

Following implementation of the localised council tax support scheme in April 2013 (which changed support from being a benefit to a council tax discount) the council tax base is now directly affected by the number of council tax support claimants. The more council tax support that is awarded the more the taxbase is reduced, therefore limiting the ability to raise council tax. The MTFS has been prepared on a reduction to the tax base of 5,159 relating to the council tax support scheme in 2016/17 and assumes reductions in working age claimants in 2017/18 and 2018/19 of 2% and 1% respectively. The council tax base in the table above reflects the reduction for the council tax support scheme.

Specific Grants

In addition to the Revenue Support Grant further categories of specific grant are available to authorities and are allocated according to mechanisms separate from RSG. Although these are specific grants they are not ring fenced for a specific purpose, this provides the Council the flexibility to consider how to best use the resources available to it.

The most significant of these specific grants for the Council is the New Homes Bonus which rewards local authorities based on the levels of new homes being built, particularly affordable homes, and empty properties returned into use. This grant is top sliced from the overall national level of funding for local government which creates a direct incentive, alongside the Business Rates Retention system, for local authorities to promote growth and development or else risk a reduction in resources.

Years 1 to 5 of the grant have resulted in an allocation of £2,058k with a further £218k announced for Year 6, giving a total allocation in 2016/17 of £2,277k.

At the same time as announcing the allocations for 2016/17 the Government have also released a consultation on sharpening the incentive of the bonus. The preferred options within the consultation are designed to deliver a saving in the overall cost of the scheme of £800m, this resources will be reallocated to the Improved Better Care Fund to address social care cost pressures. The main proposals in the NHB consultation are:

- To reduce the number of years for which payments are made from six to four
- To withhold NHB allocations in areas with no published Local Plan
- Reducing payments for when planning permission for a development was only given on appeal.
- Only making payments for delivery above a baseline representing deadweight

The effects of this consultation will have a significant impact on the level of grant received by the Council and is a further reduction in resources for district councils who have been the main benefiters from the scheme. Based on the consultation document and exemplifications provided the estimated grant allocations as shown in the table below. Along with other specific grants that the council forecasts to receive.

Grant Name	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
New Homes Bonus	2,277	1,376	794	578	480
Housing Benefit & Council Tax Benefit Administration	618*	618	618	618	618
Housing Benefits New Burdens	26	27	28	29	29
Representation of the people Act	12	0	0	0	0
TOTAL	**2,933**	**2,021**	**1,440**	**1,226**	**1,127**

* Final allocation not yet received from DCLG

Fees and Charges

The fees and charges levied by the Council are an important source of income and the MTFS assumes that the Council will raise over £8.8m from fees and charges in 2016/17.

The mean average overall increase in the non-statutory fees and charges is 4.2%, however this includes some fees that have been increased by significantly higher percentages. Therefore for context and to discount the variations a more appropriate average is the mode (the most popular increase), which is 3%, which is in line with the required overall yield increase of 3% approved by the Executive.

Bridging the Gap

The council has already seen its levels of core funding from government reduced by £4.5m over the last five years, since the onset of the deficit reduction programme, along with reductions in other income sources and increasing cost pressures. It continues to face a very significant financial challenge in the years ahead if it is to continue to deliver services to the public and remain within this severely reducing funding envelope, and have the ability to respond to the financial risks it faces.

The Council have already taken a proactive response to the reduction in resources it has faced and has in recent years undergone a significant number of fundamental reviews of its services leading to a reduction in its annual expenditure of £4m between 2008 and 2013. Despite this success, in light of the continued pressures faced, the Council must continue to do more. A new savings target was set in 2013/14 to deliver a further £3m of annual savings over a 4 year period to 2016/17, these savings are being delivered through the Towards Financial Sustainability Programme which aims to achieve a sustainable financial position whilst minimising the impact on front line services.

The first three years of the programme have been successful in delivering the targets and has made considerable progress towards the target for 2016/17, with annual reductions secured to date of £2.67m, taking total savings delivered since

2008 to £6.67m and leaving a balance to be achieved against the current target of £334k.

Despite this achievement the Council must continue to reduce its levels of expenditure or identify additional resources if it is to remain sustainable. Based on the assumptions made on resources available and spending pressures that the Council faces it has been necessary to increase the required savings target by a further £500k in 2017/18, rising to £1m in 2018/19.

The Council's strategy to address the deficit it faces is set in the context of its Organisational Development Strategy which sets out the distinctive approach of the Council described as an "Ensuring Council". This is a council which sees itself as having a strong service provider role, a strong community leadership role in promoting social justice, but with a highly developed spirit of entrepreneurship to secure its long term sustainability. Specifically in relation to the financial position and delivery of the Towards Financial Sustainability Programme it will:

Promote a "public sector first" ethos by;

- Ensuring accountability and value for money for the tax payer.
- Seeking first to provide services itself unless there is, without loss of public accountability, a compelling business case for doing otherwise.
- Choosing public sector partnerships first where alternative service provision proves necessary in order to retain public accountability.
- Reviewing legacy services outsourced to the private sector, continuing to secure standards and value for money, and continuing to evaluate opportunities for returning those services to public ownership and control.

Become financially sustainable by;

- Look for ways of entering the market place itself, selling goods and services, for the purposes of generating income to support our service providing role;
- Seek to achieve financial self-sufficiency and sustainability over the next five years in order to maintain the strategic advantage if in-house services designed to meet local needs.

It is within this framework that the Council will deliver the required level of budget reductions. However given the level of savings that have already been delivered and the balance left to achieve the Council will inevitability be faced with some very difficult decisions in relation to its non-priority services. The Towards Financial Sustainability Programme will focus on the following prioritised key strands of activity:

- Generation of new income streams and commercial opportunities, whilst ensuring that fair and appropriate charging regimes for services are implemented.
- Withdraw or part withdraw from some services not deemed to be of sufficient priority or any longer affordable

- Redesigning and modernising services to improve customer experiences maximise efficiencies and continue to make the business fit for purpose.
- Rationalising the City's property and land portfolio to optimise usage and commercial returns.
- Driving greater value from procurement and commissioning activity.
- Focussing on sustainability and the savings that can be gained by making greener choices in the way that we work.

It is important that the Council maintains the pace and extent of changes that it has already delivered as it moves forward with this increased savings target and renewed focus in line with its role as an "Ensuring Council".

Revenue Forecast

Based on the preceding financial objectives, underlying principles, national and local priorities, savings targets, spending pressures and resources assumptions, Appendix 1 provides a summary five-year General Fund revenue budget for the Council.

Risks to the Revenue Budget

The Council has adopted a corporate approach to risk management, and financial risk management is integrated into the Council's overall management and decision-making processes.

A number of key high-level risks have been identified which could have a positive impact that could yield additional resources, but conversely some risks may have a negative impact and result in a reduction of resources. These key risks are action planned and continually reviewed as the MTFS develops. The main areas they cover are:

- Fluctuations in the Business Rates Taxbase
- Future changes to the retained Business Rates system
- Future levels of Central Government funding.
- Delivery of challenging savings targets
- Impact of current economic climate on both demand for services and income streams
- Changes to other key external funding sources,
- Changes to other key assumptions within the MTFS
- Financial and budget management issues

Appendix 5 details the risk action plans for the internal and external risks. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

Section 4 – General Fund Investment Programme

The Council's approach to determining and funding its investment programmes is set out in the Capital Strategy, Appendix 7, which explains the Council's financial framework for capital investment in support of its strategic priorities. The General Fund Investment Programme (GIP) covers all aspects of capital expenditure within the Council, with the exception of the Council's housing stock, and includes external capital investment that assists in achievement of the Council's Strategic Priorities

Capital Spending Plans

The capital spending plans for the next five years include the delivery of key capital schemes identified to support the delivery of the Strategic Plan 2012-17, schemes identified as required investment in order to deliver revenue savings as part of the Towards Financial Sustainability Programme, schemes resulting from joint working with partners, schemes and ongoing capital schemes, particularly the investment required in the property portfolio.

In addition to the approved schemes which form the GIP there are a number of key strategic schemes which have not yet been formally approved due to the stage of their development, i.e. the scheme is currently still at the design stage, or is still subject to final funding agreements etc. and as such do either not appear in the current GIP or are included but not at the full scheme costs. These schemes include the Central Lincoln Transport Hub, Western Growth Corridor, Housing Company and Boultham Park. Each scheme will be submitted separately for approval and inclusion in the GIP once the relevant stage in their development has been reached

The previous MTFS had identified a package of existing capital resources which could be re-prioritised towards meeting strategic priorities. Following a review of policy objectives and delivery options during 2015/16 the following capital schemes have been recommended for reprioritisation, with the resources released being redirected towards supporting the Council's growth agenda and to reducing the pressure to achieve future capital receipts to support the delivery of the remaining investment programme.

Redistributed schemes	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Support for small businesses	150	0	0	0	0
Home Improvement grants	1,150	725	725	725	725
Savings target	*(200)*	*(200)*	*(200)*	*(200)*	*(200)*
Local Authority Mortgage Scheme (LAMS)		1,000			
Total	**1,100**	**1,525**	**525**	**525**	**525**

The following schemes previously identified for review will remain within the investment programme to deliver priority services and establish a revised private sector home improvement scheme. These schemes have been re-profiled into 2016/17 to reflect revised delivery timescales.

Existing Capital Scheme	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Housing Renewal Area unallocated	0	415	0	0	0
Compulsory Purchase orders	0	156	0	0	0
Home Improvement grants *(for new scheme set up)*	0	100	0	0	0
Total	**0**	**671**	**0**	**0**	**0**

The LAMS scheme is recommended for decommissioning as the programme is now being delivered by the Government's Help-to-Buy scheme. There are no resource savings to the GIP from decommissioning LAMS phase 2 as the scheme was financed through borrowing, funded through the requirement to place a fixed term investment with the relevant bank.

The reallocation of £1.1m in 2015/16 initially releases the resources within the GIP, however as there are a number of schemes in the GIP funded through direct revenue funding (DRF) in 2015/16 and 2016/17 the opportunity has been taken to reallocate the borrowing funding originally used to fund the decommissioned schemes to these schemes. This has released the DRF resources into the Strategic Growth earmarked reserve. Retaining these resources in a revenue earmarked reserve provides the Council with the most flexibility to fund the revenue and capital implications of strategic growth schemes.

The GIP 2016/17 – 2020/21 is included in Appendix 2.

The revenue implications of all capital schemes, including the corresponding reduction in investment income as a result of a reduction in capital resources, additional revenue running costs of any new assets and the cost of any prudential borrowing have been taken account of and included within the MTFS.

Spending Pressures

The Council's corporate property portfolio comprises over 120 operational properties and 92 investment properties with a combined asset value of £68.7 million.

The Council's current Asset Management Plan 2011-16 identified the need for significant investment to ensure that its assets are properly maintained and safe for use. Additional resources have been allocated in previous Strategic Plans/MTFS, including works to income earning assets such as multi story car parks and City Hall. Although these have tackled the most urgent issues arising in those years there still remains a considerable legacy of outstanding investment required in the council's assets.

Allocation of the annual planned capitalised works budget (£200k p.a.) to specific assets will be determined by the structured approach being undertaken and will also be influenced by the outcomes of the review programme of all assets as part of the Towards Financial Sustainability Programme. Outcomes of this review being the potential disposal/transfer of specific assets which may in turn relieve the Council on the ongoing repair liability.

Resources

The resources necessary to fund the Council's GIP are fully identified in the GIP Summary 2016-21 (Appendix 2).

The GIP has traditionally been predominantly reliant on the generation of capital receipts to fund the investment required to deliver the programme. In the long term, this is not sustainable and other sources of funding are regularly sought to fund capital expenditure.

As a result of government funding cuts, fewer external grants and contributions are available and those that are, are usually designated for specific schemes. Whilst the additional resources that external funding brings are clearly beneficial to local people, there is the danger that schemes funded may not be the Council's highest priorities and the Council must consider carefully whether it has the capacity, within its reduced resources, available to support such schemes. Additionally, following government funding cuts and the continued impact of the current economic climate, the increased pressure on the Council's revenue budget will result in a reduced ability to contribute significant amounts of revenue to support directly financed capital expenditure.

The MTFS and Capital Strategy must continue to both identify the priorities for external funding sources and actively pursue other funding solutions, such as prudential borrowing, and minimise the need for asset disposal and revenue contributions.

Capital Receipts

The GIP has historically been heavily reliant upon achieving capital receipts. As part of the Towards Financial Sustainability Programme the Council is undertaking a major review of all of its land and property assets aimed at achieving the following:-

- a reduction in revenue costs,
- increased rental income,
- capital receipts,
- reduced repairs liabilities
- use of the assets for the Council's growth plans.

In light of this and given the current economic climate which has impacted on the Council's ability to generate capital receipts through a slowdown in the property market and lower property values, (although property prices are slowly beginning to recover), the Council has taken a number of mitigating actions. These include;

- A review of the annual capital programme has been completed with the recommendation made to decommission the annual renovation grant scheme budget (to be replaced by a new scheme that does not require an annual drawn on capital resources). As a result the annual capital receipts target has been reduced from £795k to £200k from 2017/18.

- The capital receipts targets for 2015/16 and 2016/17 have continued to be replaced with prudential borrowing; this has been reflected as internal borrowing in the General Fund revenue budget due to level of cash balances available to the Council. The costs of borrowing internally are contained within current budgets by utilising the rental income from assets held for sale budgets. Capital receipts realised within this period will be considered for the following options for use of the receipt:-

    1. reduction in level of assumed prudential borrowing
    2. investment in existing assets
    3. investment in new income generating assets
    4. reduction of future years capital receipts targets
    5. use for other strategic priorities

Prudential Borrowing

The basic principle of the Prudential System is that local authorities are free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Council will need to meet the whole of the capital financing costs associated with any level of extra borrowing through its revenue account. For every £1m of prudential borrowing undertaken by the Council, the annual revenue consequence arising is £93k.

The MTFS includes an unsupported prudential borrowing requirement of £1.659m over the period 2016/17 – 2020/21. This includes replacing the capital receipts targets for 2016/17. It will all be internal borrowing.

The use of unsupported prudential borrowing will, in the future, be a useful funding mechanism for some key projects and may be used as a short-term measure to fund capital expenditure prior to a capital receipt being received, or to replace capital receipts funding (although likely at reduced levels) over the longer term. In such cases, the revenue costs of borrowing will be met from rental income from the assets awaiting sale or from savings within the General Fund. The cost effectiveness of prudential borrowing as an alternative to capital receipts is closely monitored.

Further details about the Council's borrowing requirements and the Prudential Indicators can be found in the Council's Treasury Management Strategy.

Capital Grants

The Council receives a number of external capital grants from a variety of sources which are either secured via a bidding process or are automatically allocated through government departments for specific purposes. Generally those capital schemes that are funded by these sources can only be progressed subject to the funding being secured.

Over the 5 year planning period of the MTFS £640k is expected to be received from external capital grants, which is largely for Disabled Facilities Grant (DFG) and the remainder (£105k) is for the Skate Park. The funding distribution mechanism for the DFG grant has changed from 2016/17 with the City Council retaining a statutory responsibility to deliver the service but with the grant funding being paid to the

County Council. The MTFS assumes that the County Council will transfer the funding to the City Council to support the delivery of their statutory duties, however formal agreement is yet be made with the County Council so there remains a risk to realising anticipated funding.

Projected Capital Resources

Resources to fund the General Investment Programme 2016/17-2020/21 are estimated to be approximately £4.598 million, as follows:

	£'000
Capital Grants	640
HRA Contribution for City Hall works	901
Capital Receipts	823
Direct Revenue Financing	575
Prudential borrowing	1,659
TOTAL	**4,598**

General Fund Investment Programme Forecast

Based on the spending requirements and resource assumptions, Appendix 2 provides a summary five-year GIP for the Council.

Risks to the General Investment Programme

The Council has adopted a corporate approach to risk management and financial risk management is integrated into the Council's overall management and decision-making processes.

A number of key high-level risks have been identified which could have a positive impact but conversely some risks may have a negative impact and result in a reduction of resources. These key risks are action planned and continually reviewed as the MTFS develops. The main areas they cover are:

- Achievement of capital receipts targets
- Loss of anticipated external resources
- Increased project costs
- Unplanned emergency maintenance to Council's corporate properties

Appendix 5 details the risk action plans for the internal and external risks. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

Section 5 – Housing Revenue Account (HRA)

The Housing Revenue Account shows all expenditure and income relating to the Council's responsibilities as landlord of dwellings and associated property. It is a 'ring-fenced' account within the Council's General Fund.

Housing Revenue Account Business Planning

HRA Self-financing was implemented from 1 April 2012 following a one-off settlement to the Treasury, in order to 'buy out' of the old subsidy system. The new system incentivised landlords to manage their assets well and yield efficiency savings. It was anticipated that there would be greater certainty about future income as councils were no longer subject to annual funding decisions by Central Government, enabling them to develop long-term plans, and to retain income for reinvestment. Council landlords were to have greater flexibility to manage their stock in the way that best suits local need with more opportunity for tenants to have a real say in setting priorities looking to the longer term.

Self-financing, however, also significantly increased risks from Central Government to local authorities, meaning that the Council:

- now bears the responsibility for the long term security and viability of council housing in Lincoln.
- has to fund all activity related to council housing, from the income generated from rents, through to long term business planning.
- is more exposed to changes in interest rates, high inflation and the financial impact of falling stock numbers
- still needs to factor in the impact of changes in government policy e.g. the impacts of the welfare reform on income recovery.

This places a greater emphasis on the need for long-term planning for the management, maintenance and investment in the housing service and housing stock.

An announcement by the Government in the Summer 2015 Budget has significantly reduced the freedoms and flexibilities offered by the HRA self-financing system (while still retaining the same level of risks). A change in social rent policy removed the rent setting decision making away from local authorities with a 1% p.a. reduction in rents required over the next 4 years. This brings with it both significant costs to the HRA through loss of budgeted income, but also puts at risk the delivery of the HRA Business Plan which is based on annual rent increases linked to inflation to deliver the priorities and investment in the housing stock identified in the Business Plan.

The HRA Business Plan

A key element of preparing for the self-financing was for the Council to construct a 30 year HRA Business Plan. The Council's Housing Revenue Account Business Plan 2012-2042, approved in August 2012, represented a "position statement" of the HRA, outlining the overall vision to continue to retain the Council's housing stock, ensure that it is maintained to the Decent Homes Standards and to also ensure the maintenance of the stock's health and safety rating. Pending a full review of the Business Plan a subsequent proposal for an enhanced Lincoln Standard was approved by the Executive in principle on 13 July 2015.

A fundamental review of the 30 HRA Business Plan has been now been completed. The revised HRA Business Plan (2016-2046) reflects the impact of government policy changes since the original Business Plan, the results of recently completed stock condition surveys and updated inflation assumption reflecting current market conditions and expectations. This MTFS 2016-21 reflects financial position assumed in the updated business plan and the service delivery and investment proposals contained within the first five years of the business plan.

Spending Plans

Ahead of the full revision of the HRA 30 year Business plan and in line with the Strategic Plan 2012-17 and the original HRA Business Plan the MTFS already includes the allocation of resources to support the delivery of the Council's strategic priorities. This has included the allocation of additional resources to support the Council's neighbourhood working programme and further contributions made towards additional services, identified as priorities by tenants, in the areas of anti-social behaviour, street cleansing and Health and Safety, as well as responding to increasing demand for aids and adaptations, asbestos surveys, external decorating stores and tipping, Homefinder and Keep Britain Tidy. In the MTFS 2016-21 additional resources have been identified for a New Build officer to support delivery of the Council House New Build programme. The availability of these additional resources has been as a result of improvements in working practices, and procurement savings, identifying savings within the Plan. In line with the investment in existing stock and new build strategy approved by the executive 13th July 2015 the MTFS 2016-21 also includes additional resources allocated to:

- supporting the investment needs of the current housing stock and the development of proposals to facilitate the delivery of more housing provision in the City (e.g. through a Housing Company).

- feasibility studies to assess the viability of some of the stock that present a current or future drain on HRA resources and

- external specialist legal and finance advice to support the development of a business plan for a Housing Company to deliver significant housing growth in the City.

Spending Pressures

A high level review of the financial pressures facing the Council over the period of the MTFS has been undertaken. This information has been drawn from experience in previous years, the advice of Directors and Assistant Directors, the current economic climate and other local and national issues that are likely to influence the financial outcomes. The HRA faces a number of spending pressures, in line with the General Fund, primarily being pay and price inflation, as well as a number of others specific to its service delivery.

Repairs and Maintenance

Repairs and maintenance is an essential part of the asset management of the Council's housing stock. Historically the repairs account has been under pressure to resource the required level of expenditure which, when benchmarked against other local authorities, has shown the cost of the Council's responsive repairs service to be relatively high.

Extensive work has been undertaken in recent years in order to modernise the responsive repairs service provided through the Council's City Maintenance Service. The delivery of these, and further efficiencies and continued improvement within the City Maintenance Service in order to reduce "costs per repair" are critical to the delivery of the HRA. In addition, the completion of a clear Repairs Policy for the Council, which is in line with tenants' priorities, will ensure that the costs of the repairs and maintenance can be further controlled.

The identification of savings within the HRA Business Plan, to date, has enabled additional resources to be directed towards essential repairs and maintenance works to the housing stock, including asbestos surveys and external decorating within the Repairs Account.

The HRA budgets in the MTFS assume a continued level of repairs and maintenance expenditure, and also allow for a circa £500k reserve across the 5 year strategy to cover the costs of any unexpected or emergency repairs and maintenance liabilities (to be managed as part of total balances of £1.5m across the HRA and Repairs Account). Further efficiencies achieved by the City Maintenance Service, and any reduction in costs achieved as a result of the completion of the Repairs Policy, will ensure that the ongoing pressure on the Repairs Account is reduced. The comparative benchmarks should be improved and potential headroom may be created within the HRA in order to resource further investment in the housing stock, or be reinvested in improvements to service standards.

Funding the Capital Programme

Under the HRA self-financing system the primary source of funding for capital investment in the Council's housing stock will be from the revenue account through asset depreciation charges and direct revenue financing (DRF), via the Major Repairs Reserve.

In the absence of supported borrowing allocations from the Government, the imposition of a debt cap and the limited availability of external funding, there is a reliance on the HRA to support the capital programme of £58.8m over the 5-year MTFS period.

Following the completion of the HRA Business Plan 2016-2046 and informed by the results of comprehensive stock condition surveys, resources have been identified to allow significant capital investment in the housing stock and in the council house new build programme. This includes:

- Allocation of £10m additional new build budget provisionally allocated in the MTFS 2015-20 to specific schemes.

- Allocation of an additional £11.6m to allow construction of 100 additional council dwellings

- Allocation of a £5m land acquisition fund (£3.3m to be return through land sales)

- Investment of £4.8m to implement the Lincoln Standard to existing council dwellings.

Of the £58.8m revenue contributions to the capital programme currently assumed in the MTFS £55.1m are the result of depreciation charges on council dwellings and £3.7m are additional revenue contributions required to maintain the level of capital investment required. At the end of the 5 year period the level of estimated HIP resources is £3.3m, leaving some ability to either reduce DRF contributions in the last year of the MTFS or invest further in the stock. However, all planned DRF contributions are required to fund planned expenditure in the first 4 years of the MTFS. Any emerging pressures in the revenue account limiting the ability to fund the planned contributions to the investment programme will increase the borrowing requirement.

Interest payable

In 2014/15 the Council launched the Council House New Build programme with a £5.25m investment funded through Prudential Borrowing. Since that time to reduce the revenue costs of funding the capital programme through borrowing the debt repayment element of Right to Buy (RTB) receipts and amounts received under the 1-4-1 retained RTB agreement (over and above amounts already budgeted for) have been used to replace borrowing funding within the New Build scheme.

The revised HRA Business Plan 2016-2046 includes £3.2m borrowing to fund the capital programme in the first 5 years of the Plan and the costs of this borrowing have been fully reflected within the MTFS 2016-21. In the longer term the HRA Business Plan assumes that borrowing will be repaid when loans mature, significantly reducing the annual interest charges to the HRA over the business plan period, in addition to freeing up headroom against the borrowing cap for future investment opportunities.

Levy for the Sale of High Value Voids

There remains a great deal of uncertainty over the impact on the HRA of the Government's proposal for the enforced sale/levy on the sale of high value voids. While the position and the impact on the MTFS will be closely monitored by officers over the coming months at this stage the MTFS 2016-21 assumes a levy payable of £125k p.a. from 2017/18.

Resources

Rents

Rental budgets within the previous MTFS (2015-20) had been prepared on the basis of the 'Guidance on Rents for Social Housing' published by the Government in May 2014. This guidance had presented a change from the assumptions in the original HRA Business Plan, moving away from the previous policy of rent convergence (whose aim had been to bring rent setting in the social housing sector (local authority rents and those charged by housing associations) on to a common system based on relative property values, size of property and local earning levels. Alongside a range of other measures the Guidance on Rents for Social Housing moved to link annual increase in weekly rents to CPI+1% (from RPI+0.5% under rent convergence) with the aim of giving some certainty to social landlords over their rental income and allow them to plan and invest in the maintenance of their existing homes, the provision of new affordable homes and in providing good services to their tenants. Under the Guidance on Rents for Social Housing the Council still retained some flexibility to vary rents. However, given that the original 30 year HRA Business Plan assumes adherence to this policy, there would have been a significant impact in not following it. The MTFS had been previously been prepared on the basis of annual increases in rent of CPI +1%.

The announcement by the Government in the Summer Budget 2015 that social housing rents are to be reduced by 1% p.a. for four years from 2016/17 to 2019/20 significantly reduces the rental income expected into the HRA below those assumed in both the MTFS 2015-20 and in the original 30 year Business Plan. The MTFS 2015-20 included rental budgets based on forecast CPI rates of 2% p.a. from 2016/17 to 2019/20. Rental budgets have now been reduced to reflect the annual 1% reduction in rents over these four years (alongside a number of minor adjustments for RTB's etc.) and over the four years there is a resulting reduction of £10.8m in budgeted income into the HRA.

The revised HRA Business Plan 2016-2046 fully incorporates the 1% p.a. rent reduction between 2016/17 and 2019/20 (including the long term impact of the reduction in the base) and assumes that from 2020/21 rents will revert back to the previous Guidance on Rents for Social Housing and increase by CPI+1%. The MTFS 2016-21 has been prepared on this basis. Budgeted rental income for supported accommodation continue to be increased in line with CPI+1%

The Council proposes to set the rents for 2016/17 in line with the requirement to reduce rents by 1% for general purpose accommodation and increase by CPI+1% for sheltered accommodation. The average 52 week rent will be £70.23 per week for general purpose accommodation and £71.43 per week for sheltered accommodation. The table below shows the impact that the changes will have on tenants.

IMPACT OF DECREASES ON GENERAL PURPOSE STOCK TENANTS

	Impact on Tenancies	
	No.	**%**
Rent decrease between £0.01 and £0.59	316	5%
Rent decrease between £0.60 and £0.69	2984	40%
Rent decrease between £0.70 and £0.79	3164	43%
Rent decrease between £0.80 and £0.99	931	12.5%
Rent decrease is greater than £1.00	2	0%
TOTAL – as of 31 March 2016	**7397**	**100%**

IMPACT OF INCREASES ON SUPPORTED HOUSING TENANTS

	Impact on Tenancies	
	No.	**%**
Rent increase between £0.01 and £0.59	124	30%
Rent increase between £0.60 and £0.69	219	52.5%
Rent increase between £0.70 and £0.79	74	17.5%
TOTAL – as of 31 March 2016	**417**	**100%**

Interest receivable

The HRA receives investment interest on the balances it holds (HRA balances are made up of General Balances, earmarked reserves and the Major Repairs Reserve). The MTFS 2016-21 includes interest income into the HRA based on the level of HRA balances assumed in the MTFS 2016-21 and the HRA Business Plan 2016-46.

Releasing Resources

Following a fundamental review of the HRA 30 year Business Plan, incorporating the results of comprehensive stock condition surveys and the Government's announcement of the 1% p.a. reduction in rents from 2016/17 to 2019/20 resources have been released to support priority capital investment in council house new build, the Lincoln Standard and a land acquisition fund. Revenue resources have been released to support the delivery of these priorities. At the current time there are no proposals for any further release of resources however, the Council will continue to seek to drive out inefficiencies in its operating costs and look to sustain/maximise its income streams. The strategy that the Council will continue to pursue will concentrate on the following key strands:

- Generation of new income streams and commercial opportunities, whilst ensuring that fair and appropriate charging regimes for services are implemented.

- Driving greater value from procurement and commissioning activity.

- Redesigning and modernising services to improve customer experience, maximise efficiencies and continue to make the business fit for purpose.

Housing Revenue Account Forecast

Based on the Housing Revenue Business Plan, and preceding spending pressures and resource assumptions, Appendix 3 provides a summary five-year Housing Revenue Account for the Council.

Risks to the Housing Revenue Account Budget

The Council has adopted a corporate approach to risk management and financial risk management is integrated into the Council's overall management and decision-making processes.

A number of key high-level risks have been identified which could have a positive impact that could yield additional resources, but conversely some risks may have a negative impact and result in a reduction of resources. These key risks are action planned and continually reviewed as the MTFS develops. The main areas they cover are:

- Risk of further government announcements limiting the flexibilities and freedoms offered by the HRA Self -Financing regime (including imposition of a levy for the sale high value voids and pay to stay)
- Changes to key assumptions within the MTFS e.g. inflation, interest rates etc.
- Efficient delivery of housing repairs
- Ability to release further revenue resources for investment and improvements
- The impacts of the Welfare Reform Act
- Financial and budget management issues

Appendix 5 details the risk action plans for the internal and external risks. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

Section 6 - Housing Investment Programme

The Housing Investment Programme (HIP) covers all aspects of capital expenditure relating to the Council's landlord function. The Council's approach to determining and funding its investment programmes is set out in the Capital Strategy, Appendix 7, which explains the Council's financial framework for capital investment in support of its strategic priorities. The Capital Strategy for the HIP reflects the self-financing housing regime and details the 5 year capital programme in support of the revised Housing Business Plan 2016-2046.

Capital Spending Plans

The 5-year HIP has been drawn up to ensure that the Council meets its legal obligations as a landlord. The Council has already invested significant resources over recent years to achieve the Decent Homes Standard and now seeks to maintain this standard.

Prior to completion of the fully revised HRA Business Plan 2016-2046 the 5-year housing programme comprised the proposed main areas of work:

- **Maintenance of the Decent Homes Standard**
- **Statutory Health & Safety Requirements** – covers the work to meet statutory requirements, which are outside the Decent Homes Programme, and includes communal lighting, asbestos removal and plastering.
- **Contingent Major Repairs Works** – provides a contingency for major structural works, lintel and sill failures, wall tie failures, major aids and adaptations, drainage and foot path works.
- **Environmental and other works** – works to improve the environment of Housing areas and works on specific housing schemes in 2016/17 and 2017/18.
- **New Build Programme phase 1**– remaining elements of the programme to deliver 150 new council dwellings.

Following results of comprehensive stock condition surveys of the council's housing stock and a fundamental review of the HRA Business plan, resulting in the fully refreshed HRA Business Plan 2016-2046 the following additional capital schemes have been included within the 5 year housing investment programme:

- **New Build Programme phase 2** - £11.6m to deliver 100 additional council dwellings (in addition to the 150 new dwellings to be delivered in phase1)
- **Land acquisition fund** - £5.0m land acquisition fund of which part if anticipated to be sold to partners to enhance the overall new build delivery numbers (£3.3m is expected to be returned to the HRA over the 30year business plan, of which £2.4m is expected to be received within the 5 year MTFS).
- **Lincoln Standard** - £4.8m investment over the MTFS in the Lincoln Standard focusing on over bath showers and safety flooring in sheltered housing.

Future spending plans for the HIP will include capital investment in the Western Growth Corridor development. This is the single, most important project towards promoting growth in the city and is of critical importance in meeting future housing demands and employment targets. City of Lincoln Council own a significant proportion of the land within the development area and will play a vital part in ensuring that the development progresses. The HRA owns 64% of the Council's landholding and this presents an opportunity to increase the council housing stock as part of the development. The HRA will likely need to identify a level of resource within the HIP to support the development costs.

Resources

The resources necessary to fund the Council's HIP are provided by the following:

Major Repairs Reserve

The Major Repairs Reserve (MRR) is the main source of capital funding and the mechanism by which timing differences between resources becoming available and being applied are managed. The MRR may be used to fund capital expenditure and to repay existing debt. Depreciation is a "real" charge on the HRA and is paid into the MRR from the Housing Revenue Account to fund capital expenditure. The total support to the capital programme from the MRR over the 5-year MTFS period through depreciation is £55.1m.

Revenue Contributions

If depreciation funding in the MRR is insufficient to meet the funding needs of the capital programme, then additional transfers from revenue will be required to support delivery of the programme. The total support to the capital programme, over the MTFS period, from contributions from revenue surpluses is £3.7m.

Capital Receipts

Housing capital receipts fall within the Governments pooling regime. Under these arrangements capital receipts from Right-to-Buy (RTB) sales are pooled until a preset limit for government share of the income generated has been achieved. Non-RTB sales primarily are excluded from the pooling arrangement and are now retained in full by the Council for use as the Council sees fit. Once the target for the government share of the RTB receipts has been reached, the Council may retain 100% of the receipts from any additional Right-to-Buy sales. These are subject to a formal retention agreement between the Council and the DCLG and must be used for one for one replacement of the council housing sold, within an agreed timeframe.

The proceeds of dwelling sales under the Right-to-Buy scheme provide a regular source of capital receipts with the number of sales increasing in recent years. The MTFS 2016-21 assumes 40 sales in 2016/17 and 35 in the following four years to 2020/21. However, this is a difficult area to predict accurately as it is affected by external factors, such as interest rates, property prices and Government initiatives aimed at further stimulating Right-to-Buy sales.

Prudential Borrowing

The Prudential Code allows the Council to take borrowing if it can demonstrate that such borrowing is affordable, sustainable and prudent in its Prudential Indicators (detailed in the Treasury Management Strategy). However, under the self-financing housing regime, the Government limits the amount of debt that can be supported from the HRA in each local authority. The figure is based on the self-financing valuation, this being the final debt settlement which for the Council is £66.017m. This restricts the HRA in its ability to maximise the opportunities provided by the Prudential Code.

The Capital Financing Requirement (CFR) is forecast to be £58.5m at the start of the MTFS 2016-21, which gives £7.5m of borrowing headroom to support the capital programme. An additional borrowing requirement of £3.2m is included within the 5 year MTFS to support delivery of the housing investment programme. However, in the longer-term the HRA Business plan allows for the repayment of debt on maturity. The HRA has a £1.6m loan maturing in 2020/21, which alongside the additional borrowing required to fund capital expenditure will result in available headroom of £5.9m at the end of 2020/21, with further significant increases in headroom over the 30 year Business Plan period.

Projected Capital Resources

In line with the HRA Business Plan 2016-46 resources to finance the proposed £70.308m Housing Investment Programme 2016/17 – 2020/21, are currently estimated to be as follows:

	£000
Major Repairs Reserve (depreciation)	55,142
Major Repairs Reserve (DRF)	3,683
Capital Receipts (inc RTBs)	8,254
Borrowing	3,229
TOTAL	**70,308**

Housing Investment Programme Forecast

Based on the spending requirements and resource assumptions, Appendix 4 provides a summary five-year HIP for the Council.

Risks to the Housing Investment Programme

The Council has adopted a corporate approach to risk management and financial risk management is integrated into the Council's overall management and decision-making processes.

A number of key high-level risks have been identified which could have a positive impact but conversely some risks may have a negative impact and result in a reduction of resources. These key risks are action planned and continually reviewed as the MTFS develops. The main areas they cover are:

- Generation of sufficient revenue surpluses to resource required investment
- Achievement of capital receipts (including Right to Buy sales) targets, impacted on by the economic climate
- Future building costs
- Interest rate increases impacting on future borrowing costs

Appendix 5 details the risk action plans for the internal and external risks. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

Section 7 – Reserves and Balances

The minimum prudent levels of reserves and balances that the Council should maintain are a matter of judgement. It is the Council's safety net for unforeseen circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. CIPFA guidance does not set a statutory minimum level but it is up to local authorities themselves, taking into account all the relevant local circumstances, to make a professional judgement on what the appropriate level of reserves and balances should be.

Some reserves and balances are essential for the prudent management of the Council's financial affairs. These will provide a working balance to cushion the impact of uneven cash flow, a contingency for the impact of unexpected events or emergencies and allow the creation of earmarked reserves to meet known liabilities. The consequences of not keeping a minimum level of reserves can be serious and is therefore one of the considerations taken into account when setting the MTFS.

The Council has a very proactive approach to managing risk and there are effective arrangements for financial control already in place. However, as a result of the changes to the core system of local government funding introduced in April 2013, which saw a move from an absolute funding level to one which is very sensitive to changes in the level of local business rates, the level of volatility and risk to the Council significantly increased to unprecedented levels. Given the threat that this poses to the Council's financial position, and has already been experienced, and given the forthcoming changes as local government moves to an new era of self-sufficiency, the prudent minimum level of general reserves is now held at a level greater than previously.

The financial risks, in Appendix 5, 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. This information has been used to determine the optimum level of reserve holdings needed to meet the requirements of a working balance and contingency. The conclusion of this risk assessment is that it is deemed prudent that General Fund reserves are maintained at around £1.5m - £2m, and that Housing Revenue Account reserves are maintained at a minimum of £1.5 million (over the HRA and HRA Repairs Account), over the period of the MTFS.

The general reserves at the end of each year for 2016/17 to 2020/21 are summarised in the table below.

	2016/17 £000	2017/18 £000	2018/19 £'000	2019/20 £'000	2020/21 £'000
General Fund	2,312	1,969	1,800	1,561	1,620
Housing Revenue Account	1,082	1,054	1,005	1,020	1,002

The overall levels of General Fund and Housing Revenue Account balances in 2020/21 are in line with the prudently assessed minimum level of balances.

Earmarked reserves are sums specifically held to enable funds to be built up to meet known or predicted liabilities. A review of reserves and balances has been undertaken as part of the budget process and a schedule presenting the estimated closing balances at the end of each of the next five financial years is contained within Appendix 6.

The levels of reserves and balances recommended within this strategy are believed to be sufficient to meet all of the Council's obligations and have been based on a detailed risk assessment.

Appendix 1

GENERAL FUND BUDGET SUMMARY 2016/17 - 2020/21

	2016/17 Original £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Chief Executive & Town Clerk	637,660	712,550	717,890	723,850	742,580
Directorate of Development & Environmental Sustainability	4,799,450	4,716,360	4,756,790	4,757,670	4,643,490
Directorate of Resources	1,690,900	1,661,080	1,703,680	1,632,750	1,643,900
Directorate of Housing & Community Services	4,206,240	4,056,870	4,041,990	4,024,150	4,076,830
Corporate	1,482,940	1,538,000	1,595,600	1,652,590	1,822,440
	12,817,190	**12,684,860**	**12,815,950**	**12,791,010**	**12,929,240**
Capital Accounting Adjustment	662,140	288,350	286,710	384,910	281,250
Base Requirement	**13,479,330**	**12,973,210**	**13,102,660**	**13,175,920**	**13,210,490**
Specific Grants	(2,041,560)	(1,140,680)	(558,750)	(343,230)	(245,000)
Contingencies	354,710	347,840	367,060	200,030	221,630
Savings Targets	(333,820)	(577,680)	(1,056,900)	(979,780)	(974,320)
Transfers to / (from) earmarked reserves	(733,050)	289,650	189,830	54,150	118,710
Transfers to / (from) insurance reserves	20,730	27,180	27,930	38,720	27,780
Total Budget	**10,746,340**	**11,919,520**	**12,071,830**	**12,145,810**	**12,359,290**
Use of Balances	302,050	(342,640)	(169,660)	(238,240)	58,800
Net Requirement	**11,048,390**	**11,576,880**	**11,902,170**	**11,907,570**	**12,418,090**
Business Rates Retained	17,284,690	18,242,310	18,962,890	19,759,330	20,589,220
Section 31 Grant	579,230	0	0	0	0
Tariff	(12,936,120)	(13,190,550)	(13,579,680)	(14,013,710)	(14,462,150)
Levy	(247,380)	(270,710)	(343,770)	(392,830)	(444,920)
Revenue Support Grant	1,697,510	980,620	527,960	22,360	0
Council Tax Surplus	140,800	0	0	0	0
NNDR Surplus/ (Deficit)	(1,386,500)	(320,170)	0	0	0
Council Tax	5,916,160	6,135,380	6,334,770	6,532,420	6,735,940
Total Resources	**11,048,390**	**11,576,880**	**11,902,170**	**11,907,570**	**12,418,090**
Balances b/f @ 1st April	**2,009,754**	**2,311,804**	**1,969,164**	**1,799,504**	**1,561,264**
Increase/(Decrease) in Balances	302,050	(342,640)	(169,660)	(238,240)	58,800
Balances c/f @ 31st March	**2,311,804**	**1,969,164**	**1,799,504**	**1,561,264**	**1,620,064**

Appendix 2

GENERAL INVESTMENT PROGRAMME - 2016/17 to 2020/21

	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Expenditure Programme					
Directorate of Development & Environmental Sustainability	1,433,300	105,000	105,000	105,000	105,000
Directorate of Housing & Community Services	489,000	0	0	0	
Directorate of Resources	1,456,100	200,000	200,000	200,000	200,000
Chief Executive	0	0	0	0	
Contingency	0	0	0	0	
Total Programme Expenditure	**3,378,400**	**305,000**	**305,000**	**305,000**	**305,000**
Capital Funding					
Contributions from Revenue					
Opening balance	274,950	0	0	0	0
Received in year	300,250	0	0	0	0
Used in financing	(575,200)	0	0	0	0
Closing balance	0	0	0	0	0
Capital receipts					
Opening balance	877,030	853,660	853,660	853,660	853,660
Received in year	0	200,000	200,000	200,000	200,000
Used in financing	(23,370)	(200,000)	(200,000)	(200,000)	(200,000)
Closing balance	853,660	853,660	853,660	853,660	853,660
Grants & contributions					
Opening balance	47,810	47,810	47,810	47,810	47,810
Received in year	1,121,210	105,000	105,000	105,000	105,000
Used in financing	(1,121,210)	(105,000)	(105,000)	(105,000)	(105,000)
Closing balance	47,810	47,810	47,810	47,810	47,810
Unsupported borrowing					
Received in year	1,658,620	0	0	0	0
Used in financing	(1,658,620)	0	0	0	0
Closing balance	0	0	0	0	0
Total Capital Funding	**(3,378,400)**	**(305,000)**	**(305,000)**	**(305,000)**	**(305,000)**
Available Resources c/f @ 31st March	**901,470**	**901,470**	**901,470**	**901,470**	**901,470**

HOUSING REVENUE ACCOUNT SUMMARY 2016/17 - 2020/21

	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Income					
Gross Rental Income					
- Dwellings rents	(28,102,240)	(27,928,760)	(27,696,370)	(27,668,600)	(28,585,230)
- Non-Dwelling rents	(551,140)	(600,750)	(618,780)	(714,830)	(736,270)
Charges for Services & Facilities	(492,100)	(504,960)	(520,490)	(536,490)	(552,580)
Contributions towards Expenditure	(73,310)	(75,140)	(77,400)	(79,720)	(82,110)
Total Income	**(29,218,790)**	**(29,109,620)**	**(29,913,040)**	**(28,999,630)**	**(29,956,190)**
Expenditure					
Repairs Account Expenditure	8,262,480	8,440,030	8,623,040	8,876,710	9,101,970
Supervision & Management:	6,263,240	6,390,120	6,497,080	6,563,650	6,639,410
Contingencies	(121,560)	(145,650)	(112,750)	(79,080)	(43,770)
Rents, Rates and Other Premises	28,370	28,920	29,590	30,280	30,960
Insurance Claims Contingency	229,030	240,490	252,510	252,510	278,390
Depreciation of Fixed Assets*	10,478,290	10,475,230	10,530,390	10,535,930	10,539,580
Debt Management Expenses	42,300	41,920	43,130	43,170	41,090
Increase in Bad Debt Provisions	292,230	291,540	289,330	289,810	298,930
Total Expenditure	**25,474,400**	**25,762,580**	**26,152,320**	**26,512,980**	**26,886,570**
Net cost of service	**(3,744,400)**	**(3,347,040)**	**(2,760,710)**	**(2,486,650)**	**(3,069,630)**
Loan Charges Interest*	2,351,960	,2,351,960	2,423,600	2,494,050	2,425,420
- Investment Interest	(52,780)	(45,290)	(45,310)	(54,580)	(99,360)
- Mortgages Interest	(230)	(230)	(230)	(230)	(230)
Surplus on HRA for the year	**(1,445,390)**	**(1,040,600)**	**(383,250)**	**(47,410)**	**(743,800)**
Premiums Payable	30	0	0	0	0
DRF used for Financing	2,186,630	1,065,240	431,350	42,690	787,660
Contribs to/(from) Reserves:					
- Insurance Reserve	(729,030)	9,510	(2,510)	(2,510)	(28,390)
- PI Survey	3,000	(6,000)	3,000	(6,000)	3,000
- HRA Strategic Growth	(97,570)	0	0	0	0
(Surplus)/deficit in year	**82,380**	**28,160**	**48,590**	**(13,230)**	**18,470**
Balance b/f at 1 April	(1,000,000)	(1,082,380)	(1,054,220)	(1,005,630)	(1,018,860)
Balance c/f at 31 March	**(1,082,380)**	**(1,054,220)**	**(1,005,630)**	**(1,018,860)**	**(1,000,390)**

HOUSING INVESTMENT PROGRAMME 2016/17 – 2020/21

	2016/17 Original £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Capital Programme					
Decent Homes	4,771,280	5,001,510	5,019,130	4,832,680	5,018,180
Health and Safety	838,950	794,550	792,610	790,280	787,540
New build programme	8,305,610	6,228,500	7,482,690	3,975,470	0
Land Acquisition Fund	3,333,330	0	0	0	0
Lincoln Standard	929,070	947,650	966,610	933,660	952,330
Other schemes	3,069,310	1,092,700	1,232,830	1,084,690	1,126,990
Total Programme Expenditure	**21,247,550**	**14,064,910**	**15,493,870**	**11,616,780**	**7,885,040**
Capital Funding					
Contributions from Revenue					
Opening balance	6,661,460	746,310	20,000	0	214,290
Depreciation received in year*	10,478,290	10,475,230	10,530,390	10,535,930	10,539,580
Depreciation used in financing	(17,139,750)	(10,475,230)	(10,530,390)	(10,364,340)	(6,632,200)
Direct Revenue Financing received in year	2,186,630	1,065,240	431,350	42,690	787,660
DRF used in financing	(1,440,320)	(1,791,550)	(451,350)	0	0
Repayment of debt	0	0	0	0	(1,645,620)
Closing balance	746,310	20,000	0	214,280	3,263,710
Capital Receipts					
Opening balance	2,815,510	810,570	30,750	0	0
Right to Buy (RTB) receipts in year	662,540	584,980	585,370	585,770	586,170
Non RTB's received in year	0	433,330	666,670	666,670	666,670
Used in financing	(2,667,480)	(1,798,130)	(1,282,790)	(1,252,440)	(1,252,840)
Closing balance	810,570	30,750	0	0	0
Unsupported borrowing					
Borrowing taken in year	0	0	3,229,340	0	0
Used in financing	0	0	(3,229,340)	0	0
Closing balance	0	0	0	0	0
Total Capital Funding (Current Prog)	**(21,247,550)**	**(14,064,910)**	**(15,493,870)**	**(11,616,780)**	**(7,885,040)**
	(21,247,550)	**(14,064,910)**	**(15,493,870)**	**(11,616,780)**	**(7,885,040)**
Available resources c/fwd	**1,556,880**	**50,750**	**0**	**214,280**	**3,263,710**

* Excludes embedded leases

Appendix 5

BUDGET RISK ASSESSMENT

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
			Impact	Likeli-hood	Impact	Likeli-hood	
1	Business Rates Base	Reduction and/or fluctuations in income against budget variation in: – Growth compared to forecasts – Changes in the NNDR base (inc application by NHS Trusts for mandatory relief) – Changes in rateable values (e.g. appeals, economic downturn, changes in use) – Collection rates Ongoing impact on the NNDR base of successful appeals - Estimates of appeals provision higher/lower than actually required – Changes nationally to the valuation assessments of certain property/infrastructure (e.g. gas pipelines) – Pooling arrangements not continued past 2016/17 – Introduction of 100% retained Business Rates from 2019/20.	I	B	I	A	• In year monitoring of the NNDR base, Collection Fund, collection rates, growth assumptions and rateable value appeals. • Produce monthly collection rate statements – monitored via the Revenues and Benefits Operational Board, and Revenues and Benefits Management Team. Also report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee if targets are not being met, increased recovery action or further initiatives to increase collection • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • A Business Rate Volatility Reserve is maintained to provide a degree of protection from fluctuations in Business Rate Income • Quarterly monitoring of the Lincs NNDR Pool by Lincs Finance Officers • Independent specialist assessment made of the required level of NNDR appeals provision • Discussions taking place nationally around a national pool for appeals provisions to remove the volatility experienced by individual councils. The Council will closely watch developments.

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
2	Capital Expenditure	• Slippage in the project • Increased project costs • Failure of contractor i.e. contractor goes into liquidation • Implementation of HRA partnering contract • Demand for improvement grants • Sunk costs of aborted schemes	I	C	I	C	• Regular budget monitoring and reporting to SPIT (Strategic Plan Implementation Team) • Ensure correct project management procedures followed (Lincoln Model) • Quarterly budget monitoring and reporting to Performance Scrutiny and the Executive • Financial procedure rules are followed, including financially vetting of all contractors • Use of collaborative contracts/framework agreements where possible e.g. EMPA • Support from Procurement engaged at an early stage • Carry out post implementation reviews • Ensure risk assessments completed for all significant schemes before commencing • Value engineering used to contain project costs (e.g. Transport Hub)

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
3	Income from Fees & Charges/ Rents: • Car Parking • Crematorium / Cemeteries • Development Control • Building Control • Land Charges • Control Centre • Lincoln Properties • Industrial Estates	Reduction in the usage of the service/activity levels in the current economic climate and in response to actions undertaken by competitors. Impact of regeneration and development schemes in the City (e.g. east West Link Road and Transport Hub) Increasing reliance on income within the MTFS	II	B	I	B	• Car parking strategy in development focussing on overall strategy for car parking provision. • Marketing Strategy in development for key income areas. • Produce regular monitoring statements for major income sources which are reported to Performance Scrutiny and Executive committees quarterly • Identify reasons for any income reductions and take corrective action where possible • Application of Corporate Fees and Charges Policy to ensure correct charging policies are applied and the impacts are assessed • Report quarterly to Corporate Management Team, the Executive and Performance Scrutiny Committee on forecast for key income streams • Ongoing negotiations with developers on mitigation measures against the impacts of developments on the Council's income • Delegated powers to portfolio holder to make responsive changes to fees and charges

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
4	Housing Rents and Property Voids	Government policy changes (e.g. 1% rent reduction, levy on high value voids, pay to stay) impacting on income projections More Council House disposals than anticipated and/or slower than anticipated progress on the council house new build programme Void properties exceeding the allowance included in the budget (1% p.a.) CPI inflation less than budgeted rate (from 2020/21)– reducing rental income Impact of welfare reforms on rent collection – covered in risk no. 15	II	C	II	B	• Produce regular budget monitoring reports • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Directorate ongoing monitoring is a performance indicator • Monthly monitoring of RPI and CPI index changes • Make use of expert forecasts of future RPI and CPI trends and the impact on housing rents • 30 year Business Plan undergoing a review and refresh to reflect current position, including the results of stock condition surveys and the 1% rent reduction • Monthly New build meeting of cross directorate officers monitoring progress of New Build programme and capital & revenue funding

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
5	External Funding of Capital Programme	Loss of anticipated external resource to support the capital programme Including ○ Grant Funding of major capital schemes (e.g. Transport Hub and Boultham Park) ○ Changes to the allocation of grant funding for Disabled Facilities Grants (DFG) from the City Council to County Council, while the City Council retains statutory duty to provide services – funding to be passported in 2016/17, no further details beyond this year.	I	B	II	C	• Ensure grant conditions are complied with throughout scheme • Seek alternative funding sources • Produce regular grant monitoring statements • Regular budget monitoring and reporting to SPIT • Close monitoring of Government proposals for DFG funding beyond 2016/17 • Ongoing discussions with the County Council to ensure the provision of DFG's are included in the Integrated Transitional Fund Plan, meeting the City Council's statutory responsibilities
6	Revenue Savings Targets	The required savings targets are not achieved nor required efficiencies delivered	II	C	I	B	• The Council's strategy focuses on a six strand approach to realise the required savings in the revenue budgets. These are charging for services, procurement/commissioning activity, redesigning/modernising services, asset rationalisation and withdrawal from services. • Report monthly to Programme Team and Programme Board (CMT) and quarterly to Executive and Performance Scrutiny Committee

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
7	Loss of income from partners	Key partners end existing agreements with the Council (e.g. City Hall leases)	II	C	II	C	• Ongoing discussions and negotiations with key partners by senior officers and members (e.g on Tripartite agreement alternative funding and DWP for phase 2 City Hall scheme) •
8	Council Tax Base & Council Tax Support Scheme	In year variations to budget not containable within Collection Fund balances Costs to Council increased due to: – Actual CT base different to estimate – Collection rates/bad debt provisions – Increase in benefit caseload – Referendum rate of CT increases below budgeted rate	III	C	III	C	• Monthly monitoring of the Collection Fund - collection rates, CT discount caseload, council tax base. • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Produce quarterly collection rate statements – monitored via the Revenues and Benefits Operational Board, and Revenues and Benefits Management Team. Also report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee if targets are not being met, increased recovery action or further initiatives to increase collection • The proposed 2016/17 Council Tax is below the existing referendum limit of 2% increase. Future increases are below 2% in years 2017/18 to 2020/21 • Annual increases in Council Tax considered alongside national expected increases

Appendix 5

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
9	Demand for services	Impact of Government policy changes to the tax and welfare systems and the implications of unprecedented reductions in public sector expenditure increases the demand for key Council Services (e.g. benefits, housing, homelessness) The increase in property numbers and development of the City Centre results in additional cost pressures within the Services that have not been built into the budget Increasing demands for housing tenant support as other providers withdraw services	III	C	III	C	• Identification and drawdown of additional funding made available from Government and others to support additional demand • Lean systems approach taken to identify efficiencies in service delivery (e.g. benefits service) • Collaboration and joint working arrangement opportunities identified with local partners to help meet additional service demands • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee
10	HRA Repairs and Maintenance Costs	Assumed reductions in repairs and maintenance costs as a result of continued investment in the Council Housing Stock do not materialise The CMS does not continue to modernise and achieve efficiencies	III	C	III	C	• Council housing capital investment is carried out • Produce regular budget monitoring reports and HRA revenue and capital budgets reported and monitored together • Report quarterly to Departmental Management Team, Corporate Management Team, Executive and Performance Scrutiny Committee • Results of recent stock condition surveys being evaluated and will inform future maintenance requirements

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
11	Repairs & Maintenance on Corporate Properties	Unplanned emergency maintenance is required on the Council's Corporate Properties Impact of works on income and service delivery	II	C	II	C	• Stock condition surveys for all corporate properties being undertaken – essential being progressed • Additional resource identified within General Fund for priority areas of need. • Comprehensive asset management planning in place (including identifying assets with large repairs and maintenance liabilities for disposal) • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Properties with large maintenance liabilities are reviewed for potential disposal
12	Sundry Debtors and Housing Benefit Overpayments	The Council's existing Bad Debt provision proves insufficient to meet any increase in the value of debts written off Impact of Welfare Reform Act (see risk no. 15)	III	C	III	C	• Follow established debt recovery and write off procedures • Monitor age debt profile of debts against bad debt provision • Collection rates for Council Tax have been reduced for future yield calculations

Appendix 5

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
13	Capital Financing - Long Term Borrowing	Balances unavailable for internal borrowing External borrowing costs above interest rates in MTFS	III	C	III	C	• Actively monitor the cost effectiveness of issuing internal balances instead of taking external borrowing • Actively monitor the achievement of the capital receipts target and potential additional borrowing requirement • Actively monitor the cost effectiveness of asset disposals compared to Prudential Borrowing • Ongoing monitoring of cashflows from Business rates • Regular review of current and future predicted borrowing rates to inform timing of borrowing decisions • Actively monitoring the cash flow on a daily basis
14	Government Grants (including RSG and New Homes Bonus)	Cash reductions in Government Grant which are in excess of the levels assumed in the MTFS The Council is unable to sustain sufficient levels of growth and future levels of Formula Grant are reduced Amount and timing of receipt of some grants not as assumed in the MTFS	III	D	II	B	• Regular review and reporting of new home figures • The Council will seek to realise the benefits of the financial incentives available • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Regular review of grant figures and distribution mechanisms. • Lobby through national groups, respond to national consultations • Work with Association of Lincolnshire Finance Officers and the Society of District Treasures

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
15	Universal Credit and Welfare Reforms	Impact of Universal Credit and welfare reforms on rent and council tax collection rates	IV	D	II	B	• Respond to all Government consultations • Fully assess Government policies for financial impacts • An allowance for the impact of welfare reform built into collection rates and bad debt provision in the MTFS • The impact of the spare room subsidy on rent collection rates is closely monitored and reported to the Housing Service Management Team and quarterly to Corporate Management team, the Executive and Performance Scrutiny Committee
16	Capital Funding	Shortfall in the actual amount of Capital Receipts (i.e. Council House Sales, other HRA assets, GF assets) against the targets set within the HIP & GIP Revenue contributions are not sustainable in the revenue accounts of the HRA or General Fund Increase in borrowing costs (covered in separate risk – see no.13 & no. 20) Reductions in grant funding (covered in separate risk – see no. 5)	IV	E	II	C	• Undertake regular monitoring of the capital receipts position • Regular reports submitted to the Asset Management Group • Capital Receipts targets incorporated in the Asset Management Plan & Capital Strategy • Property Section fully informed of current targets within the GIP & HIP • Asset Review Group monitoring of capital receipts target and evaluation of potential asset sales • Review of the most cost effective funding options (e.g. capital receipts compared to prudential borrowing) • Monitor and report on the revenue and capital budgets together to ensure both capital and revenue impacts are identified

Appendix 5

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
17	Housing Benefits/Subsidy	Increase in payments that do not attract 100% subsidy i.e. overpayments and local authority errors Failure to comply with complex legislative requirements Lack of audit trail to substantiate grant claim Backlog of work Pressures from customer demands and complex enquiries due to welfare changes	II	C	II	C	• Regular monitoring of claims being processed • Undertake staff training and sample accuracy checks • Ensure system back ups are carried out and historic information is recoverable • Implementation of new systems, processes and structures following Lean Systems Intervention • Earmarked reserve established to help smooth the volatility of audit adjustments to subsidy claims

Appendix 5

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
18	General Budget Assumptions	CPI and RPI inflation exceed rates assumed in the budget Actual establishment exceeds 99% Increase in employer pension contribution rates following triennial valuation in 2016	IV	D	II	C	• Set prudent but realistic projections based on analysis of economic commentators and Bank of England predictions • Monthly monitoring of RPI and CPI index changes • Make use of expert forecasts of future RPI and CPI trends • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Set a prudent but realistic estimate in line with Government announcements • Monitor significant changes in economic indicators • Monitor the pension fund position through discussions with Lincolnshire County Council and Lincolnshire Finance Officers • Report any changes to Members as soon as officers become aware • Pension Fund Stabilisation Approach adopted

No.	Budget Item	Risk	2016/17		2017/18 onwards		Containment
19	Cashflow Management (Investments and short term borrowing)	Available cash flow surpluses less than anticipated and/or interest rates lower than forecast Reduction in cash flow results in deficits and/or rising interest rates Impact of localisation of Business Rate income on cash balances	III	D	III	D	• Monitor the average interest rate being achieved against the budget target and the level of balances available for investment • Actively monitoring the cash flow on a daily basis • Ongoing monitoring of cashflows from Business rates • Quarterly monitoring of Collection Fund forecast balances • Take account of economic analysts and Bank of England predictions and advice from Treasury Management Consultants • Hold regular Treasury Management meetings • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee
20	Loss of Rental Income as a direct consequence of GIP Asset Sales Target/costs of funding additional borrowing	Loss of rental is in excess of budget Costs of borrowing higher than budget	III	D	III	D	• Continual monitoring of actual loss against budget provision • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee and Asset Management Group • Cross Directorate Asset Review Group and disposal programme • Report to Asset Management Group prior to agreed disposal • Actively monitor the achievement of the capital receipts target and potential additional borrowing requirement • Actively monitor the cost effectiveness of asset disposals compared to Prudential Borrowing

Appendix 6

GENERAL FUND EARMARKED RESERVES FORECAST 2015/16 to 2020/21

Description	Forecast Balance 31.03.16 £	Forecast Balance 31.03.17 £	Forecast Balance 31.03.18 £	Forecast Balance 31.03.19 £	Forecast Balance 31.03.20 £	Forecast Balance 31.03.21 £
Business Rates Volatility	1,445,330	0	0	0	0	0
Funding for Strategic Priorities	155,390	133,350	118,350	118,350	118,350	118,350
Invest to Save (GF)	353,050	436,990	449,580	449,980	449,980	449,980
Strategic Growth Reserve	117,160	62,000	62,000	62,000	62,000	62,000
Strategic Projects - revenue costs	731,650	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
Transport Hub Risk Mitigation Reserve	124,060	124,060	124,060	124,060	124,060	124,060
Grants & Contributions	387,990	437,790	533,350	519,850	506,350	506,350
Mercury Abatement	319,730	346,500	377,750	413,560	368,240	314,130
Backdated Rent Review	220,000	260,000	300,000	340,000	380,000	420,000
Asset Improvement	202,820	212,340	212,340	212,340	212,340	212,340
Local Authority Mortgage Scheme interest	157,930	0	8,070	8,070	8,070	8,070
Unused DRF	157,420	157,420	157,420	157,420	157,420	157,420
Revenues & Benefits shared service	156,100	134,170	134,170	134,170	134,170	134,170
Tree Risk Assessment	140,440	160,440	180,440	200,440	220,440	240,440
Benefits - subsidy adjustment	100,000	0	0	0	0	0
IT Reserve	74,340	150,930	226,160	299,850	379,250	458,650
RV Revaluation The Terrace	62,290	62,290	62,290	62,290	62,290	62,290
Organisational Development	59,430	59,430	59,430	59,430	59,430	59,430
2011/12 Carry Forwards	55,220	55,220	55,220	55,220	55,220	55,220
Mayoral car	50,000	50,000	50,000	50,000	50,000	50,000
MA Reserve	42,320	42,320	42,320	42,320	42,320	42,320
Private Sector Stock Condition Survey	39,460	51,460	63,460	75,460	27,460	39,460
2014/15 Carry Forwards	35,000	35,000	35,000	35,000	35,000	35,000
Managed Workspace	35,000	35,000	35,000	35,000	35,000	35,000
County Wide Broadband Initiative	34,000	34,000	34,000	34,000	34,000	34,000
Yarbrough Leisure Centre	25,450	25,450	25,450	25,450	25,450	25,450
2013/14 Carry Forwards	18,590	8,590	8,590	8,590	8,590	8,590
Corporate R&M	17,690	17,690	17,690	17,690	17,690	17,690
Christmas Decorations	13,990	13,990	13,990	13,990	13,990	13,990
Boston Audit Contract	13,800	13,800	13,800	13,800	13,800	13,800
Electric Van replacement	13,290	17,720	22,150	26,580	31,010	35,440
Section 106 interest	12,880	12,880	12,880	12,880	12,880	12,880
Air Quality Initiatives	11,020	16,530	22,040	27,550	33,060	38,570
Commons Parking	9,520	9,520	9,520	9,520	9,520	9,520
2007/08 Carry Forwards	9,210	9,210	9,210	9,210	9,210	9,210
Property Searches	3,000	3,000	3,000	3,000	3,000	3,000
Member training	340	340	340	340	340	340
Residents Parking	0	0	0	11,490	23,110	34,610
TOTAL GENERAL FUND	**5,404,910**	**4,289,430**	**4,579,070**	**4,768,900**	**4,823,040**	**4,941,770**

Appendix 6

HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2016/17 to 2020/21

Description	**Forecast Balance 31.03.16 £**	**Forecast Balance 31.03.17 £**	**Forecast Balance 31.03.18 £**	**Forecast Balance 31.03.19 £**	**Forecast Balance 31.03.20 £**	**Forecast Balance 31.03.21 £**
Growth Strategy	97,570	0	0	0	0	0
Housing Survey Works	10,010	13,010	7,010	10,010	4,010	7,010
Stock Retention	16,340	19,340	13,340	16,340	10,340	13,340
Invest to Save	163,570	163,570	163,570	163,570	163,570	163,570
HRA Repairs Account	500,000	500,000	500,000	500,000	500,000	500,000
New Build Reserve	60,000	60,000	60,000	60,000	60,000	60,000
TOTAL HOUSING REVENUE ACCOUNT	**847,490**	**755,920**	**743,920**	**749,920**	**737,920**	**743,920**

Capital Strategy – 2016/17 to 2020/21

Introduction

This Capital Strategy details how the Council deploys and will subsequently manage its capital resources thereby explaining the Council's financial framework for capital investment in support of its strategic priorities. The Capital Strategy links to and supports the Asset Management Plan.

This strategy covers all aspects of the Council's capital expenditure, resourced both directly by the Council and where resources have been attracted through external funding opportunities.

The Council's capital programme consists of two elements:

- The General Investment Programme (GIP) with a budget for 2016-21 of £4.598m

- The Housing Investment Programme (HIP) with a budget for 2016-21 of £70.308m

Details of both are shown in Appendices 2 and 4 of the MTFS respectively

Both are accounted for separately, but the schemes making up the two programmes are subject to the same scrutiny and monitoring arrangements to ensure their effective delivery.

Purpose and Objectives

The overall purpose of the Capital Strategy is to ensure that all capital investment undertaken is in accordance with the Council's strategic priorities.

This Capital Strategy seeks to achieve a number of specific objectives:

- Ensure that capital expenditure supports a defined priority of the council

- Ensure that the Capital Programme is realistic, affordable and well managed to avoid project over-runs and expensive claims beyond the budgeted scheme value

- Minimise the need for asset disposal by looking at alternative sources of financing

- Ensure that any on-going revenue cost implications are understood and accounted for and wherever possible, capital investment is focussed on areas that yield on-going revenue savings.

Policy and Financial Planning Framework

The Council's capital programme and its subsequent revenue implications form part of the Medium Term Financial Strategy (MTFS) and as such, is one of a suite of plans and strategies that sit within the Council's Policy and Financial Planning Framework. Linkages with other key strategies and plans are identified below:

Asset Management Plan

The Capital Strategy and the Asset Management Plan run alongside each other and have a number of key linkages. These include capital receipts and asset disposal programmes, maintaining, improving and deploying the Council's buildings to support delivery of services and potential loss of income from asset sales.

The MTFS includes capital receipts targets (capital monies received from the sale of council land and property) for both the General Investment Programme and the Housing Investment Programme, which are then incorporated into the Asset Management Plan. The Property Services Team keeps under review the need for asset disposal and acquisition to meet strategic priorities and this is monitored by the Asset Management Group. All proposed property disposals are reported to and agreed by the AMG.

Housing Business Plan

Under the self-financing housing system the Business Plan provided the overall vision for the HRA and housing stock over the next 30 years. This includes the continued retention of the housing stock, ensuring it is maintained to the Decent Homes Standard, identification of tenants' priorities for regeneration/redevelopment, and investment in new builds. The Housing Investment Programme represents the detailed delivery of the HRA Business Plan over the next 5 years.

Financing the Capital Programmes

The resources necessary to fund the Council's Investment Programmes come from a variety of sources:

- Capital Receipts – from the sale of Council assets
- Use of Council's own resources – depreciation, contributions from revenue and use of reserves
- Capital Grants and Contributions
- Prudential Borrowing – borrowing that is affordable, sustainable and prudent and in accordance with approved limits as detailed in the Treasury Management Strategy

The Council's capital programme is projected for a five-year period and is approved by full Council each year. It is monitored throughout the year by the Strategic Plan Implementation Team (SPIT), HRA Self Financing Team (S-FIT), Performance Scrutiny Committee and the Executive. SPIT and the Executive have varying levels of authority to approve changes to the programme during the year. A distinction is made between the General Fund schemes (GIP) and Housing Revenue Account schemes (HIP), although both are subject to the same degree of scrutiny and approval mechanisms.

Capital Prioritisation

In an environment of financial constraints and competing pressures on the Council it is important that the Council adheres to its methodology for prioritising potential projects and schemes. The methodology is based on both corporate and service based priorities. As well as considering capital costs and funding, attention is also focussed on the revenue implications of any capital expenditure to ensure the Council will not inherit a legacy of increased revenue costs. Therefore, only whole life costs are considered when evaluating potential capital projects.

The process for gaining approval for a capital project is as follows. A project brief is submitted to the Programme Board i.e. the Strategic Plan Implementation Team (SPIT) for evaluation against an agreed set of criteria, including how well the proposal meets the strategic priorities and budget priorities, whether partnership working and external resources are available and the operational feasibility. If outline approval is granted by SPIT, the project brief is submitted to the Corporate Management Team (CMT) and then Executive for approval. This is as detailed in the Lincoln Project Management Model, which provides the approved guidance for the initiation, approval and management of all projects.

Conclusion

The Council's Capital Strategy is a 'live' document, which provides a framework for the deployment and management of capital resources across the organisation in accordance with corporate priorities. It is, therefore, the framework for capital investment across the Council. The Strategy will be reviewed annually, to ensure it is kept up to date and is relevant and effective.