APPENDIX A

..

CITY OF Lincoln COUNCIL

Medium Term Financial Strategy

2015/16 to 2019/20

Contents

Foreword

Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2015-2020.

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.

The context in which this strategy is set is a very different one to that of 12 months ago; the economy avoided the much feared triple dip recession and has continued to successfully grow with growth now exceeding the pre-crisis levels; people are beginning to feel more optimistic with unemployment levels at their lowest level in nearly six years and inflation is at below target levels.

However despite this growth in the economy and cause for optimism the Government's deficit reduction measures are only around 40% complete both in terms of timescales and value of expenditure reductions. It is unlikely that there will be any relief for the public sector with the latest government projections showing the austerity measures, and continuing funding cuts for local authorities, here to stay until at least the start of the new decade

Councils continue to face an incredibly challenging financial position and Lincoln is no exception to this. Since the financial crash of 2008, the public sector has seen unprecedented reductions in funding. In the five years to 2015/16, the council has seen its government funding assessment cut by £4.5m, which equates to nearly 43%.

In addition, the Council faces financial pressures as a result of, pressure on the generation of local income streams from fees and charges together with a rising demand for council services from customers who rely on the safety net provided by local government and the challenge of driving economic growth in the local area. This means its face the challenge of finding £3m of savings and efficiencies to balance its books by 2016/17, while continuing to invest in the city to ensure Lincoln is a great place to live, work, visit and stay.

This challenge is not new to the Council and it has demonstrated a sound track record against challenging financial positions. In recent years it has undergone significant reviews of its services which have collectively led to a reduction in its annual expenditure of £6m, a substantial figure in comparison to the size of the Council's overall budget. These savings have been achieved through smarter procurement, generating additional income, improvements in efficiency and inevitably through the withdrawal of non-priority services.

Whilst doing so, the council continues to maintain its focus on four main strands – growth, poverty, affordable housing and financial sustainability. These issues are at the heart of everything the council does and in particular how we make the increasingly difficult decisions about where to spend the money we have available to provide services.

The Council will continue to do all that it can to minimise the effect of these cuts on the public, and will prioritise those services that are needed the most. It faces the challenge constructively and with imagination and has taken sensible steps to comprehensively review the services it delivers, and the way that it delivers them, so that its limited resources are used to maximum effect.

The result will be a smaller council, doing less, but continuing to do what it does effectively and well for the people of Lincoln.

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;

- Deliver a balanced budget over the life of the MTFS, whilst maintaining an acceptable level of increase in the Council tax rate;

- Ensure the Council maintains a sound and sustainable financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and the delivery of outcomes;

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

- Provide efficient, effective and economic services which demonstrate value for money.

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

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 UK's economic and fiscal position continues to provide the context for the Government's approach to public spending. The 2008 banking crisis, a collapse in world trade and extremely high levels of UK debt led to an approach that focuses on fiscal consolidation – cutting the deficit- as an essential starting point for long-term economic stability.

Implementation of the Government's policy since 2010 has been made furthermore difficult due to the continued poor international financial context (current factors include the Ebola crisis, the economic slowdown in the Eurozone, tensions with Russia over the Ukraine and slowing growth in emerging markets).

The UK economy has continued to recover at a relatively strong rate since early 2013. In 2014 the economy grew by 2.6%, the eighth successive quarter of positive economic growth and the longest sustained run since the onset of the economic downturn in 2008. The UK was the fastest growing economy in the G7 this year and in the International Monetary Fund's (IMF) latest 'World Economic Outlook', the UK was forecast to have the fastest growth among advanced economies over 2014 as a whole. Reflecting this strong growth the Office of Budget Responsibility (OBR) latest forecast in December 2014 revised its GDP growth forecast up slightly from 2.3% to 2.4% for 2015.

However a weakening global economy and an increase in international risks over the past nine months, particularly the troubles in the UK's key export market, the Eurozone have intensified concerns over the global outlook causing future UK growth forecasts beyond 2016 to be cut. The OBR's latest forecasts for the UK's GDP show growth losing steam with forecasts of 2.2% in 2016, 2.4% in 2017 and 2.3% in 2018 and 2019.

Elsewhere in the economy the OBR's latest forecasts have seen positive improvements in unemployment, now predicted to fall even faster, and real wages, which are expected to start rising again in 2015 having fallen for most of the past six years. The latest Consumer Price Index (CPI) for December 2014 showed an annual rise of 0.5%, down from 1% in November the lowest level for the last fiffteen years. This is the twelfth consecutive month that inflation has sat below the Government's target rate of 2% with the most recent forecasts from the OBR indicating that this will continue to remain low in the short term, noting return to the 2% target until late 2017. The Retail Price Index (RPI) continued to fall back during 2014, with a slight peak in June, to a five year low of 1.6% at December 2014. Its forecast is set to follow a similar profile to CPI, falling slightly during early 2015 and then gradually increasing reaching 3.6% in 2018. Short term interest rates remain at historically low levels with The Bank of England's Monetary Policy Committee in February 2015 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 before late 2015.

Despite the reduction in levels of the future economic growth the UK economic recovery is now well established, albeit at times patchy and uneven. The deficit is forecast to have fallen by a half by the end of 2014/15, with public sector net borrowing forecast to reach a small surplus in 2018/19. The government is also forecast to meet its fiscal mandate with the anticipation of a surplus on its current balance two years early in 2017/18.

However, fundamentally for the public sector, despite the current momentum being experienced in the UK economy, elimination of the UK's deficit still requires the government to continue with its deficit reduction plan. Even after years of austerity, most public-spending cuts are still to come, it is estimated that the Government's deficit reduction measures are only around 40% complete with forecasts that some government departments will be forced to cut an additional 40% off their budgets, which see public spending fall to "what would probably be its lowest level in 80 years". This means that during the next Parliament economic growth will be seen alongside sustained cuts in funding.

It is therefore clear is that the UK's economic and fiscal position will continue to present significant challenges for many years to come, impacting both at a national and local level. The most significant of these challenges for the Council include:

- Unprecedented reductions in government funding in the toughest Local Government Finance Settlements for a generation, with cash reductions of 40% in Government funding assessments experienced over the period 2011/12 – 2015/16, equivalent to £20bn with further cuts forecast on a steeper trajectory, in the earlier years, over the period of the next Parliament. The Council's own reductions have amounted to 43%, equivalent to £4.5m, for the period 2011/12-2015/16.

- Reduced income through the stagnation of the property market, which has seen income remain at historically low levels for planning regulation fees, building control fees and local land charges, as well as an impact on planning fees due to legislative changes resulting in more non-fee earning work.

- Lower interest rates by the Bank of England to combat the liquidity crisis continue to have a significant effect on the Council's income from investments. In addition, the financial instability in the Eurozone has meant that the Council has limited the placing of investments to mainly short term deposits to reduce risk but thereby reducing investment returns.

- Investment counterparty risk remains high. As a result there continues to be a very limited range of counterparties available to the Council for investment purposes.

- Pressure over the payment of housing rents, and other council charges, as household income reduces through welfare reforms and the impact of the economic climate, has resulted in drops in collection rates and an increase in outstanding arrears. It is assumed that this pressure will increase in the future with the introduction of the Universal Credit and the move to direct payments. In addition the pressure on household budgets has impacted on income from car parking charges, primarily from season ticket income as users switch to alternative, cheaper, arrangements.

- The demand for services such as council tax support and housing benefit continues to increase, with currently 11,308 households (25%) in the City in receipt of Housing Benefit and/or Council Tax Support. Although the overall live caseload has decreased over the last 12 months, it masks the real demand on council services which is better represented by the constant churn of claimants who are in a cycle of coming on/off of benefits. On average the council deals with more than 2,200 change of circumstances and 300 claims per month.

- The pressure on housing related services continues to increase with a steady rise in the number of people on waiting list for council housing, and there also continues to be a significant rise in the number of cases presenting to the Homelessness Service. Other services which continue to experience high levels of demand are the Benefits Advice Team and the dedicated Customer Services Team who respond to a range of queries from local residents.

National Priorities

The key driver for government policy since 2010 has been the deficit reduction programme, primarily through public spending control. Local government has borne a disproportionate brunt of this programme with reductions of 40% in core government funding over the period 2011/12 – 2015/16. This reflects the combined impact of the national financial policies of deficit reduction (achieved mostly through reductions in public expenditure rather than increases in taxation) combined with protection for significant elements of the public sector, especially in respect of pensions (“the triple lock”), the NHS and schools.

Spending Review 2010

The Spending Review in 2010 saw local government emerge as one of the worse hit areas with unprecedented reductions in government funding to local authorities over the four year period 2011/12 to 2014/15. In total, public sector expenditure, represented as Departmental Expenditure Limits (DEL’s), were reduced by 8.3% over the Spending Review period. This headline rate however masked significant differences at an individual departmental level with local government itself emerging as one of the worst hit areas in the Review with unprecedented reductions in government funding to local authorities of 24% in cash terms over the four year period.

Subsequent Autumn Statements and Budget Statements saw these reductions increased by a further 3% by 2014/15.

SR2010 also heralded the introduction of the new business rates retention system, replacing the previous system of financing with a new, fundamentally different one, based on the retention of business rates in order to achieve two of the Government’s key priorities of economic growth and localism. At the same time the previous system of Council Tax Benefit scheme was abolished and localised with new local Council Tax Support schemes introduced. Both of these fundamental changes provide incentives for local growth and created financial opportunities for local authorities but also transferred significant financial risk, making financial planning highly unpredictable and increasingly uncertain and complex.

Spending Round 2013

The Chancellor's 2013 Spending Round in June paved the way for a further wave of reductions in DEL's for 2015/16, with total public current expenditure set to reduce by £11.5bn in 2015/16. The headline figure in relation to local government was that the local government allocation will be reduced, in real terms, by a further 10% in 2015/16. However when taking into account a number of funding streams which were to be top sliced to fund new burdens and others which are to be subject to a bidding process and not allocated to all local authorities the subsequent Local Government Finance Settlement for 2015/16 actually shows a cash reduction for local authorities of £3.4bn, equivalent to a 13.9% reduction from the 2014/15 baseline, the highest level of reduction since the onset of the austerity measures. These further reduction in 2015/16 take total cash reductions in local government funding assessments to 40% over the 5 year period since the onset of the austerity measures.

Budget March 2014

The Chancellor's Budget in March 2014 announced relatively little in the way of substantial new announcements; however it indicated the continuation of the deficit reduction policy beyond this Parliament, with the intention of balancing the national budget by 2018/19 and thereafter running a budget surplus.

The elimination of the budget deficit by 2018/19 was based on improved projections for economic growth and on DEL's falling from £317.8bn in 2014/15 to £289.1bn in 2018/19. This represents a cash reduction of just over 9% and a real terms reduction of 16%. If the Government continues to protect spending on health and education as expected, the reduction for other services will be greater, and experience has shown that since 2010 local government funding has had particularly severe funding cuts compared to other services.

Based on this trajectory of reductions it is likely that revenue support grant to local government will all but cease by 2019/20. Whilst this will clearly have a significant impact on the financial position of the Council it will also potentially change the nature of the relationship between central and local government.

Queens Speech June 2014

The Queen's Speech on the 4 June 2014 served to reiterate again the Government's intention to continue to reduce the national deficit. Inevitability this will mean reductions in local government spending 'to strengthen the economy and provide stability and security, my ministers will continue to reduce the country's deficit, helping to ensure that mortgage and interest rates remain low'. Local government has experienced the steep reductions over the current spending review period and this combined with a continuation to cap benefits 'so that public expenditure continues to be controlled and policies will be pursued so people are helped from welfare to work' is likely to have a significant impact on local authorities.

Autumn Statement 2014

The Chancellor's Autumn Statement gave a broad view of overall public sector finances and reductions in the overall departmental expenditure levels until 2020. The Government has confirmed the level of local authority funding for the current Comprehensive Spending Review period which ends in March 2016 and confirmed that the sector will not face additional cuts in 2015/16 on top of those already announced.

Although no details were given for DEL's beyond 2015/16 the Government's fiscal assumption is that Total Managed Expenditure (TME) in 2016/17 and 2017/18 will fall in real terms at the same rate as between 2010/11-2014/15. The pace of these spending reductions in 2016-17 and 2017-18 appear, at this early stage, to be steeper than previously thought. With ring-fencing of health, education and international development likely to continue, and local government continuing to bear a disproportionate share of the remaining DEL, the steeper cuts to overall DEL in 2016/17 to 2019/20 suggest further substantial cuts to local government funding.

The Government also reaffirmed its commitment to work with departments to give local public services the same long-term indicative budgets as departments from the next Spending Review. The extent that this will reduce the levels of uncertainty for local authorities and make financial planning less complex is fairly limited due to the changes in core funding mechanisms for local authorities which were introduced in April 2013.

In respect of Business Rates the extension of current measures reduce the tax burden on business rates payers were announced, along with a review of the future structure of business rates to report by Budget 2016. This will be fiscally neutral and consistent with the agreed financing of local authorities.

It is evident that despite the significant reductions in DEL's and the resulting reductions in local authority funding already experienced that the age of austerity is destined to continue, and on a trajectory which is broadly consistent if not steeper than the cuts made since 2010. Although there will be a General Election in 2015, creating some uncertainty over future policy direction, there is no indication from any of the main parties that there will be significant changes in relation to local government funding. The period over the next Parliament is no doubt going to be incredibly challenging for local authorities and the continued downward pressure on public service resources will no doubt have significant future impacts on what councils do and how they do it.

Local Priorities

Lincoln is a cathedral city, and is one of the oldest cities in Britain, with a population of around 94,600. 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 94,600, the city actually serves a significantly higher ‘Greater Lincoln’ population of around 204,500 (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 has been a particular increase in the number of residents in their 20’s 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 7 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

5Overall, 28% of council tax payers receive Housing Benefit and/or Council Tax support. Only around 0.3% of properties fall within council tax bands G and H, and 80% fall within the lowest bands A or B, currently paying £3.67 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.

Educational attainment at KS1, 2 and 4 remains below the county average. Between 2010/11 and 2011/12, attainment dropped at both Key Stage 1 (from 75.5% to 74.6%) and Key Stage 4 (from 54.8% to 49.0%). In contrast, there was an increase at Key Stage 2 (from 69.0% to 79.1%).

Both male and female life expectancies were low in comparison to our nearest neighbours. Although female life expectancy had seen a recent improvement, male life expectancy has remained static. Early deaths due to heart disease and stroke reduced significantly over the last few years, although Lincoln still ranked high amongst our nearest neighbours. The early deaths due to cancer rate fluctuated over the last few years, neither particularly improving nor getting worse. Lincoln had the second highest rate amongst our nearest neighbours.

There are approximately 39,825 households in the city – the City Council is landlord to approximately 7,900 of these, with a further 1,700 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 supply 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 the current financial context in which the Council is operating it is vital that it continues to deliver against the significant savings targets that it faces. However, the Council has to also address the need to direct resources towards its strategic priorities. Striking the correct balance between these two requirements is becoming increasingly more difficult as the Council continues to experience sustained reductions in Government funding and operates in an environment of increased financial risk and uncertainty.

In line with the Strategic Plan 2012-17 and the development of a new 3-year delivery plan 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.

The allocation of resources in support of these schemes has been delivered through the reallocation of existing resources (primarily earmarked reserves) and the use of an element of the Council's New Homes Bonus grant allocation. This grant is a non-ring-fenced grant received by the Council and although the Government is not prescriptive over the use of the grant it does expect local authorities to gain an understanding of local priorities for investment.

The allocation of additional resources is detailed in Appendix 8.

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 2015/16 includes pay increases in line with the nationally agreed pay award, this included an increase to the living wage for those on the lowest scale points, a 2.2% increase for staff up to scale point 56 and a 2% rise for senior staff. Included in the MTFS for 2016/17 is a 1.5% rise and a 2% rise per annum onwards.

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

	2015/16	2016/17	2017/18	2018/19	2019/20

	% per year	% per year	% per year	% per year	% per year
Pay	As above	1.5%	2%	2%	2%
General	2%	2%	2%	2%	2%
Contractual Commitments	2.5%	3%	3%	3.5%	3.5%
Non domestic rate	1.91%	3%	3%	3.5%	3.5%

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 2.5% for 2015/16, increasing to 3% for 2016/17 – 2017/18 and to 3.5% 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 a increase in contribution rate of 1% pa over for 2015/16 and 2016/17. This will be reviewed again following the outcome of the next triennial valuation of the fund at 31 March 2016.

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 this expectation for a slow recovery in the money markets 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 £22k on the General Fund and £64k 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**
	%	**%**	**%**	**%**	**%**
Interest Rate	0.76%	1.25%	1.75%	2.25%	2.75%

Based on the current forecasts for interest payable on new borrowing (averaging around 4.4%) and receivable on investments (averaging around 0.66%), 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 Investment Programme over the 5 year strategy apart from that required for the Transport Hub. Internal balances will be used to fund the borrowing 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).

The Transport Hub is a major capital scheme for which an application for grant funding has been made to the Single Local Growth Fund through the Greater Lincolnshire Local Economic Partnership (GLLEP). The Council has received indicative funding approval for the scheme for 2016/17 and is progressing towards submitting a planning application in March 2015. The costs of preliminary design work, surveys and planning costs have therefore been added to the capital programme in 2014/15 to be funded from borrowing. The borrowing will be supported by internal resources at an annual cost of £14.8k in lost investment income.

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

Following the introduction of the Business Rates Retention (BRR) Scheme in 2013, the Local Government Finance Settlement now provides local authorities with a combination of grant allocations and their baseline figures within the BRR scheme as opposed to guaranteed funding levels which were historically provided. Ultimately, the level of business rates collected by the Council in 2015/16 will determine the funding it receives for this element of its funding assessment.

The settlement covers a one year period for 2015/16 , the financial position beyond is unlikely to be known with any certainty, other than sustained reductions in funding, until the next Spending Review due in 2015.

The National Picture

Nationally the change in the overall Settlement Funding Assessment (SFA) for local authorities on a like for like basis, between 2014/15 and 2015/16 is a reduction of 13.6%, the greatest level of reduction under the SR2010 and SR2013 period.

The settlement largely confirms the illustrative settlement for 2015/16 announced last year and the technical consultation on the settlement undertaken during the summer 2014 with the exception of an increase in funding for all local authorities as a result of a reduced holdback for the New Homes Bonus (however this would have been refunded to Authorities through an Adjustment Grant), an increase in funding for most rural authorities and additional funding for Upper Tier Authorities in respect of Local Welfare Provision.

The table below sets out the changes to the overall SFA between 2014/15 and 2015/16.

	£m
2014/15 Adjusted SFA	24.112
2015/16 SFA	20.833
£m change on previous year	(3.279)
% change on previous year	**(13.6%)**

Whilst previously local authorities would have received the above national funding level (SFA), of £20.833m, through Formula Grant, it is now split between Revenue Support Grant and the BRR system as per the table below:

	2014/15	**2015/16**	**Change**
	£m	**£m**	**%**
SFA	24.112	20.833	**(13.6%)**
Funded through:			
BRR	11.111	11.323	**1.9%**
RSG	13.001	9.509	**(26.9%)**

In announcing the settlement the Secretary of State also announced that local authorities will face an average reduction in spending power of 1.7% and that no local authority would experience a decrease of more than 6.4%. In a similar manner to the previous three years the Government's headline focuses on comparative figures concerning to local authority's "revenue spending power", a definition which encompasses an individual authority's:

- Council Tax Requirement
- Settlement Funding Assessment
- New Homes Bonus
- Specific Grants
- Public Health Grant

As in previous years this calculation masks a number of changes in resources which in reality shows a greater general decrease in resources from Government. The Council's own reduction in 'revenue spending power' is 5.1% for 2015/16.

Impact on the Council

The Council's SFA as announced in the settlement is based upon 2014/15 adjusted funding levels, as the Council did not accept the Council Tax Freeze Grant in 2014/15 and is not eligible for the Efficiency Support Grant , Rural Services Delivery Grant or Local Welfare Provision, the SFA for 2014/15 remains unchanged at £7.196m. The SFA for 2014/15 is then adjusted for the reduction in resources in line with the Spending Round 2010 funding allocations and subsequent announcements. The SFA for the Council for 2015/16 is as follows:

	Adjusted 2014/15 £m	**2015/16 £m**
Formula Funding	6.920	5.783
Specific Grants rolled in		
Council Tax Freeze 2011/12	0.156	0.156
Homelessness Prevention	0.109	0.109
Returned Funding	0.10	0
Settlement Funding Assessment	**7.196**	**6.047**
Year on Year % Change		**(16%)**
National Figures	**24.112**	**20.833**
Year on Year % Change		**(13.6%)**

It is important to note that the 2015/16 SFA figure is not altered to reflect changes to key elements that were previously dated annually, including:

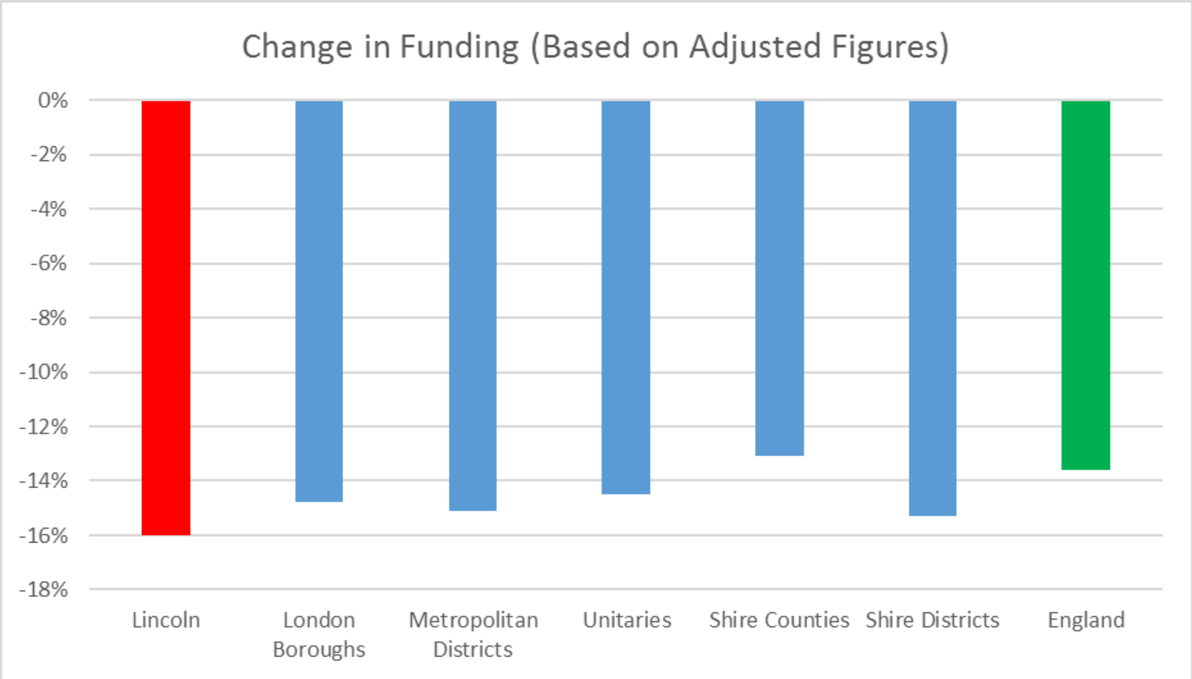
- Specific indicators within the Relative Needs Formulae
- Council Taxbase
- Floors and Scaling

The Government do not plan to update the SFA figure to take these factors into account until the next reset of the BRR system, currently expected to be in 2020/21 at the earliest.

As identified previously in respect of the national level SFA, the Council's SFA as per the table above is no longer guaranteed income for the Council and is split between RSG, the guaranteed element and the BRR as expressed as Baseline Need, which is not guaranteed . The split of the Council's SFA is as shown below:

	2014/15 £m	2015/16 £m	Change £m	Change %
Revenue Support Grant	3.799	2.585	(1.214)	(31.9%)
BRR – Baseline Need	3.397	3.462	0.65	1.91%
Settlement Funding Assessment	**7.196**	**6.047**	**(1.149)**	**(16%)**

The graph below shows how the Council's reduction for 2015/16 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 15.3%, with Lincoln's reduction being in excess of this at 16%.



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.

To fund the Baseline Need element, local authorities each have an expected level of NDR that is to be collected (NDR Baseline). The methodology for these figures was based on the actual business rates collected by authorities in 2010/11 and 2011/12. Due to differences between Baseline Need and the level of business rates collected by individual authorities there is a further adjustment required.

For authorities with a Baseline Need that is higher than their NDR Baseline, a Top Up grant is required (this is guaranteed). Whereas, for authorities with a baseline need that is lower than their NDR Baseline, a Tariff is paid to the government.

For the Council, as a billing authority, its NDR Baseline is significantly in excess of its Baseline Need and hence a Tariff is payable to the Government as follows:

	2015/16 £'000
Baseline Need	3.462
NDR Baseline	16.291
Tariff Amount	**(12.829)**

The actual level of income to be received by the Council will be determined by the actual level of NDR it collects. If the Council collects a higher level of NDR compared to its NDR Baseline then it is rewarded through the scheme as it is able to retain an element of its increased revenues. However if it collects a lower level of NDR income it will see a decline in its business rates taxbase and a relative reduction in resources.

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 receive during 2015/16 and estimated this to be £42.333. A fixed proportion of this estimated yield will be payable to Central Government (50% share which amounts to £21.166m) and a fixed proportion will be payable to Lincolnshire County Council (10% share which amounts to £4.233m). The remaining 40% estimated balance of £16.933m will be retained by the Council. In addition; the Council will also receive S31 grant of £0.681m to compensate for the Autumn Statement 2013 and 2014 measures; and has to take account of outstanding backdated appeals equating to £0.139m taking retained income to £17.475m. After deducting the required tariff of £12.829m, the anticipated funding from NDR reduces to £4.646m.

A proportional levy of 50% is payable to the Government on any NDR income that the Council retains in excess of its Baseline Need. Based on the estimated level of NDR income to be retained by the Council of £4.646m, which is £1.184m higher than the Baseline Need, a 50% levy would reduce the Council's estimated income to £0.592m for 2015/16.

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 2015/16 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 50% levy of 9£0.512m for 2015/16 as identified above will therefore be retained within the pool and allocated 40% to the County Council, £0.237m, and 60%, £0.355m being retained by the Council. The Council's estimated income post levy is therefore £4.409m.

In addition to the S31 grants to compensate the Council for loss of income as a result of the Autumn Statement measures the Council also receives compensation in respect of the loss of income due to the multiplier cap (i.e. business rate increases capped at 2% in 2014/15 and 2015/19). This additional income equates to £0.060m and results in total estimated income from the BRR scheme of £4.469m for 2015/16.

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 £3.202m. Therefore the estimated income, pre levy, of £4.646m would need to fall by £1.443m before the pool would protect against further losses, this equates to a reduction of 8.52% 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.

Beyond 2015/16 the Council has estimated that growth in its annual level of NDR collected will be 0.5% pa from 2016/17 – 2018/19, increasing to 1% in 2019/20.

The table below summarises the amount of income estimated to be retained by the Council based on the principles of the BRR system and its estimates of the amount of NDR to be collected each year.

Income Forecast	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Forecast NDR Income	16.933	18.134	18.751	19.482	20.456
Top-up/(Tariff)	(12.829)	(13.099)	(13.479)	(13.937)	(14.494)
S31 Grant	0.681	0	0	0	0
Backdated appeals	(0.139)	(0.139)	(0.139)	0	0
Pre-levy income	**4.646**	**4.897**	**5.133**	**5.545**	**5.962**
Levy	(0.592)	(0.681)	(0.748)	(0.892)	(1.025)
Gain from Pooling	0.355	0.409	0.449	0.535	0.615
Multiplier Cap (S31)	0.060	0	0	0	0
Retained Income	**4.469**	**4.624**	**4.834**	**5.188**	**5.552**

* Estimated income assumes Small Business Rate Relief extension ends as at 31 March 2016.
** Assumes that Lincolnshire Business Rates Pool designation is not revoked in future years.

Revenue Support Grant

As set out above the level of RSG that will be received for 2015/16 is £2.585m, a total reduction from 2014/15 of 32%. As the national BRR element of the SFA is forecast to increase over the settlement period, as a result of annual inflationary increases and tax base growth, Government reductions to the total level of local authority funding will therefore require even greater reductions in the level of RSG allocated to authorities. With Government reductions set to continue until at 2018/19 at the earliest, potentially up until the end of the decade, it is likely that the RSG element of the SFA will become negligible with authorities solely reliant on the level of NDR collected.

As yet, DEL's have not been set beyond 2015/16 which makes financial planning difficult although the direction of travel is clear. However using the latest forecasts from the OBR and information contained within the Autumn Statement 2014, which includes projections for public sector expenditure as a whole, which if applied to local government would suggest a funding reduction of 10% for 2016/17.

Based these latest forecasts the MTFS prudently assumes that there will be an average annual reduction of 10%, from 2016/17 – 2018/19, followed by a reduction of 7.5% in 2019/20, in the national level of funding for local government. This equates to a reduction in the Council's RSG of approximately 26% in 2016/17, 32% pa in 2017/18, 44% in 2018/19 and 61% in 2019/20. The level of RSG forecast to be received in 2019/20 is £0.287m, a reduction of 94% from 2013/14, (at the onset of the BRR scheme).

Council Tax

The Spending Round 2013 announced additional support for councils to help them freeze council tax for the next two years. The Government set aside £833m to be made available to those authorities who decide to freeze or reduce their council tax in 2014/15 and 2015/16. If councils froze their council tax in 2014/15 they will receive funding in both financial years 2014/15 and 2015/16, and if they freeze council tax in 2015/16 they will receive funding in 2015/16 only. The funding will be equivalent to raising the 2013/14 council tax by 1%.

The Council chose not to accept the freeze grant in 2014/15 and indicated that neither would it accept the grant in 2015/16. If the Council were to accept that grant and freeze Council Tax levels it would result in the following reduction in income (based on revised collection rates and levels of Localised Council Tax Support):

	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
1.9% Council Tax forgone	106	109	114	118
Council Tax Grant received	(68)	(68)	(68)	(68)
Net Loss of Income	**38**	**41**	**46**	**50**

This equates to a loss of £38k income in 2015/16 and a further ongoing annual loss of around £45k, a total loss of c£227k over the 5-year MTFS period. This ongoing loss of income assumes that when the funding is baselined in RSG post 2015/16 that it is maintained at the original level, in reality though it is likely to subject to the same significant reductions in RSG, i.e. 32% in 2015/16, further undermining the financial position of the Council. In comparison a modest increase of 1.91% for 2015/16, equates to a maximum additional 7p per week for a Band A and Band B property (80% of properties fall within Band A and B). In view of this and taking into consideration the Council's need to protect its financial position from further decline the MTFS assumes rejection of the grant for 2015/16.

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 2014/15, should they seek to raise the relevant basic amount of council tax by 2% or more.

In light of the financial position of the Council and mindful of the referendum thresholds likely to be applied for 2015/16, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
% Increase	1.91%	1.9%	1.9%	1.9%	1.9%
Council Tax Base	22,569	22,942	23,356	23,743	24,030
Council Tax Yield	£5,636,661	£5,839,308	£6,058,198	£6,275,975	£6,472,882
Band D	£249.75	£254.52	£259.38	£264.33	£269.37

For 2015/16 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £249.75, a 1.91%/£4.68 increase from 2014/15.

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 2015/16 and assumes reductions in working age claimants in 2016/17, 2017/18 and 2018/19 of 3%, 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 introduction of the Business Rates Retention system, for local authorities to promote growth and development or else risk a reduction in resources.

Years 1 to 4 of the grant have resulted in an allocation of £1,723k with a further £335k announced for Year 5 of the scheme in 2015/16. Although it becomes increasingly difficult to predict the level of new homes to be built, even more so given the current housing market. The MTFS includes a prudent assumption of £200k pa from 2016/17 onwards. Each tranche of grant allocation is payable for a six year period, Year 1 of the scheme therefore ceases to be payable in 2017/18.

Details of the latest advised position for 2015/16 and the assumptions made for 2016/17 onwards in respect of the specific grants the Council receives, are shown below:

Grant Name	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Housing Benefit & Council Tax Benefit Administration	661	647	647	647	647
Housing Benefits New Burdens	24	26	27	28	29
Representation of the people Act	50	50	50	50	50
New Homes Bonus	2,058	2,258	2,005	1,637	1,683
TOTAL	**2,798**	**2,986**	**2,734**	**2,367**	**2,414**

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 £8.3m from fees and charges in 2014/15.

The mean average overall increase in the non-statutory fees and charges is 2.5%, 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.

In comparison to the original estimate used in the Medium Term Financial Strategy 2014-2019 this is a reduction of £68,870.

This decrease is due to the reduction of some fee and charge budgets to reflect reduced demand for certain services.

Bridging the Gap

The council has already seen its levels of core funding from government reduced by £2.8m over the last four years, and by the end of 2015/16 this will have increased to around £4.5m. The Council 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.

The Council have already taken a proactive response to the cuts to local government funding and other financial pressures 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 and focuses on the following key strands of activity:

- Implementing fair and appropriate charging regimes for services.
- Rationalising the City's property and land portfolio to optimise usage and commercial returns.
- Driving greater value from procurement and commissioning activity.
- Redesigning and modernising services to improve customer experiences maximise efficiencies and continue to make the business fit for purpose.
- Focussing on sustainability and the savings that can be gained by making greener choices in the way that we work.
- Withdraw or part withdraw from some services not deemed to be of sufficient priority or any longer affordable.

The first two years of the programme have been successful in delivering the targets and has making considerable progress towards the target for future years, with annual reductions secured to date of £2m, taking total savings delivered since 2008 to £6m. This has not been an easy process, due to the timescales for delivery of the savings it has not been possible to find efficiencies of the required magnitude without impacting on front line services. Inevitability the Council has faced some very difficult decisions to withdraw some non-priority services.

Progress, at December 2014, in delivering the target savings from the Towards Financial Sustainability Programme is set out in the table below:

	2013/14 £'000	2014/15 £'000	2015/16 £,000	2016/17 £'000
MTFS savings target	**1,000**	**2,000**	**2,500**	**3,000**
Secured	1,047	1,974	2,015	2,096
Total savings still required	**(47)**	**26**	**485**	**904**

It is important that the Council maintains the pace and extent of changes that it achieved through its review programmes as it moves forward into 2015/16 and closer to the target date of £3m of annual savings to be delivered by 2016/17. There will however be a need to shift the focus of the programme with a move away from the redesign and modernising of services and driving value from procurement strands as the opportunity for efficiencies from these areas becomes less, albeit these will remain important aspects in achieving value for money. The focus instead will switch to a more innovative and entrepreneurial approach with the Council seeking to grow its commercial and income generation activities, reducing the impact on frontline services of achieving the savings targets.

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 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, the final implementation stages of schemes approved in the previous Strategic Plan, delivery of schemes resulting from joint working with partners and ongoing capital schemes.

The previous MTFS set out a package of existing resources which could be re-prioritised towards meeting strategic priorities. Although a new delivery plan to cover the remaining 3 years of the current Strategic Plan has been developed, this did not include the allocation of any these capital resources at this stage. There are a number of significant strategic schemes which are currently in the development and feasibility stage and which are being financed from revenue sources. Should these schemes progress further then the following resources could be available for re-prioritisation towards their scheme costs;

Existing Capital Scheme	Budget 2015/16 £m	Budget 2016/17 £m	Budget 2017/18 £m	Budget 2018/19 £m	Budget 2019/20 £m
Compulsory Purchase orders	0.139	0	0	0	0
Home Improvement grants	1.295	0.725	0.725	0.725	0.725
Housing Renewal areas	0.415	0	0	0	0
Subtotal	1.849	0.725	0.725	0.725	0.725
Savings target	*(0.200)*	*(0.200)*	*(0.200)*	*(0.200)*	*(0.200)*
Total	**1.649**	**0.525**	**0.525**	**0.525**	**0.525**

The GIP 2015/16 – 2019/20 is included in Appendix 2.

The annual savings target of £200k was introduced in the previous MTFS. Further work is continuing to consolidate recurrent annual savings within the GIP and to ensure that the ongoing programme is both sustainable and has the ability to focus on the delivery of strategic priorities.

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 180 operational properties and 102 investment properties with a combined asset value of £77.6 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 and although these have tackled the most urgent issues arising in those years there still remains a considerable legacy of outstanding investment required, particularly to some of the Council's key income generating assets and its important heritage assets.

Additional revenue resource have previously been allocated in order to address the most urgent and essential work. The remaining works required, i.e. the desirable, non-urgent repairs and planned maintenance, will be determined through a structured approach with the prioritisation process bring based on up to date condition surveys and regular liaison with service departments to determine priorities over a five year period. It is however evident that the annual planned capital maintenance budget of £200k pa is be insufficient to undertake all of the required works. In response to this, through the allocation of New Homes Bonus, a further £716k to be set aside for asset improvement works, the vast portion of which has been allocated to works on multi-storey car parks. Additionally the revenue budget provides for the borrowing costs to borrow up to £1m, which was set aside when the Council purchased its operational offices at City Hall. This funding is intended to be used for maintaining and improving the condition of the building in line with the longer term aspirations.

Allocation of the available resources to specific assets will be determined by the structured approach being undertaken and will also be influenced by the outcomes of the major 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 2015-20 (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 major review of the annual capital programme was undertaken in the previous MTFS and as a result, a number of contingency schemes were decommissioned and an annual savings target of £200k was introduced. Work is still ongoing to consolidate the savings, however, a number of schemes were re-profiled into 2015/16 within the proposed MTFS 2015-20 to allow a full review to take place. The savings target mainly relates to the Housing renewal, Home Improvement grants and Compulsory Purchase Orders budgets and the ongoing budget requirements form part of the review planned by the Strategic Housing Group.

- The proposed annual capital programme was revised to include only the identified strategic priorities; however, it still presents a challenge in terms of the capital receipts that were required over the next 2-3 years to fund the programme. The capital receipts targets for 2014/15 to 2016/17 were therefore 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. Should any capital receipts be realised within these 3 years, then the Council will consider 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

Some capital receipts have already been generated in 2014/15 and further sales are planned within the next few months.

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 £90k.

The MTFS includes an unsupported prudential borrowing requirement of £4.30m over the period 2015/20 – 2019/20. This is comprised of replacing the capital receipts targets for 2015/20 to 2016/17 with internal borrowing (£3.30m), and the £1m allocated for phase 2 (£1m) of the Local Authority Mortgage Scheme (LAMS). However, this scheme has now closed so alternative options will be considered. If no suitable alternative is available, then this borrowing will no longer be required.

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 £1,375k is expected to be received from external capital grants, of which £525k is the Disabled Facilities Grant.

Projected Capital Resources

Resources to fund the General Investment Programme 2015/16-2019/20 are estimated to be approximately £10.452 million, as follows:

	£'000
Capital Grants	1,375
Capital Receipts Brought Forward	92
Capital Receipts	2,385
Direct Revenue Financing	835
Prudential borrowing	5,765
TOTAL	**10,452**

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, exacerbated by the economic climate
- 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 incentivises landlords to manage their assets well and yield efficiency savings. There is now greater certainty about future income as councils are 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 now have greater flexibility to manage their stock in the way that best suits local need and provides more opportunity for tenants to have a real say in setting priorities looking to the longer term.

Self financing, however, also transferred significant 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.
- housing finances are effectively free from government control which means that the Council has to fund all activity related to council housing, from the income generated from rents, through 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.

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, is a "position statement" of the HRA and outlines the overall vision which is 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.

The Plan demonstrated that the outcome of self financing would be a positive one for the Council, with a balanced HRA over the 30 year period. In fact, having resourced the HRA and all the anticipated needs of maintaining the existing housing stock, considerable balances are expected to build up in the latter third of the 30 year period.

The first ten years of the original business plan showed a significant proportion of revenue resources were required to support the capital investment needed in the existing stock, with limited ability initially to invest in regeneration and redevelopment schemes, or to invest in large scale new build or property acquisition, or to look at improvements in service delivery for existing and future tenants. In order to release more resources for further improvement/investment in the short to medium term it would be imperative for the Council to continue to drive out inefficiencies in its operating costs, look to maximise the income streams available to the HRA and to ensure that it has a robust asset management plan in place for its housing stock.

Initial consultation on the Plan was undertaken with tenants in order to identify their priorities for the future in terms of regeneration/redevelopment, service delivery improvements, and investment in new builds. The Council will continue to develop the Plan and the opportunities that self financing will give to the Council and its tenants with the key area of focus being the development of an appropriately resourced asset management plan and investment strategy in order to deliver the longer term aspirations.

Spending Plans

In line with the development of the Strategic Plan 2012-17 and the supporting delivery plan the HRA Business Plan already includes the allocation of resources to support the delivery of the Council's strategic priorities. Since preparation of the initial plan, additional resources have been allocated to support the Council's neighbourhood working programme through an annual contribution to the General Fund. Further contributions towards additional services, identified as priorities by tenants, in the areas of anti-social behaviour, street cleansing and Health and Safety, have been made as well as addressing the increasing demand for aids and adaptations, asbestos surveys, external decorating stores and tipping, Homefinder and Keep Britain Tidy. The availability of these additional resources has been as a result of improvements in working practices, identifying savings within the Plan. Furthermore a successful joint procurement exercise with neighbouring authorities for a gas servicing contract has realised additional budget savings for both revenue and capital programmes over the MTFS.

With the exception of the items outlined above the proposed HRA budgets for the 5-year MTFS period are based on the continuation of the current levels of housing management and service delivery to tenants and do not provide for any further improvements or additional services. Any further savings that are released will be considered as part of ongoing consultation with tenants on investment priorities.

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, including lean systems interventions. 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 establishment 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. Through the review of the MTFS 2015-20 savings secured through the joint procurement exercise to re-tender the gas servicing contract have enabled resources to be redirected towards priority areas of 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 £750k reserve across the 5 year strategy to cover the costs of any unexpected or emergency repairs and maintenance liabilities. Further efficiencies achieved by the City Maintenance Service, and any reduction in costs achieved as a result of the establishment 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 new 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, the limited availability of external funding, and the impact of the economic climate on Right-to-Buy capital receipts, there is a reliance on the HRA to support the capital programme of £66.7m over the 5-year MTFS period.

The first 10 years of the 30 year Housing Business Plan show that the majority of revenue resources are required to support the capital investment required in the existing stock. However, as set out in more detail in Section 6, £10m has been identified over the MTFS period as being available as an additional contribution towards the house building programme. This funding has yet to be formally allocated to a scheme and currently sits within available resources carried forward in the HIP. It is currently projected that at the end of 2019/20 HIP unallocated resources will total circa £27m. With the exception of the £10m identified for house building it is anticipated that a significant proportion of the remaining £17m will be required at a later stage in the Business Plan. The value of the requirement will not be known for certain until the completion of a full stock condition survey when a more realistic projection of required expenditure will be available and the impacts have been modeled over the full 30 year period. Appropriate consultation with tenants on the use of any resources not required later in the Business Plan will then be undertaken. Revenue contributions continue to be the primary source of funding in the Housing Investment Programme and it remains critical that there is robust budget management of the HRA and opportunities to achieve efficiencies and maintain/maximise income streams are actively pursued.

Resources

Rents

The Government published its ‘Guidance on Rents for Social Housing’ in May 2014. This guidance changes the required approach to rent setting compared to the previous National Rent Convergence Policy which had been in place since 2002. The aim of the previous National Rent Convergence Policy was 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. The guidelines involved the setting of a “target rent” for each property calculated on a prescribed formula. Actual rents would then increase or decrease, over an implementation period, from the current rent for each property to reach “convergence” with its target rent.

The new Guidance on Rents for Social Housing makes a number of key changes to the previous approach. These changes, summarised below had been anticipated when setting the MTFS 2014-19 and therefore no changes to the rent setting approach has been made for the 2015-20 MTFS.

- A move from annual increases in weekly rents of RPI + 0.5%, to CPI + 1%, with effect from April 2015. The aim of this policy is to give 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.

- The removal of the ‘+/- £2 limit’ on the increase/decrease of a rent, available in addition to the above formula as a means of getting an individual rent to target, also with effect from April 2015. This flexibility had previously been available to landlords until April 2016

- To bring rent convergence forward by a year, to 1 April 2015 and to restrict those rents not at ‘target’ by that point, to moving to target rent on change of tenancy only.

The Council does have some flexibility to vary rents. However, given that the 30 year HRA Business Plan assumes adherence to this policy, there would be a significant impact in not following it. If the Council were to set rents higher than the Guideline then it would be penalised through the system the Government uses to reimburse councils for housing benefit payments as the level of benefit grant would be capped.

The MTFS 2014-19 assumed annual CPI at 2% for the calculation of rental income in years 2015/16 onwards. Inflation rates, however, during 2014/15 have remained low and the draft MTFS 2015-20 includes revised CPI rates of 1.2% for 2015/16 (being the actual CPI rate at September 2014) and 1.5% for 2016/17, reflecting the expectation that inflation rates will take more time to increase to the anticipates level of 2% across the remaining years of the MTFS. The reduction in the CPI rate from 2.0% to 1.2% in 2015/16 has resulted in a loss of rental income of circa £400k p.a. across the 5 year MTFS and the reduction in CPI from 2% to 1.5% in 2016/17 has resulted in an additional loss of circa £150kp.a . Loss of income is partially offset by reductions in forecast interest payable on external borrowing and increased investment income. However, there remains an underlying budget pressure of circa £330k p.a. Pending the outcome of stock condition surveys that will confirm the capital investment requirement over the remainder of the 30 year Business Plan an annual reduction in the revenue contribution to the Housing Investment programme has been made to accommodate the loss of rental income in the HRA.

The Council proposes to set the rents for 2015/16 in line with the Guidance for Rents for Social Housing. This has resulted in an overall average increase of 2.2%. The average 52 week rent will be £70.51 per week. The table below shows the impact that the increase will have on tenants.

	Impact on Tenancies	
	No.	**%**
Rent increase between £0.01 and £1.00	0	0.00%
Rent increase between £1.01 and £1.50	4,988	63.32%
Rent increase between £1.51 and £2.00	2,888	36.66%
Rent increase is greater than £2.00	2	0.02%
TOTAL	**7,878**	**100.00%**

Releasing Resources

As has been detailed in the preceding sections the move to self financing has shown that the outcome for the Council will be a positive one in the longer term, but that in the short to medium term there are, at this stage, limited resources available to make further improvements and investment.

In order to release any further resource to make improvements and investment, in line with tenants' needs and priorities, 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:

- Full stock condition survey and reassessment of the required investment in the housing stock (potentially reduced requirement for DRF)
- Implementing fair and appropriate charging regimes for services.

- 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:

- The increased overall financial risk to the HRA as a result of the move from the Housing Revenue Account Subsidy System to self financing, 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
- 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 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 Housing Business Plan.

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.

The 5-year programme comprises 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 improvement the environment of Housing areas and works on specific housing schemes.

- **New Build Programme** – annual budget of £0.750m for small council house building programme (approx 6 or 7 properties per year)

- **Shuttleworth House** - thermal efficiency scheme at Shuttleworth House multi story block

The Housing Business Plan incorporates investment in the main areas of work shown above; this includes an annual £750k allocation for investment in the building of new council houses. In addition resources have been identified for a thermal efficiency scheme at Shuttleworth House multi storey block. The scheme will support improved wellbeing of tenants and assisting them out of fuel poverty. The overall cost of the scheme is £3.2m although the Council may be able to access ECO funding currently estimated at £0.450m, leaving a net capital cost of £2.75m, if funding is secured. However, due to some uncertainty regarding the level of ECO funding available, the full cost of the scheme has been resourced within the HIP.

The programme does not at this stage include any allocation of resources to invest in regeneration and redevelopment schemes, or to acquire any properties which may become available and may be beneficial to future regeneration/redevelopment plans, or resource any priorities agreed through tenant consultation for investment in existing stock over and above the Decent Homes Standard. These areas will be reviewed and opportunities identified through the monitoring and further development of the Business Plan.

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 42% 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 need to identify a level of resource within the HIP to support the development costs.

In order to release the resources required to undertake these further improvements and/or investments, the Council will continue to drive out efficiencies in its operating costs, look to maximise the income streams available to the HRA and to ensure that it has a robust asset management plan in place for its housing stock. The next phase in the development of the 30-year Business Plan will focus on the development of an appropriately resourced asset management plan and investment strategy in order to deliver the Council's longer term aspirations. The investment projections within the HRA Business Plan were based on standard component replacement cycles and recent stock condition data shows that this was a worst case scenario budget. Following a high level review in 2014 of the current level of expenditure in the HIP, £10m was identified as being available to be released as an additional contribution towards the house building programme (supplementing the £5.250m Council House New Build Programme launched in 2013/14). It is currently projected that at the end of 2019/20 HIP unallocated resources will total circa £27m. With the exception of the £10m identified for house building it is anticipated that a significant proportion of the remaining £17m will be required at a later stage in the Business Plan. The value of the requirement will not be known for certain until the completion of a full stock condition survey when a more realistic projection of required expenditure will be available and the impacts of reducing expenditure in the MTFS have been modeled over the full 30 year period.

Resources

The resources necessary to fund the Council's HIP under the self-financing system 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 £49.0m.

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 £17.4m. This is less than in the original business plan as spending pressures and the need to maintain a prudent level of revenue balances has reduced the amounts available to transfer to the Major Repairs Reserve to support the capital programme. This has been partially offset by the reduction in HIP expenditure following a review of housing stock component replacement dates.

Capital Receipts

Under the self-financing arrangements, the government has made changes to the previous arrangement for pooling of HRA capital receipts. Under the revised pooling arrangement, capital receipts from Right-to-Buy (RTB) sales are pooled until a preset limit for government share of the income generated has been achieved. During 201415, non-RTB sales were 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 had been a source of regular capital receipts in the past but the number of sales significantly reduced after the onset of the economic downturn in 2008. The level of sales started to increase again in 2012/13, due to some extent to the increase in discount available to tenants. The projected level of Right-to-Buy sales has been assumed to be 20 in each of the years covered by the MTFS 2015-20 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.

No budget has been set for additional RTB receipts under the one-for-one (1-4-1) retention scheme however the approach to date has been to invest any retained receipts in the new build scheme, thereby increasing the scheme budget. The generation of additional RTB receipts also presents an opportunity to review the borrowing strategy, subject to adhering to the conditions contained within the 1-4-1 retention agreement and this will also be considered alongside proposed use of future 1-4-1 retained receipts.

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 £59.613m at the start of the MTFS 2015-20, which gives nearly £6.4m of borrowing headroom to support the capital programme. The new build programme is mainly funded from borrowing and £3.750m of the borrowing headroom available has been allocated to this scheme over the course of the MTFS.

Projected Capital Resources

Resources to finance the proposed £58.629m Housing Investment Programme 2015/16 – 2019/20, are currently estimated to be as follows:

	£000
Major Repairs Reserve (depreciation)	37,501
Direct Revenue Contributions	17,378
Grants & contributions	0
Right to Buys (RTBs)	0
Prudential borrowing	3,750
TOTAL	**58,629**

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 sees 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 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 million, over the period of the MTFS.

The general reserves at the end of each year for 2015/16 to 2019/20 are summarised in the table below.

	2015/16 £000	**2016/17 £000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
General Fund	2,010	2,330	2,674	2,237	2,026
Housing Revenue Account	1,004	1,002	1,008	1,006	1,101

The overall levels of General Fund and Housing Revenue Account balances in 2019/20 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.

GENERAL FUND BUDGET SUMMARY 2015/16 - 2019/20

	2015/16 Original £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Chief Executive & Town Clerk	782,570	794,640	809,260	823,460	841,070
Directorate of Development & Environmental Sustainability	5,484,730	5,376,480	5,341,960	5,472,910	5,556,510
Directorate of Resources	1,818,370	1,858,500	1,880,390	1,939,920	1,867,450
Directorate of Housing & Community Services	4,642,930	4,593,880	4,552,310	4,620,730	4,698,840
Corporate	1,641,410	1,804,640	1,824,100	1,846,240	1,867,770
	14,370,010	**14,428,140**	**14,408,020**	**14,703,260**	**14,831,640**
Capital Accounting Adjustment	(507,700)	(367,110)	(312,020)	(306,730)	(291,450)
Base Requirement	**13,862,310**	**14,061,030**	**14,096,000**	**14,396,530**	**14,540,190**
Specific Grants	(2,163,330)	(2,363,330)	(2,109,690)	(1,742,450)	(1,788,370)
Contingencies	778,760	549,730	549,120	589,300	493,200
Savings Targets	(484,890)	(904,470)	(761,250)	(825,110)	(796,790)
Transfers to / (from) earmarked reserves	339,330	693,360	45,583	189,440	54,020
Transfers to / (from) insurance reserves	24,080	27,650	31,400	26,620	21,420
Total Budget	**12,356,260**	**12,063,970**	**11,851,163**	**12,634,330**	**12,523,670**
Use of Balances	(233,319)	320,358	344,336	(437,171)	(211,679)
Net Requirement	**12,122,941**	**12,384,328**	**12,195,499**	**12,197,159**	**12,311,991**
Business Rates Retained	16,933,102	18,134,205	18,750,768	19,482,048	20,456,150
Tariff	(12,829,208)	(13,098,621)	(13,478,481)	(13,936,749)	(14,494,219)
Section 31 Grant	740,477	0	0	0	0
Provision for Backdated Appeals	(138,902)	(138,902)	(138,902)	0	0
Levy	(236,758)	(272,430)	(299,270)	(356,921)	(410,162)
Revenue Support Grant	2,585,331	1,920,768	1,303,187	732,807	287,341
Council Tax Surplus	164,406	0	0	0	0
NNDR Surplus/ (Deficit)	(732,169)	0	0	0	0
Council Tax	5,636,661	5,839,308	6,058,198	6,275,975	6,472,882
Total Resources	**12,122,941**	**12,384,328**	**12,195,499**	**12,197,159**	**12,311,991**
Balances b/f @ 1st April	**2,243,073**	**2,009,754**	**2,330,112**	**2,674,448**	**2,237,277**
Increase/(Decrease) in Balances	(233,319)	320,358	344,336	(437,171)	(211,679)
Balances c/f @ 31st March	**2,009,754**	**2,330,112**	**2,674,448**	**2,237,277**	**2,025,598**

GENERAL INVESTMENT PROGRAMME 2015/16 – 2019/20

	2015/16 Original £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Expenditure Programme					
Directorate of Development & Environmental Sustainability	2,758,380	700,000	700,000	700,000	700,000
Directorate of Housing & Community Services	446,770	0	0	0	0
Directorate of Resources	3,485,000	200,000	200,000	200,000	200,000
Chief Executive	0	0	0	0	0
Contingency	162,020	0	0	0	0
Total Programme Expenditure	**6,852,170**	**900,000**	**900,000**	**900,000**	**900,000**
Capital Funding					
Contributions from Revenue					
Opening balance	0	0	0	0	0
Received in year	835,000	0	0	0	0
Used in financing	(835,000)	0	0	0	0
Closing balance	0	0	0	0	0
Capital receipts					
Opening balance	321,550	229,530	229,530	229,530	229,530
Received in year	0	0	795,000	795,000	795,000
Used in financing	(92,020)	0	(795,000)	(795,000)	(795,000)
Closing balance	229,530	229,530	229,530	229,530	79,530
Grants & contributions					
Opening balance	0	0	0	0	0
Received in year	955,280	105,000	105,000	105,000	105,000
Used in financing	(955,280)	(105,000)	(105,000)	(105,000)	(105,000)
Closing balance	0	0	0	0	0
Unsupported borrowing					
Received in year	4,969,870	795,000	0	0	0
Used in financing	(4,969,870)	(795,000)	0	0	0
Closing balance	0	0	0	0	0
Total Capital Funding	**(6,852,170)**	**(900,000)**	**(900,000)**	**(900,000)**	**(900,000)**
Available Resources c/f @ 31st March	**229,530**	**229,530**	**229,530**	**229,530**	**229,530**

Appendix 3

HOUSING REVENUE ACCOUNT SUMMARY 2015/16 - 2019/20

	2015/16 Original £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Income					
Gross Rental Income					
- Dwellings rents	(28,501,860)	(29,127,420)	(29,968,960)	(30,833,050)	(31,805,710)
- Non-Dwelling rents	(561,470)	(575,130)	(592,510)	(610,390)	(630,200)
Charges for Services & Facilities	(599,260)	(607,330)	(615,680)	(624,370)	(633,320)
Contributions towards Expenditure	(28,840)	(29,680)	(30,540)	(31,430)	(32,340)
Total Income	**(29,691,430)**	**(30,339,560)**	**(31,207,690)**	**(32,099,240)**	**(33,101,570)**
Expenditure					
Repairs Account Expenditure	8,175,640	8,366,230	8,561,650	8,762,040	8,967,530
Supervision & Management:	6,179,560	6,287,930	6,398,090	6,513,390	6,613,330
Rents, Rates and Other Premises	16,750	17,210	17,660	18,130	18,630
Insurance Claims Contingency	218,120	229,030	740,490	252,510	252,510
Depreciation of Fixed Assets*	9,799,330	9,798,900	9,798,900	9,798,900	9,798,900
Debt Management Expenses	53,200	54,800	55,730	56,620	57,850
Increase in Bad Debt Provisions	483,970	494,530	508,690	523,220	539,560
Total Expenditure	**24,926,570**	**25,248,630**	**26,081,210**	**25,924,810**	**26,248,310**
Net cost of service	**(4,764,860)**	**(5,090,930)**	**(5,126,480)**	**(6,174,430)**	**(6,853,260)**
Loan Charges Interest*	2,408,760	2,462,960	2,497,830	2,532,710	2,551,830
- Investment Interest	(97,340)	(174,450)	(303,150)	(432,200)	(602,000)
- Mortgages Interest	(230)	(230)	(230)	(230)	(230)
Surplus on HRA for the year	**(2,453,670)**	**(2,802,650)**	**(2,932,030)**	**(4,074,150)**	**(4,903,660)**
Premiums Payable	400	30	0	0	0
IFRS technical adjustments	(400)	0	0	0	0
DRF used for Financing	2,481,690	2,739,940	3,363,760	4,034,370	4,758,660
Contribs to/(from) Reserves:					
- Insurance Reserve	81,880	70,970	(440,490)	47,490	47,490
- PI Survey	3,000	(6,000)	3,000	(6,000)	3,000
- Stock Condition Survey	0	0	0	0	0
- Repairs Account	0	0	0	0	0
(Surplus)/deficit in year	**112,900**	**2,290**	**(5,760)**	**1,710**	**(94,510)**
Balance b/f at 1 April	(1,117,165)	(1,004,265)	(1,001,974)	(1,007,734)	(1,006,025)
Balance c/f at 31 March	**(1,004,265)**	**(1,001,974)**	**(1,007,734)**	**(1,006,025)**	**(1,100,534)**

***** Includes embedded leases

HOUSING INVESTMENT PROGRAMME 2015/16 – 2019/20

	2015/16 Original £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
Capital Programme					
Decent Homes	6,852,970	7,617,040	8,773,480	8,900,930	9,345,980
Health and Safety	1,011,890	1,291,460	2,233,530	1,495,970	550,000
Environmental new works	250,000	250,000	250,000	0	0
New build programme	750,000	750,000	750,000	750,000	750,000
Shuttleworth House ECO scheme	3,050,000	0	0	0	0
Other schemes	1,229,600	457,730	466,890	476,230	375,000
Total Programme Expenditure	**13,144,460**	**10,366,230**	**12,473,900**	**11,623,130**	**11,020,980**
Capital Funding					
Contributions from Revenue					
Opening balance	10,163,160	10,046,340	12,966,000	14,401,800	17,358,990
Depreciation received in year*	9,795,950	9,795,950	9,795,950	9,795,950	9,792,920
Depreciation used in financing	(9,912,770)	(6,876,290)	(8,360,140)	(6,838,760)	(5,512,320)
Direct Revenue Financing received in year	2,481,690	2,739,940	3,363,760	4,034,370	4,758,660
DRF used in financing	(2,481,690)	(2,739,940)	(3,363,760)	(4,034,370)	(4,758,660)
Closing balance	10,046,340	12,966,000	14,401,800	17,358,990	21,639,590
Capital Receipts					
Opening balance	3,181,280	3,523,000	3,871,560	4,227,090	4,589,730
Right to Buy (RTB) receipts in year	341,720	348,560	355,530	362,640	369,890
Used in financing	0	0	0	0	0
Closing balance	3,523,000	3,871,560	4,227,090	4,589,730	4,959,620
Grants & Contributions					
Opening balance	0	0	0	0	0
Grants & contributions received in year	0	0	0	0	0
Used in financing	0	0	0	0	0
Closing balance	0	0	0	0	0
Unsupported borrowing					
Borrowing taken in year	750,000	750,000	750,000	750,000	750,000
Used in financing	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)
Closing balance	0	0	0	0	0
Total Capital Funding	**13,144,460**	**10,366,230**	**12,473,900**	**11,623,130**	**11,020,980**
Available resources c/fwd	**13,569,340**	**16,837,560**	**18,628,890**	**21,948,720**	**26,599,210**

* Excludes embedded leases

Appendix 5

BUDGET RISK ASSESSMENT

No.	Budget Item	Risk	2015/16		2016/17 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 – Changes in rateable values (e.g. appeals, economic downturn, changes in use) – Collection rates – Changes nationally to the valuation assessments of certain property/infrastructure (e.g. gas pipelines) – Pooling arrangements not continued past 2015/16	I	B	I	B	• 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

Appendix 5

No.	Budget Item	Risk	2015/16		2016/17 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	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 Lincolnshire 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	2015/16		2016/17 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)	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 • 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 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	2015/16		2016/17 onwards		Containment
4	Housing Rents and Property Voids	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 – reducing rental income Impact of welfare reforms on rent collection – covered in risk no. 15	II	B	II	B	• Produce regular budget monitoring reports • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • DHCS 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
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) ○ potential 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	I	C	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 • 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

Appendix 5

No.	Budget Item	Risk	2015/16		2016/17 onwards		Containment
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
7	Loss of income from partners	Key partners end existing agreements with the Council (e.g. City Hall leases and LCC sign up to the Tripartite agreement at Yarbrough Leisure Centre)	II	C	II	B	• Ongoing discussions and negotiations with key partners by senior officers and members • Accommodation Review Group assessing options for unitisation of City Hall • City Hall Accommodation is being marketed

No.	Budget Item	Risk	2015/16		2016/17 onwards		Containment
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 2015/16 Council Tax is below the existing referendum limit of 2% increase. Future increases are below 2% in years 2016/17 to 2019/20 • Annual increases in Council Tax considered alongside national expected increases

No.	Budget Item	Risk	2015/16		2016/17 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 • Alternative delivery options for homelessness currently being developed
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 SFiT, Corporate Management Team, Executive and Performance Scrutiny Committee • Lean systems intervention undertaken to identify efficiencies in the repairs service

No.	Budget Item	Risk	2015/16		2016/17 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. • Comprehensive asset management planning review underway (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
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 • Allowance of bad debts increased in respect of Housing Rents

No.	Budget Item	Risk	2015/16		2016/17 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

Appendix 5

No.	Budget Item	Risk	2015/16		2016/17 onwards		Containment
15	Universal Credit and Welfare Reforms	Impact of Universal Credit and welfare reforms on rent and council tax collection rates Potential TUPE and redundancy cost implications of proposed administration arrangements	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, the HRA Self Financing 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

No.	Budget Item	Risk	2015/16		2016/17 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	2015/16		2016/17 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	2015/16		2016/17 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 2014/15 to 2019/20

Description	Forecast Balance 31.03.15 £	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 £
IT Security Reserve	310,428	388,068	464,658	539,888	613,578	692,978
Invest to Save	996,791	971,101	1,292,451	1,292,451	1,292,451	1,292,451
Yarbrough Leisure Centre	18,300	18,300	18,300	18,300	18,300	18,300
Mayoral car	49,059	49,999	49,999	49,999	49,999	49,999
Member training	335	335	335	335	335	335
Managed Workspace	35,000	35,000	35,000	35,000	35,000	35,000
Corporate Management Training	15,000	15,000	15,000	15,000	15,000	15,000
Birchwood LC - bar area refurb/ legal costs	10,220	10,220	10,220	10,220	10,220	10,220
Member training programme	30,000	30,000	30,000	30,000	30,000	30,000
Private Sector Stock Condition Survey	880	12,880	24,880	36,880	48,880	880
Mercury Abatement	297,371	319,731	346,501	377,751	413,561	368,241
Boston Audit Contract	13,800	13,800	13,800	13,800	13,800	13,800
Air Quality Initiatives	0	5,510	11,020	16,530	22,040	27,550
Commons Parking	9,521	9,521	9,521	9,521	9,521	9,521
Grants & Contributions	381,618	378,548	299,788	297,788	295,788	293,788
Revenues & Benefits shared service	68,430	68,430	68,430	68,430	68,430	68,430
Tree Risk Assessment	120,440	140,440	160,440	180,440	200,440	220,440
Backdated Rent Review	180,000	220,000	260,000	300,000	340,000	380,000
Funding for Strategic Priorities	266,757	206,757	196,757	186,757	186,757	186,757
County Wide Broadband Initiative	34,000	34,000	34,000	34,000	34,000	34,000
MA Reserve	25,553	25,553	25,553	25,553	25,553	25,553
Local Authority Mortgage Scheme interest	116,427	157,927	199,427	207,497	207,497	207,497
Business Rates Volatility	725,000	725,000	725,000	725,000	725,000	725,000
Section 106 interest	6,657	6,657	6,657	6,657	6,657	6,657
Benefits - subsidy adjustment	100,000	100,000	100,000	100,000	100,000	100,000
Electric van Replacement	8,860	13,290	17,720	22,150	26,580	31,010
Growth Strategy Delivery Reserve	180,424	180,424	180,424	180,424	180,424	180,424
Transport Hub Risk Mitigation Reserve	124,061	124,061	124,061	124,061	124,061	124,061
Asset Improvement	328,590	671,200	1,044,070	1,044,070	1,044,070	1,044,070
NNDR Backdated Appeals	416,707	277,807	138,907	0	0	0
2013/14 Carry Forwards	51,330	51,330	51,330	51,330	51,330	51,330
City Hall lease implications	29,814	29,814	29,814	29,814	29,814	29,814
TOTAL GENERAL FUND	**4,951,375**	**5,290,705**	**5,984,065**	**6,029,648**	**6,219,088**	**6,273,108**

Appendix 6

HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2014/15 to 2019/20

Description	**Forecast Balance 31.03.15 £**	**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 £**
Growth Strategy	349,230	349,230	349,230	349,230	349,230	349,230
Housing Survey Works	126,539	129,539	123,539	126,539	120,539	123,539
Invest to Save	163,565	163,565	163,565	163,565	163,565	163,565
HRA Repairs Account	750,000	750,000	750,000	750,000	750,000	750,000
TOTAL HOUSING REVENUE ACCOUNT	**1,389,334**	**1,392,334**	**1,386,334**	**1,389,334**	**1,383,334**	**1,386,334**

Capital Strategy – 2015/16 to 19/20

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 2015-20 of £10.452m

- The Housing Investment Programme (HIP) with a budget for 2015-20 of £58.394m

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.

ALLOCATION OF ADDITIONAL RESOURCES IN SUPPORT OF STRATEGIC PLAN SCHEMES

Project Title	Additional Revenue Budget			Additional Capital Budget		
	2014/15 £'000	2015/16 £'000	2016/17 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Central Lincoln Transport Hub Feasibility Works	27	-	-	1,313		
Yarborough Leisure Centre	-	-	-	1,000	200	-
Visit Lincoln Partnership	25	25	-	-	-	-
Cycle to Work scheme (scheme part funded by external grant £19k)	-	-	-	32	-	-
Lincoln to Nottingham Rail Service	-	10	10	-	-	-
Incentivised Child Savings Account	20	-	-	-	-	-
Allocation of private interview space for third sector partner debt/money manage service providers	5	-	-	-	-	-
Support the Lincolnshire Credit Union	10	-	-	-	-	-
Support the Lincolnshire Credit Union	10	-	-	-	-	-
Improvements to Allotment sites to provide more sustainable living opportunities	25	50	-	-	-	-
Noise Abatement	6	-	-	-	-	-
Annual Poverty Conference	3	-	-	-	-	-
Houses in Multiple Occupation (scheme has ongoing revenue implications)	-	87	29	-	-	-
Entrepreneurial Council (Channel Shift)	-	100	-	-	-	-
Exploiting Marketing Opportunities	55	-	-	-	-	-
Reducing the Council's carbon footprint	-	-	-	-	100	-

The additional budgets set out above only include the allocation of new additional resources and do not include schemes already provided for within existing revenue and capital budgets.