APPENDIX A

Medium Term Financial Strategy

2014/15 to 2018/19

Contents

Foreword

Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2014-2019.

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

As we publish this Medium Term Financial Strategy (MTFS), the Council, like all other local authorities, continues to face unprecedented and uncertain times as it copes with the challenge of delivering public services with a much lower level of financial resources than previously. This continues to be the most challenging period that local government has faced for several decades as it deals with this prolonged period of austerity.

National and international economic circumstances have placed local government under considerable financial strain, most noticeably through the impact of the Government's Spending Review 2010 and the subsequent Spending Round 2013. Lower levels of government grant, downward expectations on the level of acceptable council tax increases and pressure on the generation of local income streams from fees and charges together with an increasing demand for council services, particularly from those most vulnerable, pose considerable financial challenges.

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 leading to a reduction in its annual expenditure of £5m, 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.

Although there are early signs for optimism in the UK economy with a return to economic growth this is unlikely to bring any relief for the public sector with the austerity measures here to stay until at least the start of the new decade. The Council has already received notification that it faces significant further reductions in funding over the next two years, with reductions in 2015/16 being the worse experienced so far, and with an expectation that reductions in local government funding are set to continue for the foreseeable future.

This coupled with a fundamental change in core funding mechanisms for councils which has introduced an exceptional level of uncertainty and unpredictability, inevitability means that the Council must continue to reduce its levels of expenditure or identify additional resources if it is to remain sustainable.

The Council is no longer in a position to continue to fund the breadth, depth and quality of services that it currently offers and continues to be faced with some very difficult decisions. 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 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, and it will continue to build on its record of delivering new and better ways of doing things in order to keep public services running in these tough times.

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 priority areas, 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 sets out a vision for how the Council will play its part in addressing the needs of the City and sets out a range of key priorities where activity will be focused. 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.

Following a fundamental review the Council's current Strategic Plan 2012-17 confirmed a new vision, core values and five strategic priorities and was supported by a delivery plan through to the end of 2014, which itself consisted of a number of key projects scheduled to be progressed over the two year period. Work is now commencing on the development of a new delivery plan which will cover the remaining three year period of the overarching 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 reducing the level of 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 and the acceleration of some long-term global trends (euro area sovereign debt crisis, the US 'fiscal cliff' and slowing growth in emerging markets), resulting in a patchy and at times uneven recovery from recession.

However, 2013 bought with it some early cause for optimism with indications that the global economy is beginning to recover from the recession, albeit there remain a number of triggers for a renewed flare up and concern that the recovery could be more tepid than normal.

- Following six successive quarters of recession in the Eurozone, the longest period of contraction experienced, tensions now appear to have begun to ease and seem to have entered a phase of modest recovery with three successive quarters of growth. Worrisome public finances, limited investment demand and tight credit conditions continue though to subdue this growth.

- Despite the impact of its March 2013 spending cuts the US economy is also forecast to have growth strengthening in 2014. This outlook though is dependent on the progress of the further budget and fiscal negotiations, concluded in December 2013 but, scheduled to be implemented in the first half of 2014.

- Growth in major emerging markets, who have been the source of major global growth over the last five years, has though begun to slowdown with disappointing results during 2013.

Whilst it is clear that overall global recovery is beginning to take hold, albeit moving at a slow speed, there are real grounds for optimism that the UK economy is finally on the road to recovery.

The UK economy gained momentum through 2013 with a return to growth exceeding all forecasts. After avoiding recession in the first quarter, with a 0.3% quarterly expansion the economy grew a further 0.7% in the second quarter , 0.8% in the third quarter and 0.7% in the final quarter, this equates to overall growth in GDP of 1.9% for the year, far exceeding the Office of Budget Responsibility (OBR) forecast of 1.4%. This growth of 1.9% is the strongest rate of growth since 2007, before the financial crises took hold, and the UK is now seeing a faster expansion of economic activity than most of the Eurozone. Reflecting this increased momentum the OBR has revised its forecast for growth up 1.8% to 2.4% in 2014, with further forecasts of growth of 2.2% in 2015, 2.6% in 2016 and 2.7% in 2017 and 2018. Furthermore the government remains on course to meet the fiscal mandate 1 year early with the anticipation of a small surplus on its current balance in 2018/19 with public sector net borrowing forecast to also be in surplus by 2018/19.

The latest Consumer Price Index (CPI) for January 2014 showed an annual rise of 1.9%, the lowest level for the last four years having fallen back more than expected during 2013 from a peak of 2.9% in June, this now sits below the Government's target rate of 2%. Similarly the Retail Price Index (RPI) fell back during the latter half of 2013 but with a slight increase during January with an annual rise of 2.8%. The latest forecasts for CPI are that it is likely to remain slightly above but close to the Government's target rate of 2% during 2014 and 2015, falling back to 2% during 2016. RPI is set to follow a slightly different profile to CPI, falling during 2014 and then increasing slowly from 2015 onwards, reaching 4% in 2018. Short term interest rates remain at historically low levels with The Bank of England's Monetary Policy Committee in December 2013 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 early 2015.

Whilst the overall balance of risks to economic recovery in the UK is now weighted to the upside only time will tell just how long this period of strong economic growth will last given that it remains exposed to vulnerabilities in a number of key areas. Furthermore despite the current momentum being experienced in the UK economy, the improvement in the UK's fiscal forecast has not been solely as a result of this. Elimination of the UK's deficit will still require the government to continue with its deficit reduction plan and returning public finances to a sustainable position.

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 41% in Government funding assessments over the period 2011/12 – 2015/16, equivalent to £20bn.

- A reduced ability to generate capital receipts and falling property values affecting the affordability of the investment programmes with the financing of schemes being reliant on the sales of council assets.

- The continuing poor performance of the property market has resulted in a further reduction in the market value of the Council's property holdings. In 2012/13 there were net downward revaluations and impairments of £5.413m in the market value of the Council's property holdings.

- 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.

- 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 in 2013/14 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 council tax, housing rents, and other council charges, as household income reduces through welfare reforms and the impact of the economic climate, has resulted in further 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 on a monthly rather than weekly basis. 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 discounts and housing benefits continues to increase, with currently 12,250 households (28%) in the City in receipt of housing benefit and/or council tax discounts. Although the overall caseload has only fluctuated marginally over recent years 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 2200 change of circumstances and 300 new 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 Government's intention to reduce the UK's current budget deficit and level of government debt, through public spending control, is well documented and was extremely evident in the announcement of the last Spending Review in 2010, subsequent Budget announcements and the most recent Spending Round in June 2013.

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.

Subsequently in the Chancellor's Autumn Statement 2012 these reductions were increased by a further 2% for 2014/15.

Further reductions were again announced in the Chancellor's Budget Statement in March 2013 with reductions in DEL's of 1% in 2013/14 and a further 1% in 2014/15. As the local government finance settlement had already been agreed local authorities were protected from the cut in 2013/14 but were to be subject to the further reduction in 2014/15.

Spending Round 2013

Despite these unprecedented reductions in public expenditure the Government's plans to balance public finances through austerity measures were not progressing as quickly as had been planned and the Chancellor's 2013 Spending Round in June paved the way for a further wave of reductions in DEL's for 2015/16. In total public current expenditure is set to reduce by £11.5bn in 2015/16, while capital expenditure will be increased by £3bn a year from 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. The Review itself did not provide any details of how the figure of 10% had been arrived at other than it included one-off and time-limited funding. In fact within those figures where 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 figures announced in the subsequent Local Government Finance Settlement for 2014/15 and 2015/16 actually show a cash reduction for local authorities of £3.1bn, equivalent to a 13.2% reduction from the 2014/15 baseline, the highest level of reduction since the onset of the austerity measures. This reduction in funding has not evenly impacted upon local authorities with some authorities experiencing reductions as high as 16%.

A summary of the other measures included in the Spending Round 2013 announcement, relevant to local authorities, were as follows:

- The Government will make additional funding available in 2014/15 and 2015/16 for local authorities who choose to freeze their council tax, and plans to set the council tax referendum threshold at 2 per cent for 2014/15 and 2015/16.

- Budget 2013 had previously announced that public sector pay awards in 2015/16 would be limited to an average of up to 1%, which can be expected to have a strong influence on any local government pay award. The Spending Round announced further action to ensure that public sector workers do not receive an automatic pay increase purely as a result of time in post, as yet this does not apply specifically to local government workers.

- Consultation on the local government finance settlement for 2015-16 will be undertaken in the normal way (November 2014), recognising that some local authorities are more dependent on central funding than others.

- For the first time the Government will introduce a cap on its overall welfare spending, rather than just individuals. The cap will be set at the Budget for four years, starting in April 2015 with a cap of £100bn.

- Building on the current regime, a further package of welfare reforms designed to support claimants into work are to be introduced, anticipated to deliver a further £350m in annual savings.

- A new Single Local Growth Fund is to be created providing £2bn a year, which will be under the direct control of the Local Enterprise Partnerships and accessed via a bidding process. This brings total funds under the control of the LEP's to over £20bn over the life of the next parliament. The allocation of the £2bn a year as primarily come from diverting existing departmental budgets and, at the time of the announcement, included the 'pooling' of £400m of New Homes Bonus from local authorities, with joint agreement to be made on how it is to be spent across the LEP.

- £100m is to be made available to local authorities in a collaboration and efficiency fund to enable the re-engineering of service delivery and the realisation of efficiencies.

- A change from current policy on annual social rent increases from 2015/16 onwards, with a move away from annual increases of RPI + 0.5% to an annual increase of CPI +1%. The Treasury predicts that this will result in savings of some £405m pa through reduced housing benefit payments.

- New funding of £3.3bn between 2015/16 – 2017/18 was announced to deliver 165,000 new affordable homes with a further £160m for Decent Homes work in 2015/16.

Autumn Statement 2013

The Chancellor's Autumn Statement 2013, whilst again announcing further reductions in DEL's for 2014/15 and 2015/16, protected local government on the basis that this would allow local authorities to freeze council tax levels over the two-year period.

Key announcements for local authorities focussed around support to businesses through various reliefs and discounts to Business Rates and support to housing through both planning and social housing aspects, the key initiatives being;

- Business rates in England and Wales to be capped at 2% in 2014/15 rather than linked to RPI inflation

- Retail premises with a rateable value of less than £50,000 to get a discount of up to £1,000 on their business rates in 2014/15 and 2015/16.

- Introduction of a temporary reoccupation relief granting a 50% discount from business rates for new occupants of previously empty retail units for 18 months.

- Small Business Rate Relief to be extended for a further 12 months from 1 April 2014.

- Businesses in receipt of Small Business Rate Relief are to be allowed to keep it for an additional year when they take on an additional property that would currently cause them to lose the relief.

- A commitment to resolve 95% of outstanding appeals cases by July 2015 and a consultation in 2014 on changes to provide greater transparency over how rateable values are assessed, improve confidence in the system and allow well-founded challenges to be resolved faster, preventing backlogs building up in the future.

- A discussion with businesses, options for longer-term administrative reform of business rates post-2017, which maintains the aggregate tax yield.

As with the Small Business Rate Relief in 2013/14, local authorities will be refunded for the loss in revenue resulting from the above changes to business rates through the New Burdens Doctrine. However, local authorities are yet to receive any grant allocation in respect of 2013/14.

- Funding for new affordable homes will be made available by increasing the Housing Revenue Account borrowing limit by £150m in 2015/16 and £150m in 2016/17, allocated on a competitive basis forming part of the Local Growth Fund.

- Creation of a £1bn, 6-year programme to fund infrastructure to unlock new large housing sites, supporting delivery of around 250,000 homes.

- An announcement that the Government will not pursue the proposal to pool some of the New Homes Bonus as announced in the Spending Round 2013.

- The Local Growth Fund will be maintained at the £2bn in 2015/16 as announced in the Budget 2013, without including New Homes Bonus, by allocating £110m from the Regional Growth Fund along with the HRA borrowing and an element of the large sites funding outlined above.

- Further support for Right to Buy's will be provided by introducing Right to Buy Agents to help buyers complete their home purchase, and provide £100m to establish a fund to increase Right to Buy sales, by improving applicants' access to mortgage finance.

- Options are to be explored for kick starting the regeneration of some of the worst housing estates through repayable loans.

The Statement also announced that the Government will 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.

These changes saw 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. They also saw the localisation of Council Tax Support from central to local government. Both of these fundamental changes transferred transfer significant financial risk to local authorities making financial planning highly unpredictable and increasingly uncertain and complex.

To add further to the challenges faced by local authorities and the uncertainty over the availability of future resources, despite the significant reductions in DEL's and the resulting reductions in local authority funding already experienced, the Chancellor has already made it clear that the austerity measures will need to continue, and on the same trajectory, until at least 2018.

Against this backdrop of unprecedented and continuing funding reductions and transfer of financial risks the introduction of many of the government's other public service reforms have begun to take place. These primarily focus on welfare reform with the introduction of the Universal Credit, the benefits cap and constraints on under occupation (the 'bedroom tax') all with unpredictable impacts on services and households; along with several reforms affecting social housing including a move towards higher, market related rentals.

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 eleven 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 national average. Additionally, Lincoln's high rate of 16-18 year olds not in education, employment or training, and above average unemployment rate, impact on the economic well-being of people in the city

Overall, 28% of council tax payers receive Housing Benefit and/or Council Tax support. Only around 0.4% of properties fall within council tax bands G and H, and 80% fall within the lowest bands A or B, currently paying £3.60 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 or 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. 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:

- **Growing 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.

- **Protecting the poorest people in Lincoln** from the hardship effects of the current recession.

- **Increasing the supply of affordable housing** to meet increasing demand**.**

Significant progress will still be made in the other priority areas, for instance 'Developing a fit for purpose council' underpins all activity of the council, but the core focus will be on the above three aspects.

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 financial context in which the Council operates becomes ever more uncertain and the level of financial risk remains at unprecedented levels.

In line with the Strategic Plan 2012-17 and the development of a new 3-year delivery plan, the General Fund revenue account at this stage only outlines the potential financial envelope available to resource such a forward programme. Key contributions to the delivery plan and the allocation of the resources will emerge from the Council's Growth Strategy, Affordable Housing Strategy and Anti-Poverty Strategy. Work on these three strands will see commitments for the next three financial years take shape by March 2014 with approval of the new delivery plan scheduled for early June 2014.

Current unallocated resources of approximately £300k are available to be utilised towards resourcing the delivery plan. These resources have been identified from the setting aside of an element of the Council's New Homes Bonus grant allocation. This grant is a non-ringfenced 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 Council's initial priority in any year is that the New Homes Bonus will be used to finance general council expenditure and maintain service levels and/or keep the level of council tax to a minimum. The Council did just that in previous using its grant allocation in order to support general expenditure and avoid the requirement to achieve higher savings targets and make deeper cuts into council services. It also previously set aside elements of the grant allocation to resource the priority schemes identified in the delivery plan supporting the first two years of the Strategic Plan 2012-17, as well as setting aside resources to invest in the Council's corporate assets.

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 2014/15 assumes a 1% pay award in line with the Chancellors Budget 2013 (and re-iterated in the Spending Round 2013) which announced a restriction on public sector pay awards of 1% pa up to and including 2015/16, from 2016/17 onwards the MTFS assumes a pay award of 2% pa.

Although these announcements do not specifically apply to local government pay, which is subject to joint national agreement, they are likely to act as a beacon to any local government pay agreement.

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

	2014/15	**2015/16**	**2016/17 – 2018/19**
	% per year	**% per year**	**% per year**
Pay	1%	1%	2%
General	2%	2%	2%
Contractual Commitments	3%	3%	3.5%
Non domestic rate	2%	3%	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 3% for 2014/15 – 2015/16, increasing to 3.5% for 2016/17 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 £33k 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, the initial results identify 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 –

<u>Assets</u> - 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.

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

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

<u>Post retirement experience</u> – 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) will fundamentally change. The main change is that benefits will no longer be based on members final salary at retirement, but will be based on members Career Average Revalued Earnings (CARE).

In addition, as part of the changes to the scheme all employees will be automatically enrolled into the pension scheme and will have to opt out if they do not wish to participate. Currently employees have to opt in to the scheme. The effect of this change is likely to increase the numbers of staff remaining in the pension scheme and therefore the Council will have an increased employer contribution. It is estimated that this will be £30k per annum (based on a 20% retention rate).

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 that the current contribution rate of 23.3% pa will increase by 1% to 24.3% from 2014/15 onwards. 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

As part of the Budget 2013, the Chancellor announced that changes to the single-tier state pension would be implemented from 2016/17. Once this policy change on pensions is implemented the National Insurance (NI) rebate of 3.4% the Council presently receives 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 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 £208k per annum from 2016/17.

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 £79k on the General Fund and HRA in 2014/15.

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

	2014/15 %	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Interest Rate	0.6%	0.7%	1.1%	2.1%	2.8%

Based on the current forecasts for interest payable on new borrowing (averaging around 4.4%) and receivable on investments (averaging around 0.6%), 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. 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 MTFS does assume that new borrowing will be taken to fund the Council House new build programme to take advantage of currently low interest rates on long term borrowing. This will minimise the costs of borrowing over the HRA 30 year Business Plan.

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.

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. Up to date stock condition surveys of all corporate properties have recently been undertaken and will be completed in early 2014; this will then determine the level of work required for both capital and revenue purposes over the next five years.

In order to address the most urgent and essential work, i.e to ensure the properties remain statutorily compliant, additional revenue resource of £329k has been allocated from the rental income from assets held for sale budgets. It is anticipated that the majority of this urgent work is of a revenue nature, however should there be a capital element then the resources will be transferred to the capital programme. In addition a further £716k has been set aside from unallocated Year 2 NHB grant allocations for further planned maintenance works, it is anticipated that the majority of these works will be of a capital nature, these resources will therefore be transferred to the capital programme.

Resources

Revenue Support Grant/National Non-Domestic Rates

The 2014/15 finance settlement represents the second year in which the Business Rates Retention (BRR) scheme is the principal form of local government funding, other than council tax income.

As in 2013/14, the settlement 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 2014/15 will determine the funding it receives for this element of its funding.

The settlement covers a two year period consisting of a settlement for 2014/15 and illustrative figures for 2015/16; the financial position after those 2 years is unlikely to be unknown 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 2013/14 and 2014/15 is a reduction of 9.4%. For 2015/16 the decrease is even greater at 13.2%. These reductions confirm that local authorities will continue to face significant spending reductions up to 2016.

In comparison to the technical consultation on the settlement undertaken following the Spending Round 2013 there is an £129m more in the SFA for 2014/15 and £131m more for 2015/16. This has been found by reducing holdbacks and demonstrates that the concerns of the LGA and councils were listened to.

The table below sets out the changes to the overall SFA between 2013/14 and 2015/16.

	£m
2013/14 Adjusted SFA*	26.256
2014/15 SFA	23.786
£m change on previous year	(2.471)

% change on previous year	**(9.4%)**
2014/15 SFA	23.786
2015/16 SFA	20.651
£m change on previous year	(3.135)
% change on previous year	**(13.2%)**

* The adjusted figure for 2013/14 allows for the inclusion of the 2013/14 Council Tax Freeze Grant into RSG and the inclusion of funding for rural authorities into the SFA figure.

Whilst previously local authorities would have received the above national funding level (SFA), of £23.786m, through Formula Grant, it is now split between Revenue Support Grant and the BRR system as per the table below:

	2013/14 Adjusted	**2014/15**	**Change**	**2015/16**	**Change**
	£m	**£m**	%	**£m**	%
SFA	26.256	23.786	**(9.4%)**	20.651	**(13.2%)**
Funded through:					
BRR	10.897	11.111	**2.0%**	11.418	**2.8%**
RSG	15.359	12.675	**(17.5%)**	9.233	**(27.1%)**

In announcing the settlement the Secretary of State also announced that local authorities will face an average reduction in spending power of 2.9% and that no local authority would experience a decrease of more than 6.9%. 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 2.8% for 2013/14 and 3.6% for 2015/16.

Impact on the Council

The Council's SFA as announced in the settlement is based upon 2013/14 adjusted funding levels, as the Council did not accept the Council Tax Freeze Grant in 2013/14 and is not eligible for the Efficiency Support Grant for Rural Areas, the SFA for 2013/14 remains unchanged at £8.341m. The SFA for 2013/14 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 2014/15 and 2015/16 is as follows:

	Adjusted 2013/14 £m	2014/15 £m	2015/16 £m
Formula Funding	8.073	6.920	5.792
Specific Grants rolled in			
Council Tax Freeze 2011/12	0.157	0.156	0.156
Homelessness Prevention	0.111	0.109	0.110
Returned Funding	0	0.10	0
Settlement Funding Assessment	**8.341**	**7.196**	**6.057**
Year on Year % Change		**(13.7%)**	**(15.8%)**
National Figures	**26.256**	**23.783**	**20.651**
Year on Year % Change		**(9.4%)**	**(13.2%)**

It is important to note that the 2014/15 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

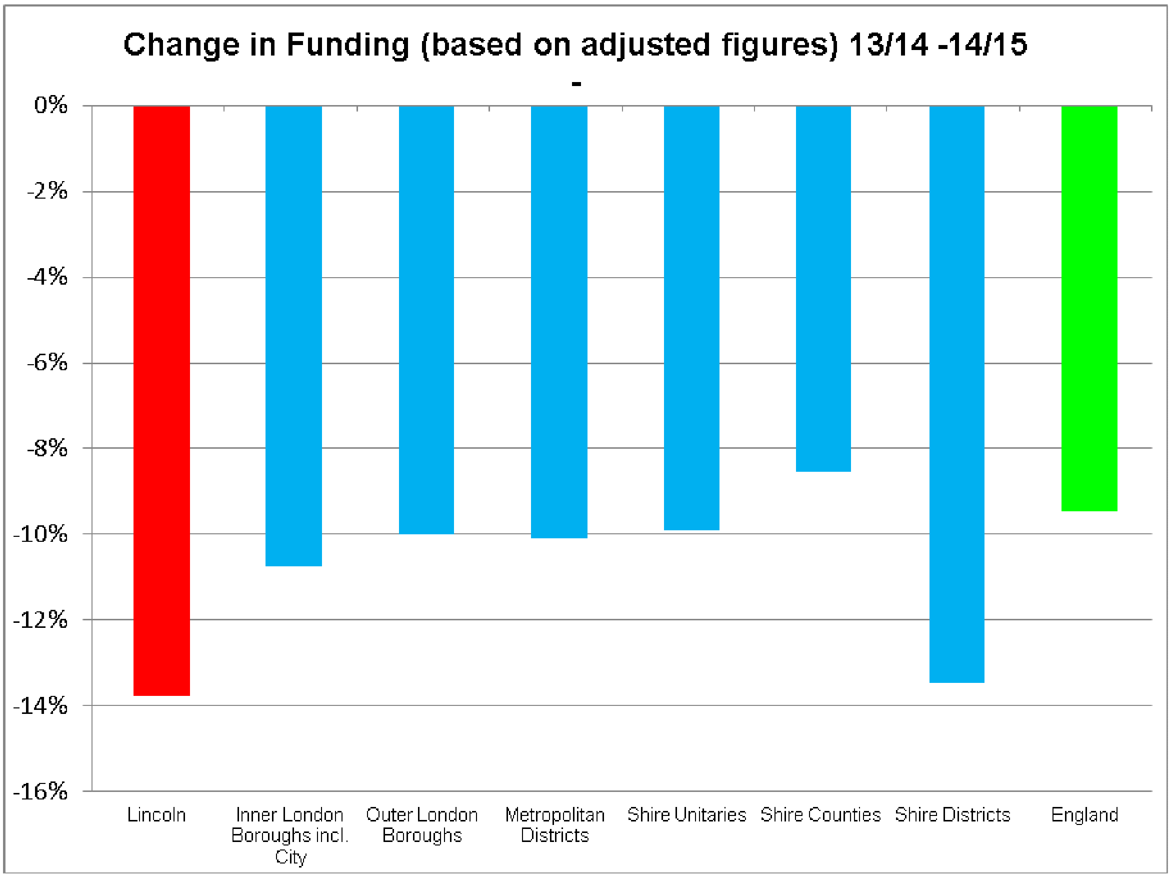
The Government do not plan to update the SFA figure to take these factors into account until the next reset of the BRR system, currently expected to be in 2020/21 at the earliest.

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:

	2013/14 £m	2014/15 £m	Change £m	Change %
Revenue Support Grant	5.008	3.799	(1.209)	(24.1%)
BRR – Baseline Need	3.332	3.397	0.065	2%
Settlement Funding Assessment	**8.340**	**7.196**	**(1.144)**	**(13.7%)**

	2014/15 £m	2015/16 £m	Change £m	Change %
Revenue Support Grant	3.799	2.566	(1.233)	(32.5%)
BRR – Baseline Need	3.397	3.491	0.94	2.7%
Settlement Funding Assessment	**7.196**	**6.057**	**(1.13*)**	**(15.8%)**

The graph below shows how the Council's reduction for 2014/15 compares with the average for England and the other types of local authorities. As can be seen Shire Districts have faired the worse of all authority types with average reductions of 13.5%, with Lincoln's reduction being in excess of this at 13.7%, being one of the highest reductions within England the highest being 13.8%.



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 indivdual 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:

	2014/15 £m	**2015/16 £'000**
Baseline Need	3.397	3.491
NDR Baseline	15.986	16.427
Tariff Amount	**(12.589)**	**(12.936)**

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 2014/15 and estimated this to be £40.922m. A fixed proportion of this estimated yield will be payable to Central Government (50% share which amounts to £20.461m) and a fixed proportion will be payable to Lincolnshire County Council (10% share which amounts to £4.092m). The remaining 40% estimated balance of £16.369m will be retained by the Council. In addition; the Council will also receive S31 grant of £0.753m to compensate for the Autumn Statement 2013 measures; and has to take account of outstanding backdated appeals equating to £0.240, taking retained income to £16.882. After deducting the required tariff of £12.589m, the anticipated funding from NDR reduces to £4.293m.

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 £4.293m, which is £896m higher than the Baseline Need, a 50% levy would reduce the Council's estimated income to £3.845m for 2014/15.

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 2014/15 the Council along with the County Council, who are a top up authority, and four 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 £0.448m for 2014/15 as identified above will therefore be retained within the pool and allocated 40% to the County Council, £0.180m, and 60%, £0.269m being retained by the Council. The Council's estimated income from the BRR scheme, post levy, for 2014/15 is therefore £4.114m.

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 £3.142m. Therefore the estimated income, pre levy, of £4.293m would need to fall by £1.151m before the pool would protect against further losses, this equates to a reduction of 7.3% 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 2014/15 the Council has estimated that growth in its annual level of NDR collected will be 0.5% pa for 2015/16 – 2016/17 increasing to 1% pa for 2017/18 – 2018/19.

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	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Forecast NDR Income	16.369	17.320	18.352	19.196	20.156
Top-up/(Tariff)	(12.589)	(12.936)	(13.363)	(13.844)	(14.398)
S31 Grant	0.753	0.361*	0	0	0
Backdated appeals	(0.240)	(0.240)	(0.240)	(0.240)	(0.240)
Pre-levy income	**4.293**	**4.504**	**4.749**	**5.112**	**5.518**
40% Share of retained Levy payable to LCC	(0.179)	(0.203)**	(0.229)	(0.275)	(0.327)
Retained Income	**4.114**	**4.301**	**4.520**	**4.837**	**5.192**

* Estimated income assumes Small Business Rate Relief extension ends as at 31 March 2015.
** 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 2014/15 is £3.799m and £2.566m for 2015/16, a total reduction from 2013/14 of 49%. As the national BRR element of the SFA is forecast to increase over the settlement period, as a result of annual inflationary increases, Government reductions to the total level of local authority funding will therefore requirement 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.

Based on the anticipation of further reductions in funding for local authorities, on a level similar to that already experienced the MTFS prudently assumes that there will be an average reduction of 8% pa, from 2016/17 – 2018/19, in the national level of funding for local government. This equates to a reduction in the Council's RSG of approximately 23% in 2016/17 and 27% pa in 2017/18 and 37% in 2018/19. The level of RSG forecast to be received in 2018/19 is £0.906m, a reduction of 82% from 2013/14.

Council Tax

The Spending Round 2013 announced additional support for councils to help them freeze council tax for the next two years. The Government has set aside £833m which will be made available to those authorities who decide to freeze or reduce their council tax in 2014/15 and 2015/16. If councils chose to freeze their council tax in 2014/15 they will receive funding in both financial years 2014/15 and 2015/16, 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%. Unlike previous allocations of freeze grant the Government have with these latest grants confirmed in the Finance Settlement that the funding will be baselined in RSG in the next Spending Review in 2015. This therefore removes the 'cliff edge' that has been created in previous years.

Should the Council accept the grant and freeze council tax levels it would result in the following reduction in income:

	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
1.8% Council Tax forgone	96	196	202	208
Council Tax Grant received	(67)	(134)	(134)	(134)
Net Loss of Income	**28**	**62**	**68**	**74**

This equates to a loss of £90k income over 2014/15 and 2015/16 and a further ongoing loss of around £70k, a total loss of c£310k 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 23% in 2015/16, further undermining the financial position of the Council. In comparison a modest increase of 1.8 % for 2014/15, equates to an additional 6p 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 2014/15.

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 2013/14, 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 2014/15, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

	2014/15	2015/16	2016/17	2017/18	2018/19
% Increase	1.8%	1.8%	1.8%	1.8%	1.8%
Council Tax Base	22,111	22,386	22,665	22,946	23,230
Council Tax Yield	£5,418,647	£5,584,934	£5,756,391	£5,933,140	£6,115,301
Band D	£245.07	£249.48	£253.98	£258.57	£263.25

For 2014/15 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £245.07, a 1.8% increase from 2013/14.

Following implementation of the localised council tax support scheme in 2013/14 (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 5,458 relating to the council tax support scheme in 2014/15 and future years. This is similar to levels assumed and realised during 2013/14. 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 3 of the grant have resulted in an allocation of £1.175m with a further £548k announced for Year 4 of the scheme in 2014/15. Although it becomes increasingly difficult to predict the level of new homes to be built, even more so given the current housing market, a prudent assumption of £200k pa in 2015/16 and 2016/17, £300k pa in 2017/18 and £400k pa from 2018/19 have been assumed. 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 2014/15 and the assumptions made for 2015/16 onwards in respect of the specific grants the Council receives, are shown below:

Grant Name	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Housing Benefit & Council Tax Benefit Administration	770	741	741	741	741
Council Tax Support New Burdens	93	0	0	0	0
Community Right to Bid	8	0	0	0	0
Community Right to Challenge	9	0	0	0	0
2014/15 New Homes Bonus Adjustment	12	0	0	0	0
New Homes Bonus	1,723	1,923	2,123	1,869	1,502
TOTAL	**2,615**	**2,664**	**2,864**	**2,610**	**2,243**

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 4.7%, however this includes a number of fees that have been increased by significantly higher percentages. Therefore for context and to discount the variations a more appropriate average is either the mode (the most popular increase), which is 0%, or the median (middle value) at 3%, which is in line with the required overall yield increase of 3% approved by the Executive and both the December 2013 retail price index (RPI) of 2.7% and the September consumer price index (CPI) of 2.0% which the Council would normally use as a proxy for its average annual increase.

In comparison to the original estimate used in the Medium Term Financial Strategy 2013-2018 this is an increase of £277,120.

This increase is due to the charging for green waste (as part of the Towards Financial Sustainability Saving Target), which is anticipated to yield £398,400 in 2014/15, this is in the main partially offset by the cessation of the Walk and Ride service (although it should be noted that overall this will create an overall net saving to the Council of £37,800 in 2014/15).

Bridging the Gap

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 a severely reduced funding envelope.

This challenge is not new to the Council and it has in recent years undergone significant reviews of its services leading to a reduction in its annual expenditure of £4m, between 2008 and 2012, 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. Despite this achievement the Council must continue to reduce its levels of expenditure or identify additional resources if it is to remain sustainable.

Following a comprehensive review, during 2012, of the services the Council delivers, and the way that it delivers them, and in light of its refocused strategic priorities, a new strategy to address the funding reductions that the Council faces was launched. The 'Towards Financial Sustainability' Programme aims to achieve a sustainable financial position whilst minimising the impact on front line services.

Acknowledging the financial pressures that the Council faced the MTFS 2013-2018 outlined the following challenging savings targets to be delivered through the Towards Financial Sustainability Programme:

2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
1,000	2,000	2,500	3,000	3,000

In order to deliver theses savings the Programme concentrates on the following key strands (including a sixth strand added for year 2 onwards):

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

Year one of the Programme as been successful in delivering the target for 2013/14 and has made considerable progress towards the target for 2014/15 and future years. 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 2013, 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	2017/18 £'000
MTFS savings target	**1,000**	**2,000**	**2,500**	**3,000**	**3,000**
Achieved	(1,047)	(1,843)	(1,863)	(1,905)	(2,101)
Total savings still required	**(47)**	**157**	**637**	**1,095**	**899**

It is important that the Council maintains the pace and extent of changes that it achieved through its review programmes as it moves forward with the second year of the Towards Financial Sustainability Programme. It must seek to continue to make changes across a range of activity including how it delivers these services, the organisational structures of these services and the use of the it's assets in the delivery of these services.

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.

Following development of the new delivery plan to cover the remaining 3 years of the current Strategic Plan early in 2014 existing resources within the GIP will be reviewed and re-prioritised to meet strategic objectives. This will mainly involve consideration of alternative delivery options and priorities for existing allocations for affordable housing. The resources which are available for review/re-prioritisation are summarised below.

Existing Capital Scheme	Budget 2014/15 £m	Budget 2015/16 £m	Budget 2016/17 £m	Budget 2017/18 £m	Budget 2018/19 £m
Compulsory Purchase orders	0.139	0	0	0	0
Home Improvement grants	1.225	0.725	0.725	0.725	0.725
Housing Renewal areas	0.415	0	0	0	0
Subtotal	1.779	0.725	0.725	0.725	0.725
Savings target	*(0.200)*	*(0.200)*	*(0.200)*	*(0.200)*	*(0.200)*
Total	**1.579**	**0.525**	**0.525**	**0.525**	**0.525**

The GIP 2014/15 – 2018/19 is included in Appendix 2.

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. 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.

Following approval of proposed changes to the leisure services contract by the Executive in November 2013 discussions will be undertaken with the Council's leisure services supplier during the coming year to propose up to £1m-£1.2m capital investment by the Council in Yarbrough Leisure Centre, detailed expenditure plans are not yet included within the GIP. As detailed in the Business Case this capital investment will be funded through prudential borrowing with the costs of borrowing met through savings in the annual repairs and maintenance costs.

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 100 investment properties with a combined asset value of £78 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.

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. Up to date stock condition surveys of all corporate properties have recently been undertaken and will be completed in early 2014; this will then determine the level of work required for both capital and revenue purposes over the next five years.

In order to address the most urgent and essential work, i.e to ensure the properties remain statutorily compliant, additional revenue resource of £329k has been allocated. It is anticipated that the majority of this urgent and essential work is of a revenue nature, however should there be a capital element then the resources will be transferred via DRF to the capital programme. The remaining works required, i.e the desirable, non-urgent repairs and planned maintenance, will be determined in early 2014 although early indications are that the annual planned capital maintenance budget of £200k pa will be insufficient to undertake the required works. In response to this, through the allocation of New Homes Bonus the revenue budget has identified a further £716k to be set aside for asset improvement works. 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 2014-19 (Appendix 2).

The GIP is 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, with an original target of £6.4m over the period 2014/15 to 2018/19. As part of it's Towards Financial Sustainability Programme the Council is undertaking a major review of all of it's land and property assets aimed at achieving; a reduction in revenue costs, increased rental income, capital receipts, reduced repairs liabilities and 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. Further work needs to be done to consolidate the savings, however, a number of schemes have been re-profiled into future years within the proposed MTFS 2014-19 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 has been revised to include only the identified strategic priorities; however, it still presents a challenge in terms of the capital receipts that would need to be realised over the next 2-3 years to fund the programme. The capital receipts targets for 2014/15 to 2016/17 have therefore been replaced with prudential borrowing; this has though 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

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 £5.06m over the period 2014/15 – 2018/19. This is comprised of replacing the capital receipts targets for 2014/15 to 2016/17 with internal borrowing (£4.06m) and phase 2 (£1m) of the Local Authority Mortgage Scheme (LAMS). However, this scheme will be subject to review as a result of the introduction of the government's Help to Buy Scheme, which provides a similar level of support to first time home buyers. If it is decided to discontinue the scheme, 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 £640k 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 2014/15-2018/19 are estimated to be approximately £7.484 million, as follows:

	£'000
Capital Grants	764
Capital Receipts Brought Forward	0
Capital Receipts	1,590
Direct Revenue Financing	68
Prudential borrowing	5,062
TOTAL	**7,484**

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 2013-18 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. The availability of these additional resources has been as a result of improvements in working practices, identifying savings within the Plan.

Furthermore a recent successful joint procurement exercise with neighbouring authorities for a gas servicing contract is expected to realise additional budget savings for both revenue and capital programmes over the MTFS. Any savings realised will be subject to servicing volumes and progress will be monitored throughout 2014/15.

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, being pay and price inflation, government changes to pensions and national insurance contributions and net interest receipts, 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. A one off allocation of resources towards aids and adaptations (£100k in 2014/15) will ensure that recent efforts to eradicate the backlog of work are completed.

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 £65.1m 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, £19.3m has been released from the Housing Investment Programme over the 5-year period of the

MTFS. A significant proportion of this £19.3m will be required at a later stage in the Business Plan the value of which 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.

The release of £19.3m of resource over the period of the MTFS has allowed budget pressures within the HRA, totaling £2.2m, (resulting from spending pressures, rent assumptions and void levels) to be absorbed in the revenue account without impacting on the Housing Investment Programme. Revenue contributions however 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 national Rent Convergence Policy was introduced in April 2002, the aim of which was that rent setting in the social housing sector (local authority rents and those charged by housing associations) should be brought 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 a ten year implementation period, from the current rent for each property to reach “convergence” with its target rent.

Over successive years the Government amended the rent restructuring formula in a bid to control the level of rent increases and dampen the impact of the formula by deferring the point at which convergence is achieved. This policy, which continues under Self-Financing, currently has April 2015 as the date for convergence.

Target rents are increased based on the RPI for September, plus 0.5% as are the Council’s rents although a further adjustment to bridge the gap between the current and target rents is made bearing in mind the number of years available before ‘convergence’. RPI stood at 3.2% for September 2013.

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.

Government Consultation on Rent Policy

The Government have recently consulted on a revised rent policy for social housing from April 2015 onwards. The Consultation closed on 24 December 2013, but the outcomes are still awaited.

The main changes proposed are:

- A move from annual increases in weekly rents of RPI + 0.5%, to CPI + 1%, with effect from April 2015.

- 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 is currently available to landlords until April 2016.

- To bring rent convergence forward by a year, to 1 April 2014 and to restrict those rents not at 'target' by that point, to moving to target rent on change of tenancy only.

- Making clear that the rent policy does not apply where a social tenant household has an income of at least £60k per year.

This follows announcements in the Budget 2013 and the Spending Round 2013 on changes to rent policy aimed at giving certainty to social landlords by confirming that, from April 2015 rents in the social sector would increase by CPI + 1% annually for ten years.

The Council has therefore adopted a prudent approach to its rental inflation assumptions for the MTFS 14 -19 moving away from RPI + 0.5% and adopting CPI + 1% from 2015/16. This has resulted in loss of rental income over the MTFS of £740k.

Under the current rent restructuring policy with convergence intended for April 2015 the Council currently expect there to be 78 dwellings (0.99% of the portfolio) still not at Target. The proposal to bring convergence forward a year will result in some 981 dwellings (12.45%) not being at Target. The impact on housing rent levels would be a loss of £140k over the MTFS.

Whilst formal notification of the outcome of their Consultation exercise has not as yet been received from DCLG, and will not be until some point in March, the Director of Housing and Community Services did, on 25 February, receive an email from the 'Affordable Housing Regulation and Investment' section at DCLG which intimated that ALL of the main changes, as listed above, would be ratified, and effective as stated.

The Council has, therefore, set the rents for 2014/15, in line with the Government's Consultation proposals. This, allowing for the expedited progression to target rent, has resulted in an overall average increase of 4.67%. The average 52 week rent will be £69.01 per week. By comparison, under the existing Rent Restructuring policy, the average increase would have been 4.24%, and the average rent £68.73. The table below shows the impact that the increase will have on tenants.

	Impact on Tenancies	
	No.	**%**
Rent decrease between £0.01 and £2.00	5	0.06

Rent increase between £0.01 and £1.00	90	1.14
Rent increase between £1.01 and £2.00	116	1.47
Rent increase between £2.01 and £3.00	4,232	53.72
Rent increase between £3.01 and £4.00	2,070	26.28
Rent increase between £4.01 and £5.00	1,339	17.00
Rent increase between £5.01 and £6.00	21	0.27
Rent increase between £6.01 and £7.30	5	0.06
Total		**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 experiences, 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.

- **New Build Programme –** annual budget of £0.75m for small council house building programme (approx 6 or 7 properties per year)

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 up to £1.4m of ECO funding, leaving a net capital cost of £1.8m, if funding is secured.

With the exception of Shuttleworth House 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. As part of this, a high level review of the current level of expenditure in the HIP has been undertaken for the next five years, which has reduced expenditure in the HIP by £19.3m. The business case projections were based on standard component replacement cycles and recent stock condition data shows that this was a worst case scenario budget. However, this will need to be validated by a more detailed review and the consequences of reducing expenditure in the current MTFS modelled over the full 30 year period. A full stock condition survey is due to be undertaken in 2014/15 to support a more realistic projection of required expenditure, which should identify where resources can be released to support the Western Growth Corridor and other development schemes.

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 £47.8m.

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 £17.3m. 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. The previous arrangement for non-RTB sales has been retained i.e. 50% of other receipts are pooled unless they can be excluded as capital allowances, which includes any amount to be spent on the provision of affordable housing or regeneration. 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.

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 2014/15, falling to 10 in 2015/16 to 2018/19, however, this is a difficult area to predict accurately as it is affected by external factors, such as interest rates and property prices and will be further impacted by the announcements in the Chancellors Autumn Statement 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 Council strategy 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 £58.739m at the start of the MTFS 2014-19, which gives nearly £7.3m of borrowing headroom to support the capital programme. The new build programme is mainly funded from borrowing and £3.895m of the borrowing headroom available has been allocated to this scheme over the course of the MTFS.

In the Autumn Settlement, the Chancellor announced that the HRA borrowing cap would rise by £300m to make funding available for investment in housing stock, however, this would be allocated to local authorities by means of a bidding process. No additional borrowing headroom has been assumed in the MTFS.

Projected Capital Resources

Resources to finance the proposed £61.329m Housing Investment Programme 2014/15 – 2018/19, are currently estimated to be as follows:

	£000
Major Repairs Reserve (depreciation)	39,614
Direct Revenue Contributions	17,255
Grants & contributions	140
Right to Buys (RTBs)	425
Prudential borrowing	3,895
TOTAL	**61,329**

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[11].

The general reserves at the end of each year for 2014/15 to 2018/19 are summarised in the table below.

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £'000	2018/19 £'000
General Fund	2,243	2,458	2,679	2,774	2,323
Housing Revenue Account	1,117	1,050	988	940	892

It is recognised that the general reserve levels for the Housing Revenue Account fall below the prudent minimum from 2016/17 onwards. The Council will seek to return reserves to the prudent minimum level as part of the further development of the Housing Revenue Account, following the completion of a full stock condition survey and a more realistic projection of the amount of revenue contributions required to support the required capital investment.

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 2014/15 - 2018/19

	2014/15 Original £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Chief Executive & Town Clerk	505,500	505,210	513,380	522,340	531,630
Directorate of Development & Environmental Sustainability	5,904,130	5,347,620	5,376,310	5,271,990	5,316,080
Directorate of Resources	1,894,290	1,865,790	1,882,510	1,862,460	1,943,760
Directorate of Housing & Community Services	4,453,990	4,378,180	4,392,790	4,395,870	4,484,670
Corporate	2,078,240	2,127,400	2,178,930	2,221,420	2,265,740
	14,836,150	**14,224,200**	**14,343,920**	**14,274,080**	**14,541,880**
Capital Accounting Adjustment	(1,051,310)	(414,800)	(303,810)	(280,680)	(286,240)
Base Requirement	**13,784,840**	**13,809,400**	**14,040,110**	**13,993,400**	**14,255,640**
Specific Grants	(2,006,890)	(2,063,870)	(2,227,810)	(1,974,170)	(1,606,930)
Contingencies	555,440	537,130	762,390	759,540	653,360
Savings Targets	(156,650)	(636,600)	(1,095,040)	(899,050)	(863,820)
Transfers to / (from) earmarked reserves	(67,950)	579,540	536,200	212,960	209,540
Transfers to / (from) insurance reserves	19,020	12,260	12,050	13,190	16,990
Total Budget	**12,127,810**	**12,237,860**	**12,027,900**	**12,105,870**	**12,664,780**
Use of Balances	784,622	214,474	221,149	95,576	(451,470)
Net Requirement	**12,912,432**	**12,452,334**	**12,249,049**	**12,201,446**	**12,213,310**
Business Rates Retained	16,368,804	17,319,750	18,352,186	19,196,387	20,156,206
Tariff	(12,588,660)	(12,936,118)	(13,363,010)	(13,844,078)	(14,397,841)
Section 31 Grant	753,348	360,584	0	0	0
Provision for Backdated Appeals	(240,132)	(240,132)	(240,132)	(240,132)	(240,132)
Levy	(179,287)	(202,680)	(228,634)	(275,298)	(326,624)
Revenue Support Grant	3,798,697	2,565,997	1,972,247	1,431,427	906,399
Council Tax Surplus	143,253	0	0	0	0
NNDR Surplus/ (Deficit)	(562,238)	0	0	0	0
Council Tax	5,418,647	5,584,934	5,756,391	5,933,140	6,115,301
Total Resources	**12,912,432**	**12,452,334**	**12,249,049**	**12,201,446**	**12,213,310**
Balances b/f @ 1st April	**1,458,451**	**2,243,073**	**2,457,547**	**2,678,696**	**2,774,272**
Increase/(Decrease) in Balances	784,622	214,474	221,149	95,576	(451,470)
Balances c/f @ 31st March	**2,243,073**	**2,457,547**	**2,678,696**	**2,774,272**	**2,322,802**

GENERAL INVESTMENT PROGRAMME 2014/15 – 2018/19

	2014/15 Original £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Expenditure Programme					
Directorate of Development & Environmental Sustainability	2,106,020	700,000	700,000	700,000	700,000
Directorate of Housing & Community Services	360,120	0	0	0	0
Directorate of Resources	1,417,530	200,000	200,000	200,000	200,000
Chief Executive	0	0	0	0	0
Contingency	0	0	0	0	0
Total Programme Expenditure	**3,883,670**	**900,000**	**900,000**	**900,000**	**900,000**
Capital Funding					
Contributions from Revenue					
Opening balance	27,400	0	0	0	0
Received in year	40,900	0	0	0	0
Used in financing	(68,300)	0	0	0	0
Closing balance	0	0	0	0	0
Capital receipts					
Opening balance	0	0	0	0	0
Received in year	0	0	0	795,000	795,000
Used in financing	0	0	0	(795,000)	(795,000)
Closing balance	0	0	0	0	0
Grants & contributions					
Opening balance	124,000	0	0	0	0
Received in year	220,000	105,000	105,000	105,000	105,000
Used in financing	(344,000)	(105,000)	(105,000)	(105,000)	(105,000)
Closing balance	0	0	0	0	0
Unsupported borrowing					
Received in year	3,471,370	795,000	795,000	0	0
Used in financing	(3,471,370)	(795,000)	(795,000)	0	0
Closing balance	0	0	0	0	0
Total Capital Funding	**(3,883,670)**	**(900,000)**	**(900,000)**	**(900,000)**	**(900,000)**
Available Resources c/f @ 31st March	**0**	**0**	**0**	**0**	**0**

HOUSING REVENUE ACCOUNT SUMMARY 2014/15 - 2018/19

	2014/15 Original £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Income					
Gross Rental Income					
- Dwellings rents	(27,815,370)	(28,812,430)	(29,604,110)	(30,500,570)	(31,420,880)
- Non-Dwelling rents	(546,690)	(564,600)	(580,400)	(597,980)	(616,040)
Charges for Services & Facilities	(591,510)	(599,260)	(607,320)	(615,670)	(624,360)
Contributions towards Expenditure	(28,030)	(28,840)	(29,680)	(30,540)	(31,430)
Total Income	**(28,981,600)**	**(30,005,130)**	**(30,821,510)**	**(31,744,760)**	**(32,692,710)**
Expenditure					
Repairs Account Expenditure	8,086,450	8,169,530	8,370,620	8,577,050	8,789,000
Supervision & Management:	5,951,610	5,912,180	6,246,520	6,294,990	6,415,600
Rents, Rates and Other Premises	15,670	16,050	16,440	16,840	17,250
Subsidy Limitation Transfer	17,270	0	0	0	0
Insurance Claims Contingency	707,730	218,120	229,030	740,490	252,510
Depreciation of Fixed Assets*	9,721,980	9,544,760	9,544,800	9,544,800	9,544,800
Debt Management Expenses	53,450	53,430	54,150	55,050	56,240
Increase in Bad Debt Provisions	470,530	490,950	506,260	523,530	523,530
Total Expenditure	**25,024,690**	**24,405,020**	**24,967,820**	**25,752,750**	**25,598,930**
Net cost of service	**(3,956,910)**	**(5,600,110)**	**(5,853,690)**	**(5,992,010)**	**(7,093,780)**
Loan Charges Interest	2,422,580	2,489,790	2,527,460	2,566,460	2,587,080
- Investment Interest	(62,650)	(51,210)	(78,150)	(112,750)	(182,190)
- Mortgages Interest	(430)	(230)	(230)	(230)	(230)
Surplus on HRA for the year	**(1,597,410)**	**(3,161,760)**	**(3,404,610)**	**(3,538,530)**	**(4,689,120)**
Premiums Payable	400	400	30	0	0
Discounts Receivable	(920)	0	0	0	0
IFRS technical adjustments	(69,020)	0	0	0	0
DRF used for Financing	1,990,410	3,142,840	3,401,090	4,024,910	4,695,520
Contribs to/(from) Reserves:					
- Insurance Reserve	(407,730)	81,880	70,970	(440,490)	47,490
- PI Survey	(6,000)	3,000	(6,000)	3,000	(6,000)
- Stock Condition Survey	(22,340)	0	0	0	0
- Repairs Account	(780)	580	400	(930)	280
(Surplus)/deficit in year	**(113,390)**	**66,940**	**61,880**	**47,960**	**48,170**
Balance b/f at 1 April	(1,003,775)	(1,117,165)	(1,050,225)	(988,345)	(940,385)
Balance c/f at 31 March	**(1,117,165)**	**(1,050,225)**	**(988,345)**	**(940,385)**	**(892,215)**

* Includes embedded leases

HOUSING INVESTMENT PROGRAMME 2014/15 – 2018/19

	2014/15 Original £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Capital Programme					
Decent Homes	7,894,140	9,829,910	7,617,040	8,773,480	8,900,930
Health and Safety	791,680	976,420	1,291,460	2,233,530	1,495,970
Environmental new works	250,000	250,000	250,000	250,000	0
New build programme	1,319,710	750,000	750,000	750,000	750,000
Shuttleworth House ECO scheme	3,050,000	0	0	0	0
Other schemes	1,305,150	448,760	457,740	466,890	476,230
Total Programme Expenditure	**14,610,680**	**12,255,090**	**10,366,240**	**12,473,900**	**11,623,130**
Capital Funding					
Contributions from Revenue					
Opening balance	9,026,430	7,866,540	9,049,100	12,378,750	14,224,560
Depreciation received in year*	9,655,330	9,544,800	9,544,800	9,544,800	9,544,800
Depreciation used in financing	(11,160,220)	(8,362,240)	(6,215,150)	(7,698,990)	(6,177,610)
Direct Revenue Financing received in year	1,990,410	3,142,840	3,401,090	4,024,910	4,695,520
DRF used in financing	(1,990,410)	(3,142,840)	(3,401,090)	(4,024,910)	(4,695,520)
Closing balance	7,866,540	9,049,100	12,378,750	14,224,560	17,591,750
Capital Receipts					
Opening balance	2,678,920	2,589,230	2,760,090	2,934,370	3,112,140
Right to Buy (RTB) receipts in year	335,020	170,860	174,280	177,770	181,320
Used in financing	(424,710)	0	0	0	0
Closing balance	2,589,230	2,760,090	2,934,370	3,112,140	3,293,460
Grants & Contributions					
Opening balance	140,340	0	0	0	0
Grants & contributions received in year	0	0	0	0	0
Used in financing	(140,340)	0	0	0	0
Closing balance	0	0	0	0	0
Unsupported borrowing					
Borrowing taken in year	895,000	750,000	750,000	750,000	750,000
Used in financing	(895,000)	(750,000)	(750,000)	(750,000)	(750,000)
Closing balance	0	0	0	0	0
Total Capital Funding	**14,610,680**	**12,255,090**	**10,366,240**	**12,473,900**	**11,623,130**
Available resources c/fwd	**10,455,770**	**11,809,190**	**15,313,120**	**17,336,700**	**20,885,210**

* Excludes embedded leases

Appendix 5

BUDGET RISK ASSESSMENT

No.	Budget Item	Risk	2014/15		2015/16 onwards		Containment
			Impact	Likeli-hood	Impact	Likeli-hood	
1	Revenue Savings Targets	The required savings targets are not achieved nor required efficiencies delivered	III	C	I	B	• The Council's strategy focuses on a five 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 Porgramme Board (CMT) and quarterly to Executive and Performance Scrutiny Committee
2	Council Tax Base	In year variations to budget not containable within Collection Fund balances Costs to Council increased due to: – Referendum rate of CT increases below budgeted rate – Actual CT base different to estimate – Increase in benefit caseload – Collection rates/bad debt provisions –	II	B	II	B	• 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 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 • The proposed 2014/15 Council Tax is below the existing referendum limit of 2% increase. Future increases are below 2% in years 2015/16 to 2018/19 • Annual increases in Council Tax considered alongside national expected increases •

			2014/15		2015/16 onwards		Containment
3	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 2014/15	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
4	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
5	Capital Funding	Shortfall in the actual amount of					• Undertake regular monitoring of the capital

			2014/15		2015/16 onwards		Containment
		Capital Receipts (i.e. Council House Sales, other HRA assets, GF assets) against the targets set within the HIP & GIP Increase in borrowing costs (covered in separate risk – see no.16 & no. 20) Revenue contributions are not sustainable in the revenue accounts of the HRA or General Fund	I	C	I	C	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
6	Loss of income from partners	Key partners end existing agreements with the Council (e.g. LCC rental of City Hall and sign up to the Tripartite agreement at Yarbrough leisure centre)	II	B	II	B	• Ongoing discussions and negotiations with key partners by senior officers and members • Accommodation Review Group assessing options for unitisation of City Hall
7	Income from Fees & Charges/ Rents: • Car Parking • Crematorium / Cemeteries • Development Control • Building Control • Land Charges • Control Centre	Reduction in the usage of the service/activity levels in the current economic climate and in response to actions undertaken by competitors.	II	C	II	C	• Car parking strategy in development focussing on overall strategy for car parking provision. • Marketing Strategy to be developed for key income areas during 2014. • 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

			2014/15		2015/16 onwards		Containment
	• Lincoln Properties • Industrial Estates						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
8	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	E	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
9	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	F	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

			2014/15		2015/16 onwards		Containment
10	Loss of HRA Rental Income	DCLG have proposed changes to rent restructuring formula from RPI + 0.5% to CPI + 1.0%	III	E	III	C	• Report regularly to S-Fit on possible implications of change from RPI =1/2% to CPI = 1% • Monitor historical and current movements in RPI and CPI • Make use of expert forecasts of future PRI & CPI trends and the impact on housing rents
11	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	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 • Monitor the financial impact on the Street Cleansing Service as a result of the City Centre Development • Alternative delivery options for homelessness currently being developed
12	Housing Rents and Property Voids	More Council House disposals than anticipated Void properties exceeding the allowance included in the budget (1.3% in 2014/15 and 1% 2015/16 onwards)	II	C	II	D	• Produce regular budget monitoring reports • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • DHCS ongoing monitoring is a performance indicator

			2014/15		2015/16 onwards		Containment
		Government's revisions to their rent restructuring policy that have a detrimental effect on the Council's budget					
13	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 Corporate Management Team, Executive and Performance Scrutiny Committee • Lean systems intervention undertaken to identify efficiencies in the repairs service
14	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	III	C	• Stock condition surveys for all corporate properties being undertaken – urgent/essential being progressed • Additional resource identified within General Fund. • Comprehensive asset management planning review underway. • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Report quarterly to Self Financing Implementation Tea (SFiT) and Strategic Plan Implementation Team (SPIT), and more frequently by exception
15	Housing	Increase in payments that do not					• Regular monitoring of claims being processed

			2014/15		2015/16 onwards		Containment
	Benefits/Subsidy	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 Impact of ICT system conversion Backlog of work Pressures from customer demands and complex enquiries due to welfare changes	II	C	II	C	• 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
16	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 Council Tax Support and Business Rate income on cash balances	III	D	III	C	• 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

			2014/15		2015/16 onwards		Containment
17	Sundry Debtors	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. 6) and Localisation of Support for Council Tax	IV	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
18	External Funding of Capital Programme	Loss of anticipated external resource to support the capital programme Including 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	III	D	II	C	• Ensure all external funding is secure before the projects are committed • 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
19	General Budget Assumptions	Settlements exceed the percentage increase provided for Actual establishment exceeds 99% Increase in employer pension contribution rates following	IV	D	III	D	• Set prudent but realistic projections based on analysis of economic commentators and Bank of England predictions • Monthly monitoring of RPI and CPI index changes • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee

			2014/15		2015/16 onwards		Containment
		triennial valuation in 2016 CPI and RPI inflation exceed rates assumed in the budget					• 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
20	Capital Financing - Long Term Borrowing	Balances unavailable for internal borrowing External borrowing costs above interest rates in MTFS	III	D	III	D	• 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
21	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

			2014/15		2015/16 onwards		Containment
							• 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

GENERAL FUND EARMARKED RESERVES FORECAST 2013/14 - 2018/19

Description	Forecast Balance 31.03.14 £	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 £
IT Security Reserve	294,660	394,660	494,660	594,660	694,660	794,660
Invest to Save	933,115	890,605	890,605	890,605	890,605	890,605
Mayoral car	40,679	49,059	49,999	49,999	49,999	49,999
Member training	5,605	5,605	5,605	5,605	5,605	5,605
Managed Workspace	35,000	35,000	35,000	35,000	35,000	35,000
Car Parking Strategy	475	0	0	0	0	0
Planning Delivery Grant	124,061	124,061	124,061	124,061	124,061	124,061
Private Sector Stock Condition Survey	48,880	880	12,880	24,880	36,880	48,880
Uphill/ Downhill Bus	93,416	0	0	0	0	0
Mercury Abatement	282,361	297,371	316,781	340,681	369,141	402,251
Boston Audit Contract	16,500	16,500	16,500	16,500	16,500	16,500
Commons Parking	9,027	9,027	9,027	9,027	9,027	9,027
Loss of income on asset Sales	141,230	141,230	141,230	141,230	141,230	141,230
Grants & Contributions	365,658	338,678	337,328	258,828	258,828	258,828
Revenues & Benefits shared service	91,050	119,910	119,910	119,910	119,910	119,910
Tree Risk Assessment	119,060	139,060	159,060	179,060	199,060	219,060
Backdated Rent Review	140,000	180,000	220,000	260,000	300,000	340,000
Funding for Strategic Priorities	36,587	312,757	312,757	312,757	312,757	312,757
County Wide Broadband Initiative	34,000	34,000	34,000	34,000	34,000	34,000
MA Reserve	18,883	18,883	18,883	18,883	18,883	18,883
Budget Carry Forwards	72,216	57,006	57,006	57,006	57,006	57,006
Local Authority Mortgage Scheme interest	74,927	116,427	157,927	199,427	207,497	207,497
Business Rates Volatility	1,100,710	725,000	725,000	725,000	725,000	725,000
Section 106 interest	18,648	18,648	18,648	18,648	18,648	18,648
Benefits - subsidy adjustment	100,000	100,000	100,000	100,000	100,000	100,000
Electric van Replacement	4,430	8,860	13,290	17,720	22,150	26,580
Western Growth Corridor	262,860	262,860	262,860	262,860	262,860	262,860
Asset Improvement	0	0	342,610	715,480	715,480	715,480
TOTAL GENERAL FUND	**4,464,039**	**4,396,088**	**4,975,628**	**5,511,828**	**5,724,788**	**5,934,328**

Appendix 6

HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2013/14- 2018/19

Description	**Forecast Balance 31.03.14 £**	**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 £**
Western Growth Corridor	467,310	467,310	467,310	467,310	467,310	467,310
Housing Survey Works	132,539	126,539	129,539	123,539	126,539	120,539
Stock Retention	22,341	0	0	0	0	0
Invest to Save	163,565	163,565	163,565	163,565	163,565	163,565
HRA Repairs Account	750,724	749,944	750,524	750,924	749,994	750,274
TOTAL HOUSING REVENUE ACCOUNT	**1,536,479**	**1,507,358**	**1,510,938**	**1,505,338**	**1,507,408**	**1,501,688**

Capital Strategy – 2014/15 to 18/19

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 2014-19 of £7.484m

- The Housing Investment Programme (HIP) with a budget for 2014-19 of £61.329m

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.