APPENDIX A

CITY OF Lincoln COUNCIL

Medium Term Financial Strategy

2013/14 to 2017/18

Contents

Foreword

Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2013-2018.

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, 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, announced in October 2010, and the subsequent financial settlements from 2011/12 through to 2014/15. 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 in recent years already become accustomed to working within tight budgets. Since 2008 the Council has undergone a significant review of its services which has led to a reduction in its annual expenditure of £4m, a huge figure in comparison to the size of the Council's overall budget.

However, the Government's plans to balance public finances through austerity measures are not progressing as quickly as anticipated and more prolonged and deeper cuts in public expenditure are required, with reductions now likely to continue through until at least 2018. This coupled with a fundamental change in core funding mechanisms for councils introduces an exceptional level of uncertainty and unpredictability and inevitability means that the Council must continue to reduce its levels of expenditure or identify additional resources if it is to remain sustainable.

It is therefore clear that the Council is no longer in a position to continue to fund the breadth, depth and quality of services that it currently offers and is 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 Medium Term Financial Strategy (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 and balancing the books (a sustainable budget).

The MTFS integrates revenue allocations, savings targets and capital investment and provides indicative budgets 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 cost effective 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. The Strategic Plan 2012-17 was published following a fundamental review of the Council's visions, core values and key priority areas and is supported by a delivery plan through to the end of 2014 which itself consists of a number of key projects scheduled to be progressed over the two year period. The resources required to support the delivery of these key projects are identified within the MTFS and are predominately funded from the allocation of the Year 2 New Homes Bonus grant.

The MTFS does not provide for any additional resource that may be required to support a delivery plan post 2014. This further delivery planning phase will be developed once the Council is confident that it is making sufficient progress in delivering the challenging financial savings targets that it is required to make.

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, patchy and uneven recovery from recession and extremely high levels of UK debt have led to an approach that has focused on reducing the level of the deficit as an essential starting point for long-term economic stability.

However, the international financial context and the acceleration of some long-term global trends are providing some very difficult economic conditions within which to implement the Government's policy. Recovery in western economies is weakening as government policies have failed to restore confidence, the risk of further deterioration in the economic outlook is considerable and has increased. Much will now depend on the success of the euro zone's new permanent fund (European Stability Mechanism - ESM) to bail out struggling economies and banks. The ESM will be able to lend directly to governments, but it will also be able to buy their sovereign debts, which could help reduce the borrowing costs of highly-indebted countries such as Italy and Spain. Furthermore the US economy, despite avoiding the fiscal cliff , is still in a precarious state with concern that although the actions taken will avoid the cliff for now, they have simply pushed back the day of reckoning and will do little to fix the underlying problems in the economy. The threat of a further US recession still looms, albeit not on the immediate horizon, but should this happen it will have serious knock-on effects for the UK and the rest of the world. For the UK, attempting to rebalance its economy with such an outlook poses real challenges. If the unfavourable world environment persists, and there is little sign of any change to the underlying problems particularly in the euro zone area, it is unreasonable to expect anything other than a slow and protracted recovery in the UK.

In terms of the UK economy, having slipped back into a technical recession during early 2012, quarter three saw the economy grow by 1%. However this growth in the third quarter was boosted by one-off factors and gave an overly optimistic impression of the underlying trend. Infact growth fell sharply again during the fourth quarter with overall growth for the year falling by 0.3%, with GDP broadly remaining stagnant over the last two years. However the latest forecasts from the Bank of England show some cause for optimism with the prediction that the economy will avoid a 'triple dip' recession by growing in the first three months of 2013. Despite this optimism the road to recovery is unlikely to be smooth with little prospect of any sustained recovery in growth before 2014. After a period of relatively high levels of inflation during 2011 both the CPI and the RPI have declined sharply during 2012, as the impact of the VAT rise in January 2011 has fallen out, to 2.7% and 3.3% respectively (January 2013). The latest forecasts for CPI are that it is likely to remain above the Government's target rate of 2% and is, in the short term, set to rise before falling back during the second half of the year, and be close to the target in 2014. Short term interest rates remain at historically low levels with the base rate at 0.5% since March 2009. There is little prospect of any increase in interest rates before early 2015.

It therefore remains clear that the UK's recovery from the recession is likely to be slow and fragile, and will continue to present a number of challenges for the foreseeable future, some arising as a direct result of the actions taken by the UK Government in order to reduce the UK's budget deficit. These challenges will impact not only nationally but also at a local level, key areas include:

- Volatility within the financial markets i.e. interest rates, return on investments and price inflation

- Deteriorating labour markets leading to increased unemployment and lower pay awards and/or further pay freezes

- A slowed down property market leading to reduced investment, development and asset resale values

- Slower consumer spending

- A smaller public sector as the Government's expenditure cuts continue to be implemented, resulting in the withdrawal of front line services and a significant reduction in the size of the public sector workforce

- Radical reforms to the welfare benefits systems including the introduction of a Universal Credit and the localisation of support for council tax

- Reforms to social housing rents

- A subsequent growing requirement to support households and businesses faced with the impact of many of the above challenges.

The Council itself has already been specifically impacted by:

- Unprecedented reductions in government funding in the toughest Local Government Finance Settlements for a generation, with reductions of 41% in Government funding assessments over the period 2011/12 – 2014/15.

- 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 2011/12 there were net downward revaluations and impairments of £1.657m in the market value of the Council's property holdings.

- Reduced income through the slowing of the property market, which has seen the Council experience a reduction in income from 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.

- Investment counterparty risk remains higher than normal so that there continues to be a very limited range of counterparties available to the Council for investment purposes.

- Pressure over the payment of council tax and other council charges, as household income reduces, resulting in a drop in collection rates. 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.

- The demand for services such as council tax and housing benefits continues to increase, with currently 12,246 households (28%) in the City in receipt of housing and/or council tax benefit, an increase of 432 from the same period in 2011/12. Both the Benefits Advice Team and the dedicated Customer Services Team continue to experience high levels of demand responding to a range of queries from local residents. Demands for these services are expected to continue to remain high in future years as a result of the reforms to the welfare system, increases in social housing rents and the impact of reductions in public sector expenditure and resultant job losses.

This challenging economic climate continues to impact on the Council, and the future is looking even more uncertain and complex than in recent years as the full extent of the Government's deficit reduction continues to impact and threat of further technical recessions remaining very real.

National Priorities

The Coalition Government's intention to reduce the UK's structural budget deficit and level of government debt is well documented and was extremely evident in the announcement of the last Spending Review in 2010. The Review 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 Programme and Administration Budgets, will be reduced by 8.3% over the Spending Review period. This headline rate however masks significant differences at an individual departmental level with the Department of Communities and Local Government as the biggest loser (by -51%, although -33% when grants to local government are included). Local government itself emerged as one of the worst hit areas in the Review with unprecedented reductions in government funding to local authorities of 28% over the next four years, approx 21.8% in cash terms, this was then subsequently increased by a further 2% for 2014/15 in the Chancellor's Autumn Statement 2012.

Despite these reductions in public expenditure the Government's plans to balance public finances through austerity measures are not progressing as quickly as planned and the Chancellor's Autumn Statement 2011 paved the way for further reductions of a similar level already experienced for 2015/16 and 2016/17. Subsequently in the Autumn Statement 2012 these measures were extended through to 2017/18, and that assumes no further impact on public finances from the difficulties in the eurozone.

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Government funding has always carried with it a degree of uncertainty and unpredictability but this is currently at exceptional levels as the Government also prepares to implement its plans to replace current core funding mechanisms. April 2013 will herald the introduction of the Business Rates Retention Scheme and the Localisation of Council Tax Support, both of which transfer significant financial risk to local authorities with, in the case of Business Rates, minimal reward.

Against this backdrop 2013 will also see many of the Government's other public service reforms begin to take effect. The introduction of the Universal Credit will begin with unpredictable impacts on services and households along with several reforms affecting social housing including a move towards higher, market related rentals and constraints on under occupation.

In terms of the MTFS the most significant of the changes to funding mechanisms and public service reforms are outlined in the following paragraphs;

Local Government Resource Review

April 2013 will see the landscape of local government funding fundamentally change as local authorities face a new incentive driven local government finance system, offering authorities the possibility of keeping growth in both the business rate and council tax base.

The introduction of localised business rates continues the incentive of rewarding local authorities who experience housing growth through the New Homes Bonus with a reward for economic development. In theory this should create a direct incentive for local authorities to promote growth and development or else risk a reduction in resources.

The key elements of the Business Rates Retention Scheme are:

- Each local authority will be set a start up funding assessment (i.e. the total amount of spending that will be supported by Business Rate Retention and Revenue Support Grant). The total of the start up funding assessments will be consistent with the overall government control totals for local government and will be allocated to local authorities using an adjusted 2012/13 formula grant methodology.

- Business rates will be shared between central and local government on a percentage basis, 'central share' and 'local share' respectively. Government has set both the central share and local share at 50%. The local share must then be allocated between billing and precepting authorities (excluding Police who will be funded outside of this system), and will determine whether each authority is in a tariff or top up position compared to their baseline funding level (the amount of start up funding to be met from retained business rates).

- A system of tariffs and top-ups will be introduced, in order to equalise existing business rates revenues. A tariff will be paid if authorities' business rates baseline exceeds their baseline funding. A top-up will be received by authorities that receive NDR below their baseline (with the top up equal to the baseline less the NDR revenues). This approach would provide all authorities, irrespective of the actual amount of NDR they collect, to be at the same starting point in terms of resources i.e. the calculated level of need for 2013/14. Tariffs and top-ups will be fixed, in order to provide the incentive to local authorities to increase NDR revenues.

- The shortfall between the amount of locally retained business rates (the baseline funding level) and the start up funding allocation will be met through Government funded Revenue Support Grant.

- The level and share of business rates in year 1 will form a baseline level for local authorities that will not be reviewed until a reset of the system. The Government does not intend to reset the system until 2020 at the earliest.

- The local share of business rates will be retained in full by local government and local authorities will keep all business rate growth on this local share (subject to any levy payments due).

- A safety net threshold of 7.5% below a spending baseline will be in place to protect local authorities against any very significant reductions in resources. This safety net will be funded by levy payments.

- A proportional levy of 1:1 will be applied to recover any disproportionate financial benefit arising from business rate base increase. A 1:1 levy ratio means that for every 1% increase in business rates base, an authority would see no more than a 1% increase in income as measured against its spending baseline. There is however an upper limit on the rate of the levy which will be set at 50%.

- There is the opportunity for local authorities to pool for the purpose of the business rate retention. Local authorities in a pool will be treated as a single body for the purposes of tariffs, top-ups, levies and safety net payments.

- It is intended that business rates from certain specified renewable energy projects will be retained in full by the billing authority and disregarded from the calculations in the rates retention scheme regarding local and central shares, levies and tariff and top-up amounts.

- There will be no changes to the way businesses pay tax or the way the tax is set. Rate setting powers will remain under the control of Central Government who will set the multiplier. Neither will there be any changes to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector. The revaluation process will also remain unchanged.

Localisation of Support for Council Tax

At present council tax benefit is determined in accordance with nationally prescribed regulations. It is applied to relevant council tax bills as a rebate once the Council Tax bill has been calculated. The total amount of council tax benefit paid out by any local authority is reimbursed in full through subsidy payment from government. Subsidy is unlimited and therefore any increase in caseload or demand will be funded by a corresponding increase in subsidy.

From April 2013, council tax benefit will cease and local authorities must agree local council tax support schemes which will determine eligibility and the amount of support to be paid. In addition, the amount of government funding will be reduced by 10% and capped. Local authorities must therefore either reduce the amount of support they give or fund the shortfall between the cost of support and the amount of government funding. Pensioners will be protected nationally through regulation, and local schemes should also seek to protect the vulnerable meaning that a higher proportion of the reduction will fall on working age claimants.

The change to a local council tax support scheme will also impact on the calculation of the council tax base (i.e. the number of paying households) each year. At present no account is taken in this calculation of whether a household is in receipt of council tax benefit or not. However, under the new regime, those households that are receiving support are excluded from the number of paying households. This will reduce the total amount of council tax income collected. The shortfall is intended to be met by the Council Tax Support Grant which will be provided by the Government. This accounting change will also have implications for the taxbase and council tax levels for the County Council and Police Authority.

Welfare Reform

The Government's fundamental reform of the working age benefit system will see the introduction of a 'universal credit' that will replace all current means tested working age benefits, including housing benefits currently administered by local authorities. The aim is to improve work incentives, simplify the benefits system and make it less costly to administer.

Universal credit for working age customers will be administered by Jobcentre Plus, and the local authorities' role is therefore likely to be reduced – although discussions are taking place at a national level with regard to, the longer-term delivery of universal credit, how more vulnerable groups will be dealt with, and how face-to-face contact will be delivered.

The move to universal credit will commence for new applicants from October 2013, and pension credit from April 2014, with a four year transition period ending in 2017. Universal credit will be paid on a direct payments basis and will be paid monthly rather than weekly, the aim of which being to promote personal financial responsibility, similar to a salary.

Alongside the introduction of the Universal Credit are; the introduction of size critera for under occupation in social sector housing, 'the bedroom tax', which could result in a deduction of 14% or 25% dependent on the number of occupied bedrooms; and the benefit cap, capping the maximum amount of benefit that a working-age household can receive at £350 a week for a single person and £500 for couples and families.

Local Priorities

Lincoln is a cathedral city, and is one of the oldest cities in Britain, with a population of around 93,100. 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 93,100, the City actually serves a significantly higher 'Greater Lincoln' population of around 202,000 (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 20s since 2001. This is likely to have been influenced by the university, which was established as the University of Lincoln in that same year. In 2011/12 there were well over ten 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 20% 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. 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 Benefit. 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 £3.53 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.

Lincoln has, in recent years, experienced an overall reduction in crime. The number of antisocial behaviour requests made to the City Council has fluctuated over the last 3 years, with a large increase in the last year.

Educational attainment at KS1, 2 and 4 remains below the county average. KS1 has seen a reduction in attainment over the last year compared to an increase across the county and the gap at KS2 also appears to be widening. However at KS4 improvements in attainment appear to be narrowing the gap compared to the Lincolnshire average. Recent estimates suggest adult attainment has increased in Lincoln as well, with Lincoln performing above the regional standard at all NVQ levels.

Female life expectancy in the city is increasing, and although it still lags behind the national rate, the gap is showing signs of decreasing. In contrast, although male life expectancy is also increasing, there are signs of a widening gap between Lincoln and the country. Additional health indicators relating to premature mortality show Lincoln has a higher rate than England for certain diseases, although the data suggests this gap could also be decreasing.

There are approximately 44,800 residential addresses 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. This five year strategic plan has been informed by extensive research, analysing the wealth of information available about what it's like to live in Lincoln. Statistics on health, crime, the environment, the economy, housing, transport, leisure, children and young people, and community cohesion underpin the plan. In addition, the views and opinions from a range of residents, businesses, voluntary sector organisations and partners have been sought to realign the Council's vision and priorities to ensure that they are indeed tackling the key issues. The Strategic Plan articulates how the Council will meet its commitments to tackle the issues facing the City, where it has a role as a direct service provider or community leader.

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 early years of the 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**.**

This initial refocusing on certain elements of the Council's overall 5 year strategic priorities will inform any decisions that it makes whilst striving to deliver a balanced and sustainable budget, ensuring that its resources are used in the most effective way.

Section 3 – Revenue (General Fund)

Spending Plans

In line with the Strategic Plan 2012-17 and the associated biennial delivery plan, the MTFS 2012-17, approved by Council in March 2012, included an allocation of resources towards a number of schemes which support the delivery of the Council's strategic priorities.

The allocation of these resources, in support of the longer term plan for the Council's activities, was identified following a comprehensive review and full public debate to determine the role the Council should play in addressing the needs of the City and to ensure that the Council's limited resources were focused in the most pressing of areas.

However, given the current financial environment the allocation of resources to support the Council's strategic priorities has to be balanced with the requirement to continue to deliver against the significant savings targets that the Council faces. In light of this a review of each of the schemes previously approved was undertaken to determine whether any resources could be released, by identifying those schemes which had not yet been committed and those which had been delivered but within a reduced cost envelope.

The tables below show the original allocation of resources, against the strategic priorities, as approved in March 2012 and the revised allocation of resources. A detailed breakdown of the schemes is included in Appendix 8.

Original Schemes – Approved March 2012

Priority	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Poverty & Disadvantage	182	183	185	188	191
More Affordable Housing	26	27	27	28	28
Reducing the City's Carbon Footprint	30	30	31	31	32
Resilient Economy	10	10	10	10	10
Other	42	42	42	42	42
Total	**290**	**292**	**295**	**299**	**303**

Revised Schemes – January 2013

Priority	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Poverty & Disadvantage	148	133	136	139	141
More Affordable Housing	0	0	0	0	0
Reducing the City's Carbon Footprint	9	10	12	13	15
Resilient Economy	10	10	11	11	11
Other	38	38	38	38	38
Total	**205**	**192**	**196**	**200**	**205**

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 Coalition Government's Emergency Budget in June 2010 announced a two year pay freeze for public sector workforces. The Chancellor's Autumn Statement 2011 announced a restriction on public sector pay awards of 1% pa following the end of the pay freeze for 2013/14 and 2014/15.

The MTFS therefore assumes a 1% pa increase in accordance with the pay award restriction and thereafter, i.e. from 2015/16 onwards assumes a pay award of 2% pa.

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 MTFSL

	% per year
General	2%
Contractual Commitments	3%
Utilities (energy)	2%
Non domestic rate	3%

These rates have been based on the Bank of England's target rate of inflation of 2% and a forecast of RPI, at the time of revising the MFTS assumptions, of 3%. 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 £29k pa.

Employer's Pension Fund Contributions

The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2010, the results of which identify that there has been a deterioration in the funding position since the last actuarial review from an 83% funding level to 72%. Despite this worsened position, as a result of the move to up-rate pensions from April 2011 by the reference to CPI instead of RPI and the current pay freeze, leading to a reduction in liabilities for the employer, the funding level is not as low as had been previously envisaged.

But the fact still remains that the funding level has worsened and that theoretically the Council's current contribution rate of 23.3% pa would have to increase to 31.5% pa in order to sustain the long term affordability of the fund.

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 frozen for the next three years, until the March 2013 valuation, when a stabilisation approach will be implemented so that in any three year valuation period rates will only be increased or decreased by a maximum of 1%, thus avoiding any unaffordable increases in employer contributions.

It is also envisaged that the longer term options for structural reform of the scheme, as a result of the final report of Independent Public Services Pension Commission should, if they are to achieve the objectives of the review, result in improved funding levels.

Based on the stabilisation approach, the MTFS assumes that the current contribution rate of 23.3% pa will remain for 2013/14 and that this will increase by 1% to 24.3% from 2014/15 onwards following the March 2013 valuation.

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 current economic climate and subsequent liquidity crisis, and the Bank of England's reduction in interest rates to combat this, the Council has seen a significant reduction in the interest rates offered on new investments and hence the total income it receives has fallen to the lowest levels in recent years.

Interest rates are forecast to remain at historically very low levels until at least late 2014/15 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 +/- 1% would have an estimated combined impact of approximately £207k on the General Fund and HRA in 2013/14.

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

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	%	**%**	**%**	**%**	**%**
Interest Rate	0.6%	0.7%	1.6%	2.1%	3.1%

Based on the current forecasts for interest payable on new borrowing (averaging around 4.5%) and receivable on investments (averaging around 0.75%), 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). It is anticipated that new borrowing will be taken to fund the Council House new build programme to take advantage of current interest rates on long term borrowing. This will minimise the costs of borrowing over the HRA 30 year Business Plan.

Other Spending Pressures

As part of the service planning process, other pressures have been identified at service area level including those that arise from increases in client number and demands, fall out of specific grant funding and reduction in funding streams.

Resources

Revenue Support Grant/National Non-Domestic Rates

The Local Government Finance Settlement for 2013/14 and 2014/15 sees the launch of the Business Rates Retention (BRR) scheme as the principle form of local government funding, other than council tax income.

In previous years the settlement announcement provided local authorities with their expected general revenue allocations for the following two financial years. For 2013/14 the settlement provides authorities with a combination of grant allocations and their respective starting points within the BRR scheme. The settlement no longer provides guaranteed funding levels, but rather the starting point for authorities within the scheme.

The settlement covers the financial years 2013/14 and 2014/15; the financial position after those 2 years will be informed by the Spending Review that will take place in early 2013.

The National Picture

Nationally the change in the overall level of government funding, on a like for like basis, between 2012/13 and 2013/14 is a reduction of 3.9%. For 2014/15 the decrease is substantially larger at 8.6%. This large reduction in funding is due to the phasing of reductions announced in the SR2010 with 2014/15 experiencing a greater reduction than 2013/14; this reduction has since increased further as a result of an additional reduction of 1% announced in the Autumn Statement 2011 (although this was applied to 2013/14 as well) and a further 2% reduction announced in the Autumn Statement 2012 (which only applies to 2014/15).

The table below sets out the changes to the overall level of local government funding between 2012/13 and 2014/15. The figures for 2013/14 represent the starting point for the BRR system and are referred to as the start up funding assessment.

	£m
2012/13 Adjusted funding*	27,169
2013/14 Funding	26,101
£m change on previous year	(1,068)
% change on previous year	**(3.9%)**
2013/14 Funding	26,101
2014/15 Funding	23,856
£m change on previous year	(2,245)
% change on previous year	**(8.6%)**

* The adjusted figure for 2012/13 allows for the national transfer of a number of funding streams, including 2011/12 Council Tax freeze Grant, Council tax Support Grant and Homelessness Prevention Grant, which were previously provided through specific grants.

Whilst previously local authorities would have received the above national funding level of £26.101m through Formula Grant, it is now split between Revenue Support Grant and the BRR system as per the table below:

	2013/14	**2014/15**	**Change**
	£m	**£m**	**%**
Start Up Funding Assessment	26,101		
Funded through:			
BRR – Local Share	10,899	11,233	**3.1%**
Revenue Support Grant	15,203	12,624	**(17%)**
	26,101	**23,856**	**(8.6%)**
Calculation of BRR Local Share			
Estimated Business Rates Aggregate	*26,297*		
Less; deductions for appeals/losses/reliefs etc	*(4,500)*		
	21,797		
Central Share 50%	*10,899*		
Local Share 50%	*10,899*		

In announcing the settlement the Secretary of State also announced that local authorities will face an average reduction in spending power of 1.7% and that no local authority would experience a decrease of more than 8.8%. These comparative figures did not, however, relate to the direct reductions in Formula Funding but are related to local authority "revenue spending power", a definition which encompasses an individual authority's:

- Council Tax Requirement
- Start Up Funding Assessment
- Specific Grants
- NHS Funding for Social Care.

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. In fact, the settlement determines that as a result of the assumption of growth of 3.1% in the national business rates aggregate (primarily due to RPI) the actual reduction in RSG required in order to remain within the national totals is actually 17% (as demonstrated in the table above).

The Government will pay a new Efficiency Support Grant to local authorities in 2013/14 and 2014/15 who would otherwise have seen a reduction in their 'revenue spending power' of more than 8.8% in 2013/14. The Council's own reduction in 'revenue spending power' is 1.6% for 2013/14 it is therefore not eligible for any transition grant. No information has yet been released by the Government in respect of Spending Power calculations and any further support grant for reductions in 2014/15.

In the past, Government has limited the effects of changes in the Formula Grant, from year to year, by setting a 'floor' level, which ensured that all authorities received a minimum level of increase. This floor was funded by applying a scaling factor to those authorities above a specified ceiling. In recent years, due to the scale of the reductions in Formula Grant, the level of these floors has been negative to ensure that no local authority receives a reduction in Formula Grant above a set maximum.

Under the new local government funding system, damping arrangements still exist and apply to the Formula Funding element, i.e. the Council's Start Up Funding Assessment less any specific grant transfers.

In line with previous years, authorities have been grouped by type with varying numbers of floor levels within each group; for Shire Districts there remains four floor levels. Authorities continue to be placed into one of the relevant four floor levels based on their level of grant dependency, which is defined as the proportion of the 2010/11 budget requirement that was funded through the 2010/11 Formula Grant (the year has not changed since the SR2010 and finance settlements for 2011/12 and 2012/13), and ensures that there is an equal number of authorities in each of the four bands. By setting different floors for authorities in different circumstances, the Government has capped the reductions in grant for more needy authorities at a lower level than more self-sufficient areas.

	2012/13		**2013/14**	
	Floor	**Scaling**	**Floor**	**Scaling**
Shire Districts	(11.2%) (12.2%) (13.2%) (14.2%)	(75.1%)	(5.4%) (7.4%) (9.4%) (11.4%)	(75.7%)

The Council's proportion of Formula Grant to net budget requirement in 2010/11 was 62.9% and it has been ranked as the 40th most dependent shire district. The Council has therefore fallen into band 1 of the floor with the lowest level of maximum Formula Funding reduction of 5.4% applicable in 2013/14.

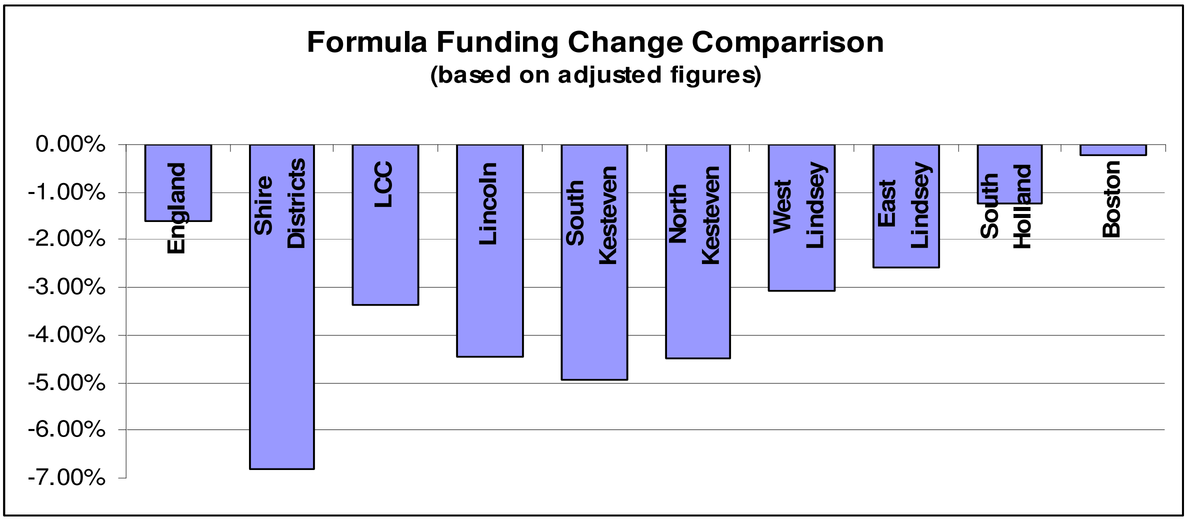
Using the four block model approach as used to determine the 2012/13 Formula Grant allocations, updated for data and methodology changes, the reduction in

Formula Funding for 2013/14 for the Council is 4.5%, as per the table below; this reduction being within the maximum reduction of 5.4% for the floor band:

2012/13 Formula Grant £'000	2013/14 Formula Funding £'000	Change £'000	%
7,266	6,941	(325)	(4.5%)

In comparison, the Council's reductions are higher than the national average of 1.6%; however this includes all local authority types. As in the previous settlement under SR2010 the Shire Districts are the worst affected by the Settlement, with reductions on average of 6.8% in 2013/14. Within Lincolnshire all except one of the District Councils were in band one of the floor, with the other one in band two.

The diagram below shows the comparison of the percentage reductions of the Council, to the national average, the Shire Districts average, and the individual councils in Lincolnshire including the County Council.



Impact on the Council

The Council's Start Up Funding Assessment is determined as the sum of its Formula Funding and the funding streams which were previously provided through specific grants. This Start Up Assessment can then be compared to an adjusted Funding Assessment for 2012/13, i.e assuming the grants have been rolled in during 2012/13. The Start Up Funding Assessment for the Council for 2013/14 and 2014/15 is as follows:

	Adjusted 2012/13 £'000	2013/14 £'000	2014/15 £'000
Formula Funding		6,941	
Specific Grants rolled in			
Council Tax Freeze 2011/12		157	
Council Tax Support Funding		1,131	
Homelessness Prevention		111	
Start Up Funding Assessment	**8,667**	**8,340**	**7,267**
Year on Year % Change		**(3.8%)**	**(12.9%)**
National Figures	**27,169**	**26,101**	**23,856**
Year on Year % Change		**(3.9%)**	**(8.6%)**

As identified previously in respect of the national level of funding, the Council's Start Up Assessment Funding as per the table above will no longer be directly allocated, and be guaranteed income for the Council. Under the new system this is now split between Revenue Support Grant and BRR, as shown below:

	2013/14 £'000	2014/15 £'000	Change £'000	Change %
Revenue Support Grant	5,008	3,833	(1,175)	(23.5%)
BRR – Baseline Need	3,332	3,434	102	3.1%
Start Up Funding Assessment	**8,340**	**7,267**	**1,073**	**(12.9%)**

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), based on an authority's proportionate share of the national business rates aggregate.

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:

	2013/14 £'000	2014/15 £'000
Baseline Need	3,332	3,434
NDR Baseline	15,680	16,161
Tariff Amount	**(12,348)**	**(12,727)**

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 2013/14 and estimated this to be £41.195m. A fixed proportion of this estimated yield will be payable to Central Government (50% share which amounts to £20.597m) and a fixed proportion will be payable to Lincolnshire County Council (10% share which amounts to £4.120m). The remaining 40% estimated balance of £16.478m will be retained by the Council. After deducting the required tariff of £12.348m, the anticipated funding from NDR reduces to £4.130m.

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 £4.130m, which is £798k higher than the Baseline Need, a 50% levy will reduce the Council's estimated income to £3.731m for 2013/14.

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. The settlement proposes that the safety net threshold be set at -7.5% below the NDR baseline. This would prevent the Council's funding from falling below £3.082m. Therefore the estimated income of £3.731m would need to fall £649k before the safety net protects against further losses, this equates to a reduction of 6.4% 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 2013/14 the Council has estimated that growth in its annual level of NDR collected will be 0.5% pa from 2014/15 – 2016/17, increasing to 1% in 2017/18.

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

Income Forecast	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Forecast NDR Income	16,479	16,990	17,516	18,252	19,164
Top-up/(Tariff)	(12,348)	(12,727)	(13,058)	(13,541)	(14,083)
Retained Income	**4,131**	**4,263**	**4,458**	**4,711**	**5,082**
Levy Payable	(399)	(414)	(467)	(529)	(641)
Retained Income	**3,731**	**3,848**	**3,991**	**4,182**	**4,441**

Revenue Support Grant

As set out above the level of RSG that will be received for 2013/14 is £5.008m and £3.883m for 2014/15, a reduction of 23%. This clearly indicates that the Government intends to use RSG as the mechanism to retain control over, and reduce the level of, local government funding.

National levels of local government funding beyond 2014/15 will not be known until the next Spending Review due in early 2013. However the Autumn Statement 2012 promises that cuts in public spending will continue until at least 2018 with the potential to extend to the end of the decade, and local government is likely to continue to bear the brunt of these spending cuts.

The MTFS prudently assumes that there will be an average reduction of 7% pa, from 2015/16 – 2017/18, in the national level of funding for local government. This equates to a reduction in the Council's RSG of approximately 4% in 2015/16 and 6% pa in 2016/17 and 2017/18.

Council Tax

For the third year the Government has announced the payment of a Council Tax Freeze Grant. In 2011/12 in exchange for freezing council tax local authorities were awarded a grant equivalent to a 2.5% increase in council tax, this funding was maintained over the SR2010 period, ending in 2014/15. Last year, 2012/13, the grant awarded was again equivalent to a 2.5% increase in council tax, but unlike the scheme for 2011/12 it was a single one off payment. For 2013/14 the Government has announced a 2-year grant equivalent to a 1% increase in the council tax.

The Council froze its level of council tax in 2011/12 and in 2012/13 and was awarded a grant of £157k pa for 2011/12 – 2014/15 and a further £159k for 2012/13 only.

Should the Council freeze its level of council tax for 2013/14 and accept the grant equivalent to £64k for 2013/14 and 2014/15 the estimated loss of income over the period of the MTFS is as follows (this assumes a 3.5% increase in 2013/14 as per the MTFS 2012-17):

	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
3.5% Council Tax Forgone	(223)	(235)	(245)	(255)	(267)
Council Tax Grant	64	64	0	0	0
Net Loss of Income	**(159)**	**(171)**	**(245)**	**(255)**	**(267)**

This equates to a total loss of £1.097m over the period of the MTFS with an ongoing loss of around £250k pa. In comparison a modest increase of 1.9% for 2013/14, equates to an additional 6p per week for a Band A property and 7p per week for a 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 2013/14.

The Localism Act 2012 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. For 2013/14 the Government has stated that local authorities will be required to seek the approval or veto of their local electorate in a referendum if, compared with 2012/13, they seek to raise the relevant basic amount of council tax by more than 2%.

There will be an exception made for those shire districts whose council tax in 2012/13 was in the lower quartile of their category of authority. In the case of these authorities a referendum must only be held where the authority increases its relevant basic amount of council tax for 2013/14 by more than 2%, and there is a cash increase that is more than £5 in the relevant basic amount. The Council does not fall within the lower quartile of shire districts so is therefore unable to apply this exception.

In light of the financial position of the Council and mindful of the capping principles applied for 2013/14, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
% Increase	1.9%	1.8%	1.8%	1.8%	1.8%
Council Tax Base	22,004.49	22,279.04	22,556.34	22,836.40	23,119.27
Council Tax Yield	£5,297,582	£5,459,925	£5,627,355	£5,799,990	£5,977,950
Band D	£240.75	£245.07	£249.48	£253.98	£258.57

For 2013/14 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £240.75, a 1.9% increase from 2012/13.

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 and 2 of the grant have resulted in an allocation of £1.021m with a further £154k announced for Year 3 of the scheme in 2013/14. 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 for Year 4 and a further £200k pa for Year 5 of the scheme 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 2013/14 and 2014/15, and the assumptions made for 2015/16 onwards in respect of the specific grants the Council receives, are shown below:

Grant Name	**2013/14 £'000**	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Housing Benefit & Council Tax Benefit Administration	805	741	741	741	741
Council Tax Support New Burdens	81	93	0	0	0
Community Right to Bid	8	8	0	0	0
Community Right to Challenge	9	9	0	0	0
Council Tax Transition	30	0	0	0	0
2013/14 New Homes Bonus Adjustment	28	0	0	0	0
New Homes Bonus	1,175	1,375	1,575	1,575	1,121
TOTAL	**2,136**	**2,226**	**2,316**	**2,316**	**1,862**

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 £7.8m from fees and charges in 2013/14.

The average overall increase in the non-statutory fees and charges for 2013/14 is 2.7% which is broadly in line with both the current levels of RPI and CPI which the Council would normally use as a proxy for its average annual increase.

Although the average increase in non-statutory fees and charges is 2.7%, the overall yield from fees and charges for the General Fund for 2013/14 has actually decreased by 2.2%, £175k, in comparison to the original income budgets set for 2012/13. This decrease is in the main due to reduced levels for car parking, building regulations and planning charges as a result of the continued depression within the economy.

This reduction in income levels have been assumed to continue over the planning period of the MTFS.

Addressing the Gap

It is clear that 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 the severely reduced funding envelope.

This challenge is not new to the Council and it has in recent years already become accustomed to working within tight budgets. Since the onset of the decline in the UK economy in 2008 the Council has delivered savings programmes which have led to a reduction in annual expenditure of £4m. These savings have been achieved through the Council's Service Review Programme, £2.5m, and its Next Steps Programme, £1.5m.

Despite this achievement the Council must continue to reduce its levels of expenditure or identify additional resources if it is to remain sustainable. Based on the assumptions made on resources available and spending pressures that the Council faces, the following levels of savings are required:

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

The Council's strategy to address the deficit it faces aims to achieve a sustainable financial position whilst minimising the impact on front line services and the jobs of those employed by the Council. However, given the reduction in spending that the Council faces it is clear that it will not be possible to find efficiencies of this magnitude and guarantee no impact on front line services, inevitability the Council will be faced with some very difficult decisions.

In order to deliver the savings required the Council's strategy will concentrate on the following key strands:

- 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.

Following a fundamental review of the services the Council delivers, and in light of its refocused strategic priorities, as set out in section 2, the following target level of savings has been allocated across the 5 strands including the programme for 2013/14:

Strand	**Overall Target £'000**	**Year One 2013/14 £'000**
Charging regimes for services	200	200
Procurement and commissioning activity	1,150	-
Rationalising the city's property and land portfolio	250	-
Redesigning and modernising services	650	150
Withdrawal from services	750	650
Total	**3,000**	**1,000**

It is important that the Council maintains the pace and extent of changes that it achieved through its previous review programmes as it moves forward with this new programme and renewed focus. 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, relationships with key partners and its human resources policies.

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:

- Impact of the Government's 'Programme for Government', predominantly the Local Government Resource Review, the Localisation of Support for Council Tax and Welfare Reform
- Delivery of challenging savings targets
- Impact of current economic climate on both demand for services and income streams
- Changes to other 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 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 Investment Programme (GIP) covers all aspects of capital expenditure within the Council, with the exception of the Council's housing stock, and includes external capital investment that assists in achievement of the Council's Strategic Priorities

Capital Spending Plans

The capital spending plans for the next five years include the delivery of key capital schemes identified to support the delivery of the Strategic Plan 2012-17, the final implementation stages of schemes approved in the previous Strategic Plan, delivery of schemes resulting from joint working with partners and ongoing capital schemes. The GIP 2013/14 – 2017/18 is included in Appendix 2. An updated position on the delivery programme for capital Strategic Plan schemes is provided in Appendix 8.

Following consideration of the significant pressure to realise capital receipts to support delivery of the GIP it is proposed that a number of ongoing capital schemes are decommissioned and that further work is undertaken to realise further annual savings within the GIP. This will ensure the ongoing sustainability of the GIP and ensure the programme has the ability to focus on the delivery of strategic priorities.

The schemes proposed for decommissioning are Compulsory Purchase Orders (£300k p.a.) and Housing Renewal Area (£100k p.a.). These are both contingency budgets with no spending commitments against them. A one-off budget of £50k for Western Growth Corridor has also been decommissioned. In addition, to ensure the capital programme remains affordable and is based on realistic expectation of realisable capital receipts (or alternatively Prudential Borrowing) it is proposed that an annual savings target of £200k (£1m over the MTFS) be included in the GIP with the savings to be identified during the early part of 2013/14. These proposals reduce the requirement to realise capital receipts by £300k pa (£1.65m over the MTFS).

Ongoing capital commitments will be reviewed regularly to ensure that the capital programme remains affordable. This will require strong integration of the Council's Capital Strategy, Asset Management Plan, Treasury Management Strategy and balancing the impact of any changes on the revenue position.

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 240 operational properties and 100 investment properties with a combined asset value of £73 million.

The Asset Management Plan 2011-16 identified the need for significant investment to ensure that assets are properly maintained and safe for use. The required investment over the five year period was estimated as being in excess of £6 million, which creates a significant pressure in the capital programme, and the current 5-year programme is not completely funded, despite additional resources being allocated in the Strategic Plan 2012-17. A further review of the corporate property condition surveys is currently underway and will be completed in early 2013, this will then determine the level of work required for both capital and revenue purposes.

A significant proportion of the planned maintenance programme relates to the Council's three multi storey car parks. Work is currently underway to address essential works at each of the sites, the anticipated cost of which is estimated to be in excess of £1.5m in 2013/14 with further significant costs to be incurred during the medium term. Although resources are in place for 2013/14, specific budgets have not yet been allocated for the future years requirements and will need to be considered as part of the management of the overall planned maintenance budget.

The management of the planned maintenance budget and shortfall in resources will be assessed through a structured approach to corporate property maintenance, prioritisation of essential and desirable works and consideration of the funding shortfall in the context of the total capital programme.

Resources

The resources necessary to fund the Council's GIP are fully identified in the GIP Summary 2013-18 (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 is reliant upon achieving capital receipts of £5.7m over the period 2013/14 to 2017/18. The current economic climate has impacted on the Council's ability to generate capital receipts through a slowdown in the property market and through falling property values.

In response to the increased risks to the capital receipt funding a number of mitigating actions have been undertaken and are planned over the coming year. These include:

- The inclusion of a major review programme of assets to identify potential disposals in the Asset Management Plan. The value of assets approved for disposal consideration over the next three years totals £3.7m. The achievement of the capital receipts target beyond these proposed disposals will be considered as part of the work strand looking at rationalising the Council's property and land portfolio under as part of the Towards Financial Sustainability programme.

- The annual capital programme has been reviewed in light of the annual pressure to realise capital receipts and it is proposed that a number of contingency schemes are decommissioned, as set out above. These proposals will reduce the requirement to realise capital receipts by £330k p.a. (£1.65m over the MTFS).

- The proposed revised annual capital programme has been set at a level that is affordable taking into account the anticipated capital receipts that can be realised over the next 2-3 years. If these receipts are not realised, and if future receipt targets can not be realised, Prudential Borrowing will be used as an alternative or until such time as capital receipts can be realised. This alternative funding can be afforded through either rental income on assets awaiting sale or from savings within the General Fund.

Prudential Borrowing

The basic principal 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 an annual £90k revenue consequence will arise.

The MTFS includes an unsupported prudential borrowing requirement of £1.2m over the period 2013/14 – 2017/18. The cost effectiveness of this borrowing, as opposed to selling capital assets, has been reviewed along with the affordability tests and impact on prudential indicators. This borrowing will be undertaken without impacting unduly on the council tax payer and has been financed through compensating savings within the revenue budget. 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 £765k 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 2013/14-2017/18 are estimated to be approximately £9.109 million, as follows:

	£'000
Capital Grants	825
Capital Receipts Brought Forward	1,188
Capital Receipts	5,699
Direct Revenue Financing	211
Prudential borrowing	1,186
TOTAL	**9,109**

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 from April 2012 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 will build up in the latter third of the 30 year period.

The first ten years of the plan however, sees a significant proportion of revenue resources fully committed to support the capital investment required 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 the resources required to undertake further improvement/investment in the short to medium term it will 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.

Progress has already been made in this regard; as a result of improvements in working practices savings have been identified within the HRA Business Plan. These resources have been redirected towards priority areas through a contribution to neighbourhood working, addressing the increasing demand for aids and adaptations and external decorating work and supporting environmental improvement works to housing areas.

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 full Strategic Plan 2013-18 and defined five year forward programme, the Housing Revenue Account includes the allocation of resources to support the delivery of the Council's strategic priorities.

The allocation of these resources in support of the longer term plan for the Council's activities has been identified following a comprehensive review and full public debate to determine the role the Council will play in addressing the needs of the City.

Following a detailed review of the objectives, beneficiaries and funding options to support the Council's neighbourhood working programme an annual contribution from the HRA towards neighbourhood working has been included within the MTFS. This contribution supports the strategic priority to reduce poverty and disadvantage and recognises the improvements tenants are expected to see in neighbourhood standards.

An updated position of the allocation of resources against strategic priorities is summarised below and detailed in appendix 8:

	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Strategic Priority					
Poverty & Disadvantage	120	122	124	127	129

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, pension fund 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 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 both aids and adaptations (£100k in 2013/14) and the external decoration programme (£100k in 2013/14) will enable a backlog of work to be cleared. In addition £43k p.a. has been added to the budget for aids and adaptations to reflect requirements in this demand driven area.

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 £75.1m over the 5-year MTFS period.

In the first 10 years of the 30 year Housing Business Plan the majority of revenue resources are fully committed to support the capital investment required in the existing stock. This places a significant pressure on the HRA and reduces its ability to respond to in-year budget pressures. Given the level of revenue support required, and increased dependency on this as the primary source of funding, it will be critical that there is robust budget management of the HRA and that opportunities to achieve efficiencies and maintain/maximise income streams are actively pursued.

As a result of savings achieved to date against the Business Plan there has been the opportunity to increase revenue contributions to support capital investment in the MTFS. In line with tenants' desires these resources will be used to support the delivery of environmental improvement works in housing areas.

Improvements in service delivery for existing and future tenants

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 improvements or additional services over and above those detailed above. As part of the next steps on developing the opportunities that self-financing brings the Council will consult widely with tenants; seeking to understand what tenants' priorities are in respect of tenancy services and how these compare to their aspirations for further investment in the housing stock, regeneration, new build etc.

In addition consideration will be given to support required by tenants as a result of changing Government Policy (e.g. Universal Credit). These priorities/aspirations will then need to be considered as part of the further development of the Business Plan and the overall resource allocation.

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. The policy, which continues under Self-Financing, currently has April 2015 as the date for convergence.

Target rents are increased based on the Retail Prices Index (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 2.6% for September 2012.

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 grant would be capped.

The Council has again, therefore, set the rents in line with the Government's policy which, including the required progression to target rent, has resulted in an overall average increase of 3.66%. The average rent will be £65.93 per week.

	Impact on Tenancies	
	No.	**%**
Rent decrease or no change	0	0
Rent increase between £0.01 and £1.00	32	0.4
Rent increase between £1.01 and £2.00	2,076	26.2
Rent increase between £2.01 and £3.00	4,755	60.1
Rent increase between £3.01 and £4.00	1,001	12.7
Rent increase between £4.01 and £5.00	45	0.6
Total	**7,909**	**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 minimal 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:

- 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. The programme includes an additional annual budget of £250k for environmental improvement works to help support the tenants' desire to see improvements in housing environments. This additional investment has been made possible following the identification of savings within the HRA against business plan projections. With the exception of environmental improvement works 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.

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.

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 to fund capital expenditure. The total support to the capital programme from the MRR over the 5-year MTFS period through depreciation is £45.2m.

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 £19.9m

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.

The proceeds of dwelling sales under the Right-to-Buy scheme have been a source of regular capital receipts in the past but in the current economic climate, the number of sales has been significantly reduced, although they are showing signs of increasing, 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 10 per year from 2013/14 to 2016/17, rising to 15 in 2017/18 and thereafter, however, this is a difficult area to predict accurately as it is affected by external factors, such as interest rates and property prices.

Prudential Borrowing

The Prudential Code allows the Council to take borrowing if it can demonstrate that 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 will limit the amount of debt that can be supported from the HRA in each local authority. This 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 fully utilise the opportunities provided by the Prudential Code. Under self-financing the HRA cannot set its own limit for borrowing (based on an assessment of affordability, sustainability and prudence); the level of HRA debt is limited by the government to £66.017m

Projected Capital Resources

Resources to fund the Housing Investment Programme 2013/14 – 2017/18 are estimated to be approximately £75.238 million, as follows:

	£000
Major Repairs Reserve (depreciation)	50,863
Direct Revenue Contributions	19,949
Grants & contributions	140
Right to Buys (RTBs)	536
Prudential borrowing	3,750
TOTAL	**75,238**

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 investments
- Achievement of capital receipts (including Right to Buy sales) targets, exacerbated by the economic climate
- Future building 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 being 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 has significantly increased to unprecedented levels. Given the threat that this poses to the Council's financial position the prudent minimum level of general reserves to be held needs to be at a level greater than in previous years.

The financial risks, in Appendix 5, have been identified and an assessment of the estimated exposure, likelihood and possible mitigation has been made in the context of the Council's overall approach to risk management and internal financial controls. This information has been used to determine the optimum level of reserve holdings needed to meet the requirements of a working balance and contingency. The conclusion of this risk assessment is that it is deemed prudent that General Fund reserves are maintained at around £1.5m - £2m, and that Housing Revenue Account reserves are maintained at a minimum of £1 million, over the period of the MTFS.

The general reserves at the end of each year for 2013/14 to 2017/18 are summarised in the table below.

	2013/14 £000	**2014/15 £000**	**2015/16 £000**	**2016/17 £000**	**2017/18 £'000**
General Fund	1,458	1,470	1,815	2,074	1,715
Housing Revenue Account	1,004	1,002	1,000	1,002	1,002

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 2013/14 - 2017/18

	2013/14 Original £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Chief Executive & Town Clerk	569,670	560,900	565,330	573,960	583,670
Directorate of Development & Environmental Sustainability	6,942,300	6,670,960	6,669,570	6,713,000	6,772,690
Directorate of Resources	1,358,130	1,351,580	1,350,270	1,312,580	1,313,750
Directorate of Housing & Community Services	4,854,490	4,726,600	4,750,140	4,805,910	4,883,160
Corporate	3,644,690	2,732,370	2,816,430	2,889,030	2,944,560
	17,369,280	16,042,410	16,151,740	16,294,480	16,497,830
Capital Accounting Adjustment	(2,063,470)	(523,510)	(415,170)	(381,380)	(395,080)
Base Requirement	**15,305,810**	**15,518,900**	**15,736,570**	**15,913,100**	**16,102,750**
Specific Grants	(1,354,150)	(1,496,360)	(1,679,950)	(1,679,950)	(1,226,310)
Contingencies	742,540	813,470	910,160	1,043,050	773,960
Savings Targets	(1,000,000)	(2,000,000)	(2,500,000)	(3,000,000)	(3,000,000)
Transfers to / (from) earmarked reserves	463,280	269,430	168,090	153,920	190,700
Transfers to / (from) insurance reserves	28,340	25,110	34,160	33,790	40,420
Total Budget	**14,185,820**	**13,130,550**	**12,669,030**	**12,463,910**	**12,881,520**
Use of Balances	(148,459)	11,589	344,695	259,406	(359,588)
Net Requirement	**14,037,361**	**13,142,139**	**13,013,725**	**12,723,316**	**12,521,932**
Business Rates Retained	16,478,666	16,989,505	17,516,179	18,251,859	19,164,452
Tariff	(12,348,112)	(12,726,842)	(13,057,740)	(13,540,876)	(14,082,511)
Levy	(399,270)	(414,226)	(467,470)	(528,556)	(640,958)
Revenue Support Grant	5,008,495	3,833,777	3,395,400	2,740,900	2,103,000
Council Tax Surplus	0	0	0	0	0
Council Tax	5,297,582	5,459,925	5,627,355	5,799,990	5,977,950
Total Resources	**14,037,361**	**13,142,139**	**13,013,725**	**12,723,316**	**12,521,932**
Balances b/f @ 1st April	1,606,910	1,458,451	1,470,040	1,814,735	2,074,141
Increase/(Decrease) in Balances	(148,459)	11,589	344,695	259,406	(359,588)
Balances c/f @ 31st March	**1,458,451**	**1,470,040**	**1,814,735**	**2,074,141**	**1,714,553**

GENERAL INVESTMENT PROGRAMME 2013/14 – 2017/18

	2013/14 Original £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Expenditure Programme					
Directorate of Development & Environmental Sustainability	2,252,320	850,000	700,000	700,000	700,000
Directorate of Housing & Community Services	266,710	198,500	0	0	0
Directorate of Resources	2,520,000	200,000	200,000	200,000	200,000
Chief Executive	0	0	0	0	0
Contingency	121,290	0	0	0	0
Total Programme Expenditure	**5,160,320**	**1,248,500**	**900,000**	**900,000**	**900,000**
Capital Funding					
Contributions from Revenue					
Opening balance	116,280	0	0	0	0
Direct revenue financing received in year	95,000	0	0	0	0
Used in financing	(211,280)	0	0	0	0
Closing balance	0	0	0	0	0
Capital receipts					
Opening balance	1,702,810	515,020	515,020	515,020	515,020
Received in year	2,170,080	1,143,500	795,000	795,000	795,000
Used in financing	(3,357,870)	(1,143,500)	(795,000)	(795,000)	(795,000)
Closing balance	515,020	515,020	515,020	515,020	515,020
Grants & contributions					
Opening balance	80,000	20,000	20,000	20,000	20,000
Received in year	345,000	105,000	105,000	105,000	105,000
Used in financing	(405,000)	(105,000)	(105,000)	(105,000)	(105,000)
Closing balance	20,000	20,000	20,000	20,000	20,000
Unsupported borrowing					
Received in year	1,186,170	0	0	0	0
Used in financing	(1,186,170)	0	0	0	0
Closing balance	0	0	0	0	0
Total Capital Funding	**(5,160,320)**	**(1,248,500)**	**(900,000)**	**(900,000)**	**(900,000)**
Available Resources c/f @ 31st March	**535,020**	**535,020**	**535,020**	**535,020**	**535,020**

HOUSING REVENUE ACCOUNT SUMMARY 2013/14 - 2017/18

	2013/14 Original £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Income					
Gross Rental Income					
- Dwellings rents	(26,806,410)	(27,899,020)	(29,138,430)	(30,078,660)	(31,120,260)
- Non-Dwelling rents	(508,370)	(527,600)	(549,060)	(566,340)	(585,410)
Supporting People Grant	(335,000)	0	0	0	0
Charges for Services & Facilities	(443,250)	(450,700)	(458,370)	(466,270)	(474,400)
Contributions towards Expenditure	(22,180)	(22,820)	(23,470)	(24,140)	(24,830)
Total Income	**(28,115,210)**	**(28,900,140)**	**(30,169,330)**	**(31,135,410)**	**(32,204,900)**
Expenditure					
Repairs Account Expenditure	8,014,800	7,993,790	8,177,020	8,364,620	8,551,310
Supervision & Management:	5,411,770	5,536,400	5,617,310	5,719,730	5,820,350
Rents, Rates and Other Premises	15,280	15,650	16,030	16,430	16,830
Subsidy Limitation Transfer	209,320	105,310	0	0	0
Insurance Claims Contingency	697,830	207,730	218,120	729,030	240,490
Depreciation of Fixed Assets	8,973,030	9,060,310	8,994,200	9,036,440	9,036,440
Debt Management Expenses	64,090	63,530	64,450	65,420	66,840
Increase in Bad Debt Provisions	452,540	470,530	490,950	506,260	523,530
Total Expenditure	**23,838,660**	**23,453,250**	**23,578,080**	**24,437,930**	**24,255,790**
Net cost of service	**(4,276,550)**	**(5,446,890)**	**(6,591,250)**	**(6,697,480)**	**(7,949,110)**
Loan Charges Interest	2,488,840	2,471,330	2,537,790	2,536,460	2,573,960
- Investment Interest	(63,920)	(65,600)	(126,350)	(128,770)	(170,270)
- Mortgages Interest	(630)	(430)	(230)	(230)	(230)
Surplus on HRA for the year	**(1,852,260)**	**(3,041,590)**	**(4,180,040)**	**(4,290,020)**	**(5,545,650)**
Premiums Payable	18,390	400	400	30	0
Discounts Receivable	(7,980)	(920)	0	0	0
IFRS technical adjustments	1,820	(67,940)	500	0	0
DRF used for Financing	2,610,130	3,024,340	4,096,600	4,723,300	5,482,540
Contribs to/(from) Reserves:					
- Insurance Reserve	(397,830)	92,270	81,880	(429,030)	59,510
- PI Survey	3,000	(6,000)	3,000	(6,000)	3,000
- Repairs Account	(310)	900	(490)	180	720
(Surplus)/deficit in year	**374,960**	**1,460**	**1,850**	**(1,540)**	**120**
Balance b/f at 1 April	(1,378,734)	(1,003,774)	(1,002,314)	(1,000,464)	(1,002,004)
Balance c/f at 31 March	**(1,003,774)**	**(1,002,314)**	**(1,000,464)**	**(1,002,004)**	**(1,001,884)**

HOUSING INVESTMENT PROGRAMME 2013/14 – 2017/18

	2013/14 Original £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Capital Programme					
Decent Homes	9,653,870	12,489,620	13,860,440	11,667,940	13,534,680
Extensive Repairs	141,890	94,570	258,400	559,080	1,735,510
Health and Safety	676,800	697,110	718,020	732,380	498,020
Contingent Major Repairs/Works	169,200	58,090	59,840	61,030	62,250
Energy Efficiency Works	140,340	0	0	0	0
Computer Fund	134,290	138,320	142,460	145,310	155,630
Environmental new works	250,000	250,000	250,000	250,000	250,000
New build developments	750,000	750,000	750,000	750,000	750,000
Servitor system	136,710	0	0	0	0
Unallocated	288,710	297,380	306,300	312,420	311,260
Total Programme Expenditure	**12,341,810**	**14,775,090**	**16,345,460**	**14,478,160**	**17,297,350**
Capital Funding					
Contributions from Revenue					
Opening balance	5,688,000	5,895,100	3,930,790	1,468,370	1,499,950
Depreciation received in year	9,036,440	9,036,440	9,036,440	9,036,440	9,036,440
Depreciation used in financing	(8,829,340)	(11,000,750)	(11,498,860)	(9,004,860)	(10,528,920)
Direct Revenue Financing received in year	2,622,130	3,024,340	4,096,600	4,723,300	5,482,540
DRF used in financing	(2,622,130)	(3,024,340)	(4,096,600)	(4,723,300)	(5,482,540)
Closing balance	5,895,100	3,930,790	1,468,370	1,499,950	7,470
Capital Receipts					
Opening balance	2,267,540	2,431,770	2,599,280	2,770,140	2,944,420
Right to Buy (RTB) receipts in year	164,230	167,510	170,860	174,280	266,640
Used in financing	0	0	0	0	(535,890)
Closing balance	2,431,770	2,599,280	2,770,140	2,944,420	2,675,170
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	750,000	750,000	750,000	750,000	750,000
Used in financing	(750,000)	(750,000)	(750,000)	(750,000)	(750,000)
Closing balance	0	0	0	0	0
Total Capital Funding	**12,341,810**	**14,775,090**	**16,345,460**	**14,478,160**	**17,297,350**
Available resources c/fwd	**8,326,870**	**6,530,070**	**4,238,510**	**4,444,370**	**2,682,640**

Appendix 5

BUDGET RISK ASSESSMENT

No.	Budget Item	Risk	2013/14		2014/15 onwards		Containment
			Impact	Likeli-hood	Impact	Likeli-hood	
1	Revenue Savings Targets	The required savings targets are not achieved nor required efficiencies delivered	I	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 quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee
2	Localisation of Support for Council Tax from 2013/14	Reduction in benefits can not be contained within the 10% reduction assumed by the Government's grant 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 – Impact of technical changes	II	B	II	B	• Early identification and planning of proposals to reduce council tax benefit expenditure • In year monitoring of the Collection Fund, collection rates, benefit caseload, council tax base • Produce weekly collection rate statements - 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 • Collection rates reduced in forecast Council Tax yield calculations • The proposed 2013/14 Council Tax is below the referendum limit at 2% increase. Future increases are 2% in years 2014/15 to 2017/18 • Annual increases in Council Tax considered alongside national expected increases • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee

			2013/14		2014/15 onwards		Containment
3	Impact of Localisation of Business Rates	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	I	B	I	B	• In year monitoring of the NNDR base, Collection Fund, collection rates, growth assumptions and rateable value appeals. • Produce weekly collection rate statements - 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 • Lobby through special interest and wider national groups • Work with the Association of Lincolnshire Finance Officers and the Society of District Treasurers
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 • 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

			2013/14		2014/15 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) 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. Reduction in car parking income during major works to Council buildings.	II	B	II	C	• Development and Building Control & Car Parking budgets rebased in MTFS 2013-18 to reflect ongoing economic downturn • Car parking strategy in development to promote income generation • Produce monthly 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

			2013/14		2014/15 onwards		Containment
	• Lincoln Properties • Industrial Estates						• Report monthly to Corporate Management Team on key income streams and quarterly to the Executive and Performance Scrutiny Committee • 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	IV	F	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
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
10	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	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

			2013/14		2014/15 onwards		Containment
		numbers and development of the City Centre results in additional cost pressures within the Services that have not been built into the budget					Team, Executive and Performance Scrutiny Committee • Keep additional property numbers under review and compare against the allowance built into the budget. • Monitor the financial impact on the Street Cleansing Service as a result of the City Centre Development
11	Housing Rents and Property Voids	More Council House disposals than anticipated Void properties exceeding the 0.8% allowance included in the budget Government's revisions to their rent restructuring policy that have a detrimental effect on the Council's budget	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 and has consistently been at, or below 1% in recent years
12	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 Potential cost impact following e-tendering of stores contract 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

			2013/14		2014/15 onwards		Containment
13	Repairs & Maintenance on Corporate Properties	Unplanned emergency maintenance is required on the Council's Corporate Properties Impact of works on income and service delivery	III	C	III	C	• New asset management planning process including life care plans being developed and subsequent planned maintenance programme. • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee
14	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 • Forecasting of core balances and cash flow on monthly basis • 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
15	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

			2013/14		2014/15 onwards		Containment
16	General Budget Assumptions	Settlements exceed the percentage increase provided for Actual establishment exceeds 99% Increase in employer pension contribution rates following triennial valuation in 2013	IV	D	III	D	• Set prudent but realistic projections based on analysis of economic commentators and Bank of England predictions • Monthly monitoring of RPI index changes • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Set a prudent but realistic estimate in line with Government announcements • Monitor significant changes in economic indicators • Monitor the pension fund position through discussions with Lincolnshire County Council and Lincolnshire Finance Officers • Monitor significant changes in economic indicators • Report any changes to Members as soon as officers become aware • Pension Fund Stabilisation Approach adopted
17	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

			2013/14		2014/15 onwards		Containment
							• Actively monitoring the cash flow on a daily basis • Forecasting of core balances and cash flow on monthly basis
18	Housing Benefits/Subsidy	Increase in payments that do not attract 100% subsidy i.e. overpayments and local authority errors Failure to comply with complex legislative requirements Lack of audit trail to substantiate grant claim	III	D	III	D	• Regular monitoring of claims being processed • Undertake staff training and sample accuracy checks • Ensure system back ups are carried out and historic information is recoverable • Implementation of new systems, processes and structures following Lean Systems Intervention
19	Loss of Rental Income as a direct consequence of GIP Asset Sales Target/costs of funding additional borrowing	Loss of rental is in excess of budget Costs of borrowing higher than budget	III	D	III	D	• Continual monitoring of actual loss against budget provision • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee and Asset Management Group • Cross Directorate Asset Review Group and disposal programme • Report to Asset Management Group prior to agreed disposal • Actively monitor the achievement of the capital receipts target and potential additional borrowing requirement • Actively monitor the cost effectiveness of asset disposals compared to Prudential Borrowing
20	External Funding of Capital Programme	Loss of anticipated external resource to support the capital programme	III	D	III	D	• Ensure all external funding is secure before the projects are committed • Ensure grant conditions are complied with throughout scheme

			2013/14		2014/15 onwards		Containment
							• Seek alternative funding sources • Produce regular grant monitoring statements • Regular budget monitoring and reporting to SPIT

Appendix 6

GENERAL FUND EARMARKED RESERVES FORECAST 2012/13 - 2017/18

Description	Forecast Balance 31.03.13 £	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 £
IT Security Reserve	272,260	323,760	423,760	523,760	623,760	723,760
Invest to Save	1,998,803	1,782,513	1,739,593	1,739,593	1,739,593	1,739,593
Mayoral car	32,299	40,679	49,059	49,999	49,999	49,999
Managed Workspace	70,000	35,000	35,000	35,000	35,000	35,000
Car Parking Strategy	25,475	25,475	25,475	25,475	25,475	25,475
Planning Delivery Grant	52,420	52,420	52,420	25,070	0	0
Private Sector Stock Condition Survey	51,580	48,880	880	12,880	24,880	36,880
Uphill/ Downhill Bus	93,416	93,416	93,416	93,416	93,416	93,416
Mercury Abatement	268,950	279,710	294,810	314,310	338,300	366,850
Boston Audit Contract	12,500	16,500	16,500	16,500	16,500	16,500
Commons Parking	7,130	7,130	7,130	7,130	7,130	7,130
Implications of Equality Audit	140,241	0	0	0	0	0
Grants & Contributions	558,093	539,753	603,583	603,583	603,583	603,583
Revenues & Benefits shared service	45,710	172,350	265,390	265,390	265,390	265,390
Tree Risk Assessment	101,450	92,690	92,690	92,690	92,690	92,690
Olympic Event (Infrastructure)	32,140	0	0	0	0	0
Backdated Rent Review	100,000	140,000	180,000	220,000	260,000	300,000
County Wide Broadband Initiative	34,000	34,000	34,000	34,000	34,000	34,000
MA Reserve	8,500	8,500	8,500	8,500	8,500	8,500
Budget Carry Forwards	46,995	40,220	40,220	40,220	40,220	40,220
Local Authority Mortgage Scheme interest	32,850	65,100	105,100	128,100	131,100	141,250
Business Rates Volatility	0	650,000	650,000	650,000	650,000	650,000
TOTAL GENERAL FUND	**3,984,812**	**4,448,096**	**4,717,526**	**4,885,616**	**5,039,536**	**5,230,236**

Appendix 6

HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2012/13- 2017/18

Description	**Forecast Balance 31.03.13 £**	**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 £**
Housing Survey Works	129,539	132,539	126,539	129,539	123,539	126,539
Stock Retention	22,341	22,341	22,341	22,341	22,341	22,341
Invest to Save	473,100	473,100	473,100	473,100	473,100	473,100
HRA Repairs Account	749,953	749,643	750,543	750,053	750,233	750,953
TOTAL HOUSING REVENUE ACCOUNT	**1,374,933**	**1,377,623**	**1,372,523**	**1,375,033**	**1,369,213**	**1,372,933**

Capital Strategy - 2013/14 to 2017/18

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 2013-18 of £9.109 m
- The Housing Investment Programme (HIP) with a budget for 2013-18 of £75.238 m

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 General Investment Programme is heavily reliant on the generation of capital receipts to fund the planned programme of expenditure. In the long term, this is not sustainable and other sources of funding are regularly explored. The Capital Strategy will continue to identify both the priorities for external and internal funding regimes and pursue other innovative sources of funding to improve its ability to deliver capital investment.

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.

Strategic Priorities

General Fund Revenue Bids 2012/13 - 2017/18

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	Original £	Revised	Original £	Revised	Original £	Revised	Original £	Revised	Original £	Revised	Original £	Revised
Poverty & Disadvantage												
Apprenticeship Schemes	75,000	25,000	75,750	25,750	76,510	26,510	78,040	28,040	79,600	29,600	81,190	31,190
Stand Up/ Speak	25,000	10,000	0	15,000	0	0	0	0	0	0	0	0
Healthy Cities scheme promotion	5,000	500	0	1,500	0	400	0	400	0	400	0	0
Poverty conference	5,000	0	0	0	0	0	0	0	0	0	0	0
Child Poverty take up campaign	56,200	56,200	0	0	0	0	0	0	0	0	0	0
Other health/ activity initiatives	15,000	0	0	0	0	0	0	0	0	0	0	0
Neighbourhood Working	105,040	105,040	105,720	105,720	106,410	106,410	107,140	107,140	108,550	108,550	109,970	109,970
	286,240	**196,740**	**181,470**	**147,970**	**182,920**	**133,320**	**185,180**	**135,580**	**188,150**	**138,550**	**191,160**	**141,160**
More Affordable Housing												
Increased inspection and enforcement in Private Sector Housing	26,000	0	26,370	0	26,640	0	27,170	0	27,710	0	28,260	0
	26,000	**0**	**26,370**	**0**	**26,640**	**0**	**27,170**	**0**	**27,710**	**0**	**28,260**	**0**
Reducing the City's Carbon Footprint												
Pilot scheme for the use of electric pool cars	10,000	10,000	10,000	0	10,000	0	10,000	0	10,000	0	10,000	0
Big Bus Scheme	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3,600	3600
Parking concessions for zero/ low emission vehicles	15,670	3,530	16,140	4,970	16,620	6,450	17,120	7,950	17,630	9,460	18,160	10,990
	29,270	**17,130**	**29,740**	**8,570**	**30,220**	**10,050**	**30,720**	**11,550**	**31,230**	**13,060**	**31,760**	**14,590**

Strategic Priorities

General Fund Revenue Bids 2012/13 - 2017/18

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	Original £	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**
Resilient Economy												
Visit Lincoln contribution	10,000	10,000	10,000	10,200	10,000	10,400	10,000	10,610	10,000	10,820	10,000	11,040
	10,000	**10,000**	**10,000**	**10,200**	**10,000**	**10,400**	**10,000**	**10,610**	**10,000**	**10,820**	**10,000**	**11,040**
Other												
Revenue Costs of new cemetery	32,000	10,670	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000
Conference Budget	10,000	5,000	10,000	6,000	10,000	6,000	10,000	6,000	10,000	6,000	10,000	6,000
	42,000	**15,670**	**42,000**	**38,000**	**42,000**	**38,000**	**42,000**	**38,000**	**42,000**	**38,000**	**42,000**	**38,000**
Total	**393,510**	**239,540**	**289,580**	**204,740**	**291,780**	**191,770**	**295,070**	**195,740**	**299,090**	**200,430**	**303,180**	**204,790**
Total Release of funding		**(153,970)**		**(84,840)**		**(100,010)**		**(99,330)**		**(98,660)**		**(98,390)**

<u>HRA Revenue Bids 2012/13 - 2017/18</u>

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	Original £	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**	**Original £**	**Revised**
Poverty & Disadvantage												
All new Council tenants to have Credit Union account	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Part funding of Community Development Worker	10,000	10,000	10,100	0	10,200	0	10,400	0	10,400	0	10,610	0
CAB Financial Inclusion Contribution	2,500	2,500	0		0		0		0		0	
Neighbourhood Working, contribution to Gen Fund	0	0	0	112,490	0	114,230	0	116,930	0	119,480	0	121,870
	20,000	**20,000**	**17,600**	**119,990**	**17,700**	**121,730**	**17,900**	**124,430**	**17,900**	**126,980**	**18,110**	**129,370**
Improve the performance of the Council's housing landlord function												
CIH Excellence Service accreditation for responsive repairs service	8,000	8,000	0	0	0	0	0	0	0	0	0	0
ASB respect charter	8,000	8,000	0	0	0	0	0	0	0	0	0	0
	16,000	**16,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0
Total	**36,000**	**36,000**	**17,600**	**7,500**	**17,700**	**7,500**	**17,900**	**7,500**	**17,900**	**7,500**	**18,110**	**7,500**
Total Release of funding		**0**		**(10,100)**		**(10,200)**		**(10,400)**		**(10,400)**		**(10,610)**

Capital Bids 2012/13 - 2017/18

	2012/13		2013/14		2014/15		2015/16		2016/17		2017/18	
	Original £	Revised £	Original £	Revised £	Original £	Revised £	Original £	Revised £	Original £	Revised £	Original £	Revised £
Poverty & Disadvantage												
Support for small Social Enterprises	150,000	0	0	0	0	150,000	0	0	0	0	0	0
	150,000	**0**	**0**	**0**	**0**	**150,000**	**0**	**0**	**0**	**0**	**0**	**0**
More Affordable Housing												
Western Growth Corridor	50,000	0	0	0	0	0	0	0	0	0	0	0
Day Centre for Homeless People	125,000	0	0	125,000	0	0	0	0	0	0	0	0
Mortgage Indemnity Scheme	2,000,000	1,000,000	0	1,000,000	0	0	0	0	0	0	0	0
	2,175,000	**1,000,000**	**0**	**1,125,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Fit for Purpose Council												
Upgrade facilities to enable greater public participation	164,000	164,000	0	0	0	0	0	0	0	0	0	0
New cemetery site	694,000	694,000	0	0	0	0	0	0	0	0	0	0
Planned Capital Works	200,000	200,000	0	0	0	0	0	0	0	0	0	0
New Payroll system	50,000	50,000	0	0	0	0	0	0	0	0	0	0
	1,108,000	**1,108,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other												
Grandstand - Essential works to listed building	100,000	100,000	0	0	0	0	0	0	0	0	0	0
DDA Works - Move Car Park Ticket Machine	4,000	4,000	0	0	0	0	0	0	0	0	0	0
DDA Works - Yarborough Sports Centre	7,200	7,200	0	0	0	0	0	0	0	0	0	0
Contingency - HLF scheme for Boultham Park	46,000	0	0	46,000	0	0	0	0	0	0	0	0
Allotments Strategy outcomes	75,000	75,000	0	0	0	0	0	0	0	0	0	0
	232,200	**186,200**	**0**	**46,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**3,665,200**	**2,294,200**	**0**	**1,171,000**	**0**	**150,000**	**0**	**0**	**0**	**0**	**0**	**0**