APPENDIX A

Medium Term Financial Strategy

2020/21 - 2024/25

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Foreword

Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2020-2025.

The City of Lincoln Council is a high-performing and innovative organisation, focussed on providing quality services and delivering outcomes that matter. Our current Vision 2020 and emerging new Vision 2025 is an ambitious strategic plan that is helping us to transform both the Council and the City through our strategic priorities.

This Strategy sets out how the Council will use its financial resources to underpin its new, emerging, Vision 2025 and strategic priorities. It is the Council's commitment to use the financial resources it employs over the coming years to make a positive difference to the city and its residents.

Over the last decade the Council, alongside the majority of other local authorities, has experienced unprecedented financial challenges in various forms and have had to adapt to; the impact of severe, unprecedented, central government funding reductions; radical reform of the methodology for funding local government - where councils are self-sufficient; changes in the use and demand for services; as well as escalating costs.

In response to this challenging financial environment the Council has embraced a forward thinking, ambitious and commercial approach in maintaining a sound financial position. We have a strong track record of planning ahead, securing savings in advance, shifting away from traditional cost cutting exercises to more ambitious and forward thinking opportunities, re-investing in more efficient ways of working, adopting a more commercial approach, prioritising resources for economic development measures, whilst making careful use of reserves to meet funding gaps and mitigate risks. This is an approach that has served the Council well and allowed us to deliver savings in excess of £8.5m over a ten-year period, a significant reduction in comparison to the overall net expenditure budget.

This successful financial management to date has enabled the protection of core services for the people of Lincoln while at the same time allowing the redirection of resources to priority areas in the Council's vision.

That is not to say though that the Council will not continue to have to navigate a difficult financial path in the forthcoming years in order to maintain a sustainable financial position. Looking ahead the financial landscape for local government continues to poses significant risks to the Council's priorities and ambitions. This MTFS has been prepared against a backdrop of uncertainty with regard to significant national reforms about; future departmental sending through the Spending Review 2020; the allocation of this funding to local government through the Fair Funding Review; and the implementation of a new Business Rates Retention Scheme.

In this current exceptionally difficult national funding situation the Council's overriding financial strategy has been, and is, to drive down its net cost base to ensure it maintains a sound and sustainable financial position. The key mechanism for carrying out this strategy is through the Towards Financial Sustainability

Programme which seeks to bring service costs in line with available funding and, alongside this, using the Council's influence and direct investment to create the right conditions for the City's economy to grow.

Although there is a significant level of uncertainty about future funding, based on what is currently known, or can be reasonably assumed, there still remains a current projected budget gap of £1.250m which the Council must close to ensure its financial sustainability. Although closing a gap of this size is a huge challenge it is not unprecedented and the Council should have the confidence that it has a track record of delivering strong financial discipline and that it can rise to the challenge once again.

This successful financial planning to date has enabled the protection of core services for the people of Lincoln, whilst at the same time allowing for significant investment in the City, and its economy, and delivery of the Council's Vision 2020. The Council will continue to adopt this approach, carefully balancing the allocation of resources to its new Vision 2025, whilst ensuring it maintains a sustainable financial position.

Jaclyn Gibson, ACCA
Chief Finance Officer

Section 1 – Introduction

The purpose of the MTFS is to set out the overall framework on which the Council plans and manages its financial resources to ensure that they fit with, and support, the direction of the Council's vision and strategic priorities. The Council's new Strategic Plan, Vision 2025, has five clear strategic priorities and in order to achieve these priorities the Council must have a clear and robust financial strategy which focuses on the long term financial sustainability of the organisation

The MTFS draws on a review of the local economic landscape, and the impacts of the wider national economic and political landscape. It 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 the financial consequences of the demand for council services. 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 as the Council develops its key plans and strategies it has a sound understanding of the organisations longer term financial sustainability which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints.

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

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

Inevitably the Council's plans will need to evolve and develop in response to new financial opportunities and risks and new policy directions, this has never been more evident than in the current climate. Therefore, the Strategy will be reviewed on a regular basis and at least annually.

The MTFS is underpinned by a sound finance system, coupled with a solid internal control framework, sufficiently flexible to allow the organisation to respond to changing demands over time and opportunities that arise.

Objectives

The MTFS seeks to achieve a number of specific objectives;

- Ensure the Council maintains a sound and sustainable financial base, delivering a balanced budget over the life of the MTFS;
- Continue to drive down the Council's net cost base in line with available resources, by adopting a commercial mind-set, and ensuring the provision of efficient, effective and economic services which demonstrate value for money;

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

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

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

Policy and Financial Planning Framework

The Council's new Strategic Plan, Vision 2025, is the thread that links the Council's integrated policy and financial planning framework. It is underpinned by the MTFS, which aims to ensure that all financial resources are directed towards delivery of the vision 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.

Vision 2025 promotes a clear view of the Council's strategic focus and in particular its key priorities. These priorities are a commitment by the Council to use the resources it employs over the coming years to a make a positive difference to the city and its residents.

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

Brexit continues to dominate the future outlook for the UK economy, although the UK left the EU with effect from 31st January 2020, there is still much uncertainty as the detail of a trade deal will still need to be negotiated by the end of the current end of the transition period in December 2020.

The prolonged nature of the Brexit uncertainty together with; deterioration in the global economic conditions; and trade wars between the US and China, have negatively impacted on the UK's GDP growth. The start of 2019 saw growth of 0.6% for the first quarter but then the second quarter showed the economy going into reverse with a contraction of 0.1%. Growth in the third quarter surprised on the upside with 0.5%, avoiding a technical recession, defined as two consecutive quarters of economic decline. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to zero, giving annual growth in the economy of around 1.3%, a downgrade from earlier forecasts and the weakest expansion outside a recession for more than half a century.

Beyond 2019, whilst the election result could provide the greater clarity required to boost activity levels, supporting stronger economic growth, the lingering uncertainty over a trade deal with the EU is likely to continue to hold back growth in 2020. Current forecasts predict that the economy is likely to tread water in 2020 with tepid growth of around about 1%, with overall balance of risks of even but, heavily dependent on a successful outcome of negotiations on a trade deal.

The Consumer Price Index (CPI) has been hovering around the Bank of England's target rate of 2% during 2019 but fell again in each of the last three months of 2019 to a three year low of 1.4% in December. It is likely to remain under 2% over the next two years, settling back in line with the Government's target rate of 2% around the beginning of 2022. The Retail Price Index (RPI) stood at 2.2% in December, up from 2.1% in October which was its lowest level since 2016. It is predicted to increase over 2020 to around 3% remaining around this level until at least early 2022.

At its latest vote, in January 2020, Members of the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to maintain a Bank Rate of 0.75%, but two Members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. This was the same position as per the previous sitting of the Committee in December 2019. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises.

With the UK's economic outlook continuing to be dominated by Brexit, the risk that this poses for economic performance and subsequent tax revenues continues to pose a threat to the Government's agenda for the next Parliamentary session as set out in the Queen's Speech and will undoubtedly impact on the Government's plans for borrowing, taxes, and public expenditure, including Local Government. This threat along with the impact on other indicators highlighted above make financial forecasting beyond 2020/21 very difficult.

National Priorities

Over the last decade the key driver for government policy has been securing the recovery of the economy through the deficit reduction programme, primarily focussing on public expenditure control. The government had made substantial progress in delivering this and reached a turning point in 2018 with the improving health of the public finances and with the Chancellor's Budget 2018 being introduced on the promise that "the era of austerity is finally coming to an end".

However, since 2018 there has been considerable upheaval on the political front with the resignation of the Prime Minister, appointment of a new Prime Minister and then subsequent General Election in December 2019. All of which has been against a backdrop of uncertainty as to when the UK will leave the EU and with or without a deal. The context in which public spending therefore must be considered continues to be very much dominated by the debate concerning the impact of the UK's exit from the EU and the strength and resilience of the national economy

The 2019 Budget was due to be announced on the 6th November 2019. Following the announcement of the General Election on the 12th December, it was made clear that the Budget would not be held until after the Election. The next Budget has now been announced as taking place on 11th March 2020.

Following the postponement of the Budget, the Office for Budget Responsibility (OBR) was minded to publish a restated version of their March 2019 public finance forecast, incorporating subsequent ONS classification and other statistical changes. The OBR later announced that it was no longer possible to do this as it would not be consistent with the Cabinet Office's General Election Guidance, there are therefore no up to date projections for public finances.

Prior to the onset of the current political turbulence the Government had intended on making a number of significant national reforms which will have fundamental impacts on the level of funding for local government and the mechanisms for distribution of such funding, those being;

- The Spending Review 2019
- The Fair Funding Review
- Business Rates System Reset and introduction of 75% Rates Retention in 2020/21

With the need to focus on the delivery of Brexit, these reforms have now been deferred by 12 months to 2021/22, creating an extended period of uncertainty for local authorities. Updates on each of these key reforms are set out in the following paragraphs.

Spending Round 2019

The government previously stated its intention to hold a new Spending Review in 2019, covering the period 2020/21 to 2022/23. However, it was announced that a one-year Spending Round (SR) would be provided, covering the financial year 2020/21; and that this would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.

The SR was announced on 4th September 2019 and was delivered within the current fiscal rules, as set out in the Charter for Budget Responsibility. These are to keep the cyclically adjusted deficit below 2% of GDP by 2020/21 (the borrowing rule) and have debt falling as a proportion of GDP in 2020/21 (the debt rule). The government highlights that the deficit was 1.1% in 2018/19, compared to nearly 10% of GDP in 2010 and they therefore believe that it is now possible to spend more on public services. In its March 2019 forecast, the Office for Budget Responsibility (OBR) set out that the government had headroom against its borrowing rule in 2020/21.

The government has therefore announced an increase to current and capital spending by £13.4 billion in 2020/21, compared to the OBR's forecast at Spring Statement 2019. With this in mind, the SR set out that Resource Departmental Expenditure Limits (DEL) across government departments will increase from £330.8bn to £352.3bn, representing growth of 4.1%.

In terms of local government resource the SR has provided local authorities with much of the funding certainty and stability needed for 2020/21. The Chancellor announced a funding package of more than £3.5 billion for vital council services. This is the biggest year on year real terms increase in spending power for local government in a decade. This funding will allow councils to meet the increase in cost and demand pressures they face in 2020/21 (these are however primarily in relation to social care pressures). Specifically the SR announced:

- A £2.9bn increase in local government Core Spending power overall, a real terms increase of 4.3% (i.e a cash increase 6.3%). This is the biggest year on year real terms increase in spending power for local government in a decade. This includes;
    - An additional £1bn for adult and children's social care; the government will be consulting on a 2% adult social care precept to enable councils to access a further £0.5bn.
    - Increased Council Tax bases (through 2% increase and growth in tax base) of £1.1bn
    - An additional £54m in 2020/21 to help reduce homelessness and rough sleeping to add to the funding already provided in 2019/20.
- Excluding local tax income, the underlying general funding to local government will rise by £1.1bn or 12.4% in real terms, this compares to a 3.1% real terms increase to NHS England and a 3.3% real terms increase to education.

- Combining the £2.9bn increase in Core Spending Power with announcements in high-needs funding for schools, public health funding and in the increase to the NHS contribution to adult social care through the Better Care Fund, local authorities can benefit from more than £3.5bn of additional resources.

- Confirmation that the Fair Funding Review, Business Rates Review and business rates reset has been deferred by 12 months to 2021/22.

- A proposed Council Tax core referendum limit of 2% but this will be subject to consultation in the Provisional Settlement.

- Baseline funding will be uprated by CPI (which includes RSG).

- Funding to remove negative RSG has been continued for 2020/21

- New Homes Bonus – legacy payments will be honoured but the scheme for 2020/21 is still for discussion with ministers.

- 75% business rates pilots will come to an end and there are no new pilots planned for 2020/21.

The Spending Review

With the SR 2019 concentrating on departmental budgets for 2020/21 a full multi-year Spending Review will be carried out in 2020. This is to encompass a full departmental spending review setting out the departmental allocations across government including setting the quantum of funding for local government and will take into account the nature of Brexit and set out further plans for long-term reform. The time period to be covered by the review is unknown but is expected to be up to 3-4 years.

Although the SR 2019 announced the fastest planned increase in day-to-day spending in 15 years with growth of 4.1%, and no department seeing a cut in its day-to-day budget, any future Spending Review and future growth will be dependent on the precise nature of the UK's departure from the EU and the subsequent impact on the UK economy. It is therefore too early to assume that the additional resources and growth announced in the SR 2019 will continue into the next multi-year settlements.

It should also not be assumed that if there is future growth in departmental spending that the funding for local government will automatically increase as a result. Since the onset of austerity measures local government have borne a disproportionate share of government funding reductions in comparison to other parts of the public sector. By 2020 local authorities will have faced a reduction to core funding from the Government of nearly £16bn over the preceding decade. That means that Council's will have lost 60p out of every £1 the government had provided for services, whilst overall public spending will have marginally increased over the same period.

Analysis by the Local Government Association shows that local services face a funding gap of £7.8 billion by 2025. This represents the difference between the cost of funding services at the same standard as in 2017/18, against funding that is estimated to be available to do so. This gap corresponds to keeping local authority services ‘standing still’ and only having to meet additional demand and deal with inflation costs. It does not include any extra funding needed to improve services or to reverse any cuts made to date.

This is echoed by results of the Housing, Communities and Local Government Select Committee’s inquiry, in 2019, into ‘Local Government Finance and the Spending Review 2019’, which called for the uncertainty for local government and the lack of funding for services to be addressed as a matter of urgency.

The Fair Funding Review

Whilst the planned Spending Review 2020 will set the overall quantum for local government funding it will be the Fair Funding Review that creates a new formula for the distribution of this across the local authorities by establishing new baselines at the start of the reformed Business Rates Retention scheme. The review itself focuses on three key elements;

- Determining Need – assessing the relative needs of local authorities determined by a combination of specific cost drivers

- Determining Resources (deducted from need) – assessing each authority’s ability to raise resources locally

- Transition (to the new baselines – providing protection for those authorities facing severe funding reductions as a result of changes in their baseline needs.

The importance of each of these three elements will be different for individual local authorities depending on their own local position.

The latest consultation paper ‘ A review of local authorities’ relative needs and resources – Technical consultation on the assessment of local authorities’ relative needs, relative resources and transitional arrangements’ was published in December 2018, with consultation closing in February 2019. Whilst this consultation provided further details on the government’s guiding principles to test a wide range of options for designing a new distribution methodology it wasn’t possible to fully model exemplifications and assess the implications for each authority. From what information was available it is expected that there will be a significant shift of resources away from district councils towards funding statutory social services at county and unitary level. The consultation responses were not responded to by Government and will no doubt be considered as part of further development during 2020. It is likely too that the Review will also take into consideration any new policy decisions on what the focus of local government funding should be in light of any Government priorities.

Business Rates Retention Reform

Before the 2017 election, the Local Government Finance Bill 2016 was prepared with the aim of introducing primary legislation to enact the move from the 50% business rates retention (BRR) scheme to 100% BRR. Subsequently, as part of the

Local Government Finance Settlement 2018/19 government announced that local business rate retention would move forward from 50% to 75% in 2020/21 rather than 100% as previously announced. The government has stated though that it is still committed to a long term aspiration of 100% retention of business rates. The introduction of this new scheme has, alongside the Fair Funding Review and Spending Review, now been delayed a year and will now be implemented in 2021/22.

Alongside the publication of the fairer funding review in December 2018 the government also published the consultation paper "Sharing risk and reward, managing volatility and setting up the reformed system". This was the first consultation on 75% retention and included proposals to update the balance of risk and reward and to mitigate volatility in income and simplify the system, this allowed local authorities to assess to some degree how the future system would work and the likely financial implications. There is an established technical steering group and a number of sub-groups that provide information and expert advice on the setting up and implementation of the new system, the groups have been continuing to meet during 2019 and further develop the proposals. However, as with the Fair Funding Review the Government have not yet responded to the consultation responses or issued any further consultations.

Social Housing Green Paper

The Government's Social Housing Green Paper was launched in August 2018 and set out a 'new deal' for social housing residents around five core principles, those being

- Ensuring homes are safe and decent
- Effective resolution of complaints
- Empowering residents and strengthening the Regulator
- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership

With consultation on the Green Paper closing in November 2018 a White Paper was expected in Spring 2019, but as the one year anniversary of the Green Paper passes this is still awaited.

However there has been some progress in a number of the core principle areas the most significant of which being the abolishment of the HRA borrowing cap, awarding local authorities the ability to now build good quality affordable new homes and infrastructure that is needed by their communities.

Subsequently, as part of the Queen's Speech in December 2019 the Government confirmed that it will bring forward the Social Housing White Paper.

Local Priorities

Lincoln is a cathedral city, and is one of the oldest cities in Britain, with a population of around 99,039 (1% increase on the previous year). 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 99,039, 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 at 9.7%, with a larger proportionate increase than England (8.1%) as a whole. Lincoln has also had a bigger increase proportionately than many cities and towns in England that are considered characteristically similar.

There continues to be an increase in the number of residents aged 20-29, influenced by the expanding universities. There are well over 17,000 students at the University of Lincoln and Bishop Grosseteste University. Lincoln has a higher than average proportion of its population aged in their 20's. This age group accounts for 21.5% of the city's total population, compared to only 13.1% nationally.

Like many places, Lincoln is made up of areas of relative affluence, and relative deprivation. The Indices of Multiple Deprivation 2019 shows Lincoln as 68th of 317 Local Authorities. The three domains that Lincoln has scored higher in the rankings are in crime, housing and living environment. These are all in the lowest (9.3%) weighting. Health remains Lincolns worst domain ranking.

In terms of the economy, the City faces a number of challenges. One of these is Lincoln's child poverty rate which is above the county, regional, and national rate. Fuel poverty rates are above the regional and national average.

Overall, approximately 18% of council tax payers receive Housing Benefit and/or Council Tax support. Only around 0.4% of properties fall within council tax bands G and H, and 80% fall within the lowest bands A or B. This low Council Tax base has a significant limiting impact on the Council's ability to raise revenue via the Council Tax and creates a higher dependency on other sources of income.

Both male and female life expectancies are in line with national averages with male life expectancy decreasing a little to 77.3 years while female life expectancy reduced slightly to 80.9 years. Early deaths due to heart disease and cancer had been reducing but rates have seen an increase and Lincoln still ranks high amongst our nearest neighbours.

There are approximately 44,600 households in the city – the City Council is landlord to approximately 7,800 of these, with more than one thousand more belonging to Registered Social Landlords. Despite the fact that housing is generally more affordable in Lincoln than elsewhere, there is still substantial demand for social housing of different types.

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

The Council's new Vision 2025, launched alongside this MTFS, sets out the Council's vision for the future of the City, strategic priorities and core values. This is the second phase of the Council's long-term vision for Lincoln by 2030 and follows on from the success of Vision 2020. This new vision is the product of work both internally and externally through consultation with residents, businesses and other organisations with a stake in the city. It builds on Vision 2020 and includes those longer term projects which were started, but not yet completed, as well as brand new projects identified through our work with partners, residents and other stakeholders The development of Vision 2025 has been informed by evidence from the Lincoln City Profile to ensure that the Council's visions and aspirations for the City are not just for the next five years, but look ahead beyond this.

The Council's vision for 2025 is;

"Together, let's deliver Lincoln's ambitious future"

Underpinning this vision are five strategic priorities, each with a number of supporting aspirations. The aspirations are in turn supported by groups of projects that will be delivered throughout the five-year activity programme. Not all the aspirations will be progressed at the same speed or even at the same time. Instead, they provide an overview of where effort needs to be placed over time, with the Annual Delivery Plan showing where the focus is for the current year. The four current strategic priorities are:

- Let's drive inclusive economic growth
- Let's reduce all kinds of inequality
- Let's deliver quality housing
- Let's enhance our remarkable place
- Let's address the challenge of climate change

Surrounding all this work is our commitment to continue delivering high professional, high performing services via our One Council programme, which is made up of the following pillars:

- Organisational development
- Best use of assets
- Technology
- Create value processes

These priorities and programmes are reinforced by our core values, which govern our approach to everything. These core values are:

- Let's be approachable
- Let's be innovative
- Let's be trusted to deliver

Section 3 – Revenue (General Fund)

Spending Plans

The MTFS is central to identifying the Council's financial capacity to deliver its vision and strategic priorities, this requires a balance to be struck between the need to support the delivery of the vision with the need to maintain a sustainable financial position. This balance continues to be difficult with the level of uncertainty that surrounds the Council's future level of resources.

Vision 2025 is the second phase of the Council's long-term vision for Lincoln by 2030. As with Vision 2020, the detailed programme will need to be flexible, with project delivery being aligned to changing local needs. Thus the vision demonstrates the direction forward and some of the known specific projects, but it will be supported each year with a more detailed Annual Delivery Plan.

Whilst the MTFS already provides for the legacy projects from Vision 2020, an allocation of resources for new projects, to be delivered over the 5-year period is also required. The MTFS therefore allocates of £1m of revenue resources to support these new projects, this is a one-off allocation. These additional resources have been released as a result of the one-year delay in the national funding reforms as it had previously been assumed that the full negative impact of the changes in funding levels and mechanisms would impact in 2020/21, these are now deferred to 2021/22, generating additional one-off resources.

Details of how these resources will be allocated to support Vision 2025 will be determined through the Annual Delivery Plan.

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

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

	2020/21 % per year	2021/22 % per year	2022/23 % per year	2023/24 % per year	2024/25 % per year
Pay	2.0%	2.0%	2.0%	2.0%	2.0%
General	2.0%	2.0%	2.0%	2.0%	2.0%
Contractual Commitments	3.0%	3.0%	3.0%	3.0%	3.0%
Non domestic rates	2.0%	2.0%	2.0%	2.0%	2.0%

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 MTFS assumptions, of 3.0% for 2020/21 onwards. A number of the Council's contractual commitments are linked to the RPI at a defined date in the year, primarily December and March; any movement in RPI by these dates will result in an inflationary pressure for the Council. Every 0.5% increase in RPI will equate to approximately an additional £28k pa, this will have a cumulative impact.

Employer's Pension Fund Contributions

The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2019, and the results identified that there has been a significant improvement in the funding position since the last actuarial review from a 69% funding level to 84%.

Although the overall funding position has improved, the employer contribution rates are still required to increase in order to improve the funding position further. The Lincolnshire Pension Fund's overall Funding Level has improved to 93% due, in the main, to excellent investment results during the period, although this level of investment performance is unlikely to be sustainable over the longer term. The Fund's prudent assumption for future investment remains unchanged from the 2016 valuation, however the economic outlook on the whole is slightly more pessimistic than 3 years ago. For employers such as local authorities the Actuary, because of the guaranteed nature of their funding, is able to recommend a stabilisation overlay mechanism whereby the employer's current contribution rate is capped at an affordable level. Without out this in place the Council would be facing significantly higher contribution rates in order to increase the funding position.

This stabilisation approach has allowed the annual increase in the contribution rate to be capped at 1% p.a. over the period 2020/21 to 2022/23.

A further actuarial review will take place in April 2022, which will inform the employer contributions from 2023/24 onwards.

Net Interest Receipts

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

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

Interest rates are forecast to remain at low levels until late 2020 and then the expectation is for a very slow recovery in the money markets. This is reflected in investment income forecasts in the MTFS.

Borrowing costs incurred on any short-term borrowings are minimal and the Council's portfolio of long-term borrowings currently includes 3 loans that are due to be repaid during the coming five financial years. The council has short term loans which mature in 2020 and 2021. All other loans mature after 2022/23 and are fixed rate loans. Six of these loans have lender options to vary their terms at six monthly intervals.

Sensitivity to changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates. As an indication, a change in interest rates of +/- 0.5% would have an estimated combined impact of approximately £38k.

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

	2020/21 %	2021/22 %	2022/23 %	2023/24 %	2024/25 %
Interest Rate	0.85	0.95	0.95	1.00	1.08

Based on the current forecasts for interest payable on new borrowing (averaging around 3.5%) and receivable on investments (averaging around 0.85%), and the estimated level of balances available for investment, it is currently anticipated that new borrowing will be taken to fund the borrowing requirement for the General Fund over the 5 year strategy. Internal balances will be used to fund the existing borrowing requirement where it remains financially advantageous to do so, reducing the amount of interest that would have been payable on new debt, partially offset by a reduction in interest receivable (due to reduced balances available for investments).

Repairs and Maintenance

The Council's Asset Management Plan identifies the need for significant investment to ensure that its assets are properly maintained and safe for use. Although additional resources have previously been and these have tackled the most urgent issues arising there still remains a considerable amount of work to be undertaken in the medium to longer term, which places an increased pressure on responsive day to day repairs and maintenance budgets.

A structured approach to corporate property maintenance is being taken with the prioritisation of the urgent, essential and desirable works and consideration of the overall resources available. Alongside this the Council continually reviews its assets for the potential to dispose/transfer those assets with significant repair liabilities or attract external funding.

Resources

Revenue Support Grant/National Non-Domestic Rates

The Local Government Finance Settlement for 2020/21 sets out the distribution of centrally allocated resources for local authorities and provides authorities with a combination of grant allocations and their baseline figures within the BRR scheme. The 2020/21 announcement is the first and only year of the Spending Round 2019 and is based upon the funding levels announced in the Spending Round, with individual authority allocations based on Spending Review 2015 and subsequent funding allocations.

Future years' announcements will be dependent on a number of factors, including; Spending Review 20, the outcome of the Fair Funding Review, the BRR Reset, the move to 75% BRR and any reform of the New Homes Bonus scheme.

Core Spending Power

The Core Spending Power calculation includes the main sources of Government funding for local authorities, in addition it also includes local resources in the form of assumed levels of Council Tax income.

The table below shows the national changes to Core Spending Power between 2015/16 and 2020/21 and the breakdown across the various funding sources. Overall, spending power will increase by £2.9bn from £46.2bn to £49.2bn, an overall increase for the period 2015/16 to 2020/21 of 10.1%. However within this, the Settlement Funding Assessment (SFA) will reduce by £6.5bn (30%) and NHB by £0.3bn (24%), which is largely offset by the governments estimate of council tax increasing by £7.4bn (33%).

England	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Settlement Funding Assessment	21.250	18.602	16.633	15.574	14.560	14.797
Under-indexing business rates multipler	0.165	0.165	0.175	0.275	0.400	0.500
Council Tax	22.036	23.247	24.666	26.332	27.768	29.386
Improved Better Care Fund	0	0	1.115	1.499	1.837	2.077
New Homes Bonus	1.200	1.485	1.252	0.947	0.918	0.907
Transition Grant	0	0.150	0.150	0	0	0
Rural Services Delivery Grant	0.016	0.081	0.065	0.081	0.081	0.081
Adult Social Care Support Grant	0	0	0.241	0.150	0	0
Winter Pressures Grant	0	0	0	0.240	0.240	0
Social Care Support Grant	0	0	0	0	0.410	1.410
Core Spending Power	**44.667**	**43.730**	**44.296**	**45.098**	**46.213**	**49.158**
Change %		**-2.1%**	**1.3%**	**1.8%**	**2.5%**	**6.4%**
Cumulative change %		**-2.1%**	**-0.8%**	**1.0%**	**3.5%**	**10.1%**

Although the national level of Core Spending Power is forecast to increase by 10% the variation between individual authorities and types of authority is significant. Shire Districts, including Lincoln have experienced the worst reductions in core spending power, due to changes in the distribution of RSG and due to the top slicing of NHB to redirect towards social care pressures and the allocation of other specific grants towards upper tier or rural authorities. Lincoln's position is as set out in the table below, this shows a total reduction in core spending power of 15.2% over the five year period to 2020/21.

Lincoln	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
SFA	6.048	5.188	4.543	4.197	3.775	3.837
Council Tax;	5.637	5.916	6.145	6.393	6.679	6.940
Other grants	2.120	2.335	1.709	1.090	0.843	0.924
Core Spending Power	**13.804**	**13.439**	**12.396**	**11.680**	**11.297**	**11.700**
Change over the period (£m)						**-2.104**
Change over the period (%)						**-15.2%**

Settlement Funding Assessment

The SFA for each authority comprises of NNDR Baseline funding level and Revenue Support Grant. For the Council this is broken down as follows:

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
RSG	2.585	1.698	0.981	0.000*	0.022	0.023
Baseline BR Funding Level	3.463	3.491	3.562	4.197	3.753	3.814
SFA	**6.048**	**5.188**	**4.543**	**4.197**	**3.775**	**3.837**
Change over the period (£m)						**-2.211**
Change over the period (%)						**-36.6%**

* added to Baseline BR Funding level as part of 100% business rates pilot in 2018/19

Revenue Support Grant

In terms of the Council's RSG element of the SFA, as a result of the one-year delay in the implementation of the new 75% BRR scheme, the figures announced in the Finance Settlement are at the same level as the 2019/20 allocations uplifted by 1.63% in line with CPI inflation. Over the 5-year period from 2015/16, the Council's allocation has reduced by 99.1% from £2.585m in 2015/16 to £0.023m in 2020/21, as shown in the table below.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
RSG	2.585	1.698	0.981	0.528*	0.022	0.023
Change %		-34.3%	-42.2%	-46.2%	-95.8%	1.63%
Cumulative change %		-34.3%	-62.1%	-79.6%	-99.1%	-99.1%

* added to Baseline BR Funding level as part of 100% business rates pilot in 2018/19 but shown here for comparison purposes.

Beyond 2020/21 it is assumed that there will be no further RSG payable by the Government.

Business Rates Retention

The Council has undertaken an assessment of the amount of business rates that it expects to collect during 2020/21 and based on the principles of the current 50% Business Rates Retention scheme its estimate of the level of NDR to be retained is set out in the table below. Forecasts over the remaining period of the MTFS, i.e. 2021/22 and thereafter, have also been made taking into consideration the introduction of a new 75% retention scheme. However as much of the design and relative starting positions in the new scheme are as yet unknown it is extremely challenging to forecast the level of likely resources.

For 2020/21 the Council along with the County Council, who are a top up authority, and the other six Lincolnshire District Councils have received designation to act as a BRR pool. The governance arrangements for the pool allow for the allocation of any retained levy to be allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The estimated benefit of this to the Council is £684k in 2020/21.

An adjustment has however been made from 2021/22 onwards to remove the gains that are currently received from pooling as this element of the scheme will cease to exist in a 75% retained system.

The level of outstanding appeals continues to create a high level of uncertainty both in respect of the outstanding appeals from the 2010 and 2015 ratings lists already lodged with Valuation Office, but also in relation to appeal to the 2017 list that are submitted under the new Check, Challenge Appeal process. The Collection Fund is required to fully provide for the expected result of all appeals and using external assessments as to the likely level and value of these appears. The current provision of outstanding appeals stands at £5.477m, of which the Council's share is £2.191m. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council, this impact has been assumed at £1.5m p.a.in the BRR forecasts set out below.

As part of the introduction of a 75% retained system it had previously been announced that there would also be a reset of the system in 2020/21, although this is now delayed until 2021/22. This will see NNDR baselines adjusted to better reflect how much local authorities are actually collecting in business rates. The last consultation paper on the reform of the system was published in December 2018 which confirmed that there will be a full reset of the system, wiping out all gains the Council has achieved since 2013. However the total gains on a national level will be redistributed through the system of baseline need so it is likely that the Council will receive an element of this.

The MTFS has been prepared on the basis of a full reset of the system and with an assumed redistribution of the total national gain. This will continue to be assessed as further information regarding the design of the scheme is made available.

Based on the assumptions as set out above the level of retained business rates assumed in the MTFS is as follows:

Income Forecast	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**2024/15 £m**
Forecast retained Income	5.824	4.696	5.156	5.639	5.570

As set out throughout this MTFS, there are a number of key and dramatic changes to Business Rates due in the forthcoming years. These will have the potential to significantly affect the level of business rates retained by the Council, whilst assumptions have been made in the MTFS regarding the potential impacts the actual impact remains a high risk to the Council's future financial sustainability.

Council Tax

The Localism Act 2011 introduced a power for residents to approve or veto excessive council tax increases. This means that any local authority setting an excessive increase as set by the Secretary of State would trigger a referendum of all registered electors in their area. The Government confirmed in the Local Government Finance Settlement that there will continue to be differential limits that will trigger the need for a referendum. There will be a referendum limit of up to 2% for all authorities except Shire Districts and Mayoral Combined Authorities. For District Councils, as in previous years, there will be additional flexibility with increases of less than 2% or up to and including £5 (whichever is higher).

In light of the financial position of the Council and in accordance with the referendum thresholds to be applied for 2020/21, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
% Increase	1.90%	1.90%	1.90%	1.90%	1.90%
Council Tax Base	24,689	25,051	25,417	25,788	26,164
Council Tax Yield	£6.915m	£7.149m	£7.391m	£7.640m	£7.900m
Band D	£280.08	£285.39	£290.79	£296.28	£301.95
Band D £ Increase	£5.22	£5.31	£5.40	£5.49	£5.67

For 2020/21 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £280.08, a 1.90%/£5.22 increase from 2019/20.

Following implementation of the localised council tax support scheme in April 2013 (which changed support from being a benefit to a council tax discount) the council tax base is now directly affected by the number of council tax support claimants. The more council tax support that is awarded the more the taxbase is reduced, therefore limiting the ability to raise council tax. The MTFS has been prepared on a reduction to the tax base of 4,323 relating to the council tax support scheme in the years 2020/21 – 2024/25. The council tax base in the table above reflects the reduction for the council tax support scheme.

Specific Grants

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

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

The Local Government Finance Settlement announced a Spring 2020 consultation on the future of the scheme, stating that 'it is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most' and the consultation will 'include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance'. The Settlement also announced that 2020/21 'in year' allocations will not have future years legacy payments but that legacy payments from previous years allocations would be honoured. The MTFS is based on the allocations announced in the Settlement and assumes no further funding beyond this.

Set out in the table below are the assumed levels of New Homes Bonus, along with the other specific grants that the council forecasts to receive.

Grant Name	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
New Homes Bonus	770	111	50	0	0
Housing Benefit Admin Subsidy	336	336	336	336	336
Local Council Tax Support Admin Subsidy	137	137	137	137	137
Housing Benefits New Burdens	48	48	48	48	48

Flexible Homelessness Support Grant and Homelessness Reduction	1,070	0	0	0	0
Rough Sleeping Initiative	275	0	0	0	0
TOTAL	**2,636**	**632**	**571**	**521**	**521**

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 £10.9m from fees and charges in 2020/21.

The mean average overall increase in the non-statutory fees and charges is 3.1%, however this includes some fees that have been increased by higher and lower percentages.

The most prominent sources of income continue to be car parking and bereavement services, which together equate to 69% of total fees and charges income.

Bridging the Gap

The Council has a successful track record in delivering savings and has over the last ten years, delivered £8.5m of annual revenue savings. The Council's approach has centred on planning ahead, securing savings in advance, re-investing in more efficient ways of working and adopting a more commercial approach whilst making careful use of reserves to meet funding gaps, its an approach that has served the Council well. Although inevitably there has had to be some withdrawal of services the Council has tried to keep this to a minimum and has sought to protect its core services that matter most.

Despite this success the Council must continue to reduce its levels of expenditure or identify additional resources if it is to achieve the revised savings targets assumed in the MTFS and to remain financially sustainable. As part of developing this MTFS, due to changes in key assumptions it has been necessary to increase and re-profile the savings targets from 2020/21 onwards. The targets are now as set out below:

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/15 £m
0.500	**0.850**	**1.250**	**1.250**	**1.250**

<u>Although these savings targets are required in order to maintain a balanced financial position for the General Fund Revenue budget there could be the potential for these to increase further, in early 2020. This is as a result of the development of the funding package for the Crematorium investment, which is currently being finalised. If this funding package includes an element of prudential borrowing then there will be a requirement to increase the savings targets in order to fund the additional revenue costs of interest payable and MRP.</u>

The key mechanism in ensuring that the Council maintains a sustainable financial position and delivers the required reductions in the net budget is through its Towards Financial Sustainability (TFS) programme. The programme itself reflects the council's innovative, forward thinking and commercial approach alongside its ambitions to maintain high performing services and a performance culture. The programme consists of four key strands as follows:

- "One Council" – cross organisational programmes of work exploring common to all issues and how these can best be combined to a deliver a 'one organisational' approach more efficiently and cost effectively.

- Investment Opportunities – consideration of new opportunities to invest in both commercial properties as well as in regeneration and redevelopment schemes that support the local economy; optimisation of usage and commercial returns of the City's property and land portfolio

- Commercialisation/Income Generation – generation of new income streams, and commercial trading opportunities which provide good financial returns and maximisation of existing income streams.

- Service Withdrawal/Reduction - withdraw from some services or reduce the level of service provided for those services not deemed to be of sufficient priority or any longer affordable.

Alongside this programme the Council believes that the longer term approach to finding efficiencies to close the funding gap is fundamentally through economic growth and investment. It continues to seek ways to maximise its tax bases by creating the right conditions for the economy to grow and increase Business Rates income and to encourage housebuilding to meet growing demand, generating additional Council Tax. As well as supporting these the Council will also seek through direct intervention, such as through its Council House New Build Programme and the Towns Fund bid development, to enhance the economic prosperity of the City. Although not directly contributing towards the TFS savings targets in the short term these measures allow future assumptions of growth in the Council's resources to be factored into the revenue forecasts and work towards the Council's objective of being financially sustainable.

Closing a projected budget gap of this size is a challenge for the Council, but this is not unprecedented and the Council has confidence that it has a track record of delivering strong financial discipline and that it can continue to rise to the challenge.

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:

- Implementation of revised BRR Scheme including full reset
- Future levels of Central Government funding e.g Fair Funding Review, New Homes Bonus etc.
- Implications of Brexit on national and local economy
- Fluctuations in the Business Rates Taxbase
- Delivery of challenging savings targets
- Impact of economic climate on both demand for services and income streams
- Changes to other key external funding sources, specifically fees and charges
- Changes to other key assumptions within the MTFS
- Financial and budget management issues

Appendix 3 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 its Capital Strategy, which explains the Council's financial framework for capital investment in support of its strategic priorities. The General Fund Investment Programme (GIP) covers all aspects of capital expenditure within the Council, with the exception of the Council's housing stock, and includes external capital investment that assists in achievement of the Council's Strategic Priorities.

Capital Spending Plans

The capital spending plans for the next five years include the delivery of legacy projects from Vision 2020, known specific schemes from Vision 2025 (where they are sufficiently progressed and funding is in place), schemes identified as requiring investment in order to deliver revenue savings as part of the Towards Financial Sustainability Programme, schemes resulting from joint working with partners, and ongoing capital schemes, particularly the investment required in the property portfolio.

Total planned expenditure over the 5-year programme is estimated to be £20.144m of which there are two key schemes:

- Western Growth Corridor Phase 1a - £9.543m
- Crematorium Investment - £4.7m
- Disabled Facilities Grants - £1.5m

Further schemes in support of the new Vision 2025 will be included in the GIP at the relevant stage in their development e.g. grant funding secure, design stage completed etc and in line with the Annual Delivery Plan.

The revenue implications of all capital schemes, including the corresponding reduction in investment income as a result of the application of 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 operational properties and investment properties with a combined asset value of £123 million.

The Council's current Asset Management Plan identifies the need for significant investment to ensure that its assets are properly maintained and safe for use. Additional resources have previously been allocated, including works to income earning assets such as multi story car parks, City Hall and Leisure Centres with further resource allocated for investment in the Crematorium. Although these have tackled the most urgent issues arising in those years there still remains a considerable legacy of outstanding investment required in the council's assets.

Allocation of the annual planned capitalised works budget (£200k p.a.) to maintain specific assets will be determined by the structured approach being undertaken and will also be influenced by the outcomes of the continual review programme of all assets as part of the Towards Financial Sustainability Programme. Outcomes of this being the potential disposal/transfer of specific assets which may in turn relieve the Council on the ongoing repair liability. In addition significant investment in income generating assets, will be considered for investment as part of the prioritisation of available capital resources.

Resources

Although historically the GIP has been reliant on the generation of capital receipts to fund the investment required to deliver the programme in the long term the use of capital receipts is not sustainable. In addition due to revenue pressures the use of direct revenue financing of the capital programme is also not a sustainable, and other sources of funding are regularly sought to fund capital expenditure.

In the absence of capital receipts then prudential borrowing will be considered, particularly where a capital scheme is income generating and the returns are sufficient, although the funding of other key projects will also be considered through borrowing.

External grant funding has in recent years enabled the delivery of a considerable number of capital schemes for the Council e.g. Heritage Lottery Fund for Boultham Park, and the single Local Growth Fund for the Transport Hub, with further funding now secured from the Local Authority Accelerated Construction for Western Growth Corridor Phase 1a. The Council continually seeks further external grant funding to support the delivery of its vision and priorities and is currently developing schemes/bids as part of the Heritage Action Zone, Towns Fund Prospectus and further Heritage Lottery Fund. The Council is mindful though that 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 how to allocate its capacity, within its reduced resources, to support such schemes. Furthermore the Council needs to carefully consider whether it is able to meet the outputs and outcomes required from external grant support.

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 any revenue contributions.

Capital Receipts

As part of the Towards Financial Sustainability Programme and as sound asset management practice the Council continually reviews its land and property assets in order to:-

- reduce revenue costs,
- increase rental income,
- generate capital receipts,
- reduce repairs liabilities
- use assets to support the Council's growth plans.

The GIP assumes a capital receipt from a current land disposal in 2020/21, although this is not allocated for use in financing the programme, this receipt and any further receipts from asset disposals will be prioritised for allocation to schemes in accordance with the Capital Strategy.

Further capital receipts are forecasted in 2021/22 and 2022/23 from land/property disposals as part of the development of Western Growth Corridor Phase 1a. These receipts will be retained within the scheme to contribute towards the upfront capital costs of further phases of the development.

Prudential Borrowing

The basic principle of the Prudential System is that local authorities are free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Council will need to meet the whole of the capital financing costs associated with any level of extra borrowing through its revenue account. For every £1m of prudential borrowing undertaken by the Council for investment in long life assets, the annual revenue consequence arising is c£55k.

The MTFS includes an unsupported prudential borrowing requirement of £11.831m over the period 2020/21-2024/25. This includes £4.59m temporary borrowing relating to Western Growth Corridor Phase 1a and £4.7m borrowing for the crematorium (although the funding package for this scheme has yet to be finalised, and is still being considered for the use of capital receipts).

The use of prudential borrowing will be as a funding mechanism for some key projects (following a full financial assessment) and may be used as a short-term measure to fund capital expenditure prior to a capital receipt being received. 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 and Contributions

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 £5.6m is expected to be received from external capital grants, which is largely for Disabled Facilities Grant £1.5m, Western Growth Corridor Phase 1a £2.132m and for investment in Boultham Park £0.576m.

Projected Capital Resources

Resources to fund the General Investment Programme 2020/21-2024/25 are estimated to be approximately £20.144m, as follows:

	£'000
Capital Grants and Contributions	5,572
Capital Receipts	2,550
Direct Revenue Financing	191
Prudential borrowing	11,831
TOTAL	**20,144**

General Investment Programme Forecast

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

Risks to the General Investment Programme

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

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

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

Appendix 5 of the MTFS 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

The current HRA Self-financing system has been in place since 2012 and incentivises social housing landlords to manage their assets well and yield efficiency savings. As part of the new system it was anticipated that there would be greater certainty about future income as councils were no longer subject to annual funding decisions by Central Government, enabling them to develop long-term plans, and to retain income for reinvestment. Council landlords were to have greater flexibility to manage their stock in the way that best suits local need with more opportunity for tenants to have a real say in setting priorities looking to the longer term.

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

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

Spending Plans

The HRA Business Plan

A key element of the self-financing regime is for the Council to construct a 30 year Business Plan for the HRA. The Council's latest Housing Revenue Account Business Plan 2016-2046, was approved in February 2016 following a fundamental review of resources, investment requirements and priorities. The Business Plan reflects the impact of government policy changes, the results of stock condition surveys and financial assumptions at the time. The Business plan sets out:

- the long term plans for the Council's housing stock
- the finances to deliver plans
- how the Council will manage the income from its stock, demand for housing and stock condition
- identifies resources for its initial Council House New Build Programme.

The current Business Plan is now scheduled for review during 2020, this will be following completion of refreshed stock condition surveys, agreement of a Lincoln housing specification, refresh of the Lincoln Standard to reflect low carbon/climate change, progression of the Social Housing Green/White paper and to ensure the priority schemes emerging from the new Vision 2025 are all fully reflected.

Spending Pressures

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

Repairs and Maintenance

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

Significant improvements have been made in the efficiency of the Housing Repairs Services (HRS), costs continue to be driven down through the implementation of improved processes, investment in IT and procurement activity, and there is continued capital investment in existing and new housing stock. The combined impact of these is expected to be a reduction in the costs of repairs over the MTFS period.

Funding the Capital Programme

Under the HRA self-financing system the primary source of funding for capital investment in the Council's housing stock will be from the revenue account through asset depreciation charges and direct revenue financing (DRF), via the Major Repairs Reserve. However this has been lessened to some extent by the removal of the HRA borrowing cap.

There is a reliance on the HRA to support the capital programme to the value of £52.757m over the 5-year MTFS period through depreciation and direct revenue financing.

Resources

Rents

The MTFS 2020/21 - 2024/25 sees the end of the government's requirement for a 1% p.a. rent reduction between 2016/17 and 2019/20 (including the long term impact of the reduction in the base). The MTFS has been prepared on the basis of annual rent increases from 2020/21 of CPI+1%. This is in line with the Government's announcement in October 2017, followed by a consultation paper in September 2018, that from April 2020 social rents will increase by CPI+1% for 5 years. The approach from 2025 remains uncertain but there is an expectation that social rent increase will remain.

Rental income levels within the MTFS 2020-25 assume the delivery of a number of new homes, with 5 properties late in 2020/21 and a further 48, of which 38 are affordable and potentially 15 for shared ownership, from 2022/23. These new properties are included at affordable rent levels. Affordable rents are not subject to Government rent policy and are let at 80% of market rent levels in the local area. The MTFS assumes rental increases in line with social rents for its affordable rents. Rental income from the 70 units at the redeveloped De Wint Court are not yet included in the MTFS, pending details of the final business plan for the scheme.

Additionally the MTFS 2020-25 assumes 60 Buy Back properties over the next two years, again included at affordable rent levels

The Council proposes to set the ret levels for 2020/21 in line with the requirement to increase rents by CPI + 1% for general purpose accommodation and also increase sheltered accommodation and affordable rents by 2.7%. The average 52 week rent will be £69.57 per week for general purpose accommodation, £69.87 per week for sheltered accommodation, and £107.82 for affordable rents.

The table below sets out the impact of rent increases on all tenants, inclusive of all rent types;

	Impact on Tenancies	
	No.	**%**
Rent increase up to £1.59	560	7.25
Rent increase between £1.60 and £1.69	2,031	26.5
Rent increase between £1.70 and £1.79	826	11
Rent increase between £1.80 and £1.89	1,092	14
Rent increase between £1.90 and £1.99	1,108	14
Rent decrease is equal or greater than £2.00	2,103	27.25
TOTAL – as of 09 December 2019	**7,720**	**100%**

Net Interest Receipts

The HRA receives investment interest on the balances it holds (HRA balances are made up of General Balances, earmarked reserves and the Major Repairs Reserve). The MTFS 2020-25 includes interest income into the HRA based on the level of HRA balances assumed in the MTFS 2020-25. The HRA is sensitive to changes in interest rates linked to its investments, as an indication a change in interest rates of +/- 0.5% would have an estimated combined impact of approximately £18k.

Although the HRA is not sensitive to changes in interest rates linked to its portfolio of borrowing, as all borrowing is at fixed interest rates, it does face a pressure of increased borrowing costs due to new borrowing being taken in support of investment in its new build programme. Although new build schemes bring additional income to resource the cost of borrowing there is a timing risk of when the specific borrowing is taken, particularly when internal balances are used in the short term, against the assumptions used for the initial assessment of the scheme.

Releasing Resources

The HRA Business plan 2016-46 identifies revenue resources to be released to support priority capital investment in council house new build and the Lincoln Standard. Although there is no specific savings target in the HRA the Council will continue to pursue the strands of its Towards Financial Sustainability Programme, where there are financial benefits for the HRA, releasing further resources for re-investment.

Housing Revenue Account Forecast

Appendix 2 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 which is integrated into the Council's overall management and decision-making processes.

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

- Risk of further government announcements limiting the flexibilities and freedoms offered by the HRA Self -Financing regime
- Delivery of new build programme and associated rental streams
- Changes to key assumptions within the MTFS e.g. interest rates.
- Efficient delivery of housing repairs
- Impacts of the Welfare Reform Act
- Financial and budget management issues.

Appendix 3 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 – The Housing Investment Programme

The Housing Investment Programme (HIP) covers all aspects of capital expenditure relating to the Council's landlord function. The Capital Strategy for the HIP reflects the 30-year Business Plan and details the 5 year capital programme.

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 an enhanced Lincoln Standard. The 5-year housing programme amounts to £77.122m and comprises the following main areas of work:

- Maintenance of the Decent Homes and the Lincoln Standard, £42m

- New Build Programme including use of retained 1-4-1 right to buy receipts, £11m (this is not yet allocated to specific schemes and will be dependent on approval of individual schemes)

- De Wint Court Sheltered Housing Scheme, £13m

- Western Growth Corridor costs in relation to the HRA's landholding, £0.6m

As set out in the Section 5 above the 30-year HRA Business Plan is due to be refreshed during 2020, in light of updated development and investment profiles, Vision 2025 priorities, updated assumptions and relevant Government policy changes.

Resources

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

Major Repairs Reserve

The Major Repairs Reserve (MRR) is the main source of capital funding and the mechanism by which timing differences between resources becoming available and being applied are managed. The MRR may be used to fund capital expenditure and to repay existing debt. Depreciation is a real charge on the HRA and is paid into the MRR from the Housing Revenue Account to fund capital expenditure. The total charge to the revenue account over the 5-year MTFS period through depreciation is £33.2m.

Revenue Contributions

The 5-year MTFS includes contributions of £19.6m of direct revenue finance over the five year period of which £19.3m is planned to be utilised.

Grants and Contributions

The 5-year MTFS includes grants and contributions of £3m (from Homes England and Lincolnshire County Council) received over the five year period - £5.052m is planned to be utilised as some grant is expected to be received in prior to the MTFS period.

Capital Receipts

Housing capital receipts fall within the Governments pooling regime. Under these arrangements capital receipts from Right-to-Buy (RTB) sales are pooled until a pre-set limit for government share of the income generated has been achieved. Once the target for the government share of the RTB receipts has been reached, the Council may retain 100% of the receipts from any additional Right-to-Buy sales. These are subject to a formal retention agreement between the Council and the MHCLG and must be used for replacement of the council housing sold, within an agreed timeframe.

In August 2018, alongside publication of the Social Housing Green Paper, the Government published a consultation on options for reforming the restrictions on the use of RTB sales to make it easier for councils to replace properties. The outcomes of this consultation are yet to be published.

The proceeds of dwelling sales under the Right-to-Buy scheme provide a regular source of capital receipts with the number of sales increasing in recent years. The MTFS assumes 50 sales per year. However, this is a difficult area to predict accurately as it is affected by external factors, such as interest rates, property prices and Government initiatives aimed at further stimulating Right-to-Buy sales. Receipts of £7.3m are assumed to be available over the MTFS period.

Non-RTB sales primarily are excluded from the pooling arrangement and are now retained in full by the Council for use as the Council sees fit.

Prudential Borrowing

The Prudential Code allows the Council to take borrowing if it can demonstrate that such borrowing is affordable, sustainable and prudent in its Prudential Indicators (detailed in the Treasury Management Strategy). The government has removed the cap imposed on the council in respect of borrowing to fund investment in housing, this opens up significant opportunities for the Council to further invest in new house building programmes and the potential redevelopment of areas of existing housing stock, this increased flexibility will be considered as part of the Business Plan refresh.

The Capital Financing Requirement (CFR) is forecast to rise to £73m by the final year of the MTFS with additional borrowing included in the MTFS and no allowance made for the repayment of existing debt. Actual borrowing utilised will be £10.654m to fund the new build programme alongside 1:4:1 receipts and borrowing taken during the MTFS period will be £7.75m.

Projected Capital Resources

Resources to finance the proposed £77.122m Housing Investment Programme 2020/21 – 2024/25, are currently estimated to be as follows:

	£000
Major Repairs Reserve (depreciation)	36,543
Direct Revenue Financing	19,283
Grants and Contributions	5,052
Capital Receipts (inc RTBs)	5,590
Borrowing	10,654
TOTAL	**77,122**

Housing Investment Programme Forecast

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

Risks to the Housing Investment Programme

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

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

- Generation of sufficient revenue surpluses to resource required investment
- Achievement of capital receipts (including Right to Buy sales) targets, impacted on by the economic climate
- Future building costs
- Condition of existing stock
- Interest rate increases impacting on future borrowing costs
- Further Government announcements in respect of Decent Homes/Standards e.g. Social Housing White Paper.

Appendix 5 of the MTFS 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

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 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. It is currently for 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.

However, in response to some of the financial management issues that have arisen in local authorities in recent years, CIPFA have developed a Financial Resilience Index. This index is a comparative analytical tool designed to support good financial management and shows the Council's position on a range of measures associated with financial risks, including the Council's reserves position. There are currently three measures specifically related to reserves as follows:

	2015/16	2016/17	2017/18	2018/19
Reserves Sustainability	n/a	n/a	23.47	100
Level of Reserves	83.97%	79.31%	65.28%	73.59%
Change in Reserves	n/a	n/a	-11.33%	-2.48%

Whilst full data is not available through the index it does highlight areas of potential financial risk, this is demonstrated in 2017/18 when there was a 11.33% reduction in the level of reserves, reducing in turn the reserves sustainability factor. However, this use of reserves was planned and provided for in the MTFS as the Council used its earmarked reserves to cushion the revenue impacts during the building of the transport hub, as well as a planned use of unallocated reserves whilst savings were delivered through the TFS Programme.

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 significant changes to local government funding, which saw a shift towards self – sufficiency and dependence on local funding sources, levels of volatility and risk have significantly increased. Given the threat that this poses to the Council's financial position, and has already been experienced, and given the future changes to be introduced from 2020 onwards, the prudent minimum level of general reserves is now held at a level greater than previously.

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

The general reserves at the end of each year for 2020/21 to 2024/25 are summarised in the table below.

	2020/21 £000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
General Fund	2,692	1,773	1,606	1,563	1,645
Housing Revenue Account	1,000	1,001	1,000	1,000	1,001

The overall levels of General Fund and Housing Revenue Account balances in 2024/25 are in line with the prudently assessed minimum level of balances.

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

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

Appendix 1

GENERAL FUND BUDGET SUMMARY 2020/21 - 2024/25

	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £
Chief Executive & Town Clerk	3,364,800	3,407,230	3,666,830	3,813,690	3,909,230
Communities & Environmental Services	6,827,200	6,510,760	6,258,560	6,107,140	6,127,540
Major Developments	503,320	510,430	534,580	541,880	548,890
Housing & Regeneration	963,790	637,650	646,820	653,370	659,870
Corporate	1,866,580	1,997,900	2,130,110	2,141,120	2,152,520
	13,585,690	**13,063,970**	**13,236,900**	**13,257,200**	**13,398,050**
Capital Accounting Adjustment	3,935,320	1,018,860	1,172,300	1,138,600	1,126,580
Base Requirement	**17,521,010**	**14,082,830**	**14,409,200**	**14,395,800**	**14,524,630**
Specific Grants	(4,070,650)	(411,190)	(350,250)	(300,000)	(300,000)
Contingencies	141,070	161,480	164,080	207,470	205,370
Savings Targets	(500,000)	(850,000)	(1,250,000)	(1,250,000)	(1,250,000)
Transfers to/(from) earmarked reserves	(459,830)	231,140	(313,450)	217,160	155,650
Transfers to/(from) insurance reserve	45,310	(450,000)	54,190	52,730	52,160
Total Budget	**12,626,910**	**12,764,260**	**12,713,770**	**13,323,160**	**13,387,810**
Use of Balances	268,310	(918,900)	(166,840)	(43,170)	82,050
NET REQUIREMENT	**12,963,220**	**11,845,360**	**12,546,930**	**13,279,990**	**13,469,860**
Business Rates	5,823,490	4,695,940	5,155,690	5,639,280	5,569,510
Business Rates Surplus	144,170	0	0	0	0
Revenue Support Grant	22,720	0	0	0	0
Council Tax Surplus	57,810	0	0	0	0
Council Tax	6,915,030	7,149,420	7,391,240	7,640,710	7,900,350
Total Resources	**12,963,220**	**11,845,360**	**12,546,930**	**13,279,990**	**13,469,860**
Balances b/f @ 1st April	**2,405,778**	**2,692,088**	**1,773,188**	**1,606,348**	**1,563,178**
Increase/(Decrease) in Balances	286,310	(918,900)	(166,840)	(43,170)	82,050
Balances c/f @ 31st March	**2,692,088**	**1,773,188**	**1,606,348**	**1,563,178**	**1,645,228**

Appendix 2

HOUSING REVENUE ACCOUNT SUMMARY 2020/21 - 2024/25

	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £
Income					
Gross Rental Income					
- Dwellings rents	(28,023,010)	(28,871,410)	(29,722,280)	(30,415,640)	(31,123,850)
- Non-Dwelling rents	(643,010)	(655,360)	(667,500)	(680,360)	(693,610)
Charges for Services & Facilities	(305,610)	(313,600)	(324,150)	(333,840)	(343,810)
Contributions towards Expenditure	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Total Income	**(29,021,630)**	**(29,890,370)**	**(30,763,930)**	**(31,479,840)**	**(32,211,270)**
Expenditure					
Repairs Account Expenditure	8,959,370	9,090,660	9,280,730	9,476,850	9,657,860
Supervision & Management:	7,186,830	7,335,160	7,516,800	7,646,150	7,767,010
Contingencies	21,260	21,590	22,110	22,550	23,000
Rents, Rates and Other Premises	94,770	94,980	95,180	95,390	95,590
Insurance Claims Contingency	105,680	108,860	312,120	115,490	118,950
Depreciation of Fixed Assets	6,637,390	6,637,390	6,637,390	6,637,390	6,637,390
Debt Management Expenses	11,920	11,920	11,920	11,920	11,920
Increase in Bad Debt Provisions	297,120	304,880	311,880	318,880	318,880
Total Expenditure	**23,314,340**	**23,604,440**	**24,188,130**	**24,324,620**	**24,630,600**
Net cost of service	**(5,707,290)**	**(6,285,930)**	**(6,575,800)**	**(7,155,220)**	**(7,580,670)**
Loan Charges Interest	2,530,480	2,669,050	2,750,340	2,793,900	2,855,800
- Investment Interest	(42,550)	(39,220)	(43,200)	(54,640)	(65,680)
- Mortgages Interest	0	0	0	0	0
Surplus on HRA for the year	**(3,219,360)**	**(3,656,100)**	**(3,868,660)**	**(4,415,960)**	**(4,790,550)**
DRF used for Financing	3,183,620	3,514,370	3,931,420	4,281,530	4,658,620
Contribs to/(from) Reserves:					
- Insurance Reserve	144,320	141,140	(62,120)	134,510	131,050
- Capital Fees Equalisation	(30,040)	0	0	0	0
- Strategic Priority Reserve	(3,540)	0	0	0	0
(Surplus)/deficit in year	**75,000**	**(590)**	**640**	**80**	**(880)**
Balance b/f at 1 April	(1,075,141)	(1,000,141)	(1,000,731)	(1,000,091)	(1,000,011)
Balance c/f at 31 March	**(1,000,141)**	**(1,000,731)**	**(1,000,091)**	**(1,000,011)**	**(1,000,891)**

GENERAL INVESTMENT PROGRAMME - 2020/21 to 2024/25

	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £
Expenditure Programme					
Chief Executives	521,182	208,033	208,033	208,033	200,000
Directorate of Communities and Environmental Services	6,123,597	300,000	300,000	300,000	300,000
Directorate of Major Developments	8,570,760	2,339,385	194,625	0	0
Directorate of Housing	370,152	0	0	0	0
Total Programme Expenditure	**15,585,691**	**2,847,418**	**702,658**	**508,033**	**500,000**
Capital Funding					
Contributions from Revenue					
Opening balance	194,873	28,132	20,099	12,066	4,033
Received in year	0	0	0	0	0
Used in financing	(166,741)	(8,033)	(8,033)	(8,033)	0
Closing balance	**28,132**	**20,099**	**12,066**	**4,033**	**4,033**
Capital receipts					
Opening balance	623,837	2,108,052	1,958,052	5,182,031	5,182,031
Received in year	1,650,000	5,560,800	5,560,800	0	0
Used in financing	(15,785)	(2,339,385)	(194,625)	0	0
Used to repay temporary borrowing		(3,221,415)	(2,142,196)		
Used to reduce the CFR	(150,000)	(150,000)	0	0	0
Closing balance	**2,108,052**	**1,958,052**	**5,182,031**	**5,182,031**	**5,182,031**
Grants & contributions					
Opening balance	14,333	14,333	14,333	14,333	14,333
Received in year	4,372,383	300,000	300,000	300,000	300,000
Used in financing	(4,372,383)	(300,000)	(300,000)	(300,000)	(300,000)
Closing balance	**14,333**	**14,333**	**14,333**	**14,333**	**14,333**
Unsupported borrowing					
Opening balance	0	0	0	0	0
Received in year	11,030,782	200,000	200,000	200,000	200,000
Used in financing	(11,030,782)	(200,000)	(200,000)	(200,000)	(200,000)
Closing balance	0	0	0	0	0
Total Capital Funding	**(15,585,791)**	**(2,847,418)**	**(702,658)**	**(508,033)**	**(500,000)**
Available Resources c/f	**2,150,517**	**1,992,484**	**5,208,430**	**5,200,397**	**5,200,397**

HOUSING INVESTMENT PROGRAMME - 2020/21 - 2024/25

	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £	2024/25 Estimate £
Capital Programme					
Decent Homes	7,650,470	7,567,071	7,755,684	8,109,227	8,352,547
Health & Safety	432,551	408,588	363,798	377,218	388,337
New build programme	14,901,910	6,342,760	3,399,130	46,032	46,953
Lincoln Standard	500,000	500,000	500,000	500,000	522,900
Other schemes	2,155,144	1,789,256	1,742,153	1,414,837	1,355,793
Total Programme Expenditure	**25,640,075**	**16,607,675**	**13,760,765**	**10,447,314**	**10,666,530**
Capital funding					
Major Repairs Reserve					
Opening balance	7,466,582	2,420,307	2,715,740	3,202,915	3,720,553
Depreciation received in year	6,637,390	6,637,390	6,637,390	6,637,390	6,637,390
Depreciation used in financing	(10,673,165)	(6,520,203)	(6,098,793)	(6,000,000)	(7,251,213)
DRF received in year	3,183,620	3,514,370	3,931,420	4,281,530	4,658,620
DRF used in financing	(4,194,120)	(3,336,124)	(3,982,842)	(4,401,282)	(3,368,364)
Closing balance	2,420,307	2,715,740	3,202,915	3,720,553	4,396,986
Capital receipts					
Opening balance	459,725	431,967	16,225	657,125	1,431,123
Received in year	820,030	820,030	820,030	820,030	820,030
Used in financing	(847,788)	(1,235,772)	(179,130)	(46,032)	(46,953)
Closing balance	431,967	16,225	657,125	1,431,123	2,204,200
1-4-1 receipts					
Opening balance	3,234,995	1,754,743	1,000,000	0	0
Used in financing	(1,480,252)	(754,743)	(1,000,000)	0	0
Closing balance	1,754,743	1,000,000	0	0	0
Grants & contributions					
Opening balance	2,041,750	0	0	0	0
Grants & contributions received in year	0	3,010,000	0	0	0
Used in financing	(2,041,750)	(3,010,000)	0	0	0
Closing balance	0	0	0	0	0
Borrowing					
Opening balance	2,923,779	20,779	19,946	19,946	19,946
Borrowing taken in year	3,500,000	1,750,000	2,500,000	0	0
Used in financing	(6,403,000)	(1,750,833)	(2,500,000)	0	0
Closing balance	20,779	19,946	19,946	19,946	19,946
Total Capital funding	**(25,640,075)**	**(16,607,675)**	**(13,760,765)**	**(10,447,314)**	**(10,666,530)**
Available Resources c/f	**4,627,796**	**3,751,911**	**3,879,986**	**5,171,622**	**6,621,132**

Appendix 5

BUDGET RISK ASSESSMENT

No.	Budget Item	Risk	2020/21 Risk score	2021/22 - 2024/25 Risk Score	Containment
1	Business Rates Base	Reduction and/or fluctuations in income against budget variation in: – Growth compared to forecasts – Changes in the NNDR base – Changes in rateable values (e.g. appeals, economic downturn, changes in use) – Collection rates Ongoing impact on the NNDR base of successful appeals - Estimates of appeals provision higher/lower than actually required – Changes nationally to the valuation assessments of certain property/infrastructure – Introduction of 75% retained Business Rates from 2021/22 and reform of the system – Reset of the Business Rates Retention system from 2021/22	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• In year monitoring of the NNDR base, Collection Fund, collection rates, growth assumptions and rateable value appeals. • Produce monthly collection rate statements – monitored via the Revenues and Benefits Operational Board, and Revenues and Benefits Management Team. Also report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee if targets are not being met, increased recovery action or further initiatives to increase collection • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • A Business Rate Volatility Reserve is maintained to provide a degree of protection from fluctuations in Business Rate Income • Quarterly monitoring of the Lincs NNDR Pool by Lincs Finance Officers • Independent specialist assessment made of the required level of NNDR appeals provision • Specialist advice sought to assist in budgeting assumptions and assessment of implications of changes to the funding system • Discussions taking place nationally around a national pool for appeals provisions to remove the volatility experienced by individual councils. The Council will closely watch developments.

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
2	Fairer Funding Review	Assessment of relative need and relative resources results in a baseline need below current level. Transitional arrangements are not sufficient to mitigate impacts. Impact of Brexit deal on Spending Review 2020.	**Total Score: 2** Likelihood: 1 Impact: 1	**Total Score: 12** Likelihood: 4 Impact: 3	• Assessment of Government consultations with responses where appropriate • Lobby through national groups, respond to national consultations • Work with Association of Lincolnshire Finance Officers and the Society of District Treasures • Work with external funding specialists to identify and assess the impact of proposed funding changes (e.g. New Homes Bonus)
3	Capital Expenditure	Slippage in the project, Increased project costs including labour and material costs post Brexit. Inflationary impacts. Failure of contractor i.e. contractor goes into liquidation. Demand for improvement grants. Sunk costs of aborted schemes Achieving levels of projected costs in the HRA Business plan	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Regular budget monitoring and reporting to Capital Programme Board and Housing Delivery Group • Ensure correct project management procedures followed (Lincoln Model) • Quarterly budget monitoring and reporting to Performance Scrutiny and the Executive • Financial procedure rules are followed, including financially vetting of all contractors • Use of collaborative contracts/framework agreements where possible e.g. EMPA • Support from Procurement engaged at an early stage • Carry out post implementation reviews • Ensure risk assessments completed for all significant schemes before commencing • Value engineering used to contain project costs • Cost estimates obtained ahead of procurement exercises.

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
4	Income from Fees & Charges/ Rents: • Car Parking • Crematorium / Cemeteries • Development Control • Building Control • Land Charges • Control Centre • Lincoln Properties • Industrial Estates • Xmas Market	Reduction in the usage of the service/activity levels in the current economic climate (e.g. if downturn in development). Over optimistic income targets Increasing reliance on income within the MTFS New competitors entering the market (e.g. Crematorium). Fees and Charges levels reduces demand, Changes in treatment of VAT status of individual fees and charges. Impact of wider policy changes on demand for services e.g. Lincoln Transport Strategy impact on car usage	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• Car Parking Income Generation Strategy in progress. • Produce regular monitoring statements for major income sources which are reported monthly to Corporate Management Team. • Identify reasons for any income reductions and take corrective action where possible • Application of Corporate Fees and Charges Policy to ensure correct charging policies are applied and the impacts are assessed • Report quarterly to the Executive and Performance Scrutiny Committee on forecast for key income streams • Specific projects/business plans in progress to sustain income streams. • Assess impact of new competitors in the marked (e.g. new crematoria). • Delegated powers to portfolio holder to make responsive changes to fees and charges • Rebase income budgets to reflect current trends • Active void management • Investment criteria for new commercial investments. • Watching brief on CIPFA Committee/HMRC discussions

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
5	Capital Financing - Long Term Borrowing	Balances unavailable for internal borrowing External borrowing costs above interest rates in MTFS	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Continue to monitor the cost effectiveness of utilising 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 major sources of income • Regular review of current and future predicted borrowing rates to inform timing of borrowing decisions • Actively monitoring the cash flow on a daily basis.
6	Universal Credit and Welfare Reforms	Impact of Universal Credit and welfare reforms on rent and council tax collection rates	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• 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 • Cross directorate working between Revenues& Benefits and Housing.

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
7	Repairs & Maintenance on Corporate Properties	Unplanned emergency maintenance is required on the Council's Corporate Properties Increase in demands to meet statutory requirements and to minimise risks of adverse claims. Impact of works on income and service delivery.	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Updated stock condition surveys for all corporate properties to undertaken – • Comprehensive asset management planning in place (including identifying assets with large repairs and maintenance liabilities for disposal) • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Properties with large maintenance liabilities are reviewed for potential disposal • New capital schemes allow for whole life costing. • Responsible Officer system in place.
8	Revenue Savings Targets	The required savings targets are not achieved nor required efficiencies delivered	**Total Score: 6** Likelihood: 2 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• The Council's strategy focuses on a four strand approach to realise the required savings in the revenue budgets with the primary focus on 'one council', investment opportunities, commercialisation and service withdrawal. • Report monthly to Programme Team and Programme Board (CMT) and quarterly to Executive and Performance Scrutiny Committee • New programme to be developed to deliver increased targets

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
9	General Budget Assumptions	CPI and RPI inflation exceed rates assumed in the budget Actual establishment exceeds 99% Implications from Brexit deal or no deal on economy and general budget assumptions.	**Total Score: 6** Likelihood: 3 Impact: 2	**Total Score: 6** Likelihood: 3 Impact: 2	• Set prudent but realistic projections based on analysis of economic commentators and Bank of England predictions • Monthly monitoring of RPI and CPI index changes • Make use of expert forecasts of future RPI and CPI trends • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Set a prudent but realistic estimate in line with Government announcements • Monitor significant changes in economic indicators • Monitor the pension fund position through discussions with Lincolnshire County Council and Lincolnshire Finance Officers • Report any changes to Members as soon as officers become aware • Pension Fund Stabilisation Approach adopted

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
10	HRA Repairs and Maintenance Costs	Assumed reductions in repairs and maintenance costs as a result of continued investment in the Council Housing Stock do not materialise The Housing Repairs Service (HRS) does not continue to modernise and achieve efficiencies	**Total Score: 6** Likelihood: 3 Impact: 2	**Total Score: 6** Likelihood: 3 Impact: 2	• Council housing capital investment is carried out • Produce regular budget monitoring reports and HRA revenue and capital budgets reported and monitored together • Report quarterly to Departmental Management Team, Corporate Management Team, Executive and Performance Scrutiny Committee • Results of recent stock condition surveys informing future maintenance requirements
11	Demand for services	Impact of Government policy changes to the tax and welfare systems and the implications of unprecedented reductions in public sector expenditure increases the demand for key Council Services (e.g. benefits, housing, homelessness) The increase in property numbers and development of the City Centre results in additional cost pressures within the Services that have not been built into the budget Increasing demands for housing tenant support as other providers withdraw services	**Total Score: 6** Likelihood: 3 Impact: 2	**Total Score: 9** Likelihood: 3 Impact: 3	• Identification and drawdown of additional funding made available from Government and others to support additional demand • Lean systems approach taken to identify efficiencies in service delivery (e.g. benefits service) • Collaboration and joint working arrangement opportunities identified with local partners to help meet additional service demands • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
12	Housing Rents and Property Voids	More Council House disposals than anticipated and/or slower than anticipated progress on the council house new build programme Void properties exceeding the allowance included in the budget (1% p.a.) CPI inflation less than budgeted rate (from 2020/21)– reducing rental income Impact of welfare reforms on rent collection – covered in risk no. 6.	**Total Score: 6** Likelihood: 2 Impact: 3	**Total Score: 6** Likelihood: 2 Impact: 3	• Produce regular budget monitoring reports • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Directorate ongoing monitoring is a performance indicator • Monthly monitoring of RPI and CPI index changes • Make use of expert forecasts of future RPI and CPI trends and the impact on housing rents • 30 year Business Plan to undergo a refresh. • Monthly Housing Delivery Group meeting of cross directorate officers monitoring progress of New Build programme and capital & revenue funding

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
13	Capital Funding	Shortfall in the actual amount of Capital Receipts (i.e. Council House Sales, other HRA assets, GF assets) against the targets set within the HIP & GIP Revenue contributions are not sustainable in the revenue accounts of the HRA or General Fund Increase in borrowing costs (covered in separate risk – see no.5 & no. 14) Reductions in grant funding (covered in separate risk – see no. 15)	**Total Score: 6** Likelihood: 2 Impact: 3	**Total Score: 6** Likelihood: 2 Impact: 3	• Undertake regular monitoring of the capital receipts position • Regular reports submitted to the Asset Management Group • Capital Receipts targets incorporated in the Asset Management Plan & Capital Strategy • Property Section fully informed of current targets within the GIP & HIP • Asset Review Group monitoring of capital receipts target and evaluation of potential asset sales • Review of the most cost effective funding options (e.g. capital receipts compared to prudential borrowing) • Monitor and report on the revenue and capital budgets together to ensure both capital and revenue impacts are identified • HRA Business plan includes allowance for full funding of capital requirements over 30 years, including revenue contributions. Full refresh of the plan undertaken at least annually.

Appendix 5

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
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 major sources of income not being received when expected.	**Total Score: 3** **Likelihood: 3** **Impact: 1**	**Total Score: 6** Likelihood: 3 Impact: 2	• Monitor the average interest rate being achieved against the budget target and the level of balances available for investment • Actively monitoring the cash flow on a daily basis • Ongoing monitoring of cashflows from Business rates • Quarterly monitoring of Collection Fund forecast balances • Take account of economic analysts and Bank of England predictions and advice from Treasury Management Consultants • Hold regular Treasury Management meetings • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
15	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 funding are reduced Amount and timing of receipt of some grants not as assumed in the MTFS	**Total Score: 2** Likelihood: 1 Impact: 1	**Total Score: 3** Likelihood: 3 Impact: 1	• Regular review and reporting of new home figures • The Council will seek to realise the benefits of the financial incentives available • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Regular review of grant figures and distribution mechanisms. • Lobby through national groups, respond to national consultations • Work with Association of Lincolnshire Finance Officers and the Society of District Treasures • Work with external funding specialists to identify and assess the impact of proposed funding changes (e.g. New Homes Bonus) • Budget assumptions assume no further newfunding beyond 2020/21
16	External Funding of Capital Programme	Loss of anticipated external resource to support the capital programme Including ○ Changes to the allocation of grant funding for Disabled Facilities Grants (DFG) from the City Council to County Council, while the City Council retains statutory duty to provide services.	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 4** Likelihood: 2 Impact: 2	• Ensure grant conditions are complied with throughout scheme • Seek alternative funding sources • Produce regular grant monitoring statements • Regular budget monitoring and reporting to Capital Programme Board • Ongoing discussions with the County Council to ensure the provision of DFG's meet the Council's funding requirements. • New schemes not approved until external funding secured.

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
17	Council Tax Base & Council Tax Support Scheme	In year variations to budget not containable within Collection Fund balances Costs to Council increased due to: – Actual CT base different to estimate – Collection rates/bad debt provisions – Increase in LCTS caseload – Referendum rate of CT increases below budgeted rate	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 4** Likelihood: 2 Impact: 2	• Monthly monitoring of the Collection Fund - collection rates, CT discount caseload, council tax base. • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Produce quarterly collection rate statements – monitored via the Revenues and Benefits Operational Board, and Revenues and Benefits Management Team. Also report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee if targets are not being met, increased recovery action or further initiatives to increase collection • The proposed 2020/21 Council Tax is below revised referendum limit of 3%. Future increases are below 2% in years 2021/22 to 2024/25. • Annual increases in Council Tax considered alongside national expected increases
18	Sundry Debtors and Housing Benefit Overpayments	The Council's existing Bad Debt provision proves insufficient to meet any increase in the value of debts written off Impact of Welfare Reform Act (see risk no. 6)	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 4** Likelihood: 2 Impact: 2	• Follow established debt recovery and write off procedures • Monitor age debt profile of debts against bad debt provision • DWP Consultancy support engaged for Housing Overpayments – positive impacts on reducing outstanding debt and increasing in-period collection

No.	Budget Item	Risk	2020/21	2021/22 - 2024/25	Containment
19	Housing Benefits/Subsidy	Increase in payments that do not attract 100% subsidy i.e. overpayments and local authority errors Failure to comply with complex legislative requirements Lack of audit trail to substantiate grant claim Backlog of work Pressures from customer demands and complex enquiries due to welfare changes	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 4** Likelihood: 2 Impact: 2	• 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
20	Loss of income from partners	Key partners end existing agreements with the Council	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 4** Likelihood: 2 Impact: 2	• Ongoing discussions and negotiations with key partners by senior officers and members

Appendix 6

GENERAL FUND EARMARKED RESERVES FORECAST 2019/20 to 2024/25

Description	Balance @ 31.03.20	Balance @ 31.03.21	Balance @ 31.03.22	Balance @ 31.03.23	Balance @ 31.03.24	Balance @ 31.03.25
Carry Forwards	145,027	145,027	145,027	145,027	145,027	145,027
Air Quality Initiatives	15,060	20,570	26,080	31,590	37,100	42,610
Asset Improvement	8,714	8,714	8,714	8,714	8,714	8,714
Backdated Rent Review	169,990	169,990	169,990	169,990	169,990	169,990
Boston Audit Contract	13,800	13,800	13,800	13,800	13,800	13,800
Business Rates Volatility	2,201,069	2,228,409	1,636,449	1,277,139	1,507,959	1,607,959
Christmas Decorations	13,870	13,870	13,870	13,870	13,870	13,870
City Hall Sinking Fund	60,460	60,460	60,460	60,460	60,460	60,460
Commons Parking	24,852	24,852	24,852	24,852	24,852	24,852
Electric Van replacement	14,934	19,364	23,794	28,224	32,654	37,084
Funding for Strategic Priorities V2020	629,720	354,170	344,670	344,670	344,670	344,670
Grants & Contributions	1,150,340	1,010,120	963,990	917,170	869,410	820,930
Invest to Save	333,826	340,806	356,256	356,836	356,836	356,836
IT Reserve	64,780	94,270	122,760	186,350	249,210	311,320
Mayoral car	47,099	47,099	47,099	47,099	47,099	47,099
Mercury Abatement	371,291	317,171	264,891	214,441	165,821	119,031
Private Sector Stock Condition Survey	45,460	57,460	69,460	81,460	33,460	45,460
Property Searches	4,150	4,150	4,150	4,150	4,150	4,150
Section 106 interest	31,795	31,795	31,795	31,795	31,795	31,795
Sinking Fund - MSCP & Bus Station	0	0	44,160	89,210	135,160	182,030
Strategic Growth Reserve (WGC)	14,035	14,035	14,035	14,035	14,035	14,035
Strategic Projects - revenue costs	134,600	14,600	14,600	14,600	14,600	14,600
Tank Memorial	10,000	10,000	10,000	10,000	10,000	10,000
Tree Risk Assessment	127,622	147,622	167,622	187,622	207,622	227,622
Unused DRF	194,876	28,186	20,156	12,126	4,096	4,096
Vision 2025		191,000	1,000,000	1,000,000	1,000,000	1,000,000
Western Growth Corridor Planning	150,000	150,000	150,000	150,000	150,000	150,000
Yarbrough Leisure Centre	1,668	1,668	1,668	1,668	1,668	1,668
TOTAL GENERAL FUND	**5,979,038**	**5,519,208**	**5,750,348**	**5,436,898**	**5,654,058**	**5,809,708**

Appendix 6

HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2019/20 to 2024/25

Description	**Forecast Balance 31.03.20 £**	**Forecast Balance 31.03.21 £**	**Forecast Balance 31.03.22 £**	**Forecast Balance 31.03.23 £**	**Forecast Balance 31.03.24 £**	**Forecast Balance 31.03.25 £**
Repairs Account	578,680	500,000	500,000	500,000	500,000	500,000
Capital Fees Equalisation Reserve	140,070	110,030	110,030	110,030	110,030	110,030
Strategic Priority Reserve	175,830	250,970	250,970	250,970	250,970	250,970
Invest to Save (HRA)	125,190	125,190	125,190	125,190	125,190	125,190
De Wint Court Reserve	73,480	73,480	73,480	73,480	73,480	73,480
PI Survey	54,220	0	0	0	0	0
Stock Condition Survey (HRA)	22,340	0	0	0	0	0
Housing Business Plan	0	76,560	76,560	76,560	76,560	76,560
Growth Strategy (WGC)	24,950	24,950	24,950	24,950	24,950	24,950
TOTAL HOUSING REVENUE ACCOUNT	**1,194,760**	**1,161,180**	**1,161,180**	**1,161,180**	**1,161,180**	**1,161,180**