APPENDIX A

# Medium Term Financial Strategy

# 2019/20 - 2023/24

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# Foreword

**Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2019-2024.**

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

This Strategy sets out how the Council will use its financial resources to underpin it's Vision 2020 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 10 years 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, the distribution of which has not been uniform across the different types of authority with some being significantly more affected than others, this Council being one of those suffering a greater proportionate loss.

- Radical reform of the methodology for funding local government, where councils are self-sufficient, funded from local taxes with limited reliance on Central Government. This new methodology for funding local government is inextricably linked to the performance of the local economy via Business Rates, New Homes Bonus, Council Tax and Local Council Tax Reduction schemes and Housing Revenue Account Self-Financing.

- The continued national and local impacts of the government's deficit reduction programme and austerity measures affecting; jobs, housing and business growth, which has in turn creates pressure on the generation of local income streams; financial markets and the subsequent low returns on investments; and creating a rising demand, and increased cost pressures, for council services from customers who rely on the safety net provided by local government.

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 £7.8m, 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 the priority areas in the Council's Vision 2020.

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 challenge to the Council due to the volatility, complexity and uncertainty about future funding. Significant national decisions are still to be made by the government about future departmental spending through the Spending Review, the allocation of this funding to local government though the Fair Funding Review, and reform of the Business Rates Retention system, all of which will impact on the Council's MTFS. In addition the impact of Brexit and the consequent impact on the economic and political landscapes poses significant uncertainty for central and local government.

Although there is a significant level of uncertainty about future funding, based on what is currently known, or can be reasonably assumed, further substantial reductions in expenditure/increases in income are required in order to ensure financial sustainability.

Although the required increase in savings is substantial it is not unprecedented and the Council should have some 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 strategic priorities 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 has four clear strategic priorities and in order to achieve those 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 the Council "lives within its means" in developing its key plans and strategies, and enables decisions to be made about its finances ensuring it maintains a sustainable budget.

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

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

Inevitably the Council's plans will need to evolve and develop in response to new financial opportunities and risks and new policy directions during the period of the Strategy and the dynamic nature of local government funding. 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,
- 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;
- Continue to manage down the Council's recurrent cost base, in line with reductions in overall resources by ensuring the provision of efficient, effective and economic services which demonstrate value for money.

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

- Ensure the Council's limited resources are directed towards its Vision 2020 and strategic priorities, redirecting where necessary to allow for improvement and investment.

## Policy and Financial Planning Framework

The Council's Strategic Plan, Vision 2020, 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 2020, and flows through to the Council's other key plans and strategies, service planning and individual staff performance appraisals. This ensures that the Council's vision and strategic priorities drive the activity and allocation of resources of the Council.

The Vision 2020 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.

The Council's Vision 2020 was launched in early 2017 and sets out the Council's vision for the future of the city, new strategic priorities and core values. This three year programme seeks to not only deal with the most pressing issues in the city, but also details how the Council will work, with others, to further grow Lincoln's economy.

## 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 represent the biggest downside risk to the UK economy, the uncertainty that this creates has been a dampener on business investment and economic growth for the past couple of years and seems unlikely to be quickly resolved. Studies indicate the economy was between 2% to 2.5% smaller in mid-2018 than had the referendum not been called. Even if a deal can be concluded and approved by the UK parliament, the nature of the future relationship between the UK and the EU will remain uncertain into the 2020s. It is therefore unlikely that there will be a quick rebound in UK economic growth in 2019 and 2020. But there is a risk that a much bigger political crisis could develop if the no Brexit deal is agreed. That would trigger a new bout of uncertainty, adversely affecting sterling, consumer spending and business investment.

In terms of short-term indicators these remain mixed, growth for the first three quarters of 2018 had continued to gain momentum with growth to date of 1.2%, however, growth over the final quarter was more subdued at around 0.2%. The Office for Budget Responsibility (OBR) currently forecast growth for the next five years of around 1.5% a year, although this could be much worse if there is no sensible Brexit deal with downside forecasts of 0.6% in 2019 and 0.4% in 2020 due to temporary disruptions to supply chains and trade.

The Consumer Price Index (CPI) have fallen back during 2018 from it's recent peak in November 2017 at 3.1% to 1.8% as at January 2019. The latest forecast from the OBR is that CPI will settle around 2% during 2019 and remain around this level over the period to 2023. The Retail Price Index (RPI) stood at 2.5% in January 2019, this is set to increase slightly during 2019 to 3% and is forecast to remain around that that level thereafter.

For only the second time in a decade the Bank of England voted to raise the interest rate on 2nd August 2018. The rate rose by a quarter of a percentage point from 0.5% to 0.75%, the highest level since March 2009. The Bank has confirmed its commitment to continue raising interest rates gradually if the economy evolves as expected. It has however been reluctant to say what it will do in the event of a more negative Brexit outcome, but in practice it is more likely to keep rates low in order to cushion a blow to demand.

With the UK's economic outlook continuing to be weighed down by Brexit, the risk that the uncertainty around the negotiations of the exit deal, and the final exit deal itself, could result in poorer economic performance and potentially decreased tax revenues, will make it more difficult for the government to deliver the current plans on growth. Should this be the case the government could choose to increase borrowing, raise taxes, or reduce public spending over that already planned. This threat along with the impact on other indicators highlighted above make financial forecasting beyond 2019/20 very difficult.

## National Priorities

Since 2010 the key driver for government policy has been securing the recovery of the economy through the deficit reduction programme, primarily focussing on public spending control.

The government has made substantial progress in delivering this and has now reached a turning point improving in the health of the public finances. The deficit has been reduced by four-fifths, to its lowest levels since 2001, and debt has begun its first sustained fall in a generation.

Subsequently the Chancellor's Budget 2018 was introduced on the promise that "the era of austerity is finally coming to an end". The Budget focused on the government's balanced approach to fiscal policy meaning that it is able to fund the NHS for the long term, increase overall spending and invest in other public services, cut taxes for millions of households, and ensure debt is falling in every year of the forecast.

However the Chancellor also signalled that with the final terms of the departure of the UK from Europe yet to be settled, a further Budget may be required should this departure be made without a formal deal. This would no doubt have significant implications for government's plans for growth and Spending Review 2019.

### Spending Review

The last government Spending Review in 2015 set out the departmental resource and capital totals for the four year period 2016/17 – 2019/20, these have been subsequently adjusted to reflect later announcements.

For the years beyond the Spending Review the government has set out a path for overall public expenditure with departmental spending growing in 2020/21 through to 2022/23, in line with inflation. These headline announcements will be followed by a full departmental spending review in 2019 which will set out the departmental allocations across government including setting the quantum of funding for local government. The time period to be covered by the review is unknown but is expected to be up to 4 years, this will though be dependent on the final Brexit exit deal, or no deal if that is the case. The timing of the Spending Review in 2019 is also still unclear.

### Local Government Funding

Although the Budget 2018 indicated that departmental spending would grow in future years, in line with inflation, this should not be inferred 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 than 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.

For local government the Spending Review 2015 was followed by a four year settlement between 2016/17 to 2019/20, which subject to the production of an Efficiency Plan, provided a degree of certainty over core funding. However as the final year of the settlement period is approaching the level of uncertainty significantly increases for local government as not only will it be impacted by the Spending Review 2019 but it is also set to experience further fundamental funding reforms. The two specific reviews/changes that will impact on the level of funding every local authority receives from 2020, are the Fair Funding Review and Business Rates Retention Reform.

**The Fair Funding Review**

Whilst the Spending Review 2019 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.

Following an initial consultation on the review at the beginning of 2018 a further 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 2019.

The key issues from the consultation paper were;

- The current proposal is for a Foundation Formula with seven service-based blocks
- Population (including projections) and an Area Cost Adjustment featuring adjustments for rurality are proposed for the Foundation Formula
- One of the seven blocks would be for Public Health
- The intention is to use 'notional' council tax levels and not use council taxbase projections
- The level of the notional council tax rate resources block is yet to be determined

- Aside from excess income from car parking, which is going to be reconsidered, sales, fees and charges income will not be included as an income source
- The weighting of indicators and the data sources used remain outstanding issues
- The transition methodology is likely to be broader than in the past, but this will not be determined until later in the process
- A consultation on indicative numbers is intended pre-Settlement, but post-SR19

Whilst this consultation provides further details on the government's guiding principles to test a wide range of options for designing a new distribution methodology it is still not possible to fully model exemplifications and assess the implications for each authority. From what information is 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. Further consultations and technical papers are planned for 2019.

**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. However, 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.

As part of the move to a new 75% retention scheme there a number of fundamental issues that need to be addressed in terms of the specific design of the scheme. Key to this are issues around; the treatment of appeals and whether these should be funded centrally, the level and funding of any safety net, the split of retained funding in two tier areas and the treatment of excessive growth. Critically though is the premise that the system will itself be reset ahead of start of the new scheme. This will see business rate baselines adjusted to better reflect how much local authorities are actually collecting in business rates.

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. The main points of from the consultation were;

- There is a full reset planned for 2020/21, that will see the "growth" within the current business rates system up to 2019/20 transferred to Baseline Need.

- Future resets could be on a quite different basis, seeing a proportion of the growth retained by local government (partial reset), with the determination of the NNDR Baseline possibly being on a phased basis (i.e. to avoid the timing of when growth occurs locally being a factor in the size of the growth retained locally).

- The safety net is to continue, at a level to be set at the end of the process.

- There will be no levy, but a growth threshold (not yet determined) above which all “growth” would be lost.

- Tier splits – the government hopes that the sector can propose its own splits with the potential for a default position if no agreement can be agreed.

- There would appear to be significant issues (that may not be able to be overcome) to nationalising appeals under the current system.

- A modified version of the BRR system is proposed that would effectively nationalise appeals and establish a more objective method of setting the starting point for each authority (and therefore capture growth more accurately).

The publication of this consultation paper now allows local authorities to make some assessment of how the future retention system will work, however the fundamental issue of how the potential change to resources that will arise for an individual authority is not considered.

**Social Housing Green Paper**

The Government’s Social Housing Green Paper was launched in August 2018 and sets 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

In relation to ensuring that homes are safe and decent the paper calls for a review of the Decent Homes Standard, dating from 2006, and points out that some safety measures, such as electrical safety and energy performance, apply to private landlords do not extend to social landlords.

In terms of expanding supply and supporting home ownership the paper acknowledges the continued need for new social housing and reaffirms its target of 300,000 new homes by the mid-2020’s. The paper proposed to ease borrowing for local authorities to fund social housing building but at the time did not propose any further grant beyond the £2bn already announced. However the Prime Minster subsequently announced 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.

## Local Priorities

Lincoln is a cathedral city, and is one of the oldest cities in Britain, with a population of around 97,800 (0.8% 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 97,800, the city actually serves a significantly higher 'Greater Lincoln' population of approximately 195,200 (the economic zone around Lincoln where residents have close links with the city either through work, education, shopping or recreational use). Almost twice as many people visit the city during the daytime as live here, boosting the local economy but also putting immense pressure on local services and infrastructure.

In the last ten years Lincoln has seen a significant increase in the number of people who live here at 9.4%, with a larger proportionate increase than England as a whole. Lincoln has also had a bigger increase proportionately than many cities and towns in England that are considered characteristically similar.

There continues to be an increase in the number of residents aged 20-29, influenced by the expanding universities. There are well over 15,000 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% of the city's total population, compared to only 13% nationally.

Like many places, Lincoln is made up of areas of relative affluence, and relative deprivation. The Indices of Multiple Deprivation tells us that 10 areas of the city (from a total of 57) are amongst the 10% most deprived nationally. This is an increase from 7 areas in 2010 and 5 areas in 2007. Within these 10 areas of Lincoln there are an estimated 16,000 residents (16.5% of the total population of Lincoln)

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 15% 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 79% fall within the lowest bands A or B, currently paying £3.93 or less per week. This low Council Tax base has a significant limiting impact on the Council's ability to raise revenue via the Council Tax and creates a higher dependency on other sources of income.

Both male and female life expectancies are in line with national averages with male life expectancy decreasing a little to 77.6 years while female life expectancy reduced slightly to 82 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 7,700 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.

In 2016 an extensive exercise to develop a new strategic plan was undertaken, now branded as Vision 2020. This three year programme is the product of work both internally and externally, with working groups, surveys and focus groups with the public, and through consultation with partners, business and other organisations with a stake in the city. The development of the Vision 2020 has been informed by evidence from the Lincoln City Profile and the Poverty Profile to ensure that the Council's visions and aspirations for the City are not just for the next three years, but look ahead for up to 30 years.

The accumulation of this work saw the launch at the beginning of 2017 of the Council's Vision 2020 setting out the new, overarching vision for 2020 and beyond, strategic priorities and the Council's core values.

The Council's new vision for 2020 is;

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

Underpinning this vision are four 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 three year programme. Not all the aspirations will be progressed at the same speed or even at the same time. Instead, they provide a holistic overview of where effort needs to be placed over time. The aspirations are shown below:

- Let's drive economic growth
    - Let's build a strong, viable and prosperous future for Lincoln
    - Let's attract investment
    - Let's help businesses prosper
    - Let's create a culture of innovation
    - Let's make things happen
- Let's reduce inequality
    - Let's ensure the best quality of life for people living in Lincoln
    - Let's help people succeed
    - Let's help people feel safe and welcome in their communities
    - Let's provide help to the most vulnerable in our city
    - Let's empower people
- Let's deliver quality housing
    - Let's provide housing which meets the varied needs of our residents
    - Let's improve housing conditions for all
    - Let's work together to help the homeless in Lincoln
    - Let's help people have a sense of belonging
    - Let's build thriving communities

- Let’s enhance our remarkable place
    - Let’s provide interesting, exciting and vibrant places to enjoy
    - Let’s preserve the unique character of our city
    - Let’s deliver a rich and varied cultural experience
    - Let’s show the world what Lincoln has to offer
    - Let’s cherish and enhance our natural environment

These four strategic priorities will be supported by a strand called ‘professional, high performing service delivery’, which is supported by the following programmes of work:

- Creating a skilled and adaptable workforce
- Ensuring efficient, high quality services
- Providing high performing services
- Delivering the Towards Financial Sustainability programme

Additionally a new set of core values have been developed which sum up the Council’s culture, and what can be expected from its services and policies. They should also be present in the way its officers and member deal with others, its residents, and its partners. The 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 surrounds the Council's future funding resources.

The Council's Vision 2020 is supported by a three year programme, split into two phases, containing a range of projects that will meet each of the strategic priorities. In the context of the financial position at the time of launching the new Vision 2020 resources to fund the first phase were made available through the redirection of resources to the priority areas as well as seeking external financial support in the form of grants and contributions. The second phase of the programme contains a number of schemes which are primarily larger scale capital schemes with a significant cost. There are still a small number of revenue schemes which have either been funded from within existing budgets or will be financed using the part of the additional resources generated from the 100% Business Rates Pilot in 2018/19.

Full details of the projects supporting the strategic priorities are including within the Vision 2020.

## Spending Pressures

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

**Inflation – Pay and Prices**

The budget estimate for 2019/20 includes a pay increase in line with the two year pay award which was put forward to unions in December 2017 which is for 2% per year for 2018/19 and 2019/20 with higher rises for staff on the lowest pay scales. With regards to increases after 2019/20 it is assumed a 2% rise will apply in 2020/21 – 2023/24.

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

| | 2019/20 % per year | 2020/21 % per year | 2021/22 % per year | 2022/23 % per year | 2023/24 % 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 | 3.2% | 3.0% | 3.0% | 3.0% | 3.0% |
| Non domestic rate | 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 £24k 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 2016, and the results identified that there has been a slight improvement in the funding position since the last actuarial review from a 67% funding level to 70%.

Since the previous valuation of the fund at 31 March 2013 a number of events have taken place which have had an effect on the estimated cost of the fund, key impacts are as follows –

Assets - the performance of the funds' investments has been more than the expected return over the three year period to 31 March 2016. This has had a positive effect on the past service position of the fund.

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

Pre retirement experience – a decrease in early leavers and an increase in ill health retirements has had a negative effect on the fund whilst salary increases which were less than expected have had a positive effect on the valuation of the fund.

Post retirement experience – a decrease in pension increases has had a positive effect on the valuation of the fund, however this has been partially offset by an increase in pensioner longevity.

Having assessed the events that have affected the fund since the previous valuation, the actuary has formulated an approach to the 2016 valuation which incorporates this information into its long term assumptions for the fund.

Although the overall funding position has improved slightly, the employer contribution rates are still required to increase in order to improve the funding position further. 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 2017/18 to 2019/20.

A further actuarial review will take place in April 2019, which will inform the employer contributions from 2020/21 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 has been falling since 2008 and the average interest rate achieved is barely above base rate.

Interest rates are forecast to remain at low levels until late 2019 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 as they are only undertaken to bridge temporary cash flow shortfalls. The Council's portfolio of long-term borrowings currently includes 2 loans that are due to be repaid during the coming five financial years. The council has short term loans which mature in 2019 and 2020. 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.

The sensitivity of the General Fund 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 £41k on the General Fund and £22k on the HRA in 2019/20.

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

| | 2019/20 % | 2020/21 % | 2021/22 % | 2022/23 % | 2023/24 % |
|---|---|---|---|---|---|
| **Interest Rate** | 0.85% | 0.93% | 1.00% | 1.05% | 1.08% |

Based on the current forecasts for interest payable on new borrowing (averaging around 2.7%) 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 Investment Programme 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. Additional resources have been allocated in previous Strategic Plans/MTFS and although these have tackled the most urgent issues arising in those years there still remains a considerable amount of work to be undertaken in the medium to longer term and this does place an increased pressure on responsive day to day repairs and maintenance budgets.

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

## Resources

**Revenue Support Grant/National Non-Domestic Rates**

The Local Government Finance Settlement for 2019/20 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 Settlement forms the final year of a four year fixed settlement that was offered to local authorities in 2016/17. This offer was made on the basis that any council that wished to take up the offer would be required to have an efficiency plan in place in order to do so. Nationally 97% of Council's accepted this offer.

Future years' announcements will be dependent on a number of factors, including; Spending Review 19, the outcome of the Fair Funding Review, the BRR Reset, the move to 75% BRR and any reform of the New Homes Bonus (as set out in earlier in this document).

Although the final year of the Settlement period has confirmed the RSG allocations that were previously announced there were still changes in the overall settlement and level of local government resources that were announced. These related to additional social care funding, the removal of negative RSG, an increase in the Rural Services Delivery Grant and New Homes Bonus and a decrease in forecast Council Tax amounts.

*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 2019/20 (the Settlement period) and the breakdown across the various funding sources. Overall, spending power will increase by £1.7bn from £44.7bn to £46.4bn, an overall increase for the period 2015/16 to 2019/20 of 3.8%. However within this, the Settlement Funding Assessment (SFA) will reduce by £6.7bn (32%) and NHB by £0.3bn (24%), which is largely offset by the governments estimate of council tax increasing by £5.9bn (27%).

| | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
|---|---|---|---|---|---|
| | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** |
| Settlement Funding Assessment | 21.250 | 18.602 | 16.633 | 15.574 | 14.560 |
| Under-indexing business rates multipler | 0.165 | 0.165 | 0.175 | 0.275 | 0.400 |
| Council Tax | 22.036 | 23.247 | 24.666 | 26.332 | 27.927 |
| Improved Better Care Fund | 0 | 0 | 1.115 | 1.499 | 1.837 |
| New Homes Bonus | 1.200 | 1.485 | 1.252 | 0.947 | 0.918 |
| Transition Grant | 0 | 0.150 | 0.150 | 0 | 0 |
| Rural Services Delivery Grant | 0.016 | 0.081 | 0.065 | 0.081 | 0.081 |
| Adult Social Care Support Grant | 0 | 0 | 0.241 | 0.150 | 0 |
| Winter Pressures Grant | 0 | 0 | 0 | 0.240 | 0.240 |
| Social Care Support Grant | 0 | 0 | 0 | 0 | 0.410 |
| **Core Spending Power** | **44.667** | **43.730** | **44.296** | **45.098** | **46.373** |
| **Change %** | | **-2.1%** | **1.3%** | **1.8%** | **2.8%** |
| **Cumulative change %** | | **-2.1%** | **-0.8%** | **1.0%** | **3.8%** |

Although the national level of Core Spending Power is forecast to increase by 3.8% 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 (as set further out below) 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 change in core spending power of 17.9% over the four year period to 2019/20.

| | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| SFA | 6.048 | 5.188 | 4.543 | 4.197 | 3.775 |
| Council Tax; | 5.637 | 5.916 | 6.145 | 6.393 | 6.718 |
| Other grants | 2.120 | 2.335 | 1.709 | 1.090 | 0.843 |

| | | | | | |
|---|---|---|---|---|---|
| **Core Spending Power** | **13.804** | **13.439** | **12.396** | **11.680** | **11.336** |
| **Change over the period (£m)** | | | | | **-2.468** |
| **Change over the period (%)** | | | | | **-17.9%** |

*Settlement Funding Assessment*

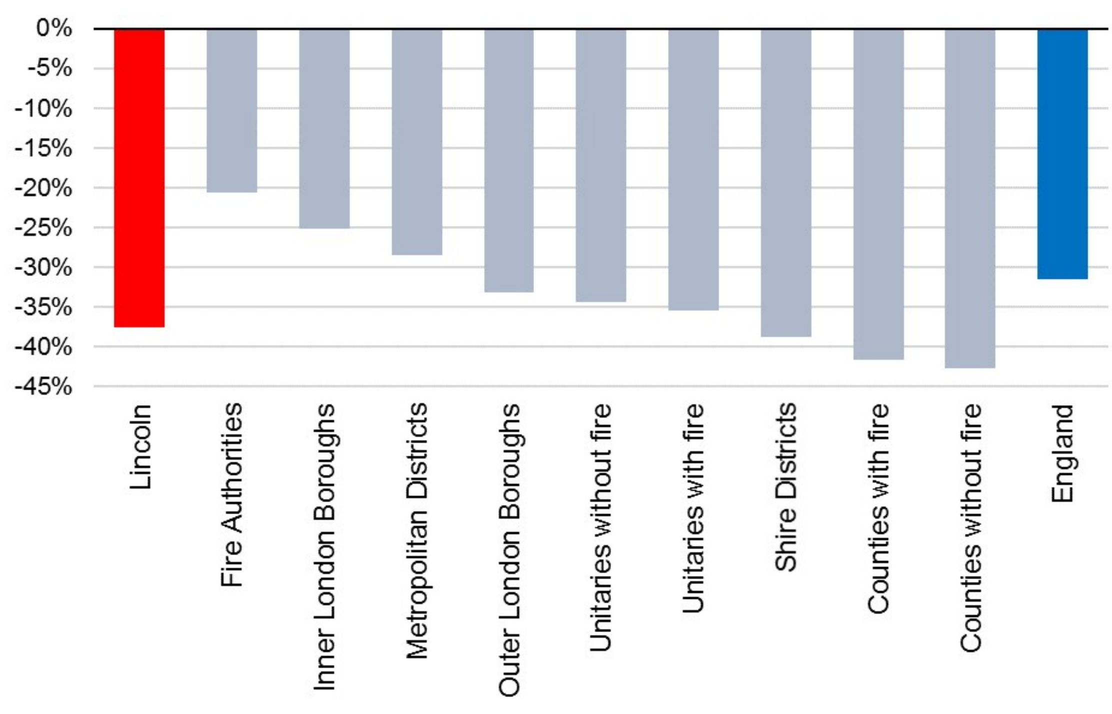
The variation in the spread of funding reductions in the SFA is as a result of change in the funding distribution methodology for RSG that was introduced in 2016/17. Historically changes to RSG had been carried out by comparing the current year's RSG allocation to the previous year, from 2016/17 the approach now takes into account two different aspects;

- individual authorities' council tax raising ability – those authorities with a greater proportion of their core funding coming from Council Tax receive less RSG;

- the type of services provided - this favoured upper tier authorities, with significantly larger funding reductions for district councils.

As the graph below shows the cumulative change in SFA for Shire Districts has been the worst affected, as compared to other authority types, with Lincoln's reduction at 37.6% compared to the national figure of 31.4%.

*Cumulative change between 2015/16 and 2019/20*




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 |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| RSG | 2.585 | 1.698 | 0.981 | 0.000* | 0.022 |
| Baseline BR Funding Level | 3.463 | 3.491 | 3.562 | 4.197 | 3.750 |
| **SFA** | 6.048 | 5.188 | 4.543 | 4.197 | 3.772 |
| **Change over the period (£m)** | | | | | **-2.276** |
| **Change over the period (%)** | | | | | **-37.6%** |

* 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, the figures announced in the Finance Settlement confirm those announced in 2015, with a reduction of 99.1% over the period from £2.585m in 2015/16 to £0.022m in 2019/20, as shown in the table below.

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

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

The MTFS will be based on these levels of RSG. Beyond the settlement period, i.e. 2020/21 it is assumed that there will be no further RSG payable by the Government.

*Business Rates Retention*

During 2018/19 the Council, along with the other Lincoln Districts, Lincolnshire County Council and North Lincolnshire Council form the Lincolnshire 100% Business Rates Pilot. The key basis of this pilot is the retention of 100% of business rates locally on a 60/40 split between each District and the County Council (under 50% retention the funding splits were 50% central government, 40% Lincoln City Council, 10% Lincolnshire County Council). The forecasted gain to the Council of this pilot in 2018/19 is £1.4m, an element of which has been set aside to contribute towards growth/economic regeneration activities within the City, as per the Lincolnshire Business Rates Pilot Business Case.

Although a further bid for a 75% Pilot was submitted for 2019/20 this was unsuccessful, however the Districts and County Council were able to form a Business Rate Pool for 2019/20 (further details of which are set out below).

The Council has undertaken an assessment of the amount of business rates that it expects to collect during 2018/19 and based on the principles of the 50% Business Rates Retention scheme, assuming a pool is in operation, 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. 2020/21 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.

An adjustment has however been made from 2020/21 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. As a result in a change the assessment in the level of appeals outstanding and an over provision for appeals against the 2010 and 2015 lists a surplus on the collection fund of £2.46m is forecasted for 2019/20, of which £1.55m is attributable to the Council. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council, an estimate of this impact has been assumed in the BRR forecasts set out below.

As part of the reform of the business rates retention system it had previously been announced that there would be a reset of the system in 2020/21. This will see NNDR baselines adjusted to better reflect how much local authorities are actually collecting in business rates. It wasn't until the publications of the consultation paper on the reform of the system was published in December 2018 that it was confirmed that this 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** | **2019/20 £m** | **2020/21 £m** | **2021/22 £m** | **2022/23 £m** | **2023/24 £m** |
|---|---|---|---|---|---|
| Forecast retained Income | 5.366 | 4.240 | 4.695 | 5.156 | 5.639 |

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 councils have the ability to increase their core Council Tax requirement by an additional 1% in 2019/20, this is in addition to the current 2% allowable before triggering a referendum – bringing the core principle in line with inflation at 3% RPI).

In light of the financial position of the Council and mindful of the increased referendum thresholds to be applied for 2019/20, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| **% Increase** | 2.93% | 1.90% | 1.90% | 1.89% | 1.89% |
| **Council Tax Base** | 24,299 | 24,657 | 25,020 | 25,387 | 25,759 |
| **Council Tax Yield** | £6.679m | £6.906m | £7.140m | £7.382m | £7.632m |
| **Band D** | £274.86 | £280.08 | £285.39 | £290.79 | £296.28 |
| **Band D £ Increase** | £7.83 | £5.22 | £5.31 | £5.40 | £5.49 |

For 2019/20 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £274.86, a 2.93%/£7.83 increase from 2018/19.

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 4,418 relating to the council tax support scheme in the years 2019/20 – 2023/24. 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 has 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: Technical Consultation published in August 2018 announced that for 2020/21 the Government intends to explore how to incentivise housing growth most effectively, referencing the Housing Delivery Test results, signalling a change to the current New Homes Bonus grant system. The Government intends to consult widely on any changes prior to implementation, however in the absence of any further information estimating future grant levels is extremely difficult. The MTFS therefore prudently assumes that the current New Homes Bonus scheme ceases beyond 2019/20, but with that the legacy payments continue for a 4 year period.

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** | **2019/20 £'000** | **2020/21 £'000** | **2021/22 £'000** | **2022/23 £'000** | **2023/24 £'000** |
|---|---|---|---|---|---|
| New Homes Bonus | 720 | 502 | 111 | 50 | 0 |
| Surplus on Business Rates Retention - Levy/ Safety Net Account | 58 | 0 | 0 | 0 | 0 |
| Housing Benefit & Council Tax Benefit Administration | 481 | 481 | 481 | 481 | 481 |
| Housing Benefits New Burdens | 81 | 84 | 84 | 84 | 84 |
| **TOTAL** | **1,340** | **1,067** | **676** | **615** | **565** |

**Provision for Debt Repayment (MRP)**

MRP is a statutory charge to the Council's revenue account to make provision for the repayment of the outstanding capital debt liabilities. The Council is required by law to set aside an amount for this provision which it considers to be prudent. Statutory Guidance which accompanies the Regulations provides options for the calculation of MRP and gives Council's significant discretion in determining the level of MRP. The Guidance states that 'the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant'.

**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 £10.4m from fees and charges in 2019/20.

The mean average overall increase in the non-statutory fees and charges is 2.4%, however this includes some fees that have been increased by higher and lower percentages.

## Bridging the Gap

The Council has a successful track record in delivering savings and has over the last ten years, delivered £7.8m 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, it's 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 sustainable. As part of developing the MTFS 2019-24, due to changes in key assumptions it has been necessary to increase the savings targets by £0.5m in 2019/20, increasing by a further £0.5m to £1m p.a. from 2020/21, with total saving of £5.25m p.a. required by 2020/21.

The Towards Financial Sustainability (TFS) programme is and continues to be the vital element in ensuring that the Council maintains a sustainable financial position and delivers the required reductions in the net budget. The programme itself has been refocused reflecting the council's innovative, forward thinking and commercial approach alongside its ambitions to maintain high performing services and a performance culture. As part of this refocus the number of strands within the programme have been re-aligned as follows;

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

- Investment Opportunities – consideration of 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 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 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 to enhance the economic prosperity of the City. Although not directly contributing towards the TFS savings targets these measures allow future assumptions of growth in the Council's resources to be factored into the revenue forecasts.

Progress, at January 2019, in delivering the target savings from the current TFS programme is set out in the table below:

| | 2019/20 £'000 | 2020/21 £,000 | 2021/22 £'000 | 2022/23 £'000 | 2023/24 £'000 |
|---|---|---|---|---|---|
| **MTFS savings target *** | **4,650** | **5,250** | **5,250** | **5,250** | **5,250** |
| Secured | (3,955) | (4,006) | (4,029) | (4,037) | (4,043) |
| **Savings still required in MTFS** | **695** | **1,245** | **1,221** | **1,213** | **1,206** |
| Still subject to approval or review/Business Case | 789 | 1,134 | 1,237 | 1,258 | 1,271 |
| **Savings still to be identified** | **(94)** | **110** | **(16)** | **(45)** | **65** |

The delivery of the current strategy and programme in full would leave the Council in the position of overachieving the savings targets in 2019/20, with a small target for which savings will need to be identified in 2020/21. Nevertheless the overall emphasis on delivering the revised savings targets must remain strong to achieve the targets from 2019/20 and beyond.

## 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:

- Implications of Brexit on national and local economy
- Fluctuations in the Business Rates Taxbase
- Future changes to the retained Business Rates system
- Future levels of Central Government funding.

- Delivery of challenging savings targets
- Impact of 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 key capital schemes identified to support the delivery of Vision 2020, 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.

In addition to the approved schemes which form the GIP there are a number of key strategic schemes which have not yet been formally approved due to the stage of their development, i.e. the scheme is currently still at the design stage, or is still subject to final funding agreements, contract negotiations etc. and as such do not appear in the current GIP. These schemes including the Western Growth Corridor, planned investment in the crematorium. Each scheme will be submitted separately to the Executive for approval and inclusion in the GIP once the relevant stage in their development has been reached. These will however, as a result of their value, significantly alter the size and scale of the GIP.

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 £106 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 been allocated in previous Strategic Plans/MTFS, including works to income earning assets such as multi story car parks, City Hall and Leisure Centres. 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, e.g. the crematorium will be considered for investment as part of the prioritisation of available capital resources.

## Resources

The GIP has in recent years been predominantly reliant on the generation of capital receipts to fund the investment required to deliver the programme, or where the capital scheme is income generating and the returns are sufficient then prudential borrowing has been used. In the long term the use of capital receipts is not sustainable and other sources of funding are regularly sought to fund capital expenditure.

As a result of government funding cuts, fewer external grants and contributions are available and those that are, are usually designated for specific schemes. Whilst the additional resources that external funding brings are clearly beneficial to local people, there is the danger that schemes funded may not be the Council's highest priorities and the Council must consider carefully whether it has the capacity, within its reduced resources, available to support such schemes. Furthermore the Council needs to carefully consider whether it is able to meet the outputs and outcomes required from external grant support.

Additionally, following government funding cuts and the continued impact of the current economic climate, the increased pressure on the Council's revenue budget will result in a reduced ability to contribute significant amounts of revenue to support directly financed capital expenditure.

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

### Capital Receipts

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 relies on capital receipts in the earlier years of the MTFS to fund part of the programme. Beyond this there are available capital receipts which will be prioritised for allocation to schemes in accordance with the Capital Strategy.

### 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 £1.372m over the period 2019/20-2023/24.

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, or to replace capital receipts funding (although likely at reduced levels) over the longer term. In such cases, the revenue costs of borrowing will be met from the contingency for the loss of income on asset sales or from savings within the General Fund. The cost effectiveness of prudential borrowing as an alternative to capital receipts is closely monitored.

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

**Capital Grants**

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

Over the 5 year planning period of the MTFS £2.8m is expected to be received from external capital grants, which is largely for Disabled Facilities Grants (DFGs) (£1.5m) and for investment in sports pitches (£1.2m) and other leisure facilities (£120k).

**Projected Capital Resources**

Resources to fund the General Investment Programme 2019/20-2023/24 are estimated to be approximately £5.1m, as follows:

| | **£'000** |
|---|---|
| Capital Grants | 2,818 |
| Capital Receipts | 500 |
| Direct Revenue Financing | 433 |
| Prudential borrowing | 1,372 |
| **TOTAL** | **5,123** |

## 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

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

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

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

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

**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 Council House New Build Programme.

A further refresh of the Business Plan is scheduled for 2019 to update for revised assumptions, priority areas and to reflect latest Government policy such as the Social Housing Green Paper.

## Spending Plans

Spending plans included within the MTFS support the delivery of the Councils' strategic priorities and Vision 2020.

## Spending Pressures

A high level review of the financial pressures facing the Council over the period of the MTFS has been undertaken. This information has been drawn from experience in previous years, the advice of Directors and Assistant Directors, the current economic climate and other local and national issues that are likely to influence the financial outcomes. The HRA faces a number of spending pressures, in line with the General Fund, primarily being pay and price inflation and additional pension costs, 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 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 £54.577m over the 5-year MTFS period through depreciation and direct revenue financing.

## Resources

### Rents

The MTFS 2019/20 - 2023/24 incorporates the final year 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). It is also assumed that from

2020/21 rents will increase by CPI+1%, this increase 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 2025 remains uncertain but there is an expectation that social rent increase will remain.

Rental income levels within the MTFS 2019-24 also assume the delivery of a significant number of new homes through the planned agreements with housing associations (enabling access to HCA grants) as well as the remaining number of new homes to be delivered as part of the New Build Programme. These new properties are included as a combination of social and affordable rents. 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.

The Council proposes to set the rents for 2019/20 in line with the requirement to reduce rents by 1% for general purpose accommodation and also reduce sheltered accommodation and affordable rents by 1%. The average 52 week rent will be £67.76 per week for general purpose accommodation, £69.75 per week for sheltered accommodation, and £107.63 for affordable rents.

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

| | **Impact on Tenancies** | |
|---|---|---|
| | **No.** | **%** |
| | | |
| Rent decrease up to £0.59 | 7,350 | 95 |
| | | |
| Rent decrease between £0.60 and £0.69 | 38 | 0.49 |
| | | |
| Rent decrease between £0.70 and £0.79 | 17 | 0.22 |
| | | |
| Rent decrease between £0.80 and £0.99 | 57 | 0.74 |
| | | |
| Rent decrease is equal or greater than £1.00 | 275 | 3.55 |
| | | |
| | | |
| **TOTAL – as of 16 January 2019** | **7,737** | **100%** |

**Interest receivable**

The HRA receives investment interest on the balances it holds (HRA balances are made up of General Balances, earmarked reserves and the Major Repairs Reserve). The MTFS 2019-24 includes interest income into the HRA based on the level of HRA balances assumed in the MTFS 2019-24.

## Releasing Resources

The HRA Business plan 2016-46 identifies revenue resources to be released to support priority capital investment in council house new build, the Lincoln Standard and a land acquisition fund. The strategy that the Council will continue to pursue currently follows the Towards Financial Sustainability Programme, specifically;

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

- Investment Opportunities – consideration of 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 and maximisation of existing income streams.

## 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
- Changes to key assumptions within the MTFS e.g. inflation, interest rates etc.
- Efficient delivery of housing repairs
- Ability to release further revenue resources for investment and improvements
- The impacts of the Welfare Reform Act
- Delivery of the Housing Association deals and receipt of anticipated additional income streams.

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 comprises the following main areas of work:

- Maintenance of the Decent Homes and the Lincoln Standard
- Health & Safety Requirements – covers the work to meet statutory requirements, which are outside the Lincoln Programme, and includes communal lighting, asbestos removal and plastering
- New Build Programme remaining elements of the programme to deliver 458 new council dwellings within the HRA
- Land acquisition fund - land acquisition fund to facilitate the overall new build delivery numbers

The current HIP does not yet include any capital investment in the development of the Western Growth Corridor. The HRA owns a significant proportion of the land within the development area and should it be chosen to develop these land for new council housing the HRA and HIP would need to identify appropriate resources, at this stage though it is anticipated that the first phase of development will be solely through the General Fund.

The HIP does also not yet include the capital investment in the redevelopment of De Wint Court. These scheme will be separately submitted to the Executive for approval and inclusion in the HIP. Subject to approval of the scheme this will increase the HIP spending plans by approximately £14m over the 5-year MTFS period.

As set out in the Section 5 above the 30-year HRA Business Plan is due to be refreshed during 2019, post completion of the current new build programme and in light of updated development and investment profiles, 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 £31.2m.

**Revenue Contributions**

The MTFS 2019/20-2023/24 includes £23.4m of direct revenue contributions over the five year 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 consultations 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.

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). Recently 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 be £58.5m across the MTFS with no additional borrowing requirement included in the MTFS and no allowance made for the repayment of existing debt.

**Projected Capital Resources**

Resources to finance the proposed £62.1m Housing Investment Programme 2019/20 – 2023/24, are currently estimated to be as follows:

| | £000 |
|---|---|
| Major Repairs Reserve (depreciation) | 35,290 |
| Major Repairs Reserve (DRF) | 22,261 |
| Capital Receipts (inc RTBs) | 4,573 |
| **TOTAL** | **62,125** |

## Housing Investment Programme Forecast

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

## Risks to the Housing Investment Programme

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

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

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

Appendix 5 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

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.

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

The Council has a very proactive approach to managing risk and there are effective arrangements for financial control already in place. However, as a result of the 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 2019/20 to 2023/24 are summarised in the table below.

| | **2019/20 £000** | **2020/21 £'000** | **2021/22 £'000** | **2022/23 £'000** | **2023/24 £'000** |
|---|---|---|---|---|---|
| General Fund | 2,452 | 1,536 | 1,550 | 1,646 | 1,800 |
| Housing Revenue Account | 1,075 | 1,127 | 1,122 | 1,051 | 1,341 |

The overall levels of General Fund and Housing Revenue Account balances in 2023/24 are in line with the prudently assessed minimum level of balances.

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

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

## GENERAL FUND BUDGET SUMMARY 2019/20 - 2023/24

| | 2019/20 Estimate £ | 2020/21 Estimate £ | 2021/22 Estimate £ | 2022/23 Estimate £ | 2023/24 Estimate £ |
|---|---|---|---|---|---|
| Chief Executive & Town Clerk | 3,191,810 | 3,164,590 | 3,209,780 | 3,451,930 | 3,624,310 |
| Communities & Environmental Services | 5,187,980 | 5,051,220 | 4,722,070 | 4,442,300 | 4,283,810 |
| Major Developments | 418,280 | 429,670 | 438,220 | 462,400 | 469,810 |
| Housing & Regeneration | 739,160 | 749,780 | 758,880 | 767,940 | 775,150 |
| Corporate | 1,755,710 | 1,784,720 | 1,816,880 | 1,854,340 | 1,877,580 |
| | **11,292,940** | **11,179,980** | **10,945,830** | **10,978,910** | **11,030,660** |
| Capital Accounting Adjustment | 2,835,510 | 2,591,220 | 2,447,840 | 2,595,940 | 2,597,190 |
| **Base Requirement** | **14,128,450** | **13,771,200** | **13,393,670** | **13,574,850** | **13,627,850** |
| Specific Grants | (778,230) | (502,420) | (111,190) | (50,250) | 0 |
| Contingencies | 158,030 | 159,350 | 160,780 | 162,340 | 164,060 |
| Savings Targets | (695,090) | (1,244,930) | (1,220,730) | (1,212,630) | (1,206,950) |
| Transfers to/(from) earmarked reserves | 156,150 | (254,680) | (534,130) | (169,010) | 391,380 |
| Transfers to/(from) insurance reserve | 131,370 | 133,070 | 134,330 | 136,670 | 140,210 |
| **Total Budget** | **13,100,680** | **12,061,590** | **11,822,730** | **12,441,970** | **13,116,550** |
| Use of Balances | 554,410 | (915,800) | 13,670 | 96,010 | 154,610 |
| **NET REQUIREMENT** | **13,655,090** | **11,145,790** | **11,836,400** | **12,537,980** | **13,271,160** |
| Business Rates | 5,366,070 | 4,239,860 | 4,695,940 | 5,155,690 | 5,639,280 |
| Business Rates Surplus | 1,545,950 | 0 | 0 | 0 | 0 |
| Revenue Support Grant | 22,360 | 0 | 0 | 0 | 0 |
| Council Tax Surplus | 41,670 | 0 | 0 | 0 | 0 |
| Council Tax | 6,679,040 | 6,905,930 | 7,140,460 | 7,382,290 | 7,631,880 |
| **Total Resources** | **13,655,090** | **11,145,790** | **11,836,400** | **12,537,980** | **13,271,160** |
| **Balances b/f @ 1st April** | **1,897,724** | **2,452,134** | **1,536,334** | **1,550,004** | **1,646,014** |
| Increase/(Decrease) in Balances | 554,410 | (915,800) | 13,670 | 96,010 | 154,610 |
| **Balances c/f @ 31st March** | **2,452,134** | **1,536,334** | **1,550,004** | **1,646,014** | **1,800,624** |

## Appendix 2

### HOUSING REVENUE ACCOUNT SUMMARY 2019/20 - 2023/24

| | 2019/20 Estimate £ | 2020/21 Estimate £ | 2021/22 Estimate £ | 2022/23 Estimate £ | 2023/24 Estimate £ |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Gross Rental Income | | | | | |
| - Dwellings rents | (27,608,540) | (28,319,590) | (28,934,470) | (29,528,760) | (30,166,760) |
| - Non-Dwelling rents | (567,530) | (578,680) | (590,170) | (602,000) | (614,190) |
| Charges for Services & Facilities | (366,270) | (375,300) | (384,080) | (393,230) | (402,730) |
| Contributions towards Expenditure | (50,000) | (50,000) | (50,000) | (50,000) | (50,000) |
| **Total Income** | **(28,592,340)** | **(29,323,570)** | **(29,958,720)** | **(30,573,990)** | **(31,233,680)** |
| **Expenditure** | | | | | |
| Repairs Account Expenditure | 8,659,750 | 8,807,960 | 8,940,900 | 9,091,700 | 9,273,540 |
| Supervision & Management: | 7,006,920 | 7,089,710 | 7,166,620 | 7,249,920 | 7,368,820 |
| Contingencies | (38,140) | (39,070) | (38,430) | (38,570) | (39,090) |
| Rents, Rates and Other Premises | 94,570 | 94,740 | 94,910 | 95,080 | 95,250 |
| Insurance Claims Contingency | 339,330 | 146,300 | 153,620 | 361,290 | 169,350 |
| Depreciation of Fixed Assets | 6,262,430 | 6,237,430 | 6,237,430 | 6,237,430 | 6,237,430 |
| Debt Management Expenses | 11,920 | 11,920 | 11,920 | 11,920 | 11,920 |
| Increase in Bad Debt Provisions | 287,760 | 297,120 | 304,880 | 311,880 | 318,880 |
| **Total Expenditure** | **22,624,540** | **22,646,110** | **22,871,850** | **23,320,650** | **23,436,100** |
| **Net cost of service** | **(5,967,800)** | **(6,677,460)** | **(7,086,870)** | **(7,253,340)** | **(7,797,580)** |
| Loan Charges Interest | 2,351,960 | 2,332,000 | 2,310,470 | 2,310,180 | 2,310,180 |
| - Investment Interest | (36,710) | (35,180) | (41,840) | (46,680) | (45,320) |
| - Mortgages Interest | 0 | 0 | 0 | 0 | 0 |
| **Surplus on HRA for the year** | **(3,652,550)** | **(4,380,640)** | **(4,818,240)** | **(4,989,840)** | **(5,532,720)** |
| DRF used for Financing | 4,172,380 | 4,186,880 | 4,668,460 | 5,168,460 | 5,168,460 |
| Contribs to/(from) Reserves: | | | | | |
| - DRF | 65,000 | 65,000 | 65,000 | 0 | 0 |
| - HRA Strategic growth | | | | | |
| - Insurance Reserve | (589,330) | 103,700 | 96,380 | (111,290) | 80,650 |
| - Repairs Account | 0 | 0 | 0 | 0 | 0 |
| - PI Survey | (6,000) | 3,000 | (6,000) | 3,000 | (6,000) |
| Capital Fees Equalisation | (41,540) | (30,040) | 0 | 0 | 0 |
| **(Surplus)/deficit in year** | **(52,040)** | **(52,100)** | **5,600** | **70,330** | **(289,610)** |
| **Balance b/f at 1 April** | (1,023,101) | (1,075,141) | (1,127,241) | (1,121,641) | (1,051,311) |
| **Balance c/f at 31 March** | **(1,075,141)** | **(1,127,241)** | **(1,121,641)** | **(1,051,311)** | **(1,340,921)** |

**GENERAL INVESTMENT PROGRAMME - 2019/20 to 2023/24**

| | 2019/20 Estimate £ | 2020/21 Estimate £ | 2021/22 Estimate £ | 2022/23 Estimate £ | 2023/24 Estimate £ |
|---|---|---|---|---|---|
| **Expenditure Programme** | | | | | |
| Chief Executives | 626,002 | 200,000 | 200,000 | 200,000 | 200,000 |
| Directorate of Communities and Environmental Services | 2,424,544 | 300,000 | 300,000 | 300,000 | 300,000 |
| Schemes Under Review | 72,406 | 0 | 0 | 0 | 0 |
| **Total Programme Expenditure** | **3,122,952** | **500,000** | **500,000** | **500,000** | **500,000** |
| | | | | | |
| **Capital Funding** | | | | | |
| ***Contributions from Revenue*** | | | | | |
| Opening balance | 132,576 | 0 | 0 | 0 | 0 |
| Received in year | 300,000 | 0 | 0 | 0 | 0 |
| Used in financing | (432,576) | 0 | 0 | 0 | 0 |
| Closing balance | 0 | 0 | 0 | 0 | 0 |
| ***Capital receipts*** | | | | | |
| Opening balance | 875,420 | 2,900,420 | 2,750,420 | 2,600,420 | 2,600,420 |
| Received in year | 2,675,000 | 0 | 0 | 0 | 0 |
| Used in financing | (500,000) | 0 | 0 | 0 | 0 |
| Used to reduce the CFR | (150,000) | (150,000) | (150,000) | 0 | 0 |
| Closing balance | 2,900,420 | 2,750,420 | 2,600,420 | 2,600,420 | 2,600,420 |
| ***Grants & contributions*** | | | | | |
| Opening balance | 0 | 0 | 0 | 0 | 0 |
| Received in year | 1,618,230 | 300,000 | 300,000 | 300,000 | 300,000 |
| Used in financing | (1,618,230) | (300,000) | (300,000) | (300,000) | (300,000) |
| Closing balance | 0 | 0 | 0 | 0 | 0 |
| ***Unsupported borrowing*** | | | | | |
| Opening balance | 0 | 0 | 0 | 0 | 0 |
| Received in year | 572,146 | 200,000 | 200,000 | 200,000 | 200,000 |
| Used in financing | (572,146) | (200,000) | (200,000) | (200,000) | (200,000) |
| Closing balance | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| **Total Capital Funding** | **(3,122,952)** | **(500,000)** | **(500,000)** | **(500,000)** | **(500,000)** |
| | | | | | |
| **Available Resources c/f** | **2,900,420** | **2,750,420** | **2,600,420** | **2,600,420** | **2,600,420** |

## HOUSING INVESTMENT PROGRAMME - 2019/20 - 2023/24

| | 2019/20 Estimate £ | 2020/21 Estimate £ | 2021/22 Estimate £ | 2022/23 Estimate £ | 2023/24 Estimate £ |
|---|---|---|---|---|---|
| **Capital Programme** | | | | | |
| Decent Homes | 7,064,971 | 8,237,063 | 8,438,190 | 10,003,850 | 8,081,082 |
| Health & Safety | 642,207 | 603,520 | 552,800 | 583,890 | 731,330 |
| New build programme | 5,057,349 | 78,808 | 42,416 | 44,332 | 46,032 |
| Land Acquisition Fund | 1,070,213 | 0 | 0 | 0 | 0 |
| Lincoln Standard | 1,027,072 | 985,075 | 993,034 | 926,270 | 821,480 |
| Other schemes | 1,362,880 | 1,362,302 | 1,326,476 | 1,373,610 | 668,314 |
| **Total Programme Expenditure** | **16,224,692** | **11,266,768** | **11,352,916** | **12,931,952** | **10,348,238** |
| | | | | | |
| **Capital funding** | | | | | |
| ***Major Repairs Reserve*** | | | | | |
| Opening balance | 4,078,555 | 946,572 | 182,922 | 0 | 0 |
| Depreciation received in year | 6,262,430 | 6,237,430 | 6,237,430 | 6,237,430 | 6,237,430 |
| Depreciation used in financing | (10,097,130) | (6,481,285) | (6,237,430) | (6,237,430) | (6,237,430) |
| DRF received in year | 4,172,380 | 4,186,880 | 4,668,460 | 5,168,460 | 5,168,460 |
| DRF used in financing | (3,469,663) | (4,706,675) | (4,851,382) | (5,168,460) | (4,064,776) |
| Closing balance | 946,572 | 182,922 | 0 | 0 | 1,103,684 |
| ***Capital receipts*** | | | | | |
| Opening balance | 0 | 0 | 741,222 | 1,297,148 | 591,116 |
| RTB's received in year | 819,630 | 820,030 | 820,030 | 820,030 | 820,030 |
| Used in financing | (819,630) | (78,808) | (264,104) | (1,526,062) | (46,032) |
| Closing balance | 0 | 741,222 | 1,297,148 | 591,116 | 1,365,114 |
| ***1-4-1 receipts*** | | | | | |
| Opening balance | 4,186,141 | 2,347,873 | 2,347,873 | 2,347,873 | 2,347,873 |
| RTB's received in year | | | | | |
| Used in financing | (1,838,269) | 0 | 0 | 0 | 0 |
| Closing balance | 2,347,873 | 2,347,873 | 2,347,873 | 2,347,873 | 2,347,873 |
| ***Grants & contributions*** | | | | | |
| Opening balance | 0 | 0 | 0 | 0 | 0 |
| Grants & contributions received in year | 0 | 0 | 0 | 0 | 0 |
| Used in financing | 0 | 0 | 0 | 0 | 0 |
| Closing balance | 0 | 0 | 0 | 0 | 0 |
| ***Borrowing*** | | | | | |
| Opening balance | 0 | 0 | 0 | 0 | 0 |
| Borrowing taken in year | 0 | 0 | 0 | 0 | 0 |
| Used in financing | 0 | 0 | 0 | 0 | 0 |
| Closing balance | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| **Total Capital funding** | **(16,224,692)** | **(11,266,768)** | **(11,352,916)** | **(12,931,952)** | **(10,348,238)** |
| | | | | | |
| **Available Resources c/f** | **3,294,445** | **3,272,017** | **3,645,021** | **2,938,989** | **4,816,671** |

**Appendix 5**

# BUDGET RISK ASSESSMENT

| No. | Budget Item | Risk | 2019/20<br><br>Risk score | 2020/21<br>-<br>2022/24<br><br>Risk Score | Containment |
|---|---|---|---|---|---|
| 1 | Business Rates Base | Reduction and/or fluctuations in income against budget variation in:<br>– Growth compared to forecasts<br>– Changes in the NNDR base<br>– Changes in rateable values (e.g. appeals, economic downturn, changes in use, 2017 revaluations)<br>– Collection rates<br>Ongoing impact on the NNDR base of successful appeals<br>- Estimates of appeals provision higher/lower than actually required<br>– Changes nationally to the valuation assessments of certain property/infrastructure<br>– Introduction of 75% retained Business Rates from 2020/21 and reform of the system<br>– Reset of the Business Rates Retention system from 2020/21 | **Total Score: 12**<br><br>Likelihood: 3<br>Impact: 4 | **Total Score: 12**<br><br>Likelihood: 3<br>Impact: 4 | • In year monitoring of the NNDR base, Collection Fund, collection rates, growth assumptions and rateable value appeals.<br>• 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<br>• Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee<br>• A Business Rate Volatility Reserve is maintained to provide a degree of protection from fluctuations in Business Rate Income<br>• Quarterly monitoring of the Lincs NNDR Pool by Lincs Finance Officers<br>• Independent specialist assessment made of the required level of NNDR appeals provision<br>• Specialist advice sought to assist in budgeting assumptions and assessment of implications of changes to the funding system<br>• 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. |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 2 | Fairer Funding Review | Assessment of relative need and relative resources results in a baseline need below current level.<br><br>Transitional arrangements are not sufficient to mitigate impacts.<br><br>Impact of Spending Review 2019 on overall funding available.<br><br>Impact of Brexit deal on Spending Review. | **Total Score: 2**<br><br>Likelihood: 1<br>Impact: 1 | **Total Score: 12**<br><br>Likelihood: 4<br>Impact: 3 | • Assessment of Government consultations with responses where appropriate<br>• Lobby through national groups, respond to national consultations<br>• Work with Association of Lincolnshire Finance Officers and the Society of District Treasures<br>• Work with external funding specialists to identify and assess the impact of proposed funding changes (e.g. New Homes Bonus) |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 3 | Capital Expenditure | Slippage in the project,<br><br>Increased project costs including labour and material costs post Brexit. Inflationary impacts.<br><br>Failure of contractor i.e. contractor goes into liquidation.<br><br>Demand for improvement grants.<br><br>Sunk costs of aborted schemes<br><br>Achieving levels of projected costs in the HRA Business plan | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | • Regular budget monitoring and reporting to Capital Programme Board and Housing Delivery Group<br>• Ensure correct project management procedures followed (Lincoln Model)<br>• Quarterly budget monitoring and reporting to Performance Scrutiny and the Executive<br>• Financial procedure rules are followed, including financially vetting of all contractors<br>• Use of collaborative contracts/framework agreements where possible e.g. EMPA<br>• Support from Procurement engaged at an early stage<br>• Carry out post implementation reviews<br>• Ensure risk assessments completed for all significant schemes before commencing<br>• Value engineering used to contain project costs<br>• Cost estimates obtained ahead of procurement exercises. |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 4 | Income from Fees & Charges/ Rents:<br>• Car Parking<br>• Crematorium / Cemeteries<br>• Development Control<br>• Building Control<br>• Land Charges<br>• Control Centre<br>• Lincoln Properties<br>• Industrial Estates<br>• Xmas Market | Reduction in the usage of the service/activity levels in the current economic climate (e.g. if downturn in development).<br><br>Over optimistic income targets<br><br>Increasing reliance on income within the MTFS<br><br>New competitors entering the market (e.g. Crematorium).<br><br>Fees and Charges levels reduces demand,<br><br>Changes in treatment of VAT status of individual fees and charges. | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | • Car Parking Income Generation Strategy in progress.<br>• Produce regular monitoring statements for major income sources which are reported monthly to Corporate Management Team.<br>• Identify reasons for any income reductions and take corrective action where possible<br>• Application of Corporate Fees and Charges Policy to ensure correct charging policies are applied and the impacts are assessed<br>• Report quarterly to the Executive and Performance Scrutiny Committee on forecast for key income streams<br>• Specific projects/business plans in progress to sustain income streams.<br>• Assess impact of new competitors in the marked (e.g. new crematoriums at Gainsborough and potentially Thurlby).<br>• Delegated powers to portfolio holder to make responsive changes to fees and charges<br>• Rebase income budgets to reflect current trends<br>• Active void management<br>• Investment criteria for new commercial investments.<br>• Watching brief on CIPFA Committee/HMRC discussions |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 5 | Capital Financing - Long Term Borrowing | Balances unavailable for internal borrowing<br><br>External borrowing costs above interest rates in MTFS | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | • Continue to monitor the cost effectiveness of issuing internal balances instead of taking external borrowing<br>• Actively monitor the achievement of the capital receipts target and potential additional borrowing requirement<br>• Actively monitor the cost effectiveness of asset disposals compared to Prudential Borrowing<br>• Ongoing monitoring of cashflows from Business rates<br>• Regular review of current and future predicted borrowing rates to inform timing of borrowing decisions<br>• 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: 6**<br><br>Likelihood: 3<br>Impact: 2 | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | • Fully assess Government policies for financial impacts<br>• An allowance for the impact of welfare reform built into collection rates and bad debt provision in the MTFS<br>• Universal Credit Support Team established (although will transfer to CAB from April 2019) – work to establish new arrangements.<br>• Cross directorate working between Revenues& Benefits and Housing. |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 7 | Repairs & Maintenance on Corporate Properties | Unplanned emergency maintenance is required on the Council's Corporate Properties<br><br>Increase in demands to meet statutory requirements and to minimise risks of adverse claims.<br><br>Impact of works on income and service delivery. | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | • Updated stock condition surveys for all corporate properties to undertaken –<br>• Comprehensive asset management planning in place (including identifying assets with large repairs and maintenance liabilities for disposal)<br>• Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee<br>• Properties with large maintenance liabilities are reviewed for potential disposal<br>• New capital schemes allow for full midlife refurb on newly created assets.<br>• Responsible Officer system in place. |
| 8 | Revenue Savings Targets | The required savings targets are not achieved nor required efficiencies delivered | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 9**<br><br>Likelihood: 3<br>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.<br>• Report monthly to Programme Team and Programme Board (CMT) and quarterly to Executive and Performance Scrutiny Committee |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 9 | General Budget Assumptions | CPI and RPI inflation exceed rates assumed in the budget<br><br>Actual establishment exceeds 99%<br><br>Increase in employer pension contribution rates following triennial valuation in 2019<br><br>Implications from Brexit deal or no deal on economy and general budget assumptions. | **Total Score: 3**<br><br>Likelihood: 2<br>Impact: 1 | **Total Score: 9**<br><br>Likelihood: 3<br>Impact: 3 | • Set prudent but realistic projections based on analysis of economic commentators and Bank of England predictions<br>• Monthly monitoring of RPI and CPI index changes<br>• Make use of expert forecasts of future RPI and CPI trends<br>• Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee<br>• Set a prudent but realistic estimate in line with Government announcements<br>• Monitor significant changes in economic indicators<br>• Monitor the pension fund position through discussions with Lincolnshire County Council and Lincolnshire Finance Officers<br>• Report any changes to Members as soon as officers become aware<br>• Pension Fund Stabilisation Approach adopted |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | 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<br><br>The Housing Repairs Service (HRS) does not continue to modernise and achieve efficiencies | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | • Council housing capital investment is carried out<br>• Produce regular budget monitoring reports and HRA revenue and capital budgets reported and monitored together<br>• Report quarterly to Departmental Management Team, Corporate Management Team, Executive and Performance Scrutiny Committee<br>• 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)<br><br>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<br><br>Increasing demands for housing tenant support as other providers withdraw services | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | • Identification and drawdown of additional funding made available from Government and others to support additional demand<br>• Lean systems approach taken to identify efficiencies in service delivery (e.g. benefits service)<br>• Collaboration and joint working arrangement opportunities identified with local partners to help meet additional service demands<br>• Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 12 | Housing Rents and Property Voids | Government policy changes (e.g. 1% rent reduction, impacting on income projections)<br><br>Delays or non-delivery of the Housing Association deals and associated income at affordable rent levels.<br><br>More Council House disposals than anticipated and/or slower than anticipated progress on the council house new build programme<br><br>Void properties exceeding the allowance included in the budget (1% p.a.)<br><br>CPI inflation less than budgeted rate (from 2020/21)– reducing rental income<br><br>Impact of welfare reforms on rent collection – covered in risk no. 6. | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | • Produce regular budget monitoring reports<br>• Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee<br>• Directorate ongoing monitoring is a performance indicator<br>• Monthly monitoring of RPI and CPI index changes<br>• Make use of expert forecasts of future RPI and CPI trends and the impact on housing rents<br>• 30 year Business Plan to undergo a refresh.<br>• Monthly Housing Delivery Group meeting of cross directorate officers monitoring progress of New Build programme and capital & revenue funding |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | 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<br><br>Revenue contributions are not sustainable in the revenue accounts of the HRA or General Fund<br><br>Increase in borrowing costs (covered in separate risk – see no.5 & no. 14)<br><br>Reductions in grant funding (covered in separate risk – see no. 15) | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | **Total Score: 6**<br><br>Likelihood: 2<br>Impact: 3 | • Undertake regular monitoring of the capital receipts position<br>• Regular reports submitted to the Asset Management Group<br>• Capital Receipts targets incorporated in the Asset Management Plan & Capital Strategy<br>• Property Section fully informed of current targets within the GIP & HIP<br>• Asset Review Group monitoring of capital receipts target and evaluation of potential asset sales<br>• Review of the most cost effective funding options (e.g. capital receipts compared to prudential borrowing)<br>• Monitor and report on the revenue and capital budgets together to ensure both capital and revenue impacts are identified<br>• 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 | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 14 | Cashflow Management (Investments and short term borrowing) | Available cash flow surpluses less than anticipated and/or interest rates lower than forecast<br><br>Reduction in cash flow results in deficits and/or rising interest rates<br><br>Impact of localisation of Business Rate income on cash balances | **Total Score: 3**<br><br>**Likelihood: 3**<br>**Impact: 1** | **Total Score: 6**<br><br>Likelihood: 3<br>Impact: 2 | • Monitor the average interest rate being achieved against the budget target and the level of balances available for investment<br>• Actively monitoring the cash flow on a daily basis<br>• Ongoing monitoring of cashflows from Business rates<br>• Quarterly monitoring of Collection Fund forecast balances<br>• Take account of economic analysts and Bank of England predictions and advice from Treasury Management Consultants<br>• Hold regular Treasury Management meetings<br>• Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | 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<br><br>The Council is unable to sustain sufficient levels of growth and future levels of Formula Grant are reduced<br><br>Amount and timing of receipt of some grants not as assumed in the MTFS | **Total Score: 2**<br><br>Likelihood: 1<br>Impact: 1 | **Total Score: 6**<br><br>Likelihood: 3<br>Impact: 2 | • Regular review and reporting of new home figures<br>• The Council will seek to realise the benefits of the financial incentives available<br>• Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee<br>• Regular review of grant figures and distribution mechanisms.<br>• Lobby through national groups, respond to national consultations<br>• Work with Association of Lincolnshire Finance Officers and the Society of District Treasures<br>• Work with external funding specialists to identify and assess the impact of proposed funding changes (e.g. New Homes Bonus) |
| 16 | External Funding of Capital Programme | Loss of anticipated external resource to support the capital programme<br><br>Including<br>○ 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**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | • Ensure grant conditions are complied with throughout scheme<br>• Seek alternative funding sources<br>• Produce regular grant monitoring statements<br>• Regular budget monitoring and reporting to Capital Programme Board<br>• Ongoing discussions with the County Council to ensure the provision of DFG's meet the Council's funding requirements. |

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 17 | Council Tax Base & Council Tax Support Scheme | In year variations to budget not containable within Collection Fund balances<br><br>Costs to Council increased due to:<br>– Actual CT base different to estimate<br>– Collection rates/bad debt provisions<br>– Increase in LCTS caseload<br>– Referendum rate of CT increases below budgeted rate | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | • Monthly monitoring of the Collection Fund - collection rates, CT discount caseload, council tax base.<br>• Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee<br>• 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<br>• The proposed 2019/20 Council Tax is below revised referendum limit of 3%. Future increases are below 2% in years 2020/21 to 2023/24.<br>• 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<br><br>Impact of Welfare Reform Act (see risk no. 6) | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | • Follow established debt recovery and write off procedures<br>• Monitor age debt profile of debts against bad debt provision<br>• DWP Consultancy support engaged for Housing Overpayments – positive impacts on reducing outstanding debt and increasing in-period collection |

**Appendix 5**

| No. | Budget Item | Risk | 2019/20 | 2020/21 - 2022/24 | Containment |
|---|---|---|---|---|---|
| 19 | Housing Benefits/Subsidy | Increase in payments that do not attract 100% subsidy i.e. overpayments and local authority errors<br><br>Failure to comply with complex legislative requirements<br><br>Lack of audit trail to substantiate grant claim<br><br>Backlog of work<br><br>Pressures from customer demands and complex enquiries due to welfare changes | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | • Regular monitoring of claims being processed<br>• Undertake staff training and sample accuracy checks<br>• Ensure system back ups are carried out and historic information is recoverable<br>• 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: 3**<br><br>Likelihood: 1<br>Impact: 2 | **Total Score: 4**<br><br>Likelihood: 2<br>Impact: 2 | • Ongoing discussions and negotiations with key partners by senior officers and members |

## GENERAL FUND EARMARKED RESERVES FORECAST 2018/19 - 2023/24

| **Description** | **Balance @ 31.03.19** | **Balance @ 31.03.20** | **Balance @ 31.03.21** | **Balance @ 31.03.22** | **Balance @ 31.03.23** | **Balance @ 31.03.24** |
|---|---|---|---|---|---|---|
| Carry Forwards | 138,959 | 138,959 | 138,959 | 138,959 | 138,959 | 138,959 |
| Air Quality Initiatives | 27,550 | 33,060 | 38,570 | 44,080 | 49,590 | 55,100 |
| Asset Improvement | 71,847 | 71,847 | 71,847 | 71,847 | 71,847 | 71,847 |
| Backdated Rent Review | 220,000 | 220,000 | 220,000 | 220,000 | 220,000 | 220,000 |
| Boston Audit Contract | 13,800 | 13,800 | 13,800 | 13,800 | 13,800 | 13,800 |
| Business Rates Volatility | 1,456,139 | 2,201,069 | 2,084,239 | 1,492,279 | 1,232,969 | 1,638,789 |
| Christmas Decorations | 17,240 | 17,240 | 17,240 | 17,240 | 17,240 | 17,240 |
| City Hall Sinking Fund | 36,060 | 36,060 | 36,060 | 36,060 | 36,060 | 36,060 |
| Commons Parking | 26,652 | 26,652 | 26,652 | 26,652 | 26,652 | 26,652 |
| Electric Van replacement | 10,504 | 14,934 | 19,364 | 23,794 | 28,224 | 32,654 |
| Funding for Strategic Priorities | 1,218,963 | 909,464 | 899,963 | 890,463 | 890,463 | 890,463 |
| Grants & Contributions | 837,812 | 760,862 | 682,642 | 636,512 | 589,692 | 541,932 |
| Income Volatility Reserve | 178,068 | 178,068 | 178,068 | 178,068 | 178,068 | 178,068 |
| Invest to Save (GF) | 434,647 | 466,957 | 484,517 | 499,967 | 500,542 | 500,542 |
| IT Reserve | 1 | 64,781 | 129,271 | 193,461 | 293,461 | 393,461 |
| MA Reserve | 51,317 | 51,317 | 51,317 | 51,317 | 51,317 | 51,317 |
| Managed Workspace | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 |
| Mayoral car | 47,099 | 47,099 | 47,099 | 47,099 | 47,099 | 47,099 |
| Mercury Abatement | 413,561 | 371,291 | 317,171 | 264,891 | 214,441 | 165,821 |
| Organisational Development | 84,697 | 8,457 | 8,457 | 8,457 | 8,457 | 8,457 |
| Private Sector Stock Condition Survey | 75,460 | 27,460 | 39,460 | 51,460 | 63,460 | 15,460 |
| Property Searches | 36,450 | 36,450 | 36,450 | 36,450 | 36,450 | 36,450 |
| Revenues & Benefits shared service | 117,550 | 87,280 | 87,280 | 87,280 | 87,280 | 87,280 |
| Section 106 interest | 32,253 | 32,253 | 32,253 | 32,253 | 32,253 | 32,253 |
| Sinking Fund - MSCP & Bus station midlife refurb | 0 | 0 | 0 | 44,160 | 89,210 | 89,210 |
| Strategic Projects - revenue costs | 303,090 | 303,090 | 183,090 | 183,090 | 183,090 | 183,090 |
| Tank Memorial | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Tree Risk Assessment | 125,539 | 145,539 | 165,539 | 185,539 | 205,539 | 225,539 |
| Unused DRF | 136,653 | 4,073 | 4,073 | 4,073 | 4,073 | 4,073 |
| Yarbrough Leisure Centre | 1,668 | 1,668 | 1,668 | 1,668 | 1,668 | 1,668 |
| **TOTAL GENERAL FUND** | **6,158,578** | **6,314,728** | **6,060,048** | **5,525,918** | **5,356,903** | **5,748,283** |

**HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2019/20 to 2023/24**

| **Description** | **Forecast Balance 31.03.19 £** | **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 £** |
|---|---|---|---|---|---|---|
| Repairs Account | 623,950 | 623,950 | 623,950 | 623,950 | 623,950 | 623,950 |
| Capital Fees Equalisation Reserve | 213,740 | 172,200 | 142,160 | 142,160 | 142,160 | 142,160 |
| Strategic Priority Reserve | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 | 240,000 |
| Invest to Save (HRA) | 139,820 | 139,820 | 139,820 | 139,820 | 139,820 | 139,820 |
| De Wint Court Reserve | 73,480 | 73,480 | 73,480 | 73,480 | 73,480 | 73,480 |
| PI Survey | 60,220 | 54,220 | 57,220 | 51,220 | 54,220 | 48,220 |
| Stock Condition Survey (HRA) | 22,340 | 22,340 | 22,340 | 22,340 | 22,340 | 22,340 |
| DRF Reserve | 0 | 65,000 | 130,000 | 195,000 | 195,000 | 195,000 |
| **TOTAL HOUSING REVENUE ACCOUNT** | **1,373,550** | **1,391,010** | **1,428,970** | **1,487,970** | **1,490,970** | **1,484,970** |