APPENDIX A

Medium Term Financial Strategy

2023/24- 2027/28

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Foreword

Welcome to this latest version of the City Council's Medium Term Financial Strategy covering the period 2023-2028.

The City of Lincoln Council is a high-performing and innovative organisation, focussed on providing quality services and delivering outcomes that matter. It's Vision 2025 is an ambitious strategic plan that is helping to transform both the Council and the City through it's five strategic priorities.

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

Much has changed since the Council approved the previous MTFS, with spiralling inflation, soaring energy prices and national pay agreements all adding significant cost pressures to budgets. These are in the main caused by national issues, which are beyond the Council's control and that are impacting all Councils.

In addition, the Council is facing growing demands for some of it's key services as those more vulnerable in the city, a client group that was impacted the hardest during Covid19, look to the council for support as the cost-of-living crisis hits household incomes. Due to Lincoln's specific set of local socio-economic factors this places a greater demand on key services and resource allocation than in most other places.

These new financial challenges come at a time when the Council is still recovering from the detrimental financial effects of Covid19, and after facing a decade of austerity measures. These unforeseen and unavoidable new pressures are though even more severe than the impacts of the pandemic, they are not temporary cost/income pressure spikes that will fall away as the economy stabilises, they represent structural changes in the Council's ongoing net cost base and have required budgets to be reset as part of this MTFS.

Furthermore, there still remains uncertainty around the level of funding for local government beyond the current Spending Review period. The Fair Funding Review and Business Rates reset have the ability to fundamentally alter the course of the MTFS and whilst it has now been confirmed that they will not now be implemented until 2025/26 at the earliest, and the Autumn Statement announced some much-needed additional funding for local authorities, all this has done is to have shifted the financial challenges to the period following the next General Election. In addition, the large national deficit that has arisen as a result of the financial measures the Government implemented during the pandemic and more recently in response to the cost-of-living-crisis, will need to be addressed. This is likely to further impact on the funding available to councils in future years with a risk of a new round of austerity measures.

As a result, there can be no certainty beyond that event 2024/25. Whilst this does provide councils with a two-year financial planning period and some limited and short-term stability, the uncertainty beyond this continues to hamper financial planning.

The Council, and local government as a whole, are yet again having to update their medium-term financial strategies in a very uncertain environment.

Whilst income and expenditure budgets have been revised as part of the MTFS refresh, there still remains a significant level of uncertainty and volatility to the assumptions that underpin these estimates, creating an inherent risk in the MTFS projections.

Despite this significant level of uncertainty, based on what is currently known, or can be reasonably assumed, the Council continues to face a significant and widening gap between the it's spending requirements and the level of resources it estimates to receive. The additional resources announced by the Government for 2023/24 and 2024/25, the delay in implementation of national funding reforms, and the use of earmarked reserves, has provided some financial capacity to smooth the level of reductions required, but it does not alter the underlying need to reduce the net cost base by £1.750m by 2026/27 if the Council is to remain sustainable in the medium term.

The ability to deliver these further, significant, reductions in the net cost base must be set in the context of the Council having already delivered, over the last decade, annual revenue savings of nearly £10m. This is a significant amount in comparison to the net General Fund budget. This has already involved the Council having to take difficult decisions in terms of which services it can continue to provide, whilst minimising the impact on services most needed by local residents and businesses.

The Council still believes that the longer-term approach to closing the funding gap is fundamentally through economic growth and investment. This is ever more critical in light of the crippling effect Covid19 and now the current economic factors have on the local economy. Through Vision 2025 the Council will continue to seek ways to maximise it's tax bases by creating the right conditions for the economy to recover and grow, to increase Business Rates income, and to encourage housebuilding to meet growing demand, generating additional Council Tax. As well as continuing to support this the Council will also seek through direct interventions, such as through; the Town Deal; the Council House New Build Programme; the UK Shared Prosperity Fund and Western Growth Corridor etc, to enhance the economic prosperity of the City.

The delivery of these benefits from economic development cannot however be realised in the short to medium term. They are only likely to yield significant additional resources beyond the life of the MTFS and will not directly contribute towards the required reductions in the net cost base in the short term. In order to deliver the level of savings required over the period of this MTFS, the Council will continue to adopt a range of options, but given the scale of the financial challenge the Council faces, it will have little choice but to face some difficult decisions about the size and scope of the essential services it will continue to provide. It will need to review and revisit its investment priorities, beyond Vision 2025, and will be forced to look closely at the service it provides and will inevitably have to stop some of these to balance the books.

Any further service cuts and revisions to investment plans, above those that have already been taken over the past decade, will have even more far reaching and detrimental impacts on the City's residents and businesses. This will come on the back of the current cost of living crisis, a time when the support of the Council is needed more than ever to support not only those who rely upon the safety net of local government but also whilst the Council is still supporting the rebuilding of the local economy.

Closing a projected budget gap of this size is a challenge for the Council, but the Council has confidence in it's track record of delivering strong financial discipline and that it can continue to rise to the challenge. It's successful financial planning 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. The Council will continue to adopt this approach, carefully balancing the allocation of resources to Vision 2025 and future investment plans, whilst ensuring it maintains a sustainable financial position and delivers the required reductions in its net cost base.

Jaclyn Gibson, FCCA
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 currently has five 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 as the Council develops its key plans and strategies it has a sound understanding of the organisations longer term financial sustainability which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints.

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

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

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

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

Objectives

In response to the impact that current economic conditions are having on the Council's finances and the inherent uncertainty in financial planning, the existing objectives of the MTFS have been reviewed to ensure they remained relevant. The key overriding objective continues to be;

- To continue to drive down the net cost base, in line with available resources, to ensure the Council maintains a sound and sustainable financial base, delivering a balanced budget over the life of the MTFS;

The further objectives that the MTFS seeks to achieve are as follows:

- To ensure the Council uses its reserves and balances carefully, seeking to maintain robust levels and replenishing where necessary, to address any future risks and unforeseen events without jeopardising key services and the delivery of outcomes;

- To seek to maximise income levels, including maintaining in the short term and growing over the medium term, the Council Tax and Business Rates tax bases, whilst ensuring that Council Tax rate increases are kept an acceptable level;

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

- To ensure the Council provides efficient, effective and economic services which demonstrate value for money.

Policy and Financial Planning Framework

The Council's Strategic Plan, Vision 2025 is the thread that links the Council's integrated policy and financial planning framework. It is underpinned by the MTFS, which aims to ensure that all financial resources are directed towards delivery of the vision and flows through to the Council's other key plans and strategies, service planning and individual staff performance appraisals. This ensures that the Council's vision and strategic priorities drive the activity and allocation of resources of the Council.

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

Section 2 – Context

In order to set the framework for the Council's approach to policy and financial planning it is important to understand the overall national policy context, and economic conditions as well as the policy and delivery priorities for the Council over the MTFS period.

Economic Climate

The UK's economy is currently in a precarious position and is dominated by the rising cost of living pressures for UK households, with surging energy costs and food supply shocks, driving high inflation, weak growth and rising interest rates.

Inflationary pressures have been mounting in the UK economy over the past year, largely due to the war in the Ukraine, the effects of Covid19 and Brexit, but specifically due to a number of factors, including increasing energy prices; petrol and diesel prices, food prices, the cost of raw materials, household goods and furniture, the cost of hotel and restaurant prices and higher mortgage costs due to increased interest rates. Consumer price index (CPI) inflation crept above 11% in October 2022, although has slightly fallen back to 10.5% in December. The October level of 11.1%, a 40-year high, is expected to have reached the peak, although this would have been a further 2.5% higher without the Energy Price Guarantee, with encouraging signs that oil and food prices have already fallen back. The Office of Budget Responsibility's (OBR's) November 2022 forecast estimates that inflation will drop sharply over the course of 2023 and will potentially be dragged below zero in the middles of the decade, before returning to its 2% target in 2027.

In response to this rampant inflation and in an effort to bring inflation back down to the target rate of 2%, the Bank of England has tightened monetary policy more quickly than expected. Following an emergency rate cut in March 2020 the Bank of England Base Rate had been at a 325-year low of 0.1%. However, in December 2021, the Bank voted to raise interest rates by 0.15% to 0.25%, this was followed by further increases of 0.25% in March, May and June 2022. With the inflationary pressures continuing to intensify, further increases of 0.5% were applied in August and September with a 0.75% increase in November (the biggest hikes in 27 years) and further increases of 0.5% in December and February 2023. The Base Rate currently stands at 4%, it's highest level since 2008. The Bank of England will next meet to vote on interest rates on 23rd March 2023. Current forecasts are that the base rate will hit 4.25% by March 2023 and potentially as high as 4.5% by mid- 2023, falling back to just over 3.75% in three years time.

With high inflation and rising interest rates weighing on demand, the OBR expected the economy to enter a recession (defined as two consecutive quarters of contraction) lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in output of 2.1%. Based on more recent data the Bank of England's latest forecast anticipate a shallower peak-to-trough drop of 1% with the recession starting in quarter one of 2023 and lasting five consecutive quarters. GDP for the third quarter of 2022, showed output declining by 0.3% and although this was expected to fall further in the fourth quarter, initial estimates now expect growth of 0.1%, staving off the UK entering a technical recession. Annual GDP growth in 2022 as a whole is expected to be around 4.1%. GDP is expected to fall by 0.6% in 2023. As energy prices and inflation drop, and short-term interest rates fall back from their peaks, annual GDP growth is estimated to pick up to 0.9% in 2024, with stronger growth anticipated in 2025 and 2026.

The impact of these significant economic shocks has led the UK's economic and fiscal outlook to deteriorate significantly since the Spring Statement, announced in March 2022. They have taken much of the impetus out of the global economic recovery from the pandemic and ratcheted up the financial pressure on governments (such as the UK) that emerged from it with higher debt and are again being called upon to help households and businesses through this latest crisis. Debt interest spending is now expected to reach a record £120.4 billion this year.

These factors have contributed to a significant gap opening between the funds the government receives in revenue and its spending. Difficult decisions are necessary to put the public finances back on to a sustainable footing in the medium term, with an imperative of ensuring that the national debt falls as a proportion of the economy over the medium term.

National Priorities

Following two years of single-year Spending Reviews, with 2019 being a single year due to the political turbulence around Brexit, and 2020 being a single year given the pandemic, the Government set out it's first return to multi-year spending reviews in Autumn 2021. The SR21 set out the Government's intent to Build Back Better, with a key focus on the Levelling Up agenda. Since the publication of the SR21 there has been both political and economic turmoil (as set out above). It was widely expected that, in response to the considerable changes in the economy and inflationary pressures, that the new Government would hold a new Spending Review. However, the Treasury subsequently confirmed that there would be no new Spending Review and SR21 still remained for the period up to 2024/25.

The SR21 provided 3.3% real-terms growth (based on inflation predictions at the time) in departmental budgets between 2022/23 and 2024/25. However, with the inflation estimates being outstripped the funding increases are far less generous than intended. The Institute for Fiscal Studies (IFS) forecast that price rises will erode 60% of the planned increase in departmental budgets and that to match the real-terms funding increase pledged last year, the Government would need to allocate a further £44bn over the period up to 2024/25.

It was against this backdrop, that the new Chancellor of the Exchequer delivered his Autumn Statement, in November 2022. The Autumn Statement responded to the OBR forecasts and sets out the medium-term path for public finances.

This follows the previous Chancellor's Growth Plan announcements in late September 2022, the majority of which have since been rolled back – with the notable exception that the Health and Social Care Levy has been, and remains, cancelled.

The government's priorities are stability, growth and public services. Economic stability relies on fiscal sustainability – and the Autumn Statement sets out the government's plan to ensure that national debt falls as a proportion of the economy over the medium term. This will reduce debt servicing costs and leave more money to invest in public services; support the Bank of England's action to control inflation; and give businesses the stability and confidence they need to invest and grow in the UK. To achieve this aim, the government has reversed nearly all the measures in the

Growth Plan 2022. The Autumn Statement sets out further steps on taxation and spending, ensuring that each contributes in a broadly balanced way to repairing the public finances, while protecting the most vulnerable.

The Chancellor has set two new fiscal policy rules which guide the Autumn Statement:

- Public sector net debt (excluding the Bank of England) needs to be falling as a percentage of GDP by the fifth year of the rolling forecast; and

- Public sector net borrowing (the deficit) needs to be below 3% of GDP by the fifth year of the rolling forecast.

To meet both of those rules, the Autumn Statement delivers public finance measures related to tax and spending worth £55 billion by 2027/28. Of this, around £30 billion is related to spending policy decisions and £24 billion through tax policy decisions. The majority of the decisions on spending make an impact after this Spending Review period (with extra spending committed in this Spending Review period) and the extra tax revenues phase in gradually over the forecast period.

The Autumn Statement confirms that departmental DEL budgets in 2023/24 and 2024/25 will be maintained at least in line with the budgets set at the Spending Review.

At Spending Review 2021, departments were also provided with funding to cover employer costs of the Health and Social Care Levy. As the Levy is no longer being introduced as a separate tax from April 2023 and departments will not face these additional costs, their budgets have been adjusted to remove this compensation.

After this Spending Review period, departmental resource spending will grow at 1% a year in real terms. Departmental capital spending will continue at the same level in cash terms.

To help identify further savings in departmental budgets, the government is launching an Efficiency and Savings Review. The Review will target increased efficiency, reprioritise spending away from lower-value programs, and review the effectiveness of public bodies. Savings will be reinvested in public services, and the government will report on progress in the spring.

Other specific announcements with a direct impact on Local Government included:

- The national rollout of social care charging reforms has been delayed from October 2023 to October 2025. Funding for implementation will be maintained within local government to enable local authorities to address current adult social care pressures.

- Up to £2.8 billion in 2023-2024 in England and £4.7 billion in 2024/25 will be made available to help support adult social care and discharge. This includes £1 billion of new grant funding in 2023/24 and £1.7 billion in 2024-25, further flexibility for local authorities on council tax and delaying the rollout of adult social care charging reform from October 2023 to October 2025.

- £1.3 billion in 2023/24 and £1.9 billion in 2024/25 will be distributed to local authorities through the Social Care Grant for adult and children's social care

- £600 million will be distributed in 2023/24 and £1 billion in 2024/25 through the Better Care Fund, with the intention of getting people out of hospital on time into care settings, freeing up NHS beds

- £400 million in 2023/24 and £680 million in 2024/25 will be distributed through a grant ringfenced for adult social care which is also intended to help to support discharge

- The government will provide local authorities in England with additional flexibility in setting council tax, by increasing the referendum limit for increases in council tax to 3% per year from April 2023. In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2% per year. The previous policy, set at the 2021 Spending Review, was for a general limit of 2%, with an extra 1% for adult social care.

- From 1 April 2023, business rates bills in England will be updated to reflect changes in property values since the last revaluation in 2017. A package of targeted support worth £13.6 billion over the next five years is intended to support businesses as they transition to their new bills. Local authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs. Elements of this package are as follows:

    - The business rates multipliers will be frozen in 2023-24 at 49.9p and 51.2p, preventing them from increasing to 52.9p and 54.2p. This is worth £9.3 billion over the next five years.

    - Upwards Transitional Relief will cap bill increases caused by changes in rateable values at the 2023 revaluation. This £1.6 billion of support will be funded by the Exchequer, rather than by limiting bill decreases, as at previous revaluations. The ‘upward caps’ will be 5%, 15% and 30%, respectively, for small, medium, and large properties in 2023/24, and will be applied before any other reliefs or supplements. The caps will increase in later years of the scheme. The Government has responded to its consultation on the transitional relief scheme.

    - Retail, Hospitality and Leisure Relief - support for eligible retail, hospitality, and leisure businesses is being extended and increased from 50% to 75% business rates relief up to £110,000 per business in 2023/24. Around 230,000 RHL properties will be eligible to receive this increased support worth £2.1 billion.

    - Bill increases for the smallest businesses losing eligibility or seeing reductions in Small Business Rate Relief (SBRR) or Rural Rate Relief (RRR) will be capped at £600 per year from 1 April 2023. This is support worth over £500 million over the next three years and is intended to protect over 80,000 small businesses, who are losing some or all eligibility for relief. This is intended to ensure that no small business losing eligibility for SBRR or RRR will see a bill increase of more than £50 per month in 2023/24.

- At Autumn Budget 2021, the government announced a new improvement relief to ensure ratepayers do not see an increase in their rates for 12 months as a result of making qualifying improvements to a property they occupy. This will now be introduced from April 2024. This relief will be available until 2028, at which point the government will review the measure.

- The government is limiting the increase in social housing rents. Under current rules, rents could have risen by up to 11.1% – but now they will only be able to rise by a maximum of 7% in 2023/24. This policy change applies to social housing provided by Registered Providers (including Local Authorities and Housing Associations). However, Supported Housing provided by Registered Providers will be excepted from having to comply with this policy; therefore rents will be allowed to rise by up to CPI+1% in 2023-24 for this accommodation.

- The Autumn Statement confirms that the second round of the Levelling Up Fund will allocate at least £1.7 billion to priority local infrastructure projects., although details of the specific projects were not announced.

- The government has agreed new mayoral devolution deals with Suffolk County Council, and will shortly be agreeing a mayoral deal with Cornwall Council and an expanded mayoral deal with local authorities in the North East of England. It is stated that good progress is also being made towards signing a deal with Norfolk County Council. Once agreed, these deals, taken together, will increase the proportion of people living under a directly elected mayor with devolved powers in England to over 50%.

- The government's plans to create a new housing element of Pension Credit to replace pensioner Housing Benefit are now intended to take effect in 2028/29. Eligible pensioners will continue to receive Housing Benefit.

- £1 billion will be provided to enable the extension of the Household Support Fund in England over 2023/24. The Fund is administered by local authorities who will deliver support to households to help with the cost of essentials. National Living Wage

- Following the recommendations of the independent Low Pay Commission (LPC), the government will increase the NLW for individuals aged 23 and over by 9.7% to £10.42 an hour from 1 April 2023.

- A HM Treasury-led review of the Energy Bill Relief Scheme will determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023. The government states that, whilst it recognises that some businesses may continue to require support beyond March 2023, the overall scale of support the government can offer will be significantly lower, and targeted at those most affected

Ahead of the Autumn Statement predictions pointed towards tens of billions in tax rises and spending cuts to repair the public finances, at a time when households, businesses and the public sector are already facing the highest inflation in 40 years.

Whilst this is still likely to be the case, the Statement lays out a four-year plan in two distinct parts.

The first two years will see government funding for the NHS, schools and local authorities increased, and in the case of local authorities, quite substantially (although most of this is channeled through social care). On top of up to 5% increases in council tax, and CPI inflation-linked increases in income from the business rates retention scheme, councils' funding is set to increase by around £5bn next year and a further £4bn in 2024–25. This does assume though that councils make full use of their council tax-raising powers, which does pass the burden on to residents, and may have an indirect impact on local authorities.

Using the measure of inflation usually used to calculate real-terms changes to public spending this would suggest councils' funding will grow by around 5 to 6% in real-terms next year and the year after. That would mean an increase of around 17 to 19% in real terms over the five years between 2019/20 to 2024/25, undoing a substantial element of the 2010s cuts.

However, despite this more manageable position over the next two years, much of the tougher decisions have been shifted into the next Spending Review period, starting in 2025/26.

Given spending on the NHS is set to increase by 3% a year above inflation, and there are commitments on defence and development assistance, there is likely to be real-terms cuts to many other areas. The Office for Budget Responsibility has forecast real-terms cuts of almost 1% per year to other areas of spending given current plans.

Local government bore the brunt of austerity in the 2010's, and whilst social care may offer some protection in the next Spending Review, it is unlikely local authorities will avoid the severe funding reductions that will required as part of the wider need for spending restraint.

The timing of these two distinct periods coincides with the next General Election, with the latter two years subject to change by an incoming government. As a result, there can be no certainty beyond that event. Whilst this does provide councils with a two-year financial planning period and some limited and short-term stability, the uncertainty beyond 2025/26 and the potential for new austerity measures, continues to hamper financial planning.

Fair Funding Review and Business Rates Reset

Whilst the Spending Review sets the overall quantum for local government funding the specific allocation of funding to individual authorities is affected by a number of mechanisms.

Recent research by the Institute for Fiscal Studies demonstrated how these systems for allocating councils' general and public health funding were not fit for purpose. There is little link between assessed spending needs and actual funding. And spending needs assessments are based on data sometimes up to 20 years old.

A planned Review of Relative Needs and Resources (the 'Fair Funding Review') and a planned reset to business rates growth are the two key reforms, which will have significant funding implications for local authorities. The history of these reforms goes back a number of years; in 2012, before the introduction of business rates retention, the Government promised a reset of accumulated business rates growth in 2020. In

2016, they promised a review of the needs assessment formula which would be used in re-allocating the accumulated growth between councils. In 2018, they published major consultation documents on all this, for implementation in 2020/21. Since then, implementation has been successively delayed primarily due to Covid19 and Brexit.

The Fairer Funding Review is expected to deliver both a new set of formulas for estimating the relative spending needs (the current formulas are based on spending needs from 2013/14) of different local authorities, and a more rational overall funding system that better takes into account spending needs and revenue-raising capacity. The Review should establish new baselines at the start of a reset to the Business Rates Retention scheme. Although previous technical consultations had been published, prior to the pandemic and current economic and cost of living crisis, which indicated a shift in resources from district councils towards statutory social services at county and unitary level, there has been no new consultation on any proposed new formula. Until further consultations are announced there remains significant uncertainty as to the direction and impacts of the Review.

A Business Rates Reset was also set to be introduced alongside the Fair Funding Review. A full business rate baseline reset of accumulated growth is expected to take place, with the intention of better reflecting how much local authorities are actually collecting in business rates. This reset has the effect of wiping out any business rate gains that individual authorities have built since the launch of the current system in 2013/14. This has significant financial implications for the majority of local authorities, for those below their baselines this would be a positive move, but it presents a serious threat to those with high growth above baselines, with a punitive, cliff-edge reset.

In announcing a 2023-2025 Policy Statement on Local Government Finance it was confirmed that these reforms will not be implemented in this Spending Review period, however the government remains committed to improving the local government finance landscape in the next Parliament.

At the earliest, implementation will now be until 2025/26 or realistically, depending on the timing of the General Election and the appetite of the new government for reform, until perhaps 2026/27, just as a new round of austerity is pencilled in to begin

Levelling Up and Regeneration Bill

The Government's Levelling Up and Regeneration Bill was published in May 2022. The Bill, which is now at the Committee stage, will put the foundations in place for delivering the Government's agenda to devolve power and give local leaders and communities the tools they need to make better places. This is a key component in the wider programme to level up the county as set out in the Levelling Up White Paper, published in February 2022. As well as delivering against some of the ambitions set out in the Levelling Up White Paper, it also incorporates some of the proposals for planning reform outlined in the earlier Planning for the Future White Paper (August 2020), where they support the approach to Levelling Up.

The Bill provides actions across four key objectives:

- Providing a legal basis for setting and reporting the levelling up missions that the government outlined in the Levelling Up White Paper. The aim of these missions is to reduce spatial disparities and, by providing a legal framework, progress these across a series of metrics that will be reported to Parliament.

- Devolving powers to all areas in England that want them, providing more control over budgets, transport and skills. Within this a key component is the introduction of new devolution structures in particular providing opportunities for County wide devolution deals and the simplification of existing devolution arrangements.

- Empowering local leaders to regenerate towns and cities. This will encompass a range of measures to support the re-development of previously developed land; to fill vacant commercial property; provide enhanced powers of compulsory purchase; and increase council tax paid for empty property and on second homes thereby both encouraging greater use of existing stock and potentially raising revenue to support the delivery of local services.

- Improving the planning process. Measures will focus around the quality of design; the development of appropriate infrastructure; and increasing local engagement with the planning process including involving neighbourhoods in the shaping of their communities and attempting to generate better environmental outcomes

The Levelling Up and Regeneration Bill will put the foundations in place for delivering against these objectives and ensuring all parts of the country share equally in the nation's success. The government intends that the objectives they have outlined and the measures that are included within the Bill will be delivered through a range of programmes, including more power to local leaders; a Plan led system; introducing a simple and non-negotiable locally set Infrastructure Levy; regeneration, market reform; ensuring new development meets clear design standards; and digital transformation.

The Bill is therefore wide ranging in both introducing new and amending existing powers. Much of the Bill will impact on structures, governance and technical arrangements in attempting to achieve the broad objectives of regeneration and levelling up. In most instances the Bill is not intended to produce immediate and direct financial consequences. However, there are some measures that do specifically relate to resourcing issues in terms of; devolution funding; empty and second homes; Infrastructure Levy; and capital finance risk.

The series of next steps in bringing forward relevant secondary legislation will undoubtedly have implications for the Council.

Local Priorities

City Profile

Lincoln is a cathedral city, and is one of the oldest cities in Britain, with an estimated population of around 103,900 taken from the recent Census undertaken in 2021. Lincoln also ranked the fourth most densely populated local authority area out of 35 across the East Midlands in 2021.

Although the population of Lincoln is estimated at over 100,000, many non-Lincoln residents visit the city during the daytime, boosting the local economy but also putting immense pressure on local services and infrastructure.

In the last ten years, from 2011 to 2021, Lincoln has seen 11.1% increase in the number of people who live here and subsequently the number of usual residents in Lincoln per square kilometre increased by 290 to 2,911 between 2011 and 2021.

As expected, a high level of the population continues to fall within the younger age bracket. In 2020-2021, there were 17,565 students at the University of Lincoln and 2,465 students at Bishop Grosseteste University.

In Lincoln as a whole, the most common age group shown in the Census 2021 was 20-24, 13.1% of the population, which was an increase from a figure of 12.0% recorded in the Census 2011.

The largest change in population in Lincoln as shown in the Census 2021 was in the age group 70-74, which saw an increase of 33.2% in population (996 people) between 2011 and 2021. The age groups 5-9 (+25.5%), 20-24 (+21.5%), 30-34 (+21%) and 55-59 (+26.4%) also saw relatively large increases

In comparison, the age group 45-49 saw the largest decrease in population in Lincoln by 9.4% (581 people) during the ten year period. The age groups 0-4 (-7.5%), 25-29 (-0.2%), 40-44 (-1.7%), 80-84 (-3.6%) and 85-89 (-2.6%) also saw decreases in population between these years.

In terms of the economy, the city continues to face a number of challenges. Before the pandemic the City's business base had been growing consistently for some years, with almost 90% of new businesses surviving their first year in 2020/21. Throughout the pandemic the Council worked hard to mitigate business failure and unemployment rates, distributing grants to businesses, working with partners across the City to support the High Street, through direct investment in the City and progression of the Towns Fund bid as well as other measures.

Nevertheless, lockdowns and ongoing restrictions have had a major impact on the local economy with many businesses forced to close or make staff redundant. As of August 2022, 10,760 residents within the city were claiming Universal Credit, of which 6,137 were not in employment and 4,623 were in employment.

However, during 2021, we have seen median gross annual pay rate rise for part time workers, however, the median gross annual pay rate for full time workers has decreased. We have 79% of 16-64 years old's who are economically active, and a 'job density' (the level of jobs per resident) of 0.9, which is higher than both the East Midlands and England rates.

The number of Local Council Tax Support claimants had reduced year on year since 2013, but for the first time in 2020 we saw a rise in claimants. As of 2022, we had 8,451 claimants – a decrease of 531 on the previous year.

As of November 2022, 0.4% of properties fall within council tax bands G and H, and 80% fall within the lowest bands A or B. 19.6% of properties fell within the remaining council tax bands of C, D, E and F.

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

Both male and female life expectancies continue to be lower than national averages between 2018-2020 with male life expectancy decreasing to 76.1 years, a decrease of 0.8 years compared to 76.9 years reported in 2017-2019. However, female life expectancy increased slightly from the 2017-19 figure of 80.6 years to 80.9 years in 2018-2020, an increase of 0.3 years. Under 75 mortality rates of heart disease and cancer have seen an increase and Lincoln still ranks high amongst our nearest neighbours.

The Census 2021 recorded that there were approximately 42,500 households in the city which has increased since the last Census undertaken in 2011 which reported a figure of 39,825 households. City of Lincoln Council is landlord to approximately 7,800 of these, with more than 1,000 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.

The cost-of-living crisis along with the ongoing impact of Covid19 is being felt, and will continue to be felt hardest, by the most vulnerable members of the City. Those who are the most economically disadvantaged have experienced the pandemic differently as it interlinks with existing health inequalities and social conditions and increases that existing adversity: financial difficulties, unemployment, loneliness, social isolation, have been intensified by the pandemic.

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, its strategic priorities and its response to the recovery of the City and its economy following the impact of the pandemic and now the economic shocks that are being felt.

Vision 2025

The Council's Vision 2025 sets out its vision for the future of the City, strategic priorities and core values.

The Council's current vision for 2025 is;

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

Underpinning this vision are five strategic priorities, each with a number of supporting aspirations. The aspirations are in turn supported by groups of projects that have been delivered by the Council and it's partners throughout the five year programme. The five current strategic priorities are:

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

These five strategic priorities will be supported in Vision 2025 by a programme called One Council. One Council is made up of the following pillars:

- Organisational development
- Best use of assets

- Technology
- Create value processes

It aims to put the customer at the heart of everything the Council does, understanding their needs, wants and preferences. One Council will also define how the Council will need to work in the future to meet those changing demands and to work in an effective and efficient way.

Additionally, the vision includes a set of core values 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

The detail of what needs to be done each year to work towards the end goal of the vision, is set out in a specific Annual Delivery Plan, in which individual projects are agreed for each priority.

A mid-term review of the proposals in the vision was undertaken in 2021/22. This review was an opportunity to review and relaunch Vision 2025, following the Covid19 pandemic, and to ensure that the actions taken to meet the priorities will help tackle the needs of the City's residents and businesses. As part of this work, the effect of Covid19 on the physical and mental health of residents was considered – and as a result resources were refocused towards prevention and addressing those areas, including health inequalities, that will be needed most in the next three-year period.

In addition, a change now in place is that instead of an annual delivery programme, a three-year plan was developed which will be resourced as appropriate over the three-year period to 2025.

The three-year ADP includes a significant amount of new investment, primarily of a capital nature, aimed at supporting the economic prosperity of the City and is largely funded through external grant funding. In addition, through the refocusing of existing resources and allocation of the Vision 2025 earmarked reserve, there are also a number of revenue schemes. Critically though, the ADP also recognises the need to continue to reduce the Council's net cost base alongside the further new investment to support the priorities.

Section 3 – Revenue (General Fund)

Impacts of current economic factors and cost of living crisis

Much has changed since the previous MTFS was approved in March 2022, with spiralling inflation, soaring energy prices and nationally agreed pay proposals adding significant cost pressures to the Council's budgets. These are in the main part caused by national issues, beyond the Council's control, and are impacting all Councils. In addition, the current cost of living crisis has the potential to increase demand for the Council's services by those who rely on the safety net provided by local government. These unforeseen and unavoidable pressures have seriously impacted the assumptions that underpin the MTFS and have required budgets to be reset.

These escalating costs are across a number of key areas affecting day to day services and include;

- Pay inflation - the payment settlement for 2022/23, as agreed by the National Employers side, whilst recognising the below inflation pay increases of local government workers in recent years, places a significant additional burden on local authorities. Nationally the average pay assumption for 2022/23 was 2.4%, the final pay agreement far outstrips this with increases of 10.5% for the lowest paid grades. This permanently increases the Council's cost base.

- Contractual commitments - the Council has a number of key service contracts, for front line services e.g. waste collection, street cleansing etc that are linked to annual contractual inflationary increases. Given the current and forecast levels of CPI/RPI there are significant cost increases that the Council is now incurring.

- Gas and Electricity prices – utility costs have dramatically increased, gas prices have risen by 70% since April 2022, with further increases of between 180-200% forecasted for April 2023 and with electricity prices increased by 100% from October 2022. Whilst the Council seeks to secure economies of scale through the use of framework agreements, it is not immune to the current escalating cost of energy prices. Whilst the Energy Bill Relief Scheme will provide some support, this is only for a short period of six-months.

In terms of service delivery, the Council is facing growing demands for some of it's key services as those more vulnerable in the city, a client group that was impacted the hardest during Covid19, look to the council for support as the cost-of-living crisis hits household incomes. Due to Lincoln's specific set of local socio-economic factors this places a greater demand on key services and resource allocation than in most other places. This manifests itself directly in the short term through increased demand for; welfare advice; housing benefits; housing solutions, homelessness support etc. Of particular challenge to the Council is the cost of providing homelessness support, with escalating number of cases presenting increasing the cost of providing temporary accommodation. The longer-term impacts in terms of the health and wellbeing of the city's residents, arising from the pandemic and now the cost of living crisis, will continue to shape the MTFS for many years.

These new cost pressures come at a time when the Council is still recovering from the detrimental financial effects (primarily income related) of Covid19 pandemic. In terms of the legacy impact of Covid19, whilst the majority of income areas have now recovered and returned to pre-covid levels there are some that still remain below the level that they would have been had it not been for the pandemic, the most significant of these is car parking income. In addition, the collection of Council Tax income remains challenging with collection rates lower than pre-pandemic levels and which are likely to worse due to the current pressure on household incomes.

These new financial challenges are though even more severe than the impacts of the pandemic, they are not temporary cost pressure spikes that will fall away as the economy stabilises, they represent structural changes in the Council's ongoing net cost base and have required budgets to be reset as part of this MTFS.

Whilst income and expenditure budgets have been revised as part of the MTFS refresh, there still remains a significant level of uncertainty and volatility to the assumptions that underpin these estimates, creating an inherent risk in the MTFS projections.

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 has become extremely difficult in recent years given the Council's financial position and a need to continue to reduce the net cost base.

The three-year Annual Delivery Plan (ADP) for the remaining period of Vision 2025 has been developed following a mid-term review of the proposals in the original vision. This review was an opportunity to review and relaunch Vision 2025 and ensure that the actions taken to meet the priorities will help tackle the needs of the City's residents and businesses. As part of this work, the effect of covid-19 on the health of residents has been considered – and as a result, a new focus on physical and mental health developed for the way forward.

This mid-term review gave the opportunity to refocus resources towards prevention and addressing those areas, including health inequalities, that will be needed most in the next three-year period.

The three-year ADP, through to 2025, includes a significant amount of new investment, primarily of a capital nature, aimed at supporting the economic prosperity of the City and is largely funded through external grant funding. In addition, through the refocusing of existing resources and allocation of the Vision 2025 earmarked reserve, there are also a number of new revenue schemes, including newly added interventions in response to the current cost-of-living crisis. In light of the longer-term financial challenges the Council faces, a continual review of whether alternative funding sources are available to resource the interventions is in place.

Critically though the ADP also recognises the need to reduce the Council's net cost base alongside the further new investment to support the priorities.

Further details of the specific projects and investment of the three-year period to 2025 can be found within the ADP.

Since the time of refreshing Vision 2025 and developing the three-year ADP, the Council has been successful in securing approval of it's UK Shared Prosperity Fund Investment Plan.

The purpose of the UKSPF is to Improve life chances in the city by providing equality of opportunity. The fund gives local leaders the flexibility to use the resources to enhance and support its area and communities to be levelled up. Securing this new funding will contribute towards the Councils strategic objectives by enabling it; to support inclusive economic growth by ensuring that there is equality of opportunity particularly in those communities where levelling up is most needed; to seek to reduce inequality through local interventions; by enhancing the remarkable place by increasing pride in place and community; and reducing the environmental impact particularly around carbon usage. The Council has been allocated £2.811m, of which £2.330m is revenue funding. Work will now commence on finalising the details of the schemes within the Investment Plan.

Spending Assumptions

A review of the financial planning assumptions 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.

Inflation – Pay and Prices

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

	2023/24 % per year	2024/25 % per year	2025/26 % per year	2026/27 % per year	2027/28 % per year
Pay	3.0%	3.0%	2.0%	2.0%	2.0%
CPI	5.0%	3.0%	2.0%	2.0%	2.0%
RPI	6.0%	4.0%	3.0%	3.0%	3.0%
Gas	180.0%	3.0%	2.0%	2.0%	2.0%
Electricity	52.5%	3.0%	2.0%	2.0%	2.0%
Vehicle Running Costs	25.0%	3.0%	2.5%	2.0%	2.0%
Non domestic rates	0%	2.0%	2.0%	2.0%	2.0%

Annual price increases in a number of the Council's contracts are linked to CPI at a defined date in the year, primarily September, December and March. These have specific inflationary increases applied, as opposed to the general, annual increases set out above.

Land Drainage Levies

Local Authorities are required to make payments of Special Levies to Internal Drainage Boards (IDB's) for the specific use of managing the maintenance and operation of drainage, water levels and flood risk, which is required to manage water resources and reduce flood risk to people, businesses, communities and the environment. These Special Levies represent a significant proportion of the Councils' net budget at £1.082m p.a, equating to 14% of the Council Tax Requirement. The annual increase in levies is ordinarily in line with CPI projections, however due to the current economic climate and the significant cost increases borne by the IDB's, inflationary increases ranging from 15% to 29% have been applied for 2023/24.

Employer's Pension Fund Contributions

The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2022, and the results identified that there has been a significant improvement in the funding position since the last actuarial review from a 83.9% funding level to 92.7%.

Although the overall funding level has improved, due in the main to better than expected investment results during the period, it should be noted that this level of investment performance is unlikely to be sustainable over the longer term. The Fund's prudent assumption for future investment is unchanged from the 2019 valuation, however, the economic outlook on the whole is more pessimistic than three years ago.

Overall, the improved funding position has had a positive outcome on contribution rates, reducing secondary payments considerably. However, the cost of accruing future pensions has increased, particularly given the increase in inflation, and that has driven up primary rates from 17.3% of pensionable pay to 23.4%. Whilst the increase in the primary contribution rates, for the existing staff establishment, is offset by the reduction in secondary contribution rates, it will further increase the cost to the Council of any new posts to the establishment.

A further actuarial review will take place in April 2025, which will inform the employer contributions from 2026/27 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. The total interest income received has significantly fallen over the last decade and the average interest rate achieved was barely above base rate. However, interest rates have been volatile during 2022 resulting in a significant increase in investment income. The start of the financial year saw interest rates at 0.75% with a current rate of 4% which is expected to increase further in 2023.

Investments are being kept short and liquid to ensure the Council has enough liquid resources to meet the ongoing challenges post pandemic with a bigger emphasis on 'laddering' investments in a rising interest rate environment. This enables opportunities to consistently improve underlying yield while still allowing flexibility to adjust if market circumstances alter with a regular stream of maturing investments.

Interest rates are forecast to reach 4.5% in Quarter 2 of 2023 according to the Councils Treasury Management advisors. This is reflected in investment income forecasts in the MTFS.

Borrowing costs incurred on any short-term borrowings are minimal and the Council's portfolio of long-term borrowings currently includes 2 loans that are due to be repaid during the coming five financial years. The council has short term loans which mature in 2023, 2024 and 2025. All other loans mature after 2027/28 and are fixed rate loans. Six of these loans have lender options to vary their terms at six monthly intervals.

Sensitivity to changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates. As an indication, a change in interest rates achievable on investments of +/- 0.5% the interest receivable would have an estimated combined impact of approximately £0.148m. A rise of 0.5% in the Bank of England base rate would not translate into a 0.5% increase in investment rates available.

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

	2022/23 %	2023/24 %	2024/25 %	2025/26 %	2026/27 %
Interest Rate	2.90	4.44	3.63	2.69	2.69

Based on the current forecasts for interest payable on new borrowing (averaging around 4.20% in 23/24) and receivable on investments (averaging around 2.90% in 22/23), and the estimated level of balances available for investment, it is currently anticipated that new borrowing will be taken to fund the borrowing requirement for the General Fund over the 5-year strategy. Internal balances will be used to fund the existing borrowing requirement where it remains financially advantageous to do so, reducing the amount of interest that would have been payable on new debt, partially offset by a reduction in interest receivable (due to reduced balances available for investments).

Provision for Debt Repayment

A review of the Council's Minimum Revenue Provision Policy (MRP) has been undertaken in 2022/23. 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'.

As a result of the review the Council's Treasury Management Strategy now proposes a change to the Council's MRP Policy, with effect from April 2022, and the MTFS is predicated on the revised MRP Policy. The key proposed change to the policy is to change from calculating MRP on a straight line basis to one based on an annuity basis. A change to an annuity method could be seen as being equally as prudent as the current method because the time over which the debt liability will be repaid is not being extended, in addition the annuity method provides a fairer charge than the straight-line method since it results in a consistent charge over the asset's life, considering the time value of money. The application of this policy change, to capital expenditure incurred prior to 1st April 2022, will provide £4.1m additional resources over the MTFS period.

Resource Assumptions

Settlement Funding Assessment: Revenue Support Grant/National Non-Domestic Rates

The Local Government Finance Settlement for 2023/24 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.

As in previous years, the Settlement provides authorities with a combination of grant allocations and their baseline figures within the BRR scheme. This means that no retained growth (or decline) is included, and authorities are very unlikely to receive the amounts actually shown in Core Spending Power.

The 2023/24 Settlement is for one year only and is based on the Spending Review 2021 (SR21) funding levels updated for the 2022 Autumn Statement. Whilst the settlement only shows figures for 2023/24, there is scope to forecast 2024/25 amounts, given what is known regarding 2024/25 control totals for funding and the certainty provided regarding the delay to reform of the system.

This Settlement represents a holding position until next Parliament, with the emphasis on providing stability. The ruling out of a business rates reset, or a fair funding review, means that the funding distribution will remain fairly stable (with the exception of the Extended Provider Responsibility funding, which will be a new consideration for 2024/25) further details are set out below.

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 2022/23 and the breakdown across the various funding sources. Overall, spending power will increase by £5.120bn, 9.4%, from £54.541bn to £59.544bn, an overall increase for the period 2015/16 to 2023/24 of 32.9%.

England	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Settlement Funding Assessment	21.250	18.602	16.633	15.574	14.560	14.797	14.810	14.882	15.671
Under-indexing business rates multiplier	0.165	0.165	0.175	0.275	0.400	0.500	0.650	1.275	2.205
Council Tax	22.036	23.247	24.666	26.332	27.768	29.227	30.327	31.742	33.928
Improved Better Care Fund	0	0	1.115	1.499	1.837	2.077	2.077	2.139	2.140

New Homes Bonus	1.200	1.485	1.252	0.947	0.918	0.907	0.622	0.556	0.291
Transition Grant	0	0.150	0.150	0	0	0	0	0	0
Rural Services Delivery Grant	0.016	0.081	0.065	0.081	0.081	0.081	0.085	0.085	0.095
Lower Tier Services Grant	0	0	0	0	0	0	0.111	0.111	0
Adult Social Care Support Grant	0	0	0.241	0.150	0	0	0	0	0
Winter Pressures Grant	0	0	0	0.240	0.240	0	0	0	0
Social Care Support Grant	0	0	0	0	0.410	0	0	0	0
Social Care Grant	0	0	0	0	0	1.410	1.710	2.346	3.852
2022/23 Service Grant	0	0	0	0	0	0	0	0.822	0.483
Market Sustainability & Fair Cost of Care Fund	0	0	0	0	0	0	0	0.162	0
ASC Market Sustainability and Improvement Fund	0	0	0	0	0	0	0	0	0.562
ASC Discharge Fund	0	0	0	0	0	0	0	0	0.300
Grants Rolled In	0.209	0.257	0.248	0.239	0.232	0.232	0.238	0.239	0
Funding Guarantee	0	0	0	0	0	00	0	0	0.133
Core Spending Power	**44.876**	**43.986**	**44.544**	**45.337**	**46.445**	**49.231**	**50.611**	**54.541**	**59.544**
Change %		**-2.0%**	**1.3%**	**1.8%**	**2.4%**	**6.0%**	**2.8%**	**7.8%**	**9.4%**
Cumulative change %		**-2.0%**	**-0.7%**	**1.0%**	**3.5%**	**9.7%**	**12.8%**	**21.5%**	**32.7%**

Although the national level of Core Spending Power is forecast to increase by 9.2% there will be a variation between individual authorities and types of authority. The calculation also contains assumptions around council taxbase changes and increases which may not be reflected in local projections.

Shire Districts, including Lincoln have historically experienced the worst reductions or lowest increases in core spending power, due to changes in distribution methodologies and a redirection of resources towards social care pressures and the allocation of other specific grants towards upper tier or rural authorities. Districts have once again fared the worst of the authority types with an average increase of 5%, Lincoln’s increase is lower than the average at 4.7%. Lincoln’s position is as set out in the table below, this shows a total reduction in core spending power of 5.4% over the eight-year period to 2023/24, with a 4.7% increase for 2023/24.

Lincoln	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
SFA	6.048	5.188	4.543	4.197	3.775	3.837	3.837	3.838	4.132
Council Tax;	5.637	5.916	6.145	6.393	6.679	6.915	6.956	7.360	7.687
Other grants	2.120	2.335	1.709	1.090	0.843	0.924	0.678	1.249	1.374
Grants rolled in	0.140	0.159	0.155	0.144	0.139	0.140	0.152	0.149	0
Core Spending Power	**13.945**	**13.598**	**12.551**	**11.825**	**11.437**	**11.816**	**11.623**	**12.596**	**13.193**
Change (%)									**4.7%**

Settlement Funding Assessment

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

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue Support Grant	2.585	1.698	0.981	0.000*	0.022	0.023	0.023	0.024	0.175
Baseline BR Funding Level	3.463	3.491	3.562	4.197	3.753	3.814	3.814	3.814	3.957
SFA	**6.048**	**5.188**	**4.543**	**4.197**	**3.775**	**3.837**	**3.837**	**3.838**	**4.132**

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

Revenue Support Grant

In terms of the Council's RSG element of the SFA, as a result of the further delay in the implementation of the funding reforms, the figure for 2023/24 announced in the Settlement are at the same level as the 2022/23 allocations uplifted by 10.1% in line with CPI inflation. There have also been a number of grants that have been rolled into RSG using their existing allocation methodology. For the Council this includes the Local Council Tax Support Administration Subsidy grant, which has been rolled in at £0.149m.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
RSG	2.585	1.698	0.981	0.528*	0.022	0.023	0.023	0.024	0.175

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

For 2024/25, it is assumed that RSG will continue and will be uplifted for inflation, with a total grant of £0.185m assumed. Beyond 2024/25 it is assumed that only the element in relation to the rolled in grants will remain, at a level of £0.156m p.a. and that the original RSG element will be subsumed into the funding reforms.

Business Rates Retention

The Council has undertaken an assessment of the amount of business rates that it expects to collect during 2023/24 and based on the principles of the current 50% Business Rates Retention scheme the estimated level of NDR to be retained is set out in the table below.

As a result of a business rate revaluation exercise, a new ratings list will be in place from April 2023. This will not alter the overall level of business rates retained by the Council as the Government will adjust the level of resources retained locally through the top up/tariff to offset any increase/decrease in the local ratings list, so that the effect is cost neutral. The new ratings list was released in late November and showed a reduction of 2.4% in the rateable value of properties within the city.

The level of outstanding appeals continues to create a high level of uncertainty both in respect of the outstanding appeals from the 2010 ratings list, already lodged with Valuation Office, but also in relation to appeals against 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 appeals. The current provision of outstanding appeals stands at £5.167m, of which the Council's share is £2.067m. In relation to the 2017 list, Government has stated that it intends the last day on which ratepayers will be able to initiate the appeal process will be 31st March 2023. 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. As a new ratings list will be in place for 2023/24, a new assessment of the level of likely appeals, based on national assumptions and local experience, has been undertaken. This has concluded that a annual reduction of 3.5% of rateable income should assumed for future appeal losses.

For 2023/24 the Council along with the County Council, who are a top up authority, and the six other Lincolnshire District Councils have received designation to act as a BR pool. The benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. The arrangements for the current pool are that this retained levy is allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The estimated benefit of this to the Council is £0.488m in 2023/24. As the BR Reset will not now happen until 2025/26 at the earliest, it has been assumed that the BR pool will remain in place for 2024/25, with a further benefit of £0.513m to the Council.

An adjustment has however been made from 2025/26 onwards to remove the gains that are currently received from pooling as it is uncertain whether pooling will exist following the Reset.

Beyond 2024/25 forecasting the level of Business Rates income to be retained is extremely challenging due to a lack of clarity around the proposed reset of baselines and changes to the level of underlying need. These reforms, if implemented, will though wipe out the accumulated gains the Council has achieved since the launch of the current system in 2013/14 and return income to the Council's baseline levels. In 2023/24 the accumulated growth to the Council is c£1.5m p.a.

Until further announcements are made, the MTFS is based on a continuation of the existing 50% scheme, and BR pool in 2023/24 and 2024/25 and then, prudently, from 2025/26 assumes a full reset of baselines with only a small element of assumed redistribution of the national pot to reflect changes in the Council's underlying level of need. These forecasts will continue to be assessed if/when further information regarding the design and implementation of the reforms are 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	**2023/24 £m**	**2024/15 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**
Forecast retained Income	6,125	6,452	4,900	5,203	5,389

As set out throughout this MTFS, the potential funding reforms to be implemented from 2025/26 onward. 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.

New Homes Bonus

The New Homes Bonus grant was introduced in 2011/12 and rewards local authorities based on the levels of new homes being built, particularly affordable homes, and empty properties returned into use. This grant is top sliced from the overall national level of funding for local government which creates a direct incentive for local authorities to promote growth and development or else risk a reduction in resources.

Previously Government announced that a Spring 2020 consultation on the future of the New Homes Bonus scheme would be undertaken, stating that 'it is not clear that the NHB in its current form is focused on incentivising homes where they are needed most' and the consultation will 'include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance'. Due to Covid19 this consultation was delayed until February 2021.

The consultation, when launched, focused on a continuation of the scheme but with reform of some of the key elements of the existing scheme, including:

- raising the baseline percentage
- rewarding improvement on average past housing growth
- rewarding improvement or high housing growth
- support infrastructure investment in areas with low land values
- introducing a premium for modern methods of construction (MMC)
- introducing an MMC condition on receipt of funding
- requiring an up-to-date local plan

An announcement on the outcome of the consultation was expected as part of the 2022/23 Settlement. However, no such announcement was made, presumably due to a delay in other funding reforms and a further years allocation for 2022/23 was instead announced.

As part of the Local Government Finance Policy Statement, it was announced that there would be a new round of NHB payments in 2023/24. There will be no changes to the calculation process from 2022/23 except the expiration of legacy payments.

The Council's allocation for 2023/24 is £0.224m.

The Policy Statement also announced that the Government would set out the future position of New Homes Bonus ahead of the 2024/25 local government finance settlement. The MTFS does not assume any grant allocations beyond that announced for 2023/24.

Services Grant

This grant, previously described as a one-off in 2022/23, remains in the Settlement with it's previous distribution methodology, based on existing formula for assessed relative need across the sector, using 2013/14 shares of SFA. The grant is intended to provide funding to all tiers of local government in recognition of the vital services, including social care, delivered at every level of local government.

Although the grant remains and the methodology is unchanged, the total amount of grant has reduced from £822m to £464m, this is to adjust out the resources allocated to fund the pressures of the increased National Insurance contributions, which have now been cancelled, to fund an increase to funding of the Supporting Families Programme and to fund other parts of the Settlement. It is as yet unclear what will happen to the grant from 2024/25, however the MTFS assumes that the allocation for 2023/24 will remain for 2024/25 and thereafter.

The Council's allocation for 2023/24 is £0.154m

Minimum Funding Guarantee

This new grant for 2023/24 is intended to provide a funding floor for all local authorities, so that no local authority will see an increase in core spending power that is lower than 3%, this is before any decision they make about organisational efficiencies, use of reserves, and council tax levels.

The Council's allocation for 2023/24 is £0.321m. The MTFS assumes a grant allocation at the same level for 2024/25 but does not assume any grant allocation beyond this.

Extended Producer Responsibility

It has also been announced that the 2024/25 settlement will include a new funding stream for local authorities, subject to successful delivery of the Extended Producer Responsibility for packaging (EPR) scheme, as soon as is feasible within this financial year. Councils are to expect to receive additional income from the scheme, whilst being asked to submit data relevant to their waste collection services.

An assessment of the impact of additional EPR income on the relative needs and resources of individual local authorities will be undertaken during 2023/24, with the government set to review the 2024/25 position of funding for lower tier authorities, given the possible interactions with the EPR scheme.

Until further details of the scheme are made available it is not possible to assess the implications for the Council. In addition there are a number of additional responsibilities for local authorities arising from the Environment Act which are likely to have interlinkages with any new funding allocated.

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 they are giving local authorities in England additional flexibility in setting Council Tax by increasing the referendum limit for increases in Council Tax to 3 per cent per year from April 2023. In addition, local authorities with social care responsibilities will be able to increase the adult social care precept by up to 2 per cent per year. This will give local authorities greater flexibility to set Council Tax levels based on the needs, resources and priorities of their area, including adult social care.

In light of the financial position of the Council and in accordance with the referendum thresholds to be applied for 2023/24, the MTFS assumes the following indicative council tax increases and subsequent overall yields:

	2023/24	2024/25	2025/26	2026/27	2027/28
% Increase	2.90%	1.90%	1.90%	1.90%	1.90%
Council Tax Base	25,249	25,767	26,161	26,560	26,943
Council Tax Yield	£7.556m	£7.857m	£8.128m	£8.410m	£8.693m
Band D	£299.25	£304.92	£310.68	£316.62	£322.65
Band D £ Increase	£8.72	£5.67	£5.76	£5.85	£6.03

For 2023/24 the Council Tax amount for a Band D property (excluding County Council and Police Authority precepts) is £299.25, a 2.90%/£8.72 increase from 2022/23.

Following implementation of the localised council tax support scheme (LCTS) 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.

Since the introduction of the scheme in 2013 the number of claimants had as at April 2020 decreased by over 20%. However, during 2020/21, as a result of Covid19 and the impact on household incomes, the caseload significantly increased, peaking at 5.9% in September 2020. The caseload then plateaued somewhat before beginning to fall and has now returned back to pre-pandemic levels, this is much earlier than had been assumed in the current MTFS. But, with the now ongoing cost of living pressures on household incomes there is the potential that the number of claimants may begin to increase again.

Fees and Charges

The fees and charges levied by the Council are an important source of income, however, the impact of Covid19 has had a significant detrimental impact on fees and charges income over the last few years, with monthly levels plummeting across a range of discretionary services as a result of multiple lockdowns and the impact on the economy and the uneven path to recovery. Although many of the discretionary income areas have, or continue, to bounce back there are some income areas that are unlikely to ever return to their pre-covid levels, the largest of these reductions being in car parking income. This is as a result in a change in people’s habits and preferences as well as the way businesses operate.

This pressure is further compounded by the current cost-of-living crisis and economic factors affecting household incomes and overall growth in the economy and business activity, this is beginning to impact on certain sources of fees and charges income, such as building regulations and development control.

As part of the normal, annual, budget cycle fees and charges income budgets are usually increased by 3% per annum for their total yield, however this year an increase in the overall yield of 5% has been applied. This increase of 5% does not preclude individual fees and charges being increased by more or less than 5%. Due to the impact of Covid on these income sources each area of fees and charges income has be assessed to model the likely impact of Covid on overall yield levels and the level of increase that can be sustained for each individual fee and charge.

The MTFS assumes that the Council will raise £12.116m from fees and charges in 2023/24. The mean average overall increase in the non-statutory fees and charges is 5.3%, however this includes some fees that have been increased by higher and lower percentages, the modal increase is 0%

Bridging the Gap

The previous MTFS 2022-27 was based on a savings target of £1.3m in 2023/24, increasing to £1.5m from 2024/25 onwards, of which c£0.750m remained to be delivered at the time the MTFS was approved in March 2022. Since then, work has continued on implementing the programme, with progress against the targets as follows:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Savings Target MTFS 2022-27	1,300	1,500	1,500	1,500
Savings secured/business case approved	(956)	(981)	(1,006)	(1,024)
Savings subject to business case	(185)	(225)	(228)	(236)
Balance of savings outstanding	**159**	**295**	**266**	**240**

Despite this positive progress against the existing targets, as a result of the unavoidable cost and demand pressures that the Council is now facing, the Council is yet again in the position of having to underpin the MTFS on a further savings target. Whilst there are still a significant number of uncertainties and variables in the Council's financial planning assumptions, what is certain is that the Council is still facing a significant financial challenge, one which it must address if it is to remain financially sustainable in the medium term.

Confirmation that the national funding reforms will not now take place until 2025/26, at the earliest, and that the accumulated business rate growth will instead be retained, has cushioned the impact of the cost pressures for 2023/24 and 2024/25. However, beyond this with a cliff edge reduction in business rates resources of c£1.5m and a reduction of grant funding of an estimated £0.300m the Council faces a significant and widening gap between it's spending requirements and the level of resources it estimates to receive.

Whilst earmarked reserves can be used to smooth the impact of these reductions on the General Fund, these resources can only used once and should be seen as a short-term measure only.

Although the position for 2023/24 and 2024/25 is currently more positive, savings targets for those years will still be included in order to provide further financial resilience and the ability to cushion any further financial pressures that may arise (due to the current risks to the financial planning assumptions). It will also allow capacity to deliver the higher levels of savings needed towards the end of the MTFS period to be spread more evenly over the years.

On the basis of the revised financial planning assumptions assumed in this MTFS, the following level of savings targets will be required to ensure the financial sustainability of the General Fund:

2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
185	500	1,000	1,750	1,750

The phasing of these savings targets mirrors the Autumn Statement position, with a more manageable position over the next two years and much of the tougher decisions needing to be taken in the next Spending Review period, starting in 2025/26. This also means that these savings targets are likely to change (potentially increasing) dependent on a new Government being in place, a spending review taking place and the potential for a further delay in funding reforms. These assumptions will be kept under review, with the savings targets reviewed as part of each subsequent MTFS.

Despite this potential for change, the Council must still continue to develop and implement a savings programme in order to ensure it is fully prepared to be able to deliver against these targets.

In terms of developing this new programme, as there are already a number of reviews, under the existing programme, that are currently being developed, these will reduce the amount of new savings to be identified, as follows:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Existing reviews	185	225	228	236	242
New reviews to be identified	0	275	772	1,514	1,508
Total Savings Target	**185**	**500**	**1,000**	**1,750**	**1,750**

The ability to deliver these further, significant, budget reductions must be set in the context of the Council having already delivered, over the last decade, annual revenue savings of nearly £10m. This is a significant amount in comparison to the net General Fund budget. This has already involved the Council having to take difficult decisions in terms of which services it can continue to provide. But each year the challenge gets much harder and ultimately leads to difficult decisions about the size and scope of the services we provide. Any further service cuts and revisions to investment plans will have even more far reaching and detrimental impacts on the City's residents and businesses. This will come on the back of the current cost of living crisis, at a time when the support of the Council is needed more than ever to support not only those who rely upon the safety net of local government, but also whilst the Council is still supporting the rebuilding of the local economy.

The key mechanism for delivering the required budget savings is through the Towards Financial Sustainability (TFS) Programme, which seeks to bring net service costs in line with available funding. The programme focuses on both short term and longer-term sustainable options, which includes:

- Seeking opportunities to maximise our use of technology, embracing digital technology to improve service delivery across the organisation and instilling a website first culture, to make the council more efficient,
- Considering the benefits of increasing Council Tax in line with referendum limits, to protect service provision, whilst ensuring increases are kept at an acceptable level and that support is provided to the most vulnerable.

- Assessing opportunities to find alternative ways of providing services more efficiently and effectively by working jointly with partner organisations, such as other local councils, the voluntary sector, local businesses.
- Considering community asset transfer opportunities whereby our physical and natural assets can be transferred to voluntary & community groups and charities, bringing much needed resources to enhance and maintain those assets.
- Reviewing our financial support to third sector organisations to ensure resources are being effectively utilised for the benefit of our council tax payers.
- Seeking to generate additional income by reviewing our sales, fees and charges and ensuring that these reflect our increasing operating costs.
- Seeking to maximise income opportunities from our property investments.
- Maximise grant funding opportunities and prioritising capital investment in line with our capital strategy to reduce the revenue cost of borrowing. We also continue to review our treasury management and capital financing approaches to maximise benefits.
- Making the best use of our assets, developing multi-agency hubs where possible and ensuring those spaces are low carbon producers and sustainable.
- Continuing to use the Council's influence, and direct investment in the city (such as through; the Town Deal; the Council House New Build Programme; the UK Shared Prosperity Fund and Western Growth Corridor), to create the right conditions for the city's economy to recover and grow, leading to longer term increased revenue streams for the council.

Not all of these options can be realised in the short term, or deliver the level of savings required. Inevitably the Council will continue to have little choice but to face further difficult decisions about the size and scope of the essential services it provides. It will need to review and revisit its investment priorities, beyond Vision 2025, and will be forced to look closely at the service it provides and will inevitably have to stop some of these to balance the books.

There is sufficient 'lead in time' to the need to deliver these savings, allowing every possible effort to be made to find the least painful solutions and minimise the impact on jobs and services, but inevitably there will be some difficult decisions to be made.

Closing a projected budget gap of this size is a challenge for the Council, but the Council has confidence in it's track record of delivering strong financial discipline and that it can continue to rise to the challenge.

Individual, specific proposals will be presented to the Executive, as the programme is delivered, for consideration.

Revenue Forecast

Based on the preceding financial objectives, underlying principles, national and local priorities, savings targets, spending and resources assumptions, Appendix 1 provides a summary five-year General Fund revenue budget for the Council.

Risks to the Revenue Budget

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

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

- Fluctuations in fees and charges income and commercial income, particularly due to current economic conditions
- Fluctuations in the Business Rates Tax base
- Implementation of revised BRR Scheme including full reset
- Future levels of Central Government funding e.g Fair Funding Review, New Homes Bonus etc.
- Fluctuations in key economic assumptions e.g inflation, interest rates
- Implications of national government policies on the economy
- Delivery of challenging savings targets
- Impact of economic climate on demand for services
- Implications of national government policies on climate change
- 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 schemes from Vision 2025, with a focus on supporting the recovery of the City or key One Council projects, and investment in existing assets to either maintain service delivery or existing income streams.

Total planned expenditure over the 5-year programme is estimated to be £32.918m of which there are the following key schemes:

- Western Growth Corridor - £13.768m
- Disabled Facilities Grants - £4.260m
- Planned asset maintenance - £1m
- Greyfriars - £2.638m
- Lincoln Central Market - £3.184m
- Heritage Action Zone - £0.054m
- Lincoln Town Deal (External Schemes) - £6.863m

The largest element of the programme is the Lincoln Town Deal Programme totalling £19m. The majority of the schemes will be delivered by external organisations with the Council acting as the Accountable Body, there are however two schemes that the Council will directly deliver.

In January 2023 it was announced that the Council had been successful in it's bid to secure £20m, through the Levelling Up Fund 2, to bring forward the delivery of a bridge to open the eastern access to the Western Growth Corridor site. This scheme is not yet included in the GIP and will be subject to separate approval.

Further schemes in support of Vision 2025 will be included in the GIP at the relevant stage in their development e.g. grant funding secure, design stage completed etc. Further details of the investment plans are provided in the Capital Strategy.

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

Impacts of current economic factors/Construction Industry

Across the General Investment Programme capital projects have been impacted as a result of the current challenges in the economy and specifically in the construction sector around supply of skilled labour, availability of materials and escalating costs of materials and labour. The Council has adopted a collaborative approach with contractors to ensure that the impacts are minimised using a range of mechanisms including rescheduling the programme to absorb delays, changing materials, accepting time delay but without imposing a time penalty to counter cost increase, use of contingencies and sharing cost increases.

Inevitably thought with the current inflationary pressures affecting the construction costs, as well as the rising cost of borrowing, some projects may no longer be viable. All schemes within the GIP, that have not yet started, will be re-evaluated as they come forward for delivery. This will ensure that they still demonstrate value for money and remain affordable. Given the importance of investment in the City, to support the local economy, all opportunities to contain costs and/or seek alternative funding to ensure schemes are delivered will be undertaken.

Asset Management

The Council's corporate property portfolio comprises operational properties and investment properties with a combined asset value of £139 million.

The Council's current Asset Management Plan identifies the need for significant investment to ensure that its assets are properly maintained and safe for use. Additional resources have previously been allocated, including works to income earning assets e.g. the crematorium refurbishment and investment in leisure facilities. There does however remain a legacy of outstanding investment required in the Council's assets, with a number of maintenance liabilities now arising. These are mainly in relation to operational assets, which will require investment in order to remain in service delivery, but the liabilities also extend to some of the Council's natural assets (although additional revenue resources have been allocated for public open space and tree risk work).

Allocation of the annual planned capitalised works budget (£200k p.a.) to maintain specific assets is 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 Better Use of Assets pillar of the One Council programme. Outcomes of this include the potential re-configuration of operational assets which as a result of changes in working practices following Covid19 are no longer required on such a scale; as well as the potential disposal/transfer of specific assets which may in turn relieve the Council on the ongoing repair liability. In order to provide additional resource, where possible the short term priority for any surplus capital receipts will to be investment in the Council's existing assets. Consideration will also be given to the use of prudential borrowing for income generating assets and in the absence of any other funding source.

Resources

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

Due to revisions in the Public Works Loan Board (PWLB) lending terms, local authorities can now no longer borrow from the PWLB with the intention to buy assets for yield. Authorities will still be able to access the PWLB for spending to improve or maintain existing properties, for housing, for regeneration purposes and for preventative action. In the absence of other funding the Council will consider prudential borrowing for these purposes. However, given the additional revenue costs this creates and the current financial challenges the General Fund is facing, the use of prudential borrowing will be prioritised for income generating/sustaining schemes.

Due to an ongoing lack of capital receipts and limited revenue resources to fund prudential borrowing it is essential that other sources of funding such as grant allocations and partner contributions continue to be sought.

External grant funding is enabling the delivery of a considerable number of capital schemes for the Council e.g. Lincoln Town Deal Programme, Local Authority Accelerated Construction funding for Western Growth Corridor, Heritage Lottery Fund for Re-imaging Greyfriars and English Heritage for the High Street Heritage Action Zone. The Council will continue to seek further external grant funding to support the delivery of its Vision and priorities and is currently developing further Heritage Lottery Fund schemes and has recently had it's application to the Levelling Up Fund for £20m, to open up the eastern side of the Western Growth Corridor, approved. This is not yet reflected in the GIP and will be subject to separate approval.

The Council is mindful though that whilst the additional resources that external funding brings are clearly beneficial to local people, there is the danger that schemes funded may not be the Council's highest priorities and the Council must consider carefully how to allocate its capacity, within its reduced resources, to support such schemes. Furthermore, the Council needs to carefully consider whether it is able to meet the outputs and outcomes required from external grant support and in the current economic climate it must consider how any costs increases above grant allocations would be managed.

Capital Receipts

As part of the Better Use of Assets pillar of the One Council 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.

Whilst there are no specific capital receipts forecast from land/property disposals as part of the Better Use of Assets pillar there are significant capital receipts forecasted from the development of the 52 market homes from Phase1a of Western Growth Corridor. Income will be received from house sales via a development agreement, with a minimum land value return for the Council along with a profit share. The development is forecasted to generate net receipts of £1.472m, this will be retained within the scheme to contribute towards the upfront capital costs of further phases of the development.

Prudential Borrowing

The basic principle of the Prudential System is that local authorities are free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Council will need to meet the whole of the capital financing costs associated with any level of extra borrowing through its revenue account. For every £1m of prudential borrowing undertaken by the Council for investment in long life assets, the annual revenue consequence arising is c£52.3k based on an interest rate of 4.4%.

The MTFS includes an unsupported prudential borrowing requirement of £5.111m over the period 2023/4-2027/28. This includes temporary borrowing to support the delivery of Phase 1a of Western Growth Corridor and longer term borrowing to support the Town Deal Programme investment in the Central Market and ongoing investment in the Council's corporate assets.

The use of long-term prudential borrowing will only be used as a funding mechanism for key projects following a full financial assessment, with priority for income generating/sustaining schemes. It may however be used as a short-term measure to fund capital expenditure prior to a capital receipt being received, or in the absence of any other funding source.

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 £17.907m is expected to be received from external capital grants, which is largely for Disabled Facilities Grant £4.260m, Towns Fund £7.9m for currently approved business plans, £2.2m for Central Markets (from Towns Fund), £1.9m for Greyfriars, £1.1m for Western Growth Corridor and £0.446m for UK Shared Prosperity Fund.

Projected Capital Resources

Resources to fund the General Investment Programme 2023/24-2027/28 are estimated to be approximately £32.918m, as follows:

	£'000
Capital Grants	17,907
Capital Receipts	9,900
Prudential borrowing	5,111
TOTAL	**32,918**

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:

- Loss of anticipated external resources,
- Inability to secure further external funding,
- Increased project costs, particularly in light of the current challenges in the construction sector and levels of inflation
- Interest rate increases impacting on future borrowing costs
- Sustainability of contractors in construction industry
- Unplanned emergency maintenance to Council's corporate properties.

Appendix 5 of the MTFS details the risk action plans for the internal and external risks. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

Section 5 – Housing Revenue Account (HRA)

The Housing Revenue Account shows all expenditure and income relating to the Council's responsibilities as landlord of dwellings and associated property. It is a 'ring-fenced' account within the Council's General Fund.

Housing Revenue Account Business Planning

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

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

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

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

Impacts of current economic factors and cost of living crisis

Like the General Fund, the HRA has been severely impacted by the unforeseen and unavoidable cost pressures have arisen over the last 12 months. These escalating costs in relation to pay inflation, contractual inflation, utility price increases and material and labour increases, have taken their toll on the financial resilience of the Housing Revenue Account.

These new pressures come at a time when the HRA is still responding to the legacy effects of Covid19 and Brexit both in relation to service delivery, in terms of backlogs of outstanding housing repairs work, and also due to the ongoing impact on supply chains and availability of labour.

Given the significant level of annual repairs and maintenance and planned capital maintenance to the Council's housing stock the impact of these factors is causing both income losses and cost increases for the HRA, including:

- Increased use of sub-contractors -the inability to recruit to the Housing Repairs Service workforce (the service is currently experiencing a 13% vacancy rate) has resulted in higher repairs and void turnaround times over the past 2 years. In order to try and fill the productivity gap, local sub-contractors are being utilised however, they are experiencing the same labour shortages in the construction sector and are struggling to meet the demands. Any contracts awarded to help alleviate the system are now at hugely inflated prices which reflects both the labour shortages but also the current economic factors.

- Increased number of properties to re-let - the increase in void turnarounds is further worsened by a higher-than-normal level of properties being re-let post pandemic. The financial implications of increased void turnarounds result in a reduction in dwelling rent income.

- Pay inflation – in line with the General Fund a pay agreement for 2022/23, as agreed by the National Employers side, has placed a significant additional burden on the HRA with pay increases significantly in excess of those assumed. In addition, a pay agreement is yet to be agreed for the Craftworkers, affecting the majority of the Housing Repairs Service.

- Contractual commitments - in addition to an increased need to use sub-contractors (at inflated prices) the HRA has also experienced significant inflationary costs for its existing as well as escalating material prices due to national and world shortages of specific materials and soaring inflation.

Whilst mitigating actions are being taken to address some of these factors, and are producing positive results meaning that the impacts are likely to be short term in nature e.g. a reduction in voids backlogs, the majority of the pressures the HRA is experiencing are unavoidable and will have ongoing cost implications. These are primarily through the increase in contractor prices for labour and materials, as well as the increased cost of the Council's own workforce.

These pressures have seriously impacted the assumptions that underpin the HRA and Housing Business Plan and have required budgets to be reset within this MTFS.

In the absence of any other funding source these increased costs can only be funded through the housing rental income, which itself is not immune to the impacts of the current cost-of-living crisis.

Spending Plans

The HRA Business Plan

A key element of the self-financing regime is the Council's 30-year Business Plan. 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 reflected the impact of government policy changes, the results of stock condition surveys and financial assumptions at the time. The Business plan sets out:

- the long-term plans for the Council's housing stock
- the finances to deliver plans
- how the Council will manage the income from its stock, demand for housing and stock condition

- identifies resources for its initial Council House New Build Programme.

Since adoption of the Plan, in 2016, a number of issues e.g., Brexit and the Covid19 pandemic have had a fundamental impact on the way the Council delivers it's housing and landlord services, now and in the future. In addition, the refreshed and repurposed strategic plan, Vision 2025, includes a much greater focus on health outcomes and the environment e.g. net zero carbon target, with implications for the delivery of housing services and investment in the housing stock and new build standards. Furthermore, the tragic fire at Grenfell Tower and the introduction of new measures to improve fire and building safety will create additional requirements on the Council.

A full review of the Business Plan was scheduled for 2022, however, due to the current economic climate and the impact on the assumptions that underpin the HRA and Housing Business Plan it has not been possible to make accurate long-term financial forecasts at this time. As a result, an interim high-level refresh of the Business Plan was undertaken during 2022 with a full update to the Business Plan now scheduled for 2023, with a new a 30-year Business Plan to be in place for the start of 2024/25. This update will take into consideration the key issues above that are impacting on the environment in which the Plan will be set.

Spending Assumptions

A review of the financial planning assumptions 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 includes a number of assumptions in line with the General Fund, primarily inflation, pay inflation, pension contributions and interest rate forecasts. Set out below are expenditure and income assumptions specific to the HRA.

Repairs and Maintenance

Repairs and maintenance is an essential part of the asset management of the Council's housing stock. As set out in the impacts of the current economic factors section above, the cost of repairs and maintenance to the housing stock is increasing due to labour shortages, contractor price increases and material price increases. These additional costs have been reflected in the HRA with annual increases of c£0.250m. Work continues within the service to drive down costs and deliver efficiencies were possible in order to reduce repairs costs e.g. the scheduled repairs initiative, however the cost increases that the HRA is experiencing outstrip any efficiencies that can be delivered.

There is continued capital investment in existing and new housing stock. Several schemes are under development which aim to deliver new housing in the City. These will be reported to committee as they come on stream.

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 £60.149m over the 5-year MTFS period through depreciation and direct revenue financing.

Resource Assumptions

Rents

In line with the Housing Business Plan and Government Rent Guidelines, which announced that from April 2020 social rents should increase by a maximum of CPI+1% for 5 years, the MTFS has historically been based on this assumption. For 2023/24 the Government, in light of the current inflation levels, imposed a cap on rent increases of 7%, as CPI +1% would have allowed rent increases of up to 11.1%. The Government's approach for 2024/25, and whether a further cap will be implemented is as yet unclear, in addition beyond 2025 when the 5-year period of increases at CPI+1% ends it is uncertain what Rent Guidelines may be in place.

Included in the Council's housing stock are a number of properties that were partly funded by HCA grants on the condition that they are to be let on the basis of an affordable rent rather than on social rents. In addition, there are a number of other dwellings that are let on the basis of an affordable rather than social rent. Affordable rents are not subject to Government Rent Restructuring Policies 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.

With the exception of 2022/23, the Council has historically set the rent levels in line with the requirement to increase rents by CPI + 1% (CPI being as at September each year) for general purpose accommodation and also increase sheltered accommodation and affordable rents, by the same. With CPI +1 % as at September 2022 levels this would mean an increase in rents of 11.1%. An increase of this level, in light of other impacts on household incomes arising from the current economic climate, could have a severe impact on the Council's tenants and given the Governments cap of 7% it is proposed to increase rents by 6.5% for 2023/24. This increase aims to balance the pressures that household incomes are facing, particularly the most vulnerable in our community, but at the same time recognising the economic and financial pressures the HRA has in delivering services to its customers. This proposed increase also takes into consideration the lower level of rent increase last year (i.e. the actual increase was below CPI+1%) and that the HRA was subject to the government-imposed rent reduction policy between 2016/17 and 2019/20 which saw the council have to reduce rents by 1% per annum rather than increase at CPI plus 1% as previously agreed, resulting in estimated revenue forgone of c£17m.

The average 52-week rent will be £81.18 per week for general purpose and sheltered accommodation, and £125.99 for affordable rents. The assumption in the MTFS from 2023/24 onwards reverts to CPI + 1%.

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

Average rent increase per property by number of bedrooms per week as 14/12/2022		
No. of beds	Increase per week for Affordable Housing	Increase per week for Social Housing
	£	£
1 & bedsits	7.10	4.28
2	7.32	4.86
3	7.92	5.37
4	9.16	5.72
5	0	5.96
6+	0	6.6

Whilst rent collection is currently performing slightly above target, the current cost-of-living crisis is likely to have a detrimental impact on household incomes reducing some tenant's ability to pay their rents, particularly with the proposed higher rent increase. Whilst the Council will continue to support tenants through Discretionary Housing Payments, the establishment of the new Tenancy Sustainment Team and through general advice and guidance it is likely that there will be an impact on collection rates.

Net Interest Receipts

The HRA receives investment interest on the balances it holds (HRA balances are made up of General Balances, earmarked reserves and the Major Repairs Reserve). The MTFS 2023-28 includes interest income into the HRA based on the level of HRA balances assumed in the MTFS 2023-28. The HRA is sensitive to changes in interest rates linked to its investments, as an indication a change in interest rates available on investments of +/- 0.5% would have an estimated combined impact of approximately £0.263m. A rise of 0.5% in the Bank of England base rate would not translate into a 0.5% increase in investment rates available.

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

Releasing Resources

The HRA Business plan 2016-46 identified revenue resources to be released to support priority capital investment in council house new build and the Lincoln Standard. Although there is no specific savings target in the HRA the Council will continue to pursue the strands of its Towards Financial Sustainability Programme, where there are financial benefits for the HRA, releasing further resources for re-investment, it will also continue to ensure it's costs are contained so that expenditure levels do not put pressure on the required revenue contributions to the capital programme.

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 particularly housing rent levels
- Delivery of new build programme and associated rental streams
- Reduced rental income and increased arrears, particularly as a result of voids backlogs, RTB sales, reduced collection rates due to the impact of the cost-of- living-crisis etc
- Increased cost of repairs and maintenance to housing stock .
- Implications for service delivery arising from the Govt regulations.
- Fluctuations in key economic assumptions e.g. inflation, interest rates.
- Changes to 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 6 – The Housing Investment Programme

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

Capital Spending Plans

The 5-year HIP has been drawn up to ensure that the Council meets its legal obligations as a landlord. The Council has already invested significant resources over recent years to achieve the Decent Homes Standard and now seeks to maintain an enhanced Lincoln Standard.

The 5-year housing programme amounts to £66.765m and comprises the following main areas of work:

- Maintenance of the Decent Homes and the Lincoln Standard, £51.672m

- New Build Programme £8.528m – this includes the use of retained 1-4-1 right to buy receipts which are not yet allocated to specific schemes and will be dependent on approvals of individual business cases.

In terms of housing investment, the HIP will continue to focus on the allocation of resources to the key elements of decent homes (in line with the 2020 Stock Condition Survey) and supporting the Lincoln Standard. In relation to housing strategy, the focus continues to be on maximising the use of 1-4-1 retained right to buy receipts, assessing the use of prudential borrowing and seeking government grant funding for new build schemes or purchase & repair schemes that generate a positive net rental stream.

As set out in the Section 5 above the 30-year HRA Business Plan has undergone a high-level review during 2022 with a full review to be undertaken during 2023/24, to reflect the changes to the local, regional and national operating environment and to reflect the Councils current aims and ambitions in Vision 2025.

Spending Pressures

Impacts of current economic factors/construction industry

Similar to the General Investment Programme the Housing Investment Programme has been impacted as a result of the current economic factors and particularly the challenges in the construction sector particularly around supply of skilled labour, availability of materials and escalating costs of materials and labour. The Council has adopted a collaborative approach with contractors to ensure that the impacts are minimised using a range of mechanisms including; rescheduling the programme to absorb delays, changing materials, accepting time delay but without imposing a time penalty to counter cost increase, use of contingencies and sharing cost increase.

It is though inevitable that there will be cost impacts on both the housing investment programme as well as on specific schemes in the housing strategy programme that are currently being developed. Particularly in relation to new housing developments, these changes in underlying costs of delivery, as well as the rising cost of borrowing, may result in some schemes being no longer viable. As schemes are bought forward, they will be re-evaluated, this will ensure that they still demonstrate value for money and remain affordable. Given the importance of investment in the City, to support the local economy, all opportunities to contain costs and/or seek alternative funding to ensure schemes are delivered will be undertaken.

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 £38.694m, of which £45.836m is planned to be utilised (this includes balances bought forward).

Revenue Contributions

The 5-year MTFS includes contributions of £21.455m of direct revenue finance over the five-year period of which £14.980m is planned to be utilised.

Grants and Contributions

There are no grants and contributions included in the five year MTFS period.

Capital Receipts

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

In August 2018, alongside publication of the Social Housing Green Paper, the Government published a consultation on options for reforming the restrictions on the use of RTB sales to make it easier for councils to replace properties. Although the Social Housing White Paper was published in November 2020 there was no further reference to any planned reforms.

The proceeds of dwelling sales under the Right-to-Buy scheme provide a regular source of capital receipts with the number of sales increasing in recent years. The MTFS assumes 50 sales per year. However, this is a difficult area to predict accurately as it is affected by external factors, such as interest rates, property prices and Government initiatives aimed at further stimulating Right-to-Buy sales. Receipts of £3.750m are assumed over the MTFS period.

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

Prudential Borrowing

The Prudential Code allows the Council to take borrowing if it can demonstrate that such borrowing is affordable, sustainable and prudent in its Prudential Indicators (detailed in the Treasury Management Strategy). Although the revision to PWLB lending terms prohibits borrowing from it to finance assets for yield it does still allow access to the PWLB for land release, housing delivery, or subsidising affordable housing. This follows on from the removal of the housing borrowing cap in 2018 and continues to allow significant opportunities for the Council to invest in new house building programmes and the potential redevelopment of areas of existing housing stock. This increased flexibility will be considered as part of the Business Plan refresh.

The Capital Financing Requirement (CFR) is forecast to rise to £81m by the final year of the MTFS with additional borrowing included in the MTFS and no allowance made for the repayment of existing debt. Actual borrowing utilised will be £2.93m to fund the new build programme alongside 1:4:1 receipts and borrowing taken during the MTFS period will be £2.81m.

Projected Capital Resources

Resources to finance the proposed £66.765m Housing Investment Programme 2023/24 – 2027/28, are currently estimated to be as follows:

	£000
Major Repairs Reserve (depreciation)	45,836
Direct Revenue Financing	14,980
Capital Receipts (inc RTBs)	3,019
Borrowing	2,930
TOTAL	**66,765**

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

- Future building costs, particularly in light of the current challenges in the construction sector and levels of inflation
- Condition of existing stock
- Sustainability of contractors in construction industry
- Interest rate increases impacting on future borrowing costs
- Implications of Government Regulations e.g. the Building Fire Safety Bill & Fire Safety Act, and any new requirements arising in relation in mould/damp conditions

Appendix 5 of the MTFS details the risk action plans for the internal and external risks. Officers will continually monitor and appraise these risks as part of the on-going budget monitoring and reporting to Members.

Section 7 – Reserves and Balances

Some reserves and balances are essential for the prudent management of the Council's financial affairs. These will provide a working balance to cushion the impact of uneven cash flow, a contingency for the impact of unexpected events or emergencies (as experienced with Covid19 and the current unforeseen and unavoidable escalating costs) and allow the creation of earmarked reserves to meet known liabilities. The consequences of not keeping a minimum level of reserves can be serious and is therefore one of the considerations taken into account when setting the MTFS.

The minimum prudent levels of reserves and balances that the Council should maintain are a matter of judgement. It is the Council's safety net for unforeseen circumstances and must last the lifetime of the Council unless contributions are made from future years' revenue budgets. It is currently for local authorities themselves, taking into account all the relevant local circumstances, to make a professional judgement on what the appropriate level of reserves and balances should be.

Financial Resilience Index

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

	2017/18	2018/19	2019/20	2020/21	2021/22	Stress Compared to other Councils
Reserves Sustainability	23.47	100	100	100	100	
Level of Reserves as a ratio of net expenditure	65.28%	73.59%	99.40%	142.33%	116.95%	
Change in Reserves (over 3 year period)	-11.33%	-2.48%	22.79%	209.86%	70.95%	

Whilst full data is not available through the index it does highlight areas of potential financial risk, this is demonstrated in 2017/18 when there was a 11.33% reduction in the level of reserves (over the latest 3-year period), reducing in turn the reserves sustainability factor. However, this use of reserves was planned and provided for in the MTFS as the Council used its earmarked reserves to cushion the revenue impacts during the building of the transport hub, as well as a planned use of unallocated reserves whilst savings were delivered through the TFS Programme. The increase in 2019/20 was due to a planned contribution to General Balances (as the Council sought to increase it's level of Balances ahead of the planned funding reforms).

Covid19 has had an impact on the 2020/21 and 2021/22 resilience indexes, it should therefore be viewed in the context of these having been transitional years. The index continues to illustrate the financial resilience of authorities during the pandemic but figures on reserves have been affected by a series of Covid-related payments in relation to Business Rates reliefs and local authority funding support. The Council's reserves increased by £13m in 2020/21, primarily due to £11.5m of grant funding from Government to recompense for the lost income resulting from the Business Rates reliefs awarded due to the pandemic. The grant funding was received in 2020/21 however the corresponding losses on the Collection Fund were not declared until 2021/22 – 2023/23, the grant received will therefore be drawn down through reserves over this period. In addition, of the Covid19 grant support provided by Government in 2020/21 to support local authority pressures £0.622m was transferred to reserves to be used to mitigate the impacts of Covid19 in future years. A further £0.531m of was transferred to reserves from the Council Tax Hardship funding that was granted in 2020/21, for which the expenditure will be incurred in 2021/22. Whilst these reserves have unwound during 2021/22, a further year of Business Rates Reliefs has seen increased contributions of £3.8m in 2021/22, to be drawn down in 2022/23 to offset Collection Fund losses. These movements will further skew the resilience indicators, with perhaps more meaningful indicators emerging from 2023/24 onwards.

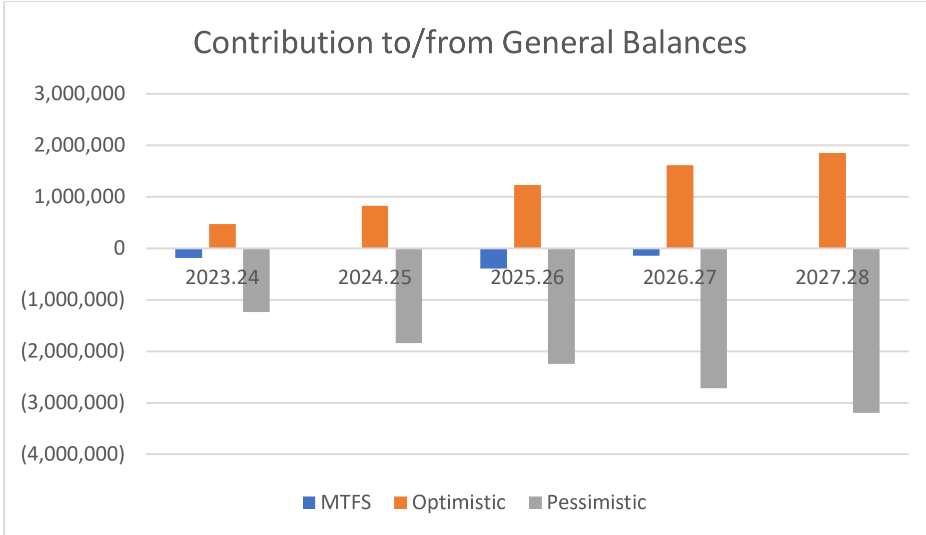
Management of Risk

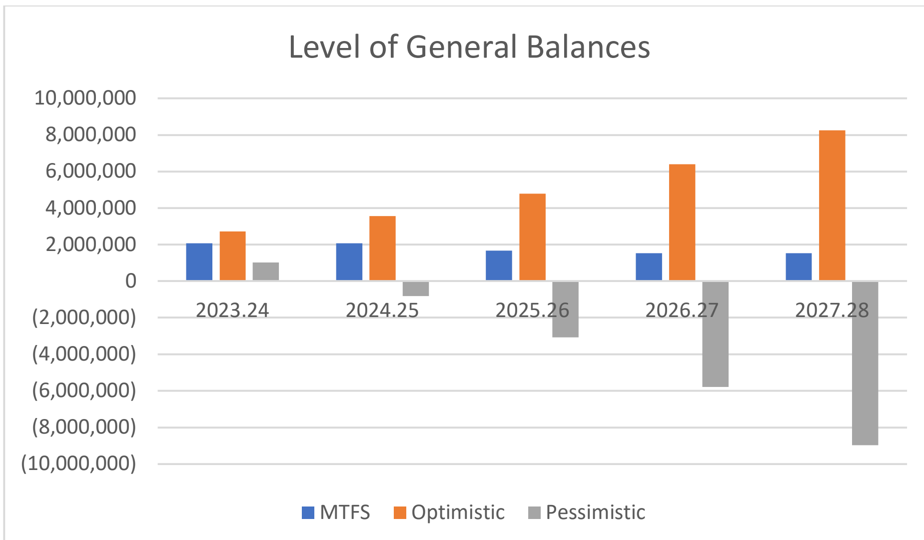
The Council has always maintained a very proactive approach to managing risk and there are effective arrangements for financial control already in place. However, as a result of the significant changes to local government funding, which saw a shift towards self –sufficiency and dependence on local funding sources, levels of volatility and risk have significantly increased. Given the threat that this posed to the Council's financial position the prudent minimum level of general reserves was increased to a level greater than previously held.

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, based on a financial assessment of the specific risks. The conclusion of this risk assessment is that it is deemed prudent that General Fund reserves should be maintained at around £1.5m - £2m, and that Housing Revenue Account reserves should maintained at around £1m - £1.5m, over the period of the MTFS.

Scenario Planning

A scenario planning approach is taken to assess the impact of changes in the key assumptions underpinning the revenue budgets. This is based on the assumptions in the MTFS being the most likely, set against an optimistic and pessimistic list of variables. At a high level the pessimistic scenario demonstrates a further significant financial challenge for the Council, primarily based on a reduction in income levels, higher than budgeted inflationary increases, as well increased costs towards the end the of the MTFS as key service contracts and leases are due to end. The optimistic scenario is based on the key assumption that the planned reforms to business rates are not progressed and the Council is able to retain it's accumulated growth.





As can be seen table above, under the pessimistic scenario the level of General Balances would be eliminated during 2025/26 if mitigations and/or savings could not be found. This emphasises the Council's sensitivity to changes in it's income levels and the level of inherent risk and volatility it faces.

Planned work is underway to establish scenario planning for the Housing Revenue Account as part of the Business Plan refresh.

Planned Use and Contribution to Reserves

The increase in the prudent level of reserves to be held has allowed the Council to be able to firstly cushion the impact that Covid19 has had on its finances, and continues to do so, and secondly to cushion the impact of some of the inflationary pressures that are now being incurred. Whilst the overall level of balances will still be maintained over the period of the MTFS there are planned uses of balances in the General Fund of £0.191 m in 2023/24, £0.001m for 2024/25, £0.397m for 2025/26 and £0.145m for 2026/27. The higher use in 2025/26 is as a result of the forthcoming funding reforms and the assumption that the accumulated gains on Business Rate income will be reset, leaving the Council at a significant financial detriment. Whilst the Council has assumed an increased level of savings will be required to mitigate the ongoing impacts of this income loss, in the short term the use of balances and earmarked reserves provides the Council the opportunity to deliver ongoing reductions in its net cost base, and also providing the flexibility to adjust the savings targets if there is a more positive outcome from the funding reforms. Based on the current trajectory of savings targets, by 2027/28 the General Fund will be in the position of making positive contributions to balances, with forecasted contributions of £0.003m in 2027/28.

The careful use of balances, along with earmarked reserves, in the supporting the General Fund is seen as a short-term measure only to ensure a balanced budget position is maintained whilst savings are delivered, it is not foreseen as a long-term solution.

The general reserves at the end of each year for 2023/24 to 2027/28 are summarised in the table below.

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
General Fund	2,072	2,071	1,674	1,529	1,532
Housing Revenue Account	1,005	1,031	1,107	1,088	1,010

The overall levels of General Fund and Housing Revenue Account balances in 2027/28 are in line with, and in excess of, the prudently assessed minimum level of balances.

Earmarked Reserves

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. This includes the application of a number of specific reserves to support the General Fund during 2025/26, during the anticipated first year of the Business Rates Reset, whilst the ongoing reductions in the net cost base are delivered.

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 2023/24 – 2027/28

	2023/24 Estimate £	2024/25 Estimate £	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £
Chief Executive & Town Clerk	4,312,760	4,480,220	4,449,280	4,783,150	4,946,070
Communities & Environmental Services	5,910,560	5,804,710	5,917,540	5,988,400	5,952,410
Major Developments	783,520	669,000	548,350	546,590	538,170
Housing & Regeneration	846,070	893,860	864,060	875,390	889,550
Corporate	1,286,840	1,324,120	1,355,130	1,370,350	1,385,060
	13,139,750	**13,171,910**	**13,134,360**	**13,563,880**	**13,711,260**
Capital Accounting Adjustment	2,210,440	2,460,440	2,467,460	2,255,100	2,245,070
Base Requirement	**15,350,190**	**15,632,350**	**15,601,820**	**15,818,980**	**15,956,330**
Specific Grants	(700,120)	(475,970)	(154,360)	(154,360)	(154,360)
Contingencies	(72,300)	(72,760)	(71,660)	(72,550)	(72,840)
Savings Targets	(185,210)	(500,000)	(1,000,000)	(1,750,000)	(1,750,000)
Transfers to/(from) earmarked reserves	654,350	(134,940)	(838,110)	30,480	216,860
Transfers to/(from) insurance reserve	(453,140)	45,400	43,860	42,210	40,520
Total Budget	**14,593,770**	**14,494,080**	**13,581,550**	**13,914,760**	**14,236,510**
Use of Balances	(191,110)	(430)	(396,840)	(145,020)	2,510
NET REQUIREMENT	**14,402,660**	**14,493,650**	**13,184,710**	**13,769,740**	**14,239,020**
Business Rates	6,125,4800	6,451,690	4,899,860	5,203,190	5,388,770
Business Rates Surplus/(Deficit)	682,110	0	0	0	0
Revenue Support Grant	175,290	184,930	156,890	156,890	156,890
Council Tax Surplus/(Deficit)	(136,130)	0	0	0	0
Council Tax	7,555,910	7,857,030	8,127,960	8,409,660	8,693,360
Total Resources	**14,402,660**	**14,493,650**	**13,184,710**	**13,769,740**	**14,239,020**
Balances b/f @ 1st April	**2,262,761**	**2,071,651**	**2,071,221**	**1,674,381**	**1,529,361**
Increase/(Decrease) in Balances	(191,110)	(430)	(396,840)	(145,020)	2,510
Balances c/f @ 31st March	**2,071,651**	**2,071,221**	**1,674,381**	**1,529,361**	**1,531,871**

HOUSING REVENUE ACCOUNT SUMMARY 2023/24 - 2027/28

	2023/24 Estimate £	2024/25 Estimate £	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £
Income					
Gross Rental Income					
- Dwellings rents	(32,231,610)	(33,758,390)	(34,622,790)	(35,508,700)	(36,416,570)
- Non-Dwelling rents	(411,870)	(424,240)	(436,960)	(450,070)	(463,570)
Charges for Services & Facilities	(548,410)	(564,710)	(581,480)	(598,770)	(616,570)
General Income	(655,570)	(594,020)	(599,490)	(605,570)	(613,690)
Special Income	(39,440)	(39,440)	(39,440)	(39,440)	(39,440)
Contributions towards Expenditure	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Total Income	**(33,936,900)**	**(35,430,800)**	**(36,330,160)**	**(37,252,550)**	**(38,199,840)**
Expenditure					
Repairs Account Expenditure	10,833,960	11,008,670	11,222,320	11,402,750	11,619,310
Supervision & Management - General:	6,961,520	7,055,050	7,208,200	7,329,290	7,456,400
Supervision & Management – Special:	1,990,650	1,958,960	1,990,770	2,022,830	2,053,360
Contingencies	113,880	262,900	262,740	263,370	263,590
Rents, Rates and Other Premises	845,960	878,280	892,820	917,800	936,560
Insurance Claims Contingency	174,000	179,230	184,610	190,150	195,860
Depreciation of Fixed Assets	7,749,540	7,746,980	7,732,730	7,732,350	7,732,350
Debt Management Expenses	16,000	16,000	16,000	16,000	16,000
Increase in Bad Debt Provisions	250,000	250,000	250,000	250,000	250,000
Total Expenditure	**28,935,510**	**29,356,070**	**29,760,190**	**30,124,540**	**30,523,430**
Net cost of service	**(5,001,390)**	**(6,074,730)**	**(6,569,970)**	**(7,128,010)**	**(7,676,410)**
Loan Charges Interest	2,355,710	2,436,640	2,377,020	2,376,530	2,303,550
- Investment Interest	(308,300)	(287,030)	(266,580)	(209,030)	(212,530)
- Mortgages Interest	0	0	0	0	0
Surplus on HRA for the year	**(2,953,980)**	**(3,925,120)**	**(4,459,530)**	**(4,960,510)**	**(5,585,390)**
DRF used for Financing	2,999,520	3,774,170	4,263,420	4,863,800	5,553,800
Contribs to/(from) Reserves:					
- Insurance Reserve	76,000	70,770	65,390	59,850	54,140
- Invest To Save Reserve	(117,220)	(1,260)	0	0	0
- HRA I.T. Reserve	35,000	35,000	35,000	35,000	35,000
- NSAP/RSAP Sinking Fund Reserve	9,000	9,000	9,000	9,000	9,000
- De Wint Sinking Fund Reserve	10,610	10,930	11,260	11,600	11,950
(Surplus)/deficit in year	**58,930**	**(26,510)**	**(75,460)**	**18,740**	**78,500**
Balance b/f at 1 April	(1,063,872)	(1,004,942)	(1,031,452)	(1,106,912)	(1,088,172)
Balance c/f at 31 March	**(1,004,942)**	**(1,031,452)**	**(1,106,912)**	**(1,088,172)**	**(1,009,672)**

GENERAL INVESTMENT PROGRAMME - 2023/24 to 2027/28

	2023/24 Estimate £	2024/25 Estimate £	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £
Expenditure Programme					
Chief Executives	1,432,410	1,600,600	205,210	200,000	200,000
Directorate of Communities and Environmental Services	905,950	1,035,011	851,990	851,990	851,990
Directorate of Major Developments	7,149,465	5,795,439	4,954,087	0	0
Directorate of Housing	20,000	0	0	0	0
Externally Delivered Town Deal Schemes	4,606,622	2,031,768	224,995	0	0
Total Programme Expenditure	**14,114,447**	**10,462,818**	**6,236,282**	**1,051,990**	**1,051,990**
Capital Funding					
Contributions from Revenue					
Opening balance	0	0	0	0	0
Received in year	0	0	0	0	0
Used in financing	0	0	0	0	0
Closing balance	**0**	**0**	**0**	**0**	**0**
Capital receipts					
Opening balance	30,000	30,000	30,000	1,502,603	1,502,603
Received in year	0	5,005,040	9,453,964	0	0
Used in financing	0	(5,005,040)	(4,894,867)	0	0
Used to repay temporary borrowing	0	0	(3,086,494)	0	0
Used to reduce the CFR	0	0	0	0	0
Closing balance	**30,000**	**30,000**	**1,502,603**	**1,502,603**	**1,502,603**
Grants & contributions					
Opening balance	366,454	0	0	0	0
Received in year	10,117,332	4,577,815	1,141,415	851,990	851,990
Used in financing	(10,483,786)	(4,577,815)	(1,141,415)	(851,990)	(851,990)
Closing balance	**0**	**0**	**0**	**0**	**0**
Unsupported borrowing					
Opening balance	0	0	0	0	0
Received in year	3,630,661	879,963	200,000	200,000	200,000
Used in financing	(3,630,661)	(879,963)	(200,000)	(200,000)	(200,000)
Closing balance	0	0	0	0	0
Total Capital Funding	**(14,114,447)**	**(10,462,818)**	**(6,236,282)**	**(1,051,990)**	**(1,051,990)**
Available Resources c/f	**30,000**	**30,000**	**1,502,603**	**1,502,603**	**1,502,603**

Appendix 4

HOUSING INVESTMENT PROGRAMME - 2023/24 - 2027/28

	2023/24 Estimate £	2024/25 Estimate £	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £
Capital Programme					
Decent Homes	9,022,046	8,644,941	8,990,793	9,350,265	9,757,473
Health & Safety	420,303	427,310	448,675	471,109	494,665
New build programme	4,099,318	4,151,080	177,372	48,850	51,293
Lincoln Standard	275,000	286,450	300,773	315,811	331,602
IT/Infrastucture	308,730	0	0	115,299	121,064
Contingent capitalised repairs	298,687	1,073,857	250,000	250,000	262,500
Other	2,037,584	1,097,174	914,982	960,731	1,008,768
Total Programme Expenditure	**16,461,668**	**15,680,812**	**11,082,595**	**11,512,065**	**12,027,364**
Capital funding					
Major Repairs Reserve					
Opening balance	16,134,329	12,638,954	12,063,348	13,024,795	14,157,730
Depreciation received in year	7,749,540	7,746,980	7,732,730	7,732,350	7,732,350
Depreciation used in financing	(9,092,046)	(8,644,941)	(8,990,793)	(9,350,265)	(9,757,474)
DRF received in year	2,999,520	3,774,170	4,263,420	4,863,800	5,553,800
DRF used in financing	(5,152,389)	(3,451,815)	(2,043,910)	(2,112,950)	(2,218,598)
Closing balance	12,638,954	12,063,348	13,024,795	14,157,730	15,467,808
Capital receipts					
Opening balance	2,087,540	1,837,540	2,587,540	3,289,648	3,990,798
Received in year	750,000	750,000	750,000	750,000	750,000
Used in financing	(1,000,000)	0	(47,892)	(48,850)	(51,293)
Closing balance	1,837,540	2,587,540	3,289,648	3,990,798	4,689,506
1-4-1 receipts					
Opening balance	1,871,583	1,433,622	0	0	0
Used in financing	(437,961)	(1,433,622)	0	0	0
Closing balance	1,433,622	0	0	0	0
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	127,884	3,212	2,779	2,779	2,779
Borrowing taken in year	655,000	2,150,000	0	0	0.00
Used in financing	(779,672)	(2,150,433)	0	0	0.00
Closing balance	3,212	2,779	2,779	2,779	2,779
Total Capital funding	**(16,461,668)**	**(15,680,812)**	**(11,082,595)**	**(11,512,065)**	**(12,077,364)**
Available Resources c/f	**15,913,328**	**14,653,666**	**16,317,221**	**18,151,306**	**20,160,092**

Appendix 5

BUDGET RISK ASSESSMENT

No.	Budget Item	Risk	2023/24	2024/25-2027/28	Containment
			Risk Score	Risk Score	
1	Capital Expenditure	Project slippage Increased project costs including labour and material costs post Brexit/Covid19 Inflationary impacts on materials and labour costs Failure of contractor i.e. contractor goes into liquidation. Demand for improvement grants. Sunk costs of aborted schemes Achieving levels of projected costs in the HRA Business plan	**Total Score: 12** Likelihood: 4 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• Regular budget monitoring and reporting to Project Boards, DMT's and CMT. • Ensure correct project management procedures followed (Lincoln Model) • Quarterly budget monitoring and reporting to Performance Scrutiny and the Executive • Financial procedure rules are followed, including financially vetting of all contractors • Use of collaborative contracts/framework agreements where possible e.g. Pagabo • Support from Procurement engaged at an early stage • Carry out post implementation reviews • Ensure risk assessments completed for all significant schemes before commencing • Value engineering used to contain project costs • Cost estimates obtained ahead of procurement exercises. • Consideration of Fixed Price Contracts and/or Risk Sharing • Consideration of alternative/cheaper materials • PGC's/Bonds to be obtained on key contracts • Use of external PM's, cost consultants and QS where required.
2	Income from Fees & Charges/ Rents: • Car Parking • Crematorium / Cemeteries	Reduction in the usage of the service/activity levels due to economic factors and cost of living crisis	**Total Score: 12** Likelihood: 4 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• Car Parking Strategy to be refreshed. • Regular monitoring statements for major income sources which are reported monthly to Corporate Management Team.

BUDGET RISK ASSESSMENT

	• Development Control • Building Control • Land Charges • Control Centre • Lincoln Properties • Industrial Estates • Xmas Market	Over optimistic income targets Increasing reliance on income within the MTFS New competitors entering the market Increased fees and charges levels reduces demand Changes in treatment of VAT status of individual fees and charges. Impact of wider policy changes on demand for services e.g. Lincoln Transport Strategy impact on car usage			• Identify reasons for any income reductions and take corrective action where possible • Report quarterly to the Executive and Performance Scrutiny Committee on forecast for key income streams • Specific projects/business plans in progress to sustain income streams. • Investment in key income generating assets • Delegated powers to portfolio holder to make responsive changes to fees and charges • Rebase income budgets to reflect current trends and impact of economic factors • Active void management • Watching brief on CIPFA Committee/HMRC discussions
3	General Budget Assumptions	CPI and RPI inflation exceed rates assumed in the budget Actual establishment exceeds 99% Implications from Government Policy in response economic factors Increased pension contributions as a result of triennial valuation (next valuation in 2025)	**Total Score: 12** Likelihood: 4 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• Set prudent but realistic projections based on analysis of economic commentators and Bank of England predictions – projections fundamentally updated/increased in latest MTFS • Monthly monitoring of RPI and CPI index changes • Make use of expert forecasts of future RPI and CPI trends • Participate in consultations via regional pay briefings. • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee

Appendix 5

BUDGET RISK ASSESSMENT

		Pay inflation exceeds rates assumed in the budget			• Monitor significant changes in economic indicators • Monitor the pension fund position through discussions with Lincolnshire County Council and Lincolnshire Finance Officers • Pension Fund Stabilisation Approach adopted • Report any changes to Members as soon as officers become aware
4	Demand for services	Impact of cost-of-living crisis on service demands, e.g. homelessness, revenues and benefits, customer services, council housing etc The increase in property numbers and development of the City Centre results in additional cost pressures within the Services that have not been built into the budget Increasing demands for housing tenant support as other providers withdraw services	**Total Score: 12** Likelihood: 4 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• Identification and drawdown of additional funding made available from Government and others to support additional demand • Lean systems approach taken to identify efficiencies in service delivery (e.g. benefits service) • Collaboration and joint working arrangement opportunities identified with local partners to help meet additional service demands • Consistent monitoring of service demands and needs of the city through data analysis and key indicators • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee and key service performance indicators • Interventions, as part of housing supply, to be developed to respond to temporary accommodation shortages. • Key housing developments in the City, e.g. WGC to be factored into operational service budgets as homes bought forward. • Cross directorate cost-of-living group established with a range of interventions to be

BUDGET RISK ASSESSMENT

					implemented, including delivery of Government initiatives.
5	HRA Repairs and Maintenance Costs	Reduced ability to recruit and retain skilled workforce in HRS, increased reliance on sub-contractors Sub-contractors prices significantly increasing Sub-contractor unable to meet demands. Increased cost of materials as a result of Covid/Brexit/economic factors Failure of contractor i.e. contractor goes into liquidation. Increased demands due to high levels of voids.	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Produce regular budget monitoring reports and HRA revenue and capital budgets reported and monitored together • Report quarterly to Departmental Management Team, Corporate Management Team, Executive and Performance Scrutiny Committee • Results of recent stock condition surveys informing future maintenance requirements • Significant increased costs factored into latest MTFS • Consider alternative recruitment options – recruitment strategies being reviewed. • Use of collaborative contracts/framework agreements where possible • Seek efficiencies within HRS i.e scheduled repairs pilot • Active void management mitigations in place. • Significant rebasing of the budget has taken place in light of the current economic factors.
6	Business Rates Base	Reduction and/or fluctuations in income against budget variation in: – Recovery/growth compared to forecasts – Changes in the NNDR base – Changes in rateable values (e.g. appeals, economic downturn, changes in use,	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 12** Likelihood: 4 Impact: 3	• In year monitoring of the NNDR base, Collection Fund, collection rates, growth assumptions and rateable value appeals. • Produce monthly collection rate statements – monitored via the Revenues and Benefits Operational Board, and Revenues and Benefits Management Team. Also report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee if targets are not being met,

BUDGET RISK ASSESSMENT

		material change in circumstances) – Collection rates – Ongoing impact on the NNDR base of successful appeals - Estimates of appeals provision higher/lower than actually required – Changes nationally to the valuation assessments of certain property/infrastructure – Reset of the Business Rates Retention system from 2025/26			increased recovery action or further initiatives to increase collection • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • A Business Rate Volatility Reserve is maintained to provide a degree of protection from fluctuations in Business Rate Income • Quarterly monitoring of the Lincs NNDR Pool by Lincs Finance Officers • Independent specialist assessment made of the required level of NNDR appeals provision • Specialist advice sought to assist in budgeting assumptions and assessment of implications of changes to the funding system • Delivery of key schemes in Vision 2025 to support recovery of the High Street, City and the economy, including direct investment by the Council.
7	Housing Rents and Property Voids	Increased arrears due to impact of cost-of-living crisis and the rent increase on household incomes More Council House disposals than anticipated and/or slower than anticipated progress on the council house new build programme Void properties exceeding the allowance included in the budget (particularly due to impacts of turnaround times and	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Produce regular budget monitoring reports • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Directorate ongoing monitoring is a performance indicator • Monthly monitoring of RPI and CPI index changes • Make use of expert forecasts of future RPI and CPI trends and the impact on housing rents • 30-year Business Plan to undergo full refresh. • Continual monitoring of arrears and void positions.

BUDGET RISK ASSESSMENT

		resourcing/contractor issues in HRS). CPI inflation less than budgeted rate (from 2024/25)– reducing rental income Impact of future interventions by Govt to alter Social Rent Policy, particularly any rent caps and future policy direction beyond 2025.			• Consideration to be given to re-establishing Housing Rents Hardship Fund • Work closely with Benefits Team to consider use of DHP's where appropriate. • Monthly New Homes Board meeting of cross directorate officers monitoring progress of New Build programme and capital & revenue funding • Analysis of factors driving voids increases, now assessing how these can be mitigated • Investment in tenancy sustainment officers • New subcontractors engaged to support the void process • Respond to future consultations on social rent policy.
8	Repairs & Maintenance on Corporate Properties	Unplanned emergency maintenance is required on the Council's Corporate Properties Increase in demands to meet statutory requirements and to minimise risks of adverse claims. Increase in demands to maintain operational service assets Increased investment required in natural assets. Impact of works on income and service delivery.	**Total Score: 9** Likelihood: 3 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Updated stock condition surveys for all corporate properties to undertaken in 2024 • Asset management planning in place (including identifying assets with large repairs and maintenance liabilities for disposal) • Produce regular budget monitoring reports – report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Properties with large maintenance liabilities are reviewed for potential disposal • New capital schemes allow for whole life costing. • Responsible Officer system in place. • Seek and identify external funding opportunities e.g, decarbonisation grants to improve corporate buildings

BUDGET RISK ASSESSMENT

					• Explore CAT or other alternative lease/MOU arrangements to transfer assets to the third sector.
9	Housing Investment Requirements	Implications arising from Social Housing White Paper including additional investment requirements and pledge to revise Decent Homes Standard. Implications arising from Building & Fire Safety regs. Any implications arising from new damp and mould potential regulations/legislation. Implications arising from the Council's net zero carbon 2030 commitment.	**Total Score: 6** Likelihood: 2 Impact: 3	**Total Score: 12** Likelihood: 3 Impact: 4	• Assessment of White Paper implications • Assessment of Building and Fire Safety implications • Stock condition surveys undertaken 2020 • Retrofit assessment of housing stock • Seek and identify alternative funding sources and models and make appropriate grant applications for decarbonisation works. • Refresh of HRA Business Plan for 2023/24 to incorporate new requirements. • Revised Lincoln Decent Homes Standard to be developed. • Use of collaborative contracts/framework agreements where possible. • Ensure risk assessments completed for all significant schemes before commencing • Value engineering used to contain project costs • Cost estimates obtained ahead of procurement exercises.
10	Capital Financing - Long Term Borrowing	Balances unavailable for internal borrowing External borrowing costs above interest rates in MTFS	**Total Score: 6** Likelihood: 2 Impact: 3	**Total Score: 9** Likelihood: 3 Impact: 3	• Continue to monitor the cost effectiveness of utilising internal balances instead of taking external borrowing • Actively monitor the achievement of the capital receipts target and potential additional borrowing requirement • Actively monitor the cost effectiveness of asset disposals compared to Prudential Borrowing

BUDGET RISK ASSESSMENT

					• Ongoing monitoring of cashflows from major sources of income • Regular review of current and future predicted borrowing rates to inform timing of borrowing decisions • Actively monitoring the cash flow on a daily basis.
11	External Funding of Capital Programme	Loss of anticipated external resource to support the capital programme. 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. Inability to attract/gain further external grant funding/partner contributions to deliver schemes included in Vision 2025 and future investment plans.	**Total Score: 6** Likelihood: 2 Impact: 3	**Total Score: 8** Likelihood: 2 Impact: 4	• Ensure grant conditions are complied with throughout scheme • Continue to seek and identify alternative funding sources and make appropriate grant applications. • Continue to work with partner organisations to secure additional funding opportunities. • Produce regular grant monitoring statements • Regular budget monitoring and reporting to Capital Programme Board • Ongoing discussions with the County Council to ensure the provision of DFG's meet the Council's funding requirements. • New schemes not approved until external funding secured.
12	Council Tax Base & Council Tax Support Scheme	In year variations to budget not containable within Collection Fund balances Costs to Council increased due to (including impact of cost-of-living crisis): – Actual CT base different to estimate	**Total Score: 6** Likelihood: 3 Impact: 2	**Total Score: 6** Likelihood: 3 Impact: 2	• Monthly monitoring of the Collection Fund - collection rates, CT discount caseload, council tax base. • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee • Produce quarterly collection rate statements – monitored via the Revenues and Benefits Operational Board, and Revenues and Benefits

BUDGET RISK ASSESSMENT

		– Collection rates/bad debt provisions – Increase in LCTS caseload or reduction not as anticipated. – Referendum rate of CT increases below budgeted rate			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 • Annual increases in Council Tax considered alongside national expected increases. • Council Tax Support scheme still provides for a maximum of 100% of support, with no changes proposed for 2023/24. • Council Tax Hardship Fund in place. • New Government Hardship Fund to be delivered for 2023/24. • Consider potential arising from new legislation allowing 100% CT premiums on second homes.
13	Housing Benefits/Subsidy	Increase in payments that do not attract 100% subsidy i.e. overpayments and local authority errors Failure to comply with complex legislative requirements Lack of audit trail to substantiate grant claim Backlog of work Pressures from customer demands and complex enquiries due to welfare changes Issues arising from increased use of Bed and Breakfast	**Total Score: 6** Likelihood: 3 Impact: 2	**Total Score: 9** Likelihood: 3 Impact: 3	• Regular monitoring of claims being processed • Undertake staff training and sample accuracy checks • Ensure system backups are carried out and historic information is recoverable • Continue to lobby/raise awareness with Government of issues arising from use of temporary accommodation and levels of LHA rates. • Close monitoring of temporary accommodation between Housing and Benefits Team. • Links to wider issue around the availability of temporary accommodation within the City and interventions that are being sought.

BUDGET RISK ASSESSMENT

		Accommodation which is capped at LHA levels.			
14	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.	**Total Score: 6** Likelihood: 3 Impact: 2	**Total Score: 6** Likelihood: 3 Impact: 2	• Follow established debt recovery and write off procedures • Specific monitoring in place for key rentals/leases • Monitor age debt profile of debts against bad debt provision
15	Revenue Savings Targets	The required savings targets are not achieved nor required efficiencies delivered	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 12** Likelihood: 3 Impact: 4	• TFS7 programme developed with timescales agreed. • TFS7 delivery is a priority in Vision 2025, year 3 Annual Delivery Plan • Report monthly to Programme Board (CMT) and quarterly to Executive and Performance Scrutiny Committee • Further work to be undertaken to develop programme of reviews beyond 2023/24 and to achieve higher savings targets.
16	Capital Funding	Shortfall in the actual amount of Capital Receipts (i.e. Council House Sales, other HRA assets, GF assets) against the targets set within the HIP & GIP Revenue contributions are not sustainable in the revenue accounts of the HRA or General Fund	**Total Score: 4** Likelihood: 2 Impact: 2	**Total Score: 12** Likelihood: 3 Impact: 4	• Undertake regular monitoring of the capital receipts position • Capital Receipts targets incorporated in the Capital Strategy • Property Section fully informed of current targets within the GIP & HIP (no specific target set for the GIP for general disposals) • Specific capital receipts target in place for WGC Phase 1a 52 market homes – development agreement to be in place with minimum land value agreed with remainder subject to profit share.

BUDGET RISK ASSESSMENT

		Increase in borrowing costs (covered in separate risk – see no. 10) Reductions in grant funding (covered in separate risk – see no. 9).			• Active monitoring of local housing market, using specialist external advice. • Review of the most cost-effective funding options (e.g. capital receipts compared to prudential borrowing) • Monitor and report on the revenue and capital budgets together to ensure both capital and revenue impacts are identified • HRA Business plan includes allowance for full funding of capital requirements over 30 years, including revenue contributions. • Maximise where possible housing rent increases to maintain base and ensure resources available for future investment,
17	Cashflow Management (Investments and short-term borrowing)	Available cash flow surpluses less than anticipated and/or interest rates lower than forecast Reduction in cash flow results in deficits and/or rising interest rates Impact of major sources of income not being received when expected.	**Total Score: 3** **Likelihood: 3** **Impact: 1**	**Total Score: 6** Likelihood: 3 Impact: 2	• Monitor the average interest rate being achieved against the budget target and the level of balances available for investment • Actively monitoring the cash flow on a daily basis • Ongoing monitoring of cashflows from Business rates • Quarterly monitoring of Collection Fund forecast balances • Take account of economic analysts and Bank of England predictions and advice from Treasury Management Consultants • Hold regular Treasury Management meetings • Report quarterly to Corporate Management Team, Executive and Performance Scrutiny Committee

BUDGET RISK ASSESSMENT

18	Government legislation/ regulations	Impact of secondary legislation arising from the Environment Act: - Biodiversity Net Gain - Weekly food waste collection - Free green waste collections - Air quality targets - Deposit Return Scheme - Extended Producer Responsibility	**Total Score: 2** **Likelihood: 1** **Impact: 1**	**Total Score: 9** **Likelihood: 3** **Impact: 3**	• Continue to monitor national developments and assess both the service and financial implications of new statutory duties. • Actively participate in any Government consultations. • Work alongside other local authorities to lobby Government for additional resource (if not provided for under New Burdens). • Work with Lincolnshire local authorities on joint approaches to resourcing new systems and development of options for implementation.
19	Government Grants (including RSG, Services Grant, New Homes Bonus, Minimum Funding Guarantee)	Cash reductions in Government Grant which are in excess of the levels assumed in the MTFS	**Total Score: 2** Likelihood: 1 Impact: 1	**Total Score: 3** Likelihood: 3 Impact: 1	• Regular review of grant figures and distribution mechanisms. • Lobby through national groups, respond to national consultations • Work with Association of Lincolnshire Finance Officers and the Society of District Treasures • Budget assumptions assume limited funding beyond 2024/25

Appendix 6

GENERAL FUND EARMARKED RESERVES FORECAST 2022/23 – 2027/28

Description	Balance @ 31.03.23	Balance @ 31.03.24	Balance @ 31.03.25	Balance @ 31.03.26	Balance @ 31.03.27	Balance @ 31.03.28
Carry Forwards	535,370	456,360	395,700	395,700	395,700	395,700
Active Nation Bond	180,000	180,000	180,000	180,000	180,000	180,000
AGP Sinking Fund	102,440	152,440	202,440	252,440	302,440	352,440
Air Quality Initiatives	21,590	21,590	21,590	21,590	21,590	21,590
Birchwood Leisure Centre	85,970	105,970	125,970	145,970	165,970	185,970
Business Rates Volatility	140,110	622,220	622,220	622,220	592,220	542,220
Christmas Decorations	13,870	13,870	13,870	13,870	13,870	13,870
City Hall Sinking Fund	60,460	60,460	60,460	60,460	60,460	60,460
Commons Parking	700	700	700	700	700	700
Corporate Training	60,300	60,300	60,300	60,300	60,300	60,300
Covid-19 Recovery	1,047,230	1047,230	847,230	0	0	0
Covid-19 Response	353,650	353,650	353,650	200,890	0	0
DRF Unused	1,600	1,600	1,600	1,600	1,600	1,600
Electric Van replacement	28,220	32,650	37,080	41,510	45,940	50,370
HiMO CPN Appeals	47,080	47,080	47,080	47,080	47,080	47,080
Grants & Contributions	1,878,3300	1,808,660	1,761,330	1,740,880	1,740,880	1,740,880
Income Volatility Reserve	320,000	320,000	320,000	320,000	320,000	320,000
Inflation Volatility Reserve	150,000	150,000	150,000	150,000	150,000	150,000
Invest to Save	100,780	500,780	500,780	500,780	500,780	500,780
IT Reserve	284,070	349,070	414,070	479,070	544,070	609,070
Lincoln Lottery	8,930	8,930	8,930	8,930	8,930	8,930
Mayoral Car	27,100	27,100	27,100	27,100	27,100	27,100
MSCP & Bus Station Sinking Fund	149,210	195,160	242,030	289,840	338,610	388,360
Private Sector Stock Condition Survey	51,460	3,460	15,460	27,460	39,460	51,460
Residents Parking Scheme	0	0	0	450	66,800	132,480
Revenues & Benefits Community Fund	25,450	25,450	25,450	25,450	25,450	25,450
Section 106 interest	31,570	31,570	31,570	31,570	31,570	31,570
Strategic Growth Reserve	5,090	5,090	5,090	5,090	5,090	5,090
Tank Memorial	10,000	10,000	10,000	10,000	10,000	10,000
Tree Risk Assessment	100,140	92,270	83,670	74,570	78,390	78,390
Vision 2025	595,300	386,710	370,060	361,810	352,810	352,810
Western Growth Corridor Planning	49,410	49,410	49,410	49,410	49,410	49,410
TOTAL GENERAL FUND	**6,465,430**	**7,119,780**	**6,984,840**	**6,146,740**	**6,177,220**	**6,394,080**

HOUSING REVENUE ACCOUNT EARMARKED RESERVES FORECAST 2022/23 to 2027/28

Description	Forecast Balance 31.03.23 £	Forecast Balance 31.03.24 £	Forecast Balance 31.03.25 £	Forecast Balance 31.03.26 £	Forecast Balance 31.03.27 £	Forecast Balance 31.03.28 £
Capital Fees Equalisation	110,034	110,034	110,034	110,034	110,034	110,034
De Wint Court Reserve	73,480	73,480	73,480	73,480	73,480	73,480
De Wint Court Sinking Fund	0	10,610	21,540	32,800	44,400	56,350
Disrepairs Management	300,000	300,000	300,000	300,000	300,000	300,000
Housing Business Plan	18,559	18,559	18,559	18,559	18,559	18,559
Housing Repairs Service	125,713	125,713	125,713	125,713	125,713	125,713
HRA IT	0	35,000	70,000	105,000	140,000	175,000
HRA Repairs Account	1,350,645	1,350,645	1,350,645	1,350,645	1,350,645	1,350,645
HRA Strategic Priority Reserve	515,723	515,723	515,723	515,723	515,723	515,723
HRA Invest to Save	162,248	45,028	43,768	43,768	43,768	43,768
RSAP/NSAP Sinking Fund	0	9,000	18,000	27,000	36,000	45,000
Strategic Growth Reserve (WGC)	4,872	4,872	4,872	4,872	4,872	4,872
TOTAL HOUSING REVENUE ACCOUNT	**2,661,275**	**2,598,665**	**2,652,335**	**2,707,595**	**2,763,195**	**2,819,145**