

## The Medium Term Financial Strategy

### 1. Introduction

- 1.1. Local government has been in a period of austerity since 2010 and has seen its funding reduced in real terms over this time. We will reach the end of a four year funding deal from the Government in 2019/20 which has seen a reduction in General Grant funding and more reliance on one-off specific grants and on local taxation to fund essential services. Council Tax income now represents almost 65% of our net expenditure (it was 51% in 2010/11).
- 1.2. In this context, it is essential that we plan for the future to ensure our financial sustainability, and this Medium Term Financial Strategy (MTFS) aims to help us do this.
- 1.3. This Medium Term Financial Strategy covers the next three years (2020/21 to 2022/23) and provides an update on the current financial context for the Council. The MTFS will be refreshed annually to take account of changing circumstances affecting our finances. The purpose of this strategy is to set out how we intend to manage the financial resources available to deliver our priorities for our communities.
- 1.4. In December 2019 the Council approved a new Corporate Plan. This MTFS will underpin the Corporate Plan by ensuring that financial resources are identified and made available to deliver its ambitions. The work to link these resources to priorities will be done over the next few months. The Corporate Plan sets out four key priorities, which are that People and Communities will have:
  - a) High aspirations;
  - b) The opportunity to enjoy life to the full;
  - c) Thriving environments; and
  - d) Good value Council services.
- 1.5. It must be recognised that over the past few years funding to all councils has been constrained. There is therefore a need to balance our aspirations with affordability and this is a key principle of our financial strategy.
- 1.6. As detailed within this strategy, there is still a large element of uncertainty over our future funding from Government, which makes it difficult to plan for the future. The financial year 2019/20 was the final year of a four year funding settlement and it had been hoped that a new multi-year settlement would be delivered by Government for 2020/21 onwards. We now know that this will not be in place for 2020/21; nevertheless, it is important that we do make plans using our best estimates of future funding as these plans will support the achievement of our ambitions and objectives as set out in the Corporate Plan. The principles within this strategy will apply over the longer term however the current uncertainties around future Government funding mean that it is not practicable to prepare a financial plan for a long term period, so our financial plans cover the medium term at this point in time. We aim to extend our financial planning to cover a longer term period once funding reforms are in place.

## **1 The Objectives of the Medium Term Financial Strategy**

1.1 The MTFS is a flexible strategy which will allow us to forecast our future financial resources and then plan to use these to both deliver core services and to invest in future improvements to service delivery. The objectives of the strategy are to:

- a) Ensure that we are financially resilient now and in the future and can respond positively to adverse financial impacts;
- b) Support the provision of Value for Money services to our communities;
- c) Support sustainable service delivery using a combination of Revenue and Capital Budgets and Reserves;
- d) Maintain Council Tax in the lowest quartile for county councils;
- e) Support other Council strategies;
- f) Deliver assets to improve and maintain services and also to achieve future savings;
- g) Enable the setting of an annual balanced budget. The annual Revenue Budget must be affordable and can be supported by the use of Reserves, but only as part of a medium term plan moving towards a future budget which is balanced without the support of reserves;
- h) Support good decision making;
- i) Recognise financial risks and identify how these will be managed; and
- j) Allow for emerging opportunities to be exploited within the affordable budget.

## **2 The Current Financial Context**

2.1 The past ten years have been a period of austerity for councils, with Government funding reducing significantly over this period. Councils like ours, with Social Care responsibilities, have seen new Government grants introduced to help deal with increasing Social Care pressures, but, over this time, the balance of our sources of funding has changed – we are now more reliant on Council Tax and Business Rates funding to support the provision of services, and less reliant on Government grants, than we were ten years ago (see section 6 for details on funding).

2.2 The table below shows a summary of how our funding has changed since 2011/12 and the cost pressures built into our budget and savings achieved over this same period:

Financial Trends							
Year	General Government Grant £m	Other Govt. Grants received £m	Total Govt. Grant income £m	Savings £m	Cost Pressures £m	Council Tax Increase	Planned Use of Reserves £m
2011/12	211	16	227	57	52	0.00%	0
2012/13	195	17	212	51	23	0.00%	0
2013/14	146	19	165	28	61	0.00%	12
2014/15	125	22	147	40	22	0.00%	8
2015/16	95	25	120	31	31	1.90%	22
2016/17	70	28	98	42	31	3.95%	20
2017/18	48	42	90	39	26	3.95%	18
2018/19	34	49	83	23	30	4.95%	5
2019/20	20	61	81	16	26	4.95%	3

2.3 The current regime for funding councils has been in place since 2013 and is now out-dated. The Government is proposing two major reforms to the system: the Fair Funding Review and Business Rates Retention. Reforms were due to be implemented from April 2020 but have now been deferred until April 2021.

2.4 A Government Spending Review will take place in 2020 to determine the amounts to be allocated to each Government spending department. It is not yet known what period of time the Spending Review outcomes will cover, but this review will certainly influence the overall total amount to be allocated to the local government sector.

2.5 The economic outlook is currently uncertain, with the issue of the United Kingdom's exit from the European Union still in progress and a new Government in place following the General Election on 12 December 2019. In the context of this uncertainty the Government announced in October that funding for Councils in 2020/21 would be "rolled forward", meaning that it would be largely in line with that in 2019/20 plus some additional grants. Economic forecasts show that inflation is likely to remain close to 2% over the next two years although wage inflation is currently running above this level. Economic growth is expected to remain at a low level and all of these forecasts assume that a Brexit deal will be achieved.

### 3 The Forward View

3.1 With regard to the proposed funding reforms, we have lobbied Government to increase the total amount of funding coming to the sector as a whole and have specifically requested that Government look at the distribution of funding to this Council with a view to addressing past inequalities between authorities. Whilst we believe that the Government understands the challenges of delivering services in a large rural county, we are still cautious about future funding levels given the amount of uncertainty outlined above.

3.2 We expect that next Autumn (2020) will see the release of more information about the impact of the funding reforms on individual councils, which will enable us to have a clearer picture of our future Government support over the medium term period. In the meantime, we are setting a budget for one year only, whilst still planning for the

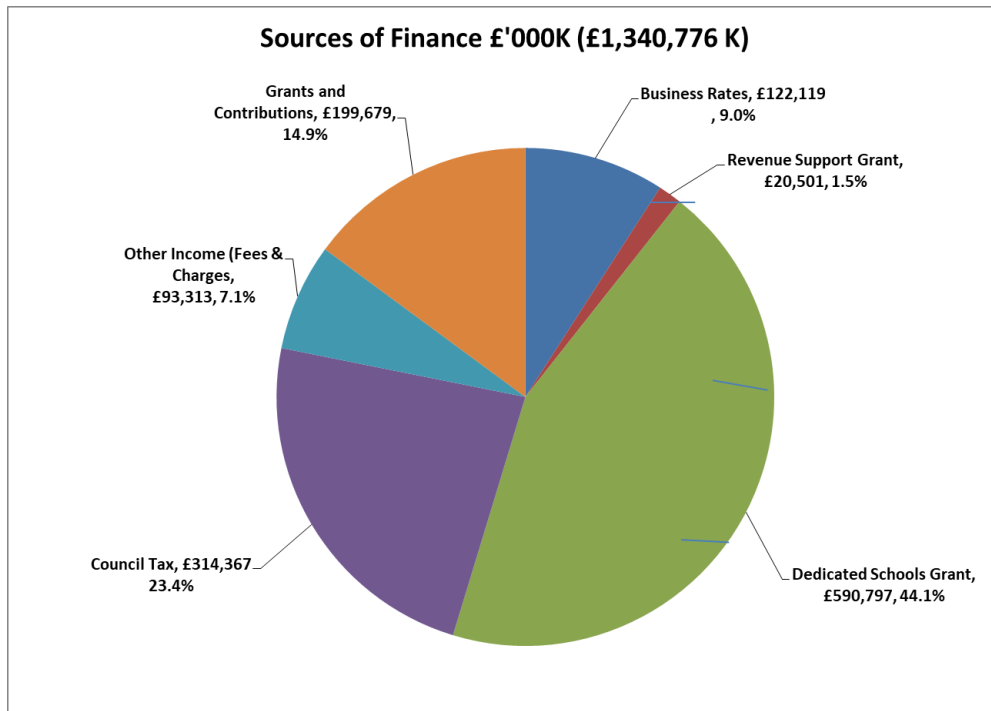
medium term. MTFS Table 1 below sets out our expected medium term budgetary position and proposed budget requirement for each year:

### MTFS TABLE 1 - Summary Revenue Budget 2020/21 Onwards

SUMMARY REVENUE BUDGET	2020/21 £m	2021/22 £m	2022/23 £m
<b>EXPENDITURE:</b>			
Net Base Budget	461.283	489.344	501.660
Cost Pressures ( <i>including inflation</i> )	44.123	17.514	7.772
Savings & Additional Income	-14.842	-5.198	-0.628
Other Movements (PH Grant & BCF Grant)	-1.221	0.000	0.000
<b>Total Expenditure</b>	<b>489.343</b>	<b>501.660</b>	<b>508.804</b>
Use of Reserves	-	-13.037	-6.096
Contribution to Development Fund	1.800	-	-
Transfer to/from General Reserve	0.200	0.200	0.200
<b>Budget Requirement</b>	<b>491.343</b>	<b>488.823</b>	<b>502.908</b>
<b>INCOME:</b>			
Business Rates Local Retention	122.119	124.267	126.454
Revenue Support Grant	20.501	20.870	21.246
Other Grants	34.357	18.316	18.446
County Precept	314.367	325.370	336.762
<b>Total Income</b>	<b>491.343</b>	<b>488.823</b>	<b>502.908</b>

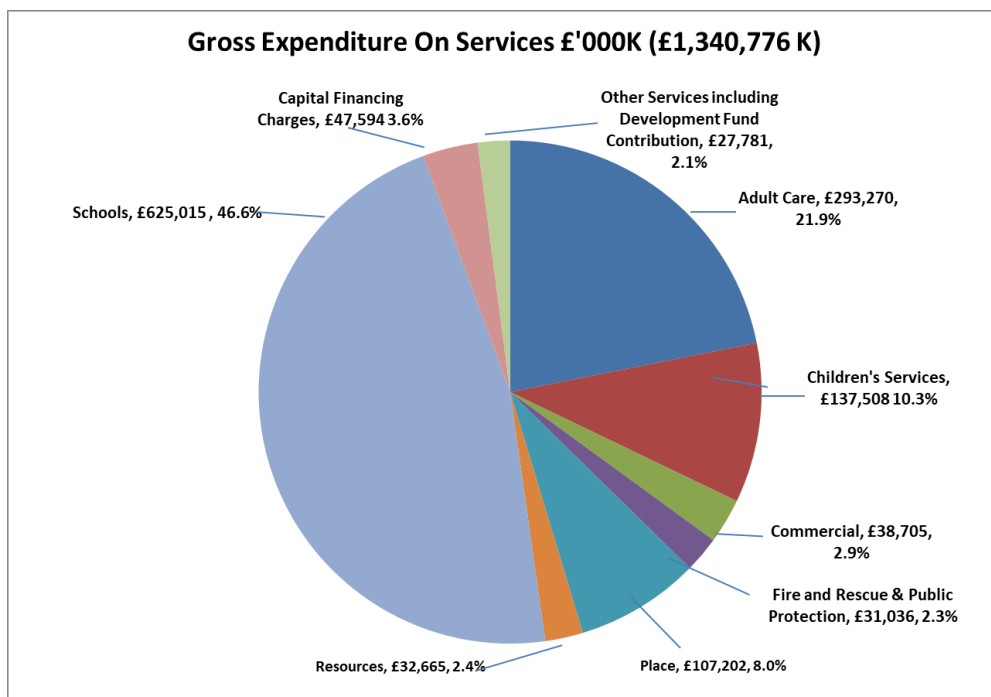
- 3.3 Our funding for 2020/21 is estimated, but based on the Local Government Finance Settlement 2020/21 Technical Consultation which was released on 9 October 2019. Our funding beyond 2020/21 is based on assumptions about the future and our key assumptions are shown in MTFS Appendix I. Until we receive the final settlement we will not know how accurate our assumptions are and MTFS Appendix I includes a sensitivity analysis which shows the impact of our assumptions on the budget.
- 3.4 We have been through a detailed budget exercise this year which aimed to resolve the forecast deficit over the next three years. As contracts are renewed over the next two to three years we will need to continue to review cost pressures for Adult Social Care.
- 3.5 The table above shows how our base budget each year is increased by cost pressures and reduced by savings or additional income. MTFS Appendix II provides more detail to support the total amount of cost pressures added to our budget in 2020/21, whilst MTFS Appendix III provides more detail to support the total amount of savings or additional income added to our budget in the same year.
- 3.6 We expect our total funding next year to be £1,340.776m. MTFS Pie Chart 1 below shows where this funding will come from.

## MTFS PIE CHART 1 - Sources of Funding Revenue Budget 2020/21



3.7 The following pie chart shows how this total of £1,340.776m will be used to fund our services.

## MTFS PIE CHART 2 - Gross Expenditure on Services – Revenue Budget 2020/21



MTFS Table 2 below shows our proposed Revenue Budget by service delivery area:

**MTFS TABLE 2 - Net Service Revenue Budgets**

Revenue Budgets	2019/20 £m	2020/21 £m
<b>Children's Services</b>		
Commissioning and Health Services	42.306	43.522
Early Help Services	18.234	18.383
Education & SEND Services	11.996	12.435
Children Safeguarding	40.344	40.717
<b>Adult Care and Community Wellbeing</b>		
Adult Frailty & Long Term Conditions	119.933	120.653
Adult Specialities	76.291	80.418
Public Health & Community Wellbeing	29.669	28.787
Public Health Grant Income	-31.800	-32.341
Better Care Funding	-46.343	-47.023
<b>Place</b>		
Communities	47.350	46.532
Lincolnshire Local Enterprise Partnership	0.406	0.413
Growth	3.429	3.494
Highways	23.191	22.549
<b>Fire and Rescue &amp; Public Protection</b>		
Fire and Rescue & Emergency Planning	19.872	21.894
Public Protection	3.391	3.459
<b>Resources</b>		
Resources	20.460	22.547
<b>Commercial</b>		
Commercial	32.067	34.139
<b>Corporate Services</b>		
Corporate Services	2.176	2.490
<b>Other Budgets</b>		
Other Budgets	50.987	68.951
<b>Schools</b>		
Schools Block	428.021	451.754
High Needs Block	84.418	91.285
Central School Services Block	4.257	3.710
Early Years Block	40.708	41.373
Dedicated Schools Grant	-560.080	-590.797
<b>Total Net Expenditure</b>	<b>461.283</b>	<b>489.344</b>
Transfer to/from Earmarked Reserves	-3.087	-
Contribution to Development Fund	-	1.800
Transfer to/from General Reserves	0.200	0.200
<b>Budget Requirement</b>	<b>458.396</b>	<b>491.343</b>

3.8 We have a ten year Capital Programme, which is a budget set aside to deliver new or improved assets and to maintain existing assets used to deliver services. The proposed Capital Programme is affordable over the longer term, within the context of our budget assumptions and in line with our Capital Strategy, which also covers a

longer term period up to ten years. The table below is a summary of our proposed Capital Programme and its proposed funding:

	2019/20 £m	2020/21 £m	Future Years £m
<b>Gross Capital Programme</b>	<b>243.743</b>	<b>170.077</b>	<b>364.159</b>
Funded By:			
<b>Grants and Contributions</b>	<b>105.092</b>	<b>67.839</b>	<b>60.025</b>
Revenue Funding	0.625	0.030	1.105
Use of Reserve	4.201	0.000	0.000
Borrowing	133.825	102.208	303.029
<b>Funding by LCC</b>	<b>138.651</b>	<b>102.238</b>	<b>304.134</b>
<b>Total Funding</b>	<b>243.743</b>	<b>170.077</b>	<b>364.159</b>

3.9 A summary Capital Programme is shown in MTFS Appendix IV.

3.10 The Medium Term Financial Plan shows that we can balance the budget in 2020/21, but this is mainly because we will receive an additional grant of £14.732m next year to support Social Care pressures. Beyond 2020/21 we do not expect to be able to set a balanced budget without using our reserves to bridge the deficit each year; however, this is subject to change depending on the future of Government funding for Social Care and for local government generally. We believe our funding assumptions to be realistic, but cautious. The Government was due to have published a green paper on the reform of Adult Social Care funding by now but there is still no prospect of this in the near future.

3.11 We still have to plan to bridge the budget gap in the event that additional Social Care funding does not transpire. A programme of transformation is starting now, with a number of fundamental service reviews and some development initiatives to be identified in the budget setting reports during the life of this MTFS. It is expected that this programme will start to deliver savings by 2021/22 onwards.

#### **4 Delivering the Medium Term Financial Strategy**

4.1 The Strategy provides a framework within which we can manage the financial resources available to deliver our priorities for our communities over the medium term. To deliver this successfully requires a culture of good financial management within the Council, which is led by the Executive Director of Resources (the Section 151 Officer) and the Leadership Team, which includes our elected Members as well as Chief Officers. The Section 151 Officer has certain responsibilities for financial management which are set out in regulations, and must follow CIPFA's Codes of Practice.

- 4.2 To support this culture we have a set of financial regulations and procedures, as well as schemes of authorisation, which give guidance to Officers about their financial responsibilities.
- 4.3 The Strategy supports the Council's other key strategies, by setting the financial context for the Council and by clarifying the levels of investment that we can make in the future to deliver services and improve and maintain our assets.
- 4.4 We have an Earmarked Reserve, called the Financial Volatility Reserve, which can be used to support the Revenue Budget in any given year if the requirement to spend is higher than the resources available. Our strategy is that this will only be a temporary solution to balance the budget whilst we work towards finding budget savings or increased funding to ensure that our budgetary position is sustainable. We also have General Reserves which can be called upon to meet any unexpected financial pressures in the year, if these cannot be funded from any other source.
- 4.5 The Strategy is supported by financial performance indicators, which are shown in MTFs Appendix V. These are monitored during the year and performance is reported at the end of the year.
- 4.6 During each financial year, the approved Revenue Budget and the approved Capital Programme are monitored and performance against each is regularly reported to the Corporate Leadership Team and the Executive, with scrutiny applied by the Overview and Scrutiny Management Board.

## **5 Key Considerations for the Medium Term Financial Strategy**

### Council Tax

- 5.1 As part of its Technical Consultation released on 9 October, the Government has proposed a referendum limit for general Council Tax of 2%, and is once again allowing the raising of local tax to support Adult Social Care with an additional 2% precept. This gives a potential total Council Tax increase of 4%.
- 5.2 We are proposing to implement the Adult Social Care precept at 2.00% in addition to a 1.50% general Council Tax increase, giving a total increase of 3.50% for 2020/21 (i.e. 0.5% lower than the proposed referendum limit). Our modelling assumes that beyond 2020/21 our Council Tax increases will be 2% each year.

### Business Rates

- 5.3 Our Business Rates funding is made up of two elements, an amount actually collected by the seven District Councils in Lincolnshire, and a top up Grant from central Government, as the total Business Rates collected in Lincolnshire are not sufficient to cover Local Authority spending in the area.
- 5.4 Any surpluses or deficits on the Business Rates element of the Collection Fund are not received from the Lincolnshire District Councils until 31 January each year. In 2019/20 this was a surplus of £6.157m for the County Council, for one-off reasons, but was a deficit in the previous year. The surplus from 2019/20 was transferred to a Business Rates Volatility Earmarked Reserve and will be used to cover any deficit in future years. We have therefore assumed a neutral position for the Business Rates element of the Collection Fund. It is worth noting that only 10% of the Business



Rates collected locally are passed to Lincolnshire County Council and any share of surpluses or deficits will also be on this basis.

- 5.5 In addition to the above Business Rates funding in previous financial years, the Council received Section 31 Grant as compensation of central Government RPI cap, and reliefs offered to small and rural businesses. It is anticipated that Government will continue to compensate local authorities in full for the extension of Small Business Rate Relief and new Rural Rate Relief.
- 5.6 After participating in a Business Rates Pilot scheme during 2018/19, we were unsuccessful in our bid to continue as a pilot authority during 2019/20. There are no new pilot schemes in 2020/21 so we have reverted to being in a Business Rates Pool. Pooling provides us with additional Business Rates growth income and we have assumed that this will be £2.800m for 2020/21.

### Government Funding

- 5.7 We receive General Grant from the Government in the form of Revenue Support Grant. This grant has reduced from its level of £70.351m in 2016/17 to £20.139m in 2019/20. The future of Revenue Support Grant is uncertain given the Government's funding reform agenda, but we have assumed that it will continue at the 2019/20 level, plus inflation, for 2020/21.
- 5.8 In addition to Revenue Support Grant we receive a number of other specific Government grants to support our expenditure, the largest of these being the Better Care Fund and the Public Health grants.

### Fees and Charges

- 5.9 The charges made to service users form a significant part of our total gross income, and therefore make an important contribution to the funding of services. MTFS Pie Chart 1 (paragraph 4.6 above) shows that fees, charges and other income is expected to be £92.194m in 2020/21. This income relates to a number of our services, with over half of it coming from users of Adult Social Care services.

### Reserves

- 5.10 We hold two types of reserves: General Reserves, which are held as a fund of last resort to cover unexpected and unbudgeted costs which cannot be funded from our Revenue Budget, and Earmarked Reserves, which are funds held for specific purposes and to cover future costs relating to those purposes. Earmarked Reserves are either created from grants and financial contributions received by the Council, or from underspends in the Revenue Budget at year end.
- 5.11 Our General Reserves currently stand at £15.850m, and our strategy is to maintain these reserves at a level which is between 2.5% and 3.5% of the budget requirement each year. The current level is 3.5% of the 2019/20 budget requirement. We carry out an annual risk assessment to ensure that the General Reserves are at a level which is appropriate to cover known risks and the financial risk register used for this assessment is at MTFS Appendix VII.
- 5.12 We will budget for an estimated contribution to or from General Reserves each year to ensure that the level of these reserves keeps pace with the budget requirement and the updated risk assessment.

5.13 Our Earmarked Reserves are currently valued at £189.234m, which includes an Earmarked Reserve which is ring-fenced for Schools of £12.540m. The

Council approves the creation of any new Earmarked Reserves. Our strategy is to regularly review Earmarked Reserves so that they are used for the purposes originally intended, or removed if no longer required, with the funding diverted for a new agreed purpose.

5.14 Within Earmarked Reserves there is a Financial Volatility Reserve which exists to deal with volatility in costs and to support the budget whilst savings are being delivered. There are a number of other Earmarked Reserves which are also used to cover volatility in costs and these support our financial resilience.

5.15 The Financial Volatility Earmarked Reserve currently stands at £55.769m. The MTFP in MTFS Table 1 (paragraph 4.2) indicates that we will need to draw down £13.037m from this reserve in 2021/22 and a further £6.096m in 2022/23. This will leave a balance in the Financial Volatility reserve of £36.636m by the end of the medium term period. Proposed Earmarked Reserves are shown at MTFS Appendix VI.

#### Flexible Use of Capital Receipts

5.16 In September 2016 the Council approved the Efficiency Plan, and the flexible use of Capital Receipts, to fund transformation for the three year period from 2016/17 to 2018/19. This plan allowed the Council to sign up to the four year funding deal offered by Government for the period 2016/17 to 2019/20. In December 2017, the Government set out further measures to support councils to deliver services. One of these measures was an extension to the use of Capital Receipts to help meet the Revenue costs of transformation for a further 3 years to April 2022.

5.17 From next year, 2020/21, we no longer plan to use Capital Receipts to fund transformation projects. Instead, we plan to use our Earmarked Reserves for this purpose. This will allow us to revert to using Capital Receipts to repay borrowing or to finance new Capital expenditure.

#### Financial Performance

5.18 We have a strong financial foundation upon which to build future years' budgets. Indicators of this are:

- We have prepared for this eventuality by setting aside money in reserves to help smooth the transition to a lower budget base;
- We have a culture of financial management which generally results in expenditure being contained within budgets;
- Prompt action has been taken to reduce budgets in the early years of austerity;
- A prudent approach has been taken to budgeting and this often results in underspends at the end of the year. This in turn has allowed for Earmarked Reserves levels to be increased;
- The CIPFA Financial Resilience Index has just been made available, and early indications are that this Council has a reasonable level of financial resilience;

- The Leader of the Council is the Executive Portfolio Holder for finance and has a good understanding of financial issues. The Executive is involved in the budget process.

### Governance, Risk and Opportunities

5.19 As set out in section 5 above, we have a strong culture of good financial management and this is supported by a governance framework as follows:

#### *Constitution and Financial Regulations*

All Council business is conducted in accordance with the policies and procedures set out in our Constitution, which defines how we operate, how decisions are made, and the procedures that must be followed.

#### *Financial Procedures*

In order to conduct our business efficiently, we need to ensure that we have sound financial management policies and procedures in place and this is done through our Financial Procedures. These set out the financial accountabilities of individuals and the procedures to be followed.

#### *Council*

The Council's financial affairs are operated through a number of Member committees which have delegated powers. Decisions that cannot be delegated are taken at meetings of full Council.

#### *The Executive*

Each year, the Council agrees a policy framework and budget, and it is the responsibility of the Executive to implement the framework and budget. The Executive has special responsibilities for financial matters.

#### *Scrutiny Committee*

The Overview and Scrutiny Management Board reviews and scrutinises any decision made by the Executive, Executive Councillor or key decision made by an officer.

The key aim of scrutiny is to:

- Provide healthy and constructive challenge
- Give voice to public concerns
- Support improvement in services
- Provide independent review

#### *Audit Committee*

The Council's Audit Committee plays a vital role overseeing and promoting good governance, ensuring accountability and reviewing the ways things are done.

It provides an assurance role to the Council by examining areas such as audit, risk management, internal control, counter fraud and financial accountability. The Committee exists to challenge the way things are being done and make sure the right processes are in place. It works closely with both internal audit and senior

management to continually improve the Council's governance, risk and control environment.

#### *Internal Audit*

The Council maintains an adequate and effective system of internal audit of the accounting records and the systems of internal control in line with the requirements of the Accounts and Audit (Amendment) (England) Regulations 2011.

#### *External Audit*

An external audit service to the Council is currently provided by Mazars, who report on an annual basis to the Audit Committee on their findings in respect of the Statement of Accounts and on the Council's Value for Money arrangements.

#### *Chief Finance Officer*

The Council has designated the Executive Director – Resources as the Chief Finance Officer under Section 151 of the Local Government Act 1972. He leads and directs the financial strategy of the Council. He is a member of the Leadership Team and has a key responsibility to ensure that the Council controls and manages its money well. He is able to operate effectively and perform his core duties, complying with the CIPFA Statement on the role of the Chief Finance Officer.

#### *Monitoring Officer*

The Chief Legal Officer is the designated Monitoring Officer, with responsibility for ensuring the lawfulness of decisions taken by us as detailed in the Constitution. The Monitoring Officer is responsible for ensuring the Council complies with its duty to promote and maintain high standards of conduct by Members and co-opted Members of the authority.

#### *Risk Management Strategy*

The Audit Committee has overall responsibility for ensuring that the Council's risk management framework is robust, and provides assurance that strategic and operational risks which the Council faces have been identified and managed. Our financial risk register is at MTFS Appendix VII.

5.20 Our strategy is to take account of risk when preparing the MTFP. We have a number of budgets which are volatile because the amount we spend in each year depends on either demand for services or on other factors which we do not control e.g. the weather. We forecast the amount required for such budgets based on the most likely scenarios and hold amounts in contingencies and earmarked reserves to support these budgets if expenditure is higher than expected.

5.21 Our MTFP is supported by assumptions about a number of factors affecting the budget, and we model scenarios based on differing levels of risk for each major assumption: high risk (the outcome which results in a higher risk to our financial position); medium risk (the most realistic outcome); low risk (the outcome which results in a lower risk to our financial position). This provides us with a range of possible financial positions for the future, which we can take account of when making major decisions. We update the MTFP as detailed information about our future costs, income and funding is confirmed.

5.22 We need to ensure that we can grow and develop as a Council, as well as maintain existing core services. To do this we need to be able to make the most of opportunities when they arise. The MTFs allows us to do this by establishing funding for investing in new ideas. Examples of this are:

- Budget holders can bid for investment in new opportunities (either revenue or capital) as part of the annual budget process. These will be considered in the context of the business case and affordability.
- Council Directorates can carry forward up to 1% of their budgets to the following year to the extent that they have delivered a budget underspend..
- We have a New Development Capital Fund of £7.5m each year. Budget Holders can bid for funding from this to spend on new capital schemes.
- There are a number of earmarked reserves which can be used to fund investment in new opportunities.

## MTFS APPENDIX I

Funding / Expenditure Area	Assumption	2020/21 £000's	Impact of 1% Change £000's	Impact of 5% Change £000's
<b>Funding</b>				
Revenue Support Grant	2019/20 level plus 1.8% inflation pa	-20,501	-205	-1,025
Rural Services Delivery Grant	2019/20 level plus 1.8% inflation pa	-7,060	-71	-353
New Homes Bonus Grant	2019/20 level plus 1.8% inflation pa	-2,182	-22	-109
Independent Living Fund	Reduction of 2.5% pa	-1,554	-16	-78
Public Health Grant	2019/20 level plus 1.8% inflation 2020/21, then flat-lined	-32,341	-323	-1,617
Better Care Funding	2019/20 level plus £680,000 for 2020/21, then flat-lined	-47,023	-470	-2,351
Council Tax Collection Fund Surplus	2019/20 surplus with no growth	-2,670	-27	-133
Council Tax	Taxbase growth 1.5% pa * Band D increase 3.5% / 2% / 2%	311,709	N/A	N/A
BR Collection Fund Surplus	Deficit can be eliminated using volatility reserve	0	0	0
BR collected locally	2019/20 plus growth of 1.8% pa	-21,437	-214	-1,072
BR Top Up Grant	2019/20 plus growth of 1.8% pa	-91,456	-915	-4,573
BR S31 Grant	2019/20 plus growth of 1.8% pa	-6,427	-64	-321
BR Pooling Gain	£2.799m pa based on latest estimate	-2,799	-28	-140
Social Care Grant	2019/20 amount rolled forward for 3 years	-5,754	-58	-288
Social Care Grant (New)	New grant confirmed for 2020/21 only	-14,732	N/A	N/A
<b>Expenditure</b>			-2,412	-12,060
Pay Inflation	2% pa	3,287	33	164
LGPS Employers Contribution	1.1% increase pa	1,688	17	84
LGPS Lump Sum Deficit	18% increase per annum	1,172	12	59
<b>Total</b>			61	307

MTFS APPENDIX II

<b>COST PRESSURES 2020/21</b>			
<b>Service Area</b>	<b>Anticipated Cost Pressures 2020/21 £000's</b>	<b>Anticipated Cost Pressures 2021/22 £000's</b>	<b>Anticipated Cost Pressures 2022/23 £000's</b>
COST PRESSURES ADULT CARE & COMMUNITY WELLBEING	12,150	5,008	0
COST PRESSURES CHILDREN'S SERVICES	2,311	1,790	1,487
COST PRESSURES PLACE	254	42	42
COST PRESSURES FIRE AND RESCUE & PUBLIC PROTECTION	1,793	0	11
COST PRESSURES COMMERCIAL	2,873	945	218
COST PRESSURES RESOURCES	2,639	80	0
COST PRESSURES CORPORATE SERVICES	286	0	0
<b>TOTAL COST PRESSURES SERVICES</b>	<b>22,306</b>	<b>7,865</b>	<b>1,758</b>
<b>TOTAL COST PRESSURES: OTHER BUDGETS</b>	<b>18,778</b>	<b>6,560</b>	<b>2,864</b>
<b>TOTAL COST PRESSURES SERVICES AND OTHER BUDGETS</b>	<b>41,084</b>	<b>14,425</b>	<b>4,622</b>
<b>INFLATIONARY COST PRESSURES</b>	<b>3,040</b>	<b>3,089</b>	<b>3,150</b>
<b>TOTAL COST PRESSURES INCLUDING INFLATION</b>	<b>44,123</b>	<b>17,513</b>	<b>7,772</b>

## MTFS APPENDIX III

<b>SAVINGS 2020/21</b>			
<b>Service Area</b>	<b>Proposed savings 2020/21 £</b>	<b>Proposed savings 2021/22 £</b>	<b>Proposed savings 2022/23 £</b>
SAVINGS ADULT CARE & COMMUNITY WELLBEING	-8,708	-3,901	-100
SAVINGS CHILDREN'S SERVICES	-1,232	-131	-22
SAVINGS PLACE	-2,020	-159	0
SAVINGS FIRE AND RESCUE & PUBLIC PROTECTION	-115	0	0
SAVINGS COMMERCIAL	-950	0	0
SAVINGS RESOURCES	-1,004	0	0
<b>TOTAL SAVINGS SERVICES</b>	<b>-14,030</b>	<b>-4,191</b>	<b>-122</b>
<b>TOTAL SAVINGS OTHER BUDGETS</b>	<b>-812</b>	<b>-1,006</b>	<b>-506</b>
<b>TOTAL SAVINGS SERVICES AND OTHER BUDGETS 2020/21</b>	<b>-14,842</b>	<b>-5,198</b>	<b>-628</b>



## Capital Programme

Capital Programme (2019/20 plus Future Years)	Revised Gross Programme 2019/20 £'000	Revised Gross Programme 2020/21 £'000	Gross Programme Future Years £'000
<b>ADULT CARE AND COMMUNITY WELLBEING</b>			
Adult Care and Community Wellbeing	6,149	2,800	0
<b>SCHOOLS</b>			
Schools	31,118	32,047	114,125
<b>CHILDREN'S SERVICES</b>			
Children's Services	857	425	1,979
<b>PLACE</b>			
Communities	3,955	5,222	9,685
Growth & Economy	21,013	4,600	1,500
Highways	142,487	90,720	126,203
<b>FIRE AND RESCUE &amp; PUBLIC PROTECTION</b>			
Public Protection	98	0	0
Fire and Rescue & Emergency Planning	8,590	6,656	6,489
<b>COMMERCIAL</b>			
Property	9,755	5,970	30,227
ICT	10,990	10,000	13,951
<b>OTHER BUDGETS</b>			
Other Budgets	8,732	11,638	60,000
<b>Total Budget</b>	<b>243,743</b>	<b>170,077</b>	<b>364,159</b>

## Funding of the Capital Programme

	2019/20 £'m	2020/21 £'m	Future Years £'m
Grants and Contributions	<b>105.092</b>	<b>67.839</b>	<b>60.025</b>
Borrowing	133.825	102.208	303.029
Use of Reserve	4.201	0.000	0.000
Revenue Funding	0.625	0.030	1.105
<b>Total Funding</b>	<b>243.743</b>	<b>170.077</b>	<b>364.159</b>

**Key Financial Performance Measures: Financial Health & Performance**

REF	PERFORMANCE INDICATOR	MEDIUM TERM TARGET	2019/20 Estimate	2020/21 Estimate
1	Council tax compared with other counties	In lowest quartile of all English county councils (out of 27 county councils)	Yes	Yes
2	Government grants	Lobby for annual increases in general government grants to be above the county average	Yes	Yes
3	Minimum Revenue Provision and Interest	MRP and Interest repayments not to exceed 10% of net income	5.68%	6.26%
4	Accounting	Unqualified external audit opinion	Yes	Yes
5	General Reserves	Maintained within the range of 2.5% to 3.5% of the annual budget requirement net of Dedicated Schools Grant	Within range 3.5%	Within range 3.5%
6	Internal control	None of the processes audited receive a "no assurance" opinion from internal audit	Yes	Yes
7	Expenditure - prompt payment	At least 90% of undisputed invoices paid within 30 days	90.00%	90.00%
8	Treasury management	Risk adjusted return comparison	Weighted Benchmark	Weighted Benchmark

## Earmarked Reserves

Directorate	Reserve	Actual Balance as at 31 March 2019 £'000	Transfer from "Earmarked Reserves - Approved by Council" £'000	Transfer from existing reserve to amalgamated reserve £'000	Total planned use from 2019/20 onwards £'000	Amount of Reserve to be Released to Development Fund £'000	Balance on reserve after planned future use and proposed changes £'000
1 Children's Services - Education	<b>Balances from dedicated schools budget including those held by Schools under a scheme of delegation</b>	<b>12,540</b>	<b>20,638</b>	<b>0</b>	<b>-33,178</b>	<b>0</b>	<b>0</b>
<b>Other Earmarked Reserves</b>							
2 Children's Services - Education	Schools Sickness Insurance Scheme	519	362	0	-881	0	0
3 Children's Services - Education	S77 Poplar Farm School Project	0	344	0	-344	0	0
<b>Children's Services - Education Total Other Earmarked Reserves</b>		<b>473</b>	<b>0</b>	<b>-473</b>			<b>0</b>
D Children's Services	Youth Service Positive Activities Development Fund	20	0	0	0	20	
4 Children's Services	Youth Offending Service	512	0	0	0	312	200
5 Children's Services	Young People in Lincolnshire	252	0	0	-252	0	0
6 Children's Services	Families Working Together	599	0	0	-599	0	0
7 Children's Services	Music Service Reserve (carry forward)	148	0	0	-148	0	0
<b>Children's Services - Total Other Earmarked Reserves</b>							<b>200</b>
D Place	Adverse Weather	67	433	0	0	500	
8 Place	Museum Exhibits	133	0	0	-133	0	0
9 Place	Development - Economic Development Reserve PROPOSED TO RE-NAME AS "GROWTH" RESERVE	215	0	665	-880	0	0
D Place	Development - Lincs Coastal Country Park	49	0	0	-2	47	
10 Place	Salix Carbon Management PROPOSED TO RE-NAME AS "CARBON MANAGEMENT RESERVE"	40	0	0	-40	0	0
D Place	Flood and Water Risk Management	558	96	0	-160	494	
D Place	Lincoln Eastern Bypass (LEB)	500	0	0	0	500	
D Place	Street Lighting Earmarked Reserve	100	0	0	0	100	
11 Place	Heritage Services Earmarked Reserve PROPOSED TO RE-NAME AS "CULTURAL SERVICES"	262	0	94	-312	0	44
D Place	Highways Advanced Design	834	0	0	0	834	
D Place	Environmental Improvements Sustainability Reserve (Environment)	1,000	0	0	-250	750	
D Place	Environmental Improvements Sustainability Reserve (Infrastructure)	4,000	0	0	0	4,000	
12 Place	Highways Permitting Reserve Income PROPOSED TO RE-NAME AS "TRAFFIC MANAGEMENT"	394	0	879	-950	0	323
<b>Place - Total Other Earmarked Reserves</b>							<b>367</b>
13 Fire and Rescue and Public Protection	Safer Communities Development Fund" PROPOSED TO RE-NAME AS "COMMUNITY SAFETY"	556	0	310	-846	0	20
14 Fire and Rescue and Public Protection	Co-Responders Services	450	0	400	-519	31	300
D Fire and Rescue and Public Protection	Domestic Homicide Reviews	71	0	0	0	71	
<b>Fire and Rescue and Public Protection - Total Other Earmarked Reserves</b>							<b>320</b>
15 Commercial	Procurement	1,063	52	65	-966	162	52
16 Commercial	Support Service Contract Reserve PROPOSED TO RE-NAME AS "CSSC TRANSFORMATION INCLUDING BW RE-BUILD AND DEVELOPMENT"	2,296	0	1,100	-3,396	0	0
17 Commercial	Property Management	130	0	50	-155	25	0
D Commercial	Corporate Property Business Case	100	0	0	0	100	
<b>Commercial - Total Other Earmarked Reserves</b>							<b>52</b>
18 Resources	Legal	843	738	0	0	0	1,581
D Resources	Purchase of Employee Leave Scheme Reserve	264	0	0	-144	120	
<b>Resources - Total Other Earmarked Reserves</b>							<b>1,581</b>
19 Corporate Services	Local Welfare Provision Reserve PROPOSED TO RE-NAME AS "COMMUNITY ENGAGEMENT RESERVE"	15	0	76	-91	0	0
<b>Corporate Services - Total Other Earmarked Reserves</b>							<b>0</b>
20 Other Budgets	1% carry forwards transfer to revenue	36,834	0	0	-33,360	0	3,474
21 Other Budgets	Insurances	5,237	500	0	-5,737	0	0
22 Other Budgets	Financial Volatility Reserve	45,595	10,174	0	0	0	55,769
23 Other Budgets	Business Rates Volatility Reserve	1,683	0	0	-1,683	0	0
24 FORMERLY Place NOW "OTHER BUDGETS"	Energy from Waste Lifecycles	4,987	0	0	-4,987	0	0
<b>25 Other Budgets Development Fund</b>							<b>10,180</b>
<b>Other Budgets - Total Other Earmarked Reserves (excluding Development Fund)</b>							<b>59,243</b>
<b>Total Other Earmarked Reserves</b>		<b>113,322</b>	<b>12,722</b>	<b>655</b>	<b>-56,870</b>	<b>8,066</b>	<b>61,763</b>

Directorate	Reserve	Actual Balance as at 31 March 2019 £'000	Transfer from "Earmarked Reserves - Approved by Council" £'000	Transfer from existing reserve to amalgamated reserve £'000	Total planned use from 2019/20 onwards £'000	Amount of Reserve to be Released to Development Fund £'000	Balance on reserve after planned future use and proposed changes £'000
<b>Revenue Grants and Contributions Unapplied</b>							
1	Children's Services - Education Schools Grant & Contribution Reserve	6,075	0	0	-6,075	0	0
<b>Children's Services Education - Total Revenue Grants and Contributions Unapplied</b>							
<b>0</b>							
D	Adults and Community Wellbeing ASC LD - Supporting People	990	0	0	0	990	
D	Adults and Community Wellbeing Personal Health Budgets	288	0	0	0	288	
D	Adults and Community Wellbeing Care Act Implementation Grant	255	0	0	0	255	
2	Adults and Community Wellbeing Public Health Grant PROPOSED TO RE-NAME AS "PUBLIC HEALTH RESERVE"	3,746	0	1,152	0	0	4,897
3	Adults and Community Wellbeing Adult Care Reserve	0	0	35,045	-13,079	0	21,966
<b>Adults and Community Wellbeing - Total Revenue Grants and Contributions Unapplied</b>							
<b>26,864</b>							
4	Children's Services Children's Grant & Contribution	8,455	0	0	-8,066	389	0
5	Children's Services LSCB Grants & Contributions	335	0	0	-335	0	0
D	Children's Services SEN Grant for SEND	1,069	0	0	-877	192	
<b>Children's Services - Total Revenue Grants and Contributions Unapplied</b>							
<b>0</b>							
6	Place Section 38 Agreement G & C Reserve	2,068	0	0	0	0	2,068
7	Place Growth Points Lincoln	73	0	0	-73	0	0
8	Place Growth Points Grantham	1,001	0	0	-1,001	0	0
9	Place Road Safety - Lincs Police	56	0	0	0	0	56
10	Place Highways & Transport Grants & Contributions PROPOSED TO RE-NAME AS "TRANSPORT SERVICES"	447	-261	0	-186	0	0
11	Place Environment, Planning & Cust Services PROPOSED TO RE-NAME AS "ENVIRONMENT PROJECTS"	262	0	-50	-212	0	0
12	Place Traffic Commissioner Threshold	0	261	0	0	0	261
<b>Place - Total Revenue Grants and Contributions Unapplied</b>							
<b>2,385</b>							
13	Fire and Rescue and Public Protection Safer Communities Revenue Grant & Contribution	172	0	0	-172	0	0
14	Fire and Rescue and Public Protection Fire and Rescue Grant PROPOSED TO RE-NAME AS "FIRE AND RESCUE"	51	0	399	-430	0	20
15	Fire and Rescue and Public Protection Trading Standards EM G&C Earmarked Reserve	448	0	0	-448	0	0
<b>Fire and Rescue and Public Protection - Total Revenue Grants and Contributions Unapplied</b>							
<b>20</b>							
<b>65 0 -65 0 0 0</b>							
16	Corporate Services Community Resilience Grant and Contribution Earmarked Reserve	215	0	0	-215	0	0
<b>Corporate Services - Total Revenue Grants and Contributions Unapplied</b>							
<b>0</b>							
17	Other Budgets EU Exit Fund	88	0	0	0	0	88
<b>Other Budgets - Total Revenue Grants and Contributions Unapplied</b>							
<b>88</b>							
<b>Total Revenue Grants and Contributions Unapplied</b>		<b>63,371</b>	<b>0</b>	<b>-655</b>	<b>-31,245</b>	<b>2,114</b>	<b>29,357</b>
<b>Total Earmarked Reserves (excluding Schools)</b>		<b>176,693</b>	<b>12,722</b>	<b>0</b>	<b>-88,115</b>	<b>10,180</b>	<b>91,120</b>

## Financial Risk Register 2020/21

Risk	Consequences	Controls & Contingencies	Residual Risk			Estimated value of reserve needed £m	
			Impact - Annual Cost £m	Likelihood			
<b>Inflation</b>							
Pay	Pay awards are 1.0% higher than assumed in the budget.	leading to increased costs	There is a 2.0% provision in 2020/21 budgets for pay awards. The Council has also made a budget provision for the National Pay Spine negotiations.	3.3	2	35%	1.155
Price Increases	Inflation for general price increases is 1.0% more than allowed in budget.	leading to increased costs	There is a 0.0% provision in 2020/21 budgets for price increases.	4.4	3	75%	3.300
Income	Increase is 1.0% less than provided for in budget.	leading to reduced income	There is some provision in 2020/21 for certain income increases e.g. Adult Social Care. In other areas there is no provision for increases.	1.8	3	75%	1.350
Interest rates	Longer term interest rates are 1.0% higher than assumed in the budget.	leading to increased costs on long term borrowing	The budget assumes longer term rates of 2.525% for 2020/21.	1.2	2	35%	0.420
<b>Other Budget Assumptions</b>							
Demand-led Services	Demand for social care, waste disposal, home to school transport, property repairs and maintenance, highways winter maintenance, fire and rescue, coroners: increase in total cost terms by (say) £15m more than budget.	leading to increased costs	Budget prepared on latest projections, but, for example, a bad winter could lead to significant additional winter road maintenance or social care.	15.0	3	75%	11.250
Fair Funding Review and Business Rates Retention Reforms are less advantageous than anticipated from April 21	The Fair Funding Review and Business Rates Retention reforms were due to be implemented from April 20 and have been pushed back to April 21 amid great political uncertainty. Assumptions about increased funding may not be realistic. One-off social care funding of £5.7m has been repeated for 20/21 but may then cease.	leading to less government funding	Assumptions about increases have been fairly cautious.	8.3	3	75%	6.229
Estimated savings	Target savings not achieved fully in 2020/21.	leading to increased costs	Achieving fully the high level of savings required within the year will be very challenging. The Council's 2020/21 budget includes an estimated savings target of £16.3m. Monthly budget monitoring arrangements should highlight any potential budget pressures to allow corrective actions to be taken. Savings are generally low impact.	16.3	2	35%	5.720
Income budgets	Income from charges is 10% less than estimated.	leading to reduced income	Budgets are set on past experience and future expectations.	16.2	2	35%	5.670
Costs of change	A provision has been made within the Council's budget for redundancy costs. The Council will no longer use Capital Receipts flexibly to fund transformation in 2020/21. Some transformation costs are included within service budgets, and earmarked reserves can be used to fund transformation. However the full cost of transformation is not yet known. Provision for service transformation is insufficient by (say) £2m.	leading to increased costs	The current budget savings required for the 2020/21 budget are unlikely to lead to significant redundancies; however service transformation is expected to happen in some areas. If costs are in excess of the current budget the additional costs could be funded from the Council's Contingency Budget, Financial Volatility Reserve or from other earmarked reserves.	2.0	3	75%	1.500
Capital Programme	The programme exceeds by (say) £10m the funding available, leading to use of additional revenue funding.	leading to increased costs	It is normal for the Capital Programme to be underspent, not overspent. An overspend would be funded by taking additional borrowing.	10.0	1	10%	1.000

Risk	Consequences	Controls & Contingencies	Residual Risk			Estimated value of reserve needed £m	
			Impact - Annual Cost £m	Likelihood			
<b>Financial Management Arrangements</b>							
Current financial management arrangements	Overspend of 2% in Budget Requirement.	leading to increased costs	There are clear, written financial management procedures; regular staff training; good financial systems including monitoring information; and regular reporting to budget-holders, directorate management teams and the Executive. There have not been substantial overspendings in recent years other than on demand led services; however, as budgets are tightened, overspending may be more	9.7	3	75%	7.268
Schools Expenditure	Overspend of 1% in Schools budget expenditure.	leading to increased costs	Schools expenditure covered by Dedicated Schools Grant. The County Council could be required to provide financial support if there were a major problem.	4.3	1	10%	0.430
<b>Potential Losses</b>							
General Claims against the Council	Claims total £5m more than provided for in budget.	leading to increased costs	Extent of loss is limited by insurance arrangements. There is also an Insurance Reserve; the balance of this stood at £5.237m at 31 March 2019.	5.0	3	75%	3.750
Bad Debts	Write-off of debts of 1%.	leading to reduced income	The Council has a good record of income collection with a low level of debt write-offs.	1.3	1	10%	0.130
Treasury management	Default on loans from the Council.	Reduction in the Council's cash balances	Authorised lending for Treasury Investments list restricted to lowest risk institutions with individual limits. The Council's lending policy is low risk.	25.0	1	10%	2.500
Loans to Other Bodies for Service Purposes	Default on loans from the Council.	Reduction in the Council's cash balances	The Council has made loans to other bodies for service purposes and these carry a higher risk of default than Treasury loans, particularly given IFRS9 implications.	2.4	2	35%	0.840
Major emergencies or disasters	Such an event with a cost of (say) £5m	leading to increased costs	The government provides financial support under the Bellwin scheme for major emergencies or disasters. However, there is no automatic entitlement to financial assistance and where it is given it will not normally cover all the costs incurred.	5.0	1	10%	0.500
						<b>53.011</b>	
<b>Provisions Against Financial Risk</b>							
Contingency Provision	The contingency provision may offset some of the increased costs noted above e.g. price increases above that allowed in budgets.		Budgets include a contingency provision of £3.0m p.a.	-3.0	4	100%	-3.000
Financial Volatility Reserve	At the end of 2011/12 the Council established a financial volatility reserve to help the Council deal with the future uncertainties around local government funding.		At the end of 2019/20 it is estimated that the balance in the FVR will stand at £55m. It is currently estimated that we will need around £7m from the reserve to balance future years' budgets, which means that there will be approximately £48m left to fund these risks. In addition, there may be an underspend in the current year which could be applied to the FVR at the year end.	-48.0	3	75%	-36.000
						<b>-39.000</b>	
<b>Net Total Value of Risks</b>						<b>14.011</b>	
<b>Key To Likelihood Scores:</b>							
1	Very unlikely	10% of impact					
2	Possible but unlikely	35%					
3	Possible for example in view of current higher levels of risk	75%					
4	Very probable or certain	100%					