

NORTH LINCOLNSHIRE COUNCIL

CABINET

BUDGET REVIEW 2019-20

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To inform Cabinet of current position in respect of revenue and capital investment against the limits set in 2019/20.
- 1.2. To confirm the latest approved revenue and capital budget for 2019/20.
- 1.3. To inform Cabinet that cash balances and debt are being managed in line with the Council's approved treasury management strategy.

2. BACKGROUND INFORMATION

- 2.1. In February 2019, the Council approved plans to invest £143.2m of revenue and £54.5m capital resource in 2019/20 supporting and enabling success in the three priority areas of the Council plan:

- Keeping people safe and well
- Enabling communities to flourish, and
- Growing the economy.

The investment was set within the affordability of the Council's spending power for the 2019/20 financial year. Investment plans were based upon a series of assumptions, and required action to be taken during the financial year as required to manage risks and control costs.

- 2.2. Financial monitoring is undertaken regularly, and measures progress against operating costs and income, reductions to the cost base and areas of specific risk management. Based upon analysis from quarter 3 information there are £5.6m of identified risks within the revenue spend on investment priorities. This is broadly unchanged since the last reported position, with some risks mitigated and new pressures emerging. A combination of temporary and permanent technical budget underspends which reduces the total revenue expenditure forecast at outturn to £145.7m, which would represent a 1.7% increase in the approved net operating expenditure. Analysis of identified variances is provided in appendix 2.
- 2.3. A revised capital position for 2019/20 was reported to Council recently, reflected the profiled spend anticipated in the year of £39.4m.

- 2.4. The current approved revenue and capital budget for 2019/20 can be seen in appendix 1.
- 2.5. The Council is continuing to manage cash balances and debt in line with the approved Treasury Management Strategy. In year borrowing costs and minimum revenue provision are expected to be lower than budget at outturn. As a result, the cost of capital financing ratio in 2019/20 is expected to be lower than the forecast in the budget papers to Full Council.
- 2.6. Borrowing at the end of December 2019 was £183.1m. This will increase throughout the remainder of the year to meet cash flow forecasts, including the need to borrow to support the capital programme. This will be lower than the estimated capital financing requirement. Borrowing will take place at the optimum time for affordability and need. The amount invested at the end of December 2019 was £15m.
- 2.7. Appendix 3 sets out the approved prudential indicators for 2019/20 and the revised estimate. The average return on investment is 0.6% and the average cost of borrowing is 3.4%. Treasury management is operating within the prudential limits that have been set.

3. OPTIONS FOR CONSIDERATION

- 3.1. To receive the budget monitoring position for revenue 2019/20, outlined in the report and in appendix 2.
- 3.2. To be advised of the latest approved revenue budget 2019/20 and capital investment programme for 2019/23.
- 3.3. To note the performance in respect of Treasury Management.

4. ANALYSIS OF OPTIONS

- 4.1. The analysis is outlined in the background information in section 2 and in the supporting appendices.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

- 5.1. The financial model under which Local Government operates means that risk management is fundamental to everything the Council does. The Council is constrained in its ability to significantly increase resources, and is statutorily led on large areas of need led spending which can be volatile. Financial plans and the actions taken by the Council therefore have to be adaptive to ensure the Council remains financially sustainable.
- 5.2. If the financial risks highlighted in this report are not resolved by the year-end, the required use of reserves would be more than planned. Accordingly, it is vital that the Council identifies solutions to contain spending within the strict cash limits set, to prevent an additional unplanned use of reserves.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1. Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1. Not applicable.

9. RECOMMENDATIONS

9.1. To note the revenue budget monitoring position for 2019/20 which is set out at appendix 2.

9.2. To note the latest approved revenue budget 2019/20 and capital investment programme 2019/23 set out in appendix 1.

9.3. To note the progress against the approved Treasury Management Strategy in appendix 3.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report

Financial Strategy, Budget 2019/20 and Medium Term Financial Plan 2020/23 report

Capital Investment Strategy and Capital Programme 2019-2023

Treasury Management and Investment Strategy 2019/20

Revenue budget transfer analysis (quarter three)

Table 1 – Revenue Investment (Council Plan Priority)

2019/20 REVENUE INVESTMENT	Current Approved Budget £000's
EXPENDITURE	
Keeping People Safe And Well	64,150
Enabling Communities to Flourish	24,704
Growing The Economy	7,634
Running the Business (organisation)	23,478
Running the Business (technical)	23,188
NET OPERATING EXPENDITURE	143,154
FUNDING	
Council Tax	73,441
Business Rates	43,558
Government Grant	24,855
Use of Reserves	1,300
TOTAL FUNDING	143,154

Table 2 – Capital Programme (Council Plan Priority)

PROPOSED PROGRAMME	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
Investment In Priority					
Keeping People Safe And Well	450	5,128	656	156	6,390
Enabling Communities To Flourish	7,444	8,464	1,929	1,729	19,566
Growing The Economy	25,853	28,921	14,407	7,391	76,572
Running the Business	5,661	9,680	4,197	1,853	21,391
Total	39,408	52,193	21,189	11,129	123,919
Additional Capital Investment Allocation	-	-	-	8,167	8,167
Capital Investment Limit	39,408	52,193	21,189	19,296	132,086
Funding Analysis					
External & Grant Funding	19,437	27,597	9,796	9,296	66,126
Revenue Funding	145	41	16	-	202
Borrowing	16,775	18,805	5,524	10,000	51,104
Capital Receipts	3,051	5,750	5,853	-	14,654
Total	39,408	52,193	21,189	19,296	132,086

REVENUE MONITORING POSITION 2019/20

Appendix 2

REVENUE	Budget £000's	Potential Spend £000's	Risk £000's
EXPENDITURE			
Investment in Priority Areas	119,966	125,619	5,653
Running the Business (technical)	23,188	20,068	(3,120)
NET OPERATING EXPENDITURE	143,154	145,687	2,533
FUNDING			
Council Tax, Business Rates and Government Grants	(141,854)	(141,854)	-
Use of Reserves	(1,300)	(3,833)	(2,533)
TOTAL FUNDING	(143,154)	(145,687)	-
POTENTIAL VARIANCE	-	-	-

Analysis of Revenue 2019/20

1. The quarter 3 budget review for 2019/20 forecasts a net operating expenditure of £145.7m, which is £2.5m (or 1.7%) above the approved investment limit. The position has improved as the year has progressed, reflecting a combination of approaches to manage risks and work towards a balanced budget at year-end.
2. If net operating expenditure outturns at the quarter 3 estimate, the Council will require additional use of the risk and transformation reserve. This has been factored into the reserve statement included in the Financial Strategy and Medium Term Financial Plan 2020/23, however steps continue to be taken to mitigate the risk and minimise the financial impact.
3. Almost half of the Council net operating expenditure is need led and spend can be sensitive to bigger variances. There has been an improvement in the reported position within Children's and Adult Services reducing to £2.3m identified risk.
4. The other areas of financial risk that have been identified relate to the achievement of cost savings and income targets set within operational budgets:
 - Based on latest forecasts, the implementation and phasing of some cost savings initiatives are expected to be less than the budget assumption, with in year delivery of cost savings expected to be £4.5m. The longer-term forecast is expected to be higher. This has been factored in the budget set for 2020/21.
 - The Council generates income from other sources to support expenditure plans. This includes activities such as: commercial property rents, planning fees and commercially traded entities which are required to fully recover costs. As a collective, risks in income achievement of £0.8m exist. There is a clear focus on working to improve this position, as identified in the Financial Strategy 2020/23.

- The Council continues to take a sensible approach to prioritising recruitment to vacant posts, maintaining a balance between business continuity and spending within investment limits set. The forecast at quarter 3 identifies that spend on employee costs will be £1.9m less than budget, which is included in the overall net operating expenditure forecast.
 - The cost of capital financing is expected to be £1.5m lower than the budgeted expectation. This is due to a combination of use of short term borrowing and an adjustment to the minimum revenue provision calculation. The cost of capital budget has been reviewed as part of the Financial Strategy and Medium Term Financial Plan 2020/23.
5. It is important to note that the Council has a strong track record of being able to contain expenditure to the limits set by Council. It had to manage challenges on a similar scale at this point last year, and was able to identify sufficient permanent and temporary solutions to enable expenditure to be contained within budget. Whilst not a guarantee the same will happen this year, it is an indication of the effort that is collectively placed in identifying ways to control the cost base.
6. The Council has a reserves strategy which governs deployment of reserves. This forms part of the wider approach to risk management. It is likely that greater reserve usage may be required if an overspend remains at outturn. The level of reserves will need to be reviewed against identified risks to ensure that the council remains financially resilient.

		2019/20	
		Latest Approved	Forecast (Q3)
(i)	Estimates of capital expenditure	£m 54.5	£m 39.4
(ii)	General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2013)	% 9.66	% 8.77
(iii)	An estimate of the capital financing requirement	£m 252.9	£m 246.5
(iv)	The authorised limit for external debt: borrowing other long term liabilities total	£m 282.9 5.0 287.9	£m 236.0 5.0 241.0
(v)	The operational boundary for external debt: borrowing other long term liabilities total	£m 254.7 2.0 256.7	£m 226.0 2.0 228.0
(vi)	Upper limit for fixed rate exposure	% 100.0	% no change
(vii)	Upper limit for variable rate exposure	% 40.0	% no change
(viii)	upper and lower limits for maturity structure of borrowing UPPER LIMIT under 12 months 12 months and within 24 months 24 months and within 5 years 5 years and within 10 years 10 years and within 30 years Above 30 years LOWER LIMIT All	% 60.0 30.0 50.0 50.0 75.0 100.0 0.0	% 60.0 30.0 50.0 50.0 75.0 100.0 no change
(ix)	Total principal sums invested for periods longer than 364 days	£m 2	£m no change