Public Document Pack

NORTH LINCOLNSHIRE COUNCIL

Conference Room,
Church Square
House, Scunthorpe

Friday 3 February 2023

Dear Councillor,

You are summoned to attend an **ORDINARY MEETING** of the **COUNCIL** to be held in the **CONFERENCE ROOM, CHURCH SQUARE HOUSE, SCUNTHORPE** at **2.30 pm** on **13 FEBRUARY 2023**.

1. Declarations of Disclosable Pecuniary Interests and Personal or Personal and Prejudicial Interests.

2. Scheme of Members' Allowances - Independent Remuneration Panel. (Pages 1 - 12)
Report of the Director: Governance and Communities.

3. To consider reports by the Director: Governance and Communities -

3.a Financial Strategy, Budget 2023-24 and Medium-Term Financial Plan 2023-26. (Pages 13 - 62)

3.b Capital Investment Strategy 2023-26. (Pages 63 - 90)

3.c Treasury Management Strategy 2023/2024. (Pages 91 - 114)

3.d Implementation of the 2023/2024 Pay Policy Statement - (Pages 115 - 128)
Report of the Director: Economy and Environment.

Yours sincerely

B McIntyre
Director: Governance and Communities

NOTE: ANY MEMBER WHO WISHES TO PUT A QUESTION UPON OR MOVE ANY AMENDMENT TO THE MINUTES MUST INFORM THE DIRECTOR: GOVERNANCE AND COMMUNITIES IN WRITING

BEFORE 9.30 A.M. ON Thursday 9 February 2023.

Report of the Director:
Governance and Communities

Agenda Item No. 2
Meeting: 13 February 2023

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

SCHEME OF MEMBERS' ALLOWANCES – INDEPENDENT REMUNERATION PANEL REPORT

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 To consider the report of the Independent Remuneration Panel in order to approve a scheme of Members' Allowances for the financial year 2023/24 (or for a further reasonable period, see paragraph 4.2) in accordance with the Local Authorities (Members' Allowances) (England) Regulations 2003 (the Regulations).

2. **BACKGROUND INFORMATION**

2.1 The Council is required to make an annual scheme of Members' Allowances for each financial year. The Council may set a scheme for a minimum of one year or for a further reasonable period; previously the Council approved a scheme for the years 2020/21 to 2022/23 – the final year being the last year of the current period of elected administration. The Council cannot make or amend a scheme without first having regard to recommendations of the Independent Remuneration Panel (IRP).

2.2 The Independent Remuneration Panel currently comprises four Independent Members, two who also sit on North East Lincolnshire Councils IRP.

2.3 The Members' Allowances Scheme includes a set Basic Allowance for all Members of the Council, defined Special Responsibility Allowances (SRAs), a Substitution Allowance, Co-optees Allowance and Mileage Allowances including a level of mileage rates claimable to a maximum of 5,000 miles at a recommended rate approved by Her Majesty's Revenue and Custom (HMRC) and associated Public Transport, Hired Transport and Overnight Rates. The Scheme does not provide for members to claim for subsistence. All elected members continue to use an audited digital e-claims iTrent software system for making claims for travel allowances (also used by officers).

2.4 The Independent Remuneration Panel has met monthly in person since September 2022. Its work reviewed and considered North Lincolnshire

Council’s Scheme whilst comparing and benchmarking with several similar sized unitary and other local and national councils. It also provided the opportunity for members to comment on the Scheme and sought the views of the Director: Governance and Communities as the council’s S151 Officer.

3. OPTIONS FOR CONSIDERATION

3.1 To consider the Independent Remuneration Panel's report appended to the report, and approve a Members’ Allowance Scheme for 2023/24, or for a further reasonable period (see paragraph 4.2 below).

4. ANALYSIS OF OPTIONS

4.1 The proposed Members’ Allowance Scheme recommended by the IRP for 2023/24 (or for a further reasonable period) is attached at Appendix 2 and includes seven recommendations and two further observations with suggested action on Information Technology and Member Training and Development. Appendix 1 sets out the current scheme previously approved by council in February 2020 for the years 2020/21 – 2022/23.

4.2 The Council is required to have regard to the recommendations of the Independent Remuneration Panel and approve a scheme for the financial year 2023/24 (or a further reasonable period but no longer than the forthcoming years within the period of elected administration 2023-2027). By not having regard to the Panel’s recommendations and not approving a scheme, the Council will not comply with statutory requirements of the associated Regulations.

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

5.1 The proposed scheme based on the recommendations of the Independent Remuneration Panel should be self-contained within existing budgets.

5.2 There are no other specific relevant implications other than that the Regulations require the Council to consider the Independent Remuneration Panel’s report/recommendations before approving its Members’ Allowances Scheme.

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

6.1 The current reduction in mileage claimed by members supported by the successful ongoing use of IT software platforms like MS Teams contributes towards themes of the council's greener environmental strategy 'A Green Future: Our Plan for Positive Change'.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Not applicable

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 Members were given the opportunity to comment as part of the review of the scheme, together with the council's Director: Governance and Communities as its S151 Officer. Members will be aware of the contents of the Independent Remuneration Panel's report prior to the meeting of the Council on 13 February 2023. There are no conflicts of interest.

9. RECOMMENDATIONS

9.1 That the Independent Remuneration Panel be thanked for its work and report.

9.2 That the Council consider and have regard to the recommendations of the Independent Remuneration Panel and approve a Members' Allowance Scheme for the financial year 2023/24 (or for a further reasonable period).

9.3 That the approved scheme be published on the Council's website in accordance with the Regulations.

DIRECTOR: GOVERNANCE AND COMMINUTIES

Church Square House
30-40 High Street
SCUNTHORPE
North Lincolnshire
DN15 6NL
Author: R A Mell
Date: 16 January 2023.
Background Papers used in the preparation of this report - Report of the Independent Remuneration Panel and the Local Authorities (Members' Allowances) (England) Regulations 2003.

This page is intentionally left blank

NORTH LINCOLNSHIRE COUNCIL

REPORT OF THE INDEPENDENT REMUNERATION PANEL

(MEMBERS' ALLOWANCES SCHEME)

February 2023

North Lincolnshire Independent Remuneration Panel –

Mr M Allingham, Mr T Forbes, Mr A Hall, and Mr R Johnson (appointed Independent Persons of North Lincolnshire Council and North East Lincolnshire Council).

1. The Council's Current Members' Allowances Scheme.

In accordance with the Local Authorities (Members' Allowances) (England) Regulations 2003, a Members' Allowances Scheme was approved and set by the Council at its meeting in February 2020 for a three-year period (financial years 2020/21, 2021/22 and 2022/23). A copy is attached as Appendix 1.

2. Independent Remuneration Panel's Review - Findings and Recommendations.

An Open and Transparent Scheme

2.1 The Panel acknowledges that the Council's Members' Allowances Scheme set for the above three-year period provided residents with published open and transparent information on the levels and types of allowances associated with all responsibilities carried out by elected and co-opted members for the full period. All members were also aware of approved allocated allowances for the duration of the that period. The scheme also provided operational and managerial flexibility and continued to remain in budget each year.

Significant reductions in mileage allowances claimed in 2020/21 and 2021/22 were experienced due to the restrictions on movement experienced during the Covid19 pandemic, and although these claims have increased in 2022/23 following restrictions being removed, they still remain well below mileage levels claimed pre-pandemic. It is however likely that mileage levels will slowly increase with increasing member activity and travel, but with the developing use of digital technology as 'normal practice' it is unlikely that levels will reach those claimed for pre-pandemic. The Panel acknowledges that the introduction and development of digital platforms like MS Teams during the pandemic were fully embraced by and enabled all North Lincolnshire members to carry out all allocated responsibilities, participate in statutory meetings and engage fully with residents. Business was conducted safely and adhering to all associated legislative requirements. It is also acknowledged that the success of using such digital platforms through IT hardware and software available to all members continues to provide members with modern operational and greener choices with efficiencies when carrying out their current responsibilities, especially ward work, as the council continues to move safely beyond restrictions of the recent pandemic.

All allowances claimed by all members are published on the council's web site and in the local Telegraph on an annual basis.

2.2 All elected members continue to use the digital ‘iTrent e-claims’ software system successfully for making claims for travel allowances, which is effective and efficient software and supports monitoring and auditing requirements.

2.3 In addition, the Council’s Internal Audit recently carried out an audit of Members’ Allowances’ concluding in July 2022. In summary the overall statement regarding the audit is given below –

“Based on our findings, we can provide substantial assurance on the effectiveness of the control environment. Overall, we have assessed the residual risk as low.”

2.4 The Panel emphasises the importance of and value of its independent role but wishes to express its disappointment that the opportunity to engage and respond to its consultation seeking information throughout its recent review was not always supported collectively by some members.

Future Scheme from 2023/24.

2.4 The Panel acknowledges and emphasises the need to take into consideration continuing budget pressures and the impact of inflation on the current cost of living. Consequently, any adjustments to a future scheme should ensure costs are self-contained within budget with any additional expenditure kept to a realistic minimum.

2.5 Taking into consideration paragraph 2.4 above, it is the Panel’s view that an option of no increase to members’ allowances could be a timely initial recommendation because of economic constraints and public perception. However, this must be balanced against the fact that the amount of time being spent by councillors carrying out council responsibilities including associated ward work (especially on an evening) attending Town and Parish Councils, Neighbourhood Action Teams, and similar community groups for example, whether in person or through digital platforms continues to increase with additional follow up work. The generic Basic Allowance covers such responsibilities but there has been no increase to the Basic Allowance for over eight years and compared to other local Humber region councils’ schemes North Lincolnshire ‘s Basic Allowance remains comparatively low. This together with the impact of inflation and the ongoing need to attract new and younger councillors it is recommended - **Recommendation (1)** that a realistic and proportionate flat rate increase of £500 be applied to the Basic Allowance of a future scheme for all members. This equates to £21,500 a year.

2.6 It is also recommended - **Recommendation (2)** that this cost should be offset by a reduction in the current level of the Special Responsibility Allowance (SRA) for Lead Members, or by a reduction in the number of Lead Members, combined with the ongoing reduction in overall savings from members’ annual mileage claims. The Remuneration Panel having regard to the statutory and constitutional responsibilities of Cabinet Members and other committee chairs/vice-chairs is of the opinion that although Lead Members provide valuable support to the Executive and carry out champion/ambassador roles for various people and services, they have no decision-making responsibilities or statutory roles. Their level of SRA appears relatively high compared to other SRAs and their associated responsibilities within the current scheme.

The Panel acknowledges the role the Ambassador for Steel and Heavy Industry can play locally but recommends - **Recommendation (3)** that in practice the extra significant level of allowance is not visibly demonstrated or justified. It should therefore be adjusted to the same level of other Lead Members in a future scheme.

2.7 The Panel also recommends – **Recommendation (4)** that consideration be given to further work being undertaken to compare and align the members' Basic Allowance to a point within the Employees NJC pays scales and in future therefore, that allowance receives a percentage increase applied to that point as and when employees receive a pay award. (Nationally, some council's members' allowances schemes apply this principle, subject to their Section 151 Officer's recommendation to council and associated additional costs).

2.8 The Panel's work has led to its recommendation - **Recommendation (5)** that the current levels of other SRAs within the current scheme continue to be proportionate and fit for purpose and could be rolled forward into a future scheme. Remuneration levels within schemes adopted by other similar sized unitary and principal councils do vary with some applying a higher or lower allowance to some responsibilities, subject to frequency of all meetings and associated business. It should be emphasised that proportionately, more North Lincolnshire Council members receive an SRA on top of the Basic Allowance compared to other local Humber region councils' schemes.

However, the balance between executive and non-executive functions appears consistent and a proportionate level of spend similar in most cases. Local preferences must also to be taken into consideration. Although all statutory roles and responsibilities are being carried out, how these are prioritised and applied locally remains at the discretion of individual councils so that their business can be carried out effectively and efficiently, achieving local ambitions and essential value for money. It also remains important that all roles and arrangements defined in the council's Constitution are carried out and monitored.

2.8 The Panel has observed that meetings for all four scrutiny panels are not scheduled in the Council's published 'Meetings Timetable' and currently now tends only to meet as and when business is allocated with dates agreed through their chairs. Consequently, scrutiny panels are meeting less frequently compared to when timetabled, but the same special responsibility allowance (SRA) is being paid to chairs and vice-chairs of panels. Public perception is likely to be that work being carried out by panels has reduced and therefore they are also being represented less. It is recommended - **Recommendation (6)** – that all meetings of scrutiny panels be scheduled in the Council's published 'Meetings Timetable' annually and if not, panels should meet more frequently for reasons given above, or a proportionate reduction in the Scrutiny Panel chair and vice-chair SRA allowances be considered and applied.

This and all levels of remuneration will continue to be monitored by the Panel alongside associated guidance and suggested good practice.

2.9 Regarding Travel Allowances, the Panel recommends - **Recommendation (7)** that the levels within the current scheme remain appropriate and consistent with recommended HMRC (Her Majesty's Revenue and Custom) rates and could be rolled forward into a future scheme. The current Overnight Rate for London of £100.50 however should be increased to £150.50 bearing in mind increasing higher pricing accommodation levels in the capital, which should be self-contained within the scheme. (The number of these claims are small annually.)

3. Further Observations

Information Technology

3.1 It is the Panel's view that the increasing accessibility of councillors through available IT and mobile devices, and the increasing expectations from the public to respond immediately continues to be the role and responsibility of the 'modern day' councillor. (even more so since the Covid19 pandemic).

The Panel emphasises that it is essential therefore that all councillors have 'the digital tools' to carry out their work effectively to meet public expectations and to supports and enhance their roles. This should also provide councillors with improvements to their safety especially if working alone. The whole 'modern service package' for councillors is more effective, efficient, enabling and self-sufficient and councillors' roles must continue to be a priority factor within the council's IT Strategy. The Panel acknowledges that the council's member 'case management system', 'iTrent e-claims' software and Civica/ModernGov meetings management software provide digital enhanced support for all members.

Once again, this increasing digital activity will continue to be monitored.

Member Training and Development

3.2 The Panel wishes to emphasise strongly that member training and development remains key to providing all councillors with ongoing knowledge and skills. This is required to enable them to carry out their roles and responsibilities effectively, especially as decision makers who influence and shape the local place and services people desire and require. Ongoing training and development are an expectation of the electorate.

The Panel acknowledges that over the past two years resources have been committed to supporting a dedicated part-time Member Development Officer post enhancing and improving the delivery of digital and 'in-person' training opportunities for members. However, although statutory training obligations are being met for those councillors involved in planning, licensing and safeguarding functions, the panel remains concerned that some members do not receive or participate in training and development annually especially in relevant key disciplines, like overview and scrutiny, chairing skills, information technology skills and local government finance for example. Take-up and participation have been encouraged and improved but remains low and concern is expressed as the above Member Development Officer post to date remains vacant following the previous postholder leaving. Members' personal and group learning and development in key skills and knowledge goes someway to underpin their roles and responsibilities associated with all allowances received.

4. Recommendations

4.1 That having regard to the Independent Remuneration Panel's report and recommendations, a Members' Allowance Scheme suggested at Appendix 2 be approved as the scheme for 2023/24, or for a further reasonable yearly period defined by council (up to the final year of the next four-year term of administration final - 2026/27).

4.2 That the council notes and considers supporting improvements suggested following the observations made by the Panel in paragraphs 3.1 and 3.2 above.

(January 2023)

MEMBERS' ALLOWANCE SCHEME
Financial Years 2020/21, 2021/22 and 2022/23

Appendix 1

Scheme of Allowances - The council's approved scheme of allowances payable to members of the council for the financial years 2020/21, 2021/22 and 2022/23 is set out below

	2020/2021, 2021/22 and 2022/23	
	Special Responsibility Allowance	Allowance £
1	Leader of the Council	16,799
2	Deputy Leader of the Council	11,127
	Mayor	11,781
3	Cabinet Members (x 9)	10,162
	Chairman of Planning Committee	9,146
	Chairman of Licensing Committee	8,130
	Chairman of Scrutiny Panels (x 4)	8,637
	Leader of Minority Group	8,400
4	Chairman of Health and Wellbeing (Board) Management Group	6,040
	Chairman of Audit Committee	5,312
	Deputy Mayor	5,902
	Deputy Leader of Minority Group	5,563
5	Vice Chairman of Planning Committee	4,461
	Vice Chairman of Licensing Committee	3,965
	Vice Chair of Scrutiny Panels (x4)	4,213
	Lead Members (x 10)	4,957
	Ambassador for Inward Investment & Steel	8,400
	Appeals Committee	£253 per annum
	Co-optees Allowance Independent Persons Allowance	£42 per meeting £42 per complaint referral
	Substitute Allowance (Procedure Rule D1.07 of the Council's Constitution)	£47 per meeting
6	**Basic Allowance**	£6,874

(1) Mileage Rates

Travel to be paid at the following approved Her Majesty's Revenue and Custom (HMRC) rates -
Cars - 45p per mile
Motorcycles - 24p per mile

An additional 5p per mile can be claimed in respect of each passenger carried to whom a travelling allowance would otherwise be paid.

A maximum of 5,000 miles has been set as eligible for claim. Any mileage incurred by members in the course of their duties, including meetings where members are representing North Lincolnshire Council's interests, which involves travelling outside the boundary of North Lincolnshire will not count against the maximum amount of mileage claimable.

In addition, the actual cost of tolls, ferries and parking fees may be claimed. Receipts, must be provided.

(2) Public Transport

If you are using public transport for journeys out of the council's area you may use standard class travel only. Wherever possible travel arrangements should be pre-booked in advance in order to allow better access to discounts. These can be obtained through the group office. Receipts or used tickets (train tickets tube fare tickets etc) should be retained and produced as receipts. The reimbursement of public transport costs is not taxable or subject to NI contributions.

(3) Hired transport

If you wish to hire a vehicle, please contact your group PA who will ensure that the best possible rates are obtained.

(4) Bicycle - Travel to be paid at the approved HMRC rate of 20p per mile.

(5) Subsistence

Subsistence allowances will no longer be included in the member allowance scheme and members will not therefore be able to claim.

(6) Overnight rates
<u>Actuals, claimed to a maximum of (exc. VAT)</u>

London	£100.50
Elsewhere	£88.10
Out of pocket expenses	£4.39 per night
Overseas allowance	£20.50 per night

Accommodation should be pre booked by group office staff in order for the council to reclaim VAT and take advantage of discounts.

MEMBERS' ALLOWANCE PROPOSED SCHEME

Appendix 2

Scheme of Allowances - The council's proposed scheme of allowances payable to members of the council from the financial year 2023/24 (and not beyond 2026/27) is set out below -

	Special Responsibility Allowance *(recommendations 5 and 6)*	Allowance £
1	Leader of the Council	16,799
2	Deputy Leader of the Council	11,127
	Mayor	11,781
3	Cabinet Members (x 9)	10,162
	Chairman of Planning Committee	9,146
	Chairman of Licensing Committee	8,130
	Chairman of Scrutiny Panels (x 4)	8,637
	Leader of Minority Group	8,400
4	Chairman of Health and Wellbeing (Board) Management Group	6,040
	Chairman of Audit Committee	5,312
	Deputy Mayor	5,902
	Deputy Leader of Minority Group	5,563
5	Vice Chairman of Planning Committee	4,461
	Vice Chairman of Licensing Committee	3,965
	Vice Chair of Scrutiny Panels (x4)	4,213
	Lead Members (x10 - ***suggested reduction in number***) ***(recommendation 2)***	4,957 ***(suggested reduction)*** *****
	Ambassador for Inward Investment & Steel ***(recommendation 3)***	4,957 *****
	Appeals Committee	£253 per annum
	Co-optees Allowance Independent Persons Allowance	£42 per meeting £42 per complaint referral
	Substitute Allowance (Procedure Rule D1.07 of the Council's Constitution)	£47 per meeting
6	**Basic Allowance *(recommendation 1)***	£7,374

(recommendation 7) *

(1) Mileage Rates

Travel to be paid at the following approved Her Majesty's Revenue and Custom (HMRC) rates -
Cars - 45p per mile
Motorcycles - 24p per mile

An additional 5p per mile can be claimed in respect of each passenger carried to whom a travelling allowance would otherwise be paid.

A maximum of 5,000 miles has been set as eligible for claim. Any mileage incurred by members in the course of their duties, including meetings where members are representing North Lincolnshire Council's interests, which involves travelling outside the boundary of North Lincolnshire will not count against the maximum amount of mileage claimable.

In addition, the actual cost of tolls, ferries and parking fees may be claimed. Receipts, must be provided.

(2) Public Transport

If you are using public transport for journeys out of the council's area you may use standard class travel only. Wherever possible travel arrangements should be pre-booked in advance in order to allow better access to discounts. These can be obtained through the group office. Receipts or used tickets (train tickets tube fare tickets etc) should be retained and produced as receipts. The reimbursement of public transport costs is not taxable or subject to NI contributions.

(3) Hired transport

If you wish to hire a vehicle, please contact your group PA who will ensure that the best possible rates are obtained.

(4) Bicycle - Travel to be paid at the approved HMRC rate of 20p per mile.

(5) Subsistence

Subsistence allowances will no longer be included in the member allowance scheme and members will not therefore be able to claim.

(6) Overnight rates

Actuals, claimed to a maximum of (exc. VAT)

London	**£150.50 ***
Elsewhere	£88.10
Out of pocket expenses	£4.39 per night
Overseas allowance	£20.50 per night

Accommodation should be pre booked by group office staff in order for the council to reclaim VAT and take advantage of discounts.

Report of the Director:
Governance & Communities

Agenda Item No: 3 (a)
Meeting: 13th February 2023

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

**FINANCIAL STRATEGY, BUDGET 2023/24
AND MEDIUM TERM FINANCIAL PLAN 2023/26**

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. The purpose of this report is to set out the council's financial strategy, seek approval for the budget 2023/24 and the Medium Term Financial Plan 2023/26.

1.2. The report provides assurance on the council's financial resilience, confirms that the estimates presented in the report are robust and that reserves are adequate. This meets the requirements of section 25 of the Local Government Act 2003 and provides a basis for Council to set a balanced budget.

1.3. The key decisions required in accordance with Section 31 to 52 of the Local Government Finance Act 1992 (and subsequent modifying legislation) are:

- To set the council's revenue budget for 2023/24
- To set the Council Tax for 2023/24
- To approve an indicative medium term financial plan for 2023/26

2. BACKGROUND INFORMATION

2.1 The Council operates within legally defined powers to fulfil a range of duties informed by the agreed ambition and priorities set out in the Council Plan. The powers include the ability to raise funding to invest locally. The Council sets an annual budget based on its spending power, which takes includes government grant, business rates it will receive and the level of Council Tax it sets.

2.2 This report provides the basis upon which the council can set a balanced budget for 2023/24 and a robust financial forecast for the medium-term financial planning period 2023/26, as required by legislation.

2.3 In determining the budget for 2023/24 the Council is required to set the council tax rate for a Band D property made up of a general rate and an adult social care precept. The maximum increase applied is capped by a referendum limit set by the Department of Levelling up Housing and Communities (DLUHC).

2.4 The Financial Strategy and Medium-Term Financial Plan in Appendix 2 provides the national and local strategic context upon which the proposed budget is calculated.

2.5 The core spending power (funding) that the Council has available is determined by the Local Government Finance Settlement provided by DLUHC. The settlement for 2023-24 and policy statement takes into consideration the financial pressures facing local authorities from the level of inflation and demands on social care and sets the expectation that local authorities will apply the adult social care precept and council tax increases at the maximum permitted.

2.6 The framework governing what councils do is based upon legislation. Councils have freedoms and flexibilities to determine many things locally, based upon local circumstances and needs of the population. The Council sets it policy framework through two core strategic documents: The Local Plan (place shaping) and Council Plan (ambition, purpose, priorities and use of resource) and supporting strategies and plans.

2.7 The Council Plan guides activity across the council and sets out the priorities, ensuring that people remain at the heart of everything the council does. The financial plan demonstrates how we invest our resources to maximise impact, improve outcomes and achieve value for money.

2.8 There is a strong financial management ethos across the council underpinned by the Council's values. The financial position is monitored, managed, and reported on a regular basis. The Council's current financial position is forecast to be within the cash limit agreed, after taking account of the £5m in-year increase in planned reserves use. This was in response to economic factors and agreed by cabinet in the context of transformation. The report provides further analysis on the impact of the operating environment and transformation progress this year and in the medium term.

2.9 The Council has amplified its commitment to ensuring value for taxpayers' money in the Council Plan. The Financial Strategy and Medium-Term Financial Plan provides the strategic framework to ensure investment priorities have the biggest impact on outcomes for people and place. They provide the mechanisms to ensure the council is financially sustainable and resilient. The financial plan enables the council to achieve its strategic objectives and legal duties for the benefit of residents and businesses.

3. OPTIONS FOR CONSIDERATION

3.1 The annual Revenue Budget for 2023/24 and Medium-Term Financial Plan 2023/26 is proposed for approval in Appendix 2.

3.2 The Revenue Budget assumes a level of income from general Council Tax of £75.9 m. This is based upon a general Council Tax band D equivalent rate of £1,467.19, which represents an increase of 2.99% from the total 2022/23 band D rate.

3.3 The revenue budget assumes the level of income from the Adult Social Care precept of £11.7m. This is based upon an adult social care precept rate of £228.20, which represents an increase of 2% from the total 2022/23 band D rate.

3.4 Appendix 4 sets out the relevant Council Tax precept information for approval.

3.5 In addition, as billing authority for the area, the council is responsible for levying a council tax not only to meet its own requirements, but also to meet the precepts of lower and higher tier authorities in the area, and to collect that tax on their behalf. The precepting bodies are:

- Parish and Town Councils in North Lincolnshire
- Humberside Police and Crime Commissioner
- Humberside Fire and Rescue Authority

Scunthorpe Special Expenses (SSE), which are equivalent to the parish precept, are also set by Council and form part of the core budget. The plan assumes it will increase in line with the general rate of council tax.

Precepts which have been set are shown at Appendix 4**;** any currently not yet declared will be available on the day of Council.

4. ANALYSIS OF OPTIONS

4.1 The budget proposal for 2023/24 set out in this report represents a balanced budget where net operating expenditure is equivalent to the Council's estimate of spending power. The estimate of spending power assumes a planned use of reserves of £6.0m in 2023/24 and £4.0m in 2024/25 as we transition to long term sustainability, embedding the One Council delivery model through transformation.

4.2 The 2023/26 medium term financial plan provides a view on future funding, in order to assist the longer-term planning and use of council's financial resources. This is in line with best practice and takes account of factors that may have an impact on the council's spending.

4.3 The detailed analysis of funding and cost is included in Appendix 2.

4.4 The revenue budget for 2023/24 includes provision for elected member allowances set in the Member Allowance schemes, which is covered in a separate report on this agenda.

4.5 The revenue budget and financial plan includes the relevant estimates associated with the Capital Investment and Treasury Management strategies and plans, covered in separate reports on this agenda.

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

5.1 **Robustness of Estimates**
As the Council's Chief Financial Officer, I consider the proposed budget for 2023/24 to be based upon robust estimates and supported by an adequate level of reserves. The budget proposal requires action to be continually taken through oversight and monitoring to ensure it can be delivered.

5.2 **Adequacy of Reserves**
The reserve statement and strategy set out in Appendix 3 identifies the level of reserves expected to be available over the medium-term financial plan period. As the council's Chief Financial Officer, based on the reserves strategy, I consider that the level of reserves will be sufficient to provide adequate cover for identified risks, including the inherent funding uncertainty beyond 2023/24. It is important that Council finances are robust in times of uncertainty and achieve long term financial sustainability.

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

Legal Requirements

6.1 The budget and Council tax decision must meet all statutory requirements. These are summarised here and provide the basis for the report's recommendations.

6.2 The Council has the power to decide the level of the revenue budget each year and the necessary Council tax to support it. Under the Local Government Act, 1988 this must be a **balanced budget** meaning that the Council must not run a deficit.

6.3 Additionally, under the Local Government Act 2003, the Chief Financial Officer must report to Full Council when it is considering its budget and Council Tax on:

7. The **robustness of the budget estimates** being considered (Part 2 Section 25 (1)(a) of the Act) (5.1); and,

8. The **adequacy of reserves** allowed for in the budget proposals. The council has to ensure that its budget makes allowances for reserves at least equal to the statutory minimum (Part 2 Section 25 (1) (b) of the Act) (5.2).

6.4 The Director of Governance and Communities is the council's Chief Financial Officer under Section 151 of the Local Government Act, 1972. Her advice is contained in Appendix 6, and throughout the rest of the report. The Act at Part 1, Section 25 (2) requires that members of the council take account of these factors in making their decisions.

6.5 Sections 31 to 52 of the Local Government Finance Act 1992 define what the council needs to determine as part of its budget and Council Tax decision, as modified by the Local Government Finance Act 2012 and the Localism Act 2011.

6.6 As the billing authority for the North Lincolnshire area the council incorporates in its resolution the precept requirements of the Police and Crime Commissioner for Humberside, the Humberside Fire Authority and local town and parish councils. It also includes the Scunthorpe Special Expenses, which forms part of the council's own Council Tax allocation**.** At the time of writing, this report includes indicative precepts for the Police and Crime Commissioner and the Humberside Fire Authority which are subject to final decision making on 8th and 10th February 2023 respectively.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1 Council protocols require an integrated impact assessment to be made for all key decisions.

7.2 It is a method for ensuring policies, plans and projects have been assessed to identify how any negative impact or risk can be removed or mitigated, and positive impact enhanced. It covers how the decision would impact, if at all, on individuals, families, communities and the workforce; on the local environment and economy; and on the Councils responsible delivery of its statutory duties including equality, social responsibility and reputation. Integrated impact assessments will be carried out as necessary at the point that detailed proposals for implementation are considered.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1 The Council undertakes a wide range of engagement activity and consultations with key stakeholders that are used to inform strategy, service development and use of resources.

8.2 The Financial Strategy, budget and Medium-Term Financial Plan 2023/26 has been considered by the Governance Scrutiny Panel on 26 January 2023.

8.3 No conflicts of interest have been declared.

9. RECOMMENDATIONS

9.1 To set a revenue budget for 2023/24.

9.2 To approve the indicative Medium Term Financial Plan for 2023/26.

9.3 To approve the technical budget recommendations contained in Appendix 1.

9.4 That the oversight and use of resources to achieve the ambition and outcomes in the Council Plan is reported to Cabinet throughout the year.

9.5 That the Council's Chief Financial Officer be authorised to make technical budget adjustments to the management accountabilities structure and subjective analysis in 2023/24 in line with financial procedure rules.

9.6 That the Council's Chief Financial Officer be authorised to distribute relevant inflationary contingencies when the impact is quantified.

9.7 To authorise the council's Chief Financial Officer to produce the necessary taxpayer information on the council website.

DIRECTOR OF GOVERNANCE AND COMMUNITIES

Church Square House
High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Becky McIntyre/Nina Torr/Louise Allison
Date: 2nd February 2023

Background Papers used in the preparation of this report
1. 2022/23 Financial Monitoring and Medium Term Financial Plan Update (Q1,2 & 3)
2. Calculating the Council Tax Base 2023/24
3. Setting the National Non-Domestic Rates Tax Yield 2023/24
4. 2023/24 Local Government Finance Settlement
5. Schools Funding Formula 2023-24 (Cabinet Member report)

TECHNICAL BUDGET RECOMMENDATIONS

That the following technical recommendations be approved:

(a) That the general council tax band D rate be set at £1,467.19, which represents an increase of 2.99% from the total 2022/23 band D rate.

(b) That the adult social care precept band D rate be set at £228.20, which represents an increase of 2.00% from the total 2022/23 band D rate.

(c) To note that at its meeting held on 5 December 2022 Council calculated the following amounts for the year **2023/24**. These are as required by regulations made under Section 33(5) of the Local Government Finance Act 1992:

(a) **51,270.5** as its Council Tax Base for the year [Item T in the formula in Section 31B of the Local Government Finance Act 1992, as amended (the "Act") (regulation 3)

(b) the Council Tax Base for each part of the area as shown in **Appendix 4**, column 2 (regulation 6)

(d) That the following amounts calculated for **2023/24**, as required by Sections 31 to 52 of the Local Government Finance Act 1992 as amended, be approved:

- **£87,551,050** being the **relevant basic amount of Council tax** for 2023/24 (Council Tax requirement for the Council's own purposes excluding parish precepts but including special expenses)

- **£399,254,545** being the aggregate of the amounts which the council estimates for the items set out in Section 31A (2) of the Act taking into account all precepts issued to it by parish and town councils (**gross expenditure including parish precepts and special expenses**)

- **£309,960,025** being the aggregate of the amounts which the council estimates for the items set out in Section 31A (3) of the Act (**gross income**)

- **£89,294,520** being the amount by which the aggregate at (b) above exceeds the aggregate at (c) above, calculated by the Council in accordance with Section 31A(4) of the Act as its **Council Tax requirement** for the year (**Item R** in the formula in Section 31B(1) of the Act)

- **£1,741.64** being the amount at (d) above (Item R), divided by Item T (3(a) above), calculated by the Council, in accordance with Section 31B(1) of the Act, as the basic amount of its Council Tax for the year (including Parish precepts) **(Band D council tax including parish precepts and special expenses)**

- **£2,371,027** being the aggregate amount of all special items and Parish precepts referred to in Section 34(1) of the Act, as per **Appendix 4 (Total of all Parish Precepts and Special Expenses)**

- **£1,695.39** being the amount at 4(e) above less the result given by dividing the amount at 4(f) above by Item T, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates

- **£37.29** being the amounts to be added to the amount at 4(g) above being the amounts of the special item or items relating to dwellings in those parts of the Councils area mentioned above divided in each case by the amount at 3(b) above, calculated by the Council, in accordance with section 34(3) of the Act, as the basic amounts of its Council tax for the year for dwellings in those parts of its area to which one or more special items relate

(e) To note that for the year 2023/24 the major precepting authorities have stated the amounts in precepts issued to the council, in accordance with Section 40 of the Local Government Finance Act, 1992 (**police and fire precepts**).

(f) To set the amounts of Council Tax for the year 2023/24 for each of the categories of dwellings, in accordance with Section 31B of the Local Government Finance Act 1992 as amended **(Council tax including police, fire and parish precept for each band and each parish)**.

(g) To confirm the robustness of the estimates used in setting the level of Council Tax in accordance with the requirements of the Local Government Act 2003 (Part 2 Section 25 (1)(a) of the Act).

(h) To confirm the adequacy of reserves included in the budget in accordance with the requirements of the Local Government Act 2003 (Part 2 Section 25 (1) (b) of the Act), and the policy for use of reserves as set out in Section 5 of the report and at **Appendix 3**.

(i) To approve the use of the capital receipts flexibility enabling spending charged to the revenue budget on service transformation to be capitalised as set out at **Appendix 7**.

1 Local Policy Context

1.1 The Council Plan 2022-25 sets the aspiration and ambition for people and place and provides the strong foundation from which policy and use of resources is determined. Investment and use of resources is based upon the outcomes and priorities in the Plan, summarised below:

Priority	Intention		Outcome
Keeping people safe and well – to achieve a longer and better quality of life for our residents	1. Safeguard and support everyone to live safely and independently within their families and communities 2. Ensure the care sector is of high quality and care leavers receive the on-going support they need 3. Reduce health inequalities and promote wellbeing		SAFE WELL PROSPEROUS CONNECTED
Enabling resilient and flourishing communities – to develop greater resilience and community spirit and enable them to identify and meet their ambitions	1. Maintain a safe, clean and green local environment 2. Support our volunteers and create stronger communities with access to a range of leisure, culture and other facilities 3. Make it easier and safer for people to get around sustainably		
Enabling economic growth and renewal – to ensure there are highly skilled jobs and opportunities for a highly skilled workforce and the local economy supports efforts to reduce carbon emissions	1. Encourage personal ambition through access to life-long, high quality education, guidance, training and opportunities to upskill and gain experience through volunteering 2. Regenerate town centres and expand the local economy to secure more highly skilled jobs and encourage the business sector to transition to a net-zero carbon position 3. Work with home builders to develop high quality and environmentally sustainable houses		
Providing value for money for local taxpayers – to ensure high quality services are provided for residents and the Council is well-led	1. Get it right for our customers, first time 2. Meet our environmental responsibilities 3. Maintain our position as a well-managed and well-governed Council and remain financially sustainable		

1.2 The strategic operating model summarised below provides the framework of how investment enables the policy intent to be actioned and the impact of interventions evaluated.

Organisational goal	**We are an enabling, progressive and sustainable Council**
Operating model	**One Council, One Family, One Place**
▪ values driven	equality of opportunity, self-responsibility, integrity, excellence
▪ politically led	policy, resources, community
▪ actioned through	offer, interventions, infrastructure
▪ accountability aligned to investment	intent, implementation, impact
▪ impact evidenced by	quality of experiences and outcomes

So that… we achieve our ambition for North Lincolnshire to be the best place for our residents.

1.3 The Council is responsible for adoption of its budget and policy framework and once in place it is the responsibility of the Executive to implement it. Cabinet collectively leads on budget and performance monitoring across the whole range of council activities including delivery oversight to support achievement of council outcomes within the strategic policy frameworks of the Local Plan and Council Plan.

1.4 Using the operating model above, impact against outcomes are agreed by Cabinet as part of the strategic monitoring and oversight reporting.

2 Financial Strategy and Financial Planning Environment

2.1 The resources available to the council to make a difference need to be used wisely and deliver value for taxpayers' money. The financial strategy guides this and provides the mechanisms to ensure the council is financially sustainable and resilient. The financial plan enables the council to achieve its strategic objectives and legal duties for the benefit of residents and businesses.

2.2 The **financial strategy** for achieving a sustainable council is to:

a) Grow the tax base – enabling economic growth and renewal in the local economy and housing market

This primarily involves supporting growth in both the Council Tax and Business Rates base. Forward growth is assumed across both areas of local taxation, reflecting the Council's confidence in the local economy and its desire for increased local resource generation to enable enhanced financial resilience.

b) Maximise income by investing wisely in commercial activity and ensuring traded services fully recover costs

Commercial activity (includes commercial property, trade waste and operations of leisure and cultural activities) undertaken by the Council in addition to complement and enable core business. These are operated with a commercial mindset to generate income alongside providing a positive economic, social and wellbeing impact. Ongoing review ensures full cost recovery, consideration of inflation, alongside a contribution towards council priorities and outcomes.

c) Take full advantage of opportunities to access external funding sources which will support achieving the council's ambitions

The Council continues to be successful at leveraging in external investment to the area and the financial plans assume continuation of that success towards supporting delivery of the Council Plan. The revenue budget includes c£80m p.a. from government grants and the capital investment programme includes £76m over the period from external funding and grants.

d) Finding innovative ways of preventing need and minimising demand

As demonstrated during the COVID19 pandemic and beyond, the Council has adapted to challenging circumstances at pace ensuring that it continues to meet local need well. It continues to maximise enablement opportunities, minimise the increase in long-term complex need and maximise outcomes for residents.

e) Ensure decision making is based on the context of agreed and emerging policy informed by insight and demonstrates value for taxpayers' money

This is delivered through robust financial planning – investment decisions are supported by detailed business cases incorporating the financial case into the development process alongside the strategic, economic, commercial and management case aligned with council plan priorities.

f) Continuous process of evaluation to ensure sufficient value to the experience and outcomes for residents is being achieved

Regular updates and annual reporting to the Executive through Cabinet evaluates achievement of priorities and plan.

g) Balance robust challenge and support to meet financial stewardship requirement and advance sustainability aspirations

The Council's governance and assurance arrangements through overview and scrutiny and the role of the Audit Committee, combined with external regulatory oversight and assessment provides the context for effective probity of the council's use of resources.

h) Seek opportunities with partners to maximise economies of scale whilst enabling communities to take more responsibilities for their local facilities

There is a strong ethos of partnership working and pooling of resources, examples include: the NHS Integrated Care Board Better Care Fund and Discharge Funding working together on integrated delivery of care; the Greater Lincolnshire Joint Strategic Oversight Committee and Strategic Public Health Alliance; joint commissioning and procurement with partners.

Financial Planning Environment

2.3 In recent years the Council has responded to and supported recovery from the Covid-19 pandemic. The Council co-ordinated an unprecedented support response to the public health emergency which strengthened integration with partners and a focus on enabling through targeted early intervention and prevention. This legacy continues in the approach the Council and partners take, working together to improve health and social care outcomes.

2.4 The Council is now dealing with a challenging economic environment. Inflation remains at high levels. The Bank of England's Monetary Policy Committee's (MPC) updated projections expect the impact on inflation of the higher prices of global energy and tradeable goods to reduce throughout 2023 with Annual CPI inflation expected to fall to around 4% towards the end of this year *(source Bank Rate increased to 4% - February 2023 | Bank of England).*

2.5 Council spending is exposed to the impact of inflation primarily either through contractual application of an inflation measure (e.g. CPI/RPI) or national pay awards. The current economic environment may impact on the council's normal activity levels, revenue and funding streams and as our cost base is likely to grow faster than our ability to grow our income, the impact will be closely monitored throughout the year.

2.6 The council is currently forecasting net operating spend of £174.9m for 2022/23, which represents a balanced position utilising additional in-year approval of £5m of reserves. This position reflects a proactive response to in-year external pressures. One of the primary pressures has come from increases in the demand for, and cost of adult social care. The Local Government finance settlement has provided additional grant funding and precept funding enabled in 2023/24 relating to adult social care. The Council's sound financial resilience has enabled a prudent release of reserves in year to meet externally driven pressures whilst a review of policy, redesign and transformation is confirmed and implemented.

3 Spending Power and Budget Requirement

3.1 The following tables set out the estimate of Spending Power 2023-26 and the proposed investment budget aligned to the delegated responsibilities of the Council's chief officers.

Table 1 – Estimate of Spending Power

2022/23 Approved Budget £000's	FORECAST SPENDING POWER	2023/24 Provisional Budget £000's	2024/25 Provisional Budget £000's	2025/26 Provisional Budget £000's
	LOCAL GOVERNMENT FINANCE SETTLEMENT FUNDING			
	Settement Funding Assessment			
(6,426)	Revenue Support Grant	(7,281)	(7,572)	(7,572)
(33,171)	NNDR Baseline Funding	(34,412)	(35,792)	(36,481)
(39,597)	**Total Settlement Funding Assessment**	**(41,693)**	**(43,364)**	**(44,053)**
	Other General Funding			
(72,683)	Council Tax (2.99% 23/24 & 2024/25, 1.99% 25/26)*	(75,851)	(79,063)	(81,520)
(9,952)	Social Care Precept (2% 23/24 & 2024/25, 1% 25/26)*	(11,700)	(13,541)	(14,571)
(673)	New Homes Bonus	(75)	(75)	0
(7,237)	Improved Better Care Fund	(7,237)	(7,237)	(7,237)
(216)	Rural Services Delivery Grant	(216)	(216)	(216)
(7,614)	Social Care Grant	(12,494)	(14,434)	(14,434)
0	Adult Social Care Market Sustainability Fund	(1,782)	(2,678)	(2,678)
(514)	Adult Social Care - Fair Cost of Care Fund	0	0	0
0	Adult Social Care Discharge Fund	(1,015)	(1,649)	(1,649)
(266)	Lower Tier Services Grant	0	0	0
(2,287)	Services Grant	(1,289)	(1,289)	(1,289)
(101,442)	**Total Other Funding**	**(111,659)**	**(120,182)**	**(123,594)**
(141,039)	**TOTAL FINANCE SETTLEMENT FUNDING**	**(153,352)**	**(163,546)**	**(167,647)**
	Local Spending Power Funding			
(1,456)	Collection Fund Surplus (-) / Deficit (+): CTAX	0	0	0
(73)	Collection Fund Surplus (-) / Deficit (+): NNDR	(1,433)	0	0
(14,777)	NNDR Rate Retention Income**	(21,445)	(22,598)	(23,337)
(16,306)	**Total Local Spending Power Funding**	**(22,878)**	**(22,598)**	**(23,337)**
(157,345)	**TOTAL SPENDING POWER**	**(176,230)**	**(186,144)**	**(190,984)**
	Core Funding - Other Grants			
(437)	DSG Central School Services	(495)	(495)	(495)
(9,700)	Public Health Grant	(9,894)	(10,092)	(10,294)
(10,137)	**Total Core Funding - Other Grants**	**(10,389)**	**(10,587)**	**(10,789)**
(2,369)	**Use of Reserves *** **	**(6,000)**	**(4,000)**	**0**
(169,851)	**TOTAL CORE FUNDING**	**(192,619)**	**(200,731)**	**(201,773)**

** Local amounts will differ from Government assessment figures due to local decisions*

*** Includes compensation for underindexing to business rates multiplier which the Government include in core spending power assessment*

*** Additional £5m use of reserves approved in year in 2022/23 to address inflation pressures, increasing revised net budget to £174.9m

Table 2 – Proposed Investment by Chief Officer delegated responsibility.

2022/23 Original Budget £000's	MANAGEMENT ACCOUNTABILITY	2023/24 Provisional Budget £000's	2024/25 Provisional Budget £000's	2025/26 Provisional Budget £000's
49,639	Adults & Health	61,320	64,566	65,866
25,879	Children & Families	26,515	26,515	26,515
44,598	Economy & Environment	47,925	48,934	48,934
21,517	Governance & Communities (Core)	23,238	22,938	22,938
20,923	Governance & Communities (Technical)	26,304	35,572	39,772
7,295	Public Health	7,317	7,317	7,317
169,851	**TOTAL**	**192,618**	**205,842**	**211,342**
0	One Council transformation efficiencies	0	(5,111)	(9,568)
169,851	**NET OPERATING EXPENDITURE**	**192,619**	**200,731**	**201,773**

Table 3 – Proposed Investment by Priority

2022/23 Original Budget £000's	PRIORITY INVESTMENT	2023/24 Provisional Budget £000's	2024/25 Provisional Budget £000's	2025/26 Provisional Budget £000's
79,973	Keeping People Safe and Well	90,530	93,449	94,749
29,826	Enabling Communities to Flourish	29,621	29,641	29,641
9,032	Growing The Economy	8,729	8,581	8,581
30,901	Running the Business (Organisation)	36,336	37,520	37,520
14,119	Running the Business (Technical)	9,754	13,419	14,119
163,851	**SUB TOTAL**	**174,979**	**182,610**	**184,610**
6,000	Inflationary Provisions	17,649	23,232	26,732
6,000	**OTHER BUDGETS**	**17,649**	**23,232**	**26,732**
0	One Council transformation efficiencies	**0**	**(5,111)**	**(9,569)**
169,851	**NET OPERATING EXPENDITURE**	**192,619**	**200,731**	**201,773**

Table 4 – Subjective Analysis

2022/23 Original Budget £000's	SUBJECTIVE	2023/24 Provisional Budget £000's	2024/25 Provisional Budget £000's	2025/26 Provisional Budget £000's
	GROSS EXPENDITURE			
107,486	Employees	118,265	121,265	123,765
7,537	Premises Costs	8,921	10,305	10,305
6,314	Transport Costs	7,182	7,182	7,182
22,720	Supplies & Services	22,995	23,087	23,087
134,578	Third Party Payments	147,651	153,480	155,780
13,401	Support Services	13,401	13,401	13,401
12,250	Capital Financing	11,275	11,850	12,250
304,286	**Total Reductions to the Cost Base**	**329,690**	**340,570**	**345,770**
	GROSS INCOME			
(27,076)	Sales Fees & charges	(27,190)	(27,190)	(27,190)
(5,241)	Rents	(5,391)	(5,511)	(5,511)
(7,964)	Other Income	(7,964)	(7,964)	(7,964)
(392)	Payments from other LAs	(392)	(392)	(392)
(826)	Joint Finance	(826)	(826)	(826)
(81,270)	Government Grants	(83,142)	(80,552)	(80,552)
(25)	Interest	(525)	(325)	(25)
(11,641)	Internal Recharges	(11,641)	(11,968)	(11,968)
(134,435)	**Total Increases to the Cost Base**	**(137,071)**	**(134,728)**	**(134,428)**
0	One Council transformation efficiencies	**0**	**(5,110)**	**(9,568)**
169,851	**NET CHANGE**	**192,619**	**200,731**	**201,773**

Note – figures exclude schools income and expenditure

Table 5 – DSG/Individual Schools Budget

2022/23 Total £000's	DSG FUNDING AND INVESTMENT	2023/24 Central £000's	Individual Schools £000's	Total £000's
	DSG Funding			
159,920	DSG Funding (before academy, NNDR and high needs recoupment)	38,177	131,631	169,808
(2,177)	NNDR and high needs recoupment	(520)	(1,650)	(2,170)
157,743	**Total DSG (after NNDR and high needs recoupment)**	**37,657**	**129,981**	**167,638**
	Budget Distribution			
61,852	Maintained mainstream school funding		65,170	65,170
61,594	Recouped Academy mainstream Funding		65,475	65,475
300	Growth & Falling Rolls Fund		150	150
977	Central Exp	998		998
9,417	Early Years	9,892		9,892
24,028	High Needs	21,823	4,010	25,833
158,168	**Total Planned Investment**	**32,713**	**134,805**	**167,518**
(425)	**Contribution to/(from) DSG Reserve**			**120**

4 Analysis of Funding (Table 1 – Estimate of Spending Power)

4.1 The Council's spending power is set out in Table 1. This shows that the Council expects to have £186.6m available to invest in Council plan priorities (before the planned use or reserves), funded by a combination of nationally allocated and locally generated resources. This is an increase of £19.1m (11.4%) from 2022/23 driven mainly by additional government funding intended for Adult Social Care and inflationary increases in core grants.

4.2 The financing framework in which the Council operates is determined by national policy. Over the course of the previous decade, there has been a shift towards ensuring a greater proportion of the cost of local government is funded from locally generated resources, intended to further strengthen local accountability and act as an incentive for local authorities to promote economic growth to generate increased resources from a bigger taxbase.

4.3 The Council has funding certainty for the next two years through the local government finance policy statement and Settlement.

4.4 The analysis in this section sets out the national policy environment, and the impact on each funding source within Table 1. The basis on which they have been calculated is explained with any risk that may cause the figures to vary considered.

National Public Finance and Economic Context

4.5 The Government set out the medium-term path for public finances in the Autumn Statement on 17th November 2022. The statement confirmed that departmental expenditure limit (DEL) budgets in 2023/24 and 2024/25 will be maintained at least in line with the budgets set at the Spending Review 2021 (with an adjustment to remove funding to cover the Health and Social Care Levy that is no longer being implemented). After the current spending review period, from 2025/26 onwards, departmental resource spending will grow at 1% a year in real terms. Departmental capital spending will continue at the same level in cash terms.

4.6 The national economic context is an important aspect of the Autumn Statement. The projected performance of the economy directly correlates with the level of public receipts anticipated, and therefore how much the government can spend nationally on its priorities. The Autumn Statement incorporated forecasts from the Office for Budget Responsibility, and set out 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.

4.7 To meet both of those rules, the Autumn Statement delivered 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.

4.8 The Office of Budget Responsibility (OBR) publishes economic and fiscal forecasts - the key messages relating to growth and inflation:

- UK wide economic growth (GDP) is forecast to be -1.4% in 2023 increasing to 1.3% in 2024 (latest update 21 December 2022).
- ONS data shows CPI inflation is 10.5% and RPI inflation is 13.4% (December 2022 data). The OBR expects both to remain relatively high compared to recent years in 2023/24 before reducing in 2024/25 and stabilising thereafter.

4.9 The Bank of England Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target in a way that helps sustain growth and employment. In response to their projections for activity and inflation the MPC increased the Bank of England Base Rate by 0.75% in November 2022 to 3.00%, in December 2022 to 3.50% and in February 2023 to 4.0% with a further increase to 4.5% modelled during 2023. The potential implications for the Council are considered elsewhere in this report.

National Policy Intent

4.10 In addition to providing an update on the state of public finances, the Autumn Budget set out other policy announcements including:

- Confirmation that planned **adult social care reforms** intended to place a cap on lifetime care costs have been postponed until 2025. Funding that had been identified for implementation will be maintained within local government to enable local authorities to address current adult social care pressures. The government will make available up to £2.8 billion in 2023/24 in England and £4.7 billion in 2024/25 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 alongside delaying the rollout of adult social care charging reform from October 2023 to October 2025.

- Local authorities in England have been given 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 can increase the adult social care precept by up to 2% per year (with no option to defer increases between years).

- From 1 April 2023, **business rates bills** in England will be updated to reflect changes in property values since the last revaluation in 2017. Targeted support worth £13.6 billion over the next five years is intended to support businesses as they transition to their new bills. This includes freezing the business rate multiplier for businesses, capping upward transitional relief caused by changes in rateable values at the 2023 revaluation, an extension of Retail, Hospitality and Leisure relief for eligible businesses from 50% to 75% and capping bill increases for small businesses losing eligibility or seeing reductions in Small Business Rate Relief or Rural Rate Relief.

- Confirmation that the second round of the **Levelling Up Fund** will allocate at least £1.7 billion to priority local infrastructure projects. North Lincolnshire Council Barton Regeneration bid was amongst the successful bids announced in January 2023.

- The government will refocus the **Investment Zones** programme, stating that it will use the programme to catalyse a limited number of the highest potential knowledge-intensive growth clusters, including through leveraging local research strengths.

- Following the recommendations of the independent Low Pay Commission (LPC), the government will increase the **National Living Wage** (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 (EBRS)** will determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023.

- From April 2023, the **Energy Price Guarantee (EPG),** which places a limit on the price households pay per unit of gas and electricity will be amended. A typical household in Great Britain will pay £3,000 per annum (up from the current £2,500 per annum) from April 2023 to April 2024, saving £14 billion of government spending.

<u>Local Government Finance Settlement 2023/24</u>

4.11 The annual finance settlement is the mechanism by which the Government translates national funding allocations into specific funding for local authorities. The draft settlement was published on 19th December 2022 and is expected to be confirmed in the final settlement published in February 2023. The Government opted for a one-year settlement (with intent based on a set of policy principles for 2024/25 confirmed in an accompanying policy statement). The provisional settlement is a holding position, designed for stability and certainty for planning purposes and to promote financial sustainability within available resources. Longer term Finance reform has been deferred until at least 2025/26.

4.12 The 2023/24 local government finance settlement is based on the Spending Review 2021 (SR21) funding levels, updated for the 2022 Autumn Statement announcements. The main points are set out below:

- **Council Tax & ASC Precept :** The settlement confirms maximum annual core increases of 3% with the potential to levy an additional 2% ASC precept

- **Business Rates Retention** – confirmation inflation linked to CPI (10.1% Sept 2022) – local authorities fully compensated for freezing of the multiplier
- **Revenue Support Grant (RSG)** – increased by CPI Inflation and £78m of existing grants rolled in to RSG.
- **Local Government Funding Reform** – the review of relative needs formula and resources (Fair Funding Review) and reset of Business Rates growth will not be implemented in next two years
- **Additional Funding for Adult Social Care:**
    - **Social Care Grant** – increased by £1,506m to £3,852m (£161m of the increase is due to the roll-in of the Independent Living Fund with the balance coming from the postponement of adult social care charging reforms and from other parts of the settlement)
    - **ASC Market Sustainability & Improvement Fund** - £562m total funding (£162m rolled in from Market Sustainability & Fair Cost of Care) with an additional £400m intended for local authorities to make tangible improvements to adult social care and in particular to address discharge delays; social care waiting times; low fee rates; workforce pressures; and to promote technological innovation in the sector
    - **ASC Discharge Fund** - A new £300m grant for 2023/24 intended to form part of Better Care Fund plans, aimed at reducing delayed transfers of care
    - **Reduced Grants –** Services Grant (reduced from £822m to £464m), New Homes Bonus (reduced from £556m to £291m), Lower tier services grant (abolished – replaced by funding guarantee)
    - **Rural Services Delivery Grant** – no change

4.13 The settlement set out £59.5bn in core spending power for England, a £5.0bn increase from 2022/23. To realise the increase, the sector must generate an additional £1.9bn through council tax increases. Council tax setting is a local decision and therefore actual core spending power will differ. The breakdown by funding source is as follows:

Core Spending Power (England)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Settlement Funding Assessment	21.2	18.6	16.6	15.6	14.6	14.8	14.8	14.9	15.7
Business Rate under indexation grant	0.2	0.2	0.2	0.3	0.4	0.5	0.7	1.3	2.2
Council Tax & ASC Precept	22.0	23.2	24.7	26.3	27.8	29.2	30.3	31.9	33.8
Improved Better Care Fund	-	-	1.1	1.5	1.8	2.1	2.1	2.1	2.1
New Homes Bonus	1.2	1.5	1.3	0.9	0.9	0.9	0.6	0.6	0.3
Rural Services Delivery Grant	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transition Grant	-	0.2	0.1	-	-	-	-	-	-
Adult Social Care Support Grant	-	-	0.2	0.1	-	-	-	-	-
Winter Pressures Grant	-	-	-	0.2	0.2	-	-	-	-
Social Care Support Grant	-	-	-	-	0.4	-	-	-	-
Social Care Grant	-	-	-	-	-	1.4	1.7	2.3	3.9
Market Sust. and Fair Cost of Care	-	-	-	-	-	-	-	0.2	-
ASC Market Sust. and Improvement	-	-	-	-	-	-	-	-	0.6
Lower Tier Services Grant	-	-	-	-	-	-	0.1	0.1	-
ASC Discharge Fund	-	-	-	-	-	-	-	-	0.3
Services Grant	-	-	-	-	-	-	-	0.8	0.5
Grants rolled in	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	-
Funding Guarantee	-	-	-	-	-	-	-	-	0.1
CORE SPENDING POWER (bn)	**44.9**	**44.0**	**44.5**	**45.3**	**46.4**	**49.2**	**50.6**	**54.5**	**59.5**

4.14 According to Government calculations, North Lincolnshire's maximum core spending power in 2023/24 is £159.4m, which is an increase of £14.2m from 2022/23. Of the increase, £5.1m is predicated on council tax increases, with the remainder due to increased grant funding. This can be seen below:

Core Spending Power (N. Lincs)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Settlement Funding Assessment	58.5	50.9	45.3	42.1	38.7	39.4	39.4	39.6	41.7
Business Rate under indexation grant	0.4	0.4	0.5	0.7	1.1	1.3	1.7	3.4	5.9
Council Tax & ASC Precept	57.9	60.9	65.6	69.5	72.7	76.2	78.5	82.6	87.7
Improved Better Care Fund	-	-	3.7	5.0	6.3	7.0	7.0	7.2	7.2
New Homes Bonus	2.7	3.2	2.1	1.0	0.7	0.4	0.2	0.7	0.1
Rural Services Delivery Grant	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Transition Grant	-	-	-	-	-	-	-	-	-
Adult Social Care Support Grant	-	-	0.8	0.5	-	-	-	-	-
Winter Pressures Grant	-	-	-	0.8	0.8	-	-	-	-
Social Care Support Grant	-	-	-	-	1.3	-	-	-	-
Social Care Grant	-	-	-	-	-	4.5	5.6	7.6	12.5
Market Sust. and Fair Cost of Care	-	-	-	-	-	-	-	0.5	-
ASC Market Sust. and Improvement	-	-	-	-	-	-	-	-	1.8
Lower Tier Services Grant	-	-	-	-	-	-	0.3	0.3	-
ASC Discharge Fund	-	-	-	-	-	-	-	-	1.0
Services Grant	-	-	-	-	-	-	-	2.3	1.3
Grants rolled in	0.7	0.8	0.8	0.8	0.7	0.7	0.7	0.7	-
CORE SPENDING POWER	**120.3**	**116.5**	**118.8**	**120.6**	**122.5**	**129.8**	**133.6**	**145.2**	**159.4**

4.15 To aid future financial planning, officers have assessed how much resource North Lincolnshire might expect to receive from future settlements given the stated core spending power in 2024/25 and 2025/26 and reflected within the spending power estimate for those years in Table 1.

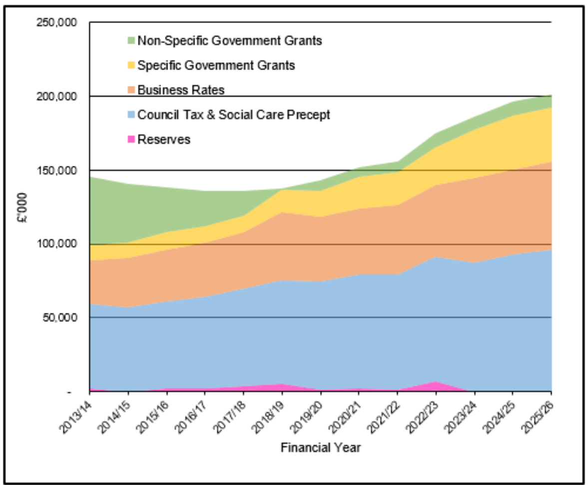
4.16 Council tax continues to become increasingly important. The changing composition of Council funding can be seen in the following table and chart:

Core Spending Power (N. Lincs)	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Settlement Funding Assessment	58.5	50.9	45.3	42.1	38.7	39.4	39.4	39.6	41.7
Other Grant Funding	3.9	4.7	8.0	9.0	11.1	14.2	15.7	22.9	30.0
Council Tax & ASC Precept	57.9	60.9	65.6	69.5	72.7	76.2	78.5	82.6	87.7
CORE SPENDING POWER	**120.3**	**116.5**	**118.8**	**120.6**	**122.5**	**129.8**	**133.6**	**145.2**	**159.4**

North Lincolnshire Council

Change in spending power

Spending Power Composition (2013/14 – 2025/26)



Key Points

Since 2018/19, **Council funding has been steadily increasing**, in recognition of cost pressures across the sector.

Prior to this, funding had been fairly static (2016/17 – 2018/19), and prior to this had been declining during the austerity years.

Council tax and business rates accounted for 60% of spending power in 2013/14, **now accounts for near to 80%.**

Introduced in 2016/17, the **adult social care precept** is planned to account for nearly 13% of total council tax raised by the Council.

Sector specific grant funding has increased over the period, with Government recognising and provide funding for specific areas of cost (e.g. social care).

At the same time, **non-specific funding** has been reduced, replaced in the main by local taxation and reflecting the preference for specific grant funding.

SAFE WELL PROSPEROUS CONNECTED

Council Tax & Adult Social Care Precept

4.17 Income from council tax equates to just over half of the Council's core funding base. It is the most important source of funding to the Council and is the one to which it has most control. There is generally a lower degree of volatility within council tax than other funding sources, such as business rates. Its relative importance continues to grow.

4.18 Gross forecast income from council tax is based on two key assumptions:

- the Council Tax base (expressed in band D equivalents)
- the band D rate of Council Tax.

4.19 Full Council set the 2023/24 council tax base on 5th December 2022 at 51,270.5 band D equivalents, an increase of 0.9% compared to the 2022/23. The taxbase increase reflects the following (equivalent band D):

- An increase in the number of gross properties (353)
- Assumed collection rate percentage remaining at 98%
- Additional empty property surcharge cases (43)
- A natural reduction in council tax support recipients (239)
- An increase in the number of single adult households (129)

4.20 Beyond 2023/24, the taxbase is assumed to continue growing at a modest 0.8% growth per annum. This reflects a stable planning environment, with the primary difference each year relating to property growth of around 350 houses per annum. The Council has established robust taxbase management processes which ensure clear line of sight in respect of progress against the assumptions supporting the taxbase over the medium term.

4.21 When making its assessment of spending power for Local Government, the Government expects that councils will maximise their flexibilities to increase council tax and the adult social care precept, therefore this plan assumes a

2.99% increase in council tax for 2023/24 and 2024/25 and 1.99% thereafter, and a 2% increase in the adult social care precept for 2023/24 and 2024/25 and 1% thereafter.

4.22 Over 67% of properties within North Lincolnshire are in either band A or B. The general rate increase in 2023/24 for a band B equates to £3.13 per month, while the adult social care precept increase equates to £2.09 per month.

4.23 The relative importance of council tax has increased significantly over the last years, in line with Government intent and policy. It now accounts for around half of total funding. Total funding from council tax and the adult social care precept is expected to be 55% higher in 2025/26 than it was in 2016/17. This is demonstrated in the table below:

Council Tax	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Base (band D)	46,498.1	48,147.2	48,602.1	49,442.8	49,889.5	49,640.3	50,801.0	51,270.5	51,662.4	52,054.4
Rate (band D):										
General	1,273.86	1,286.72	1,313.61	1,354.75	1,382.49	1,404.94	1,418.91	1,467.19	1,500.93	1,535.68
ASC Precept	25.48	64.46	104.99	104.99	134.18	164.51	195.90	228.2	245.15	262.61
Yield:										
General	59.2	62.0	63.8	67.0	69.0	69.7	72.1	75.2	77.5	79.9
ASC Precept	1.2	3.1	5.1	5.2	6.7	8.2	10.0	11.7	12.7	13.7

4.24 Achieving financial sustainability remains a major long-term aim for the Council, where the Council generates enough resource from local sources to fund local need. Under the current funding system, the Treasury requires local decision making about council tax income levels relative to investment need within the national policy framework.

4.25 In addition to investment need, other factors in considering the rate of council tax are financial resilience and the burden on taxpayers. If a decision is taken to not maximise the council tax increase in any year(s), this will result in a permanent funding impairment which cannot be recovered in later years.

4.26 The Levelling Up and Regeneration Bill is currently working its way through the Government process. The Bill includes the opportunity from April 2024 for authorities to reduce the time properties can be empty to one year (currently two years) before a premium of 100% of the liability is payable, and for an additional 100% premium to be charges on second homes. While the legislation is yet to be finalised, the drafting of the Bill sets a requirement for Councils to publish a notice 12 months prior to implementing the premiums.

4.27 The Council also collects council tax on behalf of other major precepting bodies (Humberside Police and Fire) and town and parish councils. Properties within Scunthorpe also pay a Special Expense charge, instead of a parish precept. Full Council sets the Scunthorpe Special Expense charge within the budget resolution. All precepts requested from precepting bodies are contained in Appendix 4 (at the time of writing this report, these were based on provisional amounts from the two major precepting bodies and will be confirmed following approval by the relevant boards).

4.28 Lastly, several bodies impose levies on the Council's general income from council tax. This includes: the Environment Agency, five internal drainage boards and the port health authority. The levy demands contribute towards the cost of activities undertaken by those bodies which provide benefit to North Lincolnshire, particularly water management and flooding prevention. The levies that have been requested are contained in Appendix 5 and equate to a charge per band D property of £32.82 (£31.97 2022/23) funded from the Council's general council tax income (however this figure is likely to change as final levy demands are received from levy bodies).

Business Rates

4.29 Since 2013/14, the Council has been able to keep a share of the business rates paid in its area, under the 50% business rates retention scheme. In its simplest form, the Treasury currently receives 50%, with the Council keeping 49% and passing 1% to Humberside Fire and Rescue. The scheme aims to provide financial incentives for local authorities to grow their economies.

4.30 The current business rates retention system sets out a baseline funding level for the Council (what it is deemed to need) and a forecast of the net yield (what it is expected to collect). The difference results in a tariff due to be paid. The tariff is structurally fixed between full rating list revaluations or a reset of business rate baselines. The rating list has been revalued effective 1st April 2023 and as a result the Tariff has been reset from 2023/24 until the next trigger point. The baseline funding is incorporated into the core spending power assessment (see 4.14), and is set out as follows:

Settlement NNDR Assessment	2022/23 £M	2023/24 £M
Estimated Net NNDR Yield	75.3	78.8
Split between:		
Central Government	37.7	39.4
Fire Authority	0.8	0.8
Local Authority	36.9	38.6
Tariff (-) / Top-Up (+)	(3.7)	(4.2)
NNDR Baseline Funding	**33.2**	**34.4**
Safety Net Threshold	30.7	31.8

Settlement Funding Assessment	2022/23 £M	2023/24 £M
Revenue Support Grant	6.4	7.3
NNDR Baseline Funding	33.2	34.4
Total	**39.6**	**41.7**

4.31 The amount retained by the Council from business rates is determined by a detailed calculation in the 'Setting the National Non-Domestic Rates Tax Yield 2023/24' report, which was approved under delegated powers on 31st January 2023. The report sets out that the Council expects to retain £55.9m from a total collectable income estimate of £91.5m (61.1%).

4.32 Collectable income in 2023/24 is forecast to have increased compared to 2022/23 levels, primarily due to the current level of inflation (while businesses have been protected from this increase by the Government through a freeze on the Business Rates multiplier, the Government will fully reimburse Local Authorities for the loss of income via new burdens grant funding). Therefore, the majority of the increased income is due to be received from Government grant rather than Business Rates collected.

4.33 The amount of forecast retention in 2023/24 is significantly more than baseline need and is due to a combination of growth within the system and increase from fully retained items (e.g. renewables). The additional resource retained from business rates is both a success and a risk. It is a success in that the Council yields more resource from business rates which enables it to invest more in local services, and a risk in that its resources from business rates could fall to £31.8m before safety net support. The Council employs risk mitigation measures to support the organisation's financial resilience.

4.34 The Government made a number of commitments in relation to Business Rates in its Autumn Statement 2022. These include:

- From 1 April 2023, business rate bills in England will be updated to reflect changes in property values since the last revaluation in 2017.

- Upwards Transitional Relief will support properties by capping bill increases caused by changes in rateable values at the 2023 revaluation (to be funded by the Exchequer rather than limiting bill decreases as at previous valuations).

- The business rates multipliers will be frozen in 2023-24 at 49.9p and 51.2p.

- 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.

- Bill increases for the smallest businesses losing eligibility or seeing reductions in Small Business Rates Relief (SBRR) or Rural Rate Relief (RRR) will be capped at £600 per year from 1 April 2023.

- A new improvement relief announced 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, to be introduced from April 2024.

4.35 The next revaluation of rateable values will take effect in 2023 – administered by the Valuation Office Agency – and will lead to updated property valuations for every business property. Valuations will reflect economic conditions at 1st April 2021, meaning updated property valuations will reflect the impact of the pandemic on cost inputs such as rents. At a national level, revaluations are required by law to be fiscally neutral which is achieved through an adjustment in the multiplier. The Valuation Office has published the first drafts of valuations for Revaluation 2023, with further updates expected ahead of April 2023. The Council's funding from business rates as a result of the Revaluation is expected to remain substantially unchanged, through adjustments to the tariff and multiplier. There are however, expected to be gains from fully retained items (e.g. renewables) based on the current draft rating list.

4.36 The key messages emerging from the draft 2023 Revaluations are:

- The overall percentage change in rateable values on regional lists across England and Wales is 7.1%, with a slightly higher level of increase of 7.3% across England alone.

- The increase across England in 2023 is the smallest increase across the last three Revaluations and compares to increases of 9.3% in 2017 and 20.9% in 2010

- The change in valuations across regions ranges from a high of 14.4% in the East to a low of 2.2% in the North East, a variance of 12.2 percentage points.

- The sectors with the largest variation are Retail, where there has been a 10% reduction in valuations and Industry, where there has been an increase of 27.1%. Of the four main sectors the change in Offices of 10.2% is most closely matched to the English average.

- Across the retail sector there have been large reductions across categories of large shops (19.3% and 34.7%) and hypermarkets/supermarkets (14.9%). Conversely there have been increases across convenience stores of 12.7%

4.37 The Humber was announced as one of eight freeports in the Autumn Budget 2021, with the stated aim to “encourage businesses from around the world to create new hubs of global trade that will transform economic prospects and job opportunities for local communities”. The Council is currently finalising arrangements with partners to establish the freeport company. The taxbase calculation assumes that there will be no freeport relief awarded during 2023/24, which reflects the current position. Any retained business rates from the freeport site will be ring-fenced for the economic objectives of the freeport.

4.38 The current business rates retention system is the source of funding with the greatest volatility due to the potential impact of external factors, therefore greatest risk. There are downward pressures to rateable values, an area where the Council has no control. The current system enables businesses to appeal rateable values, with potential refunds back to the start of the rating list (2017 list appeals can still be lodged and appeals against the 2023 list are expected from April 2023. The results of 2017 list appeals may not be known until 2024 which prolongs uncertainty over income due from the 2017 list). Downward pressures encompass business rate appeals, and case law determinations which require the Valuation Office Agency (VOA) to take a different approach to certain types of non-domestic property. During 2022/23 to date, the VOA have applied adjustments to North Lincolnshire’s rating list which have reduced the area’s rateable value by £0.6m. This takes the total appeal led downward adjustments on the 2017 list to £7.9m, which drags against other non-appeal growth of £18.0m. The downward pressure is expected to continue, thereby increasing the importance of generating increases elsewhere in the taxbase to maintain an ‘as is’ position.

4.39 The Council's business rate taxbase is dominated by large ratepayers. The top 50 properties by rateable value account for over half of the total rateable value (and the top 20 companies account for over 42% of total rateable value), made up from 5,671 properties. Any change in valuation of these properties could significantly impact the Council's funding from business rates, both in terms of backdated appeals and ongoing revenue loss. This risk is well understood and mitigated through the priority given to enabling economic growth and renewal and the delivery of the Economic Growth Plan.

4.40 The Council deploys risk management tools to mitigate against the risk of backdated refunds. An appeals provision within the collection fund, which represents a set aside of business rates income to fund the future cost of backdated refunds and sets aside resource each year to contribute towards this pot. A risk reserve specifically to mitigate potential loss of growth retention above the safety net level which is currently forecast to reach £24m.

Collection Fund

4.41 The council maintains a separate collection fund for council tax and business rates. The council makes an estimate of the total level of income it expects to receive into the collection fund at the start of the financial year and pays out the relative share to each precepting authority. It then reviews the actual performance of the collection fund in its January estimate, which is used to forecast whether a surplus or deficit is expected to arise at the year end. The estimate is then shared amongst the major precepting authorities, according to the relative share for each, with the Council's share reflected in the funding base for the next year. At the year-end, the definitive calculation is undertaken which gives rise to the actual surplus or deficit. If the actual differs from the estimate, the difference will impact the funding base in the year following.

4.42 The optimum position would be a nil collection fund surplus/deficit, as it would mean that the council accurately forecast the level of locally generated taxation at the start of the year. This is unlikely in practise as the estimate is based on many variables which inevitably change during the year.

4.43 In 2020 the Government amended the collection fund regulations to enable Councils to spread collection fund deficits arising in 2020/21 over a three-year period instead of the usual one-year time period, recognising the potential for large deficits being generated and enabled the Council to smooth its forecast deficit over a three-year period. 2023/24 represents the last year of this deficit spread.

4.44 In respect of council tax, a nil surplus/deficit is forecast for 2022/23. This forecast takes into account the residual 2020/21 deficit spread.

4.45 In respect of business rates, the 2022/23 estimate comprises a collection fund surplus resulting from a series of successful appeals settled at amounts less than had been set aside in the provision for appeals, this partially off-set by the allocation of additional business rate relief mainly relating to Covid-19. This element is deemed to be offset by compensatory section 31 grants received by the Council outside of the Collection Fund.

Funding for Social Care

4.46 Since 2016/17, the Government has provided a package of funding to support Local Government in managing increasing social care need and transformation in integrated provision. The package of funding has increased year on year, recognising the shared objectives and outcomes of health and social care with investment translated into local allocations as shown below:

Social Care Funding (all in £M)	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2024/25
Social Care Precept	3.1	5.1	5.2	6.7	8.2	10.0	11.7	13.5	14.6
Improved Better Care Fund	0.3	5.0	6.3	7.0	7.0	7.2	7.2	7.2	7.2
Social Care Grant Funding	0.8	0.5	2.1	4.5	5.6	7.6	12.5	14.4	14.4
Market Sust. & C.O.C. Fund	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0
ASC & Market Sust. Fund	0.0	0.0	0.0	0.0	0.0	0.0	1.8	2.7	2.7
Adult Social Care Discharge Fund	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.6	1.6
Total	**4.2**	**10.6**	**13.6**	**18.2**	**20.8**	**25.3**	**34.2**	**39.4**	**40.5**
Change Per Year		6.4	3.0	4.6	2.6	4.5	8.9	5.2	1.1

4.47 The budget proposal assumes the Council will maximise its flexibilities under the adult social care precept in all years of the financial plan.

4.48 In total, social care specific funding is expected to increase by £8.9m in 2023/24. This enables social care budgets to be increased, ensuring the Council can continue to meet local need. However, the cost and demand of social care services is increasing more than specific funding, requiring the Council to fund some of the extra cost increase through other sources.

4.49 The adult social care precept is being used to contribute to maintaining effective local services. Adult social care services have been subject to cost pressures due to several factors including: demographic changes, inflationary pressures (including National Living Wage), long-term effects of the Covid-19 pandemic and inter-dependency with the NHS system, and increased complexity of demand. The adult social care precept, together with the approach to meeting need, contribute to containing the increasing cost of service delivery.

4.50 Use of the Improved Better Care Fund and the Adult Social Care Discharge Fund is agreed collectively with the North Lincolnshire Health Care Partnership (part of the Humber and North Yorkshire Integrated Care Board), as its use is intended to benefit both Health and Social Care through more effective joint working as part of the Better Care Fund planning requirements.

Public Health Grant

4.51 The Council receives a Public Health grant from the Department of Health and Social Care, ring-fenced to public health activities and contributes to adult and children's health and wellbeing outcomes. Pending confirmation of the 2023/24 allocations the Medium-Term Financial Plan assumes amounts received are in line with the previous year's financial plan.

Other Government Grants

4.52 The Local Government Finance Settlement confirmed a number of other Council core grants funding:

- A long-standing feature of local government finance has been the **Revenue Support Grant (RSG)**, a general contribution from Government towards the cost of local services. The Government have increased allocations by 10.1% for inflation in 2023/24 and have also rolled a number of other grants into RSG.

- The Council also receives a **Rural Services Delivery Grant**, acknowledging that the cost of providing some services in rural areas carries with it a greater cost. Allocations have been frozen at 2022/23 levels.

- The **New Homes Bonus** is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. The grant incentive has been diminished in recent years, with the system in scope for review. The Government have confirmed it is rolling over the current approach for 2023/24 and the total amounts allocated have reduced. No resource is expected from this scheme beyond 2024/25.

- The Council received a **lower tier services grant** in 2022/23 and this grant has been abolished from 2023/24. The Council also receives a **services grant**. Amounts distributed through this grant have been reduced from 2023/24 to reflect the cancellation of the national insurance increase and movement of funding to the supporting families programme.

4.53 The **Dedicated Schools Grant (DSG) Central Schools Services Grant** contributes towards the cost of statutory education authority functions, with Schools Forum approval required annually and assumed through the life of the MTFP. The schools element of DSG is considered at 5.31.

Planned Use of Reserves

4.54 As per the reserves strategy in Appendix 3, the Council plans to utilise £6.0m of reserve funding in 2023/24 and £4.0m in 2024/25 to fund specific elements of the cost base on a temporary basis as we transition to long term sustainability, embedding the One Council delivery model through transformation. The planned use of reserves is a proportionate and prudent response to enable transition to a financially sustainable position achieved through the implementation of transformation plans including the emerging Organisational Development plan.

4.55 The planned use of reserves will be closely monitored throughout the life of the MTFP within the context of the adequacy of reserves statement and financial sustainability.

5 Analysis of Net Operating Expenditure (Tables 2 – 5)

5.1 The Council's Net Operating Expenditure represents the day-to-day cost and income sources of council. The Council aligns revenue investment with the intent set out in the Council Plan, which outlines the priorities for the area and the outcomes it is seeking to maximise for residents.

5.2 The Council has a strong track record of financial management, fostering a cost conscious culture within an organisation which focusses on how the council and partners can best work together to develop the best solutions to reach the best outcomes.

2023/26 Medium Term Financial Plan & Risk Management

5.3 Each year, the Council undertakes a strategic financial planning process which principally aims to establish a robust and balanced budget proposal which ensures affordable investment in Council outcomes and priorities. The medium-term financial plan considers different factors, such as: the current cost base, new and/or emerging local and national policy intent, the Council plan, the economic context and availability of funding.

5.4 In its simplest form, the medium-term financial plan represents an amalgamation of assumptions in respect of anticipated Council expenditure, income and funding. The Council is legally bound to set a balanced budget for the upcoming financial year, having due regard to the adequacy of reserves and robustness of estimates (see Appendix 6).

5.5 The medium-term financial plan is set out in Table 3 and contains a series of adjustments from the 2022/23 budget position. In determining that the budget proposal and medium-term financial plan demonstrate robust estimates, the following cost drivers have been considered:

- Policy decisions (new and emerging)
- Activity/demand
- Economic (inflation, interest rates, national living wage and pay)
- Other operating environmental factors (compliance etc)

5.6 In total, the proposed additional investment in 2023/24 is £23.7m net operating cost with the most significant cost drivers impacting on the financial planning environment being external economic factors. Inflationary pressures are estimated at £18.4m in 2023/24 (£34.1m over 3-year MTFP period).

5.7 There are several different elements to inflationary pressures. In addition to normal business forward planning elements in respect of pay awards and contract inflation, there are additional items to consider for 2023/24:

- **Backdated pay award for 2022/23** – The medium-term financial plan for the current year was set ahead of the recent sharp increases in inflation. The 2022/23 pay award has now been agreed at £1,925 per employee (full time equivalent). To bring policy and finances into alignment, the additional cost will need to be funded.

- **Energy and fuel inflation** – the cost of energy and fuel has significantly increased over the last year largely due to the increase in wholesale gas prices. This is leading to higher costs for the Council, particularly as previously contracted energy rates mature.

The elements considered above are not North Lincolnshire specific. They impact across most sectors. The financial plan in future years assumes a gradual return to normal inflation levels, although high levels are expected to persist over the coming year. If inflation and energy costs continue to increase/remain high for a prolonged period, there are likely to be consequences for the budget in future years.

5.8 In addition to funding inflation costs, the budget proposal for 2023/24 also makes adjustments to fund increasing activity levels primarily within social care. Social care activity – particularly within adult social care – continues to increase both in terms of quantum and complexity, which reflects the permanent impact of the pandemic on a generation of residents, with reduced social interaction and therefore less opportunity for early help.

5.9 The budget assumes the cost of capital financing will be lower in 2023/24, which reflects revised borrowing estimates. Whilst of short-term benefit, the medium and longer-term position need to be kept under review considering the expected pathway of increases in the Bank of England base rate.

5.10 Costs mitigations currently identified through initial transformation work equate to £8.2m in 2023-24 (of which £4.4m is one-year only – the total mitigations over 3 years amount to £5.0m), including council led Health and Social Care Integration, place based fleet transformation, property trading re-gearing and functional efficiency and productivity opportunities, including fees and charges review to consider inflation impact.

5.11 Before applying planned use of reserves there is a forecast sustainability gap of £6.0m in 2023-24 with the potential financial sustainability gap over the 3 years of the medium-term financial plan reaching £9.6m. This represents the level of transformation savings required to be achieved by 2025-26 through:

- Redesigning the council for a new future: redefining purpose, organisational development, transformation, systems and place leadership
- Outcomes led investment – evaluation of impact and effectiveness of interventions and policy intent.
- Efficiency and productivity opportunities focused on improving customer experience, and applying sound financial management principles to fees and charges, staffing resource and vacancy management, commercial income and contract review.

5.12 Strong financial management cannot exist without strong risk management. The ability to identify, influence and ideally mitigate risk is a fundamental pre-requisite to being a sustainable Council. Within financial plans, there are a series of identified risks which could materialise and translate into cost pressures if mitigating action is not taken. In stress testing every pound spent, it remains a key part of the medium-term financial plan that nominated leads will be tasked with taking action to reduce the chance of risks materialising. This approach has avoided cost increases in previous years. However, the reality is that not all risks can be mitigated, and this approach relies upon there being sufficient capacity within reserves if needed (see Appendix 3).

5.13 The financial planning process is strategic in nature and incorporates the best knowledge from across the Council which informs investment need. It also adjusts for materialised risks which have been flagged during 2022/23 financial reporting (e.g. social care activity, 2022/23 pay award and energy and fuel inflation).

5.14 The base for 2023/24 is therefore considered to be solid. However, uncertainty beyond 2023/24 – and indeed uncertainty over the next year – mean that financial plans may need to change in future. This budget represents a solid base for future years, noting the scope for changes in the future which reflect clarifications in the operating environment and future opportunities borne out of the widescale organisational review of priorities and emergent Council plan.

5.15 The Council focusses its spending power to maximise outcomes and conforms to the financial strategy for achieving a sustainable council. The financial plan reflects strong tax base growth and a path towards re-increasing income for some commercial services with a clear intent for full cost recovery. The budget leverages in funding from Government through the settlement, and from delivery partners where relevant (e.g. health and social care). The Council plan assumes ongoing innovation to deliver and enable services to the public, thereby containing cost increases in some areas compared to what they could be. Lastly, the financial plan is based on the best information available, ensuring robust plans that enable us to secure best value and matches the Council's ambitions for best place and best Council. In summary, the medium-term financial plan proposes allows the Council to continue to make a significant difference to the lives of its residents through its investment choices.

5.16 The medium-term financial plan beyond 2023/24 is unbalanced, with residual challenges remaining in each of the latter two years. This is the norm and reflects the operating environment in which the Council operates.

Financial Resilience

5.17 Financial resilience, the ability to weather financial shocks, is an important consideration for council sustainability. There are a number of indicators of the current health of council finances, which form part of the overall consideration in determining financial plans and budgets.

5.18 External auditors gave a clean bill of health on the council's accounts for 2020/21 as they have each year since the inception of North Lincolnshire Council. Due to ongoing nationwide discussions on the treatment of certain asset types audit opinion is outstanding on the 2021/22 accounts for the majority of Local Authorities, including North Lincolnshire. The external auditors also review the arrangements for securing economy, efficiency and effectiveness in the use of resources. The Council achieved an underspend in

2021/22 achieved through a combination of pro-active cost management initiatives and appropriate use of specific and non-specific Government grants.

5.19 The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a financial resilience index, which is designed to support and improve discussions surrounding the financial resilience of individual Council's. The index shows each Council's performance against a range of measures associated with financial risk, covering: reserve levels, social care spending, fees and charges, and debt. Relative to other Council's. A summary of the position over the last three years is shown below:

Financial Resilience Index Measure	2019/20	2020/21	2021/22	Risk*
Reserves Sustainability Measure	100.00	100.00	100.00	Medium
Level of Reserves	29.46%	50.79%	44.52%	High
Change in Reserves	27.72%	92.91%	86.64%	Low
Interest Payable/Net Revenue Expenditure	4.93%	5.07%	4.55%	Medium
Gross External Debt (£'000)	203,840	161,245	152,616	Low
Social Care Ratio	58.96%	61.74%	64.53%	Low
Fees & Charges to Service Expenditure ratio	8.27%	6.36%	7.31%	High
Council Tax Requirement / Net Service Expenditure	58.95%	63.80%	61.60%	Low
Growth Above Baseline	10.00%	5.79%	5.79%	Low
Children Social Care Ratio	24.58%	22.82%	22.08%	Low
Adult Social Care Ratio	34.93%	38.92%	42.44%	Medium

5.20 Relative to other unitary authorities the CIPFA resilience index indicates that North Lincolnshire Council is at **higher risk** in respect of:

- **Level of reserves** - Lower levels of reserves imply higher risk. It's the responsibility of the S151 Officer to utilise good financial management and determine an appropriate level of reserves. This can be achieved with relatively low reserves, while high reserves do not always indicate good financial management.
- **Fees and Charges** – total fees and charges as a proportion of service expenditure – the higher the ratio the lower the risk. A greater amount of fees and charges income contributes to an authority being more resilient as they have more control over budgets through fee setting etc.

5.21 North Lincolnshire has a **medium/average risk** compared to other unitary authorities in the following areas:

- **Reserves Sustainability** - represents how long an authority's reserves will last if they continue to draw them down at the same rate – the longer an authority's reserves will last the lower the risk.
- **Interest payable** – exposure to interest rates as a proportion of total spend – a lower ratio represents lower risk. This risk is monitored and managed through the Treasury Management Strategy.

- **Adult Social Care -** While the overall risk for social care is low, there is a medium risk specifically for adult social care, representing the relatively high proportion of overall Council spend on adult social care.

5.22 North Lincolnshire is deemed a **lower risk** in respect of:

- **Change in reserves** – although the council has a low level of reserves compared to other authorities, this measure considers changes in reserves over the last 3 years – negative changes imply higher risk. An increasing use of reserves over a 3 year period indicates a higher risk to financial sustainability. The indicator needs to be viewed alongside the Medium Term Financial Plan, planned use of reserves and the level of reserves an authority determines to be an appropriate minimum.
- **Social care Ratio** – this indicator reflects the fact that the greater the proportion of the local authority budget that is used for social care, the less funding there is for other services. Increased demand will therefore reduce the flexibility of the council's budget, making it more vulnerable to financial challenge.
- **External Debt** – considers the level of gross external debt – the higher the debt the higher the risk. Levels are controlled and monitored through the Treasury Management Strategy.
- **Council Tax** - the ratio of Council Tax to net revenue expenditure – the higher the ratio, the higher the risk. Council Tax is a relatively stable form of income but is exposed to the economic environment.
- **Business rates** - considers the percentage growth in business rates above the baseline – the higher the ratio the higher the risk. Growth above baseline can benefit authorities but it increases risk expose to reductions above the safety net, and income risks when baselines are reset etc.

5.23 The reserve elements of the resilience index are considered further in Appendix 3.

5.24 In considering financial resilience, the absolute values and changes in the three different reserves indicators, together with local context and other factors as outlined above mean that overall, the current reserves levels represent a sound position and basis to achieve sustainability.

Financial Accountability

5.25 The day-to-day management of revenue budgets is allocated to officers to ensure clear lines of oversight and accountability. Gross and net investment categorised under the accountability structure is contained in Table 2.

5.26 Investment can be presented subjectively as well as by area of activity. This gives an indication of how much the Council expects to spend on different spend categories (e.g. pay, goods and services). The 2023/24 forecast is summarised in Table 4.

5.27 Government policy sets the mandate to what Local Government does, how it operates, and determines the financial context of resource availability.

Locally, the Council interprets national policy to establish and tailor its offer to maximise outcomes for North Lincolnshire, based on understanding the local population and area's need, forecasting and managing demand, determining affordability limits and ensuring the link between all areas are understood. This inevitably gives rise to some prioritisation. The local policy also sets out how the Council operates within the law.

5.28 Under section 25 of the Local Government Finance Act 2003 it is a legal requirement for the council to have assurance, in the form of a report, that delivery activity in the plan period is properly costed, that proposals for spending are quantified and deliverable, and that risks are properly evaluated. The council is required to set a balanced budget; that is, it may not budget for a deficit. The budget contained within this report complies with this requirement.

School Expenditure and Funding

5.29 In addition to core Council funding, the Council also receives direct government grants provided for a specific purpose. Direct grants are either passed through the council to the intended recipient (e.g. housing benefit), or fund specific activities required by Government but not included within the overall financial settlement to local government (e.g. dedicated schools grant).

5.30 Dedicated Schools Grant is the main source of funding for the schools' sector. The funding is planned to be distributed in accordance with the relative proportions set out in Table 5 (para 3.1). This primarily relates to four main blocks: schools block; early years; high needs; and a central block.

5.31 As can be seen in Table 5, total dedicated schools grant funding for North Lincolnshire is increasing to £169.8m, an increase of £9.9m (6.2%). The majority of the increase is planned to be invested within individual school budgets and in high needs provision, reflecting the national trend of increased need for specialist educational support. The national funding formula determines per pupil factor amounts. The local schools funding formula set out in Table 5 is subject to Cabinet Member (Children and Families) approval in consultation with Schools Forum.

RESERVE STATEMENT AND STRATEGY Appendix 3

Table 1 – Reserve Statement

2021/22 £000's Actual	2022/23 £000's Estimate	REVENUE RESERVES	2023/24 £000's Estimate	2024/25 £000's Estimate	2025/26 £000's Estimate
		Organisational Reserves			
8,493	8,993	General Fund	10,000	10,394	10,394
31,081	26,004	Risk and Transformation	19,007	14,613	14,613
2,563	2,563	NNDR s. 31 grant funding (timing adj.)	2,563	2,563	2,563
2,337	1,820	Public Health	1,357	908	1,318
44,474	**39,379**	**Total Organisational Reserves**	**32,926**	**28,477**	**28,887**
		Earmarked Reserves			
212	106	Adult Social Care	106	106	106
450	450	DSG - Delegated Items	450	450	450
289	289	Taxi Licensing	208	208	208
1,183	883	Other Earmarked Reserves	752	752	752
2,134	**1,728**	**Total Earmarked Reserves**	**1,516**	**1,516**	**1,516**
		Grant Reserves			
917	617	Rural Mobility Grant	309	-	0
446	0	Syrian Resettlement Grant	0	-	0
748	559	Supporting Families Initiative	370	181	0
3,864	336	Covid-19 LA Support	61	30	30
919	0	Covid-19 Contain Outbreak Management Fund	0	0	0
6,779	1,948	Other Grant Reserves	1,605	1,331	1,331
13,673	**3,461**	**Total Grant Reserves**	**2,345**	**1,542**	**1,361**
60,281	**44,568**	**TOTAL COUNCIL RESERVES**	**36,788**	**31,535**	**31,764**
		School Reserves			
6,856	6,856	Schools Balances	6,856	6.856	6,856
5,565	5,565	Dedicated Schools Grant	5,565	5,565	5,565
12,421	**12,421**	**Total School Reserves**	**12,421**	**12,421**	**12,421**
72,702	**56,988**	**TOTAL RESERVES**	**49,208**	**43,956**	**44,185**

Table 2 – Risk and Transformation Reserve Breakdown

2021/22 £000's Actual	2022/23 £000's Estimate	REVENUE RESERVES	2023/24 £000's Estimate	2024/25 £000's Estimate	2025/26 £000's Estimate
18,682	14,580	Risk and Transformation	8,360	1,966	1,966
0	0	Change & Transformation	2,000	4,000	4,000
5,146	2,777	Identified MTFP Risk	0	0	0
1,258	1,258	Self-Insurance Fund	1,258	1,258	1,258
5,995	7,389	NNDR Risk	7,389	7,389	7,389
31,081	**26,004**	**TOTAL**	**19,007**	**14,613**	**14,613**

6. RESERVES STRATEGY

6.1 The Chief Financial Officer of the authority is required, under section 25 of The Local Government Act 2003, to report to it on the adequacy of the proposed financial reserves. Section 26 of the same act places an onus on the Chief Financial Officer to establish a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined when finalising the proposed budget.

6.2 The Council adopts a risk led approach to the setting of reserves, seeking to ensure the amount set aside is sufficient to cover identified risk. This appendix sets out the Council's assessment of risk, which in turn informs the level of reserves it plans to carry and the capacity available to support delivery of the Council Plan.

6.3 The Council holds reserves for three key purposes. They are held either; to responsibly manage risk, for a specific purpose, or on behalf of others. Reserves help the Council manage risks and challenges in several ways:

- Provide sufficient resilience to withstand funding or expenditure shocks
- Facilitate transformation and provide additional capacity to transition to a financially sustainable council
- Carry forward unapplied grant to cover costs which are expected to arise in future years

6.4 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

6.5 The Medium-Term Financial Plan and the Reserves Strategy have consideration for the uncertainty within the Council's operating environment, which is currently brought about principally by:

- the current economic context (e.g. inflation),
- the potential for higher and more complex need,
- the short-term focus of Government in planning public service delivery.

These uncertainties represent an increased risk of funding or expenditure shocks which need to be fully considered and reflected in the Council's reserve statement, to ensure the organisation remains financially safe.

6.6 The Council continues to consider the financial resilience index which is collated and published by the Chartered Institute of Public Finance and Accountancy. The index aims to aid scrutiny and oversight of financial sustainability for each Council. The 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:

Financial Resilience Index Measure	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**Risk***
Reserves Sustainability	27	29	100	100	100	Medium
Level of Reserves as a ratio of net expenditure	26.99%	26.06%	29.46%	50.79%	44.52%	High
Change in Reserves (over 3 year period)	(10.06)%	(9.37)%	27.72%	92.91%	86.64%	Low

* Assessment from CIPFA Resilience Index of Financial Stress compared to other unitary authorities

6.7 These reserve indicators are in-line with the Council's financial resilience assessment. In recent years the reserves levels have increased as Covid-19 funding from government has been distributed. This can be seen in the table above through both an upward change in reserves and also a peak in the level of reserves held as a ratio of net expenditure. Both of these measures are expected to reduce over the Medium-Term Financial Plan period.

6.8 The Council conducted a comprehensive review of financial resilience during 2021/22. The financial resilience assessment represents a deep dive into the range of financial indicators which together enable the organisation to better understand its areas of strength, and areas which pose the greatest risk and could therefore undermine resilience going forward. The outcomes from this report contribute to the reserve strategy.

6.9 The Council breaks down its reserves into three categories. **Strategic reserves** have the greatest flexibility and include the general fund and risk and transformation reserve. **Earmarked and grant reserves** are held to meet service/project specific costs and must be spent in line with any applicable grant conditions. **School reserves** are held on behalf of schools, with their usage decided by schools themselves, subject to Council oversight.

Strategic Reserves

6.10 The financial risks, detailed in the risk assessment below, have been identified and an assessment of the estimated exposure, likelihood and 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.

Financial Risk Assessment

Risk Element	Risk	Original Risk Assessment	Mitigation	Post Mitigation Risk Assessment
NNDR/Business Rate funding	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, 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 • Future reset of the Business Rates Retention system. The Council's share of income from business rates in 2023/24 is £55.9m which means income would fall by £24.0m before safety net support is received.	**Overall Risk Score: 16 (VERY HIGH)** Likelihood: 4 Severity: 4	• In year monitoring of the NNDR base, Collection Fund, collection rates, growth assumptions and rateable value appeals. • Regular performance and financial reporting to senior management and Cabinet. • NNDR Risk Reserve maintained to provide a degree of protection from fluctuations in Business Rate Income	**Overall Risk Score: 12 (HIGH)** Likelihood: 3 Severity: 4

Risk Element	Risk	Original Risk Assessment	Mitigation	Post Mitigation Risk Assessment
Other funding or expenditure shocks	Variances against budget in key economic variables (e.g. inflation and interest rates) Actual establishment above/below levels Changing Government Policy Pay inflation in excess of budget assumptions Impact of household costs on demand on council intervention (e.g. homelessness and revenues and benefits caseload Impact of economic factors on income (e.g. Council Tax collection rates, leisure and culture and commercial income) Changes in demand (e.g. social care)	**Overall Risk Score: 16 (VERY HIGH)** Likelihood: 4 Severity: 4	• Regular financial monitoring and reporting • Early identification of forecast variances reported to senior leadership and members and remedial action identified where possible • External expertise sought budgeting and forecasting in specialist areas • Budget set on prudent but realistic projections, based on analysis of economic commentators (e.g. Office of Budget Responsibility and Treasury Management advisors) and Bank of England predictions. • Risk management processes well established • Regular review of grant figures and distribution mechanisms. • Lobby through national groups, respond to national consultations. • Budget assumptions assume limited funding beyond 2024/25 in response to 1-2 year government funding settlements	**Overall Risk Score: 9 (HIGH)** Likelihood: 3 Severity: 3

Page 52

Risk Element	Risk	Original Risk Assessment	Mitigation	Post Mitigation Risk Assessment
Transformation to lower cost base	Transformational savings and efficiency savings assumed in the budget not achieved	**Overall Risk Score: 12 (HIGH)** Likelihood: 4 Severity: 3	- Ongoing monitoring and analysis of service demands and needs - Regular performance and financial reporting to senior leadership and members - Council transformation approach – application of strategic operating model to challenge efficacy of investment and policies - Organisational Development Plan focuses on the approach to enabling, progressive and sustainable implementing system re-design where required. - Risk and transformation reserve provides the capacity to invest in initiatives which will help to control increases in the Council's cost base and achieve cost reductions/income generation where opportunities are identified. - The application of the risk and recovery reserve will be closely monitored throughout the year.	**Overall Risk Score: 9 (HIGH)** Likelihood: 3 Severity: 3
Self-insurance	Insurance liabilities exceed resources available in the self-insurance fund	**Overall Risk Score: 6 (MEDIUM)** Likelihood: 2 Severity: 3	The Council has contracted external specialists to review its approach to insurance provisions and reserves, which identified a need to hold a specific self-insurance reserve, to complement the provision to adequately cover outstanding insurance risks.	**Overall Risk Score: 4 (LOW)** Likelihood: 2 Severity: 2

6.11 The risk assessment above demonstrates that it's not unprecedented that costs, funding or income could change quickly and therefore the Council must have regard to this in the reserves it holds (further detail on the high-risk elements are provided in appendix 6). It must have a fluid approach to respond to the exposure to sudden changes and ensure risk mitigation strategies are tailored appropriately. The level of identified risk is regularly reviewed which therefore means the level of reserves needing to be held is also regularly tested, to ensure a proportionate level is held at any given time.

6.12 The budget risk assessment considers 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.

6.13 The Chief Financial Officer determines that the General Fund is to be maintained at approximately 5% of core net revenue expenditure to cover any unforeseen demands that could not be reasonably defined when finalising the proposed budget, as required under section 26 of the Local Government Act 2003. The reserve statement assumes the balance is adjusted to equate to 5% of core net operating expenditure proposed in Appendix 2 for all years.

6.14 The risk and transformation reserve (Table 2 above) provides capacity to maximise invest-to-save opportunities and cover the specific identified risks set out in the budget risk assessment (over and above existing risk mitigation actions). Whilst the level of General Fund balances is maintained across the Medium-Term Financial Plan at prudently assessed levels the risk assessment provides scope for the planned release £10m over the planning period from the risk and transformation reserve (£6.0m in 2023/24 and £4.0m in 2024/25) while still retaining sufficient balances to manage residual risk. The careful use of reserves 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. Based on the inherent and residual financial risks described above it is recommended that the level of risk reserves should not fall below £10m.

6.15 The budget proposal and use of reserve is based upon the assumption of council tax rates being set at the referendum limits: 4.99% total council tax increase in 2023/24. Where the Council resolution varies from this assumption the short-term funding gap may impact on the profile of the risk reserve. For every 1% of foregone council tax, there would be a permanent loss of funding in the region of £0.8m, increasing annually thereafter and would require a range of solutions including acceleration of productivity proposals, a review of spend and income assumptions and robust financial management to mitigate costs.

Earmarked and Grant Reserves

6.16 There are some modest earmarked reserves and grant reserves, which must be spent in line with the conditions attached to the original allocations. The Council also has a public health reserve, which must be spent in accordance with the Public Health outcomes framework.

6.17 In addition, the Council has residual funding from Covid-19 specific schemes which are expected to unwind over time as and when they are utilised.

Schools Reserves

6.18 The Council holds two reserves that may only be used to support spending in schools or in support of schools. These balances have been set aside from Dedicated Schools Grant. How school reserves are applied is a matter for individual schools according to their individual circumstances. There are several drivers that can affect these balances over the period of the plan, including variations in pupil numbers; cost pressures; and funding changes. At a collective council level there are impacts to be managed in High Needs funding and in ensuring the stability of the local school funding system.

Parish and Major Precepting Authority Precepts 2023/24

Appendix 4

Parish or Area		Taxbase	Precept (£)	BAND (all figures in £) A	B	C	D	E	F	G	H
Alkborough		165.8	6,152.00	24.74	28.86	32.98	37.10	45.35	53.60	61.84	74.21
Amcotts		76.7	4,864.00	42.28	49.32	56.37	63.42	77.51	91.60	105.69	126.83
Appleby		236.7	11,862.00	33.41	38.98	44.55	50.11	61.25	72.39	83.52	100.23
Ashby Parkland		241.1	5,000.00	13.83	16.13	18.43	20.74	25.35	29.96	34.56	41.48
Barnetby le Wold		564.4	25,000.00	29.53	34.45	39.37	44.29	54.14	63.98	73.82	88.59
Barrow on Humber		1,055.9	55,000.00	34.73	40.51	46.30	52.09	63.66	75.24	86.81	104.18
Barton upon Humber		3,782.0	166,750.00	29.39	34.29	39.19	44.09	53.89	63.69	73.48	88.18
Belton		1,187.6	39,000.00	21.89	25.54	29.19	32.84	40.14	47.43	54.73	65.68
Bonby		196.7	12,911.39	43.76	51.05	58.35	65.64	80.23	94.81	109.40	131.28
Bottesford		3,642.2	91,000.00	16.66	19.43	22.21	24.98	30.54	36.09	41.64	49.97
Brigg		1,734.2	120,578.93	46.35	54.08	61.80	69.53	84.98	100.43	115.88	139.06
Broughton		1,709.3	122,524.00	47.79	55.75	63.72	71.68	87.61	103.54	119.47	143.36
Burringham		216.8	18,738.00	57.62	67.22	76.83	86.43	105.64	124.84	144.05	172.86
Burton upon Stather		958.2	77,502.00	53.92	62.91	71.90	80.88	98.86	116.83	134.80	161.77
Cadney cum Howsham		156.0	6,000.00	25.64	29.91	34.19	38.46	47.01	55.56	64.10	76.92
Crowle		1,639.7	68,250.00	27.75	32.37	37.00	41.62	50.87	60.12	69.37	83.25
East Butterwick		44.1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
East Halton		205.0	8,514.00	27.69	32.30	36.92	41.53	50.76	59.99	69.22	83.06
Eastoft		148.6	6,000.00	26.92	31.40	35.89	40.38	49.35	58.32	67.29	80.75
Elsham		170.2	8,000.00	31.34	36.56	41.78	47.00	57.45	67.89	78.34	94.01
Epworth		1,593.6	76,176.00	31.87	37.18	42.49	47.80	58.42	69.05	79.67	95.60
Flixborough		537.0	20,839.00	25.87	30.18	34.49	38.81	47.43	56.05	64.68	77.61
Garthorpe & Fockerby		145.3	9,000.00	41.29	48.18	55.06	61.94	75.71	89.47	103.23	123.88
Goxhill		815.6	74,400.00	60.81	70.95	81.09	91.22	111.49	131.76	152.04	182.44
Gunness		639.4	38,340.00	39.97	46.64	53.30	59.96	73.29	86.61	99.94	119.92
Haxey		1,709.4	39,538.00	15.42	17.99	20.56	23.13	28.27	33.41	38.55	46.26
Hibaldstow		823.2	19,965.00	16.17	18.86	21.56	24.25	29.64	35.03	40.42	48.51
Horkstow		60.8	1,800.00	19.74	23.03	26.32	29.61	36.18	42.76	49.34	59.21
Keadby with Althorpe		504.6	37,116.56	49.04	57.21	65.38	73.56	89.90	106.25	122.59	147.11
Kirmington & Croxton		136.8	14,252.00	69.45	81.03	92.61	104.18	127.33	150.48	173.64	208.36
Kirton in Lindsey		1,132.7	103,875.00	61.14	71.33	81.52	91.71	112.08	132.46	152.84	183.41
Luddington & Haldenby		120.0	6,000.00	33.33	38.89	44.44	50.00	61.11	72.22	83.33	100.00
Manton		44.9	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Melton Ross		74.6	4,800.00	42.90	50.04	57.19	64.34	78.64	92.94	107.24	128.69
Messingham		1,328.1	71,000.00	35.64	41.58	47.52	53.46	65.34	77.22	89.10	106.92
New Holland		262.8	14,000.00	35.51	41.43	47.35	53.27	65.11	76.95	88.79	106.54
North Killingholme		90.8	6,918.00	50.79	59.26	67.72	76.19	93.12	110.05	126.98	152.38
Owston Ferry		464.9	33,892.98	48.60	56.70	64.80	72.90	89.10	105.31	121.51	145.81
Redbourne		163.8	12,500.00	50.88	59.35	67.83	76.31	93.27	110.23	127.19	152.63
Roxby cum Risby		157.2	8,000.00	33.93	39.58	45.24	50.89	62.20	73.51	84.82	101.78
Saxby all Saints		90.0	6,850.00	50.74	59.20	67.65	76.11	93.02	109.94	126.85	152.22
Scawby cum Sturton		825.6	35,000.00	28.26	32.97	37.68	42.39	51.81	61.23	70.66	84.79
Scunthorpe	*	16,829.1	627,557.14	24.86	29.00	33.15	37.29	45.58	53.86	62.15	74.58
South Ferriby		215.9	12,619.36	38.97	45.46	51.96	58.45	71.44	84.43	97.42	116.90
South Killingholme		315.8	18,843.79	39.78	46.41	53.04	59.67	72.93	86.19	99.45	119.34
Thornton Curtis		102.3	2,614.00	17.03	19.87	22.71	25.55	31.23	36.91	42.59	51.10
Ulceby		589.3	20,000.00	22.63	26.40	30.17	33.94	41.48	49.02	56.56	67.88
West Butterwick		286.6	2,300.00	5.35	6.24	7.13	8.03	9.81	11.59	13.38	16.05
West Halton		116.5	5,000.00	28.61	33.38	38.15	42.92	52.46	61.99	71.53	85.84
Whitton		85.6	2,567.00	19.99	23.32	26.66	29.99	36.65	43.32	49.98	59.98
Winteringham		341.5	20,500.00	40.02	46.69	53.36	60.03	73.37	86.71	100.05	120.06
Winterton		1,427.3	120,035.93	56.07	65.41	74.76	84.10	102.79	121.48	140.17	168.20
Wootton		197.8	9,000.00	30.33	35.39	40.44	45.50	55.61	65.72	75.83	91.00
Worlaby		201.0	16,000.00	53.07	61.91	70.76	79.60	97.29	114.98	132.67	159.20
Wrawby		525.8	15,774.00	20.00	23.33	26.67	30.00	36.67	43.33	50.00	60.00
Wroot		183.7	10,307.41	37.41	43.64	49.88	56.11	68.58	81.05	93.52	112.22
		51,270.50	**2,371,027.49**								

Major Precepting Authority		Taxbase	Precept (£)	BAND (all figures in £) A	B	C	D	E	F	G	H
North Lincolnshire Council	*	51,270.5	75,223,564.90	978.13	1,141.15	1,304.17	1,467.19	1,793.23	2,119.27	2,445.32	2,934.38
Adult Social Care Precept	*	51,270.5	11,699,928.10	152.13	177.49	202.84	228.20	278.91	329.62	380.33	456.40
Humberside Police	**	51,270.5	13,750,235.40	178.79	208.59	238.39	268.19	327.79	387.39	446.98	536.38
Humberside Fire Authority	**	51,270.5	4,875,824.55	63.40	73.97	84.53	95.10	116.23	137.37	158.50	190.20

* To be set at Council (table reflects band D proposed in budget)
** Proposal not yet confirmed

Levies funded from Council Tax 2022/23

Appendix 5

Levying Body	Levy (£)	BAND (all figures in £) A	B	C	D	E	F	G	H
Internal Drainage Boards :									
Ancholme	239,666.00	3.11	3.63	4.15	4.67	5.71	6.75	7.78	9.34
Doncaster East **	16,543.00	0.21	0.25	0.28	0.32	0.39	0.46	0.53	0.64
Scunthorpe and Gainsborough **	255,191.00	3.32	3.87	4.43	4.98	6.09	7.19	8.3	9.96
North East Lindsey	192,859.13	2.51	2.92	3.34	3.76	4.6	5.43	6.27	7.52
Isle of Axholme and North Nottinghamshire **	752,687.00	9.79	11.42	13.05	14.68	17.94	21.2	24.47	29.36
Environment Agency (Anglian Northern & Trent) **	88,997.57	1.16	1.36	1.54	1.74	2.12	2.52	2.9	3.48
Other :									
North Eastern Inshore Fisheries * **	74,356.00	0.97	1.13	1.29	1.45	1.77	2.09	2.42	2.9
Hull and Goole Port Health Authority **	62,502.00	0.81	0.95	1.08	1.22	1.49	1.76	2.03	2.44
Total	1,682,801.70	21.88	25.53	29.16	32.82	40.11	47.4	54.7	65.64

* The Council receives a grant from DEFRA to contribute approximately 20% towards the cost of the levy

** TBC – amount shown reflects 2022/23 levy applied against 2023/24 taxbase

Chief Financial Officer's Statement Appendix 6

Under Section 25 of the Local Government Act 2003, it is the responsibility of the Chief Financial Officer of the authority to report to it on the following matters in the context of the budget proposal:

- the robustness of the estimates made for the purposes of the calculations, and
- the adequacy of the proposed financial reserves

It is important to start by recognising the strong track record of containing cost to within available resources, something which North Lincolnshire Council consistently does. This gives confidence that the organisation is adaptive enough to deal with any changes to the assumptions contained within the budget proposal.

The financial strategy emphasises the continuing importance of risk management if the Council is to remain financially resilient over the longer-term. The Council's operating environment continues to be highly challenging as considered elsewhere in this report, which is the same for all public service organisations.

Throughout this report and the supporting background papers, the assumptions which have been made are explained, including the supporting rationale. The risks to those assumptions are also considered, with the greatest risk arguably being the short-term funding certainty set against an increasing permanent cost base.

In recognition of heightened risk, the Council's reserves strategy has been updated to ensure it best reflects the short, medium, and long-term resilience needs of our organisation and so that the level of reserves to be held are enough to keep the organisation financially safe.

For the reasons set out in this and the various reports and papers I am presenting alongside this one, I am satisfied that the council's investment plans for revenue and capital in 2023/24 are robust and reserves are adequate to manage the risks the Council is exposed to.

In reaching this view, I have considered the areas which have the biggest potential to change or impact upon the assumptions contained within the budget report and set out what has been done to maximise the quality of the estimates, the risk to the estimates, and what action or mitigation could be taken if risks materialise.

Although I am not required at this stage to comment on the robustness of estimates for future years' budgets, it is my view that Councillors must have regard to the medium-term financial position of the Council when deciding the budget and council tax for next year.

Despite there being an established medium term financial plan, the degree of uncertainty with future funding allocations combined with a fast-changing economic context and a need to manage risk successfully to avoid further cost increases means that I cannot, at this stage, comment on the robustness of budget estimates with effect from 2024/25. This situation applies across Local Government, therefore is not North Lincolnshire specific, but is important to keep in mind the considerable challenges to ensuring long-term financial resilience.

Strategic Assessment: Robustness of Estimates	
Inflation	The rate of inflation is currently tracking well above the 2% Bank of England target (CPI inflation was 10.5% in December 2022), with latest Bank of England forecasts suggesting it will come down during 2023/24 to 4%. These forecasts are subject to change and there is a risk of further sustained increases, which could have implications across all Council spending. The medium-term financial plan provides for additional inflation-led cost increases, specifically around energy, fuel and social care which we think will be sufficient. Should the situation worsen, the Council has capacity within reserves to offset in the short-term. Re-commissioning and re-procurement provides the Council with the opportunity to ensure contract prices remain market tested.
Adult Social care (demand and cost)	Whilst the Government has postponed planned social care reforms until 2025 it has recognised existing and increasing demands on the system and the importance of social care in management of hospital discharges to enable the NHS to meet the demand for hospital beds. There is also an expectation that Councils will have consideration for the fair cost of care exercise and market sustainability when setting provider fees. The Government has provided additional funding specifically for this aim, and this plan assumes the social care precept will be maximised to increase available resources further. The Council is also investing over and above these amounts. It is expected that this will be sufficient, however there is a risk that local care rates rise quicker than sector specific funding. This is combined with the health and care system risk and the interface between discharge from hospital and care need, which may be in excess of funding allocations. The cost of providing social care is based upon the volume of demand on the service and the cost of care packages for each tier of care. The budget proposal increases affordability limits within adults social care significantly, enabling increased price and activity to be funded. The budget proposal makes an assumption that early intervention and prevention adopted under ‘one family’ and ‘community first’ approach continues to have a lasting positive impact. Activity and cost are tracked during the year.
Pay inflation	Pay is the largest subjective cost element incurred by the Council. The medium-term financial plan provides for the cost of pay awards up to a level (average 4.9%). The rate of inflation is considered elsewhere, but its impact on pay demands is expected to be clear. The 2023/24 pay award is still to be agreed, there is a risk that the pay award is agreed at a higher level than the Council has budgeted for, a risk which can be managed through the reserve strategy in the short-term.
Organisation Development	A key element of the Council’s cost-conscious approach to delivery involves maximising the benefits of Organisation Development. The trajectory of successful outcomes from the previous OD Plan achieving the council’s goal of being a progressive, enabling and sustainable organisation is positive. The emerging OD

	Transformation plan has a strong outcomes framework and based on intelligence led business reasons: staff experience; living our values and maximising organisational capacity and capability. The strategic operating model focuses on evidenced informed policy and investment in interventions that make the biggest difference on outcomes informs the OD transformation and re-design over the next 3 years.
Other demographic changes	In addition to adult social care other Council services are also subject to the impact of demographic changes, which could lead to an increase in demand for council involvement and intervention. An example is waste disposal. The budget makes a prudent assessment of forecast demand in 2023/24 and makes adjustments to affordability limits where necessary. In addition, the Council engages with the public where it can reduce demand where it is appropriate to do so (e.g. increase recycling).
Fees and Charges	The council has a full cost recovery policy for its services except where a policy decision has been taken to provide a subsidy. Services are operated with a commercial mindset to generate income alongside providing a positive economic, social and wellbeing impact. Ongoing review ensures full cost recovery, consideration of inflation, alongside a contribution towards council priorities and outcomes.
Council Tax	Income from council tax is the largest income stream and the most reliable. A prudent level of collection is assumed in setting the base and the risks to this stream are further mitigated by a provision for bad debt (impairment). Historically, the Council has been able to achieve budgeted collection rates, over a longer timeframe than one year. Robust monitoring processes exist for business rates and council tax which enable progress against budgeted targets to be measured with sufficient regularity.
Business Rates	Income from business rates can be volatile but there are a range of mitigations which make the volatility more manageable. The ultimate backstop is the safety net mechanism built into the Business Rates Retention Scheme which guarantees every council a minimum level of funding. This limits the losses any council can incur in a particular year. Locally there are three other measures which mitigate risk. These include a provision for bad debt (Impairment) and a provision for appeals. The former provides for a certain level of uncollectable debt and the latter provides for the likely impact of businesses successfully appealing against the value of their properties. The council has also set aside an element of its Risk and Transformation reserve to manage the residual risk inherent in the Business Rates Retention Scheme.
Government Funding	The report considers funding base uncertainty beyond 2023/24. There could be material changes to the Local Government financing framework – focussed around the updated assessment of needs

	and resources in development –during the year which impact on the later year estimates. The Council will remain fully engaged in this process, and maximise local intelligence to ensure the position is as well understood as it can be.
Capital Financing	Prudent estimates of the costs of financing the council's borrowing have been built into the budget. There are two elements to these costs. The Minimum Revenue Provision (MRP) and Interest. The council's policy on MRP can be found in the Treasury Management Strategy. The interest cost can be split between interest payments on already contracted debt, which are certain, and interest payments assumed on forecast borrowing. As most borrowing is already contracted, the majority of this cost is fully known. Future borrowing will potentially be subject to higher interest rates if the Bank of England base rate continues to increase.

Strategic Assessment: Adequacy of Reserves
The reserves statement and strategy contained within Appendix 3 provides a clear and detailed explanation of the forecast reserves being held, the risks they are being held to mitigate against, and their planned usage. The budget proposal contained within this report assumes that reserves held for a specific purpose reduce, and that strategic reserve balances be maintained broadly at current levels to reflect the reduced certainty beyond 2024/25, among other risks. The budget also assumes the General Fund Reserve is maintained at around 5% of net operating expenditure in future years, which I deem prudent. On balance, I am satisfied that the Council's financial plans are robust and that reserves are adequate to manage the risks the Council is exposed to.

Capital Receipts Flexibility

In December 2017, the Secretary of State for the Ministry of Housing, Communities and Local Government announced, alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme up to and including 2021/22, giving Councils the ability to use capital receipts from the sale of their own assets to help fund revenue costs of transformation projects and release cost base reductions.

The Government provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

In the guidance issued by Government, local authorities should prepare a strategy prior to the start of the financial year (the "initial strategy") listing as a minimum the projects which plan to make use of the capital receipt flexibility and that details of the expected savings/service transformation are provided on a scheme-by-scheme basis. The "initial strategy" may then be replaced at any point during the financial year with a "revised strategy", which should reflect an up-to-date position.

This appendix outlines the "initial strategy" for 2023/24 which requires Council approval, with notification then being sent to the Ministry of Housing, Communities and Local Government (MHCLG). These plans have been considered within the Treasury Management Strategy. The Council's plans to use capital receipt flexibility in 2023/24 as follows:

Theme	Activity	Amount (£M)	Notes
Funding the cost of service reconfiguration, restructuring or rationalisation	Service Changes	0.098	Investment in additional step-change intelligence gathering and enforcement in respect of homes in multiple occupancy, specifically with regards to standards and licensing which will improve living experiences for residents.
	Service Changes	0.102	The redesign of services will require a new mix of skills and a range of technical and professional expertise in many areas. While every effort will be made to ensure these changes are kept to a minimum it is likely that some costs will be incurred to facilitate individual choices and to make sure the workforce has the right level of specific skills and knowledge to support new ways of working. In addition more efficient ways of working, work well for example, will also rely on enhanced digital capabilities which will require initial investment over and above the working revenue budget.
	Corporate Programmes and Transformation	0.398	To enable transformation priorities to be implemented, this resource allocation will be informed by the review of investment outcomes spending and resources for example Community Offer redesign, family hubs, green futures and shared prosperity.
	Total	**0.598**	

Report of the Director of
Governance & Communities

Agenda Item No: 3 (b)
Meeting: 13th February 2023

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

CAPITAL INVESTMENT STRATEGY 2023/26

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1. To seek approval of the Council's capital investment strategy 2023/26.

1.2. To approve the £126.1m capital investment for 2023/26.

1.3. The Capital Investment Strategy meets the requirement of the Chartered Institute of Public Finance and Accountancy: Prudential Code for Capital Finance in Local Authorities.

2. BACKGROUND INFORMATION

2.1. Capital expenditure is a key enabler for the Council to fulfil its duties and for delivery of its ambitions and Council Plan priorities. Investment in the right things can underpin and support the achievement of improved outcomes for people who live in North Lincolnshire. Capital investment also contributes to efficiencies in the safe operation of the council and supports long-term financial sustainability.

2.2. It is a requirement for Local Authorities to publish a Capital Investment Strategy as per the Chartered Institute of Public Finance and Accountancy (CIPFA): Prudential Code for Capital Finance in Local Authorities (2021). The code was updated to introduce more contextual reporting through the requirement to produce a capital strategy, which is intended to allow individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.

2.3. The strategy contained within this report, and for which approval is sought, updates the strategy approved by Council last year. There are three key elements:

- **Capital investment principles**
  - Invest in outcomes
  - Invest to save
  - Invest for yield
- **Prudential indicators**
  - Indicators required by the Prudential Code

- **Local indicators**
    - Indicators of sustainability, value for money and risk management

The Strategy also sets out the legal and regulatory framework around capital investment. The Local Government Act 2003 is the main relevant legislation and CIPFAs Prudential Code is the core of the regulatory framework

2.4. The Council's approach to capital investment is not just an annual process. Capital initiatives are developed and tested throughout the year, ensuring sufficient time for due-diligence and making sure that the proposed investment supports delivery of the Council Plan. The Council's Executive have responsibility for scheme approval, implementation and delivery and monitoring impact against outcomes and strategic policy. The capital investment for 2023/26 builds upon the latest approved capital programme 2022/25 and proposes an extension for 2025/26 of those schemes where government grant is anticipated and for lifecycle maintenance requirements to ensure safe operation of council assets.

2.5. The Council has utilised its capital investment tools to good effect over a long-term period. The Council's capital financing requirement and long-term need to borrow for capital investment purposes is expected to exceed £281m at the end of 2025/26. In balancing the need for investment with long-term affordability, it is proposed that the Council invests £9m p.a. every year from 2025/26 onwards, setting a longer-term planning horizon, in addition to externally funded investment. This provides re-prioritisation phasing options to the Council for the period and enables long-term affordable investment decisions to be taken.

2.6. The Capital Investment Strategy aims to explore sources of external funding and attract inward investment that benefits the place of North Lincolnshire and the lived experience of residents. We will seek to maximise funding opportunities and the Council is actively pursuing various bids. These include a successful £20m bid to the Levelling Up Fund. This fund has the following themes:-

- Investing to support growth
- Creating a positive context for housing growth
- Enabling carbon reduction
- Building capacity to protect and enable communities

2.7. The proposed plan for Capital Investment provides an affordable and agile approach to investment prioritisation that acts as a catalyst for investment in North Lincolnshire in support of the council plan, enhancing the quality of life for residents and ensures the safe and efficient operation of the council.

3. OPTIONS FOR CONSIDERATION

3.1. To consider approval of the Capital Investment Strategy 2023/26 set out in appendix 1.

3.2. To consider approval of the Capital Programme set out in appendix 2.

4. ANALYSIS OF OPTIONS

Affordability and Prudence

4.1. Appendix 2 identifies funding of £126.0m to finance the capital programme over the four-year period 2021/25. The funding is broken down as follows.

- Grant and External Funding (£76.2m)
  The Council seeks to maximise external funding for its capital schemes. This funding includes Government grants, funding from external organisations such as LEP funding. Some external funding requires match funding from the Council.

- Capital receipts (£7.0m)
  The Council has an ambitious programme of asset optimisation and disposal of assets no longer required. This generates capital receipts which reduce the council's need to borrow.

- Borrowing (£42.8m)
  Further borrowing is required to support the proposed programme. The revenue cost of this borrowing, in the form of interest payments and Minimum Revenue Provision (MRP) payments are incorporated into the Medium-Term Financial Plan are presented alongside this report. Similarly, the effect on Prudential Indicators is incorporated into the Treasury Strategy report also presented alongside this report.

- Revenue Funding (£0.0m)
  On an exceptional basis, revenue funds are used to contribute towards the cost of capital schemes, primarily within schools, where it is affordable to do so.

4.2. The appropriate level of borrowing for the council is locally determined, considering the advice of its Chief Financial Officer. The Chief Financial Officer has determined that the prudent limit for the council's capital financing costs as a proportion of the net revenue stream should not exceed 10% with a target of 7.5%.

4.3. Capital resources are limited and therefore robust prioritisation is a fundamental element of the Council's stewardship of public funds. A finite programme needs to work for the Council, make a difference to the people who live in North Lincolnshire and contribute to longer term financial sustainability. In extending the capacity of the programme it is important to avoid erosion of capital funding capacity through investment in schemes which may stand up on an individual basis, but collectively do not deliver the impact they could or exposes the council to too much collective risk. Schemes need to be evaluated relative to each other as well as independently necessitating a programmed approach.

4.4. The Capital Investment Strategy sets out the framework for all capital investment decisions. To enable long-term financial sustainability, the Capital Investment Strategy puts in place a more business-like approach to asset management and use of capital to support delivery of the Council Plan. This report proposes an affordable level of internally funded capital resource to be made available to future projects, after taking account of the existing commitments.

4.5. In addition to the committed capital programme the council also recognises that additional capital investment will be needed to support its transformation plans, to meet new and existing legislation; to maintain the infrastructure required to carry out its day-to-day business effectively and efficiently, and to support the regeneration of the area. New investment needs are identified through the council's capital planning process and in line with our Capital Investment Strategy. Decisions are informed though a prioritisation process which takes account of such issues as local need, financial & social return, external funding availability and overall affordability.

4.6. Ongoing investment as part of lifecycle maintenance requirements is informed through asset management planning in core and infrastructure areas of the council's responsibilities; highways improvements, replacement of machinery and vehicles, replacing outdated technology and improving flood defences being good examples of where this is the case. The proposed capital investment for 2023/26 builds upon the latest approved capital programme 2022/25.

4.7. The Council continues to develop as an agile, responsive and enabling organisation. Our organisational development is multi-stranded, an element of which requires capital investment to achieve our goals of being sustainable, enabling and progressive. This might take the form of physical changes to council buildings or new customer focussed digital software and hardware amongst other things.

4.8. The medium-term financial plan considered in the revenue report requires some capital investment to support the achievement of ongoing reductions to the cost base, pending completion and approval of business cases.

4.9. For planning purposes, the current capital programme is prudent in terms of the internal resources currently available for the period of the plan. Grant and external funding can provide additional resource, but the potential for increased operating costs associated with assets funded in this way must be factored into our budget planning to determine affordability. The MTFP provides for the appropriate level of borrowing after taking account of grants and other external funding, and an ambitious target of capital receipts to be generated through the sale of surplus assets.

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

5.1. The capital programme must be contained within available resources, including the impact of borrowing on revenue budgets.

5.2. Part 1, section 3 of the Local Government Act 2003 places a duty on the council to determine an affordable borrowing limit and to keep this under review. The proposed basis for measuring what is affordable is discussed in section 4.

5.3. Future revenue resources are not yet certain pending the Fair Funding Review and further proposed changes to the local government finance system including the reset of the Business Rates Retention Scheme. It is important, therefore, that the council does not overcommit resources to capital investment, which has an unsustainable impact on its revenue budget.

5.4. Calls for additional internally resourced capital schemes or contributions to match funded schemes should be carefully considered against the capital investment strategy which includes consideration of ongoing revenue costs and other priorities for the revenue budget. Possible financing costs should aim for the lower end of the affordability benchmark.

5.5. Changes to the overall capital investment total, re-prioritisation or approval of new schemes against the additional investment allocation will be reported through the relevant executive decision-making processes throughout the year.

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. Individual capital schemes are subject to impact assessment as appropriate.

7.2. The Local Government Act 2003 provides the legal framework for local authorities in determining the use of capital resources and use of borrowing. The strategy has been written in line with the statutory guidance published by CIPFA: Code of Prudential for Capital Finance in Local Government.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1. The capital strategy is part of the council's strategic and service planning. Consultation takes place on a number of these plans including the Local Transport Plan and an Asset Management Plan for schools.

8.2. These plans help the council to identify its priorities for capital investment. Plans are made with reference to professional and technical requirements and in consultation with relevant stakeholders.

8.3. The Capital Investment Strategy has ben presented to Governance Scrutiny.

9. RECOMMENDATIONS

9.1. To approve the capital investment strategy outlined in Appendix 1.

9.2. To approve the capital programme set out in Appendix 2.

9.3. To confirm that, subject to the scheme of delegations to the Executive, re-prioritisation of the programme, further capital projects requiring use of internal funds or fully funded by external sources which are self-financing or which will not cause the council’s capital financing costs to exceed 10% of its net revenue stream, may be added to the capital programme when known and assessed by a full business case.

9.4. To the Chief Financial Officer be delegated authority to:

- Borrow within authorised limits and the operational boundaries for external debt

- Effect movements between agreed borrowing figures and long-term liabilities, in accordance with option appraisal and the achievement of value for money for the council. Movements are to be reported to cabinet or council as appropriate at the next meeting following the change

9.5. To approve the Prudential Indicators contained in the Capital Investment Strategy, as modified by changes made to the capital programme, in accordance with Part 1, sections 3 and 5 of the Local Government Act, 2003.

9.6. To report any amendments required to Prudential Indicators during 2023/24, to Audit Committee, Cabinet or Council as appropriate.

DIRECTOR OF GOVERNANCE AND COMMUNITIES

Church Square House
High Street
Scunthorpe
North Lincolnshire
DN15 6NL

Author: Nina Torr / Mark Kitching
Date: 31st January 2023

Background Papers used in the preparation of this report

- Local Government Act 2003
- CIPFA Code of Practice 2020-21
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition)
- Capital Investment Strategy and Revised capital programme 2021-25 (Full Council Feb 2022)
- 2022/23 Period 8 Financial Monitoring and Medium Term Financial Plan Updates (Cabinet 2022/23)
- Latest approved capital programme detail working papers

CAPITAL INVESTMENT STRATEGY **Appendix 1**

See separate document

CAPITAL PROGRAMME 2023/26

Appendix 2

Proposed Programme	2023/24 £000's	2024/25 £000's	2025/26 £000's	Total £000's
Investment in Priority				
Keeping People Safe and Well	4,593	665	130	5,388
Enabling Resilient and Flourishing Communities	10,284	8,487	4,819	23,590
Enabling Economic Growth and Renewal	22,233	23,835	19,612	65,680
Running the Business Well	7,474	6,744	2,244	16,462
Total Investment	**44,584**	**39,731**	**26,805**	**111,120**
Capital Investment Allocation	1,854	6,500	6,500	14,854
Capital Investment Limit	**46,438**	**46,231**	**33,305**	**125,974**
Funding Analysis				
External & Grant Funding	25,782	29,041	21,356	76,179
Revenue Funding	0	0	0	0
Internal Funding	17,656	14,190	10,949	42,795
Capital Receipts	3,000	3,000	1,000	7,000
Total	**46,438**	**46,231**	**33,305**	**125,974**

2023-26 Medium Term Financial Plan:

Capital Investment Strategy

Contents

Capital Investment Strategy

Executive Summary

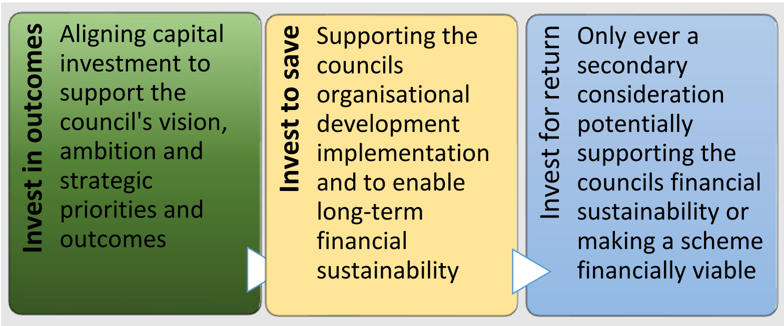
The North Lincolnshire Council's Capital Investment Strategy provides the framework for all capital investment decisions. It is a requirement of the Prudential Code for Capital Finance in Local Authorities. The purpose of the Strategy is to make sure borrowing decisions are prudent, affordable and that sufficient focus is given to:

- Longer term sustainability
- Managing the risk attached to capital plans
- Avoiding exposure of public funds to unnecessary or unquantified risk

The Capital Investment Strategy frames the programme of capital schemes which will enable the Council to meet its duties, strategic ambition and priorities for North Lincolnshire set out in the Council Plan and will facilitate the Council's ambitious transformation programme. As the Council redesigns its offer to residents and communities and the way in which it operates, capital investment is required to support delivery, ensuring optimisation of assets in the right places to meet community needs and to enable agile ways of working.

There are key features of the Strategy:

The Capital Investment Principles at page 8, which translate into the three core strands of the capital investment programme.



The Prudential indicators which ensure total council investment is sustainable

- The capital financing requirement
- The operational boundary and authorised limit
- Net financing costs set at a maximum of 10% of the net revenue budget with a target of no more than 7.5% (1% above estimated Unitary Council average)

The local indicators to manage the Council's exposure to risk (page 11)

- Total debt as a percentage of all long-term assets, maximum 40%
- Percentage of annual capital programme delivered in year 75% minimum
- Income from Commercial income to be a maximum of 5% of the net revenue budget

Previously the council had some indicators on Investment Property. Current and upcoming changes to the framework in which Local Government operates mean that no further acquisition of Investment Properties (properties held solely or primarily for yield or capital appreciation) will be undertaken. Future capital investment will have yield as a secondary consideration.

Legal and Prudential Framework

The Council undertakes capital investment within a legal and regulatory framework. This framework is particular to the Local Government Sector. It includes definitions of what constitutes capital expenditure, how this can be financed, and a prudential regime that sets limits on the scale of investment based on measures of prudence and affordability. Further detail is provided at Annex A.

Definition of Capital Investment

Capital expenditure is spending on assets and infrastructure required to deliver the best outcomes for the place and people of North Lincolnshire. That includes spending on:

- Operational property, plant, or equipment;
- School buildings and facilities;
- The area's infrastructure, primarily the road network and investment to stimulate the local economy;
- Investments in property designed to achieve a commercial return as part of the economic growth priorities; and
- Grants or loans (see Annex C for more details) to other bodies or individuals for purposes which would be capital for the council;
- The establishment or purchase of shares in organisations designed to deliver public services

Funding Capital Investment

The Local Government Act, 2003 requires capital spending to be accounted for separately. The council also has to fund capital expenditure in certain ways. These include:

- Grants and other external funding;
- Borrowing;
- Capital receipts from the sale of council assets;
- Direct contributions from the council's revenue budget
- Funding through partnership arrangements.

There are restrictions to each type of funding;

Grants and external funding

These are usually from government, non-governmental public bodies and from private sector partners. These are generally allocated for specific schemes or areas of spending, such as investment in schools, with some limited scope to apply to other Council priorities.

Access to other forms of funding to promote regional growth and infrastructure development in the region are available through the Local Enterprise Partnerships. The Council aims to attract a diverse range of inward investment and explore external investment opportunities to enhance the place of North Lincolnshire and to improve the lived experience of residents.

Borrowing

For funds raised through borrowing Part 1, section 3 of the Local Government Act 2003 sets some specific requirements. It places a duty on the council to set an affordable limit to its borrowing and to keep this under review. The cost of all future borrowing for capital purposes falls wholly on the council and it must ensure that its revenue budget is sufficient to carry the cost of financing its debt.

Borrowing is primarily arranged through the Public Works Loans Board (PWLB), an arm of the Treasury, because of the generally favourable rates available. Recent changes to the PWLB's terms and conditions requires Councils to confirm whether their capital programme includes any purchases primarily for yield. If there are such investments the Council will be unable to borrow from the PWLB to finance its capital programme. Councils can also borrow from banks, public and private pension funds, and any other lending institutions approved to operate in the UK e.g. The Municipal Bonds Agency; they can also issue Bonds on the capital markets, but only on a large-scale.

There is an expectation that the term of borrowing will broadly match the useful life of the assets it will fund.

There are upcoming changes to the Prudential Code which strengthen those elements preventing councils borrowing primarily to generate income. Borrowing for purposes that are rooted in the function of the council and where income generation is incidental to the decision making will not be affected.

Capital receipts

These are generated by the sale of surplus assets – for example buildings or land no longer required for council purposes. Normally councils must use these receipts for new capital investment- they cannot be used to cover the day-to-day costs of running council services. However, for the 2021/22 financial year government waived these rules so that councils can apply receipts to short-term expenditure on service transformation. In February 2021 the Government announced an extension to this scheme for a further three financial years from 2022/23 to 2024/25, the enacting legislation is expected in this parliament.

Direct contributions from revenue

These are also permitted. In addition, in some circumstances if the council chooses to lease an asset rather than purchase it, the lease costs are paid for from the revenue budget. For reasons of value for money, the council has purchased new vehicles and equipment rather than entering into lease arrangements for a number of years now, but the option remains.

Funding through partnership arrangements

These can be with other public sector or private sector bodies and may take a number of forms including delivery through a commercial vehicle established for a specified purpose.

The Prudential Code

It is for Councils to determine their own programmes for capital investment in the delivery of public services. In undertaking capital investment, the Council is required by regulation (under part 1 of the Local Government Act 2003) to have regard to the Prudential Code for Capital Finance in Councils developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Prudential Code is a professional code of practice which is intended to support Councils' decision making in the areas of capital investment and financing.

The Prudential Code (2017) requires all Councils to produce a Capital Investment Strategy. The Council first approved a capital investment strategy in February 2019 ensuring that it complies with the current code and adopts best practice in managing its investment resources. The code also requires Councils to take a longer planning horizon than the required three years specified for setting of the prudential indicators. As part of this longer planning horizon Councils should consider the whole life costs of major capital investment decisions to establish their affordability over the whole life of the asset.

The Code was last updated in December 2021 but the reporting requirements do not come into force until 2023. These requirements include reference to Environmental, Social and Governance (ESG) factors in Capital Strategy, quarterly monitoring of Prudential Indicators and an annual strategy to consider exiting commercial investments.

The Council's Strategic Planning Framework

The Capital Investment Strategy does not stand in isolation. It is a part of the overall Governance framework of the Council, and it links to other key strategies and plans.

Its first point of reference is the **Council Plan** which sets the direction and priorities for all that the Council does. This sets out the Council's ambition for North Lincolnshire to be the best place to live, work, visit and invest. The Council is committed to deliver better outcomes for the people and place of North Lincolnshire by enabling economic growth and renewal, keeping people safe and well, and enabling communities to flourish.

This is translated into action through a range of other inter-related plans and strategies as shown in the diagram below:

There are Finance related plans and strategies:

The Medium-Term Financial Plan which translates the ambitions and priorities of the Council Plan into specific decisions on the deployment of resources, both revenue and capital, typically over a three-year period. It does this through a set of resource assumptions, and a cross-cutting financial process driven by the Council's outcomes, which feeds into business plans. It also incorporates:-

> The Capital Investment Strategy which is integral to the delivery of the Investment Plans, and prioritises the use of capital to deliver the desired outcomes. It also ensures that Council investment is sustainable in the long-term and that financial risk is effectively managed.
>
> The Treasury Management Strategy key purpose is to manage the risks surrounding cashflow, investment and debt management activity. It seeks to ensure the Council understands its Treasury Management risks and makes a conscious decision around

how much risk it is prepared to accept. Professional and Government Guidance requires the Council to give priority to the security and liquidity of an investment over the return on that investment.

There are also a number of asset related plans and strategies:

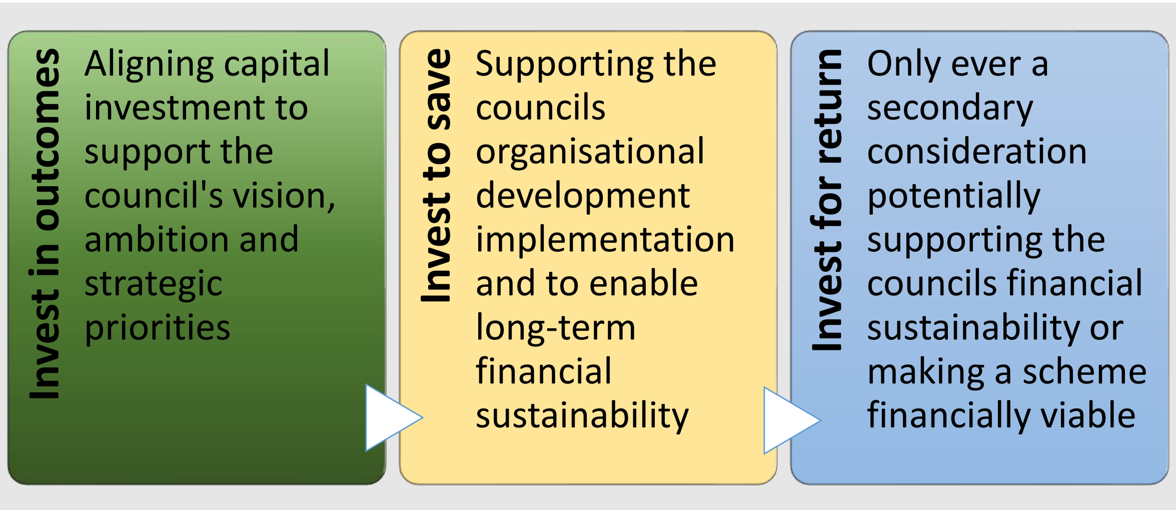
The Asset Management Plan which sets out the strategic approach to managing the Council's property assets in a way which most effectively delivers the Council's strategic and local service priorities and outcomes. It also seeks to achieve value for money from its property assets. This also includes plans for the Council's vehicle fleet which sets out the optimum investment in the fleet, to ensure operational efficiency and value for money.

Integrated Transport Strategy which not only meets the statutory requirements of a Local Transport Plan but also develop broader aspects of an integrated approach to transport development across North Lincolnshire to improve connectivity, enable flourishing communities and to keep people safe and well whilst also stimulating and enabling the economy to grow.

The Asset related plans and strategies provide an informed view of current and future needs over a medium and longer planning horizon. These plans focus on the maintenance, improvement and acquisition of assets required to deliver the Council's strategic priorities and outcomes. They also provide an assessment of the long-run operating costs of the Council's assets and how they can secure value for money. The Property Transaction Framework aims for sustainable long term income to support the Council's budget; and also plans for the disposal of surplus land and assets to generate capital receipts for reinvestment.

Framework for Investment Decisions

The Investment Strategy focusses on three key strands of investment



Capital Investment Principles

Capital investment is informed by the following principles:

Theme	Investment Decisions
Making Informed Decisions	• Investment decisions are aligned to agreed ambitions, goals, outcomes and priorities • Investment decisions and commercial operations demonstrate an ongoing tangible benefit and do not generate legacy revenue cost
Manage Risk	• Investment decisions are congruent with Council values • Investment decisions meet the relevant regulatory requirements set nationally • Investment decisions avoid exposure of public funds to unnecessary or unquantified risk • Investment decisions consider Environmental, Social and Governance (ESG) issues
Invest in Success	• Investment decisions demonstrate benefits to local people, priority given to projects that provide social value and support vulnerable people.

Prioritising investment

Capital investment is one means the Council has to achieve the outcomes for the people and place of North Lincolnshire. Capital investment generally creates an asset which contributes to delivery of Council priorities for periods of more than one year, and it is on this basis that the Council can choose to spread the cost of creating the asset over its useful life through borrowing. This ties up a proportion of the Council's revenue for long periods until the debt is discharged, and there needs to be a careful judgement of the trade-off between utilising limited revenue resource into capital investment for the long-term with the flexibility of investment into the direct running costs of services. At scheme level this should take the form of an appraisal of the different options available.

The council's own resource, primarily the statutory power to borrow for capital purposes, is limited by what it can afford to repay over the lifetime of its assets, and so must focus on the right things. The council has already committed significant funds of its own to finance its current asset base, and still carries a debt burden from that earlier investment; and there is further planned investment of own resources of £58.8m in the current programme, primarily from borrowing.

For some areas of investment there is national funding available from Government: grants for maintained educational and other provision for children, where the council has a statutory duty to ensure sufficient education places for the children of the area; grants for the local highway infrastructure and traffic management; and further funding linked to national policies such as Levelling Up, supporting economic growth.

A finite programme needs to work for the Council, make a difference to the people and place of North Lincolnshire and generate returns on the investment. The following considerations should apply:

- The need for **prioritisation** of resource due to finite resources, where schemes are not only considered on their own merit but also in relation to one another to avoid erosion of capital funding capacity
- The reality that the existing programme is close to the **limit** of what is **prudent** in terms of internal resources currently available in the plan period. This is based on the proximity of the current programme to the 10% limit on borrowing costs limits set by Council
- If further borrowing is required outside this limit, it must be robustly **self-financing**
- A **risk based approach** to capital investment, with an understanding of how new investments affect the mix of risk and reward
- The requirement for a **full Business Case** to be produced for higher risk schemes
- High-level **evaluation** criteria

The council is transforming the way it does business. This will mean it delivers its duties and functions in different ways. It also means it will be focussing on optimising operational assets and releasing of surplus assets. This has the potential to generate capital receipts and revenue savings that can be reinvested to support the council's strategy. Schemes that deliver a positive return should be vigorously tested, monitored and evaluated. Schemes that require Council intervention to stimulate private sector investment should be tested against full return generated even if it is indirect (NNDR/Council Tax Growth).

Prudential Indicators

The Council also has a set of prudential indicators to help it decide what is prudent and affordable.

Prudential indicators were introduced as required proper practice when the Prudential regime was introduced by the Local Government Act 2003. This gave Councils the freedom to determine their own level of borrowing for long-term investment in place of the annual borrowing limits previously exercised by Government. The indicators were designed to provide councils with a reference point to test and ensure compliance with the central requirements of affordability, prudence and sustainability. **They provide a measure of how much capital investment the Council can afford to undertake and sustain over a longer term**

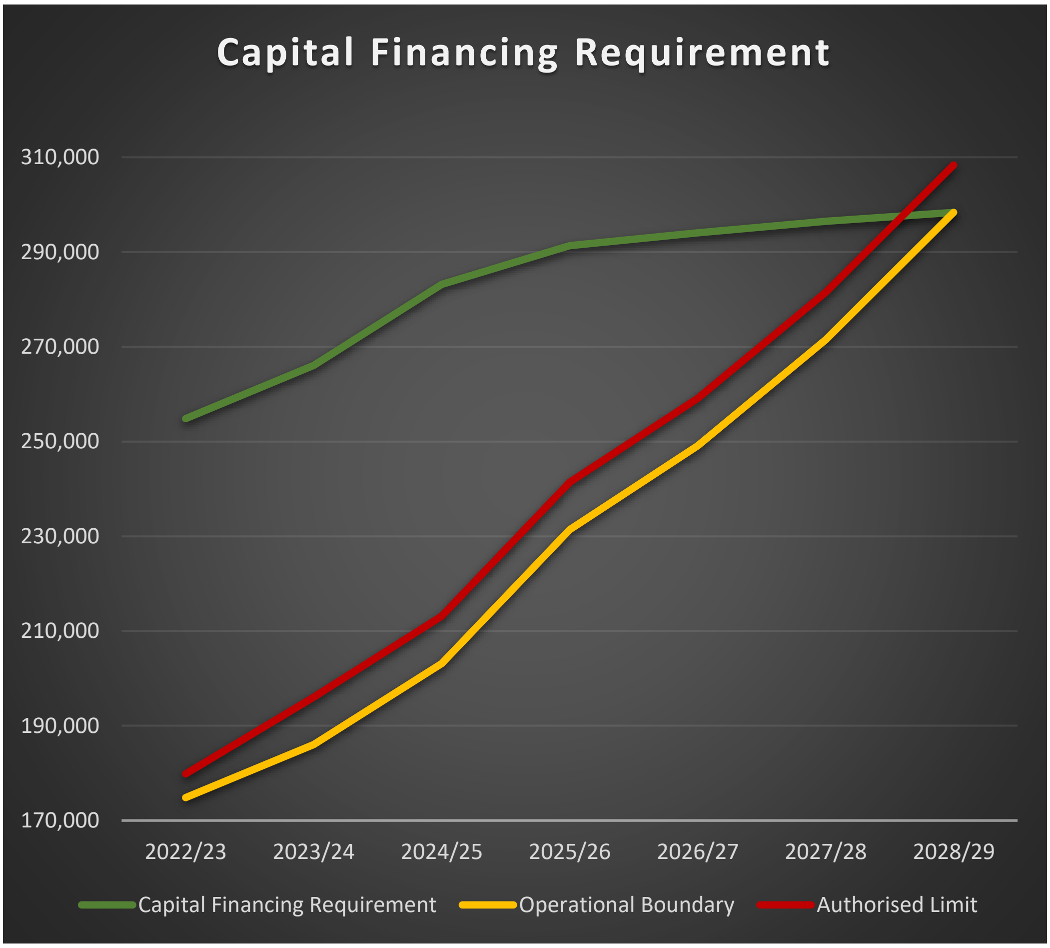
period. This is important since borrowing decisions taken now commit the council to payments over periods of up to fifty years depending on the nature of the asset.

In setting or revising its prudential indicators, the Council is required to have regard to the following:

- **Council Priorities** (Council Plan)
- **Stewardship of Assets** (e.g. asset management planning)
- **Value for Money** (e.g. option appraisal)
- **Prudence and Sustainability** (e.g. risk, implications for external debt and whole life cost)
- **Affordability** (e.g. implications for the council's revenue income stream)
- **Practicality** (e.g. achievability of the forward plan)

The Key indicators prescribed in the Code are:

- **Capital Financing Requirement** – the Council's underlying need to borrow for capital investment purposes. This represents the actual need to borrow if the Council's current and future capital plans are delivered in full, on top of the investment it has already undertaken.



- **Operational Boundary** – an estimation of all the borrowing that the organisation may need to undertake (revenue and capital) to run the business.

- **Authorised Limit** – the level of borrowing that could be afforded but may not be sustainable, and if breached requires immediate corrective action to be taken.

- **Net Financing Costs** – the percentage of revenue budget set aside each year to service debt financing costs. **The Council has set its limit at 10% with a target of 7.5%.** This is a key indicator of affordability. Although Council circumstances differ it is informative to note that the estimated Unitary Council average was 6.56%.

These indicators can be supplemented by other **local indicators** to help the Council to determine what an appropriate limit to capital investment is, and the degree of risk for the organisation associated with its investment programme. It is proposed that the following are added as local indicators. The most pertinent criteria are those which have the greatest bearing on the Council's exposure to risk drawn from the Balance Sheet and its ability to deliver a balanced budget in-year.

- Total debt as a % of long term assets - total debt can pose both short term liquidity risk and long term cash pressures, therefore the lower the relative debt the lower the risk to the council. T**he proposed limit is 40%**
- No further acquisition of Investment Properties is anticipated.
- Percentage of initial capital programme delivered by financial year-end. The higher the percentage the more robust the capital investment plans. A low percentage could be an indicator of a failure to deliver service outcomes in a timely way with an impact on the quality of service, or of poor value for money. **The proposed minimum is that at least 75% by value of the initial programme should be achieved**

CURRENT POSITION ON INDICATORS	2021/22	Trend	2020/21	Trend	2019/20	Trend	2018/19	Trend	2017/18	Trend	2016/17
Total Debt as %age of long term assets	26.25%	↓	28.90%	↓	35.80%	-	35.80%	↑	34.20%	↑	31.40%
%age of capital programme achieved	76.08%	↑	59.40%	↑	59.00%	↓	87.30%	↑	59.10%	↑	52.20%

Risk and Return

The Council takes a risk-based approach to capital investment so that the council's appetite for risk informs the size of investment available to higher risk projects.

In considering the initial financial risk of a business case the Net Present Value (NPV) on the whole life cost of the scheme, and Internal Rate of Return (IRR) financial appraisal techniques should be utilised where appropriate. NPV will be the key financial assessment tool. NPV calculations will be carried out using the Government's Green Book discount rate, currently 3.5% (up to 30 years). These techniques are standard in business decision-making.

These techniques are most suited to schemes which are intended to deliver a financial return, whether in the form of cost savings which accrue by adopting a more cost-effective model of service delivery, or schemes with a specific purpose of generating income through rental income or capital appreciation. This would include 'spend to save' initiatives.

However, not all Council capital projects can be evaluated in this way as there may not be a direct financial return. Some schemes will generate social value; or may be a legal requirement, such as health and safety; or discharge a public duty, such as the requirement to ensure a sufficiency of school places in the local area. For these a different set of measures is required, which will include a value for money assessment.

Environmental, social and governance (ESG) is a term used to represent an organisation's corporate financial interests that focus mainly on sustainable and ethical impacts. These are non-financial indicators but their role is to ensure accountability and systems to manage the council's impact, such as its carbon footprint. Many ESG factors are already considered as part of the business case process however this is a developing area and more emphasis will be placed on these factors in future.

Any capital bid is based on a series of assumptions, and inevitably requires a degree of estimation. To help ensure cost assessment is robust the Council makes use of the professional judgement of qualified surveyors and engineers for its building and infrastructure projects. It is important that estimations do not show an optimism bias.

It is also important that the phasing and scale of the programme reflects the **capacity** of the Council to deliver it. The consequences of not doing so will include:

- Projects not delivered to required timescales and/or budget which affects the quality of service provided
- The cost of delivering the programme is materially different to initial estimate

The Council is able to re-profile and reallocate capital resource, providing that no prudential indicator is breached. This may include the acceleration or deferral of schemes to a later year. It is also prudent to re-assess the programme from time to time to ensure it continues to align with Council priorities.

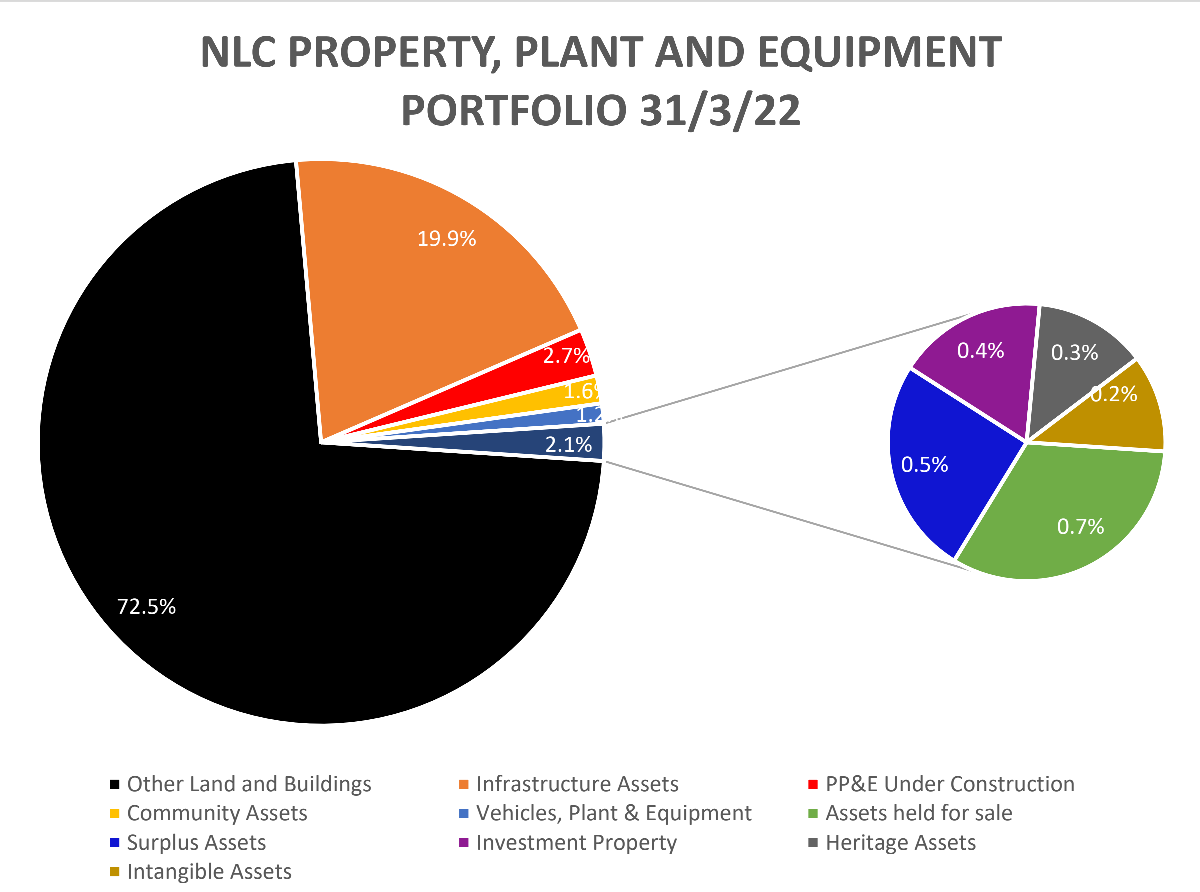
All capital projects should have a risk log that is regularly reviewed and updated. All risks that may affect a project must be considered. These can include political, economic, legal, technological environmental and reputational as well as financial. Projects should be managed using the **project management toolkit**, which provides guidance and templates.

The council will not invest solely for a return. Any return will be a secondary consideration to meeting the Council's Priorities.

Current Commercial Portfolio

The Council undertook a review of its classification of its Investment Properties in 2022. The result was all but one of these assets were reclassified as Property, Plant and Equipment. Only one asset met the test of being solely held to generate income. This asset was valued at £2.15m at the end of 2021/22. The other assets previously classified as investment properties, largely industrial units, are expected to yield £5.2m of income or 3.1% of net council spending in 2022/23 are held to deliver both the outcomes the Council desires and to earn income to support general council activity.

Most of the Council's Property Plant and Equipment portfolio is relatively low or very low risk. Investment properties are only about 0.4% of the total portfolio by value. These properties are higher risk. The risks associated with these properties include exposure to fluctuations in the value of commercial property, difficulty in obtaining payment for rentals and breaks in tenancy leading to reduced income and increased costs. This portfolio will be reviewed in line with the changes to the Prudential Code.



To assist in the consideration of risk, various techniques may be used. However it is proposed four techniques are utilised wherever possible:-

- Real rate of return on investment - this technique provides the net gain from the investment as a percentage. It uses the net present value of the cashflows which are generated by the scheme so that the time value of money is considered.
- Rate of return must be at least the Council's cost of borrowing, which fluctuates. To provide an adequate return above the cost of borrowing while not incurring excessive risk a target gross rate of return of between 9% and 13% has been proposed for evaluating each investment proposal. **This would generate a net return over the cost of borrowing of between 2% and 6%.**
- Internal Rate of Return (IRR) is a technique which calculates the discount rate that would need to be applied to a cashflow to make it zero. This technique allows a comparison to be drawn between different investments and types of investment and is a useful supplementary measure.

The council must have a strategy for exiting each investment which generates commercial income. The following is a non-exhaustive list of potential exit strategies

Time based The asset is sold after a set number of years. Property is a longer term investment and this needs to be taken into account when setting the period of investment.

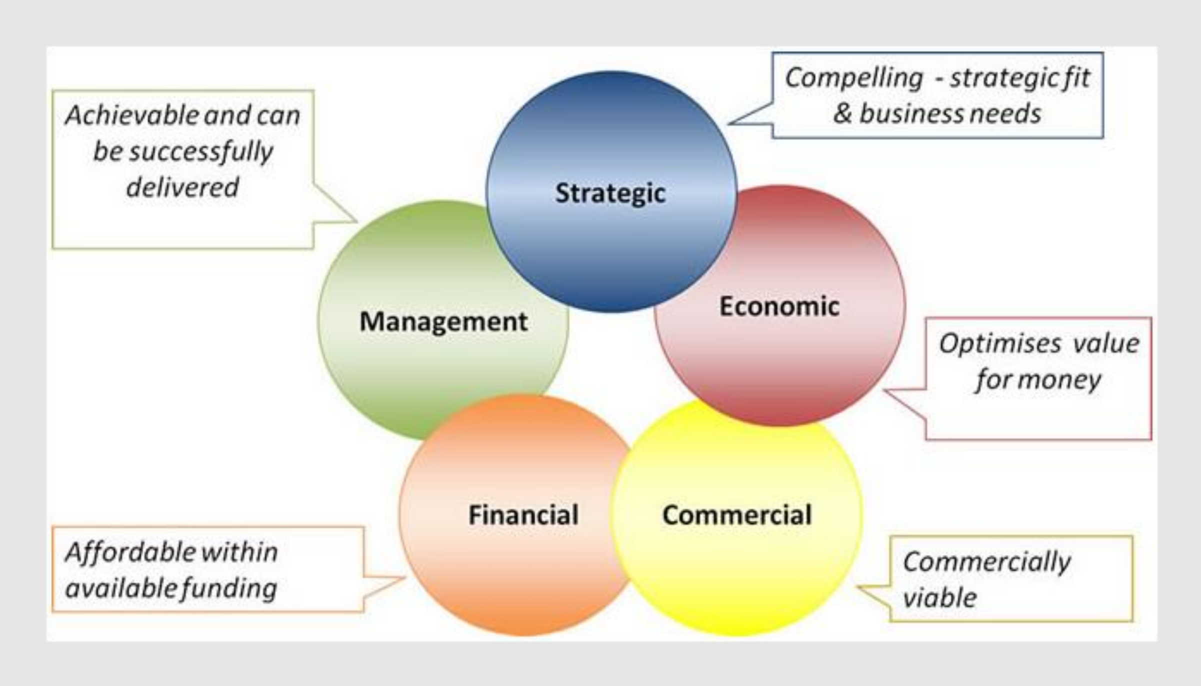
Yield based The asset is sold when its yield falls below a set level. This target yield may fluctuate depending on the prevailing interest rates.

Capital value based In this type of strategy a target value is set and once the asset realises this increased value it is sold. It is also possible to set a lower threshold to minimise losses if it is deemed unlikely the asset's value will recover.

These strategies are not mutually exclusive and must be balanced by considering the delivery of the Council's priorities, where appropriate.

Making the Business Case

The council has developed a **toolkit to be used to create robust business cases**. It comes in two parts, a Mini Business Case that sets out the essence of the scheme at a high level and a Full Business Case which sets out the scheme in more detail. This is based on the five case model for Capital Appraisal and Evaluation from the Treasury's Green Book:



As a public body which operates within the constraints of public policy and finite resources there is a need to choose among alternative capital investment opportunities. What makes this kind of decision demanding is not the problem of projecting return on investment under any given set of assumptions but making the right assumptions and a robust estimation of their impact. Taken together, these can generate significant uncertainty. For that reason, a degree of sensitivity analysis should be undertaken on those projects with greatest risk.

The scope of an evaluation should depend upon the complexity, scale of the impact of a programme or scheme, and also be informed by the level of benefit to the people of North Lincolnshire. Learning should be taken from previous schemes to inform future decisions.

The risk and impact of the current programme should add context to the decisions being taken and how investment proposals affect the mix of risk being taken. Higher risk investments should be judged in the context of impact.

In making an assessment of each scheme the full cost impact should be taken into account, both financing and running costs.

Governance of the Capital Programme

It is Full Council which sets the Capital Investment Strategy and approves the resource envelope for a multi-year programme of capital investment. The Constitution sets out the role of Cabinet which provides executive oversight and determines the powers and responsibilities delegated to cabinet members and officers.

Cabinet collectively leads on budget and performance monitoring across the whole range of council activities. Cabinet member portfolio holders delegations include delivery monitoring to support achievement of council outcomes within the strategic policy frameworks of the Local Plan and Council Plan.

An internal board of senior officers has been established to act as the Council's advisory body on the Council's major projects and capital investment within the authority and all asset management.

To support delivery of the Capital Investment Strategy, the following process will be applied in determining resource allocation and prioritisation of schemes. This process is based on the production of robust business cases. Initially only an outline business case is required but if the scheme passes the first stage of approval a detailed business case will be required. The process requires each proposed scheme cover the following:-

(a) Strategic fit with Council Plan.

(b) Relative importance and affordability and fit with Councils Strategic Asset Management Plan where a new or existing asset is to be developed.

(c) Financial viability needs to be examined in 2 stages:-

- Initial stage with 'order of costs' and indicative outputs
- If approval is made on all the above, feasibility resources will be invested in developing the scheme to outline stage so it can be costed, while refining financial output data in order to produce the business case.

Annex A-The Statutory and Regulatory Framework

The Council must work within a statutory framework. In practice this means that its spending must be in line with statutory powers and powers of competence and is not 'ultra vires'.

The relevant legislation and regulations include:-

- Local Government Finance Act 1992 which sets out the requirement to set a balanced budget.

- Local Government Act 2003 provides councils with the power to borrow within certain limits. The act also gives councils the power to make an investment.

- The Chief Financial Officer has a duty to ensure the limits referred to in the 2003 Act are not exceeded and can call on specific legal powers, if in their professional opinion, there is a danger this will happen

- Section 16 of the 2003 Act defines Capital Expenditure as:-
    1. Expenditure that results in the acquisition of, or the construction of, or the addition of subsequent costs to noncurrent assets in accordance with 'proper practices'
    2. Expenditure that meets one of the definitions specified in regulations made under the Act.
    3. The Secretary of State makes a direction that the expenditure can be treated as capital expenditure e.g. the capital receipts flexibility.

- Government have issued guidance on the calculation of the annual Minimum Revenue Provision which councils that have borrowed to finance their capital programme must make. This ensure that a prudent revenue provision is made to repay borrowing undertaken for capital purposes.

- Localism Act 2011 This Act includes a General Power of Competence which allows Councils some additional freedoms and sets out in Section 4 the need to operate through a Limited Company any activities it undertakes for purely Commercial purposes.

- A requirement to produce independently audited Council accounts each year. Each year every council must have its accounts and arrangements for obtaining value for money audited by 31st July. External Auditors also have the power to issue a Public Interest Report if they believe the council is failing in its duty to provide value for money services.

- Tax Legislation. The council generally is able to recover VAT on goods and services, but can only recover the VAT it incurs on VAT exempt activities e.g. education & training; and selling, leasing and letting of commercial land and buildings (this exemption can be waived) up to the value of 5% of all the VAT it incurs. This is known as the de minimis threshold or limit. If this limit is exceeded none of this VAT may be recovered and will be a significant cost to the council. The VAT implications of every capital scheme therefore need to be considered.

Annex B-Technical Accounting Matters

Accounting

The accounting for capital has some special rules that do not apply to revenue expenditure. For Local Authorities capital expenditure is defined under UK law as expenditure that can be capitalised under proper practice or the Secretary of State deems it to be capital. In this case proper practice is the CIPFA Code of Accounting Practice. The code defines capital as spending to purchase, enhance or construct a long term asset with the benefit gained from the spending lasting more than one year. Loans to organisations or individuals for them to spend on things that would be capital if the council had bought them can also be capital

Capitalisation policy

The Council has a capitalisation policy, which complies with the code and which sets out what types of costs can be capitalised. Under UK law anything that cannot be capitalised is a revenue cost.

Leasing

As a Lessee a lease can be a way of obtaining the use of a capital asset for a period. Conversely as a Lessor a lease can be used to generate an ongoing income from a capital asset. There are two different types of leases. These are Finance and Operating leases. Operating leases are purely rental agreements with the Lessor retaining most of the risks and rewards of ownership. Finance leases are agreements where most of the risks and rewards transfer to the Lessee.

There are important differences between the two types of lease. Finance leases require lessors to remove the asset from their balance sheets and lessees to include the asset on their balance sheet. Finance lease income to a lessor is received in a form that limits how this income can be used.

As the lessor there are five indicators of a finance lease they are:-

- the lease transfers ownership of the asset to the lessee by the end of the lease term
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value to make it reasonably certain the option will be exercised
- the lease term is for a major part of the economic life of the asset
- the present value of the minimum lease payments amounts to at least substantially all the fair value of the leased asset
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Each lease has to be assessed on its own merits

Annex C-Principles for making of Council loans:

The following principles are a framework for making loan decisions. Loans should:

- Be authorised under statutory powers
- Support the Council Strategy/help deliver council outcomes
- Be able to demonstrate clearly why the Council should act as lender
- Be planned not reactive
- Be part of the Capital Strategy and Capital Programme* for consideration and prioritisation (revenue loans are to be discouraged)
- Be on a Commercial basis i.e. on commercial terms, or with clear justification if charging less than the commercial rate (e.g. passing on the PWLB rate which is generally below the market rate); and only after undertaking a robust due diligence process
- Minimise the risk to the public purse e.g. by being facilitated through a third party

* For a loan to be capitalised the purpose the recipient must use it for a purpose that would be capital if used for that purpose by the council

This page is intentionally left blank

Report of the Director:
Governance and Communities

Agenda Item: 3 (c)
Meeting: 13 February 2023

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT STRATEGY 2023/24

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To approve the Treasury Management Policy Statement

1.2 To seek approval of the Council's Treasury Management Strategy 2023/24.

1.3 To adopt the Prudential Code 2021, the CIPFA Treasury Management in Public Services Code of Practice and related DLUHC Guidance.

1.4 To approve the proposed Prudential Indicators 23/26

1.5 To approve the policy on the Minimum Revenue Provision

1.6 To approve the Investment Counterparties and Limits

1.7 To approve the Maturity Structure of Borrowing Limits

2. BACKGROUND INFORMATION

2.1 The proposed Treasury management Strategy Statement (TMSS) for 2023/24 is attached at Appendix 2. The Strategy has been developed in consultation with our treasury management advisors, Link Asset Services Ltd. This statement also incorporates the Investment Strategy.

2.2 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

3. **OPTIONS FOR CONSIDERATION**

3.1 The options for consideration are detailed in the Strategy at Appendix 2

4. **ANALYSIS OF OPTIONS**

4.1 The options are analysed in the Strategy at Appendix 2.

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

5.1 None, other than the those set out in the report and appendices.

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 The Treasury Management Strategy has been presented to Governance Scrutiny and considered by the Audit Committee.

8.2 No conflicts of interest have been declared.

9. **RECOMMENDATIONS**

9.1 Council is requested to:

i. Approve the Treasury Management Policy Statement (Appendix 1)

ii. Approve the Treasury Management Policy and Treasury Management and Investment Strategy for 2023/24 (Appendix 2)

iii. Adopt the Prudential Code 2017, the CIPFA Treasury Management in Public Services Code of Practice and related DLUHC Guidance.

iv. Approve the prudential indicators for 2023/26 set out in the Strategy (Appendix 2)

v. Approve the revised policy on the Minimum Revenue Provision set out in the Strategy (Appendix 2)

vi. Approve the Counterparty List contained in the Strategy (Appendix 2)

vii. Approve the Maturity Structure of Borrowing Limits contained in the Strategy (Appendix 2)

DIRECTOR OFGOVERNANCE AND COMMUNITIES

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL
Author: Tracy Elliott/Mark Kitching
Date: 31st January 2023

Background Papers used in the preparation of this report –

- Local Government Act 2003
- CIPFA Treasury Management in Public Services Code of Practice (2021 Edition)
- CIPFA Code of Practice 2022-23
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition)

APPENDIX 1

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Council's high level policies for borrowing, borrowing in advance and investments.

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

North Lincolnshire Council Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2023/24

INDEX

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d. **Quarterly reports** – Performance on prudential indicators, including forecast debt and investments will be incorporated into the council's existing quarterly budget monitoring reporting. These reports are not required to be presented to Full Council.

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken for a) by the Governance Scrutiny Panel and for a), b), & c) by the Audit Committee.

1.3 Treasury Management Strategy for 2023/24

The strategy for 2023/24 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training for the Audit Committee was delivered in January 2023 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

1.6 Minimum Revenue Provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

For capital expenditure incurred before 1.4.08 the MRP policy will be to set aside 1/50th of the balance per annum.

From 1 April 2008 the MRP policy will be

- **Asset life annuity method** – MRP will be based on the estimated life of the assets, in accordance with the regulations using the annuity method.

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in finance leases are applied as MRP over the life of the contract.

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31.3.23 the total VRP overpayments were £4.0m.

2 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the annual investment strategy.

2.1 Current portfolio position

The overall treasury management portfolio as at 31.3.22 and for the position as at 31.12.22 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual		Current	
	31.3.22	**31.3.22**	**31.12.2022**	**31.12.2022**
Treasury investments	£000	%	£000	%
banks	13,051	27%	10,565	22%
DMADF (H.M.Treasury)	24,000	49%	30,400	63%
money market funds	12,000	24%	7,500	15%
Total treasury investments	**49,051**	**100%**	**48,465**	**100%**
Treasury external borrowing				
local authorities	6,000	4%	3,000	2%
PWLB	146,616	96%	144,775	98%
Total external borrowing	**152,616**	**100%**	**147,775**	**100%**
Net treasury investments / (borrowing)	**103,566**	**0**	**99,310**	**0**

2.2 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 3rd January 2023. These are forecasts for PWLB certainty rates, gilt yields plus 0.80%.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Forecasts for Bank Rate

After several years of historically low interest rates there has been a steep increase in interest rate to tackle rising inflation. From March 2020 to mid-December 2021 the UK Bank rate was 0.1%, which is now 3.5% and expected to rise to 4.5% in June 2023 before starting to fall back in March 2024.

Forecasts for PWLB rates and gilt and treasury yields
As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US. There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates.

There is a growing risk that medium to long term PWLB rates will increase.

Investment and borrowing rates

- **Investment returns** are expected to peak in 2023/24 before reducing over the following year.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England but have been increasing and are forecast to peak in 2023. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- The current PWLB margins over gilt yields are as follows: -.
  - **PWLB Standard Rate** is gilt plus 1.0%
  - **PWLB Certainty Rate** is gilt plus 0.80%
  - **Local Infrastructure Rate** is gilt plus 0.60%
- Borrowing for capital expenditure. Our long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are now above this level, borrowing strategies will need to be reviewed in that context. Better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive whilst the market waits for inflation, and therein gilt yields, to drop back later in 2023.
- The council will only borrow when cash balances fall below £20m. While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

2.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023/24 treasury operations. The Director of Governance and Communities will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. The current strategy remains to only borrow to meet cashflow requirements.

Any decisions to borrow will be reported to the Audit Committee at the next available opportunity.

2.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs and will also not borrow primarily for yield.

2.5 Debt rescheduling

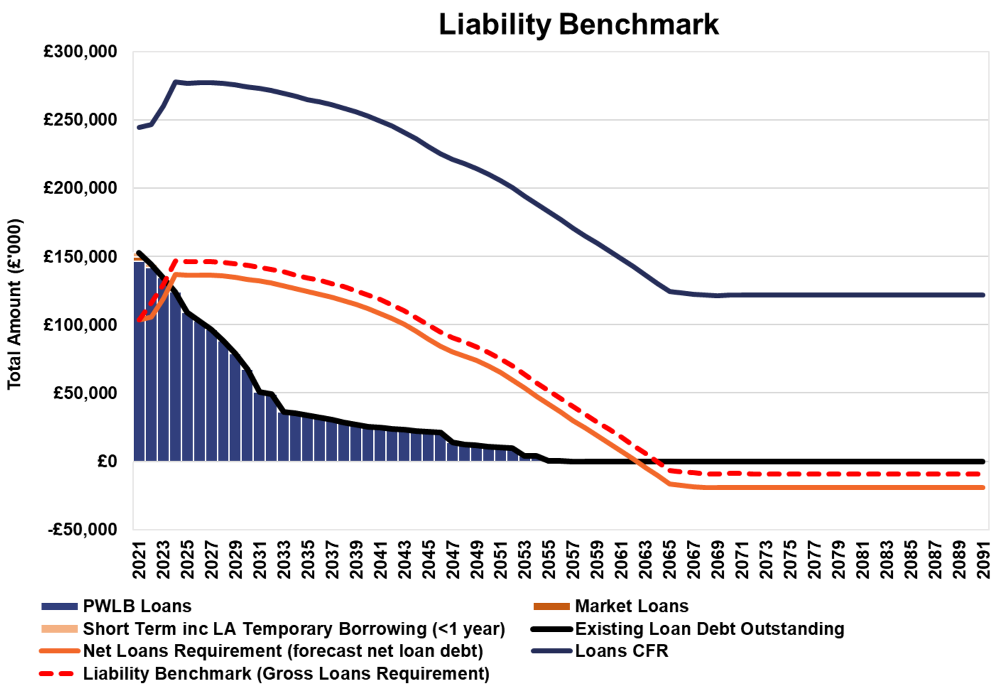
The Rescheduling of current borrowing in our debt portfolio will be kept under review but the legal requirements on the PWLB and the associated accounting requirements means this is unlikely to be beneficial to the council.

2.6 Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



2.7 Sources of borrowing

The PWLB remains the primary source of borrowing for the council. Consideration may be given to any other suitable source of borrowing. Other such sources include:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the PWLB Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years).
- Municipal Bond Agency and UK Infrastructure Bank where circumstances make their use value for money.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

Approved sources of long- and short-term borrowing

Funding Source	Fixed	Variable
Internal (capital receipts & revenue balances)	●	●
PWLB	●	●
Local authorities	●	●
Overdraft		●
Municipal bond agency	●	●
Banks	●	●
Finance leases	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Negotiable Bonds	●	●
Commercial Paper/ Medium Term Notes	●	

Lender Option, Borrower Option (L.O.B.O.) loans will not be used.

3 ANNUAL INVESTMENT STRATEGY

3.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity in accordance with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate , the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.
   - **Non-specified investments** are those with less high credit quality, may be for periods of more than one year, and/or are more complex instruments

which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 5% of the value of its portfolio at the time of the potential investment.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 3.2.

7. **Transaction limits** are set for each type of investment in 3.2.

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 3.3).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 3.3).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the DLUHC, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 3.5). Regular monitoring of investment performance will be carried out during the year.

3.2 Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Governance and Communities will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to

Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed considering market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
  1. are UK banks; and/or
  2. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-

  and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):
  1. Short Term – *BBB-; Baa3, BBB-*
  2. Long Term – *F-3, P-3, A-3*
- Banks 2 – Part nationalised UK bank – These banks can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
  1. Building societies. The Council will use all societies which meet the ratings for banks outlined above;
- Money Market Funds (MMFs) – *AAAmmf*
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))
- Local authorities, parish councils etc
- Supranational institutions

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch long term rating	The higher of		Time Limit
		Value (£m)	% of portfolio	
Banks 1 higher quality	AAA-	5	12.5%	1 year
Banks 1 medium quality	AA-	3	7.5%	1 year
Banks 1 lower quality	BBB-	1	2.5%	1 year
Banks 2 – UK part nationalised	BBB-	3	7.5%	1 year
Limit 3 category – Council's banker	BBB-	5	20.0%	60 days
Building Societies	BBB-	1	2.5%	1 year
Debt Management Account Deposit Facility	UK sovereign rating	Unlimited		1 year
Local authorities	N/A	5	10.0%	1year
	Fund rating**	Value (£m)	% of portfolio	Time Limit
Money Market Funds per fund	AAAmmf	5	10.0%	liquid

Short- and long-term credit ratings have remained relatively stable over the past year. However, the UK Sovereign rating Outlook has recently been changed to negative from stable reflecting an increased chance of a future reduction.

3.3 Other limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 5% of the total treasury management investment portfolio or £3m whichever is the larger.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent .

c) **Other limits.** In addition:

- no more than 5% or £2m whichever is the larger will be placed with any non-UK country at any time.
- limits in place above will apply to a group of companies.
- sector limits will be monitored regularly for appropriateness.

3.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Considering the current economic situation, the council expects to earn the following returns on its investments.

Average earnings in each year	Now	Previously
2022/23	1.65%	0.60%
2023/24	3.45%	0.75%
2024/25	2.50%	1.00%
2025/26	2.00%	1.25%
Long term later years	2.00%	2.00%

3.5 Investment performance / risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 1-month average SONIA (Sterling Over Night Index).

3.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

3.7 External fund managers

The Council does not currently use external fund managers. However, it will keep this decision under review and if it is proposed to engage external fund managers this will be reported to the Audit Committee.

4 APPENDIX 1

4.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2023/24 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

4.1.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital expenditure	37.7	40.3	46.4	46.2
Finance Leases				10.0
	37.7	**40.3**	**46.4**	**56.2**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital receipts	1.7	3.0	3.0	3.0
External Financing	24.7	29.5	25.8	29.0
Revenue	0.3	0.2	0.0	0.0
Net financing need for the year	**11.1**	**7.6**	**17.6**	**24.2**

The Council is now required to confirm to the PWLB that it does not plan to incur Capital expenditure on projects for yield schemes if it wishes to access PWLB borrowing. PWLB borrowing remains a lower cost option than other borrowing available to councils.

4.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

4.1.3 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

The maximum percentage for this prudential indicator should be 10% with a target of 7.5% (1% above the estimated Unitary average).

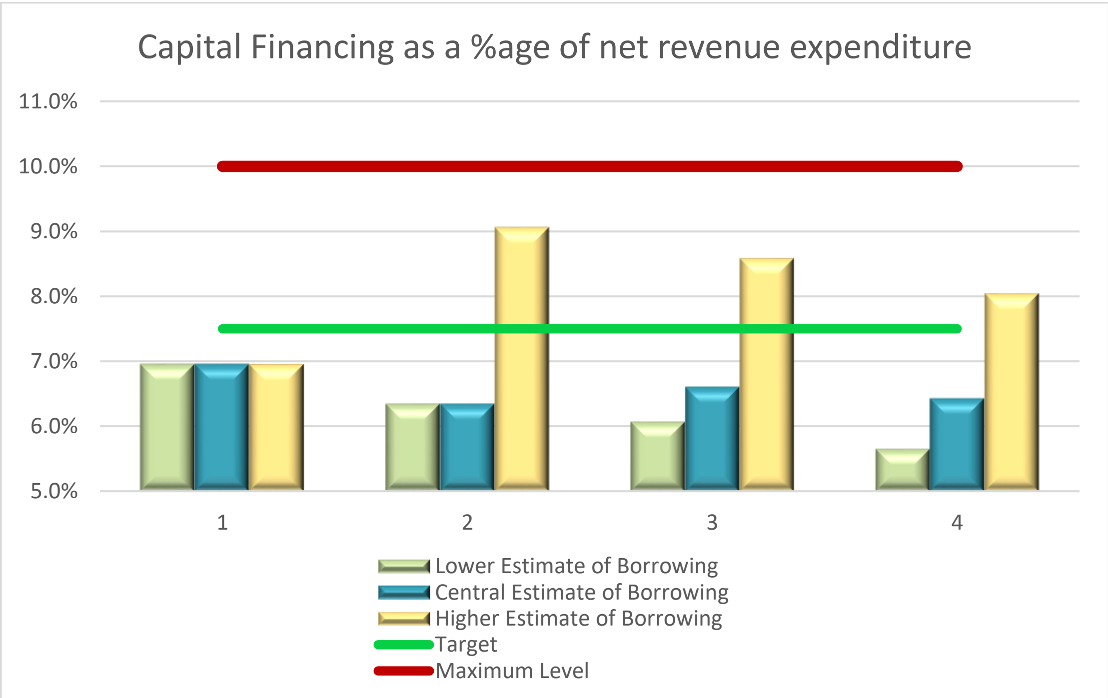
The table and graph below looks at three potential scenarios:-

Lower Estimate of Borrowing – This scenario assumes the council does not borrow in the plan period.

Central Estimate of Borrowing – This scenario assumes the council resumes borrowing to finance its capital programme and refinance its debt repayments from the end of 2023/24.

Higher Estimate of Borrowing – This scenario assumes the council utilises its cash balances at a much faster rate than is currently forecast and must borrow to satisfy its underlying need to borrow (Capital Financing Requirement).

Capital Financing Costs as a percentage of net revenue expenditure	2022/23	2023/24	2024/25	2025/26
Lower Estimate of Borrowing	7.0%	6.4%	6.1%	5.7%
Central Estimate of Borrowing	7.0%	6.4%	6.6%	6.4%
Higher Estimate of Borrowing	7.0%	9.1%	8.6%	8.0%
Target	7.5%	7.5%	7.5%	7.5%
Maximum Level	10.0%	10.0%	10.0%	10.0%



Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2023/24		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	45%
10 years to 20 years	0%	50%
20 years to 30 years	0%	75%
30 years to 40 years	0%	60%
40 years to 50 years	0%	25%
Maturity structure of variable interest rate borrowing 2023/24		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	90%
2 years to 5 years	0%	90%
5 years to 10 years	0%	90%
10 years to 20 years	0%	50%
20 years to 30 years	0%	20%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

4.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently doesn't have any such leases within the CFR.

The Council is asked to approve the CFR projections below:

£m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement (CFR)				
Services	37.7	40.3	46.4	56.2
Total CFR	250.7	252.4	263.6	281.0
Movement in CFR	**5.5**	**1.7**	**11.2**	**17.4**

Movement in CFR represented by				
Net financing need for the year (above)	11.1	7.6	17.6	24.2
Less MRP/VRP and other financing movements	5.5	6.0	6.5	6.8
Movement in CFR	**5.5**	**1.7**	**11.1**	**17.4**

4.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Year End Resources £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Fund balances / reserves	101.1	89.1	83.1	79.1
Capital receipts	3.0	1.2	0.0	0.0
Provisions	8.9	7.9	7.9	7.9
Total core funds	**113.0**	**98.2**	**90.9**	**86.9**
Working capital	(25.9)	(25.0)	(25.0)	(25.0)
Under/over borrowing	98.1	107.8	97.0	69.6
Expected investments	**72.2**	**82.8**	**72.0**	**44.6**

External Debt £m	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Debt	152.6	144.6	166.6	211.4
The Capital Financing Requirement	250.7	252.4	263.6	281.0
Under / (over) borrowing	**98.1**	**107.8**	**97.0**	**69.6**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Governance and Communities reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

4.4 Treasury Indicators: limits to borrowing activity

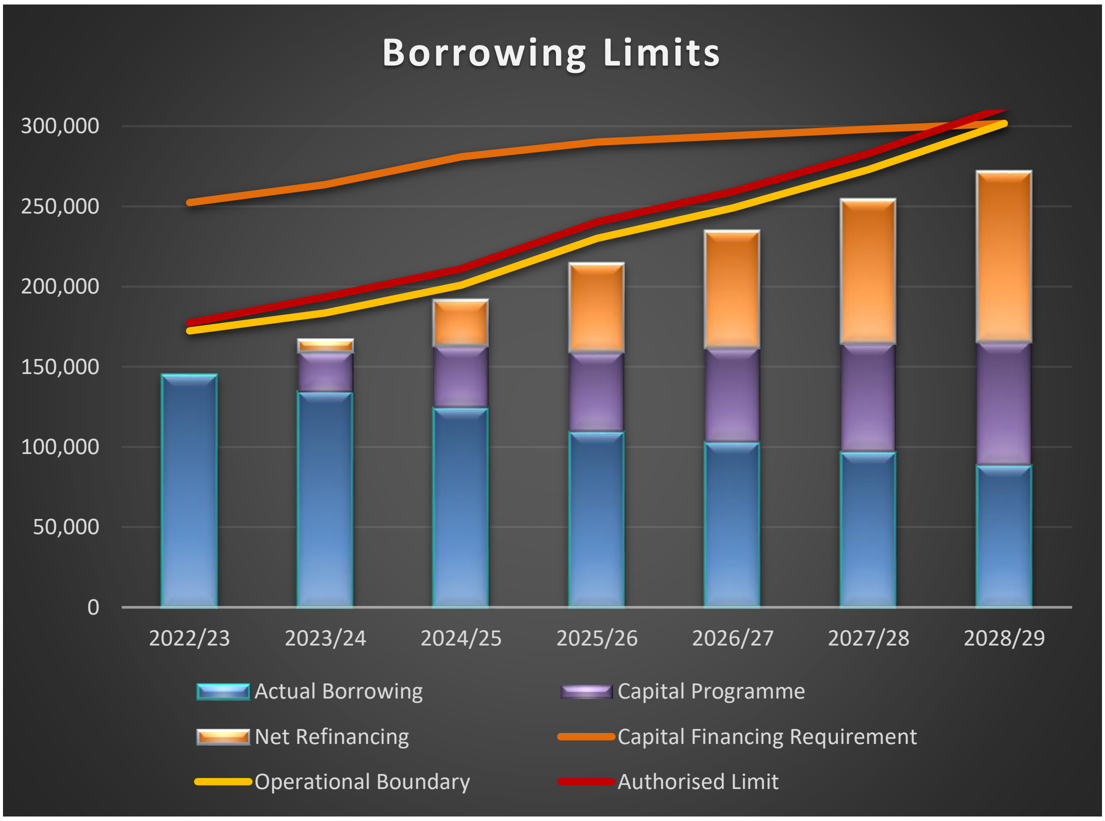
The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	172,359	183,564	190,984	225,132
Other long-term liabilities	0	0	10,000	5,000
Total	**172,359**	**183,564**	**200,984**	**230,132**

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Debt	177,359	193,564	200,984	235,132
Other long-term liabilities	0	0	10,000	5,000
Total	**177,359**	**193,564**	**210,984**	**240,132**



4.5 Limits on Commercial Income

A council that is heavily reliant on Commercial Income is subject to a wider range of financial risk than other councils. It is therefore appropriate to place a limit on the level of Commercial Income as a percentage of the net revenue stream. For North Lincolnshire Council this limit it 5%.

Commercial Income/ Net Revenue Stream £m	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Rental Income	5.2	5.4	5.5	5.5
As a Percentage of Net Revenue Stream	3.1%	2.9%	2.8%	2.7%

Report of the Director of
Economy and Environment

Agenda Item:3 (d)
Meeting: 13 February 2023

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

IMPLEMENTATION OF THE 2023/2024 PAY POLICY STATEMENT

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 To outline and seek approval for the council's proposed Pay Policy Statement for 2023/2024, in accordance with section 38 of the Localism Act 2011.

2. BACKGROUND INFORMATION

2.1 The council is required by the Localism Act 2011 (the Act) to prepare an annual Pay Policy Statement. The statement must articulate a council's own policy on a range of issues relating to the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees. Pay policy statements must be prepared for each financial year and must be approved annually by Full Council.

2.2 Councils retain the autonomy to make decisions on pay that are appropriate to local circumstances. The provisions of the Act do however require individual councils to be more open about their policies in relation to pay and how decisions are made in this regard.

2.3 In summary, the Act requires that authorities include in their Pay Policy Statements:

- The approach taken to awarding other elements of pay including severance payments, any additional fees e.g., pay increases, honoraria etc.
- The approach to the publication of and access to information relating to the remuneration of Chief Officers.
- The organisation's pay multiple. The 'pay multiple' is the ratio between the highest paid employee and the median average earnings across the council which acts as a means of illustrating the relationship between the highest and lowest paid.

2.4 There have been no changes to the approach to pay and reward in the last financial year. The ratio between the highest paid remuneration in the council and the average median remuneration is 6:1. This compares to a ratio of 6.4:1 reported in the 2022/23 pay policy statement.

2.5 The Government published the Local Government Transparency Code (2015) to ensure that transparency is the foundation of local accountability and to place more power in citizens' hands. The code sets out the minimum data that local authorities should be publishing, the frequency it should be published and how it should be published. The council's datasets can be viewed by searching for 'Open data' at www.northlincs.gov.uk

3. OPTIONS FOR CONSIDERATION

3.1 To consider and accept the proposed Pay Policy Statement for 2023/2024.

3.2 To reject the Pay Policy Statement for 2023/2024.

3.3 To make recommendations to extend the provisions of the proposed Pay Policy Statement 2023/2024 beyond the minimum statutory requirements.

4. ANALYSIS OF OPTIONS

4.1 The proposed Pay Policy Statement meets the requirements of the Act. Where possible it cross references other council policies on pay and terms and conditions of employment.

4.2 The Act sets out in detail the specific minimum elements which the Pay Policy Statement must include. Not agreeing and publishing a Pay Policy statement for Chief Officers would mean that the council has failed to meet a statutory obligation.

4.3 Given that Pay Policy statements must be published by 1 April each year following consideration by an open meeting of full council, a decision on its content has to take place at this meeting. Recommending changes to the proposed Pay Policy statement and the council's existing pay strategy would necessitate significant consultation and would mean the council is unlikely to meet its statutory obligations in this area.

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

5.1 There are no direct financial implications.

5.2 There are no direct staffing implications. The Pay Policy Statement for 2023/2024 reflects the council's existing practice on pay for Chief Officers.

5.3 A copy of the council's Pay Policy Statement for 2023/2024 will be published on the council's website.

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

6.1 None.

7. **OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

7.1 The council's Pay Policy Statement complies fully with the minimum requirements of section 38 of the Localism Act 2011.

8. **OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

8.1 The trade unions have been informed of the pay multiple and have been provided with a copy of the council's Pay Policy Statement for 2023/2024.

9. **RECOMMENDATIONS**

9.1 That the proposed Pay Policy Statement for 2023/2024 be approved and adopted.

DIRECTOR OF ECONOMY AND ENVIRONMENT

Church Square House
SCUNTHORPE
North Lincolnshire
DN15 6NL
Author: Rebecca Stanford
Date: 31 January 2023

Background Papers used in the preparation of this report – None.

This page is intentionally left blank

Chief Officer Pay policy statement
Appendix 1 – Additional remuneration

Recruitment

1.1 The post will be advertised and appointed to at the appropriate approved salary level for the post in question unless there is good evidence that a successful appointment of a person with the required skills, knowledge, experience, abilities and qualities cannot be made without varying the remuneration package. In such circumstances a variation to the remuneration package is appropriate under the council's policy and any variation will be approved through the appropriate council decision making process.

Pay increases

1.2 The council will apply any pay increases that are agreed by relevant national negotiating bodies and/or any pay increases that are agreed through local negotiations. The council will also apply any pay increases that are as a result of council decisions to significantly increase the duties and responsibilities of the post in question beyond the normal flexing of duties and responsibilities that are expected in senior posts. Where a change in the duties of the post are significant a revised job description will be submitted for re-evaluation in accordance with the council's approved job evaluation scheme and Grading policy B.5.

1.3 If the evaluation results in a change in grade, the manager will prepare a delegated decision report for consideration by the relevant directors.

Additions to pay

1.4 The council would not make additional payments beyond those specified in the contract of employment.

Performance related pay

1.5 The council does not operate a performance related pay system as it believes that it has sufficiently strong performance management arrangements in place to ensure high performance from its senior officers. Any areas of under-performance are addressed rigorously.

Earn-back (Withholding an element of base pay related to performance)

1.6 The council does not operate an earn-back pay system as it believes that it has sufficiently strong performance management arrangements in place to ensure high performance from its senior officers. Any areas of under-performance are addressed rigorously.

Bonuses

1.7 The council does not pay bonus payments to senior officers.

Termination payments

1.8 The council applies its normal redundancy payments arrangements to senior officers and does not have separate provisions for them. The council also applies the appropriate pensions regulations when they apply. The council has agreed policies on how it will apply any discretionary powers it has under pensions regulations. These discretions are set out in the council's Local Government Pension Scheme (LGPS) Discretionary Options and Compensation for Termination of Employment policy A.8a.

1.9 Any costs that are incurred by the council regarding senior officers are published in the council accounts as required under the Accounts and Audit (England) Regulations 2015 and can be viewed at www.northlincs.gov.uk.

Transparency

1.10 The council meets its requirements under the Localism Act, the Local Government Transparency Code and the Accounts and Audit Regulations in order to ensure that it is open and transparent regarding senior officer remuneration. Detailed information can be viewed by searching for 'Open data' at www.northlincs.gov.uk.

Re-employment of staff in receipt of an LGPS pension or a redundancy/severance payment

1.11 The council is under a statutory duty to appoint on merit and has to ensure that it complies with all appropriate employment and equalities legislation. The council will always seek to appoint the best available candidate to a post, who has the skills, knowledge, experience, abilities and qualities needed for the post. The council will therefore consider all applications from candidates to try to ensure the best available candidate is appointed.

1.12 If a candidate is a former employee in receipt of an LGPS pension or a redundancy payment this will not rule them out from being re-employed by the council. Clearly where a former employee left the council on redundancy terms then the old post has been deleted and the individual cannot return to the post as it will not exist. The council will apply the provisions of the Redundancy Payments (Continuity of Employment in Local Government etc.) (Modification) Order 1999 (the 'Modification Order') regarding the recovery of redundancy payments if this is relevant. Pensions regulations also have provisions to reduce pension payments in certain circumstances to those who return to work within the local government service.

Version Control	
Author	Rebecca Stanford
Status	V3.0
Date approved	13 February 2023
Last updated	31 January 2023

This page is intentionally left blank

Chief Officer Pay Policy Statement
Appendix 2

1.0 Introduction

1.1 Sections 38 – 43 of the Localism Act 2011 (the Act) require that the council produce a policy statement that covers several matters concerning the pay of the council's employees, principally Chief Officers. This policy statement meets the requirements of the Act in this regard and also meets the requirements of guidance issued by the Secretary of State for Communities and Local Government to which the council is required to have regard under Section 40 of the Act.

1.2 This policy was considered and approved by the Full Council at the meeting which took place on 13 February 2023.

1.3 This policy also has some connection with the data on pay and rewards for employees which the council publishes under the Local Government Transparency Code (2015) and the data which is published under The Accounts and Audit (England) Regulations (2015).

1.4 It should be noted that the requirements to publish data under the Secretary of State's guidance, the Transparency Code and the Regulations do differ, the data requirements of the Transparency Code and the Accounts and Audit Regulations are summarised at section 11.0 of this document.

1.5 This policy statement does not cover or include school employees and is not required to do so.

2.0 Definition of officers covered by the policy statement

2.1 This policy statement covers Chief Officers under the Localism Act 2011 which are defined as:

- The council's Head of Paid Service designated under section 4(1) of the Local Government and Housing Act 1989;
- The Monitoring Officer designated under section 5(1) of that Act;
- A Statutory Chief Officer mentioned in section 2(6) of that Act;
- A Non-Statutory Chief Officer mentioned in section 2(7) of that Act; and
- A Deputy Chief Officer mentioned in section 2(8) of that Act.

In North Lincolnshire Council these definitions would apply to the following posts:

Head of Paid Service:

- Chief Executive

Statutory Chief Officers:

- Director: Adults and Health (Director of Adult Social Services)
- Director: Children and Families (Director of Children's Services)
- Assistant Director: Education (Chief Education Officer)
- Director: Governance and Communities (Section 151 Officer)
- Assistant Director: Governance and Partnerships (Monitoring Officer)

Non-Statutory Chief Officers (those who report directly to the Head of the Paid Service and are not a Statutory Chief Officer):

- Deputy Chief Executive

Deputy Chief Officers:

- Director: Economy and Environment
- Director: Public Health
- Assistant Director: Adult Social Services and Deputy DASS
- Assistant Director: Integrated Care
- Assistant Director: Adult Early Help and Prevention
- Assistant Director: Children's Help and Protection
- Assistant Director: Children's Standards and Regulations and Deputy DCS
- Assistant Director: Resources and Performance
- Assistant Director: Community Enablement
- All other senior managers if reporting directly to, or directly accountable to, a statutory or non-statutory Chief Officer in respect of all or most of their duties (excluding roles which are clerical or secretarial).'

3.0 Remunerating chief officers

3.1 The council's current arrangements for the remuneration of chief officers are set out on the council's website. It is the policy of this council to establish a remuneration package for each chief officer post that is sufficient to attract and retain employees of the appropriate skills, knowledge, experience, abilities and qualities, consistent with the council's requirements of the post at that time.

3.2 Grading of jobs is determined by the use of the council's job evaluation schemes to ensure that they are fair and non-discriminatory, comply with equal pay legislation and associated codes of best practice.

4.0 Remunerating the lowest paid in the workforce

4.1 The council applies terms and conditions of employment that have been negotiated and agreed through appropriate collective bargaining mechanisms (national or local) or as a consequence of council decisions, these are then incorporated into contracts of employment.

4.2 The lowest pay point in this council is Grade 1, point 1. This equates to an annual salary of £20,258, an hourly rate of pay of £10.50. This pay point and salary is part of a pay scale for employees employed on National Joint Council (NJC) for Local Government Service terms and conditions. These rates are effective from 1 April 2022 to 31 March 2023. The pay rate is increased in accordance with any pay settlements which are reached through the NJC for Local Government Services.

5.0 Relationship between chief officer remuneration and that of other employees

5.1 The highest paid remuneration in this council is £170,991.78 per annum which is paid to the Chief Executive.

5.2 The average median remuneration (as at 31 January 2023) in this council is £28,498.76 per annum.

5.3 The ratio between the highest paid remuneration and the average median remuneration in the council (not including schools), the 'pay multiple', is 6:1. This council does not have a policy on maintaining or reaching a specific 'pay multiple'. However, the council is conscious of the need to ensure that the remuneration of the highest paid employee is not excessive and is consistent with the needs of the council as expressed in this policy statement.

5.4 The council's approach to the payment of employees is to pay that needed to recruit and retain employees with the skills, knowledge, experience, abilities, and qualities needed for the post at that time. In addition, the council will ensure it meets any contractual requirements for employees including the application of any local or national collective agreements, or council decisions regarding pay.

6.0 Other aspects of chief officer remuneration

6.1 Other aspects of chief officer remuneration are appropriate to be covered by this policy statement. These other aspects are defined as recruitment, pay increases, additions to pay, performance related pay, earn back, bonuses, termination payments, transparency, and re-employment when in receipt of a Local Government Pension Scheme (LGPS) pension or a redundancy/severance payment. These matters are addressed in the schedule that is attached to this policy statement at Appendix 1.

7.0 Approval of salary packages in excess of £100,000

7.1 The council will ensure that any salary package for any post (not including schools) that is in excess of £100,000 will be considered by a committee of Full Council, at the latest, before an offer of appointment is made. The salary package will be defined as base salary, any bonuses, fees, routinely payable allowances, and benefits in kind that are due under the contract.

8.0 Flexibility to address recruitment issues for vacant posts

8.1 In the vast majority of circumstances the provisions of this policy will enable the council to ensure that it can recruit effectively to any vacant post. There may be exceptional circumstances when there are recruitment difficulties for a particular post and where there is evidence that an element or elements of the remuneration package are not sufficient to secure an effective appointment. This policy statement recognises that this situation may arise in exceptional circumstances and therefore a departure from this policy can be implemented without having to seek Full Council approval for a change of the policy statement. Such a departure from this policy will be expressly justified in each case and will be approved through an appropriate council decision making route.

9.0 Amendments to the policy

9.1 This policy does not normally need to be amended during the period it covers. However, given that a pay award has not yet been agreed for 2021/2022 for employees on NJC and JNC for Chief Officers terms and conditions, the relevant data will be updated and the pay multiple recalculated when this pay award occurs. If a change of policy is considered to be appropriate following this, then a revised draft policy will be presented to Full Council for consideration.

10.0 Policy for future years

10.1 This policy statement will be reviewed each year and will be presented to Full Council each year for consideration in order to ensure that a policy is in place for the council prior to the start of each financial year.

11.0 Supporting legislation and statutory guidance

11.1 The Local Government Transparency Code (2015) indicates that councils should publish the following data concerning employees:

- Organisation structure (covering staff in the top three levels of the organisation), including grade, job title, department, permanent or temporary,

contact details, salary in £5,000 brackets and the salary ceiling.
- Names of trade unions represented in the council, total number of trade union representatives, number of those trade union representatives who devote at least 50% of their time to union duties and a basic estimate of spending on unions as a percentage of the pay bill.
- The 'pay multiple' – the ratio between the highest paid salary and the median average salary of the whole council workforce.

11.2 The Accounts and Audit (England) Regulations (2015) require that the following data is included in the council's accounts:
- Numbers of employees with a salary above £50,000 per annum (pro-rata for part-time employees) in multiples of £5,000.
- Job title, remuneration and employer pension contributions for senior officers. Senior officers are defined as Head of Paid Service, Statutory Chief Officers and Non-Statutory Chief Officers by reference to Section 2 of the 1989 Local Government & Housing Act.
- Names of employees paid over £150,000 per annum.

For the above remuneration is to include:
- Salary, fees or allowances for the current and previous year.
- Bonuses paid or receivable for the current and previous year.
- Expenses paid in the previous year.
- Compensation for loss of employment paid to or receivable, or payments. made in connection with loss of employment.
- Total estimated value of non-cash benefits that are emoluments of the person.

For the above pension contributions to include:
- The amount driven by the authority's set employer contribution rate.
- Employer costs incurred relating to any increased membership or award of additional pension.

Version Control	
Author	Rebecca Stanford
Status	V3.0
Date approved	13 February 2022
Last updated	31 January 2023

This page is intentionally left blank