

NORTH LINCOLNSHIRE COUNCIL

CABINET

2022/23 Financial Management and Medium-Term Financial Plan Update

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To provide an update on the Council's in-year financial position.
- 1.2. To set out the Council's updated medium term financial planning position and options for consideration for funding strategy.

2. BACKGROUND INFORMATION

2.1. The Council Plan 2022-25 provides the frame for policy decisions and utilisation of resources intended to achieve the greatest impact on improved outcomes for residents. In response to the economic climate affecting the Council's operating environment Cabinet agreed to increase the planned use of reserves in 2022-23. This report provides an overview of the latest financial position, estimated year-end projection and forecast of spending power for the medium-term financial plan 2023-26.

In Year Financial Position:

Revenue 2022/23

2.2. Based upon financial management information at period 8 (November 2022), a total net operating expenditure of £175m is forecast, which represents a balanced position utilising the additional £5m use of reserves. Further detail is provided in Appendix 1.

Capital 2022/23

2.3. There are a series of capital adjustments necessary to ensure the programme remains aligned with delivery timescales and the Council Plan. The in-year position can be seen in Appendix 1, with anticipated rephasing and a revised programme showing amendments to externally & internally funded schemes summarised in Appendix 2.

Budget Adjustments 2022/23

2.4. Several adjustments to the revenue budget have been made, as the Council continually seeks to align budgets with delivery of the Council Plan. The

adjustments have all been made under delegated powers and are summarised in Appendix 3.

Treasury Management 2022/23

- 2.5. The Council is continuing to manage cash balances and debt in line with the approved Treasury Management Strategy. The impact of the interest rates increase has a short-term benefit in increased yield on investment of cash balances. The Council's borrowing at the end of December 2022 was £157m and is expected to remain lower than had been forecast for the remainder of the year due to a change in the profile and timing of expenditure and income cash flows. Appendix 4 sets out the prudential indicators for 2022/23 approved by Full Council in February 2022, and the current estimate.

Medium Term Financial Plan Update

Core Spending Power - Funding

- 2.6. Since the previous report to Cabinet in November, the Department for Levelling Up, Housing and Communities (DLUHC) published the provisional Local Government Finance Settlement on 19th December 2022. This confirmed a large proportion of Total Spending Power for 2023/24. North Lincolnshire's anticipated maximum spending power in 2023/24 is £175.7m, which is an increase of £18.4m (11.7%) from 2022/23. Of this increase:

- **£12.3m represents an increase in finance settlement funding:**
 - £0.9m additional Revenue Support Grant through inflationary increase and rolling in of existing service grants.
 - £1.2m inflationary uplift in Business Rates Baseline Funding.
 - £3.2m predicated on maximising Council Tax increases and £1.7m in Social Care Precept
 - £7.2m additional funding intended for Adult Social Care, including supporting hospital discharge, fair cost of care and rolling in of Independent Living Fund grant. Of this £1.0m is to be distributed through the Better Care Fund.
 - £(1.9)m reduction anticipated in other grants, including New Homes Bonus and Services Grant.

- **£6.0m represents an increase in Local Funding:**
 - £6.1m from inflationary uplift compensation grant and growth from Retained Business Rates
 - £0.1m reduction in Collection Fund surplus/deficit

Further detail of the finance settlement and Total Spending Power is included at Appendix 5.

- 2.7. Council Tax & ASC Precept: The referendum limits confirm the maximum annual core increases of 3% with the potential to levy an additional 2% ASC precept. This means the **maximum** combined domestic rate increase for North Lincolnshire for 2022/23 is 5%. The table below illustrates the impact of the increases assumed in the finance settlement on a Band D property:

	Council Tax	ASC Precept	Total
Band D 2023/23	£1,418.91	£195.90	£1,614.81
Increase at Settlement Assumptions	£48.28	£32.30	£80.58
Band D 2023/24	£1,467.19	£228.20	£1,695.39

2.8. Alongside the provisional finance settlement, the Government also announced a £100m Council Tax Support Fund for local authorities to support the most vulnerable households from increases in council tax bills. The majority of funding is to be used to reduce the bills of those in receipt of Local Council Tax Support by up to £25, with the remainder to be used to support vulnerable households.

2.9. Settlement funding (business rates) has been increased by 3.74% for inflation with compensation due to the Council for the remainder of inflationary increases up to 10.1% through new burdens grant included within NNDR Rate Retention Scheme. The Business Rates multiplier remains at 49.9% therefore businesses have protected from inflationary uplifts on their business rate bills. There has also been growth in the Business Rates base and further growth expected from Keadby 2 power plant that has contributed towards increased income from NNDR Rate Retention Scheme in 2023/24.

2.10. While the Provisional Funding Settlement has provided a level of certainty over key elements within the Council's Core Spending Power there remain a number of key variables that are expected to be confirmed by the end of January:

- NNDR1 – confirmation of the Business Rates Base (based on the 2023 valuation listings). This will confirm the level of income from expected from the NNDR Rate Retention Scheme.
- Confirmation of Public Health Grant – expected January 2023

Financial Sustainability – Net Operating Expenditure

2.11. Whilst the provisional financial settlement recognises the impact of the economic climate on local government at a sector level, there are some costs that are affected by other operating environment factors in addition to inflation. The Council must set a balanced budget for 2023/24 in the context of a robust medium term financial plan. The Council's financial strategy provides a guide to do this alongside the mechanisms to ensure the Council is financially sustainable and resilient.

2.12. In allocating financial resources the Council has regard to the key elements of its financial strategy (detailed in appendix 6). These include:

- **Grow the Tax Base** – 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.

- **Maximise Commercial Income** – commercial activity (inc. commercial property, trade waste and operations of leisure and cultural activities) undertaken by the Council in additional to it's core service offering. 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 alongside contribution towards council priorities and outcomes.
- **Taking advantage of opportunities to access external income** – The Council continues to be successful at leveraging in external investment in to the area and the financial plans assume continuation of that success towards supporting delivery of the Council Plan.
- **Finding innovative ways of enablement and delivery** – 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.
- **Ensuring decision making** is based on the context of **agreed and emerging policy** informed by insight and **demonstrates value for taxpayers money** through robust financial planning – Investment decision 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
- Seeking **opportunities with partners to maximise economies of scale** whilst **enabling communities to take more responsibility for their local facilities**

2.13. 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)

The most significant cost drivers impacting in 2022-23 and expected to continue in 2023-24 are due to external economic factors with inflationary impact estimated at £18.4m (£34.1m over 3-year MTFP period). See Appendix 5.

Financial Resilience – Use of Reserves

2.14. The council maintains a General Fund Reserve of 5% of Net Operating Expenditure. Surpluses are held in the Risk and Transformation reserve or in Earmarked and Grant reserves depending on the funding source.

2.15. Financial resilience, the ability to weather financial shocks, is an important consideration for council sustainability. The assessment of the Council's financial resilience allows for the planned use of reserves over the medium term. This will be considered in the context of maintaining the right balance of cost control and demand management with the uncertainty of external factors affecting the operating environment.

2.16. The Council's financial planning process will culminate in the 2023/26 medium term financial plan being taken to Full Council in February 2023.

3. OPTIONS FOR CONSIDERATION

3.1. To note the in-year financial position on revenue and capital budget plans and treasury management activity.

3.2. To note the latest revenue budgets in Appendix 3 and approve the revised capital programme in Appendix 2.

3.3. To note the medium term financial plan update above includes confirmation of the referendum limits for Council Tax and ASC precept at 2.7. The maximum increase for North Lincolnshire is 5% (made up of 3% Council tax, 2% ASC Precept). **The local council tax rates will be subject to Full Council decision in February 2023.**

4. ANALYSIS OF OPTIONS

4.1. The in-year revenue forecast is based upon provisional financial management information at quarter 3 and is an improved position since the previous quarter. Further detail is provided in the appendices.

4.2. The Local Government Finance Settlement provides certainty for one-year, with policy intentions for a further year. The draft medium term financial plan assumes a steady state beyond 2023/24 unless it has been confirmed otherwise.

4.3. The changing composition of core spending power has been captured in Appendix 5 (table 2). The ever-increasing importance of council tax and ASC precept is fully evident (48% of CSP 15/16, 55% 23/24). Application of the maximum increase of 4.99% is assumed in treasury calculations and would contribute £4.9m to core spending power in 2023/24 with ongoing impact in future years.

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

- 5.1. The financial model under which Local Government operates means that risk management is fundamental to everything the Council does. The Council is constrained in its ability to significantly increase resources and is statutorily determined on large areas of need-led spending which can be volatile. Financial plans and the actions taken by the Council therefore must be adaptive to ensure the Council remains financially sustainable over the short, medium and long-term.
- 5.2. The potential financial implications of the risks identified within this report have been considered in detail within the relevant section. It remains the case that the Council needs to be adaptive and influence in the areas where it is able. The Council holds reserves to mitigate against expenditure and income shocks and other unforeseen events, to provide capacity to withstand shocks and time to plan cost base adjustments which reflect the emergent position.
- 5.3. Based upon current analysis and assessment of financial resilience, it is recommended that the Council should aim to retain a balance of at least £10m of risk reserves to cover residual risk mitigations. The proposed closing balance enables short to medium-term plans to smooth transition to a sustainable budget, assuming a high-level of confidence in deliverability of plans.

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

- 6.1. Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 8.1. Not applicable.

9. RECOMMENDATIONS

- 9.1. To note the financial position set out in the report
- 9.2. To note the budget adjustments approved under delegated powers and the revised budget position for 2022/23.
- 9.3. To approve the revised capital investment programme 2022/25.
- 9.4. To note the progress against the approved Treasury Management Strategy and prudential code indicators.
- 9.5. To endorse the formulation of the Financial Strategy and Medium Term Financial Plan.

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Background Papers used in the preparation of this report

Reports to Full Council:

- Financial Strategy, Budget 2022/23 and Medium-Term Financial Plan 2022/25
- Capital Investment Strategy and Capital Programme 2021/2025
- Treasury Management and Investment Strategy 2022/23

Other background papers:

- Local Government Finance Settlement 2023 (DHLUC, 19 December 2023)

REVENUE AND CAPITAL MONITORING POSITION 2022/23**Table 1 – Revenue Net Operating Expenditure Forecast ***

By Accountability	Budget £M	Forecast £M	Core Variance £m	DSG Variance £m
Adult Social Services	23.0	23.8	0.8	-
Adults Early Help & Prevention	22.5	26.2	3.7	-
Integrated Health & Care	4.7	5.4	0.7	-
Education	4.7	4.9	0.3	(0.1)
Children's Help & Protection	10.3	9.1	(1.2)	-
Children's Standards & Regulation	10.9	10.1	(0.8)	-
Place	30.4	31.9	1.5	-
Public Protection	1.8	2.4	0.6	-
Organisational Development	16.9	17.1	0.2	-
Governance & Partnerships	5.1	4.7	(0.4)	-
Resources & Performance	8.5	8.2	(0.3)	-
Community Enablement	8.3	8.9	0.6	-
Public Health	7.3	6.6	(0.7)	-
Central & Technical	15.5	15.5	0.0	-
Net Operating Expenditure	169.9	174.9	5.0	(0.1)
Approved increase in use of reserves 2022/23	5.0	-	(5.0)	-
Revised Net Operating Expenditure	174.9	174.9	0.0	(0.1)

Table 2 – Capital position 2022/23 forecast*

CAPITAL FORECAST 2022/23 -Budget includes rephasing shown at Appendix 2, tables 2 and 3	Budget £000's	Forecast Spend £000's	Year to Date Spend £000's	% Spend to Date
Expenditure				
Keeping People Safe and Well	7,124	7,124	7,182	100.81%
Enabling Resilient and Flourishing Communities	10,306	10,306	9,825	95.34%
Enabling Economic Growth and Renewal	17,940	17,940	13,066	72.83%
Providing Value for Money for Local Taxpayers	4,066	4,066	2,912	71.63%
Capital Investment Allocation	78	78	0	0.00%
TOTAL EXPENDITURE	39,514	39,514	32,985	83.48%
Financing				
External & Grant Funding	28,416	28,416		
Council Resources	11,098	28,288		
TOTAL FINANCING	39,514	56,704		

* figures subject to rounding

Analysis of Revenue 2022/23

1. The Council's Net Operating Expenditure represents the day-to-day costs of council service delivery. For 2022/23, the Council has a cash limit of £174.9m. This includes approval for an additional £5m use of reserves to address unprecedented inflationary pressures in year ahead of a fundamental review of inflation impacts in the revised Medium Term Financial Plan 2023-27.
2. The Council has a strong track record of managing financial risk, with continuous improvement and implementation of efficient delivery models that achieve the best outcomes. Financial sustainability remains a key aim of the Council, which requires continuous improvement in how it generates and utilises resources. This relies upon robust financial management processes which enable it to identify emergent risk and opportunities which could impact delivery of the approved financial plan early, giving the potential to develop solutions and achieve a different financial outcome.
3. The current forecast indicates net operating expenditure will be £174.9m by the end of 2022/23, which would be a balanced position within the adjusted approved budget.
4. Proactive financial management activity continues to reduce the forecast outturn from previously reported levels. This includes:
 - **Targeted financial management** – through AD focus on subjective spend with scrutiny across all cost lines including agency, overtime, supplies and services and income targets
 - **Robust contract management**
 - **Revisiting energy supply contracts** to ensure best rates.
 - **Vacancy savings – in-year adjustments** – as part of budget setting, an organisational level vacancy reduction was applied at £2.5m (reflecting historic levels of salary cost compared to budget) which was met through a quarterly budget adjustment based on assessment of net staffing spend (including agency/vacancy factor) against profiled budget up to period 6. The balance of any further vacancy savings are expected to be used to mitigate cost pressures.
5. Financial pressures in 2022/23 continue to be driven by:
 - Increasing **need and demand** in some areas, particularly adult social care and SEND Transport
 - **Inflationary pressures**, specifically energy, fuel and pay.
6. The Council continually adapts delivery models to keep people safe and well. Changes implemented have ensured continuity of high-quality care. The investment in keeping adults safe and well is forecast to be £5.2m extra than the budget assumed, which reflects increased workforce costs, higher unit prices and increased activity. These pressures are partly attributable to temporary measures brought about by the pandemic, with around eighty percent considered a core issue which reflects higher activity and unit costs in both short term residential care and

home care and with increased home care packages as people are supported to return to or remain in their own homes. Both elements represent a financial risk if they remain over the longer-term.

7. The Council has a reserves strategy which governs deployment of reserves. This forms part of the wider approach to risk management. Current financial plans utilise £2.369m of reserves in 2022/23 with an additional £5.000m approved to address in-year inflationary pressures. These pressures and their impact over the short to medium term are addressed in the revised medium term financial plan. The overall level and robustness of reserves are also assessed in the medium-term financial plan against assessment of identified risks and short-term transformation investment.

Analysis of Capital 2022/23

8. The Council plans to invest £121m of capital resource by 2024/25 to support delivery of the Council plan. Approval is sought for the latest capital investment plan set out in appendix 2 (table 1), with adjustments to the current approved programme reported to Cabinet in November 2022 contained in tables 2 and 3. These set out rephasing of investment and additional investment of £4.2m, reflecting further external funding to enhance the Schools Investment Programme.
9. The Council undertakes regular monitoring of its capital investment programme, to ensure the programme remains realistic and invests in Council priorities. The pandemic and supply chain issues has slowed delivery of the capital programme, which was evident during 2021/22 and remains so, which necessitates some re-phasing.
10. The adjustments that have been made ensure the programme is more realistic. However, the spend to date position indicates that further re-phasing may be necessary as part of the end of year adjustments. No significant expenditure risks have been identified within the current investment. It is envisaged that, should such risks occur this will be contained through reduced expenditure elsewhere in the programme.

CAPITAL INVESTMENT PROGRAMME 2022/25**Table 1 – Programme Summary 2022/25 (reflects rephasing in tables 2 and 3)**

Proposed Programme	2022/23 £000's	2023/24 £000's	2024/25 £000's	Total £000's
Investment in Priority				
Keeping People Safe and Well	7,124	4,335	665	12,124
Enabling Resilient and Flourishing Communities	10,306	13,200	6,686	30,191
Enabling Economic Growth and Renewal	17,940	24,345	10,132	52,417
Providing Value for Money for Local Taxpayers	4,066	11,489	2,542	18,097
Total Investment	39,436	53,369	20,025	112,829
Capital Investment Allocation	78	590	7,164	7,832
Capital Investment Limit	39,514	53,959	27,189	120,661
Funding Analysis				
External & Grant Funding	28,416	27,259	13,415	69,090
Revenue Funding	194	0	0	194
Borrowing	904	26,700	13,774	41,378
Capital Receipts	10,000	0	0	10,000
Total	39,514	53,959	27,189	120,661

Table 2 – Externally Funded Schemes rephasing and net additional investment

Capital Investment Scheme	2022/23 £000's	2023/24 £000's	2024/25 £000's	Total £000's
Approved externally funded budget	33,792	18,231	13,015	65,038
Baysgarth Park Enhancements	4	0	0	4
Community Equipment	271	0	0	271
Disabled Facilities Grants	-793	0	0	-793
Electric Vehicle Charging Points	74	24	0	98
Flood and Drainage	-495	495	0	0
Formula Capital Devolved To Schools	-188	1,000	0	812
Future High Streets Fund	-2,000	2,000	0	0
Home Assistance/RHHA Loan	-93	0	0	-93
Humberhead Levels Landscape Pt	-56	0	0	-56
Infrastructure Schemes	-842	842	0	0
Schools Investment Programme	-166	4,041	0	3,875
Telecare Investment	-865	400	400	-65
Towns Fund	-226	226	0	0
Total rephasing and additional investment	-5,375	9,028	400	4,052
Revised externally funded budget	28,416	27,259	13,415	69,090

Table 3 – Internally Funded Schemes rephasing and net additional investment

Capital Investment Scheme	2022/23 £000's	2023/24 £000's	2024/25 £000's	Total £000's
Approved internally funded budget	25,527	13,290	12,654	51,471
Additional Capital Investment Allocation	10	-180	-500	-670
Ancholme River Path / Isle Cycleways	-226	226	0	0
Burton Sports Centre	-32	0	0	-32
Capital Minor Works	172	-112	0	60
Capital Receipts Flexibility	-103	603	500	1,000
Community Buildings Investment - Community Hubs	-2,085	2,085	0	0
Community Buildings Investment - Operational Infrastructure	-621	301	0	-320
Community Capital Grants	-98	0	98	0
Complex Care (Disability)	-2,883	2,883	0	0
Defibrillators	-75	0	0	-75
Enhanced & Prosperous Communities Fund	-322	22	422	122
Fleet Asset Management Programme	-2,600	2,000	600	0
Flood and Drainage	-603	603	0	0
Formula Capital Devolved to Schools	29	0	0	29
Infrastructure Schemes	-2,758	2,758	0	0
Normanby Hall Deer Park Fencing	-90	90	0	0
One Family Hub	8	0	0	8
Replacement HR/Payroll/Finance system	-142	142	0	0
Schools Investment Programme	-6	0	0	-6
Skip Replacement	-40	40	0	0
Street Lighting & LED	-100	100	0	0
Town Centre Regeneration - Car Parking	-99	99	0	0
Towns Fund	-1,750	1,750	0	0
War Memorials	-15	0	0	-15
Total rephasing and additional investment	-14,429	13,410	1,120	101
Revised internally funded budget	11,098	26,700	13,774	51,572

LATEST APPROVED 2022/23 REVENUE BUDGET**Table 1 – Revenue Investment (Accountability Structure)**

2022/23 REVENUE INVESTMENT: BY SERVICE	Q2 Revised Approved Budget £000's	Technical Budget Transfers £000's	Q3 Revised Approved Budget £000's
Adults & Health	49,355	826	50,181
Children & Families	25,163	734	25,897
Economy & Environment	43,709	5,396	49,105
Governance & Communities (Core)	20,974	933	21,907
Public Health	7,258	23	7,281
SERVICE TOTAL	146,459	7,912	154,371
Central & Technical	23,392	(7,912)	15,480
NET OPERATING EXPENDITURE	169,851	0	169,851
Additional Use of Risk and Transformation Reserve			5,000
REVISED NET OPERATING EXPENDITURE LIMIT			174,851

TREASURY PRUDENTIAL INDICATORS 2022/23

Appendix 4

	2022/23	
	Original Budget	Forecast (Q3)
Estimates of capital expenditure	£M 47.2	£M 39.3
General Fund ratio of financing Costs to the net revenue stream %	% 7.00	% 7.1
An estimate of the capital financing requirement	£M 255.4	£M 254.6
The authorised limit for external debt: borrowing	£M 275.4	£M 204.6
other long-term liabilities	10.0	0
total	285.4	204.6
The operational boundary for external debt: borrowing	£M 255.4	£M 204.6
other long-term liabilities	10.0	0
total	265.4	204.6
maturity structure of fixed interest rate borrowing 2022/23	Upper %	Upper %
under 12 months	30.0	
12 months to 2 years	30.0	
2 years to 5 years	40.0	
5 years to 10 years	45.0	no change
10 years to 20 years	50.0	
20 years to 30 years	75.0	
30 years to 40 years	60.0	
40 years to 50 years	25.0	
maturity structure of variable interest rate borrowing 2022/23	%	%
under 12 months	100.0	
12 months to 2 years	90.0	
2 years to 5 years	90.0	
5 years to 10 years	90.0	no change
10 years to 20 years	50.0	
20 years to 30 years	20.0	
30 years to 40 years	10.0	
40 years to 50 years	10.0	
Total principal sums invested for periods longer than 364 days	£M 0	£M no change

MEDIUM TERM FINANCIAL PLAN UPDATE

1. Full Council will meet on 13th February 2023 to consider setting an updated medium term financial plan comprising revenue and capital investment and the council tax for 2023/24. The purpose of this appendix is to inform Cabinet of the Local Government Finance Settlement that was published on Monday 19th December 2022 and set out the funding envelope available in 2023/24. This follows on from the Autumn Statement in November, where the Government indicated spending and funding priorities for the sector.
2. The finance settlement fixes grant funding for 2023/24. It provides an estimate of council tax income, based on assumptions with regards to the rate and tax base. It also states the Council's baseline funding from business rates (i.e. what it needs from business rates). However, the actual amount of council tax and business rates that will support spending power next year will be determined by the taxbase for each set by the Council, together with the council tax rate (the business rates multiplier is set nationally and frozen for 2023/24).
3. **Council Tax & ASC Precept** : The settlement confirms maximum annual core increases of 3% with the potential to levy an additional 2% ASC precept. **Council Tax rates will be determined locally at Full Council in February** taking account of the local economic context and the cost of delivering services to expected standards. The impact of each 1% of rate increase is £0.8m so consideration on future sustainability will be needed in any divergence from the Treasury assumptions made in the settlement.
4. The settlement confirmed and clarified a number of other key funding elements:
 - **Business Rates Retention** – confirmation inflation linked to CPI (10.1% Sept 2022) – local authorities fully compensated for freezing of the multiplier
 - **Revenue Support Grant** – 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:**
 - i. **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)
 - ii. **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
 - iii. **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
5. It is important to note the wider economic context for public spending, with inflation forecast to remain elevated in 2023. Of the two main measures of inflation, CPI is forecast to average 5.5% in 2023/24 and RPI is forecast to average 8.3% in 2023/24.
 6. The ongoing inflationary impact on the cost base in 2023/24 is expected to continue specifically in relation to energy and fuel, contracts linked to inflation, pay costs and the National Living Wage. The Medium-Term Financial Plan is based on informed current expectation, but these are subject to change due to national and international factors outside of the council's control. The funding settlement has recognised to some extent the pressure local authorities are under from inflation with settlement funding increased in line with inflation. However other funding areas have not kept pace with inflation and therefore a continued robust budget managed approach and services delivery development is required to ensure costs are contained within available resources.
 7. It is envisaged that the Council will need to identify new ways to reduce its cost base, to accommodate increases elsewhere (e.g. social care). This is expected to require a combination of: organisational commissioning, addressing historical variances, focus on achieving economy, efficiency and effectiveness, supported by continuously improving supporting information (e.g. activity data integration, contract spend, service integration).
 8. A draft position of the medium-term financial plan is set out below which incorporates: the outcome from the provisional finance settlement in December, an updated estimate of funding from the tax base, and required investment as set out in priority investment plans.
 9. The next steps in the financial planning process are to agree the spending power assumptions following Cabinet consideration of the current position. The investment plans can then be finalised for recommendation to Council within the prudential code requirements for setting a balanced budget for 2023/24 within our funding strategy.
 10. 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 environment factors (compliance etc)
 11. The most significant cost drivers impacting in 2022-23 and expected to continue in 2023-24 are due to external economic factors being the inflationary impact on costs including pay - £18.4m (£34.1m over 3-year MTFP period).
 12. Changes in activity levels linked to demand is estimated as £6.2m – mainly relating to Adult Social Care (increase in complexity of need) and home to school transport.

13. The provisional settlement changes in grants require budget adjustments to be made within the net operating expenditure assumptions which equate to £2.2m (£2.8m over 3 years).
14. Specific policy related costs total £1.2m including foster carer support, car parking pricing, capital investment feasibility planning and schools catering transition to full cost recovery.
15. Other operating factors including the 2023 local election costs and compliance with public service vehicle accessibility regulations equate to £0.5m.
16. Costs mitigations currently identified equate to £5.9m in 2023-24 (of which £4.6m is one-year only – the total mitigations over 3 years amount to £2.9m), including Health and Social Care Integration, place-based fleet transformation and property trading re-gearing.
17. A funding shortfall of £7.5m is anticipated in 2023-24 with the potential financial sustainability gap over the 3 years of the medium-term financial plan equating to £11m. This represents the level of cost reductions 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, including commercial income and contract management.

Planned Use of Reserves

18. The estimated opening balance of risk and transformation reserve at 1.4.23 is £26m. This includes risk mitigation for self-insurance, NNDR and general unforeseen operating environment factors. It is recommended that the level of risk reserve should not fall below £10m. Therefore, it is possible to apply an element of the reserves to smooth transition to implement transformation and change to achieve a sustainable budget over the next 3 years.
19. It also allows for an element to meet the temporary costs associated with change or investment to save projects. The level of planned use will need to be risk assessed in respect of level of certainty of cost mitigation and reduction opportunities

Table 1a – Spending Power Projection

2022/23 Approved Budget £000's		2023/24 Provisional Budget £000's	2024/25 Provisional Budget £000's	2025/26 Provisional Budget £000's
	FORECAST SPENDING POWER			
	<u>LOCAL GOVERNMENT FINANCE SETTLEMENT FUNDING</u>			
	<u>Settlement Funding Assessment</u>			
(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)
	<u>Other General Funding</u>			
(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)	2022/23 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)
	<u>Local Spending Power Funding</u>			
(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**	(20,914)	(22,167)	(22,898)
(16,306)	Total Local Spending Power Funding	(22,346)	(22,167)	(22,898)
(157,345)	TOTAL SPENDING POWER	(175,698)	(185,713)	(190,545)
	<u>Core Funding - Other Grants</u>			
(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 ***			0
(169,851)	TOTAL CORE FUNDING	(186,087)	(196,300)	(201,334)

* 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

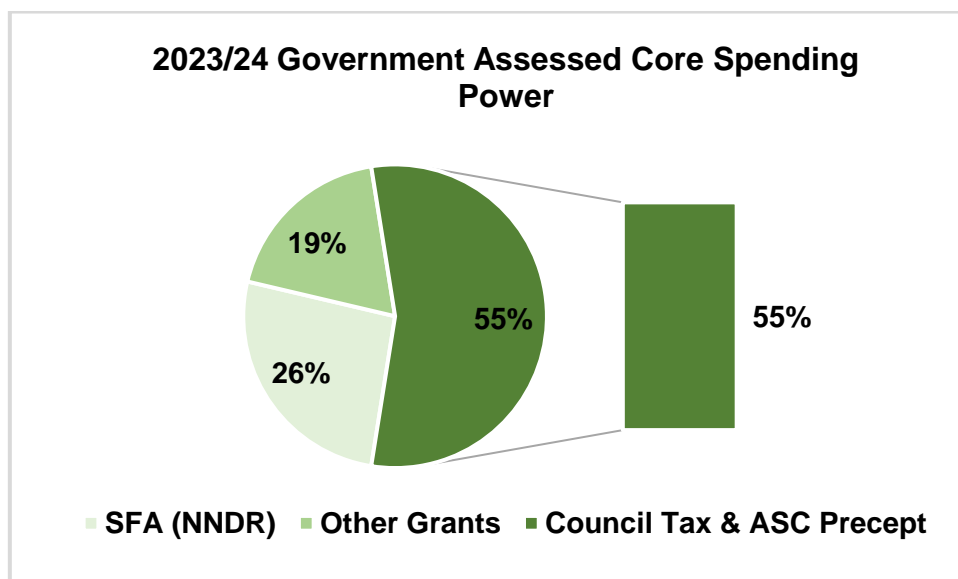
*** Additional £5m use of reserves approved in year in 2022/23 to address inflation pressures, increasing revised net budget to £174.9m

Table 1b – Net Operating Expenditure projection

Forecast outturn 2022-23 £'000		Estimate 2023-24 £'000	Estimate 2024-25 £'000	Estimate2 025-26 £'000
174,851	Total Net Operating Expenditure	193,536	206,759	212,259

Table 2 – Finance Settlement – Core Spending Power Split showing increase dependence on council tax (North Lincolnshire)

Illustrative Core Spending Power	North Lincolnshire (figures in £M's)								
	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



20. The financial planning process is summarised in the table below:

Timeline	Milestone - detail		Progress
13 February 2023	Full Council	Set council tax and approve MTFP and revenue and capital budget	On track
6 February 2023	Cabinet	Financial Management and Medium-Term Financial Plan Update	✓
19 December 2022	Department of Levelling Up, Housing and Communities	Draft local government finance settlement published	✓
5 December 2022	Full Council	Set council tax base	✓
21 November 2022	Cabinet	Financial position and Medium Term Financial Plan update	✓

Timeline	Milestone - detail		Progress
17 November 2022	HM Treasury	Autumn Budget Statement 2022	✓

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

- **Grow the tax base** – enabling economic growth and renewal in the local economy and housing market
- **Maximise income** by investing wisely in commercial activity and ensuring traded services fully recover costs
- **Take full advantage of opportunities to access external funding** sources which will support achieving the council's ambitions
- **Find innovative ways of preventing need and minimising demand**
- **Continuous process of evaluation to ensure sufficient value to the experience and outcomes for residents** is being achieved
- Balance robust **challenge** and **support** to meet financial stewardship requirements and advance sustainability aspirations
- **Ensure decision making** is based on the context of **agreed and emerging policy** informed by insight and **demonstrates value for taxpayers' money**
- Seek **opportunities with partners to maximise economies of scale** whilst **enabling communities to take more responsibility for their local facilities.**