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.)

<u>Legal Requirements</u>

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
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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 **Appendix 1**

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.

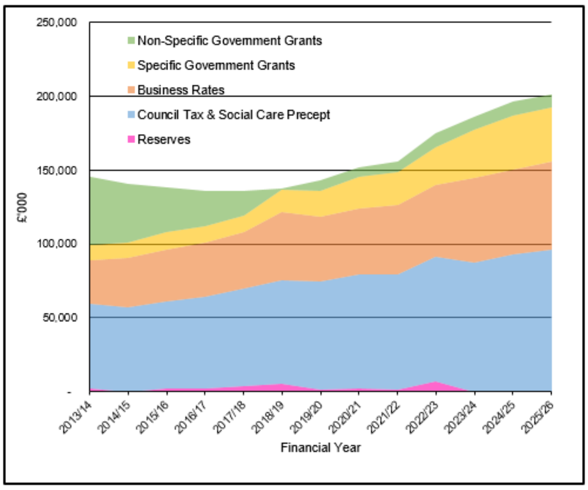
4.16 Council tax continues to become increasingly important. The changing composition of Council funding can be seen in the following table and chart:

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

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

			BAND (all figures in £)							
Parish or Area	**Taxbase**	**Precept (£)**	**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**								

			BAND (all figures in £)							
Major Precepting Authority	**Taxbase**	**Precept (£)**	**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   Appendix 7

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**	