

NORTH LINCOLNSHIRE COUNCIL**CABINET****2023/24 FINANCIAL MANAGEMENT UPDATE****1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1. To provide an update on the Council's in-year financial position in 2023/24.
- 1.2. To note the latest revenue budget and approve the revised capital programme.
- 1.3. To note the treasury management position against the Prudential Code Indicators

2. BACKGROUND INFORMATION**In Year Financial Position:**

- 2.1. In February 2023, Council approved plans to invest £191.5m of revenue resource in 2023-24 and £126.0m of capital resource over a three-year period to 2025/26 to support delivery of the Council plan, achieve its strategic objectives and legal duties for the benefit of residents and businesses. Revenue investment has subsequently increased to £192.5m following confirmation of government grant funding for 2023/24 and the distribution of a one-off surplus of NNDR income relating to renewable energy. In February 2024, Council approved a revised four-year capital programme. Capital resources were revised to reflect the latest investment plans and government grants for the period 2023/24 to 2026/27. The revised four-year capital totals £208.9m of capital resource.
- 2.2. In line with good financial management practices, the Council's use of resources is closely monitored and reported regularly to senior leadership and Cabinet. This report is the third formal report to Cabinet in 2023/24 providing information on the current in-year financial position at the third quarter end.

Revenue 2023/24

- 2.3. Based upon financial management information current forecast indicates that in 2023/24 net operating expenditure will be within the £192.5m approved investment allocation, with an underspend of £4.5m. Further detail on the 2023/24 revenue position is provided in Appendix 1.

Capital 2023/24

- 2.4. The capital investment programme for 2023/24 amounted to £54.1m at quarter 2. Project rephasing has reduced planned investment in 2023/24 by £7.8m to £46.1m.

The revised capital programme is detailed and presented for information in Appendix 2.

- 2.5. At quarter 3 £34.7m (75%) of planned investment has been spent or committed with the in-year forecast currently for £48.0m investment in total (due to rephasing and additional external funding).
- 2.6. There are a series of capital adjustments necessary to ensure the programme remains aligned with delivery timescales and the Council Plan. The in-year position can be seen in Appendix 1, with anticipated rephasing and a revised programme showing amendments to externally and internally funded schemes summarised in Appendix 2.

Budget Adjustments 2023/24

- 2.7. Several adjustments to the revenue budget have been made, as the Council continually seeks to align budgets with delivery of the Council Plan. The adjustments have all been made under delegated powers and are summarised in Appendix 3.

Treasury Management 2023/24

- 2.8. The Council is continuing to manage cash balances and debt in line with the approved Treasury Management Strategy. The impact of the interest rates increase has a short-term benefit in increased yield on investment of cash balances. The Council's borrowing at the end of 2023/24 is expected to be £144.3m, following £10m external borrowing taken in February 2024 to support the capital programme. This is the first borrowing the council has taken since 2020 and no more borrowing is currently forecast in 2023/24. Appendix 4 sets out current estimate against the prudential indicators for 2023/24 that were approved by Full Council in February 2023. The council's current level of debt is £114.3m below its estimated underlying long-term need to borrow.

Financial Resilience Context

- 2.9. At this point in the year, it is anticipated that net expenditure will be within the approved budget for 2023/24, therefore maintaining financial resilience at levels assumed within Medium Term Financial Plan. However, risks to the Council's financial resilience remain in future years with the cost base at risk of increasing at a faster rate than spending power. While planned use has been made of reserves in the short term, pending a review of the base budget and completion of transformational service reviews and the realisation of associated savings, it is not sustainable in the longer term. Therefore, the ongoing financial planning process, delivery of the planned savings and scrutiny and review of medium-term financial plans will seek to ensure a robust and realistic budget is achieved.

Medium Term Financial Plan Update

- 2.10. The Council's financial planning process for 2024/25 culminated in the approved of the 2024/25 budget and Medium-Term Financial Plan 2024-27 alongside the Capital Investment Strategy 2024-27 and the Treasury Management Strategy 2024/25, at Full Council on 26 February 2024.

3. OPTIONS FOR CONSIDERATION

- 3.1. To note the in-year financial position on revenue and capital budget plans and treasury management activity.
- 3.2. To note the latest revenue budgets in Appendix 3 and approve the revised capital programme in Appendix 2.

4. ANALYSIS OF OPTIONS

- 4.1. The in-year forecasts are based upon provisional financial management information at quarter 3 and identifies additional resources revenue may be available at year end to contribute to strategic reserve to support financial resilience in future years. Further detail is provided in the appendices.

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

- 5.1. The financial model under which Local Government operates means that risk management is fundamental to everything the Council does. The Council is constrained in its ability to significantly increase resources and is statutorily determined on large areas of need-led spending which can fluctuate. Financial plans and the actions taken by the Council therefore must be adaptive to ensure the Council remains financially sustainable over the short, medium, and long-term.
- 5.2. The potential financial implications of the risks identified within this report have been considered in detail within the relevant section. It remains the case that the Council needs to be adaptive and influence in the areas where it is able. The Council holds reserves to mitigate against expenditure and income shocks and other unforeseen events, to provide capacity to withstand shocks and time to plan cost base adjustments which reflect the emergent position.
- 5.3. Based upon current analysis and assessment of financial resilience, it is recommended that the Council should aim to retain a balance of at least £6.8m of risk reserves (in addition to the General Fund Balance) to cover residual risk mitigations. The proposed closing balance enables short to medium-term plans to smooth transition to a sustainable budget, assuming a high-level of confidence in deliverability of plans.

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

- 6.1. Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 8.1. Not applicable.

9. RECOMMENDATIONS

- 9.1. To note the financial position set out in the report.
- 9.2. To note the budget adjustments approved under delegated powers and the revised budget position for 2023/24.
- 9.3. To approve the revised capital investment programme 2023/27.
- 9.4. To note the progress against the approved Treasury Management Strategy and prudential code indicators.

DIRECTOR: OUTCOMES

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Background Papers used in the preparation of this report.

Reports to Full Council:

- Financial Strategy, Budget 2023/24 and Medium-Term Financial Plan 2023-26
- Capital Investment Strategy and Capital Programme 2023-26
- Treasury Management and Investment Strategy 2023/24
- Financial Strategy, Budget 2024/25 and Medium-Term Financial Plan 2024-27
- Capital Investment Strategy and Capital Programme 2024-27
- Treasury Management and Investment Strategy 2024/25

Other background papers:

- Local Government Finance Settlement 2024 (DHLUC, 5 February 2024)

Analysis of Revenue 2023/24

1. The Council's Net Operating Expenditure represents the day-to-day costs of council service delivery. For 2023/24, the Council has a net revenue budget of £192.5m (updated from the original approved budget of £191.5m to reflect core grant funding and a one-off distribution of NNDR surplus relating to renewable energy).
2. The Council has a track record of managing financial risk, with continuous improvement and implementation of delivery models focused on achieving the best outcomes. Financial sustainability remains a key aim of the Council, which requires continuous improvement in how it generates and utilises resources. This relies upon robust financial management processes which enable it to identify emergent risk and opportunities which could impact delivery of the approved financial plan early, giving the potential to develop solutions and achieve a different financial outcome. The Council conducts an organisation wide financial management exercise that seeks to monitor progress against approved financial plans on a quarterly basis, with targeted monitoring occurring during intervening periods and focussing on high-risk and volatile areas.
3. As summarised in tables 1-4 below the current forecast indicates net operating expenditure will be £187.4m by the end of 2023/24, while spending power (funding) is forecast to be £191.9m. This would result in an underspend of £4.5m, of which £4.7m is from core funded budgets and £0.2m additional costs met through DSG funding. In response to the significant financial challenges facing the Council in the medium term any underspend on core budgets at year end will be transferred to the Transformation Reserve support financial resilience in future years.
4. Within the overall forecast are several notable variances across the Council:
 - **Employee costs –£3.7m underspend** forecast due to vacancies across the Council(off-set partially by enhancements and agency staff costs to maintain priority services during absence/sickness). The forecasts now include the anticipated full year effect of the 2023/24 pay award and the central pay contingency budget has been released on this basis.
 - **Transport - £1.3m overspend** – primarily due to the costs of **fleet maintenance (£0.5m)** and continued high levels of demand for **SEN and fostering transport (£0.4m)**.
 - **Supplies & Services £3.0m overspend** - This is largely due to increased demand pressures in the Adults and Health and Childrens. However, these pressures will be largely offset by customer and client receipts, grants, and the underspend in third party payments.
 - **Third party payments £2.1m underspend** – the underspend in mainly offset by associated costs in supplies and services.
 - **Income - overachievement of £4.6m** Council-wide income levels – driven mainly by investment income (from higher interest rates and cash balances) and additional demand within leisure alongside grant changes. These are partially offset by income pressures commercial rents, planning and building control. Additional

income from client contributions is offsetting additional demand pressures within Adults and Health.

- **Funding – £0.6m lower than budget** due to lower than anticipated government funded business rate reliefs granted in year (£0.8m to be offset by distribution of a related surplus on the Collection Fund in 2024/25). Additional £0.3m distribution of national NNDR levy surplus in 2023/24 announced alongside the Final Local Government Finance Settlement in February 2024.

5. The forecast at quarter 3 reflects proactive financial management activity in year, including the initiation of a 'maintaining financial discipline' protocol by the Chief Finance Officer. These actions have increased the forecast underspend position in 2023/24, with the intention of transferring the 2023/24 underspend to the Transformation Reserve at outturn, in line with the Medium-Term Financial Plan, to maintain financial resilience. This includes supporting the development and implementation of a fundamental transformation programme that will move the Council forward while realising efficiencies that will enable it to operate within increasing tight financial constraints.

Table 1 – Revenue Net Operating Expenditure Forecast Management Accountability (based on Q3 financial management reporting) *

BY ACCOUNTABILITY	Budget	Forecast	Core Variance	DSG Variance
	£000	£000	£000	£000
Adults & Health				
Adult Social Services	27,440	27,453	13	
Adults Early Help & Prevention	30,369	30,054	(315)	
Integrated Health & Care	5,341	5,793	452	
Childrens & Families				
Education	5,038	5,814	542	234
Children's Help & Protection	11,325	9,951	(1,374)	
Children's Standards & Regulation	11,659	11,428	(231)	
Communities				
Community Enablement	5,759	5,118	(641)	
Community Resilience Place	3,897	3,741	(156)	
Public Protection	43,137	43,899	762	
	2,672	3,088	416	
Outcomes				
Governance & Partnerships	5,703	5,618	(85)	
Resources & Performance	10,331	8,626	(1,705)	
Organisational Development	8,367	7,652	(715)	
Public Health				
Public Health	7,564	6,883	(681)	
Central and Technical				
Central and Technical	13,872	12,259	(1,613)	
Net Operating Expenditure	192,474	187,378	(5,330)	234

Table 2 – Revenue Net Operating Expenditure Forecast – Council Priority (based on Q3 financial management reporting)*

BY PRIORITY	Budget £'000	Forecast £'000	Core Variance £'000	DSG Variance £'000
Keeping People Safe and Well	98,668	96,421	(2,247)	
Enabling Resilient & Flourishing Communities	42,788	41,704	(1,083)	
Enabling Economic Growth & Renewal	8,569	10,060	1,257	234
Total Allocated to Priorities	150,025	148,186	(2,073)	
Running the Business Well	42,448	39,192	(3,256)	
Net Operating Expenditure	192,474	187,378	(5,330)	234

Table 3 – Spending Power Forecast (based on Q3 financial management reporting)*

SPENDING POWER	Budget £000	Forecast £000	Variance £000
Council Tax & Business Rates	(142,929)	(142,097)	832
Government Grants	(41,978)	(42,256)	(278)
Reserves	(7,567)	(7,567)	0
Total Spending Power	(192,474)	(191,920)	554

**Table 4 – Revenue Net Operating Expenditure Forecast Subjective Analysis
(based on Q3 financial management reporting) ***

	Subjective Area	Budget £000's	Forecast £000's	Variance £000's
EXPENDITURE	Employee Costs	119,525	115,803	(3,722)
	Premises Related Expenditure	10,312	10,944	632
	Transport Related Expenditure	8,914	10,198	1,284
	Supplies & Services	27,916	31,005	3,089
	Third Party Payments	101,799	99,715	(2,084)
	Transfer Payments	42,906	42,285	(621)
	Support Services	12,897	13,266	369
	Capital Financing Costs	11,268	11,867	599
	Total (Expenditure)	335,537	335,082	(455)
INCOME	Government Grants	(83,162)	(81,842)	1,320
	Other Grants, Reimbursements & Contributions	(16,873)	(17,192)	(319)
	Customer & Client Receipts – Sales	(3,724)	(3,837)	(113)
	Customer & Client Receipts – Fees & Charges	(23,726)	(27,866)	(4,140)
	Customer & Client Receipts – Rents	(5,338)	(5,126)	212
	Interest	(525)	(1,704)	(1,179)
	Recharges	(9,715)	(10,138)	(423)
		Total (Income)	(143,063)	(147,704)
	Net Operating Expenditure	192,474	187,378	(5,096)

*Subject to rounding's & excludes school's

Analysis of Capital 2023/24

6. The Council plans to invest £208.9m of capital resource by 2026/27 to support delivery of the Council plan. Approval is sought for the latest capital investment plan set out in appendix 2 (table 1), with adjustments to the current approved programme contained in appendix 2 tables 2 and 3. The adjustments refine the programme and ensures it remains in alignment with current delivery profiles.

Table 5 – Capital position 2023/24 forecast at Quarter 3 - Priority

CAPITAL – outturn forecast at Q3; budget reflects rephasing and additional funding included in Appendix 3	Budget £000's	Forecast Spend £000's	Year to Date Spend £000's	Year to Date Spend £000's
EXPENDITURE				
Keeping People Safe and Well	6,616	6,687	4,872	74%
Enabling Resilient and Flourishing Communities	6,128	6,113	4,524	74%
Enabling Economic Growth and Renewal	26,199	28,058	22,144	85%
Providing Value for Money for Local Taxpayers	7,009	6,971	3,201	46%
Capital Investment Allocation	156	156	0	0%
Total Investment	46,108	47,984	34,741	75%
CAPITAL FINANCING				
External & Grant Funding	31,939	33,841		
Council Resources	14,169	14,143		
Total Resources	46,108	47,984		

- As detailed in table 5 above, at quarter 3 the forecast in year outturn in 2023/24 is £48.0m (£1.9m variance against the revised budget). The main reason for the variance is funding adjustments required to reflect the latest funding allocations and phasing agreements. This includes revised funding allocation for Future High Street Fund to reflect ongoing costs of projects (£1.8m).
7. Due to the nature of capital investment, there are likely to be further adjustments needed during the remainder of the financial year to ensure investment resource remains aligned to latest delivery timescales. These will be reported to Cabinet at outturn.

CAPITAL INVESTMENT PROGRAMME 2023/27**Table 1 – Programme Summary 2023/27 (reflects rephasing in tables 2 and 3)**

Proposed Programme	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	Total £000's
Investment in Priority					
Keeping People Safe and Well	6,616	3,540	2,600	2,500	15,256
Enabling Resilient and Flourishing Communities	6,128	11,391	6,119	4,779	28,417
Enabling Economic Growth and Renewal	26,199	49,224	29,796	20,242	125,461
Providing Value for Money for Local Taxpayers	7,009	9,929	5,947	5,727	28,612
Total Investment	45,952	74,084	44,462	33,248	197,746
Capital Investment Allocation	156	3,500	3,500	4,000	11,156
Capital Investment Limit	46,108	77,584	47,962	37,248	208,902
Funding Analysis					
External & Grant Funding	31,939	59,456	32,763	25,097	149,255
Council Resources	14,169	18,128	15,199	12,151	59,647
Total	46,108	77,584	47,962	37,248	208,902

Table 2 – Externally Funded Schemes rephasing and net additional investment

Capital Investment Scheme	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	Total £000's
Approved externally funded budget at Q2	35,585	39,644	14,708	0	89,937
Capital Minor Works - Family Hub design	52	50	0	0	102
Community Asset Investment	0	2,000	2,000	2,000	6,000
Community Equipment	0	0	0	600	600
Digital & IT Infrastructure	239	200	200	0	639
Disabled Facilities Grants	0	0	0	1,800	1,800
Dragonby Energy Efficiency	0	0	0	24	24
Early Years Childcare Expansion	0	319	0	0	319
Electric Vehicle Charging Points	(25)	256	231	231	693
Formula Capital Devolved To Schools	(369)	100	0	700	431
Green Homes	87	0	0	0	87
Home Assistance/RHHA Loan	(63)	0	0	0	(63)
Household Waste & Recycling	0	1,300	0	0	1,300
Infrastructure Schemes	(708)	(1,102)	5,460	7,642	11,292
Levelling Up - Infrastructure Schemes	(3,434)	3,985	0	0	551
North Lincolnshire Northern Forest	(449)	(67)	0	0	(516)
Schools Investment Programme	(2,736)	1,250	1,000	3,100	2,614
Scunthorpe Town Centre Vibrancy	0	5,000	5,000	5,900	15,900
Social Care Management System	70	442	0	0	512
Telecare Investment	(173)	85	0	100	12
Town Centre Regeneration - Car Parking	(133)	83	0	0	(50)
Towns Fund	4,143	5,911	4,016	3,000	17,070
Winterton Artificial Pitch	(148)	0	148	0	0
Total rephasing and additional investment	(3,646)	19,812	18,055	25,097	59,318
Revised investment approved by Council - Feb 24	31,939	59,456	32,763	25,097	149,255

Table 3 – Internally Funded Schemes rephasing and net additional investment

Capital Investment Scheme	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	Total £000's
Approved internally funded budget at Q2	18,531	17,640	13,128	0	49,299
Capital Investment Allocation	(1,399)	(1,500)	300	4,000	1,401
Capital Minor Works	(45)	0	20	500	475
Capital Receipts Flexibility	(300)	290	(800)	0	(810)
Communities in Bloom	0	50	50	50	150
Community Buildings Investment - Community Hubs	350	0	0	0	350
Community Capital Grants	(115)	(35)	150	150	150
Complex Care (Disability)	50	400	0	0	450
Digital & IT Infrastructure	0	0	0	520	520
Enhancing North Lincolnshire	(169)	1,050	1,071	298	2,250
Fleet Asset Management Programme	(276)	(724)	500	3,500	3,000
Flood and Drainage	0	500	500	700	1,700
Formula Capital Devolved To Schools	345	0	0	0	345
Household Waste & Recycling	0	0	0	150	150
Infrastructure Schemes	(1,422)	(222)	(323)	1,000	(967)
Leisure Equipment Replacement	0	0	0	100	100
Normanby Enterprise Phase 7	25	0	0	0	25
North Lincolnshire Northern Forest	(70)	50	20	0	0
Schools Investment Programme	(598)	150	0	0	(448)
Social Care Management System	(500)	340	483	1,183	1,506
Town Centre Regeneration - Car Parking	(80)	80	0	0	0
Winterton Artificial Pitch	(100)	0	100	0	0
Total rephasing and additional investment	(4,304)	429	2,071	12,151	10,347
Revised investment approved by Council - Feb 24	14,228	18,069	15,199	12,151	59,647
Capital Minor Works	(59)	59			0
Additional rephasing	(59)	59	0	0	0
Revised internally funded budget	14,169	18,128	15,199	12,151	59,647

LATEST APPROVED 2023/24 REVENUE BUDGET**Table 1 – Revenue Investment (Accountability Structure)**

2023/24 REVENUE INVESTMENT: BY SERVICE	Q2 Approved Budget £000's	Technical Budget Transfers £000's	Revised Approved Budget £000's
Adults & Health	62,050	1,100	63,150
Children & Families	27,185	837	28,022
Outcomes	23,555	1,028	24,583
Communities	51,815	3,499	55,314
Public Health	7,393	171	7,564
SERVICE TOTAL	171,998	6,635	178,602
Central & Technical	19,610	(5,769)	13,841
NET OPERATING EXPENDITURE	191,608	866	192,474

Table 2 – Revenue Investment (Council Plan Priority)

2023/24 REVENUE INVESTMENT: BY PRIORITY	Revised Budget £000's
Keeping People Safe and Well	98,458
Enabling Resilient and Flourishing Communities	42,844
Enabling Economic Growth and Renewal	8,759
Providing Value for Money for Local Taxpayers	42,412
NET OPERATING EXPENDITURE	192,474

	2023/24	
	Budget (Feb 2023)	Forecast (Q3)
Estimates of capital expenditure	£M 46.4	£M 46.4
General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2013)	% 6.80	% 6.80
An estimate of the capital financing requirement	£M 258.9	£M 258.6
The authorised limit for external debt: borrowing other long-term liabilities total	£M 188.9 0 188.9	£M no change
The operational boundary for external debt: borrowing other long-term liabilities total	£M 178.9 0.0 178.9	£M no change
maturity structure of fixed interest rate borrowing 2023/24 under 12 months 12 months to 2 years 2 years to 5 years 5 years to 10 years 10 years to 20 years 20 years to 30 years 30 years to 40 years 40 years to 50 years	Upper % 30.0 30.0 40.0 45.0 50.0 75.0 60.0 25.0	Upper % no change
maturity structure of variable interest rate borrowing 2023/24 under 12 months 12 months to 2 years 2 years to 5 years 5 years to 10 years 10 years to 20 years 20 years to 30 years 30 years to 40 years 40 years to 50 years	% 100.0 90.0 90.0 90.0 50.0 20.0 10.0 10.0	% no change
Total principal sums invested for periods longer than 364 days	£M 0	£M no change