

NORTH LINCOLNSHIRE COUNCIL

CABINET

2021/22 Q1 Financial Management and Medium-Term Financial Plan Update

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To provide Cabinet with an update on the Council's in-year financial position.
- 1.2. To note the latest revenue budget and approve the revised capital programme
- 1.3. To set out the Council's updated medium term financial planning position.

2. BACKGROUND INFORMATION

- 2.1. On 25th February 2021, the Council approved a Financial Strategy which set the framework for its revenue and capital investment plans in 2021/22 and over the medium term. The financial strategy is designed to support successful delivery of the Council Plan and the Local Plan, maximising outcomes for the people and place of North Lincolnshire. It also made a series of adjustments in respect of the Covid-19 pandemic.
- 2.2. The medium-term financial plan represents an amalgamation of financial and non-financial assumptions which form the basis of how much resource the Council expects to have available to invest in its priorities and to ensure it continues to fulfil its duties effectively.
- 2.3. Despite a challenging operating environment in 2020/21 brought about by the Covid-19 pandemic, the Council was able to manage risk effectively and contain cost within available resources. This resulted in a successful outturn, which provides a sound platform for 2021/22. Whilst restrictions are now significantly lessened, the pandemic continues to provide uncertainty and requires the Council to be ready to adapt to changes at short notice. It is within this context that Council is operating, and as such financial forecasts contained in this report could vary if national and local circumstances change, particularly at short notice. As has been the case since March 2020, the Council's forecasts continue to be based on the best information held at that point in time.
- 2.4. This report informs Cabinet on how the approved budget is progressing based on the first three months of the financial year. Cabinet will receive further updates in November (quarter two), January/February (quarter

three) and March (indication of outturn). The final outturn will then be brought before Cabinet in summer 2022.

- 2.5. The Council continues to manage its resources to deliver the Council Plan, responding to the pandemic and ensuring business continuity through the recovery and renewal phase of the pandemic. Financial management and planning processes support our resource management and facilitate the journey to long-term financial sustainability.
- 2.6. The purpose of this report is to take stock of the in-year financial position and provide an update on the financial planning process.

Revenue 2021/22

- 2.7. The current approved revenue and capital budget and potential expenditure at outturn for 2021/22 can be seen in Appendix 1. Based upon financial management information at Q1 a balanced position is projected with net operating costs of £163m. This position has been enabled by application of the COVID-19 funding allocated for use in 2021/22.
- 2.8. In total, the Council has received £113.2m in Covid-19 direct and indirect funding since the start of the pandemic. By Q1 in 2021/22, £95.4m had been utilised to support the Council response, enable communities and through allocation of grants to businesses. During the remainder of 2021/22, Covid-19 grants will continue to be utilised in line with the grant conditions to support recovery and renewal.

Capital 2021/22

- 2.9. There are a series of capital adjustments necessary to ensure the programme remains aligned with delivery timescales and the Council Plan.
- 2.10. The in-year position can be seen in Appendix 1, with anticipated rephasing and a revised programme showing amendments to externally funded schemes summarised in Appendix 4.

Reserves

- 2.11. The Council approved a reserve strategy which governs the deployment of reserve balances, and links to identified risk which reserves exist to cover. The reserve strategy will be updated as part of the financial planning process, in recognition of the changing balance of risks and opportunities both in the Local Government operating environment and to ensure achievement of the council's objectives.

Budget Adjustments

- 2.12. 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

- 2.13. The Council is continuing to manage cash balances and debt in line with the approved Treasury Management Strategy. Capital financing costs are expected to be lower than budget at outturn, reflecting the rephasing of the capital programme as the pandemic continues to impact delivery timelines, and a better cash flow position due to the difference in timing between grants being received and spent. As a result, the cost of capital financing ratio in 2021/22 is expected to be marginally lower than the forecast in the budget papers to Full Council.
- 2.14. The Council's borrowing at the end of June 2021 was £158.2m and is expected to remain lower than had been forecast throughout the course of the year due to a change in the profile and timing of expenditure and income cash flows.
- 2.15. Appendix 5 sets out the prudential indicators for 2021/22 approved by Full Council on 25th February 2021, and the current estimate.

Medium Term Financial Plan

- 2.16. The Council's financial planning process, which will culminate in the 2022/25 medium term financial plan being taken to Full Council in February 2022, is currently being developed. Appendix 2 provides an update to Cabinet on progress, changes to the approved position brought about by external factors, and the journey between now and budget setting.

3. OPTIONS FOR CONSIDERATION

- 3.1. To receive an update on the financial position of the organisation.

4. ANALYSIS OF OPTIONS

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

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

- 5.1. The financial model under which Local Government operates means that risk management is fundamental to everything the Council does. The Council is constrained in its ability to significantly increase resources and is statutorily determined on large areas of need-led spending which can be volatile. Financial plans and the actions taken by the Council therefore must be adaptive to ensure the Council remains financially sustainable over the short, medium and long-term.

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

- 6.1. Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1. Not applicable.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1. Not applicable.

9. RECOMMENDATIONS

9.1. To note the revenue and capital budget monitoring position for 2021/22 which is set out at Appendix 1.

9.2. To note the revenue budget adjustments approved under delegated powers and the revised budget position for 2021/22, summarised at Appendix 3.

9.3. To approve the revised capital investment programme 2021/24, set out in Appendix 4.

9.4. To note the progress against the approved Treasury Management Strategy in Appendix 5.

9.5. To note the medium-term financial plan update in Appendix 2.

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Background Papers used in the preparation of this report

Financial Strategy, Budget 2021/22 and Medium-Term Financial Plan 2021/24

Capital Investment Strategy and Capital Programme 2020/2024

Treasury Management and Investment Strategy 2021/22

Financial Position 2020/21 (Cabinet July 2021)

Q1 revenue and capital budget adjustments

Q1 Director reports and Outturn reports (Cabinet July 2021)

REVENUE AND CAPITAL MONITORING POSITION 2021/22
Appendix 1

REVENUE	Budget £000's	Potential Spend £000's	Potential Budget Adjustment £000's
EXPENDITURE			
Keeping People Safe and Well	73,515	74,144	629
Enabling Resilient and Flourishing Communities	26,885	28,712	1,827
Enabling Economic Growth and Renewal	7,771	9,100	1,329
Organisational Enablers	32,309	33,130	821
Running the Business Well	22,173	18,267	(3,906)
NET OPERATING EXPENDITURE	162,653	163,353	700
FUNDING			
Council Tax and Business Rates	(125,266)	(125,266)	-
Government Grants	(29,178)	(29,362)	(184)
Covid-19 Resources	(7,070)	(6,231)	839
Use of Reserves	(1,139)	(2,494)	(1,355)
TOTAL FUNDING	(162,653)	(163,353)	(700)
POTENTIAL VARIANCE	-	-	-

CAPITAL – outturn forecast at Q1; budget reflects £3.3m rephased to 2022/23 included in Appendix 4	Budget £000's	Potential Spend £000's	Proposed Re- phasing £000's
EXPENDITURE			
Keeping People Safe and Well	5,010	4,001	(1,009)
Enabling Resilient and Flourishing Communities	19,531	12,383	(7,147)
Enabling Economic Growth and Renewal	30,310	29,993	(317)
Running the Business Well	13,226	10,197	(3,029)
Additional Investment Allocation	240	240	-
TOTAL EXPENDITURE	68,317	56,814	(11,503)
FINANCING			
External & Grant Funding	(34,543)	(27,681)	(6,862)
Council Resources	(33,774)	(29,133)	(4,641)
TOTAL FINANCING	(68,317)	(56,814)	(11,503)

Analysis of Revenue 2021/22

1. The Council's Net Operating Expenditure represents the day-to-day costs of council service delivery. For 2021/22, a cash limit of £162.7m was set by Full Council and reflected the expected spending power for the year. This limit contained £4.5m of Covid-19 un-ringfenced resource to be allocated to emerging Covid-19 pressures during the year.
2. The Financial Strategy and subsequent reports to Cabinet have provided information about financial risks facing local government in respect of Covid-19. Nationally, the issues facing Adult Social Care in the context of the Health and Care system are well documented. Although the financial impacts locally are not as severe as in some areas, a greater level of spend is predicted. However, for 2021/22, the revised budget presented enables the costs to be met from the financial envelope set aside.
3. Additionally, like many Councils we are adapting our Active Lifestyles offer to operating with Covid-19 and through facilitating Covid-19 safe leisure facilities and promoting the range of activities, activity levels and membership is gradually increasing. Whilst business builds back to pre-Covid-19 levels the income can be complemented through the Covid-19 emergency grant allocation which was made available for 2021/22. At the start of the financial year, as these risks were not fully quantified, the budget was set-aside in a Covid-19 contingency. The table above sets out the revised budget to acknowledge the current position. Grant balances and further grant received during 2021/22, in recognition of restrictions continuing into the financial year, will be utilised in line with grant conditions supporting recovery and renewal.
4. To support businesses through the pandemic grant funding has been passed through Councils although the majority of grant schemes have now ended, reflecting the easing of restrictions nationally. Since the first grant payments were made at the start of April 2020, the Council has distributed approximately £60m to local businesses across seven schemes benefitting more than 3,000 businesses with more than 12,000 payments in total. There is further business rate relief available during 2021/22 for retail, leisure and hospitality businesses. Relief unwinds as the year progresses, matching the unwinding of restrictions impacting business trading conditions.
5. The Council undertakes a robust monitoring process throughout the year which seeks to identify progress of spend against budget and reviews the assumptions approved in the 2021/22 budget. A Council wide position is reported to Cabinet on a regular basis. An assessment will be made during the financial planning process around the medium-term prospects, which may require further adjustments beyond 2021/22.
6. There is a short-term expenditure risk which is expected to materialise which is not yet reflected in financial forecasts relating to pay costs as the latest national pay offer is higher than initially forecast. National pay negotiations are under consultation and the pay settlement is expected to amount to £1.5m in 2021/22 which can be met from ongoing cost management and will be built into the medium term financial as part of resilience work.

7. The Council has a strong track record of managing expenditure and income risk, with continuous improvement and implementation of efficient delivery models that achieve the best outcomes. Controlling costs and collaborative working are an ongoing feature of financial management and support the organisation to deliver the Council Plan within the resources available.
8. The Council has a reserves strategy which governs deployment of reserves. This forms part of the wider approach to risk management. Current financial plans aim to minimise use in 2021/22, anticipating that greater usage will be required over the next medium term financial plan as longer-term impacts of the pandemic are evidenced and plans developed and implemented. The level of reserves held will be reviewed against identified risks during the financial planning process to ensure that the council remains financially resilient.
9. Officers are conducting a comprehensive Assessment of Financial Resilience, which combines a range of financial and non-financial data in reaching a self-assessment on how financially resilient the Council is against a wide range of metrics. This is considered further in Appendix 2.

Analysis of Capital 2021/22

10. The Council plans to invest over £116m of capital resource by 2023/24 to support delivery of the Council plan. Approval is sought for the latest capital investment plan set out in appendix 4 (table 1), with adjustments to the current approved programme reported to Cabinet in July 2021 contained in tables 2 and 3. These set out rephasing of investment and additional external funding of £0.6m bringing the total to £116.3m from the previously reported £115.7m.
11. The Council undertakes regular monitoring of its capital investment programme, to ensure the programme remains realistic and invests in Council priorities. Covid-19 has slowed delivery of the capital programme, which was evident during 2020/21 and remains so, which necessitates some re-phasing.
12. The Council finances capital investment through a combination of its own resources (capital receipts and borrowing) and external funding. The balance of funding expected to be applied is also regularly reviewed, to ensure the right type and size of funding is deployed. The Covid-19 pandemic has altered the balance of risks and opportunities attached to each funding type, and as such revisions will need to be made to the financing side in the next medium term financial plan. This is not expected to directly impact the capital investment programme.
13. The outturn variance forecast at Q1 primarily reflects re-phasing and external funding adjustments, for which amendments have been proposed as discussed above. There are likely to be further adjustments needed in the second half of the financial year to ensure investment resource remains aligned to latest delivery timescales. These will be brought to Cabinet in future updates.

1. Full Council will meet on 24th February 2022 to consider setting an updated medium term financial plan comprising revenue and capital investment. The purpose of this appendix is to outline the preparatory work that has been completed to date, together with the process that will guide the medium-term financial planning exercise.
2. Local Government received a one-year financial settlement for 2021/22, meaning that the Council’s medium-term financial plans contain levels of funding uncertainty that are reflected within the reserves strategy.
3. In February 2021, the Council approved a three-year medium term financial plan as summarised below:

2021/22 Approved Budget £000's	MEDIUM TERM FINANCIAL PLAN	2022/23 Current Plan £000's	2023/24 Current Plan £000's
	PRIORITY AND OTHER INVESTMENT		
135,281	Investment in Priorities	135,862	136,446
20,882	Running the Business Well	22,484	23,201
1,946	Inflationary Provisions*	5,446	8,946
4,544	Covid-19 Resource	-	-
162,653	NET OPERATING EXPENDITURE	163,792	168,593
	SPENDING POWER		
(125,266)	Council Tax and Business Rates	(125,650)	(130,305)
(29,178)	Government Grants	(28,866)	(28,720)
(7,070)	Covid-19 Resources	-	-
(1,139)	Use of Reserves	-	-
(162,653)	TOTAL SPENDING POWER	(154,516)	(159,025)
-	Cost Reductions in Development	9,276	9,568

* pay and contract inflation are distributed to service budgets during the financial year

4. As work continues on the financial resilience assessment and financial planning preparation for 2022 and beyond, the emerging national policy drivers will need to be considered and reflected accordingly in our assumptions.
5. Health and social care levy – HM Revenue and Customs published the Health and Social Care Levy policy paper. The policy objective is to raise funds to enable permanent increase in spending in health and social care. Implementation of the policy will have a direct impact on the Council’s national insurance contributions by up to £1m. The impact of the levy on the cost of goods and services will need to be factored into the medium-term financial planning assumptions.
6. The government Spending Review 2021 will set UK government departments’ resource and capital budgets for 2022/23 to 2024/25. This will conclude on 27th October 2021 announced as the date of the Autumn Budget Statement by the Chancellor of the Exchequer.

7. The Autumn Budget Statement sets the total resource envelope for the Local Government Finance Settlement, which is normally published in December. This clarifies the amount of maximum funding available for each Council and the upper limits for council tax increases. The outcome of the Autumn Budget and Spending Review 2021, including potential impact to North Lincolnshire, will be brought to the November meeting of Cabinet.

Investment in Priorities

8. The financial planning process brings spending power and investment aspiration into balance, maximising outcomes for the people and place. To achieve this, a three-stage process has been established which is guided by principles and areas of intent that include:
 - A process shaped by principles, outcomes and values (Integrity, Excellence, Self-Responsibility, and Equality of Opportunity)
 - Activity/areas continuously reviewed with a focus on Intent, Implementation and Impact
 - Ensuring a process which best identifies, manages and mitigates service and organisational risk enabling the organisation to take the best decisions supported by the best financial and non-financial information
 - Being progressive and outward looking
9. The Council's financial strategy for 2022/23 and beyond will continue to be linked to the Council's recovery and renewal aspirations and the Council Plan. The three phases to the financial planning process are:
 - Assessment of Financial Resilience
Stress testing the financial plans through an assessment of financial resilience supported by the embedding of the requirements of the Financial Management code. This considers the ongoing impact of Covid-19, spending power projections, areas with cost opportunities all supported by extensive trend analysis. This exercise is currently being reviewed; a summary will be brought to the next meeting of Cabinet.
 - Strategic Planning
Identifying opportunities through organisational commissioning, addressing historical variances, focus on achieving economy, efficiency and effectiveness, supported by continuously improving supporting information (e.g. activity data integration, contract spend, service integration).
 - Budget Setting
The two previous stages will culminate in budget proposals which support the financial sustainability aspirations of the Council and set out how the Council plans using resources to achieve its outcomes, the actions it needs to implement, with line-of-sight arrangements, and how the investment supports delivery of the Council Plan.
10. The cycle then repeats annually, strengthening financial management to support the Council as an agile organisation which continues to adapt to ensure it best meets the needs of the people and place of North Lincolnshire.

Table 1 – Revenue Investment (Accountability Structure)

2021/22 REVENUE INVESTMENT: BY SERVICE	Original Approved Budget £000's	Policy Changes £000's	Technical Budget Transfers £000's	Revised Approved Budget £000's
Business Development	393	-	110	503
Governance & Partnerships	18,262	-	(49)	18,213
Operations	33,368	-	227	33,595
Public Health	7,239	-	(34)	7,205
Learning, Skills & Culture	12,527	-	(47)	12,480
Children & Community Resilience	22,880	-	(8)	22,872
Adults & Community Wellbeing	42,556	-	(49)	42,507
SERVICE TOTAL	137,225	-	150	137,375
Central & Technical Budgets	25,428	-	(150)	25,278
NET OPERATING EXPENDITURE	162,653	-	-	162,653

Table 2 – Revenue Investment (Council Plan Priority)

2021/22 REVENUE INVESTMENT: BY PRIORITY	Original Approved Budget £000's	Policy Changes £000's	Technical Budget Transfers £000's	Revised Budget £000's
Keeping People Safe and Well	73,455	-	60	73,515
Enabling Resilient and Flourishing Communities	26,956	-	(71)	26,885
Enabling Economic Growth and Renewal	7,747	-	24	7,771
Running the Business Well (organisation)	32,172	-	137	32,309
Running the Business Well (technical)	22,323	-	(150)	22,173
PRIORITY TOTAL	162,653	-	-	162,653
NET OPERATING EXPENDITURE	162,653	-	-	162,653

Table 1 – Programme Summary 2021/24 (reflects rephasing in tables 2 and 3)

PROPOSED PROGRAMME	2021/22 £000's	2022/23 £000's	2023/24 £000's	Total £000's
Investment in Priority				
Keeping People Safe and Well	4,147	572	369	5,088
Enabling Resilient and Flourishing Communities	12,377	16,442	3,346	32,165
Enabling Economic Growth and Renewal	29,608	14,630	10,812	55,050
Running the Business Well	11,942	4,081	2,797	18,820
Total	58,074	35,725	17,324	111,123
Additional Capital Investment Allocation	240	925	3,977	5,142
Capital Investment Limit	58,314	36,650	21,301	116,265
Funding Analysis				
External & Grant Funding	27,681	26,476	12,261	66,418
Revenue Funding	32	-	-	32
Borrowing	18,887	10,174	9,040	38,101
Capital Receipts	11,714	-	-	11,714
Total	58,314	36,650	21,301	116,265

Table 2 – Externally Funded Schemes rephasing and net additional investment of £0.6m

Capital Investment Scheme	2021/22 £000's	2022/23 £000's	2023/24 £000's	Total £000's
Flooding & Drainage	(98)	333	480	715
Schools Investment Programme	(6,394)	6,394	-	-
Telecare Investment	(254)	-	-	(254)
North Lincolnshire Northern Forest	(363)	200	163	-
Formula Capital Devolved to Schools	(200)	200	-	-
Community Equipment	80	(80)	-	-
Home Assistance/RHHA Loan	144	-	-	144
Disabled Facilities Grants	(3,133)	3,133	-	-
Total	(10,218)	10,180	643	605

Table 3 – Internally Funded Schemes rephasing

Capital Investment Scheme	2021/22 £000's	2022/23 £000's	2023/24 £000's	Total £000's
Defibrillators	(45)	45	-	-
Property Resilience Grants	(56)	56	-	-
Safe & Sound Grant	(83)	43	40	-
Community Capital Grants	(500)	500	-	-
Enhanced & Prosperous Communities Fund	(542)	542	-	-
Parks and Play Areas	(100)	100	-	-
Property Trading Account Developments	(244)	244	-	-
Flood and Drainage	(225)	225	-	-
North Lincolnshire Northern Forest	(62)	62	-	-
Comm. Buildings Investment - Community Hubs	(1,118)	1,118	-	-
Replacement HR/Payroll/Finance System	(166)	166	-	-
Total	(3,141)	3,101	40	-

	2021/22	
	Budget (Feb 2021)	Forecast (Q1)
Estimates of capital expenditure	£M 49.3	£M 68.3
General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2013)	% 8.00	% 7.86
An estimate of the capital financing requirement	£M 264.6	£M 261.6
The authorised limit for external debt: borrowing other long-term liabilities total	£M 304.6 5.0 309.6	£M no change
The operational boundary for external debt: borrowing other long-term liabilities total	£M 269.6 2.0 271.6	£M no change
maturity structure of fixed/variable interest rate borrowing 2021/22	%	%
under 12 months	60.0	no change
12 months to 2 years	30.0	
2 years to 5 years	50.0	
5 years to 10 years	50.0	
10 years to 20 years	75.0	
20 years to 30 years	75.0	
30 years and above	100.0	
Total principal sums invested for periods longer than 364 days	£M 0	£M no change