

NORTH LINCOLNSHIRE COUNCIL

CABINET

Budget Review 2017/18 and Medium Term Financial Plan Update

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To inform Cabinet of the current performance in respect of revenue and capital budgets for 2017/18.
- 1.2. The report seeks approval in respect of the latest revised budget for revenue and the capital programme.
- 1.3. Additionally, the report outlines the process for setting the budget for next financial year and the principles for financial planning for the future.

2. BACKGROUND INFORMATION

- 2.1. The Council approved the budget for 2017/18 in February 2017, which is based on a number of assumptions and risks, outlined in the Revenue Budget 2017/18 and Financial Plan 2017/20 report, including demand for services within Adults and Children's Social Care, delivering operational efficiencies and increasing cost recovery for traded services.

2017/18 Budget Position

- 2.2. The latest approved revenue and capital budget and forecast outturn for 2017/18 can be seen in Appendix 1. The forecast based on Quarter 2 monitoring shows a slight improvement: Net revenue spend of £127.54m against a budget of £126.15m and an increase in funding against budget of £0.14m.
- 2.3. A number of adjustments to the revenue budget have been made throughout the financial year, as the Council continually seeks to align budgets with optimal service delivery. The adjustments that have been made are summarised in appendix 2, which also shows the proposed revised position that requires cabinet approval.
- 2.4. The Council has a significant capital investment programme for 2017/18, and it is important that capital resource is best aligned to the year in which it is expected to be spent, to ensure the programme remains deliverable. At the halfway point in the year, a number of capital schemes have been

reviewed, and it has become apparent that the budget needs to be re-phased to later years. This list can be seen in appendix 3. The original capital budget for 2017/18 was £91.43m of which it is proposed to transfer £18.9m to 2018/19.

- 2.5. The capital programme in appendix 3 includes capital transfers that have been done under delegated powers and proposes further adjustments for Cabinet approval.
- 2.6. The Council is continuing to manage cash balances and debt in line with the approved Treasury The Council will spend less on debt interest during the year, lowering the capital financing ratio when compared to the net revenue budget. A mid-year update is required to be reported to Full Council in December 2017.

2018/23 Medium Term Financial Plan

- 2.7. The financial planning process for the future budget setting has commenced. This includes a review of the current assumptions in the Medium Term Financial Plan and an assessment of risks and opportunities both internally and from external factors.
- 2.8. Significant work to transform the financial planning process has been ongoing for several months, as the Council moves to create sustainable budgets based upon the total funds available, moving away from the previous incremental approach. Budgets will be informed by strategic priorities and outcomes. The proposed budget process, and the financial planning principles to guide it, are set out in Appendix 4.
- 2.9. There are a range of factors which will affect funding for the next five years. In future, core council funding will come predominantly from local sources, council tax and business rates. The proposal to transfer 100% of business rates to local control by 2020 (currently 50%), combined with a new fair funding formula expected in 2021, is likely to be the most significant long-term change to the local government finance system. Details have yet to be published and for now the effect is assumed to be neutral.
- 2.10. For the next two years funding is more predictable. The government has guaranteed core funding streams, including revenue support grant. It is also offering councils the opportunity to trial 100% business rates retention in 2018/19. This council has made a joint-bid with its neighbours in the Lincolnshire County area for a pilot scheme. If successful, this will keep 100% of growth in business rates locally. The council tax decision is a local one.
- 2.11. The Council receives part of its funding through National Non-Domestic Rates (NNDR), which is a property tax paid by businesses on non-domestic properties. The Valuation Office sets a rateable value, the latest valuations were introduced in April 2017. The government sets the multiplier each year (charge per £ of tax base). The total business rates income from North

Lincolnshire is based on this formula for each business property in the area. Under the current scheme, the Council retains 49% of this amount, and has an incentive to grow the amount so it can retain more (in simple terms).

2.12. However, there are factors other than the number of businesses paying business rates which have an influence the level of business rates payable in North Lincolnshire each year. These include:

- Businesses appealing against their rateable value to the Valuation Office Agency
- Businesses becoming eligible for a nationally mandated relief (e.g. empty property relief)
- The economic conditions of particular businesses

2.13. There have been changes during the year in respect of the areas outlined above, including a significant number of successful appeals agreed by the Valuation Office Agency during 2017/18. This process is outside the council's control however, the refunds which include repayment of reliefs are made from North Lincolnshire's Collection Fund.

2.14. In light of the appeals, the council is reviewing the level of provisions made within the collection fund, and therefore the assumptions within the medium term financial plan. It is anticipated that the impact from the appeals will reduce the business rates available in 2018/19. The business rates tax base is required to be agreed by the end of January 2018, which will confirm the funding levels.

2.15. The key milestones that will inform the medium term financial plan 2018/23 and budget proposed for 2018/19 are:

- The Chancellor of the Exchequer's Autumn Budget 22 November 2017.
- The Department for Local Government announcement on the Local Government Settlement early/mid December 2017.
- Setting the Council Tax Base – Full Council 14 December 2017
- Setting the Business Rates Tax Base by 31 January 2018

3. OPTIONS FOR CONSIDERATION

3.1. Cabinet considers and notes the budget monitoring position for 2017/18 outlined in the report, for revenue and capital, which is summarised in Appendix 1.

3.2. Cabinet approves the latest proposed budget for revenue and capital 2017/18 outlined in Appendix 2 and 3.

3.3. Cabinet notes the process for formulating the 2018/23 medium term financial plan, and approves the principles to inform the financial planning and budget setting process.

4. ANALYSIS OF OPTIONS

- 4.1. The summary of service monitoring at quarter two is shown in Appendix 1. Action has already been taken to contain the forecast overspend to the position reported. Further work is on-going to identify additional actions that will contribute to improving the projected spend by the end of the financial year to a balanced position.
- 4.2. Service budgets are monitored on a regular basis throughout the year, and a Council level budget position is collated quarterly. The quarter two budget monitoring has highlighted the following:
- Most services are forecasting spend within budget, with action being taken to contain increasing cost pressures.
 - The majority of the £12.1m planned savings for 2017/18 are on track to be delivered.
 - Demand for services continues to increase within the following areas: Adult social care; Children's social care; waste collection and disposal; special education needs and alternative education provision and home to school transport. Actions to mitigate the impact on the council's budget are being implemented.
 - The costs of capital financing are lower than planned, due to effective delivery of Treasury Management, capital re-phasing and appropriate use of short-term borrowing and deferring long-term borrowing. The anticipated savings within the central and technical budgets have been factored into the overall Council reported position.
- 4.3. The revenue adjustments requested as part of this report will ensure that the Council's revenue resources are best aligned to the new structure. The capital adjustments requested will ensure that the capital programme is better aligned to realistic timescales for delivery.
- 4.4. The Council is shifting its approach to financial planning and budget setting, placing a greater emphasis on outcomes and strategic priorities. The previous incremental approach to budget setting is not considered to be sustainable, and as such a new process which incorporates zero based budgeting principles and will support the Council in achieving the goal of being a sustainable Council by 2021. This aligns to when a new fair funding methodology to be introduced, including a move to 100% retention of Business Rates by Local Government.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The Council must maintain a balanced revenue budget for each financial year. If the projected spend cannot be contained within the cash limits set, the potential call on the Revenue Support Account reserve will be more than planned. This will need to be considered in the setting of the medium term financial plan 2018/23.

- 5.2 In addition to the required re-phasing of capital schemes, some schemes have reported in year variances. Any scheme overspends need to be resolved in the first instance. If that is not possible, the net overspend will require funding through re-prioritisation of other schemes.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 6.1 Not Applicable

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 7.1 Not applicable

8. RECOMMENDATIONS

- 8.1 To note the revenue and capital budget monitoring position for 2017/18, which is set out at appendix 1.
- 8.2 To approve the revenue budget adjustment and latest revised budget position for 2017/18, summarised at appendix 2.
- 8.3 To approve the capital adjustments outlined at appendix 3, and the revised capital programme.
- 8.4 To approve the principles of the 2018/23 medium term financial planning process set out at appendix 4.

DIRECTOR OF GOVERNANCE & PARTNERSHIPS

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Becky McIntyre/Peter Fijalkowski
Date: 10/11/2017

Background Papers used in the preparation of this report:

Revenue Budget 2017/18 and Financial Plan 2017/20 Council Report Feb 2017
Revenue budget transfers analysis
Capital budget transfers analysis

Appendix 1

Revenue Budget and Capital Monitoring Position 2017/18

Revenue	Full Year Budget £'M	Forecast Outturn £'M	Forecast Variance £'M
Services Total	103.57	105.45	1.88
Central & Technical Budgets	22.58	22.09	(0.49)
Total	126.15	127.54	1.39
Funding	(126.15)	(126.29)	(0.14)
Net	-	1.25	1.25
Capital	Full Year Budget £'M	Forecast Outturn £'M	Forecast Variance £'M
Total	91.43	72.37	(19.06)

Revenue Budget Transfers 2017/18

Appendix 2

Service Area	Approved Budget £'M	Technically Adjusted Budget £'M	Policy Changes Required £'M	Revised Budget £'M
Access & Inclusion	2.807	2.807	-	2.807
Adult Social Care*	18.692	18.433	-	18.433
Asset Management & Development	2.465	2.465	-	2.465
Catering & Cleaning	(0.231)	(0.231)	-	(0.231)
Central Budgets	22.278	22.279	(0.057)	22.222
Community Wellbeing	4.065	3.765	-	3.765
Financial Services	2.306	2.305	-	2.305
Growth & Economy	2.484	2.484	-	2.484
Integrated Commissioning & Prevention	4.462	4.387	-	4.387
Legal & Democracy	2.081	2.081	-	2.081
Mental Health & Disability	14.014	14.240	-	14.240
Organisational Development	0.651	0.523	-	0.523
Participation & Achievement	4.425	4.687	-	4.687
Public Health (Hub)	0.003	0.086	-	0.086
Safeguarding (Children)	7.628	7.628	-	7.628
Safeguarding (Organisation)	6.345	6.345	-	6.345
Social Work (Children & Adults)	1.069	1.233	-	1.233
Standards & Effectiveness	1.379	1.344	-	1.344
Strategic Human Resources	1.136	1.136	-	1.136
Strategic Projects	0.635	0.635	-	0.635
Strategy, Information & Outcomes	1.315	1.359	0.057	1.416
Transport, Highways & Environment	12.572	12.572	-	12.572
Waste & Public Protection	13.573	13.591	-	13.591
Net Budget	126.154	126.154	-	126.154

*One of the revenue adjustments which requires cabinet approval relates to the drawdown of the Improved Better Care Fund additional funding which was made available by Government earlier this year. It is a net nil adjustment to budgets, as equal expenditure and income budget will be created within Adult Social Care budgets. Therefore, this adjustment is not visible in appendix 2.

Capital Re-Phasing

Appendix 3

Capital Programme Categorised by Type of Spend	Approved Budget £'M	Technically Adjusted Budget £'M	Policy Changes Required* £'M	Revised Budget £'M
Infrastructure	6.019	5.709	-1.410	4.299
Economy	16.279	15.945	-6.812	9.133
Operational Assets	29.554	29.554	-6.463	23.091
Community Grants	39.579	37.895	-3.966	33.929
Total Approved Programme*	91.431	89.103	-18.651	70.452

*includes £18.887m of re-phasing put forward at quarter 2, shown below

Capital Programme Q2 Adjustments Required	Approved Budget £'M	Q2 Re-Phasing £'M	Revised Budget £'M
Property Schemes	12.000	(6.000)	6.000
Lincolnshire Lakes Blue Offer	5.724	(4.724)	1.000
Disabled Facilities Grants	2.571	(1.271)	1.300
LED Street Lighting	2.400	(1.250)	1.150
Trent and Humber Flood Works/Drainage	2.231	(0.289)	1.942
Fleet Replacement Programme	1.156	(0.516)	0.640
Ancholme River Path/ Isle Cycleways	1.085	(0.350)	0.735
Empty Properties Back Into Use	0.824	(0.624)	0.200
Barton Sports Facility	0.680	(0.066)	0.614
Home Assistance	0.639	(0.139)	0.500
Barton Leisure & Wellbeing Investment	0.628	(0.550)	0.078
Schemes with a Budget up to £0.5m	3.118	(2.077)	0.546
Schemes with a Budget up to £0.25m	1.499	(1.031)	0.414
Total	34.555	(18.887)	15.119

2018/23 Medium Term Financial Planning Process Appendix 4

The financial strategy needs to provide clarity about the principles within which the council will approach budgeting and financial planning. The Council will apply the following strategic principles in its budget setting decisions:

Make Informed Spending Decisions

- Spending decisions are aligned to agreed ambitions, goals and sustainability
- Revenue and capital investments are based on needs analysis and risk assessments; informed by research; demonstrate a tangible benefit to communities and mitigate against legacy costs

Manage Risks

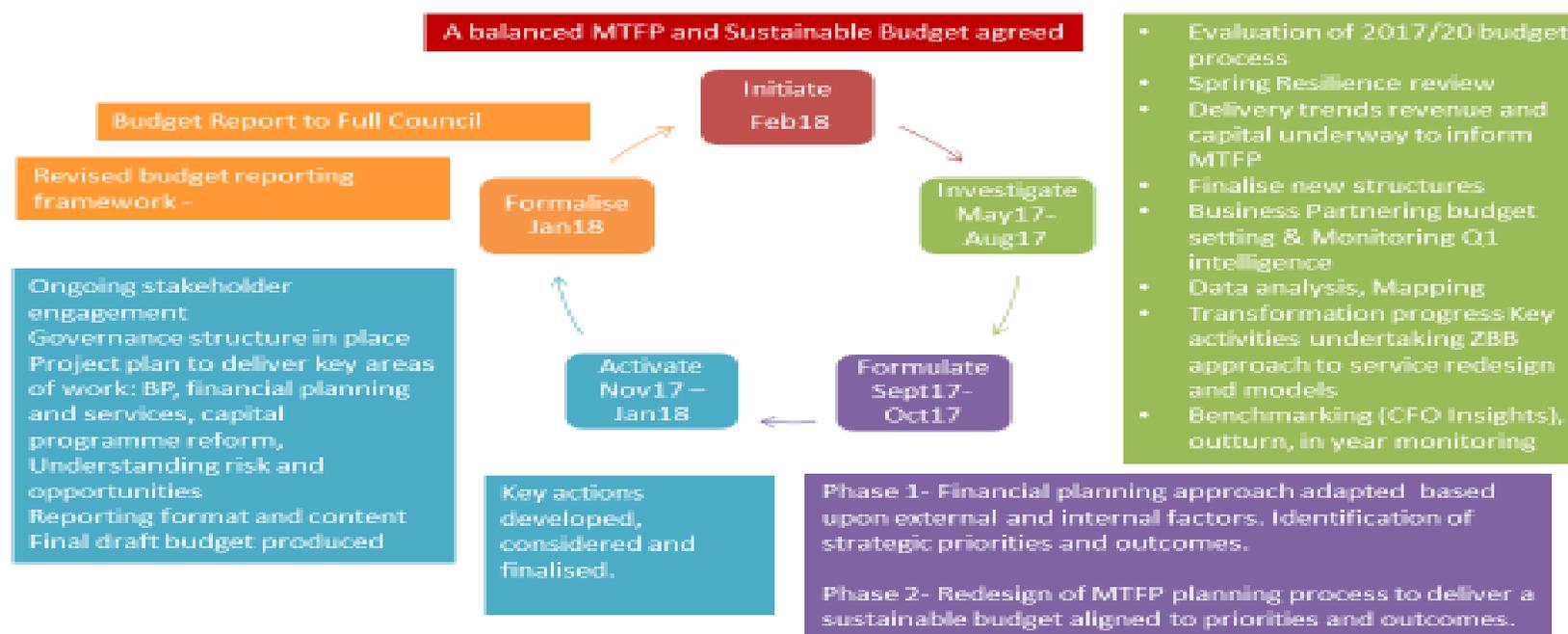
- Commercial operations are full cost recovery
- Risk management principles are applied to financial decisions
- Keep those functions with high risks under more direct control

Invest in Success

- Invest in things that can demonstrate quality, outcomes and value for money
- Integrate and share services with partners where it better achieves the Council's ambitions, goals and outcomes

The preparations for the Council's next medium term financial plan commenced over the summer months, the process is outlined below will guide the approach to setting the budget in February 2018:

Financial Planning Process



The Council is currently in the activation phase of the financial planning process, and this phase must clearly demonstrate resource allocation to strategic priorities, and demonstrate an understanding that the inputs provide the desired outputs and outcomes. The Medium Term Financial Plan outlines the resources available and established the net spending power that the council has available for service delivery and to meet its statutory duties.