

NORTH LINCOLNSHIRE COUNCIL

CABINET

Budget Review 2018/19 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 2018/19.
- 1.2. The report seeks approval in respect of the latest revised budget for revenue and capital within the parameters set by Council on 1st March 2018.
- 1.3. The report also informs Cabinet that cash balances and debt are being managed in line with the Council's approved treasury management strategy.
- 1.4. The report also sets out further details of the Council's strategy and approach to the budget planning process for the 2019/23 medium term financial plan.

2. BACKGROUND INFORMATION

- 2.1. The Council approved the budget for 2018/19 in March 2018, which is based on a number of assumptions and risks, outlined in the Revenue Budget 2018/19 and Financial Plan 2018/23 report, including demand for services within Adults and Children's Social Care, delivering operational efficiencies and achieving cross Council transformation.

2018/19 Budget Position – Revenue

- 2.2. The latest approved revenue and capital budget and forecast outturn for 2018/19 can be seen in Appendix 1.
- 2.3. Service budgets are monitored on a regular basis throughout the year and a council level budget position is reported quarterly. Based upon quarter two budget monitoring it is projected that revenue expenditure will be £140.7m, which is 2.1% above the original budget set.
- 2.4. The Council provides services to some of the most vulnerable people in its communities, across all groups, and the costs of these activities are heavily linked to levels of need and activity. The Council attempts to forecast

demand levels when it sets its budget, but any difference to the forecast position will result in a change in the level of cost being incurred by the Council.

- 2.5. Activity levels have increased within adult services, which is generally being effectively managed, but as reported previously the underlying complexity of needs is impacting on the cost of care packages. The service takes a pro-active approach to providing support at the right level to best meet need and continue to work with partners across the health and care system to achieve the best outcomes within resources available. Maximising grant funding, such as IBCF is planned in order to minimise the impact of in-year pressures. Government has made £0.7m of winter pressures grant to address further emerging cost pressures in the health and social care system.
- 2.6. Increased activity for adult and children's social care reflects the national trend for these services, and locally there is a very good track record at managing this need. However, this trend is expected to continue and represents a risk to the availability of resources overall. The reported position at Q2 quantifies the financial impact locally of increased numbers of children in care. Pressures experienced both at a local and national level will need to be taken into account in terms of long term financial planning. It also underlines the importance of continuing to strengthen multi-agency working to best manage the total area impact.
- 2.7. Higher levels of demand continue for special education needs and alternative education, funded through Dedicated Schools Grant, with impacts on related council budgets such as education transport. Permanent solutions are being worked up through the Schools Forum to best meet need and manage costs within the funding available.
- 2.8. Costs are being managed within budget in waste and public protection, and transport and highways, including demand led budgets.
- 2.9. There are some challenges to achieving income targets in the shorter term. This includes the commercial property portfolio, development control, construction services and the self-sustaining targets that have been set for sport, leisure and culture as part of its transformation journey. Cost pressures are being moderated by savings and reviews, and efficient use of grant funding.
- 2.10. At this point in the financial year, the permanent savings required through cross Council integration are yet to deliver in full. There are a series of other initiatives to facilitate the saving in year, including service re-design.
- 2.11. The Council is making use of a combination of approaches to manage risks and work towards a balanced budget at year-end. This includes the effective management of long and short-term borrowing to reduce the in-year cost. As part of the Council's active approach to financial risk management, it holds a small contingency budget.

Reserves

- 2.12. Should the position remain unchanged at year-end, the Council will be required to make an unplanned use of the revenue support account reserve, which would reduce the available balance to support the 2019/23 medium term financial plan.

Budget Adjustments

- 2.13. A number of adjustments to the revenue budget have been made, as the Council continually seeks to align budgets with optimal service delivery. The adjustments that have been made under delegated powers are summarised in appendix 2, which also shows the revised position. There are no adjustments which require cabinet approval.

2018/19 Budget Position – Capital

- 2.14. Council approved a capital investment programme for 2018/19 of £70.2m at its budget setting meeting in March 2018, subsequently adjusted to £76.5m for re-phasing between years and new funding. This forms part of a multi-year investment programme totalling in excess of £138m. The profile of the annual capital budget is regularly reviewed in order to ensure that capital resource is aligned to the year in which it is expected to be spent and so that the programme remains deliverable.
- 2.15. The capital programme is currently forecast to outturn in year £4.6m below the latest revised budget, incorporating the amendments below. The majority of this relates to timing of spend, and will necessitate some re-phasing once the capital re-prioritisation exercise has concluded.
- 2.16. One technical adjustment has already been made to school's capital investment, which follows notification of grant to be received in year (previously estimated). This can be seen in appendix 4. A further change to the programme is proposed, which ensures the cost of the new market is reflected in the capital programme, together with the necessary adjustments to funding and other scheme's.
- 2.17. A review of the capital programme is in progress to ensure that the deployment best supports the Council's aims and aspirations set out in the Council Plan. This is likely to include some rephasing across the four year programme.
- 2.18. Working is proceeding on the capital investment strategy, which will provide the framework for future capital investment decisions. This is a requirement of the revised Prudential Code.

2018/19 Budget Position – Treasury Update

- 2.19. The Council is continuing to manage cash balances and debt in line with the approved Treasury Management Strategy. Through effective management of the Council's borrowing requirements, active use of internal borrowing has enabled an in-year saving leading to the Council incurring less spend on debt interest during the year. This approach keeps the cost well within the in-year capital financing ratio and releases savings in the revenue budget.
- 2.20. Borrowing at the end of June 2018 was £172.8m. This will increase during the year to meet cash flow forecasts, including the need to borrow to support the capital programme. This will be lower than the level set for the capital financing requirement and borrowing will take place at the optimum time for affordability and need.
- 2.21. Appendix 5 sets out the prudential indicators for 2018/19 approved by Full Council on 1st March 2018, and the latest position.

2019/23 Medium Term Financial Planning Process

- 2.22. Work is already underway to refresh the Council's medium term financial plan in advance of the Council's budget setting meeting to be held on 28th February 2019.
- 2.23. Cabinet recently approved the North Lincolnshire Council Plan 2018-19, which will shape the strategic approach to the financial planning process. Budget planning will focus around the three priorities of: growing the economy; keeping people safe and well; enabling communities to flourish; with an additional focus on organisational enablers. This will help the council to realign its resources to deliver priority outcomes, and will provide a mechanism for more effective cross- council working and service redesign.
- 2.24. The intent is to ensure that the Council deploys the resources available to it in the most effective way to achieve the outcomes it wants for the area, while ensuring services are value for money and consistent with keeping the tax burden as low as possible.
- 2.25. Running parallel to the work on Council investment in priorities is the refinement to the expected funding position over the medium term financial planning period. An indicative funding position was set in the 2018/23 MTFP, but the assumptions which supported the position need reviewing and refining. The latest planning assumptions regarding resource availability are shown in Appendix 6.
- 2.26. The Council receives funding from a variety of sources, split between those locally generated (e.g. council tax) and nationally distributed (e.g. government grant). And there are a number of key milestones in the budget planning calendar for the setting of the funding base, both internal and external.

2.27. The Government published its Autumn Budget on Monday 29th October 2018, which contained some announcements affecting Local Government. This was not the full local government finance settlement for 2019/20 which will be announced on 6 December. It did include a number of short-term grants to address immediate pressures:

- An additional £240m nationally (one-off) in 2018/19 and 2019/20 for Adult Social Care, to support winter pressures and releasing beds in hospitals.
- A further £410m nationally (one-off) in 2019/20 for Adults and Children's Social Care pressures, with more detail to come in the 2019/20 Local Government Finance Settlement.
- An additional £420m nationally in 2018/19 to tackle potholes, repair damaged roads, and invest in keeping bridges open and safe. Also an additional £150m to ease congestion on local routes

As well as initiatives to benefit the High Street in recognition of current challenges faced by retail businesses:

- Business rates bills to be cut by one-third for retailers including shops, cafes and restaurants in England with a rateable value below £51,000, for two years from April 2019 – it is anticipated that government grant will meet the cost of this.
- A new Future High Streets Fund to invest £675m in England to support local areas to develop and fund plans to make their high streets and town centres fit for the future. It is expected that local areas will be required to bid into this funding.

The Chancellor also set indicative parameters for the Comprehensive Spending Review 2019 which will determine departmental spending plans from 2020. This was at a high level, with no indication of what this will mean for public services, other than to confirm that the NHS will receive real-terms increases year on year. There was nothing here to change our current planning assumptions for our own Medium Term Financial Plan 2019/23.

2.28. It is important that the Council continues to maximise the funding it generates locally, to match address any unavoidable inflationary increases to the cost base, the implementation of the nationally agreed pay award and to reflect further steps in the transition towards a self-sustaining local government.

2.29. As indicated earlier the local government finance settlement will be published on Thursday 6th December 2018, with the final settlement confirmed after consultation with the sector at the end of January 2019. The settlement will confirm specific grant allocations for 2019/20, and is expected to provide more information on the wider system changes to Local Government finance beyond 2020/21 (Fair Funding and the 75% NNDR retention scheme).

2.30. There are a number of other key milestones. Full Council will set the Council Tax Base in December for 2019/20. The Business Rates Tax Base can be set in January in line with the multipliers (rate of increase) notified by Government and any grant compensation for changes to business ratepayer liabilities.

2.31. The intention is that a draft budget proposal is brought to Cabinet in January, with a further review process leading up to presentation at Council on 28 February 2019.

3. OPTIONS FOR CONSIDERATION

3.1. Cabinet considers and notes the budget monitoring position for 2018/19 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 2018/19 outlined in Appendix 2 and 3.

3.3. Cabinet notes the performance in respect of Treasury Management.

3.4. Cabinet considers and notes the 2019/23 medium term financial planning process.

4. ANALYSIS OF OPTIONS

4.1. The analysis is outlined in the background information in section 2.

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

5.1. The Council must maintain a balanced revenue budget for each financial year. If the financial position outlined in this report is the outturn position at year-end, the potential call on the Revenue Support Account reserve will be more than planned. Accordingly, it is vital that the Council continues to work hard to contain spending within cash limits, to prevent the available balance reducing.

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 2018/19, which is set out at appendix 1.
- 8.2. To note the revenue budget adjustments approved under delegated powers and the latest revised budget position for 2018/19, summarised at appendix 2.
- 8.3. To approve the latest capital investment programme for 2018/19, summarised at appendix 3, with the changes to the approved programme contained in appendix 4.
- 8.4. To note the progress against the approved Treasury Management Strategy in appendix 5.
- 8.5. To note the 2019/23 medium term financial planning process.

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Background Papers used in the preparation of this report:

Revenue Budget 2018/19 and Financial Plan 2018/23 Council Report Mar 2018
Capital Programme 2017/22
Treasury Management Strategy 2018/19

Revenue budget transfers analysis (Q2)
Capital budget transfers analysis (Q2)

REVENUE	Budget (£'M)	Forecast (£'M)	Variance (£'M)
Service Budgets	113.835	118.362	4.527
Central & Technical Budgets	23.891	22.303	(1.588)
Total Budget	137.726	140.665	2.939
Funding	(137.726)	(137.726)	-
Net	-	2.939	2.939

CAPITAL	Budget (£'M)	Forecast (£'M)	Variance (£'M)
Safe	6.021	5.020	(1.001)
Well	7.633	8.168	0.535
Prosperous	31.576	30.245	(1.331)
Connected	18.713	16.690	(2.023)
Council Transformation	12.567	11.816	(0.751)
TOTAL	76.510	71.939	(4.571)

Revenue Budget Transfers 2018/19

Appendix 2

Service Area	Q1 Approved Budget	Technical Adjustments Approved	Q2 Approved Budget
	£'M	£'M	£'M
Access & Inclusion	4.812	0.000	4.812
Adult Social Care	19.852	0.015	19.867
Asset Management & Development	2.310	-0.077	2.233
Catering & Cleaning	0.043	0.000	0.043
Central Budgets	24.072	-0.181	23.891
Community Wellbeing	2.682	0.000	2.682
Cross Council Initiative (Business Development)	-0.143	0.000	-0.143
Cross Council Integration (Governance & Partnerships)	-0.144	0.016	-0.128
Cross Council Integration (Children & Community Resilience)	-0.129	0.000	-0.129
Financial Services	2.374	0.000	2.374
Growth & Economy	2.080	-2.925	-0.845
Int Commissioning & Prevention	10.689	0.251	10.940
Legal & Democracy	2.864	-0.104	2.760
LSC Strategy & Transformation	0.332	0.000	0.332
Mental Health & Disability	14.122	-0.010	14.112
Organisational Development	1.042	-0.005	1.037
Participation & Achievement	4.812	0.181	4.993
Public Health (Hub)	1.305	0.000	1.305
Safeguarding (Children)	5.664	0.088	5.752
Safeguarding (Organisation)	9.682	-0.251	9.431
Social Work (Children & Adults)	0.906	0.000	0.906
Standards & Effectiveness	0.927	0.000	0.927
Strategic Human Resources	0.606	0.000	0.606
Strategic Projects	0.306	0.000	0.306
Strategy, Info & Outcomes	1.507	3.568	5.075
Transport, Highways & Environment	10.407	-0.643	9.764
Waste & Public Protection	14.746	0.077	14.823
Net Budget	137.726	0.000	137.726

Adjusted Capital Programme 2018/19 (summary)

Appendix 3

Planned programme	Latest Approved Programme £000's	Adjustments £000's	Revised Programme £000's
Outcome Area:			
Safe	6,021	-	6,021
Well	7,633	-	7,633
Prosperous	29,293	2,283	31,576
Connected	18,713	-	18,713
Council Transformation	12,567	-	12,567
Total	74,227	2,283	76,510
Funding Analysis:			
External & Grant Funding	26,237	2,283	28,520
Internal Funding:			
Revenue Funding	5,028	-	5,028
Internal & External Borrowing	36,992	-	36,992
Property Trading Account	1,725	-	1,725
Capital Receipts	4,245	-	4,245
Total	74,227	2,283	76,510

Detail of Adjustment 2018/19

Appendix 4

Scheme by Outcome Area/ Area of Transformational Activity	Latest Approved Programme £000's	Adjustments £000's	Revised Programme £000's
Prosperous			
Formula Capital Devolved To Schools	756	(176)	580
Schools Investment Programme	5,366	144	5,510
Market Investments	1,325	4,630	5,955
Investment Property Schemes	9,706	(2,315)	7,391

Prudential Indicators

Appendix 5

		2018/19	
		Budget (March 2018)	Revised (Quarter 2)
(i)	Estimates of capital expenditure	£m 70.2	£m 71.9
(ii)	General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2013)	% 10.5	% 9.3
(iii)	An estimate of the capital financing requirement	£m 267.1	£m 243.7
(iv)	The authorised limit for external debt: borrowing other long term liabilities total	£m 310.0 5.0 315.0	no change
(v)	The operational boundary for external debt: borrowing other long term liabilities total	£m 272.0 3.0 275.0	no change
(vi)	Upper limit for fixed rate exposure	% 100.0	no change
(vii)	Upper limit for variable rate exposure	% 40.0	no change
(viii)	upper and lower limits for maturity structure of borrowing UPPER LIMIT under 12 months 12 months and within 24 months 24 months and within 5 years 5 years and within 10 years 10 years and above LOWER LIMIT 10 years and above	% 40.0 20.0 50.0 75.0 90.0 25.0	% no change
(ix)	Total principal sums invested for periods longer than 364 days	£m 0	£m no change

(i). Capital Programme expenditure has changed to reflect the revised programme

Latest Forecast Funding Position

Appendix 6

2018/19 Approved Funding £000's	MEDIUM TERM FINANCIAL PLAN	2019/20 Forecast Funding £000's	2020/21 Forecast Funding £000's	2021/22 Forecast Funding £000's	2022/23 Forecast Funding £000's
(5,549)	Use of Reserves	-	-	-	-
	SETTLEMENT FUNDING				
-	Revenue Support Grant	(6,098)	(4,296)	(3,027)	(2,132)
(42,328)	NNDR Baseline Funding	(32,616)	(33,268)	(33,933)	(34,612)
(42,328)	Total Settlement Funding	(38,714)	(37,564)	(36,960)	(36,744)
	OTHER GENERAL FUNDING				
(64,372)	Council Tax: 2.99% p.a.	(66,763)	(69,237)	(71,871)	(74,601)
(5,103)	Social Care Precept: 0% p.a.	(5,127)	(5,151)	(5,180)	(5,210)
(417)	Collection Fund Surplus: Council Tax	-	-	-	-
9,664	Collection Fund Deficit: NNDR	-	-	-	-
(13,415)	NNDR Rate Retention Income	(8,773)	(7,431)	(7,844)	(8,777)
(956)	New Homes Bonus	(702)	(297)	(355)	(446)
(5,042)	Improved Better Care Fund	(6,264)	(6,264)	(6,264)	(6,264)
-	Rural Services Delivery Grant	(165)	(165)	(165)	(165)
(420)	DSG Central School Services	(420)	(420)	(420)	(420)
(476)	Adult Social Care Support Grant	-	-	-	-
(9,312)	Public Health Grant	(9,070)	(9,066)	(9,066)	(9,066)
(89,849)	Total Base Funding	(97,284)	(98,031)	(101,165)	(104,949)
(137,726)	TOTAL FUNDING	(135,998)	(135,595)	(138,125)	(141,693)