

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

FINANCIAL STRATEGY, BUDGET 2020/21 AND MEDIUM TERM FINANCIAL PLAN 2020/23

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. The purpose of this report is to set out the council's financial strategy, and within that framework to seek approval for the budget 2020/21 and the Medium Term Financial Plan 2020/23. The Financial Strategy supports the delivery of the Council Plan.
- 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 2020/21
 - To set the Council Tax for 2020/21
 - To approve an indicative medium term financial plan for 2020/23

2. BACKGROUND INFORMATION

Local Government Financial Framework

- 2.1. The Council operates with legally defined powers to fulfil a range of duties through its local service offer. These include powers to raise funding to meet the costs of delivery. The council must decide on its spending power, taking into account how much government grant, business rates it will receive and the level of Council Tax it wishes to set.
- 2.2. The council has a legal requirement to set a balanced budget for the next financial year and a robust financial forecast for the medium term financial planning period. This year a three year plan has been produced, which will support the council in linking its anticipated resources over the period to its strategic direction, although it is important to note that the numbers are less certain further into the plan due to the potential structural changes to local government finance discussed further on in this report.

- 2.3. The costs of running local services are partly met from local taxation, and partly from government grant. The balance between local and central funding has shifted considerably over the past decade, and will continue to do so over the medium term financial planning period with a greater emphasis on local autonomy driven by a greater reliance on locally generated income.

Local Government Finance Settlement 2020/21

- 2.4. Local Government funding is predicated through a legal framework, set by Ministry of Housing, Communities and Local Government (MHCLG). The Local Government Finance Settlement 2020/21 contained the following key announcements:
- Increase in core spending power from £46.2bn to £49.2bn, the biggest increase in a decade
 - Continuation of 2019/20 £2.5bn grants to support social care
 - A further £1bn grant funding for social care
 - A potential £0.5bn through an additional 2% adult social care precept
 - Inflationary increases in Public Health grant and Better Care Fund
 - Uprating of core settlement by £0.3bn
 - An extra £0.7bn to support children with special educational needs.

Future of Local Government Finance

- 2.5. The Government have plans to publish the Budget during March 2020, which is expected to set out the parameters for a comprehensive spending review later in 2020. This represents a national re-prioritisation exercise that considers the overall availability of resources for public services and distributes according to national policy priorities. The spending review is the mechanism by which Government will take a view on the total level of resources to be made available to Local Government, thereby setting the quantum available to fund Local Government.
- 2.6. Additionally, the Government is continuing to work towards progressing fundamental reform of Local Government finance. It aims to introduce 75% business rates retention from April 2021, which could potentially enable a greater share of business rates to be retained locally. A fair funding review running in parallel will determine how resource is shared amongst authorities, with the key objectives to simplify the needs allocation system and ensure a fairer distribution that better reflects need to spend. This will be the first time the formula has been reviewed since 2013/14 and there could be significant changes in distribution, to reflect change in relative need.

Local Strategic Context

- 2.7. North Lincolnshire Council is responsible for a range of vital functions for people and businesses in defined areas. The functions are broad ranging such as social care, schools, planning, waste collection, licensing, support

to business, registrar services and pest control. The framework governing what councils do is based upon legislation, born out of many years' national policy. Councils have freedoms and flexibilities to determine many things locally, based upon local circumstances and needs of the population.

- 2.8. The Council sets its policy framework through two key strategic documents: The Local Plan (place shaping) and Council Plan (ambition, purpose, priorities and use of resource).
- 2.9. The Council's main purpose is to **Lead** the place of North Lincolnshire; **Promote** prosperity and wellbeing; **Prevent** harm and **Prioritise the most vulnerable**, in order to achieve better outcomes for the people and place of North Lincolnshire. The outcomes are themed under four areas:
- Safe
 - Well
 - Prosperous
 - Connected
- 2.10. The proposed budget for 2020/21 presents a balanced position – and illustrates that the funds we have are spent on our place priorities, demonstrating contribution to achieving desired outcomes for people and place. Appendix 3 summarises the investments made under each outcome theme and the approach taken to ensure future sustainability.
- 2.11. To ensure that the council is sustainable, the functions it is responsible for are constantly reviewed, as is the way we operate and the impact it has on achieving successful outcomes. Through the Council Plan, the Council has prioritised its contribution under four areas, detailed in Appendix 3:
- a) Enabling Communities to Flourish
 - b) Keeping People Safe and Well
 - c) Growing the Economy
 - d) Running the Business

Financial Strategy

- 2.12. The context for public finance has been centred around reducing the structural deficit, with Local Government a major contributor to this. Despite this, the council has made significant progress in maintaining and improving services to local people and risen to the challenge of increasing locally generated income and ensuring value for money is achieved. It has also responded to and effectively managed the impact of a range of social, demographic and legislative challenges which increase demand on the council's resources.
- 2.13. It is paramount that the council takes the right steps to drive a robust and financially sustainable position. Without that, the delivery of the best outcomes for local people is compromised. For that reason the Council must continue to develop, modernise and change the way it operates.

2.14. The financial strategy for achieving a sustainable council is therefore to:

- Grow the tax base. Support growth in the local economy and housing market.
- Maximise income by investing wisely in commercial activity and ensuring traded services fully recover costs.
- Take full advantage of opportunities to access external funding sources which will support achieving the council's ambitions.
- Find innovative ways of delivery and only invest in things that demonstrate greatest impact to deliver ambitions for best place and best council.
- Ensure financial decision making is based on robust plans that match our ambition and secures value for money.
- Seek opportunities with partners to maximise economies of scale whilst enabling communities to take more responsibility for their local facilities.

2.15. The mechanisms for translating this Financial Strategy into action are the annual budget and Medium Term Financial Plan (MTFP). These are the means for allocating resources to priorities, identifying areas for investment and disinvestment and for directing organisational delivery of statutory duties and council ambitions.

2.16. In determining the medium financial plan 2020/23 the values set out in the Council plan have been applied. This is contained within appendix 2 (see 2.4).

Financial Resilience

2.17. Financial resilience 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.

2.18. External auditors gave a clean bill of health on the council's accounts for 2018/19 as they have each year since the inception of North Lincolnshire Council. The financial outturn for 2018/19 was positive, with net expenditure £2.8m below the cash limited budget of £134.8m.

2.19. The council is currently forecasting that its net operating cost will be £2.5m above the 2019/20 budget set at outturn. This has improved over the year with further improvement expected at the time of the final reported position. For the purposes of prudent forward planning £2.5m of reserves have been earmarked if required to cover this pressure in the event that the risk materialises to the extent forecast.

- 2.20. The forecast reflects an increase in complex need within adult social care, combined with an increase in the cost of care packages. This has been recognised by Government in the Local Government finance settlement with additional grant funding being provided and precept funding enabled in 2020/21.
- 2.21. The 2019/20 budget included £8.7m of cost reduction initiatives, which inevitably contain an element of delivery risk in terms of value and timing. The transformation of the Council into a more agile and progressive organisation will be fully realised over a longer term period.
- 2.22. 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, North Lincolnshire is deemed a lower risk in respect of social care spending, and a higher risk in respect of reserves being held. This is considered further in Appendix 4.

3. OPTIONS FOR CONSIDERATION

- 3.1. The annual Revenue Budget for 2020/21 and Medium Term Financial Plan 2020/23 is proposed for approval in Appendix 2.
- 3.2. The Revenue Budget assumes a level of income from general Council Tax of £68.972m. This is based upon a general Council Tax band D equivalent rate of £1,382.49, which represents an increase of 1.9% from the total 2019/20 band D rate.
- 3.3. The revenue budget assumes the level of income from the Adult Social Care precept of £6.694m. This is based upon an adult social care precept rate of £134.18, which represents an increase of 2% from the total 2019/20 band D rate.
- 3.4. Appendix 6 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 6; any currently not yet declared will be available on the day of Council.

4. ANALYSIS OF OPTIONS

- 4.1. The budget proposal for 2020/21 set out in this report represents a balanced budget where net operating expenditure is equivalent to the Council's estimate of spending power.
- 4.2. The 2020/23 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.

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 2020/21 to be based upon robust estimates and supported by an adequate level of reserves. The budget proposal requires action to be continually taken to ensure it can be delivered.

Delivering the budget proposal set out in this report requires action to be taken across the Council. These are clearly identified and understood, and will be subject to specific monitoring by the Council's leadership.

5.2. Adequacy of Reserves

The reserve statement and strategy set out in Appendix 4 identifies the level of reserves expected to be available over the medium term financial plan period. On the basis of this strategy, as the council's Chief Financial Officer, I consider that Council reserves will be sufficient to provide adequate cover for identified risks, including the inherent funding uncertainty beyond 2020/21. 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.)

Legal Requirements

- 6.1. The budget and Council tax decision itself must meet a number of statutory requirements. These are summarised here and provide the basis for the report's recommendations.

- 6.2. When setting the budget for 2020/21 the Council has the power to decide the level of the revenue budget 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:
- The **robustness of the budget estimates** being considered (Part 2 Section 25 (1)(a) of the Act) (5.1); and,
 - 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 Partnerships is the council's Chief Financial Officer under Section 151 of the Local Government Act, 1972. Her advice is contained in Appendix 8, 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 Expense, which forms part of the council's own Council Tax allocation.

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 a number of dimensions: 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. No conflicts of interest have been declared.

9. RECOMMENDATIONS

9.1. To set a revenue budget for 2020/21.

9.2. To approve the indicative Medium Term Financial Plan for 2020/23.

9.3. To approve the technical budget recommendations contained in Appendix 1.

9.4. To note the uncertainty relating to Local Government financial reform due to be implemented in 2021/22, and request that the Director of Governance and Partnerships provides regular updates to Cabinet during 2020/21.

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 2020/21 in line with financial procedure rules.

9.6. That the Council's Chief Financial Officer be authorised to distribute the provision for pay and contract inflation when the impact can be 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 PARTNERSHIPS

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Date: 12th February 2020

Background Papers used in the preparation of this report

- Budget Review 2019-20 and Medium Term Financial Plan Update (Q1 & Q2)
- Calculating the Council Tax Base 2020/21
- Setting the National Non-Domestic Rates Tax Yield 2020/21
- 2020/21 Local Government Finance Settlement
- Schools Funding Formula 2020-21 (Cabinet Member report)

That the following technical recommendations be approved:

1. That the general council tax band D rate be set at £1,382.49, which represents an increase of 1.9% from the total 2019/20 band D rate.
2. That the adult social care precept band D rate be set at £134.18, which represents an increase of 2% from the total 2019/20 band D rate.
3. To note that at its meeting held on 27 January 2020 Council calculated the following amounts for the year **2020/21**. These are as required by regulations made under Section 33(5) of the Local Government Finance Act 1992:
 - (a) **49,889.5** 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 6**, column 2 (regulation 6)
4. That the following amounts calculated for **2020/21**, as required by Sections 31 to 52 of the Local Government Finance Act 1992 as amended, be approved:
 - (a) **£76,240,104** being the **relevant basic amount of Council tax** for 2020/21 (Council Tax requirement for the Council's own purposes excluding parish precepts but including special expenses)
 - (b) **£326,114,866** 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**)
 - (c) **£248,325,276** being the aggregate of the amounts which the council estimates for the items set out in Section 31A (3) of the Act (**gross income**)
 - (d) **£77,789,590** 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)
 - (e) **£1,559.24** 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**)

- (f) **£2,123,682** being the aggregate amount of all special items and Parish precepts referred to in Section 34(1) of the Act, as per **Appendix 5A (Total of all Parish Precepts and Special Expenses)**
- (g) **£1,516.67** 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
- (h) **£35.37** 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
5. To note that for the year 2020/21 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**).
6. To set the amounts of Council Tax for the year 2020/21 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**).
7. To confirm the robustness of the estimates used in setting the level of Council Tax in accordance with the Local Government Act, 2003 requirements (Part 2 Section 25 (1)(a) of the Act).
8. To confirm the adequacy of reserves included in the budget in accordance with the Local Government Act, 2003 requirements (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 4**.
9. 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 5**.

MEDIUM TERM FINANCIAL PLAN

Appendix 2

Table 1 – Estimate of Spending Power

2019/20 Approved Budget £000's	FORECAST SPENDING POWER	2020/21 Provisional Budget £000's	2021/22 Provisional Budget £000's	2022/23 Provisional Budget £000's
	ONE-OFF FUNDING			
(1,300)	Use of Reserves (-)/Contribution to Reserves +	(1,925)	(1,565)	410
(711)	Collection Fund Surplus (-) / Deficit (+): CTAX	(972)	-	-
(2,027)	Collection Fund Surplus (-) / Deficit (+): NNDR	(2,563)	-	-
(4,038)	Total	(5,460)	(1,565)	410
	HIGHER CERTAINTY FUNDING			
(67,539)	Council Tax: (1.9% 20/21, 2.99% 21/22 - 22/23)	(69,546)	(72,440)	(75,450)
(5,191)	Social Care Precept (2% 2020/21)	(6,694)	(6,745)	(6,803)
(72,730)	Total	(76,240)	(79,185)	(82,253)
	LESS CERTAIN FUNDING BEYOND 2020/21			
(6,098)	Revenue Support Grant	(6,198)	(6,198)	(6,198)
(41,030)	Business Rates	(42,329)	(43,284)	(44,949)
(501)	NNDR: Levy Account Surplus Allocation	-	-	-
(737)	New Homes Bonus	(414)	(166)	(146)
(6,264)	Improved Better Care Fund	(7,025)	(7,728)	(8,501)
(206)	Rural Services Delivery Grant	(206)	(206)	(206)
(420)	DSG Central School Services	(420)	(420)	(420)
(761)	Winter Pressures Grant	-	-	-
(1,300)	Social Care Grant	(4,515)	(4,967)	(5,464)
(9,070)	Public Health Grant	(9,251)	(9,436)	(9,625)
(66,386)	Total	(70,358)	(72,405)	(75,509)
(143,154)	TOTAL FUNDING	(152,058)	(153,155)	(157,352)

Table 2 – Priority Investment Summary

2019/20 Approved Budget £000's	PRIORITY INVESTMENT	2020/21 Provisional Budget £000's	2021/22 Provisional Budget £000's	2022/23 Provisional Budget £000's
64,204	Keeping People Safe And Well	69,107	69,885	71,497
24,442	Enabling Communities To Flourish	23,476	23,331	22,966
7,634	Growing The Economy	7,879	7,419	7,079
23,023	Running the Business (Organisation)	22,921	20,896	20,130
23,851	Running the Business (Technical)	24,240	23,732	24,322
143,154	PRIORITY TOTAL	147,623	145,263	145,994
-	Inflationary Provisions	4,435	7,892	11,358
143,154	NET OPERATING EXPENDITURE	152,058	153,155	157,352

Table 3 – Accountability Framework 2020/21

	2020/21 Gross Investment £000's	2021/22 Gross Income £000's	2022/23 Net investment £000's
PRIORITY INVESTMENT			
Business Development	14,853	(15,345)	(492)
Governance & Partnerships	46,325	(32,727)	13,598
Operations	43,509	(11,858)	31,651
Public Health	7,743	(244)	7,499
Learning, Skills & Culture	38,097	(26,812)	11,285
Children & Community Resilience	22,920	(1,748)	21,172
Adults & Community Wellbeing	55,826	(15,874)	39,952
Central & Technical Budgets	25,332	(2,374)	22,958
SERVICE TOTAL	254,605	(106,982)	147,623
Inflationary Provisions	4,435	-	4,435
NET OPERATING EXPENDITURE	259,040	(106,982)	152,058

Table 4 – Subjective Analysis 2020/21

ANALYSIS OF 2020/21 PROPOSED BUDGET	2020/21 Proposed Budget £000's
Employees	99,037
Premises	6,539
Transport	6,455
Supplies & Services	24,383
Third Party Payments	111,586
Capital Financing	11,040
EXPENDITURE TOTAL	259,040
Sales Fees & charges	(27,010)
Rents	(5,247)
Other Income	(5,226)
Payments from other LAs	(672)
Joint Finance	(938)
Government Grants	(66,358)
Interest	(75)
INCOME TOTAL	(106,982)
NET OPERATING EXPENDITURE	152,058

Table 5 – Memorandum Item (DSG)

DEDICATED SCHOOLS GRANT	2020/21 Proposed Budget £000's
Maintained Schools Expenditure Government Grants (DSG)	60,718 (60,718)

1. ANALYSIS OF FUNDING (Table 1 – Estimate of Spending Power)

- 1.1. Funding for local services comprises a combination of nationally allocated and locally generated resources. Taken together, these determine the Council's spending power. There are several elements. These are shown in the funding table with each component considered further in this Appendix. The basis on which they have been calculated is explained with any risk that may cause the figures to vary considered.

Local Resources:

Council Tax
Adult Social Care Precept
Business Rates (NNDR)
Fees and Charges for services
Other commercial income (rents)
Reserves

National Resources:

Non-specific grant funding
Service specific grant funding

- 1.2. As set out in Table 1, the Council's forecast spending power in 2020/21 is £152.1m, which represents an increase of £8.9m from 2019/20.
- 1.3. However, funding certainty exists for 2020/21 only with forecasts beyond 2020/21 subject to change. This is reflected in table 1. The Ministry of Housing, Communities and Local Government are progressing two major changes to local government finance: the fair funding review and the move to 75% business rates retention. It is anticipated that these changes will be implemented in 2020/21 following consultation later this year.
- 1.4. The Council aims to grow the economy, by continuing to create the conditions for growth which will increase the size of the local tax base and the Council's income.

Local Government Finance Settlement 2020/21

- 1.5. On an annual basis, the Government publishes its financial settlement to Local Government. The settlement sets out each Council's share of national grant allocations. In addition, the Government make an estimate of how much it thinks each Council will raise from council tax, using notional tax base data. Finally, the Government quantifies each Council's baseline funding from business rates. These elements combine to form a Core Spending Power for each Council, the national estimate of how much is available to support local functions.
- 1.6. The budget proposal forecast reflects the local tax base estimate for business rates and council tax, and therefore differs from the Government estimate contained in the settlement. Both are considered in greater detail further on in this Appendix.
- 1.7. The provisional 2020/21 settlement was announced on Friday 20th December 2019, and was unchanged in the final 2020/21 settlement published on Thursday 6th February 2020. The settlement confirmed the announcements

contained in the 2019 Spending Round. The final settlement has yet to be voted on in Parliament, although this is considered a timing issue and is not expected to lead to any changes when the vote does occur. The main headlines are as follows:

- Continuation of 2019/20 £2.5bn grants to support social care
- A further £1bn grant funding for social care
- A potential £0.5bn through an additional 2% adult social care precept
- Inflationary increases in Public Health grant and Better Care Fund
- Uprating of core settlement by £0.3bn
- An extra £0.7bn to support children with special educational needs.

1.8. These announcements translate into the Government's core spending power estimate for North Lincolnshire Council:

Illustrative Core Spending Power (North Lincolnshire Council)	2015/16 £M	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Settlement Funding Assessment	58.5	50.9	45.3	42.1	38.7	39.4
Business Rate under indexation grant	0.4	0.4	0.5	0.7	1.1	1.3
General Council Tax	57.9	59.7	62.4	64.3	67.3	70.3
Adult Social Care Precept	-	1.2	3.1	5.2	5.4	7.1
Improved Better Care Fund	-	-	3.7	5.0	6.3	7.0
New Homes Bonus	2.7	3.2	2.1	1.0	0.7	0.4
Rural Services Delivery Grant	0.0	0.2	0.2	0.2	0.2	0.2
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
CORE SPENDING POWER	119.6	115.6	118.0	119.8	121.8	130.3

1.9. As can be seen in the table, the core spending power for North Lincolnshire is increased to £130.3m in 2020/21, an increase of £8.5m from 2019/20. This follows a period of years where core spending power remained relatively flat; a time where increasing local resources was offset by reductions in core grant funding. The £8.5m increase reflects the following:

- £3m increase in general council tax (base and price growth)
- £1.7m increase in adult social care precept (base and price growth)
- £3.1m increase in adult social care grant funding and improved better care fund
- £0.9m increase in settlement funding assessment (which includes revenue support grant, business rates baseline need and under-indexation grant)
- £0.3m reduction in new homes bonus grant funding

1.10. The core spending power increase between 2015/16 and 2020/21 equates to 8.9%, heavily weighted towards increases at the end of the period, with 6.9% of the increase attributable to 2020/21. Over the same period, the retail price index has increased by 13%, demonstrating that there remains a real reduction in core spending power when inflation is taken into account over this period. This is exacerbated when earlier years are taken into account.

- 1.11. The settlement contains funding certainty for 2020/21 only. Beyond 2020/21, the Council has made its best estimate of funding with the current information known.
- 1.12. The Fair Funding review and move to 75% business rates retention had originally been due for implementation in 2020/21 and are now expected to be implemented in 2021/22 following consultation. Both are considered in turn.
- 1.13. The **Fair Funding review** focusses on the relative distribution of resources between Councils. The current formula dates back several years, and is deemed to no longer ensure a fair distribution of resources. A new formula is therefore being developed which aims to ensure funding allocations better reflect need to spend, and will become the resource allocation distribution mechanism from 2021/22.
- 1.14. The move to **75% business rates retention** will enable a greater share of locally generated business rates to be retained locally. Currently, the model distributes half of business rates income to Central Government, with the remainder retained by Local Government bodies (with Fire Authorities receiving 1% of this). The current system contains re-distribution mechanisms to ensure all Council's receive an amount relative to their baseline need. By increasing local retention to 75%, the Government are expected to reduce grant funding. The shift will sharpen the risk/reward formula, increasing the incentive to pro-actively work towards achieving growth in the economy.
- 1.15. Both changes represent major systemic changes to Local Government finance, and could potentially lead to situations where transitional arrangements are anticipated in order to minimise the impact on individual Councils through potential gains and losses. The extent to which the Council can model different scenarios is currently constrained by the limited information available to support revised planning assumptions.
- 1.16. During March 2020, the Chancellor is expected to present the next Budget which will set out national income and expenditure forecasts for the medium term. The budget could also set out the parameters for a Comprehensive Spending Review later in 2020, which may result in multi-year spending limits for Government departments being set, including Local Government.
- 1.17. The spending power forecast beyond 2020/21 must be considered within this context. The inherent uncertainty has been reflected in the reserves strategy, contained in Appendix 4. The budget proposal sets aside a level of reserves which are deemed to be sufficient to withstand a significant shock in funding in 2021/22. This potentially gives the Council a longer lead in time to make any necessary adjustments to the cost base if required.
- 1.18. Elected members will be updated with better information as soon as it is made available to the Council. This will include how current planning assumptions are impacted, and the potential impact any change has on the medium term financial plan.

Council Tax & Adult Social Care Precept

- 1.19. 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 also a lower degree of volatility within council tax than other funding sources, such as business rates. Its relative importance has continually increased over the past ten years.
- 1.20. Total forecast income from council tax is based on two key assumptions:
 - (i) the Council Tax base (expressed in band D equivalents)
 - (ii) the band D rate of Council Tax.
- 1.21. Full Council met on Monday 27th January 2020 and set the 2020/21 council tax base at 49,889.5 band D equivalents, an increase of 0.9% compared to 2019/20. In setting the tax base, an estimate of property growth was assumed from known developments, as well as an assumption that the number of recipients of council tax support continues to naturally reduce.
- 1.22. Beyond 2020/21, base growth has been forecast at 0.8%. This reflects the assumptions contained within the Local Plan. This equates to roughly 400 band D equivalent properties per annum, although could be subsequently increased if the pace of major developments increases.
- 1.23. In the 2020/21 Local Government Finance Settlement, the Government amended the council tax referendum limit for general council tax increases to 2%. This had been set at 3% in 2019/20. When making its assessment of Spending Power for Local Government, the Government assume that Council's will maximise their flexibilities to increase council tax. This plan assumes a 1.9% increase in 2020/21, with 2.99% increases in 2021/22 and 2022/23. The increase in 2020/21 equates to £1.54 per month per band A property.
- 1.24. In addition to general council tax, Councils were also given the opportunity to levy an adult social care precept from 2016/17. This represents a local charge to contribute towards the cost of social care services. This was intended to increase resources for social care services, with further increases made possible in 2017/18 and 2018/19. To date, the Council has maximised its possibilities under the adult social care precept to increase the funding available to support the local system. In the settlement, it was announced that an additional 2% adult social care precept could be levied in 2020/21. This formed part of a funding package specifically intended to increase investment within social care. This plan assumes a 2% increase is applied in 2020/21, which equates to £1.62 per month per band A property.
- 1.25. Financial plans assume 3% general rate increases beyond 2020/21. This represents a mid-point assessment of current total permitted increases and is pending the outcome of the review of Local Government finance.
- 1.26. The Council has an active housing agenda, with major developments planned across North Lincolnshire. It forms a key part of the council's long-term aim to

be financially sustainable and growing the local economy is a key element of this strategy. Any growth achieved over and above trend growth would result in a collection fund surplus, and enable increased forward growth assumptions.

- 1.27. In line with prudent practice, the council is also required to make a collection rate estimate in respect of council tax. For 2020/21, a collection rate of 98.1% has been assumed, which takes account of local factors.
- 1.28. The relative importance of council tax has increased significantly over the last ten years. It now accounts for over half of funding. Total funding from council tax and the adult social care precept is expected to be 35% higher in 2022/23 than it was in 2016/17. This is demonstrated in the table below:

Council Tax Summary	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Council Tax Base	46,498.1	48,147.2	48,602.1	49,442.8	49,889.5	50,268.7	50,700.9
Council Tax Rate:							
General rate (band D)	1,273.86	1,286.72	1,313.61	1,354.75	1,382.49	1,427.84	1,474.54
ASC Precept (band D)	25.48	64.46	104.99	104.99	134.18	134.18	134.18
Council Tax Yield:							
General rate (£M)	59.2	62.0	63.8	67.0	69.0	71.8	74.8
ASC Precept (£M)	1.2	3.1	5.1	5.2	6.7	6.7	6.8

- 1.29. 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 6.
- 1.30. Finally, a number of 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 7, and equate to a charge per band D property of £30.88 funded from the Council's general council tax income.

Business Rates

- 1.31. 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. In its simplest form, the Government currently receive 50%, with the Council keeping 49% and passing 1% to Humberside Fire and Rescue. The proposal to move to 75% local retention is being developed by MHCLG for implementation in 2021/22.
- 1.32. At a national level, each Council is attributed:

- A baseline funding level – the Government estimate of how much it expects each Council to need from business rates
- An estimated net yield – the Government estimate of how much it thinks will be collected by each Council

Where more is collected than needed, a tariff is payable. Where more is needed than collected, a top-up is due. This redistributes resource nationally to ensure all authorities business rates income is relative to their determined resource need.

- 1.33. The settlement sets out the Council's baseline funding level, the amount it expects the area to collect in business rates and the resultant tariff due to be paid. The tariff is structurally fixed until the next revaluation, due in 2021. The NNDR baseline funding is incorporated into the core spending power assessment (see 1.8), and is set out below:

Settlement NNDR Assessment	2019/20 £M	2020/21 £M
Estimated Net NNDR Yield	74.1	75.3
Split between:		
Central Government	37.1	37.7
Fire Authority	0.7	0.8
Local Authority	36.3	36.9
Tariff (-) / Top-Up (+)	(3.7)	(3.7)
NNDR Baseline Funding	32.6	33.2
Safety Net Threshold	30.2	30.7

Settlement Funding Assessment	2019/20 £M	2020/21 £M
Revenue Support Grant	6.1	6.2
NNDR Baseline Funding	32.6	33.2
Total	38.7	39.4

- 1.34. The actual amount forecast to be generated and retained from business rates in 2020/21 is contained in the 'Setting the National Non-Domestic Rates Tax Yield 2020/21' report, approved under delegated powers in January 2020. This report is a background paper to this report, and considers:

- How the forecast gross liability has been determined through applying the multipliers set by Government to the total rateable value
- The mandatory and discretionary reliefs available
- The compensatory section 31 grants due to the Council to offset for the cost of nationally determined reliefs
- The reduction in business rate income due to appeal refunds and write-offs
- The impact of items fully retained by the Council
- The tariff and levy payable due to the Council collecting more business rates than it is determined to need

The gross NNDR tax yield for 2020/21 has been set at £97.7m. This converts to a net NNDR tax yield for 2020/21 of £76.3m through the above adjustments, of which the Council expects to retain £42.3m, £9.1m above the baseline funding level.

- 1.35. 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 £30.7m before safety net support is received.

- 1.36. 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). During 2019/20, there was a significant reduction to one property which necessitated a backdated refund and an ongoing loss in business rates income. There are also 253 appeals outstanding on the 2010 list, which could necessitate refunds back to April 2010.
- 1.37. The Council is required to maintain a prudent appeals provision to fund the cost of backdated appeals when they are agreed, which could be well into the future. The taxbase assumes 4.7% of rates (less relevant reliefs) will be used for this purpose, in line with the amount added to the multiplier at revaluation which represented the Government's best estimate of the cost of backdated appeals at a national level. The actual cost of refunds will materialise during the year and the required contribution to the appeals provision will be determined at the year end.
- 1.38. There are currently inherent limitations with the quality and content of live and settled appeals data provided by the VOA, which has led to a change in calculation methodology for 2017 list appeals. This change means the full risk is no longer covered by the appeals provision, and therefore the Council must cover the excess risk via the NNDR risk reserve (see 1.46 - 1.49). This is reflected further in the Reserves Strategy in Appendix 4.
- 1.39. It is important to note that 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, made up from 5,682 properties. Any change in valuation for any of these properties could significantly impact the Council's funding from business rates, both in terms of backdated appeals and ongoing revenue loss.
- 1.40. The move to 75% business rates retention discussed in this Appendix reduces the certainty of business rates income estimates beyond 2020/21. Due to the insufficient data in existence from which to make reliable estimates for 75% business rates retention, the medium term financial plan continues to forecast business rates resource based on the 50% retention scheme. This is considered the safest approach at this stage. Elected members will receive regular updates over the next year and will be promptly notified when better information becomes available. The report makes a specific recommendation in respect of this.
- 1.41. The move to business rates retention also coincides with the start of the next rating list, due to be implemented in April 2021. The 2021 list represents a revaluation of business rateable values. Each business property valuation will be tested to ensure it is set at the right level, in accordance with the Valuation

Office Agency rating manual. In the 2017 revaluation, the total rateable value for North Lincolnshire reduced significantly. At a national level, revaluations are legally required to be fiscally neutral, therefore if there is a national change it will require an amendment to the multiplier to ensure fiscal neutrality. Whilst revaluations are cost neutral to the business sector at a national level, they can vary at local level.

- 1.42. The Council's baseline funding will change from April 2021 to reflect 75% business rates retention, as considered above. The Government currently forecasts how much each Council will generate in business rates to derive a tariff or top-up. At the 2021 revaluation and reset, it is possible that the Government will update these estimates and reflect some of the changes that have happened since they were last reset. In essence, those areas that have achieved growth could have it 'locked in' to their forecast income, increasing their tariff/reducing their top up, and authorities not meeting their target income could see it lowered, reducing their tariff/increasing their top-up, all else being equal. This is an active risk as North Lincolnshire currently collects more than the Government forecasts it to.

Collection Fund

- 1.43. 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.
- 1.44. At the year-end, the definitive calculation is undertaken which gives rise to the actual surplus or deficit. If the actual position differs from the January estimate, the difference will impact upon the funding base in the year following.
- 1.45. 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. However, this is highly unlikely because the estimate is based on lots of variables, most of which will then change in one way or another during the year.
- 1.46. In respect of business rates, a collection fund surplus has been forecast and reflected in the 2020/21 funding base. This arose at the end of 2018/19 (after the January 2019 estimate), and is wholly due to a change in methodology for calculating the required appeals provision. The Council must maintain a prudent appeals provision to fund the cost of backdated appeals when they are agreed, which could be well into the future.

- 1.47. In 2017/18 and 2018/19, the Council did not have any intelligence on which to base a scientific estimate, therefore it set aside 4.7% of gross rates payable in line with the national estimate of list appeals costs which was added to the multiplier. However, this approach is no longer sustainable because accounting standards state that a provision can only be recognised if, and only if, the amount provided for can be estimated reliably. The current quality and content of live and settled appeals data provided by the Valuation Office Agency for 2017 list appeals is not sufficient and comprehensive enough for a reliable estimate to be made.
- 1.48. Therefore a change in calculation methodology was adopted at the end of 2018/19. The Council makes use of forecasting by a specialist company which uses national data to forecast trends which indicate local losses. Whilst an improvement, it does not cover the full outstanding risk, and as a consequence results in a reduction in the amount set aside within the appeals provision to cover 2017 list appeals. The surplus therefore exists due to the technical change in approach.
- 1.49. As the full outstanding risk is not now deemed to be covered by the appeals provision, the NNDR risk reserve needs to be maintained and adjusted to a level which is deemed to best manage the risks which cannot yet be quantified. This has been reflected in Appendix 4.
- 1.50. In respect of council tax, the surplus is due to a combination of a higher property stock than was budgeted, a lower cost of system reliefs than had been expected, and a lower write-off than had been expected.

Funding for Social Care

- 1.51. Since 2016/17, the Government has provided a package of funding to support Local Government in managing increasing social care need, and reducing pressures on the NHS.
- 1.52. The 2019 Spending Round contained announcements which increases the amount of sector specific funding in 2020/21. The announcements have been considered within the 'Local Government Finance Settlement 2020/21' section of this Appendix. The total funding provided and enabled by Government to contribute towards the cost of social care has therefore increased, as shown below:

Social Care Funding (all in £M)	2017/18	2018/19	2019/20	2020/21	2021/22*	2022/23*
Social Care Precept	3.1	5.1	5.2	6.7	6.7	6.8
Improved Better Care Fund	0.3	5.0	6.3	7.0	7.7	8.5
Social Care Grant Funding	0.8	0.5	2.1	4.5	5.0	5.5
Total	4.2	10.6	13.5	18.2	19.4	20.8
Change Per Year	-	6.4	2.9	4.7	1.2	1.4

* The Council's financial planning forecasts assume the level of social care grant funding provided by Government will increase annually by 10% beyond 2020/21. This reflects a modest assumption relative to the increases applied up to and including 2020/21 and is based on the emerging language around

resolving long-term social care funding. There is a risk that social care grant funding doesn't increase or continue, likewise there is a possibility that it could increase in excess of the assumptions above

- 1.53. The budget proposal assumes the Council will continue to maximise its flexibilities under the adult social care precept in 2020/21, as it has to date.
- 1.54. In total, social care specific funding is expected to increase by £4.7m in 2020/21, and represents the bulk of the total £8.9m forecast increase in total spending power. This enables social care budgets to be increased, ensuring the Council can continue to meet local need. This is considered further within the 'Analysis of Net Operating Expenditure' section of this Appendix.
- 1.55. The council is clear that the adult social care precept is being used to contribute to maintaining effective local services. Adult social care services have been subject to significant inflationary pressures, including the increase in the national living wage, relatively high rates of general inflation and demographic changes. Without the adult social care precept, the increasing cost of service delivery could not have been absorbed.
- 1.56. Use of the Improved Better Care Fund is agreed collectively with North Lincolnshire Clinical Commissioning Group (NLCCG), 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. The Health & Wellbeing Board approve the planned use of the funding, in accordance with NHSE Planning Guidance.
- 1.57. The Government have prioritised changing the way social care is delivered and funded to make the model more sustainable which could potentially mean changes to the amount individuals are expected to contribute to their care in old age. It is understood that the Government are working towards publishing a plan with more information during 2020. The Council will continue to follow developments closely, influencing where possible, to fully understand the impact of any changes to the Council and its residents.

Public Health Grant

- 1.58. The Council receives a Public Health grant from the Department of Health and Social Care, ring-fenced to public health activities. The 2019 Spending Round confirmed a real terms increase to the grant in 2020/21. At the time of writing the grant allocation has not been confirmed, therefore an estimate has been made. The functions of the Council contribute to achieving and improving public health outcomes. Public health specific functions are located in the areas where they can achieve the greatest public health benefits for North Lincolnshire, maximising the use of Council resources.

Other Government Grants

- 1.59. A long-standing feature of local government finance has been the **Revenue Support Grant**, a general contribution from Government towards the cost of

local services. Up to and including 2019/20, this grant had been reduced as the Government has moved towards local resourcing and service specific funding. In the 2019 Spending Round, the Government confirmed this would be increased by inflation in 2020/21, an increase of £0.1m.

- 1.60. The Council also receives a **Rural Services Delivery Grant**, an acknowledgement that the cost of providing some local government services in rural areas carries with it a greater cost. The amount provided in 2019/20 is maintained for 2020/21.
- 1.61. At the point when 75% business rates retention is introduced, it is expected the Council will no longer receive revenue support and rural service delivery grants.
- 1.62. From 2011/12, the Government have incentivised Councils to encourage accelerated house building by providing a **New Homes Bonus Grant** rewarding the number of houses built. The grant incentive was reduced in 2019/20, with a revised reward period of four years and a minimum growth baseline for which no reward would be given. The Settlement confirmed that 2019/20 growth would only receive one year reward, with any funding beyond 2020/21 subject to the 2020 Spending Review.
- 1.63. Finally, **DSG Central Grant** contributes towards the cost of statutory education authority services, with Schools Forum approval required annually. The budget proposal assumes consent will be given, like it has in 2018/19 and 2019/20.

2. ANALYSIS OF NET OPERATING EXPENDITURE (Tables 1B, 1C, 1D & 1E)

2.1. The Council's Net Operating Expenditure represents the day to day costs and income sources of council. The Council has aligned revenue investment with the Council Plan priorities, set out below:

- Keeping people safe and well
- Enabling communities to flourish
- Growing the economy

A fourth priority relates to running the business well, which means an efficient and effective organisation supporting success in core priorities. Investment by priority area is contained in Table 2.

2.2. The budget proposal contained in this Appendix is converted into a national data collection, the Revenue Account form, which is due to be submitted to Government in early April. Every council is required to submit this form, which expresses investment in accordance with Government defined areas of spend. The results from this process allow for cross sector comparability.

2.3. The Council's revenue investment is split, with approximately half allocated to need-led services and the remainder funding other priority areas. The extent to which the Council can continue to manage need well will impact on the amount of resource available to fund to other priority areas.

2.4. The Council is striving to achieve financial sustainability over the longer-term. Financial sustainability will be reached when the Council generates sufficient resource to fund its investment aspirations, driven by the Council plan, over the longer-term. This requires taking action to increase the level of resources generated, continuing efforts to embed commercial principles to grow the tax base and income where appropriate. Where the Council is not able to generate sufficient resources to fund its preferred investment level, financial sustainability requires that the Council tailors its investment aspirations and prioritise investment to maximise outcomes. The principles underpinning this are set out on the following table:

Values (Council Plan)	Principles for Council Sustainability
Integrity	<p>We will:</p> <ul style="list-style-type: none"> • be guided by our goals; enabling, progressive and commercial outcomes • consider all options before arriving at the most effective and efficient delivery model • spend the money we have in line with our place priorities • keep the lowest possible council tax, whilst delivering value for money • generate commercial income to balance the budget • keep high risk close • consider subsidising where there is social value • transition towards a greener North Lincolnshire
Excellence	<p>We will:</p> <ul style="list-style-type: none"> • ensure spending demonstrates improvement and better outcomes • use market intelligence, guided by residents' opinion to inform decisions • use place leadership to influence excellence
Self-Responsibility	<p>We will:</p> <ul style="list-style-type: none"> • promote and enable communities/organisations/businesses to do more for themselves to deliver for local people and places • make decisions that are progressive on environmental matters
Equality of Opportunity	<p>We will:</p> <ul style="list-style-type: none"> • spend proportionately to ensure equality of opportunity • use alternative provision where it exists in low risk, low cost areas

- 2.5. The day to day management of revenue budgets is allocated to officers to ensure clear lines of oversight and accountability. Officers manage budgets in accordance with the resource accountability framework. Gross and net investment categorised under the accountability structure is contained in Table 3.
- 2.6. 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 elements (e.g. pay, goods and services). The 2020/21 forecast is summarised in Table 4.
- 2.7. Government policy sets the mandate to what Local Government does and 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 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.

- 2.8. 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 service 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.
- 2.9. In order to set a robust and balanced budget for 2020/21, it is important that the council's current financial position is properly understood and reflected. The quarter 3 budget review for 2019/20 forecasts a net operating expenditure of £145.7m, which is £2.5m (or 1.8%) above the approved investment limit. The position has improved as the year has progressed, reflecting a combination of approaches to manage risks and work towards a balanced budget at year-end.
- 2.10. If net operating expenditure outturns at the quarter 3 estimate, the Council will require additional use of the risk and transformation reserve. This has been factored into the reserve statement in Appendix 4.
- 2.11. In reaching a robust and balanced budget proposal for 2020/21, the council's budget setting process considers the financial impact of:
 - A change in local demographics leading to different levels of need
 - The inflationary increase of the current cost base
 - Technical adjustments
 - Other adjustments and consequences of 2019/20

In addition, it considers the initiatives being progressed which enable the Council plan to be delivered which also helps us to become a sustainable Council, supported by the principles set out (see 2.4 of this appendix). Finally, it considers how the Council will look to manage its risks during the year.

- 2.12. A summary of the adjustments made to budgets in the 2020/21 budget proposal are demonstrated in the table on the following page:

PRIORITY INVESTMENT	2019/20 Budget £000's	Activity £000's	Inflation £000's	Technical Change £000's	Other Increases £000's	Align to Council Plan £000's	2020/21 Budget £000's
Keeping People Safe And Well	64,204	3,411	1,402	-	250	(160)	69,107
Enabling Communities To Flourish	24,442	-	-	-	670	(1,636)	23,476
Growing The Economy	7,634	-	-	-	609	(364)	7,879
Running the Business (Organisation)	23,023	-	-	-	430	(532)	22,921
Running the Business (Technical)	23,851	-	-	389	-	-	24,240
PRIORITY TOTAL	143,154	3,411	1,402	389	1,959	(2,692)	147,623
Inflationary Provisions	-	-	4,435	-	-	-	4,435
NET OPERATING EXPENDITURE	143,154	3,411	5,837	389	1,959	(2,692)	152,058

The detail supporting the main changes set out above are considered in turn below.

Local Demographics and Activity Levels

- 2.13. In its simplest form, cost is incurred as a result of activity undertaken. This applies across every function the council is responsible for. The cost base is therefore sensitive to changes in activity, and activity trends reflect changes in the local population and the demographic groups within it.
- 2.14. The Council provides or enables a wide range of functions. For a large number of functions, particularly within social care, eligibility criteria is determined in statute by Government. Therefore, there is always an inherent risk that activity and demand increases, and the Council is limited in the extent to which it can control the associated cost of these increases.
- 2.15. Whilst the parameters are set nationally for eligibility criteria, the Council can act to influence the stages where it needs to intervene. The Council has robust processes in place to ensure it can identify need at the earliest point, to prevent the need for formal intervention. This systemic approach ensures all partner organisations also take responsibility and join up where possible.
- 2.16. North Lincolnshire has a higher than average ageing population with people living longer with multiple long term conditions due to advances in healthcare provision. The Council has been successful at helping older people maintain their independence and remain living at home for longer through its early offer and reablement services and providing personal budgets to support people to have greater control over their long term care arrangements when needed.
- 2.17. A significant cost pressure within adult and community wellbeing relates to supporting working age adults with mental ill health and complex learning difficulties. Since 2013/14 the numbers of adults requiring support and the level of complexity within these areas has increased. The council has needed to ensure individuals needs have been met which has also meant that at times people have needed to be supported out of county or with high cost home care support. The council continues to work closely with health colleagues to

support people leaving long stay hospital provision and appropriate alternatives to be commissioned.

- 2.18. The number of looked after children, care leavers and children in need continues to track at high levels. Activity levels are inherently volatile and can quickly step up or down.
- 2.19. In total, the budget proposal increases social care activity budgets in 2020/21 by £3.4m. There is an ongoing risk that activity levels continue to increase quicker than budget limits are increased by, which needs managing by continuing efforts to identify need as early as possible, to resolve it in the first instance.

Inflation

- 2.20. The impact of inflation is not wholly within the council's control and increases the cost base in 2019/20 by £5.8m in 2020/21. This comprises pay inflation, contract inflation, and the impact of an increase in the national living wage on fees paid in respect of social care. Inflationary increases of £4.5m and £4.7m are currently forecast in 2021/22 and 2022/23 respectively.
- 2.21. The pay award for 2020/21 is still being discussed at a national level, with no resolution expected prior to the budget being considered by Council. The Council has provided resource for a pay award which it expects to be agreed upon, but there is an inherent risk that the national agreement will be different and could mean the amount set aside is different to the amount needed. If this is the case, the Council will need to consider mitigating actions during the year. This could include a different course of action to the national agreement if necessary, subject to appropriate agreement with trade union representatives.
- 2.22. Through the commissioning and procurement framework, the Council contracts with businesses and partner organisations to deliver services on its behalf. Contracted spend makes up a significant proportion of total gross spending, with around £93.9m of revenue related and £49.9m of capital related contract spend being incurred during 2018/19. The Council continually reviews its contracts, with a focus on delivery, performance and value for money to ensure the Council's needs continued to be best met through each contractual arrangement.
- 2.23. The reality is that the Council cannot absorb the full impact of price and activity increases to its cost base. Therefore, the continuing challenge is to take action to reduce other cost elements to mitigate the impact of these. The Council has a good track record of doing so, through changing delivery models to reduce pay costs and renegotiating contracts to ensure the price and value remains tested in the market.
- 2.24. At the start of 2014/15, the Council had 2,652 full time equivalent employees with total basic salary costs being £59.7m. Through transforming the Council and delivering services differently, improving the use of technology and

increasing productivity, the Council has been able to naturally downsize its staffing establishment. At the end of December 2019, the staffing establishment reflected 2,379 full time equivalent employees with total basic salary costs being £62.2m. Total basic salary costs are therefore only 4% higher over a five and a half year period, despite the inflationary impact of regular pay awards. This is a trend which will need to continue going forward, as the Council continues to downsize to a more productive, agile and connected organisation.

- 2.25. The Government have published draft National Insurance contribution regulations for 2020/21, which incorporate a 2% increase in the secondary threshold which should reduce pay costs by approximately £0.05m.

Technical Cost Adjustments

- 2.26. There has been a simplification in the way revenue costs of capital financing are determined. As opposed to incrementally building up from the current programme, the budgets are now based on a series of determinable variables. The borrowing cost is derived through an assumed capital financing requirement and average interest rate, overlaid with any other assumptions. Forward minimum revenue provision is based on a fixed asset life and the annuity method. The different approach results in a forecast £0.9m reduction in cost for 2020/21 than had been expected, and is expected to better reflect reality.
- 2.27. By basing the charge on a simple set of assumptions, it enables variances to be easily identified including the primary reason supporting the variance.
- 2.28. In addition, the Council treasury management strategy sets out the Council's approach to borrowing decisions. As in 2019/20, it is expected that the Council will make use of short-term borrowing where possible and appropriate during the year to contribute a one-off saving of £1m. The recent flat 1% PWLB rate rise increases the importance of identifying alternate means of borrowing at a reduced cost.
- 2.29. In the recent triennial review of the pension fund, the Council was given the option to pre-pay an element of pension contributions to receive some of the benefit of better interest rates achieved by the pension fund. Following a review of the risks and opportunities of doing so, it was determined that the Council would pre-pay primary contributions, at a saving of £0.2m over the medium term financial plan period.
- 2.30. As discussed elsewhere in this Appendix, the NNDR collection fund surplus is required to be set aside to cover the associated risk of business rates income. This shows as a positive expenditure in 2020/21.

Other Adjustments

- 2.31. The 2019/20 financial monitoring process has identified a series of variances which need adjusting through the medium term financial plan to ensure a

sound base. This includes areas of expenditure managing structural deficits that cannot be substantially resolved without policy intervention, and assumptions applied in prior years budget setting which have not yet been achieved, including waste and transport. By making these adjustments, it eradicates the structural deficit which then enables a sound comparison between the expenditure base and the aims and principles contained within the Council plan.

Delivering the Council Plan and Sustainability

- 2.32. **Maximising Income:** The council generates income from a number of chargeable services such as planning fees, adult social care and leisure facilities. Income is also generated for a commercial return on traded services including for example, commercial property and catering and cleaning services. The Council currently generates in excess of £43m in sales, fees & charges, rents and other income, which supports the cost of delivering services. Maximising income is vital to support wider spending power, and contribute to the cost of providing other services.
- 2.33. In addition, specific service areas receive direct grants from Government departments to contribute towards the cost of some services. Examples include recent announcements of grant funding relating to Homelessness and Domestic Violence.
- 2.34. For commercial areas, it remains Council policy that fees be set at a level where the cost is fully recovered, unless there is a specific policy reason to do so that considers different benefits of greater importance (e.g. social value). This prevents the taxpayer subsidising commercial services that do not provide area wide benefits. The budget proposal assumes those commercial areas which do not currently full cost recover, adjust pricing to move towards full cost recovery over a two year period, removing the universal taxpayer subsidy.
- 2.35. **Delivery Models:** As discussed in this appendix, the Council has continued to adapt and change its delivery models to ensure duties are efficiently and effectively fulfilled, within affordability limits. The proposed budget incorporates changes resulting from the following:
- Community enablement is at the heart of the Council plan, organising information, advice and guidance around people and enabling residents to meet their needs within the communities where they live. The redesign of services supports residents to participate in activities that matter to them and enables opportunities for people of all ages to take part in activities that contribute to their health and wellbeing.
 - Community ownership - working with communities to enable them to take ownership of their local environment and using their local knowledge to improve outcomes for people living in their neighbourhoods. This includes devolving maintenance functions to neighbourhoods and transferring physical assets to community-based organisations.

- Public Transport – investment in a new Demand Responsive Transport scheme to support rural areas, whilst promoting public transport modes to support commercial routes be more sustainable, and subsidising student travel through partnering with colleges.
- Improving digital use - making greater use of technology in delivering improved outcomes, reducing other inputs, enabling a reduction in the cost base over the period of the financial plan.

2.36. **Managing Need/Reducing Demand:** The need to influence activity levels is considered elsewhere in this appendix, and is vital to achieving financial sustainability. The proposed budget incorporates the following changes:

- Building a “one family & hub” approach to further strengthen a preventative approach to meeting complex need so all children are looked after at home or within families in North Lincolnshire. The Council aims to create a local facility that adds capacity to support children living in families and reduce the volume of external placements providing a local flexible provision that can tailor support around the needs of individual young people.
- Single organisational model – refining the local offer to provide information, advice, guidance and enablement to help children, adults and families to be safe and well, increasing individual and family resilience. Targeting services to those most in need to enable people to become independent and prevent longer term health and care needs and high cost services.
- Providing opportunities to reduce the amount of household waste into the waste stream through home and community composting and introducing a progressive and choice based policy regarding green waste and bulky items.

2.37. A significant amount of work has been undertaken in improving the way we work with our local delivery partners. Each partner organisation contributes directly to the success of others, including the level of cost it incurs. This work is ongoing and the Council is best placed to lead the place for the good of local people and this extends to best use of resources, focussing on funding options and partners depending on the specific area being considered.

Risk Management

2.38. The budget proposal contained within this report and appendix is intended to be dynamic, responding to consequences of implementation and delivery. The budget proposal is based upon an array of assumptions, opportunities and risks. These assumptions will continue to be tested and adjusted throughout the year to ensure the budget remains in balance. This includes influencing activity levels where possible and appropriate, and delivering the actions proposed which support the balanced budget proposal.

- 2.39. The budget proposal will remain 'live' for the duration of 2020/21. The Council has internal governance arrangements established for oversight of delivery and implementation and well established financial performance reporting mechanisms. This provides the mechanisms to identify and mitigate against financial implications associated with delivery risk. Senior Leadership lead on financial management matters in consultation with Cabinet. This framework has served the Council well, and enables the best people to work together to resolve emerging risks and issues, as well as maximising new opportunities that arise during the year.
- 2.40. One of the biggest areas of expenditure led risk relates to activity and need led spending, principally adult and children's social care. In North Lincolnshire, pro-active early intervention is embedded to ensure people get what they need, without their needs increasing to the most complex level immediately. This is evidenced by the proportion of spend on children's and adults social care as a proportion of net revenue expenditure being lower than average, as demonstrated in the CIPFA financial resilience index.
- 2.41. The costs of support for children with special education needs and those requiring alternative education is being contained within the Dedicated Schools Grant available, including reserves built up in earlier years. Additional funding has been provided for this through the 2019 Spending Round for 2020/21. Working with schools through the schools forum has facilitated agreements on budget responsibility and improved collaborative working across the school system.
- 2.42. Growing the economy brings with it additional cost, as additional population, houses and businesses place increasing demand on a range of Council services. It's therefore important that the Council continues to forecast demand intelligently, adapting where necessary and working with partners to ensure a consistent offer throughout North Lincolnshire.
- 2.43. The commitment to build a financially sustainable council requires the council to operate within its means. This is one of the key budget principles. It places a responsibility on those tasked with managing council services to use resources wisely and to seek cost efficiencies in direct operational costs and in contracts with commissioned service providers and suppliers. Through rigorous management and review of contractual arrangements with other organisations, to ensure what the council is buying is best value and remains fit for purpose will realise some efficiencies. The council continues to seek cost savings when there is an opportunity to re-procure and also considers procuring from the market where it provides better value for money than direct council provision.
- 2.44. Budgets are strictly cash limited and a culture of pro-active and effective cost management and delivering within budget is promoted. The emphasis of this value for money approach is to secure services at minimum cost while maintaining quality; maximising income appropriate to the market in which a service is operating; taking opportunities to secure external funding that supports the council achieve its ambitions.

- 2.45. The first line of risk management falls to responsible officers who are required to manage their services within the allocated budget. This is underpinned by a council-wide active budget monitoring system which tracks performance regularly through the year and flags any divergence from budget. This allows early intervention to find solutions which bring spending back into line.
- 2.46. In addition to cost management, the organisation is also pro-active in identifying new ways to leverage additional income to create new opportunities to invest back into communities. Therefore in addition to council tax, business rates and Government grants, the Council also leverages income from other sources, including from sales, fees & charges and property rents.
- 2.47. The net operating expenditure proposed in this report makes an assumption about the level of income to be generated from other sources. The breakdown by type of income can be seen in Table 1D. As well as containing its costs to budget, the Council also needs to ensure it generates at least the level of income assumed.

Memorandum Item: School Spending

- 2.48. 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).
- 2.49. Dedicated Schools Grant is the main source of funding for the schools sector. It includes four blocks: Schools Block; Early Years; High Needs; and a Central block. The schools block is distributed directly to schools. The amount to be passed through to maintained schools is £60.718m. Academies receive DSG directly from the Education & Skills Funding Agency (ESFA). The other blocks of DSG are managed by the Council and include funding for Special Educational Needs pupils and early years. In total the grant allocated to North Lincolnshire for 2020/21 is £142.236m, an increase of £9.57m from last year. Funding for North Lincolnshire maintained schools and academies in 2020/21 is:
- Schools block - £112.670m (of which £54.990m is retained by ESFA to fund academies)
 - Central school services block - £1.053m
 - High Needs block - £18.940m (indicative)
 - Early Years block - £9.573m (indicative)
- 2.50. The national funding formula determines per pupil factor amounts. Making full use of the schools block allocation, the local per pupil funding rates are as follows: primary £2,890, secondary (KS3) £4,040 and secondary (KS4) £4,590. This ensures additional resource is directly allocated to schools in 2020/21.

- 2.51. The central school services block provides funding for local authorities to carry out support functions on behalf of compulsory school aged pupils in state-funded and maintained schools and academies such as school admissions and education welfare. It includes an element which is being used to fund historic commitments, although changes to the DSG going forward mean the amount that can be used to fund these activities will be reducing, which will require a review of how the activities are undertaken.
- 2.52. Appendix 4 details the level of schools reserves. This is presented as a net position and including deficit forecasts for 6 maintained schools, there is expected to be sufficient surplus balances from the remaining schools to cover the risk to Council resources. This is monitored through schools forum. Should the position change, the Council will need to reflect the risk in its mitigation strategies.
- 2.53. From the end of 2019/20, new provisions are being introduced that force DSG overspends to be carried forward and not funded from general reserves. This will make it entirely clear on a statutory basis that a deficit must be carried forward to be dealt with from future DSG income, unless the Secretary of State authorises the local authority not to do this.

Priority: Keeping People Safe and Well				
What is the Offer?				
<p>North Lincolnshire Council will work with residents and partners to lead the place of North Lincolnshire to promote wellbeing, prevent harm and prioritise the most vulnerable. We will provide a range of services directly, together with partners or through contracts with other organisations to keep children and adults safe and achieve a better quality of life for everyone. We will work with children, young people, adults, families and carers to enable people to live well for longer, in their own homes, families and communities.</p>				
Outcome Theme	Council Contribution	2020/21 Investment		2020/21 Band A Equivalent (£)
Safer People	<p>Safer Children</p> <ul style="list-style-type: none"> • Providing targeted family support in localities • Ensuring high quality Children’s Social Work assessment and child protection arrangements • Working in partnership with partners to provide Youth Offending services • Promoting and ensuring robust Safeguarding arrangements and partnerships • Providing accommodation for children who need to be Looked After. • Assessment and support to disabled children & those with Special Educational Needs 	Expenditure Income Net	78.976 19.525 59.451	424.05

	<p>Safer Adults</p> <ul style="list-style-type: none"> • Enable access to preventative services via a holistic Wellbeing Offer delivered through the community hubs • Access to Assistive Technology and aids to support daily living as required • Enabling people to recover from significant life events and injuries through the Home First - rehabilitation & reablement support, hospital, community, residential • Social Care assessment and Support Planning • Access to Personal Budgets if appropriate • Promoting and ensuring robust Safeguarding arrangements and partnerships including Deprivation of Liberty and including Approved Mental Health Practitioner duties • Facilitating, developing and shaping high quality provider markets to ensure sufficient care and support provision is available 			
Good health and wellbeing	<ul style="list-style-type: none"> • Commissioning of a comprehensive Sexual health service • Commissioning of Substance misuse service • Commissioning Health Visitor and School Nursing services • Commissioning of a local Healthwatch service • Provide targeted support for families to enable improved outcomes • Provision of Occupational Therapy • Support for carers of adults and young people 	Expenditure Income Net	11.464 2.183 9.281	58.86

Priority: Enabling Communities to Flourish

What is the Offer?

North Lincolnshire Council will promote communities where people are proud to live, where neighbours look out for each other and people enjoy a strong sense of belonging. We will engage with residents to understand how they view their local areas and work with communities to take ownership of place and improving the outcomes people achieve. We will provide information, advice and guidance that supports residents to participate in activities that matter to them and enables opportunities for people of all ages to take part in activities that contribute to their health and wellbeing.

Outcome Theme	Council Contribution	2020/21 Investment		2020/21 Band A Equivalent (£)
Cleaner, greener and safer spaces and environments	<p>Waste Management</p> <ul style="list-style-type: none"> • Managing our waste strategy and policy to minimise impact on the environment through a reduction in the amount of waste entering the system • Enabling households and communities to increase use of composting • Increase choice to encourage re-use and recycling through charging mechanisms <p>Clean, light and tidy streets</p> <ul style="list-style-type: none"> • Energy efficient LED street lighting • Enable community ownership for the maintenance of parks and open spaces and litter reduction • Work with industry and partners to secure improvements in air quality 	Expenditure	16.583	87.10
		Income	2.849	
		Net	13.734	

<p>Safe Places & Safe Communities</p>	<p>Community Safety, Environmental health, Trading Standards & Licensing</p> <ul style="list-style-type: none"> • Deliver Environmental Health & Housing services within communities that secure real improvements in public health outcomes • Carry out a licensing function to prevent crime, disorder, secure public safety, protect children and prevent public nuisance • Tackle rogue traders, criminal landlords and strengthen enforcement techniques • Carry out proportionate enforcement on roads and public spaces to improve safety and environmental quality • Promote the use of CCTV with partners • Domestic violence advice & support <p>Planning and Building Control</p> <ul style="list-style-type: none"> • Delivering development in accordance with national and local policies - in the public interest • Delivering safe sustainable development - through Building Control and flood risk assessments • Enable development within North Lincolnshire to derive economic and community benefit 	<p>Expenditure Income Net</p>	<p>3.806 2.291 1.515</p>	<p>9.61</p>
<p>Vibrant Leisure and Culture</p>	<p>Sport, Leisure & Culture</p> <ul style="list-style-type: none"> • Providing a range of community facilities that enable an active lifestyle • Promote participation in positive and recreational activities • Providing community learning opportunities • Enabling access to arts, culture and entertainment • Celebrating the heritage of North Lincolnshire • Promoting North Lincolnshire as a place to visit 	<p>Expenditure Income Net</p>	<p>9.895 5.879 4.016</p>	<p>25.47</p>

Quality Housing	<p>Housing</p> <ul style="list-style-type: none"> • Housing Advice & Support • Identify housing needs of North Lincolnshire for the future • Partnership working with developers to ensure the right houses are built • Provide pathways for social housing needs to be met, working in partnership with RSLs and other agencies • Promote telehealth and telecare to help individuals to ensure their needs continue to be met whilst remaining in their own home • Adapting homes, improving housing standards and supporting independent living to enable people to remain safe and well in their homes and contribute to their communities • Improve energy efficiency of the housing stock to reduce fuel poverty 	Expenditure Income Net	1.059 0.259 0.800	5.07
Excellent Education	<p>Educational Access & Inclusion</p> <ul style="list-style-type: none"> • Providing a North Lincolnshire Imagination Library to encourage a love of reading from an early age • Ensuring sufficient good quality early years and school places • Ensuring high levels of educational achievement and intervening early to keep standards high • Creating the conditions for schools to work together, to share practice and to continue improving • Supporting school governance • Making sure that the needs of most children are met within mainstream education • Ensuring children with more complex needs achieve good outcomes 	Expenditure Income Net	23.046 18.352 4.694	29.77

Thriving Communities	<ul style="list-style-type: none"> • Helping communities to help themselves through the community grant scheme • Access to information, advice and guidance • Help young people find positive things to do • Celebrating our communities • Bereavement Services • Registration Services 	Expenditure Income Net	0.853 0.107 0.746	4.73
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Priority: Growing the Local Economy

What is the Offer?

North Lincolnshire Council will work with residents and partners to lead the growth of North Lincolnshire to promote prosperity for all. We will provide a range of services directly, together with partners or through contracts with other organisations to create new businesses, jobs and opportunities for all. We aim to be a sustainable council, becoming more commercial, enabling innovation to invest back in to communities by promoting North Lincolnshire as best place to invest and live, leading to a more resilient tax base. Promoting excellence/equality of opportunity.

Outcome Theme	Council Contribution	2020/21 Investment		2020/21 Band A Equivalent (£)
Safe Roads, better roads and rail	<ul style="list-style-type: none"> • Ensure a well maintained Highway Network through enhanced investment as defined by the Highways Act 1980 • Consider all transport needs for the North Lincolnshire area when planning future transport infrastructure and networks • React to highway faults and hazards on a prioritised basis • Maintain an efficient & effective street lighting network • Safeguard our priority highways network over the winter period, in line with national standards • Ensure safe road crossing points along key roads and provide advice & information on safe road behaviour • Implement measures to control speeding including the use of enforcement • Maintain network of traffic signs, lights and control systems 	Expenditure	9.647	23.94
		Income	5.872	
		Net	3.775	
Accessible Transport	<ul style="list-style-type: none"> • Enable opportunities/options for sustainable and affordable travel to work • A modern transport provision; enhanced use of IAG to stimulate development and signpost 	Expenditure	9.533	47.57
		Income	2.032	
		Net	7.501	

	<ul style="list-style-type: none"> • Provision of a parking permit scheme for people with disabilities • Promote use of public transport to ensure routes are commercially viable • Invest in a new demand responsive local bus service to meet the needs of rural communities • Enable the provision of home to school transport and target subsidies to students in partnership with colleges • Improved accessibility of cycle routes and other sustainable transport routes • Improve perception of cycle safety and encourage employers to provide workplace facilities 			
Growing business, more jobs, better paid jobs	<ul style="list-style-type: none"> • Develop place narrative of North Lincolnshire as a place for local businesses, residents & those investing & visiting the area • Encourage business investment, growth, productivity and stability leading to more and better paid jobs throughout North Lincolnshire • Provide a co-ordinated approach to how the council interacts with business • Diversify markets and target growth sectors to attract higher skilled businesses 	Expenditure Income Net	1.922 1.126 0.796	5.05
Enhanced skills and employability	<ul style="list-style-type: none"> • Provide progression routes towards employment and improved learning and skills outcomes • Enable area wide accountability for raising skills levels and supporting sectors for economic growth and stability • Promote use of apprenticeship levy • Maximising the use of early education (childcare provision) for eligible 2 year olds and 3 & 4 year olds • Ensure sufficient levels of childcare are available in North Lincolnshire to meet the needs of our communities 	Expenditure Income Net	10.935 10.777 0.158	1.00

Priority: Running the Business

What is the Offer?

North Lincolnshire Council is a public body elected to serve the whole of North Lincolnshire responsible for providing hundreds of essential services. As a public accountable body we must make sure that we run the business well and continue to be able to operate as a going concern. That means spending money wisely and looking after our assets to ensure we can get things done as promised and to ensure that we can demonstrate this to our residents and regulators. We continually strive to keep our running costs as low as possible and that means changing the way we do business to remain financially sustainable.

Council Contribution	2020/21 Investment		2020/21 Band A Equivalent (£)
Elected members and decision making <ul style="list-style-type: none"> We will run open and transparent elections and support elected members to maintain high standards and enabling robust decision making processes 	Expenditure Income Net	1.520 0.044 1.476	9.36
Leading the Organisation <ul style="list-style-type: none"> Have a highly skilled, professional senior leadership structure to ensure effective, high quality services that are responsive to the people and place of North Lincolnshire Effective assurance and performance management 	Expenditure Income Net	1.906 0.000 1.906	12.09
Professional and Technical Advice <ul style="list-style-type: none"> Have robust structure and systems in place to ensure proper accounting and reporting that facilitates prompt payment to suppliers Is a responsible employer Maintain and develop responsive, modern, secure IT systems and infrastructure Ensure we operate within the law 	Expenditure Income Net	13.241 2.291 10.950	69.45

<p>Maintaining Council Assets</p> <ul style="list-style-type: none"> • Ensure we have well maintained and safe buildings from which we can deliver services • Ensure we have a suitable and well maintained fleet of vehicles and equipment to meet the needs of the NL area. 	<p>Expenditure Income Net</p>	<p>12.867 4.093 8.774</p>	<p>55.65</p>
<p>Customer Access, Taxation and Benefits</p> <ul style="list-style-type: none"> • Maximise collection of local taxation • Process claims for financial support within the standards we have set • Enable access to a range of customer services on-line 	<p>Expenditure Income Net</p>	<p>31.452 30.085 1.367</p>	<p>8.67</p>
<p>Financing and Levies</p> <ul style="list-style-type: none"> • Invest and borrow in line with our Treasury Management Strategy • Maintain the required level of insurance to mitigate against risk • Contribute the necessary levies to organisations such as drainage boards 	<p>Expenditure Income Net</p>	<p>23.374 2.299 21.075</p>	<p>133.66</p>

Commercial Trading

What is the Offer?

The Council seeks to maximise its resources through operating commercially. The following functions operating as trading entities and as such make a contribution to the council's spending power. Traded entities operate in the context of the local market to add value. It is intended that traded entities must fully recover total cost of operating through the fees and charges they apply.

Traded Functions	2020/21 Investment	£M
Commercial Property Portfolio	Expenditure	7.541
Schools Catering and Cleaning	Income	11.753
Trade Waste	Net Contribution to	4.212
North Lincolnshire Markets	Funds	
Licensing		
Commercial Building Control		

Table 1 – Reserve Statement

2017/18 £000's Actual	2018/19 £000's Actual	2019/20 £000's Estimate		2020/21 £000's Estimate	2021/22 £000's Estimate	2022/23 £000's Estimate
			REVENUE RESERVES			
			Strategic Reserves			
6,858	6,858	7,158	General Fund	7,603	7,658	7,868
15,385	16,566	14,067	Risk and Transformation	14,260	12,640	12,841
-	501	-	NNDR Returned Levy	-	-	-
1,817	1,412	1,212	Public Health	1,212	1,212	1,212
24,060	25,336	22,437	Total Strategic Reserves	23,075	21,510	21,920
			Earmarked Reserves			
269	269	269	Safety Camera Partnership	269	269	269
233	227	179	Scunthorpe Special Expenses	89	89	89
284	284	-	Insurance Fund Profit/Loss	-	-	-
38	38	-	Shared Service Development	-	-	-
257	-	-	PTA Revenue Reserve	-	-	-
182	211	211	DSG-Delegated	211	211	211
16	16	8	Crematorium enhancement	8	8	8
159	226	201	Developers Contributions	201	201	201
50	50	-	Financial Systems	-	-	-
99	122	122	Licensing	98	98	98
240	240	-	Elections	-	-	-
175	-	-	IT Software	-	-	-
-	205	205	Planning Improvements	205	205	205
72	-	-	Community Grants EMR	-	-	-
2,074	1,887	1,195	Total Earmarked Reserves	1,081	1,081	1,081
			Grant Reserves			
7,811	4,956	2,161	Grant Balances	887	786	786
7,811	4,956	2,161	Total Grant Reserves	887	786	786
33,945	32,178	25,793	TOTAL COUNCIL RESERVES	25,043	23,377	23,787
			School Reserves			
1,634	2,939	2,939	Schools Balances	2,939	2,939	2,939
1,767	1,488	935	Dedicated Schools Grant	2,436	2,436	2,436
3,402	4,427	3,874	Total School Reserves	5,375	5,375	5,375
37,347	36,605	29,667	TOTAL RESERVES	30,418	28,752	29,162

Table 2 – Risk and Transformation Reserve Breakdown

2017/18 £000's Actual	2018/19 £000's Actual	2019/20 £000's Estimate		2020/21 £000's Estimate	2021/22 £000's Estimate	2022/23 £000's Estimate
			RISK AND TRANSFORMATION RESERVE BREAKDOWN			
14,269	11,682	9,183	Risk & Transformation - General	6,813	5,193	5,394
-	1,452	1,452	Self-Insurance	1,452	1,452	1,452
1,116	3,432	3,432	NNDR Risk	5,995	5,995	5,995
15,385	16,566	14,067	TOTAL	14,260	12,640	12,841

4. RESERVES STRATEGY

- 4.1. The Council is required under section 25 of The Local Government Act 2003 to report on the adequacy of the level of reserves proposed in its budget. The Government also has a reserve power to set a minimum level of reserves, under section 26 of the same act. It is not expected that this power will be used to set a nationwide level of reserves however it is best practice for each Council to carry out its own exercise to determine both the level of reserves it is prudent to carry and how far they can be deployed to support Council spending plans.
- 4.2. 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 a number of ways:
- To give the council sufficient resilience to withstand funding or expenditure shocks
 - To facilitate transformation and transition to a financially sustainable council
 - To carry forward unapplied grant to cover costs in future years

Given the upcoming changes to Local Government finance considered in the report and in Appendix 2, there is a greater than normal risk of funding shocks beyond 2020/21 which require reflecting in the reserve statement

- 4.3. The Local Government Association completed a peer review of the Council's financial position in early 2019/20. The review observed that the Council's budgeted level of reserves were relatively low for a Council of its size and recommended that the forecasting of financial risks be further developed to more succinctly inform the appropriate level of reserves to be held. Their constructive feedback has informed this strategy.
- 4.4. In response to demands to improve oversight of the financial sustainability of individual Council's, the Chartered Institute of Public Finance and Accountancy publish an annual financial resilience index for each Council. Part of the index focusses on reserve levels and usage, and compares our position to other local authorities. The following measures are relevant:
- Reserves sustainability (MIN 2.8 years, NLC 29.0 years, MAX 100.0 years) a measure of how many years it would take to deplete usable reserves if the most recent three year average usage is maintained. We are deemed to be a higher medium risk on this measure based on our reserve usage relative to others, although important to note this reflects planned usage.
 - Level of usable reserves (MIN 17.65%, NLC 26.06%, MAX 72.87%) a measure of the level of usable reserves compared to net revenue expenditure. The Council is deemed a higher risk on this measure, because the vast majority of other authorities are holding relatively more than we are.

- Change in reserves (MIN -51.85%, NLC -9.37%, MAX +43.95%) a measure of the average change in usable reserves over the past three years. The Council is deemed to be a higher medium risk, which partly reflects other authorities have contributed to reserves over the period.

4.5. The results contained within the index give us an opportunity to see how our local plans in respect of reserve usage compares with other authorities. It is important to understand that reserves are held to cover risks; each individual authority has different risks which it is managing, therefore reserve levels will differ.

4.6. The financial resilience reserve measures enable us to forecast our revised ratios based on planned usage in the reserves statement and assuming an unchanged method in future years. The self-assessment estimates are:

Financial Sustainability: Reserve Measure Forecast	2018/19 Actual	2019/20 Estimate	2020/21 Estimate
Reserves sustainability (years)	29.0	16.5	8.6
Level of usable reserves (%)	26.06	20.15	19.06
Change in reserves (%)	-9.37	-15.41	-25.82

The forecasts above do not drive the proposed level of reserve usage contained in this strategy, which instead focusses on local identification and management of risks. However, this provides an opportunity to understand early the potential external assessment of North Lincolnshire’s planned reserve usage, which are within acceptable parameters.

4.7. The Council breaks down the type of reserves it holds into three categories:

- Strategic reserves - this group of reserves is the area with greatest flexibility, and includes the general fund and risk and transformation reserve.
- Earmarked and grant reserves - these are held to meet service/project specific costs, and must be spent in line with any applicable grant conditions.
- School reserves - these are held on behalf of schools, with their usage decided by schools themselves, subject to Council oversight.

Strategic Reserves

4.8. The long standing policy of this Council has been to maintain a **general reserve** of around 5% of net operating expenditure. This has been assessed as an appropriate level to cover inherent risk. This reserve essentially acts as the reserve of last resort, and if ever used must be replenished as soon as possible thereafter. The reserve statement assumes the balance is adjusted to equate to 5% of net operating expenditure proposed in Appendix 2 for all years.

4.9. The **risk and transformation reserve** supports the transition running costs that matches funding and covers off other risks not mitigated by the general fund. The breakdown of its balance is shown in table 2, and is explained as follows:

- NNDR Risk – the Council’s income from business rates has been volatile since 2013/14, primarily due to features of the business rate retention system outside the control of the Council. The cost of successful backdated appeals and increased cost of system reliefs, over which the Council has no influence, has contributed to significant deficits to the collection fund. Furthermore, the base is dominated by large industrial sites, accounting for a third of the overall base. Any loss of a major ratepayer in the area will have a significant impact on NNDR income.

Under the current business rate retention scheme, the Council’s income could fall by in excess of £6m in a worst case scenario before Government intervention through the safety net mechanism. It could also lose just under £5m from 100% retained items, although the risk is lower. This amounts to inherent risk and volatility which needs specific mitigation.

- Self-Insurance – the Council has contracted external specialists to review its approach insurance provisions and reserves, which identified a need to hold a specific self-insurance reserve, to complement the provision to adequately cover for outstanding insurance risks.
- 4.10. After deduction of the above items, a balance of £5.4m is forecast to remain. This is expected to be sufficient to cover operational and delivery risks that have been identified. It also provides some resilience for if there is a funding shock from 2020/21 onwards.
- 4.11. The size and scope of risks to which the Council is exposed can quickly change, requiring a fluid approach from the Council to 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.

Earmarked and Grant Reserves

- 4.12. Services hold 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.

Schools Reserves

- 4.13. 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 a number of drivers that can affect these balances over the period of the plan. At school level these include variations in pupil numbers; cost pressures; the move to a national funding formula. At a collective council level there are impacts to be managed in High Needs funding and in ensuring the stability of the school funding system at a local level

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.”

The Council has made use of this flexibility in each year since 2016/17, which has supported the movement towards a lower future cost base. This has also preserved revenue balances that would have otherwise needed to be used, helping to protect vital services.

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 2020/21 which requires Council approval, with notification then being sent to the Department for Communities and Local Government (DCLG).

The Council's assumed use of capital receipt flexibility in 2020/21 and 2021/22 are as follows:

	2020/21	2021/22	Total
Planned Use of Capital Receipt Flexibility (£M)	0.5	0	0.5

The table below sets out the schemes which the Council intends to apply capital receipts against in 2020/21, and therefore forms the basis for the “initial strategy”:

2020/21			
Theme	Activity	Amount (£M)	Notes
Funding the cost of service reconfiguration, restructuring or rationalisation	Transformation Support Team	0.386	A transformation support team is responsible for a number of cross cutting major transformation schemes. These include: Ensuring better use of council assets through asset rationalisation and implementing a corporate landlord approach, community redesign, workwell and community hub projects. The team is responsible for supporting transformation implementation.
	Service Changes	0.064	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.
	Enhanced HR/Payroll/ Finance Systems	0.050	The Council wants to invest in its HR, Payroll and Finance systems. It is envisaged that the improved system will lead to a reduced cost of administration and financial management and also improve the quality of information used assessing the cost and benefit of transformational activities as well as supporting the commercial agenda through advanced management information.
	Total	0.5	

Impact on Prudential Indicators

At this stage, there is not expected to be any impact on Prudential Indicators because the Council increased its capital receipt generation target to reflect the proposed usage set out above.

Parish and Major Precepting Authority Precepts 2020/21

Appendix 6

Parish or Area	Taxbase	Precept (£)	BAND (all figures in £)							
			A	B	C	D	E	F	G	H
Alkborough	161.1	5,436.00	22.50	26.24	29.99	33.74	41.24	48.74	56.24	67.49
Amcotts	77.7	3,114.00	26.72	31.17	35.62	40.08	48.98	57.89	66.80	80.15
Appleby	231.6	11,173.00	32.16	37.52	42.88	48.24	58.96	69.68	80.40	96.49
Ashby Parkland	248.2	4,750.00	12.76	14.88	17.01	19.14	23.39	27.64	31.90	38.28
Barnetby le Wold	531.9	25,000.00	31.33	36.56	41.78	47.00	57.45	67.89	78.34	94.00
Barrow on Humber	1,049.1	52,700.00	33.49	39.07	44.65	50.23	61.40	72.56	83.72	100.47
Barton upon Humber	3,649.7	161,791.00	29.55	34.48	39.40	44.33	54.18	64.03	73.88	88.66
Belton	1,174.9	29,000.00	16.46	19.20	21.94	24.68	30.17	35.65	41.14	49.37
Bonby	192.9	12,800.00	44.24	51.61	58.98	66.36	81.10	95.85	110.59	132.71
Bottesford	3,596.1	91,000.00	16.87	19.68	22.49	25.31	30.93	36.55	42.18	50.61
Brigg	1,721.0	118,319.00	45.83	53.47	61.11	68.75	84.03	99.31	114.58	137.50
Broughton	1,658.6	119,933.00	48.21	56.24	64.28	72.31	88.38	104.45	120.52	144.62
Burringham	219.3	14,079.00	42.80	49.93	57.07	64.20	78.47	92.73	107.00	128.40
Burton upon Stather	965.7	61,900.00	42.73	49.85	56.98	64.10	78.34	92.59	106.83	128.20
Cadney cum Howsham	152.3	8,000.00	35.02	40.86	46.69	52.53	64.20	75.87	87.55	105.06
Crowle	1,554.7	63,000.00	27.01	31.52	36.02	40.52	49.53	58.53	67.54	81.04
East Butterwick	44.2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
East Halton	207.7	7,214.00	23.16	27.01	30.87	34.73	42.45	50.17	57.89	69.47
Eastoft	144.6	4,500.00	20.75	24.20	27.66	31.12	38.04	44.95	51.87	62.24
Eisham	164.0	7,796.00	31.69	36.97	42.25	47.54	58.10	68.66	79.23	95.07
Epworth	1,573.5									
Flixborough	531.4	17,000.00	21.33	24.88	28.44	31.99	39.10	46.21	53.32	63.98
Garthorpe & Fockerby	139.1	9,000.00	43.13	50.32	57.51	64.70	79.08	93.46	107.84	129.40
Goxhill	816.0	54,500.00	44.53	51.95	59.37	66.79	81.63	96.47	111.32	133.58
Gunness	638.2	32,047.00	33.48	39.06	44.64	50.21	61.37	72.53	83.69	100.43
Haxey	1,671.9	38,614.00	15.40	17.96	20.53	23.10	28.23	33.36	38.49	46.19
Hibaldstow	778.4	14,088.00	12.07	14.08	16.09	18.10	22.12	26.14	30.16	36.20
Horkstow	58.3	1,400.00	16.01	18.68	21.35	24.01	29.35	34.69	40.02	48.03
Keadby with Althorpe	493.6	34,532.00	46.64	54.41	62.19	69.96	85.51	101.05	116.60	139.92
Kirmington & Croxton	128.4	9,717.00	50.45	58.86	67.27	75.68	92.49	109.31	126.13	151.36
Kirton in Lindsey	1,069.4	102,739.00	64.05	74.72	85.40	96.07	117.42	138.77	160.12	192.14
Luddington & Haldenby	117.2	7,000.00	39.82	46.45	53.09	59.73	73.00	86.27	99.54	119.45
Manton	42.7	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Melton Ross	71.2	4,800.00	44.94	52.43	59.93	67.42	82.40	97.38	112.36	134.83
Messingham	1,338.0	69,500.00	34.63	40.40	46.17	51.94	63.49	75.03	86.57	103.89
New Holland	254.6	21,527.00	56.37	65.76	75.16	84.55	103.34	122.13	140.92	169.10
North Killingholme	90.3	6,219.00	45.91	53.57	61.22	68.87	84.17	99.48	114.78	137.74
Owston Ferry	457.0	22,566.00	32.92	38.41	43.89	49.38	60.35	71.32	82.30	98.76
Redbourne	157.1	12,500.00	53.04	61.89	70.73	79.57	97.25	114.93	132.61	159.13
Roxby cum Risby	153.8	6,000.00	26.01	30.34	34.68	39.01	47.68	56.35	65.02	78.02
Saxby all Saints	89.3	6,850.00	51.14	59.66	68.18	76.71	93.75	110.80	127.85	153.42
Scawby cum Sturton	802.8	37,000.00	30.73	35.85	40.97	46.09	56.33	66.57	76.81	92.18
Scunthorpe	16,235.2	574,195.75	23.58	27.51	31.44	35.37	43.23	51.09	58.95	70.73
South Ferriby	218.8	12,473.00	38.00	44.34	50.67	57.01	69.67	82.34	95.01	114.01
South Killingholme	300.5	15,836.00	35.13	40.99	46.84	52.70	64.41	76.12	87.83	105.40
Thornton Curtis	99.7	2,553.00	17.07	19.92	22.76	25.61	31.30	36.99	42.68	51.21
Ulceby	546.4	18,000.00	21.96	25.62	29.28	32.94	40.26	47.58	54.90	65.89
West Butterwick	280.6	2,000.00	4.75	5.54	6.34	7.13	8.71	10.30	11.88	14.26
West Halton	116.0	4,993.16	28.70	33.48	38.26	43.04	52.61	62.18	71.74	86.09
Whitton	88.1	2,567.00	19.42	22.66	25.90	29.14	35.61	42.09	48.56	58.27
Winteringham	336.9	20,500.00	40.57	47.33	54.09	60.85	74.37	87.89	101.41	121.70
Winterton	1,371.3	114,284.14	55.56	64.82	74.08	83.34	101.86	120.38	138.90	166.68
Wootton	178.5	9,000.00	33.61	39.22	44.82	50.42	61.62	72.83	84.03	100.84
Worlaby	203.3	15,985.00	52.42	61.15	69.89	78.63	96.10	113.57	131.05	157.26
Wrawby	513.4	12,000.00	15.58	18.18	20.78	23.37	28.57	33.76	38.96	46.75
Wroot	183.3	10,191.00	37.06	43.24	49.42	55.60	67.95	80.31	92.66	111.19
49,889.5	2,123,682.05									

Major Precepting Authority	Taxbase	Precept (£)	BAND (all figures in £)								
			A	B	C	D	E	F	G	H	
North Lincolnshire Council	**	49,889.5	68,971,735.86	921.66	1,075.27	1,228.88	1,382.49	1,689.71	1,996.93	2,304.15	2,764.98
Adult Social Care Precept	**	49,889.5	6,694,173.11	89.45	104.36	119.27	134.18	164.00	193.82	223.63	268.36
Humberside Police		49,889.5	11,385,781.69	152.15	177.50	202.86	228.22	278.94	329.65	380.37	456.44
Humberside Fire Authority		49,889.5	4,321,927.39	57.75	67.38	77.00	86.63	105.88	125.13	144.38	173.26

* TBC

** To be formally set at Council

Levies funded from Council Tax 2020/21

Appendix 7

Levying Body	Precept (£)	BAND (all figures in £)							
		A	B	C	D	E	F	G	H
Internal Drainage Boards:									
Ancholme	206,609.00	2.76	3.22	3.68	4.14	5.06	5.98	6.90	8.28
Doncaster East	14,723.00	0.20	0.23	0.27	0.30	0.37	0.43	0.50	0.60
Scunthorpe and Gainsborough	255,191.00	3.41	3.98	4.55	5.12	6.26	7.40	8.53	10.24
North East Lindsey	155,439.60	2.08	2.43	2.77	3.12	3.81	4.51	5.20	6.24
Isle of Axholme and North Nottinghamshire	688,267.00	9.20	10.73	12.27	13.80	16.87	19.93	23.00	27.60
Environment Agency:									
Anglian Northern	48,195.02	0.65	0.75	0.86	0.97	1.19	1.40	1.62	1.94
Trent	38,111.55	0.51	0.59	0.68	0.76	0.93	1.10	1.27	1.52
Other:									
North Eastern Inshore Fisheries *	71,476.00	0.95	1.11	1.27	1.43	1.75	2.07	2.38	2.86
Hull and Goole Port Health Authority	62,502.00	0.83	0.97	1.11	1.25	1.53	1.81	2.08	2.50
Total	1,478,012.16	20.59	24.02	27.45	30.88	37.74	44.60	51.47	61.76

* the Council receives a grant from DEFRA to contribute approximately 20% towards the cost of the levy

As Chief Financial Officer, it is my responsibility to specifically comment on the robustness of the estimates presented in this report and on the adequacy of reserves. For the reasons set out below and in 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 2020/21 are robust and reserves are adequate to manage the risks the Council is exposed to.

Strategic Assessment: Robustness of Estimates	
Pay inflation	Pay is the largest single expense the council has to meet. It represents around two thirds of the council’s revenue expenditure. Significant work has taken place to prepare a prudent estimate of the effect of the likely pay awards for the various groups of the council’s staff. This estimate includes an allowance for vacancies in line with the council’s experience over the past several years.
Social care activity levels	Funding social care need represents a cost to Local Government generally, which has been increasing due to an increase in volumes and the price of care packages. The budget proposal increases affordability limits within adults and children’s social care significantly, enabling increased price and activity to be funded. But the budget proposal makes an assumption that each service will continue to focus on early intervention, to prevent bigger increases in the most complex placements. Activity and cost are tracked during the year.
Other demographic changes	Other Council services are also subject to the impact of demographic changes, which could lead to an increase in demand for their services. An example is waste disposal. The budget makes a prudent assessment of forecast demand in 2020/21, and makes adjustments to affordability limits where necessary. In addition, the Council engages with the public where it can to reduce demand where it is appropriate to do so (e.g. increase recycling).
Non-pay inflation	Allowances have been made in the budget for increases in the costs of services where required under the terms of the related contract. Inflationary increases have been allowed where appropriate in other areas of expenditure. Additionally, re-commissioning and re-procurement provides the Council with the opportunity to ensure contract prices remain market tested.
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. Where appropriate inflationary increases in fees and charges has been assumed in the budget, which will disseminate into contract SLA pricing during 2020/21.
Council Tax	Income from council tax is the largest income stream and one of the most certain. 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 a

	track record of making a surplus on its council tax account due to the collectable tax base being in excess of the budget estimate. A similar approach has been taken in 2020/21 to previous years where a prudent level of growth has been assumed.
Business Rates	Income from business rates can be quite 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 level of Government Funding for 2020/21 was known before these estimates were finalised and the values are therefore certain for 2020/21. This was a one year settlement however and the levels of funding beyond 2020/21 are less certain. In addition the effects of the Fair Funding review are not known currently. The council has an excellent track record of cost control and maximising its income so is well placed to deal with future fluctuations in funding.
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 amount of interest the council will pay in 2020/21 is largely known with the incremental cost of delivering the capital programme being estimated using prudent assumptions.

Strategic Assessment: Adequacy of Reserves

In respect of reserves, the reserves statement contained within Appendix 4 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 marginally increase which reflects the reduced funding certainty beyond 2020/21, among other risks. The budget also assumes the General Fund Reserve is maintained at 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.