

CABINET

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| DATE | 16 th November 2022 |
| REPORT OF | Councillor Stephen Harness – Portfolio Holder for Finance, Resources and Assets |
| RESPONSIBLE OFFICER | Sharon Wroot – Executive Director Environment, Economy and Resources |
| SUBJECT | 2022/23 Quarter 2 Financial Monitoring Report |
| STATUS | Open |
| FORWARD PLAN REF NO. | CB 11/22/01 |

CONTRIBUTION TO OUR AIMS

The Council has two clear strategic priorities – Stronger Economy and Stronger Communities. In order to achieve these priorities, the Council needs to have a clear and robust Finance and Commissioning plan, which focusses on long-term financial sustainability.

EXECUTIVE SUMMARY

This report provides key information and analysis of the Council's position and performance against its Finance and Commissioning Plan for the second quarter of the 2022/23 year. Further detail and analysis is provided within Appendix 1 to this report.

RECOMMENDATIONS

It is recommended that Cabinet:

- 1) Notes the reported position and the mitigating actions being taken to bring spending down to manageable levels on a recurrent basis.
- 2) Acknowledges the risks and opportunities over the forthcoming financial planning period.
- 3) Approves the reprofiling and reprioritisation of the capital programme as detailed in the report and instructs the Executive Director Environment Economy and Resources (as Section 151 Officer) to so implement.
- 4) Refers the Financial Monitoring Report to Scrutiny for consideration.

REASONS FOR DECISION

The report is important in informing Cabinet on the financial position and performance of the Council and highlighting key risks and opportunities.

1. BACKGROUND AND ISSUES

- 1.1 At the mid point of the financial year, the Council is forecasting a £7.9M overspend against its 2022/23 budget. This forecast largely reflects the on-going and increasing demands being experienced within Children's services

but also acknowledges other significant impacts such as the higher than anticipated pay award.

- 1.2 Whilst additional resources have been invested into services as part of the 2022/23 budget process, demand in terms of the numbers of Children Looked After remains higher than planned. The reported financial position within Children's has been exacerbated by a lack of local capacity and a continued overreliance on agency staffing. Recruitment challenges within sector has led to the Council relying on agencies for longer than anticipated.
- 1.3 Clearly the current position is unsustainable and immediate action is required in order to bring spending down to manageable levels on a recurrent basis. Whilst mitigating actions have been put in place within the service, these will take time to take effect and additional spending controls have been introduced at a corporate level as a consequence. Alongside mitigating actions and spending controls, the Council would need to draw upon non recurrent sources of funding and drawdown reserves to balance.
- 1.4 The Council is still progressing with its ambitious programme of capital investment to support delivery of the Council Plan and drive financial sustainability through economic and housing growth. However, due to current economic and financial uncertainty, the programme will be reprofiled and reprioritised to mitigate against rising interest rates. This approach will help to ensure the Council continues to operate within its approved Treasury Management Strategy over the short to medium term.
- 1.5 The Council expects to receive one year financial settlement from Government in 2023/24 with changes to the local government financial model and the review of fair funding being postponed. The outcome of the settlement will determine the extent to which the Council can deliver its agreed priorities and deal with a range of issues including social care reform, economic instability, and general inflation.
- 1.6 As we move into the financial planning period for 2023-2026, it will be necessary to once again review corporate and technical reserves to ensure there is sufficient capacity to deal with the risks and opportunities currently faced.

2. RISKS AND OPPORTUNITIES

Key risks and opportunities are detailed within Appendix 1.

3. OTHER OPTIONS CONSIDERED

Not applicable to monitoring report.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

The financial environment in which the Council is operating remains challenging and any significant financial issues will be communicated externally through a variety of media.

5. FINANCIAL CONSIDERATIONS

As set out in the report:

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

The report provides details of the resources allocated towards Children and Young people across a range of Council services.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

Ultimately all resourcing decisions taken by the Council impact upon the environment. For this reason, the Council must take climate change and environmental issues into account in the establishment of its financial plans. The Council's financial strategy looks towards consuming resources more efficiently, eliminating waste and supporting and developing the green economy and infrastructure.

8. CONSULTATION WITH SCRUTINY

Report to be forwarded to all scrutiny panels.

9. FINANCIAL IMPLICATIONS

As set out on the report

10. LEGAL IMPLICATIONS

There are no legal issues immediately arising from the content of this report given that it is a vehicle to advise and update as to the current position. The recommendation for a referral to Scrutiny is prudent.

11. HUMAN RESOURCES IMPLICATIONS

There are no direct HR implications arising from the contents of the report

12. WARD IMPLICATIONS

All wards affected

13. BACKGROUND PAPERS

13.1. Outcomes Framework, Commissioning Plan and Budget 2022/23 – 2024/25
<https://democracy.nelincs.gov.uk/wp-content/uploads/2021/05/6.-Budget-and-Medium-Term-Financial-Plan-2022-%E2%80%93-2024.pdf>

13.2. 2022/22 Q1
<https://democracy.nelincs.gov.uk/wp-content/uploads/2022/08/5.-Quarter-1-Financial-Monitoring-Report-202223PDF-697KBicon-namepaperclip-prefixfa.pdf>

14. CONTACT OFFICER(S)

Sharon Wroot – Executive Director Environment, Economy and Resources

COUNCILLOR STEPHEN HARNESS
PORTFOLIO HOLDER FOR FINANCE, RESOURCES AND ASSETS



Appendix 1

KEEP BRITAIN TIDY
NETWORK AWARDS 2020
FINALIST
OUTSTANDING
SERVICE DELIVERY
AWARD

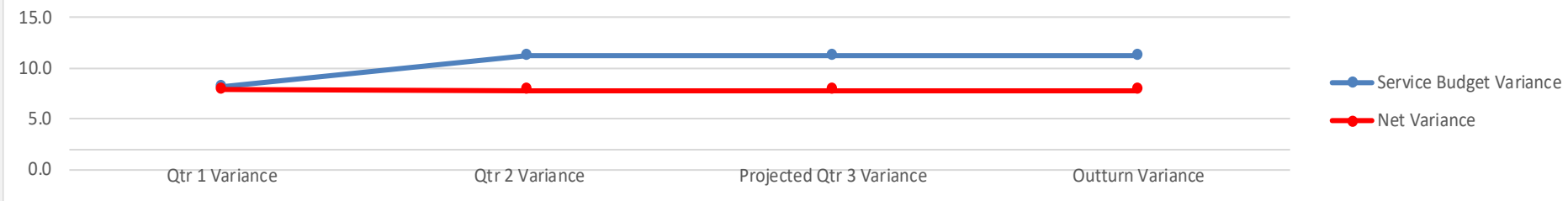
LGO Awards
2020
FINALIST

FINANCIAL OVERVIEW - QTR2

✓ On Course
 ! Monitor
 ✗ Cause for Concern

Quarterly Revenue Spend Forecast Position £'M

✗ Pg 4



Revenue Position

✗ 7.69%

| REVENUE | Budget £'M | Forecast £'M | Variance £'M | |
|------------------------------|--------------|--------------|--------------|-------|
| Resources | 6.2 | 6.6 | 0.4 | Pg 8 |
| Environment | 16.8 | 16.5 | (0.3) | Pg 9 |
| Economy & Growth | 24.0 | 24.2 | 0.2 | Pg 11 |
| Children & Family Services | 48.2 | 59.9 | 11.7 | Pg 14 |
| Public Health | 0.9 | 0.9 | 0.0 | Pg 16 |
| Adult Services | 50.8 | 50.1 | (0.7) | Pg 17 |
| Total | 146.9 | 158.2 | 11.3 | |
| Corporate Budgets Underspend | | | (3.4) | Pg 18 |
| Net | | | 7.9 | |

Capital Position

✓ -12.88%

| CAPITAL | App Prog £'M | Forecast £'M | Variance £'M | |
|----------------------------|--------------|--------------|---------------|-------|
| Resources | 2.2 | 2.7 | 0.5 | Pg 8 |
| Environment | 13.3 | 6.0 | (7.3) | Pg 10 |
| Economy & Growth | 52.9 | 49.2 | (3.7) | Pg 12 |
| Children & Family Services | 13.1 | 13.1 | 0.0 | Pg 15 |
| Public Health | 0.0 | 0.0 | 0.0 | |
| Adult Services | 0.0 | 0.0 | 0.0 | |
| Total | 81.5 | 71.0 | (10.5) | |
| Funding | | | 10.5 | |
| Net | | | 0.0 | |

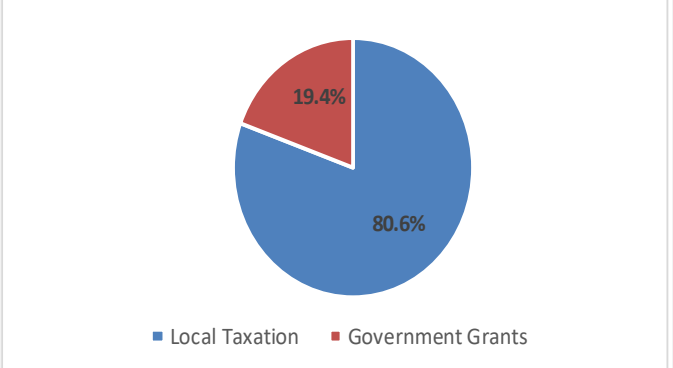
Service Over Spend Analysis £'M

Pg 4



Funding Outturn

Pg 19



Overview

At the mid point of the financial year, the Council is forecasting a £7.9M overspend against its 2022/23 budget. This forecast largely reflects the on-going and increasing demands being experienced within Children's services but also acknowledges other significant impacts such as the higher than anticipated pay award.

Whilst additional resources have been invested into services as part of the 2022/23 budget process, demand in terms of the numbers of Children Looked After remains higher than planned. The reported financial position within Children's has been exacerbated by a lack of local capacity and a continued overreliance on agency staffing. Recruitment challenges within sector has led to the Council relying on agencies for longer than anticipated.

Clearly the current position is unsustainable and immediate action is required in order to bring spending down to manageable levels on a recurrent basis.

Whilst mitigating actions have been put in place within the service, these will take time to take effect and additional spending controls have been introduced at a corporate level as a consequence. Alongside mitigating actions and spending controls, the Council would need to draw upon non recurrent sources of funding and drawdown reserves to

balance.

The Council is still progressing with its ambitious programme of capital investment to support delivery of the Council Plan and drive financial sustainability through economic and housing growth. However, due to current economic and financial uncertainty, the programme will be reprofiled and reprioritised to mitigate against rising interest rates. This approach will help to ensure the Council continues to operate within its approved Treasury Management Strategy over the short to medium term.

The Council expects to receive one year financial settlement from Government in 2023/24 with changes to the local government financial model and the review of fair funding being postponed. The outcome of the settlement will determine the extent to which the Council can deliver its agreed priorities and deal with a range of issues including social care reform, economic instability, and general inflation.

As we move into the financial planning period for 2023-2026, it will be necessary to once again review corporate and technical reserves to ensure there is sufficient capacity to deal with the risks and opportunities currently faced.

Sharon Wroot – Executive Director (Environment, Economy and Resources)

Revenue

£7.9M Total Revenue
Forecast Overspend

£11.3M Service Budgets
Forecast Variance

7.7%

% Representation of
Service Budget
Overspend to Net Budget

| REVENUE | Revised Budget £'M | Forecast £'M | Variance £'M |
|----------------------------|-----------------------|-----------------|-----------------|
| Resources | 6.2 | 6.6 | 0.4 |
| Environment | 16.8 | 16.5 | (0.3) |
| Economy & Growth | 24.0 | 24.2 | 0.2 |
| Children & Family Services | 48.2 | 59.9 | 11.7 |
| Public Health | 0.9 | 0.9 | 0.0 |
| Adult Services | 50.8 | 50.1 | (0.7) |
| | 146.9 | 158.2 | 11.3 |
| Corporate Budgets | 12.4 | 9.0 | (3.4) |
| | 159.3 | 167.2 | 7.9 |
| Earmarked reserves | (2.5) | (2.5) | 0.0 |
| School Balances | (1.8) | (1.8) | 0.0 |
| Total | 155.0 | 162.9 | 7.9 |
| Funding | (155.0) | (155.0) | 0.0 |
| Net | 0.0 | 7.9 | 7.9 |

At end of Quarter 2 of 2022/23, the Council is forecasting an overspend of £7.9M. This forecast largely reflects the on-going and increasing demands being experienced within Children's services. Whilst additional resources have been invested into services as part of the most recent budget round, demand in terms of the numbers of Children Looked After has continued to rise and is above where we would expect it to be.

Capital

(£10.5M)

Service Capital Forecast
Variance Underspend

12.88%

% Representation of Service
Capital Underspend to Approved
Programme

| CAPITAL | Approved Programme £'M | Forecast £'M | Variance £'M |
|------------------------------|------------------------|--------------|---------------|
| Resources | 2.2 | 2.7 | 0.5 |
| Environment | 13.3 | 6.0 | (7.3) |
| Economy & Growth | 52.9 | 49.2 | (3.7) |
| Children & Family Services | 13.1 | 13.1 | 0.0 |
| Public Health | 0.0 | 0.0 | 0.0 |
| Adult Services | 0.0 | 0.0 | 0.0 |
| Total Capital Budgets | 81.5 | 71.0 | (10.5) |
| Funding | (81.5) | (71.0) | 10.5 |
| Net | 0.0 | 0.0 | 0.0 |

The Council is progressing with its ambitious programme of capital investment to support delivery of the Council Plan and drive financial sustainability through economic and housing growth. However, due to current economic and financial uncertainty, the programme is being reprofiled and reprioritised to mitigate against rising interest rates.

At the present time, the Council is forecasting that it will deliver £71M of capital investment in year, of which more than half is supported by external grant and contributions. However a full detailed review of the Capital Programme is being undertaken in order to achieve savings going forward and address the impact of increased borrowing costs.

Medium Term Outlook

The current Medium Term Financial Plan (MTFP) showed an opening gap in future years when it was approved in February 2022.

| MTFP Summary | 2023/24 £M | 2024/25 £M |
|--------------------|---------------|---------------|
| Funding | (156.2) | (160.7) |
| Service Budget | 138.0 | 141.5 |
| Other budgets | 23.3 | 24.2 |
| Contributions | 2.5 | 2.5 |
| Opening Gap | 7.6 | 7.5 |

Key assumptions are being reviewed and revised as part of the next 3 year MTFP process. These include economic and housing growth, interest rates, inflation and general price increases, government funding and demand trajectories.

Current economic conditions are especially volatile, mirroring the current political environment. The potential effects of key risk factors have varying significance for projections of the Council's financial position.

Inflation

Inflation continues to affect Council finances, particularly our inflation linked contracts. RPI is currently 12.6% and CPI 10.1% (September 2022) and may continue to rise. Whilst inflationary contract uplifts are included within service budgets, these rates may result in additional pressures by the end of the MTFP period.

Historically some of our government grants have been linked to CPI rates, which could indicate an uplift to our funding streams above assumptions, however this has not yet been confirmed.

Energy costs

The UK is currently experiencing an energy crisis because of 'a perfect storm of market forces' that has hit the sector from all angles. The energy crisis has been building up over the past year, as increased demand during the post-Covid reopening of economies coincided with Russia's invasion of Ukraine and a subsequent squeeze on gas supplies into Europe.

Based on current market conditions we are estimating this to create a £6M pressure by the end of this current MTFP Period.

Interest rates

From Q3 2021/22 interest rates started to climb as the market began to understand that the Bank of England's 'transitory' narrative around post-pandemic inflation firstly looked overly optimistic, and then was entirely undermined by the Russian invasion of Ukraine and soaring energy prices.

This has created pressures for the Council in future years, some of which, but crucially not all, will be mitigated by reserves currently maintained for such a scenario. Despite the use of these specific reserves current forecasts show the increasing rates will potentially create a £4M pressure by 2024/25.

Medium Term Outlook

Pay

September saw a 10.1% increase in the real National Living Wage agreement and, owing to inflationary pressures, any potential pay awards are likely to be significant. There is a risk that any subsequent pay agreements will create compounding budget pressures over the life of the MTFP. We are estimating a net pay award pressure of £2.7M in 2023/24 after taking into account pay award contingencies that are set aside in the budget planning process.

Community impacts

As the economic and social context evolves, our community needs will change, this in turn places increased demand on Council resources. As the cost of living continues to rise, this may increase demand for Council tax support and other council administered financial aid schemes, as well as reducing future years funding streams such as the council tax collection rate. The Council has administered a range of support packages to mitigate against these community impacts. A further allocation of £1.6M Household Support Fund has been made for the period October 2022 - March 2023.

Demand and demographics

Economic conditions and associated financial impacts will potentially affect our current demand levels. Our population continues to rise with the percentage of over 65's and over 80's continuing to grow faster than the national average.

By the end of this current MTFP period projections show the over 65's to reach 23.09% of our total population. These factors all in turn increase the demand on our services.

Budget and Medium Term Financial Plan

The Council is required by law to set a balanced budget for the upcoming financial year. This balanced budget must be based on sound and sustainable assumptions about income and expenditure, the delivery of savings and use of reserves.

The Council expects to receive a draft Local Government Financial Settlement for 2023/24 in December 2022. The settlement will determine the scope and nature of any grant support, assumed inflationary uplifts and council tax referendum limits.

The key dates in the process include:-

- Informal scrutiny (December 2022)
- Draft LG Financial Settlement (December 2022)
- Council Tax Base set (December 2022)
- Budget Consultation (December 2022 – January 2023)
- Formal scrutiny (January 2023)
- Final LG Financial Settlement (February 2023)
- Full Council Budget (February 2023)

Revenue

Resources

4.22% Of Total Revenue Service Budgets

£0.4M Forecast Revenue Overspend

6.5% Variance as % Of Total Budget Envelope

| REVENUE | Revenue Budget £'M | Revenue Forecast £'M | Variance £'M |
|-------------------------------|--------------------|----------------------|--------------|
| Policy Strategy and Resources | 2.1 | 2.2 | 0.1 |
| Deputy S151 | 1.5 | 1.6 | 0.1 |
| Assistant Chief Executive | 1.1 | 1.1 | 0.0 |
| Law, Governance and Assets | 1.5 | 1.7 | 0.2 |
| | 6.2 | 6.6 | 0.4 |

| VARIANCE ANALYSIS | £M |
|---------------------------------|------------|
| Commissioning Pressures | 0.0 |
| Fees & Charges Income Shortfall | 0.1 |
| Service Pressures/Other Issues | 0.3 |
| | 0.4 |

Service Comments:-

Demand within Children's Services in terms of Children Looked After continues to be higher than anticipated and this is having a direct impact on demand for Legal services to support court proceeding.

Capital

2.70% Of Total Capital Programme

£0.5M Forecast Capital Overspend

| CAPITAL | Approved Programme £'M | Capital Forecast £'M | Variance £'M |
|-------------------------------|------------------------|----------------------|--------------|
| Law Governance and Assets | 0.0 | 0.0 | 0.0 |
| Deputy S151 | 0.7 | 0.8 | 0.1 |
| Policy Strategy and Resources | 1.5 | 1.9 | 0.4 |
| | 2.2 | 2.7 | 0.5 |

Service Comments:-

Additional investment necessary to support implementation of new Finance and People and Culture systems to ensure needs of the wider organisation met.

11.4% Of Total Revenue
Service Budgets

(£0.3M)

Forecast Revenue
Underspend

1.8%

Variance as % Of Total
Budget Envelope

| REVENUE | Budget £'M | Forecast £'M | Variance £'M |
|-------------|-------------|--------------|--------------|
| Environment | 16.8 | 16.5 | (0.3) |

| VARIANCE ANALYSIS | £M |
|---------------------------------|--------------|
| Commissioning Pressures | 0.0 |
| Fees & Charges Income Shortfall | 0.1 |
| Service Pressures/Other Issues | (0.4) |
| | (0.3) |

Service Comments:-

A healthy underspend is currently forecast, due to savings from the waste disposal contract and through the generation of additional recycling income.

This is currently offsetting income pressures from Regulatory Services and Bereavement Services and staffing pressures within Street Cleansing and the Waste Collection Service.

16.3%

Of Total Capital Programme

(£7.3M)

Forecast Capital Underspend

| CAPITAL | Approved Programme £'M | Forecast £'M | Variance £'M |
|-------------|------------------------|--------------|--------------|
| Environment | 13.3 | 6.0 | (7.3) |

Service Comments:-

Fleet Replacement Programme (£1.3M) Some spend has been reprofiled into next financial year as a result of extended lead times for vehicle delivery.

Enhancement of Bereavement Services (£0.3M) Works within the Lodge are delayed due to an issue with bats and a requirement to obtain a licence to commence the heritage related work on the site. Proposed that spending is re-profiled into 2023/24.

Depot Rationalisation (£4.0M) Permission from Network Rail to demolish structures close to the main line was not received in line with the original plan. This has resulted in a change of phasing of the work.

Public Sector Decarbonisation (£1.2M) Due to increased procurement costs over that originally estimated the cost per ton of carbon saved has increased significantly and this has made elements of the project unaffordable and not eligible for the external grant funding. This means that parts of the original scheme can no longer proceed and no longer offer value for money. Those elements of the scheme will be decommitted.

16.3% Of Total Revenue
Service Budgets

£0.2M

Forecast Revenue
Overspend

0.8% Variance as % Of Total
Budget Envelope

| REVENUE | Budget £'M | Forecast £'M | Variance £'M |
|---------------------------------|-------------|--------------|--------------|
| Regeneration | 5.2 | 5.3 | 0.1 |
| Housing, Highways and Transport | 18.8 | 18.9 | 0.1 |
| | 24.0 | 24.2 | 0.2 |

| VARIANCE ANALYSIS | £M |
|---------------------------------|------------|
| Commissioning Pressures | 0.1 |
| Fees & Charges Income Shortfall | 0.0 |
| Service Pressures/Other Issues | 0.1 |
| | 0.2 |

Service Comments:-

There are forecast income shortfalls of £0.1m in Planning from reduced applications and from reduced tenant occupancies within the Council's Commercial Estate of £0.3m.

These are largely being offset by savings identified against Supporting People Housing budgets. Supported Housing now pay for hours of support provided on a framework as opposed to a flat rate to providers. Based upon the review of the first 12 months delivery, and with some publicity and changes in support for rough sleepers this year, the spend has been reduced to be close to 2020/2021 levels.

28.47% Of Total Capital Programme **(£3.7M)** Forecast Capital Underspend

| CAPITAL | Approved Programme £'M | Forecast £'M | Variance £'M |
|---------------------------------|---------------------------|--------------|--------------|
| Regeneration | 23.2 | 30.2 | 7.0 |
| Housing, Highways and Transport | 29.7 | 19.0 | (10.7) |
| | 52.9 | 49.2 | (3.7) |

Service Comments:-

SHIIP £2.6M Advanced spend currently forecast to support land purchases. Will require bringing forward future year budgets approved for this scheme. Any further investment requests will be subject to corporate governance approval processes.

CDF - Open for Culture (£1.1M) A review of the scheme is underway given rising costs of delivery.

Future High Street Fund £6.8M It is proposed that the grant provided for this scheme is used in advance of originally planned in order to facilitate the purchase of Freshney Place Shopping Centre.

Local Transport Plan Schemes (£0.3M)

Due to the range and variety of schemes within the LTPS, the spend is difficult to forecast and any under or overspends are managed through the annual planning and prioritisation process.

Housing Assistance Grants & Loans (£0.4M) Proposed that spend is deferred to 2023/24 as a result of delays in the CPO process and feasibility work necessary prior to refurbishment of 2 properties

Grant St Car Park (£3.3M) Spend in the current year will now primarily relate to design and consultation with construction works reprofiled to future years.

Green Homes LAD Phase 2 (£0.4M) Despite a positive response and a good volume of surveys completed, a number of factors have contributed to the current forecast underspend in year. These include a change in legislation for external wall cavity with roof pitches, dropouts from landlords due to top-up costs and high number of D rated properties or properties not technically suited.

Heritage Action Zone £0.4M Advanced spend currently forecast and will require future year budgets approved for this scheme to be brought forward. There is also a requirement to transfer budget for this scheme from the CDF - Open for Culture scheme so that the remainder of the scheme can be managed within one budget.

Towns Fund (£2.1M) DLUHC recognise that cost inflation and supply chain issues are placing pressures on capital works and a number of towns are having to rescope projects to meet these challenges, as well as experiencing delays with projects start dates. Current commitments and project milestones are being reviewed over the next couple of months to reassess whether funding needs slipping into future years.

Corporation Road Refurb (£3.4M) Some delay in obtaining permits to start works so proposed that spend is reprofiled into 2023/24.

Poplar Rd Business Unit Expansion (£3.0M) Rising construction costs mean that the scheme is not currently viable. Options for the site are to be subject to further review and spend decommitted.

32.8% Of Total Revenue Service Budgets

£11.7M Forecast Revenue Overspend

24.3% Variance as % Of Total Budget Envelope

| REVENUE | Budget £'M | Forecast £'M | Variance £'M |
|---|-------------|--------------|--------------|
| Safer and Partnerships | 2.2 | 2.0 | (0.2) |
| Education and Inclusion | 9.9 | 10.0 | 0.1 |
| Safeguarding and Early Help | 36.2 | 48.0 | 11.8 |
| Director Childrens Services | (0.2) | (0.2) | 0.0 |
| Women, Childrens and Families | 0.1 | 0.1 | 0.0 |
| Total Children's & Family Services | 48.2 | 59.9 | 11.7 |

| VARIANCE ANALYSIS | £M |
|---------------------------------|-------------|
| Commissioning Pressures | 2.7 |
| Fees & Charges Income Shortfall | 0.1 |
| Service Pressures/Other Issues | 8.9 |
| | 11.7 |

Service Comments:-

Despite a number of service actions and financial interventions to stabilise the service in the year the financial outturn projection overspend position has worsened and now stands at £11.7M.

Looked after children numbers remain high at around 636 and there is little indication that these will reduce in the short term. This and the corresponding high caseloads and dependency on agency staff all contribute to the overspending position.

The financial spending position and demand levels threaten the financial position of the Council, and a number of key actions are underway to rectify this. These include work in the Integrated front door to reduce demand into the service, work to step cases down and close cases where it is appropriate and safe to do so, the release of agency staff and teams, a focus on family first when decisions to bring a child into care are made, alongside work to bring children closer to home and reduce the number of children in out of borough residential placements and a vacancy freeze except for permanent social worker recruitment and the immediate cessation of all discretionary spend.

16.07% Of Total Capital Programme
 (£0.0M) Forecast Capital Underspend

| CAPITAL | Approved Programme £'M | Forecast £'M | Variance £'M |
|-----------------------------|---------------------------|--------------|-----------------|
| Childrens & Family Services | 13.1 | 13.1 | 0.0 |

Service Comments:-

Capital spend predominantly relates school and SEND provision. The schemes are currently forecast to be spent in line with the approved budget.

0.61% Of Total Revenue
Service Budgets

£0M

Forecast Revenue
Overspend

0% Variance as % Of Total
Budget Envelope

| REVENUE | Budget £'M | Forecast £'M | Variance £'M |
|---------------|---------------|-----------------|-----------------|
| Public Health | 0.9 | 0.9 | 0.0 |
| | 0.9 | 0.9 | 0.0 |

| VARIANCE ANALYSIS | £M |
|---------------------------------|------------|
| Commissioning Pressures | 0.0 |
| Fees & Charges Income Shortfall | 0.0 |
| Service Pressures/Other Issues | 0.0 |
| | 0.0 |

Service Comments:-

The Council has been allocated a ring fenced Public Health grant of £11.887m in 2022/23. This grant is allocated to a number of services with the aim of improving the health of the local population.

The main services that benefit from the Public Health grant include Drugs & Alcohol, Wellbeing Service, Sexual Health, Regulation and Enforcement, Health Visitors, School Nurses and the Localities team. Some of the grant has been used as a contribution towards key contracts which impact public health outcomes and these include Lincs Inspire, Engie and Adult Social Care.

Whilst there are demand needs, the work is targeted and tailored to the grant available. Due to the nature of the grant being ring fenced any under or overspend is rolled into a specific earmarked reserve for future utilisation on public health activities.

34.6% Of Total Revenue Service Budgets

(£0.7M) Forecast Revenue Underspend

1.4% Variance as % Of Total Budget Envelope

| REVENUE | Budget £'M | Forecast £'M | Variance £'M |
|----------------|-------------|--------------|--------------|
| Adult Services | 50.8 | 50.1 | (0.7) |
| | 50.8 | 50.1 | (0.7) |

| VARIANCE ANALYSIS | £M |
|---------------------------------|------------|
| Commissioning Pressures | 0.0 |
| Fees & Charges Income Shortfall | 0.0 |
| Service Pressures/Other Issues | 0.0 |
| | 0.0 |

Service Comments:-

The service has conducted a comprehensive line-by-line budget analysis, and has identified £0.7M of one-off, in-year, underspends that will be released to support the overall Council outturn position for 22/23. The service has identified further potential one-off in year savings of up to £0.3M being available for release. However, there is a risk against this of a recent increase in residential placements driving up demands on the budget. This position is being monitored against placement and cost activity, and the further amount available for release as a one-off saving will be confirmed over the next two months. The service will continue to work with the Council's finance team on this position.

The key cost drivers of the service remain increasing demand and rising costs, mainly driven by the increased complexity of care needs of people leaving hospital earlier than they would have done previously. Whilst there is risk in the reported position a projection is being made that cost and demand pressures, provider sustainability, activity fluctuations, timing and costs of transitions, and full achievement of DFG savings proposal of £1.2m which is included within the service commissioning plan are able to be contained and delivered within the remaining budget envelope for 22/23 after the one-off underspends of £0.7M are deducted.

As part of the DHSC requirements, the Fair Cost of Care exercise has been completed. Adult services are awaiting verification of the Fair Cost of Care return from the DHSC. The expenditure of the Fair Cost of Care grant for 22/23 was delegated by Cabinet to the DASS in consultation with the Portfolio Holder and Section 151 officer. As the amount of funding for the Fair Cost of Care grant for 23/24 and 24/25 is still unknown, most of the grant for 22/23 is being allocated to support at home providers as a one-off payment to support current pressures and to help drive our "Home First" approach. In addition, 25% of the grant is allocated to the costs of conducting the exercise, as allowed for in the grant conditions. Engagement with providers is being undertaken to initiate the fee setting process for 23/24 for all residential, supporting living and support at home services. Adult services will be particularly reliant on the Fair Cost of Care grant for 23/24 to support fee uplifts, so the fee setting process for 23/24 will be particularly challenging in the context of uncertainty of grant funding.

Corporate Budgets

8.0%

Of Total Revenue
Budgets

(£3.4M)

Forecast Revenue
Underspend

| CORPORATE BUDGETS | Budget £'M | Forecast £'M | Variance £'M |
|-----------------------------|-------------|--------------|--------------|
| Pensions and Appropriations | 11.2 | 8.6 | (2.6) |
| Technical Adjustments | (12.4) | (12.4) | (0.0) |
| Borrowing Costs | 13.0 | 12.1 | (0.9) |
| Levies | 0.7 | 0.7 | 0.0 |
| Other Budgets | (0.1) | (0.1) | 0.0 |
| Total | 12.4 | 9.0 | (3.4) |

The forecast position of £3.4M underspend for corporate budgets includes £3.7M EMR draw down, of which £1M has been ringfenced for the expected pay award pressure.

A further £0.9M underspend has been identified within borrowing costs. However the Council's future borrowing cost is expected to create a significant pressure in future years due to higher interest rate expectations and additional borrowing requirement.

Funding - Summary

80.6% Local Taxation Budget as
% of Total Funding

1.98% Council Tax uplift
22/23

| FUNDING | Budget £'M | Forecast £'M | Variance £'M |
|----------------------------------|-----------------------|-------------------------|-------------------------|
| Council Tax | (79.3) | (79.3) | 0.0 |
| Business Rates | (45.6) | (45.6) | 0.0 |
| Revenue Support Grant | (9.5) | (9.5) | 0.0 |
| Better Care Fund | (8.1) | (8.1) | 0.0 |
| Social Care Support | (8.2) | (8.2) | 0.0 |
| Capital Grants and Contributions | 0.0 | 0.0 | 0.0 |
| New Homes Bonus | (0.8) | (0.8) | 0.0 |
| Market Sustainability | (0.5) | (0.5) | 0.0 |
| Services Grant | (2.7) | (2.7) | 0.0 |
| Lower tier service grant | (0.3) | (0.3) | 0.0 |
| Total | (155.0) | (155.0) | 0.0 |

In-year funding from local taxation targets is forecast to be on budget.

In- year collection is being monitored closely.

Local Taxation

| Council Tax Collection | % | Non Domestic Rates Collection | % |
|-------------------------------|----------|--------------------------------------|----------|
| Q1 2022/23 | 27.95 | Q1 2022/23 | 26.34 |
| Q1 2021/22 | 28.40 | Q1 2021/22 | 23.39 |
| Q1 2020/21 | 28.30 | Q1 2020/21 | 26.35 |

Collection Rates:-

Council Tax

Collection performance is very similar to this time last year. The collectible liability is about £4m higher than last year and we have collected approximately £2m more already this year compared to last year. One contributing factor may be that we have managed to get more customers onto Direct Debit this year, which improves collection.

This is largely due to the fact that the vast majority of council tax payers have been entitled to the government's £150 Energy Rebate payment and Direct Debit was the easiest way to pay this, so additional customers have signed up to Direct Debit so that they could receive their payment more quickly. This represents good collection performance given ongoing cost of living challenges.

Non Domestic Rates

Collection is significantly ahead of this time last year despite the collectible liability being about £4M higher . The Council has already collected approximately £5.7M more this year compared to last year. There have once against been a number of reliefs offered to businesses and this is supporting the in year position.

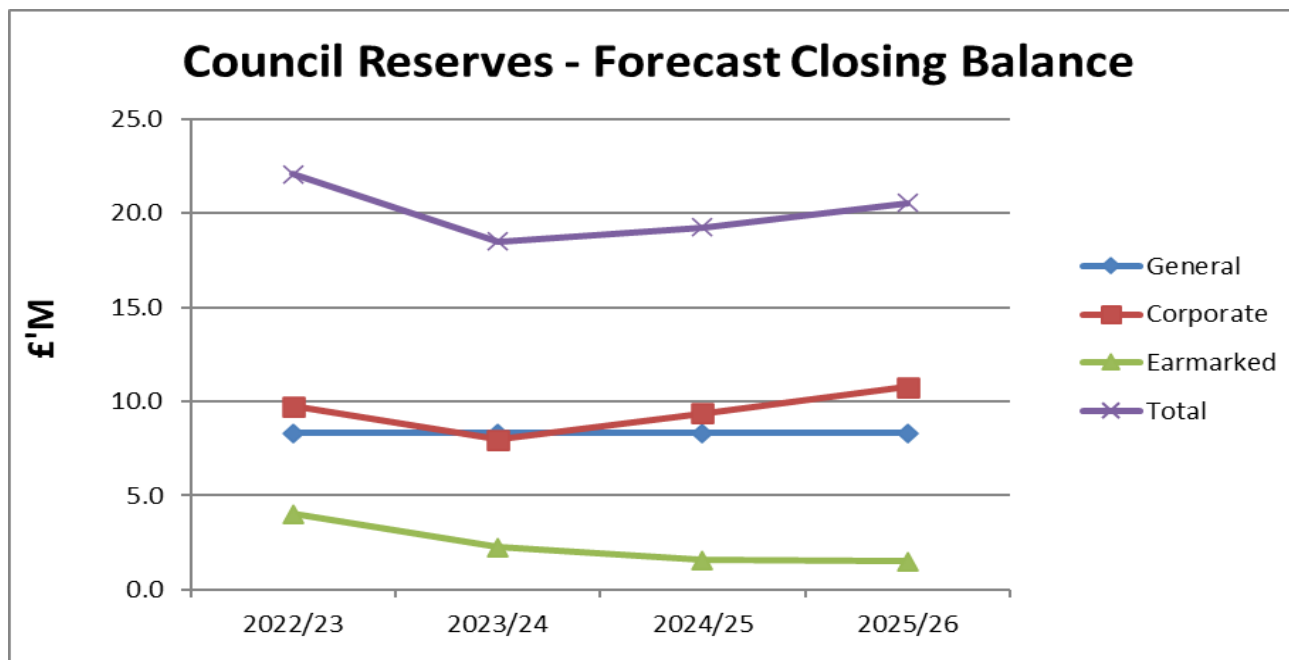
Reserves

£8.3M General Fund

5.4% General Fund as %
Of Net Budget

£21M

Forecast 25/26 Total
Reserve Balance



General fund reserves, set aside to deal with any unforeseen events, remain at £8.3M. This is in line with the medium term financial plan (MTFP) and considered to be a prudent level taking into account the increased level of risk to which the Council is currently exposed. This position will be reviewed and updated as necessary as part of the next MTFP round ready for April 2023.

The Council also maintains earmarked reserves for specific purposes. Corporate reserves are set aside to address risk areas, details of key corporate reserve balances are shown on the next page. Service reserves are expected to reduce further to support transformation and other initiatives over the period of the current MTFP.

Reserves

7.0%

25/26 Corporate Reserves
as % Of Net Budget

£10.8M

Forecast 25/26 Corporate
Reserve Balance

Key Earmarked Reserves

| Name | 22/23 Closing Balance £'M | Purpose |
|-------------------------------|---------------------------------|--|
| Business Rates Equalisation | 0.7 | Used to mitigate fluctuations in business rates income without impacting service budgets |
| Transformation Reserve | 0.6 | Service transformation activity |
| Social and Demographic Demand | 5.4 | To acknowledge increased risk and pressures related to social care and demand demographics |
| Debt Financing | 1.5 | Used to mitigate costs of borrowing and capital programme activity |
| Council Tax Hardship Fund | 0.2 | Used to offer assistance to residents who are facing hardship |

In light of the current economic and financially position faced by the Council it is essential that we continue to review corporate and technical reserves to ensure there is sufficient capacity to deal with the risks and opportunities faced. In the event that the Council found it necessary to draw upon reserves in order to balance the budget in year, plans would need to be put in place to replenish reserves to a reasonable level as part of the medium term financial planning process.

Working Capital Management

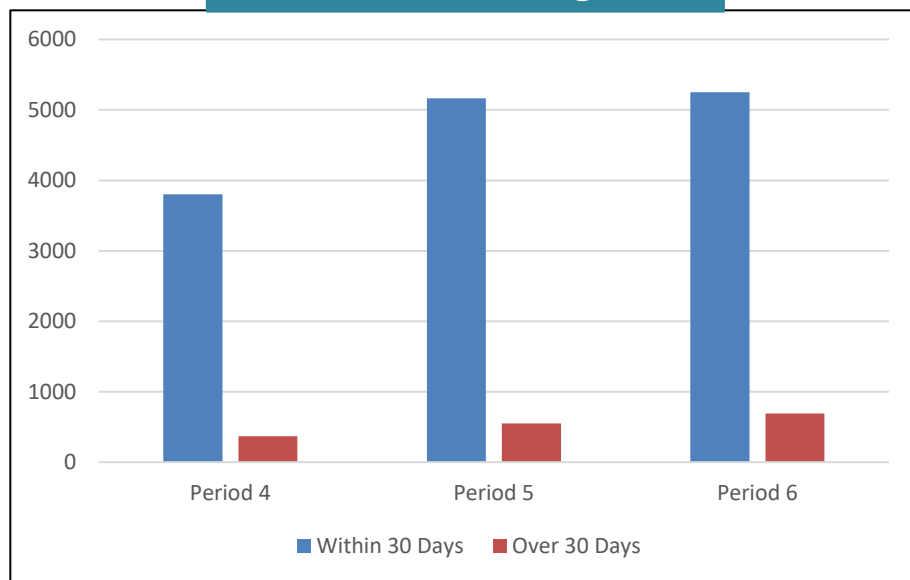
90%

Creditor Invoices Paid within 30 days during Qtr. 1

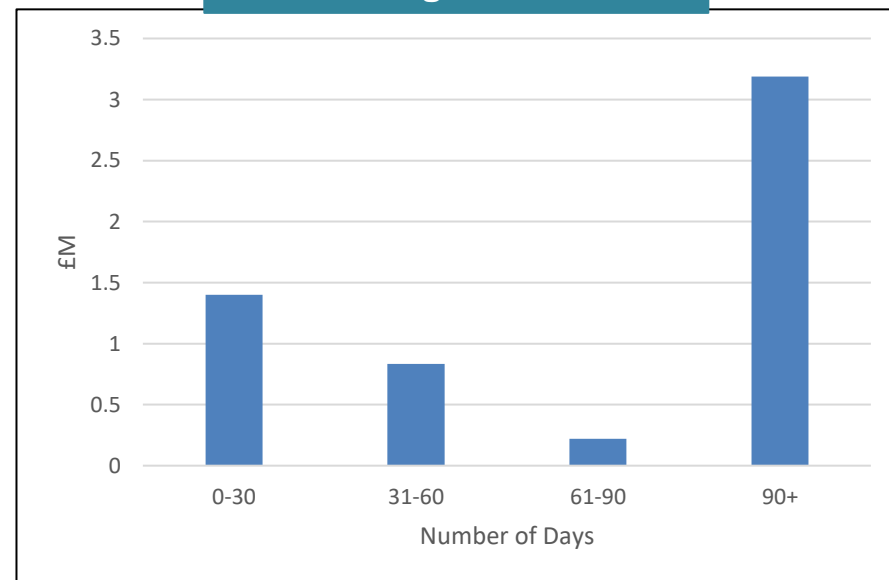
£3.2M

Value of over 90 day debt at Qtr. 1

Invoices Paid During Qtr. 2



Outstanding Debt at Qtr. 2



The processing of creditor invoices within terms has improved since Quarter 1 as familiarisation with the new finance system and ways of working continues to develop. Quarter 2 invoices paid within terms was 90% compared to 78% in Quarter 1. It is expected that the improvements will continue in future periods.

The overall debt has increased since 2022-2023 Q1 report predominantly in the 0-30 and 90+ day category indicating that new invoices not yet due have been raised but also that customers are taking longer to pay their debt. However it should be noted that the debt for 90+ days also includes older invoices where debt is being collected on agreed payment plans.

Treasury & Cashflow 2022-23

£25.9M

Investments at 30 Sept 22

£155.2M

Borrowing as at 30 Sept 22

1.84%

Average return on investments

3.28%

Average cost of borrowing

The chart opposite shows the projection for various limits, determined to ensure that all borrowing is affordable and linked to the Capital Programme.

The Capital Financing Requirement is the underlying need to borrow for capital plans. The Authorised and Operational Boundaries are limits of borrowing that are deemed affordable, they are not targets.

Our cash position, which had been boosted by various grant streams, primarily in connection with the pandemic response and, and short-term borrowing taken in advance to provide liquidity has now returned to more normal levels.

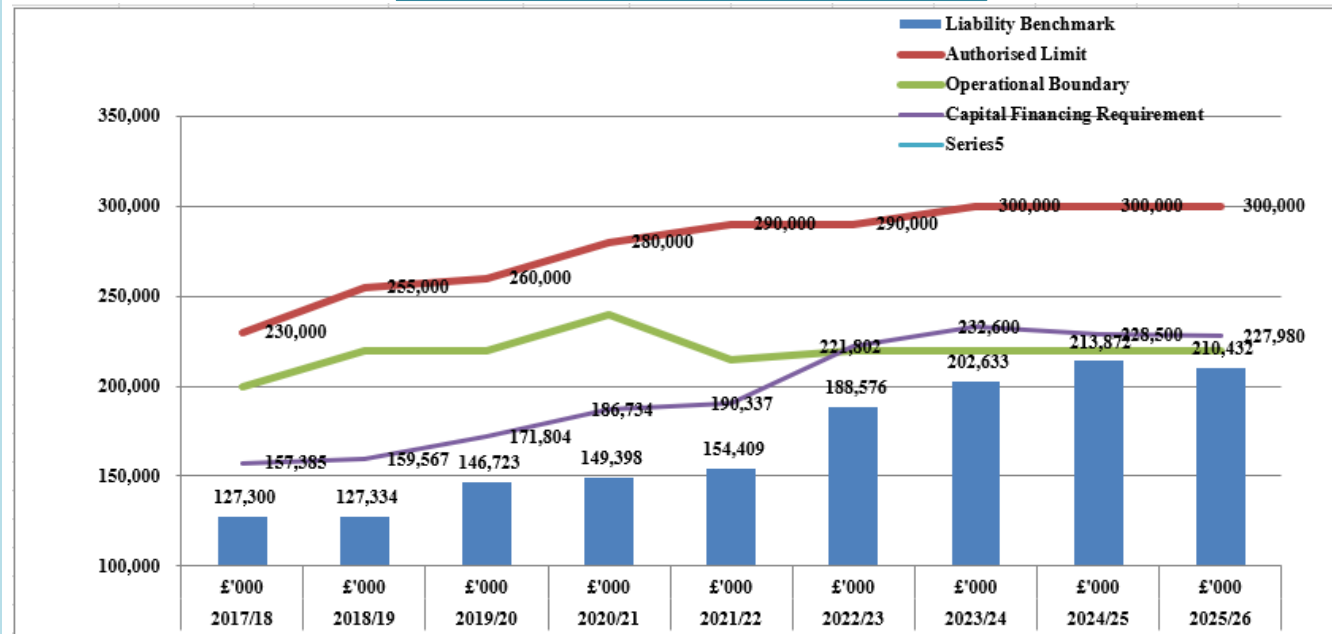
Rising rates have created significantly more interest rate risk on our future borrowing requirement. We secured some new borrowing prior to rates spiking in September and our strategy now is to use shorter term borrowing (as far as possible) to see us through the peak of the current cycle.

Current borrowing and investments are consistent with the Treasury Management Strategy.

Balances which had been elevated due to Covid-19 pandemic positions have now unwound and sit at typical levels for the Council. At the same time rates have risen dramatically over the past 3 months. £25m of borrowing was completed prior to the sharpest rises over various periods and start dates. Whilst this is helpful, future borrowing will now come at significantly more cost, creating pressures in future years.

Our Operational Boundary for borrowing only (Green line in Chart below) has been more closely aligned with borrowing projections and the Capital Financing Requirement to provide an early warning on debt level affordability. Further details are provided in the half-year Treasury Report.

Prudential Indicators



Treasury Outlook

The chart opposite (known as the Liability Benchmark) shows the projection for the Council's borrowing over several decades (the red line), using the current approved Capital Programme and an assumption of reduced, but continuing, capital investment funded by borrowing in the future.

The Liability Benchmark allows us to make long-term borrowing decisions calculated not to create a future 'over-borrowed' position.

The table shows current interest rate projections against budgets. These projections move in relation to both additions/slippage in the approved Capital Programme and changes in interest rate forecasts.

Rising rates have created a pressure in future years based on the current Programme. Some of this pressure can be alleviated by reserves held specifically to smooth out the impact of rate movements and there is expected to be some slippage in the programme which could delay the borrowing impact.

However, it is clear that debt budgets are now much more challenging than in the recent past.

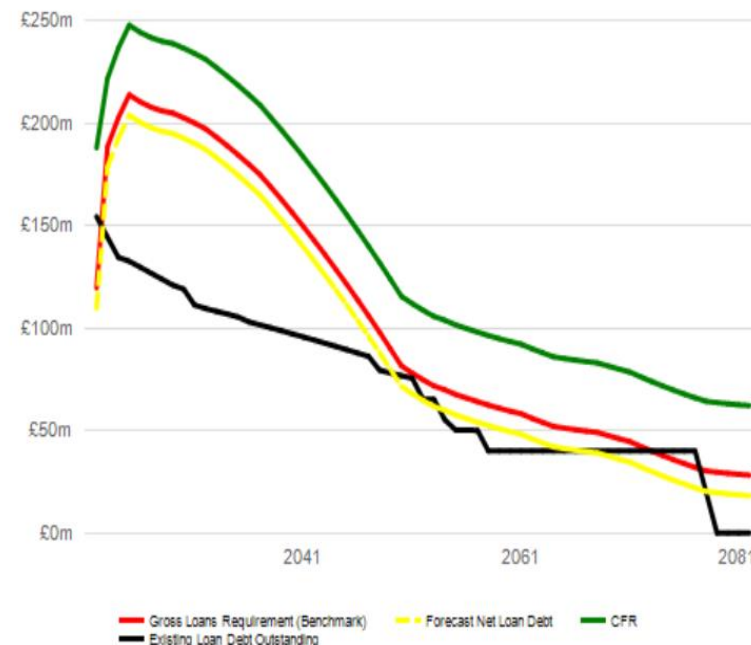
Current approved capital plans and a working assumption that capital investment continues (but at a reducing level) over future decades allows us to project over a very long forecast period (consistent with the typical loan terms we can access) and helps guard against incremental borrowing creating an over-borrowed position for future generations of taxpayers.

This projection is known as the Liability Benchmark (the red line) and represents an efficient borrowing strategy over the long-term, against current assumptions. From 2023-24 the Benchmark will be a formal Prudential Indicator under CIPFA Guidance, though we must 'have regard to' it from 2022-23. Readers of the Treasury Management Strategy will be familiar with the tool already as we have reported it for several years.

| Interest Cost | 2022/23 | 2023/24 | 2024/25 |
|------------------|---------|----------|----------|
| Forecast outturn | £6.318m | £9.741m | £10.546m |
| Current Budget | £6.412m | £6.412m | £6.412m |
| Shortfall (-) | £0.094m | -£3.329m | -£4.134m |

NB Figs as at 11 Oct, post fiscal event

General Fund Liability Benchmark



From Q3 2021/22 interest rates started to climb as the market began to understand that the Bank of England's 'transitory' narrative around post-pandemic inflation firstly looked overly optimistic, and then was entirely undermined by the Russian invasion of Ukraine and soaring energy prices.

This has created pressures for the Council in future years, Some of which, but crucially not all, will be mitigated by reserves currently maintained for such a scenario.

Capital Programme

| Ref | Name of Scheme | 2022/23 Capital Programme £000's | 2023/24 Capital Programme £000's | 2024/25 Capital Programme £000's |
|-------|--|----------------------------------|----------------------------------|----------------------------------|
| | REGENERATION | | | |
| CS217 | Clee HLF Townscape Heritage | 957 | 665 | 219 |
| CS237 | SHIIP Scheme | 2,460 | 130 | 6,038 |
| CS253 | Playing Pitch Reprovision | 1,555 | 2,500 | 300 |
| CS254 | Unlocking the Potential | 162 | 0 | 0 |
| CS264 | Cleethorpes Public Art | 309 | 0 | 0 |
| CS276 | Heritage Action Zone | 264 | 230 | 0 |
| CS280 | Town Deal Investment | 2,005 | 1,300 | 0 |
| CS288 | Central Clee Regeneration | 257 | 3,520 | 0 |
| CS297 | CDF - Open for Culture | 1,651 | 70 | 0 |
| CS321 | Future High Street Fund | 9,446 | 17,387 | 0 |
| CS330 | Towns Fund | 3,576 | 10,264 | 0 |
| CS333 | Strategic Land Acquisition | 500 | 0 | 0 |
| | HOUSING, HIGHWAYS & TRANSPORT | | | |
| CS005 | Disabled Facilities Grants | 4,000 | 3,500 | 3,500 |
| CS035 | Local Transport Plan Schemes | 5,318 | 4,838 | 4,864 |
| CS091 | Housing Assistance Grants and Loans | 714 | 250 | 0 |
| CS105 | Backlog Maintenance | 2,418 | 38 | 0 |
| CS182 | Property Rationalisation Programme | 183 | 0 | 0 |
| CS225 | Gilep Junction Improvement | 93 | 0 | 0 |
| CS233 | Cartergate Office Development | 220 | 0 | 0 |
| CS248 | Conv Road Apartment Block | 0 | 0 | 0 |
| CS249 | Immingham Lock flood Def Gates | 63 | 0 | 0 |
| CS259 | Dig Strat Del/Imp Civica/Edrms | 0 | 0 | 0 |
| CS266 | A18 Laceby to Ludborough | 407 | 0 | 0 |
| CS269 | Community Housing Fund | 0 | 0 | 0 |
| CS270 | Willingham/Peaks drainage | 0 | 0 | 0 |
| CS277 | Heritage Assets at Risk | 507 | 0 | 0 |
| CS298 | Gy LC Fire Segregation Works | 0 | 0 | 0 |
| CS299 | Accelerated Cons funding | 309 | 0 | 0 |
| CS303 | Estate Road No 2 | 0 | 0 | 0 |
| CS305 | Corporation Rd Bridge Refurb | 3,913 | 500 | 0 |
| CS312 | Poplar Road Expansion | 3,034 | 0 | 0 |
| CS313 | Business Centre Improvement | 427 | 0 | 0 |
| CS314 | Grimsby to Imm Ext Cycle Track | 1,035 | 0 | 0 |
| CS316 | Rough Sleeper Accom Grant | 111 | 0 | 0 |
| CS318 | Green Homes Grant LAD Phase 2 | 726 | 0 | 0 |
| CS327 | Gy and Imm Flood Innov Funding | 1,392 | 1,980 | 0 |
| CS328 | Bradley Replacement 3G Pitch | 260 | 0 | 0 |
| CS329 | Grant St Car Park | 3,392 | 0 | 0 |
| CS335 | Sustainable Warmth - new scheme | 1,094 | 0 | 0 |
| CS338 | Flood Defences - Humberston Fitties | 0 | 0 | 0 |

| Ref | Name of Scheme | 2022/23 Capital Programme £000's | 2023/24 Capital Programme £000's | 2024/25 Capital Programme £000's |
|-------|--|----------------------------------|----------------------------------|----------------------------------|
| | LAW, GOVERNANCE & ASSETS | | | |
| CS339 | Changing Places Fund | 86 | 0 | 0 |
| | DEPUTY S151 | | | |
| CS224 | Capital Investment | 302 | 3,051 | 4,657 |
| CS286 | Capital Rec't Flexibility | 400 | 400 | 0 |
| | POLICY, STRATEGY & RESOURCES | | | |
| CS241 | ICT Refresh | 748 | 646 | 0 |
| CS251 | System Investment | 44 | 0 | 0 |
| CS294 | IT Transformation Programme | 0 | 0 | 0 |
| CS319 | LMS Implementation | 21 | 0 | 0 |
| CS332 | Sentinel Master Data Mgt | 209 | 65 | 0 |
| CS334 | M365 Transformation Programme | 173 | 175 | 131 |
| CS336 | CRM Developments - new scheme | 85 | 0 | 0 |
| CS337 | Education Management Platform | 236 | 633 | 343 |
| | ENVIRONMENT | | | |
| CS166 | Fleet Replacement Programme | 2,668 | 633 | 0 |
| CS273 | Household Recycling Scheme | 0 | 57 | 0 |
| CS282 | Litter Bin Upgrade Plan | 29 | 0 | 0 |
| CS290 | Enhancement of Bereavement Services | 1,048 | 84 | 12 |
| CS295 | Peoples Park Refurbishment | 41 | 0 | 0 |
| CS308 | Depot Rationalisation | 6,519 | 0 | 0 |
| CS311 | Scartho Cemetery Lodge & Waiting Rooms | 780 | 38 | 0 |
| CS317 | Resort Management | 41 | 0 | 0 |
| CS320 | Public Sector Decarbonisation | 1,404 | 0 | 0 |
| CS322 | Environmental Services Mgt System | 125 | 0 | 0 |
| CS323 | Regulatory Services Management System | 92 | 0 | 0 |
| CS324 | Operation Gateway | 0 | 0 | 0 |
| CS325 | Memorial Testing & Repairs | 82 | 0 | 0 |
| CS326 | Play Areas | 500 | 300 | 0 |
| | ADULT SERVICES | | | |
| CS226 | Social Care - BCF | 10 | 0 | 0 |
| | SAFER & PARTNERSHIPS | | | |
| CS309 | CCTV Review & Upgrade | 2,066 | 0 | 0 |
| CS331 | Safer Streets 2 | 5 | 0 | 0 |
| | EDUCATION & INCLUSION | | | |
| CS066 | Schools - Devolved Formula Cap Grant | 217 | 0 | 0 |
| CS069 | Schools - Backlog Maintenance | 292 | 400 | 400 |
| CS082 | Schools - Basic Need Sufficiency of Places | 7,200 | 5,000 | 8,000 |
| CS256 | SEND Special Prov Fund | 3,257 | 1,452 | 883 |
| CS301 | Service Imp Educ | 61 | 0 | 0 |
| CS302 | New Nursery Places | 5 | 0 | 0 |
| | TOTAL CAPITAL PROGRAMME | 81,504 | 60,106 | 29,347 |

| | 22/23 | 23/24 | 24/25 | Total |
|----------------------|---------------|---------------|---------------|----------------|
| RINGFENCED GRANTS | 16,389 | 13,441 | 2,641 | 32,471 |
| UN-RINGFENCED GRANTS | 25,650 | 18,243 | 6,273 | 50,166 |
| SECTION 106 FUNDING | 651 | 5,124 | 436 | 6,211 |
| CAPITAL RECEIPTS | 441 | 400 | 0 | 841 |
| SERVICE EMR'S | 280 | 0 | 0 | 280 |
| CORPORATE BORROWING | 38,093 | 22,898 | 19,997 | 80,988 |
| | 81,504 | 60,106 | 29,347 | 170,957 |