

CABINET

DATE	4 th September 2019
REPORT OF	Councillor Stan Shreeve Portfolio Holder for Finance and Resources
RESPONSIBLE OFFICER	Sharon Wroot Director of Resources and Governance
SUBJECT	Finance Strategy 2020-2030
STATUS	Open
FORWARD PLAN REF NO.	CB 09/19/02

CONTRIBUTION TO OUR AIMS

The Council has two clear strategic priorities – Stronger Economies and Stronger Communities. In order to achieve those priorities the Council must have a clear and robust financial strategy.

EXECUTIVE SUMMARY

The financial strategy covers the period 2020-2030 and takes into account a range of factors including the current financial position and performance of the Council, a review of the local economy, proposed local government reform and external analysis relating to wider national economic and political developments.

Despite financial uncertainties within the Local Government sector, the Council remains committed to the achievement of long term financial sustainability by embracing the area's economic potential and by growing its local tax base. This is the only way the Council can become self-sufficient and generate the resources necessary to maintain and reinvest in quality public services.

The Financial Strategy sits centrally to a number of internal and external planning influencers and as such is informed by the drivers and priorities within them. The Strategy focuses on sustainability for the future, and the things we need to do to ensure we are financially resilient. The Strategy sets out our strategic priorities for financing which in turn fund the Council's activities and functions. The financial strategy is closely aligned the Council's local plan, economic development strategy and emerging housing strategy.

The Council will only achieve financial sustainability through funding and supporting economic and housing growth and maintaining a clear focus on its key outcomes and activities. At the same time it, and, at ensuring it is efficient and effectiveness of delivery. The council will maintain adequate levels of reserves to deal with risks and fund opportunities.

Further detail and analysis is provided within Appendix 1 to this report.

RECOMMENDATIONS

It is recommended that Cabinet:

- (1) Approves the Financial Strategy and the approach to long term financial sustainability set out in Appendix 1 to this report.
- (2) Delegates authority to the Director of Resources and Governance in consultation with the Portfolio Holder for Finance and Resources to implement the Strategy.

REASONS FOR DECISIONS

The Council aspires to long term financial sustainability in order to adapt to the changing local government environment and live within its means. A clear and consistent strategy is required to support achievement of this aim, which underpins successful achievement of the Council's two strategic priorities – Stronger Economies and Stronger Communities.

1 BACKGROUND AND ISSUES

- 1.1 The financial strategy is integral to the Council's strategic planning processes. It sets out the framework within which how the Council plans to approach financial planning to meet its objectives both now and in the future.

2. RISKS AND OPPORTUNITIES

- 2.1 A clear and consistent financial strategy is essential to the Council achieving long term financial sustainability and living within its means. Aligning our financial strategy to our two strategic priorities will contribute towards improving the social, economic and environmental wellbeing of the Borough.

3. OTHER OPTIONS CONSIDERED

- 3.1 The absence of a finance strategy would significantly impact on the Council's ability to achieve longer term sustainability.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

- 4.1 There are potential significant negative reputational implications for the Council if it fails to demonstrate financial resilience and sustainability. It is therefore essential that the Council has a clear and coherent financial strategy which is understood throughout the organisation.

5. FINANCIAL CONSIDERATIONS

- 5.1 As set out in the report.

6. CONSULTATION WITH SCRUTINY

- 6.1 Ongoing engagement with Scrutiny panels regarding the financial position and performance.

7. FINANCIAL IMPLICATIONS

- 7.1 The financial strategy supports the achievement of long term financial sustainability. It is the means by which the Council will adapt to the changing local government environment and live within its means.
- 7.2 The strategy will underpin the Medium Term Financial Planning process for the period 2020/21 – 2022/23.

8. LEGAL IMPLICATIONS

- 8.1 There are no legal issues immediately arising from the content of this report.

9. HUMAN RESOURCES IMPLICATIONS

- 9.1 There are no direct HR implications arising from the contents of this report.

10. WARD IMPLICATIONS

- 10.1 All wards affected.

11. BACKGROUND PAPERS

- 11.1 Outcomes Framework, Commissioning Plan and Budget 2019/20 – 2021/22

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COUNCILLOR STAN SHREEVE
PORTFOLIO HOLDER FOR FINANCE AND RESOURCES

Finance Strategy 2020-2030



Executive Summary

North East Lincolnshire Council has two clear strategic priorities – Stronger Economy and Stronger Communities. In order to achieve those priorities the Council must have a clear and robust financial strategy which focusses on long term financial sustainability.

The strategy covers the period 2020-2030 and takes into account a range of factors including the current financial position and performance of the Council, a review of the local economy, proposed local government reform and external analysis relating to wider national economic and political developments.

Despite financial uncertainties within the Local Government sector, the Council remains committed to the achievement of long term financial sustainability by embracing the area's economic potential and by growing its local tax base. This is the only way the Council can become self sufficient and generate the resources necessary to maintain and reinvest in quality public services.

The Financial Strategy sits centrally to a number of internal and external planning influencers and as such is informed by the drivers and priorities within them. The Strategy focuses on sustainability for the future, and the things we need to do to ensure we are financially resilient. The Strategy sets out our strategic priorities for financing which in turn fund the Council's activities and functions. The financial strategy is closely aligned the Council's local plan, economic development strategy and emerging housing strategy.

The Council will only achieve financial sustainability through funding and supporting economic and housing growth and maintaining a clear focus on its key outcomes and activities. At the same time ensuring it has efficient and effectiveness delivery. The council will maintain adequate levels of reserves to deal with risks and fund opportunities.

Where are we now?

Pressures are being experienced across the local government sector at the present time. Locally, the Council has seen reductions in its external funding and increased demand across a range of services and this is likely to continue for the foreseeable future.

According to the 2018 National Audit Office report on the sustainability of Local Authorities, since 2010 the Council as seen:

- A 53.5% real terms reduction in funding from Central Government;
- A 35.6% reduction in its overall spending power;
- Increased demand in a number of areas (Looked after children, homeless, Adult Social Care);
- A 11.7% real terms reduction in Adult and Children's Social Care spend; and
- A 21.9% real terms reduction in total service spend.

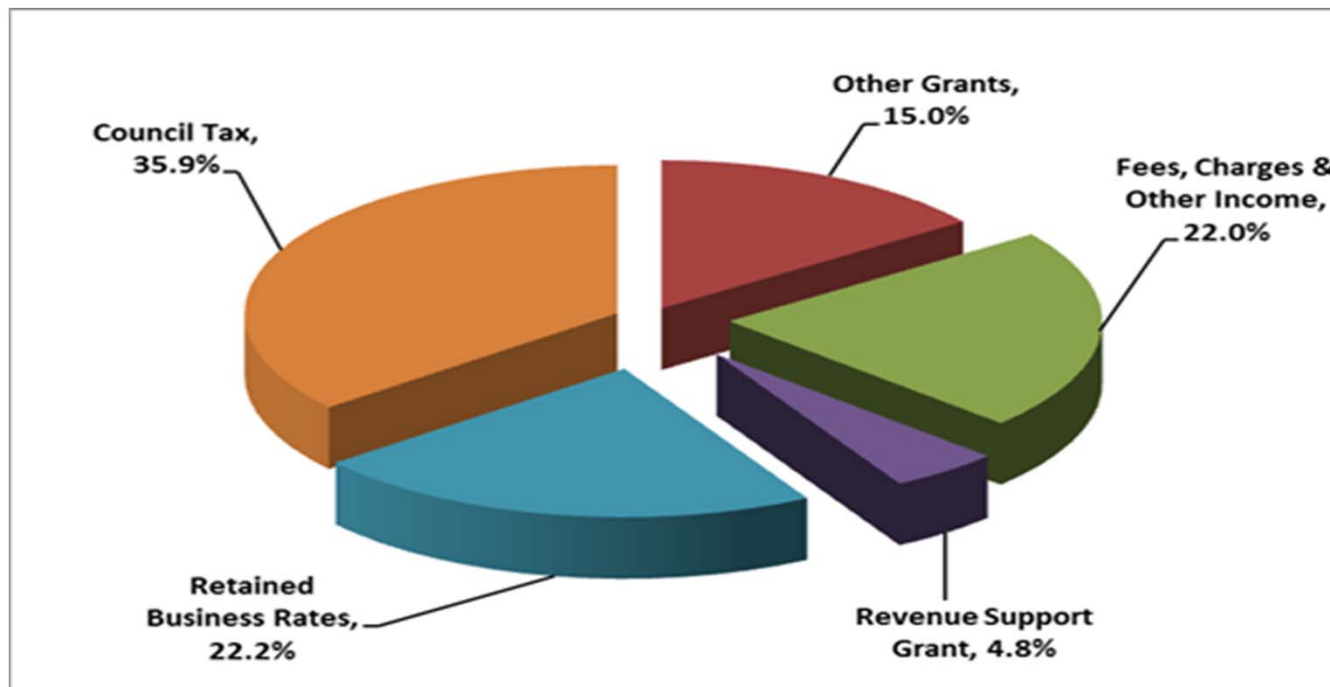
The Council has continued to deliver a comprehensive range of services and maintain a balanced financial position during this period. However based on current planning assumptions, this will not be sustainable over the longer term.

A **fundamental review of the local government funding regime** is underway. A proposed move to 75% retention of business rates and removal of remaining central Government support grant are proposed but uncertainties remain. The outcome of the Government's Public Services Spending and Fair Funding reviews could also have a significant impact on the Council's funding.

The **Health and Wellbeing** and **Welfare reform** agendas continue to be highlighted as areas of risk due to the uncertainty of the impact to the Council and wider locality.

Where are we now?

Local taxation represents in a significant amount of our funding, with a significant proportion of this coming from Council Tax which allows the greatest level of local determination. The Council's current funding is derived from a range of different sources.



Over time it is expected that there will be a **reducing reliance on revenue support grant** and other government funding. Therefore our focus needs to be on generating **sustainable income streams** and securing **external funding streams** linked to the delivery of strategic priorities..

Where are we now?

The Financial Strategy sits centrally to a number of internal and external future planning influencers and as such must reflect and be informed by the drivers and priorities within them.

The Council remains committed to the achievement of long term financial sustainability by embracing the area's **economic potential** and by **growing its local tax base**.

The financial strategy is therefore closely aligned to the Council's **local plan, economic strategy and housing strategy**.

The **capital investment strategy** and **treasury management strategy** provide further detail on the Council's approach to capital financing and borrowing.



Where are we now?

The Council's current approach is to set **financially sustainable budget envelopes** across each key outcome area. Commissioning plans outlining the approach to delivery within the envelopes are prepared and are included within annual budget reports. Budget envelopes take into account forecast funding projections for the Council, current expenditure levels across services and our key priorities.

The use of analytical tools to **benchmark local performance** against a range of national comparators has supported the current allocation of resources to outcome areas. The reasonableness of the underlying budget assumptions is challenged throughout the budget setting processes. Specific considerations when testing the reasonableness of budget assumptions include:

- Financial pressures experienced in the previous financial year;
- Inflationary pressures;
- Trends and demand factors;
- Realism of income targets; and
- Alignment of resources with the Council's service and organisational priorities.

Raising income is a key driver seeking to increase income from traditional sources and looking to create new opportunities for fees and charges. Established principles are:

- They support and are aligned to Council strategies and policies;
- Based on Full cost recovery;
- Subsidies and concessions only where it promotes public good or for the purpose of encouraging the take up of services;
- Services should operate more commercially in order to reduce dependence on revenue; and
- Cost effective and efficient collection channels in place with payment in advance or at the point of delivery wherever possible.

Where are we now?

North East Lincolnshire is located at the heart of the Humber 'Energy Estuary', it is already a major contributor to UK plc. The Ports of Immingham and Grimsby are the largest by tonnage in the UK, the South Bank of the Humber delivers over 25% of the UK's oil and petroleum refining capacity and over 70% of seafood consumed in the UK is processed in North East Lincolnshire. In addition, the emerging offshore wind sector is growing rapidly with 25% of the total UK capacity managed from the Port of Grimsby and potential for further major growth in this sector highlighted through the Offshore Wind Sector Deal. The resort of Cleethorpes continues to be a significant east coast tourism destination, attracting over 10m visitors and generating spend of £590m in 2017.

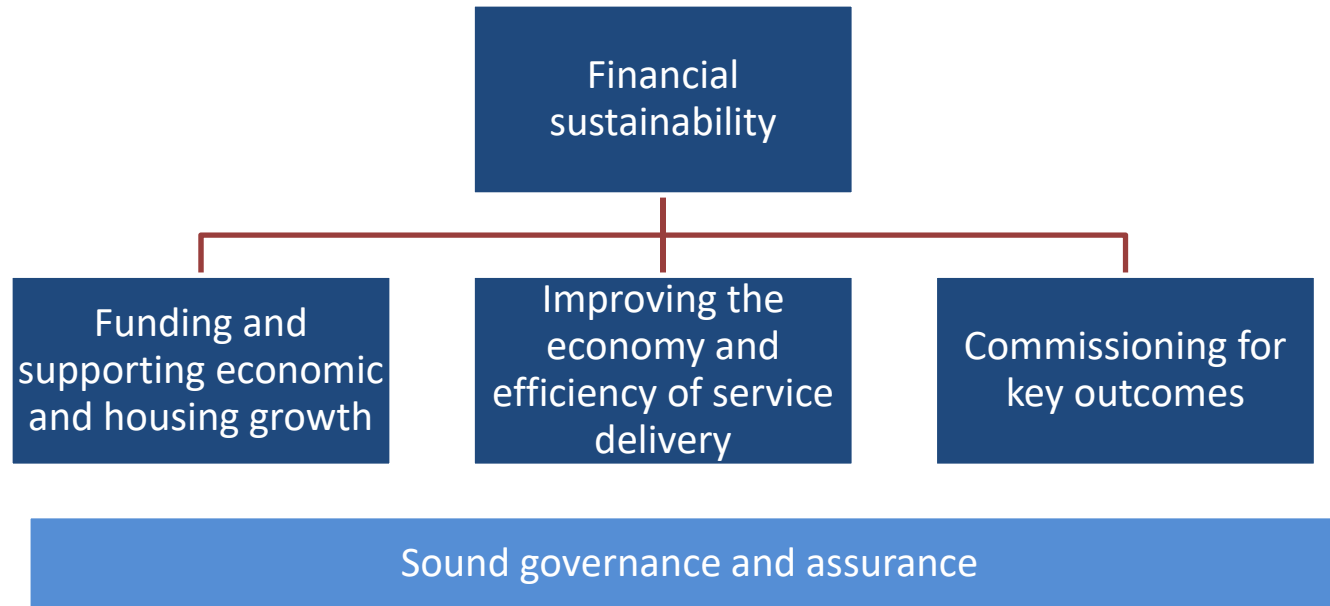
North East Lincolnshire Council is already making strong progress in **capitalising on these economic assets**. More than **4,500 new jobs** have been created through inward investment and indigenous business expansion over the past 10 years and claimant count unemployment has declined by over 30% over the same period. Over the next decade and beyond, there are strong prospects for growth in offshore wind and the transition to a low cost, low carbon economy; and for improved productivity and export-led growth in port-related logistics and in advanced manufacturing, chemicals/petrochemicals and food processing. As a result, the Council's Local Plan and Economic Strategy set out **ambitious targets for employment** (8,800 new jobs) and **housing growth** (a minimum of 9,742 new homes) to 2032.

The Council is playing a key role in facilitating/enabling employment and housing growth by investing up to £23.6m to deliver the **South Humber Industrial Investment Programme (SHIIP)** that will bring forward up to 195 hectares of employment land with Enterprise Zone status between the Ports of Grimsby and Immingham.

The council is working in partnership with landowners and developers to facilitate development of three strategic housing sites allocated in the Local Plan with the potential to deliver up to 4,300 new homes. In addition there is an ambition to improve the *quality of place* - education, leisure, cultural and heritage provision and the built environment – as an essential part of the strategy to attract and retain mobile businesses, people and investment. The **revitalisation of Grimsby Town Centre** affords a unique opportunity for culture/heritage-led regeneration and to reconnect the town centre with its waterfront. The unique **Greater Grimsby Town Deal** is acting as the catalyst to drive forward these proposals, with the first phase of public investment announced at Garth Lane.

Where would we like to be?

The Finance Strategy will drive the long term focus of **delivering financial sustainability**. In getting there it will focus on three key areas which will be underpinned by sound governance and assurance arrangements:



Despite funding uncertainties and the well documented demand pressures being faced within the social care sector, the Council's **commissioning based approach** is ensuring that we are focusing upon key outcomes and investing in those areas delivering the biggest impact.

Budget envelopes will continue to define the level of investment across core areas of service delivery and these are reviewed each year. At the same time we are continuing to **invest in transformative and innovative service redesign** to support the efficient and cost effective delivery of services.

Where would we like to be?

The Council is keen to support longer term investment within the Borough to ensure that it delivers against its overall outcomes and ambitions. A key aspect of this approach will be to **accelerate delivery** by **working in partnership** with others rather than in isolation.

The Council has already given a strong indication of its ambition through its economic development plans. The Town Deal will develop a **new approach to regeneration** that will be taken forward by public and private sector partners to revitalise the town centre, increase skill levels and create new jobs and housing. In order to deliver a financially sustainable future, the Council has adopted a **place-focused approach** to deliver economic and housing growth. At the centre of this is the Council's Capital Investment Strategy which outlines the long term economic investment plan which seeks to shape and drive the Authority's capital investment ambition. Significant investment will focus on projects that support Town Deal objectives:

Driving
Economic
Growth

Accelerating
Housing
Delivery

Transforming
the Waterfront
and Centres

Improving Skills
and Educational
attainment

Where would we like to be?

The Council wishes to create long-term financial sustainability through a commercial approach to generating and retaining external income and funding, alongside a strategic change programme which delivers re-modelled future public services at maximum efficiency. In order to achieve our aims the Council needs to adopt an approach which not only maximises funding but also looks to re-shape and re-design service delivery.

It is acknowledged that budgets may need to flex over time and as a result the Council holds strategic reserves to ensure it has the capacity to respond to emerging issues, policy change, risk or transformational change. The Council holds reserves for three specific purposes:

General reserves to deal with unexpected one off events;

Corporate and technical reserves to smooth the financial position and mitigate impact on service budgets

Partner and Service Reserves to support clearly defined activity and outcomes over and above business as usual

However, reserves can only be used once and should not be used to avoid making difficult financial decisions. Under The Local Government Act (Part II) 2003 the Council's statutory finance officer must report to members on **the adequacy of the proposed financial reserves**.

How will we get there?

A key part of the financial strategy is creating a **sustainable funding base** to allow priority services to be delivered. Increasingly it is through influencing local taxation levels that more sustainable funding will be achieved. **Growing the Tax base** through enabling more housing development and bringing more business rate stability through retaining and developing a thriving local economy. Attracting new business into Enterprise zones and investing in the right things to impact on local taxation.

The Local plan sets the framework for significant **future housing developments**. The housing requirement has been directly modelled to the forecast increase in jobs. This creates a stepped housing requirement which increases during the plan period in line with the expected increases in jobs growth.

Also, between now and 2041, an additional 2,650 households (+3.8%) are expected to form in North East Lincolnshire. Whilst this is below the rate of growth expected at regional and national level, careful planning will be required to ensure housing provision and local services meet increased local needs.

The development of the **North East Lincolnshire economy** in future years will be heavily influenced by the economic and policy context affecting the area. North East Lincolnshire is well placed to make a major contribution to both the UK Industrial Strategy and the Northern Powerhouse and Midlands Engine ambitions, as well as the Local Industrial Strategies being developed in both the Humber and Greater Lincolnshire LEP areas. The Area's leading role in energy and renewables is of national significance.

North East Lincolnshire is home to nearly 4,500 local enterprises (UK Business Counts). The business tax base is slowly growing, although business density is well below the national and regional average. The rate of new firm formation, between 2015-2017, was less than half the average for Yorkshire and the Humber.

How will we get there?

Digitalisation, Automation and Artificial Intelligence (AI) is likely to impact on a number of jobs in sectors like transportation, hotels and restaurants, manufacturing, trade and construction. Digital technology is anticipated to change traditional employment structures changing the nature of demand on office space, while other technological advancements such as 3D printing or mobile factories will be disruptive to manufacturing and distribution allowing more to be produced in decentralised smaller facilities. The Council will encourage and embrace digital change within its own activities.

The move towards a **low carbon economy**, fuelled by a shift toward 'clean growth' is driving the transformation and creation of industries with opportunities in renewable energy, construction and manufacturing as highlighted by the Government's Clean Growth Strategy . There are further opportunities for growth of the offshore wind sector and for the area to benefit through growth of local supply chains , and for investment in energy from waste and other low carbon energy projects. Energy-intensive businesses are likely to come under pressure to reduce oil and gas consumption. The Council is already capitalising on energy opportunities with more to come.

Demographic change and an ageing population will create demand for products, services and technologies and a shift in public expenditure to meet rising health and social care costs. The declining workforce will have implications on the labour market with recruitment difficulties causing a potential rise in investment in technologies which reduce the dependence on labour. Where demographic change is impacting on Council activities it will seek to mitigate through prevention and early intervention strategies.

The financial strategy spans what will be a **major economic transition** period both on a macro and micro scale, with new technologies and changing population profiles, investing in the right things is at the heart of this strategy and our ability to meet the increasing local service pressures will be influenced by the success in taking the opportunities.

Accessing **external funding** is a key enabler for increasing the amount of funding that can be invested in services. It can be both revenue and capital. The principal objective is to optimise the amount of external resources that support the Council, partner and area's priorities.. The Government has made recent announcements in relation to post-Brexit capital investment programmes including the Shared Prosperity Fund and Stronger Towns Fund.

How will we get there?

Being commercial for the Council is a mind-set about becoming more business-like, whilst retaining a strong public service ethos. This means achieving both a financial and a social return. Seeking to grow its income base and make efficiency savings in a variety of ways in order to be able to both commission universal delivery for all and also offer optional additional traded services for those residents and businesses that are ready to buy. The implementation of the **commercial vision** has the potential to identify and present many opportunities for the Council, and these are likely to outweigh the risk. However, as with any commercial opportunity there comes a degree of risk and therefore the risk appetite of the Council will be a fundamental consideration in the decision making process to determine whether or not a commercial opportunity will be pursued. The key test will be security of the investment whilst yield/return a key consideration it is secondary to security and understanding the security risk will determine the assessment of the level of yield required.

With limited capital resources the Council whilst recognising the opportunity of **commercial investment** this will be proportional to the overall level of capital investments with full consideration of the relative risk the council would be taking on. Commerciality to the Council does not mean investment out of Borough, its commercial driver is for any investment to have a revenue benefit but also the wider economic/social benefit should be felt locally, such as Business Rate generation, jobs, spending power, social value.

Looking beyond the traditional sources of income generation for opportunities to **boost revenue income** through fees and charges where appropriate. Ensuring its in line with the income generation principles but innovation should look to secure a social as well as financial return.

The Councils **Social Value policy** is intended to maximise the wider community benefits of the Council's procurement activity. It also sets the direction for engagement with other key spending organisations in North East Lincolnshire to increase the level of local spend, build in skills and employment opportunities and support small / medium enterprises and voluntary/community organisations.

How will we get there?

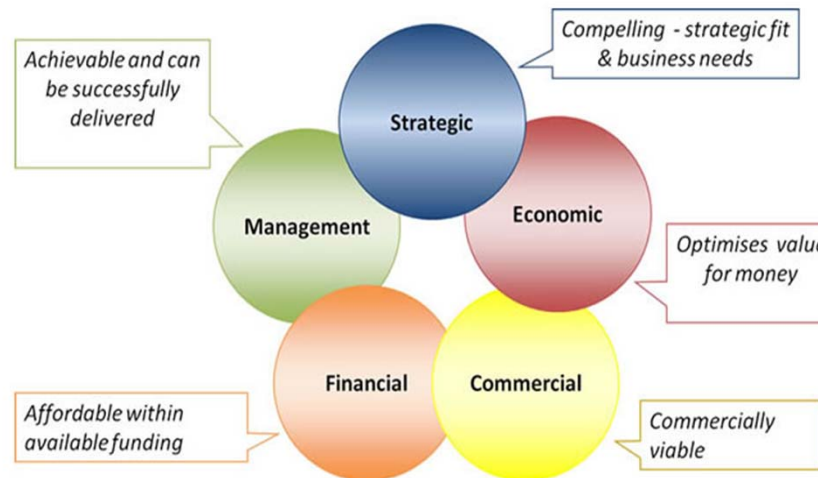
Over the past 12 months, the Council has also developed an **innovative 'Union' arrangement** with the North East Lincolnshire CCG which will lead to a more efficient and effective working relationship with the health sector and make best use of the range of skills and capacity in both organisations to make lasting changes. As the Union with the CCG develops, we will realise opportunities for closer joint working in areas such as commissioning, procurement, contract management, business support and finance.

Historically, the Council has had significant capital resource to invest in its capital programme. However the level of resources to **support future capital spending** is reducing and a much more **focused and prioritised programme** is required. Borrowing capital is expensive in terms of annual revenue costs and establishes long term future commitments. For this reason it is essential that any future Council borrowing must be affordable, sustainable and prudent.

Most importantly, the Council's capital programme needs to be **aligned to delivery of strategic priorities** and be of a sustainable size and integrated into the Medium Term Financial Planning process. By investing in North East Lincolnshire, the Council will be in a position to **generate sustainable income streams** to support the delivery of key activities and outcomes.

How will we get there?

The financial strategy is underpinned by **sound management and governance arrangements**, coupled with a solid internal control framework which is sufficiently flexible to allow the organisation to respond to changing demands over time and doesn't hamper "getting the business done". There is a robust and embedded Business Development governance framework in place, which is built upon the HM Treasury's Five case evaluation model. All investment decisions will be supported by a Business Case which captures essential information around the Strategic, Economic, Commercial, Financial and Management aspects.



Proposals will be evaluated by management and subject to ongoing monitoring. The thoroughness of an evaluation will depend upon the scale of the impact of a programme or scheme, and also be informed on the extent on the level of public interest. The most significant investment programmes will have specific boards that oversee delivery and performance.

How we will get there?

The Council faces a range of **risks and opportunities** in relation to the delivery of its financial strategy. Key risks relate to funding, demand and economic uncertainty. These are balanced by economic and housing growth opportunities. Risks and opportunities will be managed within the context detailed below.

Risk	Commentary
Strategic	High appetite for strategic initiatives, where there is a direct gain to the Council's revenues, where they contribute directly to the council's priorities or the ability to deliver its statutory duties more effectively and efficiently. There is an ambitious Capital Investment Strategy which is fundamental to the Council's ambitions and potential revenue generating opportunities
Financial	Low appetite for Funding Risk. The significant reforms around Fair Funding and 75% Business Rate Retention will impact on the Council, at this stage it is not possible to determine whether this will be positive or negative. Economic growth through strategic investment will present more opportunity.
Macro economic	High appetite for exposure to local economic growth continues to be demonstrated through capital investment initiatives particularly the Town Centres and regeneration. Low appetite for exposure to national and global uncertainty.
Operational	Low appetite for operational risks such as errors in administration, project management failure and non delivery of budget plans. Detailed actions to be included within Commissioning plans and a robust governance framework to track delivery and ensure accountability.
Reputational	Low appetite for undertaking activity which will damage the Councils reputation or public perceptions. All key decisions within the Medium Term Financial Plan require Cabinet approval.
Governance	No appetite to compromise strong governance or internal control, including decision making, evaluation, monitoring and project management. Revenue, Capital and Treasury have robust frameworks of internal control and are subject to regular testing by both internal and external audit.