

Open Report on behalf of Pete Moore Executive Director Finance and Public Protection

Report to:	County Council
Date:	16 September 2016
Subject:	Review of Financial Performance 2016/17

Summary:

This report:

- Describes the Executive's recommendations on budget carry forwards of over and under spending from 2015/16 into the current financial year and seeks approval for those proposals not set out under Financial Regulations; and
- Sets out performance against the Prudential Indicators for 2015/16.

Recommendation(s):

The County Council is recommended to:

1. Note the carry forwards set out in paragraph 1.2 and 1.3 of the report, which are made in line with the Council's Financial Regulations, and approve the Information and Commissioning underspend up to 1% not being carried forward as part of the Information and Commissioning budgets but instead added to the underspends above 1% for the purposes of recommendation 2 below;
- 2 Approve the proposed use of carry forwards of over and under spending in excess of 1% as set out in paragraph 1.4 of the report;
- 3 Note the transfers to and from reserves summarised in Table A of this report and the position of earmarked reserves as at 31 March 2016 summarised in Table B of this report;
- 4 Note the position in relation to general reserves set out in paragraph 1.8 and Table C of this report; and
5. Note performance against the Prudential Indicators for 2015/16 as set out in paragraphs 1.10 to 1.11 and Table D of this report.

1. Background

Carry forward of over and under spendings

1.1 The Council's policy on carrying forward over and under spendings as set out in its Financial Strategy is that:

- All under and overspendings on service revenue budgets of up to 1% will be carried forward without exception.
- The use of all underspendings on service budgets in excess of 1% will be considered by the Executive and decided by the full Council.
- The means of funding all overspendings on service budgets in excess of 1% will be considered by the Executive and decided by the full Council.
- All under and overspendings on capital budgets and on the dedicated schools budget and shared services will be carried forward.
- All under and overspendings on revenue budgets where the spend is of an uneven nature will be transferred to reserves.

1.2 Under paragraph B18 of the Council's Financial Regulations, forming part of the Constitution, all under and overspendings on service revenue budgets of up to 1.0% will be carried forward without exception. Information and Commissioning does not require their 1.0% underspend to be carried forward into 2016/17. This is an exception to the Financial Regulations, and as such, Council are asked approve this exception, in addition to noting the up to 1% carryforwards for other service areas. The effect of the up to 1.0% carry forward on service budgets, excluding Information, is £4.295m.

1.3 Under paragraph B19 of the Council's Financial Regulations the following budgets will also be carried forward. The effect of this for 2015/16, which full Council is asked to note, is as follows:

- The full carry forward of underspends relating to Schools is £16.446m. Any underspends in relation to schools must be spent on schools and so is carried forward in its entirety;
- The full carry forward of underspends relating to Shared Services is £0.538m; and
- Transfers to earmarked reserves linked to revenue budgets where the spend is of an uneven nature is £0.521m. Made up of: a transfer to the Schools Sickness Insurance Fund (this provides reimbursement to schools, who are members of the scheme, when staff are absence from work) (£0.355m), the underspend on the Insurance Fund (£0.175m), and a transfer from the underspend on the Museums Exhibits (£0.009m).

1.4 Again, under paragraph B18 of the Financial Regulations the use of all underpendings and the funding of all overspendings on service budgets in excess of 1% will be considered by the Executive and decided by full Council. Having considered the matter, the Executive recommends that the Council approve the following allocations in respect of underspends in excess of the 1%:

- A year end transfer of £13.175m into the financial volatility reserves. £20.165m is required for the planned contribution to Council's revenue budgets in 2016/17. The balance of £23.623m will be available to fund future uncertainties in local government funding in 2017/18 and beyond;
- Additions to existing reserves for:
 - Civil Parking Enforcement (£0.498m) and Fixed Penalty Notices (£0.052m);
 - Flood and Water Risk Management (£0.127m);
 - Local Welfare Provision (£0.15m); and
 - Health and Wellbeing (£0.014m).
- Creation of new reserves for:
 - Waste Management (£1.000m) to meet the cost of anticipated waste volumes and disposal costs in 2016/17;
 - Heritage Service (£0.880m) to contribute towards the cost of service developments to minimise future dependence of Council funding; and
 - Street Lighting (£0.100m) to fund the cost of re-programming street lamps.

Transfers to and from reserves

1.5 The Council has a number of reserves earmarked for specific purposes. Transfers are made to or from these earmarked reserves at each year end dependent on actual expenditure and income during the year. These transfers include:

- transfers to reflect the carry forward of over and underspendings; and
- a variety of transfers to or from other earmarked reserves reflecting actual expenditure and income in 2015/16.

1.6 In 2015/16 the Council's total income was £19.528m less than expenditure. The transfers to and from reserves resulting from the proposals described above and from in year transfers reflecting actual expenditure and income are shown in **TABLE A**.

TABLE A – Transfers to and from reserves

	£	£
Schools Carry Forward		-4,753,085
Other Service Carry Forwards		
Use of 2015/16 Service Carry Forward		-2,167,351
Executive Director - Children's Services	1,010,763	
Executive Director - Adult Care	1,459,714	
Executive Director - Community Wellbeing and Public	281,973	
Executive Director - Environment and Economy	763,501	
Executive Director - Finance and Public Protection	779,044	
Chief Information and Commissioning Officer	0	4,294,995
Other Earmarked Reserves		
Insurances	174,977	
Schools Sickness Insurance Scheme	354,748	
Museum Exhibits	-8,603	
Development - Economic Development Reserve	-20,000	
Health and Wellbeing	-1,022,216	
Development - Lincs Coastal Country Park	-5,432	
Legal	-560,029	
Procurement	-36,641	
Salix Carbon Management	81,683	
Community Safety Development Fund	-472,638	
Financial Volatility Reserve - Budget Shortfall	-1,705,828	
Financial Volatility Reserve	-8,011,183	
Youth Service Positive Activities Development Fund	-87,150	
Youth Offending Service	149,699	
Civil Parking Enforcement	550,570	
Support Service Contract Reserve (FDSS)	-922,111	
Roads Maintenance Reserve	-2,115,000	
New Salt Dome Willingham	-200,000	
Planning Appeals Reserve	-80,000	
Adoption Reform Reserve	-407,591	
Local Welfare Provision Reserve	124,891	
Energy from Waste Lifecycles	1,286,035	
Waste Management	1,000,000	
Heritage Services	880,000	
Street Lighting	100,000	
Flood and Water Risk Management	126,914	
Families Working Together	-11,848	
DAAT Pooled Budget	-17,500	-10,854,254
Revenue Grants Reserve		-5,748,623
General Fund		-300,000
		-19,528,317

1.7 This sets earmarked reserves at the amounts shown in **TABLE B** below:

TABLE B – Earmarked Reserves at 31 March 2016

	BALANCE AT 31 MARCH 2016 £'000
Schools Carry Forward	27,388
<u>Earmarked Reserves</u>	
Other Services	4,295
Adverse Weather	1,000
Insurances	6,395
Schools Sickness Insurance Scheme	1,143
Museum Exhibits	135
Development - Economic Development Reserve	423
Health and Wellbeing	1,155
Development - Lincs Coastal Country Park	368
Legal	1,407
Procurement	788
Salix Carbon Management	248
Safer Communities Development Fund	833
Co-Responders Services	150
Financial Volatility Reserve - Budget Shortfall	20,165
Financial Volatility Reserve	23,623
Teal Park	50
Youth Service Positive Activities Development Fund	20
Corby Glen/South Lincolnshire Sports Fund	171
Youth Offending Service	513
Domestic Homicide Reviews	100
Civil Parking Enforcement	864
Support Service Contract Reserve (FDSS)	1,710
Roads Maintenance Reserve	88
Adoption Reform Reserve	192
Community Advisors Reserve	156
Local Welfare Provision Reserve	541
Property Management	250
Energy from Waste Lifecycles	2,572
Broadband Project	135
Broadband Clawback	157
Flood and Water Risk Management	558
Young People in Lincolnshire	334
Members Big Society	8
Lincoln Eastern Bypass (LEB)	500
Unsuitable Transport Routes	100
Families Working Together	599
Enterprise Schemes	191
Asbestos Pressure	50
DAAT Pooled Budget	247
Waste Management	1,000
Heritage Services	880
Street Lighting	100
	74,214
Revenue Grants and Contributions	49,296
Total Reserves	150,898

General Reserves

1.8 The Council's policy on general reserves is that they will be maintained within a range of 2.5% to 3.5% of its annual budget requirement. The impact of actual expenditure and income in 2015/16 and the proposals on the carry forward of over and under spendings is that the general reserves at 31 March 2016 is £15.600m or 3.5% as shown in **TABLE C** below.

TABLE C – General Reserves at 31 March 2016

	£'000
Balance at 1 April 2015	15,900
Planned contribution to/use (-) in year	-300
Proposed contribution to/use of (-) reserves	0
Balance at 31 March 2016	15,600
Balance as a % of total budget	3.50%

Updated Financial Performance Report

1.9 The Financial Performance Report presented at Executive on 6 September 2016 included draft outturn figures for the Council. The 2016/17 outturn for the Council has now been finalised and is incorporated into the proposals set out in this paper. For completeness an updated copy of the Executive report has been attached to this paper at **Appendix A** and the changes from the copy presented on 6 September are highlighted in yellow.

Prudential Indicators 2015/16

1.10 The Local Government Act 2003 gave authorities freedoms to borrow what they need to fund their capital programmes. The Act requires Local Authorities to comply with CIPFA's Prudential Code for Capital Finance in Local Authorities. The Code provides a framework to ensure that Local Authorities' capital programmes are affordable, prudent and sustainable and that treasury management decisions are taken to support this.

1.11 In complying with the Code the indicators for 2015/16 were approved by County Council on 20 February 2015 along with the budget and council tax for that year. In accordance with the Code, the Executive Director has been monitoring the actual performance against the targets set and would have reported any issues of concern to members had there been a need to. The County Council should also be informed of the actual position compared with that estimated for any given year after the year end. **TABLE D** provides details of this comparison for 2014/15. It shows that Prudential Indicators have not been exceeded during the year and there have been no breach of limits set by the Authority.

TABLE D – Prudential Indicators actual compared to estimated 2015/16

PRUDENTIAL INDICATORS ACTUAL COMPARED TO ESTIMATED 2015/2016			
Original Estimate	2015/16 £000	Actuals	2015/16 £000
Capital Expenditure Net	80,362	Actual Capital Expenditure (Excl Sch RCCO & Leasing)	28,768
Capital Financing Requirement 31/3/2016	630,292	Actual Capital Financing Requirement 31/3/2016	559,558
Capital Financing Requirement Estimate at 31/3/2018	665,617	Capital Financing Requirement Estimate 31/3/2018	594,942
Gross External Borrowing	513,440	Actual Gross External Borrowing	481,747
Borrowing in Advance of Need Limit	8,831	Actual Borrowing in Advance of Need Taken	0
Incremental Impact of Borrowing Plans on Council Tax '-Band D	£8.36	Actual Incremental Impact of Borrowing Plans on 'Council Tax -Band D	-£5.10
MRP & Interest Repayments not to exceed 10% of Net Revenue Stream Estimate	6.24%	MRP & Interest Repayments not to exceed 10% of Net Revenue Stream Actual	5.75%
Ratio of Financing Costs To Net Revenue Stream	6.14%	Actual Ratio of Financing Costs To Net Revenue Stream	5.68%
External Debt:			
<u>Authorised limit for external debt -</u>		Actual external debt at 31/3/16	
borrowing	592,052	Borrowing	481,747
other long term liabilities	15,083	Other long term liabilities(Credit Arrangements)	12,193
TOTAL	607,135	TOTAL	493,940
<u>Operational boundary -</u>			
borrowing	568,052		
other long term liabilities	13,083		
TOTAL	581,135		
Treasury Management:			
<u>Upper limit for fixed interest rate exposure</u>		Actual exposure fixed interest	
Net principal re fixed rate borrowing less investments	665,617	Net Principal	311,933
<u>Upper limit for variable rate exposure</u>		Actual exposure variable interest	
Net principal re variable rate borrowing less investments	199,685	Net Principal	-46,204
<u>Upper limit for total principal sums invested for over 364 days (per maturity date)</u>	40,000	Actual sums invested > 364 Day	214
Maturity structure of fixed rate borrowing during 2015/16	upper limit	Actual maturity structure as at 31 March 2016	
under 12 months	25%	under 12 months	3.20%
12 months and within 24 months	25%	12 months and within 24 months	3.20%
24 months and within 5 years	50%	24 months and within 5 years	15.50%
5 years and within 10 years	75%	5 years and within 10 years	9.30%
10 years and above	100%	10 years and above	68.70%

Equality Act 2010

1.12 The Council must be mindful of its obligations under the Equality Act 2010 and the special duties the Council owes to persons who have a protected characteristic as the duty cannot be delegated and must be discharged by the decision maker. The duty is for the Council, in the exercise of its functions, to have due (that is proportionate) regard to the need to:

1. Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
2. Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
3. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it: Equality Act 2010 s 149(1).

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; sexual orientation: s 149(7).

1.13 Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- a. Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- b. Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it; and
- c. Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

1.14 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

1.15 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

1.16 Compliance with the duties in this section may involve treating some persons more favourably than others.

1.17 A reference to conduct that is prohibited by or under this Act includes a reference to:

- i. A breach of an equality clause or rule
- ii. A breach of a non-discrimination rule.

1.18 The Council must also have regard to the Child Poverty Strategy, the Joint Strategic Needs Assessment and the Joint Health and Wellbeing Strategy and its obligations under section 17 of the Crime and Disorder Act 1998 in reaching a decision.

1.19 These matters have been considered and there is not considered to be any direct impact of the decisions called for by this Report on the Equality Act duty or any of these strategies and obligations. The Council set its budget for 2015/16 in February 2015 having had regard to these matters. The treatment of underspends and overspends in this Report do not impact on that budget or any individual decisions in relation to services. Those decisions will continue to have regard to equality act obligations and the various strategies and obligations referred to as they are taken. This includes decisions on the use of carried forward underspends.

2. Conclusion

2.1 The treatment of the carry forward in relation to Information and Commissioning and the use of that carry forward together with carry forwards of under and overspendings from 2015/16 in excess of 1% are proposed to County Council by the Executive for approval.

2.2 The Prudential indicators comply with CIPFA's Prudential Code of Capital Finance in Local Authorities and provide County Council with actual performance against the targets approved by County Council on 20 February 2015.

3. Legal Comments:

With regards to recommendation 1 the Council's Financial Regulations state that underspends up to 1% will be carried forward without exception. Full Council approval is therefore required to allow an exception to take place in relation to Information and Commissioning.

With regards to recommendation 2 the Council's Financial Regulations provide that the use of all under-spending on service budgets in excess of 1% will be considered by the Executive and decided by the full Council.

With regard to recommendation 5 under Section 3 of the Local Government Act 2003 the authority must determine and keep under review how much money it can afford to borrow. Reporting on the Prudential Indicators assists the Council in discharging this function.

Otherwise the information contained in the Report informs the Council concerning performance against the budget and Financial Strategy it has set.

4. Resource Comments:

The Council has a sound financial base from which to manage the challenges of a difficult medium to long term outlook for public sector finances.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

n/a

c) Scrutiny Comments

On 28 July 2016, the Overview and Scrutiny Management Committee considered the report on Financial Performance 2015/16.

Overall Conclusions of the Overview and Scrutiny Management Committee

The Overview and Scrutiny Management Committee agreed to support the four recommendations in the report to the Executive. Councillors P M Dilks and R B Parker requested that their vote against supporting the recommendations was recorded.

The Committee also concluded that it would like to see more information on budget monitoring considered by overview and scrutiny committees during the course of the year, including consideration by the Overview and Scrutiny Management Committee.

The Committee also recorded that it would look forward to improved financial information in the current year to enable underspends to be identified sooner, rather than being reported after the end of the financial year.

Points of Clarification

The following points of clarification were made during the meeting:

- With the exception of the items listed in paragraph 1.77 of the report [proposed transfer of funds to reserves], no executive directors had submitted any bids to carry forward underspends in excess of 1%, on the basis that executive directors understood the overall financial challenges facing the County Council and they had not identified any special circumstances, other than those items in paragraph 1.77, to merit making a bid for funding over and above the 1% limit.
- In relation to the allocation of funds from underspends up to 1% (paragraph 1.76 of the report), it was a matter for each executive director, in consultation with the relevant Executive Councillor, to determine how these funds would be allocated.
- In relation to the proposal to add £0.498 million to reserves for Civil Parking Enforcement (paragraph 1.77 of the report), it was understood that these reserve funds would be used to provide closed circuit television to support parking enforcement activity, and could not be used for other activities, but

further clarification would be required on whether under the relevant legislation, the bid for a street lighting reserve of £100,000 (paragraph 1.77 of the report) could be funded from it.

- The impact of business rate appeals could be a significant risk, but business rate income was a complex topic and would merit consideration in its own right.
- Approximately £4.5 million had been raised by the Council Tax increase of 1.9% for 2015/16.
- Disability Facilities Grant (DFG) had been passed to the County Council as part of the Better Care Fund since 2015/16. The responsibility for the approval of the Better Care Fund rested with the Health and Wellbeing Board. In 2015/16, the full Better Care Fund identification of allocated DFG had been transferred to district councils. A higher element of DFG had been identified in the Better Care Fund for 2016/17, but no district council had received a lower level of DFG funding than under the previous system.
- The reported underspend of £18.802 million on the schools budgets was a cumulative total, meaning it was inclusive of previous year underspends, and did not solely relate to the 2015/16 financial year.
- Executive directors actively monitored budgets. For example, one executive director had taken action during 2015/16 to manage a potential overspend, by reallocating funds within the directorate. Executive directors continued to monitor budgets, and data from the in-year monitoring of the 2016/17 budget was a factor in setting the budget for 2017/18.

Comments of Individual Members of the Committee

Individual members of the Committee also made the following comments, which the Committee agreed would be passed to the Executive: -

- The capital programme underspend on broadband was a concern and there a risk that broadband would not be delivered to an adequate level and might require additional funding in the future. The Overview and Scrutiny Management Committee would consider progress with broadband as part of its next regular update on the topic.
- If certain information technology systems in the capital programme had been implemented sooner, the County Council could have achieved savings.
- Prior to the setting of the 2015/16 budget, it was widely reported that it would be a challenging year. However, an underspend of £20 million (County Council budget, net of school budget) occurred. Improved budget monitoring during the course of 2015/16 would have enabled the Council to use identified underspends to deliver improved services.
- More information should have been included in the report to the Executive on how the underspends of up to 1%, representing £4.295 million (referred

to in paragraph 1.76 of the report) had been allocated.

- An underspend of £20 million (County Council budget, net of school budget) in 2015/16 might be a relatively small percentage of the County Council's budget. However, for a district council, this sum would be substantial. The County Council needed to ensure that appropriate explanations were given to the public for this level of underspend.
- An overall underspend of 3% of the Council's total budget was not excessive, and the Executive and executive directors should be congratulated for managing the budget in challenging circumstances. The overall budgetary position of the County Council was good.

The Council's overall budget strategy was on course and there was no need for the County Council to change its approach.

d) Policy Proofing Actions Required

See the body of the Report

6. Appendices

These are listed below and attached at the back of the report	
Appendix 1	Report to the Executive – 6 September 2016

7. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Financial Strategy	Executive Director Finance and Public Protection
Executive Report - Review of Financial Performance 2015/2016 Report	Executive Director Finance and Public Protection

This report was written by Claire Machej, who can be contacted on 01522 553663 or claire.machej@lincolnshire.gov.uk.