

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Executive
Date:	09 July 2019
Subject:	Review of Financial Performance 2018/19
Decision Reference:	I017768
Key decision?	Yes

Summary:

This report:

- describes the Council's financial performance in 2018/19;
- identifies and explains variances from the Council's revenue and capital budgets;
- reports the use made of flexible capital receipts to fund revenue expenditure on transformation during the years up to and including 2018/19;
- makes proposals on the carry forward of over and under spends into the current financial year 2019/20;
- reports Prudential and Financial Performance Indicators for 2018/19; and
- proposes an updated Flexible Use of Capital Receipts Strategy for 2019/20.

Recommendation(s):

That the Executive:

(1) Notes the carry forwards set out in paragraphs 1.135 to 1.137 of this report, which are made in line with the Council's Financial Regulations and Financial Strategy;

(2) Recommends to full Council that the proposals in paragraph 1.138, 1.139 and 1.141 relating to the treatment of underspends in excess of 1%, be approved;

(3) Notes the transfers to and from reserves carried out in 2018/19 as set out in Table E;

(4) Notes financial performance in 2018/19 as set out in Table A (Key Financial Performance Measures), Table B (Revenue Budget Final Outturn), Table C (Net Capital Programme Summary Outturn), Appendix D (Prudential Indicators) and Appendix A(1) (Flexible Use of Capital Receipts); and

(5) Recommends to full Council the updated Flexible Use of Capital Receipts Strategy for 2019/20 as set out in Appendix A(2).

Alternatives Considered:

1. This report describes the actual position for the 2018/19 financial year and is factual in content and follows current Council policy. No alternatives are being considered in relation to this aspect.

In relation to the treatment of overspends and underspends above 1.0% as set out in paragraph 1.32, there are a number of different ways these could be used. The proposed usages will help to alleviate service pressures by funding, in the main, one-off items. When coupled with the transfer of £10.174m of the overall underspend to the Financial Volatility Reserve, these support the Council's overall financial position as it prepares to make budget savings over the medium term future period.

Reasons for Recommendation:

Financial governance requires that the Executive reviews the financial performance of each year. This report facilitates this.

The treatment of underspends and overspends are considered appropriate and prudent for managing the financial challenges facing the Council.

1. Background

1.1 The County Council set its spending plans for 2018/19 against a backdrop of continued significant reductions in government funding, growing cost pressures from demand led services such as adult and children's social care, waste disposal and the Council's responsibility to pay the National Living Wage. In developing its financial plan for the year the Council considered all areas of current spending to identify cost pressures which must be funded and savings which could be made through efficiencies. This followed on from the significant savings made in previous years, some of which had impacted on levels of service provision. The budget proposals also included an increase in Council Tax levels of 4.95% (2.95% general increase, plus 2.00% for Adult Social Care) and a £5.876m one off use of reserves to support the budget.

Annual Revenue Spending

1.2 The Council spent £974.636m in 2018/19 on providing public services. This equated to £1,297 for every person in Lincolnshire.

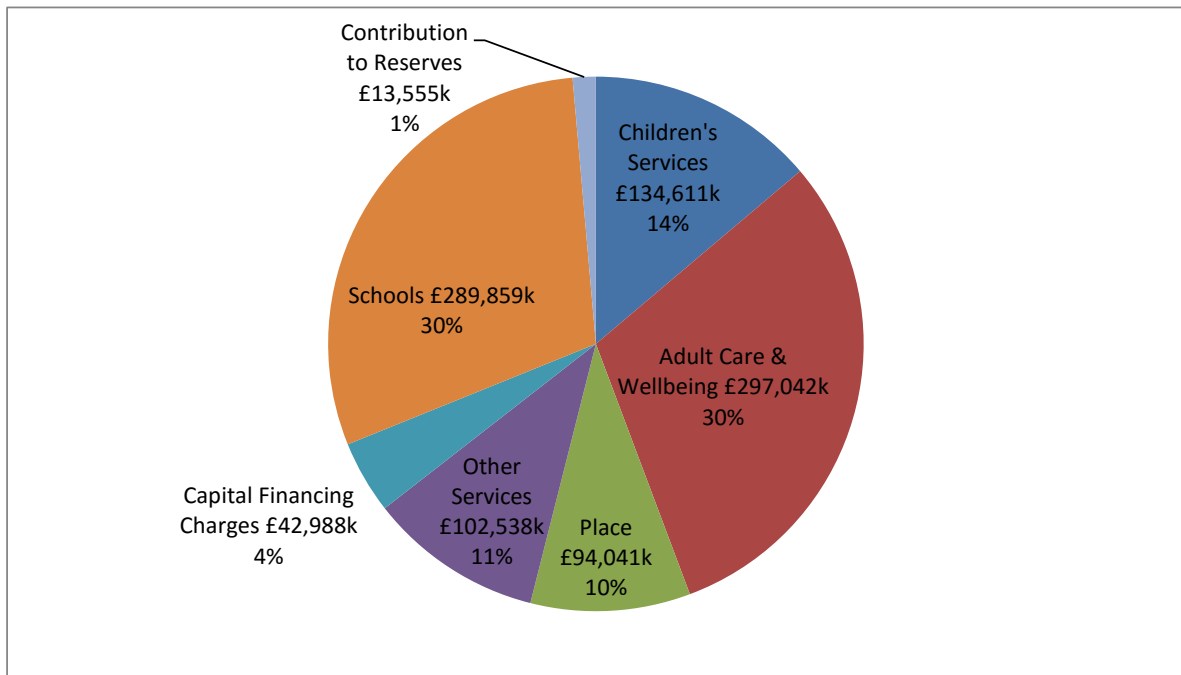
1.3 The Council has had to deal with a number of cost pressures, amounting to £26.900m in budgetary terms. These include: the impact on the Council's adult care budgets of increasing numbers of older people as well as the increase in the National Living Wage; growing demand for children's social care in addition to increasingly complex cases; increased funding for essential roads maintenance and investment in information technology to improve Council services. To help counteract these cost pressures a number of one-off costs from the previous year's budget were removed from the 2018/19 budget and a range of savings were implemented across the Council including: savings from property rationalisation; restructures of some services and some growth in contributions from Adult Care service users. These reductions in the budget totalled £23.200m. The Council also planned to use £8.000m of capital receipts to fund revenue transformation projects.

1.4 When the Council set its budget for 2018/19 the financial strategy included the use of £5.876m from reserves to bridge the gap between funding and expenditure levels (£5.076m from the Council's Financial Volatility Reserve and £0.800m released from the General Fund balance). This financial year was the third year of the government's four year finance settlement which has seen the Council's Revenue Support Grant fall from £70m in 2016/17 to £34m in 2018/19. The use of reserves only offers a one off contribution towards the budget shortfall, but, it is expected that the reduction in funding levels will be permanent and the Council has now embarked on a significant budget exercise designed to bridge the gap between the Council's funding and levels of net expenditure.

1.5 The general level of expenditure in 2018/19 indicates that during the year the Council has been able to secure savings and deliver an underspend against the budget.

1.6 The Council's annual spending on providing public services is set out in the charts below and analyses expenditure both by type of service provided and by type of expenditure.

Gross Expenditure Service Analysis 2018/19 £974,636 (£000's)



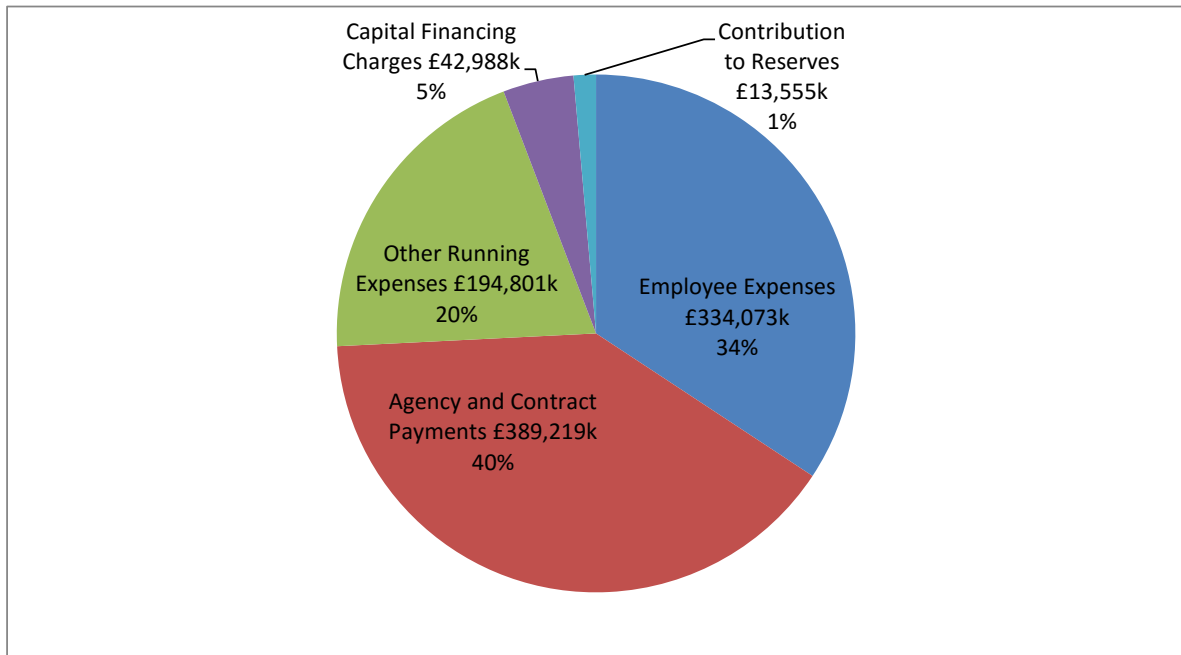
Children's Services Includes: Readiness for School, Learn and Achieve, Children are Safe & Healthy and Readiness for Adult Life.

Adult Care and Wellbeing Includes: Adult Safeguarding, Adult Frailty, Long Term Conditions and Physical Disability, Carers and Adult Specialities, Wellbeing.

Place Includes: Sustaining & Developing Prosperity Through Infrastructure, Protecting & Sustaining the Environment and Sustaining, Growing Business & the Economy and Community Resilience and Assets.

Other Services Includes: Protecting the Public, How We Do Our Business and Enablers & Support to Council Outcomes, Contingency Budgets.

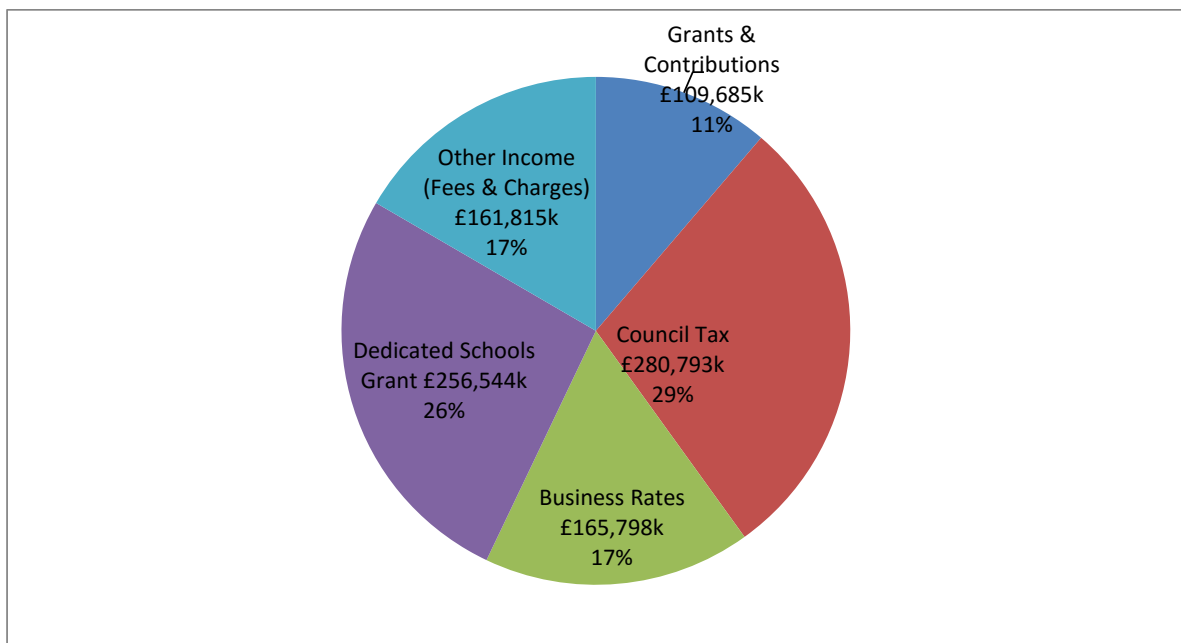
Gross Expenditure Subjective Analysis 2018/19 £974,636 (£000's)



The distribution of expenditure type differs significantly between different services. For example employee expenses comprises 56% of gross expenditure in schools, but only 26% of gross expenditure in all other (non-school) services, where agency and contracted services represents 51% of the total.

The Council's revenue spending was funded by:

Sources of Income Analysis 2018/19 £974,636 (£000's)



1.7 In 2018/19 the Council increased Council Tax by 4.95% and also saw growth of 1.27% on the number of band D equivalent properties in Lincolnshire. This in total generated an additional income for the Council of £16.440m. The Council Tax collection funds in Lincolnshire also generated a surplus in 2018/19, of a further £2.641m to the County Council.

1.8 The Council, along with its District Council partners and North Lincolnshire Council, was in a Business Rates Pilot in 2018/19. This pilot status allowed for 100% of any Business Rates growth in the year to be retained within Lincolnshire as opposed to the usual 50% retention of gains from growth. It was anticipated that the financial benefit to the Council from the pilot status would be £7.480m and this was built into the budget. The outturn position for the pilot is a gain to the Council of £10.010m which is an additional £2.530m above the amount budgeted. The pilot gain will be incorporated into the Business Rates Collection Fund and paid over to the Council in 2019/20.

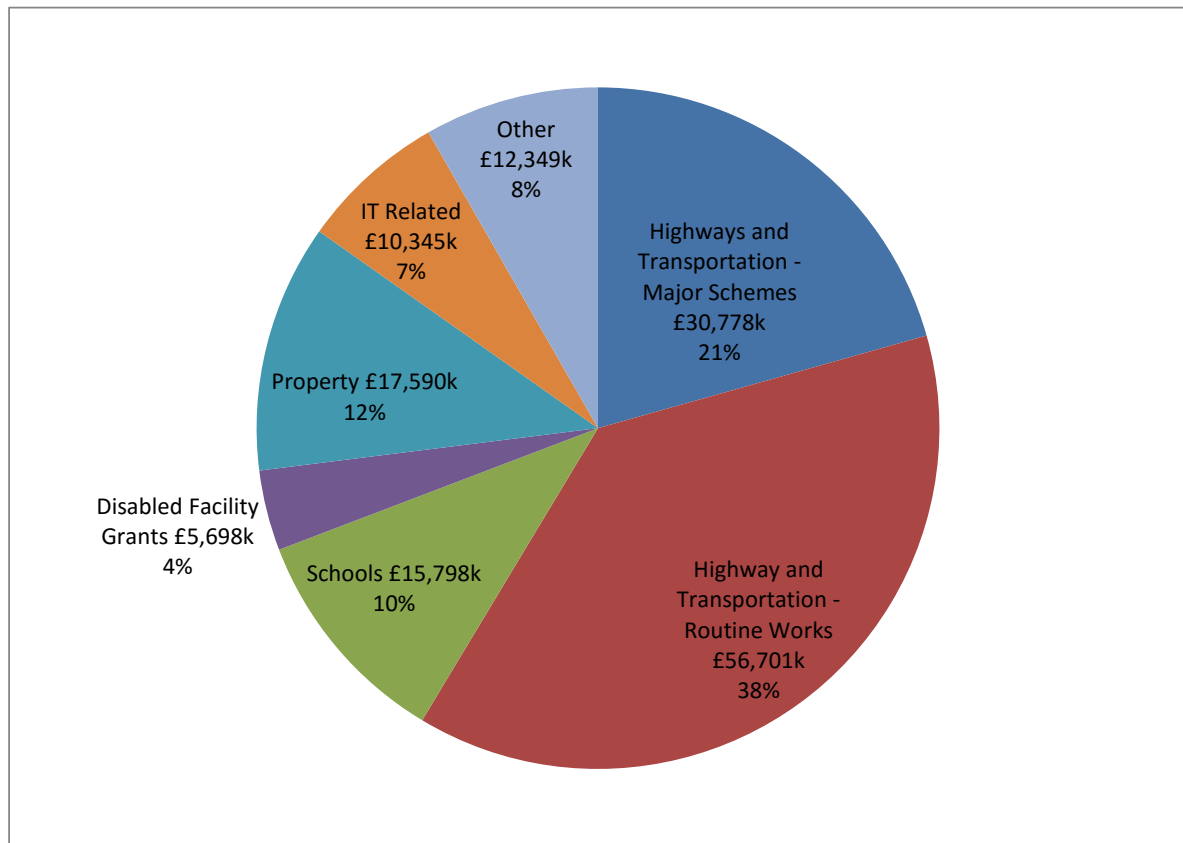
1.9 Business Rates generated £165.798m. This was made up of a number of elements: £84.245m collected from businesses in Lincolnshire; £70.543m received as a top up from central government and £11.010m Section 31 grants from central government.

1.10 The Council received no Revenue Support Grant (RSG) in 2018/19 because this grant was incorporated into the total grant paid to the Council as a result of having Business Rates pilot status during the year. A number of specific government grants were received in the year, the most significant of these being £256.544m Dedicated Schools Grant, which is used for funding education, and £32.662m Public Health Grant.

Capital spending and funding

1.11 The Council spent £149.260m on the County's major assets, in particular on roads, property and schools. The net capital spend was £43.574m, which was £50.108m less than planned. The following pie chart sets out the spending on major investment projects by service area:

Gross Expenditure on Major Investment Projects 2018/19 £149,260 (£000's)



1.12 Other includes: Economic Development, Waste, Fire and Rescue Vehicles and Equipment.

1.13 In 2018/19 expenditure was incurred on the following schemes:

- Maintenance of roads, bridges, street lighting and other highways infrastructure;
- Construction of the Lincoln Eastern Bypass road scheme;
- Construction of the Grantham Southern Relief Road scheme;
- Improvements to broadband in the County;
- Building of a new tri-service station to accommodate Police, Fire and Ambulance services;
- Expansion works to a number of schools to provide additional places for pupils, as well as a programme of general improvements to the condition of school buildings.

1.14 The Council has received grants from central government and other bodies (£105.686m) to fund: road maintenance work, the modernisation of and improvements to the condition of school buildings, and the provision of additional school places. The table below summarises how the capital programme has been financed this year:

Capital Financing Table 2018/19 £000'S

	£000's
Revenue contributions	4,976
Capital receipts	3,368
Use of reserves	1,634
Grants and contributions	119,310
Internal borrowing	19,972
TOTAL	149,260

1.15 The Council sets a voluntary limit on its total borrowing to ensure that it remains prudent and affordable over the longer term. This target is to ensure that the annual minimum revenue provision (MRP) charge plus interest on loans amount to no more than 10% of the Council's annual income. The MRP charge is the amount set aside by the Council each year as a provision to repay debt over the period when the assets purchased and built provide a benefit to the communities of Lincolnshire. The total cost of these capital financing charges for 2018/19 amounted to 5.12%.

The Council's financial standing

Key Financial Performance Measures: Financial Health and Performance

1.16 The County Council has identified a number of key indicators to monitor its Financial Health and Performance. The Council's actual performance against these key indicators for 2018/19 is shown in **TABLE A**.

TABLE A – Key Financial Performance Measures: Financial Health and Performance

REF	PERFORMANCE INDICATOR	MEDIUM TERM TARGET	2018/19 Estimate	2018/19 Actual
1	Council tax compared with other counties	In lowest quartile of all English county councils (out of 27 county councils)	Yes	Yes 26th out of 27
2	Government grants	Lobby for annual increases in general government grants to be above the county average	Yes	Yes
3	Capital receipts	At least £8.0m per annum from 2017/18	£8.000m	£7.157m
4	Minimum Revenue Provision and Interest	MRP and Interest repayments not to exceed 10% of net income	5.62%	5.12%
5	Accounting	Unqualified external audit opinion	Yes	Not yet Available
6	General Reserves	Maintained within the range of 2.5% to 3.5% of the annual budget requirement net of Dedicated Schools Grant	Within range 3.5%	Within range 3.5%
7	Internal control	None of the processes audited receive a "no assurance" opinion from internal audit	Yes	Yes
8	Expenditure - prompt payment	At least 90% of undisputed invoices paid within terms (30 days or less)	90.00%	92.67%
9	Treasury management	Risk adjusted return comparison	Weighted Benchmark 0.66%	0.84%

The Council's Balance Sheet

1.17 The Council's Balance Sheet, as reported in the Statement of Accounts 2018/19, shows the Council's financial position as at 31 March 2019. Overall, the Council's net assets position has reduced by £100.440m from £247.800m to £147.360m. There are two key movements which have contributed to this overall change:

- The Council's long term assets (property, infrastructure, equipment etc.) have increased in value by £31.375m following the annual revaluation of part of the portfolio. This has increased the net asset value.
- The Council's long term pension liability has increased by £133.081m to £1,015.789m. This is the estimated value of the commitment to pay future retirement benefits to the Council's employees, although it does not

represent an immediate call on reserves as it is a long term commitment. The main reason for this increase is a change in bond yields which has reduced the discount rate used by the Council's actuary to value these long term liabilities. This position changes from year to year, and the increase in the liability has no impact on the Council's annual budget.

Balance Sheet Extract 2018/19 £000's	
31 March 2018	31 March 2019
£000's	£000's
1,412,418 Long Term Assets	1,443,793
323,393 Current Assets	338,887
(156,255) Current Liabilities	(144,737)
-1,331,756 Long Term Liabilities	(1,490,583)
247,800 Net Assets	147,360
289,602 Usable Reserves	288,855
Unusable Reserves:	
843,443 Re Long Term Assets	872,331
124 Re Financial Instruments	(1,366)
(882,708) Re Pensions	(1,015,789)
(2,661) Re Other	3,329
(41,802) Total Unusable Reserves	(141,495)
247,800 Total Reserves	147,360

Revenue Budget Outturn

1.18 The revenue budget outturn for 2018/19 is summarised below:

- Total service revenue spending, excluding schools, was underspent by £8.658m or 2.1%.
- There was an underspend of £5.813m on other budgets or 9.8%.
- The Council received £2.212m or 0.5% more general funding income than originally budgeted for.

1.19 This gives the Council (excluding schools) an overall underspend of £16.683m.

1.20 In addition, there was a £21.000m underspend relating to Schools. This amount will be carried forward for schools to use in 2019/20.

1.21 The revenue outturn position for 2018/19 is shown in **TABLE B** (over the page).

TABLE B – Revenue Budget Final Outturn 2018/19

	Revised Net Revenue Budget	Expenditure	Under or Over Spending	Percentage Under or Over Spending
	£'000	£'000	£'000	%
COMMISSIONING STRATEGIES				
Readiness for School	5,186	4,601	(585)	-11.3%
Learn & Achieve	34,926	36,226	1,299	3.7%
Readiness for Adult Life	6,719	5,786	(932)	-13.9%
Children are Safe and Healthy	64,640	64,088	(552)	-0.9%
Adult Safeguarding	4,502	4,972	470	10.4%
Adult Frailty, Long Term Conditions and Physical Disabilities	113,764	110,623	(3,141)	-2.8%
Carers	2,519	2,483	(37)	-1.5%
Adult Specialities	66,728	67,417	689	1.0%
Wellbeing	26,922	26,920	(1)	0.0%
Sustaining & Developing Prosperity Through Infrastructure	40,334	40,745	410	1.0%
Protecting & Sustaining the Environment	23,086	21,960	(1,126)	-4.9%
Sustaining & Growing Business & the Economy	1,248	1,290	42	3.4%
Community Resilience & Assets	10,171	10,023	(148)	-1.5%
Protecting The Public	24,768	24,679	(89)	-0.4%
How We Do Our Business	7,755	7,159	(597)	-7.7%
Enablers & Support To Council's Outcomes	42,655	38,340	(4,316)	-10.1%
Public Health Grant Income	(32,662)	(32,662)	0	0.0%
Better Care Funding Income	(40,044)	(40,060)	(16)	0.0%
Enablers & Support To Key Relationships (Devolution)	15	(15)	(30)	-200.0%
TOTAL COMMISSIONING STRATEGIES	403,233	394,574	(8,658)	-2.1%
OTHER BUDGETS				
Capital Financing Charges	50,004	40,416	(9,588)	-19.2%
Contingency	1,692	0	(1,692)	-100.0%
Other Budgets	7,906	13,373	5,467	69.2%
TOTAL OTHER BUDGETS	59,602	53,789	(5,813)	-9.8%
SCHOOL BUDGETS				
Central School Services Block (DSB Funded)	3,929	3,116	(813)	-20.7%
Early Years Block (DSB Funded)	40,858	39,091	(1,766)	-4.3%
High Needs Block (DSB Funded)	70,000	66,222	(3,778)	-5.4%
Schools Block (DSB Funded)	156,451	142,469	(13,982)	-8.9%
Schools Related Expenditure (DSB Funded)	0	0	0	0.0%
Dedicated Schools Grant	(256,252)	(256,544)	(292)	0.1%
Schools Budgets (Other Funding)	736	367	(368)	-50.1%
TOTAL SCHOOL BUDGETS	15,721	(5,279)	(21,000)	-133.6%
TOTAL EXPENDITURE	478,555	443,084	(35,471)	-7.4%
INCOME				
Revenue Support Grant	0	0	0	0.0%
Business Rates	(164,883)	(165,798)	(915)	0.6%
Council Tax	(280,793)	(280,793)	0	0.0%
Other Non Specific Grants	(8,750)	(10,047)	(1,297)	14.8%
TOTAL INCOME	(454,426)	(456,639)	(2,212)	0.5%
USE OF BALANCES				
Use of Balances - Earmarked Reserves	(23,329)	(23,329)	0	0.0%
Use of Balances - General Reserves	(800)	50	850	-106.3%
TOTAL USE OF RESERVES	(24,129)	(23,279)	850	-3.5%
TOTAL	(0)	(36,833)	(36,833)	

Children's Services – (£0.770m under budget)

1.22 Over the four commissioning strategies, Children's Services underspent by £0.770m (0.7%).

1.23 **Readiness for School** commissioning strategy underspent by £0.585m (or 11.3%).

1.24 The underspend relates to the utilisation of grant funding for the Early Years Contract in 2018/19 (£0.297m); general underspends in the running of children centres across the county and their commissioned activities (£0.161m); a lower referral in supporting out of school childcare placements due to more families accessing other early years funding e.g. disadvantaged 2 year old funding (£0.097m), and property rental income from early years providers using children centre sites (£0.030m).

1.25 **Learn and Achieve** commissioning strategy overspent by £1.299m (or 3.7%).

1.26 The main area of overspend relates to Home to School / College Transport delivery (£0.503m). The main reason for this overspend is due to the impact of inflationary pressures in contract renewals values (impacting particularly on small and medium providers), due to cost increases in staffing, fuel and insurance premiums, and the demand-led nature of the service. The home to school transport budget is also exposed to the following Lincolnshire factors: location of young people meeting the transport policy and supporting mainstream looked after children transport; an increase in the number of pupils accessing tailored establishments, such as the Pilgrim school; growth in high needs pupils, and locally agreed school reorganisations.

1.27 There had been a planned overspend on School Improvement activities (£0.360m) in response to the recent Key Stage 2 results, and the need to make immediate improvements to drive up standards in schools. The remaining overspend (£0.436m) related to the Special Educational Needs service. The government ended its Reforms funding to Local Authorities in 2019/20, which recognised the programmes of change in the area of Special Educational Needs & Disabilities, however these changes have had a significant impact on the service with a 41% (or 1,354) increase in young people with an Education, Health and Care Plan compared to the year before implementation (2013/14), therefore the higher level of costs will continue into the new financial year. The decision to not draw down reserves to meet this future cost was made based on the financial position of Children's Services overall.

1.28 **Readiness for Adult Life** commissioning strategy underspent by £0.932m (or 13.9%).

1.29 The main area of variance is for Supported Accommodation (£0.752m) for those young people of 16 and 17 years at risk of homelessness and all looked after children and care leavers up to the age of 21 years. Transformational work has resulted in a new accommodation pathway and the use of in-house provision in Grantham (a conversion of two former fire houses) rather than a reliance on

externally commissioned provision. This has enabled the service to drive down costs and achieve improved individual outcomes. The underspend is a combination of permanent savings (of which £0.300m had been put forward as a saving through the 2019/20 budget process); the cohort of young people and one-off monies earmarked from the prior year carry forward to facilitate the changing in delivery. The other main underspend relates to the additional income received by the Lincolnshire Secure Unit (£0.239m), in particular the welfare bed utilisation being greater than the income target. This has been adjusted for through the 2019/20 budget process.

1.30 Children are Safe and Healthy commissioning strategy underspent by £0.552m (0.9%).

1.31 An overall underspend (£0.041m) of looked after children services occurred. The number of looked after children where the Local Authority was the corporate parent reduced during 2018/19, however this was largely down to the transition of young people to Special Guardianship Orders (SGOs). SGOs are seen as an important option for permanency for children who need to be removed from their birth parents. The Local Authority has however faced an increase in complexity and costs of children requiring specialist support. A budget re-alignment across the demand-led services of looked after children activities will be undertaken to reflect the changing landscape. Social Care legal costs have however continued to increase due to the complexity of the cases involved resulting in an overspend of £0.589m.

1.32 A one-off underspend relates to the funding of central staffing and support costs temporarily in 2018/19 from grants (relating to commissioning and performance staff; the social care peripatetic team, and social worker recruitment (£0.668m)) rather than base budget funding to enable grant funding to be maximised. This was planned for during 2018/19.

1.33 The other largest underspend relates to the early help service. An underspend of £0.591m (7.6%) relates to staffing vacancies across the county wide service resulting from service development opportunities and holding vacancies before the conclusion of the Early Help review and geographical boundary changes. Recruitment has taken place, therefore a future underspend is not expected in 2019/20.

Adult Care and Community Wellbeing– (£2.020m under budget).

1.34 The Adult Care & Community Wellbeing (AC&CW) final outturn for 2018/19 is £212.435m, an underspend of £2.020m (0.94%) against a budget of £214.455m.

1.35 The increasing strategic importance of the Better Care Fund (BCF) has meant that the impact to AC&CW now has to be reflected in service budgets, with a detailed exercise undertaken over the summer and autumn months to incorporate all schemes funded via the BCF into the AC&CW budgets.

1.36 The BCF has a growing influence on how AC&CW pressures are funded in the Council with it being the only means in which the vast majority of pressures identified below will be funded over the next two years.

1.37 **Adult Safeguarding** commissioning strategy overspent by £0.470m (10.4%).

1.38 The final outturn for Safeguarding Adults was £4.972m, an overspend of £0.470m on a budget of £4.502m.

1.39 The majority of the overspend relates to the 2013 Cheshire West ruling regarding Deprivation of Liberty Safeguards (DOLs). Excellent progress has been made in 2018-19 with the historical backlog of applications resolved and all new applications and reviews being progressed when received.

1.40 Related demand is expected to grow further in 2019-20 but new Liberty Protection Safeguard (LPS) legislation is expected also in 2019-20 which may have an impact on future budget requirements.

1.41 **Adult Frailty, Long Term Conditions and Physical Disability** commissioning strategy underspent by £3.141m (2.8%).

1.42 The final outturn for Adult Frailty and Long Term Conditions which includes Older Persons, Physical Disabilities (PD) and Infrastructure budgets resulted in an underspend of £3.141m for 2018/19.

1.43 The Older Persons and Physical Disabilities outturn expenditure was £104.540m, an underspend of £2.533m.

1.44 Physical Disabilities service outturn was £13.738m which is an underspend of £0.607m. Income received in PD was 17.8% more than budget down to significant income received from Direct Payment Audits and Debtor Income. Overall PD income was £0.400m over target.

1.45 Physical Disabilities service expenditure – pressures in Home Support due to continued growth resulted in an overspend of £0.291m. However underspends in Residential and Short Term care have helped to offset this and overall expenditure for PD was underspent by £0.205m.

Older Persons

1.46 The Older Persons outturn was underspent by £1.926m with an outturn of £90.802m. There has been a stabilisation in Direct Payment numbers for Older Persons. The outturn position was £0.055m overspent due to an increase in Penderels charges for managed accounts.

1.47 Long Term Residential Care outturn was £1.284m overspent and Block Beds overspent by £0.090m; however Short Term care was £0.415m underspent. The average number of days in short term care has significantly reduced in the last two financial years hence the underspend. Overall Residential Based services were £0.959m overspent.

1.48 Home Based Services in Older People was £1.503 million overspent at the end of the financial year. This was due to increased demand and also payment of capacity payments. There were underspends in Transport of £0.151m, Other Services £0.028m and Day Care £0.079m.

1.49 The service has seen a £5m increase in income with £42.1m compared to £37.292m in 2017/18. £0.520m additional was from Direct Payment Audit income, £4.0m was for debtor income for service users where property is included in the assessment or unpaid service user contributions.

1.50 Debtor Income included a correction to previous years debt write off and bad debt provisions which resulted in £1.1m credit and so a one off adjustment.

Infrastructure

1.51 Within Adult Frailty and Long Term Conditions there are budgets which relate to Infrastructure costs for senior management and back office staff. These were also underspent as a result of vacancies in Performance, Operations and Quality Assurance teams and some underspends in contracts such as the Sensory Impairment Contract. The 2018/19 outturn was £0.607m underspent.

1.52 **Carers** commissioning strategy underspent by £0.037m (1.5%).

1.53 The service ended 2018/19 with an underspend of £0.037m against a budget of £2.519m.

1.54 This is due to an underspend on the Carers First Contract which delivers the services for Lincolnshire

1.55 **Adult Specialities** commissioning strategy overspent by £0.689m (1.0%).

1.56 Services for Learning Disabilities are administered via a Section 75 agreement between the Council and NHS Clinical Commissioning Groups (CCGs) in Lincolnshire in addition to a small in-house element that sits outside the Section 75 agreement.

1.57 The Mental Health services are run on behalf of the Council by the Lincolnshire Partnership Foundation Trust, also by way of a Section 75 agreement.

1.58 Specialist Adult Services finished 2018/19 with an overspend of £0.689m against a budget of £66.728m.

1.59 The Learning Disabilities Services finished with a small overspend of £0.088m. Within the Learning Disability service there has been an increase in the number of complex cases entering the service for both Supported Living and Residential placements. Pressures on demand have also been seen in Direct Payments. Supported Living costs have also been affected by increases in the cost of waking night services following guidance from Her Majesty's Revenue and Customs (HMRC) that employees should be paid the National Living Wage for

sleep in shifts; however this has been covered by additional funding from the Better Care Fund (BCF).

1.60 Whilst growth within these areas was built into this year's budget, these additional costly packages have meant that there has been some additional pressure within 2018/19.

1.61 Income continues to increase especially with respect to direct payment refunds and increases in residential service contributions. The element of Health Care costs have also increased this year which has meant that the Council has invoiced the CCGs for a further £2.155m on top of the £11.900m already invoiced through the S75 agreement.

1.62 The Mental Health Service finished with an overspend of £0.601m. This has been down to increased numbers of service users with increasing complex needs driven largely by inpatient discharges. A considerable amount of partnership work has been done this year between the Council and LPFT to ensure that any higher than average cost placements were challenged and endorsed before they were agreed. Alongside this, work has been done to look at all high cost packages to ensure Continuing Health Care (CHC) has been applied where applicable.

1.63 **Wellbeing** was underspent by £0.001m (or 0.0%).

1.64 The Community Wellbeing strategy consists of a number of services including Health Improvement and Wellbeing, Prevention and Self-management, Housing Related Support Services for vulnerable adults, prevention and treatment for substance misuse and Sexual Health.

1.65 A number of these services are delivered as part of the Council's statutory obligation to improve the public health of local populations as per the conditions of the Public Health Grant.

1.66 The service ended 2018/19 on target with a budget of £26.922m.

1.67 The outturn was produced via a combination of overspends and underspends within the wellbeing services including the Integrated Community Equipment Service (£0.444m). This was mostly offset by a number of underspends within Smoking Cessation contracts (£0.178m) and Sexual Health Prescribing contracts (£0.180m) - both underspends were due to reductions in activity within both areas.

1.68 There were also a number of staff vacancies across the service; however posts have started to be filled and will continue to do so in the new financial year.

Better Care Fund

1.69 The Lincolnshire Better Care Fund (BCF) is a framework agreement between the Council and the Lincolnshire Clinical Commissioning Groups (CCGs) and looks to pool funds from those organisations to help support the national and local objective of closer integration between the Council and the CCGs.

1.70 The total pooled amount in 2017/18 was £221.857m which included £54.817m that was allocated to the Lincolnshire BCF from the Department of Health and Social Care. This has increased to £230.391m in 2018/19.

1.71 Lincolnshire's fund is one of the largest in the country and includes pooled budgets for Learning Disabilities, Children and Adolescence Mental Health Services (CAMHS) and Community Equipment plus 'aligned' Mental Health funds from the County Council and the four CCGs.

1.72 In addition to the continuation of existing pooled funds, there are a number of other funding streams, these increases result from:

- Inflationary increases in CCG funding, and as a result in the CCG funding for the Protection of Adult Care Services.
- The addition of the Improved Better Care Fund (iBCF) funding that was announced in the Chancellor's November 2015 budget totalling £2.105m in 2017/18, increasing to £14.249m in 2018/19.
- The announcement of iBCF Supplementary funding in the Chancellor's March 2017 budget. This provided an additional £15.265m in 2017/18; this fund reduced to £9.609m in 2018/19.

1.73 Overall BCF funding from central government is expected to increase by £6.772m in 2019/20.

1.74 There is a requirement to ensure that the funding has a positive impact on performance in the areas of Delayed Transfers of Care, Non-Elective Admissions, Residential Admissions and positive outcomes following Reablement. These have been reflected in our plans.

Place (£0.822m under budget)

1.75 **Sustaining and Developing Prosperity Through Infrastructure** – commissioning strategy overspent by £0.410m (or 1.0%).

1.76 Whilst this commissioning strategy was within 1% of the budget some key variances include:

- An overspend on street lighting maintenance of £0.492m was due to increases in energy costs.
- An overspend on the Heritage budget of £0.350m as it continues to explore transition to a suitable cultural enterprise. Net spend continues to fall to £1.540m in 2018/19 from £2.300m in 2016/17.

Overall income at sites has been lower due to a change in ticket sale distribution although overall visitor numbers are above plans.

There has continued to be a small and reducing number of one off legacy costs to bring Lincoln Castle servicing and maintenance in line with policy and provide longer term efficiencies as the Heritage Service continues to implement disciplined and detailed financial and accounting processes.

- These overspends are balanced by savings on staff vacancies carried at various points throughout the year and associated supplies and services budgets. This was across highways, economic infrastructure and transport functions.
- In addition transport concessionary fares has an underspend of £0.351m (budget of £6.980m) as this area is directly affected by market activity with a great deal of volatility and change being experienced this year.
- An overspend on Winter Maintenance of £0.433m in this area has been funded from the adverse weather reserve and is therefore shown net. This overspend relates to the previous year including extra costs for gritting runs (£0.210m) and use of salt (£0.160m). Delays in the procurement of gritters have added further pressure on the leasing budget.
- A planned overspend on the cost of advance design of new schemes of £0.929m has been met by a transfer from the reserve set up for this purpose.

1.77 Protecting and Sustaining the Environment – commissioning strategy underspent by £1.126m (or 4.9%).

- Within this area the Waste Management service had an underspend of £1.294m.

This underspend is due to a mix of reduced volumes of waste to both the Energy from Waste (EfW) plant (saving £0.525m on gate fees) and to landfill (saving £0.329m). This is coupled with a reduction in spend in dry recycling (saving £0.222m). In addition to this the income received for providing electricity from the EfW plant has more than doubled to £0.687m.

- Operationally there was a compost bonus from the hot dry summer and autumn with quantities of waste being presented continuing to be down on that expected. There is also a lesser advantage from some Waste Collection Authorities reducing the collection frequency or even stopping altogether their charged garden waste collection services during the winter period.
- Mixed Dry Recycling payments continue to be lower than expected, partly due to a slight improvement in the market trackers and partly due to a slight reduction in the overall amount of Mixed Dry Recycling being collected.
- Based on forecasts made earlier in the year £0.500m has been moved to Capital for fire suppression at waste transfer stations. The budget

requirement for future years is under review to reflect the volatility of volumes and prices in the waste management environment.

- Sustainable Planning had an overspend of £0.251m. This overspend is due to a significant number of legal cases in respect of planning enforcement cases together with planning fee income being lower than originally anticipated.
- Flood and Risk Management had an underspend of £0.097m due to a reduction in our contributions as fewer minor works schemes have been completed. This underspend will be added to Reserves as part of our business as usual to meet with increases in partner funding going forward.

1.78 Sustaining and Growing Business and the Economy – commissioning strategy overspent by £0.042m (or 3.4%).

1.79 This overspend is due to overall increases in operational costs alongside a reduction in rental income for business units and lower event sponsorship.

Community Resilience and Assets was underspent by £0.148m (or 1.5%).

1.80 Budget allocated to the library service to cover Radio Frequency Identification (RfID) maintenance and software costs was not required in 2018/19 due to delays in the project.

1.81 In the Customer Services Centre there was an increase in demand during the final four months of the financial year resulting in higher than budgeted costs.

Finance and Public Protection (£5.002m under budget)

1.82 Protecting the Public – commissioning strategy underspent by £0.089m (or 0.4%).

1.83 This strategy includes Fire & Rescue, The Registration, Celebratory and Coroners Service, Safer Communities, Emergency Planning and Improving Road Safety. Expenditure in 2018/19 was £24.679m with an overall underspend of £0.089m.

1.84 Services were broadly on target to budget with the underspend mainly due to additional income in Trading Standards (£0.055m) alongside lower than budgeted legal costs across the service.

1.85 How We Do Our Business – commissioning strategy underspent by £0.597m (or 7.7%).

1.86 The income from the schools finance service was £0.120m higher following the enhancement of the service and a number of schools upgrading their service.

1.87 The Council has received £0.402m net income after costs for the recovery of duplicate payments by Meridian. This was a one off exercise.

1.88 Enablers and Support to Council Outcomes – commissioning strategy underspent by £4.316m (or 10.1%).

1.89 Information Management Technology (IMT) Strategy & Support have underspent by £2.488m in the current year.

1.90 The IMT budget was increased by £3.000m in 2018/19 in recognition of the increasing use of cloud services and the need to increase the capability of the retained client team.

1.91 Whilst there has been some delay in implementing these changes, the service has started with the recruitment to the team and an IMT Board has been set up, to ensure responsive decision making and improved financial management is in place. The Board will also consider the on-going revenue budget implications of capital investment in our IT.

1.92 As well as the staff recruitment, a number of projects and initiatives are under way many of which will be monitored by the IMT Board. These include:-

- Increase in broadband bandwidth for Lincoln Campus
- One off Support for windows 10 deployment
- Enhanced security monitoring service
- Serco Service Improvement programme
- IMT staff development and training programme
- Departmental process and modelling system
- Revenue costs of previous capital spend (eg migration to cloud services)

County Farms (£0.251m under budget)

1.93 This is due to increased income from the estate and the revised phasing of Archaeology works relating to the former lease of the mineral site at West Deeping where costs will be incurred during 2019/20.

Property Strategy & Support (£0.025m under budget)

1.94 The service is broadly on target but slightly underspent due to a reduction in general accommodation costs.

Commissioning (£0.391m under budget)

1.95 Commissioning has underspent by £0.339m; this is made up of £0.182m Serco abatement contract performance penalties plus an underspend on staffing costs due to vacancies of £0.157m.

1.96 The further £0.052m relates to Procurement which is required to be added to reserves as this fund is a shared resource alongside our partner bodies.

Strategic Communications (£0.081m under budget)

1.97 The underspend is due to staffing vacancies throughout the year.

Business Support (£0.057m under budget)

1.98 Business Support continue to proactively manage their budgets to reduce spend across the service.

1.99 Recruitment to fill posts is now undertaken bi-monthly to achieve savings from vacant positions and commissioned support functions were fully recharged to service areas or the Better Care Fund (BCF).

Legal (£0.738m under budget)

1.100 Legal services have achieved an additional surplus of £0.738m.

1.101 The Legal Management Board will decide on the use of any surplus at year end. In recent years it has taken a decision to redistribute the surplus in full to partner authorities in proportion to their use of the service.

People Strategy (£0.282m under budget)

1.102 This includes additional income from the 0-19 health service to support the additional work required (£0.061m); a reduction in HR activity-led budgets (£0.114m) and the reallocation of staff spending to alternative funding streams e.g. Partners in Practice.

Schools – (£21.000m under budget)

1.103 Under government regulations, schools carry forward automatically their under and over spends to the next financial year. Budgets held centrally within the ring-fenced 2018/19 Dedicated Schools Grant (DSG) were once again set prudently due to the demand-led and volatile nature of the services demands. In line with the DfE regulations any under or overspends will automatically be carried forward to the next financial year and the Local Authority will consult the Schools Forum on its use.

Other Budgets – (£5.813m under budget)

Capital Financing Charges – underspent by £9.588m (or 19.2%)

1.104 The Council's capital financing charges (debt repayment provision, borrowing interest costs, revenue funding net of interest received on cash balances) were £9.588m under budget. Slippage of the capital programme during 2018/19 reduced the need to borrow to £19.972m from £70.080m, leading to reduced interest borrowing costs of £4.433m compared to that budgeted. Interest received on cash balances was £1.272m more than forecast due to slippage on both the Capital and Revenue budgets resulting in a higher cash balance throughout the year. A revenue funding overspend of £3.368m arose as this amount was transferred to capital receipts funding to utilise capital receipts over and above the level of transformation projects funded by useable capital receipts in 2018/19.

Contingency – underspent by £1.692m (or -100.0%).

1.105 The Council has a contingency budget of £3.000m set aside for emerging pressures which may arise during the financial year. At year-end £1.692m remained, and was not required in 2018/19.

Other Budgets – overspent by £5.467m (or 69.2%)

1.106 Other Budgets were over budget by £5.295m. This comprised a number of under and overspends, the most significant being:

- The Council actually generated £7.157m of capital receipts resulting in a variance of £0.843m below the £8.000m target. This is due to some properties being on hold pending the Council's decision on extra care housing and other developments.

In accordance with the Council's Strategy on the Flexible Use of Capital Receipts, this could only be used to fund revenue transformational projects. During 2018/19 the cost of the Council's revenue transformation projects was £3.368m lower than the available capital receipts. Therefore, £3.368m was used to fund the capital programme as explained further within the Flexible Use of Capital Receipts Strategy section, paragraph 1.128, resulting in an overall overspend of £4.211m.

- The Council's insurance fund shows a deficit of £1.864m. The insurance fund provides a level of protection for risks that are retained in house for those risks which are not insured elsewhere or are as yet unknown. The deficit has arisen as a result of a number of factors. In recent years, we have seen a dramatic increase in the number of liability claims particularly relating to Highways. Our provision for claims known to us has seen a significant increase due to the amount of open claims yet to be settled. Where we have previously secured rebates on external premiums due to tendering under Long Term Agreements, our actual claims have broken the terms set out under this agreement which has resulted in the insurers pulling the renewal terms and applying additional increases above those anticipated.
- In addition to the insurance fund deficit, the Council's budget for liability insurance premium also overspent by £0.847m due to the base budget not being increased this year in the face of increasing liability as well as an increased number of claims relating to pot holes, which have been caused by worse than usual winter conditions last February/March 2018.
- Corporate and Service Redundancy is underspent by £1.059m. The Corporate Redundancy budget funds the costs associated with the staffing restructuring changes that had been approved through the 2018/19 Council's Budget. These planned changes support the Council to bring down expenditure in line with its current levels of planned income.

- National Living Wage is £0.500m underspent. This element of budget was not required this year as the actual living wage rate is lower than anticipated.
- Successful prosecution against Mid UK Recycling Ltd for breaching planning and environmental controls resulting in the fire at Barkston Heath concluded with an award of £0.226m to the Council. Half of this was transferred to Fire and Rescue to cover blue light cost pressures.

Council's General Funding – £2.212m more than the income budget.

1.107 The Council's general funding received was £2.212m more than the revenue budget approved at full Council in February 2018. The most significant reasons for this additional funding were as follows:-

- School Improvement, Monitoring and Brokering Grant - £1.121m (more than budgeted for). The school improvement, monitoring and brokering grant has been allocated to local authorities since September 2017 to allow them to continue to monitor performance of maintained schools, broker school improvement provision, and intervene as appropriate.
- Business Rates Top Up – £0.712m (more than was budgeted for). We have received additional funds from the 2017/18 Business Rates Tax Loss reconciliation which has been offset against the Business Rates Tariff and Top-up calculation adjustment that was accrued in 2017/18 but received during 2018/19.
- Business Rates Section 31 Top Up - £0.647m (less than was budgeted for). At the time of setting the budget for 2018/19, the Council was expecting to receive £10.825m. During the summer an updated allocation was released which showed a lower allocation of £10.178m.
- Business Rates - Pooling with Districts - £0.478m (more than was budgeted for). The amount accrued for pooling income at the end of 2017/18 was based on the latest estimates available to us at that time (£1.388m). Following the revision of the position of the pool after outturn, the income expected to the Council was higher than accrued at £1.866m.
- Business Rates Districts (Renewable Energy) - £0.372m (more than was budgeted for). The Council received additional income from the District Councils in relation to the business rates from renewable energy projects for 2017/18 and 2018/19 which was not included in the budget set in February 2018.
- Extended Rights to Free Travel - £0.160m (more than budgeted for). During 2018/19 the criteria of the grant has been amended to reflect the introduction of Universal Credit, which has resulted in the Council being awarded additional funding for 2018/19.

Capital Programme Outturn

1.108 The capital outturn for 2018/19 is summarised below:

- Net capital expenditure was £43.574m; and
- This was £50.108m or 53.5% less than planned.

1.109 The capital programme outturn is shown in APPENDIX C. **TABLE C** shows the summary of the year end position against the budget funded by the Council.

1.110 The reasons for significant capital budget over or underspends are explained in the following paragraphs.

TABLE C – Net Capital Programme Summary Outturn 2018/19

	Actuals	Net Expenditure Revised budget	Outturn Variance
	£'000	£'000	£'000
Adult Care & Community Wellbeing	68	68	0
Finance & Public Protection - Commissioning	16,827	26,428	-9,601
Childrens Services - Commissioning	-7,861	-6,295	-1,567
Place	34,540	66,842	-32,302
Other Programmes	0	6,638	-6,638
Total Capital Programme 2018/2019	43,574	93,681	-50,108

1.111 The capital programme comprises a series of schemes/projects which often span a number of years. Hence over/underspends cannot be related to time periods such as this financial year. Where a scheme/project is known to be exhibiting a material variance to its spending profile this will be described in the narrative associated with that commissioning area.

1.112 Schemes can receive funding from both the County Council and from external bodies (through grants and contributions). The timing of this external funding may also have an impact on the spending profile of schemes annually within the capital programme.

Adult Care and Community Wellbeing (AC&CW) (balanced budget).

1.113 Reference line 2 of Appendix C – Adult Care. Capital investment within Adult Care and Community Wellbeing is mostly delivered via capital reserves. AC&CW spent just under £0.068m on capital expenditure in 2018/19. The majority of spend was against the on-going modernisation programme taking place across the remaining in house day care centres that the Council operates, with £0.020m being used to pay for dilapidation costs on one particular day centre (Warwick Road) that the Council handed back to the landlord last year.

1.114 A further £0.008m was utilised as part of a Government initiative to install efficient heating systems in the homes of vulnerable people. Funding for this initiative was provided via a grant.

1.115 Capital expenditure within AC&CW during 2019/20 is once again expected to be minimal, as the bulk of the modernisation work on the day centres has now been completed.

Finance and Public Protection (9.601m under budget)

1.116 **Enablers & Support To Council's Outcomes** – commissioning strategy under budget by £5.503m net.

- Reference line 4 of Appendix C – Broadband. The payments for the broadband project were in line with contractual performance criteria.
- Reference lines 5,6,7,8 and 13 of Appendix C – IMT Capital. The payments throughout the financial year reflect the timing of ongoing projects, including infrastructure refresh and the implementation of Windows 10, to improve the ICT infrastructure for the Council.
- Reference lines 9 & 10 of Appendix C – Property. The variance reflects the timing of the overall property programme across financial years.
- Reference line 11 of Appendix C – Blue Light Project. The Blue Light project remains financially on target to its overall budget. The variance in income reflects the timings of income recovery from partner bodies in line with the agreed collaboration agreement.

1.117 **Protecting the Public** – commissioning strategy under budget by £4.099m net.

- Reference line 14 of Appendix C – Fire and Rescue. The variance reflects the timing of payments for the overall programme.
- Reference line 15 of Appendix C - Fire Fleet and Associated Equipment. The timing of milestone staged payments for new vehicles and equipment, which was expected in the final quarter of 2018/19, will now be made within 2019/20.

Children's Services (£1.567m under budget).

1.118 Reference lines 17-23, 24, 26-30 of Appendix C – Children's Services. The majority of the underspend relates to funding commitments on a number of planned future schemes and work priorities. These include capital works for remodelling existing school buildings to respond to demands for special educational needs placements (£0.490m); capital works planned to improve the

conditions of an existing school site (£0.400m), and the remaining rollout of IT hardware for Children's Services front line staff to overcome the challenges in accessing mobile technology (£0.164m).

1.119 Reference line 14 of Appendix C – Foster Capital. A capital fund is earmarked for property adaptations to support foster carer placements for Lincolnshire's looked after children where appropriate (£0.372m). This is seen as an invest to save initiative to enable looked after children to remain in local communities and reduce the risk of having to make external commissioned specialist placements.

Place (£32.302m under budget).

1.120 **Protecting and Sustaining the Environment** – commissioning strategy underspent by £2.497m gross (54% of the budget).

- Reference line 32 of Appendix C - Flood Defence underspend (£1.100m) will be carried forward to fund the final payments for both the Horncastle and Louth flood alleviation schemes.
- Reference line 35 of Appendix C – Flood and Water Risk Management. The £0.477m underspend (£0.594m net of additional income received) on the Flood & Water Risk Management block budget is committed to schemes within the programme that span several years.
- Reference lines 36 to 38 of Appendix C - Waste Management. The capital programme shows an overall underspend of £0.875m. This comprises of fire suppression at the waste transfer stations that is needed in the next financial year (£0.500m) together with compactors that have not needed to be replaced in the timescale predicted (£0.255m). In addition, the underspend on the Boston household waste recycling centre (£0.120m) will be required within the Waste Management capital programme in 2019/20.

1.121 **Sustaining and Developing Prosperity through Infrastructure** – commissioning strategy underspent by £29.018m gross (24% of the budget).

- Reference line 39 of Appendix C – Highways Asset Protection. The gross budget for this activity (£57.903m) is larger than previous years due to additional funding received in year from the Department for Transport (DfT), recognising the damage caused to roads during the poor weather in 2018. Whilst the programme is showing an underspend in 2018/19, the budget is fully committed and schemes will continue to be completed into the spring period.
- Reference line 40 of Appendix C - Integrated Transport. The underspend (£0.278m) is managed through allocations to larger schemes and is managed across financial years.

- Reference line 41 of Appendix C – Lincoln Eastern Bypass. This scheme is showing an underspend in the current year. This is mainly due to actively using external grant funding before using LCC budget and a delay of earthworks across the scheme together with piling work on the River Witham Bridge. These works are now progressing well. Following Council approval in February 2019, the total gross budget for this scheme is £124.228m. The scheme is currently forecast to be delivered within budget.
- Reference line 44 of Appendix C – Grantham Southern Relief Road. Following approval from Council in February 2019 the gross scheme budget for the Grantham Southern Relief Road is £101.630m. The overspend in the current year is because the Council was expecting a higher value of grant from the Greater Lincolnshire Local Enterprise Partnership (GLLEP) than what was received. The additional grants from the GLLEP will instead be received in financial year 2019/20, thus offsetting the overspend in this financial year.
- Reference line 47 of Appendix C – Lincoln Growth Points. The overspend (£0.449m) reflects compensatory payments and interest associated with replacement buildings on Tentercroft Street.
- Reference line 48 of Appendix C – Lincolnshire Waterways. The overspend (£0.144m) is due to income expected during the year which will now be received in the new financial year.
- Reference line 50 of Appendix C – Street Lighting Transformation. The underspend (£0.358m) is to be utilised in LED replacements going forward.
- Reference line 51 of Appendix C - Lincolnshire Enterprise Partnership. The underspend (£3.057m) resulted as the profile for expected spend including the Skegness Business Centre which was delayed as negotiations regarding land purchase have taken longer than anticipated.
- Reference line 52 of Appendix C – Network Resilience. The underspend (£0.512m) mainly relates to delayed procurement in the programme of purchasing the winter gritter fleet away from a lease payment operation. This will progress early in the new financial year.
- Reference line 56 of Appendix C - Other Transport Initiatives. This spend area includes a £0.495m transfer from the revenue budget to provide further funds for the punctuality improvement programme and other transport initiatives going forward. Elements of the underspend have been created due to slippage in relation to Replacement IT systems, vehicle adaptations and the electronic ticketing project deliverables. Expenditure will now occur in 2019/2020.
- Underspends on the remainder of the programme reflect recently started schemes that will progress during the 2019/20 financial year.

1.122 Sustaining & Growing Business & the Economy – commissioning strategy underspent by £0.340m gross (16% of the budget).

- Reference line 64 of Appendix C – Other Sustaining and growing the business. The underspend (£0.279m) relates to payments associated with Kirton Distribution Park and the Lincolnshire Coastal Observatory that will be made in the new financial year.
- Reference line 66 of Appendix C – Holbeach Food Enterprise Zone. The underspend (£0.070m) relates to staged payments for the scheme, expected in 2018/19, which will be made in the new financial year. The wider scheme is to be fully funded via GLLEP and supported LCC capital corporate development funds.

New Developments Capital Contingency Fund (£6.638m under budget).

1.123 For 2018/19 the Council set aside £7.500m in a New Development Capital Contingency Fund, plus the carried forward underspend from 2017/18 of £9.299m. During the financial year £11.257m was allocated from this budget. This has been utilised to fund the following schemes:

- Bluelight Collaboration Contribution (£4.716m);
- IT investment of £2.500m to support the upgrade to Windows 365;
- Children's Services IT investment (£1.503m) for front line services such as social workers and early help workers;
- The purchase and refurbishment of Lexicon House for £1.975m. This will create additional office space, some of which may be rented by other organisations;
- Contribution towards the build of a new compliant and fully functioning training building at Grantham Fire Station (£0.275m);
- County Farms – works to meet Minimum Energy Efficiency Standards (MEES) (£0.107m) and Road Improvement Schemes (£0.076m);
- A1073 Part One Compensation Claims paid in 2018/19 (£0.065m); and
- Property – Installation of Solar Panels at Lancaster House (£0.040m).

1.124 Following completion of some projects previously funded from the contingency fund, underspends were transferred back to the fund. These totalled to £1.096m and are detailed below:

- Skegness Countryside Business Park – due to impasse in negotiations (£0.606m) and a revised project is planned; and

- Holbeach Peppermint Junction (£0.490m).

1.125 The underspend of £6.638m remaining at the end of 2018/19 will be transferred forward into 2019/20 to fund schemes in the new financial year. There are a number of commitments which already exist for use of this funding in 2019/20 and future years. This will be allocated in 2019/20 as and when required.

Prudential indicators

1.126 The Local Government Act 2003 gave authorities freedom 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.

1.127 In complying with the Code the indicators for 2018/19 were approved by the Council on 23 February 2018 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 Council should also be informed of the actual position compared with that estimated for any given year after the year end. **APPENDIX D** provides details of this comparison for 2018/19. It shows that Prudential Indicators have not been exceeded during the year and there have been no breach of limits set by the Authority.

Flexible Use of Capital Receipts

1.128 The Council had planned to use £8.000m of flexible capital receipts in 2018/19 to fund transformation projects which will generate ongoing revenue savings to the authority. However, the Council generated £7.157m, which was just short of the £8.000m target. This is due to some properties being on hold pending the Council's decisions on extra care housing and other developments.

1.129 Included in the receipts is £0.344m relating to specific Schools capital projects in accordance with the Section 77 of the Schools Standard and Framework Act 1998. It is therefore requested that £0.344m go to an earmarked reserve for this purpose. (See paragraph 1.135). This will fulfil the requirement to re-invest capital receipts relating to the sale of playing fields as part of the consent given by the Department of Education.

1.130 The remaining balance of £6.813m was available to fund transformation projects according to the Strategy. It had been identified that the following schemes would be funded this way in 2018/19:

- Service changes and reductions (including redundancies);
- Property rationalisation;
- Efficiencies through contracting and procurement;
- Transforming technology; and
- Preventing and detecting fraud.

1.131 During the year the Council spent £3.446m on these transformation projects. Details of the Council's original plans and actual activity are set out at **APPENDIX A1**.

1.132 As the total capital receipts available is £3.368m more than the cost of transformation projects, this surplus amount was used to fund the capital programme 2018/19 in accordance with the Council's accounting policy i.e. to use all available capital receipts to fund the capital programme in the year, thereby reducing the cost of borrowing in future years.

1.133 The Flexible Use of Capital Receipts Strategy has been updated for 2019/20 in the light of revised estimates of the cost of some transformational work. At the same time the opportunity has been taken to provide more detailed information about the Strategy and this is shown in **APPENDIX A2**. The Strategy for 2019/20 was approved by the Council in February 2019 and government statutory guidance requires that where such a Strategy is amended in the year, the amended Strategy is approved.

Carry forward of over and underspends

1.134 The Council's policy as set out in its Financial Strategy is:

1.135 All under and overspends on service revenue budgets of up to 1% will be carried forward without exception (£3.473m). As in previous years Executive Directors have provided details of how they plan to use the up to 1% carry forward. Executive Directors have delegated authority to approve the use of any 1% underspend in conjunction with relevant Portfolio Holders. A summary of the 1% amounts is shown in the table below with a more detailed breakdown set out at **APPENDIX B**.

Directorate	Final Proposal £000's
Executive Director - Children's Services	1,046
Executive Director - Adult Care and Wellbeing	1,125
Executive Director - Place	766
Executive Director - Finance & Public Protection	536
TOTAL	3,473

1.136 All under and overspends on the dedicated schools budget (£21.000m) will be carried forward.

1.137 In addition to the carry forward of up to 1% of budget under and overspends, there are a number of transfers to reserves for "business as usual" totalling £1.253m:

- Civil Parking Enforcement income is ring-fenced for spending on specific works defined by legislation. This budget underspent by £0.023m in the year.

- The budget for flood and water risk management underspent by £0.096m in the year.
- Two of the Council's activities which provide services to partner organisations have operated at a surplus in 2018/19 and the net surpluses will be transferred to earmarked reserves pending future decisions about their use. These are: Legal Services Lincolnshire (£0.738m) and Strategic Commissioning and Procurement (£0.052m).
- Income of £0.344m was received in the year from the sale of former playing fields and school land. This sum will be transferred to the Capital Receipts earmarked reserve, to be used for the Poplar Farm Schools Project under Section 77 of the School Standards and Framework Act 1998.

1.138 All of the transfers to reserves set out in the preceding paragraphs are for noting. The Council is required to consider the use of underspends above the level of 1% and outside of the "business as usual" transfers to reserves. There are two further requests for transfers to earmarked reserves:

- Following an actuarial valuation, it is proposed that £0.500m be added to the Insurance Fund reserve. This will give a total of £13.000m within the Insurance Fund and the Insurance Provision to cover future liabilities.
- Spending on road maintenance can be volatile and is affected by adverse weather conditions. The Adverse Weather - Winter Maintenance reserve has been depleted and it is requested that the sum of £0.433m be transferred to this reserve to reinstate it to the £0.500m level.

1.139 It is proposed that one new earmarked reserve be created, by transferring some funding from an existing earmarked reserve:

- The proposal is that the sum of £0.261m be transferred from the existing "Highways & Transport Grants and Contributions" earmarked reserve into a new reserve called "Traffic Commissioner Threshold". This will allow the Council to demonstrate that it has a reserve earmarked for the operation of Transport Connect Limited and will give confidence to the Traffic Commissioner that any financial risks can be mitigated. This measure will help to support applications for additional operating licences.

1.140 A summary of the proposals outlined above can be found at **APPENDIX B**.

1.141 After the above allocations, which are in line with the Council's Financial Strategy, there is £10.174m still to be allocated. It is proposed to add the remaining underspend of £10.174m to the Financial Volatility Reserve.

1.142 The current balance in the Financial Volatility Reserve is £45.595m, allocated as follows:

- £3.087m to fund the 2019/20 Budget Shortfall; and
- £42.508m currently available for 2020/21 and beyond, before any further year end contributions.

1.143 Acceptance of the recommendations increases the value of the Volatility Reserves to £55.769m.

1.144 A variety of other transfers to or from other earmarked reserves reflecting actual expenditure and income in 2018/19 are shown in **TABLE E** over the page.

General Reserve

1.145 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. When setting its budget for 2018/19 the Council had planned to increase the balance in the General Fund by £0.800m. After considering the updated budget requirement for 2019/20 and the proposals on the carry forward of over and underspends, the General Fund has been increased by £0.600m. It is not proposed to make any further amendments to the General Fund at the year end. The general reserves at 31 March 2019 are £15.800m or 3.45% of the budget requirement (**TABLE D**).

TABLE D – General Reserves

GENERAL RESERVES	General Reserves £000's
Balance at 1 April 2018	15,200
Contribution to / use of in year	600
Balance at 31 March 2019	15,800
Balance as a percentage of 2019/20 budget	3.45%

TABLE E – Transfers to and from reserves

EARMARKED RESERVES	Restated Balance at 31 March 2018 £'000	Used in Year £'000	Additional in Year £'000	Balance at 31 March 2019 £'000
Schools Carryforward	-12,827	17,737	-17,932	-13,022
Prime Account Loan Reserve Adjustment	287	1,162	-967	482
Balances held by Schools under a scheme of delegation	-12,540	18,899	-18,899	-12,540
Other Services	0	3,576	-3,576	0
Earmarked Reserves - Pre-Council Confirmation	-44,727	44,727	0	0
Adverse Weather	0	433	-500	-67
Insurances	-4,487	0	-750	-5,237
Schools Sickness Insurance Scheme	-1,103	1,168	-584	-519
Museum Exhibits	-133	0	0	-133
Development - Economic Development Reserve	-255	40	0	-215
Health and Wellbeing	-682	213	-4	-473
Health and Wellbeing Operating Cost Reserve	-96	53	0	-43
Development - Lincs Coastal Country Park	-351	301	0	-50
Legal	-920	760	-682	-842
Procurement	-959	0	-104	-1,063
Salix Carbon Management	-184	378	-234	-40
Safer Communities Development Fund	-833	277	0	-556
Co-Responders Services	-150	0	-300	-450
Financial Volatility Reserve - Budget Shortfall	-5,076	5,076	0	0
Financial Volatility Reserve	-26,179	588	-20,004	-45,595
Teal Park	-50	50	0	0
Youth Service Positive Activities Development Fund	-20	0	0	-20
Corby Glen/South Lincolnshire Sports Fund	0	0	0	0
Youth Offending Service	-512	0	0	-512
Domestic Homicide Reviews	-100	29	0	-71
Civil Parking Enforcement	-836	0	-20	-856
Support Service Contract Reserve (FDSS)	-365	569	-2,500	-2,296
Roads Maintenance Reserve	-2	2	0	0
Adoption Reform Reserve	-35	0	0	-35
Community Advisors Reserve	-156	123	0	-33
Local Welfare Provision Reserve	-15	0	0	-15
Property Management	-130	0	0	-130
Energy from Waste Lifecycles	-4,400	700	-1,286	-4,986
Broadband Project	-135	135	0	0
Broadband Clawback	-157	157	0	0
Flood and Water Risk Management	-421	0	-137	-558
Young People in Lincolnshire	-252	0	0	-252
Lincoln Eastern Bypass (LEB)	-500	0	0	-500
Families Working Together	-599	0	0	-599
Enterprise Schemes	-108	0	0	-108
Asbestos Pressure	-50	0	0	-50
DAAT Pooled Budget	-248	0	0	-248
Street Lighting Earmarked Reserve	-100	0	0	-100
Heritage Services Earmarked Reserve	-880	618	0	-262
Homcastle Salt Barn	0	0	0	0
Corporate Property Business Case	-100	0	0	-100
Agresso Milestone 6 Finance Staffing	-100	0	0	-100
Contract Development	-1,000	0	0	-1,000
Highways Advanced Design	-1,763	929	0	-834
Music Service Reserve (carry forward)	-207	59	0	-148
Environmental Improvements Sustainability Reserve (-1,000	0	0	-1,000
Environmental Improvements Sustainability Reserve (-4,000	0	0	-4,000
Purchase of Employee Leave Scheme Reserve	0	0	-264	-264
S77 Poplar Farm School Project	0	584	-584	0
Highways Permitting Reserve Income	0	83	-477	-394
Heritage Service	0	80	-130	-50
Business Rates Volatility Reserve	0	0	-1,683	-1,683
Earmarked Reserves	-104,376	61,708	-33,819	-76,487
Revenue Grants and Contributions	-59,005	14,426	-18,791	-63,370
TOTAL RESERVES	-175,921	95,033	-71,509	-152,397

2. Legal Issues:

Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

- * Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
- * Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- * Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation

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

- * Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic
- * 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
- * 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

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.

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.

Compliance with the duties in section 149 may involve treating some persons more favourably than others.

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process.

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 2018/19 in February 2018 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.

Joint Strategic Needs Analysis (JSNA) and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision.

The Joint Strategic Needs Analysis has been considered and there is not considered to be any direct impact of the decisions called for by this report on any of these strategies and obligations. The Council set its budget for 2018/19 in February 2018 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 the Joint Strategic Needs Analysis as they are taken. This includes decisions on the use of carried forward underspends.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area.

Section 17 of the Crime and Disorder Act 1998 has been considered and there is not considered to be any direct impact of the decisions called for by this report on the obligations arising from this Act. The Council set its budget for 2018/19 in February 2018 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 Section 17 of the Crime and Disorder Act 1998 obligations as they are taken. This includes decisions on the use of carried forward underspends.

3. Conclusion

3.1 The report provides details of the Council's financial performance for 2018/19. Net revenue spending amounted to £448.363m, excluding Schools Budgets. Net capital spending totalled £43.574m.

3.2 Existing policies allow all over and underspends on capital, schools budgets and shared services to be automatically carried forward. The carry forwards and transfers to and from earmarked reserves have been proposed in accordance with existing policy. General reserves stand at £15.800m with a further £55.769m in the Financial Volatility earmarked reserve.

4. Legal Comments:

Recommendation 1 is compliant with the Council's Financial Regulations. With regard to recommendation 2, the Council's Financial Regulations provide that the use of all underspending 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.

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.

Statutory guidance on the Flexible Use of Capital Receipts requires that where the Strategy for the flexible use of capital receipts is updated following its initial approval and the updated Strategy is approved by the full Council.

The recommendations are lawful in accordance with the Constitution and the Policy Framework and within the remit of the Executive.

5. Resource Comments:

Accepting the recommendations in this report provides the Council with a sound financial base from which to manage the challenges of a difficult medium to longer term outlook for public sector finances.

6. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

On 27 June 2019 the Overview and Scrutiny Management Board considered the report on Review of Financial Performance 2018/19. Comments raised by the Board will be reported to the Executive.

d) Have Risks and Impact Analysis been carried out?

No

e) Risks and Impact Analysis

N/A

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	Flexible Use of Capital Receipts Outcomes 2018/19
Appendix B	Proposed Directorate Bids for Use of 1% Underspend
Appendix C	Capital Performance Report
Appendix D	Prudential Indicators 2018/19

8. Background Papers

Document title	Where the document can be viewed
Financial Strategy	Executive Director Finance and Public Protection

This report was written by Michelle Grady, who can be contacted on 01522 553235 or Michelle.Grady@lincolnshire.gov.uk.

This page is intentionally left blank