

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

Report to:	Executive
Date:	05 March 2024
Subject:	Revenue Budget Monitoring Report 2023/24 (Quarter 3)
Decision Reference:	I030090
Key decision?	No

Summary:

- This report provides an update on revenue spending compared with budgets for the 2023/24 financial year.
- The tables in this report show the actual income and expenditure for the first nine months of this financial year to 31 December 2023, along with the forecasts for spending and a comparison of the forecasts against the approved budgets for the year.
- The report gives an overview of the financial position for revenue, supported by detailed information available within the appendices.
- The revenue budget is forecast to underspend by £11.9m (equivalent to 1.9% of the net budget). This is an increase of £2.3m from the revised quarter two position, and is attributable to increased underspend forecasts within services and other budgets.
- The position is after implementation of the Executive's quarter two decision to invest £12.8m of windfall revenue underspends into Place capital infrastructure.
- If the position remains through to financial outturn, the balance of reserves at outturn would increase, and their usage would subsequently be determined by Full Council.
- General reserves are forecast at the end of the year to remain within the target range of 2.5% to 3.5%, and will potentially need to be increased during the financial outturn process.
- The Council's financial resilience remains relatively strong at this point in time and is supported by the forecasts set out in this report.

Recommendation(s):

That the Executive:

- 1) Notes the current position on the revenue budget and decides on any corrective action necessary.

Alternatives Considered:

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| 1. | This report shows the actual revenue expenditure to 31 December 2023, and projected outturns for 2023/24, therefore no alternatives have been considered. |
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Reasons for Recommendation:

To maintain the Council's financial resilience.

1. Background

- 1.1 In February 2023, the Council approved plans for revenue spending to support delivery of the Council plan, achieve its strategic objectives and legal duties for the benefit of residents and businesses. The financial strategy guides this and provides the mechanisms to ensure the council is financially sustainable and resilient.
- 1.2 In line with good financial management practices, the Council's use of resources is closely monitored and reported to the Executive, with this report providing information on the financial position as at the end of quarter three and representing the final in-year update prior to the end of the financial year.
- 1.3 Quarter three is an important milestone in the financial year, because in the main there has been sufficient time to identify any key changes from the approved financial position and start implementing corrective action where relevant and appropriate. This approach helps to keep the Council in a strong financial position despite the volatile nature of the operating environment and has been followed during 2023/24.
- 1.4 Notwithstanding, the size and scale of the County Council – and the complexity of the services it provides – means that small percentage changes in assumptions can have large value changes, positive and negative, throughout the financial year. This is counteracted through the Council's prudent approach to the setting of reserves and contingencies, which ensures the Council has capacity to react to material changes to circumstances.
- 1.5 Separate to this, the Council has also been focussing extensively on its budget setting proposals for the 2024/25 financial year, which incorporate a series of adjustments to reflect the ongoing effect of some causal factors supporting the in-year position. There are inherently strong links between the Council's budget

monitoring and setting processes. The timing of this meeting is after the Full Council meeting to set the 2024/25 budget, which sets the monitoring baseline for 2024/25.

- 1.6 The Council is considered to be in a strong financial position relative to peers, which reflects the prudent approach it has taken to financial management to date and which will continue to be required going forward, evident by; the positive 2022/23 financial outturn, the monitoring position presented within this report, and the setting of a balanced budget for 2024/25 in February 2024. The Council continues to demonstrate its ability to react to changes in its external operating environment and meet emergent need within available resources. It is also important to recognise that well-led services provided by the Council are better for our residents, and also lead to better financial outcomes.
- 1.7 The assessment of the Council's strong financial position is despite the continuation of inflation and demand pressures, which remain the two biggest areas of cost base risk. Both elements are considered as part of every financial update to the Executive, given their permanent importance and potential impact to the budget. It is hoped that the economic context has started the process of stabilisation with inflation due to return to target by 2025. In respect of demand, the Council continues to experience increases in demand for key front line services (e.g. social care and education transport), which are considered further in this report.
- 1.8 It should be noted that neither demand nor economic-led challenges are unique to Lincolnshire, and is partly why the Government provided additional resource to the sector in the final settlement for 2024/25. Nevertheless, the current financial system means that the Council needs to continue to successfully influence demand and meet need well within the resources available, and which is a fundamental prerequisite to financial sustainability. An increasing number of local authorities are reporting challenges in doing so, with the consequence of escalating costs which is manifesting as significant increases within the cost base. This was considered further in the previous update to the Executive, in addition to the approach being taken by the newly established Office for Local Government (OFLOG) to improve oversight of the sector. Indeed, the measures published by OFLOG for Lincolnshire and its comparators can be seen within the budget book for 2024/25.
- 1.9 During the quarter two financial performance update, the Executive approved for a series of additional investments totalling £12.8m in Place infrastructure enabled by a series of windfall gains within the revenue budget. This provides further demonstration of the Council maximising its current financial position to support future service delivery, containing future revenue costs in the process.

Overall Financial Position – Revenue

1.10 The summary revenue forecast as at 31 December 2023 (end of quarter three) is as follows:

Revenue	Budget (£)	Forecast (£)	Variance (£)
Investment in Directorates			
Adult Care and Community Wellbeing	182,245,012	181,776,011	(469,001)
Children's Services	108,521,958	108,078,517	(443,441)
Place	118,349,776	116,309,298	(2,040,478)
Fire and Rescue	24,466,063	24,676,705	210,642
Resources & Corporate	85,721,596	83,916,644	(1,804,952)
Total	519,304,405	514,757,175	(4,547,230)
Other Budgets			
Contingency	12,817,137	13,424,019	606,882
Capital Financing Charges	76,433,017	76,433,017	-
Other Budgets	15,087,631	10,099,115	(4,988,516)
Total	104,337,785	99,956,151	(4,381,634)
School Budgets	18,727,542	18,541,084	(186,458)
Transfer to/from Earmarked Reserves	(38,087,356)	(38,087,356)	-
Net Operating Expenditure	604,282,376	595,167,054	(9,115,322)
Funding			
County Precept	(365,554,704)	(365,554,704)	-
Business Rates	(142,258,972)	(144,885,435)	(2,626,463)
Revenue Support Grant	(23,391,916)	(23,391,916)	-
Other Grants	(73,076,784)	(73,234,020)	(157,236)
Total Funding	(604,282,376)	(607,066,075)	(2,783,699)
RESIDUAL DEFICIT (+) / SURPLUS (-)	-	(11,899,021)	(11,899,021)

1.11 Appendix A shows an expanded version of this summary table, in addition to further explanation on the variances within directorates as well as information on the delivery of planned cost base reductions, confirming that the vast majority of efficiency initiatives are on track to be fully delivered.

1.12 The overall position is that the Council is forecasting to underspend against its budget limit by £11.9m. This comprises:

- Underspend within services (£4.5m or 0.9%)
- Underspend within other budgets (£4.4m or 4.2%)
- Over recovery of funding (£2.8m or 0.5%)

1.13 The position set out above is after the additional £12.8m revenue to capital investment approved during the quarter two report. If the position remains unchanged at financial outturn, it will be for Full Council to determine how to utilise

any residual underspend after business as usual items have been accounted for (e.g. carry forwards), which has been reflected within the reserve statement in Appendix B.

- 1.14 It should be noted that there is further cost base risk that has been identified within education transport, potentially over and above the £9.4m contingency set aside at budget setting. This is currently being worked through and may impact adversely on the outturn position. If this was the case, it would reduce the Place underspend in the first instance.

Q2 Approved Capital Investment

- 1.15 As part of the quarter two report, the Executive approved for additional revenue funded capital investment in:

- £6.1m Waste Transfer Stations
- £1.2m Cross Keys Bridge electrification
- £1.5m LED swap out
- £4m Flood Investigations and Alleviation

- 1.16 The additional schemes were incorporated into the capital programme for 2023/24 as part of the quarter two report, and have since been re-phased to 2024/25 through the Council's 2024/25 budget setting report.

- 1.17 The revenue funding earmarked for this will be applied to fund the capital programme in 2023/24, which will effectively reduce the borrowing need in 2023/24 which will be reallocated to these schemes in 2024/25.

Earmarked Reserves

- 1.18 Appendix B shows the current balance on the Council's earmarked reserves, together with amounts forecast to be drawn down from reserves to cover expenditure in the current year. The total opening balance for reserves including earmarked reserves, grant reserves and school balances is £238.1m. It is currently forecast that £44.3m of this will be used in 2023/24 to support expenditure in accordance with the purposes of the reserves. Please note this matches the 2024/25 budget book forecasts.

General Fund Reserve

- 1.19 General reserves are forecast at the end of the year to remain within the target range of 2.5% to 3.5%, with the level reducing to just over 2.5% in 2024/25. The current level will be re-considered during the outturn process.

Progress on Development Fund Initiatives

- 1.20 Appendix C shows a list of initiatives where the revenue and capital costs are to be funded by the Development Fund earmarked reserve. The latest forecast delivery profile can be seen within the appendix. Expenditure on Development Fund initiatives is currently forecast to be £10.7m in 2023/24, split between revenue (£2.1m) and capital (£8.6m).

Assessment of Impact on Financial Resilience

- 1.21 The impact of the financial management update set out in this report on the Council's financial resilience has been assessed and it has been concluded that the Council's financial resilience remains relatively strong. The Council took steps in advance of the financial year to mitigate the emerging risk in respect of inflation, which included maintaining the balance of the revenue contingency at the level set in 2022/23.
- 1.22 The forecast set out in this report is for a revenue underspend, and if this remains through to outturn it would be further evidence of strong financial management when considering the wider economic context the Council has been operating within. It also provides assurance that the measures introduced within this budget to offset emergent risk have been successful, which provides a strong platform to deliver the 2024/25 budget.
- 1.23 General reserves are forecast at the end of the year to remain within the target range of 2.5% to 3.5%. Based on the current forecast underspend there should be no requirement to draw down our Financial Volatility Reserve to support the 2023/24 budgetary position. The balance of the Financial Volatility Reserve currently stands at £46.9m.
- 1.24 The Council continues to maintain its financial resilience by:
- Proactive financial management in respect of the emergent financial position,
 - Taking action to mitigate issues as and when they arise,
 - Continuing to work with the Society of County Treasurers to ensure that the Government understands the particular issues faced by County Councils,
 - Refreshing and updating the medium term financial plan and financial strategy,
 - Continued emphasis on transformation work, which enables significant reductions within the cost base.

Reporting of Budget Virements

- 1.25 The Council's financial regulations require officers to report any budget virements made during the year to the Executive. A budget virement is where budget is moved from one service area to another and where the original purpose the budget was approved for has changed. A list of all such virements made in quarter three can be found in Appendix D.

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.

Insofar as this report simply reports on performance against the budget, there are no implications that need to be taken into account by the Executive.

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.

Insofar as this report simply reports on performance against the budget, there are no implications that need to be taken into account by the Executive.

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.

Insofar as this report simply reports on performance against the budget, there are no implications that need to be taken into account by the Executive.

3. Conclusion

3.1 The Council's overall forecast revenue position is an underspend of £11.9m.

3.2 The position will continue to be monitored and reported throughout the year.

4. Legal Comments:

This report sets out an update on spending as at 31 December 2023 compared with the revenue budget for the financial year starting on 1 April 2023 to assist the Executive in monitoring the financial performance of the Council.

5. Resource Comments:

This report indicates that the current year revenue budget is projected to be underspent, which would be a good outcome when considering the external operating environment. This is also not a position shared by all other local authorities, and therefore provides assurance as to the Council's current financial position and ongoing financial sustainability.

There are currently no other call on reserves expected to be required within the current financial year. Continued effort in monitoring is essential to ensure that emerging financial risk is identified and mitigated wherever possible throughout the year.

6. Consultation

a) Has Local Member Been Consulted?

N/A

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

This report is due to be considered by the Overview and Scrutiny Management Board on 25 February 2024. Any comments of the Board will be reported to the Executive.

d) Risks and Impact Analysis

The impact of this reported financial position on the Council's overall financial resilience has been assessed and is reported on within this report.

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	Revenue Budget Monitoring Forecast Q3 2023/24
Appendix B	Earmarked Reserves
Appendix C	Monitoring of Development Fund
Appendix D	Budget Transfers (Quarter Three 2023/24)

8. 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
Council Budget 2023/24	Council Budget 2023/24
Budget Book 2023/24	Budget Book 2023/24

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Revenue Budget Monitoring Forecast Q3 2023/24

APPENDIX A

Table A1: Budget Forecast by Budget Book Line

REVENUE BUDGETS (all figures in £ unless stated otherwise)	Revised Budget	Net Expenditure	Forecast Outturn	Forecast Variance	Forecast Variance (%)
CHILDREN'S SERVICES					
Children's Education	14,074,761	12,708,438	14,009,600	(65,161)	-0.5%
Children's Social Care	94,447,197	63,772,843	94,068,917	(378,280)	-0.4%
ADULT CARE & COMMUNITY WELLBEING					
Adult Frailty & Long Term Conditions	140,742,597	88,162,971	140,736,596	(6,001)	0.0%
Adult Specialities	103,127,898	91,232,655	103,200,898	73,000	0.1%
Public Health & Community Wellbeing	29,743,358	14,324,704	29,322,358	(421,000)	-1.4%
Public Protection	6,027,450	3,753,283	5,912,450	(115,000)	-1.9%
Better Care Fund	(61,412,354)	(54,131,345)	(61,412,354)	-	0.0%
Public Health grant income	(35,983,937)	(26,987,953)	(35,983,937)	-	0.0%
PLACE					
Communities	81,385,297	50,040,732	81,825,420	440,123	0.5%
Lincolnshire Local Enterprise Partnership	508,383	(180,634)	508,383	-	0.0%
Growth	2,872,151	(974,137)	3,237,932	365,781	12.7%
Highways	33,583,945	14,817,068	30,737,563	(2,846,382)	-8.5%
FIRE & RESCUE					
Fire & Rescue	24,466,063	17,518,837	24,676,705	210,642	0.9%
RESOURCES					
Finance	8,565,324	5,762,227	8,382,783	(182,541)	-2.1%
Organisational Support	17,485,368	15,485,701	17,090,118	(395,250)	-2.3%
Governance	3,051,278	3,424,734	2,968,044	(83,234)	-2.7%
Corporate Property	19,916,427	12,593,694	18,708,708	(1,207,719)	-6.1%
Commercial	9,081,222	7,945,463	8,907,007	(174,215)	-1.9%
Transformation	7,194,640	5,691,857	7,214,753	20,113	0.3%
IMT	17,371,089	14,406,806	17,673,399	302,310	1.7%
Corporate Services	3,056,248	2,131,810	2,971,832	(84,416)	-2.8%
SERVICE TOTAL	519,304,405	341,499,754	514,757,175	(4,547,230)	-0.9%
OTHER BUDGETS					
Contingency	12,817,137	-	13,424,019	606,882	4.7%
Capital Financing Charges	76,433,017	(4,800,825)	76,433,017	-	0.0%
Other Budgets	15,087,631	(415,112)	10,099,115	(4,988,516)	-33.1%
OTHER BUDGETS TOTAL	104,337,785	(5,215,937)	99,956,151	(4,381,634)	-4.2%
SCHOOLS BUDGETS					
Schools Block	159,785,656	99,938,658	159,772,999	(12,657)	0.0%
High Needs Block	106,298,815	74,835,021	106,624,734	325,919	0.3%
Central School Services Block	2,728,169	1,597,906	2,763,508	35,339	1.3%
Early Years Block	43,236,798	31,155,855	42,701,739	(535,059)	-1.2%
Dedicated Schools Grant	(301,604,930)	(229,191,078)	(301,604,930)	-	0.0%
Schools Budget (Other Funding)	8,283,034	1,794,341	8,283,034	-	0.0%
SCHOOLS BUDGETS TOTAL	18,727,542	(19,869,297)	18,541,084	(186,458)	-1.0%
BUDGET REQUIREMENT (pre-reserves)	642,369,732	316,414,520	633,254,410	(9,115,322)	-1.4%
Transfer to/from Earmarked Reserves	(38,087,356)	(30,553,963)	(38,087,356)	-	0.0%
BUDGET REQUIREMENT	604,282,376	285,860,557	595,167,054	(9,115,322)	-1.5%
FUNDING					
County Precept	(365,554,704)	(292,443,763)	(365,554,704)	-	0.0%
Business Rates	(142,258,972)	(108,489,961)	(144,885,435)	(2,626,463)	1.8%
Revenue Support Grant	(23,391,916)	(17,777,856)	(23,391,916)	-	0.0%
Other Grants	(73,076,784)	(53,503,979)	(73,234,020)	(157,236)	0.2%
Total Funding	(604,282,376)	(472,215,559)	(607,066,075)	(2,783,699)	0.5%
RESIDUAL DEFICIT (+) / SURPLUS (-)	-	(186,355,002)	(11,899,021)	(11,899,021)	-2.0%

Analysis of Revenue Forecast

Operating Context

1. The Council's revenue budget requirement represents the day-to-day costs of council service delivery. The Council has a strong track record of managing financial risk, with continuous improvement and implementation of efficient delivery models. Given the continued economic challenges, specifically in respect of persistent high levels of inflation, it is essential that the Council can continue to adapt to an ever-changing operating environment. This is a fundamental prerequisite for financial sustainability over the long-term.
2. The Council conducts an organisation wide budget monitoring exercise that seeks to monitor and report progress against approved financial plans on a quarterly basis, with targeted monitoring occurring during intervening periods and focussing on high-risk areas. The position set out within this report and appendix is concerned with the best estimate at quarter three. Robust monitoring is especially important during a prolonged period of economic volatility.
3. In the quarter two update, the Executive approved for additional investment in Place infrastructure funded by windfall revenue underspends. This has been accounted for within Table A1.
4. The complexities associated with the current system of Local Government finance, in addition to the measures being progressed by the Government to ensure better oversight of the relative financial position of local authorities, has been set out in the report section.

Council Summary

5. For 2023/24, the Council has a spending power of £604.2m, otherwise known as its budget requirement. At quarter three, the Council is forecasting a total underspend against the budget limit of £11.9m (or 3.0%). This is shown in Table A1, and comprises an:
 - Underspend within services (£4.5m or 0.9%)
 - Underspend within other budgets (£4.4m or 4.2%)
 - Over recovery of funding (£2.8m or 0.5%)
6. The overall position reflects an amalgamation of identified over and underspends across the Council. The position for each directorate is considered further on in this section.
7. The meeting of the Executive to consider this report is after the date of Full Council to consider setting the 2024/25 budget. The budget proposal makes a series of adjustments to reflect ongoing impact of in-year variances. This includes cost pressures associated with areas like home to school transport, and cost reductions like the ongoing reduction in cost associated with the reduction in wholesale energy prices.

Variance by Directorate

8. Further analysis on the forecast revenue variance by service area is contained within this section.
9. Children's Services (£0.443m underspend):
 - The Children's Education service is forecasting an underspend of £0.065m (or 0.5%), which is comparable to that reported in quarter 2. There continues to be additional Psychology service costs caused by increases in demand for Education Health Care assessments plus higher than expected locum costs (£0.302m – a £0.189m increase from quarter 2) and support costs relating to the processing of SEND annual reviews (£0.301m). This is largely offset by continued underspends in the Domiciliary Care contract (£0.338m or 56.5% - a £0.048m increase from quarter 2) which continues to be unable to access care resources and packages of support due to limited availability within the marketplace and a national shortage of carers for domiciliary care. As a result, there continues to be a number of young people who are waiting for a domiciliary care service. Whilst access to the contract is the preferred option, if that is not possible then the direct payment route or spot purchase package are explored. The other main underspends relate to occupational therapy equipment (£0.120m or 17.9%) and the utilisation of grant funding to offset existing staffing costs (£0.110m).
 - Children's Social Care is forecasting an underspend of £0.378m (or 0.4%), a £0.132m reduction in the underspend reported in quarter 2 (£0.510m). The number of Children in Care (CiC) has increased slightly to 757 at the end of December 2023 compared to 747 as at the end of August 2023. Whilst this number includes Unaccompanied Asylum Seeking Children (UASC) whose costs are covered by grant, there is a continuing need for external placements, leading to overspends on residential placements which has now increased by £0.586m to £0.880m (or 11.1%) and out of county fostering placements which has now increased by £0.307m to £0.855m (or 39.3%). This includes three exceptional secure placements, for welfare reasons, which the revenue contingency has contributed towards (£0.980m), due to its exceptional nature and this cost is not budgeted for within Children's Services. In addition, the authority is seeing fee increases in the unfavourable external market, a situation which is also being experienced nationally and more complex and demanding young people being unable to be placed with our in-house foster carers. The CiC programme continues to have strong oversight and rigour of the budget position of these demanded and volatile budgets. Within Fostering and Adoption, a forecast underspend on Family Assessments and Regulation 24 (£0.364m) have helped to partly offset these overspends.
 - Social care legal costs are continuing to forecast an underspend (£0.430m or 10.6%). This demand-led budget position should be treated with caution. A significant amount of work has taken place with key stakeholders to improve processes, however services are seeing higher

numbers of children in need; child protection and CiC. The anticipated Children's Services 1% carry forward (£0.968m) from 2022/23 has not been specifically earmarked for particular activities, but rather for use in supporting increased spending on families in crisis, inflationary challenges and supporting emergency external placements.

- It is expected that the additional costs associated with the transport of children and families for family time initially identified in 2022/23, will continue in 2023/24. The Contact Team is forecast to overspend by £0.500m (or 32.1%). This cost is currently assumed to be met from the 2023/24 centrally retained education transport budget, which was established to respond to the rising costs in transport delivery. This has been identified as a budget pressure for 2024/25.
- Leaving Care and Supported Accommodation is forecasting to overspend by £1.229m (or 21.7%), an increase of £0.143m more than previously reported. The majority of this relates to Intense Needs Supported Accommodation (£1.167m or 233.5%) which provides more suitable placements for the young people concerned in addition to being more cost effective when compared to CiC external residential placements.
- There has been a significant increase in the underspend for the 0-19 children's health service, which is currently forecasting an underspend of £1.349m (or 14.9%). This is a £0.649m increase from that previously reported. This is mainly due to county-wide Health Visitor vacancies which are at a similar level to that experienced in 2022/23. Health Visitor recruitment is a national issue, and workforce development and ongoing recruitment remains key priorities for the service.
- The remaining underspend (£0.231m) reflects the use of Pathfinder and UASC grants to offset staffing costs.

10. Adult Care and Community Wellbeing (£0.469m underspend):

- The key driver influencing the underspend position is the 6% vacancy rate across the Directorate and the ability to maximise grant funding across adult social care and prevention services. Services are seeing an increasing demand for care on discharge from hospital. The Discharge Grant released to support costs in 2023/24 is currently supporting the forecast increase in costs of £3.072m.
- Continued growth in demand for residential and direct payment packages of care is however forecasting a higher than planned cost during the final quarter of 2023-24. Long term residential care is highlighting an increase in demand of approx. 54 long-term residential placements more than previous years. Previous self-funders approaching the council for financial support as their capital decreases is a key driver for the increase with 291 forecast to need support during 2023-24, an increase from 240 people supported during 2022-23. Initial

indications are that the Directorate will continue to report within budget for 2023-24.

11. Place (£2.040m underspend):

- Savings on Highways of £2.80m relating to increased income on Traffic Services relating to Traffic Regulation Orders (TRO's) and additional savings on street lighting energy.
- Within Communities there are budget pressures of £0.440m comprising:
 - o Increased volumes and contract prices on Waste services of £0.427m,
 - o Inflationary pressure within Cultural Services of £0.162m. This is mainly on the Library service,
 - o Due to the December floods there is a pressure on the Environmental services budget of £0.143m,
 - o Education transport will look to fully utilise the £9.4m contingency allocation to reflect the higher cost base of contracts and emerging risk within education transport

These budget pressures are partly offset by additional income and savings on vacancies within the Planning service.

- Growth is showing inflationary pressures arising on energy and insurance costs in the business units. This is exacerbated by income levels currently being affected by voids. As the overall budget variance of £0.365m equates to almost 9% of the service area's net budget, there is limited scope to absorb this pressure and it's expected to remain a challenge for the year.

12. Fire and Rescue (£0.211m overspend):

- At this stage in the financial year, the service is forecasting a modest overspend. This will be closely monitored through to the financial year end and offset by some use of reserves.

13. Resources and Corporate (£1.805m underspend):

- The property budget included a cost pressure of £4.388m in respect of energy inflation, which were based on the ESPO energy adviser's forecasts. With a smaller increase now forecast for the next contract year commencing October 2023, there is an expected budget saving for the current financial year of £1.5m.
- There are a series of variances within IT which have emerged during the year. This part reflects additional interventions made to strengthen the operation of the service, in addition to other pressures proposed to be funded via carry forward. The net effect reflects a cost pressure, which primarily relates to new IT priority projects. The timing of spend has been re-profiled from quarter two to reflect the updated estimate of timescales.

- There are forecast underspends across the directorate due to the continued financial impact of higher than budgeted vacancy levels. This has the potential to increase further if recruitment activity is not in line with current expectations.
- The cost of transactional financial services is forecast to be lower during 2023/24 due to lower contract volumes and a forecast reduction in cost of the move from net to gross.
- The cost of insurance within property services is £0.2m lower than budget and reflects the re-tendering of the insurance contract considered within the other budgets section.

14. Other Budgets (£4.382m underspend):

- Insurance liability premiums are forecast to be approximately £1m lower than budget. The insurance contract was reprocured with effect from 1st April 2023 with full details known after the conclusion of the budget setting process where inflationary increases had been assumed. This in part reflects that the Council increased its level of self-insurance, as well as recognising a reduction in the level of claims against the insurance budget. The ongoing gain has been reflected through the budget setting process for 2024/25.
- The Council set a core contingency level for 2023/24 of £6.5m, to mitigate against demand and inflation risk. Part of this has been utilised during the year for the purpose intended. The remaining balance (£3.4m) has been earmarked to fund the additional £4m investment in flood investigations and alleviation approved by the Executive during consideration of the quarter two report. The residual difference (£0.6m) currently shows as a pressure against the contingency line, which is presentational and will be offset by underspends elsewhere within other budgets.
- During the 2023/24 budget setting process, a provision was made for the anticipated increase in pay and pension costs. The former was in recognition of an estimate of the pay award, and the latter was concerned with an adjustment to primary and secondary pension rates following the triennial review. The pay award has been agreed and implemented for 2023/24, and the pension rates set following the triennial review. Taken together, the two provisions were in excess of the amount necessary, and contribute in excess of £3m to the underspend position. There is a short-term benefit in the medium term financial plan, with higher costs expected further into the plan based on a higher pay baseline and a higher primary pension contribution rate.
- There are an amalgamation of small savings across other budgets which contribute a further £0.5m to the underspend position. This includes within the corporate redundancy provision, disposal costs and pension costs associated with pre-2000 schemes.

- In respect of capital financing charges, the Council is anticipating an in year underspend. This is due to a combination of factors:
 - o Slippage from the 2022/23 capital budget was higher than anticipated, which results in a lower than budgeted minimum revenue provision charge this year.
 - o In turn, this has reduced the short-term need for the Council to borrow simultaneously increasing the Council's cash balances.
 - o Higher interest rates reflecting economic volatility has given rise to a period of successive increases in the Bank of England base rate. This increases the cost of borrowing and the interest rate received. For the Council, it has not needed to borrow and has higher cash balances, which have incurred a higher rate of interest.

The forecast underspend has not been built into the figures shown in Table A1. In line with the adopted policy, we are likely to implement a voluntary revenue provision at the end of this year equivalent to the underspend. The voluntary revenue provision can be used in future years to help manage any increases in capital financing charges.

15. Schools (£0.186m underspend):

- Within the High Needs block, the Alternative Provision (AP) free school place funding is forecast to underspend by £1.443m. This is a temporary underspend assuming that the Department for Education will not fully recoup funding from the Local Authority for this financial year.
- There are several demand-led and volatile areas within the High Needs Block which are forecasting overspends. One of those areas relates to top up funding to mainstream schools for Lincolnshire children and young people with Education and Health Care (EHC) plans which is forecasting an overspend of £1.863m (or 6.1%), a £0.350m increase from that previously reported. This is due, once again, to increased demand. During 2023 Lincolnshire has seen the overall number of EHC plans increase by a further 7.8% (7,500); requests for an EHC plan assessment has increased by 32.5% from 2022, and Lincolnshire issued a further 1,073 new EHC plans in 2023, which is a 30% increase. The SEND transformation programme will continue to have a role in supporting the financial sustainability of the Dedicated Schools Grant.
- Non-Maintained Schools placements, independent mainstream placements and placements with other Local Authorities are overall forecasting an overspend (£1.271m or 6.4% - an increase of £0.793m). This is due to increased demand for those pupils with more complex needs, along with insufficient places within Lincolnshire special schools. Due to the difficulties in placing children, there has been an increase in the need for Home Tuition and the service is now forecasting an overspend of £0.292m (or 14.9%) after expecting to be within budget previously. The Building Communities of Specialist Provision Strategy is

delivering an increase in the number of places within Lincolnshire to support growth in places, however future trajectories are forecasting to exceed this level.

- These overspends are offset by available funding that remained earmarked for cost growth (£0.951m), expected savings due to new commissioning arrangements for Alternative Provision (£0.147m) and the utilisation of grant income (£0.632m).
- The Early Years Block is forecasting an underspend of £0.522m (or 1.2%). The majority of this relates to the Early Years participation budgets (£0.508m). The underspend is against the forecast Early Years budget allocation. The DfE will update the September 2023 to March 2024 allocation in July 2024 to take account of the latest January 2024 census data. Funding is allocated to providers and schools based on the actual participation of the Government's early years entitlement. This is a volatile and demand-led budget, therefore the forecast is still to be treated with caution.

16. Funding (£2.784m over recovery of funding):

- The quarter two forecast is that the Council will over recover funding by circa £2.8m. This primarily relates to business rates funding, and reflects a higher than budgeted estimate of the Council's pooling gain. This is based on the factors that supported a better than expected 2022/23 outturn, and specifically assumes that business rate collection across Lincolnshire will continue to be higher than the baseline, and due to pooling this benefit will be retained and shared locally amongst the County and Districts. Enhanced modelling has been established for business rates to support the 2024/25 budget setting process.
- The other increase in funding relates to a higher than expected extended rights to free travel grant. This is held within funding, and is a net in year gain to the budget if transport costs can be contained within the limits set, which is currently the expectation.

Monitoring of Cost Base Reductions

17. When the Council approved its 2023/24 revenue budget in February, it approved total efficiency savings of £12.2m spread across the Council. As part of regular monitoring, services also measure progress of delivery against planned cost reductions. At quarter three, the planned saving per directorate and the revised estimate is shown in the table below:

Table A3: Monitoring of Planned Cost Reductions

Directorate	Planned Saving	Revised Estimate	Variance
Adult Care and Community Wellbeing	3,862	3,862	-
Children's Services	1,331	1,147	(184)
Fire and Rescue	70	70	-
Other Budgets	2,430	2,430	-
Place	3,076	3,076	-
Resources	1,461	1,461	-
Total	12,230	12,046	(184)

18. There is currently one initiative that has been identified as not on-target. Whilst modest, this relates to the savings associated with the opening of two new children's homes, which have been delayed. The first of the home opened in September 2023 with second home expected to open in March 2024, therefore impacting the savings profile for 2023/24.

Impact on Reserves

19. The current forecast underspend for the Council would be expected to lead to a contribution to reserves during the financial outturn process, with their usage to be determined by Full Council in September 2024. This is notionally shown within the reserve statement is shown in Appendix B.

Reserve Statement

APPENDIX B

RESERVE STATEMENT	2022/23 (Actual)	2023/24 (Estimate)	2024/25 (Estimate)	2025/26 (Estimate)	2026/27 (Estimate)
GENERAL FUND	16,400	16,400	16,400	16,400	16,400
EARMARKED RESERVES:					
Corporate Reserves					
Financial Volatility Reserve	46,922	46,922	46,922	39,731	33,501
Development Fund	34,426	23,649	3,251	4	4
Q3 Forecast Underspend (Full Council)*	-	11,899	-	-	-
Insurances	6,775	6,775	6,775	6,775	6,775
Other Services	2,390	-	-	-	-
Total	90,513	89,245	56,949	46,510	40,280
Adult Care & Community Wellbeing					
Community Safety Reserve	50	50	50	50	50
Community Engagement Reserve	59	59	59	59	59
Total	108	108	108	108	108
Children's Services					
Schools Sickness Insurance Scheme	958	593	593	593	593
Families Working Together	599	485	271	114	-
Music Service Reserve (carry forward)	281	84	-	-	-
All Other	151	-	-	-	-
Total	1,989	1,162	864	707	593
Place					
Energy from Waste Lifecycles	3,877	3,127	2,377	1,627	877
Traffic Management Reserve	1,713	1,713	1,713	1,713	1,713
Growth Reserve	1,037	962	962	962	962
Cultural Services Reserve	295	123	123	123	123
All Other	948	928	928	928	928
Total	7,870	6,853	6,103	5,353	4,603
Resources					
Procurement	1,357	1,190	0	0	0
Legal	811	811	811	811	811
CSSC Transformation	564	0	0	0	0
Purchase of Employee Leave Scheme Reserve	305	252	171	89	35
Elections	288	588	-	300	600
All Other	25	25	25	25	25
Total	3,349	2,866	1,007	1,226	1,471
TOTAL EARMARKED RESERVES	103,830	100,235	65,030	53,904	47,056
REVENUE GRANTS:					
Children's Services	19,729	7,983	5,665	4,290	2,627
Place	8,972	7,191	6,191	6,191	6,191
ACCW	74,429	62,518	62,491	62,477	62,477
Other Budgets	1,628	1,628	1,628	1,628	1,628
Fire & Rescue	384	333	288	288	288
TOTAL GRANT RESERVES	105,142	79,653	76,263	74,874	73,210
SCHOOL BALANCES	29,148	13,927	9,702	6,050	2,695
TOTAL RESERVES	254,520	210,214	167,395	151,228	139,361

* The forecast underspend in Appendix A (Table A1) is notionally included above to show the potential impact on reserve balances at outturn. The potential use of any residual underspend would be determined by Full Council as part of the financial outturn report.

Monitoring of Development Fund

APPENDIX C

Revenue/ Capital	Directorate - Service	Project	Total Budget	2020/21 (Actual)	2021/22 (Actual Spend)	2022/23 (Actual Spend)	2023/24 (Planned Spend)	2024/25 (Planned Spend)	2025/26 (Planned Spend)	Residual Balance	Ref*
Revenue	Place - Environment	Green Masterplan	350	34	37	131	148	(0)	-	-	
Revenue	Place - Communities	Anaerobic digestion Facilities - Business Case Viability	150	12	63	-	75	0	-	-	
Revenue	Place - Highways and Growth	Highways Advance Design/Economic Development Pipeline Projects	2,713	484	105	693	660	771	-	-	1
Revenue	Place - Highways	Traffic signals - Wireless communications	5	-	-	-	5	-	-	-	
Revenue	Fire and Rescue	Research study - LFR prevention work	10	8	-	-	-	-	-	2	
Revenue	Resources - Transformation	Digital	280	167	-	-	113	-	-	-	
Revenue	Place - Growth	Broadband - 4G	135	-	-	-	-	135	-	-	
Revenue	Place - Highways	Drainage Investigation and Flood Repairs	200	30	135	-	35	(0)	-	-	
Revenue	Resources - Transformation	Transformation Programme	7,394	136	92	1,015	1,093	1,800	3,247	10	2
Revenue	Councilwide	Emergent council priorities	-	-	-	-	-	-	-	-	3
Capital	Place - Communities	Education Transport links to School (Route sustainability)	440	-	-	-	100	340	-	-	
Capital	Place - Highways	Community Maintenance Gangs	3,981	3,981	-	-	-	-	-	-	
Capital	Place - Highways	Drainage Investigation and Flood Repairs	3,444	646	561	890	450	897	-	-	4
Capital	Place - Highways	Works on B class roads and lower	10,000	-	-	10,000	-	-	-	-	
Capital	Fire and Rescue	Flood Management Pumps	116	116	-	-	-	-	-	-	
Capital	ACCW - Public Protection - Trading Standards	Replacement Trading standards Metrology equipment	50	-	-	-	50	-	-	-	

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Revenue/ Capital	Directorate - Service	Project	Total Budget	2020/21 (Actual)	2021/22 (Actual Spend)	2022/23 (Actual Spend)	2023/24 (Planned Spend)	2024/25 (Planned Spend)	2025/26 (Planned Spend)	Residual Balance	Ref*
Capital	Place - Highways	Traffic signals - Wireless communications	80	80	-	-	-	-	-	-	
Capital	Place - Growth	Broadband - 4G	800	-	-	-	-	800	-	-	5
Capital	Place - Highways	Highways initiatives/works	22,045	-	-	-	6,600	15,445	-	-	6
Capital	Place - Highways	Lines and signage	1,000	-	-	-	1,000	-	-	-	7
Capital	Place - Various	Minor infrastructure works, skills development and public rights of way	658	-	-	-	448	210	-	-	8
			53,851	5,696	993	12,729	10,777	20,397	3,247	12	

* further information provided on next page where number reference stated (i.e. to see further information in respect of item 1, please refer to point 1 on the following page)

Analysis of Development Fund

The Development Fund has been utilised to support investment within Council priorities and includes transformation of the Council to a lower cost base. The Development Fund is specifically monitored to consider progress against approved investment.

The table on the previous page references numbers in the far right hand column, which correspond to the explanations set out below:

Ref	Project	Narrative
1	Highways Advance Design/Economic Development Pipeline Projects	<p>This funding is being utilised to supplement the Advance Design Block budget to accelerate development of Traffic Models, Transport Strategies and Feasibility Studies while still investing the previous level of revenue funding into developing detailed designs for highway based projects and capital funding bids to third parties (e.g. DfT, DLUHC, etc).</p> <p>In addition, it is enabling the development of a pipeline of Economic Infrastructure schemes to bid against emerging government, LCC and other funding opportunities.</p>
2	Transformation Programme	<p>The Transformation Reserve is committed to funding a range of projects within the programme such as Property Rationalisation, Business Intelligence and Corporate Support Services.</p> <p>Resources and funding will be required to deliver the Business Performance Improvement Programme whereby monies will be allocated based on costed business cases. Any additional projects that may be included within the programme will also be allocated funding on costed business cases.</p>
3	Emergent council priorities	The balances that have previously shown on these lines have since been reallocated in line with approvals from Council.
4	Drainage Investigation and Flood Repairs	Major works e.g. Cherry Willingham and Scothern and a number of other projects are being addressed to alleviate localised flooding issues. Our contractors, Balfour Beatty, have provided additional resources to deliver these works and we have also employed additional specialist drainage engineers to complete all investigation and design work on the more complex schemes that our Technical Services Partnership design team is overseeing.
5	Broadband - 4G	We are working with Building Digital UK (BDUK) to understand the specific details of where they will invest in the next stage of the rural broadband programme. Our priorities are to foster business growth and to tackle the viability gap which deters communities and businesses from having the best possible digital services. This is a particular problem for our rural, farming, and tourism businesses.

Ref	Project	Narrative
6	Highways initiatives/works	<p><u>Applicable to reference 6, 7 and 8:</u> During the budget setting process for 2023/24, the Council identified £8.7m of reserve balances which were re-allocated to the development fund following a comprehensive review of earmarked reserves. This is being utilised to support investment in local highways schemes (£7m), highways lines and signage works (£1m) as well as investment in a series of smaller schemes incorporating minor infrastructure works, skills development and public rights of way. Where any specific expenditure proposals require formal decision-making they will go through the appropriate constitutional procedures.</p> <p><u>Specific to reference 6:</u> This is in addition to the previously approved £5m (via 2021/22 financial outturn) and £10.045m (via 2022/23 financial outturn) which is also to be spent on local highways work, in line with Council approvals. Phasing has been updated to reflect latest highways estimates of spend profiles.</p>
7	Highways Lines and signage	Please see commentary for reference 6.
8	Minor infrastructure works, skills development and public rights of way	Please see commentary for reference 6. This is planned to be spent against adult skills development (£0.250m), castle infrastructure and equipment (£0.200m), and public rights of way (£0.208m).

Budget Transfers (Quarter Three 2023/24)

APPENDIX D

Revenue

SERVICE FROM	SERVICE TO	REASON	Approved by	AMOUNT
Chief Finance Officer - Other	Transformation	Moving budget from Business World and Mosaic Development to Pay Negotiations & National Pay Spine to support Corporate System budget shortfall.	Strategic Finance Lead - Corporate	0.006m

Capital

SERVICE FROM	SERVICE TO	REASON	Approved by	AMOUNT
Contingency	Commercial Services	Move budget from Capital Contingency to Orchard House B scheme.	Strategic Finance Lead - Corporate	5.000m
Corporate Property	Children's Education	Property budget reassigned to Myle Cross SEMH schools.	Assistant Director - Corporate Property	0.232m

Revenue to Capital

SERVICE FROM	SERVICE TO	REASON	Approved by	AMOUNT
(Revenue) Adult Frailty & Long-Term Conditions	Capital Financing Charges	Transfer £663,324 of service 1% carry forward revenue budget into Capital budget to support Welton Extra Care Housing scheme.	Head of Financial Services	0.663m
(Capital) Capital Funding	Adult Frailty & Long-Term Conditions			