

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

Report to:	<b>Executive</b>
Date:	<b>07 July 2020</b>
Subject:	<b>Review of Financial Performance 2019/20</b>
Decision Reference:	<b>I019273</b>
Key decision?	<b>Yes</b>

**Summary:**

This report:

- describes the Council's financial performance in 2019/20 and reports on the underspends of £15.140m on Council budgets and £11.958m on Schools budgets;
- 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 2019/20;
- makes proposals on the carry forward of over and under spends into the current financial year 2020/21; and
- reports Prudential and Financial Performance Indicators for 2019/20.

**Recommendation(s):**

That the Executive:

1. Notes the carry forwards set out in paragraphs 1.145 to 1.147 of this report, which are made in line with the Council's Financial Regulations;
2. Recommends to the County Council that the proposals in paragraphs 1.148 to 1.150 relating to the treatment of underspends in excess of 1%, be approved;
3. Notes the transfers to and from reserves carried out in 2019/20 as set out in Table E;
4. Notes the financial performance in 2019/20 as set out in Table A (Key Financial Performance Measures), Table B (Revenue Budget Final Outturn), Table C (Net Capital Programme Summary Outturn), Appendix B (Prudential Indicators) and Appendix C (Flexible Use of Capital Receipts).

**Alternatives Considered:**

1. This report describes the actual position for the 2019/20 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 paragraphs 1.148 to 1.152, there are a number of different ways these could be used. The proposed usages will help to alleviate service pressures by funding some specific areas of budget volatility. In previous years, an element of any underspend has been added to the Council's Financial Volatility Reserve to support us in managing future budget pressures. This reserve is at a sufficient level and this year it seems more appropriate to focus some financial support on recovering from the Covid-19 situation and strengthening the way we work as we do so, therefore a total underspend of £7.394m is proposed to be transferred to the Development Fund and earmarked for transformation and recovery activities.

**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 supporting the Council's future budgets. The transfer of the remaining underspend of £4.159m to the Development Fund to support future transformation and Covid-19 recovery work will assist the Council in emerging from the Covid-19 pandemic situation.

**1. Background**

1.1 The County Council set its spending plans for 2019/20 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 £3.087m one off use of reserves to support the budget.

1.2 As the financial year drew to a close, the UK was hit by the Coronavirus (Covid-19) pandemic. This has had a huge impact on the community and on the way that the Council delivers services, resulting in very significant financial

implications. Most of this impact has been experienced in the following financial year – 2020/21, but the smaller impact at the end of 2019/20 is noted in this report. We used £0.378m of the Covid-19 emergency grant from the government to fund additional costs and losses caused by the pandemic in 2019/20.

### **Annual Revenue Spending and Funding**

1.3 The Council spent £991.603m in 2019/20 on providing public services. This equated to £1,312 for every person in Lincolnshire.

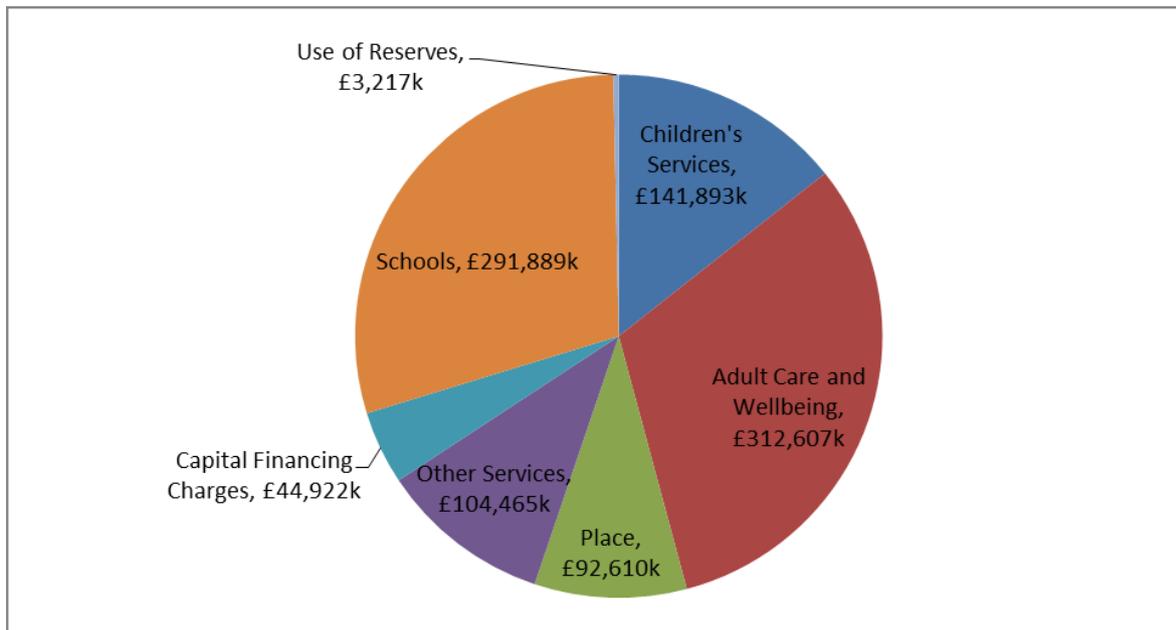
1.4 The Council has had to deal with a number of cost pressures, amounting to £25.543m in budgetary terms. These include: the impact on the Council's adult social care budgets of increasing numbers of clients as well as the increase in the National Living Wage; higher costs of home to school transport resulting from the increased National Living Wage; the increasing complexity, cost and demand-led nature of providing services for looked after children; the reinstatement of the previous higher levels of safety grass cutting, weed spraying and gully cleansing; the demand for repairing pot holes; higher waste disposal costs and various cost pressures relating to the Fire and Rescue Service. To help counteract these cost pressures a number of one-off costs from the previous year's budget were removed from the 2019/20 budget and a range of savings were implemented across the Council including: a more cost effective accommodation solution to support young people in need; restructures of some services; some growth in contributions from Adult Care service users and various efficiency savings. These reductions in the budget totalled £15.927m. The Council also planned to use £8.000m of capital receipts to fund revenue transformation projects.

1.5 When the Council set its budget for 2019/20 the financial strategy included the use of £3.087m from the Council's Financial Volatility Reserve to bridge the gap between funding and expenditure levels. This financial year was the final year of the government's four year finance settlement which has seen the Council's Revenue Support Grant fall from £70.351m in 2016/17 to £20.139m in 2019/20. The use of reserves only provides a one off contribution towards the budget shortfall and during 2019 we completed a significant budget exercise aimed at bridging the gap between the Council's funding and levels of net expenditure over the longer term. At the start of 2019/20 we were anticipating that the government's major reforms to local government finance would be implemented from April 2020, however during the year the implementation date was pushed back to April 2021 and has since been further delayed until April 2022.

1.6 The general level of expenditure in 2019/20 indicates that during the year the Council has been able to secure savings and has delivered an underspend against the budget of £15.140m (as well as an underspend on Schools of £11.958m).

1.7 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 2019/20 £991,603 (£000's)



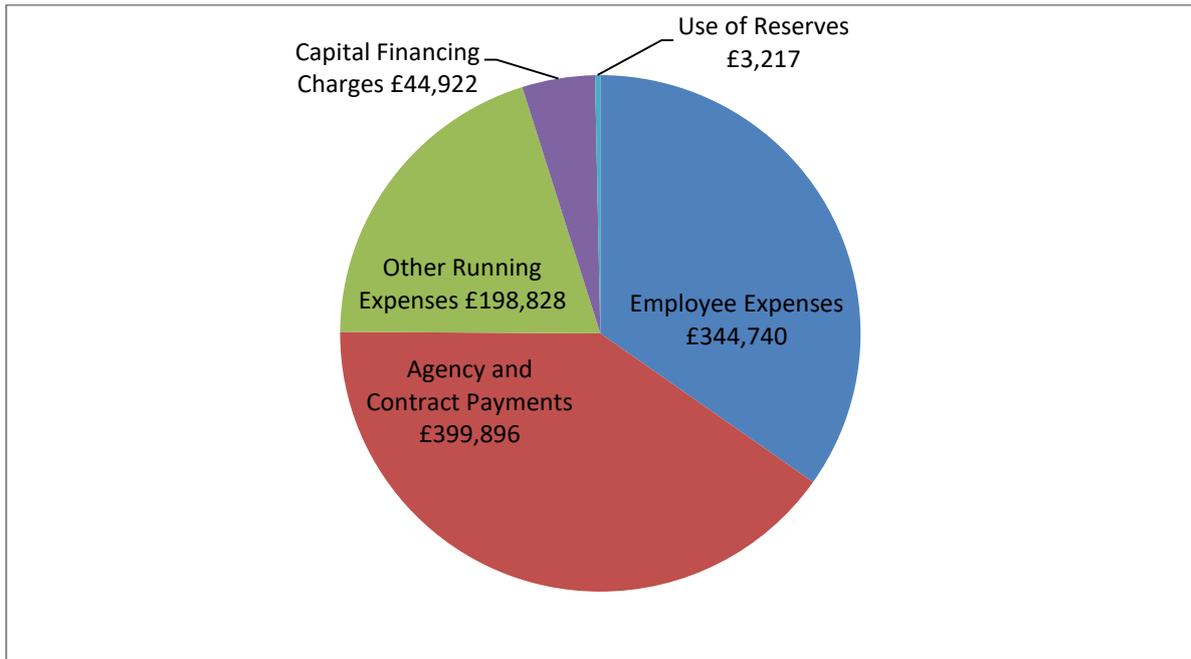
Children's Services Includes: Readiness for School, Learn and Achieve, Children are Safe and Healthy, and Readiness for Adult Life.

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

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

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

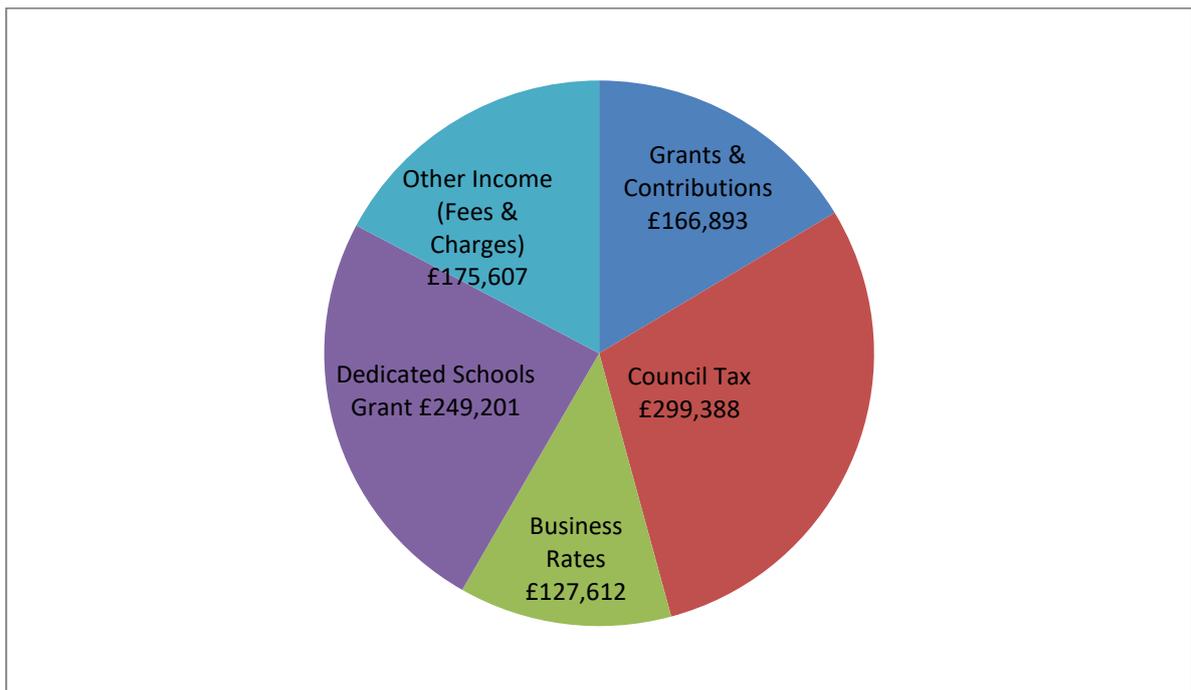
**Gross Expenditure Subjective Analysis 2019/20 £991,603 (£000's)**



1.8 The distribution of expenditure type differs significantly between different services. For example employee expenses comprises 55% of gross expenditure in schools, but only 26% of gross expenditure in all other (non-school) services, where agency and contracted services represents 50% of the total.

1.9 The Council's revenue spending was funded by:

**Sources of Income Analysis 2019/20 £1,018,702 (£000's)**



1.10 In 2019/20 the Council increased Council Tax by 4.95% and also saw growth of 1.6% on the number of band D equivalent properties in Lincolnshire. This in total generated additional income for the Council of £18.595m. The Council Tax collection funds in Lincolnshire also generated a surplus in 2019/20, a further £2.670m for the County Council.

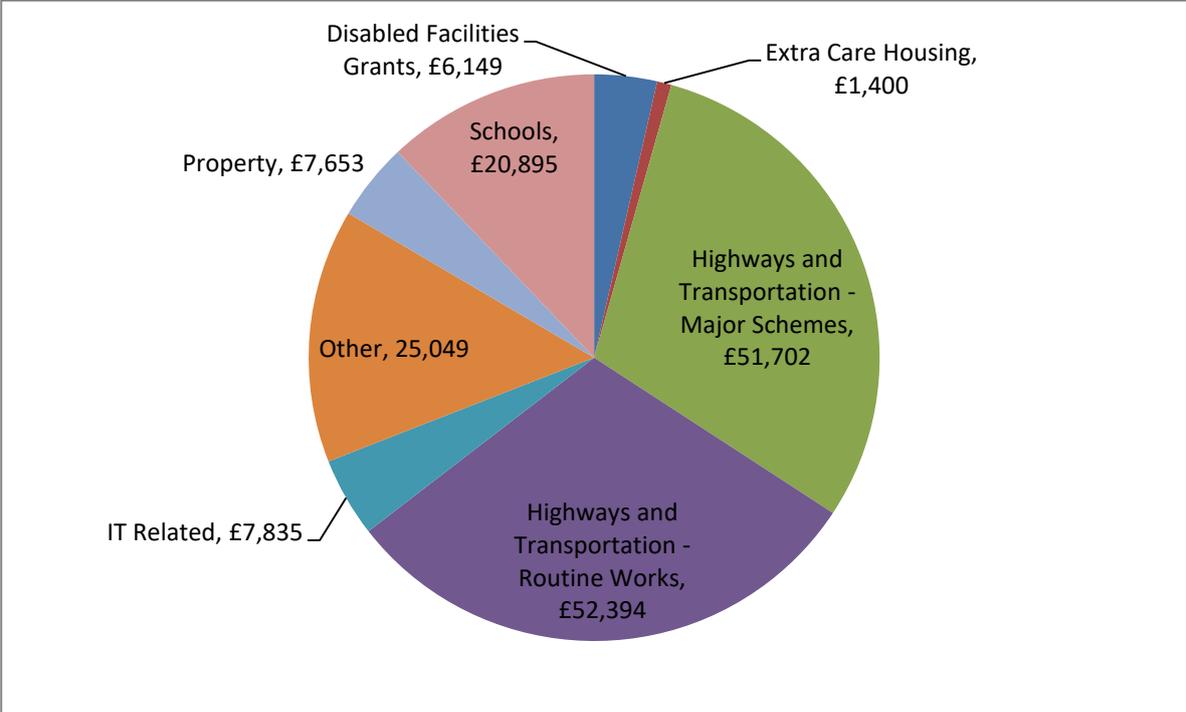
1.11 Business Rates generated £127.612m. This was made up of a number of elements: £27.695m collected from businesses in Lincolnshire; £89.839m received as a top up from central government and £7.304m Section 31 grants from central government. The Council, along with its District Council partners, was in a Business Rates Pool in 2019/20 and the Pool generated an estimated surplus for us of £2.775m in the year.

1.12 The Council received a Revenue Support Grant (RSG) of £20.139m in 2019/20. In addition, a number of specific government grants were received in the year, the most significant of these being £249.414m Dedicated Schools Grant, which is used for funding education, and £31.800m Public Health Grant.

**Capital Spending and Funding**

1.13 The Council spent £173.076m on the County's major assets, in particular on road schemes and schools. The net capital spend was £73.552m, which was £17.003m less than planned. The following pie chart sets out the spending on major investment projects by service area:

**Gross Expenditure on Major Investment Projects 2019/20 £173,076 (£000's)**



1.14 Other includes: economic development, waste, flood defences, fire and rescue vehicles and equipment.

1.15 In 2019/20 expenditure was incurred on the following major 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;
- 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;
- New fire and rescue vehicles and equipment;
- The provision of grants for adaptations to the homes of disabled people;
- The upgrading of the Council's IT systems.

1.16 The Council has received grants from central government and other bodies of £99.524m in the year to fund: road maintenance work, the modernisation of and improvements to the condition of school buildings, the provision of additional school places, and the provision of grants for adaptations in the homes of disabled people. The amount of capital grants and contributions actually used to fund the capital programme this year is shown in the table below, which summarises how the capital programme has been financed in 2019/20:

**Capital Financing Table 2019/20 £000'S**

	£'000
Revenue Contributions	2,371
Use of Reserves	5,641
Grants and Contributions	87,166
Borrowing	77,898
<b>Total</b>	<b>173,076</b>

1.17 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 2019/20 amounted to 5.16%.

## The Council's financial standing

### Key Financial Performance Measures: Financial Health and Performance

1.18 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 2019/20 is shown in **TABLE A**.

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

REF	PERFORMANCE	MEDIUM TERM TARGET	2019/20 Estimate	2019/20 Actual
1	Council tax compared with other counties	In lowest quartile of all English county councils (out of 26 county councils)	Yes	Yes
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	£9.578m
4	Minimum Revenue Provision and Interest	MRP and Interest repayments not to exceed 10% of net income	5.68%	5.16%
5	Accounting	Unqualified external audit opinion	Yes	Yes
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 30 days	90%	91%
9	Treasury management	Risk adjusted return comparison	Weighted Benchmark 0.611%	0.978%

### The Council's Balance Sheet

1.19 The Council's Balance Sheet, as reported in the Statement of Accounts 2019/20, shows the Council's financial position as at 31 March 2020. Overall, the Council's net assets position has increased by £177.695m from £130.642m to £308.337m. There are two key movements which have contributed to this overall change:

- a) The Council's long term assets (property, infrastructure, equipment etc.) have increased in value by £22.690m following the annual revaluation of part of the portfolio. This has increased the net asset value.

- b) The Council's long term pension liability has decreased by £175.893m to £856.614m. 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. Most of this decrease relates to the Local Government Pension Scheme fund and the main reasons for it are that firstly the rates for two key financial assumptions have reduced since last year (the expected salary increase rate and the expected pension increase rate), and secondly that the fund had a full valuation as at March 2019 and this has resulted in a realignment of data and assumptions which have also resulted in a decrease in the net liability. This position changes from year to year, and the decrease in the liability has no impact on the Council's annual budget.

### **Balance Sheet Extract**

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000's</b>		<b>£000's</b>
1,443,793	Long Term Assets	1,466,483
338,002	Current Assets	344,069
-143,124	Current Liabilities	-141,347
-1,508,029	Long Term Liabilities	-1,360,869
<b>130,642</b>	<b>Net Assets</b>	<b>308,337</b>
-288,855	Usable Reserves	-337,415
	Unusable Reserves	
-872,331	Re Long Term Assets	-831,100
1,366	Re Financial Instruments	1,346
1,032,507	Re Pensions	856,614
-3,329	Re Other	2,219
158,213	Total Unusable Reserves	29,079
<b>-130,642</b>	<b>Total Reserves</b>	<b>-308,337</b>

### **Revenue Budget Outturn**

1.20 The revenue budget outturn for 2019/20 is summarised below:

- Total service revenue spending, excluding schools, was underspent by £6.435m or 1.6%.
- There was an underspend of £6.255m on other budgets or 17.5%.
- The Council received £2.450m or 0.5% more general funding income than originally budgeted for.

**1.21 This gives the Council (excluding schools) an overall underspend of £15.140m.**

1.22 In addition, there was an underspend of £11.958m relating to Schools. This amount will be carried forward for schools to use in 2020/21.

1.23 The revenue outturn position for 2019/20 is shown in **TABLE B**.

**TABLE B – Revenue Budget Final Outturn 2019/20**

	Revised Net Revenue Budget	Expenditure	Under or Over Spending	Percentage Under or Over Spending
	£'000	£'000	£'000	%
<b>COMMISSIONING STRATEGIES</b>				
Readiness for School	5,038	4,866	(172)	-3.4%
Learn & Achieve	36,539	38,437	1,898	5.2%
Readiness for Adult Life	7,503	6,103	(1,400)	-18.7%
Children are Safe and Healthy	67,951	67,677	(274)	-0.4%
Adult Safeguarding	3,996	5,764	1,768	44.2%
Adult Frailty, Long Term Conditions and Physical Disabilities	120,065	117,012	(3,053)	-2.5%
Carers	2,417	2,296	(121)	-5.0%
Adult Specialities	72,479	72,107	(372)	-0.5%
Wellbeing	28,413	27,951	(462)	-1.6%
Community Resilience & Assets	10,861	10,533	(328)	-3.0%
Sustaining & Developing Prosperity Through Infrastructure	37,072	36,219	(853)	-2.3%
Protecting & Sustaining the Environment	23,855	23,563	(292)	-1.2%
Sustaining & Growing Business & the Economy	482	707	225	46.7%
Protecting The Public	24,554	24,606	52	0.2%
How We Do Our Business	8,345	8,030	(315)	-3.8%
Enablers & Support To Council's Outcomes	43,462	40,756	(2,706)	-6.2%
Public Health Grant Income	(31,800)	(31,800)	0	0.0%
Better Care Funding Income	(48,146)	(48,146)	0	0.0%
Enablers & Support To Key Relationships	30	0	(30)	-100.0%
<b>TOTAL COMMISSIONING STRATEGIES</b>	<b>413,116</b>	<b>406,681</b>	<b>(6,435)</b>	<b>-1.6%</b>
<b>OTHER BUDGETS</b>				
Capital Financing Charges	47,074	41,923	(5,151)	-10.9%
Contingency	2,332	0	(2,332)	-100.0%
Other Budgets	(13,751)	(12,523)	1,228	-8.9%
<b>TOTAL OTHER BUDGETS</b>	<b>35,655</b>	<b>29,400</b>	<b>(6,255)</b>	<b>-17.5%</b>
<b>SCHOOL BUDGETS</b>				
Central School Services Block (DSB Funded)	4,007	3,307	(700)	-17.5%
Early Years Block (DSB Funded)	41,824	40,138	(1,686)	-4.0%
High Needs Block (DSB Funded)	70,385	71,604	1,219	1.7%
Schools Block (DSB Funded)	145,048	134,670	(10,378)	-7.2%
Dedicated Schools Grant	(248,799)	(249,201)	(402)	0.0%
Schools Budget (Other Funding)	511	500	(11)	-2.2%
<b>TOTAL SCHOOL BUDGETS</b>	<b>12,976</b>	<b>1,018</b>	<b>(11,958)</b>	<b>-92.2%</b>
<b>TOTAL EXPENDITURE</b>	<b>461,747</b>	<b>437,099</b>	<b>(24,648)</b>	<b>-5.3%</b>
<b>INCOME</b>				
Revenue Support Grant	(20,139)	(20,139)	0	0.0%
Business Rates	(125,762)	(127,612)	(1,850)	1.5%
Council Tax	(299,388)	(299,388)	0	0.0%
Other Non Specific Grants	(19,675)	(20,275)	(600)	3.0%
<b>TOTAL INCOME</b>	<b>(464,964)</b>	<b>(467,414)</b>	<b>(2,450)</b>	<b>0.5%</b>
<b>USE OF BALANCES</b>				
Use of Balances - Earmarked Reserves	3,017	3,017	0	0.0%
Use of Balances - General Reserves	200	200	0	0.0%
<b>TOTAL USE OF RESERVES</b>	<b>3,217</b>	<b>3,217</b>	<b>0</b>	<b>0.0%</b>
<b>TOTAL</b>	<b>0</b>	<b>(27,098)</b>	<b>(27,098)</b>	

**Children's Services** – (£0.052m over budget)

1.24 Over the four commissioning strategies, Children's Services overspent by £0.052m (0.04%).

1.25 **Readiness for School** commissioning strategy underspent by £0.172m (or 3.4%).

1.26 The underspends relate to a clawback of funding for the Early Years Contract from 2018/19 (£0.072m) due to the level of the underspend being higher than the contractual tolerance; general underspends in the commissioning activities and running costs of the 48 children centres across the county (£0.040m), the budgets for which have now been realigned following an in depth review; a lower referral in supporting out of school childcare placements due to more families accessing other early years funding, such as the 2 year disadvantaged entitlement (£0.033m); and increased property rental income from early years providers using children centre sites due to the completion of several rent reviews during the year (£0.027m).

1.27 **Learn and Achieve** commissioning strategy overspent by £1.898m (or 5.2%).

1.28 The main area of overspend relates to Home to School / College Transport delivery (£2.373m). Approximately 84% of transport entitlements are for pupils attending mainstream schools and colleges (this does not include excluded pupils and those with Special Educational Needs and / or Disabilities (SEND) attending mainstream schools). This represents £12.9m (46%) of the expenditure in 2019/20.

1.29 The unit cost for mainstream pupils transport has increased by 7.8% to £900 per pupil per annum (£837 per pupil per annum in 2018/19). This accounts for c.£1.000m of the overspend and reflects the on-going inflationary pressures within the transport marketplace and the impact of the Public Services Vehicle Access Regulations (PSVAR) where re-tendered contracts have started coming in on average 50% higher.

1.30 The remaining 16% of transport entitlements are for pupils with SEND attending both mainstream and special schools, and colleges; pupils attending hospital schools, and pupils living in temporary accommodation requiring transport to school. This accounts for £15.2m of the expenditure in 2019/20 and c.£1.100m of the overspend. The largest proportion of cost growth relates to those pupils with SEND attending mainstream schools and colleges. Whilst the unit cost for these pupils has only increased by 1.1% to £5,925 per pupil per annum (£5,862 per pupil per annum in 18/19), the number of pupils eligible has increased by 7%.

1.31 In addition to an increase in the number of children with Education, Health and Care (EHC) plans requiring transport, there has also been an increase in the level of complexity of individual cases. An analysis of the twelve most complex young people with high medical needs revealed that the average cost is nearly £0.041m per pupil per annum. Expenditure on transport to the hospital school sites has also increased by 50% adding further costs of £0.250m.

1.32 These costs have been partly offset by an underspend in the SEND Service due to a high cost support package ending (£0.239m). Other underspends were in the Education Support services staffing from vacancies and legal fees, and increased income due to a higher number of admissions appeals and school attendance penalties (£0.175m).

1.33 **Readiness for Adult Life** commissioning strategy underspent by £1.400m (or 18.7%).

1.34 The main area of variance anticipated throughout the year had been Supported Accommodation (£0.848m) for those young people of 16 and 17 years at risk of homelessness and looked after children and care leavers up to the age of 21 years.

1.35 Transformation work has resulted in an accommodation pathway for young people who require support or who are experiencing homelessness (and where family and wider network is not a suitable option) by providing more suitable and more cost effective accommodation.

1.36 Following the successful pilot last year of new in-house provision in Grantham, further in-house provision has been created in Gainsborough. This has allowed the service to bring down the costs further, as there is less reliance on externally commissioning provision, and has continued to improve the outcomes for a number of young people. In addition, it has enabled the service to put forward further permanent savings of £0.583m through the 2020/21 budget process.

1.37 Other main underspends relate to staffing underspends from vacancies in the Future for Me service (£0.208m); Positive Futures (£0.092m) and general underspends in the commissioned activities for young people (£0.106m). Savings have been released from commissioned activities through the 2020/21 budget process.

1.38 **Children are Safe and Healthy** commissioning strategy underspent by £0.274m (0.4%).

1.39 A material overspend within this strategy (£1.612m) relates to the increase in the complexity of young people requiring specialist placements out of county that cannot be maintained within a family foster carer arrangement. Expenditure on out of county placements has increased to £7.044m (30% higher than the budget), which included five placements costing more than c.£0.007m per week due to their complex needs, or an average weekly cost of all placements of c.£0.005m.

1.40 The Council recognises the financial risk of this due to the demand-led nature and complexity of support required for these young people in care. The Local Authority is considering options of increasing its internal residential estate to meet these growing needs, to deliver improved outcomes and achieve better use of resources.

1.41 Fostering services underspent (£0.362m), which is a result of the demands for more intensive support packages. Current looked after children numbers at the end of March 2020 are 622. The Adoption service underspent during the year (£0.235m) due to a net increase in adoptions by Lincolnshire families across the wider region.

1.42 Social Care legal costs have increased due to the complexity and length of cases, the need for expert opinions and the use of counsel, and the issuing of more cases (£1.014m).

1.43 A significant underspend relates to 0-19 Health Service staffing (£0.947m). This service has encountered staffing vacancies, and a reduction in travel costs due to more effective clinic utilisation leading to a reduction in home visits. The service has a rolling recruitment programme in place to address the level of vacancies going forward. In periods where staffing levels were lower, the service implemented its business continuity plan to ensure priority visits took place first. Permanent savings relating to travel costs (£0.182m) have been incorporated into the 2020/21 budget process.

1.44 Further underspends include the Unaccompanied Asylum Seeking Children grant (£0.448m). A change in the grant mechanism and an increase to the rate paid by the Home Office in 2019/20 has improved Lincolnshire's financial position. Further work is being undertaken to assess if this a one-off underspend or whether this level can be expected in future years. Other variances include: additional grant income had been secured to offset staff costs supporting improvements in other Local Authorities, and development of Lincolnshire services (£0.417m); a lower than expected take up of social worker retention payments (£0.128m), and general staffing underspends.

1.45 **Covid-19.** The financial impact of Covid-19 in 2019/20 for Children's Services was estimated at £0.178m. This mainly related to loss of income for the Music Support Service and for post-16 transport. This impact was funded by the Covid-19 emergency grant received from the government at the end of March.

**Adult Care and Community Wellbeing**– (£2.240m under budget).

1.46 The Adult Care and Community Wellbeing (AC&CW) final outturn for 2019/20 is £225.130m, an under-spend of £2.240m (1.00%) against a budget of £227.370m.

1.47 The Better Care Fund 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.

1.48 **Adult Safeguarding** commissioning strategy overspent by £1.768m (44.2%).

1.49 The final outturn for Safeguarding Adults was £5.764m. The outturn was supported as planned through the release of underspends and reserves. The pressure of £1.768m is directly related to the legislation regarding Liberty Protection Standards formerly known as DOLS (Deprivation of Liberty). DoL

assessments contain a number of steps. This process is due to be streamlined within the new Liberty Protection Standards, currently expected to come into effect during 2021.

**1.50 Adult Frailty and Long Term Conditions** commissioning strategy underspent by £3.053m (2.5%).

1.51 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 £3.053m for 2019/20. This was due to current activity being in line with the levels forecast when the budgets were set, and an accelerated recovery of income predominantly from direct payment refunds and debtor income.

1.52 The main area of pressure was in the Physical Disability Service, which has seen continual growth for three years and requires budget realignment from Older Persons / Infrastructure in 2020/21 and onwards.

1.53 The largest area of growth in the PD service is in Community Supported Living and Home Support - these areas promote independence and avoid costly long term placements in Residential/Nursing care.

1.54 In Older Persons the main pressure areas were in Residential with a total overspend on expenditure of £1.1m, increases seen as a result of former self funders now requiring funding. This pressure has been funded by both the corresponding service user contributions and the income received as a result of reducing the number of overdue financial assessments.

1.55 The charging policy work, delivered through the task and finish group for financial assessments, resulted in the overdue assessments being cleared by the end of the year. This increased income for adult charging which was £0.667m over target by the end of the financial year, largely collected within the last quarter.

1.56 Direct Payment Refunds also delivered above plan by £1.319m. The additional income was collected through the review work undertaken by the audit team. This is a non-recurrent benefit with the audit work now concluded. The outcome of the review will be monitored during 2020/21 to inform the revised budget expectations.

1.57 Within the Infrastructure element of Adult Frailty, funding of £1.768m was released to fund the increase in costs relating to deprivation of liberty assessments within Adult Safeguarding (see paragraph 1.49 above).

**1.58 Carers** commissioning strategy underspent by £0.121m (5.0%).

1.59 The service ended 2019/20 with an under-spend of £0.121m against a budget of £2.417m. This is due to underspends on Carers contracts. These are not impacting on service delivery, and the budget is being realigned in readiness for 2020/21.

**1.60 Adult Specialities** commissioning strategy underspent by £0.372m (0.5%).

1.61 Services for Learning Disabilities are administered via a Section 75 (S75) 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.

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

1.63 Specialist Adult Services finished 2019/20 with an underspend of £0.372m against a budget of £72.479m.

1.64 Within the Learning Disability service there has continued to be an increase in the number of complex cases entering the service which is a national trend for working age adults requiring Adult Social Care services. The 2019/20 budget forecast growth in this area yet we still saw further growth in Direct Payments (£513.3m overspend) and in long term placements (£815.8m overspend). These additional costly packages have meant that there has been some extra pressure within 2019/20. This pressure is in the Continuing Health Care service and whilst these are funded by health, the CCGs are highlighting their ability to continue to fund this scale of increase. These discussions are continuing into 2020/21.

1.65 We have received the corresponding Income with respect to direct payment refunds and increases in residential service contributions. The increase in Continuing Health Care costs has meant that Lincolnshire County Council has invoiced the CCGs for a further £2.482m on top of the £13.7m already invoiced through the S75 agreement.

1.66 The Mental Health Service outturn of £0.890m, driven by increased numbers of service users with increasing complex needs, is in line with national trends that there is an increase in MH services being required. £0.351m of the pressure was covered by the Winter Pressures funding for avoidance of delayed transfers of care (DTC). 1<sup>st</sup> April 2020 saw the introduction of a new financial reporting process enabling earlier reporting of the costs incurred, which will strengthen decision making and financial forecasting.

1.67 **Wellbeing** was underspent by £0.462m (or 1.6%).

1.68 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.

1.69 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.

1.70 The outturn comprises of underspends within the wellbeing services including Integrated Community Equipment Service, Sexual Health Prescribing contracts and some staff vacancies.

1.71 **Covid-19**. The financial impact of Covid-19 in 2019/20 for Adult Care and Community Wellbeing was estimated at £0.100m and this mainly related to the purchase of Personal Protection Equipment. This impact was funded by the Covid-19 emergency grant received from the government at the end of March.

**Place** (£1.248m under budget, 1.73%)

1.72 **Community Resilience and Assets** was underspent by £0.328m (or 3.0%).

1.73 The key variance is within the Library Service with an underspend of £0.243m. This is mainly due to the implementation of the new mobile library service, reduced staffing costs and changes in alignment of staffing budgets. These savings are expected to continue and have been built into the 2020/21 budget.

1.74 **Sustaining and Developing Prosperity Through Infrastructure** – commissioning strategy underspent by £0.853m (or 2.3%).

1.75 The key variance in this area relates to concessionary fares which, with associated staff vacancies, contributed to a £1.830m underspend. Reasons for the reduction in use are four-fold:

- A drop in passenger journeys nationally
- Increased age of eligibility
- Winter weather conditions
- Payment mechanism now more closely aligned to passenger journeys.

1.76 The potential under spend was forecast at £1.080m at quarter three but this increased dramatically towards the end of the financial year following the development of Covid-19.

1.77 Additional income on Traffic Regulation Orders (TRO's) added a further £0.260m to the underspend. These underspends were offset, in part, by additional spend for advanced design on highway projects to support the future capital programme (£0.720m); and a £0.273m overspend on street lighting due to increased energy costs, which is likely to remain a pressure moving forward.

1.78 Within the outturn is a need to transfer the surplus (under Business as Usual) for civil parking of £0.111m and the Permitting scheme of £0.082m.

1.79 **Protecting and Sustaining the Environment** – commissioning strategy underspent by £0.292m (or 1.2%).

1.80 The key variances within this strategy are:

The waste management service had an underspend of £0.327m due to additional income received from the Energy for Waste (EfW) plant from the sale of energy, partially offset by the additional costs relating to the paper and card trial undertaken with South Holland District Council.

1.81 In addition there was an underspend of £0.089m on flood and water risk management that needs to be carried forward under business as usual to continue funding on-going projects.

1.82 A further underspend of £0.071m within environmental services was due to staff vacancies not being filled during the financial year.

1.83 These savings are offset by an overspend of £0.218m on planning services due to planning fee income falling below the ambitious target set for the year. For 2019/20 the amount of planning fee received has been particularly low which has resulted in the significant overspend. A number of applications with large planning fees were expected to be submitted before the end of the financial year but were not received due to uncertainty caused by the Covid-19 crisis.

**1.84 Sustaining and Growing Business and the Economy** – commissioning strategy overspent by £0.225m (or 46.7%).

1.85 The overspend on this commissioning strategy is mainly due to a fall in income from our business units and increases in costs incurred for strategic projects including Grantham Housing Infrastructure Fund (HIF) bid development and a study into the provision of utilities to growth sites. The in-year overspend is partly offset by an in-year underspend on the support cost of the Greater Lincolnshire Local Enterprise Partnership (GLLEP) of £0.197m.

1.86 **Covid-19.** The financial impact of Covid-19 in 2019/20 for Place was estimated at £0.060m and this mainly related to the loss of income for Heritage and Culture Services as our sites were closed down. This impact was funded by the Covid-19 emergency grant received from the government at the end of March.

**Finance and Public Protection** (£2.969m under budget, 3.89%)

1.87 **Protecting the Public** – commissioning strategy overspent by £0.052m (or 0.2%).

1.88 Protecting the Public which includes Lincolnshire Fire and Rescue Service, Trading Standards, Registration Services, the Coroners Service and Safer Communities was close to within budget for 2019/20.

1.89 The cost relating to the summer flooding in Lincolnshire was £0.469m. Lincolnshire County Council recovered the sum of £0.418m of this overspend under the Bellwin Scheme (maximum threshold) with the remaining (unfunded) element of £0.051m being supported from Fire and Rescue budgets.

1.90 **How We Do Our Business** – commissioning strategy underspent by £0.315m (or 3.8%).

1.91 How We Do Our Business, including Finance, Audit and Risk and Democratic Services, has underspent by £0.315m for 2019/20.

1.92 The Schools Finance team achieved higher than budgeted income for the services to schools of £0.070m. This is due to schools upgrading services and the Schools Finance team overall being able to respond to the additional resourcing requirements to meet the demands of schools. Fewer schools have also transferred to academies than predicted in the year.

1.93 The costs of external audit and the level of bank charges were £0.025m and £0.021m lower respectively. The levels of service and charges were identified as future year savings as part of the budget setting process.

1.94 Corporate projects to review case management systems that were expected to be completed in year have been delayed. The level of unspent funds at year end was £0.117m.

1.95 There were also a number of staffing vacancies throughout the year resulting in an underspend of £0.081m.

1.96 **Enablers and Support to Council Outcomes** – commissioning strategy underspent by £2.706m (or 6.2%).

1.97 This commissioning strategy covers services ranging from Information Management & Technology (IMT), Property (including county farms), Human Resources, Business Support, Information Assurance, Commissioning and Transformation, and Strategic Communications.

1.98 Approximately half of the underspend is from IMT, which is made up of a number of areas. The key variances are summarised below:

- a) Staffing budgets (-£0.347m) – Vacancies in IMT some of which will shortly undergo job evaluation as the role requirements have changed. This will be re-balanced going forward with the temporary staff/contractors budget as IMT will use more specialist contractors to undertake specialist projects to minimise the permanent staffing levels going forward;
- b) Microsoft Enterprise Agreement (-£0.292m) – The requirement to purchase the remaining licenses required was delayed and so expenditure represents the part year purchase of the agreement.
- c) The complexities of the work programme meant that accurate scheduling of the work was not possible at the time of budgeting. Significant work is still on-going and some activity, including Azure implementation (-£0.458m), has been incorporated into the capital programme.
- d) Contract costs are -£0.316m lower than storage Tier 1 volume assumptions as based upon the commercial model.

1.99 Legal Services Lincolnshire achieved a surplus in excess of target of -£0.721m. This is due to income generation continuing to be higher than the target for 2019/20. The Legal Management Board will decide on the use of any surplus at year end.

1.100 Human Resources (HR) had underspends in the services below:

- a) the surplus income from the purchase of employee leave (£0.048m for which a request to transfer this to reserves is within this report);
- b) surplus budget remaining following the recent staffing restructure which took place mid-year so vacancies were held (£0.187m);
- c) additional income received from services for school adverts, recruitment and psychometric testing (£0.066m);
- d) a reduction in HR activity-led Serco budgets (£0.048m) which were best estimates at that time in terms of the costs of running the service;

1.101 County Farms were underspent by £0.223m primarily due to lower than projected costs at West Deeping Quarry, an underspend on reactive works and increased rental income.

**Schools** – (£11.958m under budget)

1.102 Under government regulations, schools carry forward automatically their under and overspends to the next financial year. The overall accumulated carry forward underspends for 188 schools represents £11.170m. The Local Authority (LA) carry forward policy outlines the carry forward thresholds by sector and the criteria for utilising funds above that level. The LA undertakes annual compliance checks with its schools.

1.103 Budgets held centrally within the ring-fenced 2019/20 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 Department for Education (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 including brought forward reserves. The overall DSG underspent by £0.686m across the four designated blocks in 2019/20 (inclusive of a prior year early years participation adjustment of (£0.401m), which has been considered by the Schools Forum).

1.104 The High Needs block, however, overspent by £2.451m. There are a number of budgets within the High Needs block that are large, demand-led, and can be difficult to estimate (e.g. SEND related budgets, including out of county placements, top up funding for EHC plans for mainstream schools, special school placements, and meeting the education needs for pupils through alternative provision arrangements). There continues to be a growing trend nationally, and this is being seen in Lincolnshire, with more young people requiring specialist support which is having a material financial impact on the High Needs block. This remains a financial risk, particularly at a time of increasing demands. The government invested an extra £700m nationally into High Needs funding in 2020/21 to respond to this challenge, which for Lincolnshire represented a

£7.730m funding increase. It is expected that it will continue to be a much tighter financial environment going forward for high needs services.

1.105 An increasing number of Local Authorities are now incurring a deficit on their overall DSG account, largely because of overspends on the High Needs block. Lincolnshire is currently not in this position; however the position needs to be carefully and prudently managed particularly in light of the growth in demands and complexities of young people.

1.106 **Covid-19.** The financial impact of Covid-19 in 2019/20 for Schools was estimated at £0.031m. This related to loss of income for the Specialist Teaching Service. This impact was funded by the Covid-19 emergency grant received from the government at the end of March.

**Other Budgets** – (£6.255m under budget)

**Capital Financing Charges** – underspent by £5.151m (or 10.9%)

1.107 The capital financing charges (debt repayment provision, borrowing interest costs, revenue funding net of interest received on cash balances) were £5.151m under budget. Reduction and underspend of the planned capital programme during 2019/20 reduced the need to borrow to £77.898m from £94.901m, leading to lower principal and interest borrowing costs of £4.040m compared to that budgeted. The remaining underspend comes from an increase in interest received on cash balances. This was due to three factors, namely: underspend on both the Capital and Revenue budgets resulting in a higher cash balance throughout the year than forecast, borrowing £50.000m for financing the capital programme earlier in the year in 2019/20 than usual, to take account of low interest rates. This funding is not being utilised until later in the year leading again to increased cash balances. Lastly increased interest has also resulted from outperforming budgeted benchmark returns for investments by 0.37% over the year.

**Contingency** – underspent by £2.332m (78.0%).

1.108 Contingency budget of £3.000m was set aside for emerging pressures which may arise during the financial year. At the end of the year £2.332m remained of the contingency, and was not required in 2019/20.

**Other Budgets** – overspend by £1.228m (or 8.9%)

1.109 Other Budgets were overspent by £1.228m. This comprised a number of under and overspends, the most significant being:

- a) A total of £9.578m of capital receipts were generated against the £8.000m target. Of this total, £0.401m related to the sale of land under Section 77 of the Schools and Standards Framework Act 1998 so has been set aside. In accordance with the Council's Strategy on the Flexible Use of Capital Receipts, the remainder can only be used to fund revenue transformational projects. During 2019/20 the amount spent on revenue transformation projects was £3.272m. The remaining £5.905m of capital receipts will be

carried forward to fund the future capital programme as explained further within the Flexible Use of Capital Receipts Strategy section, paragraph 1.143. The result of this is that only £3.272m of capital receipts have been accounted for within the revenue budget, resulting in an overspend of £4.327m against the £8.000m budget;

- b) The budget for liability insurance premium also overspent by £1.206m due to the base budget not being increased this year in the face of increasing liability, alongside the increase in the total amount the Council required to settle these claims in the previous year. The budget for 2020/21 has been increased to take into account the increased trend in premiums;
- c) The insurance fund shows a surplus of £2.716m. 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. Part of the reason for the underspend is that a comprehensive review of all Liability claims was undertaken which enabled a number of historic claims to be closed off. This has released the provision committed to settle these claims and has resulted in a reduction in provisions from £7.4m to £6.3m. It is requested that a proportion of this underspend, £1.308m, is used to increase the reserve. This is to keep our fund at £2m over the level of £13.1m recommended by the Actuary. This will continue to provide a level of sustainability to the fund as we embark on the re-tendering of insurance, given that there is a high likelihood of increased premiums for Liability and other policy covers from April 2021 due to our poor claims history in some areas and due to potential impacts of the Covid-19 pandemic that are as yet unknown; and
- d) The Corporate and Service Redundancy budget is underspent by £1.059m. The Corporate Redundancy budget funds the costs associated with the staffing restructuring changes that had been approved through 2019/20. These planned changes reduce the Council's net budget requirement.

**Council's General Funding** – £2.450m more than the income budget (0.5%).

1.110 The general funding received was £2.450m more than the revenue budget approved at full Council in February 2019. The most significant reasons for this additional funding were as follows:-

- a) Business Rates - Pooling with Districts - £0.375m (more than was budgeted for). The amount accrued at year end was based on the latest estimates available to us at that time of £2.775m, which is higher than the budget of £2.400m.
- b) Business Rates National Levy - £0.374m. This payment is the surplus which has been distributed across local government for 2019/20. We were not aware that there would be a distribution of the Levy surplus this year, so this was not budgeted for.

- c) Business Rates Districts (Renewable Energy) - £0.079m (more than was budgeted for). The Council received additional income from one District Council in relation to the business rates from renewable energy projects for 2018/19 which was not included in the budget set in February 2019.
- d) Business Rates Top Up – £0.988m (more than was budgeted for). We have received additional funds from the 2018/19 Business Rates Tax Loss reconciliation which has been offset against the Business Rates Tariff and Top-up calculation adjustment that was accrued in 2018/19 but received during 2019/20.
- e) Special Educational Needs and Disability (SEND) Grant - £0.259m (less than budgeted for). This grant was part of the original budget set in February 2019 but it was subsequently discovered that the grant had ceased and no allocation would be awarded in 2019/20.
- f) School Improvement, Monitoring and Brokering Grant - £0.699m (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. This grant has previously been received by the service and not included as part of the Council's General funding budget.
- g) Extended Rights to Free Travel - £0.119m (more than budgeted for). This grant was budgeted to remain at previous levels allocated of £0.639m however the Council has received additional funding during the year of £0.119m.

### **Capital Programme Outturn**

1.111 The capital outturn for 2019/20 is summarised below:

- Net capital expenditure was £73.552m; and
- This was £17.003m or 18.8% less than planned.

1.112 **TABLE C** shows the summary of the year end position against the budget funded by the Council. Appendix A provides further detailed information on projects and schemes highlighted in this report.

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

**TABLE C – Capital Programme Summary Outturn 2019/20**

	Gross Programme			Net Programme		
	Actuals £'000	Revised budget £'000	Gross Outturn Variance £'000	Actuals £'000	Revised budget £'000	Net Outturn Variance £'000
Adult Care & Community Wellbeing	7,679	7,679	0	1,530	1,530	0
Finance & Public Protection - Commissioning	22,011	27,515	-5,504	19,062	24,566	-5,504
Childrens Services - Commissioning	21,437	26,793	-5,356	-16,231	-10,808	-5,423
Place - Commissioning	121,949	120,340	1,609	69,190	67,361	1,829
Other Programmes	0	7,905	-7,905	0	7,905	-7,905
<b>Total Capital Programme 2019/2020</b>	<b>173,076</b>	<b>190,232</b>	<b>-17,157</b>	<b>73,552</b>	<b>90,555</b>	<b>-17,003</b>

1.114 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.

1.115 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. All underspends and overspends on the capital programme are automatically carried forward to the next financial year.

**Adult Care and Community Wellbeing (AC&CW)** (on target)

1.116 Capital investment within Adult Care and Community Wellbeing is mostly funded by capital grants and contributions. AC&CW spent £7.679m on capital expenditure in 2019/20. Of this sum, £6.149m was on disabled facility grants to enable essential housing adaptations to help disabled people live independently and safely in their own homes. In addition, work started this year on the De Wint Court Extra Care Housing scheme in partnership with the City of Lincoln Council.

**Finance and Public Protection** (£5.504m under gross budget)

1.117 **Enablers and Support To Council's Outcomes** – commissioning strategy under budget by £4.752m gross.

1.118 Broadband. This project is to improve access to broadband across Lincolnshire. The spend for the year was c£1.187m below budget due in part to the contractor failing to meet contractual milestones but also due to the better than expected customer take up of the enhanced broadband provision created by the project, which results in a clawback of some of the Council's previous funding from the contractor.

1.119 IMT. Budget has been allocated to develop a fit for purpose, secure and resilient IMT platform to support the Council's future requirements. The year-end position was largely as forecast during the year, with a £1.034m underspend arising from a significant reduction in the number of devices issued in line with the IMT board policy to restrict the issuing of multiple devices.

1.120 Property. This scheme funds repairs and maintenance to the Council's property portfolio and in 2019/20 this is underspent by £1.061m gross. This is caused by projects slipping into next year. One of these is the roofing of the main building and Orchard House (-£0.500m) due to the larger scale of works. The Grantham Fire Pod (-£0.307m) is delayed due to external partners.

1.121 **Protecting the Public** – commissioning strategy under budget by £0.752m gross.

1.122 This mainly relates to the Fire and Rescue and Emergency Planning project to update the IMT infrastructure and systems of the service. The underspend of £0.609m gross for the year was a little more than forecast, due to delays in implementation caused by the requirement to complete additional preparatory work before installation of new equipment, and supplier resources being unavailable due to them being committed to other corporate IMT projects.

**Children's Services** (£5.356m under gross budget).

1.123 SEND Capital Funding for Pupils with EHC Plans (£5.000m under gross budget). This capital funding is to support the implementation of the Building Communities of Specialist Provision Capital Scheme. The £5.000m underspend represents the agreed transfer from DSG revenue reserves underspend to support the overall SEND capital programme following approval by the Secretary of State in January 2020, and Full Council approval in February 2020. This funding is required to fund commitments in future years. A position statement will be provided in the new financial year on the overall cost of the project and how the programme will be funded.

**Place** (£1.609m over gross budget).

1.124 **Community Resilience and Assets** – commissioning strategy under gross budget by £0.521m. This part of the programme is to provide updated ICT infrastructure in Libraries. Delay in the contractor installing new equipment has resulted in the year underspending but this position is expected to be recovered when the libraries re-open and the project is then able to continue.

1.125 **Protecting and Sustaining the Environment** – commissioning strategy under gross budget by £0.643m. This part of the programme includes schemes on flood defences, flood and water risk management and fire suppression works at waste transfer stations. The majority (£0.572m) of the in-year underspend will be carried forward to meet project commitments for flood and water risk management.

1.126 Typically, major flood alleviation schemes take a number of years to deliver, from feasibility to construction. In order to provide the certainty of funding to allow third party contributions to be sought (including national Flood Defence Grant in Aid), each scheme has a capital allocation, which is carried forward until project completion. The Council's programme currently comprises 17 'live' schemes.

**1.127 Sustaining and Developing Prosperity through Infrastructure** – commissioning strategy over gross budget by £4.073m. This part of the programme includes major road schemes as well as more minor infrastructure works.

1.128 Highways Asset Protection (11.876m over gross budget). This block includes spending on surface treatment, potholes, structures, traffic signals, street lighting and a variety of minor works to maintain highway assets and is predominantly funded by a Department of Transport (DfT) annual grant. The detailed planned programme of work normally exceeds the DfT grant as delivery of the programme is heavily dependent on winter weather conditions and other operational delays. This overspend will be managed within the future programme of work. In addition the DfT has announced additional funding (over and above the normal annual grant) to accelerate the repair of potholes in 2020/21.

1.129 Integrated Transport (£1.099m under gross budget). An annual grant from the Department for Transport with flexibility to be used to fund (or part fund) a range of projects. The grant can be used across financial years as projects can be delayed. All the grant has been allocated with some projects in progress that will complete in subsequent financial years.

1.130 Lincoln Eastern Bypass (£3.936m under 2019/20 gross budget). The construction of a 7.5km highway scheme to the east of Lincoln, connecting sections of the A15 to the north and south of Lincoln. The original budget for 2019/20 was £27.122m, this was increased by the £21.870m underspend from 2018/19. £6.129m has been re-phased to future years. Expenditure in 2019/20 has reduced from the amount planned due to site flooding conditions and Covid-19 work restrictions.

1.131 A46 Welton Roundabout (£1.800m under 2019/20 gross budget). The construction of a new roundabout on the A46 with the junction to the village of Welton to increase safety and the flow of traffic. The project has started with the vast majority of the expenditure due in 2020/21. The project is funded by a National Productivity Investment Fund (£2m), allocation from the Integrated Transport Grant (£2.9m) and forward funding from LCC (£1.1m).

1.132 Grantham Southern Relief Road (£0.389m over 2019/20 gross budget). This project aims to improve the town's infrastructure and growth with the construction of a 3.5km relief road in three phases: phase one - creation of a roundabout off the B1174; phase two - the B1174 will join the A1 trunk road; phase three - link the A52 at Somerby Hill to the new roundabout. Phase 2 works on the A1 started on 16 September 2019 although progress was impeded by the prolonged wet weather and technical issues with the piling works. Operation of the site has also been affected by the Covid-19 pandemic and although work has continued with appropriate social distancing measures implemented, some activity such as the diversion of high voltage power cables, that are dependent on third party agencies, have been stopped. Phase 3 is now expected to commence in September 2020. The budget for 2019/20 has been re-phased to future years with the total project (whole life) expenditure currently forecast to be £7.759m overspend. This is due to the issues referred to above.

1.133 Network Resilience (£0.061m under gross budget). Annual programme of replacing winter maintenance vehicles as they come to the end of their lease. The replacements are purchased by LCC leading to substantial savings on the revenue budget. The replacement schedule is on track.

1.134 **Sustaining and Growing Business and the Economy** – commissioning strategy under gross budget by £1.301m. Within this is the budget allocated for Business Unit Development (£1.000m) for the expansion of the Council's managed workspace provision. As forecast, there was no expenditure on the Business Unit Development scheme during 2019/20. Alternative options are currently under consideration to select an appropriate site for expansion of provision within the approved scheme budget.

**New Developments Capital Contingency Fund** (£7.905m under budget).

1.135 For 2019/20 we set aside £7.500m in a New Development Capital Contingency Fund for schemes which emerge during the financial year. The movement during the financial year is explained below:

New Development Capital Contingency Fund	£'000
Original Budget	7,500
<b>In-Year Changes</b>	
Carried Forward from last year's underspend	6,638
Re-phasing into next year	-4,138
Allocation for Bluelight Collaboration Scheme	-1,357
Allocation for Libraries IT Project	-802
Allocation for compensation payment relating to A1073	-25
Return of funds due to completion of Horncastle Salt Barn	89
<b>Total In-Year Changes</b>	<b>405</b>
<b>To be carried forward to 2020/21</b>	<b>7,905</b>

1.136 The underspend of £7.905m remaining at the end of 2019/20 will be transferred forward into 2020/21 to fund schemes in the new financial year. There are a number of commitments which already exist for use of this funding in 2020/21 and future years. This will be allocated in 2020/21 as and when required.

**Prudential indicators**

1.137 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.

1.138 In complying with the Code the indicators for 2019/20 were approved by the Council on 22 February 2019 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 B** provides details of this comparison for 2019/20. 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**

1.139 We had planned to use £8.000m of flexible capital receipts in 2019/20 to fund transformation projects which will generate ongoing revenue savings to the authority.

1.140 We generated £9.578m of capital receipts in the year and included within this was £0.401m relating to specific Schools capital projects in accordance with Section 77 of the Schools Standard and Framework Act 1998. It is therefore requested that £0.401m be transferred to an earmarked reserve for this purpose (see paragraph 1.147). 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 for Education.

1.141 The remaining balance of £9.177m was available to fund transformation projects in accordance with the Strategy. The following schemes were identified to be funded this way in 2019/20:

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

1.142 During the year the Council spent £3.272m on these transformation projects. Details of the Council's original plans and actual activity are set out at **APPENDIX C**.

1.143 As the total capital receipts available is £5.905m more than the cost of the transformation projects identified, this surplus amount is to be used to fund the future capital programme in accordance with the Council's accounting policy i.e. it will be set aside in a capital receipts reserve fund, and will be used to reduce our borrowing in future years.

## Carry forward of over and underspends

1.144 The Council's policy as set out in its Financial Regulations is:

1.145 All under and overspends on service revenue budgets of up to 1% will be carried forward without exception. In 2019/20, this net underspend totalled £3.235m. This sum will be transferred to the Development Fund earmarked reserve.

1.146 All under and overspends on the dedicated schools budget will be carried forward. In 2019/20, this net underspend totalled £11.958m.

1.147 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" items totalling £1.424m:

- a) Civil Parking Enforcement income is ring-fenced for spending on specific works defined by legislation. This budget underspent by £0.194m in the year.
- b) Two of the Council's activities which provide services to partner organisations have operated at a surplus in 2019/20 and the net surpluses will be transferred to earmarked reserves pending future decisions about their use. These are: Legal Services Lincolnshire (£0.721m) and Strategic Commissioning and Procurement (£0.108m).
- c) Income of £0.401m was received in the year from the sale of former playing fields and school land. This sum is to be used for the Poplar Farm Schools Project under Section 77 of the School Standards and Framework Act 1998.

1.148 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 three further requests for a transfer to an existing earmarked reserve, totalling £1.175m:

- a) Following the accumulation of a surplus on the insurance fund due to a reduced level of provision for future claims, it is proposed that £1.038m be added to the Insurance Fund reserve. This will give maintain the total of £13.110m within the Insurance Fund and the Insurance Provision to cover future liabilities.
- b) The budget for flood and water risk management underspent by £0.089m in the year and it is proposed that this sum be added to the Flood and Water Risk Management reserve.
- c) A surplus of £0.048m was achieved in 2019/20 from the purchase by employees of additional annual leave. It is proposed that this sum is transferred to the Purchase of Employee Leave earmarked reserve. This will help to support staff wellbeing and the introduction of a case management system to help support the efficient management of casework through HR.

1.149 It is proposed that a new earmarked reserve be created this year from the overall underspend, and that this is included within the "business as usual" category in the future.

- a) During this year's budget process, future fluctuations in the capital financing charges budget was noted and it was suggested that this budget could be stabilised over time by the use of a new Capital Financing earmarked reserve. Any future underspends on the capital financing budget may be transferred into this reserve at the year end, and any future overspends on the capital financing budget may be funded by a transfer from this reserve. In 2019/20 the capital financing charges budget underspent by £5.150m and it is proposed that this sum be used to create this new earmarked reserve.

1.150 After the above allocations, which are in line with the Council's Financial Strategy, there is £4.159m still to be allocated. It is proposed to add the remaining underspend of £4.159m to the Development Fund earmarked reserve, which means that when taken together with the £3.235m underspend from service budgets referred to in paragraph 1.145 above, a total of £7.394m is proposed to be transferred to the Development Fund earmarked reserve. It is proposed that this sum of £7.394m be earmarked for supporting future transformation as well as Covid-19 recovery plans.

1.151 The current balance in the Financial Volatility earmarked reserve is £52.683m and this is after the use of £3.087m to support the 2019/20 budget. This reserve is not required to balance the budget in 2020/21, but it may be required to support the budget in the years beyond. This will depend on the outcomes of the government's funding reforms (referred to in paragraph 1.5 above) and may also be affected by the extent to which the Covid-19 pandemic impacts on our medium term financial plan. Work on updating the medium term financial plan is currently underway.

1.152 It is felt that the current balance of the Financial Volatility earmarked reserve should be sufficient to support the future revenue budget, if required, as we transition towards the new funding arrangement and recover from the pandemic.

1.153 A variety of other transfers to or from other earmarked reserves reflecting actual expenditure and income in 2019/20 are shown in **TABLE E** over the page.

### **General Reserve**

1.154 It is our policy on general reserves that these will be maintained within a range of 2.5% to 3.5% of the annual budget requirement. When setting the budget for 2019/20 we planned to increase the balance in our General Reserve by £0.200m. After considering the updated budget requirement for 2020/21 and the proposals on the carry forward of over and underspends, there is no requirement to adjust the General Reserve at this year end. The General Reserve at 31 March 2020 stands at £16.050m or 3.30% of the budget requirement (**TABLE D**).

**TABLE D – General Reserves**

<b>GENERAL RESERVES</b>	<b>Balance at 31 March 2020 £'000</b>
Balance at 1 April 2019	-15,850
Contribution to / use in year	-200
Proposed contribution to / use of reserves	0
<b>Balance as at 31 March 2020</b>	<b>-16,050</b>
Balance as a percentage of total budget	3.30%

**TABLE E – Transfers to and from reserves**

	<b>Restated Balance at 01 April 2019</b>	<b>Additions in Year</b>	<b>Used in Year</b>	<b>Balance at 31 March 2020</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balances from dedicated schools budget</b>	19,070	0	(5,720)	13,350
<b>Balances for schools under a scheme of delegation</b>	14,108	381	(14,988)	(499)
<b>Total Schools</b>	<b>33,178</b>	<b>381</b>	<b>(20,708)</b>	<b>12,851</b>
<b>Other Earmarked Reserves:</b>				
Earmarked Reserves - Pre Council Confirmation	16,196	0	(16,196)	0
Adverse Weather	67	0	(67)	0
Insurance	5,237	500	0	5,737
Schools Sickness Insurance	519	362	(196)	685
Health and Wellbeing	473	0	(473)	0
Shared Services (Legal and Procurement)	1,907	790	(874)	1,823
Financial Volatility	45,594	10,175	(3,087)	52,683
CSSC Transformation Including BW Rebuild and Development	2,296	1,100	(11)	3,384
Energy from Waste Lifecycles	4,986	1,286	(1,235)	5,038
Contract Development	1,000	0	(1,000)	0
Highways Advanced Design	834	0	(834)	0
Environmental Improvements Sustainability Reserve (Environment)	1,000	0	(1,000)	0
Environmental Improvements Sustainability Reserve (Infrastructure)	4,000	0	(4,000)	0
Business Rates Volatility Reserve	1,683	6,152	(1,683)	6,152
Development Fund	0	10,182	0	10,182
Other Service Earmarked Reserves	6,891	1,964	(3,705)	5,150
<b>Earmarked Reserves</b>	<b>92,683</b>	<b>32,511</b>	<b>(34,361)</b>	<b>90,834</b>
<b>Revenue Grants and Contributions</b>	<b>63,369</b>	<b>73,350</b>	<b>(48,174)</b>	<b>88,545</b>
<b>Total</b>	<b>189,231</b>	<b>106,242</b>	<b>(103,243)</b>	<b>192,231</b>

**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 2019/20 in February 2019 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 and Wellbeing 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 2019/20 in February 2019 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 2019/20 in February 2019 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 2019/20. Net revenue spending amounted to £436.081m, excluding Schools Budgets. Net capital spending totalled £73.552m.

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 £16.050m with a further £52.683m in the Financial Volatility earmarked reserve.

#### **4. Legal Comments:**

Recommendation 1 is compliant with the Council's Financial Regulations.

With regard to recommendation 2, 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.

Recommendations 3 and 4 enable the Executive to monitor performance against the Council's approved budget. 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.

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 recovering from the Covid-19 pandemic and preparing for a change in the local government funding regime, which remains an uncertain future outcome for this Council.

#### **6. Consultation**

##### **a) Has Local Member Been Consulted?**

n/a

##### **b) Has Executive Councillor Been Consulted?**

Yes

##### **c) Scrutiny Comments**

On 2 July 2020 the Overview and Scrutiny Management Board considered this report on the Review of Financial Performance 2019/20. Comments made by the Board will be tabled at the meeting.

##### **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	Capital Performance Report
Appendix B	Prudential Indicators 2019/20
Appendix C	Flexible Use of Capital Receipts Outcomes 2019/20

## 8. Background Papers

Document title	Where the document can be viewed
Financial Strategy (Council Budget 2019/20 - 22/2/2019)	<a href="http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&amp;MId=5273&amp;Ver=4">http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?CId=120&amp;MId=5273&amp;Ver=4</a>

This report was written by Michelle Grady, who can be contacted on 01522 553235 or [Michelle.Grady@lincolnshire.gov.uk](mailto:Michelle.Grady@lincolnshire.gov.uk).