

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

Report to:	County Council
Date:	18 September 2020
Subject:	Review of Financial Performance 2019/20

Summary:

This report:

- Describes the Council's financial performance for 2019/20 and the Executive's recommendations on budget carry forwards of any over and under spending from 2019/20 into the current financial year and seeks approval for those proposals which are not set out under Financial Regulations;
- Reports the flexible use made of capital receipts to fund revenue expenditure on transformation during 2019/20; and
- Sets out performance against Prudential Indicators for 2019/20.

Recommendation(s):

The County Council is recommended to:

1. Note the carry forwards set out in paragraphs 1.9 to 1.11 of the report, which are made in line with the Council's Financial Regulations;
2. Approve the transfer of the underspends on service revenue budgets of up to 1% referred to in paragraph 1.9 into the Development Fund earmarked reserve.
3. Approve the proposed use of carry forwards of over and under spending in excess of 1.0% as follows :-
 - a) the transfer to reserves for non "business as usual" activity described in paragraph 1.12 and 1.13 of the report;
 - b) the creation of a new earmarked reserve for capital financing as described in paragraph 1.14 and allow it to be included in "business as usual" activity in future years; and
 - c) the transfer to the Development Fund earmarked reserve set out in paragraph 1.15 of the report;

4. Note the position of earmarked reserves as at 31 March 2020 as shown in Table A of this report;
5. Note the position in relation to general reserves set out in paragraph 1.19 to 1.20 and Table B of this report;
6. Note the Flexible Use of Capital Receipts in 2019/20 as set out in paragraph 1.21 to 1.25 and detailed in Appendix A; and
7. Note performance against the Prudential Indicators for 2019/20 as set out in Table C of this report.

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 1.12 to 1.15, 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.

Financial governance requires that the Council 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 and growing cost pressures. 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.

1.2 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.

1.3 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 new financial year – 2020/21, but the smaller impact at the end of 2019/20 should be noted as the Council 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.

Financial Performance

2019/20 Revenue Spend

1.4 In 2019/20 we spent £991.603m on providing public services. This equated to £1,312 for every person in Lincolnshire

1.5 When compared to the budget set:

- a) Total service revenue spending, excluding schools, was underspent by £6.435m or 1.6%.
- b) There was an underspend of £6.255m on other budgets (a number of corporate budgets including capital financing charges and treasury management) or 17.5%.
- c) The Council received £2.450m or 0.5% more general funding income than we originally budgeted for

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

1.6 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.

2019/20 Capital Spend

1.7 In 2019/20 the council spent £173.076m building, improving and purchasing assets such as roads, schools and information technology. We received £99.524m of grant and other contributions, therefore, spending £73.552m of our own resources. This was £17.003m or 18.8% less than planned.

Carry Forward Of Underspends into 2020/21

1.8 The Council's policy on the carry forward of underspends is set out in its Financial Regulations, this is:

1.9 All under and overspends on service revenue budgets of up to 1% will be carried forward without exception. In 2019/20, this amount totalled £3.235m. It is proposed to transfer this amount into the Development Fund earmarked reserve.

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

1.11 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. (see paragraph 1.22)

1.12 All of the transfers to reserves set out in the preceding paragraphs are for noting. However, the Council is asked to approve the transfer of the £3.235m up to 1% carry forward on services (paragraph 1.9 above) to the Development Fund earmarked reserve for use on service transformation and development projects as well as for Covid-19 recovery plans.

1.13 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 maintain the total at £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.

1.14 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.

1.15 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 1.12 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.

1.16 The current balance in the Financial Volatility earmarked reserve is £52.683m, 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 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.

1.17 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.

1.18 A variety of other transfers to or from other earmarked reserves reflecting actual expenditure and income in 2019/20 are shown in **TABLE A** below:

TABLE A – Transfers to and from reserves

	Restated Balance at 01 April 2019	Additions in Year	Used in Year	Balance at 31 March 2020	Transfer from 'Earmarked Reserves - Pre- Council	Balance following Council Approval
	£'000	£'000	£'000	£'000	£'000	£'000
Balances from dedicated schools budget	19,070	0	(5,720)	13,350		13,350
Balances for schools under a scheme of delegation	14,108	381	(14,988)	(499)	11,958	11,459
Total Schools	33,178	381	(20,708)	12,851	11,958	24,809
Other Earmarked Reserves:						
Earmarked Reserves - Pre Council Confirmation	16,196	0	(16,196)	0		0
Adverse Weather	67	0	(67)	0		0
Insurance	5,237	500	0	5,737	1,038	6,775
Schools Sickness Insurance	519	362	(196)	685		685
Health and Wellbeing	473	0	(473)	0		0
Legal	843	738	(769)	812	721	1,533
Procurement	1,064	52	(105)	1,011	108	1,119
Financial Volatility	45,594	10,175	(3,087)	52,683		52,683
Civil Parking Enforcement	856	23	(879)	0	194	194
CSSC Transformation Including BW Rebuild and Development	2,296	1,100	(11)	3,384		3,384
Energy from Waste Lifecycles	4,986	1,286	(1,235)	5,038		5,038
Flood & Water Risk Management	558	0	(398)	161	89	250
Purchase of Employee Leave Scheme	264	0	(120)	144	48	192
Business Rates Volatility Reserve	1,683	6,152	(1,683)	6,152		6,152
Development Fund	0	10,182	0	10,182	7,394	17,576
Business As Usual Transfers (Capital Financing Charges Reserve)	0	0	0	0	5,150	5,150
Other Service Earmarked Reserves	5,213	1,941	(2,308)	4,846		4,846
Earmarked Reserves	92,683	32,511	(34,361)	90,835	14,742	105,577
Revenue Grants and Contributions	63,369	73,350	(48,174)	88,545	0	88,545
Total	189,231	106,242	(103,243)	192,232	26,700	218,932

General Reserve

1.19 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 at the start of the financial year. 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 any further at this year end.

1.20 The General Reserve at 31 March 2020 stands at £16.050m or 3.30% of the budget requirement (**TABLE B**).

Table B – General Reserves

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

Flexible Use of Capital Receipts

1.21 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.

1.22 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 1.13(c)). 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.

1.23 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.

1.24 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 A – Flexible Use of Capital Receipts Outcomes for 2019/20**.

1.25 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.

1.26 For 2020/21 the Council has agreed a different strategy for the use of capital receipts and will now use any such receipts to help fund the future capital programme.

Prudential Indicators 2019/20

1.27 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.

1.28 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.

1.29 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%.

Key Financial Performance Measures: Financial Health and Performance

1.30 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 C**.

TABLE C – 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%

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 & Well Being Strategy (JHWS) in coming to a decision

The Joint Strategic Needs Analysis and Joint Health and Wellbeing Strategy have been considered and there is not considered to be any direct impact of the decisions called for by this Report on either of them. 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 JSNA and the JHWS 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 crime and disorder matters. 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 crime and disorder obligations as they are taken. This includes decisions on the use of carried forward underspends.

3. Conclusion

3.1 The proposed treatment of underspends and overspends outlined in the report are considered appropriate and prudent for supporting the Council's future budgets

3.2 The Prudential indicators comply with CIPFA's Prudential Code of Capital Finance in Local Authorities and provide County Council with actual performance against the targets approved by County Council on 22 February 2019.

4. Legal Comments:

With regards to recommendation 1 the Council's Financial Regulations state that underspends up to 1% will be carried forward without exception.

With regard to recommendation 2 the transfer of underspends below 1% from service budgets into the Development Fund is a budget transfer that requires full Council approval

With regards to recommendation 3 the Council's Financial Regulations provide that the use of all under-spending on service budgets in excess of 1% will be considered by the Executive and decided by the full Council.

With regard to recommendation 7 under Section 3 of the Local Government Act 2003 the authority must determine and keep under review how much money it can afford to borrow. Reporting on the Prudential Indicators assists the Council in discharging this function.

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

5. Resource Comments:

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

6. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

n/a

c) Scrutiny Comments

On 2nd July 2020 the Overview and Scrutiny Management Board considered the report on Financial Performance 2019/20 and the Board's comments were included in the report to Executive on 7 July 2020.

d) Have Risks and Impact Analysis been carried out?

No

e) Risks and Impact Analysis

N/A

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	Flexible Use of Capital Receipts Outcomes for 2019/20
Appendix B	Prudential Indicators 2019/20

8. Background Papers

Document title	Where the document can be viewed
Financial Strategy	Executive Director of Resources
Executive Report - Review of Financial Performance 2019/20 (7 th July 2020)	Executive Director of Resources

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