

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

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| Report to: | Executive |
| Date: | 06 July 2021 |
| Subject: | Review of Financial Performance 2020/21 |
| Decision Reference: | I022020 |
| Key decision? | Yes |

Summary:

This report:

- describes the Council's financial performance in 2020/21 and reports on the underspends of £28.746m on Council budgets and £13.976m on Schools budgets;
- identifies and explains variances from the Council's revenue and capital budgets;
- makes proposals on the carry forward of over and under spends into the current financial year 2021/22; and
- reports Prudential and Financial Performance Indicators for 2020/21.

Recommendations:

That the Executive:

1. Notes the carry forwards set out in paragraphs 1.58 to 1.60 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 1.61 to 1.65, relating to the treatment of underspends, be approved;
3. Notes the transfers to and from reserves carried out in 2020/21 as set out in Table F;
4. Notes the financial performance in 2020/21 as set out in Table A (Key Financial Performance Measures), Table B (Revenue Budget Final Outturn), Table C (Net Capital Programme Summary Outturn), Appendix N (Prudential Indicators).

Alternatives Considered:

This report describes the actual position for the 2020/21 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 underspends as set out in paragraphs 1.61 to 1.65, there are a number of different ways these could be used. The proposed usages will support our financial resilience by increasing the Financial Volatility earmarked reserve to its previous level, and add to the resources we have earmarked for recovering from the Covid-19 situation.

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.

1. Background

1.1 We set our spending plans for 2020/21 in the context of continuing uncertainty about longer term government funding, growing cost pressures from demand led services such as adult and children's social care, and the Council's responsibility to pay the National Living Wage. In developing our financial plan for the year we considered all areas of current spending, levels of income and council tax to set a balanced budget. The budget proposals included an increase in council tax level of 3.50% (1.50% general increase, plus 2.00% for Adult Social Care).

1.2 The budget for 2020/21 was set before the coronavirus pandemic had taken hold in the UK, and the pandemic has not only had a material impact on our activities over the past year, it has also impacted on our financial performance during the year. This is because significant sums of money have been paid to us by the government in the form of various coronavirus grants, and significant amounts have consequently been paid out. As our 2020/21 expenditure due to the pandemic has been funded by the government during the year, there has been no impact on the local council tax payer.

Annual Revenue Spending and Funding

1.3 We spent £1,044,840m in 2020/21 on providing public services. This equated to £1,382 for every person in Lincolnshire.

1.4 We have had to deal with a number of cost pressures, amounting to £44.773m in budgetary terms. These include: pay inflation; additional school transport contract costs

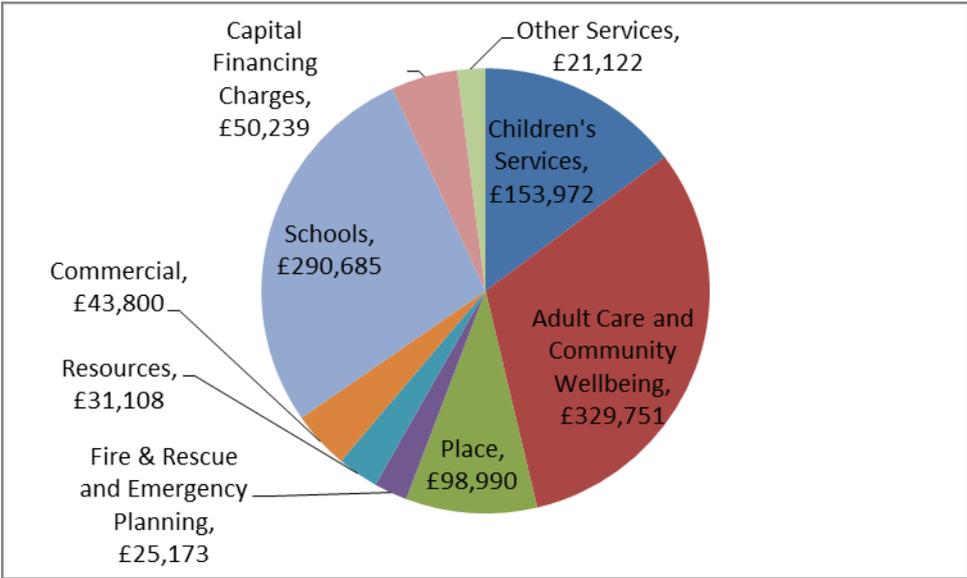
associated with rises in the national living wage; demographic growth pressures and increased costs for residential / nursing, homecare and community based services; an increase in employer pension contributions for the firefighter pension scheme; additional contract costs for our support services provider; an increase in the employer's contribution towards the local government pension scheme deficit; the removal of the budget used to fund transformation costs from capital receipts. To help counteract these cost pressures a range of efficiency savings were implemented and additional income from service user contributions was budgeted for, including: increased service user contributions for adult social care; increased funding from Clinical Commissioning Groups for adult social care; savings from contract re-procurements and a range of efficiency savings across all service areas. These reductions in the budget totalled £14.943m.

1.5 When we set our budget for 2020/21 it was for one year only, as we were expecting the government to implement two funding reforms which together are expected to change the way funding is distributed to all types of local authorities across the country. At that time we expected the reforms to be implemented with effect from April 2021 but this has since been deferred to April 2022.

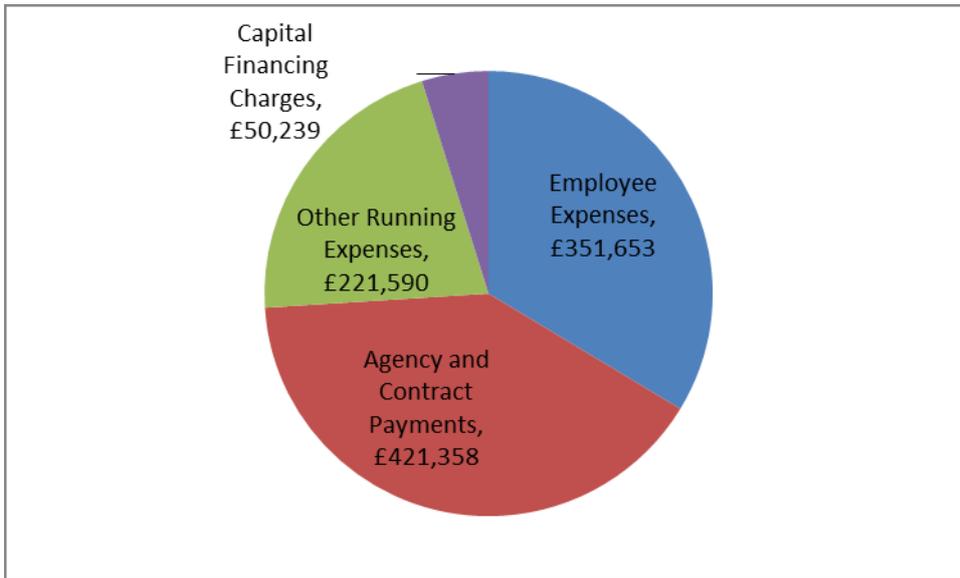
1.6 The level of expenditure in 2020/21 indicates that during the year we have been able to deliver an underspend against the revenue budget of £28.746m (as well as an underspend on Schools of £13.976m).

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 2020/21 £1,044,840 (£000's)



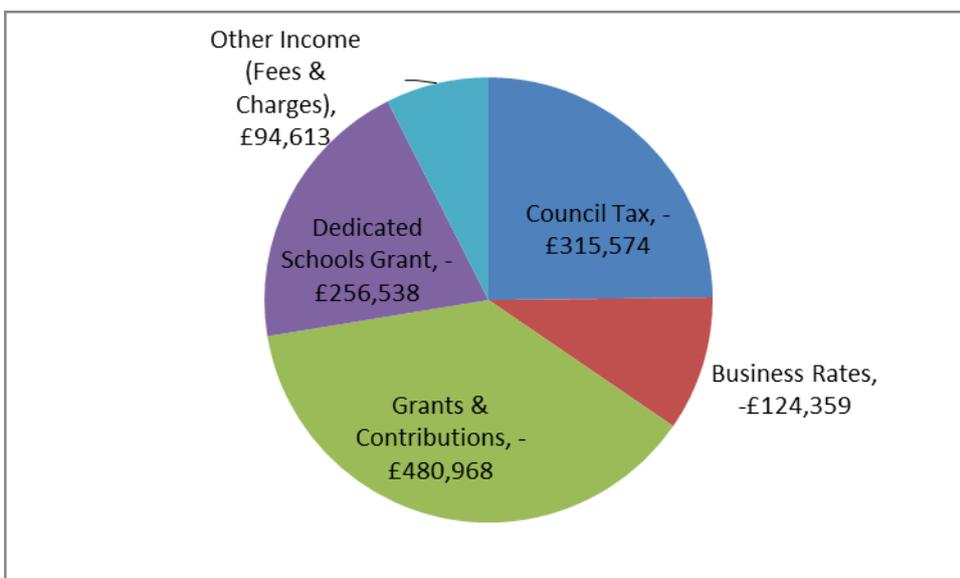
Gross Expenditure Subjective Analysis 2020/21 £1,044,840 (£000's)



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 54% of the total.

1.8 The Council's revenue spending was funded by:

Sources of Income Analysis 2020/21 £1,082,826 (£000's)



1.9 In 2020/21 we increased Council Tax by 3.50% and also saw growth of 1.49% on the number of band D equivalent properties in Lincolnshire. This in total generated additional

income for the Council of £14.951m. The Council Tax collection funds in Lincolnshire also generated a surplus in 2020/21, a further £3.193m for the County Council.

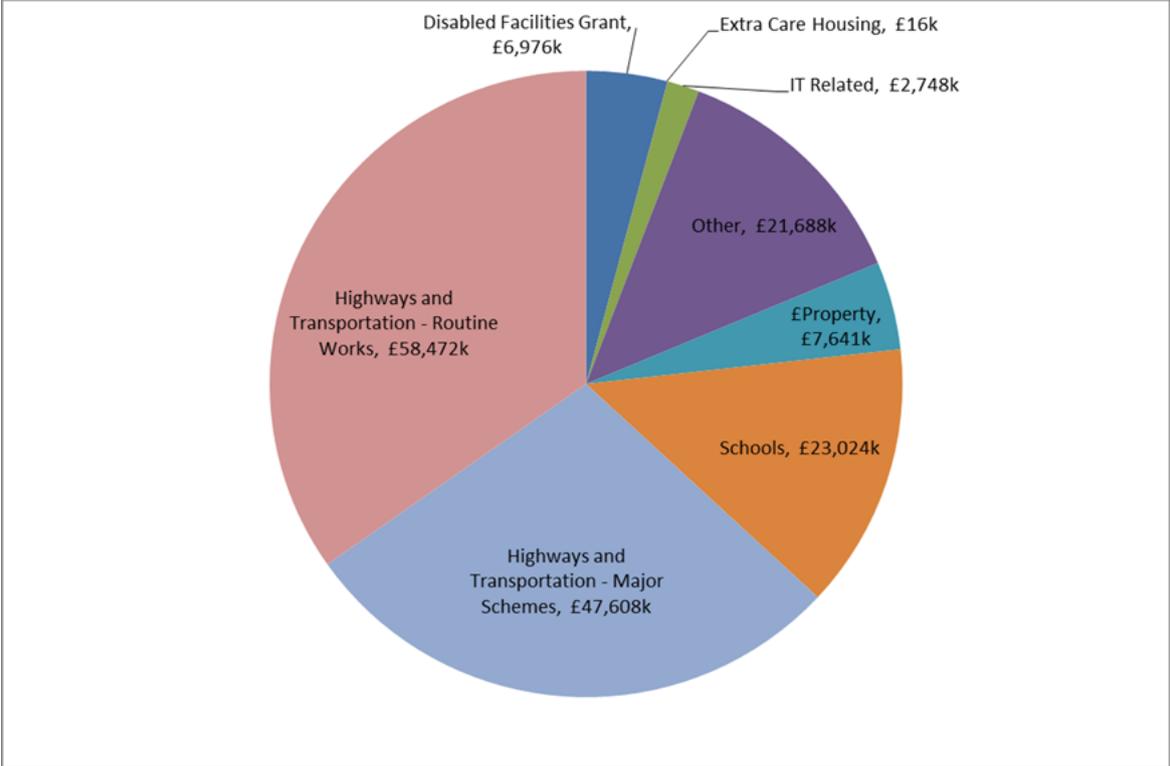
1.10 Business Rates generated £124.359m. This was made up of a number of elements: £22.031m collected from businesses in Lincolnshire; £91.302m received as a top up from central government and £7.822m Section 31 grants from central government. The Council, along with its District Council partners, was in a Business Rates Pool in 2020/21 and the Pool generated an estimated surplus for us of £3.204m in the year.

1.11 The Council received a Revenue Support Grant (RSG) of £20.467m in 2020/21. In addition, a number of specific government grants were received in the year, the most significant of these being £256.538m Dedicated Schools Grant, which is used for funding education, £50.019m Better Care Fund Grant which is used for adult social care, and £33.546m Public Health Grant.

Capital Spending and Funding

1.12 The Council spent £168.174m on the County's major assets, in particular on road schemes and schools. The net capital spend was £52.235m, which was £59.534m less than planned. The main reasons for this position are shown in the section below on Capital Programme Outturn. The following pie chart sets out the spending on major investment projects by service area:

Gross Expenditure on Major Investment Projects 2020/21 £168,174 (£000's)



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

1.13 In 2020/21 expenditure was incurred on the following major schemes:

- Completing construction and opening of the Lincoln Eastern Bypass scheme.
- Continuing construction of the Grantham Southern Relief Road scheme.
- Continuing construction of the De Wint Extra Care Housing scheme.
- Continuing construction of the Spalding Western Relief Road (section 5) scheme.
- Expansion and remodelling work in Lincolnshire special schools through the Building Communities of Specialist Provision Strategy delivering an increase in places and access to all-needs provision.
- Expansion works to a number of schools to provide additional places for pupils, as well as a programme of addressing condition issues of school buildings.

1.14 The Council has received grants from central government and other bodies of £115.938m in the year to fund: road maintenance and building work, the provision of additional school places, addressing the condition of school buildings, the provision of broadband in the community 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 includes grants and contributions from previous years and is shown in the table below, which summarises how the capital programme has been financed in 2020/21:

Capital Financing Table 2020/21 £000'S

| | £'000 |
|--------------------------|----------------|
| Revenue Contributions | 7,751 |
| Use of Reserves | 4,080 |
| Grants and Contributions | 125,340 |
| Capital Receipts | 2,690 |
| Borrowing | 28,313 |
| Total | 168,174 |

1.15 The Council sets a voluntary limit on its total borrowing to ensure that it remains prudent and affordable over the longer term. This target is to ensure that the annual minimum revenue provision (MRP) charge plus interest on loans amount to no more than 10% of the Council's annual income. The MRP charge is the amount set aside by the Council each year as a provision to repay debt over the period when the assets purchased and built provide a benefit to the communities of Lincolnshire. The total cost of these capital financing charges for 2020/21 amounted to 4.98% of total income.

The Council's financial standing

Key Financial Performance Measures: Financial Health and Performance

1.16 The County Council has identified a number of key indicators to monitor its Financial Health and Performance. The Council's actual performance against these key indicators for 2020/21 is shown in **TABLE A**.

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

| REF | PERFORMANCE INDICATOR | MEDIUM TERM TARGET | 2020/21 Estimate | 2020/21 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 | Minimum Revenue Provision and Interest | MRP and Interest repayments not to exceed 10% of net income | 5.61% | 4.98% |
| 4 | Accounting | Unqualified external audit opinion | Yes | Yes |
| 5 | General Reserves | Maintained within the range of 2.5% to 3.5% of the annual budget requirement net of Dedicated Schools Grant | Within range 2.5% - 3.5% | 3.20% |
| 6 | Internal control | None of the processes audited receive a "low assurance" opinion from internal audit | Yes | No * |
| 7 | Expenditure - prompt payment | At least 90% of undisputed invoices paid within 30 days | 90% | 97% |
| 8 | Treasury management | Risk adjusted return comparison | Weighted Benchmark 0.074% | 0.522% |

* One Internal Audit report in the year was issued with a "Low Assurance" opinion

The Council's Balance Sheet

1.17 The Council's Balance Sheet, as reported in the Statement of Accounts 2020/21, shows the Council's financial position as at 31 March 2021. Overall, the Council's net assets position has decreased by £224.915m from £308.336m to £83.421m.

1.18 The most significant factor contributing to this reduction in the net assets value is the increased long term liability for pensions. This liability has increased by £254.850m to £1,111.464m. 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. Around £184m of this increase relates to the Local Government Pension Scheme (LGPS) Fund with a further £71m relating to the Firefighter Pension Schemes Fund. The main reasons for the change are that firstly the rate of return on LGPS assets is higher than in 2019/20 which has decreased the liability, and secondly that a fall in bond yields has effected a reduction in the discount rate, and there has been a rise in future inflation expectations impacting on the expected salary increase rate and the expected pension increase rate. This has more than offset the

increase in asset values to increase the overall pension liability for both the LGPS and the Firefighter Funds. This position changes from year to year, and the increase in the liability has no impact on the Council's annual budget.

Balance Sheet Extract

| 31 March 2020 | | 31 March 2021 |
|----------------|--------------------------|---------------|
| £000's | | £000's |
| 1,466,482 | Long Term Assets | 1,479,590 |
| 344,069 | Current Assets | 420,760 |
| -141,347 | Current Liabilities | -211,896 |
| -1,360,868 | Long Term Liabilities | -1,605,033 |
| 308,336 | Net Assets | 83,421 |
| | | |
| 337,415 | Usable Reserves | 366,195 |
| | Unusable Reserves | |
| 831,100 | Re Long Term Assets | 847,224 |
| -1,346 | Re Financial Instruments | -1,318 |
| -856,614 | Re Pensions | -1,111,464 |
| -2,219 | Re Other | -17,215 |
| -29,079 | Total Unusable Reserves | -282,774 |
| 308,336 | Total Reserves | 83,421 |

Revenue Budget Outturn

1.19 The revenue budget outturn for 2020/21 is summarised below:

- a) Total service revenue spending, excluding schools, was underspent by £15.510m or 3.5%.
- b) There was an underspend of £12.811m on other budgets or 16.5%.
- c) The Council received £0.425m (less than 0.1%) more general funding income than originally budgeted for.

This gives the Council (excluding schools) an overall underspend of £28.746m.

1.20 In addition, there was an underspend of £13.976m relating to the Dedicated Schools Grant. This consisted mainly of a £14.540m underspend relating to maintained schools balances from the prior year and the 2020/21 financial performance, as well as some variances on other activities and funding streams. The Dedicated Schools Grant is a ring-fenced amount and will be automatically carried forward to use in 2021/22.

1.21 The underspend on service budgets this year was relatively high and much of this was due to the impacts of the coronavirus pandemic on our services. A more detailed account of the reasons for variances against the budget is set out in Appendices B to J, but in general there has been a shift towards providing services directly related to managing the

impacts of the pandemic and these have been funded by government grant. This has left some service budgets in an underspend position as a result.

The revenue outturn position for 2020/21 is shown in **TABLE B**.

TABLE B – Revenue Budget Final Outturn 2020/21

| | Revised Net Revenue Budget £m | Net Expenditure £m | Year End Variance £m | Actual Variance % |
|---|--|--------------------------|----------------------------|-------------------------|
| SERVICE DELIVERY | | | | |
| Children's Social Care | 79.870 | 78.414 | (1.456) | (1.8) |
| Children's Education | 43.447 | 43.767 | 0.320 | 0.7 |
| Children's Services | 123.317 | 122.181 | (1.136) | (0.9) |
| Adult Frailty & Long Term Conditions | 122.500 | 118.948 | (3.552) | (2.9) |
| Adult Specialities | 81.149 | 79.374 | (1.775) | (2.2) |
| Public Health and Community Wellbeing | 23.783 | 20.188 | (3.595) | (15.1) |
| Public Health Grant Income | (33.546) | (33.546) | 0.000 | 0.0 |
| Better Care Funding | (50.019) | (50.019) | 0.000 | (0.0) |
| Adult Care and Community Wellbeing | 143.866 | 134.945 | (8.921) | (6.2) |
| Communities | 47.278 | 46.032 | (1.246) | (2.6) |
| Lincolnshire Local Enterprise Partnership | 0.343 | 0.263 | (0.081) | (23.5) |
| Growth | 5.067 | 5.013 | (0.054) | (1.1) |
| Highways | 23.898 | 24.014 | 0.116 | 0.5 |
| Place | 76.587 | 75.322 | (1.265) | (1.7) |
| Fire & Rescue | 22.628 | 22.543 | (0.086) | (0.4) |
| Emergency Planning | 0.451 | 0.433 | (0.018) | (4.0) |
| Fire and Rescue and Emergency Planning | 23.079 | 22.976 | (0.103) | (0.4) |
| Human Resources and Organisational Support | 14.603 | 13.856 | (0.746) | (5.1) |
| Finance | 6.836 | 6.800 | (0.036) | (0.5) |
| Legal and Governance Services | 2.488 | 1.900 | (0.588) | (23.6) |
| Public Protection | 4.199 | 4.457 | 0.257 | 6.1 |
| Resources | 28.126 | 27.013 | (1.113) | (4.0) |
| Property | 10.147 | 9.182 | (0.964) | (9.5) |
| Information Management Technology | 14.706 | 14.914 | 0.208 | 1.4 |
| Transformation | 7.332 | 6.942 | (0.390) | (5.3) |
| Commercial | 9.034 | 7.529 | (1.505) | (16.7) |
| Commercial | 41.219 | 38.568 | (2.651) | (6.4) |
| Corporate Services | 3.100 | 2.779 | (0.321) | (10.4) |
| Corporate Services | 3.100 | 2.779 | (0.321) | (10.4) |
| TOTAL SERVICE DELIVERY | 439.295 | 423.785 | (15.510) | (3.5) |
| OTHER BUDGETS | | | | |
| Contingency | 1.227 | 0.000 | (1.227) | (100.0) |
| Capital Financing Charges | 56.924 | 48.277 | (8.647) | (15.2) |
| Other | 19.519 | 16.582 | (2.937) | (15.0) |
| TOTAL OTHER BUDGETS | 77.671 | 64.860 | (12.811) | (16.5) |
| TOTAL NET EXPENDITURE (EXC SCHOOLS) | 516.966 | 488.644 | (28.322) | (5.5) |
| MOVEMENT OF RESERVES | | | | |
| Transfer to/from Earmarked Reserves | 7.952 | 37.206 | 29.254 | 367.9 |
| Contribution to/from School Reserves | (9.794) | 3.674 | 13.467 | (137.5) |
| Contribution to Development Fund | (3.043) | (3.043) | 0.000 | 0.0 |
| Transfer to/from General Reserves | 0.150 | 0.150 | 0.000 | 0.0 |
| TOTAL MOVEMENT OF RESERVES | (4.735) | 37.986 | 42.722 | (902.2) |
| MET FROM: | | | | |
| Business Rates local Retention | (123.990) | (124.359) | (0.369) | 0.3 |
| Revenue Support Grant | (20.467) | (20.467) | 0.000 | 0.0 |
| Other Non Specific Grants | (60.452) | (60.508) | (0.056) | 0.1 |
| County Precept | (315.574) | (315.574) | 0.000 | (0.0) |
| TOTAL MET FROM | (520.482) | (520.907) | (0.425) | 0.1 |
| TOTAL (EXCLUDING SCHOOLS) | (3.517) | (32.263) | (28.746) | |
| SCHOOL BUDGETS | | | | |
| Schools Block | 143.575 | 129.567 | (14.008) | (9.8) |
| High Needs Block | 77.679 | 78.583 | 0.904 | 1.2 |
| Central School Services Block | 3.193 | 2.834 | (0.359) | (11.2) |
| Early Years Block | 43.125 | 41.951 | (1.175) | (2.7) |
| Dedicated Schools Grant | (256.757) | (256.538) | 0.219 | (0.1) |
| Schools Budget (Other Funding) | (2.563) | (2.120) | 0.442 | (17.3) |
| TOTAL SCHOOLS BUDGETS | 8.252 | (5.724) | (13.976) | (169.4) |
| TOTAL (INCLUDING SCHOOLS) | 4.735 | (37.986) | (42.722) | |

Children's Services – underspend of £1.136m

1.22 In the year, there were overspends due to the increase in the number of children in care and the requirement for more specialist placements, and an increase in transport delivery costs compared to the budget for Home to School and College transport. These overspends were more than offset by underspends arising from the pandemic as well as utilisation of grants. More details on variances in this area are reported in Appendix B.

Adult Care and Community Wellbeing – underspend of £8.921m

1.23 The pandemic had a major impact on Adult Care and Community Wellbeing services in 2020/21. In order to deliver a safe response to the scale and pace required, the Directorate has prioritised its financial resources to meet the needs of the population across Lincolnshire as the pandemic has evolved. Costs directly related to the coronavirus response have been funded by the government. This support alongside a reduction in some volume based services and a delay to the roll out of a small number of initiatives until 2021/22 has resulted in a significant underspend. More details on variances in this area are reported in Appendix C.

Place – underspend of £1.265m

1.24 There was an overspend in the year on the Mixed Dry Recycling contract following its re-procurement, but this was more than offset by underspends on Transport services as well as Heritage and Culture services which were due to the impacts of the pandemic. More details on variances in this area are reported in Appendix D.

Fire and Rescue & Emergency Planning – underspend of £0.103m

This relatively small underspend was due to grant funding received late in the year as well as reduced activities due to the pandemic. More details on variances in this area are reported in Appendix E.

Resources – underspend of £1.113m

1.25 The election budget was not required in 2020/21 and is proposed to be transferred to reserves. In addition to this underspend there were staff vacancies and increased recharge income for Business Support staff utilised to support the pandemic. More details on variances in this area are reported in Appendix F.

Commercial – underspend of £2.651m

1.26 There were a number of underspends in the Corporate Property area, as well as a significant underspend on the Customer Service Centre where usual business activity was replaced by coronavirus-related call handling which was funded by government grant. There were also staff vacancies. More details on variances in this area are reported in Appendix G.

Corporate Services – underspend of £0.321m

1.27 This underspend was mainly due to staff vacancies, with recruitment activity delayed by the impact of the pandemic. More details on variances in this area are reported in Appendix H.

Other Budgets – underspend of £12.811m

1.28 There was an underspend on both the corporate contingency budget and the corporate redundancy budget in the year, as well as an underspend due to the National Living Wage being lower than anticipated. The main underspend in this area though related to capital financing charges, which were significantly lower than budgeted due to capital programme underspends both in this year and in 2019/20. More details on variances in this area are reported in Appendix J.

Dedicated Schools Grant – underspend of £13.976m

1.29 This underspend mainly relates to the school's delegated budgets for maintained schools (£14.540m). This includes the brought forward balances from prior years and the 2020/21 financial performance. School delegated budget underspends are automatically transferred to the schools reserves for use in 2021/22. The financial position on the Dedicated School Grant blocks (excluding school balances) are reported in Appendix I.

Council's General Funding – £0.425m more than the income budget

1.30 The Council's general funding is currently £0.425m more than the revenue budget approved at full Council in February 2020. This is mainly due to the increased gain from Business Rates Pooling, which was £0.404m more than the £2.799m budgeted for.

Coronavirus Pandemic Expenditure and Funding

1.31 In March 2019/20 we received our first tranche of emergency Covid-19 grant and this was followed by a further three tranches in 2020/21. In total we received £44.509m of emergency grant which was un-ringfenced, meaning that we were free to use it to cover any aspect of the cost of the pandemic. In addition to this we received £3.566m of sales, fees and charges grant which was specifically to cover losses of income due to the pandemic. In total these grants amounted to £48.075m.

1.32 In 2019/20 we used £0.378m of this emergency grant to cover Covid-19 costs arising in March 2020 at the start of the pandemic. In 2020/21 we used a further £45.624m of the emergency grant during the year bringing the total spent over the two years to £46.002m. The difference between the total general grant of £48.075m and the total general spend of £46.002m is £2.072m of unspent grant which has been carried forward to 2021/22 and will be used to support Covid-19 costs next year.

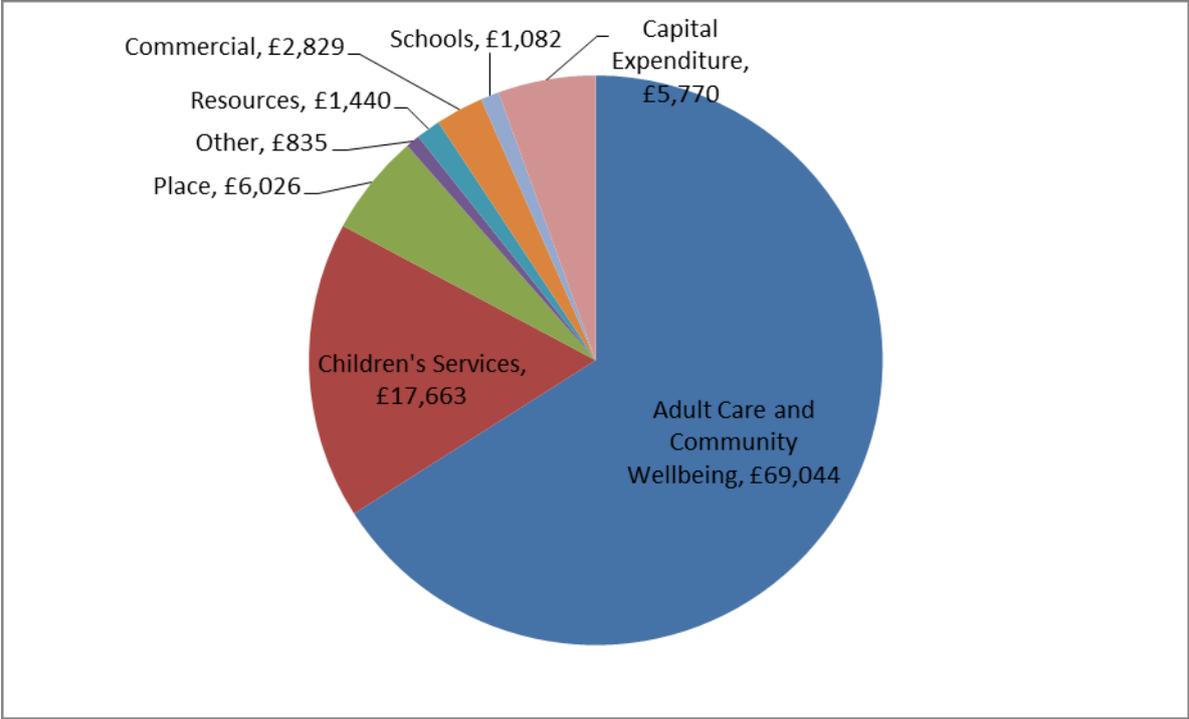
1.33 In addition to these general Covid-19 grants, a number of specific grants were received from the government and the Clinical Commissioning Groups (CCGs) reimbursed

us for some of our Covid-19 costs. Specific grants received in the year totalled £65.701m, of which £52.378m was spent during 2020/21 and £13.323m was carried forward to support Covid-19 costs next year in accordance with the terms and conditions of the grants. The CCGs reimbursed £6.687m of Covid-19 costs in 2020/21.

1.34 In summary, our total Covid-19 related expenditure in 2020/21 was £104.689m. Of this sum, £45.624m was covered by the government's emergency grant and sales fees and charges grant, £52.378m was covered by government grants for specific aspects of the pandemic, and £6.687m was reimbursed by way of the contribution from the CCGs.

1.35 The pie chart below shows how this expenditure of £104.689m was distributed across service areas, and further details on the Covid-19 expenditure in the year is shown in Appendix K.

Covid-19 Expenditure by Service 2020/21 £104.689 (£000's)



Other includes Corporate Services and Fire and Rescue & Public Protection.

Capital Programme Outturn

1.36 The capital outturn for 2020/21 is summarised below:

- Net capital expenditure was £52.235m; and
- This was £59.534m or 53% less than planned.

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.

1.37 The reasons for significant capital budget over or underspends are explained in the following paragraphs and in more detail in Appendix A.

TABLE C – Capital Programme Summary Outturn 2020/21

| | Gross Programme | | | Net Programme | | |
|----------------------------------|-------------------|-----------------------------|--|-------------------|-----------------------------|--------------------------------------|
| | Actuals £000's | Revised Budget £000's | Gross Outturn Variance £000's | Actuals £000's | Revised Budget £000's | Net Outturn Variance £000's |
| Adult Care & Community Wellbeing | 7,006 | 8,406 | -1,400 | 30 | 30 | 0 |
| Children's Services | 23,874 | 24,090 | -216 | 11,896 | 12,136 | -241 |
| Place | 123,174 | 156,952 | -33,778 | 34,516 | 80,487 | -45,970 |
| Fire and Rescue | 3,731 | 4,605 | -874 | 3,731 | 4,605 | -874 |
| Commercial | 10,389 | 18,805 | -8,416 | 3,379 | 11,795 | -8,416 |
| Resources | 0 | 107 | -107 | 0 | 107 | -107 |
| Other Budgets | 0 | 3,926 | -3,926 | -1,317 | 2,609 | -3,926 |
| Total | 168,174 | 216,892 | -48,718 | 52,235 | 111,769 | -59,534 |

1.38 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 service area.

1.39 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.

Children's Services - £0.241m under net budget

1.40 Children's Services spent £23.874m on capital expenditure in 2020/21. Of this total, £14.513m was spent on provision for pupils with Special Educational Needs and Disabilities (SEND), £3.170m was spent on the provision of school places, and £3.376m was spent on replacing end of life building components. In total £23.574m of grants and contributions were used in the year to fund the Children's Services capital programme.

1.41 The Children's Services capital schemes were largely on target in the year and the longer term projects are also on target over their whole lives. The most significant project is the SEND one, and a summary of the position on this is shown in Appendix A.

Adult Care and Community Wellbeing (AC&CW) - on target against net budget

1.42 Capital investment within Adult Care and Community Wellbeing is mostly funded by capital grants and contributions. AC&CW spent £7.006m on capital expenditure in 2020/21. Of this sum, £6.976m was on disabled facility grants to enable essential housing adaptations to help disabled people live independently and safely in their own homes. Work continued on the De Wint Court Extra Care Housing Scheme and is expected to complete in 2021/22.

Place - £45.970m under net budget

Communities - £4.160m under net budget

1.43 Total capital expenditure in 2020/21 within the Communities area of Place was £2.968m on libraries, flood and water risk management, drainage and waste.

1.44 The main reason for the underspend in Communities is the project for the future development of the Heritage / Archives service. This project is approved in principle but not yet started so there is a £2.500m underspend this year. There are a number of other schemes with smaller underspends which make up the total and the whole life position for schemes within Communities is largely on target.

Growth - £7.837m under net budget

1.45 Capital investment within the Growth area of Place was £14.361m in 2020/21 with the most significant sums spent on the Lincolnshire Enterprise Partnership (LEP) contribution and the South Lincolnshire Food Enterprise Zone.

1.46 The net underspend was mainly in respect of the LEP contribution, although there was an overspend on the South Lincolnshire Food Enterprise Zone and this project is also showing a whole life forecast overspend. Further details on these two schemes are shown in Appendix A.

Highways - £33.974m under net budget

1.47 Capital expenditure on highways road maintenance and road building schemes was £105.845m in 2020/21. Of this sum, £71.018m was funded by grants and contributions in the year.

1.48 The net underspend arose from a number of schemes, in the main these were the Lincoln Eastern Bypass, the Grantham Southern Relief Road, the A46 Welton Roundabout, the Holdingham roundabout and the A52 Skegness Roman Bank reconstruction. In addition there was an underspend on the Highways Asset Protection block budget. The whole life position for the major road schemes is largely on target at this stage, following an update to the future capital programme in the most recent budget setting process. More details on all of these schemes are included in Appendix A.

Fire and Rescue & Emergency Planning - £0.874m under net budget

1.49 Fire and Rescue & Emergency Planning spent £3.731m on capital expenditure in 2020/21. The majority of this, £3.401m, was for fire vehicles and associated equipment and the underspend occurred following a review of the planned profile of expenditure for the period up to and including 2024/25, which has pushed some of the expenditure back to later years.

Resources - £0.107m under net budget

1.50 Capital schemes within the Resources directorate were in the area of Public Protection, with minor underspends on Trading Standards and Registration and Coroners Services.

Commercial - £8.416m under net budget

1.51 The Commercial Directorate spent £10.389m on capital expenditure in 2020/21. This comprised £7.641m on property schemes (£1.687m under net budget); £0.996m on broadband (£5.510m under net budget) and £1.751m on IT schemes (£1.219m under net budget). For the longer term projects in this Directorate, the whole life position is that they are generally on target.

1.52 The most significant underspend in this area was on the Broadband scheme, and this was mainly due to a contractual rebate received as performance under the contract with the supplier has exceeded the target performance. Further information on this is provided in Appendix A. The underspends in the areas of property and IT are in the main due to a number of schemes experiencing minor delays which has pushed some planned expenditure back to next year.

New Developments Capital Contingency Fund - £3.926m under net budget

1.53 For 2020/21 we set aside £7.500m in a New Developments Capital Contingency Fund for schemes which emerge during the financial year. The movement during the financial year is explained below:

| New Developments Capital Contingency | £000's |
|--|---------------|
| Original Budget | 7,500 |
| In-Year Changes to Budget | |
| Carried forward from underspend 2019/20 | 12,042 |
| Re-phasing into 2021/22 | -10,000 |
| Allocations | |
| Highways 2020 Mobilisation | -1,406 |
| Skegness Countryside Business Park | -534 |
| A1073 - Part One Compensation Claims | -1 |
| Peppermint Park | -3,400 |
| Horncastle Land Purchase | -113 |
| Castle Motte | -444 |
| Lincoln Castle Revealed Phase 2 return of unspent monies | 282 |
| Total Changes to Budget plus Allocations | -3,574 |
| To be Carried Forward to 2021/22 | 3,926 |

1.54 The underspend of £3.926m remaining at the end of 2020/21 will be transferred forward into 2021/22 to fund schemes in the new financial year. There are a number of commitments which already exist for use of this funding in 2021/22 and future years.

Prudential indicators

1.55 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.

1.56 In complying with the Code the indicators for 2020/21 were approved by the Council on 21 February 2020 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 there have been no issues of concern to be reported to members. The Council should also be informed of the actual position compared with that estimated for any given year after the year end. **APPENDIX N** provides details of this comparison for 2020/21. 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

1.57 For 2020/21, we made the decision not to take advantage of the flexibility to use capital receipts to fund revenue transformation projects in the year. Instead capital receipts in 2020/21 have either been used to fund new capital schemes or carried forward to fund future schemes.

Carry forward of over and underspends

1.58 The total underspend for 2020/21, excluding Schools, was £28.746m and for Schools was £13.976m. Table D, shown below, summarises the proposals for the treatment of the Council's underspend. The Council's policy as set out in its Financial Regulations is:

All under and overspends on service revenue budgets of up to 1% will be carried forward without exception. In 2020/21, this was a net underspend totalling £4.899m.

1.59 All under and overspends on the dedicated schools budget will be carried forward. In 2020/21 this net underspend totalled £13.976m, which included an underspend of £0.508m on Schools Sickness Insurance (see paragraph 1.61 (d) below).

1.60 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 £0.237m:

- a) Civil Parking Enforcement and Permitting income is ring-fenced for spending on specific works defined by legislation. This budget underspent by £0.088m in the year.

- b) Strategic Commissioning and Procurement which provides services to partner organisations has operated at a surplus of £0.148m in 2020/21 and the net surplus will be transferred to an earmarked reserve pending future decisions about its use.
- c) Interest on Lincoln Cultural Quarter of £0.001m.

All of the transfers to reserves set out in paragraph 1.58 and in this paragraph 1.60 are for noting as being in accordance with Financial Regulations.

1.61 The amount of underspend remaining after taking account of the carry forward of 1% of service underspends and the "business as usual" transfers is £23.610m. 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 and there are four further requests for transfers to existing earmarked reserves, totalling £9.314m (£8.806m for items a to c which relate to non-Schools) and £0.508m (for item d which relates to Schools):

- a) The budget for flood and water risk management underspent by £0.045m in the year and it is proposed that this sum be added to the Flood and Water Risk Management reserve.
- b) A surplus of £0.114m was achieved in 2020/21 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.
- c) Capital Financing Charges underspent by £8.647m in the year and it is proposed that this sum be transferred to the existing Capital Financing Charges earmarked reserve which will be used in the future to smooth out fluctuations in charges as a result of capital programme volatility.
- d) Schools Sickness Insurance Scheme had a surplus of £0.508m in the year and it is proposed that this be transferred to the Schools Sickness Insurance earmarked reserve.

1.62 It is proposed that a new earmarked reserve be created this year from a specific underspend in the revenue budget:

- a) The budget for four-yearly County Council elections has now been spread evenly over a four year budget cycle. Each year there is a revenue budget of £0.300m and in years when no elections take place and there is consequently no expenditure against the budget, the resulting underspend will be transferred to a new Elections earmarked reserve. In the years when an election takes place, the balance on the reserve will be drawn down to supplement the annual budget. It is proposed that the underspend of £0.300m is transferred to a new reserve set up for this purpose.

1.63 After the above allocations, which are in line with the Council's Financial Strategy, there is £14.504m still to be allocated.

1.64 The Financial Volatility earmarked reserve has been created from underspends in previous financial years and exists primarily to support the revenue budget in a planned way in any year where there is a budget deficit over the medium term period. During 2020/21 the sum of £12.200m was drawn down from the Financial Volatility reserve in order to create a new Support for Businesses earmarked reserve of £12.000m and to increase the sum in the Flood and Water Risk Management earmarked reserve by £0.200m. These reductions in the Financial Volatility earmarked reserve were to support particular areas of concern at the time, namely the impact of the pandemic on businesses in Lincolnshire and the need to provide further support for flood management. It is proposed that £12.200m of the 2020/21 underspend is transferred to the Financial Volatility earmarked reserve to top it up to its previous level of £52.683m.

1.65 Although the situation has improved since the end of the 2020/21 financial year, the coronavirus pandemic is not yet over. The government has announced £15.159m of emergency support to cover Covid-19 costs in 2021/22 and the extension of the sales fees and charges grant to cover loss of income due to Covid-19 for the first quarter of 2021/22. We have also carried forward £2.072m of unspent emergency grant to 2021/22. Beyond this there is no guarantee of any further government support for the impacts of the pandemic, but our costs and losses are still continuing and the easing of Covid-19 restrictions by the government will not lead to an immediate return to normality for all services. It would therefore be prudent to allocate the remaining underspend from the Council's budget to a new revenue earmarked reserve for Coronavirus Recovery and it is proposed that the sum of £2.304m be allocated in this way to a new reserve set up for this purpose.

1.66 The current balance in the Financial Volatility earmarked reserve is £40.483m before any top-up from the 2020/21 underspend. This reserve is not required to balance the budget in 2021/22, but it may be required to support the budget in the years beyond as the medium term financial plan shows budget deficits in each of the next two years. Work on updating the medium term financial plan as part of the next budget setting process is currently underway.

TABLE D – Proposals for Treatment of the Council's Underspend

| TABLE 1: Proposed Use of Underspend in 2020/21 | |
|---|---------------|
| | £m |
| Council Underspend for 2020/21 (excluding Schools) | 28.746 |
| <u>Service Net Underspends up to 1% Carried Forward:</u> | |
| - Adult Care and Community Wellbeing | 2.167 |
| - Children's Services | 1.136 |
| - Place | 0.766 |
| - Fire & Rescue and Emergency Planning | 0.103 |
| - Commercial | 0.408 |
| - Resources | 0.288 |
| - Corporate Services | 0.031 |
| | 4.899 |
| <u>Business As Usual Items, for ringfenced items (para 1.60):</u> | |
| - Civil Parking Enforcement & Permitting | 0.088 |
| - Strategic Commissioning & procurement surplus | 0.148 |
| - Interest Lincoln Cultural Quarter | 0.001 |
| | 0.237 |
| <u>Proposed Transfers to Existing Earmarked Reserves (para 1.61):</u> | |
| - Flood & Water Risk Management | 0.045 |
| - Purchase of Employee Leave | 0.114 |
| - Capital Financing Charges | 8.647 |
| | 8.806 |
| <u>Proposed Transfers to New Earmarked Reserves (para 1.62):</u> | |
| - Elections | 0.300 |
| | 0.300 |
| Balance Remaining for Consideration | 14.504 |
| <u>Proposals for Balance Remaining (paras 1.64 to 1.65):</u> | |
| - Replenish Financial Volatility Reserve | 12.200 |
| - Create new Coronavirus Recovery Reserve | 2.304 |
| | 14.504 |

1.67 A variety of other transfers to or from other earmarked reserves reflecting actual expenditure and income in 2020/21 are shown in **TABLE F** over the page.

General Reserve

1.68 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 2020/21 we planned to increase the balance in our General Reserve by £0.150m. After considering the updated budget requirement for 2021/22 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 2021 stands at £16.200m or 3.2% of the budget requirement (**TABLE E**).

TABLE E – General Reserves

| | Balance at 31 March 2021 £000's |
|---|---------------------------------------|
| General Reserves | |
| Opening Balance 01 April 2020 | -16,050 |
| Contribution to Reserves in Year | -150 |
| Proposed Contribution to / use of Reserves | 0 |
| Balance 31 March 2021 | -16,200 |
| Balance as a percentage of 2021/22 Net Budget | 3.2% |

TABLE F – Transfers to and from reserves

| | Balance at 01 April 2020 £'000 | Additions in Year £'000 | Used in Year £'000 | Balance at 31 March 2021 £'000 |
|---|---|-------------------------------|--------------------------|---|
| Balances from dedicated schools budget | 14,137 | 670 | (2,929) | 11,878 |
| Balances for schools under a scheme of delegation | 10,671 | 15,227 | (11,661) | 14,237 |
| Total Schools | 24,808 | 15,897 | (14,590) | 26,115 |
| Other Earmarked Reserves: | | | | |
| Earmarked Reserves - Pre Council Confirmation | 15,141 | 29,254 | (15,141) | 29,254 |
| Insurance | 5,737 | 1,038 | 0 | 6,775 |
| Schools Sickness Insurance | 685 | 0 | 0 | 685 |
| Shared Services (Legal and Procurement) | 1,823 | 828 | (13) | 2,638 |
| Financial Volatility | 52,683 | 0 | (12,200) | 40,483 |
| CSSC Transformation Including BW Rebuild and Development | 3,384 | 0 | (636) | 2,748 |
| Energy from Waste Lifecycles | 5,038 | 1,286 | (552) | 5,772 |
| Development Fund | 10,182 | 9,966 | (5,696) | 14,452 |
| Business Rates Volatility Reserve | 6,152 | 0 | 0 | 6,152 |
| Support to Businesses | 0 | 12,000 | (689) | 11,311 |
| Other Service Earmarked Reserves | 5,151 | 6,504 | (1,195) | 10,459 |
| Earmarked Reserves | 105,976 | 60,876 | (36,122) | 130,729 |
| Revenue Grants and Contributions Unapplied Reserves: | | | | |
| Schools | 5,872 | 8,320 | (5,758) | 8,435 |
| Childrens Services | 8,465 | 2,581 | (344) | 10,702 |
| Adult Care and Community Wellbeing | 41,875 | 23,649 | 0 | 65,524 |
| Place | 9,816 | 1,628 | (499) | 10,945 |
| Other Budgets | 21,349 | 3,503 | (21,152) | 3,700 |
| Corporate Services | 213 | 0 | 0 | 213 |
| Resources | 571 | 42 | 0 | 613 |
| Fire & Rescue | 384 | 0 | 0 | 384 |
| Revenue Grants and Contributions | 88,545 | 39,723 | (27,753) | 100,516 |
| Total | 219,329 | 116,496 | (78,465) | 257,360 |

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 2020/21 in February 2020 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 2020/21 in February 2020 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 2020/21 in February 2020 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 2020/21. Net revenue spending amounted to £488.644m, excluding Schools Budgets. Net capital spending totalled £52.235m.

3.2 Existing policies require all over and underspends up to 1% on service budgets and over and underspends on capital, schools budgets and shared services to be automatically carried forward. These carry forwards and transfers to earmarked reserves have been proposed in accordance with existing policy. The treatment of all other underspends and overspends is a matter for the full Council and the Report sets out proposals for how these should be dealt with. General reserves currently stand at £16.200m with a further £40.483m 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 1 July 2021 the Overview and Scrutiny Management Board will consider this report on the Review of Financial Performance 2020/21. Comments made by the Board will be tabled at the meeting.

d) 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 2020/21 |
| Appendix B | Children's Services Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix C | Adult Care and Community Wellbeing Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix D | Place Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix E | Fire and Rescue and Emergency Planning Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix F | Resources Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix G | Commercial Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix H | Corporate Services Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix I | Schools Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix J | Other Budgets Financial Position 1 st April 2020 – 31 st March 2021 |
| Appendix K | Narrative of Financial Impact of Covid-19 as at 31 st March 2021 |
| Appendix L | Monitoring of Planned Savings 2020/21 |
| Appendix M | Monitoring of Development Fund Initiatives 2020/21 |
| Appendix N | Prudential Indicators 2020/21 |

8. Background Papers

| Document title | Where the document can be viewed |
|------------------------|---|
| Council Budget 2020/21 | https://www.lincolnshire.gov.uk/downloads/file/4001/budget-book-2020-21 |

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