

Cabinet – Supplementary Agenda – Monthly Budget Monitoring Report



Date & time
Tuesday, 17 July
2018 at 2.00 pm

Place
Ashcombe Suite,
County Hall, Kingston
upon Thames, Surrey
KT1 2DN

Contact
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Cabinet Members: Mr David Hodge CBE, Mr John Furey, Mrs Helyn Clack, Mrs Clare Curran, Mr Mel Few, Mr Mike Goodman, Mr Colin Kemp, Mrs Mary Lewis, Mr Tim Oliver and Ms Denise Turner-Stewart

Deputy Cabinet Members: Miss Alison Griffiths, Mr Jeff Harris, Mr Cameron McIntosh and Ms Charlotte Morley

12 MONTHLY BUDGET MONITORING REPORT

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This report presents the council's financial position for 2018/19 at the end of June 2018. The context for the report is the Annual County Council report on Developing a Vision for Surrey in 2030.

Annex 1 to this report details the overall and directorate financial position for: revenue budget, savings, pressures and capital programme; balance sheet, reserves, debt and treasury management. Annex 2 shows the progress of the MTFP savings projects for 2018/19.

[The decisions on this item can be called in by the Corporate Overview Select Committee]

Joanna Killian
Chief Executive
Monday, 16 July 2018

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SURREY COUNTY COUNCIL

CABINET

DATE: 17 JULY 2018



REPORT OF: MR DAVID HODGE CBE, LEADER OF THE COUNCIL

LEAD OFFICER: KEVIN KILBURN, DEPUTY CHIEF FINANCE OFFICER

SUBJECT: FINANCE AND BUDGET MONITORING REPORT TO 30 JUNE 2018

SUMMARY OF ISSUE:

This report presents the Council's financial position for 2018/19 at the end of June 2018. The context for the report is the Annual County Council report on Developing a Vision for Surrey in 2030. The Council faces a significant, and unprecedented budget shortfall in 2019/20 following the use of substantial one-off sources of funding this year. This reinforces the need to achieve 2018/19's planned savings in full to protect the Council's reserves and to meet future years' budget risks.

Annex 1 to this report highlights indications of material or significant variances to the Medium Term Financial Plan (MTFP) assumptions, including financial year end projections for the capital and revenue budgets as well as emerging issues, risks, areas of concern and proposed actions to resolve them. Annex 2 shows the progress of the MTFP savings projects for 2018/19.

The Council has a target of £15m additional in year savings in 2018/19. It is crucial the Council achieves this target at the year end to increase its financial resilience and minimise the reserves it needs to draw on. To meet this financial challenge, officers are developing plans for additional in-year savings to off-set any unmitigated rise in budget pressures or shortfall in the delivery of targeted savings, and also to meet the challenging budget gap for 2019/20.

RECOMMENDATIONS:

1. Cabinet is asked to note the Council's overall budget position as at 30 June 2018:
 - £11.8m forecast revenue year end overspend (Annex 1, paragraph 1),
 - £65.5m forecast planned MTFP savings, against £66.0m target (Annex 1, paragraph 2),
 - £15m increase in pressures against £108m anticipated (Annex 1, paragraph 5),
 - £31.4m forecast service capital programme year end underspend (Annex 1, paragraph 37).
2. Cabinet is asked to request officers to report to its next meeting on plans to bring the 2018/19 budget back into balance.

- Cabinet is asked to approve the measures to achieve £15m additional in-year savings outlined in Annex 1, paragraphs 6 to 8.

REASON FOR RECOMMENDATIONS:

This report is presented to comply with the agreed policy of providing a monthly budget monitoring report to Cabinet for approval and action as necessary.

DETAILS:

Revenue budget overview

- Surrey County Council set its 2018/19 budget and MTFP 2018-21 in early February 2018 in the context of continuing rising demand and cost pressures totalling £108m, and over seven years of Government funding cuts. To counteract these pressures, the Council has targeted to deliver £66m revenue savings and spending reductions this year. However, balancing this year's budget required £56m in one off funding, which will not be repeatable in future years. This included the application of £21m from reserves, leaving £60m earmarked reserves and £21m general balances at 1 April 2018.

Revenue savings

- The Council has conducted deep dive reviews into the 2018/19 MTFP savings programme with the aim of increasing assurances about savings and identifying actions to increase confidence. It will also conduct deep dive reviews into the 2019/20 savings programme with the same aims.
- New and more robust arrangements that are being put in place mean that throughout the year, the Corporate Leadership Team: will track and monitor delivery of MTFP savings and additional in year savings; and will develop plans for alternative savings as required. This is to ensure a considered, strategic and corporate approach to financial reporting and management.

Pressures

- The Council's main financial pressures stem from demographic demand growth in social care for adults and children, special educational needs and disabilities (SEND) and maintaining the road and infrastructure network. To ensure these pressures are visible and controlled, the Corporate Leadership Team will track pressures closely every month and will put in place mitigating actions wherever possible.
- As reported last month, early indications suggest SEND pressures are continuing to rise in 2018/19, as more children have an Education, Health and Social Care Plan (EHCP). This national issue is exacerbated by the failure of funding in the Dedicated Schools Grant High Needs Block to keep pace. As at 30 June 2018, the Council has developed plans to offset half of this increase in pressure and aims to achieve further in year savings to close this challenging budget gap.

Capital programme

6. The Council set its three year MTFP capital programme at £322m, including £144m in 2018/19. This major investment in Surrey's infrastructure and economy focuses on the growth in pupil numbers and the importance residents place on good roads and services. The Council has increased capital spending for road repairs and maintenance over and above that planned in the MTFP by £15m over the next two years.
7. The Council has conducted a deep dive review of the capital programme. The intention of this is to ensure the capital programme aligns with the Council's priorities and long term strategy, and that each year's expenditure is more accurately forecast and profiled. To allow the new Executive Director for Economy, Growth & Commercial to consider the findings of the deep dive review, Cabinet will receive detailed recommendations for restating and reprofiling the capital expenditure at its next meeting.

Service transformation

8. Local authority funding remains uncertain, especially around the future of the Business Rates Retention Scheme, the Fair Funding Review, negative Revenue Support Grant and the prospects anticipated in the deferred Green Paper on adult social care. The Council does not forecast any significant new or additional government funding to meet the continuing and rising pressures it faces over the medium term. Faced with these uncertainties and pressures, the Cabinet is developing a programme of transformational changes to ensure the Council has sustainable services for residents. This transformation was set out in the County Council report of 22 May 2018, "Developing a Vision for Surrey in 2030". The programme will include projects to manage service demands, increase income and, or, deliver savings to reduce overall annual expenditure by approximately £250m over the next three years. This includes £133m of savings already in the MTFP, of which £66m is targeted for delivery in 2018/19.
9. The additional benefit of the transformation programme will start to flow from 2019/20, but the bulk of the savings will inevitably follow in 2020/21 for the Council to attain a sustainable budget in future years. Therefore for the 2019/20 budget to be achieved will require all services to deliver further sizable savings from their current operating budgets.
10. Outline Business Cases for the transformation savings will be presented for agreement in principle and will provide additional confidence to members. These, and the more detailed Full Business Cases for savings, will link to a more robust budget setting process for 2019/20 and the next five year MTFP. The budget and MTFP, subject to any changes resulting from the Local Government Finance Settlement, will be presented to the Full County Council in November 2018. This is three months in advance of previous years.

Risk based approach

11. The Council operates a risk based approach to budget monitoring across all services. The approach ensures the Council focuses on monitoring those higher risk budgets due to their value, volatility or reputational impact.
12. Managers with high risk budgets monitor their budgets monthly, managers with low risk budgets monitor their budgets quarterly (or more frequently on an exception basis, if the year to date budget and actual spend vary by more than 10%, or £50,000, whichever is lower).

CONSULTATION:

13. All Cabinet Members will have consulted their relevant director or head of service on the financial positions of their portfolios.

RISK MANAGEMENT AND IMPLICATIONS:

14. Risk implications are stated throughout the report and each relevant director or head of service has updated their strategic and or service risk registers accordingly. In addition, the leadership risk register continues to reflect the increasing uncertainty of future funding likely to be allocated to the Council and the sustainability of the MTFP. In the light of the increased and significant financial risks faced by the Council, the Leadership Risk Register will be reviewed to increase confidence in directorate plans to mitigate the risks and issues.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

15. The report considers financial and value for money implications throughout and future budget monitoring reports will continue this focus.

SECTION 151 OFFICER COMMENTARY

16. The Section 151 Officer confirms the financial information presented in this report is consistent with the Council's general accounting ledger and forecasts have been based on reasonable assumptions, taking into account all material, financial and business issues and risks.
17. The Council has a duty to ensure its expenditure does not exceed resources available. During 2018/19, the Council targets to deliver £66m spending reductions and manage £108m pressures as it moves towards a sustainable budget for future years. All services must continue to take all appropriate action to keep costs down and optimise income (e.g. through minimising spending, managing vacancies wherever possible). Adverse variances will require remedial in-year savings and budget reductions.
18. It is drawn to members' attention that the Council's reserves are already at low levels bearing in mind the ongoing uncertainty about: future funding, demand pressures, savings and the transformation programme. Any future use of

reserves will need to be planned carefully so that they are not depleted to unacceptable levels.

LEGAL IMPLICATIONS – MONITORING OFFICER

19. The Local Government Finance Act requires the Council to take steps to ensure that the Council's expenditure (that is expenditure incurred already in year and anticipated to be incurred) does not exceed the resources available. Cabinet should be aware that if the Section 151 Officer, at any time, is not satisfied that appropriate strategies and controls are in place to manage expenditure within the in-year budget he must formally draw this to the attention of the Cabinet and Council and they must take immediate steps to ensure a balanced in-year budget.

EQUALITIES AND DIVERSITY

20. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary.

WHAT HAPPENS NEXT:

21. The relevant adjustments from the recommendations will be made to the Council's accounts.

Contact Officer:

Kevin Kilburn, Deputy Chief Finance Officer
020 8541 9207

Consulted:

Cabinet, executive directors, heads of service.

Annexes:

Annex 1 – Overall and directorate financial position for: revenue budget, savings, pressures and capital programme; balance sheet, reserves, debt and treasury management.

Annex 2 – MTFP savings projects 2018/19

Sources/background papers:

Revenue and capital budget movements.

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Budget monitoring report to 30 June 2018 (period three)

Summary

The Council faced significant challenges in setting its 2018/19 budget from increasingly intense demand pressures and an unprecedented period of funding cuts. To balance the budget the Council needed to use substantial one-off sources of funding, including £21m from reserves. This challenge continues and grows in 2019/20. Faced with this, the Cabinet is developing a transformational change programme to ensure the Council has sustainable services for residents and the means to achieve a balanced budget in future years.

After the first three months of 2018/19, the Council forecasts a significant £11.8m overspend at year end. This is due to the Council continuing to face significant budget pressures for children with special educational needs and disabilities (SEND). The increase in the volume of children with SEND is forecast to cost £30m more than in the last financial year. The Schools & SEND service has developed a cost containment plan covering £15m of this pressure, but achieving £15m further savings to meet this budget gap is proving extremely challenging. Mitigating plans are being developed as part of the SEND sustainability business case.

With the need for a balanced budget in the current year paramount, and to meet next year's challenging budget gap, the Council has developed plans for additional in-year and continuing savings. These additional in-year savings total £15m.

The annual meeting of the County Council in May 2018 approved the use of capital receipts to fund and support the costs of transforming the Council's services. The use of capital receipts will meet the requirements of the Government's Flexible Use of Capital Receipts Guidance. The current committed costs are £2.1m for 2018/19 and relate to consultancy project management support and additional interim capacity. The investment required to deliver the individual transformation projects is being determined.

The Council has conducted 'deep dive' reviews of the 2018/19 savings programme and will review progress of the necessary actions identified in mid July, when it will also undertake a review of the 2019/20 savings programme. The aim of these reviews is to increase the Council's confidence in services' savings plans, particularly in reducing the level of associated risks in their achievement. This month the overall risk profile of the Council's savings has improved, largely through a more detailed analysis of the Schools & SEND cost containment plan. However, the £8m increase in savings achieved and on track is countered by a £2m increase in savings at high risk.

The Council carried out a deep dive review of the capital programme in late June to ensure it aligns with the Council's priorities and long term strategy. A report detailing proposals to re-profile and restate the capital programme will be presented to Cabinet's next meeting. Services currently forecast £31m in-year underspend against the £157m capital budget, which will be adjusted following the outcome of the capital programme review.

Summary recommendations

1. Cabinet is asked to note the Council's overall budget position as at 30 June 2018:

- £11.8m forecast revenue year end overspend (paragraph 1),
 - £65.5m forecast planned MTFP savings, against £66.0m target (paragraph 2),
 - £15m increase in pressures against £108m anticipated (paragraph 5),
 - £31.4m forecast service capital programme year end underspend (paragraph 37).
2. Cabinet is asked to request officers to report to its next meeting on plans to bring the 2018/19 budget back into balance.
 3. Cabinet is asked to approve the measures to achieve an additional £15m in-year savings as outlined in paragraphs 6 to 8.

Revenue budget overall summary

1. As at 30 June 2018, the Council forecasts £11.8m year-end overspend as shown in Table 1. This is a £14.6m deterioration against the position as at 31 May 2018. Last month's budget monitoring report highlighted the significant risk of additional pressures within the High Needs Block of the Dedicated Schools' Grant for children with SEND. It is now more likely than not that this additional cost of £14.8 will have to be met from the Council's general fund. This is outlined in paragraphs 23 to 26.

Table 1 Summary forecast revenue budget as at 30 June 2018

	Gross expenditure budget £m	Net expenditure budget £m	Forecast net expenditure £m	Forecast variance £m
Service summary				
Children's Services	138.0	124.6	125.0	0.4
Commissioning & Prevention	101.6	33.3	33.2	-0.1
Schools & SEND	175.5	62.6	77.4	14.8
Delegated Schools	380.4	0.0	0.0	0.0
Cultural Services	22.8	8.7	8.3	-0.4
Adult Social Care	500.0	381.6	378.2	-3.4
Public Health	37.3	0.7	0.7	0.0
Economic Growth	1.0	1.0	1.1	0.1
Highways & Transport	56.9	48.5	48.3	-0.2
Place Development & Waste	97.4	88.9	89.0	0.1
Surrey Fire & Rescue Service	45.4	31.5	31.6	0.0
Environment & Community	5.2	3.1	2.8	-0.2
Central Income & Expenditure	38.5	49.2	45.4	-3.9
Legal, Democratic & Coronial	11.7	9.9	9.9	0.0
Orbis	88.2	76.8	76.4	-0.5
Customer & Performance	7.5	7.1	7.0	-0.1
General funding		-906.3	-901.0	5.3
Total	1,707.3	21.2	33.1	11.8

Note: All numbers have been rounded - which might cause a casting difference

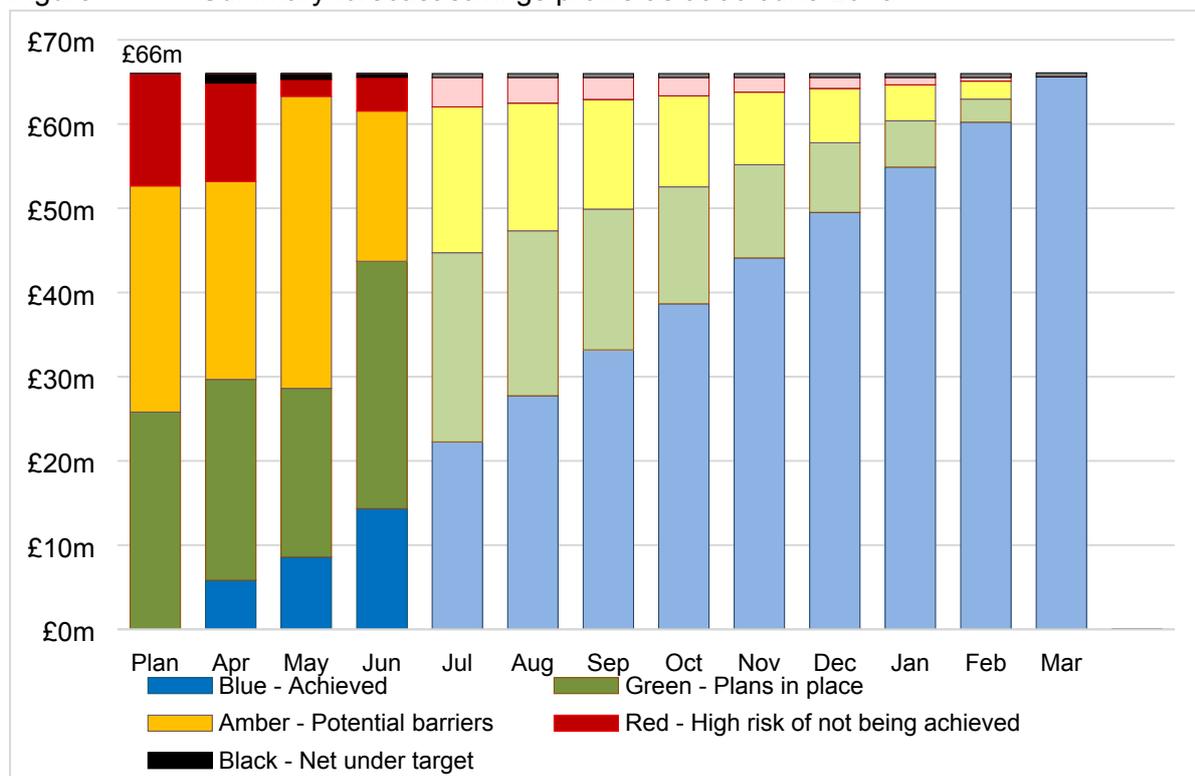
Savings

2. The current forecasts shows £65.5m delivery against the £66.0m MTFP savings target. This £0.5m net savings shortfall is from application of Public Health Grant (reported to Cabinet in May) less £0.5m increase in Schools & SEND's savings

forecast (reported to Cabinet in June) and £0.2m increase in Strategy & Performance from restructuring.

3. The deep dive reviews of the 2018/19 savings programme aimed to increase confidence in services' savings plans, particularly in reducing the higher level, red risks, through determining the necessary actions to reduce the risks to their achievability. Figure 1 shows the risk ratings for the achievement of the £66m planned MTFP savings, their achievement to date and the forecast profile for achieving the savings over the year.
4. Since last month, the red risks have increased by £2m, due to a more granular analysis of Schools & SEND's £15m cost containment plan. The analysis also reduced amber risks by over £10m and increased the amount of savings on track or achieved by £8m. This leaves an overall savings profile where £44m are achieved or on track, £18m face potential barriers and £4m have a high risk of not being achieved. Annex 2 provides more details of performance against individual savings plans.

Figure 1 Summary forecast savings profile as at 30 June 2018



Pressures

5. Figure 2 compares the Council's total budget pressures for 2018/19) in the MTFP against those forecast as at 30 June 2018. It shows the Council faces £15m more pressures than the £108m included in its 2018/19 budget. This is due to pressures on SEND services funded from Dedicated Schools Grant High Needs Block as outlined in paragraphs 23 to 26.

Figure 2 Forecast budget pressures as at 30 June 2018



In year savings 2018/19

6. This report has already highlighted the financial risks faced by the Council this year, and the continuing budget challenges for next year and for the future. To mitigate these risks the Council has developed a series of cost controls and measures to reduce spending and lead to in-year budgets reductions. These will become base budget reduction for future years.
7. Table 2 shows the list of actions, and the in-year savings, that are proposed. It is not expected that these actions will lead to reductions in the Council's delivery of services.

Table 2 Measures to achieve in year savings 2018/19

Proposed measure	Potential saving (£m)
Removing historic underspends from budgets	8.00
Targeted voluntary severance scheme	0.50
Instigate recruitment controls, based on peer Executive Director sign off	1.00
Sundry expense controls	0.25
Travel controls and time-out for claims	0.25
Fees and charges for Council services	0.50
Learning and development – review of courses and administration	0.50
Procurement – review of contracts to be let	1.00
Procurement: rebalance cost v quality criteria	0.50
Targeted headcount reduction	0.50
Defer contribution to reserves	2.00
Total	15.00

8. The Council's forecast revenue outturn position for this month does not yet include the impact of these new savings measures.

Transformation costs

9. To ensure the Council has the right capacity and capability to develop and deliver the level of transformational change required, the Council at its annual meeting in May approved additional costs relating to the following areas:
 - external consultancy project management support;
 - interim leadership capacity; and
 - investment in transformation initiatives and programmes.

10. The Council further approved the use of up to £5m of capital receipts in line with the Government's Flexible Use of Capital Receipts policy to fund these costs.
11. The committed costs as at 30 June 2018 are shown below for 2018/19.

	£m
Project management consultancy	0.6
Interim CLT support	<u>1.8</u>
Total	<u>2.4</u>

12. The costs of the transformation projects are being developed as a part of the Outline Business Cases.

Capital budget overall summary

13. As at 30 June 2018, services forecast spending £126m against the £157m current 2018/19 capital budget. The significant variances are underspends of £20m in school basic need and £11m in Property.
14. A deep dive review has recently been carried out on the capital programme to ensure it aligns with the Council's priorities, the long term strategy and each year's expenditure is more accurately forecast and profiled. A report detailing proposals to amend the capital programme, including options for re-profiling and re-stating aspects of it to better reflect capital expenditure plans will be presented to the Cabinet for approval at its next meeting.
15. As part of increasing its overall financial resilience the Council forecasts making £50m net investment in long term capital assets in 2018/19 (paragraphs 39 to 42). This brings total forecast capital spending in 2018/19, to £176m.

Services' revenue budget positions as at 31 May 2018

People services

People services overview

16. People services forecast an overall £11.3m year-end overspend as shown in Table 3. The forecast overspend is mainly due to the significant high needs pressure in Schools & SEND, partly offset by underspends in Adult Social Care.
17. The overall position for Children Services, Schools & SEND and Commissioning & Prevention is a £15.1m overspend, mainly due to the significant financial pressure in high needs. This position is caveated with the fact that these services are about to embark on a complete restructure and transformation. Planned savings for 2018/19 of £25.5m have now been incorporated into the transformation programmes of work. The financial implications of such a major change will need careful monitoring throughout 2018/19, as a result the variance position will undoubtedly change.

Table 3 People services' position against revenue budget as at 30 June 2018

	Gross expenditure	Net expenditure	YTD actual	Full year projection	Full year variance
	£m	£m	£m	£m	£m
Children's Services	138.0	124.6	30.5	125.0	0.4
Commissioning and Prevention	101.6	33.3	7.4	33.2	-0.1
School & SEND	175.5	62.6	14.7	77.4	14.8
Delegated Schools	380.4	0.0	0.0	0.0	0.0
Cultural Services	22.8	8.7	1.9	8.3	-0.4
Adult Social Care	500.0	381.6	84.6	378.2	-3.4
Public Health	37.3	0.7	0.0	0.7	0.0
People services total	1,355.5	611.5	139.1	622.8	11.3

Note: All numbers have been rounded - which might cause a casting difference

Children's Services - £0.4m forecast overspend (no change from 31 May 2018)

18. Children's Services continues to experience exceptional demand for services which was planned for during the 2018/19 budget setting process. However, as a result of some recent events, after the budget was set, in relation to CAMHS (Child & Adolescent Mental Health Service) the service is forecasting to overspend by £0.4m in 2018/19.
19. Increased demand from children requiring support has led to a continued need for additional social work capacity. There are 118 locums across frontline teams mainly covering vacancies. Each locum social worker costs on average £11,000 a year more than an employed social worker and a senior social worker locum costs on average £7,000 a year more than those employed. This additional level of staffing pressure has been planned for in the 2018/19 budget.
20. The external placement budget was increased by £11m in 2018/19 due to increasing demand. As at the end of June there were 88 external residential placements and 233 external fostering placements out of a total of just over 850 looked after children. This is in line with the planning assumption of an increase of two per month and five per month respectively throughout the financial year. Plans are being put in place to reduce the demand for high cost external placements and progress will be reported in subsequent monitoring statements.
21. As in previous years, the local authority is having to subsidise services for Unaccompanied Asylum Seeking Children, as the grant funding received from the Home Office is insufficient to cover the total cost. In 2018/19 the budget was increased for this level of local authority subsidy, which totals £4.5m, within a total cost of £8.9m. We still await the revised funding arrangements from the Home Office, which is likely to alter the level of subsidy.
22. The budget for the Leaving Care Service was increased by £2m in 2018/19 to allow for the forecast rise in demand and the increased level of need.

Schools & SEND - £0.2m forecast underspend and +£15.0m forecast overspend on high needs (£15.0m deterioration since 31 May 2018)

23. The Schools & SEND service forecast a very small underspend -£0.2m plus a forecast overspend of +£15m against the High Needs Block Dedicated Schools Grant, giving an overall service overspend position of £14.8m.

24. Nationally, there continues to be an exceptional demand for services for children with Special Educational Needs (SEN) and the Council experienced rising demand at a rate similar to the average for South East counties in 2017/18. Within Surrey, the number of children with Education Health and Social Care Plans (EHCPs) has increased to almost 8,300 over the past two financial years and has risen by nearly 600 since the SEN2 statutory return in January.
25. The total financial pressure is currently £30m, due to an increasing number of children in external specialist placements (over 1,100 children) and children in receipt of pupil support (3,300 children). In order to manage these increasing volumes and costs, measures have been identified to reduce this pressure down by £15m (£8m savings are achieved or on track and £7m savings have potential barriers or high risk), which is factored into the forecast, but this still leaves a £15m forecast overspend on SEND services for 2018/19.
26. This residual forecast £15m overspend is a huge concern and risk for the Council. As part of the SEND Sustainability transformation work the service is looking urgently at how it can minimise the impact on the Council's reserves and services and progress will be reported in the next budget monitoring report.
27. The increasing number of SEN children with plans is also impacting on the number of children requiring transport to school, which is almost 3,000 and a forecast overspend of £1.7m. The plans for savings of £1.2m in 2018/19 are not yet on track to be achieved and will be considered as part of the deep dive review of progress with 2018/19 savings plans.
28. The Schools Planning and Leadership budget has a planned forecast underspend of £0.8m due to the imminent service review.

Adult Social Care - -£3.4m forecast underspend (no change from 31 May 2018)

29. Adult Social Care's (ASC) forecast year end underspend is mainly due to:
 - £2.8m forecast staffing underspend; and
 - £0.7m forecast underspend on care packages, primarily due to actions taken in the final quarter of 2017/18 resulting in lower care costs for the start of this year.
30. ASC forecasts to achieve its full £18.4m MTFP savings target for 2018/19. However, there is a high degree of risk associated with at least £1m of forecast savings. Plans are in place, but rely on managing demand, to contain the total increase in care package costs.
31. ASC budgeted £18.4m for market inflation. As at 30 June 2018, ASC has identified £6.8m inflation impact, plus £6.8m anticipated for the Learning Disability residential and supported living cost of care project to address market sustainability issues. ASC holds £4.8m for potential further inflationary pressures in the rest of 2018/9, both for increased costs of new care packages and for current care packages where providers state they are unable to continue to provide care at the current fees. ASC will manage requests for fee increases robustly and will continue to review the need for this remaining inflation budget in line with agreed market fee changes.

Public Health – balanced forecast outturn (no change from 31 May 2018)

32. Public Health (PH) forecasts a balanced year end position, including to achieve its MTFP savings target fully. There are risks with delivery in some areas though, which remain under review.

Place services*Place services overview*

33. Place services forecast an overall balanced year end position with no significant variances (no change from 31 May 2018) as shown in Table 4.

Table 4 Place services position against revenue budget as at 30 June 2018

	Gross expenditure £m	Net expenditure £m	YTD actual £m	Full year projection £m	Full year variance £m
Highways & Transport	56.9	48.5	9.8	48.3	-0.2
Place Development & Waste	97.4	88.9	21.1	89.0	0.1
Surrey Fire & Rescue Service	45.4	31.5	7.5	31.6	0.0
Trading Standards	3.9	1.8	0.4	1.7	-0.1
Communities Support function	0.8	0.8	0.1	0.6	-0.2
Emergency Management	0.5	0.5	0.1	0.5	0.0
Economic Growth	1.0	1.0	0.2	1.1	0.1
Place services total	205.8	173.0	39.3	172.7	-0.3

Note: All numbers have been rounded - which might cause a casting difference

Corporate support services*Corporate support services overview*

34. Corporate support services forecast an overall £0.8m year-end overspend. This comprises £4.5m underspend on service net expenditure and £5.3m overspend on general funding, as shown in Table 5.
35. The main expenditure variance is £3.9m forecast underspend in Central Income & Expenditure. A review of the balance sheet following the first quarter identified a number of historical balances, which can be used to support the current year budget. In addition, there is an increased forecast in income from long term investments (outlined in paragraph 39), although this is off-set by shadow public health savings now considered unachievable.
36. In setting the budget, the Council planned to use £15m of capital receipts to meet the already budgeted costs of transforming services. However, as reported in the Finance Position Statement to the Cabinet in May 2018, the business cases for included the flexible use of capital receipts totalled £9.7m, which is a £5.3m shortfall from the budget.

Table 5 Corporate support position against revenue budget as at 30 June 2018

	Gross expenditure	Net expenditure	YTD actual	Full year projection	Full year variance
	£m	£m	£m	£m	£m
Customer Services	3.4	3.3	0.7	3.3	0.0
Strategic Leadership	0.8	0.8	0.2	0.8	0.0
Communications	1.8	1.8	0.4	1.8	0.0
Strategy & Performance	1.5	1.2	0.3	1.1	-0.1
Business Operations	-0.1	-0.1	0.0	-0.1	0.0
Finance	4.4	2.8	0.7	2.8	0.0
Human Resources & Organisational Development	3.8	3.8	0.7	3.8	0.0
Information Technology & Digital	13.1	12.6	2.5	12.6	0.0
Procurement	0.0	0.0	0.0	0.0	0.0
Property	31.3	22.1	3.7	22.1	0.0
Joint Operating Budget ORBIS	35.6	35.6	8.8	35.2	-0.4
Central Income & Expenditure	38.5	49.2	1.7	45.4	-3.9
Coroner	2.4	1.7	0.0	1.7	0.0
Legal Services	4.3	3.9	1.0	3.9	0.0
Democratic Services	5.0	4.3	1.3	4.3	0.0
Corporate support expenditure	145.9	143.1	22.0	138.6	-4.5
General funding		-906.3	-259.4	-901.0	5.3
Corporate support total	145.9	-763.2	-237.4	-762.4	0.8

Note: All numbers have been rounded - which might cause a casting difference

Capital programme budget position as at 30 June 2018

Service capital programme 2018/19 budget overview

37. As at 30 June 2018, the service capital expenditure budget is £157.1m, comprising £144.4m MTFP budget plus £7.0m additional funding for highways, £4.7m carry forwards drawn down and £1.1m net virements. Services forecast £125.6m expenditure, which is a £31.4m in-year underspend, as shown in Table 6. The significant forecast service capital programme variances are:

Underspends

- £20.5m schools basic need ,
- £7.9m schemes to deliver capital receipts and to enhance income,
- £1.3m fire projects
- £3.7m land acquisitions for waste
- £1.3m salt barns
- £0.9m ITD equipment replacement

Overspends

- £1.6m ASC schemes
- £0.9m other school projects
- £1.0m other ITD projects

Table 6 Forecast service capital expenditure 2018/19 as at 30 June 2018

	Current full year budget £m	Apr -Jun actual £m	Jul - Mar Forecast £m	Full year forecast £m	Full year variance £m
Schools basic need	47.6	6.8	20.3	27.1	-20.5
Property Services	41.9	5.7	25.1	30.8	-11.1
Highways & Transport	42.0	5.8	36.3	42.0	0.0
Place Development & Waste	14.9	2.5	12.4	14.9	0.0
IT & Digital	4.5	0.1	4.6	4.6	0.1
Other capital projects	6.1	-0.1	6.3	6.1	0.0
Service capital programme	157.1	20.7	104.9	125.6	-31.4
Long term investments	0.0	14.2	35.8	50.0	50.0
Overall capital programme	157.1	34.9	140.7	175.6	18.6

Note: All numbers are rounded - which might cause a casting difference

38. The Council has recently completed a deep dive review of its three year, £322m capital programme. In the context of this in-year underspending, the next Cabinet meeting will receive a report presenting areas where scheme budgets needs to be restated or re-profiled to reflect better the Council's capital expenditure plans and their alignment to its priorities and long term strategy.

Revolving Infrastructure & Investment Fund

39. Table 7 shows that the Council forecasts to generate £4.7m total net income this year from various property acquisitions made by the Council portfolio and the Halsey Garton Property group. This is £0.7m above the income budget held within Central Income & Expenditure
40. The Council portfolio comprises properties purchased for future service delivery or economic regeneration. This portfolio is estimated to have a net cost £0.8m this year, largely due to development activity. This includes the former Thales site in Crawley where Phase 1, an office building in part pre-let to SECAMB has completed. However securing tenants for the remaining floors has taken longer than originally anticipated. The second phase building becomes operational in 2019/20. Once these two phases are completed and fully let the development will generate an estimated £1.3m net income each year.
41. The Halsey Garton portfolio forecasts to generate £5.5m net income this year, comprising £1.8m estimated dividend and £3.7m net interest margin on loans provided to the company by the Council. New investments will be added into the forecast once they are approved by the Investment Board.
42. Forecast capital expenditure in 2018/19 of £50m includes further equity and loans to the Halsey Garton Property group for approved investments, the development of the former Thales site in Crawley and Farnham town centre. The forecast gross capital expenditure for the year is £56.9m and is reported net of an estimated £6.9m in third party contributions.

Table 7 Summary revenue and capital position as at 30 June 2018

	YTD actual £m	Full year forecast £m
Revenue statement		
Council portfolio		
Income	-1.1	-5.2
Expenditure	0.2	0.9
Funding	1.2	5.1
Net income/cost	0.3	0.8
Halsey Garton portfolio		
Dividend	0.0	-1.8
Net interest margin	-0.9	-3.7
Net income	-0.9	-5.5
Total net income	-0.6	-4.7
Capital expenditure	14.2	50.0

Note: All numbers have been rounded - which might cause a casting difference

Balance Sheet

App 1. Table App 1 shows the Council's balance sheet as at 30 June 2018. Significant movements since 31 March 2018 include: £17m increase in long term assets principally due to an increase in capital expenditure less depreciation and an increase in loans to the Halsey Garton group; £30m increase in current assets, principally due to cash from grants received at the start of the financial year; £74m decrease in current liabilities due to decreases in short term borrowing and social care creditors, plus receipt of Schools Basic Need Grant.

Table App 1 Balance sheet as at 30 June 2018

31 Mar 2017 £m	31 Mar 2018 £m		30 Jun 2018 £m
1,752.3	1,723.1	Property, plant & equipment	1,736.1
1.0	1.0	Heritage assets	1.0
54.1	74.8	Investment property	74.8
7.0	7.9	Intangible assets	7.6
46.7	72.1	Long Term Investments	73.2
124.5	184.6	Long Term Debtors	188.1
1,985.7	2,063.4	LONG TERM ASSETS	2,080.8
0.0	0.0	Short term investments	0.0
0.8	0.6	Intangible assets	0.6
10.9	10.1	Assets held for sale	10.1
1.4	1.0	Inventories	0.6
144.7	136.8	Short term debtors	129.0
56.1	51.2	Cash & cash equivalents	89.5
213.9	199.7	CURRENT ASSETS	229.8
0.0	0.0	Cash & cash equivalents	0.0
-140.7	-212.7	Short term borrowing	-170.2
-190.8	-207.7	Creditors	-196.6
-4.3	-3.1	Provisions	-2.9
-0.1	-0.1	Revenue grants receipts in advance	0.0
-13.3	-17.9	Other short term liabilities	-17.9
-358.3	-461.3	CURRENT LIABILITIES	-387.6
-25.2	-18.7	Provisions	-18.8
-397.8	-397.8	Long term borrowing	-397.8
-1,696.2	-1,709.5	Other long term liabilities	-1,708.7
0.0	0.0	Donated assets account	0.0
-2,119.1	-2,126.1	LONG TERM LIABILITIES	-2,125.3
-277.9	-324.2	NET ASSETS	-202.3
-341.1	-330.1	Usable reserves	-471.0
619.0	654.3	Unusable reserves	673.3
277.9	324.2		202.3

Earmarked reserves

App 2. Table App 2 shows the Council's earmarked reserves and general balances as at 30 June 2018, including the closing balances for 2017/18, the opening balances for 2018/19 and forecast movements in 2018/19 to give the projected closing balance at 31 March 2018.

Table App 2: Earmarked revenue reserves as at 30 June 2018

	Closing balance 31 Mar 2018	Agreed support for 2018/19 budget	Approved carry forwards 2018/19	Opening balance 1 Apr 2018	Movements to 30 Jun 2018	Projected additional movements 2018/19	Projected closing balance 31 Mar 2018
	£m	£m	£m	£m	£m	£m	£m
Revolving Infrastructure & Investment Fund	11.1			11.1	0.0	0.0	11.1
Budget Equalisation Reserve	22.6	-4.6	-1.3	16.7	0.0	0.0	16.7
Eco Park Sinking Fund	6.7			6.7	0.0	3.3	10.0
Insurance Reserve	9.1			9.1	0.0	0.0	9.1
Investment Renewals Reserve	5.0			5.0	0.0	-0.1	4.9
General Capital Reserve	4.8			4.8	0.1	-0.1	4.8
Street lighting PFI Reserve	3.7			3.7	0.0	-0.6	3.1
Economic Downturn Reserve	9.2	-9.2		0.0	0.0	0.0	0.0
Economic Prosperity Reserve	2.5	-2.5		0.0	0.0	0.0	0.0
Equipment Replacement Reserve	2.3			2.3	0.3	-0.8	1.8
Business Rate Appeals Reserve	3.6	-3.6		0.0	0.0	0.0	0.0
Interest Rate Reserve	1.0	-1.0		0.0	0.0	0.0	0.0
Total earmarked revenue reserves	81.6	-20.9	-1.3	59.4	0.4	1.7	61.5
General Fund Balance	21.3			21.3			21.3

Note: All numbers have been rounded - which might cause a casting difference

Debt

App 3. During the first quarter of 2018/19, the Accounts Payable team raised invoices totalling £104.8m. The amount outstanding on these invoices was £63.5m of gross debt as at 30 June 2018. Table App 3 shows the age profile of the Council's debts. The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old).

Table App 3: Age profile of the Council's debts as at 30 June 2018

Account group	<1 month £m	2-12 months £m	1-2 years £m	+2 years £m	Gross debt £m	Overdue debt £m
Care debt – unsecured	5.1	5.0	2.5	3.8	16.4	11.3
Care debt – secured	0.4	2.7	1.8	4.4	9.3	8.9
Total care debt	5.5	7.7	4.3	8.2	25.7	20.2
Schools, colleges and nurseries	5.2	0.2	0.0	0.0	5.5	0.3
Clinical commissioning groups	7.7	1.1	0.3	0.1	9.1	1.4
Other local authorities	-0.1	2.0	0.1	0.4	2.4	2.5
General debt	19.4	1.0	0.3	0.2	20.9	1.5
Total non-care debt	32.2	4.3	0.6	0.7	37.8	5.8
Total debt	37.7	12.0	4.9	9.0	63.5	25.9

Note: All numbers have been rounded - which might cause a casting difference

- App 4. Adjusting the gross debt to take into account those balances not immediately due (i.e. less than 30 days old) or collectable (i.e. secured on property) produces the overdue debt figures shown in Table App 4.
- App 5. Changes introduced under the Care Act mean it is no longer possible to place a charge on an individual's property resulting in a rise in the level of unsecured debt (as this debt would previously have been reported as secured). Over the quarter to 30 June 2018 overdue, unsecured debt rose by £2.1m.

Table App 4: Overdue, unsecured debt summary as at 31 March 2018

	2018/19	2017/18	2017/18	2016/17	2016/17	2015/16
	Q1	Q4	Q1	Q4	Q1	Q4
	£m	£m	£m	£m	£m	£m
Care related debt	11.3	9.9	8.0	8.9	10.5	10.8
Non care related debt	5.8	5.1	3.9	3.8	7.7	7.6
Total	17.1	15.0	11.9	12.7	18.2	18.4

Note: All numbers have been rounded - which might cause a casting difference

- App 6. The Council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for the period 1 April 2018 to 30 June 2018 was 35 days. The debtor days are unusually high due to some very large invoices being raised in June, notably one for £13.1m on 20 June 2018.
- App 7. The Director of Finance has delegated authority to write off irrecoverable debts in line with financial regulations. This quarter (Q1 2018/19) the Director of Finance has written off 123 such debts with £291,258 total value, of which £276,818 is care related and £14,441 is non care related debt.

Treasury management

Borrowing

- App 8. The Council borrows money to finance the amount of its capital spending that exceeds receipts from grants, third party contributions, capital receipts and reserves. The Council must demonstrate its costs of borrowing are affordable, prudent and sustainable under the Prudential Code. Table App 5 shows movements in the Council's long term borrowing.

Table App 5: Long term borrowing as at 30 June 2018

	£m
Debt outstanding as at 1 April 2018	397.2
Loans raised	0.0
Loans repaid	0.0
Current balance as at 31 March 2019	397.2

Note: All numbers have been rounded - which might cause a casting difference

- App 9. The weighted average interest rate of the Council's long term debt portfolio is 4.1% as at 30 June 2018.
- App 10. The Treasury Strategy, approved by County Council in February 2018, continued the policy of internal borrowing and where necessary, to borrow short term to meet cash flow liquidity requirements. Table App 6 shows the Council's short term borrowing activity in 2018/19.

Table App 6: Short term borrowing as at 30 June 2018

	£m
Debt outstanding as at 31 March 2018	193
Loans raised	187
Loans repaid	-233
Current balance as at 30 June 2018	147

Note: All numbers have been rounded - which might cause a casting difference

Figures are for Surrey County Council only and do not include Surrey Police Authority

App 11. The weighted average interest rate of the Council's short term external debt is 0.8% for the quarter to 30 June 2018. The Council also manages cash on behalf of Surrey Police (£18m as at 30 June 2018) which it accounts for as temporary borrowing.

Authorised limit and operational boundary

App 12. The prudential indicators control the Council's overall level of borrowing. They comprise the authorised limit and the operational boundary as outlined below. Table App 7 shows the Council's borrowing against its prudential indicators.

- The authorised limit represents the limit beyond which borrowing is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing needed with headroom for unexpected cash flow. This is a statutory limit determined under section 3(1) of the Local Government Act 2003.
- The operational boundary is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure the authorised limit is not breached.

Table App 7: Borrowing against the CFR as at 30 June 2018

	Authorised limit	Operational boundary
	£m	£m
Gross borrowing	562	562
Limit / boundary	1,643	1,059
Headroom	1,081	497

Note: All numbers have been rounded - which might cause a casting difference

Capital Financing Requirement

App 13. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for a capital purpose. The Council must ensure that, in any one year, net external borrowing does not, except in the short term, exceed its estimated CFR for the next three years. Table App 8 shows the Council's position against the estimated CFR, as reported to the County Council in February 2018. As at 30 June 2018, the Council shows a net borrowing position (total borrowing for any purpose) of £516m. The difference between net borrowing and the estimated CFR reflects the Council's under borrowed position as a result of the strategy to maximise internal borrowing.

Table App 8: The Council's position against the estimated CFR

Capital Financing Requirement			Net borrowing
2018/19	2019/20	2020/21	
£1,231m	£1,249m	£1,263m	£516m

Note: All numbers have been rounded - which might cause a casting difference

Maturity profile

App 14. The Council sets limits for the maturity structure of borrowing in accordance with the Prudential Code. Table App 9 shows the actual amounts as at 30 June 2018, excluding balances invested on behalf of Surrey Police.

Table App 9: Maturity structure of the Council's borrowing as at 30 June 2018

	Upper limit	Lower limit	Actual
Repayable in 1 year*	50%	0%	29.4%
Repayable in 1-2 years	50%	0%	0%
Repayable in 2-5 years	50%	0%	1.7%
Repayable in 5-10 years	75%	0%	0%
Repayable in 10-15 years	100%	25%	0%
Repayable in 15-25 years	100%	25%	1.2%
Repayable in 25-50 years	100%	25%	67.7%

Note: All numbers have been rounded - which might cause a casting difference

Early debt repayment and rescheduling

App 15. The Council has not made early repayments or rescheduled debt in 2018/19.

Investments

App 16. The Council has had an average daily level of investments of £38.0m so far during 2018/19 and had an average of £68.7m during 2017/18. This reflects the change in policy in the treasury strategy to reduce the amount of cash held during the year

App 17. The Council invests its temporary cash surplus exclusively through the use of money market funds. Other investment facilities are available, including five brokers, directly with counterparties through the use of call accounts or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits have been agreed during 2018/19 due to the low cash balances held and the need to maintain high liquidity. Table App 10 shows activity for the financial year to 30 June 2018.

Table App 10: Deposit activity for the year up to 30 June 2018

Timed deposits	Number	Average value	
			£m
Deals using a broker	0		0
Direct deal facilities	0		0
Deals with DMO	0		0
Instant access	Number	Individual limit	Total limit
		£m	£m
Active call accounts	0	20.0	20.0
Active money market funds	5	25.0	125.0

Note: All numbers have been rounded - which might cause a casting difference

App 18. The weighted average return on all investments the Council received in the quarter to 30 June 2018 is 0.48%. This compares to the 0.32% average 7-day London Interbank Bid Rate (LIBID) for the same period as shown in Table App11.

Table App 11: Weighted average return on investments compared to 7-day LIBID

	Average 7-day LIBID	Weighted return on investments
2018/19, quarter 1	0.32%	0.48%
2017/18 total	0.21%	0.21%
2016/17 total	0.20%	0.38%

Note: All numbers have been rounded - which may cause a casting difference.

Savings tracker as at 30 June 2018 (period three)

Introduction

MTFP 2018-21 includes £66m savings across five of the council's directorates:

- Children, Families, Learning & Communities (CFLC)
- Health, Wellbeing & Adult Social Care (HWA)
- Highways, Transport & Environment (HTE)
- Finance, Legal and Coroner (FLDC)
- Customer, Digital and Transformation (CDT)

The graphs on the following pages show the performance against each savings scheme as follows.

- The central black bar represents the savings target.
- The area surrounding the central bar represents the current forecast of the value of savings the scheme will deliver, coloured according to the degree of certainty:
 - Red - high risk of not being achieved
 - Amber - potential barriers
 - Green - plans in place
 - Blue - achieved.

The savings graphs are grouped first by directorate, then by the scale of the MTFP saving as follows:

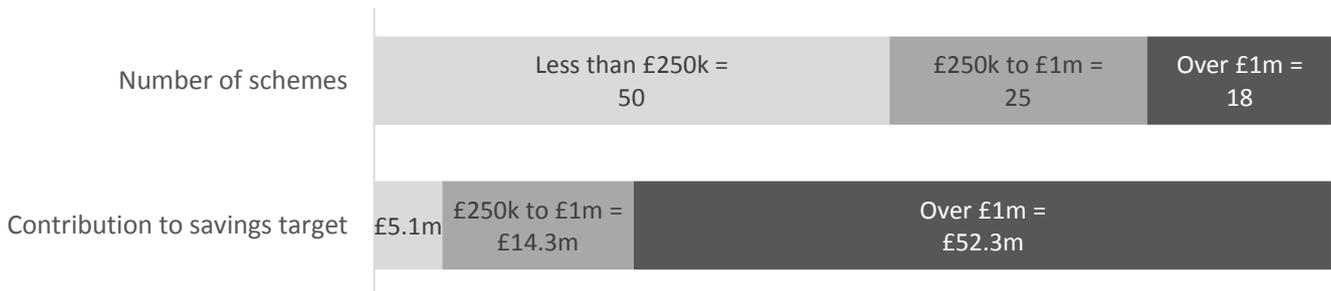
- £4m - £16m
- £1m - £4m
- £0.25m - £1.0m, and.
- below £0.25m

The value of savings for ten of the schemes listed in the MTFP are shown as negative numbers. These are for savings targeted for 2017/18 that the service did not achieve; or for partners' shares to be deducted for savings pursued jointly with other local authorities. The savings tracker does not include graphs for the negative savings.

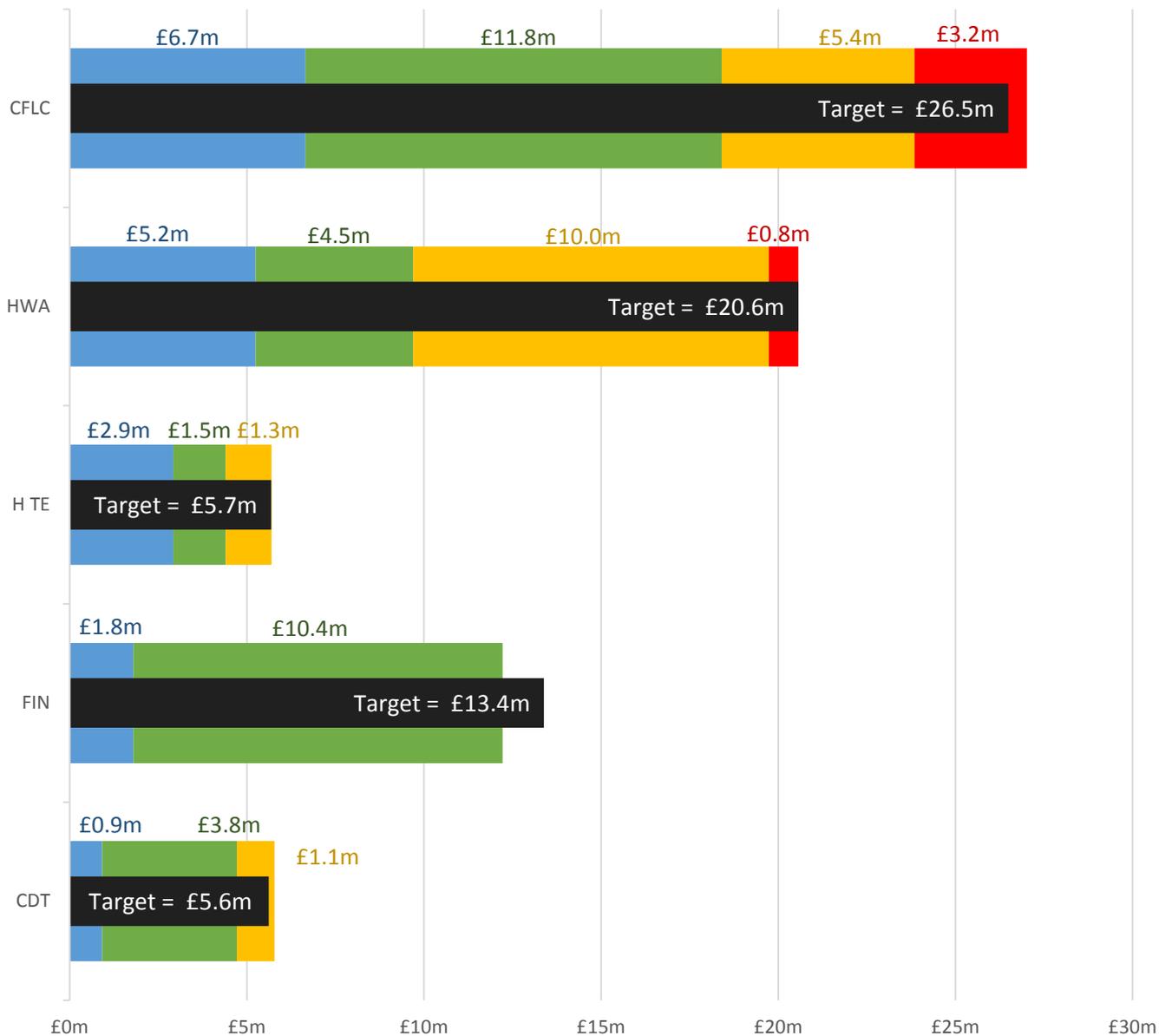
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2018/19 MTFP Savings Tracker as at 30 June 2018

Gross Distribution of MTFP savings schemes



Gross Directorate Savings Targets and Forecasts



■ Achieved ■ Forecast = Green ■ Forecast = Amber ■ Forecast = Red ■ Target

CFLC - Children, Families and Learning

CFLC - Schools and SEND - Cost Containment Plan



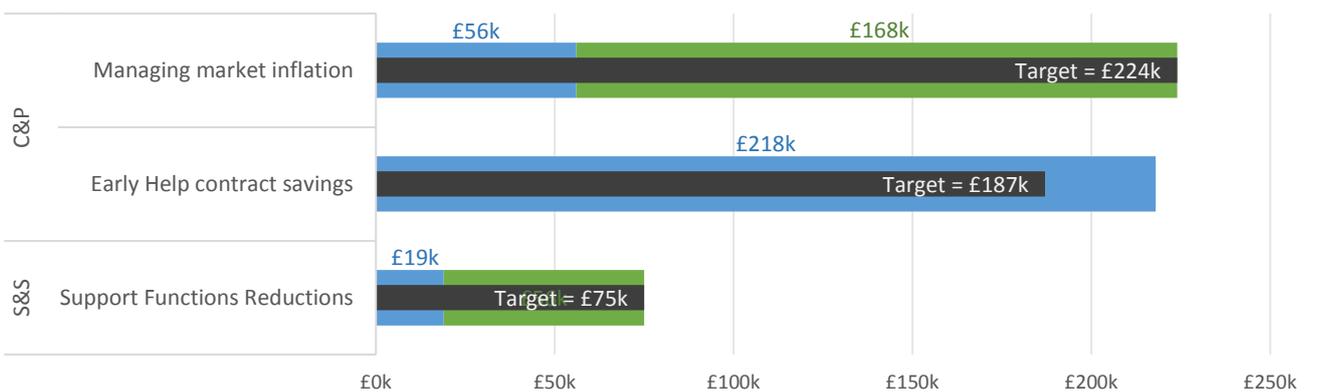
CFLC - Projects between £1m and £4m



CFLC - Projects between £250k and £1m

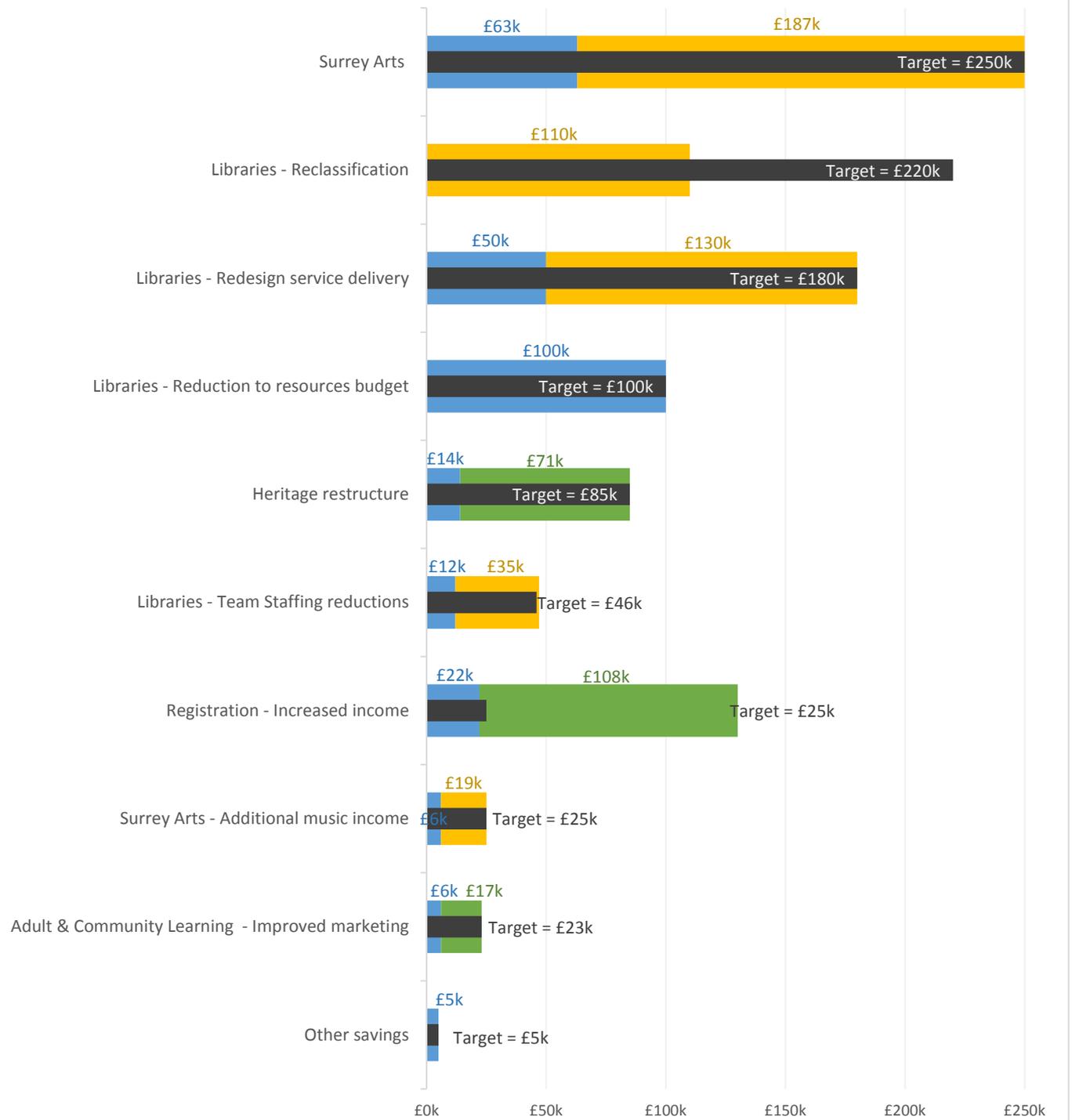


CFLC - Projects under £250,000



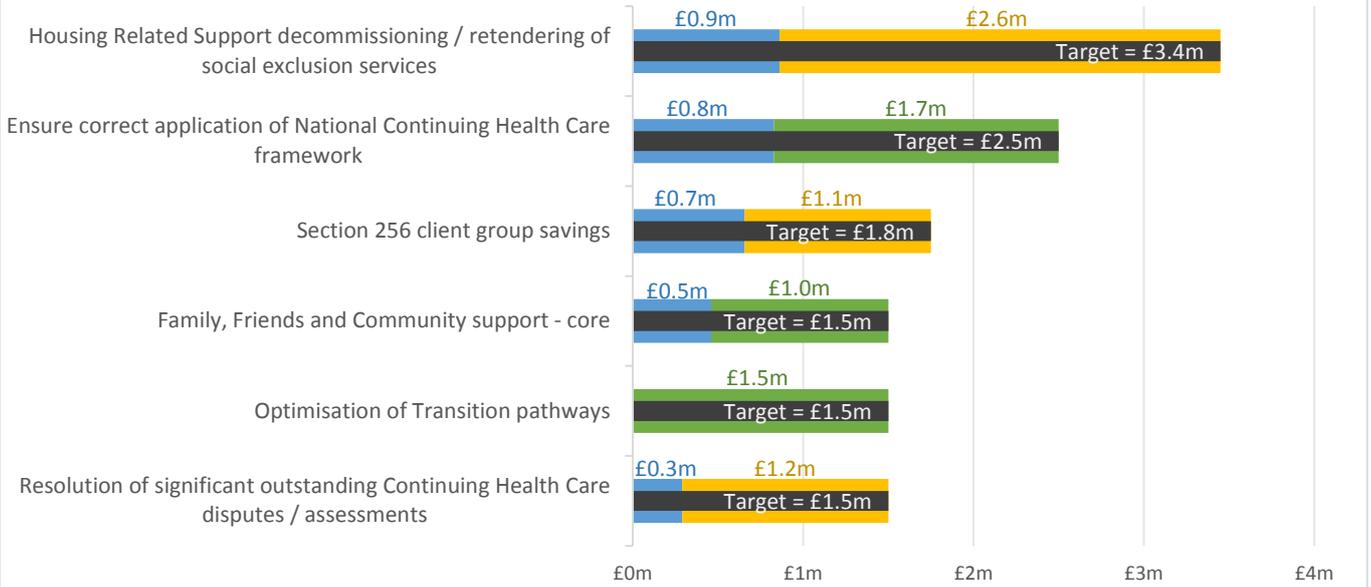
CLFC - Communities

CLFC - Communities - Projects under £250,000

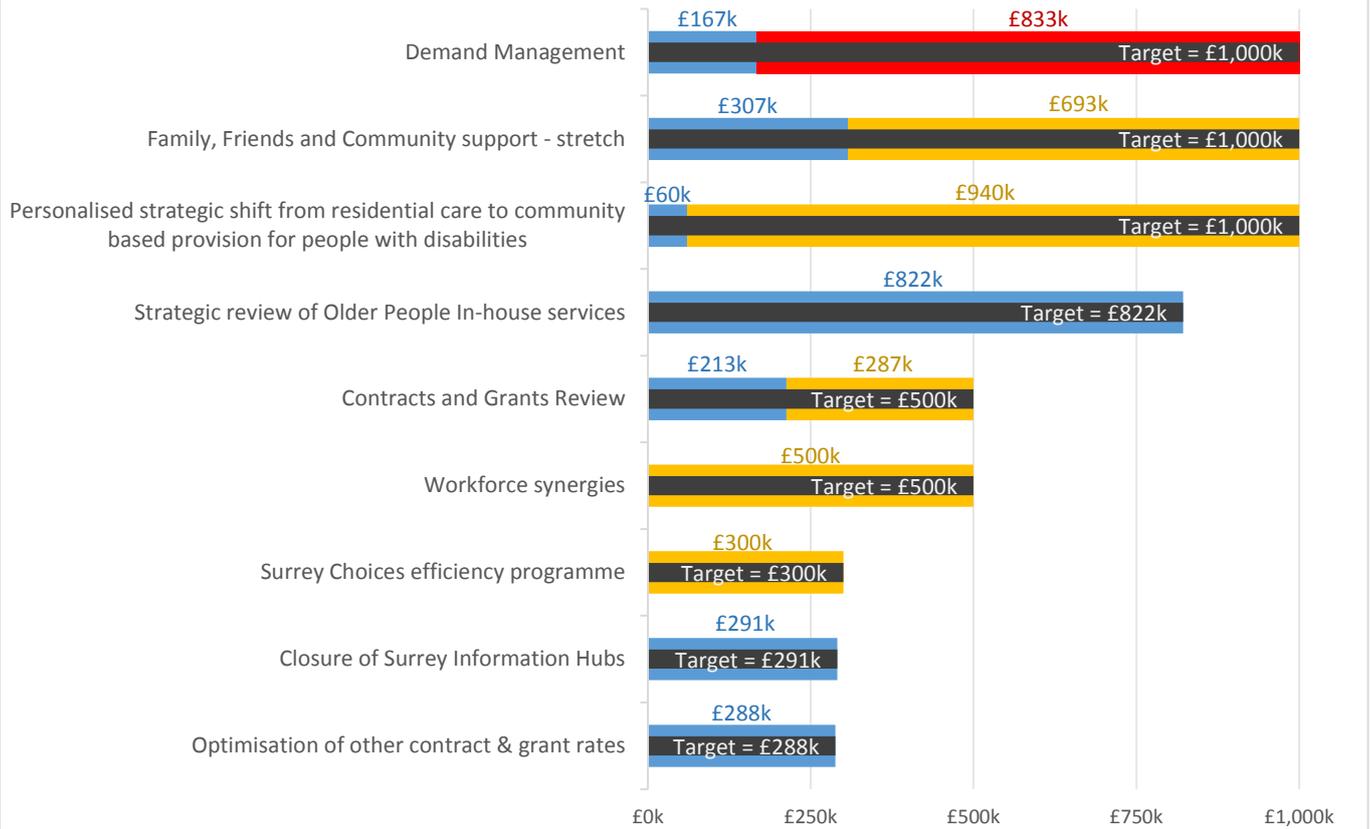


HWA - Adult Social Care (ASC)

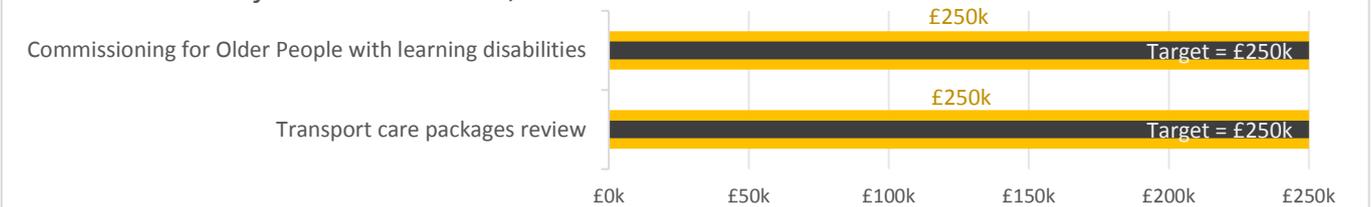
HWA - ASC - Projects between £1m and £4m



HWA - ASC - Projects between £250k and £1m



HWA - ASC - Projects under £250,000

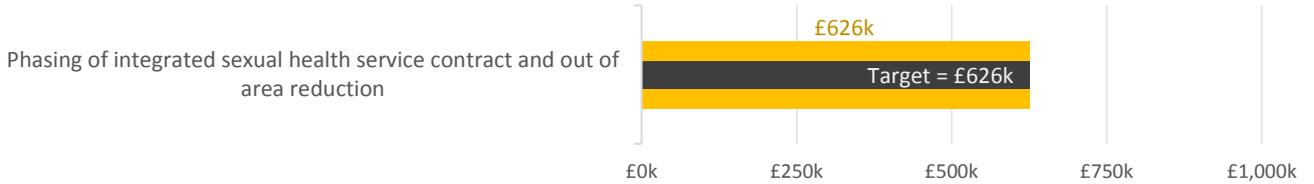


HWA - Public Health

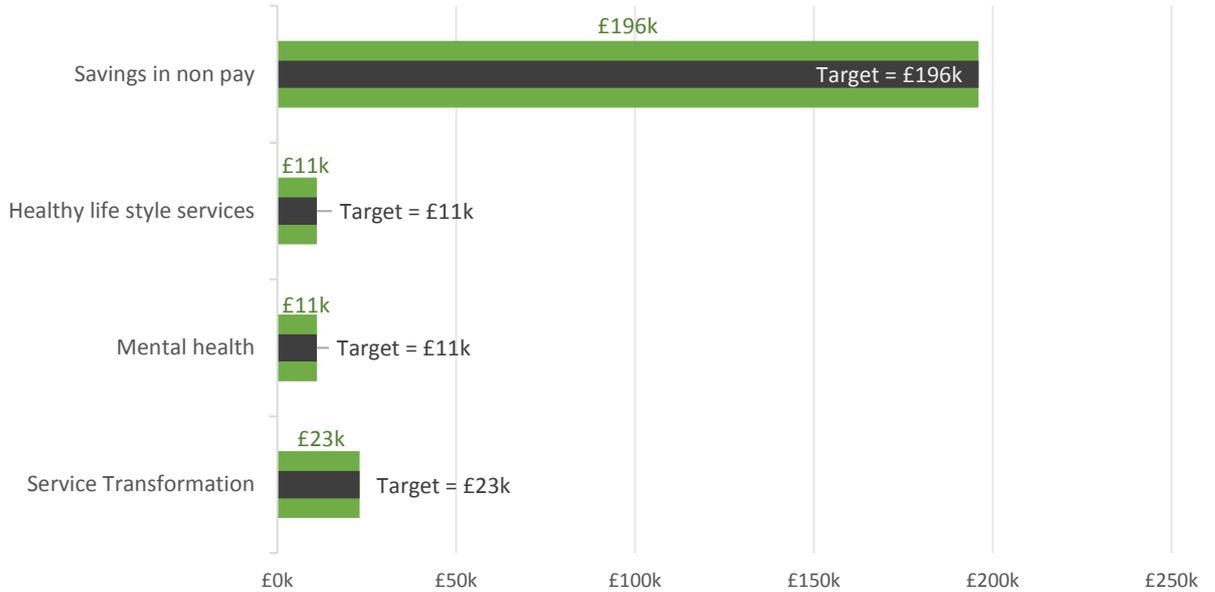
HWA - Public Health - Projects between £1m and £4m



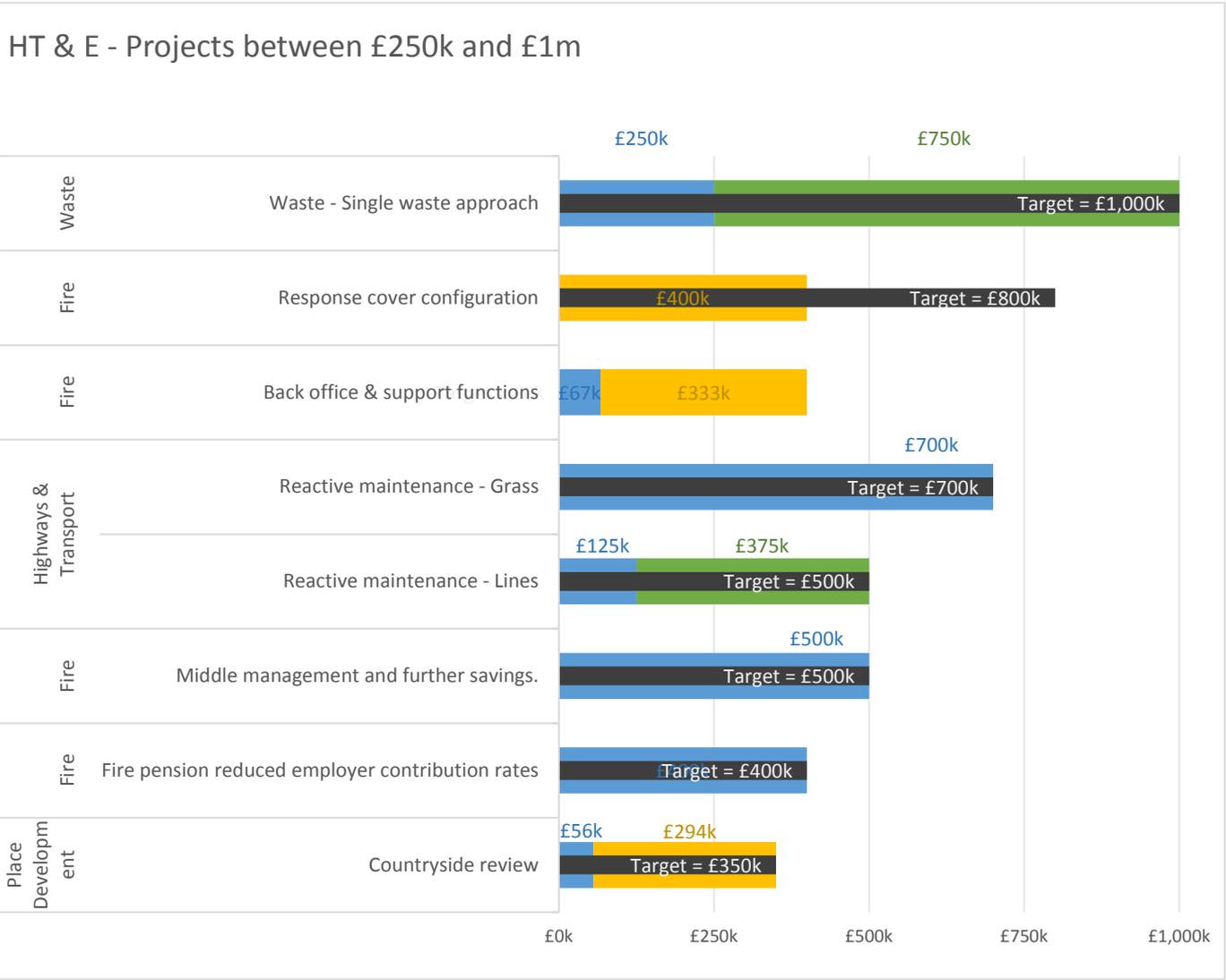
HWA - Public Health - Projects between £250k and £1m



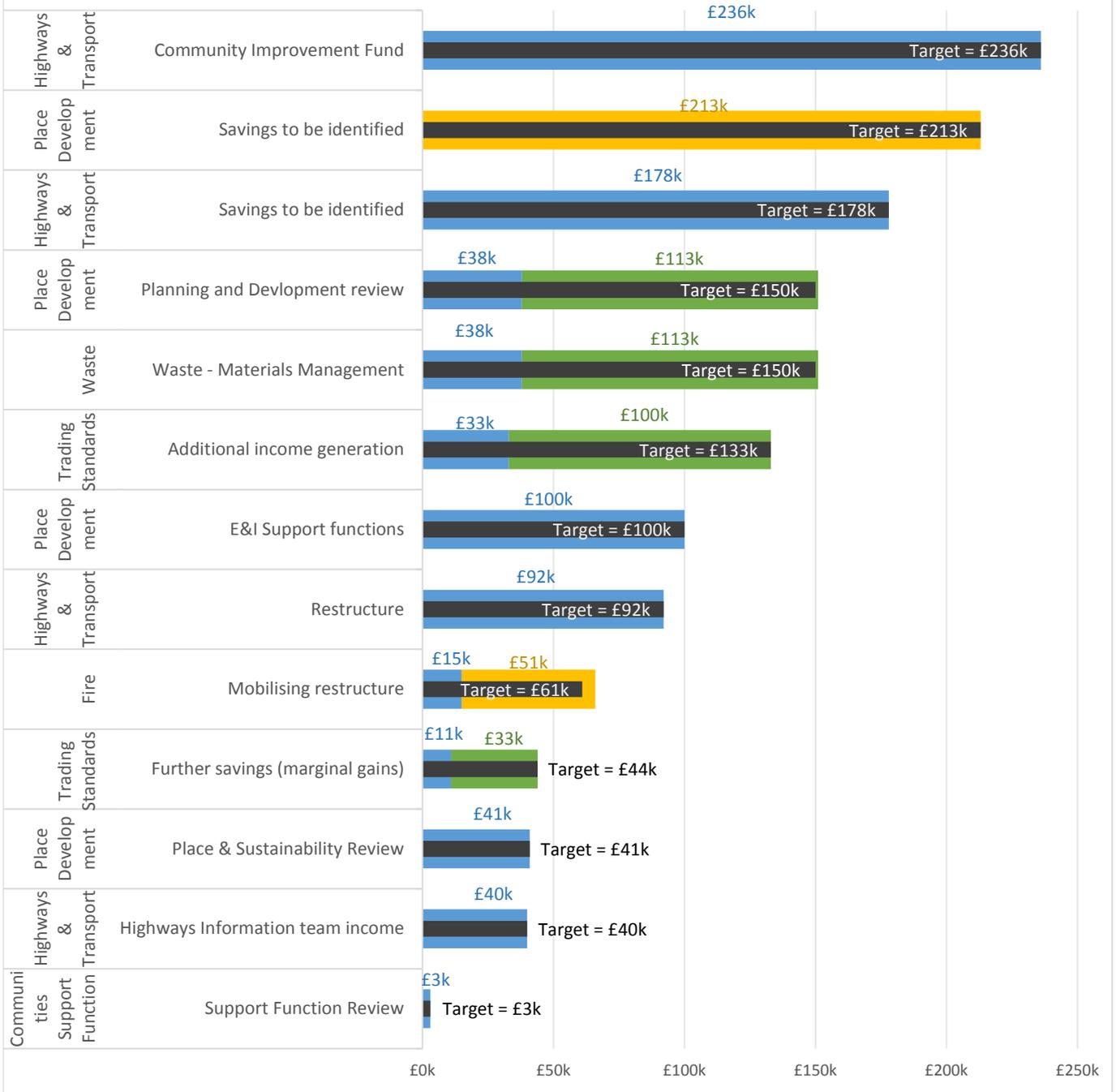
HWA -Public Health - Projects under £250,000



HT & E - Highways, Transport & Environment



HT & E - Projects under £250,000



FIN - Finance, Legal & Coronial

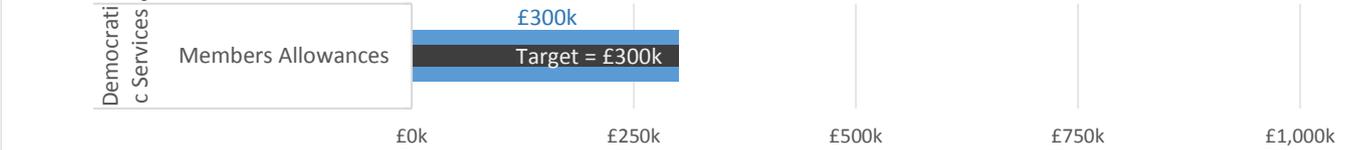
FIN - Minimum Revenue Provision



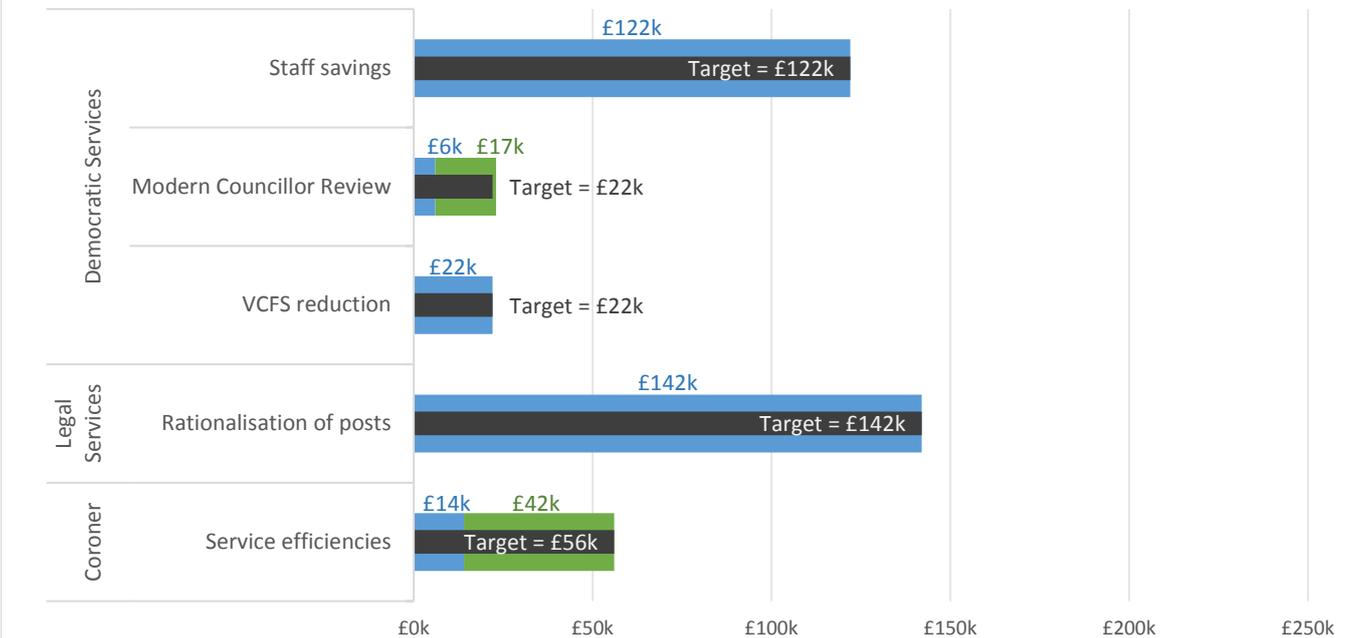
FIN - Projects between £1m and £4m



FIN - Projects between £250k and £1m



FIN - Projects under £250,000



CDT - Business Services and Orbis (BS &O)

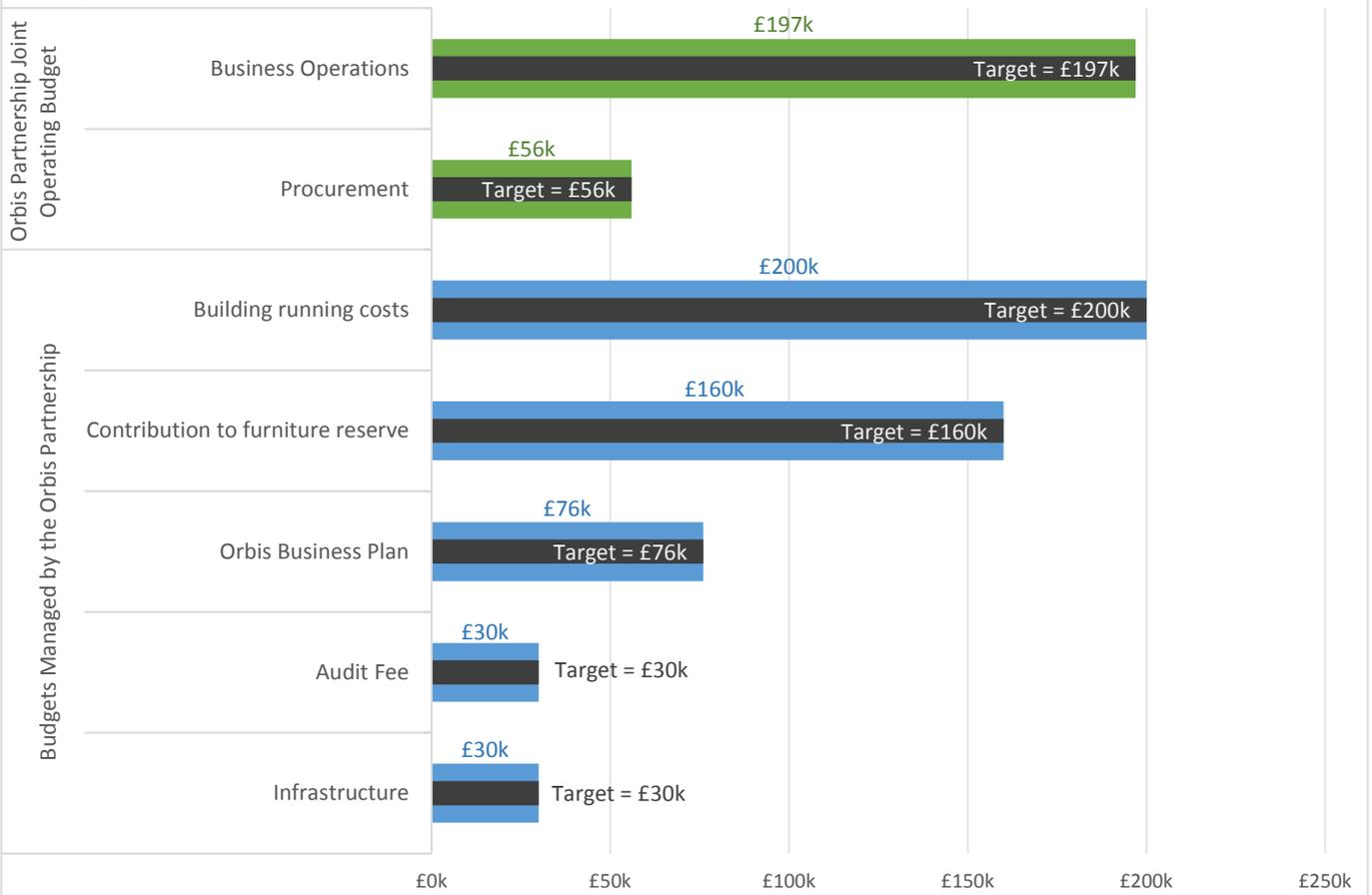
CDT - BS&O - Projects between £1m and £4m



CDT - BS&O - Projects between £250k and £1m



CDT - BS&O - Projects under £250,000



CDT - Customers and Transformation Services (CTS)

CTS - Projects over 250,000



CTS - Projects under £250,000

