SURREY COUNTY COUNCIL

CABINET

DATE: **28 MARCH 2017**

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

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **FINANCE AND BUDGET MONITORING REPORT TO 28 FEBRUARY 2017**

SUMMARY OF ISSUE:

Surrey County Council takes a multiyear approach to its budget planning and monitoring, recognising the two are inextricably linked. This report presents the Council's financial position as at 28 February 2017 (month eleven).

Following the +£22.4m forecast variance reported as at 30 September 2016, Cabinet required officers to take effective measures to bring the 2016/17 budget back into balance. As at 28 February 2017, measures taken by the Chief Executive and the Director of Finance, with directors' support resulted in a -£29.2m improvement in the Council's forecast outturn position. Over the same period, Cabinet avoided further spending commitments, wherever possible, pending assurances of a balanced 2017/18 budget and a sustainable Medium Term Financial Plan (MTFP).

However, the measures to achieve a balanced budget outturn in 2016/17 include one-off measures and spending delays as well as genuine efficiencies, such as achieving future years' savings early. One-off measures do not address the fundamental issue of service overspends, particularly in social care. These overspends are driven by the increased numbers of those who need services, the increased complexity of their needs and the increasing costs of meeting those needs. That mix, plus the savings already achieved and the continuing reduction in central government funding make the Council's longer term financial resilience a serious challenge.

The Section 151 Officer states in her report of February 2017 to Full Council on the 2017/18 to 2019/20 budget and MTFP that the financial challenges facing the Council have become even more serious in the last year. During 2017/18, the council must deliver already stretching service reduction plans of £93m, plus it must identify up to £22m of additional permanent service reductions to replace the one off measures the council is using to balance the 2017/18 budget and move towards a sustainable budget for future years.

The annex to this report gives details of the Council's financial position.

RECOMMENDATIONS:

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2016/17 is -£6.8m underspend, an improvement from -£3.5m last month (Annex, paragraph 1).
2. Forecast efficiencies and service reductions for 2016/17 is £66.4m, up by £0.1m from last month (Annex, paragraph 50).
3. The Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary (main report, paragraphs 16 to 23).

Cabinet is asked to approve the following.

4. Transfer -£2.0m underspend on the New Homes Bonus grant allocated to infrastructure projects to the Budget Equalisation Reserve (Annex, paragraph 27)
5. Reprofile £0.15m capital contribution to the Godalming flood alleviation scheme from 2016/17 to 2017/18 (Annex, paragraph 61).

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

1. Surrey County Council (SCC) set its gross expenditure budget for the 2016/17 financial year at £1,686m. A key objective of the Medium Term Financial Plan (MTFP) 2016-21 is to increase the Council's overall financial resilience. As part of this, the Council's 2016/17 budget includes plans to make efficiencies totalling £83m.

2. The budget monitoring report to 30 September 2016 showed an unprecedented forecast year end overspend of +£22.4m. The council has taken the following actions to bring the 2016/17 budget back into balance by the end of the financial year:

   - the Chief Executive and Director of Finance have agreed a series of actions with service directors and are meeting regularly to review progress;
   - all services are reinforcing an approach to reviewing all spending in year;
   - all services are reviewing service demands with a view to managing more efficiently; and
   - Cabinet will, wherever sensible, not agree further spend commitments until a balanced budget is assured and progress towards a sustainable Medium Term Financial Plan (MTFP) made.

3. The Council aims to smooth resource fluctuations over its five year medium term planning period. To support the 2016/17 budget, Cabinet approved use of £24.8m from the Budget Equalisation Reserve and carry forward of £3.8m to fund continuing planned service commitments. The Council currently has £21.3m in general balances.

4. In January 2017, Cabinet approved the Council's Financial Strategy 2017-20. The Financial Strategy aims to:

   - secure the stewardship of public money;
   - ensure financial sustainability;
   - enable the transformation of the Council's services; and
   - build partnerships to achieve better value outcomes.

Capital budget overview

5. Creating public value by improving outcomes for Surrey's residents is a key element of the Council's corporate vision and is at the heart of its £638m capital programme in MTFP 2016-21. As at 28 February 2017, services forecast spending £124m against the £141m current 2016/17 budget.

Budget monitoring overview

6. The Council's 2016/17 financial year began on 1 April 2016. This budget monitoring report covers the financial position at the end of the eleventh month of 2016/17 (28 February 2017). The report focuses on material and significant issues, especially monitoring MTFP efficiencies. The report emphasises proposed actions to resolve any issues.

7. The Council has implemented a risk based approach to budget monitoring across all services. The approach ensures the Council focuses effort on monitoring those higher risk budgets due to their value, volatility or reputational impact.

8. A set of criteria categorise all budgets into high, medium and low risk. The criteria covers:

   - the size of a particular budget within the overall Council's budget hierarchy (the range is under £2m to over £10m);
   - budget complexity, which relates to the type of activities and data monitored (this includes the proportion of the budget spent on staffing or fixed contracts - the greater the proportion, the lower the complexity);
   - volatility, which is the relative rate that either actual spend or projected spend moves up and down (volatility risk is considered high if either the current year's projected variance exceeds the previous year's outturn variance, or the projected variance has been greater than 10% on four or more occasions during the current year); and
   - political sensitivity, which is about understanding how politically important the budget is and whether it has an impact on the Council's reputation locally or nationally (the greater the sensitivity the higher the risk).

9. Managers with high risk budgets monitor their budgets monthly, whereas 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).

10. Annex 1 to this report sets out the Council's revenue budget forecast year end outturn as at 28 February 2017. The forecast is based upon year to date income and expenditure and financial year end projections using information available as at 28 February 2017.

11. The report provides explanations for significant variations from the revenue budget, with a focus on efficiency targets. As a guide, a forecast year end variance of greater than £1m is material and requires a commentary. For some services £1m may be too large or not reflect the service's political significance, so variances over 2.5% may also be material.

12. Annex 1 to this report also updates Cabinet on the Council's capital budget. Appendix 1 provides details of the MTFP efficiencies, revenue and capital budget movements.

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.

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. In light of the large forecast variance reported as at 30 September 2016 and despite the improvement reported as at 28 February 2017, the Section 151 Officer takes the view expressed in her Budget Report to the Full Council in February 2017 that the financial situation facing the Council is now even more serious.

18. Although actions taken since September have brought the in-year overspend back to a small forecast underspend, significant underlying consequences remain for future years.

19. Furthermore, during 2017/18, the Council must deliver already stretching service reduction plans of £93m, plus it must identify up to £22m of additional

permanent service reductions to replace the one off measures the Council is using to balance the 2017/18 budget and move towards a sustainable budget for future years.

20. With the Council's reserves already at minimum safe levels, these should be retained to mitigate the risk of non-delivery of significant savings targets.

21. The Chief Executive and Director of Finance have agreed a series of actions with service directors to recover the position in year and meet regularly with the directors to monitor the effectiveness of these actions. Progress will be reported in each subsequent budget monitoring report to Cabinet.

22. As well as these actions to bring the in-year budget back into balance, each director is reviewing their service approaches to manage down the financial consequences for future years.

Legal Implications – Monitoring Officer

23. 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. In view of the situation reported as at 30 September 2016, 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 she 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

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

WHAT HAPPENS NEXT:

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

Contact Officer:

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Consulted:

Cabinet, strategic directors, heads of service.

Annexes:

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Annex 1 – Revenue budget, staffing costs, efficiencies, capital programme.

Appendix 1 – Service financial information (revenue and efficiencies), revenue and capital budget movements.

Sources/background papers:

None
