

SURREY COUNTY COUNCIL**CABINET****DATE: 27 APRIL 2017****REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: FINANCIAL BUDGET OUTTURN 2016/17****SUMMARY OF ISSUE:**

The council takes a multiyear approach to its budget planning and monitoring, recognising the two are inextricably linked. This report presents the council's year-end financial outturn position for 2016/17 and the impact of carry forward requests on the 2017/18 financial year.

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). This is the seventh year in succession the council has maintained its net spending within the annual budget.

The measures to achieve a balanced budget outturn in 2016/17 included 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 stated 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 £11m of additional service reductions to balance the 2017/18 budget and continue to move towards a sustainable budget for future years.

The annexes to this report give details of the council's financial position.

RECOMMENDATIONS:

Cabinet is asked to note the following.

1. The council achieved -£6.7m overall underspend for 2016/17 (Annex 1, paragraph 1). 2016/17 is the seventh successive year, the council has achieved a small underspend or balanced outturn.
2. Against this underspend, the council has made +£1.0m provision for the possible payment of legal costs and claims related to a number of contract compliance issues (Annex 1, paragraph 6). After making this provision, the council has -£5.7m available to transfer to reserves.
3. The underspend includes £1.6m of carry forward requests for spending on planned service commitments that continue beyond 2016/17. If Cabinet approves the carry forward requests, the remaining underspend is -£4.1m. This is 0.2% of the council's £1,686m full year gross expenditure budget.
4. Services achieved £66.4m efficiencies and savings (Annex 1, paragraph 53) against the planned target of £82.9m.
5. The council invested £257m through its capital programme in 2016/17, comprising £126m service capital programme and £131m long term investments (Annex 1, paragraph 64).
6. The council's year end earmarked reserves and balances, debt analysis and treasury management report (Annex 1, paragraphs App 8 to App 23).

Cabinet is asked to approve the following.

7. £5.7m transfer of remaining revenue underspend to the Budget Equalisation Reserve (Annex 1, paragraph 7).
8. £1.6m revenue carry forward requests to be funded from within the £5.7m transferred to the Budget Equalisation Reserve (Annex 1, paragraph 3 and Annex 2).
9. £3.5m carry forward overspend on services funded from dedicated schools grant (DSG) (Annex 1, paragraph 27).
10. £5.8m increases in the capital budget for: third party contributions and grant allocation increases (£1.5m) and the delegated school funding drawdown (£4.3m) (Annex 1, paragraph 61).
11. £17.0m capital programme reprofiling and carry forward requests (Annex 1, paragraphs 66 and 67 and Annex 2).
12. Cabinet to approve services' draw down of amounts carried forward, as and when they are needed, as part of the monthly budget monitoring process (Annex 1, paragraph 5 for revenue and paragraph 67 for capital).
13. £1.8m transfer of Revolving Infrastructure and Investment Fund net income to the Budget Equalisation Reserve (Annex 1, paragraph 42).
14. £2.9m transfer from the Vehicle Replacement Reserve to the Budget Equalisation Reserve.

REASON FOR RECOMMENDATIONS:

This report is presented:

- to review and manage the budget outturn for the 2016/17 financial year in the context of a multi-year approach to financial management; and
- to approve final carry forwards to enable essential on-going projects to continue.

DETAILS:

Revenue budget overview

1. Surrey County Council 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 included plans to make efficiencies totalling £83m.

Capital budget overview

2. 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 capital budget.

Budget outturn overview

3. The council's 2016/17 financial year ended on 31 March 2017. The accounts for the financial year closed on 14 April 2017 and include year end adjusting transactions such as accruals and apportionments required for the formal financial statements.
4. Annex 1 to this report sets out the council's revenue budget outturn as at 31 March 2017. This reports final revenue income and expenditure for 2016/17 and explains material variances from the budget including on staffing and achievement of efficiency targets. As a guide, an outturn variance of more than £1m is material and requires comment. For some smaller services £1m may be too large a threshold or may not reflect the service's political significance so variances over 2.5% may also be material.
5. Annex 1 also provides the council's capital budget outturn and outlines the changes in the council's reserves and balances over the year. Additionally, it summarises the level of debt owed to the council after the proposed write-off of irrecoverable debts.
6. Appendix 1 provides details of services' efficiencies and revenue and capital budget movements, balance sheet, year end reserves and balances, debt analysis and treasury management report.
7. Annex 2 updates and summarises the impact of 2016/17 carry forwards on 2017/18's revenue and capital budgets.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

9. 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

10. The report considers financial and value for money implications throughout and future budget monitoring reports will continue this focus. The council maintains a strong focus on its key objective of providing excellent value for money.

SECTION 151 OFFICER COMMENTARY

11. 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.
12. This report confirms that total net spending has been kept within budget for the financial year, which had been forecast since February 2017. This is a turnaround from a forecast overspending of +£22.4m for September 2016 and has been achieved through a range of successful measures taken by the council's cabinet and officers. However, many of these actions are of a one-off nature and significant underlying pressures remain for future years.
13. Furthermore, the council must deliver already stretching service reduction plans of £104m to balance the 2017/18 budget and move towards a sustainable budget for future years. This is a materially large target and there are serious risks of this being fully achieved.
14. The council's reserves are already at minimum safe levels, and are being further depleted by £10m to balance the 2017/18 budget. It is therefore appropriate that this 2016/17 budget underspending is being used to replenish these reserves to mitigate the risk of non-delivery of significant savings targets in 2017/18.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. 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. As a result of the situation reported as at 30 September 2016, Cabinet was made 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. As set out in this report, the steps taken since then have enabled the Council to keep its spending within budget for the financial year.

EQUALITIES AND DIVERSITY

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

WHAT HAPPENS NEXT:

17. The relevant adjustments from the recommendations will be made to the council's accounts.
18. On 27 July 2017 the Audit & Governance Committee will consider the council's formal financial statements for 2016/17 with Grant Thornton's external audit opinion. Any material changes to the financial statements arising during the audit of the accounts will be reported to Audit & Governance Committee. No material changes to either the revenue or capital outturn position as presented in this report and annexes are anticipated to arise from the audit.
19. The council continues to seek to improve its corporate external reporting. As in previous years, the Audit & Governance Committee will consider the council's 2016/17 annual report on 27 July 2016. Subject to the Committee's approval, It will be published shortly afterwards.

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Consulted:

Cabinet, strategic directors, heads of service.

Annexes:

- Annex 1 – Revenue budget, staffing costs, efficiencies, capital programme, balance sheet, year end reserves and balances, debt analysis and treasury management report.
- Appendix 1 – Service financial information (revenue and efficiencies), revenue and capital budget movements.
- Annex 2 –2016/17 revenue and capital carry forward requests.

Sources/background papers:

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