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SURREY COUNTY COUNCIL

CABINET

DATE: **26 SEPTEMBER 2017**

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

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

SUBJECT: **FINANCE AND BUDGET MONITORING REPORT TO 31 AUGUST 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 31 August 2017 (month five).

The Section 151 Officer stated in her report of February 2017 to Full Council on the 2017/18 to 2019/20 budget and Medium Term Financial Plan (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 £104m to balance the 2017/18 budget and move towards a sustainable budget for future years. This total includes £9m savings it has yet to identify.

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

RECOMMENDATIONS:

The forecast position could worsen and the cabinet's duty to ensure its expenditure does not exceed resources available, means the council must take action to develop a recovery plan. However, this must be balanced against the need to not affect service delivery unnecessarily if other actions are successful in managing the costs within resources available.

Cabinet Team and Senior Management Team are developing the possibilities for making alternative savings in 2017/18. The recovery plan will focus on managing service demand, but will also explore: additional and alternative savings; delivering planned savings earlier where possible; holding vacancies where feasible; delaying expenditure and optimising income opportunities. Cabinet will receive the recovery plan for consideration in October 2017.

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2017/18, is £21m overspend (paragraph 1). This includes:

£9m savings to be identified,

£12m savings considered unachievable in 2017/18,

£11m service demand pressures

£11m underspends and additional income.

2. Significant risks to the revenue budget (paragraphs 38 to 42) could add £13m to the forecast overspend:

£4m in Adult Social Care

£8m in Children, Schools & Families and

£1m in Place Development & Waste

3. Forecast planned savings for 2017/18 total £83m against £95m agreed savings and £104m target (paragraph 43).
4. The Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary in paragraphs 15 to 18 of the main budget monitoring report to Cabinet that the council has a duty to ensure its expenditure does not exceed resources available and move towards a sustainable budget for future years.
5. Cabinet will receive a recovery plan for consideration in October 2017.

Cabinet is asked to approve the following

6. £18,000 draw down of Highways & Transport's capital carry forward from 2016/17 (paragraphs 60 to 62).

7. £2.9m amendments to schools' devolved capital budgets (paragraphs 63 to 66).

REASON FOR RECOMMENDATION:

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 set its gross expenditure budget for the 2017/18 financial year at £1,672m. A key objective of MTFP 2017-20 is to increase the council's overall financial resilience. As part of this, the council's 2017/18 budget requires it to make efficiencies totalling £104m including £9m savings it has yet to identify.

2. The council aims to smooth resource fluctuations over its three year medium term planning period. To support the 2017/18 budget, Cabinet approved use of £11.8m from the Budget Equalisation Reserve and carry forward up to £1.6m to fund continuing planned service commitments. The council currently has £21.3m in general balances.

3. 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

4. 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 £387m capital programme in MTFP 2017-20 and £185m budget for 2017/18.

Budget monitoring overview

5. The council's 2017/18 financial year began on 1 April 2017. This budget monitoring report covers the financial position at the end of the fifth month of 2017/18 (31 August 2017). The report focuses on material and significant issues, especially monitoring MTFP efficiencies. The report emphasises proposed actions to resolve any issues.

6. 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.

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

    - 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).

8. 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).

9. Annex 1 to this report sets out the council's revenue budget forecast year end outturn as at 31 August 2017. The forecast is based upon year to date income and expenditure and financial year end projections using information available as at 31 August 2017.

10. 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.

11. 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. Annex 2 lists 2017/18's Medium Term Financial Plan savings projects.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

13. 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

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

SECTION 151 OFFICER COMMENTARY

15. 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.

16. During 2017/18, the council must deliver already stretching service reduction plans of £95m, plus it must identify a further £9m of service reductions to balance the 2017/18 budget and move towards a sustainable budget for future years.

17. The council's reserves are already at minimum safe levels and these should be retained to mitigate the risk of non-delivery of significant savings targets.

LEGAL IMPLICATIONS – MONITORING OFFICER

18. 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 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

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

WHAT HAPPENS NEXT:

20. 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:

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

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

Appendix 2 – Medium Term Financial Plan savings projects 2017/18

Sources/background papers:

None