

SURREY COUNTY COUNCIL

CABINET

DATE: 24 APRIL 2018



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

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: FINANCIAL BUDGET OUTTURN 2017/18

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 year end financial outturn position for 2017/18 and services' requests to carry forward funding amounts into 2018/19.

The Section 151 Officer stated in her report to County Council of February 2017 on the 2017/18 to 2019/20 budget and Medium Term Financial Plan that the financial challenges facing the Council have become even more serious in the last year. In 2017/18, the Council had to deliver already stretching service reduction target of £104m to meet its budget and move towards a sustainable budget for future years.

During 2017/18 the Council achieved a record level of £79m savings. It also achieved a significant recovery of its financial position from the £24m overspend forecast as at 30 June 2017. The forecast overspend was driven by: increased numbers of those who need services, the increased complexity of their needs and the increasing costs of meeting those needs. The Council recovered its 2017/18 financial outturn position through early achievement of 2018/19 savings, significant one off measures and spending delays. While one-off measures help address current budget issues, they do not address the underlying issue of ongoing service overspends.

The mix of: increasing service demands (particularly in social care), the escalating challenge of adding to the substantial level of savings already achieved and ongoing reductions in central government funding together mean the Council's longer term financial resilience is a serious challenge. This reinforces the need for all services to continue to take all appropriate action to keep costs down and optimise income (e.g. through minimising spending, managing vacancies wherever possible etc.) for the foreseeable future and for Cabinet to consider very carefully services' requests to carry amounts forward to 2018/19.

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 £1.3m overall revenue underspend for 2017/18 (Annex 1, paragraph 1). This is the eighth successive year the Council has achieved a small underspend or balanced outturn. The £1.3m underspend is less than 0.08% of the Council's £1,672m gross expenditure budget for 2017/18.
2. Services achieved £80m total savings against £95m agreed savings plans and £104m target (Annex 1, paragraph 52).
3. The Council planned to transfer £11.8m from reserves to balance 2017/18. After transferring the net underspend for 2017/18 and other movements in the year, the closing balance for earmarked reserves as at 31 March 2018 is £81.4m. After deducting planned use of £20.9m earmarked reserves to balance 2018/19, this leaves £60.5m earmarked reserves and £21.3m general balances, which the Director of Finance considers to be the minimum safe levels.
4. The underspend does not include £1.0m revenue carry forward requests for spending on planned service commitments that continue beyond 2017/18 (Annex 1, paragraphs 49 to 51 and Annex 3). If Cabinet agrees to fund all carry forward requests, earmarked reserves brought forward as at 1 April 2018 will fall to £59.5m.
5. The Council invested £212m through its capital programme in 2017/18, comprising £109m service capital programme (59% of the original service capital programme) and £103m long term investments (Annex 1, paragraph 65). Services have requested to carry forward and reprofile £35m capital expenditure.
6. The Council's year end earmarked reserves and balances, debt analysis and treasury management report (Annex 1, paragraphs App 7 to App 23).
7. All services must continue to take all appropriate action to keep costs down and optimise income (e.g. minimising spending, managing vacancies wherever possible).
8. The Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary in paragraphs 16 to 19 of the main budget monitoring report to Cabinet state that the Council has a duty to ensure its expenditure does not exceed resources available and move towards a sustainable budget for future years.

Cabinet is asked to approve the following.

9. £1.3m transfer of net 2017/18 underspend to the Budget Equalisation Reserve.
10. £1.0m revenue carry forward requests to be funded from the Budget Equalisation Reserve (Annex 1, paragraph 50 and Annex 3).

11. £2.1m capital virement requests within Highways & Transport (Annex 1, paragraph 67).
12. £34.9m capital programme reprofiling and carry forward requests (Annex 1, paragraphs 68 to 70 and Annex 3).
13. As in 2017/18, that Cabinet approves services' draw down of amounts carried forward, as and when they are needed, as part of the monthly budget monitoring process (Annex 1, paragraph 51 for revenue and paragraph 69 for capital).
14. £3.9m transfer of Revolving Infrastructure & Investment Fund net income to the Budget Equalisation Reserve (Annex 1, paragraph 71).

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 outturn 2017/18 (31 March 2018). 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 outturn as at 31 March 2018. The report provides explanations for significant variations from the revenue budget, with a focus on efficiency targets. As a guide, a 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.
10. Annex 1 also reports the Council's capital budget outturn. Appendix 1 provides details of the MTFP efficiencies, revenue and capital budget movements, earmarked reserves, debt and treasury management.
11. Annex 2 lists the year end outturn for 2017/18's Medium Term Financial Plan savings projects.

12. Annex 3 contains requests to carry forward revenue and capital sums from 2017/18 to fund ongoing activities in 2018/19.

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. The Council has a duty to ensure its expenditure does not exceed resources available. During 2017/18, the Council had to plan to deliver already stretching service reduction targets of £104m, of which it identified plans for £95m of service reductions to balance the 2017/18 budget and move 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 etc.).
18. 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

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 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

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.
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Consulted:

Cabinet, strategic directors, heads of service.

Annexes:

Annex 1 – Revenue budget, staffing costs, efficiencies, capital programme, year end reserves and balances, debt analysis and treasury management report.

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

Annex 2 – Medium Term Financial Plan savings projects outturn 2017/18

Annex 3 – 2017/18 revenue and capital carry forward requests.

Sources/background papers:

None
