

Capital Carry Forward Requests from 2017/18 and Finance Position Statement As At 30 April 2018

Revenue and capital budget background

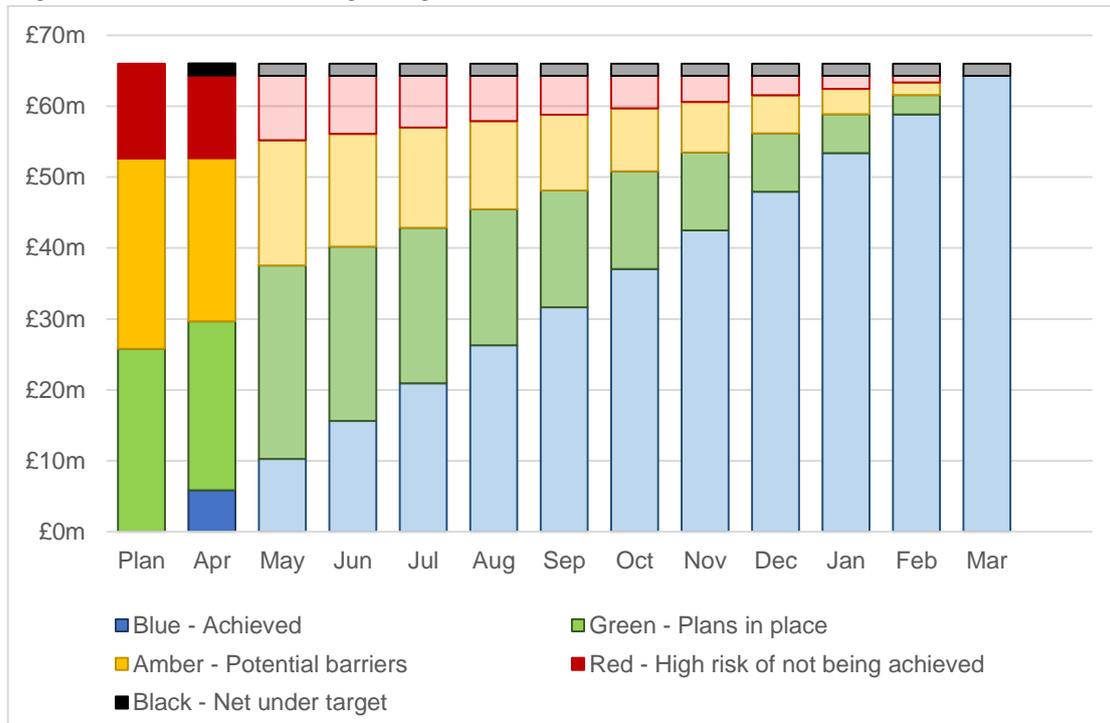
1. Surrey County Council set its budget and Medium Term Financial Plan (MTFP) in early February 2018 within the context of rising demand and cost pressures, most notably in social care and with over seven years of cuts to Government funding.
2. To balance its 2018/19 budget, the council needs to achieve £66m savings and efficiencies and apply a significant amount of one off resources at a level which is not repeatable in future years, including flexible use of capital receipts to fund £15m of costs associated with transforming service delivery. Consequently, to reduce costs to achieve a sustainable budget in future years, the council has begun a programme to significantly transform services further.
3. The planned savings included £15m relating to containing spending within the Special Educational Needs and Disabilities budget. The service is developing a cost containment plan to deliver the planned MTFP savings, but there continues to be a significant risk that this will not be achieved in full.
4. The council's capital programme over the coming three years is over £300m, including £144m in 2018/19. This major investment in Surrey's infrastructure and economy is focused on the growth in pupil numbers and the importance residents place on good roads and services. A number of projects from the 2017/18 financial year continue to support these aims and the funding to achieve this is requested to be carried forward from last year.

Updated financial position

5. The MTFP provided for £66m of savings. Each was allocated a risk rating reflecting the council's level of confidence in its achievability. For the council to be in a position to transform its services and operate within a sustainable budget over the next three years, it is important that these savings are met. Recognising the very significant challenges in achieving the savings in the MTFP, and the risk that they are therefore not achieved, the Chief Executive and Executive Director of Finance conducted a series of "deep-dive" reviews during April 2018. They did so in order to gain greater assurance about the robustness and deliverability of savings where there was less confidence in achievement. These identified a number of actions required in order to strengthen confidence, such as additional support from legal and/or procurement services.
6. The deep dives also identified one saving that is now believed not to be achievable. This is the savings from the application of Public Health Grant and amounts to £1.2m. Officers are currently developing plans to replace this saving.

7. Since the start of the financial year, a number of savings have already been achieved and the risk rating of other initiatives has improved following further progress of delivery plans, as summarised in Figure 1 below.

Figure 1 2018/19 savings target



8. Figure 1 shows that by the end of April, £5.8m savings had been achieved. These are mostly in Adult Social Care and Children, Schools & Families and relate to the achievement of the first month's savings across a number of projects.
9. In addition to this, and as described above, the Public Health savings will not be achieved. Therefore the current forecast is that £64.8m of the £66m target savings will be achieved by the year end, although significant risks remain. As described above, officers are currently developing alternative plans to cover this shortfall.

Pressures

10. The council's 2018/19 budget included £108m of pressures, focused on social care for adults and children, special educational needs and disabilities (SEND), and also in maintaining the road and infrastructure network. This is additional spending that was not incurred in the last financial year. Ensuring these pressures can be managed is of high importance for the council in achieving a balanced budget at the end of this financial year.
11. The Special Education Needs and Disabilities (SEND) services funded through the High Needs Block Dedicated Schools Grant was already forecasting a financial pressure of £15m in the Medium Term Financial Plan.

12. Senior Managers in Children, Families and Learning are working on an emerging service strategy to deliver a sustainable future position, which will also consider the government review of the funding for high needs in 2020/21.
13. As is normal practice, progress in all aspects of the 2018/19 budget will be reported within a month to Cabinet through the monthly budget monitoring report.

2017/18 Capital budget carry forward requests.

14. During the 2017/18 financial year, the council underspent its capital budget by £37m, mainly due to environmental and planning delays affecting property schemes and the re-profiling of other projects planned expenditure into 2018/19. In the April 2018 year-end outturn report, the Cabinet requested that officers come back to this meeting to seek approval for the carry forward of capital budgets. Officers are requesting to carry forward £32m unspent budgets to the 2018/19 financial year for projects still within their total scheme budget, which will leave a net underspending of £5m. The criteria for these carry forward are that the project has commenced; or is funded by a ring fenced grant the council would otherwise lose; or is to support delivery of MTFP savings. These projects are shown in Appendix 2.
15. To address the issue of continuing capital underspending, the Chief Executive will undertake a review of the capital programme within the current MTFP, including 2018/19. The aim of this review will be to ensure that the capital programme aligns with the council's priorities and long term strategy, and that expenditure in each year is more accurately forecast and profiled. This review will take the form of a series of 'deep-dives' and will report back to the cabinet in July.
16. Following the severe winter weather the council continues to experience significant increases in the number of safety defects on the network. In March and April 2018 there were 18,060 defects reported compared to 10,408 in the same period last year. Whilst additional resource is being deployed on the network to repair these defects and keep our roads safe, this will not rectify the extensive and rapid deterioration that has occurred.
17. The additional £5m provided earlier this year will enable us to repair some of this damage, however it is not sufficient to deal with the full extent of deterioration that has occurred. We are therefore proposing to undertake a further £7m programme of localised structural repair in 18/19, targeting a much greater number of those areas where clusters of defects have appeared. This will be in part funded from 2017/18 capital budget underspending and the review of the capital programme in July. This will be followed by an additional £8m in 2019/20, which will allow us to continue this work. We will undertake a programme of surface treatment on entire lengths of these roads to seal them and further extend their life and protect our investment. This will be funded by a further review of the councils capital programme.

18. It is recognised that a more sustainable investment approach is necessary for the highway network and so officers will return to Cabinet later in the year with a revised highways asset strategy. This will include plans for future investment in our highways assets and be integral to informing the future highways contract strategy, from 2021 onwards.

Flexible use of capital receipts

19. In setting the 2018/19 budget in February 2018, Full County Council approved the use of £15m capital receipts to fund the revenue set up and implementation costs on projects to generate future greater on-going savings. This is permitted in the Flexible Use of Capital Receipts guidance issued by the Government in March 2016.

20. Detailed business cases for these projects have now been prepared and reviewed by the Investment Panel for robustness. Following this, £9m of capital receipts will be applied to projects from the £15m worth approved in February 2018. Officers are developing additional projects and business cases to cover this shortfall in funding and will report back in due course.

21. Appendix 2 provides a summary of the business cases.

Conclusion

22. At this early stage of the year, the indications are that the council remains on course to achieve the majority of its £66m planned savings, with 9% already achieved. However, savings of £1.2m in Public Health are already forecast not to be achievable. Additionally, the council continues to face increasing demand and cost pressures, especially in special educational needs and disabilities, meaning it continues to face considerable challenges in attaining financial sustainability. Plans are being developed to meet any shortfall in the savings plans

23. Detailed business cases for £9m flexible use of capital receipts have been reviewed by the Investment Panel, with officers developing alternative proposals to bring this up to the £15m approved by the Full County Council.

24. The capital budget in 2017/18 was underspent by £37m. For schemes that have already commenced; are funded by a ring fenced grant, or will deliver revenue savings, officers have proposed the carry forward of budgets in to the 2018/19 financial year totalling £32m. The remaining budget will be invested in the county's highways network in 2018/19 to improve their condition following the winter.

Recommendations

Cabinet is asked to approve:

1. £32m capital carry forward requests as detailed in Annex 1.

2. In addition to the £5m invested during 2017/18, further investment in 2018/19 of £7m and then a further £8m in 2019/20 to improve the condition of the highways network
3. The leader's instruction to the Chief Executive to conduct a review of the capital programme to ensure alignment with the council's strategy.

Cabinet is asked to note the following:

4. The Corporate Leadership Team has reviewed the savings areas identified for 2018/19 with particular focus on those where there is the lowest confidence level of achievability.
5. There are continuing indications of significant budget pressures in special educational needs and disabilities (SEND) greater than the assumptions in the Medium Term Financial Plan, which present a risk to the overall financial position (reference paragraphs 11 and 12 earlier in the annex).
6. The business cases for the flexible use of capital receipts to support the 2018/19 budget have been reviewed by the Investment Panel.

Proposed capital carry forward and reprofiling requests

Scheme and rationale for carry forward	£000
<u>Children, Schools & Families</u>	
<u>30 hours free early education</u>	
During 2016 all local authorities were invited to bid for capital funding for specific schemes (up to a max of 6) to increase the number of pre-school places in Surrey. Surrey put forward a list of schemes and was successful in receiving ring-fenced grant funding. Most of the schemes could not be progressed, while DfE have confirmed that the funding cannot be used on alternative schemes. Therefore funding needs to be carried forward as it is highly likely the local authority will need to repay it to the DfE in 2018/19.	540
<u>Early Years Portal</u>	
DfE ring-fenced grant funding for IT support following the introduction of 30 hours Free Early Education for 2,3 and 4 year olds	28
<u>Free Universal Infant Free School Meals</u>	
Capital grant funding (£1.9m in 2014/15) was made available by the DfE to upgrade school kitchen equipment in infant schools to comply with the statutory duty of providing free school meals to all infant children. A list of priority schemes was identified and have now been completed. The grant funding was provided by the DfE specifically for this purpose and the service have identified further infant schools which require kitchen upgrades and/or equipment	430
<u>Schools' Devolved Formula Grant</u>	
Ring fenced government grant to fund schools' projects	1,992
<u>Schools' capital projects funded by other contributions</u>	
Funds to pay for school projects raised from other sources, such as PTA	416
<u>Total Children Schools & Families</u>	3,406
Place Development & Waste	
<u>Closed landfill sites</u>	
To meet the cost of works planned for March 2018 but now slipped into 2018/19. Works are required to comply with legislation and avoid land contamination, which could have financial consequences. The environmental investigations are completed and the negotiations with landowner ongoing, which are delaying construction.	76

Countryside: rights of way and structures

Overspend in 2017/18 to be deducted from the 2018/19 budget allocation. -4

Countryside: Basingstoke Canal

Ongoing programme of maintenance works (structural repairs to banks and towpath delivered on a prioritised basis) carried forward from 2016/17. This funding is likely to be utilised over more than one year - not all in 2018/19 - particularly as a specialist piece of equipment (hydraulic system for dredger) and associated costs totalling around £90k is likely to take considerable time to specify and source. 409

Underspend on the core budget required in 2018/19 to complete on-going maintenance 45

LEP Funded Schemes

Slippage on the final stages of Runnymede Roundabout, Greater Redhill STP and Wider Network Benefits which were due to be completed by the end of March 2018. 1,724

Road safety schemes

Underspending on an on-going programme of works 2

Secondary Shopping Centres

There is a formal agreement to support upgrades in Spelthorne Secondary Shopping Areas, which have been delayed and are now due to be completed in 2018/19 85

Total Place Development and Waste 2,337

Highways & TransportHighway maintenance

Delayed schemes at Wimbledon Road (£0.21m) and match funding for the A23 LGD scheme (£0.78m) that have commenced. These are funded from a Department for Transport Grant, and although not ring-fenced, alternative use could affect future allocations. 1,121

National Productivity Investment Fund:

Ring-fenced government grant allocated to the A217 (the A217 was completed in 17/18) and A24 Epsom Resilience schemes (£1.23m), and Farnham Road Bridge (£0.65m) due to start in 18/19. 1,878

Bridge strengthening

Delay to the Julian Hill bridge scheme which had to be re-tendered due to cost increases, and Walton Bridge land compensation claims expected to be settled in 18/19 249

Flooding & drainage

Delays to Wonham Lane scheme which was re-tendered due to cost increases. Works at South Avenue and Merryacre are in progress and will continue over in 2018/2019. 133

Safety barriers

Delays due to revised estimates, programme delivery delays, road space availability and contractor availability. 266

Local transport schemes

Schemes are committed and due to start imminently 43

Developer funded schemes

Overspending in 2017/18 due to funding for Tunsgate in Guildford being delayed and now resolved. -200

Traffic signals

Schemes awaiting the completion of other road schemes 174

Flood resilience schemes

Delays to Godalming (£0.35m) and Woldingham (£0.1m) flood alleviation schemes. Works associated with Runnymede Roundabout (£0.5m) have been delayed due to timing of the wider scheme. 1,002

Total Highways & Transportation **4,666**

Surrey Fire & Rescue Service (SFRS)Joint Transport Project

Funded by Fire Transformation Grant, for which Surrey acts as banker on behalf of the three Surrey and Sussex fire services. The carry forward into 2018/19 will enable this project to continue. 4,749

Vehicles & Equipment

To complete the purchase of two fire appliances while snagging is completed. 62

Total Surrey Fire & Rescue Service 4,811

Property ServicesSchools Basic Need

To Deliver school places and partly funded through government grant. This scheme is made up of several projects and the requested carry forward relates to works already underway which were delayed: Ewell Grove expansion £1.1m, St Bedes, 2 form entry £1.3m and St Nicholas, replacement school £2.2m, offset by some works which are ahead of schedule. 4,044

Recurring programme – schools maintenance

Ring-fenced government grant to maintain school buildings. 1,598

Recurring programme - non-schools maintenance

This scheme is for maintaining the council's buildings and this request is after a £1.8m saving. An asset review will be undertaken and funds may be required to ensure the buildings are maintained and kept up to required standard. 520

Projects to deliver capital receipts

Schemes that will lead to capital receipts to the council in excess of the cost of carrying out these works. These include Cranleigh Schools, small holdings and Horley library. 2,617

SEN Strategy

This element relates to improving Learning Difficulties Centres as commissioned by Schools & Learning. 85

Fire projects – Spelthorne

Project is on track to deliver as planned and funding required to be brought forward -274

ASC schemes

Lindon Farm, this scheme will provide supported living accommodation for adults with Autism, the scheme is under contract & in progress. 1,350

Lindon Farm Scheme Activity centre	231
<u>E&I schemes - salt barns</u>	
This scheme is to provide fit for purpose salt barns in Surrey, the scheme generates capital receipts, savings and rental income in excess of the cost of the scheme. There were delays to the first scheme as the projects had to be re-worked to deliver within budget. The scheme is now underway.	1,871
<u>Gypsy sites</u>	
This programme refurbishes several gypsy sites to ensure they meet required standards, there have been planning and procurement delays but schemes are now underway and the work is still required.	859
<u>Projects to enhance income</u>	
Schemes delivering savings to the revenue budget, in particular the refurbishment of residential rural properties to enable rental income.	42
<u>Regeneration projects</u>	
This comprises of two schemes to regenerate areas in Reigate & Banstead, both are now in their final stages but have incurred delays as payments are made to third parties or there have been contractor issues. This expenditure is managed by local boards and is committed. The two schemes are:	
Merstham - The social space requires remedial work before it can be occupied.	397
Preston - Phase 3 and 4 of the work is still to be completed in partnership with Reigate & Banstead BC.	451
<u>Other School Projects</u> - to complete schemes at Reigate Priory School, a conservation building in need of repair to ensure it is safe and fit for purpose and to replace demountable buildings at St Anne's Heath school.	881
	14,673
Total Property	

IT&D

IT&D Equipment and hardware replacement

IT&D contribute to three reserves to replace assets: equipment such as laptops and servers; data centre; and network. A core principle of these funds is to manage expenditure over several years. This investment in IT is necessary to maintain the delivery of all council services. The removal of the accumulated funding would have a severely detrimental effect on the council's ability to operate in the short-to-medium term, restrict the organisation's future ambitions and increase revenue pressures. There are future equipment refresh projects profiled against the budget on the assumption that accumulated spend would be available.	1,455
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<u>ASC Infrastructure</u>	506
A ring-fenced grant to support ASC mobile working. Planning and scoping activities are underway to establish this project.	
Total IT&D	1,961
Total Proposed Carry Forward	31,854

Flexible use of Capital Receipts 2018/19

Using the powers under the government's guidance on the flexible use of capital receipts, the table below summarises project business cases for which capital receipts can be applied to fund revenue expenditure. Two criteria to assess the cases were used;

1. That the projects/schemes were designed to generate ongoing savings or reduce costs;
2. That the qualifying costs are set up or implementation costs of any new process or arrangement.

Description of project and aims	Qualifying expenditure	Amount of expenditure in 2018/19
<p>Environment & Infrastructure transformation programmes.</p> <p>A range of projects covering the single waste authority, changes to the waste contract, Surrey Wildlife Trust and highways maintenance to deliver savings of £6m by 2020/21.</p>	<p>An E&I Business Improvement and Consultancy (BIC) Team was formed to support transformation and improvement throughout the directorate. Team members provide consultancy-style support to change projects, including project development and projection management functions, from inception through to implementation. In addition the Waste Team are directly supporting transformation.</p>	£643k
<p>Health & Social Care Integration Programme Support</p> <p>The council has created or allocated a number of posts to lead, support and help drive Health and Social Care Integration and ensure benefits and risks to the local authority are clearly identified to enable informed decisions. This investment will enable the delivery of savings across the health and social system, with the key benefits anticipated for the Council at this stage accruing in the form of reduced demand pressures of £1m per year.</p>	<p>Positions related to this programme are working specifically to support the health & social care integration agenda in Surrey. This investment is essential to drive forwards the plans that will deliver the demand management savings</p>	£483k

Description of project and aims	Qualifying expenditure	Amount of expenditure in 2018/19
<p>Accommodation with Care & Support Programme</p> <p>The Accommodation with Care & Support strategy is an extensive programme covering all of the accommodation based care services Adult Social Care commissions to support Surrey residents across all care groups and to deliver savings of nearly £2m by 2021/22 as well mitigating significant cost pressures that would otherwise arise due to the need to increase the capacity of affordable care provision to meet rising demand.</p>	<p>Positions related to this programme are working specifically to support Surrey's accommodation with care & support programme. This investment is essential to drive forwards the plans that will deliver the savings and cost avoidance</p>	<p>£193k</p>
<p>Early Help in Children, Schools & Families</p> <p>The Early Help Transformation Programme is developing an integrated SCC Early Help offer, which is to be aligned with partner and voluntary sector preventative resources. This work commenced in 2017/18 and is continuing to deliver savings of £9.7m by 2020/21 through the creation of Early Help Co-ordination Hubs</p>	<p>The additional investment will develop programme delivery capacity, IT and support services that are required to deliver changes within the Early Help Transformation Programme. This will lead to longer-term savings through reducing cost and demand for more acute services</p>	<p>£2,870k</p>
<p>Orbis Investment</p> <p>The Orbis partnership is transforming to deliver significant savings. Transformation of this scale requires significant investment and project resource to ensure its success and deliver savings. The main investment cost will be technology to enable more efficient service delivery in addition to the resources to implement the programme. The saving to Surrey County Council is £3m over the next two years.</p>	<p>Investment in enabling IT systems, an Orbis programme team and transformation resources is necessary to deliver these savings. Examples of such activity is implementation of a helpdesk to provide an integrated service to all three partners; IT investment to enable all Orbis staff to communicate effectively and share information, regardless of location. In addition there are project resources within individual services that are transforming services to deliver the planned savings.</p>	<p>£1,855k</p>

Description of project and aims	Qualifying expenditure	Amount of expenditure in 2018/19
<p>Redundancy costs</p> <p>Achieving the transformation and subsequent cost savings may lead to reductions in the number of staff employed. In some circumstances, this may require severance payments and compensation to the Pension Fund for the cost saving to be achieved</p>	<p>Severance payments and for members of the pension fund, pension fund strain payments made to the fund</p>	<p>£3,000k</p>

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