

SURREY COUNTY COUNCIL

CABINET

DATE: 26 JUNE 2018



REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL

LEAD OFFICER: SHEILA LITTLE, EXECUTIVE DIRECTOR OF FINANCE

SUBJECT: FINANCE AND BUDGET MONITORING REPORT TO 31 MAY 2018

SUMMARY OF ISSUE:

This report presents the council's financial position for 2018/19 at the end of May 2018, including financial year end projections for the capital and revenue budgets. It highlights indications of material or significant variances to Medium Term Financial Plan (MTFP) assumptions, as well as emerging issues, risks, areas of concern and proposed actions to resolve them.

This report follows the Financial Position Statement presented to this cabinet in May 2018, and in the context of the Annual County Council report on Developing a Vision for Surrey in 2030. The council faces a significant, and unprecedented, budget shortfall in 2019/20 following the use of significant one-off sources of funding for this year, which reinforces the need for a balanced budget at the year end. An increase in budget pressures or a shortfall in the delivery of targeted savings will require in-year actions to ensure that the council's reserves are optimised and remain sufficient to meet budget risks in future years.

Annex 1 provides further details, including the position for each directorate. Annex 2 lists the progress of the MTFP savings projects for 2018/19.

RECOMMENDATIONS:

Cabinet is asked to note the following.

1. As at 31 May 2018, the council's overall revenue budget position is as follows:
 - £2.8m forecast year end underspend (Annex, paragraph 1),
 - £65.3m forecast planned savings, against £66.0m target (Annex, paragraph 3),
 - £15m risk of increased service pressures in SEND,
 - Target of £15m additional in year savings in 2018/19.

Cabinet is asked to approve the following.

2. Agree in principle to continue to use the Waste Sinking Fund to smooth Eco Park construction cost variations across years (Annex, paragraph 34).

3. Highways & Transport requests to draw down £0.155m from three revenue carry forwards made in 2017/18 to fund committed and in-progress projects including:
 - £85,000 members' allocations for bursaries and a school and recycling project;
 - £45,000 for committed bridge assessments; and
 - £25,000 for traffic signals maintenance delayed due to bad weather.
4. Highways & Transport requests a £0.9m increase to the capital budget to reflect additional pothole grant announced by the Department for Transport on 26 March 2018.
5. Highways & Transport requests to draw down £4.67m capital carry forwards to fund committed and in-progress projects, including:
 - National Productivity Investment Fund grant-funded Farnham Bridge and A24 Epsom Resilience schemes, plus match funded A23 Local Growth Deal scheme;
 - highways major maintenance and bridge strengthening schemes.

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 2018/19 budget and Medium Term Financial Plan (MTFP) 2018-21 in early February 2018 in the context of continuing rising demand and cost pressures totalling £108m, and over seven years of Government funding cuts. To counteract these pressures, the council has targeted to deliver £66m revenue savings and spending reductions this year. However, balancing this year's budget required £56m in one off funding, which will not be repeatable in future years. This included the application of £21m from reserves, leaving £60m earmarked reserves and £21m general balances at 1 April 2018.
2. In the context of this financial challenge and the level of remaining reserves, the council must achieve its budget this year. Therefore, officers are developing plans for additional in-year savings to off-set any additional emerging pressures or non-achievement of savings, and also to meet the challenging budget gap for 2019/20. The aim is for these in-year savings to be in the region of £15m.

Savings

3. To gain greater assurance about savings, the Chief Executive and Executive Director of Finance initiated a programme of "deep-dive" reviews in April 2018, which identified actions to increase confidence. Throughout the year the

Corporate Leadership Team will track and monitor delivery of savings developing plans for alternatives through new and more robust arrangements that are being put in place,. This is to ensure a considered, strategic and corporate approach to financial reporting and management.

Pressures

4. The council's main financial pressures stem from demographic demand growth in social care for adults and children, special educational needs and disabilities (SEND) and maintaining the road and infrastructure network. To ensure these pressures are visible and controlled, the Corporate Leadership Team will track pressures closely every month and will put in place mitigating actions wherever possible.
5. As reported last month, early indications suggest SEND pressures are continuing to rise in 2018/19, as more children have an Education, Health and Social Care Plan (EHCP). This national issue is exacerbated by the failure of funding in the Dedicated Schools Grant High Needs Block to keep pace.

Capital programme

6. The council's capital programme over the three years of the MTFP is £322m, including £144m in 2018/19. This major investment in Surrey's infrastructure and economy focuses on the growth in pupil numbers and the importance residents place on good roads and services. This includes a £15m increase in capital spending for road repairs and maintenance over and above that planned in the MTFP for the next two years.
7. The Chief Executive and the Executive Director of Finance have initiated a review of the capital programme within the current MTFP, including 2018/19. The aim of this review is to ensure the capital programme aligns with the council's priorities and long term strategy, and expenditure in each year is more accurately forecast and profiled. This review will take the form of a programme of 'deep-dives' and will report back to the Cabinet in July 2018.

Service transformation

8. Local authority funding remains uncertain, especially around the future of the Business Rates Retention Scheme, the Faire Funding Review, negative Revenue Support Grant and the prospects from the green paper on adult social care. The council does not forecast any significant new or additional government funding to meet the continuing and rising pressures it faces over the medium term. Faced with these uncertainties and pressures, the Cabinet is developing a programme of transformational changes to ensure the council has sustainable services for residents. This transformation was set out in the Council report of 22 May 2018, "Developing a Vision for Surrey in 2030". The programme will include projects to manage service demands, increase income and, or, deliver savings to overall reduce annual expenditure by approximately £250m over the next three years. This includes £133m of savings already in the MTFP, of which £66m is targeted for delivery in 2018/19.

9. The additional benefit of the transformation programme will start to flow from 2019/20, but the bulk of the savings will inevitably follow in 2020/21 for the Council to attain a sustainable budget in future years. Therefore for the 2019/20 budget to be achieved will require all services to deliver further sizable savings from their current operating budgets.
10. Outline Business Cases for the transformation savings will be presented in July 2018 for agreement in principle and will provide additional confidence to members. These, and the more detailed Full Business Cases for savings, will link to a robust budget setting process for 2019/20 and the next five year MTFP. The budget and MTFP, subject to any changes resulting from the Local Government Finance Settlement, will be presented to the Full County Council in November 2018. This is three months in advance of previous years.

Risk based approach

11. The council operates a risk based approach to budget monitoring across all services. The approach ensures the council focuses on monitoring those higher risk budgets due to their value, volatility or reputational impact.
12. Managers with high risk budgets monitor their budgets monthly, 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).

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 and the sustainability of the MTFP. In the light of the increased and significant financial risks faced by the council, the Leadership Risk Register will be reviewed to increase confidence in directorate plans to mitigate the risks and issues.

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 2018/19, the council targets to deliver £66m spending reductions and manage £108m pressures as it moves 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). Adverse variances will require remedial in-year savings and budget reductions.
18. It is drawn to member's attention that the council's reserves are already at low levels bearing in mind the ongoing uncertainty about future funding, demand pressures, savings and transformation programme. Any future use of reserves will need to be carefully planned so that they are not depleted to unacceptable levels.

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.

Contact Officer:

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Consulted:

Cabinet, strategic directors, heads of service.

Annexes:

Annex 1 – Overall and directorate financial position for: revenue budget, savings, pressures and capital programme.

Annex 2 – MTFP savings projects 2018/19

Sources/background papers:

Revenue and capital budget movements.