

Budget monitoring report to 31 May 2018 (period two)

Summary

The council faces a significant, and unprecedented, budget shortfall. This challenge continues and grows in 2019/20. Faced with this, the Cabinet is developing a programme of transformational changes to ensure the council has sustainable services for residents and will take the necessary steps to achieve a balanced budget in future years.

After the first two months of 2018/19, the council forecasts a small revenue underspend at year end. Set against this, the council continues to face significant budget risks, especially for children with special educational needs and disabilities (SEND). This could be as high as £30m growth in budget pressures over the last financial year. The council has developed plans to achieve savings to off-set £15m of this pressure and aims to achieve £15m further in year savings to help meet this challenging budget gap.

With the need for a balanced budget in the current year paramount, and to meet the challenging budget gap for 2019/20, outline plans for additional in-year, and continuing savings have been developed. The aim is for these additional in-year savings to be in the region of £15m. The outline plans in this report will be finalised and presented at the July meeting of the Cabinet.

The annual meeting of the County Council in May 2018 approved the use of capital receipts to fund and support the costs of transforming the council's services. The use of capital receipts will meet the requirements of the Government's Flexible Use of Capital Receipts Guidance. The current committed costs are £2.1m for 2018/19 and relate to consultancy project management support and additional interim capacity. The investment required to deliver the individual transformation projects is being determined.

The Executive Director of Finance has conducted 'deep dive' reviews of the 2018/19 savings programme, the capital programme and will begin a review of the 2019/20 savings programme. The review of the 2018/19 savings programme has resulted in increased confidence in services' savings plans, particularly in reducing the higher level, red risks.

The review of the capital programme was carried out in late June and has identified a number of options for re-profiling and re-stating areas of the capital programme to more accurately reflect the capital expenditure plans over the next three years. A report on these proposed amendments will be presented to the Cabinet in July for approval.

Summary 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 (paragraph 1),
 - £65.3m forecast planned savings, against £66.0m target (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 (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.

Revenue budget overall summary

- As at 31 May 2018, the council forecasts a small £2.8m year-end underspend as shown in Table 1.

Table 1 Summary forecast revenue budget as at 31 May 2018

Service summary	Gross expenditure £m	Net expenditure* £m	Forecast net expenditure £m	Variance £m
Children's Services	137.7	124.6	125.0	0.4
Commissioning & Prevention	102.1	33.3	33.2	-0.1
Schools & SEND	175.5	62.6	62.4	-0.2
Delegated Schools	380.4	0.0	0.0	0.0
Cultural Services	21.9	8.7	8.3	-0.4
Adult Social Care	500.0	381.6	378.2	-3.4
Public Health	37.3	0.7	0.7	0.0
Economic Growth	1.0	1.0	1.1	0.1
Highways & Transport	56.6	48.4	48.2	-0.2
Place Development & Waste	97.4	88.9	89.0	0.1
Surrey Fire & Rescue Service	45.4	31.5	31.6	0.1
Environment & Community	5.0	3.1	2.7	-0.4
Central Income & Expenditure	53.6	49.3	46.4	-2.9
Legal, Democratic & Coronial	11.7	9.9	9.9	0.0
Orbis	88.2	76.8	76.4	-0.4
Customer & Performance	7.5	7.1	7.0	-0.1
General funding	0.0	-906.3	-901.7	4.6
Total	1,721.3	21.2	18.5	-2.8

Note: All numbers have been rounded - which might cause a casting difference

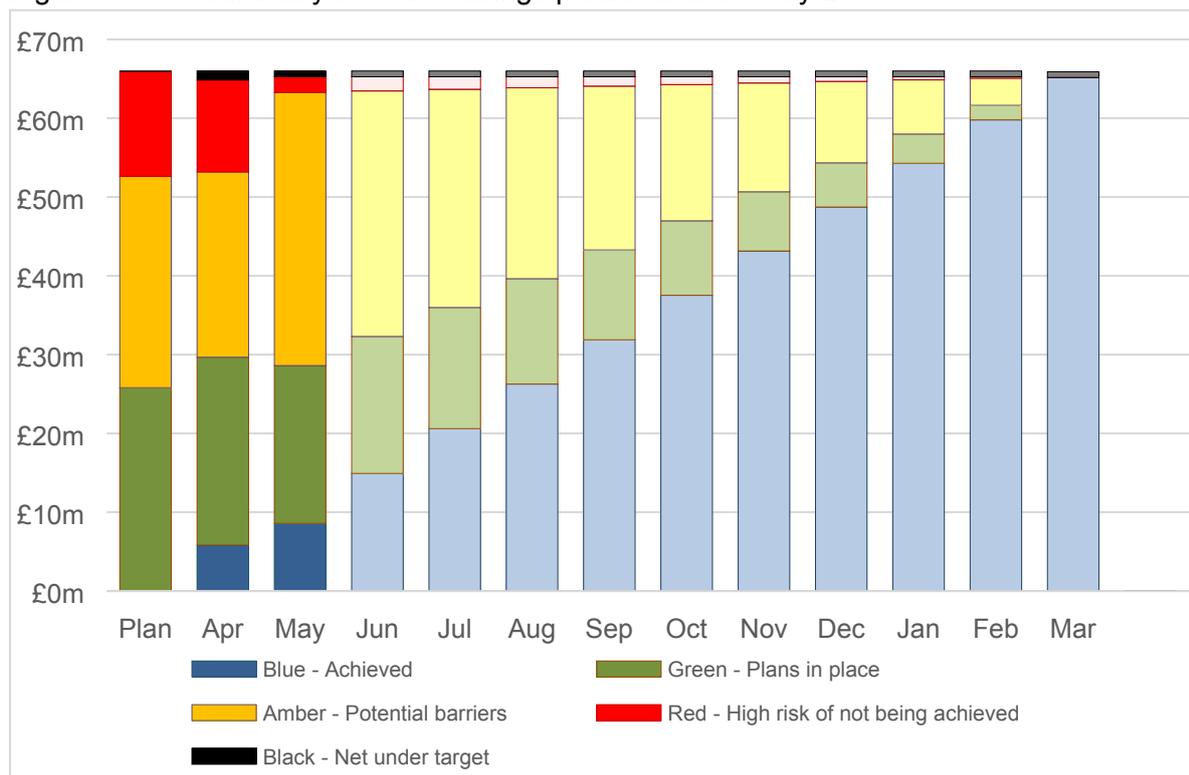
- Against this forecast financial position, the council faces significant risks in relation to SEND, with up to £30m additional service pressures from increased demand. This is £15m more than forecast in the MTFP.

Savings

- The current forecasts shows £65.3m delivery against the £66.0m savings target. This £0.7m net savings shortfall is from application of Public Health Grant, as reported last month, less £0.5m increase in Schools & SEND's savings forecast. This is described more fully in paragraphs 25 to 28.
- Figure 1 shows the risk ratings for the achievement of the £66m planned savings, their achievement to date and the forecast profile for achieving the savings over the year. The most significant change, as indicated by the reduction in red risks, is services' increased confidence in achieving their savings following the deep dive reviews.

* Net expenditure is services' gross expenditure less income from specific grants plus fees, charges and reimbursements. It excludes the council's general funding (general government grants, council tax and business rates).

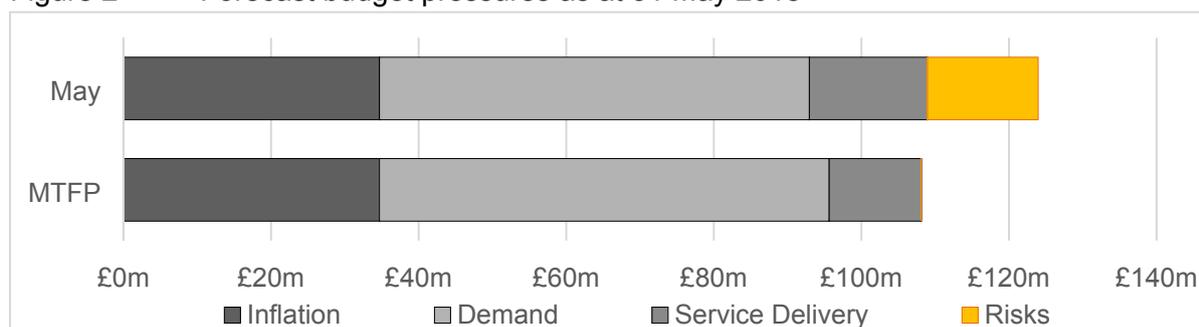
Figure 1 Summary forecast savings profile as at 31 May 2018



Pressures

5. Figure 2 compares the total budget pressures and their composition, in the MTFP and at the current period. It shows the council faces the risk of £15m more pressures than the £108m included in its 2018/19 budget. This is mainly due to pressures on SEND services funded from Dedicated Schools Grant High Needs Block (paragraphs 25 to 28). Otherwise, there is a small shift in pressures from demand to service delivery.

Figure 2 Forecast budget pressures as at 31 May 2018



In year savings 2018/19

6. This report has already highlighted the financial risks faced by the council this year, and the continuing budget challenges for next year and for the future. To mitigate these risks the council has developed a series of cost controls and measures to reduce spending and budget in this year, and as a base reduction for future years.
7. The areas of focus for these controls and savings are shown below.
- Removal of historic underspent budgets.
 - Increased travel & expenses controls.

- Increased controls on sundry expenses, such as printing, stationery and venue hire.
 - Increased recruitment controls.
 - Review of contracts due to end by December 2018, to identify opportunities to terminate, respecify or renegotiate in order to reduce costs.
8. The target is for these measures to lead to savings of £15m in this year and in future years.

Transformation costs

9. To ensure the council has the right capacity and capability to develop and deliver the level of transformational change required, the council at its annual meeting in May approved additional costs relating to the following areas:
- external consultancy project management support;
 - interim leadership capacity; and
 - investment in transformation initiatives and programmes.
10. The council further approved the use of up to £5m of capital receipts in line with the Government's Flexible Use of Capital Receipts policy to fund these costs.
11. The committed costs to date are shown below for 2018/19.

	£000s
Project management consultancy	600
Interim CLT support	<u>1,503</u>
Total	<u>2,103</u>

12. The costs of the transformation projects are being developed as a part of the Outline Business Cases and will be reported in due course.

Capital budget overall summary

13. As at 31 May 2018, services forecast spending £152m against the £152m current 2018/19 capital budget. There were no significant forecast variances. A deep dive has recently been carried out on the capital programme and identified a number of areas where the schemes will need to be re-profiled or restated to better reflect capital expenditure plans. These changes will be presented in next month's report.
14. As part of increasing its overall financial resilience the council forecasts making £50m net investment in long term capital assets in 2018/19 (paragraphs 39 to 42). This brings total forecast capital spending in 2018/19, to £202.3m.

Services' revenue budget positions as at 31 May 2018

People services

People services overview

15. People services forecast an overall £3.7m year-end underspend as shown in Table 2. The forecast underspend is mainly from underspends in Adult Social Care on staffing and care packages.

16. The overall position for Children Schools & Families is £0.1m overspend. This position is caveated with the fact that the directorate is about to embark on a complete restructure and transformation of services. The financial implications of such a major change will need careful monitoring throughout 2018/19 and the variance position will undoubtedly change.

Table 2 People services' position against revenue budget as at 31 May 2018

	Gross expenditure	Net expenditure	YTD actual	Full year projection	Full year variance
	£m	£m	£m	£m	£m
Children's Services	137.7	124.6	20.4	125.0	0.4
Commissioning and Prevention	102.1	33.3	4.7	33.2	-0.1
School & SEND	175.5	62.6	19.1	62.4	-0.2
Delegated Schools	380.4	0.0	0.0	0.0	0.0
Cultural Services	21.9	8.7	1.1	8.3	-0.4
Adult Social Care	500.0	381.6	54.6	378.2	-3.4
Public Health	37.3	0.7	-1.3	0.7	0.0
People services total	1,354.9	611.5	44.0	607.8	-3.7

Note: All numbers have been rounded - which might cause a casting difference

Children's Services - £0.4m forecast overspend

17. Children's Services continues to experience exceptional demand for services which was planned for during the 2018/19 budget setting process. However, as a result of some recent events, after the budget was set, in relation to CAMHS (Child & Adolescent Mental Health Service) the service is forecasting to overspend by £0.4m in 2018/19.
18. Increased demand from children requiring support has led to a continued need for additional social work capacity. There are currently 35 additional staff (not included in the budget) in posts across the MASH (Multi-Agency Safeguarding Hub) and Children's Services frontline teams. There are 119 locums across these teams covering the additional posts and vacancies. This includes the newly formed CAP Team (Children's Assessment Programme) which is forecast to be in place from the end of September. The combination of these is resulting in a £2m staffing pressure which is being offset by a planned underspend within Central Services.
19. The external placement budget was increased by £11m in 2018/19 due to increasing demand. As at 31 May 2018 there were 89 external residential placements and 223 external fostering placements. The forecast originally assume that these would increase by two per month and five per month respectively for the remainder of the financial year. Plans are being put in place to reduce this requirement and will be reported on in subsequent monitoring statements.
20. As in previous years, the local authority is having to subsidise services for Unaccompanied Asylum Seeking Children, as the grant funding received from the Home Office is insufficient to cover the total cost. In 2018/19 the budget was increased for this level of subsidy, which totals £4.5m, with the total cost at £8.9m.
21. The budget for the Leaving Care Service was increased by £2m in 2018/19 to allow for the rise in demand and the increased level of need that was seen in 2017/18. This increase is forecast to continue into 2018/19.

Schools & SEND - £0.2m forecast underspend

22. Surrey County Council funded Schools & SEND services forecast a very small underspend £0.2m. There continues to be an exceptional demand for services for children with Special Educational Needs (SEN), with the number of Education Health and Social Care Plans (EHCPs) increasing by 40%, to almost 8,300 over the past two financial years and a rise of nearly 600 since the SEN2 statutory return in January. This significant increase means that the demand for services (external placements and transport in particular) and therefore costs are also increasing.
23. The number of pupils needing SEND transport is now almost 3,000 and the net overspend in 2018/19 is £1.7m, despite the budget being increased by £2.2m during planning. The new travel allowances and travel training policies are being implemented but there are delays and the planned savings of £1.2m in 2018/19 may not be fully achieved.
24. The Schools Planning and Leadership budget is forecast to be £0.8m underspent which is planned and helping to alleviate the transport overspend, alongside other smaller forecast underspends, which together total £0.5m.

High Needs Block (HNB) Dedicated Schools Grant (DSG) SEND Services

25. The existing Medium Term Financial Plan (MTFP) included a financial pressure of £15m in 2018/19 for Special Education Needs and Disabilities (SEND) services funded through the High Needs Block Dedicated Schools Grant, rising to £30m by 2019/20. However, current forecasts estimate this pressure to be nearer the £30m much sooner, and in 2018/19. This means there is a potential overspend in 2018/19 of £15m. The service has developed a cost containment plan to deliver the planned MTFP savings of £15m and the intention is to develop this further to minimise the potential overspend at the year end. Alongside this there is immediate action being taken to implement an effective service monitoring and control system.
26. A significant part of the £30m forecast in 2018/19, is the £9.3m overspend carried forward from 2017/18. As reported in the latter half of 2017/18, Schools Forum agreed for this overspend to be managed within the HNB DSG across financial years. Financial pressures within SEND are emerging as a national issue, with most authorities seeing significant increases in EHCP's and service costs.
27. Another area contributing to the £30m financial pressure is around external placements (currently over 1,100 pupils in external placements) with a forecast overspend of £17.2m. This is due to the unprecedented number of EHCPs and a corresponding increase in unit costs. The forecast is based on the assumption that the rate of growth in EHCPs will be the same as 2017/18 and the same proportion requiring specialist provision. However, as part of the cost containment planning, measures are being put in place to control the cost of existing services, rather than change the way they are delivered, in order to better manage this increasing pressure. The progress of these plans will be reported on in subsequent monitoring statements.
28. Another significant financial pressure of £3.2m is forecast on the Individual Statemented Pupil Support budget again due to increasing numbers (3,300 as at 13 May 2018).

Adult Social Care - -£3.4m forecast underspend

29. Adult Social Care's (ASC) forecast year end underspend is mainly due to:
- £2.8m forecast staffing underspend; and
 - £0.7m forecast underspend on care packages, primarily due to actions taken in the final quarter of 2017/18 resulting in lower care costs for the start of this year.
30. ASC projects to achieve its full £18.4m MTFP savings target for 2018/19. However, there is a high degree of risk associated with at least £1m of forecast savings where plans are in place, but rely on managing demand, to contain the total increase in care package costs.
31. ASC budgeted £18.4m for market inflation. As at 31 May 2018, ASC has identified £6.8m inflation impact, plus a further £6.8m anticipated for the Learning Disability residential and supported living cost of care project to address market sustainability issues. ASC holds £4.8m for potential further inflationary pressures in the remainder of the year, both in relation to increased costs of new care packages and current care packages where providers state they are unable to continue to provide care at the current fees. ASC will manage requests for fee increases robustly and will continue to review the need for this remaining inflation budget in line with agreed market fee changes.

Public Health – balanced forecast outturn

32. Public Health (PH) forecasts a balanced year end position, including to achieve its MTFP savings target fully. There are risks with delivery in some areas though, which remain under review. Within PH's year to date position, there are several variances attributable to ongoing delays receiving invoices for 2017/18.

Place services*Place services overview*

33. Place services forecast an overall balanced year end position as shown in Table 3 with no significant variances.
34. Within Waste, construction of the Eco Park, while progressing, is delayed. Under the terms of the council's waste contract with Suez, the council does not start to pay for the Eco Park until the facility is operational, at which point the construction cost will be spread over the remaining life of the contract. The current construction delay will therefore lead to a reduced cost in 2018/19, and increased costs in future years. The Eco Park is a major construction project spanning several years. The council manages changes in the timing and level of costs (such as those caused by delay) through the Waste Sinking Fund, using it to smooth cost variations across years. The forecast outturn position therefore assumes that reduced costs this year due to the delay will result in a contribution to the Sinking Fund, to meet those costs when they arise in future years. This is currently estimated at £3.3m, although the final amount will depend on a number of factors principally the actual length of the delay. The Waste service request Cabinet to agree in principle to continue to use the Waste Sinking Fund to smooth Eco Park construction cost variations across years, subject to consideration of the actual costs at the end of the financial year.

Table 3 Place services position against revenue budget as at 31 May 2018

	Gross expenditure £m	Net expenditure £m	YTD actual £m	Full year projection £m	Full year variance £m
Highways & Transport	56.6	48.4	7.2	48.2	-0.2
Place Development & Waste	97.4	89.9	10.7	89.0	0.0
Surrey Fire & Rescue Service	45.4	31.5	5.1	31.6	0.1
Trading Standards	3.7	1.8	0.2	1.7	-0.1
Communities Support function	0.8	0.7	0.1	0.5	-0.2
Emergency Management	0.5	0.5	0.1	0.5	0.0
Economic Growth	1.0	1.0	0.2	1.1	0.1
Place services total	205.4	172.8	18.5	172.6	-0.2

Note: All numbers have been rounded - which might cause a casting difference

Corporate support services

Corporate support services overview

35. Corporate support services forecast an overall £3.4m year-end underspend as shown in Table 4. This overall position includes a £2.9m underspend in Central Income & Expenditure. A year-end review of balances identified several historic balances which are no longer needed for their original purpose. This is off-set by shadow public health savings being considered unachievable.
36. In setting the budget, the council planned to use £15m of capital receipts to meet the already budgeted costs of transforming services. The Finance Position Statement to the Cabinet in May 2018 included business cases for the flexible use of capital receipts totalling £9m, which is a shortfall from the budget. This is off-set by a £0.7m increased forecast in income from long term investments (paragraph 39) giving a £4.6m net overspend on general funding.

Table 4 Corporate support position against revenue budget as at 31 May 2018

	Gross expenditure £m	Net expenditure £m	YTD actual £m	Full year projection £m	Full year variance £m
Customer Services	3.4	3.3	0.5	3.3	0.0
Strategic Leadership	0.8	0.8	0.1	0.8	0.0
Communications	1.8	1.8	0.3	1.8	0.0
Strategy & Performance	1.5	1.2	0.2	1.1	-0.1
Business Operations	-0.1	-0.1	0.0	-0.1	0.0
Finance	4.4	2.8	0.5	2.8	0.0
Human Resources & Organisational Development	3.8	3.8	0.5	3.9	0.0
Information Technology & Digital	13.1	12.6	1.6	12.6	0.0
Procurement	0.0	0.0	0.0	0.0	0.0
Property	31.3	22.1	2.4	22.1	0.0
Joint Operating Budget ORBIS	35.6	35.6	54.6	35.2	-0.4
Central Income & Expenditure	53.6	49.3	1.0	46.4	-2.9
Coroner	2.4	1.7	0.4	1.7	0.0
Legal Services	4.3	3.9	0.7	3.9	0.0
Democratic Services	5.0	4.3	0.7	4.3	0.0
Corporate support total	161.0	143.2	63.6	139.8	-3.4
Central Income & Expenditure – General funding		-906.3	-169.4	-901.7	4.6

Note: All numbers have been rounded - which might cause a casting difference

Capital programme budget position as at 31 May 2018

Service capital programme 2018/19 budget overview

37. As at 31 May 2018, the service capital expenditure budget is £152.3m, comprising £144.4m MTFP budget plus £7.0m additional funding for highways and £0.9m net virements. Forecast spending against the overall 2018/19 service capital budget is balanced, as shown in Table 5, with no significant forecast service capital programme variances.
38. The council has recently completed a deep dive review of its three year, £322m capital programme. Next month's budget monitoring report will present areas where schemes needs to be restated or reprofiled to reflect the council's capital expenditure plans better.

Table 5: Forecast service capital expenditure 2018/19 as at 31 May 2018

	Current full year budget	Apr - May actual	Jun - Mar Forecast	Full year forecast	Full year variance
	£m	£m	£m	£m	£m
Schools basic need	47.6	4.3	43.3	47.6	0.0
Property Services	41.9	3.4	38.5	41.9	0.0
Highways & Transport	37.3	2.7	34.5	37.3	0.0
Place Development & Waste	14.9	0.5	14.3	14.9	0.0
IT & Digital	4.5	0.0	4.5	4.5	0.0
Other capital projects	6.1	-0.3	6.5	6.1	0.0
Service capital programme	152.3	10.7	141.6	152.3	0.0
Long term investments	0.0	10.6	39.4	50.0	50.0
Overall capital programme	152.3	21.3	181.0	202.3	50.0

Note: All numbers are rounded - which might cause a casting difference

Revolving Infrastructure & Investment Fund

39. Table 6 shows that the council will generate £4.7m total net income this year from various property acquisitions made by the council and the Halsey Garton Property group. This is £0.7m above the income budget held within central income and expenditure
40. The council portfolio comprises properties purchased for future service delivery or economic regeneration. The portfolio forecasts £0.7m net cost this year, largely due to the development underway at the former Thales site in Crawley. In 2018/19 this scheme will cost the council £1.5m. However once the second phase building becomes fully operational in 2019/20 the development will generate an estimated £1.3m net income each year.
41. The Halsey Garton portfolio will generate £5.4m net income this year, comprising £1.7m estimated dividend and £3.7m net interest margin on loans provided to the company by the council. Any new investments will be added into the forecast once they are approved by the Investment Board.
42. Forecast capital expenditure in 2018/19 of £50m includes further equity and loans to the Halsey Garton Property group for approved investments, the development of the former Thales site in Crawley and Farnham town centre. The capital outturn for the year is reported net of an estimated £6.5m in third party contributions.

Table 6: Summary revenue and capital position as at 31 May 2018

	YTD actual £m	Full year forecast £m
Revenue statement		
Council portfolio		
Income	-0.7	-4.9
Expenditure	0.1	0.9
Funding	0.8	4.7
Net income/cost	0.2	0.7
Halsey Garton portfolio		
Dividend	0.0	-1.7
Net interest margin	-0.6	-3.7
Net income	-0.6	-5.4
Total net income	-0.4	-4.7
Capital expenditure	10.6	50.0

Note: All numbers have been rounded - which might cause a casting difference