

SURREY COUNTY COUNCIL

CABINET

DATE: 18 DECEMBER 2018



**REPORT OF: MR MEL FEW, CABINET MEMBER FOR FINANCE
LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR OF FINANCE**

LEAD OFFICER: CHIEF EXECUTIVE AND EXECUTIVE DIRECTORS

**SUBJECT: FINANCE AND BUDGET MONITORING REPORT TO
31 OCTOBER 2018**

SUMMARY OF ISSUE:

Surrey County Council faces a very significant financial challenge. The combination of eight years of successive reductions in Central Government and rising demand for services have placed unprecedented pressure on our ability to deliver year on year savings sufficient to offset these two issues.

This report summarises the most significant issues for the Council's 2018/19 financial position as at 31 October 2018. This is for both revenue and capital budgets, plus performance in achieving planned Medium Term Financial Plan (MTFP) savings and progress on in-year cost reductions. It has five annexes, which provide further details.

The 2018/19 budget set by the Council in February 2018, relied on significant use of one-off resources, including drawing £21m from reserves. Material additional spending pressures in Special Education Needs & Disabilities (SEND) identified in the early part of this financial year, would, without action, have resulted in the County Council's reserves falling below an acceptable level, particularly given the funding uncertainties the Council faces from 2019/20 onwards. In response, the Council set the £40m in year cost reduction programme, with two objectives:

- achieve sufficient in year cost reductions to prevent unplanned use of reserves to off-set overspent budgets; and
- avoid the need to draw down any of the planned £21m contribution from reserves this year to be in a more resilient position for 2019/20.

As at 31 October 2018, we are forecasting that the in-year reductions will have contributed to a position whereby we can avoid any unplanned use of reserves, and can reduce the planned use of reserves to from £21m to £13m. This would mean that the Council would have delivered a £7.9m underspend against the original budget, despite significant pressures emerging during the year.

The forecast outturn has improved by £4m since last month. This is predominantly due to an increasing number of the proposed budget reductions being progressed to the point that they can be reflected in the forecast, offset by a worsening position in relation to SEND.

In future months, Executive Directors and Cabinet Members will progress further towards completing the in year cost reduction programme, meaning the Council will have to draw less money from its reserves than it planned to in the 2018/19 budget. This will enhance financial resilience in line with the Organisational Strategy and Preliminary Financial Strategy.

RECOMMENDATIONS:

1. Cabinet is asked to note the Council's overall revenue and capital budget positions as at 31 October 2018:
 - -£8m forecast reduction in the need to use reserves;
 - £63m savings forecast against the £66m MTFP target;
 - £29m completed actions towards achieving £40m in year cost reductions;
 - The additional in-year government grant funding for winter pressures in adult social care (Annex 2 para 13), and
 - £133m forecast service capital programme outturn against £135m budget.

REASON FOR RECOMMENDATIONS:

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. The Council is making progress in meeting its aim of reducing the use of reserves this year. As at 31 October 2018, the Council forecasts a -£8m underspend against the MTFP budget, which reduces the Council's forecast need to draw from reserves in 2018/19 from £21m to £13m.
2. This is an improvement of £4m from last month. The most significant changes to the forecast outturn from that reported last month are;
 - £5.0m in Adult Social Care from successful completion of management actions to reduce in year spending;
 - £1.4m improvement in Central Income & Expenditure through a variety of savings.
 - Offset by £5.1m increase in cost in Education, Lifelong Learning & Culture. This is due to a £3.0m reduction in the forecast achievement of the SEND cost containment plan and £2.1m increase in SEND transport costs.
 - The remainder of the improvement is due to underspendings across the other services.

3. Table 1 shows: gross and net expenditure budgets, forecast outturn position and forecast variance by the Council's main service groups. Annex 2 provides a commentary on the most significant variances.

Table 1 Summary forecast 2018/19 revenue budget as at 31 October 2018

	Gross budget	Net budget	Net forecast	Forecast variance	Last Month variance
Directorate	£m	£m	£m	£m	£m
Delegated Schools	315.3	0.0	0.0	0.0	0.0
Education, Lifelong Learning & Culture	323.9	70.8	89.7	18.9	13.8
Safeguarding & Family Resilience	44.7	42.2	42.6	0.4	0.9
Corporate Parenting	114.8	100.8	99.3	-1.5	-1.2
Quality Assurance	6.6	5.5	5.9	0.4	0.4
Commissioning	12.4	11.2	11.4	0.2	0.2
Children, Families, learning & Communities (CFLC)	817.7	230.5	249.0	18.4	14.1
Adult Social Care	500.6	382.0	371.3	-10.7	-5.0
Public Health	37.3	0.7	0.5	-0.1	-0.1
Health, Wellbeing & Adult Social Care (HWA)	538.0	382.7	371.8	-10.9	-5.1
Economy, Growth & Commercial (EGC)	41.1	30.5	27.1	-3.4	-3.1
Highways & Transport	79.7	67.1	64.8	-2.3	-1.8
Environment	73.5	69.2	69.2	0.0	0.2
Surrey Fire & Rescue Service	45.7	31.5	31.2	-0.3	-0.3
Communities	5.1	3.0	2.6	-0.4	-0.4
Highways, Transport & Environment (HTE)	204.1	170.8	167.9	-3.0	-2.3
Customer & Performance	7.4	7.0	6.5	-0.5	-0.5
Orbis HR&OD, IT&D and JOB	52.4	51.8	48.2	-3.6	-3.2
Coroner	2.4	1.7	2.0	0.3	0.2
Customer, Digital & Transformation (CDT)	62.1	60.6	56.6	-3.9	-3.6
Finance (Fin)	4.3	2.6	2.6	0.0	0.0
Central Income & Expenditure (CIE)	54.1	49.9	39.2	-10.7	-9.4
Total services' net revenue expenditure	1,721.4	927.6	914.2	-13.4	-9.4
General funding		-906.3	-900.9	5.5	5.3
Use of reserves		21.2	13.3	-7.9	-4.1

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

* Orbis manages budgets on behalf of other directorates. Orbis activities are spread among directorates as follows: Property, Procurement and Business Operations within EGC, Finance within Fin, Human Resources & Organisational Development (HR&OD), Information Technology & Digital (IT&D) and the Orbis Joint Operating Budget (JOB) within CDT.

Revenue savings and cost reductions

4. To ensure a considered, strategic and corporate approach to financial management and reporting, Corporate Leadership Team: tracks and monitors

delivery of MTFP savings and additional in year cost reductions; and will develop plans for alternative savings as required.

MTFP savings

5. The Council's 2018/19 revenue budget includes £66.0m net ongoing MTFP savings. As at 31 October 2018, directorates forecast to deliver £63.0m against this target, compared to £63.3m forecast last month. The main change is a £3.0m shortfall against the £15.0m SEND cost containment plan offsetting improvements in other services. The forecast includes other smaller shortfalls in some planned savings masking overachievements in other areas. These are reflected in the year end forecast and Annex 3 provides a summary by Directorate in graphical form.
6. Figure 1 shows the risk ratings for the MTFP savings as at 31 October 2018. Directorates assess the achievability risks for the £66.0m planned MTFP savings based on their achievement to date and the forecast profile for achieving the remaining savings over the year. Within the overall savings profile: £56.6m are achieved or on track, £2.9m face potential barriers and £3.6m have a high risk of not being achieved.

Figure 1 Risk ratings for MTFP savings as at 31 October 2018



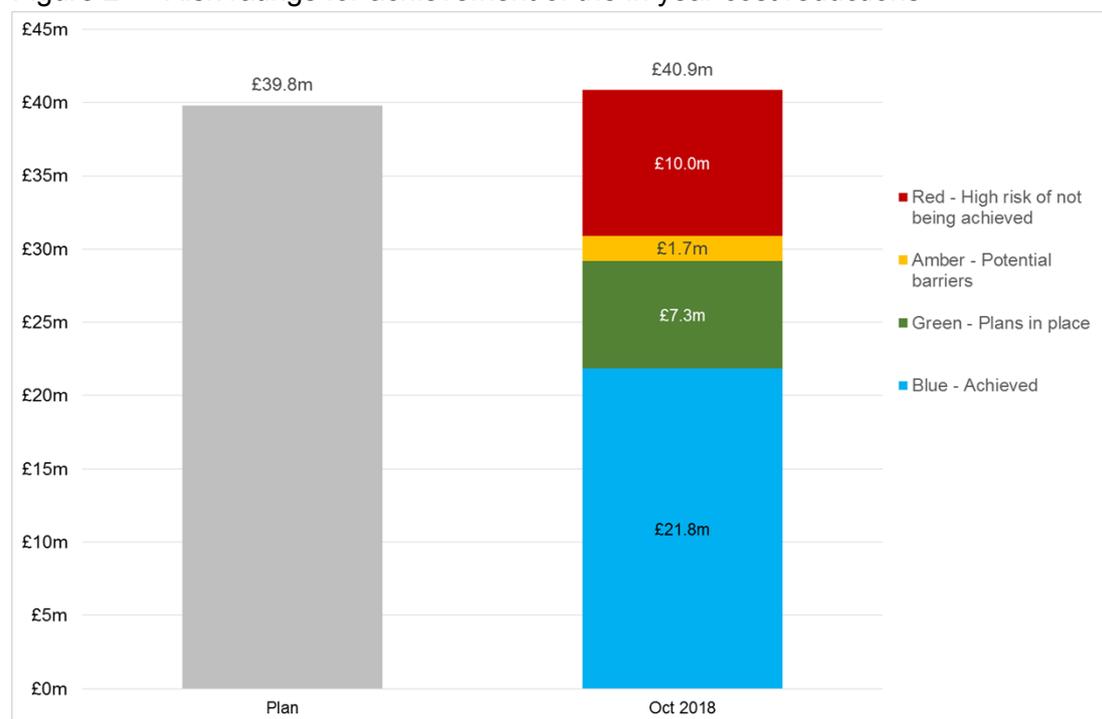
7.

In year budget reductions

8. To improve the Council's financial resilience, Cabinet approved in year budget reductions for all services in September of £40.

9. Figure 2 shows the risk ratings for the management actions to achieve these budget reductions as at 31 October 2018 compared to the plan. The actions achieved, or with plans in place total £29.2m and are included in the forecast outturn position. These are coloured blue and green. The actions facing potential barriers (amber) or at a high risk (red) of not being achieved and therefore still requiring management actions, total £11.7m. These are not included in the forecast outturn position. While no service has a forecast of less than its target, some of the actions achieved or with plans in place are forecast to overachieve against their targets. This accounts for the difference between the total for all of the actions and the £40m overall budget reduction target. Annex 4 provides more details of the achievement of these management actions.

Figure 2 Risk ratings for achievement of the in year cost reductions



Service transformation

10. Local authority funding remains uncertain, especially around the future of the Business Rates Retention Scheme, the Fair Funding Review, negative Revenue Support Grant and the prospects anticipated in the deferred Green Paper on adult social care. The Chancellor of the Exchequer's Autumn Budget of 29 October 2018 announced some new funding for local government in 2019/20. However, the Chancellor gave no indications of local government funding for years after 2019/20. The Council is not in a position to forecast any significant new or additional government funding to meet the continuing and rising pressures it faces over the medium term.
11. Faced with these uncertainties and pressures, Cabinet is developing a programme of transformational changes to ensure the Council has sustainable

services for residents. This transformation was set out in the County Council report of 22 May 2018, "Developing a Vision for Surrey in 2030". The benefits of the transformation programme will start to flow from 2019/20, with further benefits in 2020/21.

12. At its Budget and Council Tax meeting on 6 February 2018, Council approved a Flexible Use of Capital Receipts Strategy. This enables the Council to use capital receipts to fund the revenue costs of service reform projects. At its meeting on 22 May 2018, Council approved up to £5.0m for interim capacity and project management support for the Transformation Programme. The current spend relating to this is £1.2m and the full £5.0m is currently expected to be required this financial year.
13. Outline Business Cases for the transformation savings were presented for agreement in principle to Cabinet at its meeting on 30 October 2018. These, and the more detailed Full Business Cases for savings, will link to a more robust budget setting process for 2019/20 and the next five year MTFP. The Provisional Finance Strategy and preliminary balanced budget for 2019/20, without the use of reserves were presented to the County Council in November 2018 (subject to any changes resulting from the Local Government Finance Settlement expected on 6 December 2018). This is three months in advance of previous years.

Capital programme overview

14. The Council has a three year MTFP capital programme of £322m, including £135m 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.

Capital programme budget monitoring headlines

15. Table 2 shows directorates forecast -£1.9m variance against the 2018/19 service capital programme budget. Significant variances within this position include:
 - -£1.0m in Property Services mainly due to the discovery of asbestos causing delays in replacing modular buildings; and
 - -£0.8m IT&D projects due to re-profiling server replacement into future years.
16. As part of increasing its overall financial resilience the Council forecasts making £91m net investment in long term income generating capital assets in 2018/19. This brings total forecast capital spending in 2018/19, to £258m.

Table 2 2018/19 capital programme budget variances as at 31 October 2018

	Current full year budget	Apr – Oct actual	Nov – Mar forecast	Full year forecast	Full year variance
	£m	£m	£m	£m	£m
Schools basic need	27.1	18.4	8.8	27.1	0.0
Property Services	30.8	16.6	13.2	29.8	-1.0
Highways & Transport	57.5	28.0	29.5	57.5	0.0
Environment	2.2	0.8	1.3	2.2	0.0
IT & Digital	4.5	0.6	3.1	3.7	-0.8
Other capital projects	12.8	2.4	10.3	12.7	-0.1
Service capital programme	134.9	66.9	66.1	133.0	-1.9
Long term investments	0.0	33.5	91.2	124.7	124.7
Overall capital programme	134.9	100.4	157.3	257.7	122.8

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

Investment Strategy

17. Income of £6.7m is forecast to be delivered from investment assets this financial year, of which £5.8m will be from acquisitions made by the Council's property company, Halsey Garton Property group (HGP). This income is comprised of a dividend of £2.0m and £3.8m net interest margin on loans provided to the company by the Council. This is a £0.2m improvement from last month's forecast following Investment Board approval for a new acquisition which is expected to complete in December 2018.

Risk based approach

18. 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.
19. 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:

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

RISK MANAGEMENT AND IMPLICATIONS:

21. 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

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

SECTION 151 OFFICER COMMENTARY

23. The Section 151 Officer confirms the financial information presented in this report is consistent with the Council's general accounting ledger and that forecasts have been based on reasonable assumptions, taking into account all material, financial and business issues and risks.
24. The Council has a duty to ensure its expenditure does not exceed resources available. During 2018/19, the Council plans to deliver £66m MTFP savings and to reduce spending by a further £40m 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 efficiencies and budget reductions.
25. It is drawn to members' attention that the Council's reserves are already at low levels bearing in mind the ongoing uncertainty about: future funding, demand pressures, savings and the transformation programme. For these reasons and to increase the Council's financial resilience, the Council needs to achieve all of its £66m MTFP savings and all of the £40m in year cost reductions Cabinet has approved. Unless the Council achieves these savings and cost reductions in 2018/19, it risks depleting reserves to unacceptable levels.

LEGAL IMPLICATIONS – MONITORING OFFICER

26. The Council is under a duty to set a balanced and sustainable budget. 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 whilst continuing to meet its statutory duties.
27. 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 they 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, whilst complying with its statutory and common law duties.

EQUALITIES AND DIVERSITY

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

implementing individual management actions, the Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

29. Services will continue to monitor the impact of these actions and will take appropriate action to mitigate additional negative impacts that may emerge as part of this ongoing analysis.

WHAT HAPPENS NEXT:

30. The relevant adjustments from the recommendations will be made to the Council's accounts.

Contact Officer:

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Consulted:

Cabinet, executive directors, heads of service.

Annexes:

Annex 1 – Overall and directorate revenue budget financial position.
Annex 2 – Revenue budget monitoring headlines
Annex 3 – MTFP savings projects 2018/19
Annex 4 – In year cost reduction programme 2018/19
Annex 5 – Activity information for the Council's highest risk budgets.

Sources/background papers:

Revenue and capital budget movements.

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