

SURREY COUNTY COUNCIL

CABINET

DATE: 26 FEBRUARY 2019



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

LEAD OFFICER: CHIEF EXECUTIVE AND EXECUTIVE DIRECTORS

**COMMUNITY VISION
OUTCOME: COUNCIL**

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

SUMMARY OF ISSUE:

This report summarises the most significant issues for the Council's 2018/19 financial position as at 31 December 2018 for both revenue and capital budgets. It has one annex, which provides further details on service budgets, expenditure to date and year-end forecast.

The Council's original 2018/19 budget, relied on significant use of one-off resources, including drawing £21m from reserves. Material additional pressures arising in 2018/19 and continuing funding uncertainties from 2019/20 onwards mean further use of reserves is not sustainable. In response, the Council set the £40m in year cost reduction programme, with two objectives:

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

The main points of this report are as follows.

- Following the in-year cost reduction programme, the forecast use of reserves to support the budget will reduce to £4.6m.
- The forecast outturn is £16.7m underspent against the original budget.
- The forecast outturn has improved by £2.2m since last month, the main drivers are.
 - £1.8m improvement in Adult Social Care, mainly from the reduction to new and existing transition costs and a reduction in the costs of home based care, due to under usage against people's agreed support plans;

- £1.1m improvement in Property from reduced maintenance spending, reduced fees and print volumes and additional one off income;
 - £1.5m smaller improvements, mainly in Education, Lifelong Learning & Culture, Family Resilience, Highways & Transport and Orbis;
 - these gains are offset by an overall £2.1m increase in cost and reduced income across a number of service areas.
- Forecast capital spending reduced by £5.2m as outlined in paragraph 3.

RECOMMENDATIONS:

The cabinet is asked to note;

1. the Council's overall revenue and capital budget positions as at 31 December 2018:
 - £4.6m forecast total draw down reserves;
 - £16.7m forecast underspend against the original 2018/19 budget; and
 - £124m forecast service capital programme outturn against £132m budget.
2. all Cabinet Members have confirmed their service's forecast for the year as shown in the revenue table below.

REASONS FOR RECOMMENDATIONS

This report is presented to comply with the agreed policy of providing a monthly budget monitoring report to Cabinet for approval of any necessary actions.

Revenue budget

1. Table 1 shows the latest forecast position for the year by service. Annex 1 provides more detail of service budget forecasts.

Table 1 Summary revenue budget variances as at 31 December 2018

| Service | Gross budget £m | Net budget £m | Net forecast £m | Forecast variance £m | Last month variance £m |
|---|--------------------|------------------|--------------------|-------------------------|---------------------------|
| Delegated Schools | 315.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Education, Lifelong Learning & Culture | 326.0 | 68.9 | 85.7 | 16.8 | 17.1 |
| Safeguarding & Family Resilience | 44.7 | 42.2 | 42.2 | 0.0 | 0.3 |
| Corporate Parenting | 114.9 | 100.9 | 99.8 | -1.1 | -1.4 |
| Quality Assurance | 6.6 | 5.5 | 6.0 | 0.5 | 0.4 |
| Commissioning | 12.4 | 11.2 | 11.6 | 0.4 | 0.3 |
| Children, Families, Learning & Communities | 819.9 | 228.7 | 245.3 | 16.6 | 16.8 |
| Adult Social Care | 500.4 | 381.8 | 364.9 | -16.9 | -15.1 |
| Public Health | 36.7 | 0.0 | -0.1 | -0.1 | -0.2 |
| Health, Wellbeing & Adult Social Care | 537.1 | 381.8 | 364.8 | -17.0 | -15.3 |
| Economy, Growth & Commercial | 41.1 | 30.4 | 26.2 | -4.2 | -3.1 |
| Highways & Transport | 79.7 | 67.1 | 64.3 | -2.8 | -2.4 |
| Environment | 73.5 | 69.2 | 68.7 | -0.5 | -0.4 |
| Surrey Fire & Rescue Service | 45.7 | 31.5 | 31.3 | -0.2 | -0.3 |
| Communities | 5.1 | 3.0 | 2.7 | -0.4 | -0.4 |
| Highways, Transport & Environment | 204.1 | 170.8 | 166.9 | -3.9 | -3.5 |
| Customer & Performance | 7.4 | 7.0 | 6.5 | -0.5 | -0.6 |
| Coroner | 2.4 | 1.7 | 2.0 | 0.3 | 0.3 |
| Orbis HR&OD, IT&D and Joint Operating Budget | 52.5 | 52.0 | 47.6 | -4.4 | -3.8 |
| Customer, Digital & Transformation | 62.2 | 60.7 | 56.1 | -4.6 | -4.1 |
| Finance | 4.3 | 2.6 | 2.4 | -0.2 | -0.1 |
| Central Income & Expenditure | 56.9 | 52.6 | 41.8 | -10.8 | -11.2 |
| Total services' revenue expenditure | 1,725.5 | 927.6 | 903.5 | -24.1 | -20.5 |
| Total general funding | | -906.3 | -898.9 | 7.4 | 6.0 |
| Total movement in reserves | | 21.3 | 4.6 | -16.7 | -14.5 |

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

Capital programme

2. Table 2 shows directorates forecast £7.6m underspend against the £131.9m 2018/19 service capital programme budget. This is a £5.2m increase since last month, mainly due to:
- £1.2m reduction in Fire projects from: delays to vehicle and equipment projects;
 - £2.3m from reduced building maintenance and delays to several Property schemes;
 - £1.3m from delays to IT equipment purchases and network spend; and
 - £0.4m delays in School Basic Need schemes.
3. The Council has reduced the Fire capital budget by £2m to reflect reallocation of the Fire Transformation Grant the Council has held on behalf of partner fire authorities. Partners will now incur the expenditure individually to develop vehicle workshops. The Council will transfer the grant funding to each partner and the expenditure will no longer be part of the Surrey County Council capital programme.

Table 2 Summary capital programme budget variances as at 31 December 2018

| | Current full year budget | Apr – Dec actual | Jan – Mar forecast | Full year forecast | Full year variance | Last month variance |
|----------------------------------|-------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|
| | £m | £m | £m | £m | £m | £m |
| Schools basic need | 27.1 | 20.2 | 6.6 | 26.8 | -0.4 | 0.0 |
| Property Services | 30.8 | 21.1 | 6.4 | 27.5 | -3.3 | -1.0 |
| Highways & Transport | 57.8 | 38.2 | 19.6 | 57.8 | 0.0 | -0.3 |
| Environment | 2.2 | 1.0 | 0.8 | 1.9 | -0.3 | 0.0 |
| IT & Digital | 4.5 | 0.6 | 1.8 | 2.4 | -2.1 | -0.8 |
| Other capital projects | 9.5 | 3.7 | 4.3 | 8.0 | -1.5 | -0.3 |
| Service capital programme | 131.9 | 84.4 | 39.6 | 124.4 | -7.6 | -2.4 |

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

Investment strategy

4. As part of increasing its overall financial resilience the Council has approved £106m net investment in long term income generating assets in 2018/19. The Council forecasts long term investment assets will provide £5m net revenue income in 2018/19.

Earmarked reserves

5. Table 3 shows the Council's earmarked reserves and general balances as at 31 December 2018, including forecast closing balance at 31 March 2019 based on projected movements in 2018/19 and the need to support the 2018/19 budget.

Table 3: Earmarked revenue reserves as at 31 December 2018

| | Closing balance 31 Mar 18 £m | Approved carry forwards 2018/19 £m | Use to support 2018/19 budget £m | Other projected movements to 31 Mar 19 £m | Projected closing balance 31 Mar 19 £m |
|--|---------------------------------------|---|--|--|---|
| Revolving Infrastructure & Investment Fund | 11.1 | | | | 11.1 |
| Budget Equalisation Reserve | 22.6 | -1.3 | | | 21.3 |
| Waste Sinking Fund | 6.7 | | | 17.1 | 23.8 |
| Insurance Reserve | 9.1 | | | | 9.1 |
| Investment Renewals Reserve | 5.0 | | | -0.1 | 4.9 |
| General Capital Reserve | 4.8 | | | | 4.8 |
| Street lighting PFI Reserve | 3.7 | | | -0.6 | 3.1 |
| Economic Downturn Reserve | 9.2 | | | | 9.2 |
| Economic Prosperity Reserve | 2.5 | | -1.0 | | 1.5 |
| Equipment Replacement Reserve | 2.3 | | | -0.5 | 1.8 |
| Business Rate Appeals Reserve | 3.6 | | -3.6 | | 0.0 |
| Interest Rate Reserve | 1.0 | | | | 1.0 |
| Total earmarked revenue reserves | 81.6 | -1.3 | -4.6 | 15.9 | 91.6 |
| General Fund Balance | 21.3 | | | | 21.3 |

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

Debt

6. During the nine months to 31 December 2018, the Council raised invoices totalling £277.2m. As at 31 December 2018, the gross debt outstanding on these invoices was £57.9m. Table 4 shows the age profile of the debts. The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old). Over the quarter to 31 December 2018 overdue, unsecured debt fell by £0.8m, mainly due to £1.9m reduction in debt with other local authorities, schools and colleges, partly offset by a £1.0m rise in care debt.

Table 4: Age profile of the Council's debt as at 31 December 2018

| Account group | <1 month £m | 1-12 months £m | 1-2 years £m | +2 years £m | Gross debt £m | Overdue debt £m |
|---------------------------------|-------------------|----------------------|--------------------|-------------------|---------------------|-----------------------|
| Care debt – unsecured | 6.5 | 5.1 | 2.8 | 4.1 | 18.4 | 12.0 |
| Care debt – secured | 0.4 | 2.6 | 2.0 | 4.4 | 9.3 | 9.0 |
| Total care debt | 6.8 | 7.7 | 4.8 | 8.5 | 27.8 | 21.0 |
| Schools, colleges and nurseries | 1.1 | 0.0 | 0.0 | 0.0 | 1.1 | 0.0 |
| Clinical commissioning groups | 5.8 | 2.6 | 0.2 | 0.2 | 8.8 | 3.0 |
| Other local authorities | 13.1 | 0.2 | 0.0 | 0.0 | 13.2 | 0.2 |
| General debt | 4.8 | 1.5 | 0.4 | 0.3 | 7.0 | 2.2 |
| Total non-care debt | 24.8 | 4.3 | 0.6 | 0.4 | 30.1 | 5.4 |
| Total debt | 31.6 | 12.0 | 5.4 | 8.9 | 57.9 | 26.3 |

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

Treasury Management

Borrowing

7. The Council borrows to finance its capital spending that exceeds receipts from: grants, third party contributions, capital receipts and reserves. The Council's long term debt stands at £397.2m, and has not increased this year.
8. As at 31 December 2018, the weighted average interest rate of the Council's long term debt portfolio is 4.1%. The Treasury Strategy, approved by County Council in February 2018, continued the policy of internal borrowing and where necessary, to borrow short term to meet cash flow liquidity requirements. Table 5 shows a net £102m increase in the Council's short term borrowing activity in 2018/19.

Table 5: Short term borrowing as at 31 December 2018

| | £m |
|---|------------|
| Debt outstanding as at 31 March 2018 | 193 |
| Loans raised | 640 |
| Loans repaid | -538 |
| Current balance as at 31 December 2018 | 295 |

Figures are for Surrey County Council only and do not include Surrey Police

9. The weighted average interest rate of the Council's short term external debt is 0.73% at 31 December 2018.

Authorised limit and operational boundary

10. The prudential indicators control the Council's overall level of borrowing. They comprise the authorised limit and the operational boundary as outlined below.
 - The authorised limit is determined under the Local Government Act 2003, section 3(1). It reflects the level of borrowing which, while not sustainable, is affordable in the short term. It is the expected maximum borrowing needed with headroom for unexpected cash flow. For 2018/19 it is £1,643m, and peak borrowing was £710m.
 - The operational boundary is an indicator to ensure the authorised limit is not breached. It is the probable external debt during the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. For 2018/19 it is £1,059m, and peak borrowing was £710m.

Capital Financing Requirement

11. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for a capital purposes. The Council must ensure that, in any one year, net external borrowing does not, except in the short term, exceed its estimated CFR for the next three years. As at 31 December 2018, the Council has a net borrowing position of £693m (£710m total borrowing, less £17m cash deposits). The difference between net borrowing and the estimated CFR reflects the Council's strategy to maximise internal borrowing.

Maturity profile

12. The Council sets limits for the maturity structure of borrowing in accordance with the Prudential Code. Table 6 shows the actual amounts as at 31 December 2018.

Table 6: Maturity structure of the Council's borrowing as at 31 December 2018

| | Upper limit | Lower limit | Actual |
|--------------------------|--------------------|--------------------|---------------|
| Repayable in 1 year* | 50% | 0% | 44.1% |
| Repayable in 1-2 years | 50% | 0% | 0% |
| Repayable in 2-5 years | 50% | 0% | 1.3% |
| Repayable in 5-10 years | 75% | 0% | 0% |
| Repayable in 10-50 years | 100% | 25% | 54.6% |

Early debt repayment and rescheduling

13. The Council has not made early repayments or rescheduled debt in 2018/19.

Investments

14. The Council's average daily level of investments is £39m so far during 2018/19, compared to an average of £68.7m during 2017/18. This reflects the strategic policy to reduce cash held during the year by borrowing over shorter periods. The Council invests temporary cash surplus exclusively through the use of money market funds. Other investment facilities are available, including: brokers, direct dealing with counterparties through the use of call accounts or direct deal facilities, or with the government's Debt Management Office (DMO). No new fixed term deposits have been agreed during 2018/19 due to the low cash balances held and the need to maintain high liquidity.
15. Table 7 shows the weighted average return on all investments the Council received in the quarter to 31 December 2018 is 0.70%. This compares to the 0.49% average 7 day London Interbank Bid Rate (LIBID) for the same period.

Table 7: Weighted average return on investments compared to 7-day LIBID

| | Average 7-day LIBID | Weighted return on investments |
|-------------------|--------------------------------|---|
| 2018/19 quarter 3 | 0.49% | 0.70% |
| 2018/19 quarter 2 | 0.51% | 0.58% |
| 2018/19 quarter 1 | 0.36% | 0.21% |
| 2017/18 total | 0.21% | 0.22% |
| 2016/17 total | 0.20% | 0.38% |

Note: All numbers in all tables have been rounded - which may cause a casting difference.

CONSULTATION:

16. All Cabinet Members have confirmed their service's forecast for the year as shown in the revenue table above.

RISK MANAGEMENT AND IMPLICATIONS:

17. 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

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

SECTION 151 OFFICER COMMENTARY

19. 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.
20. 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.
21. 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

22. 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.
23. 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

24. 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.

25. 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.

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|---------------------------|
| WHAT HAPPENS NEXT: |
|---------------------------|

26. 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 – Forecast revenue budget as at 31 December 2018.

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