

**RESOURCES AND PERFORMANCE  
SELECT COMMITTEE  
1 July 2020**



**2019/20 Outturn, COVID-19 Costs & Funding &  
Budget Lessons Learned**

**Purpose of report:** To present the 2019/20 outturn position, our latest forecast on COVID-19 costs and funding and the lessons learned from the 2020/21 budget process.

**Introduction**

1. This report provides an overview of the County Council's 2019/20 financial performance for revenue and capital.
2. The report will also provide an update on the forecasted financial pressures the Council is facing as a result of the COVID-19 pandemic, which we have presented to the Ministry of Housing, Communities and Local Government (MHCLG) as part of a data submission.
3. Finally, the report will give an update on the post-budget evaluation of the 2020/21 budget setting process and the lessons learned.

**Financial Performance**

**Revenue Budget**

4. The final outturn for 2019/20 was a small surplus of £0.2m. In achieving the surplus the Council delivered £72m (c88%) of the £82m target of efficiencies including transformation programmes set up at the beginning of the financial year.
5. Table 1 shows the revenue financial position for the year by Service.

**Table 1 - Summary revenue financial position as at 31 March 2020**

Directorate	Cabinet member(s)	Full Year		Variance	Change in forecast since last month
		Budget	Outturn		
		£m	£m	£m	£m
Children, Families, Learning & Culture (CFLC)	M Lewis / J Iles	243.4	246.1	2.7	(0.9)
Public Health	S Mooney	30.2	30.0	(0.2)	0.2
Adult Social Care (ASC)	S Mooney	364.0	362.6	(1.4)	(0.9)
Environment, Transport & Infrastructure (ETI)	D Turner-Stewart/ M Fumiss/ M Goodman	129.0	129.2	0.2	(0.9)
Community Protection (CP)	D Turner-Stewart	34.5	33.7	(0.9)	(0.3)
Resources (Res)	M Few/ Z Grant- Duff	71.2	70.2	(1.0)	(0.8)
Transformation, Partnership & Prosperity (TPP)	T Oliver/ Z Grant-Duff/ C Kemp	14.7	15.3	0.6	(0.2)
Central Income & Expenditure (CIE)	M Few	(887.1)	(892.3)	(5.2)	(1.6)
<b>Directorate surplus before reserves</b>		<b>0.0</b>	<b>(5.3)</b>	<b>(5.3)</b>	<b>(5.4)</b>
Increase to the 2020/21 Contingency			2.5	2.5	2.5
Contribution to the General Fund Reserve*			2.6	2.6	2.6
<b>Outturn surplus to general fund balances</b>		<b>0.0</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.3)</b>

\*The total contribution to the General Fund Reserve is £2.8m (inclusive of the £0.2m surplus)

Note: The Public Health grant is now shown within Central Income & Expenditure.

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

6. The position reflects a turnaround of £0.3m from the £0.1m deficit position reported in Month 11 to Cabinet on 28<sup>th</sup> April 2020. This result was due to improvements across many services, broadly attributable to the following:

An overall Service Improvement of £5.6m, comprising of:

- **£1.6m Central Income & Expenditure** – an increase of business rate Section 31 and other grant funding (£1m), upside on net interest payable (£0.6m).
- **£0.9m Children, Families, Lifelong Learning and Culture (CFLC)** – recovery from schools and academies in relation to children’s centres.
- **£0.9m Environment, Transport & Infrastructure (ETI)** – lower waste management costs including a reduction in waste disposal prices.
- **£0.8m Resources** - increased underspend in IT&D due to the timing of payments relating to application and software licence costs.
- **£0.8m Adult Social Care (ASC)** - Learning Disability care packages being lower than previously forecasted.
- **£0.3m Transformation, Prosperity & Partnership (TPP)** – underspend in HR&OD mainly relating to training, partially off-set by increased body storage and staffing costs within the Coroners service.
- **£0.3m Community Protection (CP)** – reduction in the cost of fuel for Fire service vehicles.

Offset by:

- **£0.2m Public Health** – small changes due to increased spend across different projects and corporate recharges.
7. As a result of a positive outturn position, finances were in place to ensure increasing financial resilience in 2020/21 by transferring to reserve:
    - £2.5m to increase the 2020/21 Contingency – increasing the overall Contingency to £32m; and
    - £2.8m to increase the General Fund Reserve – inclusive of the £0.2m surplus, to bring the total General Fund Reserve balance to £24.1m (a 13% increase to the reserve).
  8. Two additional reserves were created – CFLC Inspection and System Renewals (£1.2m) and COVID-19 Emergency Funding (£24.3m):
    - The purpose of the CFLC Inspection and System Renewals reserve is to fund additional cost in preparation for the OFSTED re-inspection as well as reviewing and renewal of the monitoring and recording case system for children’s social care services funded from a review of the revenue unapplied grants; and
    - The purpose of the COVID-19 Emergency Fund is to support the authority to fund the loss of income and the extra costs for 2020/21, which has been funded by the Government’s COVID-19 grant.
  9. The Council included £82m of efficiency proposals in the annual budget approved by Council in February 2019. £72m (88%) has been achieved. Whilst there has been £10m of non-delivery, services were able to deliver alternative one-off measures to compensate.

### **Capital Budget**

10. The final spend on the capital programme was £117.2m compared to a revised budget of £126.7m, which resulted in £9.5m (7.5%) net slippage of the programme.
11. The capital position was reprofiled twice during the year (in M2 and M7) to more accurately reflect the delivery of the programme.
12. A significant piece of work was undertaken to review and reprofile the 2020/21 Capital Programme which was approved by Council in February 2020 to accurately reflect both the total quantum of the spend and also the in-year profile following the COVID-19 pandemic, which has impacted all sectors of the economy.

<b>COVID-19 Update – Funding and Cost Pressures</b>
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13. On 27<sup>th</sup> March, Surrey received £25.2m of the £1.6bn COVID-19 Response Fund, available for Local Authorities to cover the costs and loss of income associated with the crisis. As part of outturn, £0.9m of 2019/20 COVID-19 costs were incurred and offset against the £25.2m grant. The balance of £24.3m was carried forward to fund pressures in 2020/21.
14. On 28<sup>th</sup> April the Council was advised an additional £21.8m of funding would be provided to cover COVID-19 related costs and income loss. This took the total funding from Government to the sector to £3.2bn and £47m for the Council, of which a balance of £46.1m will be used to fund pressures in 2020/21.
15. On the 15<sup>th</sup> of May the Council provided the Ministry of Housing, Communities and Local Government (MHCLG) a forecast of our COVID-19 cost and loss of income pressures in 2020/21, through a data submission exercise. This was in order for the Government to assess the adequacy the funding it had provided to Local Authorities through the COVID-19 Response Fund.
16. In the May (latest) submission to MHCLG, we estimated a forecast cost pressure of £42.3m as a result of COVID-19. These costs were across all services but predominantly in Adult Social Care. The projections were based on a 4-month lockdown, followed by 8 months of gradual unlocking, in line with guidance set by MHCLG. However, local discretion was used where a more realistic profile was adequate.
17. Additionally, the submission included an estimate of the reduction in budgeted income totalling £15.1m. This was an assessment of sales, fees and charges, and commercial income. The projections were also based on a 4-month lockdown, followed by 8 months of gradual unlocking in line with guidance set by MHCLG.
18. To balance the 2020/21 budget the Council set a budget predicated on delivering £38m of efficiencies. It was estimated that due to the COVID-19 pandemic £15.8m of efficiencies would not be delivered. The non-delivery of efficiencies were also included in the return to MHCLG. The non-delivery of efficiencies is currently being validated with Services.
19. In total we notified MHCLG of £73.2m of forecasted pressures materialising in 2020/21. If the balance of the COVID-19 Response Fund (£46.1m) was allocated to fund the pressures in 2020/21 (£73.2m) that would leave unfunded pressures of £27.1m for the year.
20. Following the submission of our financial pressures to MHCLG, The Society of County Treasurers (SCT) Technical Support Team analysed and summarised responses sent to MHCLG, representing 100% of members. Their analysis showed SCT members could face a net unfunded pressures of £1.4bn in 2020/21. Using the same distributions as the government has used, the COVID-19 Response Fund (£3.2bn) would need to be increased to over £6.8bn to cover SCT costs.

21. We continue to refine our estimated costs and loss of income on a weekly basis and have cross-checked our assumptions with SCT. We have also convened and chair a fortnightly forum for collaboration with a number of neighbouring counties, where COVID-19 financial assumptions are checked, challenged and good practise is shared. We also continue to review the deliverability of efficiencies based on different scenarios of public health measures.
22. Since our pressures were submitted to MHCLG on the 15<sup>th</sup> of May, we have completed monthly forecasting of the May 2020 (Month 2) revenue and capital position. The revised forecast shows non-delivery of efficiencies as a result of COVID-19 at £4.3m. This is a significant improvement in the forecast from the £15.8m reported to MHCLG. When presenting the information to MHCLG this was a high-level estimate within which we had included forecasts in non-delivery as well as the risks to non-delivery that could impact the forecast. This was to enable consistency in our approach with other counties in the County Councils Network and in support of our lobbying position for funding to Central Government. Given we are only at month 2 this is an iterative picture and subject to monthly change. In the intervening periods Finance will continue to work with the services to determine further pressures on budgets and compensatory savings.

### **Other Funding**

23. In addition to the COVID-19 Response Fund, Surrey is to receive £19.2m of the Infection Control Fund, to be spent in care home settings. Of this amount £14.4m (75%) must go straight to all care homes in Surrey. The remaining £4.8m (25%) is contingent on the first being used for infection control measures and being used in its entirety. We have some discretion about how to use the £4.8m of funding, but it has to be used across care providers to support infection control. An instalment of £9.6m has been received, with a final instalment due on the 1<sup>st</sup> of July. All of the funding will have to be spent by September 2020, or is at risk of clawback by government.
24. We have also been allocated up to £0.5m of the COVID-19 Bus Service Support Grant (CBSSG), to ensure that local bus services continue to operate in the right places. This is also ring-fenced funding to be spent on supporting bus services. CBSSG will initially run for a period of up to three months and we will receive monthly payments over the period of the scheme, subject to grant certification. To date we have received £0.3m.
25. Following unprecedented levels of walking and cycling across the UK during the pandemic, funding has been made available to promote cycling as a replacement for journeys previously made by public transport. We have been allocated an indicative amount of £8.5m from the Emergency Active Travel Fund over two phases. The first phase allocation of £1.7m will be subject to the approval of a plan sent to the Department for Transport, on the 5<sup>th</sup> of June, to temporarily re-allocate road space to pedestrians. The second

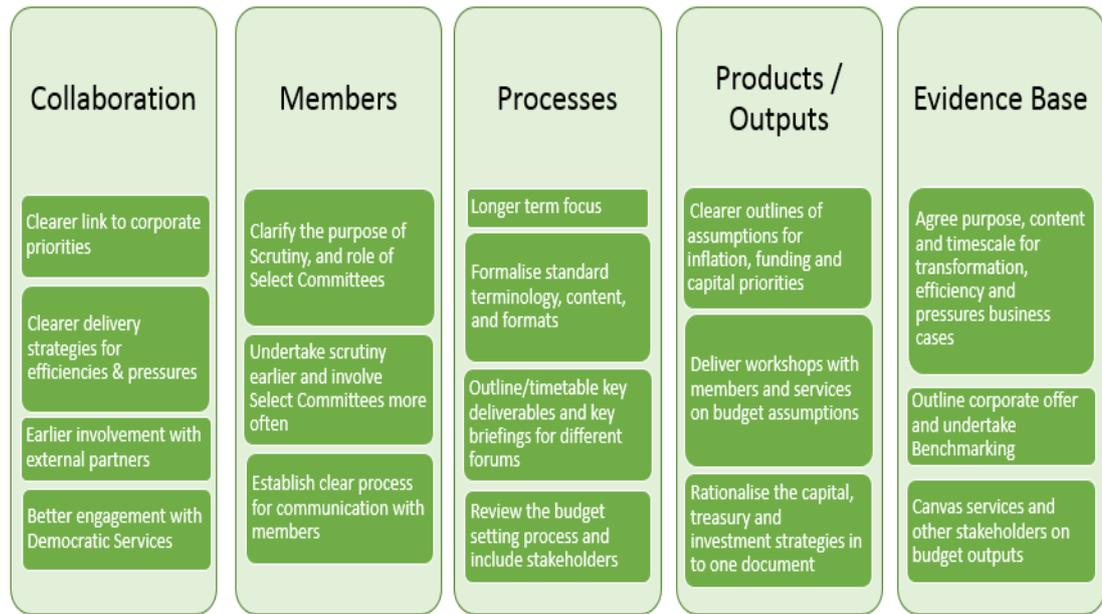
phase allocation of £6.8m will be subject to the delivery of longer term projects. The detail around the criteria for projects and application for the second phase funding has not been announced as at the time of writing. We are also awaiting confirmation of approval for the plan for the first phase and when the funding will be paid.

26. Finally, the Government also announced funding to all local authorities in England to develop and action tailored outbreak control and plans, working with local NHS and other stakeholders, to support new test and trace services. We have been allocated £3.5m of a £300m national funding pot. SCC will also be part of a group of 11 local authorities to share lessons learned and best practice with others. We are currently developing the Surrey Local Outbreak Control Plan (COVID-19 Test & Trace), which is due for submission by the 29<sup>th</sup> of June. The grant will be payable in one instalment in June; however, as at the time of writing the payment has not been received.

#### **2020/21 Budget Process Evaluation**

27. In September 2018 we launched our Finance Improvement Programme (FIP). This was in response to the report commissioned by CIPFA in summer 2018, which raised concerns about the Council's financial position and its standards of financial management. The programme has delivered a newly restructured Finance function, a new framework for budget management across the Council, and a learning and development platform (The Finance Academy).
28. Working with the External Assurance Panel (established at the inception of the FIP as a sounding board), we have committed to assessing future budgets against a best practice framework. Six hallmarks of a "good" budget were developed and self-assessed when developing the 2020/21 budget and Medium-Term Financial Strategy (MTFS) and shared in the budget report.
29. On 4<sup>th</sup> February 2020, Council approved the 2020/21 Budget and MTFS. Following the setting of the budget a further assessment was undertaken on the process and outputs developed when preparing the budget. This evaluation had both officer and member participation and buy-in.
30. The evaluation involved the review of the processes, products and outputs produced including what went well, what could have been done differently, and what could be stopped. As a result of the exercise a number of themes emerged and high-level actions agreed which will feed in to the 2021/22 process as detailed in table 2:

**Table 2 – Emerging themes of post budget process evaluation**



31. One of the key underlying themes which came through the evaluation process was to engage better. There was an agreement amongst participants of the evaluation exercise that this would ensure transparency and allow feedback and scrutiny earlier in the budget process.
32. The budget timetable for the 2021/22 budget and MTFs is currently being developed. Included will be the requirement to involve the Resources and Performance Select Committee earlier in the process so that the role and purpose of scrutiny could be established, and budget assumptions and proposals could be shared, and to give the committee the opportunity to provide challenge.

## Conclusions

33. The Council delivered its 2019/20 budget with a small surplus of £0.2m in 2019/20, whilst achieving £72m (c88%) of efficiencies as part of its transformation programme. In doing so the Council has been able to contribute towards its General Fund Reserve as well as increase the Contingency in 2020/21. These transfers will enable greater resilience to deal with the estimated shortfall in the funding gap between COVID-19 pressures and the level of funding we have received to date; and also the shortfall in income we are expecting over a the medium term.
34. The Council is in the process of developing a timetable for the 2021/22 budget and MTFs in the context of uncertainty around future funding, the lasting impacts of COVID-19, and also leaving the European Union. To ensure proper scrutiny and transparency of underlying assumption, select committees will be engaged earlier in the process.

## Recommendations

35. The Committee is to note:
- a) The General Fund revenue financial outturn position of £0.2m;
  - b) The contributions to reserves adding £2.8m to General Fund Reserve (inclusive of the £0.2m surplus);
  - c) The contributions to reserve of £2.5m to increase the available Contingency in 2020/21 to £32m;
  - d) The use of £13m capital receipts in-year to support transformation;
  - e) The capital outturn of £117.2m service capital expenditure against a £126.7m budget; and
  - f) The creation of new reserves, namely the CFLC Inspection and System renewals (£1.2m) and COVID-19 Emergency Funding (£24.3m);
  - g) The unfunded pressure of £27.1m, as reported to MHCLG in May 2020, due to forecasted costs, loss of income and non-delivery of efficiencies as a result of COVID-19;
  - h) Additional indicative ring-fenced funding of up to £31.7m including £19.2m from the Infection Control Fund; £0.5m from the COVID-19 Bus Service Support Grant; £8.5m from the Emergency Active Travel Fund; and £3.5m for Test & Trace; and
  - i) The findings of the budget process evaluation and the agreement for earlier engagement with Select Committees during the 2021/22 budget process.
36. The Committee is invited to comment on the information presented in this report.

## Next steps

Officers have undertaken a review of the 2020/21 budget setting process to take forward lessons learned when developing the 2021/22 budget. One of the hallmarks of good budget setting, which was identified and will be self-assessed against, is the requirement to be transparent and well scrutinised. In line with this hallmark the Resources and Performance Select Committee will be presented with budget proposals in early autumn.

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**Sources/background papers:**

2020/21 Final Budget Report and Medium-Term Financial Strategy,  
Council, 4 February 2020

2019/20 Outturn Financial Report, Cabinet, 26 May 2020

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