

SURREY COUNTY COUNCIL

CABINET

DATE: 28 SEPTEMBER 2021



REPORT OF: MRS BECKY RUSH, DEPUTY LEADER AND CABINET MEMBER FOR FINANCE AND RESOURCES

LEAD OFFICER: LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)

SUBJECT: 2021/22 MONTH 4 (JULY) FINANCIAL REPORT

ORGANISATION STRATEGY GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/
TACKLING HEALTH INEQUALITY/ENABLING A GREENER FUTURE/EMPOWERING
PRIORITY AREA: COMMUNITIES

Purpose of the Report:

This report provides details of the County Council's 2021/22 financial position as at 31st July 2021 (M4) for revenue and capital budgets, and the expected outlook for the remainder of the financial year.

Key Messages – Revenue

- **At M4, the Council is forecasting a full year £19.5m deficit** against the revenue budget. The details are shown in Annex 1 and summarised in Table 1.
- Contingencies built into the 2021/22 budget exceed the forecast deficit and so a balanced outturn is anticipated. However, it is still the expectation that Directorates manage overspends within their budget envelopes.
- Key Balance Sheet indicators are reported for Q1 2021. These are set out in Annex 2.

Key Messages – Capital

- The Council approved a capital budget for 2021/22 of £184.9m in February 2021. This has been reset to £201.1m to reflect subsequent Cabinet approvals and a reprofiling of schemes based on Quarter 1 forecasts.
- The reset budget includes a drawdown of £3.9m from the Infrastructure pipeline to fund increased spend on Local Highway Schemes, included as a recommendation because Cabinet are required to approve any increase to the capital budget in excess of £1m.
- The M4 capital forecast shows **forecast spend of £201.5m, a variance of £0.4m**. This relates to minor changes across a number of schemes, including £0.4m acceleration of vehicle replacement in Community Protection.
- Details are set out in paragraphs 11 to 15 and table 3.

Recommendations:

It is recommended that Cabinet:

1. Note the Council's forecast revenue and capital budget positions for the year, including the reset capital budget.
2. Approve a £3.9m drawdown from the Infrastructure capital pipeline to fund an increase in the capital budget for Local Highway Schemes.

Reason for Recommendations:

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

Revenue Budget:

1. **At M4, the Council is forecasting a full year £19.5m deficit against budget, including an additional £5.0m contribution to the Dedicated Schools Grant (DSG) High Needs Block (HNB) offset reserve.**
2. Table 1 below shows the forecast revenue budget outturn for the year by service.

Table 1 - Summary revenue budget forecast variances as of 31st July 2021

Directorate	2021/22 YTD M4 £m	21/22 outturn forecast at M4 £m	Annual Budget £m	Forecast Variance £m
Adult Social Care	120.8	384.2	377.6	6.6
Public Health	(14.4)	33.4	33.4	0.0
Children, Families & Lifelong Learning	91.3	226.7	220.4	6.3
Environment, Transport & Infrastructure	38.8	134.9	135.0	(0.1)
Community Protection	14.6	38.1	37.7	0.4
Community & Transformation	3.9	11.9	11.8	0.1
Transformation, Partnership & Prosperity Other	4.9	13.6	13.3	0.2
Resources	22.0	65.5	64.5	1.0
Central Income & Expenditure	8.5	87.1	87.1	0.0
Total before DSG High Needs Block Offset	290.3	995.3	980.8	14.5
DSG High Needs Block Offset	0.0	28.8	23.8	5.0
Total Budget Envelopes	290.3	1,024.1	1,004.6	19.5
Central Funding	(412.4)	(1,004.6)	(1,004.6)	0.0
Overall after central funding	(122.2)	19.5	0.0	19.5

Note: Numbers have been rounded which might cause a difference.

3. The forecast deficit of £19.5m predominantly consists of:
 - **Adult Social Care:** The £6.6m forecast overspend is primarily a result of a significant increase in care package commitments since the start of the financial year. The average cost of care packages has increased substantially compared to pre-pandemic levels, due to increased acuity of needs and in part the impact of the discharge to assess system from hospitals. The Adults Leadership Team are considering means by which the

forecast overspend could be mitigated and reduced in the remainder of the year.

- Children, Families and Lifelong Learning:** The £6.3m forecast overspend is mainly due to staffing pressures. £3.3m of this is within the Area and Children with Disabilities (CWD) teams due to the level of agency workers, with £0.4m overspend for budgets on Area Care and £0.4m forecast overspend on CWD Care Budgets. An increase in numbers of looked after children is also creating forecast overspend for in-house residential staffing £0.3m, and in-house fostering £0.3m. There are £0.3m of other staffing pressures spread across the Directorate. External looked after children placements are also forecast to overspend by £0.6m due to current levels of demand. The balance of £0.5m relates to efficiencies which are not expected to be delivered. Opportunities to mitigate the position are being reviewed.
- DSG High Needs Block (HNB):** An increase in the required contribution to the offset reserve from £23.8m to £28.8m due to cost containment measures currently being insufficient to hold the contribution to £23.8m. Further details are set out below.

DSG update

- The table below shows the projected forecast year end outturn for the HNB at M4.

Table 2 DSG HNB Summary

2021/22 DSG HNB Summary	
	£m
DSG High Needs Block Grant (exc Academies)	157.3
Forecast outturn	186.1
Deficit/(surplus)	28.9
Budgeted overspend	(23.8)
Deficit/(surplus)	5.0
High Needs Block contingency budget	9.0
Remaining contingency budget after deficit	4.0

- The forecast includes a target of £28m cost containment. Of this £17.9m is on track for delivery and £3.4m remains a risk.
- At the beginning of the year a potential £13m of additional risks were identified based on potential increases in demand and patterns seen in previous year. This risk has reduced to £11.1m due to effective demand management. The service is working to mitigate these costs.
- The additional deficit forecast of £5m is the estimated impact of cost containment and additional risks for the full financial year. Work continues to try and mitigate this down to within budget.

Covid-19 update

8. At M4, Directorates forecast a gross impact from Covid-19 of £71.0m. This is offset by £52.4m of specific grant funding, leaving a net £18.6m. Of this, Directorates expect to absorb £15.4m within budget envelopes.
9. A balance of £3.2m is therefore currently flagged as a risk against the £11m Covid-19 reserve. This is an increase of £0.1m from M3.
10. In exceptional circumstances, it will be necessary to obtain approval for specific actions in direct response to Covid-19 to be funded from the reserve. This is likely to be the case where an immediate response is required, and it is clear that the impact cannot be mitigated within existing Directorate budgets. In these cases, the delegated decision process will be followed in consultation with the Executive Director for Resources.

Capital Budget

11. The Capital Programme is monitored on a monthly basis throughout the year. Where the phasing of individual schemes change, acceleration of other schemes will be considered as mitigation, where there is a rationale for doing so. At appropriate points, the capital budget for the year can be reset to reflect emerging priorities, a realistic programme of delivery and recent Cabinet approvals.
12. In February 2021, Council approved a capital budget for 2021/22 of £184.9m. This has been reset to £201.1m based on Quarter 1 forecasts, reflecting the latest phasing of individual schemes and new allocations (mainly movements from the Capital Pipeline) which have been approved by Cabinet since February.
13. The reset budget includes a drawdown of £3.9m from the Infrastructure pipeline to fund increased spend on Local Highway Schemes, included as a recommendation as Cabinet are required to approve any increase to the capital budget in excess of £1m.
14. Table 3 below provides a summary of the forecast full-year outturn at M4. Against the revised budget, forecast capital spend is £201.5m; a net variance of £0.4m.

Table 3 - Summary capital budget

Strategic Capital Groups	Outturn Forecast at M4 £m	Q1 Restated Budget £m	M4 Forecast Variance £m
Property			
Property Schemes	76.6	76.7	(0.1)
ASC Schemes	1.7	1.7	0.0
CFL Schemes	1.1	1.2	(0.1)
Property Total	79.4	79.6	(0.2)
Infrastructure			
Highways and Transport	91.7	91.7	0.0
Infrastructure and Major Projects	6.3	6.3	0.0
Environment	4.7	4.6	0.1
Community Protection	3.4	3.1	0.4
Infrastructure Total	106.3	105.7	0.6
IT			
IT Service Schemes	15.8	15.8	0.0
IT Total	15.8	15.8	0.0
Total	201.5	201.1	0.4

15. The **forecast variance of £0.4m** consists of:

- **Property: £0.2m decrease** against restated budget mainly relating to minor reprofiling on a number of schemes; and
- **Community Protection £0.4m increase** against restated budget, reflecting accelerated spend on vehicle replacement.

Consultation:

16. Executive Directors and Cabinet Members have confirmed the forecast outturns for their revenue and capital budgets.

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 Corporate Risk Register continues to reflect the increasing uncertainty of future funding likely to be allocated to the Council and the sustainability of the Medium-Term Financial Strategy. In the light of the 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. Although significant progress has been made over the last twelve months to improve the Council's financial position, the medium-term financial outlook beyond 2021/22 remains uncertain. The public health crisis has resulted in increased costs which may

not be fully funded. With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.

20. The Council has a duty to ensure its expenditure does not exceed the resources available. 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.

Legal Implications – Monitoring Officer:

21. 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.
22. 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:

23. 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.
24. 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:

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

Report Author:

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Consulted:

Cabinet, Executive Directors, Heads of Service

Annex:

Annex 1 – Forecast revenue budget as at 31 July 2021.

Annex 2 – Q1 Balance Sheet Indicators

Annex 1
Forecast revenue budget as at 31st July 2021

		Year to date	Year to date	Year to date	Full Year	Full year	Full Year	Full year
		Budget	Actual	variance	Gross	net	net	net
Service	Cabinet Member	£m	£m	£m	budget	budget	forecast	forecast
					£m	£m	£m	variance
								£m
Education & Lifelong Learning	D Turner-Stewart	15.5	31.0	15.5	174.5	22.6	22.6	0.0
Corporate Parenting	C Curran	32.2	28.7	(3.5)	116.4	103.7	106.9	3.2
Family Resilience	C Curran	12.9	9.1	(3.8)	35.7	32.8	34.9	2.1
Quality & Performance	C Curran	3.0	2.9	(0.0)	10.9	8.9	9.0	0.1
Directorate wide savings	C Curran	17.1	20.2	3.1	130.8	52.4	53.3	0.9
Children, Families and Lifelong Learning		80.7	91.3	10.5	468.4	220.4	226.7	6.3
Public Health	S Mooney/L Bennett	9.6	(14.4)	(24.0)	33.4	33.4	33.4	0.0
Adult Social Care	S Mooney	125.9	120.8	(5.1)	507.4	377.6	384.2	6.6
Highways & Transport	M Furniss	19.4	14.3	(5.1)	71.3	58.3	58.2	(0.1)
Environment	M Heath	24.5	22.7	(1.8)	75.9	73.5	73.5	0.0
Infrastructure Planning & Major Projects	M Furniss	1.0	1.1	0.2	5.2	2.8	2.8	(0.0)
Leadership Team (ETI)	M Furniss /N Bramhall	0.1	0.5	0.4	0.4	0.4	0.4	(0.0)
Environment, Transport & Infrastructure		45.0	38.8	(6.3)	152.8	135.0	134.9	(0.1)
Fire and Rescue	M Nuti /K Deanus	10.5	12.2	1.7	36.0	31.6	31.9	0.3
Trading Standards	M Nuti	0.6	0.7	0.1	3.9	1.9	1.9	0.0
Chief of Staff	D Turner-Stewart	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Emergency Management	D Turner-Stewart	0.2	0.2	(0.0)	0.5	0.5	0.5	(0.0)
Coroner	L Bennett	1.0	1.2	0.2	3.3	3.1	3.2	0.1
Health & Safety	M Nuti	0.2	0.2	0.0	0.7	0.5	0.5	(0.0)
Armed Forces and Resilience	M Nuti	0.0	0.0	(0.0)	0.1	0.1	0.1	0.0
Community Protection		12.6	14.6	2.0	44.5	37.7	38.1	0.4
Human Resources & Organisational Development	T Oliver	2.2	2.1	(0.1)	6.6	6.6	6.7	0.2
Communications	T Oliver	0.6	0.6	0.0	1.7	1.7	1.7	0.0
Strategic Leadership	T Oliver	0.5	0.5	0.0	1.5	1.5	1.5	0.1
Economic Growth	N Bramhall	0.4	0.2	(0.1)	1.1	1.1	1.1	0.0
Insight, Analytics & Intelligence	B Rush	1.5	1.5	(0.1)	3.0	2.5	2.5	(0.0)
Transformation, Partnership & Prosperity Other		5.1	4.9	(0.2)	13.8	13.3	13.6	0.2
Transformation Support Unit	T Oliver	0.3	0.3	0.0	0.8	0.8	0.8	0.0
Customer Services	M Nuti	0.9	0.8	(0.1)	2.9	2.7	2.7	0.0
Community Partnerships	M Nuti	0.4	0.3	(0.1)	1.5	1.5	1.5	(0.1)
Libraries, Registrars & Culture	M Nuti	2.2	2.5	0.3	17.2	6.7	6.9	0.2
Community & Transformation		3.8	3.9	0.1	22.4	11.8	11.9	0.1
Joint Operating Budget ORBIS	B Rush	5.6	4.7	(0.9)	16.9	16.9	17.2	0.4
Land & Property	N Bramhall	7.5	8.3	0.8	34.1	24.1	24.5	0.4
Information Technology & Digital	B Rush	3.6	3.5	(0.1)	11.4	10.7	10.7	(0.0)
Finance	B Rush	1.9	1.7	(0.2)	11.6	5.8	5.8	(0.0)
Legal Services	B Rush	1.6	1.7	0.1	5.1	4.7	4.8	0.2
Democratic Services	B Rush	1.2	2.5	1.2	3.8	3.6	3.6	(0.0)
Business Operations	B Rush	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	0.1
Resources Leadership	B Rush	0.3	0.8	0.5	0.9	0.8	0.9	0.0
Twelve15	B Rush	(1.2)	(1.0)	0.2	19.6	(1.9)	(2.0)	(0.1)
Resources		20.4	22.0	1.6	103.2	64.5	65.5	1.0
Corporate Expenditure	B Rush	7.4	8.5	1.1	114.2	87.1	87.1	0.0
Total before DSG High Needs								
Block Offset		310.6	290.3	(20.3)	1,460.1	980.8	995.3	14.5
DSG High Needs Block Offset		0.0	0.0	0.0	23.8	23.8	28.8	5.0
Total Budget Envelopes		310.6	290.3	(20.3)	1,483.9	1,004.6	1,024.1	19.5
Central funding		(411.8)	(412.4)	(0.6)	0.0	(1,004.6)	(1,004.6)	0.0
Total Net revenue expenditure including DSG HNB		(101.3)	(122.2)	(20.9)	1,483.9	0.0	19.5	19.5

Annex 2

Balance Sheet Indicators Quarter 1 update

Debt

1. During the three months to 30 June 2021, the Council raised invoices totalling £109.0m. Overall, the overdue debt position (£35.7m being overdue) over the last quarter has increased by £4.3m since the start of the year (Overdue debt at 31st March was £31.4m). The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old).
2. The social care debt position has remained largely stable over the quarter (increasing by £0.2m) with the main increase being debt from Clinical Commissioning Group (CCGs) (increasing by £3.2m). Table 1 below shows the age profile of the debts at 30th June.

Table 1: Age profile of the Council's debt as at 30 June 2021

Account group	<1 month £m	1-12 months £m	1 to 2 years £m	over 2 years £m	Gross debt £m	Overdue debt £m
Care debt – unsecured	3.2	7.7	2.2	5.9	19.0	15.8
Care debt – secured	0.3	2.4	2.4	3.5	8.3	8.0
Total care debt	3.5	10.1	4.6	9.4	27.3	23.8
Schools, colleges and nurseries	3.1	0.1	0.0	0.1	3.2	0.2
Clinical commissioning groups	2.0	6.4	0.5	0.5	9.3	7.4
Other local authorities	0.3	1.1	0.1	0.1	1.6	1.2
General debt	4.7	2.2	0.5	0.4	7.8	3.1
Total non-care debt	10.0	9.8	1.0	1.1	21.9	11.9
Total debt	13.6	20.0	5.5	10.5	49.2	35.7
Q4 2020/21	25.6	15.2	5.5	10.7	56.9	31.4
Change	(12.0)	4.8	0.0	(0.2)	(7.7)	4.3

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

Borrowing

3. 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 £433.3m and has not increased this year.
4. As at 30 June 2021, the weighted average interest rate of the Council's long-term debt portfolio is 3.88%. The Treasury Strategy, approved by County Council in February 2021, continued the policy of internal borrowing and where necessary, to borrow short-term to meet cash flow liquidity requirements. Table 2 below shows a net £88m decrease in the Council's short-term borrowing activity since 31 March 2021.

Table 2: Short-term borrowing as at 30 June 2021

	£m
Debt outstanding as at 31 March 2021	272
Loans raised	110
Loans repaid	(198)
Current Balance as at 30 June 2021	184

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

5. The weighted average interest rate of the Council's short-term external debt is 0.09% at 30 June 2021.

Investments

6. The Council's average daily level of investments has been £42m during 2021/22, compared to an average of £57.1m during 2020/21. This reflects the Council's strategic policy to maintain sufficient liquidity during this time and continue to borrow over shorter periods when appropriate the current Bank of England (BoE) base rate is 0.10% with no significant increases forecasted for at least 2 years. The Council invests temporary cash surplus exclusively through the use of money market funds (MMF). 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 2021/22 due to the lower cash balances held and the need to maintain high liquidity.
7. Table 3 shows the weighted average return on all investments the Council received in the quarter to 30 June 2021 is 0.01%. This compares to a 0.10% average Bank of England (BoE) base rate for the same period. MMF rates are extremely low at present; providers have reduced fees to ensure a positive return. As we are a net borrower, the reduced investment income is significantly outweighed by reduced borrowing costs as set out above.

Table 3: Weighted average return on investments compared to Bank of England (BoE) base rate.	Average BoE Base Rate	Weighted return on investments
22 quarter 1	0.10%	0.01%
21 quarter 4	0.10%	0.01%
21 quarter 3	0.10%	0.03%
21 quarter 2	0.10%	0.14%
21 quarter 1	0.10%	0.31%
20 quarter 4	0.61%	0.63%
20 quarter 3	0.75%	0.68%
20 quarter 2	0.75%	0.70%
20 quarter 1	0.75%	0.75%

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