SURREY COUNTY COUNCIL

CABINET

DATE:	31 MAY 2022
REPORT OF:	BECKY RUSH, DEPUTY LEADER AND CABINET MEMBER FOR FINANCE AND RESOURCES
LEAD OFFICER:	LEIGH WHITEHOUSE, DEPUTY CHIEF EXECUTIVE & EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)
SUBJECT:	2021/22 OUTTURN FINANCIAL REPORT
ORGANISATION STRATEGY PRIORITY AREA:	GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/ TACKLING HEALTH INEQUALITY/ENABLING A GREENER FUTURE/EMPOWERING COMMUNITIES

Purpose of the Report:

This report sets out Surrey County Council's 2021/22 financial performance for revenue and capital, including the year end Treasury Management and debt outturn position. Further details on Directorate budgets can be found in Annex 1.

Key Messages – Revenue

- The Council has achieved a £1.0m surplus outturn for the year (approximately 0.1% variance to budget), without the need to rely on reserves, despite the extraordinary impact of Covid-19.
- The continued impact of the COVID-19 pandemic on the Council's finances throughout the financial year resulted in increased costs, lost income and disruption to the delivery of efficiencies. The total financial impact of £99.4m was financed by a combination of specific funding (£75.7m) and general emergency funding from the Department of Levelling Up, Housing & Communities (DLUHC) (£23.7m). Further details are set out in paragraphs 13-14.
- The Council achieved £32.1m (c78%) of the £41.2m target of efficiencies set out at the beginning of the financial year, including those delivered through transformation programmes. Further details on efficiencies achieved and reasons for non-achievement are set out in paragraph 39-40. Efficiencies are realised as a result of the Council identifying new ways of delivering services to ensure we respond to the changing needs of residents and deliver services as efficiently as possible within available financial resources. The total efficiencies achieved over the last three years amounts to £133m.
- The revenue outturn shows an improvement of £0.4m from M11, mainly relating to:

Improvements of £3.2m, primarily:

- **Adults Social Care £0.4m** improvement primarily due to an increase in Better Care Fund (BCF) income compared to the previous forecast

- **Children, Families & Lifelong Learning £0.3m** improvement due to additional income from health partners for social care placements (£0.3m), additional pupil premium grant applied (£0.2m) and reductions in fostering costs (£0.2m), offset by
11 increases in home to school transport costs of £0.4m due to current price pressures

- **Environment Transport & Infrastructure £1.3m** improvement within Highways (£0.7m) due to increased income and recharges and reduced energy expenditure; and Environment (£0.6m) mainly due to reduction in waste tonnages and additional income from recyclates and electricity generation.

- **Resources £0.9m** improvement due to a reduction in the Orbis overspend (£0.3m), reduced spend in IT&D (£0.3m) primarily related to the settlement of a long standing negotiation with BT in SCC's favour and an underspend in pensions administration which was not previously projected (£0.2m)

Offset by increases of £2.8m, primarily:

- **Contribution to the Dedicated Schools Grant (DSG) High Needs Block offset reserve £0.3m** increase due to a slightly lower level of costs transferring to ASC at year end than previously forecast.

- **Community Protection Group £0.3m** increase within Fire (£0.2m) due to pension ill health charges and cross border support and Coroners (£0.2m) due to inquest costs. These have been partly offset by utilising additional government Covid grant (£0.1m)

- **Central Income & Expenditure £1.0m** increased bad debt provision (£0.5m), provision for pay on part-time annual leave (£0.2m) and other minor changes

- **Funding £1.3m** reduced funding due to lower Covid-19 draw-down required to offset Directorate costs (£1.0m) and set aside for Empty Properties scheme (£0.3m)

Key Messages – Capital

- The Council set a capital budget for 2021/22 of £185m in February 2021. The budget was reset at month 4 and then again at month 10 to £170.6m, to provide a stable baseline for the remainder of the year due to increasing slippage after analysis of deliverability carried out by the Strategic Capital Groups (SCG's). Capital spend for the year against this budget is £162.4m, which is a variance of £8.2m against the re-set budget (4.8%). This includes £5.2m of spend not managed by the SCG's, consisting primarily of commercial spend (managed through SHIP and SIB) and Delegated Schools budgets.

- Schemes directly managed by the SCGs had Capital Programme spend of £157.2m; variance to re-set budget of £13.4m (8%). The variance was made up of £12.8m net slippage and a net underspend of £0.6m. This represents additional slippage of £5.2m from the M11 forecasts. Details are set out in Table 5.

Recommendations:

It is recommended that Cabinet:

11

1. Note the Council's revenue and capital positions for the year.

2. Approve the following transfers to reserves planned as part of the revenue budget and included in the outturn position:
   - £2.6m unspent transformation funding to be transferred to the Transformation Reserve to fund future transformation ambitions and mitigate risks associated with delivering transformation in future years.
   - £19.5m of 2021/22 contingency budget to the General Fund Reserve to improve financial resilience and the Council's ability to mitigate future funding uncertainty, significant service pressures and increased global economic volatility.
   - £0.5m to the Budget Equalisation Reserve to be utilised early in 2022/23 for specific payments, as set out in paragraph 12.

3. Note that the remaining £1m surplus will also be added to the General Fund Balance to further improve our financial resilience.

Recommendations relating to additional 2022/23 funding:

4. Delegate future decisions on the allocation of emergency funding announced by Government to support vulnerable residents to the Deputy Chief Executive & Executive Director of Resources and other relevant Executive Directors in consultation with the Leader and other relevant Cabinet Members, as appropriate. This will enable timely allocation of funding for vulnerable residents, such as the Household Support Grant and funding for Ukraine refugees, in accordance with associated funding conditions.

5. Confirm that the following increased/additional grants will be allocated in full to the Public Health service budget to be spent in accordance with relevant grant conditions:

   - £1.1m increase to Surrey's Public Health grant to meet identified commissioning, contract and pay inflation pressures.

   - £3m recently announced new Supplemental Substance Misuse Treatment and Recovery grant to support improvements in the quality and capacity of drug and alcohol treatment for the years 2022/23 to 2024/25.

   - £0.1m per annum new In-patient Detoxification Grant

Paragraph 57 has more details about changes in Public Health funding.

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.

Executive Summary:

Revenue Budget

11

1. **Table 1** below shows the revenue financial position for the year by Service. Annex 1 (attached) provides a more detailed service outturn.

Table 1 - Summary revenue financial position as at 31 March 2022

Directorate	Full Year Budget £m	Outturn £m	Variance £m	M11 Forecast Variance £m	Change in forecast since M11 £m
Adult Social Care	370.7	368.8	(1.9)	(1.5)	(0.4)
Public Service Reform & Public Health	34.1	34.1	(0.0)	0.0	(0.0)
Children, Families and Lifelong Learning	220.9	231.8	10.9	11.2	(0.3)
Comms, Public Affairs & Engagement	1.7	1.7	0.0	0.0	(0.0)
Community Protection Group	38.5	40.1	1.6	1.3	0.3
Customer & Communities	11.6	11.0	(0.6)	(0.5)	(0.0)
Environment, Transport & Infrastructure	136.9	129.9	(7.0)	(5.7)	(1.3)
People & Change	6.6	6.4	(0.2)	(0.1)	(0.1)
Prosperity Partnerships & Growth	1.3	1.3	(0.0)	(0.0)	(0.0)
Resources	81.1	80.1	(1.0)	(0.1)	(0.9)
DSG High Needs Block Offset	32.8	35.3	2.5	2.2	0.3
Central Income & Expenditure	73.0	72.6	(0.3)	(1.3)	1.0
Total Budget Envelopes	**1,009.4**	**1,013.3**	**3.9**	**5.6**	**(1.7)**
Central Funding	(1,009.4)	(1,014.3)	(4.9)	(6.2)	1.3
Outturn Surplus	**(0.0)**	**(1.0)**	**(1.0)**	**(0.6)**	**(0.4)**

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

2. A budget of £1,003.6m was approved in February 2021, providing a stable base to tackle ongoing uncertainty about the pandemic. During the year the impact of COVID -19 was monitored closely and in August 2021, COVID funding was re-set to increase the overall budget. Since the £1,003.6m budget was approved it has increased by £5.8m to £1,009.4m as set out in the table below. Details of the revised budget are set out in Annex 1:

Budget Movement	£m
Original Budget	1,003.6
Increase to Public Health Grant	0.5
Adjustment to Corporate DSG funding and ASC grant	-2.1
COVID re-set (COMF funding)	7.3
Net Movements	5.8
Final Budget	1,009.4

3. The final outturn shows a surplus of £1.0m, which includes the full use of the £20m contingency, as set out below.

Building Resilience for 2022/23 and the Future

4. We have continued to maintain the grip on our finances and risks, as reflected in the positive outturn position, despite the extraordinary circumstances the Council has been operating in over the course of the financial year. The outturn position, and a continuation of the strategy to not require the use of reserves to support our revenue budget, indicates the finances of the Council are in a strong place to successfully ensure the continued delivery of organisational priorities, as well as increasing financial resilience into 2022/23.

5. Despite this backdrop, the medium-term outlook remains uncertain with a continuation of significant budgetary challenges and a budget gap of at least £150m over the next 5 years to 2026/27, as set out in the Medium Term Financial Strategy. In addition to continued funding uncertainty and demand pressures in some of our key services, there are economic pressures as we enter 2022/23, the full impact of which are yet to be factored into the Medium Term Financial Strategy. 11

6. Each year we provide a contingency in the base budget to allow us to contain a reasonable level of unexpected financial pressures, and to provide against any slippage in delivery of efficiencies. The presence of the contingency allows us to be bolder in our assumptions about delivery across all other budget lines compared to if it did not exist. The assumption is that if the contingency is not required in full in any given year, then it is transferred to reserves in order to form part of our medium-term plan to maintain financial resilience.

7. Through strong financial management, the final quarter of the financial year confirmed that the £20m contingency for 2021/22 budget would not need to be utilised to support the revenue budget within the financial year itself. Consideration has therefore been given to the options to utilise this budget to provide additional financial resilience in 2022/23 and beyond. Reserves and contingencies have been reviewed, alongside an assessment of specific additional pressures emerging for 2022/23 since the budget was set and noting the general future financial turbulence over the medium term.

8. The budget was set during a period of continuing economic recovery from the coronavirus pandemic. However, since the MTFS was approved, the conflict in Ukraine has added further volatility and contributed to rising and persistent inflation and higher interest rates. The Ofgem price cap rise in April 2022 resulted in a significant rise in energy and fuel prices which has been a significant factor in the increasing inflation rates, with a further cap rise anticipated in October 22.

9. Alongside the economic context, since the 2022/23 budget was set, a number of external and internal developments have resulted in a review of the base assumptions. There remains uncertainty over the sustained impact of COVID-19 and emerging costs relating to the refugee crisis. Additional financial modelling has been undertaken in relation to the recently announced social care reforms, highlighting the potential scale of the pressures and in addition we have seen continuing pressures on SEND Transport services over what was factored in to the 2022/23 budget.

10. There is an increased likelihood, as a result of these factors, that some call will need to be made on the contingency or reserves in the coming year. It is therefore recommended that £19.5m of the unutilised 2021/22 contingency budget is transferred to the General Fund Balance to enhance resilience and enable future drawn down to fund pressures, if required. In addition, the Council's external auditors are now explicitly expressing the view that the General Fund Balance should be at least 5% of the net budget and ideally nearer to 10%. The recommendation above will increase the General Fund Balance to £48.5m (4.7% of the net budget, increased from 2.5% in 2018).

11. The outturn position, including the recommendations set out above, will increase the unearmarked reserve levels, including the General Fund balance, by £20.5m to £167.6m

11

(c16% of our net revenue budget). Retention of the Council's reserves is essential in order to mitigate risks, including future funding uncertainties. Maintaining reserves is a key indicator of sound financial governance and has been at the heart of our recent medium-term plans to build resilience to address the level of risk.

12. Two specific payments are requested for approval from the remaining £0.5m as follows:

- £0.4m to support a mentoring programme for young people
- £0.1m to support the Community Foundation for Surrey capabilities fund which enables charitable bodies to review their capabilities and capacity and improves partnership working between charities.

Covid-19 Overview

13. The Covid 19 pandemic continued to have an impact throughout 2021/22, with Tier 4 restrictions in place at the beginning of the financial year and Plan B measures in place as a result of the Omicron variant over the Christmas period and early part of 2022. Surrey County Council has continued to play a key role in tackling the virus in Surrey and financial implications were felt in the form of additional costs, reduced income and the achievability of some efficiency plans.

14. The total financial impact of Covid-19 in 2021/22 is £99.4m. The main costs incurred by each Directorate can be summarised as follows:

- **Adults Social Care** – mostly relates to infection control, rapid testing, ASC workforce recruitment and retention and the Omicron support fund being paid to ASC providers (including SCC in-house provided services) and used for some SCC ASC workforce costs, Covid-19 related care package costs driven by increased acuity of needs due to the pandemic and the impact the hospital Discharge to Assess process.
- **Children, Families & Lifelong Learning -** increase in social care referrals, in addition there are costs relating to additional staffing costs covering increased workload, adult learning loss of income and additional High Needs Placements costs.
- **Environment, Transport & Infrastructure** - increased volumes of waste and estimated bus service support costs following a reduction in Government support.
- **Public Service Reform/Public Health -** main costs relate to Contain Outbreak Management Fund, testing, contact tracing and outbreak planning, Targeted Community Testing and Practical Support Payments.
- **Customers & Communities** – loss of income in Cultural Services (libraries, heritage and Surrey Arts).
- **Resources –** reduced income from School Meals, cost of ensuring our buildings can operate in a COVID secure way, PPE cell costs, temporary mortuary provision, the increased legal costs of children's safeguarding cases and a contribution to the Community Foundation for Surrey to support the voluntary sector.
- In addition, the allocations of specific grants to support residents such as the Household Support Grant to support households with the cost of food, energy and ither essentials and support to Clinically Extremely Vulnerable (CEV) residents during periods of national lockdown

15. Covid-19 related expenditure was financed by a combination of specific grant funding (£75.7m) for example the Contain Outbreak Management Fund, grants for payments to social care providers, test and trace funding, CEV funding and the Household Support Grant. The remaining £23.6m has been funded through general Covid-19 emergency funding. 11

16. There remains £5.9m available in reserves for future Covid-19 risks.

Adult Social Care (ASC) Directorate

17. The final outturn position was an underspend of £1.9m. Significant budget variances included:
    Pressures:
    - Care package pressures relating to Older People (£4.1m), Physical and Sensory Disabilities (£1.7m) and Mental Health (£0.5m) services driven primarily by the pandemic.
    - £5.2m of expenditure of relating to the Discharge to Assess (D2A) system from Surrey hospitals for individuals who remained on D2A support packages beyond the 4 week period eligible for national funding.
    - £1.5m less Better Care Fund (BCF) income than budgeted due to underspends on ASC services funded by Surrey's BCF.

    Mitigated by:
    - An underspend of £7.5m on budgeted care package expenditure for Learning Disability & Autism services including the Transition service for young people transitioning from children and educational support to ASC services. The biggest driver of this underspend was additional Continuing Health Care and joint funded care package income from the NHS through the resolution of disputed cases, much of which was a one-off benefit.
    - An underspend of £4.6m on ASC's total staffing budget (excluding in-house provided Older People and Learning Disability care services). A sizeable proportion of this underspend related to increased resources moved from care package budgets to staffing for areas of agreed growth and for which recruitment did not start to materially occur until the latter part of 2021/22.
    - £3m of Contain Outbreak Management Fund (COMF) grant funding allocated to ASC to fund some of the care package pressures caused by the pandemic.

18. 2021/22 was the fourth year in succession in which the ASC service held expenditure within its approved budget. This is a significant achievement in another very challenging year in which a wide range of pressures relating to the pandemic had to be managed.

19. It is important to note though that ASC's final 2021/22 outturn position relied on £10.4m of one-off or likely temporary benefits which are not expected to be repeated to the same extent in 2022/23. Additionally, an increase in underlying care package spending in the last two months of the year meant that full year net expenditure care package commitments ended the year £5m higher than the budgeted start position for 2022/23. As such, there will continue to be significant challenges for the ASC service to manage in the delivery of its approved budget in 2022/23.

11

Public Service Reform and Public Health (PSR&PH) Directorate

20. The Public Service Reform and Public Health directorate delivered a balanced revenue outturn position.

21. In addition to the £33.4m spent on base budget services, the PH service managed four CV-19 programmes in 2021/22:
    i. Test and Trace: £1.7m was spent on Surrey's contact tracing team, CV-19 communications and additional Health Protection staff. All funding received from government has been fully spent.
    ii. Targeted Community Testing: £1.1m was spent on testing outreach and agile testing units in Surrey. These costs have been fully reimbursed by DHSC and the programme ended on 31 March 2022
    iii. Practical Support Grant: £0.2m was spent on providing non-financial wrap-around support to people who were told to self-isolate (in addition to Test & Trace financial support). SCC received £1.7m of funding from government and will be returning the £1.5m of unspent funds to DHSC in line with the grant conditions.
    iv. Contain Outbreak Management Funds (COMF): £17.1m was spent on a wide range of CV-19 response and recovery initiatives in addition to the £5.6m of expenditure in 2020/21. £10.6m of COMF monies remained unspent at year end, and SCC has received confirmation from DHSC that these funds can be carried forward to be spent on continued CV-19 response and recovery initiatives in 2022/23.

Children, Families and Lifelong Learning (CFL) Directorate

22. CFL reported a full year overspend of £10.9m for those services funded via the General Fund. The position on the DSG and associated offsetting reserve is set out below. For the General Fund elements the key variances are set out in the following paragraphs.

23. Home to school transport for children overspent by £5.0m. This was all due to overspends for SEND transport caused by increases in pupil numbers and inflationary pressures impacting on the cost of procuring routes. Over the final quarter of the year a number of providers handed back routes due to them being no longer financially viable and when the Council went back to procure them, in line with statutory duties, the prices per route increased due to the rises in fuel costs.

24. Staffing expenditure within Area and CWD budgets overspent by £2.5m due to the level of agency and locum staff in post and the associated cost differential between a permanent and agency member of staff.

25. External residential placements within Childrens Social care overspend by £2.1m. This was caused by the increase in the number of LAC over the course of the year. As well as a high number of high cost Family Assessment and Community Assessment placements.

26. CWD Care budgets have seen a significant increase in demand during the year leading to an overspend of £2.5m.

27. These pressures were offset by applying additional Unaccompanied Asylum Seeking (UASC) grant of £0.3m and Troubled Families Grant of £0.6m.

2021/22 Schools Outturn

28. Surrey's final DSG allocation for 2021/22 was estimated at £553.4m net (£1,014m gross incl. academies and college SEND places). In total (excluding the additional safety valve payment) the DSG blocks overspent by £33.9m, which is summarised in Table 2 below: 11

Table 2 - Dedicated Schools Grant variances 2021/22

Block	Over/(under) £m
Schools	(0.6)
Centrally managed schools block	(0.0)
High needs	35.3
Early years	(0.8)
	33.9
Additional safety valve payment	(40.5)
In-year movement	**(6.6)**

Schools Balances

29. Surplus balances held by individual Surrey maintained schools have increased by £2.8m, Table 3 explains where these increases have occurred:

Table 3 – Schools Balances

Total net surpluses (excluding schools converting to academies before 31 Mar 2022)			
	31-Mar-21	31-Mar-22	(increase)/decrease
	£m	£m	£m
Nursery	0.8	0.9	(0.1)
Primary	27.5	28.0	(0.5)
Secondary	10.1	12.4	(2.3)
Special	4.6	4.7	(0.1)
PRU	0.8	0.7	0.1
	43.8	**46.6**	**(2.8)**

Community Protection Group (CPG)

30. The Community Protection Group reported an overspend of £1.6 at the end of the year. Surrey Fire & Rescue overspent by £1.3m as a result of the national pay award £0.3m, additional volume of training for new recruits £0.3m in order to maintain establishment levels, increased costs of fuel and vehicle repairs £0.3m, cross border support (where neighbouring Fire services attend incidents in Surrey) £0.2m, and a number of smaller cost pressures. The Coroner service overspent by £0.5m due mainly to the increased volume and cost of inquests, and pathology costs. These overspends were offset by smaller underspends elsewhere within the Group.

Customer and Communities (C&C) Directorate

31. C&C reported a full year underspend of £0.6m relating primarily to significant staff vacancies across customer services (£0.2m) and community partnerships (£0.2m). In

addition, there were a number of smaller variances across the other services within the Directorate including an underspend on the anticipated costs relating to the unsocial hours policy.

11

Environment, Transport, and Infrastructure (ETI) Directorate

32. ETI reported an underspend of £7.0m at the end of the year. Waste disposal services underspent by £4.9m, with increased waste volumes due to changes in resident behaviour being more than offset by improved prices for dry mixed recyclables. Highways and Transport underspent by £2.7m due to a combination of issues including street lighting energy savings resulting from fixed prices, increased income and recharges, and employee vacancies, which were offset by accelerated road maintenance works. These underspends were offset by a number of smaller items.

People and Change Directorate

33. The Directorate has reported a £0.2m underspend due to reduced training expenditure, delays to programmes within the employees experience team and reduced staffing costs due to vacancies.

Resources Directorate

34. The Resources directorate underspent by £1.0m. This was caused by a number of variances across the services within the Directorate. Primary in the following areas; an overspend (£0.4m) against the Orbis Joint Operating Budget due to the non-achievement of planned efficiencies in Business Operations which have been delayed by the disaggregation of the service and a need to fully understand the implications of the DBI implementation on the future operating model. An overspend in legal services (£0.4m) due to the level of children's safeguarding cases and increased cost of instructions. Offset by an underspend in IT&D (-£0.7m) due to reduced expenditure in the technical delivery and contracts team and efficiencies realised from the investment in hyperconvergence, an underspend in Twelve15 (£0.4m), an underspend on Finance (-£0.3m) due to higher than anticipated income and a number of smaller variances across other services within the Directorate (-£0.4m).

DSG High Needs Block Offset

35. DSG HNB overspent by £2.5m. This was the overspend position after accounting for the budgeted overspend of £23.8m and additional £9m contingency. As per paragraph 28, the overall variance was a £35.3m overspend.

36. £25.8m of cost containment and in-year mitigations were delivered to achieve this position.

37. The in-year overspend was caused by £6.1m of cost containment that was not able to be delivered. These were offset to some extent by the in-year mitigations of £3.6m.

38. Additional pressures through changes in placements and tribunal decisions added £4.9m of costs. Placements made at the end of the last financial year also had a full year impact of £4m in this year.

11

2021/22 Efficiency Programme Outturn

39. The 2021/22 budget included an efficiency requirement of £41.2m. At outturn, £32.1m (78%) has been achieved with the remaining £9.2m (22%) unachieved. The unachieved elements are reflected in the 2022/23 budget. Directorate efficiencies are shown in **Table 4** below.

Table 4 – Final Efficiency outcome

Directorate	Full Year Target	Outturn / Achieved	Variance / Unachieved	Last Month Variance
	£m	£m	£m	£m
Adult Social Care	11.9	11.9	(0.0)	0.3
Children, Families, Lifelong Learning	17.2	9.6	7.6	8.0
Community Protection Group	0.5	0.5	0.0	0.0
Customer & Communities	3.8	3.3	0.5	0.5
Environment, Transportation & Infrastructure	3.2	2.4	0.8	0.7
People & Change	0.1	0.1	0.0	0.0
Resources	4.4	4.1	0.3	0.3
Total	**41.2**	**32.1**	**9.2**	**9.8**

40. The £9.2m non-delivery is comprised of the following:

- **CFL - £7.6m** undeliverable due to the inflationary pressures in Transport making the planned reduction in route costs unachievable, increases in LAC numbers prevented efficiencies being delivered, as did the continued level of agency social workers.

- **ETI - £0.8m** including delayed waste & recycling efficiencies, some of which have continued to be impacted by Covid-19 (e.g. engagement with residents), and delayed highway efficiencies including bus lane enforcement which will be implemented in 2022/23.

- **C&C - £0.5m** relating to the recovery of income levels after the pandemic. Due to sustained closures during 2021/22 £0.5m of the £2.4m target for income recovery was not achieved.

- **Resources - £0.3m** due to the non-achievement of efficiencies built into the Orbis Business Plan, within Business Operations. Efficiencies were delayed as a result of needing to better understand the impact of the new ERP implementation and the disaggregation of the service from the Orbis partnership on the future operating model.

Transformation Programme

41. Of the £32.1m total efficiencies achieved in 2021/22, £6.4m was delivered through the Transformation Programme (54% of the £11.8m transformation efficiency target). In order to achieve this permanent efficiency and commitment to deliver further efficiencies in future years, £16.9m of one-off revenue funding was invested.

11

42. The investment was funded by £7.4m revenue budget and the remainder by flexible use of capital receipts, as enabled by the DLUHC guidance and approved by full Council in February 2021.

43. £16.9m incurred was less than the original allocation of £19.4m for 2021/22, due to changing requirements and reprofiling of planned expenditure against some of the transformation projects. The remaining £2.6m will be contributed to the Transformation Reserve to fund future transformation ambitions and mitigate risks associated with delivering transformation in future years.

Capital Budget

44. The Council set a capital budget for 2021/22 of £185m in February 2021. The budget was reset to £202m at month 4 to increase the capital programme budget for approvals from the pipeline made since the budget was set, mitigate slippage in complex schemes and to reflect more accurately deliverability, taking account of the impact of CV-19.

45. At month 10, the 2021/22 capital budget was reset again to £170.6m to provide a stable baseline for the remainder of the year due to increasing slippage after analysis of deliverability carried out by the Strategic Capital Groups (SCG's).

46. Against the £170.6m budget, Capital spend for the year is £162.4m, which is a variance of £8.2m against the re-set budget (4.8%). This includes £5.2m of spend not managed by the SCG's, consisting of commercial spend (managed through SHIP and SIB), Delegated Schools budgets and Your Fund Surrey.

47. Schemes directly managed by the SCGs had Capital Programme spend of £157.2m; variance to re-set budget of £13.4m (8%). This represents additional slippage of £5.2m from the M11 forecasts, due mainly to:

- IT&D – decrease of £4.8m, due mainly to delays to the DB&I programme implementation and smaller underspends across other programmes.
- Highways and Transport schemes – decrease of £0.9m, mainly related to individual projects that were not completed as anticipated; Highways (£0.3m), Safety Barriers (£0.1m), Externally Funded Schemes (£0.5m)
- Environment – decrease (£0.3m) mainly related to slippage in Flood Alleviation Schemes.

Offset by;

- Property schemes – increase of £1m – mainly related to acceleration in corporate and schools maintenance programmes.

48. **Table 5** below provides a summary of the outturn for the 2021/22 Capital budget:

11

Table 5 - Summary capital spend for 2021/22

Strategic Capital Groups	Full Year Outturn £m	Budget £m	Forecast Variance £m	Overspend / (Underspend) £m	Acceleration or (Slippage) £m	Change from M11 to M12 £m
Property						
Property Schemes	51.0	54.9	(3.9)	(0.7)	(3.3)	1.0
ASC Schemes	1.5	1.5	(0.1)	0.0	(0.1)	0.0
CFLC Schemes	0.3	0.5	(0.3)	0.0	(0.3)	(0.1)
Property Total	**52.7**	**57.0**	**(4.3)**	**(0.7)**	**(3.6)**	**0.9**
Infrastructure						
Highways and Transport	84.7	86.9	(2.1)	0.6	(2.8)	(0.9)
Environment	4.1	5.4	(1.3)	(0.1)	(1.2)	(0.3)
Community Protection	2.1	1.9	0.2	0.0	0.2	0.0
Infrastructure & Major Projects	5.2	5.7	(0.6)	(0.0)	(0.6)	(0.1)
Infrastructure Total	**96.1**	**99.9**	**(3.8)**	**0.6**	**(4.4)**	**(1.3)**
IT						
IT Total	**8.4**	**13.7**	**(5.3)**	(0.5)	(4.8)	**(4.8)**
Total Strategic Capital Group	**157.2**	**170.6**	**(13.4)**	**(0.6)**	**(12.8)**	**(5.2)**
Commercial Spend	0.4					
Your Fund Surrey	0.1					
Delegated School Expenditure	4.7					
Total	**162.4**	**170.6**	**8.2**			

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

Carry forward

49. For 2021/22, £17.1m of carry forward requests were proposed by Capital Programme Panel (CPP). £7.4m into 2022/23 and the remaining £9.8m will be added into 2023/24. All 2022/23 carry forwards have been challenged by CPP and have been profiled into the first six months of the financial year. Offsetting the carry forwards is £4.5m of accelerated spend from 2022/23 delivered in 2021/22.

50. The net effect of carry forward and accelerated spend is an increase of £2.8m in the 2022/23 budget from £212.1m to £214.9m.

Feasibility

51. The Feasibility fund used for progressing capital projects into delivery and bringing schemes forward from pipeline had an outturn position of £5.2m, against a budget of £5m, this small overspend was contained within budget envelopes and is included in the revenue outturn position set out above. This overspend is largely due to a timing difference of when projects will be capitalised.

52. The amount carried forward from previous years was not required so will be retained in reserve to support the drive to deliver the Capital Programme in future.

Balance Sheet Indicators

53. The Council reports on a quarterly basis on the following key balance sheet indicators, which are presented in **Annex 2** (attached) and cover the following:

- Debt; and
- Treasury Management.

11

54. The Council's overdue debt stood at £25.6m at 31st March 2022, (vs £25.5m at 31 March 2021), an increase of £0.1m over the year. **Annex 2** provides further details on this.

55. The Council has continued its policy of minimising cash balances and exposure to low interest rates on short-term investments by internal and short-term borrowing. **Annex 2** provides a further explanation of the impact of this policy on the Council's Balance Sheet.

Additional funding for 2022/23

56. In the early part of 2022/23, the Household Support Grant has been extended, providing funding to the Council to provide support to vulnerable households with the cost of food, energy, water and other essentials. In addition, funding to support the Homes for Ukraine scheme have been announced. Proposals are being developed for the allocation of both of these funding sources, working with partners to ensure those most in need can access the available funding. Cabinet is asked to approve the delegation of decisions on the allocations of this funding and other similar emergency funding allocations, to enable timely decisions to be made and funding to be distributed to those in need, in accordance with the relevant grant conditions.

57. Three sources of additional Public Health funding for Surrey have been confirmed for 2022/23 as follows.

- Public Health grant for 2022/23 has been confirmed as £39.637m, an increase of £1.083m (2.8%) on the 2021/22 PH grant of £38.554m. Cabinet is requested to agree that this Public Health grant increase is allocated in full to the Public Health budget for 2022/23 to be used to meet identified commissioning, contract and pay inflation pressures in the context of the high level of general inflation.

- The Department for Health & Social Care (DHSC) / Office for Health Improvements (OHID) have recently published details of Supplemental Substance Misuse Treatment and Recovery grant funding to support improvements in the quality and capacity of drug and alcohol treatment for the years 2022/23 to 2024/25. The Council's 2022/23 allocation is £721,703 and indicative sums for 2023/24 and 2024/25 are £735,789 and £1,500,381 respectively, although it should be noted that allocations for future years are subject to annual approval by HM Treasury. Cabinet is requested to agree this ringfenced grant funding is added to the Public Health budget to be spent on plans to be agreed with OHID in May 2022, with a Memorandum of Understanding to be issued by OHID in June 2022.

- Separately an Inpatient Detoxification Grant of £106,099 per annum has also been confirmed for the next 3 years. Eligibility for this supplemental funding is dependent on maintaining existing (2020/21) investment in drug and alcohol treatment, and allocation of the Inpatient Detoxification Grant will be awarded to regional or sub-regional consortia.

Consultation:

58. Executive Directors and Cabinet Members have confirmed the outturn positions for their revenue and capital budgets.

Risk Management and Implications:

59. 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 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.

11

Financial and Value for Money Implications:

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

Section 151 Officer Commentary:

61. Although significant progress has been made to improve the Council's financial position, the medium term financial outlook beyond 2022/23 remains uncertain. With no clarity on central government funding 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.

62. 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:

63. 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.

64. 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:

65. 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.

66. 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.

11

What Happens Next:

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

Report Author:

Leigh Whitehouse, Deputy Chief Executive & Executive Director of Resources, leigh.whitehouse@surreycc.gov.uk.

Consulted:

Cabinet, Executive Directors, Heads of Service

Annexes:

Annex 1 – Detailed Revenue Outturn position
Annex 2 – Balance sheet Indicators – Debt and Treasury Management

11

Detailed Revenue Outturn position

Service	Cabinet Member	Prior Year Outturn £m	Full year net budget £m	Full Year Outturn £m	Full year net variance £m
Education and Lifelong Learning	D Turner-Stewart	60.5	23.4	23.3	(0.1)
Family Resilience	C Curran	43.8	32.7	35.3	2.5
Corporate Parenting	C Curran	88.8	103.7	107.3	3.6
Quality and Performance	C Curran	8.7	9.3	9.4	0.0
Commissioning	C Curran / D Turner-Stewart	45.9	51.9	56.9	5.0
CFLC Exec Director	C Curran	11.7	(0.2)	(0.3)	(0.2)
Children, Families and Lifelong Learning		**259.3**	**220.9**	**231.8**	**10.9**
Public Health	S Mooney	32.2	33.4	33.4	0.0
Insight & Analytics	S Mooney	1.8	0.7	0.7	(0.0)
Public Health and PSR		**34.0**	**34.1**	**34.1**	**(0.0)**
Adult Social Care	**S Mooney**	**372.6**	**370.7**	**368.8**	**(1.9)**
Highways & Transport	M Furniss	53.6	58.3	55.6	(2.7)
Environment	M Heath/ N Bramhall	73.3	73.5	68.9	(4.6)
Infrastructure, Planning & Major Projects	M Furniss		2.8	2.7	(0.1)
Leadership Team	M Furniss	2.0	0.4	0.8	0.4
Feasibility	M Heath/ M Furniss		1.9	1.9	0.0
Environment, Transport & Infrastructure		**128.9**	**136.9**	**129.9**	**(7.0)**
Fire and Rescue	K Deanus	31.6	31.9	33.2	1.3
Trading Standards	K Deanus	2.0	2.0	1.9	(0.1)
Emergency Management	K Deanus	0.5	0.5	0.4	(0.1)
Health & Safety	K Deanus	0.1	0.3	0.3	(0.0)
Armed Forces & Resilience	K Deanus	0.1	0.1	0.1	0.0
Coroners	K Deanus	3.0	3.7	4.2	0.5
Community Protection		**37.3**	**38.5**	**40.1**	**1.6**
People & Change	**T Oliver**	**6.1**	**6.6**	**6.4**	**(0.2)**
Comms, Public Affairs & Engagement	T Oliver	**1.3**	**1.7**	**1.7**	**0.0**
PPG Leadership	T Oliver	1.4	0.3	0.3	0.0
Economic Growth	T Oliver	0.7	1.1	1.0	(0.1)
Prosperity, Partnerships and Growth		**2.1**	**1.3**	**1.3**	**(0.0)**
Community Partnerships	M Nuti	1.3	1.5	1.3	(0.2)
Customer Services	M Nuti	2.8	2.7	2.6	(0.2)
AD Culture & Active Surrey	M Nuti	10.0	7.2	7.0	(0.2)
Surrey Arts	M Nuti		0.1	0.1	(0.0)
Customers and Communities		**14.1**	**11.6**	**11.0**	**(0.6)**
Land and Property	N Bramhall	27.9	27.6	27.6	(0.0)
Information Technology & Digital	B Rush	9.5	10.9	10.1	(0.7)
Business Operations	B Rush	(0.3)	(0.1)	(0.2)	(0.1)
Joint Orbis	B Rush	17.3	16.9	17.3	0.4
Finance	B Rush	5.7	5.9	5.6	(0.4)
Legal Services	B Rush	4.7	4.9	5.3	0.4
Democratic Services	B Rush	3.0	3.6	3.6	(0.0)
Executive Director Resources	B Rush	0.8	2.5	2.5	(0.0)
Twelve15	B Rush	1.3	(1.9)	(2.3)	(0.4)
Corporate Strategy and Policy	B Rush	0.0	1.9	1.8	(0.1)
Transformation and Strategic Commissioning	B Rush	0.8	8.8	8.7	(0.2)
Performance Management	B Rush	0.0	0.2	0.2	(0.0)
Resources		**70.7**	**81.1**	**80.1**	**(1.0)**
DSG High Needs Block Offset		**0.0**	**32.8**	**35.3**	**2.5**
CV-19		**11.0**	**0.0**	**0.0**	**0.0**
Corporate Expenditure	**B Rush**	**79.5**	**73.0**	**72.6**	**(0.3)**
Total Budget Envelopes		**1,017.1**	**1,009.4**	**1,013.3**	**3.9**
Central funding		**(1,024.9)**	**(1,009.4)**	**(1,014.3)**	**(4.9)**
Outturn Surplus		**(7.9)**	**(0.0)**	**(1.0)**	**(1.0)**

11

Balance Sheet Indicators

Debt

1. During the last quarter of 2021/22 the Council raised invoices totalling £175m.

2. Overdue debt is the total debt less those balances not immediately due (i.e. less than 30 days old). There was a total of £25.6m of overdue debt at the end of March 2022, a decrease of £4.5m since the last quarter.

3. Notable issues and changes relating to debt levels include:
   - Overdue unsecured care debt increased by £2.8m since the last quarter, although most of this debt is less than six months old is being actively pursued by the Adult Social Care Financial Assessment and Income Collection team, supported by internal and external legal services.
   - Overdue debt relating to CCGs reduced by £6.8m since the last quarter, reflecting the successful outcome of work undertaken by Corporate Finance with ASC and CCG colleagues to resolve queries to enable debts to be paid.
   - There is £32m of debt relating to CCGs that is less than one month old and so not overdue. This relates to a range of additional funding the CCG agreed to pay to SCC and into Surrey's Better Care Fund at year end. It is expected that the outstanding invoices will be settled promptly by Surrey Heartlands CCG.
   - Total combined overdue debt across all other debt categories reduced by £0.5m, mostly relating to reduced debt for schools, colleges and nurseries that is over 1 year old.

Table 1 – Age profile of the Council's debt as at 31 March 2022

Account group	<1 month £m	1-12 months £m	1 to 2 years £m	over 2 years £m	Total debt £m	Overdue debt £m
Care debt - unsecured	4.1	10.2	3.6	4.0	21.8	17.7
Care debt - secured	0.2	3.2	2.1	3.7	9.2	N/A*
Total care debt	**4.3**	**13.3**	**5.7**	**7.7**	**31.0**	**17.7**
Schools, colleges & nurseries	1.5	-0.0	-0.0	0.1	1.6	0.1
Clinical commissioning groups	32.0	0.9	0.5	0.6	34.0	2.0
Other local authorities	1.5	-0.4	0.0	0.0	1.1	-0.3
General debt	4.5	5.2	0.4	0.5	10.6	6.1
Total non-care debt	**39.5**	**5.8**	**0.9**	**1.2**	**47.3**	**7.9**
Total debt	**43.8**	**19.1**	**6.6**	**8.9**	**78.3**	**25.6**
Q3 2021/22	16.8	22.9	6.8	8.7	55.3	30.1
Change	26.9	-3.7	-0.3	0.2	23.1	-4.5

** Secured care debt does not become due until either the property is sold or after 90 days following the death of the resident, whichever is earlier.*

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

Borrowing

4. Surrey County 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 £480.9m an increase of £47.3m from 31 March 2021, due to £50m of long term PWLB debt, sourced in March 2022.
5. As at 31 March 2022, the weighted average interest rate of the Council's long-term debt portfolio was 3.70%. The Treasury Strategy, approved by County Council in February

2021, continued the policy of internal borrowing and, where necessary, borrowing short term to meet cash flow liquidity requirements. Table 2 shows a net £71.5m decrease in the Council's short-term borrowing activity since 1st April 2021.

11

Table 2 - Short-term borrowing as at 31 March 2022

	£m
Debt outstanding as at 31 March 2021	271.5
Net movement since start of year	-71.5
Current balance as at 31st March 2022	**200.0**

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

6. The weighted average interest rate of the Council's short-term external debt is 0.14% at 31st March 2022.

Cash Investments

7. The Council's average daily level of cash investments was £59.6m during 2021/22, compared to an average of £57.1m during 2020/21. 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 low cash balances held and the need to maintain high liquidity.

8. Table 3 shows the weighted average return on all investments the Council received in the quarter to 31st March 2022 is 0.28%. This compares to a 0.45% Bank of England Base Rate for the same period. Base Rate during 2021/22 increased from 0.10% to 0.75% between December 2021 and March 2022. MMF investment returns will lag behind a revised base rate for a period of time as funds reinvest short dated instruments from a low interest rate environment to a slightly higher one.

Table 3 – Weighted average return on investments compared to Bank of England Base Rate

	Average BoE Base Rate	**Weighted return on investments**
21/22 quarter 4	0.45%	0.28%
21/22 quarter 3	0.12%	0.03%
21/22 quarter 2	0.10%	0.02%
21/22 quarter 1	0.10%	0.02%
20/21 quarter 4	0.10%	0.01%
20/21 quarter 3	0.10%	0.03%
20/21 quarter 2	0.10%	0.14%
20/21 quarter 1	0.10%	0.31%

This page is intentionally left blank