

SURREY COUNTY COUNCIL

CABINET

DATE: 26 JULY 2022



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

LEAD OFFICER: LEIGH WHITEHOUSE, DEPUTY CHIEF EXECUTIVE AND EXECUTIVE DIRECTOR OF RESOURCES (S151 OFFICER)

SUBJECT: 2022/23 MONTH 2 (MAY) FINANCIAL REPORT

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

PRIORITY AREA: GREENER FUTURE/EMPOWERING COMMUNITIES

Purpose of the Report:

This report provides details of the County Council's 2022/23 financial position as at 31st May 2022 (M2) for revenue and capital budgets, and the expected outlook for the remainder of the financial year.

Key Messages:**Revenue**

- **At M2, the Council is forecasting a full year deficit of £23.0m**, against the revenue budget approved by Council in February 2022. The details are shown in Annex 1 and summarised in Table 1.
- Directorates are expected to mitigate projected overspends and manage spend within available budget envelopes.

Capital

- The M2 position shows a forecast spend of £226.2m against a budget of £215.8m, **an overspend of £10.4m**, mainly due to accelerated spend in Highways and Transport.

Higher than budgeted inflation, arising from increased global and economic uncertainty, has significantly increased the risks facing the council in terms of delivering both the revenue and capital budgets for 2022-23. We will be monitoring closely the impact of inflation indices and Council spending and take action as necessary to ensure increased costs are mitigated where possible.

Recommendations:

It is recommended that Cabinet:

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

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 M2, the Council is forecasting a full year £23m overspend against budget.** Table 1 below shows the forecast revenue budget outturn for the year by service.

Table 1 - Summary revenue budget forecast variances as of 31st May 2022

Directorate	2022/23 YTD M2 - Actual £m	22/23 Outturn Forecast at M2 £m	Annual Budget £m	Forecast Variance £m
Adult Social Care	62.6	401.8	401.6	0.2
Public Service Reform & Public Health	1.1	34.4	34.4	0.0
Children, Families and Lifelong Learning	53.6	242.4	221.7	20.6
Comms, Public Affairs & Engagement	0.2	2.2	2.2	(0.0)
Surrey Fire and Rescue	6.6	34.6	33.1	1.5
Customer & Communities	2.6	17.2	17.0	0.2
Environment, Transport & Infrastructure	24.1	136.4	136.4	(0.0)
People & Change	0.9	7.5	7.4	0.1
Prosperity Partnerships & Growth	0.2	1.5	1.6	(0.0)
Resources	21.3	69.8	69.3	0.5
Central Income & Expenditure	(10.6)	(78.2)	(78.2)	0.0
Total before DSG High Needs Block Offset	162.7	869.5	846.5	23.0
DSG High Needs Block Offset	0.0	27.2	27.2	0.0
Total Budget Envelopes	162.7	896.7	873.7	23.0
Central Funding	(182.3)	(873.7)	(873.7)	0.0
Overall after central funding	(19.6)	23.0	0.0	23.0

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

2. The forecast Directorate overspend of £23.0m relates primarily to:
 - **Children, Families and Lifelong Learning (CFL) - £20.6m overspend**, due to a number of factors:
 - £15m overspend on Home to School Transport (H2ST) - this is a full year effect of the inflationary and demand pressures which began in 21/22. Further fuel rises since April have increased costs further, coupled with the ability of providers to “hand back” routes leading to higher costs in the retender process and an expected 9% increase in pupil numbers in September. Continued volatility in fuel prices remains a significant risk. The projection is net of changes from the implementation of the Council's new transport policy. A H2ST Task & Finish Group is being set up which will drive weekly progress, ensure clear action plans and be accountable in this area. There will also be a focus on alternative delivery models, in collaboration with key stakeholders. We are taking a proactive approach to learning from other counties to support assumptions or inform strategies.
 - £2.6m overspend on External Looked After Children (LAC) placements – due to increased numbers of LAC since last year and the full year effect of some high-cost placements which came in late March.

- £2.5m overspend on Children with Disabilities (CWD) Care - this is a residual pressure from 21/22 due to high levels of demand for direct payments and personal support.
 - £0.8m overspend for Unaccompanied Asylum Seekers (UASC) - this is the non-delivery of an efficiency linked to lobbying for additional funding. The total efficiency was for £1.1m of funding, so some has been mitigated through alternative measures, but not all.
- **Surrey Fire and Rescue - £1.5m overspend** due to additional volumes of recruitment and training in response to expected recruitment by the London Fire Brigade, anticipated retirements and existing vacancies (£0.8m); increased underlying cost pressures including cross border support (where neighbouring Fire services attend incidents in Surrey), Airwave communication system grant not keeping pace with increased costs and reducing income (£0.5m); increased costs of logistics for fuel and vehicle repairs (£0.1m); and the cost of ill health retirements (£0.1m). Historically the underlying costs pressures have been mostly absorbed within the budget funded by vacancies but the requirement to maintain operational staffing levels is not expected to enable this.
 - **Resources – £0.5m overspend** is due mainly to continued increased demand for legal services. There remain several risks in Land & Property and Twelve15 due to price inflation.
3. In addition to the forecast overspend position, we monitor emerging risks and opportunities throughout the year. While the Adults Social Care Directorate is currently forecasting a small overspend for 2022/23, there are some significant risks and issues within the budget position that require action. Mitigating actions are being put in place by the Adults Leadership Team to address these. The net weighted risks at the end of May amount to £5m (£12m of risks off-set by £7m of opportunities), the most significant risks relate to:
- potential cost pressures in the second half of the year for Discharge to Assess (funding is secured up to the end of September 2022) and anticipated expenditure requirements for ASC reforms in 2022/23 above available government funding.
 - A current forecast shortfall against budgeted 2022/23 efficiencies of £6m. A workshop is scheduled to agree actions to try to recover this position and identify additional efficiencies to support the forward budget position.
 - Full year care package commitments (the amount that would be spent in a year on all active care packages) were £13.2m above the 2022/23 budget at the end of May. Actions are being taken to recover the position by year end. However, there is a high degree of risk associated with this given previous year trends and current ASC demand and market pressures, so it will need to be kept under close review.
4. Through the budget envelope approach, Directorates are required to deliver services within their approved budget. Therefore Directorates are tasked with mitigating activities to offset identified pressures, mitigate risks and maximise the opportunities available to contain costs. The budget also includes a contingency, giving confidence that the budget remains balanced.

Dedicated Schools Grant (DSG) update

- The table below shows the projected forecast year end outturn for the High Needs Block. The forecast at month 2 is in-line with budget.

Table 2 - DSG HNB Summary

2022/23 DSG HNB Summary	
	£'m
DSG High Needs Block Grant (exc Academies)	202.2
Forecast outturn	229.4
<i>Deficit/(surplus)</i>	27.2
Budgeted overspend	27.2
<i>Deficit/(surplus)</i>	0.0

- Within the forecast, there are £4m of stretch efficiencies RAG rated as red (plans to be developed). This is a reduction of £2.4m from the level at the start of the year (£6.4m) and further work is required during the year to ensure these are identified and delivered.
- The first quarter monitoring report was submitted to DfE in June for the safety valve agreement. This identified the Council remains on track with its agreed trajectory, although it also noted the increasing pressures caused by rising inflation.

Capital Budget

- The 2022/23 Capital Budget was approved by Council on 8th February 2022 at £210.9m, with a further £71.0m available to draw down from the pipeline and £18m budgeted for Your Fund Surrey expenditure. After adjustments for 2021/22 carry forward and acceleration, the revised budget is £215.8m.
- Capital expenditure of £226.2m is forecast against budget the budget £215.8m, an increase of £10.4m. This increase relates mainly to requested acceleration of £16.4m in Highways and Transport, offset by £6.0m of slippage in the remaining Infrastructure group, as detailed below. The revenue implications of this accelerated spend is anticipated to be containable within existing revenue budgets.
- Table 3 below provides a summary of the forecast full-year outturn at M2.

Table 3 - Summary Capital Budget

	2022-23 Outturn Forecast at M2	Annual Budget	Forecast Variance
Strategic Capital Groups	£m	£m	£m
Property			
Property Schemes	77.9	77.9	0.0
ASC Schemes	1.7	1.7	0.0
CFL Schemes	1.3	1.3	(0.0)
Property Total	80.9	80.9	(0.0)
Infrastructure			
Highways and Transport	103.9	87.5	16.4
Infrastructure and Major Projects	21.7	22.4	(0.8)
Environment	7.0	8.8	(1.8)
Surrey Fire & Rescue Service	3.0	6.4	(3.4)
Infrastructure Total	135.6	125.2	10.4
IT			
IT Service Schemes	9.7	9.7	0.0
IT Total	9.7	9.7	0.0
Total	226.2	215.8	10.4

11. The forecast variances relate to:

- **Highways and Transport schemes - increase of £16.4m** – of which £11m accelerated spend is expected in Highway Maintenance and £3.5m on Local Highway Schemes, due to the proposed policy to accelerate highways expenditure by £50m from future years into the next 2 financial years; and £5m relates to delivery of schemes from the pipeline. These are offset by £2.5m slippage in the Molebridge Scheme under Bridge Strengthening & Earthworks which is expected to span two financial years, as is purchase of low emission community transport vehicles, £1.2m.
- **Infrastructure and Major Projects - decrease of £0.8m** – due to slippage in grant funded Housing Infrastructure Fund scheme - early infrastructure works and land purchase via CPO are now anticipated in 2023/24.
- **Environment schemes - decrease of £1.8m** – caused by difficulty securing a Managing Agent to deliver the Greener Homes 2 grant funded scheme. Delivery £1.4m of the original funding of £3.2m has been secured, due to action taken by the Council, but the remaining £1.8m is no longer anticipated to be delivered.
- **Surrey Fire & Rescue Service - decrease of £3.4m** – due to slippage in the Fire Service Replacement programme caused by delays in anticipated delivery dates of fire vehicles, recognising national supply chain issues.

Inflation Update

12. Higher than budgeted inflation, arising from increased global and economic uncertainty, has significantly increased the risks facing the council in terms of delivering the budget for 2022-23. We will be monitoring closely the impact of inflation indices and Council spending and take action as necessary to ensure increased costs are mitigated where possible.

13. The MTFFS included a base contract inflation assumption of 4% increase. Latest intelligence suggests that inflation will continue to rise until the end of this calendar year, with estimated average annual inflation rates of 8%-10%. As an illustration of the potential impact on the Council's revenue budget, for every 2% increase in inflation, the full year impact for 2022-23 would equate to a pressure of around £5m. Directorates should look to contain cost increases wherever possible to ensure services can be delivered within budget envelopes. Should mitigating actions not fully offset any experienced increase in costs then alternatives should be explored to contain spending.
14. It should also be noted that specific grants do not include any inflationary increase and therefore the associated expenditure has to be managed within the available grant, including impacts of inflation and demand changes. Holding expenditure within the available grant may prove to be more challenging and potentially require cost reduction.
15. Any use of reserves or contingency to support higher spending in 2022-23 will have a significant impact in subsequent years, due to the ongoing impact on the Medium-Term Financial Plan (MTFP). The ongoing impact of price increases would need to be factored into the base budget on a recurring basis plus a further one-off contribution would be needed to replenish general reserves (depending on future assessment of risk). For this reason, it is essential that Directorates strive to contain price increases within budget envelopes or take mitigating actions where possible.
16. Capital spending is more exposed to the impact of rising commodity, energy, and fuel costs than the revenue budget due to the impact on materials and delivery costs. Higher than anticipated inflation on projects, over and above the contingency element of the projects' budgets, can risk the viability of schemes. Where it has been identified that cost increases are putting at risk the ability to deliver the approved project within available budget, mitigating actions should be taken to reduce costs, including value engineering of schemes, i.e., modification of designs and/or scope to bring within available funding and deferring or de-prioritising projects. This process will be managed through the Capital Programme Panel.
17. Inflationary pressures within both the revenue and capital budget will be closely monitored throughout the financial year and updates on impacts and required mitigations will be included in future budget monitoring reports to Cabinet.

Consultation:

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

Risk Management and Implications:

19. 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:

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

Section 151 Officer Commentary:

21. Although significant progress has been made to improve the Council's financial position, the financial environment remains challenging. The UK is experiencing the highest levels of inflation for decades, putting significant pressure on the cost of delivering our services. Coupled with continued increasing demand and fixed Government funding this requires an increased focus on financial management to ensure we can continue to deliver services within available funding. In addition to these immediate challenges, 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.
22. The Council has a duty to ensure its expenditure does not exceed the resources available. Contingency budgets held by the Council provide confidence that the budget remains balanced. 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:

23. 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.
24. 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:

25. 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.
26. 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

Annexes:

Annex 1- Forecast revenue budget as of 31st May 2022

Forecast revenue budget as of 31st May 2022

Service	Cabinet Member	Year to date Budget £m	Year to date Actual £m	Year to date variance £m	Full Year Gross budget £m	Full year net budget £m	Full Year net forecast £m	Full year net forecast variance £m
Education and Lifelong Learning	D Turner-Stewart	8.1	31.0	22.9	218.8	21.2	21.3	0.1
Family Resilience	C Curran	8.1	1.1	(7.0)	36.8	33.4	33.0	(0.4)
Corporate Parenting	C Curran	17.7	9.7	(8.0)	121.4	106.3	112.3	6.0
Quality and Performance	C Curran	1.5	1.1	(0.4)	10.2	9.2	9.1	(0.1)
Commissioning	C Curran / D Turner-Stewart	8.1	10.7	2.6	132.4	53.0	68.0	15.0
CFLC Exec Director	C Curran	(0.2)	0.1	0.3	(1.3)	(1.3)	(1.3)	(0.0)
Children, Families and Lifelong Learning		43.3	53.6	10.3	518.4	221.7	242.4	20.6
Public Health	S Mooney	1.2	0.9	(0.2)	33.4	33.4	33.4	0.0
Public Service Reform	S Mooney	0.2	0.2	0.0	1.1	0.9	0.9	0.0
Public Health and PSR		1.4	1.1	(0.2)	34.6	34.4	34.4	0.0
Adult Social Care	S Mooney	66.9	62.6	(4.3)	548.3	401.6	401.8	0.2
Highways & Transport	M Furniss	9.5	10.2	0.7	72.1	56.9	56.9	0.0
Environment	M Heath/ N	12.5	12.9	0.5	77.0	74.7	74.7	0.0
Infrastructure, Planning & Major Projects	M Furniss	0.5	0.7	0.2	5.4	3.0	3.0	0.0
Leadership Team	M Furniss	0.2	0.2	0.0	1.3	1.3	1.3	0.0
Emergency Management	K Deanus	0.1	0.1	0.0	0.5	0.5	0.5	(0.0)
Environment, Transport & Surrey Fire and Rescue	K Deanus	22.7	24.1	1.4	156.3	136.4	136.4	(0.0)
People & Change	T Oliver	5.5	6.6	1.1	38.8	33.1	34.6	1.5
Armed Forces & Resilience	K Deanus	1.2	0.9	(0.3)	7.5	7.4	7.5	0.1
Comms, Public Affairs & Engagement	T Oliver	0.0	0.0	(0.0)	0.1	0.1	0.1	(0.0)
Communications, Public Affairs and Engag		0.3	0.2	(0.1)	2.1	2.1	2.1	(0.0)
PPG Leadership	T Oliver	0.4	0.2	(0.1)	2.2	2.2	2.2	(0.0)
Economic Growth	T Oliver	0.0	0.0	(0.0)	0.3	0.3	0.3	(0.0)
Prosperity, Partnerships and		0.2	0.2	(0.1)	1.3	1.3	1.3	(0.0)
Community Partnerships	M Nuti	0.3	0.2	(0.1)	1.6	1.6	1.5	(0.0)
Customer Services	M Nuti	0.3	0.2	(0.1)	1.5	1.5	1.5	(0.1)
AD Culture & Active Surrey	M Nuti	0.5	0.4	(0.1)	3.0	2.8	2.8	(0.0)
Surrey Arts	M Nuti	1.1	1.3	0.2	19.3	6.5	6.5	(0.0)
Trading Standards	K Deanus	0.0	0.0	(0.0)	0.3	0.3	0.3	0.0
Health & Safety	K Deanus	0.3	0.1	(0.3)	3.9	1.9	2.0	0.0
Coroners	K Deanus	0.0	0.0	(0.0)	0.7	0.3	0.3	0.0
Customers and Communities		0.6	0.7	0.1	3.8	3.7	3.9	0.2
Land and Property	N Bramhall	2.8	2.6	(0.3)	32.4	17.0	17.2	0.2
Information Technology & Digital	B Rush	4.0	4.7	0.6	32.4	24.0	24.0	0.0
Business Operations	B Rush	1.9	1.9	(0.0)	12.0	11.3	11.5	0.2
Joint Orbis	B Rush	0.3	(0.2)	(0.5)	2.0	2.0	2.0	0.0
Finance	B Rush	2.4	15.2	12.8	14.2	14.2	14.2	0.0
Legal Services	B Rush	1.0	7.1	6.1	13.5	5.9	5.9	0.0
Democratic Services	B Rush	0.8	0.9	0.0	5.4	4.9	5.4	0.4
Executive Director Resources	B Rush	0.6	0.5	(0.1)	4.0	3.7	3.7	(0.0)
Twelve15	B Rush	0.3	1.2	0.9	1.8	1.8	1.9	0.1
Corporate Strategy and Policy	B Rush	(0.0)	(0.3)	(0.3)	19.7	(1.9)	(1.9)	0.0
Transformation and Strategic Commissioning	B Rush	0.3	0.7	0.4	2.2	1.7	1.7	0.0
Performance Management	B Rush	0.2	(10.4)	(10.6)	1.4	1.4	1.2	(0.2)
Resources		11.9	21.3	9.4	108.8	69.3	69.8	0.5
Corporate Expenditure	B Rush	(22.4)	(10.6)	11.8	110.4	(78.2)	(78.2)	0.0
Total before DSG High Needs Block Offset		134.0	162.7	28.7	1,559.3	846.5	869.5	23.0
DSG High Needs Block Offset		0.0	0.0	0.0	27.2	27.2	27.2	0.0
Total Budget Envelopes		134.0	162.7	28.7	1,586.5	873.7	896.7	23.0
Central funding		(173.9)	(182.3)	(8.4)	(873.7)	(873.7)	(873.7)	0.0
Total Net revenue expenditure including DSG HNB		(39.9)	(19.6)	20.3	712.8	0.0	23.0	23.0

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