

SURREY COUNTY COUNCIL

CABINET

DATE: 17 JULY 2018



REPORT OF: MR DAVID HODGE CBE, LEADER OF THE COUNCIL

LEAD OFFICER: KEVIN KILBURN, DEPUTY CHIEF FINANCE OFFICER

SUBJECT: FINANCE AND BUDGET MONITORING REPORT TO 30 JUNE 2018

SUMMARY OF ISSUE:

This report presents the Council's financial position for 2018/19 at the end of June 2018. The context for the report is the Annual County Council report on Developing a Vision for Surrey in 2030. The Council faces a significant, and unprecedented budget shortfall in 2019/20 following the use of substantial one-off sources of funding this year. This reinforces the need to achieve 2018/19's planned savings in full to protect the Council's reserves and to meet future years' budget risks.

Annex 1 to this report highlights indications of material or significant variances to the Medium Term Financial Plan (MTFP) assumptions, including financial year end projections for the capital and revenue budgets as well as emerging issues, risks, areas of concern and proposed actions to resolve them. Annex 2 shows the progress of the MTFP savings projects for 2018/19.

The Council has a target of £15m additional in year savings in 2018/19. It is crucial the Council achieves this target at the year end to increase its financial resilience and minimise the reserves it needs to draw on. To meet this financial challenge, officers are developing plans for additional in-year savings to off-set any unmitigated rise in budget pressures or shortfall in the delivery of targeted savings, and also to meet the challenging budget gap for 2019/20.

RECOMMENDATIONS:

1. Cabinet is asked to note the Council's overall budget position as at 30 June 2018:
 - £11.8m forecast revenue year end overspend (Annex 1, paragraph 1),
 - £65.5m forecast planned MTFP savings, against £66.0m target (Annex 1, paragraph 2),
 - £15m increase in pressures against £108m anticipated (Annex 1, paragraph 5),
 - £31.4m forecast service capital programme year end underspend (Annex 1, paragraph 37).
2. Cabinet is asked to request officers to report to its next meeting on plans to bring the 2018/19 budget back into balance.

- Cabinet is asked to approve the measures to achieve £15m additional in-year savings outlined in Annex 1, paragraphs 6 to 8.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Revenue budget overview

- Surrey County Council set its 2018/19 budget and MTFP 2018-21 in early February 2018 in the context of continuing rising demand and cost pressures totalling £108m, and over seven years of Government funding cuts. To counteract these pressures, the Council has targeted to deliver £66m revenue savings and spending reductions this year. However, balancing this year's budget required £56m in one off funding, which will not be repeatable in future years. This included the application of £21m from reserves, leaving £60m earmarked reserves and £21m general balances at 1 April 2018.

Revenue savings

- The Council has conducted deep dive reviews into the 2018/19 MTFP savings programme with the aim of increasing assurances about savings and identifying actions to increase confidence. It will also conduct deep dive reviews into the 2019/20 savings programme with the same aims.
- New and more robust arrangements that are being put in place mean that throughout the year, the Corporate Leadership Team: will track and monitor delivery of MTFP savings and additional in year savings; and will develop plans for alternative savings as required. This is to ensure a considered, strategic and corporate approach to financial reporting and management.

Pressures

- The Council's main financial pressures stem from demographic demand growth in social care for adults and children, special educational needs and disabilities (SEND) and maintaining the road and infrastructure network. To ensure these pressures are visible and controlled, the Corporate Leadership Team will track pressures closely every month and will put in place mitigating actions wherever possible.
- As reported last month, early indications suggest SEND pressures are continuing to rise in 2018/19, as more children have an Education, Health and Social Care Plan (EHCP). This national issue is exacerbated by the failure of funding in the Dedicated Schools Grant High Needs Block to keep pace. As at 30 June 2018, the Council has developed plans to offset half of this increase in pressure and aims to achieve further in year savings to close this challenging budget gap.

Capital programme

6. The Council set its three year MTFP capital programme at £322m, including £144m in 2018/19. This major investment in Surrey's infrastructure and economy focuses on the growth in pupil numbers and the importance residents place on good roads and services. The Council has increased capital spending for road repairs and maintenance over and above that planned in the MTFP by £15m over the next two years.
7. The Council has conducted a deep dive review of the capital programme. The intention of this is to ensure the capital programme aligns with the Council's priorities and long term strategy, and that each year's expenditure is more accurately forecast and profiled. To allow the new Executive Director for Economy, Growth & Commercial to consider the findings of the deep dive review, Cabinet will receive detailed recommendations for restating and reprofiling the capital expenditure at its next meeting.

Service transformation

8. Local authority funding remains uncertain, especially around the future of the Business Rates Retention Scheme, the Fair Funding Review, negative Revenue Support Grant and the prospects anticipated in the deferred Green Paper on adult social care. The Council does not forecast any significant new or additional government funding to meet the continuing and rising pressures it faces over the medium term. Faced with these uncertainties and pressures, the Cabinet is developing a programme of transformational changes to ensure the Council has sustainable services for residents. This transformation was set out in the County Council report of 22 May 2018, "Developing a Vision for Surrey in 2030". The programme will include projects to manage service demands, increase income and, or, deliver savings to reduce overall annual expenditure by approximately £250m over the next three years. This includes £133m of savings already in the MTFP, of which £66m is targeted for delivery in 2018/19.
9. The additional benefit of the transformation programme will start to flow from 2019/20, but the bulk of the savings will inevitably follow in 2020/21 for the Council to attain a sustainable budget in future years. Therefore for the 2019/20 budget to be achieved will require all services to deliver further sizable savings from their current operating budgets.
10. Outline Business Cases for the transformation savings will be presented for agreement in principle and will provide additional confidence to members. These, and the more detailed Full Business Cases for savings, will link to a more robust budget setting process for 2019/20 and the next five year MTFP. The budget and MTFP, subject to any changes resulting from the Local Government Finance Settlement, will be presented to the Full County Council in November 2018. This is three months in advance of previous years.

Risk based approach

11. The Council operates a risk based approach to budget monitoring across all services. The approach ensures the Council focuses on monitoring those higher risk budgets due to their value, volatility or reputational impact.
12. Managers with high risk budgets monitor their budgets monthly, managers with low risk budgets monitor their budgets quarterly (or more frequently on an exception basis, if the year to date budget and actual spend vary by more than 10%, or £50,000, whichever is lower).

CONSULTATION:

13. All Cabinet Members will have consulted their relevant director or head of service on the financial positions of their portfolios.

RISK MANAGEMENT AND IMPLICATIONS:

14. Risk implications are stated throughout the report and each relevant director or head of service has updated their strategic and or service risk registers accordingly. In addition, the leadership risk register continues to reflect the increasing uncertainty of future funding likely to be allocated to the Council and the sustainability of the MTFP. In the light of the increased and significant financial risks faced by the Council, the Leadership Risk Register will be reviewed to increase confidence in directorate plans to mitigate the risks and issues.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

16. The Section 151 Officer confirms the financial information presented in this report is consistent with the Council's general accounting ledger and forecasts have been based on reasonable assumptions, taking into account all material, financial and business issues and risks.
17. The Council has a duty to ensure its expenditure does not exceed resources available. During 2018/19, the Council targets to deliver £66m spending reductions and manage £108m pressures as it moves towards a sustainable budget for future years. All services must continue to take all appropriate action to keep costs down and optimise income (e.g. through minimising spending, managing vacancies wherever possible). Adverse variances will require remedial in-year savings and budget reductions.
18. It is drawn to members' attention that the Council's reserves are already at low levels bearing in mind the ongoing uncertainty about: future funding, demand pressures, savings and the transformation programme. Any future use of

reserves will need to be planned carefully so that they are not depleted to unacceptable levels.

LEGAL IMPLICATIONS – MONITORING OFFICER

19. 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. 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 he 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.

EQUALITIES AND DIVERSITY

20. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary.

WHAT HAPPENS NEXT:

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

Contact Officer:

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Consulted:

Cabinet, executive directors, heads of service.

Annexes:

Annex 1 – Overall and directorate financial position for: revenue budget, savings, pressures and capital programme; balance sheet, reserves, debt and treasury management.

Annex 2 – MTFP savings projects 2018/19

Sources/background papers:

Revenue and capital budget movements.

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