SURREY COUNTY COUNCIL

CABINET

DATE: **25 SEPTEMBER 2018**

REPORT OF: **MR DAVID HODGE, LEADER OF THE COUNCIL AND KEVIN KILBURN, DEPUTY CHIEF FINANCE OFFICER**

LEAD OFFICER: **CHIEF EXECUTIVE AND EXECUTIVE DIRECTORS**

SUBJECT: **FINANCE AND BUDGET MONITORING REPORT TO 31 JULY 2018**

SUMMARY OF ISSUE:

This report presents the Council's financial position for 2018/19 as at 31 July 2018 for both revenue and capital budgets, including an update on key activity data for our highest risk budgets.

The context for the report is the 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 Medium Term Financial Plan (MTFP) savings in full, as well as £40m additional in year savings to protect the Council's reserves and to meet future years' budget risks.

The format of this report is:

- this covering summary report, which provides a high level financial summary and highlights only the most significant issues, as determined by Executive Directors and Cabinet Members;
- Annex 1 – a high level analysis of each directorate's budget monitoring positions;
- Annex 2 – progress of the MTFP savings projects for 2018/19.
- Annex 3 – activity information for the Council's highest risk budgets; and
- Annex 4 – a list of all the proposed management actions to reduce the forecast spend by £40m.

Cabinet is asked to note the forecast revenue and capital monitoring positions.

- The forecast revenue outturn is +£10.3m overspend. This is a -£1.5m reduction in the forecast outturn since the previous report and predominantly relates to increased forecast savings in Adult Social Care and Central Income & Expenditure, less additional costs in Schools & Special Educational Needs & Disability (SEND). Within this position, directorates have -£32.2m management actions remaining to achieve their reduced budget envelopes as shown in Annex 4.
- The Council forecasts to achieve £68m against its £66m planned MTFP savings. Of this, the total savings achieved or on track is nearly £50m. This excludes the additional in year savings in 2018/19.

- The forecast outturn for the service capital programme as at 31 July 2018 was £134m, an increase of £8m on the previous month's forecast.

Cabinet is asked to approve the following revenue and capital budget adjustments.

- £25m further revenue savings in 2018/19 in addition to the £15m approved in July 2018. It is crucial the Council achieves this target to increase its financial resilience and remove the need to draw down its reserves. These savings will also help meet the challenging budget gap for 2019/20.
- Reprofile the capital programme for 2018-21 to ensure the capital programme aligns with the Council's priorities and long term strategy.

The Council report "Developing a Vision for Surrey in 2030" set out the transformation changes the Council needs to deal with the funding uncertainties and service pressures it faces and ensure it has sustainable services for residents.

RECOMMENDATIONS:

1. Cabinet is asked to note the Council's overall revenue and capital budget positions as at 31 July 2018.

2. Cabinet is asked to note the management actions proposed to achieve a further £25m in-year savings, bringing the total additional savings to £40m (full details are provided in Annex 4).

3. Cabinet is asked to approve the adjustments to reduce and reprofile the service capital programme for 2018-21, outlined in paragraphs 58 to 61.

4. Cabinet is asked to approve draw down of £170,000 carry forwards as outlined in paragraphs 33 and 38.

REASON FOR RECOMMENDATION:

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

1. The Council's overall forecast revenue budget variance as at 31 July 2018 is +£10.3m overspend. This is a -£1.5m improvement on last month's forecast. Paragraph 3 summarises the main reasons for the variance, paragraphs 4 to 45 give headlines for each service. Annex 1 provides further details. Annex 3 provides related activity information for the highest risk budgets.

2. Table 1 shows for the Council's main service groups: gross and net expenditure budgets, forecast outturn position; additional in year savings; Executive Directors' remaining management actions to achieve in year savings; and the revised variance resulting from those actions.

Table 1 Summary forecast revenue budget as at 31 July 2018

Directorate	Gross budget £m	Net budget £m	Net forecast £m	Forecast variance (A) £m	Proposed in year savings £m	**Mgmnt actions (B) £m	Revised variance (A) – (B) £m
Children's Services	137.9	124.6	125.2	**0.6**	-3.7	-3.7	-3.1
Commissioning & Prevention	101.6	33.3	33.4	**0.1**	-0.3	-0.3	-0.3
Schools & SEND	175.5	62.6	78.7	**16.1**	-1.4	-1.4	14.7
Delegated Schools	380.4	0.0	0.0	**0.0**	0.0	0.0	0.0
Cultural Services	22.8	8.7	8.7	**0.0**	-0.7	-0.7	-0.6
Children, Family, Learning & Communities (CFLC)	818.1	229.2	246.1	**16.8**	-6.1	-6.1	10.7
Adult Social Care	500.3	381.9	377.4	**-4.5**	-10.7	-6.2	-10.7
Public Health	37.3	0.7	0.6	**-0.1**	0.0	0.0	-0.1
Health, Wellbeing & Adult Social Care (HWA)	537.6	382.5	377.9	**-4.6**	-10.7	-6.2	-10.8
Economic Growth & Property*	33.1	22.8	22.9	**0.1**	-4.8	-4.8	-4.7
Economy, Growth & Commercial (EGC)	33.1	22.8	22.9	**0.1**	-4.8	-4.8	-4.7
Highways & Transport	56.9	48.5	48.2	**-0.3**	-1.4	-1.1	-1.4
Place Development & Waste	97.4	88.9	88.9	**0.0**	-1.1	-1.1	-1.1
Surrey Fire & Rescue Service	45.4	31.5	31.3	**-0.2**	-0.3	-0.1	-0.3
Environment & Community	5.2	3.1	2.7	**-0.3**	-0.3	0.0	-0.3
Highways, Transport & Environment (HTE)	204.8	172.0	171.2	**-0.8**	-3.1	-2.3	-3.1
Finance*, Legal, Democratic & Coronial	16.1	12.7	13.0	**0.3**	-1.1	-1.1	-0.8
Finance, Legal, Democratic & Coronial (FLDC)	16.1	12.7	13.0	**0.3**	-1.1	-1.1	-0.8
Orbis (excl Finance & Property*)	52.5	52.0	51.5	**-0.5**	-4.2	-4.2	-4.7
Customer & Performance	7.5	7.1	6.9	**-0.2**	-0.8	-0.8	-1.0
Customer, Digital & Transformation (CDT)	60.0	59.1	58.4	**-0.7**	-5.0	-5.0	-5.7
Central Income & Expenditure	53.5	49.2	43.1	**-6.1**	-9.0	-6.7	-12.8
Total services' net revenue expenditure	**1,723.3**	**927.6**	**932.6**	**5.0**	**-39.8**	-32.2	-26.5
Funding		-906.3	-901.0	**5.3**			5.3
TOTAL	**1,723.3**	**21.3**	**31.6**	**10.3**	**-39.8**	**-32.2**	**-21.9**

Note: All numbers have been rounded - which might cause a casting difference
* Orbis manages Property and Finance budgets on behalf of other directorates. These amounts are excluded from the Orbis element of the Customer, Digital & Transformation directorate.
** This column represents the management action still required to deliver the in year savings target. In year savings of £7.6m are already included in the forecast variance column (A).

3. The main reasons for the +£10.3m forecast variance are as follows.

- +£15.0m overspend on SEND services funded through Dedicated Schools Grant High Needs Block (paragraphs 10 to 12)
- +£1.0m additional transport costs in Schools & SEND (paragraph 9);
- -£4.5 additional savings in Adult Social Care (paragraph 15);
- -£6.1m net underspend on Central Income & Expenditure for contributions to and from reserves and balances, investment strategy income and shadow public health savings (paragraph 42); and
- +£5.3m variance in General Funding (paragraph 43).

Revenue budget monitoring headlines

People Services – Children's Services
+£0.6m forecast overspend (+£0.2m deterioration since 30 June 2018)
-£3.7m management actions remaining

4. Children's Services continues to experience exceptional demand for services which was planned for during the 2018/19 budget setting process. However, as a result of some recent events, after the budget was set, in relation to Child & Adolescent Mental Health Service (CAMHS) the service is forecasting to overspend by +£0.6m in 2018/19.

5. Increased demand from children requiring support has led to a continued need for additional social work capacity. There are 94 locums across frontline teams mainly covering vacancies. Each locum social worker costs on average £11,000 p.a. more than an employed social worker and a senior social worker locum costs on average £7,000 p.a. more than those employed. This additional level of staffing pressure has been planned for in the 2018/19 budget.

6. The external placement budget was increased by £11m in 2018/19 due to increasing demand. As at 31 July 2018 there were 79 external residential placements and 233 external fostering placements out of a total of just over 850 looked after children. This is in line with the planning assumption of an increase of two per month and five per month respectively throughout the financial year. Plans are being put in place to manage the demand for high cost external placements, while meeting assessed needs, in order to address the overspend and contribute towards the in year additional savings requirement.

7. As in previous years, the Council is having to subsidise services for Unaccompanied Asylum Seeking Children, as the grant funding received from the Home Office is insufficient to cover the total cost. In 2018/19 the budget was increased for this level of local authority subsidy, which totals £4.5m, within a total cost of £8.9m. The service still awaits the revised funding arrangements from the Home Office, which is likely to alter the level of subsidy.

8. The budget for the Leaving Care Service was increased by £2m in 2018/19 to allow for the forecast rise in demand and the increased level of need.

People Services – Schools & SEND
+£1.1m forecast overspend (+£1.3m deterioration since 30 June 2018) and
+£15.0m forecast overspend on high needs (no change since 30 June 2018)
-£1.4m management actions remaining

9. The Schools & SEND service forecast a net +£1.1m overspend due to additional SEND transport costs, plus a forecast overspend of +£15m against the High Needs Block Dedicated Schools Grant, giving an overall service overspend position of £16.1m.

10. There continues to be an exceptional demand for services for children with Special Educational Needs (SEN), with the number of Education Health and

Social Care Plans (EHCPs) increasing by 40%, to almost 8,300 over the past two financial years and a rise of nearly 600 since the statutory return in January.

11. The total financial pressure is currently £30m, due to an increasing number of children in external specialist placements (over 1,000 children) and children in receipt of pupil support (3,125 children). In order to manage these increasing volumes and costs, measures have been identified to reduce this pressure down by £15m (£8.7m is achieved, £5.2m face potential barriers and £1.2m is at high risk), which is factored into the forecast, but this still leaves a £15m forecast overspend for 2018/19.

12. This residual forecast £15m overspend is a huge concern and risk for the Council. As part of the SEND Sustainability transformation work the service is looking urgently at how to minimise the impact on the Council's reserves and services in future years.

13. The increasing number of SEN children with plans is also impacting on the number of children requiring transport to school, which is almost 3,000 and a forecast overspend of £2.9m. The original plans for transport savings of -£1.2m in 2018/19 are not on track to be achieved and alternative options are being explored.

People Services – Cultural Services
balanced forecast outturn (+£0.4m deterioration since 30 June 2018)
-£0.7m management actions remaining

14. Cultural Services forecasts a balanced outturn. The main reasons for the change are: recruitment to some vacant posts in Libraries, plus delays to some savings and a reduction in income from Registration services.

People Services – Adult Social Care
-£4.5m forecast underspend (-£1.1m improvement since 30 June 2018)
-£6.2m management actions remaining

15. Adult Social Care (ASC) projects a -£4.5m underspend as at 31 July 2018. The additional -£10.7m in year savings will be met through the following measures.

• Increased staff vacancy factor based on the current underspend	-£2.2m
• Mitigating budgeted increased costs of care	-£4.9m
• Achieve surplus on fees & charges income	-£1.0m
• Effectively manage care package budgets and demand at the front door	-£2.6m
Total	**-£10.7m**

16. Based on the position as at 31 July 2018, -£4.5m of these measures are currently on track to be achieved without the need for additional management action. This relates to: -£2.2m increased staff vacancy factor; -£1.0m surplus on fees & charges; and -£1.3m of the action required to effectively manage care package costs, which it is anticipated could potentially be covered by

additional staffing underspend if not fully delivered. The full potential staffing underspend is not currently being assumed within the budget position as work continues to review the staffing requirement in light of ASC's strategic plans. It is also important to manage care package budgets in the remainder of 2018/19 to ensure ASC continues to operate within available resources in 2019/20.

17. The remaining -£6.2m of measures, relate to: -£4.9m mitigation of budgeted increased costs of care and -£1.3m of managing down care package budgets that could not be covered by further potential staffing underspends.

18. ASC forecasts to achieve £20.1m savings against its original target of £18.4m. ASC has achieved £11.7m to date and a further £4.8m is on track to be delivered. £2.0m savings have some risk to delivery and £1.5m savings targets have a significant risk of non-delivery, including the £1.3m of the £2.6m target to deliver managed spend on care package budgets and manage demand at the front door as set out in paragraph 16.

People Services – Public Health
-£0.1m forecast underspend (-£0.1m improvement since 30 June 2018)

19. Public Health forecasts to underspend by -£0.1m after fully achieving its MTFP savings target. There are risks with delivery in some areas which remain under review.

Place Services – Economic Growth and Property budgets managed by Orbis
+£0.1m forecast overspend (no change since 30 June 2018)
-£4.8m management actions remaining

20. Economic Growth forecasts a +£0.1m overspend. This is due to £0.3m commitments against the Surrey Growth Fund, partly offset by -£0.2m savings in the Economy Team. Economic Growth proposes to fund the overspend from the carry forward agreed from 2017/18.

21. Property Services forecasts a balanced outturn.

Place Services – Highways
-£0.3m forecast underspend (-£0.1m improvement since 30 June 2018)
-£1.1m management actions remaining

22. Highways Service forecasts -£0.3m underspend as at 31 July 2018 and an additional savings target of -£1.1m to meet the new reduced budget envelope for the service.

23. The reason for the forecast variance is mainly due to estimated additional streetworks permit income from a significant overrun on a busy road by a utility company, for which resolution has not yet been reached. Planned highways works are currently under way and generally forecast to spend to budget.

Place Services – Place Development & Waste
balanced forecast outturn (-£0.1m improvement since 30 June 2018)
-£1.1m management actions remaining

24. Place Development & Waste forecasts a balanced position as at 31 July 2018 and an additional savings target of -£1.1m to meet the new reduced budget envelope for the service.

25. Waste currently forecasts a balanced outturn. Construction of the Eco Park, while progressing, is delayed, which will lead to lower cost this year (currently estimated at £7.4m) and increased costs in future years. The Council manages cost variations across years through the Waste Sinking Fund. The forecast outturn assumes reduced costs in 2018/19 will result in a sinking fund contribution to meet the costs when they arise in future years. Cabinet approval will be sought for the sinking fund contribution, once the final amount is known.

26. Place Development forecasts a balanced outturn. To meet its management action savings target, the service proposes to use £1.1m funding from grants and developments on a one-off basis. This means Place Development & Waste will still need to identify savings in 2019/20 of a recurring nature.

Place Services – Surrey Fire and Rescue Service
-£0.2m forecast underspend (-£0.1m improvement since 30 June 2018)
-£0.1m management actions remaining

27. Surrey Fire and Rescue Service (SFRS) forecasts a -£0.2m underspend, due to a -£0.3m projected payroll underspend that includes provision for an assumed Firefighter pay award of 2% from July 2018, partly offset by +£0.1m income shortfall. SFRS is actively investigating mitigating actions to cover this shortfall.

Place Services – Trading Standards
-£0.1m forecast underspend (no change since 30 June 2018)

28. Trading standards forecasts a -£0.1m underspend. Mainly caused by staff vacancies, partly offset by a related shortfall on income.

Place Services – Community Support
-£0.2m forecast underspend (no change since 30 June 2018)

29. Community Support forecasts a -£0.2m underspend due to the previous year's staffing review and further staff savings identified in the current year.

Place Services – Emergency management
balanced forecast outturn (no change since 30 June 2018)

30. Emergency management forecasts a balanced outturn with a very slight underspend (-£0.041m) due to higher than expected income from Local Resilience Forum activities.

Corporate Support Services – Strategic Leadership
balanced forecast outturn (no change since 30 June 2018)

31. Strategic Leadership forecasts a balanced outturn. This anticipates a budget transfer for changes in directors' posts.

Corporate Support Services – Communications
-£0.1m forecast underspend (-£0.1m improvement since 30 June 2018)
-£0.3m management actions remaining

32. Communications forecasts a -£0.1m underspend. This is due to holding staff vacancies.

33. Communications requests to draw down the £70,000 agreed carry forward, allocated to a budget engagement activity that it has now undertaken.

Corporate Support Services – Strategy & Performance
-£0.1m forecast underspend (-£0.1m improvement since 30 June 2018)
-£0.3m management actions remaining

34. Strategy & Performance forecasts a -£0.1m underspend. This is mainly due to staffing reductions.

Corporate Support Services – Customer Services
balanced forecast outturn (no change since 30 June 2018)
-£0.2m management actions remaining

35. Customer Services continues to forecast a balanced outturn.

Corporate Support Services – Orbis
-£0.5m forecast underspend (-£0.1m improvement since 30 June 2018)
-£4.2m management actions remaining

36. Orbis forecasts a -£0.5m underspend. This excludes Finance and Property budgets Orbis manages on behalf of the Council and is mainly due to re-profiling Orbis investment spend, leading to a -£0.4m variance, of which -£0.2m will need to be carried forward (if total investment plans remain the same). Orbis is working to put plans in place to deliver a further -£3.7m in year savings for 2018/19 to bring its 2018/19 in year savings up to -£4.2m.

Corporate Support Services – Finance budgets managed by Orbis
balanced forecast outturn (no change since 30 June 2018)
-£0.4m management actions remaining

37. Finance continues to forecast a balanced outturn.

Corporate Support Services – Legal Services
+£0.2m forecast overspend (+£0.2m deterioration since 30 June 2018)
-£0.3m management actions remaining

38. Legal Services forecasts a +£0.2m overspend mainly because of the high cost of childcare cases. This may increase further due to the high volumes. Legal

Services requests to draw down the £100,000 carry forward agreed to fund the delayed case from the last financial year.

Corporate Support Services – Democratic Services
balanced forecast outturn (no change since 30 June 2018)
-£0.3m management actions remaining

39. Democratic Services continues to forecast a balanced outturn.

Corporate Support Services – Coroner
+£0.1m forecast overspend (+£0.1m deterioration since 30 June 2018)
-£0.1m management actions remaining

40. Coroner forecasts a +£0.1m overspend, due to pressures arising from high cost inquests.

Corporate Support Services – Central Income & Expenditure (incl. General Funding)
-£0.8m forecast underspend (-£2.2m improvement since 30 June 2018)
-£6.7m management actions remaining

41. Central Income & Expenditure (CIE) forecasts a -£0.8m underspend overall. This comprises -£6.1m service expenditure variances and +£5.3m General Funding variances.

42. The main service expenditure variances relate to: -£2.2m contributions to reserves no longer considered necessary, given the Council's financial context; -£4.3m balances identified in a balance sheet review, which are no longer needed for their original purpose and can be applied to fund current year expenditure; and -£0.7m more investment strategy income than budgeted; partly offset by +£1.1m shadow public health savings considered unachievable.

43. The main General Funding variance is +£5.3m shortfall in the budgeted use of capital receipts to fund service transformation work.

44. All councils are required to set aside an amount to provide for the repayment of debt, known as the minimum revenue provision (MRP). Due to significant underspends against the capital programme funded by borrowing in 2017/18, MRP for 2018/19 will be less than budgeted. In addition, the Council is reviewing its MRP policy and the revised MRP charge for 2018/19 will be confirmed on its conclusion.

45. CIE has -£6.7m remaining management actions required to meet its revised budget, comprising: -£1.7m Reduction in MRP charge, -£0.5m Learning and development review of courses and administration; -£0.5m Procurement review of contracts to be let; -£0.4m local agreements with districts and boroughs; -£0.5m moratorium on discretionary spending; and -£3.1m efficiency savings across non-front line services. These are mainly cross cutting in year savings, monitored through the CIE budget. Some of these savings will be allocated to other directorates during the year.

Revenue savings

46. Under new arrangements to ensure a considered, strategic and corporate approach to financial management and reporting, Corporate Leadership Team: tracks and monitors delivery of MTFP savings and additional in year savings; and will develop plans for alternative savings as required.

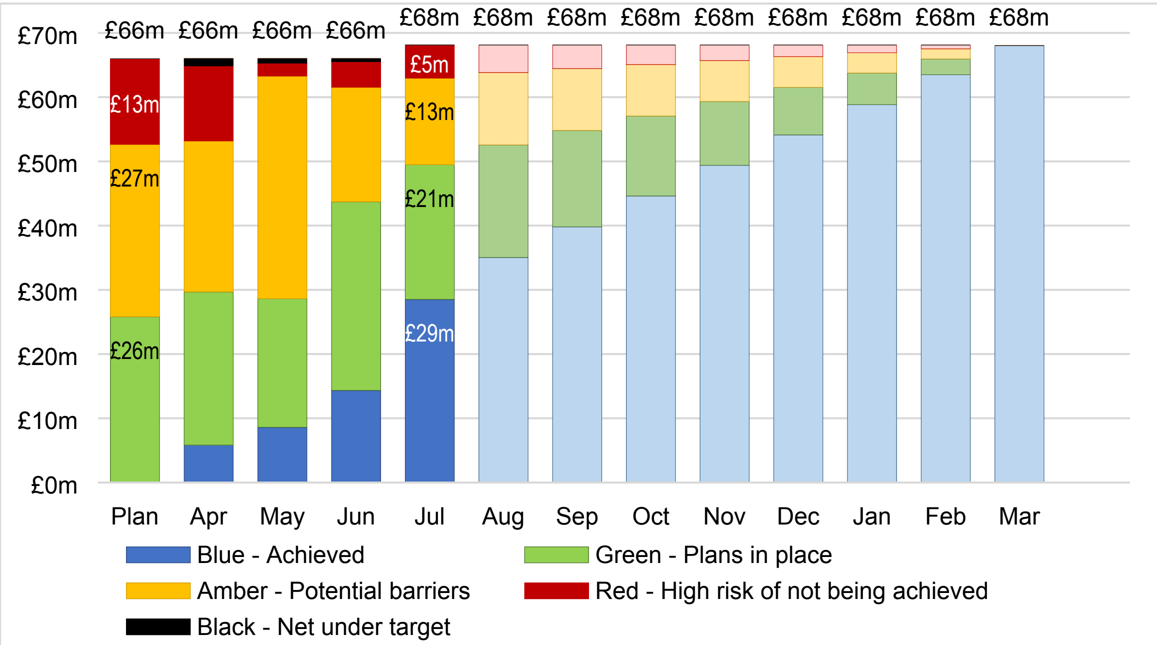
MTFP savings
(excluding additional in year savings of £40m)

47. The Council's 2018/19 revenue budget includes £66.0m MTFP savings. The forecast as at 31 July 2018 is to deliver £68.1m. The £2.1m overachievement is a £2.6m increase from last month's £0.5m forecast shortfall and is mainly due to improved forecast in Health, Wellbeing & Adults (HWA), where Adult Social Care (ASC) forecasts to over achieve its savings target by £1.7m.

48. The Council conducted deep dive reviews into the 2018/19 MTFP savings programme to increase assurances about savings and identify actions to increase confidence. It has conducted deep dive reviews into the 2019/20 savings programme with the same objectives.

49. Figure 1 shows the risk ratings for the achievement of the £66.0m planned MTFP savings, their achievement to date and the profile for achieving the forecast £68.1m savings over the year. Overall, since last month, total forecast MTFP savings have increased by £2.6m, to give net overachievement of savings of £2.1m. Within this: savings projects at high risk have increased by £1.1m; savings projects facing potential barriers have reduced by £4.3m; and the amount of savings on track or achieved increased by £5.8m. This leaves an overall savings profile where £49.5m are achieved or on track, £13.5m face potential barriers and £5.1m have a high risk of not being achieved. Annex 3 provides more details of performance against individual savings plans.

Figure 1 Summary forecast savings profile as at 31 July 2018



2018/19 in year savings

50. To improve its financial resilience, in July 2018, Cabinet approved £15.0m additional in year savings for delivery in 2018/19. In addition, the Council has identified a further £25m in year savings as detailed in Annex 4.

51. Directorates' remaining need to take action to achieve these in year savings are detailed in the Management action column in Table 1. As at 31 July 2018, directorates still need to implement measures to deliver -£32.2m in year savings in 2018/19.

Service transformation

52. 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 yet forecast any significant new or additional government funding to meet the continuing and rising pressures it faces over the medium term.

53. Faced with these uncertainties and pressures, 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".

54. 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.

55. 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 provisional finance strategy 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.

Capital programme overview

56. 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.

Capital programme budget monitoring headlines

57. As at 31 July 2018, approved draw downs of 2017/18 sums carried forward, plus capital virements increased the approved capital budget to £157.0m. Table 2 shows directorates forecast spending £134.0m against this £157.0m approved 2018/19 capital budget. The significant variances were: -£20.5m for school basic need -£11.1m for Property and +£4.3m in other capital projects.

Table 2 2018/19 capital programme budget variances as at 31 July 2018

	Current full year budget £m	Apr -July actual £m	Aug - Mar Forecast £m	Full year forecast £m	Full year variance £m
Schools basic need	47.6	9.7	17.4	27.1	-20.5
Property Services	42.0	8.4	22.5	30.9	-11.1
IT & Digital	4.5	0.5	6.0	6.5	2.0
Highways & Transport	42.0	8.3	33.8	42.0	0.0
Place Development & Waste	14.9	4.0	13.2	17.2	2.3
Other capital projects	6.0	0.0	10.2	10.2	4.3
Service capital programme	**157.0**	**30.9**	**103.1**	**134.0**	**-23.0**
Long term investments	0.0	18.9	25.5	44.4	44.4
Overall capital programme	**157.0**	**49.8**	**128.6**	**178.4**	**21.4**

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

Revisions to the capital programme budget

58. To ensure the capital programme aligns with its long term strategy and priorities, the Council conducted a deep dive review of the 2018-21 capital programme. The review assessed the assurances the Council can take in the delivery of the capital programme, specifically in areas with a history of significant underspending. The outputs from the review include actions to confirm the need to spend on schemes and to match capital budgets more closely to known and anticipated spending patterns and timescales.

59. In summary, after taking account of £24.4m residual capital carry forwards from 2017/18 plus current virements and other adjustments in 2018/19, the review recommends: reprofiling -£22.0m into future years (+£21.9m into 2020/21); and reducing budgets by -£22.8m to give a proposed 2018/19 capital budget of £135.0m. Table 3 outlines these changes give the proposed 2018/19 service capital programme budget.

Table 3 Proposed 2018/19 capital programme budget

	Current full year budget £m	Residual 2017/18 carry forwards £m	Virements £m	Reprofiling £m	Reductions £m	Proposed budget £m
Schools basic need	**47.6**	4.0		-7.4	-17.1	**27.1**
Property Services	**42.0**	10.6	-1.6	-14.6	-5.5	**30.9**
IT & Digital	**4.5**	2.0				**6.5**
Highways & Transport	**42.0**	0.0		0.0		**42.0**
Place Development & Waste	**14.9**	2.3				**17.2**
Other capital projects	**6.0**	5.4			-0.1	**11.3**
Service capital programme	**157.0**	**24.4**	**-1.6**	**-22.0**	**-22.8**	**135.0**

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

60. The full year service capital programme forecast as at 31 July 2018 would show -£1.0m variance against the proposed budget, in other capital projects.

61. Table 4 shows the outline capital programme expenditure for 2018-21and the corresponding funding. The three year programme has increased from £322m to £338m mainly because of: £29m carry forwards from 2017/18 brought into 2018/19; -£23m reductions to the programme following the deep dive review;

and £10m other movements, including £7m additional highways maintenance, plus grant changes.

Table 4 Proposed capital programme expenditure and funding 2018-21

Expenditure programme	2018/19 proposed £m	2019/20 proposed £m	2020/21 proposed £m	2018-21 proposed £m
Schools basic need	27.1	36.6	31.5	**95.2**
Property Services	30.8	28.7	21.8	**81.3**
Highways & Transport	41.9	29.7	24.2	**95.9**
Place Development & Waste	17.2	9.1	1.1	**27.5**
IT & Digital	6.5	3.5	6.9	**16.8**
Other capital projects	11.5	4.7	5.3	**21.5**
Total expenditure	**135.0**	**112.4**	**90.8**	**338.2**
Programme funding				
Government Grants	81.3	65.3	50.6	**197.3**
Reserves	3.2	0.5	3.8	**7.6**
Capital Receipts	21.0	0.9	0.3	**22.3**
Third Party Contributions	8.3	7.3	2.7	**18.4**
Borrowing	21.1	38.3	33.3	**92.7**
Total funding	**135.0**	**112.4**	**90.8**	**338.2**

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

62. As part of increasing its overall financial resilience the Council forecasts making £44m net investment in long term capital assets in 2018/19 (paragraphs 63 to 67). This brings total forecast capital spending in 2018/19, to £178m.

Investment Strategy

63. Table 5 shows that the Council will generate £4.7m net income this year from property acquisitions made by the Council and the Halsey Garton Property group (HGP).

64. Included in the income from investments figure above is income from the HGP portfolio which is forecast at -£5.4m this year, comprised of a £1.8m dividend and -£3.6m net interest margin on loans provided to the company by the Council. The net income from investments held directly by the Council is forecast at -£0.9m. New investments will be added into the forecast once they are approved by the Investment Board.

65. Development spend of +£1.6m is the revenue cost, in funding terms, of development activity underway or acquisitions pending development and is predominantly focussed on the former Thales site in Crawley where the Phase 1 office building has completed and is part let to SECAmb, with the remaining floors expected to be let within this financial year. The second phase building becomes operational in 2019. Once these two phases are completed and fully let, the development will generate an estimated -£1.3m net income per year.

66. The net income of -£4.7m is -£0.7m in excess of the income budget of -£4.0m held within central income and expenditure. The current investment portfolio plus future commitments such as the Brightwells Farnham scheme and other development activities are forecast to deliver -£8.3m net income in 2019/20.

67. Forecast capital expenditure in 2018/19 of +£44.4m includes further equity and loans to HGP for approved investments, the completion of development in Crawley and Farnham town centre. The capital outturn for the year is reported net of an estimated -£6.8m in third party contributions.

Table 5 Investment strategy revenue and capital position as at 31 July 2018

Revenue statement	YTD actual £m	Full year forecast £m
Income from investments	-1.5	-6.3
Less expenditure on developments	0.7	1.6
Total net income	**-0.8**	**-4.7**
Capital expenditure	**18.9**	**44.4**

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

Risk based approach

68. 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.

69. 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:

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

RISK MANAGEMENT AND IMPLICATIONS:

71. 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

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

SECTION 151 OFFICER COMMENTARY

73. 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.

74. The Council has a duty to ensure its expenditure does not exceed resources available. During 2018/19, the Council plans 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.

75. 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. For this reason and to increase the Council's financial resilience, the Council needs to achieve the £40m in year savings outlined above. Unless the Council achieves these in year savings, it risks depleting reserves to unacceptable levels.

LEGAL IMPLICATIONS – MONITORING OFFICER

76. 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.

77. 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

78. 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.

79. 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:

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

Contact Officer:
Kevin Kilburn, Deputy Chief Finance Officer
020 8541 9207

Consulted:
Cabinet, executive directors, heads of service.

Annexes:
Annex 1 – Overall and directorate revenue budget financial position.
Annex 2 – MTFP savings projects 2018/19
Annex 3 – Activity information for the Council's highest risk budgets.
Annex 4 – Proposed management actions to reduce forecast net spending by £40m

Sources/background papers:
Revenue and capital budget movements.