SURREY COUNTY COUNCIL

CABINET

DATE: **30 OCTOBER 2018**

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

LEIGH WHITEHOUSE, INTERIM EXECUTIVE DIRECTOR OF FINANCE

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

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

SUMMARY OF ISSUE:

This report presents the Council's financial position for 2018/19 as at 31 August 2018 for both revenue and capital budgets. The context is the County Council report on Developing a Vision for Surrey in 2030, which sets out the transformation changes the Council needs to make to deal with the funding uncertainties and service pressures it faces and to ensure it has sustainable services for residents.

The Council's 2018/19 budget relied on significant one off resources, including planned drawdown of £21m from reserves. By the end of the first quarter of this year, the identified pressure on Special Education Needs and Disabilities (SEND) high needs increased materially. The Council did not plan to use further reserves, and given the uncertainties and difficulties it faces from 2019/20 onwards, further use of reserves is considered to potentially put the Council at too high risk. Therefore, the Council initiated a £40m in-year cost reduction programme.

The £40m in-year cost reduction programme has two objectives:

- achieve sufficient in-year cost reductions to prevent unplanned use of reserves to off-set overspent budgets; and
- provide a stretch target to avoid the need to draw down any of the planned £21m reserves in 2018/19.

As at 31 August 2018, the Council has completed £19m management actions to bring the forecast revenue outturn to a balanced position. This means:

- the Council has met its first objective of achieving sufficient in-year cost reductions to balance the overspends arising in-year; and
- the Council is still working towards its stretch target, otherwise it would still need to draw down £21m reserves at year end as planned in the Medium Term Financial Plan (MTFP).

The most significant changes to the forecast outturn from that reported last month are due to the recognition in the forecast of £11m of further management actions to reduce spending where there was little or no lead-in time, including: recognising lower Minimum Revenue Provision costs, higher income for Commercial Services, reducing building maintenance and deferring IT refresh budgets, and drawing down transport grants.

In future months, Executive Directors and Cabinet Members will make further progress towards completing the £40m in-year cost reduction programme. This will enhance the Council's financial resilience because it will mean the Council will have to draw less from its reserves than it planned to in the MTFP.

This covering summary report, provides a high level financial summary of the most significant issues, as determined by Executive Directors and Cabinet Members and has three annexes:

- Annex 1 – a high level analysis of each directorate's budget monitoring positions;
- Annex 2 – progress of the £66m MTFP savings projects for 2018/19.
- Annex 3 – activity information for the Council's highest risk budgets

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

- The forecast revenue outturn is for a balanced position.
- The Council has completed actions to achieve £19m of its £40m in-year cost reductions.
- The Council forecasts to achieve a total of £66m savings against its £66m MTFP target, although there are favourable and adverse variances for individual savings plans.
- The forecast service capital programme outturn is £133m against the £135m budget.

Cabinet is also asked to note and approve some technical changes to the revenue and capital budgets.

RECOMMENDATIONS:

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

2. Cabinet is asked to note the management realignment within Highways, Transport & Environment directorate outlined in paragraph 22.

3. Cabinet is asked to approve Economic Growth's request to draw down £71,000 from the carry forward agreed from 2017/18 (paragraph 20).

4. Cabinet is asked to approve IT & Digital's request to reprofile £1.8m capital expenditure into future years (paragraph 55).

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

1. The Council forecasts a small revenue budget underspend as at 31 August 2018. As the 2018/19 budget plans to draw £21.3m from reserves, this means the Council's need to draw from reserves reduces to £21.1m in 2018/19.

2. Table 1 shows for the Council's main service groups: gross and net expenditure budgets, forecast outturn position and forecast variance. Paragraph 3 summarises the main reasons for the variance and the remainder of the report provides more detail.

Table 1 Summary forecast 2018/19 revenue budget as at 31 August 2018

Directorate	Gross budget £m	Net budget £m	Net forecast £m	Forecast variance £m
Children's Services	137.9	124.6	125.5	**0.8**
Commissioning & Prevention	101.6	33.3	33.3	**0.0**
Schools & SEND	175.5	62.6	77.2	**14.6**
Delegated Schools	380.4	0.0	0.0	**0.0**
Cultural Services	22.8	8.7	8.6	**-0.1**
Children, Family, Learning & Communities (CFLC)	**818.1**	**229.2**	**244.5**	**15.3**
Adult Social Care	500.3	381.9	378.2	**-3.7**
Public Health	37.3	0.7	0.5	**-0.1**
Health, Wellbeing & Adult Social Care (HWA)	**537.6**	**382.5**	**378.7**	**-3.8**
Economic Growth & Property*	33.1	22.8	19.8	**-2.9**
Economy, Growth & Commercial (EGC)	**33.1**	**22.8**	**19.8**	**-2.9**
Highways & Transport	76.9	48.5	66.7	**-1.9**
Environment	77.4	88.9	69.2	**0.3**
Surrey Fire & Rescue Service	45.4	31.5	31.3	**-0.2**
Environment & Community	5.2	3.1	2.7	**-0.4**
Highways, Transport & Environment (HTE)	**204.8**	**172.0**	**169.9**	**-2.2**
Finance*, Legal, Democratic & Coronial	16.1	12.7	12.6	**0.0**
Finance, Legal, Democratic & Coronial (FLDC)	**16.1**	**12.7**	**12.6**	**0.0**
Orbis (excl Finance & Property*)	52.5	52.0	49.7	**-2.0**
Customer & Performance	7.5	7.1	6.4	**-0.6**
Customer, Digital & Transformation (CDT)	**60.0**	**59.1**	**56.1**	**-2.6**
Central Income & Expenditure	**53.5**	**49.2**	**40.5**	**-9.3**
Total services' revenue expenditure	**1,723.3**	**927.6**	922.2	**-5.5**
Funding		-906.3	-901.1	**5.3**
Use of reserves		**21.3**	**21.1**	**-0.2**

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.

3. The most significant changes to the forecast outturn from that reported last month are due to the management actions to reduce spending and achieve the revised budget envelopes the Cabinet approved in September.

- -£1.5m in Schools & Special Educational Needs & Disabilities (SEND), including -£1.0m Commercial Services income;
- -£3.0m in Property including -£2.0m from reducing buildings maintenance and -£0.6m from spending less on evaluating new schemes;
- -£1.6m in Highways & Transport including -£1.0m from use of Strategic Transport grants, parking income and other underspends;
- -£1.2m IT & Digital cost reductions including deferring IT refresh and reducing the modern worker budgets; and
- -£3.3m in Central Income & Expenditure from lower Minimum Revenue Provision costs.

Revenue budget monitoring headlines

People Services – Children's Services
+£0.8m forecast overspend (+£0.2m deterioration since 30 July 2018)
-£4.0m management actions remaining

4. Children's Services continues to experience exceptionally high need 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) and an increase in the number of supernumerary posts in the area teams the service is forecasting to overspend by +£0.6m in 2018/19. In addition, Children's Services has -£3.7m in year cost reductions to achieve its reduced budget envelope.

5. Increased demand from children requiring support has led to a continued need for additional social work capacity. There are 114 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 overall budget for children's external residential and fostering placements was increased by £11m in 2018/19 due to increasing need. As at 31 August 2018 there were 85 external residential placements and 245 external fostering placements out of a total of just over 870 looked after children. The number of external residential placements is less than budgeted at this stage in the financial year (90 placements) however this is offset by the higher number of external fostering placements than budgeted (232 placements). Children's Services is putting plans in place to manage the need for high cost external placements in order to address the service's overspend and contribute towards reducing spending within its budget envelope.

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 Council increased the budget to cover this level of local authority subsidy, which totals £4.5m, within a total cost of £8.9m. The Council 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 numbers of cases and the increased level of need.

People Services – Schools & SEND
£14.6m forecast overspend, comprising +£15.0m forecast overspend on the DSG high needs block (no change since 31 July 2018), and -£0.4m forecast underspend on the remainder of the budget (-£1.5m improvement since 31 July 2018)
-£0.0m management actions remaining

9. The Schools & SEND service forecast to overspending by £14.6m. There are two elements to this, with the first being a +£15m forecast overspend against the High Needs Block of the Dedicated Schools Grant (DSG). Outside of the DSG, the service forecast to underspend by -£0.4m. The service has taken management actions to achieve its revised budget envelope and reduce expenditure by -£1.4m this year.

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). As at 31 August 2018 there were 8,551 EHCPs which is a rise of 841 (11%) since the SEN2 statutory return to the Department for Education in January 2018.

11. At the start of the financial year the pressure on the service was estimated at £30m and a cost containment plan was developed to achieve reductions in spending of £15m (£8.9m have been achieved, £2.4m face potential barriers and £3.8m are high risk), leaving an overall forecast overspend of £15m. There is a degree of uncertainty about the forecast as the cost of new school placements and college placements that began in September will not be known until later in the autumn term.

12. The residual forecast £15m overspend remains a 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. External placements at 31 August 2018 were 1,032 and the numbers are projected to be over 1,300 by 31 March 2019. Alternative in house provision is being sought. As at 31 August 2018 the number of pupils receiving pupil support was 3,212 (compared to 2,793 at the end of 2017/18).

14. The increasing number of SEN children with plans is also affecting the number of children requiring transport to school, which is almost 3,000, giving a +£2.9m forecast overspend. The original plans for -£1.2m transport savings in 2018/19 are not on track to be achieved and the service is considering other options.

People Services – Cultural Services
-£0.1m forecast outturn (-£0.1m improvement since 31 July 2018)
-£0.6m management actions remaining

15. Cultural Services forecasts -£0.1m underspend. The main reasons for the change is management action to achieve in year reductions from costs of employee and supplies and services and from extra income. Cultural Services has -£0.5m further management actions to achieve in year reductions from: costs of employee and supplies and services and from extra income.

People Services – Adult Social Care
-£3.7m forecast underspend (+£0.9m deterioration since 31 July 2018)
-£6.1m management actions remaining

16. Adult Social Care (ASC) projects -£3.7m underspend as at 31 August 2018, a reduction of +£0.9m from last month. In addition, ASC are delivering management action to reduce spending by a further -£6.1m, which would give a underspending of -£9.8m at the year-end if completely successful.

17. As part of the Council's strategy to ensure it has a financially sustainable budget, ASC has a target to reduce spending by -£10.7m to meet its revised in-year budget envelope as part of the council's £40m reduction in spending in 2018/19. As set out in Table 2, the latest forecast against this plan is -£11.2m underspend. However, projected underachievement against the service's original savings plans of +£1.4m reduces the overall August forecast revised outturn to -£9.8m underspend, which represents a shortfall against ASC's revised budget envelope of +£0.9m.

Table 2 Summary of ASC forecast outturn variance as at 31 August 2018

Description of budget variance	Plan to meet ASC Budget Envelope £m	Latest forecast £m	Change from July 2018 £m
Additional planned actions through managing care package budgets to deliver underspends and reduce demand at the front door	-2.6	-2.6	0.0
Mitigation of budgeted increased costs of care	-5.0	-5.0	0.0
Forecast surplus on assessed fees & charges income	-1.0	-1.0	0.0
Underspend on staffing budgets outside of savings plans	-2.1	-2.6	-0.5
Additional in-year underspends	**-10.7**	**-11.2**	**-0.5**
Underachievement against ASC's original MTFP savings plans (£17.0m forecast vs £18.4m target)	+0.0	+1.4	+1.4
Total forecast budget variance	**-10.7**	**-9.8**	**+0.9**

18. The +£0.9m reduction in ASC's forecast underspend from last month is due to a +£1.4m projected shortfall against the original MTFP savings plans following a review of all savings in the latest budget monitoring cycle, partially offset by a -£0.5m increase in the forecast underspend against staffing budgets.

People Services – Public Health
-£0.1m forecast underspend (no change since 31 July 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
+£0.1m forecast overspend (no change since 31 July 2018)
-£0.1m management actions remaining

20. Economic Growth forecasts a +£0.1m overspend. This is due to £300,000 commitments against the Surrey Growth Fund, partly offset by -£229,000 savings in the Economy Team. Economic Growth requests to draw down £71,000 from the carry forward agreed from 2017/18 to balance this.

Place Services –Property budgets managed by Orbis
-£3.0m forecast underspend (-£3.1m improvement since 31 July 2018)
-£1.8m management actions remaining

21. Property Services forecasts -£3.0m underspend. This is due to management action taken to achieve in year cost reductions, including -£2.0m from reducing buildings maintenance and -£0.6m from spending less on evaluating new schemes. The remaining target of £1.2m is unlikely to be achieved as further reducing maintenance spend would have serious compliance implications.

Place Services – Highways, Transport & Environment directorate

22. The new Executive Director for Highways, Transport & Environment has made changes within the directorate to consolidate Environment functions (including waste, countryside and planning) and Highways & Transport functions (including highway maintenance, improvements and transport). This requires movement of the Travel & Transport activities (renamed Strategic Transport) into Highways & Transport, with a net revenue budget of £20m, including bus subsidy and the national concessionary fares scheme and a capital budget of £15.4m, including the Local Growth Deal programme. The Place Development service, comprising waste management, countryside and planning functions, is renamed Environment. This change is reflected throughout this report.

Place Services – Highways & Transport
-£1.9m forecast underspend (-£1.3m improvement since 31 July 2018)
-£0.7m management actions remaining

23. Highways & Transport forecasts -£1.9m underspend as at 31 August 2018 and -£0.7 m remaining management actions from -£1.7m needed to meet the new reduced budget envelope for the service.

24. Highways & Transport has achieved -£1.0m of its additional in-year cost reductions from use of Strategic Transport grants, parking income and other underspends. Management actions remain for cost reductions from developer receipts and local committee schemes.

25. The remaining -£0.9m forecast variance is due to several factors, most significantly street works net additional income from permits and notices and lower concessionary fares. Planned highways works are currently under way and generally forecast to spend to budget.

Place Services – Environment
+£0.3m forecast outturn (no change since 31 July 2018)
-£0.3m management actions remaining

26. Place Development & Waste forecasts a +£0.3m overspend as at 31 August 2018 and -£0.3m management actions remaining to meet the new reduced budget envelope for the service, including use of developer income.

27. Waste currently forecasts a balanced outturn. Construction of the Eco Park, while progressing, is delayed, which will lead to lower cost this year 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. Further delays to the Eco Park have increased the estimated value of the sinking fund transfer to £11.7m because the delay means the Council avoid some uplift payments. Despite the further delay to the Eco Park, processing and disposal costs have not increased as anticipated. This is because of an improvement in tonnages going into the Council's main energy from waste outlets during August and falling residual tonnage.

Place Services – Surrey Fire and Rescue Service
-£0.3m forecast underspend (-£0.1m improvement since 31 July 2018)
£0.0m management actions remaining

28. Surrey Fire and Rescue Service (SFRS) forecasts a -£0.3m underspend, due to a -£0.4m projected payroll underspend (includes provision for an assumed 2% Firefighter pay award from July 2018) -£0.1m underspend on supplies and services, partly offset by +£0.2m income shortfall. SFRS is actively investigating mitigating actions to cover this shortfall.

Place Services – Trading Standards
-£0.1m forecast underspend (no change since 31 July 2018)

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

Place Services – Community Support
-£0.3m forecast underspend (-£0.1m improvement since 31 July 2018)

30. Community Support forecasts an underspend of nearly -£0.3m 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 31 July 2018)

31. Emergency management forecasts a balanced outturn with a very slight underspend (-£46,000) due to higher than expected income from Local Resilience Forum activities.

Corporate Support Services – Strategic Leadership
balanced forecast outturn (no change since 31 July 2018)

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

Corporate Support Services – Communications
-£0.2m forecast underspend (-£0.1m improvement since 31 July 2018)
-£0.0m management actions remaining

33. Communications forecasts a -£0.2m underspend. This is due to holding staff vacancies and reduced communications expenditure.

Corporate Support Services – Strategy & Performance
-£0.2m forecast underspend (-£0.1m improvement since 31 July 2018)
-£0.0m management actions remaining

34. Strategy & Performance forecasts a -£0.2m underspend. This is mainly due to staffing reductions.

Corporate Support Services – Customer Services
-£0.2m forecast underspend (-£0.2m improvement since 31 July 2018)
£0.1m management actions remaining

35. Customer Services forecasts a -£0.2m underspend. This is mainly due to staffing reductions.

Corporate Support Services – Orbis
-£2.0m forecast underspend (-£1.5m improvement since 31 July 2018)
-£2.9m management actions remaining

36. Orbis forecasts a -£2.0m underspend. This excludes Finance and Property budgets Orbis manages on behalf of the Council. The forecast underspend is mainly due to management actions to achieve -£1.2m IT & Digital (IT&D) savings and re-profiling Orbis investment, leading to a -£0.8m variance (of which -£0.6m will need to be carried forward if total investment plans remain the same). Reduced IT&D project spend by £0.9m could impact on deliverability of new initiatives. Human Resources & Organisational Development (HR&OD) is working on its £0.8m in year savings target. Current indications are the majority of the remaining Orbis savings (-£1.2m) are unlikely to be achieved.

Corporate Support Services – Finance budgets managed by Orbis
balanced forecast underspend (no change since 31 July 2018)
-£0.3m management actions remaining

37. Finance forecasts a balanced year end position.

Corporate Support Services – Legal Services
+£0.1m forecast overspend (+£0.1m improvement since 31 July 2018)
-£0.4m management actions remaining

38. Legal Services forecasts a +£0.1m overspend mainly because of the high cost of childcare cases (which may increase due to their high volume) offset by savings in staffing and suppliers and services. Legal Services requires -£0.4m management actions to bring expenditure in line with the revised budget envelope.

Corporate Support Services – Democratic Services
-£0.3m forecast underspend (-£0.3m improvement since 31 July 2018)
-£0.0m management actions remaining

39. Democratic Services has taken management action to achieve it’s in year savings and forecasts -£0.3m underspend.

Corporate Support Services – Coroner
+£0.2m forecast overspend (+£0.1m deterioration since 31 July 2018)
-£0.3m management actions remaining

40. The Coroner forecasts +£0.2m overspend, due to pressures arising from high cost inquests. The Coroner requires -£0.3m management actions to bring expenditure in line with the revised budget envelope.

Corporate Support Services – Central Income & Expenditure (incl. General Funding)
-£3.9m forecast underspend (-£3.1m improvement since 31 July 2018)
-£3.4m management actions remaining

41. Central Income & Expenditure (CIE) forecasts a -£3.9m underspend overall. This comprises -£9.2m service expenditure variances and +£5.3m General Funding variances.

42. The main service expenditure variances are from management actions related to: -£2.2m budgeted 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; -£3.3m lower Minimum Revenue Provision (MRP) due to 2017/18 capital programme spending being less than budgeted; and -£0.7m more investment strategy income than budgeted; partly offset by +£1.7m shadow savings considered unachievable against Public Health and Dedicated Schools grants. The main General Funding variance is +£5.3m shortfall in the budgeted use of capital receipts to fund service transformation work.

43. CIE has -£3.4m management actions remaining, related to efficiency savings across non-front line services and a moratorium to discretionary spending. These savings have yet to be identified.

Revenue savings and cost reductions

44. 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 cost reductions; and will develop plans for alternative savings as required.

MTFP savings

45. The Council's 2018/19 revenue budget includes £66.0m ongoing MTFP savings. As at 31 August 2018, directorates forecast to deliver £66.2m against this target, which is due to some savings plans over achieving, whilst others underachieve. The details of this are shown in Annex 2.

46. The Council conducted deep dive reviews into the 2018/19 MTFP savings programme to increase assurances about savings and identify actions to increase confidence.

47. Directorates assess the achievability risks for the £66.0m planned MTFP savings, based on their achievement to date and the forecast profile for achieving the remaining savings over the year. Within the overall savings profile: £47.5m are achieved or on track, £12.1m face potential barriers and £8.3m have a high risk of not being achieved. Of these, savings projects at high risk have increased by +£3.2m and savings projects facing potential barriers have reduced by -£3.1 m, mainly due to a +£2.6m shift in risk profile between the two in relation to Schools & SEND's cost containment plan. Annex 2 provides more details of performance against individual plans for the MTFP savings.

Revised Budget Envelopes

48. To improve the Council's financial resilience, Cabinet approved revised budget envelopes for all services in September, which required a reduction in spending of £40m in 2018/19. As outlined in the summary to this report, directorates still need to implement measures to deliver the remaining -£21m in year cost reductions in 2018/19 to meet their revised budget envelopes fully.

49. Within the revenue budget headlines above, services raise three areas where full achievement of the remaining cost reductions is uncertain:

- £1.2m in Property, as further reductions in maintenance spend would have serious compliance implications (paragraph 21);
- £1.2m in Orbis, which are unlikely to be achieved (paragraph 36) and
- £3.4m in CIE which have yet to be identified (paragraph 43).

Service transformation

50. 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.

51. 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”.

52. The additional benefits of the transformation programme will start to flow from 2019/20, with additional benefits for 2020/21.

53. Outline Business Cases for the transformation savings will be presented for agreement in principle in another report on this agenda 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 will be presented to the Full County Council in November 2018 (subject to any changes resulting from the Local Government Finance Settlement expected in December). This is three months in advance of previous years.

Capital programme overview

54. 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

55. In September 2018, Cabinet approved revisions to the capital programme budget to ensure it aligns with the Council’s long term strategy and priorities. The revisions resulted in a 2018/19 service capital programme budget of £135.0m. Table 3 shows directorates forecast spending £132.6m against this budget, a -£2.4m variance. The significant variances were: -£1.8m for IT & Digital and -£0.5m due to asbestos issues causing delays in replacing modular buildings. IT & Digital has reviewed its spending profiles and requests to reprofile £1.8m from 2018/19 into future years.

Table 3 2018/19 capital programme budget variances as at 31 August 2018

	Current full year budget £m	**Apr -Aug actual £m**	**Sep - Mar Forecast £m**	**Full year forecast £m**	**Full year variance £m**
Schools basic need	**27.1**	13.4	13.7	**27.1**	0.0
Property Services	**30.8**	11.4	19.0	**30.4**	-0.5
Highways & Transport	**57.5**	18.2	39.3	**57.5**	0.0
Environment	**1.8**	0.2	1.6	**1.8**	0.0

IT & Digital	**6.5**	0.5	4.2	**4.6**	-1.8
Other capital projects	**11.3**	0.8	10.5	**11.3**	-0.1
Service capital programme	**135.0**	**44.4**	**88.3**	**132.6**	**-2.4**
Long term investments	**0.0**	18.8	25.6	**44.4**	44.4
Overall capital programme	**135.0**	**63.2**	**113.9**	**177.0**	**42.0**

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

56. As part of increasing its overall financial resilience the Council forecasts making £44m net investment in long term capital assets in 2018/19 (paragraphs 57 to 61). This brings total forecast capital spending in 2018/19, to £177m.

Investment Strategy

57. Table 4 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).

58. Included in the income from investments figure in Table 4 is income from the HGP portfolio which is forecast at -£5.4m this year, comprising -£1.8m dividend and -£3.6m net interest margin on loans provided to HGP by the Council. The net income from investments held directly by the Council is forecast at -£0.9m and in total investments will provide -£6.3m income this year.

59. Development spend of +£1.6m is the revenue cost, in funding terms, of development activity underway or acquisitions pending development and is predominantly focused 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.

60. The -£4.7m net income is -£0.7m more than the -£4.0m income budget held within Central Income & 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.

61. 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 4 Investment strategy revenue and capital position as at 31 August 2018

Revenue statement	**YTD actual £m**	**Full year forecast £m**
Income from investments	-1.9	-6.3
Less expenditure on developments	0.9	1.6
Total net income	**-1.0**	**-4.7**
Capital expenditure	**18.8**	**44.4**

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

Risk based approach

62. 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.

63. 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:

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

RISK MANAGEMENT AND IMPLICATIONS:

65. 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

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

SECTION 151 OFFICER COMMENTARY

67. 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.

68. The Council has a duty to ensure its expenditure does not exceed resources available. During 2018/19, the Council plans to deliver £66m MTFP spending reductions and a reduce spending by a further £40m 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.

69. 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 these reasons and to increase the Council's financial resilience, the Council needs to achieve all of

its £66m MTFP savings and all of the £40m in year savings Cabinet has approved. Unless the Council achieves these savings in 2018/19, it risks depleting reserves to unacceptable levels.

LEGAL IMPLICATIONS – MONITORING OFFICER

70. 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.

71. 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

72. 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.

73. 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:

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

Contact Officer:
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020 8541 7246

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.

Sources/background papers:
Revenue and capital budget movements.