

**SURREY COUNTY COUNCIL****CABINET****DATE: 28 MAY 2019**

**REPORT OF: MR MEL FEW, CABINET MEMBER FOR FINANCE AND  
LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR OF  
RESOURCES**

**LEAD OFFICER: EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)**

**COMMUNITY COUNCIL  
VISION  
OUTCOME:**

**SUBJECT: 2018/19 FINANCIAL OUTTURN REPORT**

<b><u>SUMMARY OF ISSUE:</u></b>
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The Council is halfway through a two year transformation programme which requires savings of c£200m to ensure its future financial viability. At this halfway stage in the transformation, the Council has achieved savings of £106m made up of original savings of £66m and an in year cost reduction target of £40m. The savings achieved in this financial year has avoided the use of any reserves, which were budgeted to be £21.3m.

This report summarises:

- The revenue and capital outturn for the financial year ended 31 March 2019; and
- Details of service budget expenditure, carry forwards of capital budgets into 2019/20, a summary of the Reserves, Debt and Treasury Management activities into three Annexes.

The revenue outturn for the year is positive, with an underspend against the original budget of £21.8m, resulting in a contribution to Reserves of £0.5m. This is against the original forecast drawdown of £21.3m.

This is an important step towards financial resilience and stabilisation of the Council's financial outlook. Despite the favourable outcome for the year further financial challenges should not be underestimated. The Council continues to face uncertainties arising from, the still to be announced, "Fair Funding Review" and the continuing rise in demand for its services while achieving the second tranche of savings in its two year programme of £82m in 2019/20.

Capital spending amounted to £117m of the £139m budget in 2018/19 with requests to carry forward £19.5m.

## RECOMMENDATIONS:

The cabinet is asked to note;

1. the Council's overall revenue and capital budget positions as at 31 March 2019:
  - £21.8m underspend against the original 2018/19 budget;
  - Contributions to Reserves of £0.5m and those set out in paragraphs 3, 8 and 12 to 14;
  - Use of £14.4m capital receipts in-year to support transformation (paragraphs 16 and 16); and
  - £117m service capital expenditure against £139m budget

The Cabinet is asked to approve;

2. The carry forward of revenue budget underspends of £0.3m, in addition to the £4.1m approved at Month 11 (paras 5 and 7)
3. The carry forward of capital budget underspends of £19.5m. (para 24 and Annex 2)

## REASONS FOR RECOMMENDATIONS

1. This report is presented to comply with the agreed policy of providing a monthly budget monitoring report to Cabinet for approval of any necessary actions.

## Revenue budget

2. Table 1 below shows the revenue budget outturn for the year by Service. **Annex 1** provides more detail of Service budget outturn.

**Table 1 Summary revenue budget variances as at 31 March 2019**

Service	Gross budget	Net budget	Net Actual	Actual variance	Last month variance
	£M	£M	£M	£M	£M
Children, Families, Learning & Communities	813.4	228.2	245.1	16.9	19.0
Health, Wellbeing & Adult Social Care	530.0	381.7	359.7	(22.0)	(22.0)
Highways, Transport & Environment	208.8	172.9	168.2	(4.7)	(4.5)
Customer, Digital & Transformation	93.7	82.7	72.3	(10.4)	(9.8)
Finance, Law & Governance	13.2	10.4	10.2	(0.2)	(0.2)
Central Income & Expenditure	56.0	51.1	42.6	(8.5)	(11.0)
<b>Total services' revenue expenditure</b>	<b>1,715.1</b>	<b>926.9</b>	<b>898.1</b>	<b>(28.8)</b>	<b>(28.5)</b>
<b>Total general funding</b>		<b>(905.6)</b>	<b>(898.6)</b>	<b>7.0</b>	<b>7.6</b>
<b>Total movement in reserves</b>		<b>21.3</b>	<b>(0.5)</b>	<b>(21.8)</b>	<b>(20.9)</b>

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

## Significant Net Revenue Budget Variances

### *Children, Families, Learning & Culture*

3. The Council's spend on Special Educational Needs and Disabilities (SEND) is funded from the High Needs Block of the Dedicated Schools Grant (DSG - outside the Council's revenue budget). The number of young people with a Special Educational Need or Disability and cost pressures have been rising over a number of years, both in Surrey, and elsewhere in the country. The Council's spent £145.6m, on this budget in 2018/19, exceeding the grant available by £17.6m. There was a carried forward deficit on this budget of £1.1m resulting in a cumulative deficit of £18.7m.
4. Expenditure on High Needs Block should be covered by DSG (Dedicated School Grant), and we continue to work with other partners to lobby the Department for Education (DfE), as well as working on the Transformational Project to contain costs. The Council has created an earmarked reserve, funded from the revenue budget, until these changes occur. A transfer from the General Fund of £18.7m has been made to this earmarked reserve.
5. Included within the outturn for the Directorate is an underspend of £85k on the Surrey Safeguarding Children's Board (SSCB). The SSCB is a pooled budget shared with Clinical Commissioning Groups (CCG), Police and Borough & Districts and needs to be carried forward in to the 2019/20 financial year.

### *Health, Wellbeing and Adults*

6. Adult Social Care achieved an underspend of £22m during the year against the original budget of £381m. These savings were achieved through implementation of transformation programmes.

### *Highways, Transport & Environment*

7. The Directorate has met and achieved its in-year budget reductions leading to a net underspend of £4.7m. Within this, the service request £0.2m is carried forward to cover highways schemes not completed by year end.
8. Construction of the Eco Park, was delayed during 2018/19. The delay in commissioning the plant has resulted in an underspend related to the capital and interest payments which were due on commissioning of the facilities of £17.6m, which has been transferred to a sinking fund reserve and will be used to offset the future running costs of the plant when commissioned

### *Customer, Digital & Transformation*

9. Spending on buildings and property was reviewed during the year which led to an underspend on repairs, maintenance and running costs of £5.3m for the year.
10. £2.2m savings were achieved through reduced costs from the Orbis partnership.
11. Delays in the Modern Worker programme have led to underspend of £2.3m, with £0.4m being carried forward to meet committed costs in 2019/20.

## Central Income & Expenditure

12. For 2018/19, the Council and Surrey Boroughs & Districts successfully bid to become a pilot area for 100% Businesses Rates Retention. An additional one-off gain of £20m was included in the budget. Further to this, additional potential benefit was triggered by the Boroughs and Districts releasing provisions for appeals. However this is accompanied by an outstanding potential liability, which means that there will be no immediate opportunity to release these.
13. £3m has been provided to cover a potential liability in relation to the retained fire fighters pension fund.
14. The Council is undergoing a significant transformation and improvement programme. Under the government's flexible use of capital receipts policy, much of this can be funded from this source. However, there may be some costs in future years which cannot be funded from this source, as a result a £2m has been transferred to reserves.

## Transformation and Capital Receipts

15. The use of capital receipts to fund the costs of reforming services in compliance with the government's Flexible Use of Capital Receipts policy and guidance were approved at Full County Council Meetings in February 2018, May 2018 and February 2019.
16. In May 2018 the Council approved the use of capital receipts under this policy to fund savings projects that were included in the MTFP. During the 2018/19 financial year, £8.2m was spent on this programme. In addition, the Council has a significant Transformation Programme to reconfigure services and how they are provided. During 2018/19, £6.2m was spent on this programme. Capital receipts have been applied to both programmes.

## Schools

### *Dedicated Schools Grant (DSG)*

17. Surrey's final DSG budget for 2018/19 was £490m net (£840m gross of academies). In total the DSG blocks overspent by £7.7m, which is summarised in Table 2 below. The £17.6m overspend on High Needs SEND relates to paragraph 3 above.

**Table 2. Dedicated Schools Grant variances 2018/19**

<b>DSG Block</b>	<b>£000</b>
Schools	(4,902)
Central schools services	(260)
High Needs SEND	17,642
Early years	(4,734)
<b>Net overspend</b>	<b>7,746</b>

18. The underspend on schools was mainly due to the following:

- Underspent contingency budget brought forward from 2017/18 (£1.2m);
- Underspends on amounts “de-delegated” from maintained schools for specific purposes with Schools Forum approval (£0.7m);
- Underspends on sums set aside for growing schools and falling rolls protection, which was approved by Schools Forum (£2.2m); and
- Provision for business rates changes for new buildings (£0.6m).

Of the total underspend, £2.5m is already committed to schools’ budgets in 2019/20. The schools outturn is discussed with the Schools Forum in the summer term.

19. The High Needs block overspend is mainly caused by continued increases in the number and costs of placements in maintained, non-maintained and independent special schools (£14.9M), and additional individual pupil support (£3.5M). This reflects a continuing increase in demand in education health care plans, which have increased by 13% pa over two years. These were offset by underspends on post 16 placements (£0.7M) and on education in children’s homes (£0.5M).

#### *Schools Balances*

20. Surplus balances held by individual Surrey maintained schools have increased by £0.8m. Table 3 below explains the reasons for this increase.

**Table 3 – Schools Balances**

	£M
Surplus balances held by schools which were maintained by LA at 31 Mar 2019	<b>37.3</b>
Increase in balances during 2018/19	4.1
Surplus balances transferred to academies which converted between April 2018-March 2019	(3.0)
Deficits funded by Council	(0.3)
Surplus balances held by schools which were LA maintained at 31 March 2019	<b>38.1</b>

## Capital Programme

21. The Council's final in-year budget for the 2018/19 Capital Programme was £139m. Expenditure to the end of March 2019 was £117m, leaving an underspend of £22m. **Annex 2** provides a schedule of requests to carry forward and re-profile £19.5m of the budget into the new financial year to complete the schemes.
22. Table 4 below provides a summary of the outturn for the capital budget, followed by an explanation of the significant variances.

**Table 4 Summary capital programme budget variances as at 31 March 2019**

	Current full year budget £m	Apr - Mar actual £m	Full year variance £m	M11 Variance £m	Reprofile / Carry Forward £m
Schools basic need	27.1	23.9	(3.2)	(3.2)	3.2
Property Services	30.8	26.5	(4.4)	(4.5)	2.8
Highways & Transport	58.6	54.8	(3.8)	(0.4)	3.2
Environment	1.7	1.2	(0.5)	(0.2)	0.4
IT & Digital	5.0	1.5	(3.5)	(3.5)	3.5
Other capital projects	15.5	8.8	(6.7)	(6.6)	6.4
<b>Service capital programm</b>	<b>138.7</b>	<b>116.8</b>	<b>(22.0)</b>	<b>(18.5)</b>	<b>19.5</b>

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

### Significant Capital budget variances

23. The £22m service capital programme underspend is mostly due to the following:
- Schools Dedicated Formula Capital (£4.2m). Schools managed schemes funded by government grant;
  - Schools Basic Need (£3.2m). Negotiations with consultants, constructors and landowners continuing and causing delay over the year end on the completion of a number of projects providing an increase in pupil places;
  - IT Equipment replacement (£2.5m). Review of the specification and procurement route;
  - Non Schools Building Maintenance (£2.0m). Re-prioritisation of resources to complete school building maintenance programme;
  - Highways and transport schemes funded by LEPs (£1.5m), and National Productivity Improvement Fund (£1.1m). Reduced expenditure across a number of LEP funded projects during 2018/19, which will be completed in 2019/20 and therefore a carry forward of the funding is required, including the match funding from NPIF; and

- Fire & Rescue vehicles and equipment (£1.3m). A review of the specification to ensure alignment with the service's strategy and value of money.
24. Officers recommend that capital schemes that have been delayed in completion and cross the year-end, or are funded by grant or other third parties, have the funding re-profiled in to 2019/20. Following a review by officers, this totals £19.5m.
25. Annex 2 provides a full list of the projects where a carry forward of funding is recommended.

### **Investment Strategy**

26. As part of increasing its overall financial resilience, the Council invested £100m in long-term income generating assets in 2018/19. This includes equity and loans to the Halsey Garton Property Group.
27. Net income from investment, less the costs of development activity to deliver income in future years, was £4.7m, which is £0.7m in excess of the budget held in Central Income & Expenditure.

### **Balance Sheet Indicators**

28. The Council reports on a quarterly basis on the following key balance sheet indicators. These are presented in **Annex 3** and cover the following;
- Debt;
  - Treasury Management; and
  - Earmarked reserves
29. Earmarked reserves have increased over the year from £82m to £123m. In setting the budget for 2018/19, the Council planned to use £21m of reserves to support the budget that would have reduced reserves to £61m. Due to the positive revenue outturn this use of reserves has not been required. The increase in reserves is mainly to reflect the potential liabilities arising from the increased business rates income in year and the transfer to the Eco-Park Sinking Fund.
30. The Council's overdue debt stood at £26m at the 31 March 2019, an increase of £2m over the year. This has been driven by an increase in unsecured care debt due to a change in the national regulations. **Annex 3** provides further details on this.
31. The Council has continued its policy of minimising cash balances and exposure to low interest rates on short-term investments by internal and short term borrowing. The annex provides a further explanation of the impact of this policy on the Council's Balance Sheet.

<b><u>CONSULTATION:</u></b>
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32. Executive Directors and Cabinet members have confirmed the outturn for their revenue and capital budgets.

## **RISK MANAGEMENT AND IMPLICATIONS:**

33. 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**

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

## **SECTION 151 OFFICER COMMENTARY**

35. 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.
36. The Council has a duty to ensure its expenditure does not exceed resources available. During 2018/19, the Council planned to deliver £66m MTFP savings and to reduce spending by a further £40m as it moves towards a sustainable budget for future years. Although the outturn has been positive, in that there was a contribution rather than drawdown from reserves, the £106m savings and cost reductions included non-recurring savings of £6m that need to be replaced on a permanent basis to achieve long term financial stability.
37. It is drawn to Members' attention that the Council's Reserves were at low levels bearing in mind the ongoing uncertainty about future funding, demand pressures, savings and the transformation programme. Although the outturn position has improved the Reserves position, they are still relatively low and contain amounts set aside for possible future liabilities. The Council has considerable savings of £82m to deliver in 2019/20, these will need to be achieved to continue the progression towards financial stability.

## **LEGAL IMPLICATIONS – MONITORING OFFICER**

38. 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.
39. 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**

40. 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.
41. 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:**

42. 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 – Actual Outturn revenue budget as at 31 March 2019.

Annex 2 – Capital budget carry forward requests

Annex 3 – Balance Sheet Indicators

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