

SURREY COUNTY COUNCIL

CABINET

DATE: 17 DECEMBER 2019



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

LEAD OFFICER: EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)

SUBJECT: 2019/20 MONTH 7 (OCTOBER) FINANCIAL REPORT

SUMMARY OF ISSUE:

This report provides the detail of the County Council's 2019/20 financial position as at 31 October 2019 (M7) for revenue and capital budgets and the expected outlook for the remainder of the financial year. Further details on Service budgets are to be found in **Annex 1**.

Key Messages - Revenue

- To achieve a balanced budget for the year a programme of savings totalling £82m was established. The Council is now half way through the financial year with £61m (75%) of the £82m saving target on track to be achieved or delivered.
- The latest forecast for the year-end is for a Revenue deficit of £1.1m. This is broadly due to planned savings not being achieved and new pressures emerging, offset by various mitigating actions.
- The LED conversion project delivered by ETI is delayed due to additional time needed to complete legal and technical reviews and secure lender approval. This is delaying other planned changes to the street lighting contract. Some savings will therefore be delayed to 2020/21. It is proposed to meet the shortfall of £1.4m in 2019/20 from the budgeted contingency. The saving will be achieved in 2020/21, replenishing the contingency.
- It is proposed to transfer the balance of the contingency to an earmarked contingency reserve (on the balance sheet) of £8.9m and to draw down any further amounts in year as required.
- The Council will continue working to identify alternative actions that will reduce the £1.1m projected deficit forecast.
- The revenue projection is mainly due to underlying overspends of c£13m:
 - £8.3m unidentified/Black savings of the £82m savings programme (including the delayed LED conversion project);
 - £3.3m in SEN and mainstream schools transport, from a growth in pupil numbers and increased costs; and
 - £1.7m on the Social Care element of school placements.

Of the overspend, c£12m has been offset by:

- £5.3m highway repairs reclassified as capital expenditure and not revenue, and therefore funded from borrowing or capital receipts;
 - £2m additional government grants - Section 31 Business Rates grants and New Homes Bonus;
 - £1.5m reduced forecast for the Corporate Redundancy budget;
 - £1.4m contingency draw down to support the ETI delayed saving,
 - £1m reduced contribution to the Self-Insurance Fund following the triannual actuarial review showing there was sufficient funding to reduce the contribution; and
 - £0.9m underspend on capital financing costs due to slippage in the 2018/19 capital programme.
- Although actual year to date spend at M7 is nearly £26m below the year to date budget (shown in Annex 1), this is due to timing differences in the spending profiles of the Waste service and Special Educational Needs within the Education, Lifelong Learning & Culture service and has been reflected for in the year-end forecast.
 - The overall financial position is improving but there remains some vulnerability, as some of the improvements are one-off measures. There are also red risks which are being monitored and are not factored into current forecast. If these materialise there could be an adverse impact on the current forecast. These risks are outlined in paras 4 and 6-10.

Key Messages - Capital

- The Council set a capital budget for 2019/20 of £129.2m in February 2019. Over recent months the budget has been adjusted for new schemes and re-profiling reviews. A stocktake exercise undertaken for M7, has led to re-profiling of budgets to future years to reflect the current position on programme delivery. As a result, the current 2019/20 capital budget is £120.3m, with forecast in-year overspend of £0.6m at M7.
- Details are set out in **Table 3**.

RECOMMENDATIONS:

The Cabinet is asked to:

1. Approve Local Learners Fund expenditure of £0.6m funded from the 2018/19 Schools and Early Years block Dedicated Schools Grant carry forward (para 5);
2. Approve the transfer of the balance of the contingency to reserves (£8.9m) to support future revenue budgets (para 12);
3. Approve the re-profiled 2019/20 capital budget of £120.3m (paras 15 -18);
4. Note the Council's forecast revenue and capital budget positions for the year.

REASON FOR RECOMMENDATIONS

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

Revenue Budget

- Table 1** below shows the forecast revenue budget outturn for the year by Service. **Annex 1** (attached) provides more detail of Service forecast outturn.

Table 1 Summary revenue budget forecast variances as at 31 October 2019

Directorate	Cabinet member(s)	Full year budget £m	Full year forecast £m	Current year forecast variance at Month 7 £m	Change in forecast since last month £m
Children, Families, Learning & Culture (CFLC)	M Lewis / J Iles	243.0	250.4	7.4	(0.8)
Health, Wellbeing & Adult Social Care (HWA)	S Mooney	364.0	364.0	0.0	0.0
Environment, Transport & Infrastructure (ETI)	D Turner-Stewart/ M Furniss/ M Goodman	128.5	125.5	(3.0)	1.4
Community Protection Resources (Res)	D Turner-Stewart M Few/ Z Grant-Duff	34.5 71.3	34.3 72.7	(0.2) 1.4	(0.1) 0.4
Transformation, Partnership & Prosperity (TPP)	T Oliver/ Z Grant-Duff/ C Kemp	14.2	15.1	0.9	(0.4)
Central Income & Expenditure (CIE)	M Few	(855.4)	(860.8)	(5.4)	(1.3)
Deficit/ (Surplus)		0.0	1.1	1.1	(0.8)

Note: The net budget and forecast of Public Health is nil and so has not been shown separately; the gross budget and forecast is £35.7m.

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

Children, Families, Learning & Culture (CFLC) Directorate

- In the CFLC Directorate, the number of pupils requiring SEN transport is expected to rise in a similar way to previous years leading to an overspend of c£3m. The Transport Review has identified mitigations to reduce some of these costs and therefore the forecast overspend reduces to £2.4m. However, there is also an increase in the cost of mainstream and alternative provision transport leading to an overall budget pressure on transport for this year of £3.3m.
- There have been reductions in the volume of both external residential placements and external fostering, despite this the activity levels are above budget. Focus for the year will more in County placements.
- A key area of risk for the Council is in Special Educational Needs and Disabilities (SEND), which is funded through the Dedicated Schools Grant (DSG). The current projected position assumes an overspend on SEND of £29m in 19/20. The number of Non-Maintained Independent (NMI) placements (a significant factor in the cost of SEND) could rise to 1,342 by the end of the

financial year based on the current trajectory. In order to limit the overspend to £29m, management actions of £1.4m are required by the end of the financial year. This is higher than forecast in the SEND reset business case. The SEND reset programme is focusing on reducing costs to grant levels over 3 years. A series of workshops have been held to develop management action plans to deliver savings, which will be monitored and tracked. Key Performance Indicators are being developed which will give an early indication that action is working. However, there remains substantial risk around the forecast and the impact that this could have on 2020/21.

Local Learning Fund

5. It is proposed to create a £1m Local Learning Fund from the Dedicated Schools Grant (DSG). This fund is to be used by mainstream schools to build their capacity in meeting the needs of children with Special Educational Needs and Disabilities without necessarily needing to resort to an Education Health Care Plan (EHCP) application. This is essential to be able to embed and support the introduction of the Graduated Response which is a key part of SEND transformation. The funding required is up to £1m for the academic year (£0.58m in 2019/20; £0.42m in 2020/21).

Health, Wellbeing & Adult Social Care (HWA) Directorate

6. In HWA, a balanced outturn is forecast but there are significant risks relating to expenditure on care packages which could impact on the current year.
7. Adult Social Care is forecasting to deliver within its 2019/20 budget envelope due to a range of measures likely to be available to balance slippage against care package savings targets. These measures include staffing underspends, additional income and management of inflationary pressures. Many of these measures, are definitely or potentially one-off. The risk ratings of 2019/20 savings therefore reflect the challenges predicted in delivering savings on an ongoing basis – hence why £4.6m of savings forecast in the remainder of 2019/20 are currently rated as red risk.
8. Spending on care packages to directly meet people's individual assessed eligible needs accounts for over 80% of the service's gross expenditure and is the key area of the budget where savings need to be delivered to reduce spending. Following the introduction of a new model of care, spending on care packages fell considerably between August 2018 and March 2019. However, this trend has not continued during the first seven months of the financial year 2019/20, and full year care gross expenditure package commitments (the annual spending required for active care packages) have increased by £3m year to date.
9. Currently, care package net expenditure commitments in ASC are c£7.5m above the 2019/20 budget. One-off underspends of £2.9m; made up of £1.4m staffing and £1.5m ASC's investment fund, brings the projection to £4.7m above budget. The plan remains to continue to reduce care package commitments further to offset the remaining pressure. If this is not achieved, then as set out in para 7, alternative (some of which are one-off) measures are available to balance the budget in 2019/20.
10. To achieve a balanced budget on an ongoing basis, ASC is reliant on reducing care package spend. If spend on care packages does not fall in the remainder of the year, then even though

there are opportunities to balance the 2019/20 budget, delivery of the 2020/21 budget will become much more challenging.

Environment, Transport and Infrastructure (ETI)

11. The LED conversion project delivered by ETI is delayed due to additional time needed to complete legal and technical reviews and secure lender approvals. This in turn is delaying other planned changes to the street lighting contract. As a result, some savings will not be delivered until 2020/21. Given that this is a timing difference, it is proposed to meet the resulting shortfall of £1.4m in 2019/20 from the contingency, with the saving in 2020/21 replenishing the contingency.

Proposed Revenue Contingency

12. At present there is a corporate revenue contingency of £10.3m included in the base budget. It is proposed to transfer the balance this contingency to an earmarked reserve, (£8.9m) and to draw down any further amounts in year as required.

2019/20 Savings Programme

13. The Council included £82m of savings in the annual budget approved by Council in February 2019. At this point in the year c£61m (75%) of the plan has been achieved or expected to be delivered. The Council considers the remaining c£8m to be unachievable (black savings), which includes off-setting alternative savings. There continue to be risks around the achievability of remaining savings, which are being managed and monitored.
14. Directorate savings are shown in **Table 2** below.

Table 2 – Savings Progress as at 31 October 2019

Directorate	Full Year Target	Full Year Forecast	Forecast variance	Blue Achieved	Green	Amber	Red	Black Unidentified Gap	Last Month
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Children, Families, Lifelong Learning & Culture	21.7	18.6	3.0	9.1	7.2	1.6	0.7	3.0	3.8
Health, Wellbeing & Adult Social Care	20.0	20.0	0.0	15.3	0.0	0.1	4.6	0.0	0.0
Public Health	1.0	1.0	0.0	0.8	0.1	0.0	0.0	0.0	0.0
Environment, Transportation & Infrastructure	11.9	9.0	2.9	5.3	1.9	1.8	0.0	2.9	1.3
Community Protection group	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transformation, Partnership & Prosperity	3.4	2.6	0.7	1.3	1.2	0.0	0.1	0.7	1.0
Resources	11.0	9.4	1.6	5.9	0.9	2.3	0.3	1.6	1.6
Central Income & Expenditure	12.6	12.6	0.0	7.0	5.2	0.5	0.0	0.0	0.0
Total	81.6	73.3	8.3	44.7	16.5	6.2	5.8	8.3	7.7

Capital Budget

15. Services have reviewed their capital budgets in detail for the 2019/20 financial year, as part of a stock take exercise. This has resulted in an update of when the expenditure is likely to be incurred based on latest delivery timetables, especially for those projects that have completion dates that may straddle the end of the financial year. The changes have been reflected in the current budget of £120.3m at M7.
16. The M7 budget of £120.3m is a decrease of £7.7m from M6. This reflects the decision to reprofile £11.9m into future years, as a result of the stock take exercise. This re-profile has been offset by the inclusion of a new scheme for electric vehicles (£1.8m) and the inclusion of the Priority Schools Building Programme 2 (£1m). A further £1.5m of budget has also been included for schools' expenditure funded by third party contributions.
17. **Table 3** below provides a summary of the forecast outturn for the 2019/20 Capital budget, including the re-profile requests.

Table 3 Summary capital programme budget forecast as at 31 October 2019

		Year to date	Full year forecast	Full year forecast	Change in forecast	Future years' budget
	Full year budget	actual month 7	outturn at month 7	variance at month 7	since last month	
	£m	£m	£m	£m	£m	£m
Adult Social care	S Mooney	1.9	0.4	1.9	0.0	7.6
Children Services	M Lewis / J Iles	5.4	4.7	5.4	0.0	7.1
Environment	M Goodman	1.0	0.5	1.0	0.0	3.8
Highways & Transport	M Furniss	58.9	32.2	58.9	(0.0)	123.5
Information Technology & Digital	Z Grant-Duff	8.0	0.8	8.0	0.0	26.0
Property Services	M Few	23.3	14.4	23.9	0.6	106.6
Schools Basic Need	J Iles	19.5	14.1	19.5	0.0	64.6
Fire & rescue	D Turner- Stewart	2.4	0.3	2.4	0.0	7.1
Total Capital		120.3	67.4	120.9	0.6	346.3

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

18. For M7, the forecast variance is £0.6m overspend on the Linden Farm scheme due to unforeseen ground conditions and planning delays (Property).

CONSULTATION:

19. Executive Directors and Cabinet members have confirmed the forecast outturns for their revenue and capital budgets.

RISK MANAGEMENT AND IMPLICATIONS:

20. 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

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

SECTION 151 OFFICER COMMENTARY

22. 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.
23. The Council has a duty to ensure its expenditure does not exceed resources available. It is drawn to Members' attention that the Council continues to face ongoing uncertainty about future funding, demand pressures and savings. Within this context the Council is required to develop and implement plans to ensure that the forecast overspend of £1.1m is contained within resources.

LEGAL IMPLICATIONS – MONITORING OFFICER

24. 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.
25. 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

26. 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.
27. 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:

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

Contact Officer:

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Consulted:

Cabinet, Executive Directors, Heads of Service

Annexes:

Annex 1 – Detailed Revenue Budget at 31 October 2019

Revenue Budget by Service – 31 October 2019

Service	Cabinet Member	Prior year to date actual £m	Year to date Budget £m	Year to date Actual £m	Year to date variance £m	Full Year Gross budget £m	Full year net budget £m	Full Year net forecast £m	Full year net forecast variance £m
Delegated Schools	J Iles	2.4	4.6	4.6	0.0	310.8	0.0	0.0	0.0
Education, Lifelong Learning & Culture	J Iles	47.8	57.2	41.2	(16.0)	282.0	96.6	99.4	2.8
Corporate Parenting	M Lewis	58.2	56.4	55.5	(0.9)	110.3	96.0	96.4	0.4
Commissioning	M Lewis / J Iles	3.3	3.4	3.4	(0.1)	65.4	5.9	6.1	0.2
Family Resilience	M Lewis	27.4	23.4	24.2	0.8	40.6	38.4	39.7	1.3
Quality Assurance	M Lewis / J Iles	2.6	5.0	4.9	(0.1)	10.4	8.6	8.2	(0.4)
Directorate wide savings		0.0	(1.5)	0.3	1.8	(2.5)	(2.5)	0.6	3.1
Children, Families, Life long Learning, and Culture		141.7	148.5	134.1	(14.5)	816.8	243.0	250.4	7.4
Public Health	S Mooney	0.0	0.0	0.0	0.0	35.7	0.0	0.0	0.0
Adult Social Care	S Mooney	203.9	213.4	218.4	5.0	488.4	364.0	364.0	0.0
Health, Wellbeing & Adult Social Care		203.9	213.4	218.4	5.0	488.4	364.0	364.0	0.0
Highways & Transport	M Furniss	33.9	33.7	29.7	(4.0)	73.6	59.0	55.0	(4.0)
Environment	M Goodman	32.3	40.2	31.4	(8.8)	73.4	68.9	69.3	0.4
Communities Support Function	D Turner-Stewart	0.3	0.2	0.2	(0.1)	0.4	0.4	0.4	0.0
Leadership Team (ETI)	M Goodman	0.5	0.2	0.5	0.3	0.5	0.3	0.9	0.6
Environment, Transport & Infrastructure		67.0	74.3	61.7	(12.5)	147.9	128.5	125.5	(3.0)
Fire & Rescue	D Turner-Stewart	16.8	18.7	18.6	(0.1)	36.2	32.1	32.0	(0.1)
Trading Standards	D Turner-Stewart	1.0	1.0	1.0	(0.0)	3.9	1.7	1.7	(0.0)
Emergency Management		0.2	0.3	0.3	(0.0)	0.0	0.7	0.6	(0.1)
Community Protection		18.1	20.0	19.9	(0.1)	40.1	34.5	34.3	(0.2)
Human Resources & Organisational Development	Z Grant-Duff	1.4	2.2	1.7	(0.5)	3.2	3.2	3.2	(0.0)
Insight, Analytics & Intelligence	Z Grant-Duff	1.9	2.2	2.2	0.0	3.8	3.1	2.9	(0.2)
Customer Services	Z Grant-Duff	1.8	1.8	1.7	(0.2)	2.8	2.6	3.0	0.4
Coroner	D Turner-Stewart	1.3	1.0	1.3	0.3	2.3	1.8	2.4	0.6
Strategic Leadership	T Oliver	0.5	0.6	0.6	0.0	0.7	1.0	1.0	0.0
Communications	Z Grant-Duff	0.9	0.8	0.7	(0.1)	1.4	1.4	1.4	(0.0)
Economic Growth	C Kemp	0.4	0.7	0.3	(0.4)	0.9	0.9	0.6	(0.3)
Transformation Unit		0.0	0.5	0.5	(0.0)	1.1	0.8	0.7	(0.1)
Cross County		0.0	(1.2)	0.0	1.2	(0.7)	(0.7)	0.0	0.7
Transformation, Partnership & Prosperity		8.2	8.6	8.9	0.3	15.6	14.2	15.1	0.9
Joint Operating Budget ORBIS	Z Grant-Duff	0.4	18.6	18.5	(0.1)	31.9	31.9	33.8	1.9
Property	M Few	9.3	10.0	10.4	0.4	28.1	19.0	19.5	0.5
Information Technology & Digital	Z Grant-Duff	5.9	6.3	4.3	(2.1)	11.5	10.9	10.7	(0.2)
Finance	M Few	1.5	1.6	0.9	(0.7)	4.1	2.7	1.5	(1.2)
Legal Services	Z Grant-Duff	2.5	2.1	2.4	0.3	4.0	3.6	4.0	0.4
Democratic Services	Z Grant-Duff	2.0	2.0	1.8	(0.2)	3.6	3.4	3.2	(0.2)
Business Operations	Z Grant-Duff	(0.1)	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.0)
Savings to find		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Resources		21.5	40.6	38.2	(2.4)	83.2	71.3	72.7	1.4
Corporate Expenditure	M Few	54.4	29.9	26.6	(3.3)	47.8	37.6	34.4	(3.2)
Total services' revenue expenditure		514.7	535.2	507.7	(27.6)	1,675.4	893.1	896.4	3.3
Corporate funding		(533.4)	(524.7)	(523.2)	1.4	0.0	(893.0)	(895.2)	(2.2)
Total Net revenue expenditure		(18.7)	10.5	(15.5)	(26.2)	1,675.4	0.0	1.1	1.1

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