

SURREY COUNTY COUNCIL

CABINET

DATE: 25 FEBRUARY 2020



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

LEAD OFFICER: EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)

SUBJECT: 19/20 MONTH 9 (DECEMBER) FINANCIAL REPORT

SUMMARY OF ISSUE:

This report provides the details of the County Council's 2019/20 financial position as at 31 December 2019 (M9) for revenue and capital budgets, the expected outlook for the remainder of the financial year and, also as a quarter-end report. It includes Treasury Management and Debt. 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 efficiencies including transformation activities totalling £82m was established. The Council is three quarters of the way through the financial year, with c£69m (c85%) of the £82m target on track to be achieved or delivered.
- The latest forecast for the year-end is for a Revenue deficit of £2.4m. This is broadly due to planned efficiencies not being achieved and emerging new pressures mainly in waste offset by various mitigating actions. If the position does not improve, we will draw down on the base budget contingency to ensure General Fund Reserves are maintained.
- The revenue projection is mainly due to underlying overspends of £16m:
 - £8.2m unachieved/black efficiencies in the programme of £82m set for this year;
 - £3.3m in SEN and mainstream schools transport, from a growth in pupil numbers and increased costs;
 - £3.5m in Waste Management, arising primarily due to declining recycling prices.
 - £1m on the Social Care element of school placements.

Offsets and mitigating actions of c£13.6m include:

- £5.3m highway repairs reclassified as capital expenditure, 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 LED delayed efficiencies;
 - £1m reduced contribution to the Self-Insurance Fund following the actuarial review showing there was sufficient funding to reduce the contribution;
 - £0.9m underspend on capital financing costs due to slippage in the 2018/19 capital programme; and
 - £1.5m other CFLC mitigating actions including above target efficiencies on Libraries and culture of £0.6m and £0.9m from staffing underspends within education.
- Any further adverse developments in waste will be monitored carefully going forward, which may result in further changes to the year-end forecast. Refer to paragraphs 8 and 9 for further information.
 - The projected year end outturn position has been determined, taking into account seasonal spending profiles.
 - The overall financial position for period 9 reflects a change to prior month mainly as a result of new emerging pressures in Waste recycling prices. There remains some vulnerability in the outlook going forward due to some red risks which are not factored into the current 'non achievable category' (and therefore forecast). If these materialise there will be an adverse impact on the current forecast.

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 an in-year review leading to re-profiling of budgets to future years to reflect the current position on programme delivery, new schemes and re-profiling reviews. As a result, the current 2019/20 capital budget has been revised to £123m, with forecast in-year underspend of £1.3m at M9.
- Details are set out in **Table 3**.

RECOMMENDATIONS:

The Cabinet is asked to 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

1. **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 December 2019

Directorate	Cabinet member(s)	Full year budget £m	Full year forecast £m	Current year forecast variance at Month 9 £m	Change in forecast since last month £m
Children, Families, Lifelong Learning & Culture (CFLC)	M Lewis / J Iles	243.0	248.8	5.8	(1.2)
Adult Social Care (ASC)	S Mooney	367.2	367.2	0.0	0.0
Environment, Transport & Infrastructure (ETI)	D Turner-Stewart/ M Furniss/ M Goodman	128.5	128.7	0.2	3.5
Community Protection	D Turner-Stewart	34.5	34.3	(0.2)	(0.0)
Resources (Res)	M Few/ Z Grant-Duff	71.1	71.9	0.8	(0.4)
Transformation, Partnership & Prosperity (TPP)	T Oliver/ Z Grant-Duff/ C Kemp	14.4	15.4	1.0	0.1
Central Income & Expenditure (CIE)	M Few	(858.7)	(864.1)	(5.4)	0.0
Overall Deficit		0.0	2.4	2.4	2.0

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, Lifelong Learning & Culture (CFLC) Directorate

2. In the CFLC Directorate, the number of pupils requiring SEN transport is expected to rise in a similar pattern to previous years. The Transport Review has identified mitigations to reduce some of these costs and therefore the forecast overspend for SEN Transport is now assessed at £2.4m. 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.
3. There have been reductions in the volume of both external residential placements and external fostering, but the activity levels remain above budget, however the focus is on increasing in-County placements.
4. 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 (equivalent to the budgeted contribution to reserves). The number of Non-Maintained Independent (NMI) placements (a significant factor in the cost of SEND) could rise to 1,199 by the end of the financial year based on the current trajectory compared to 1,030 at the beginning of the year and 1,106 which was forecast in the SEND reset business case. In order to limit the overspend to £29m, management actions of

£1.9m were required by the end of the financial year and the forecast reflects that these will have been achieved

5. A Member Board has been established to monitor the transformation programme. There however, remains a substantial risk around the deliverability of the plans and the impact that this could have on 2020/21.

Adult Social Care (ASC) Directorate

6. In ASC, a balanced outturn is forecast as spending on care packages has now fallen for three successive months and the reductions have brought total commitments much closer to the budgeted profile. As a result, ASC is forecast to under achieve against the care package efficiencies budgeted in 2019/20 reflecting an improvement of £2.5m from the prior month.
7. Although risks still remain, the trend for the last quarter is much more promising and ASC aims to continue and if possible, extend this trend in the remainder of 2019/20.

Environment, Transportation & Infrastructure (ETI) Directorate

8. A number of factors are impacting on the Waste financial forecast for 1920/20, which include increased waste management costs, the cost of managing dry mixed recycling and disposing of residual waste. These costs were previously assumed to have been offset by savings elsewhere in the Waste Management budget, but this is no longer considered likely. A sum of £3.5m has therefore been provided for in the forecast to reflect these items. When taking into account existing underspends in ETI, this results in a net pressure of £0.2m across the Directorate.
9. The delay in the completion of the Eco Park has led to a reduced cost which will be set aside in the Waste Sinking Fund. The Sinking Fund is used to smooth waste costs across years, including the financial impact of the Eco Park delay and other cost variations. Officers continue to closely monitor progress on delivering the Eco Park and other movements in waste costs.

2019/20 Efficiency Programme

10. The Council included £82m of efficiency proposals in the annual budget approved by Council in February 2019. At this point in the year c£69m (c85%) of the plan has been achieved or expected to be delivered. The Council considers £8.2m of the remaining efficiency proposals to be unachievable (black proposals). There continue to be risks around the achievability of remaining efficiencies, which are being managed and monitored.
11. Directorate efficiencies are shown in **Table 2** below.

Table 2 - Efficiency Progress as at 31 December 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	19.0	2.7	13.8	3.8	1.4	0.0	2.7	3.0
Adult Social Care	20.0	20.0	0.0	19.9	0.0	0.1	0.0	0.0	0.0
Public Health	1.0	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0
Environment, Transportation & Infrastructure	11.9	9.1	2.8	5.3	1.9	1.9	0.0	2.8	3.0
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	2.7	0.7	1.8	0.4	0.0	0.4	0.7	0.7
Resources	11.0	9.0	1.9	7.7	0.5	0.4	0.4	1.9	1.9
Central Income & Expenditure	12.6	12.6	0.0	9.2	3.4	0.0	0.0	0.0	0.0
Total	81.6	73.5	8.2	58.8	10.0	3.7	0.9	8.2	8.7

Capital Budget

12. The M9 budget of £123m is an increase of £0.9m from M8. This is as a result of additional schools' expenditure of £0.7m, which will be funded by third party contributions, including the Devolved Formula Grant. There is also an increase to the budget of for School Kitchens, which is grant funded spend approved by the Capital Programme Panel in January 2020 (£0.2m).

13. **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 December 2019

		Year to date	Full year forecast	Full year forecast	Change in forecast	Future years' budget
	Full year budget	actual month 9	outturn at month 9	variance at month 9	since last month	budget
	£m	£m	£m	£m	£m	£m
Adult Social Care	S Mooney	1.9	0.5	2.2	0.3	7.6
Children Services	M Lewis / J Iles	6.8	6.2	6.8	0.0	7.1
Environment	M Goodman	1.0	0.6	1.0	(0.1)	3.8
Highways & Transport	M Furniss	60.1	38.5	56.9	(3.1)	123.5
Information Technology & Digital	Z Grant-Duff	8.0	5.7	8.5	0.5	26.0
Property Services	M Few	23.3	17.8	24.5	1.1	106.6
Schools Basic Need	J Iles	19.5	16.3	19.5	0.0	64.6
Fire & rescue	D Turner- Stewart	2.4	0.5	2.4	0.0	7.1
Total Capital		123.0	86.1	121.7	(1.3)	346.3

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

14. For M9, the forecast variance is a £1.3m underspend. This is an improvement of £1.9m from the M8 position. This is primarily comprised of the following:

- £0.6m overspend – Property: The Linden Farm scheme is complete. Final accounts are currently under negotiation, however there is an expected overspend of £0.6m due to unforeseen ground conditions and planning delays;

- £0.5m overspend – Property: SEN strategy - some projects are ahead of schedule. Budgets in future years will be brought forward to reduce future year spend;
- £0.5m overspend - IT&D Additional spend of £0.4m on the device refresh for IT&D Hardware being brought forward and delays to the Agile Working project (£0.1m) to ensure alignment with Moving Closer to Residents Project; and
- £0.3m additional spend on the ASC Adaptations Scheme, which will be met from the revenue budget.

Offset by:

- £3.1m underspend on the ETI LEPS Programme. - delay due to land purchase and design work in the Guildford Town Centre (£1.8m) scheme; and delay due to drainage issues in the Wider Staines (£1.3m) scheme. There is currently a “deep dive” underway to review LEP scheme delivery in order to provide confidence in the forecast for both 19/20 and 20/21.

Debt

15. During the three months to 31 December 2019, the Council raised invoices totalling £122m (Q2: £100m).
16. The total gross debt outstanding for the Council at 31 December is £53.1m, with £28.2m being overdue. Overall, the overdue debt position over the last quarter has remained largely unchanged (Q2: £28.9m). Similarly, overdue unsecured debt remains largely unchanged (Q2: £13.5m).
17. **Table 4** below shows the age profile of the debts. The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old).
18. The Month 6 Cabinet (Q2) report outlined that in recognition of the challenges and complexities relating to social care debt, a group of senior officers from Adult Social Care, Corporate Finance and Legal Services had been formed to look at issues and identify actions that could be taken to improve the debt position. In the last quarter a number of actions have been taken including:
 - Signing a contract with a company to provide staffing resource to conduct financial assessments, enabling some of ASC’s own financial assessments and benefits staff to focus exclusively on debt recovery. Access to the Council’s systems is currently being tested with go live planned in the next two weeks;
 - Engaging with solicitors with a view to piloting the use of external legal resource to support debt recovery for specific cases. The use of external solicitors would be to supplement and provide additional capacity for the high quality support already provided by the Council’s Legal Services team;
 - Recruiting a post for 6 months to focus specifically on using the money claims online process to try to recover lower value debts; and

- Maintaining additional staffing in ASC's financial assessments and benefits team to maintain performance on the billing of income while other resources are targeted on tackling debt.

19. The progress of the above actions will be closely monitored by the debt group to determine whether temporary arrangements should be extended or made permanent. The debt group will also more broadly continue to monitor performance for billed income and debt recovery to identify any other opportunities for improvement.
20. In relation to the social care debt figures set out in the table below, It is important to note that secured social care debt is not "overdue", as it does not become payable until the relevant properties have been sold.

Table 4: Age profile of the Council's debt as at 31 December 2019

Account group	<1 month £m	1-12 months £m	1 to 2 years £m	over 2 years £m	Gross debt £m	Overdue debt £m
Care debt – unsecured	6.3	3.9	5.0	4.3	19.5	13.2
Care debt – secured	1.1	2.7	2.3	4.1	10.1	9.1
Total care debt	7.4	6.6	7.3	8.4	29.6	22.3
Schools, colleges and nurseries	1.1	0.3	0.1	0.0	1.5	0.3
Clinical commissioning groups	6.5	1.3	0.5	0.1	8.4	1.9
Other local authorities	5.5	0.9	0.0	0.0	6.4	0.9
General debt	4.4	2.2	0.3	0.3	7.2	2.8
Total non-care debt	17.6	4.7	0.8	0.4	23.5	5.9
Total debt	24.9	11.2	8.2	8.8	53.1	28.2
Q1 2019/20	20.0	14.4	6.0	8.6	48.9	28.9
Change	4.9	(3.1)	2.2	0.3	4.2	(0.7)

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

Treasury Management

Borrowing

21. The Council borrows to finance its capital spending that exceeds receipts from: grants, third party contributions, capital receipts and reserves. The Council's long-term debt stands at £437m, an increase of £40m since the start of the year. This was to take advantage of low interest rates and lock them in for future years.
22. As at 31 December 2019, the weighted average interest rate of the Council's long-term debt portfolio is 3.86%. The Treasury Management Strategy, approved by County Council in February 2019, continued the policy of internal borrowing and where necessary, to borrow short term to meet cash flow liquidity requirements. **Table 5** shows a net £18m decrease in the Council's short-term borrowing activity since 1 April 2019.

Table 5: Short term borrowing as at 31 December 2019

	£m
Debt outstanding as at 31 March 2019	255
Net Movement since start of year	(18)
Current balance as at 31 December 2019	237

Figures are for Surrey County Council only and do not include Surrey Police

23. The weighted average interest rate of the Council's short-term external debt is 0.82% at 31 December 2019.

Investments

24. The Council's average daily level of funds held on deposit is £44m to date compared to an average of £41m during 2018/19. The Council invests temporary cash surplus exclusively, through the use of money market funds (MMF). Other investment facilities are available, including: brokers, direct dealing with counterparties through the use of call accounts or direct deal facilities, or with the government's Debt Management Office (DMO). No new fixed term deposits have been agreed during 2019/20 due to the low cash balances held and the need to maintain high liquidity.

25. **Table 6** shows the weighted average return on all funds held on deposit the Council received in the quarter to 31 December 2019 is 0.68%. This compares to the 0.57% average 7 day London Interbank Bid Rate (LIBID) for the same period.

Table 6: Weighted average return on investments compared to 7-day LIBID

	Average 7-day LIBID	Weighted return on investments
2019/20 quarter 3	0.57%	0.68%
2019/20 quarter 2	0.57%	0.71%
2019/20 quarter 1	0.57%	0.75%
2018/19 quarter 4	0.57%	0.76%
2018/19 quarter 3	0.49%	0.70%
2018/19 quarter 2	0.51%	0.58%
2018/19 quarter 1	0.36%	0.21%

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

27. 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

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

SECTION 151 OFFICER COMMENTARY

29. 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.
30. 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 efficiencies. Within this context the Council will continue to develop and implement plans to ensure the delivery of services are contained within resources.

LEGAL IMPLICATIONS – MONITORING OFFICER

31. 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.
32. 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

33. 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.
34. 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:

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

Contact Officer:

Leigh Whitehouse, Executive Director of Resources
020 8541 7246

Consulted:

Cabinet, Executive Directors, Heads of Service

Annexes:

Annex 1 – Detailed Revenue Budget at 31 December 2019

Detailed Revenue Budget at 31 December 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	5.2	2.7	2.7	(0.0)	310.8	0.0	0.0	0.0
Education, Lifelong Learning & Culture	J Iles	64.2	72.9	65.5	(7.4)	282.0	96.9	99.0	2.1
Corporate Parenting	M Lewis	76.0	72.4	71.3	(1.1)	110.3	96.0	95.5	(0.5)
Commissioning	M Lewis / J Iles	4.3	4.4	4.2	(0.2)	65.4	6.0	6.3	0.3
Family Resilience	M Lewis	34.9	29.4	29.9	0.5	40.6	38.1	39.4	1.3
Quality Assurance	M Lewis / J Iles	3.4	6.4	6.2	(0.2)	10.4	8.6	8.0	(0.6)
Directorate wide savings		0.0	(1.9)	0.4	2.3	(2.5)	(2.6)	0.6	3.2
Children, Families, Life long Learning, and Culture		188.0	186.4	180.3	(6.2)	816.8	243.0	248.8	5.8
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	266.5	273.8	279.4	5.6	488.4	367.2	367.2	0.0
Highways & Transport	M Furniss	45.6	44.9	40.0	(4.9)	73.6	59.0	54.6	(4.4)
Environment	M Goodman	39.0	51.6	41.7	(9.9)	73.4	68.9	72.8	3.9
Communities Support Function	D Turner-Stewart	0.3	0.3	0.2	(0.1)	0.4	0.4	0.4	0.0
Leadership Team (ETI)	M Goodman	0.6	0.2	0.6	0.4	0.5	0.3	0.9	0.6
Environment, Transport & Infrastructure		85.6	97.0	82.5	(14.6)	147.9	128.5	128.7	0.2
Fire & Rescue	D Turner-Stewart	23.5	24.1	24.7	0.6	36.2	32.1	32.0	(0.1)
Trading Standards	D Turner-Stewart	1.2	1.3	1.3	(0.0)	3.9	1.7	1.7	(0.0)
Emergency Management		0.3	0.3	0.4	0.1	0.0	0.7	0.6	(0.1)
Community Protection		25.0	25.7	26.4	0.7	40.1	34.5	34.3	(0.2)
Human Resources & Organisational Development	Z Grant-Duff	2.0	2.8	2.3	(0.5)	3.7	3.2	3.2	(0.0)
Insight, Analytics & Intelligence	Z Grant-Duff	0.7	2.5	2.5	0.0	3.8	3.1	2.8	(0.3)
Customer Services	Z Grant-Duff	2.3	2.4	2.2	(0.2)	2.8	2.6	2.9	0.3
Coroner	D Turner-Stewart	1.6	1.3	1.7	0.4	2.3	1.8	2.3	0.5
Strategic Leadership	T Oliver	0.7	0.7	1.0	0.3	0.7	1.2	1.3	0.1
Communications	Z Grant-Duff	1.2	1.1	0.9	(0.2)	1.4	1.4	1.4	(0.0)
Economic Growth	C Kemp	0.5	0.9	0.4	(0.5)	1.2	0.9	0.7	(0.2)
Transformation Support Unit		0.4	0.6	0.6	(0.0)	1.1	0.8	0.8	(0.0)
Cross County		0.0	(1.5)	0.0	1.5	(1.5)	(0.7)	0.0	0.7
Transformation, Partnership & Prosperity		9.3	10.8	11.6	0.8	15.6	14.4	15.4	1.0
Joint Operating Budget ORBIS	Z Grant-Duff	22.6	23.9	26.5	2.6	31.9	31.8	33.7	1.9
Property	M Few	12.0	13.6	13.7	0.1	28.1	19.0	19.4	0.4
Information Technology & Digital	Z Grant-Duff	7.5	8.1	6.9	(1.2)	11.5	10.9	10.3	(0.6)
Finance	M Few	1.8	2.0	1.2	(0.8)	4.1	2.7	1.6	(1.1)
Legal Services	Z Grant-Duff	3.2	2.7	3.0	0.2	4.0	3.6	4.0	0.4
Democratic Services	Z Grant-Duff	2.5	2.5	2.1	(0.4)	3.6	3.3	3.0	(0.3)
Business Operations	Z Grant-Duff	(0.1)	(0.1)	0.0	0.1	(0.1)	(0.1)	(0.1)	(0.0)
Resources		49.6	52.8	53.4	0.5	83.2	71.1	71.9	0.8
Corporate Expenditure	M Few	35.9	32.3	27.0	(5.3)	47.8	32.9	31.0	(1.9)
Total services' revenue expenditure		660.1	678.9	660.5	(18.5)	1,675.4	891.6	897.6	6.0
Corporate funding		(611.9)	(621.4)	(622.4)	(1.0)	0.0	(891.6)	(895.2)	(3.6)
Total Net revenue expenditure		48.2	57.5	38.1	(19.5)	1,675.4	0.0	2.4	2.4

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