

SURREY COUNTY COUNCIL

CABINET

DATE: 23 JUNE 2020



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

LEAD OFFICER: EXECUTIVE DIRECTOR RESOURCES (S151 OFFICER)

SUBJECT: 2020/21 MONTH 1 (APRIL) FINANCIAL REPORT

SUMMARY OF ISSUE:

This report provides the details of the County Council's 2020/21 financial position as at 30 April 2020 (M1) for revenue and capital budgets, and the expected outlook for the remainder of the financial year. M1 is a high-level review focussing on risks, opportunities and the impact of COVID-19.

Key Messages – Revenue

- At M1, the Council is forecasting a balanced service business as usual (BAU) financial position, against the budget approved by Council in February 2020. **Details are set out in Table 1.** Net risks to the balanced BAU forecast of £10m are identified in paragraph 8.
- At M1, a deficit of c£21m is forecast against the Government COVID-19 funding. If there is no additional Government funding, the deficit will need to be mitigated by additional efficiencies or use of the Contingency budget. The full impact of COVID-19 on the Council is very much dependent on the extent of lockdown, social distancing measures and any additional Government funding. **Details are set out in Table 2.** In addition to the £21m forecast deficit, net COVID-19 risks of £4m are identified in paragraph 9.
- The Council has received £47m of general COVID-19 funding. £0.9m was used to fund 2019/20 COVID-19 costs, with the balance carried forward into 2020/21.
- Two specific grant allocations have also been received:
 - COVID-19 Bus Service Support grant (£0.5m) to support bus operators to continue appropriate services during the outbreak.
 - Infection Control grant (£19.2m) - The first tranche of £14.4m (75%) must go straight to all care homes in Surrey. The second tranche of £4.8m (25%) is contingent on the first being used in its entirety for infection control measures. There is some discretion with the allocating the second tranche, but it has to be used across care providers for infection control.
- We have also received notification of an allocation for the Emergency Active Travel Funding. Allocations are indicative, authorities will need to show they have swift and meaningful plans to

re-allocate road space to cyclists and pedestrians in order to receive any money. SCC indicative allocations are £1.7m for phase one, and £6.8m for phase two, an indicative total of £8.5m.

- The main purpose of the initial phase one funding is to promote cycling as a replacement for journeys previously made by public transport.
 - Work must commence within four weeks of receiving the initial allocation and be completed within eight weeks of starting.
 - The second phase of funding will be released in the Summer.
- Whilst there is a reasonable chance of the contingency built into the budget being able to contain the additional unfunded pressures arising from COVID-19, this significantly weakens our planned ability to deal with business as usual risks in the financial year, with some knock on effects for the ability to do so in future years too. Should the totality of risks identified arise then we would see the Council move into an overspend position.
 - To guard against this and to protect the Council's financial position, we need to ensure that the sound principles of budget management established over the last two years are reasserted following the unusual period at the start of the Covid crisis when some normal controls were rolled back. Work is also taking place to ensure that robust plans are in place to deal with the ongoing impact of the crisis on the Council's finances.

Key Messages - Capital

- The Council approved a capital budget for 2020/21 of £175.7m in February 2020. At M1, Services were asked to re-profile the budget to recognise the impact of COVID-19 on scheme delivery. This has resulted in capital spend forecast of £159m; net slippage of £16.7m. The forecast will continue to be reviewed monthly and the budget may be reset when the impact of COVID-19 is clearer. Details are set out in **Table 3**.

RECOMMENDATIONS:

The Cabinet is asked to:

1. Note the Council's forecast revenue and capital budget positions for the year
2. Note the confirmed increase to the Public Health grant due to the initial Agenda for Change (AfC) uplift and the revision to the Public Health budget approved by the Executive Director – Resources, (para 10 -12)
3. Support the transfer of the school surplus balance relating to Darley Dene Primary School to its successor academy of £427,554 revenue and £11,543 capital (para 16)

REASON FOR RECOMMENDATIONS:

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

- At M1, the Council is forecasting a balanced service business as usual (BAU) financial position, against the budget approved by Council in February 2020. Against the Government's COVID-19 funding, a deficit of c£21m is forecast.
- Table 1** below shows the forecast revenue budget outturn for the year by Service, including COVID-19 related spend.

Table 1 - Summary revenue budget forecast variances as at 30 April 2020

Directorate	Cabinet Member(s)	Forecast at M1 £m	20/21 Budget £m	20/21 Variance £m
Adult Social Care	S Mooney	372.1	372.1	0.0
Public Health	S Mooney	30.2	30.2	0.0
Children, Families, Lifelong Learning and	M Lewis / J Iles	244.4	244.4	0.0
Environment, Transport, & Infrastructure	M Furniss / C Kemp / N Bramhall	133.6	133.6	0.0
Community Protection	D Turner-Stewart	36.2	36.2	0.0
Transformation, Partnerships and Prosperity	T Oliver / Z Grant-Duff	17.4	17.4	0.0
Resources	M Few / Z Grant-Duff	66.2	66.2	0.0
CV-19	T Oliver / M Few	20.6	0.0	20.6
Central Income & Expenditure	M Few	(900.0)	(900.0)	0.0
Overall Total		920.7	900.1	20.6

Note: The Public Health grant is now shown within Central Income & Expenditure.

Note: Numbers have been rounded which might cause a difference.

COVID-19 costs

- Table 2** below analyses the COVID-19 forecasts by Directorate and type of pressure, totalling the c£21m overall deficit. The overall deficit consists of a gross pressure of c£67m, offset by £46.1m of Government COVID-19 Funding (the balance after 19/20 spend).
- This represents the latest forecast at the end of M1. The financial impact of COVID-19 is under continual assessment. There are timing differences between the M1 position and the May Ministry of Housing, Communities and Local Government Housing (MHCLG) DELTA return, as reported to Cabinet on 26 May 2020.
- The c£21m COVID-19 deficit reported at M1 was revised to £27m for May's MHCLG return, which was reported in detail to Cabinet on 26 May 2020. The c£6m difference consists of a c£10m increase in forecast spend, offset by an improved income position (c£2m) and an improved efficiency programme position (£2m). The position is under continual review and is likely to change in subsequent months.

Table 2 – COVID-19 Forecast costs analysed by Directorate as at 30 April 2020

Directorate	Gross Exp £m	Loss of Income £m	Efficiency Prog Risk £m	Gross Pressure £m	Government Grant £m	20/21 Forecast at M1 £m
Adult Social Care	12.1	1.0	7.4	20.5		20.5
Public Health	0.5		0.0	0.5		0.5
Children, Families, Lifelong Learning and Culture	1.3	4.3	7.9	13.5		13.5
Environment, Transport, & Infrastructure	2.1	0.3	0.5	2.9		2.9
Community Protection	0.2		0.4	0.6		0.6
Transformation, Partnerships and Prosperity	0.5		0.6	1.1		1.1
Resources	1.4	8.4	1.0	10.8		10.8
Local Resilience Forum (LRF) Cell expenditure	8.9			8.9		8.9
Central Income & Expenditure	4.5	3.4		7.9	(46.1)	(38.3)
Total CV19	31.5	17.4	17.8	66.7	(46.1)	20.6

6. The forecast pressure of COVID-19 of c£67m (before applying the grant funding) consists of:

Gross expenditure of £31.5m, primarily:

- £12.1m of Adult Social Care spend, including supporting care providers (£9.5m), increased spend on care packages (£2.0m) and increased staffing costs to manage demand (£0.6m)
- £1.3m of CFLC spend, including the cost of providing free school meals for children over the Easter holidays (£0.5m) and additional staffing to cover increased caseload (£0.7m)
- £2.1m in ETI including additional waste management activities including increased household waste tonnages (£1.6m) and costs for standing-down and pausing highway schemes (£0.5m)
- £1.4m in Resources including expected increase in legal costs (£0.5m) and expected cost of additional cleaning in care homes and fire stations (£0.5m).
- £8.9m Local Resilience Forum (LRF) Cell expenditure, including Personal Protective Equipment (PPE) (£7.2m) and costs to convert Headley Court into a suitable facility for use by the NHS (£1.0m)
- £4.5m Hardship fund payments to suppliers for across the authority but held in Central Income and Expenditure

Lost income of £17.4m, primarily:

- £1.0m in Adult Social Care due to a reduction in assessed charging income and the possibility of increased write-offs in Adult Social Care (ASC) debt.
- £4.3m in Children, Families, Lifelong Learning & Culture (CFLC), across various services including Surrey Outdoor Learning & Development (SOLD), Surrey Arts, Adult Learning and Registrars
- £8.4m in Resources, including rental income (£0.9m) and School Meals (£7.3m)
- £3.4m in Central Income and Expenditure relating to loss of commercial letting income due to letting holidays and impact on dividends from Halsey Garton.

Risks to the efficiency programme of £17.8m, primarily:

- £7.4m in Adult Social Care care package efficiencies across multiple client groups
- £7.9m in CFLC, including Special Education Needs & Disabilities (SEND) (£4.3m) and Clinical Commissioning Group (CCG) Funding (£2m).

Risks and Opportunities

7. At M1, Directorates have identified net risks of £10m relating to service business as usual and £4m relating to COVID-19. Where possible, services will take action to mitigate these risks and maximise the opportunities available to offset them.

8. **Service business as usual risks and opportunities (£10m) consist of:**

Risks of £15m:

- £6.2m in Environment, Transport & Infrastructure (ETI) – Potential cost pressures in waste disposal and recycling (£3.5m); delayed delivery of prior year savings including street lighting contractual savings (£2.2m); spending pressures carried forward from 2019/20 (£0.5m)
- £4.2m CFLC – Activity driven pressures due to external placements (£1.2m) and Dedicated Schools Grant (DSG) High Needs block overspend (£1m); Health efficiencies not fully being delivered due to COVID-19 (£2m)
- £4.6m Community Protection – Fire Pensions modified scheme – potential requirement to make backdated pension contributions and set up an annuity funded pension scheme. Although a provision exists, a residual risk has been identified (£3.7m); Potential costs to support the delivery of transformation plans (£0.9m)
- £0.5m Transformation, Partnerships and Prosperity (TPP) – Emerging pressure to support economic recovery

Offset by opportunities of £5m:

- £5.2m ASC- utilising 2018/19 carry forward one-off (£3.2m); expected increased Better Care Fund funding but awaiting final settlement (£2m).

9. **COVID-19 risks and opportunities (£4m) consist of:**

Risks of £16m

- £13.8m direct costs of COVID-19, including potential increases in care costs of £12.7m
- £1.1m staff cover due to absence and extra costs in equipment
- £2.1m loss of income

Offset by opportunities of £12m

- £8.9m ASC – COVID-19 Integrated Care System bids with NHS – discussions on going with CCGs to confirm if this funding can be accessed from the NHS (£8.9m)
- £3.1m CFLC - Home to school transport costs down due to home schooling (after paying 50% to support the provider economy). The potential for increased transport costs when schools are re-opened is currently being assessed and may negate this opportunity
- £0.3m Resources – reduction in building running costs whilst buildings are closed

Increases in revenue Government grant

10. On 27 June 2018, the Agenda for Change (AfC) multi-year pay and contract reform deal (pay award) was agreed by the NHS Staff Council (a partnership of NHS trades unions and NHS Employers). This included an incremental uplift for all staff working for NHS organisations. In the financial years 2018/19 and 2019/20, Surrey NHS providers were able to claim for this increase from central government for all staff eligible. It was not clear who would pay for 2020/21 onwards. Providers requested clarity for 2020/21 and this was confirmed on 17 March 2020 when the Public Health (PH) grant was announced and the circular stated “The grant in 2020/21 includes an adjustment to cover the estimated additional AfC pay costs of eligible staff working in organisations commissioned by local authorities, or by the local authority, to deliver public health services.”
11. The PH grant was increased from £35.6m to £38.0m (an increase of £2.4m). In line with the Financial Regulations, Executive Director – Resources has agreed to increase the Public Health service budget by £0.8m to £31m in order to fund the initial Agenda for Change pay uplift. Decisions about the unallocated funding will be taken when the impact of COVID-19 becomes clearer.
12. Surrey County Council currently commissions the following NHS organisations to deliver services and provisional figures for their AfC pay uplifts are as follows:

Organisation	Services delivered	AfC provisional figure
Surrey and Borders Partnership (SaBP) NHS Trust	CAMHs and substance misuse	£0.2m
Children and Family Health (CFH) Surrey	0-19 services and therapies	£0.5m
Central and North West (CNWL) London NHS FT	Sexual health services	£0.1m
		Total £0.8m

Capital Budget

13. In February 2020, Council approved a capital budget of £175.7m. **Table 3**, below, provides a summary of the forecast full-year outturn as at M1, showing net forecast slippage of £16.7m. This follows a reprofiling exercise that took place at M1 to capture the impact of COVID-19 on delivering the Capital Programme.

Table 3 - Capital Programme Reprofile at M1

Strategic Capital Groups	Cabinet Member(s)	Forecast £m	Budget £m	Variance £m
Property				
Property Schemes	M Few	57.1	78.5	(21.4)
ASC Schemes	S Mooney	1.9	1.9	0.0
CFLC Schemes	M Lewis / J Iles	1.7	1.7	0.0
Property Total		60.6	82.0	(21.4)
Infrastructure				
Highways and Transport	M Furniss / C Kemp / N Bramhall	78.3	70.5	7.8
Environment	N Bramhall	1.8	2.6	(0.7)
Community Protection	D Turner-Stewart	3.8	3.8	0.0
Infrastructure Total		83.9	76.8	7.1
IT				
IT Service Schemes	M Few / Z Grant Duff	14.2	15.9	(1.8)
CFLC - EMS	M Lewis / J Iles	0.3	0.9	(0.6)
IT Total		14.5	16.8	(2.3)
Total		159.0	175.7	(16.7)

14. The net slippage of £16.7m consists of:

- **Property**

- £21.4m: this slippage is across the majority of the programme and relates to the impact of social distancing on construction, and a shortage of materials and labour supply. The slippage may be offset by pipeline schemes which, once approved, will be included in the budget.

- **Infrastructure**

- £1.4m of slippage in ETI; Illuminated Street Furniture (£0.8m) and Rights of Way Capital Spend (£0.7m), delays relating to COVID-19.
Offset by:
- £8.4m ETI – Highways and Transport – increased spend on LEP schemes at M1, against a budget of £3.3m approved in February. However, an amount of £14.1m is also earmarked in the capital pipeline. The budget will be amended when spend more certain against the pipeline as the year progresses.

- **IT**

- £0.6m CFLC; relating to delays in implementing the Education Management System and;
- £1.8m Resources - slippage due mainly to device refresh as a result of lockdown and the Agile working project re-scoping

15. Capital Programme estimates will continue to be refined in subsequent months as our understanding of the impact of COVID-19 evolves.

Schools balances

16. Darley Dene Primary School converted to a sponsored academy on 1 Feb 2020 on the Secretary of State's instructions, following an OFSTED judgement of inadequate. The school had a surplus on conversion date of £427,554 revenue and £11,543 capital.
17. Whilst these are significant balances, the in-year operating deficit is over £200k so this would only provide enough cover for another two years if costs are not reduced.
18. There are significant maintenance works, such as security access systems, CCTV, IT servers, and children's play space which require addressing through these funds.
19. In addressing poor performance, staff costs have increased due to a number of supply teacher and agency appointments required to manage short term staffing requirements. In order to ensure high quality appointments a number of these have also incurred agency finder fees.
20. As this was a forced conversion of an inadequate school, the Council can choose whether or not to transfer the surplus. It is proposed that the full surplus is transferred to the successor academy, which will support the continuing improvement needed at the school as outlined above.

CONSULTATION:

21. Executive Directors and Cabinet Members have confirmed the forecast outturns for their revenue and capital budgets.

RISK MANAGEMENT AND IMPLICATIONS:

22. 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 Medium Term Financial Strategy. In the light of the 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:

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

SECTION 151 OFFICER COMMENTARY:

24. 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.
25. 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:

26. 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.
27. 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:

28. 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.
29. 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:

30. 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

This page is intentionally left blank