SURREY COUNTY COUNCIL

CABINET

DATE:	**29 NOVEMBER 2022**
REPORT OF:	**DAVID LEWIS, CABINET MEMBER FOR FINANCE AND RESOURCES**
LEAD OFFICER:	**LEIGH WHITEHOUSE, DEPUTY CHIEF EXECUTIVE AND EXECUTIVE DIRECTOR FOR RESOURCES (S151 OFFICER)**
SUBJECT:	**2022/23 MONTH 6 (SEPTEMBER) FINANCIAL REPORT**
ORGANISATION STRATEGY PRIORITY AREA:	**GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/ TACKLING HEALTH INEQUALITY/ENABLING A GREENER FUTURE/EMPOWERING COMMUNITIES**

Purpose of the Report:

This report provides details of the County Council's 2022/23 financial position as at 30th September 2022 (M6) for revenue and capital budgets, and the expected outlook for the remainder of the financial year.

Key Messages:

Revenue

- **At M6, the Council is forecasting a full year deficit of £24.5m,** against the approved revenue budget. The details are shown in Annex 1 and summarised in Table 1.

- The current level of projected overspend remains significant. It is imperative that this reduces before we reach the end of the year, otherwise there would be a material negative impact on the level of the council's reserves at a time when the level of external financial risk is extremely high.

- Concerted action therefore needs to be taken to reduce the forecast position. The Council remains committed to budget accountability and the budget envelope approach and therefore Directorates which are currently forecasting an overspend position have committed to delivering budget recovery plans, which require the identification of targeted additional in-year efficiencies to mitigate the forecast overspend.

- At the end of September, £8m of mitigations have been identified through budget recovery plans, these are included in the net forecast overspend (reducing what would otherwise be a forecast overspend of £32.5m to £24.5m). Progress on the identification and delivery of these additional measures will be reported to Cabinet on an ongoing basis, as part of the monthly financial reporting.

- It is recognised that the economic climate and rising inflation provides significant challenge to the delivery of our services within available budgets and the impacts of these are being monitored closely. The in-year forecast position is the result of a number of combined pressures being experienced and a deterioration of the financial context since the budget was set in February 2022. Contingencies are contained within the budget to provide comfort that the budget remains balanced should inflationary pressures not be containable within available Directorate budgets during the year. However, it is not appropriate to utilise contingencies to off-set ongoing service pressures, and therefore Directorates are asked to mitigate pressures, including inflationary ones, wherever possible to reduce the ongoing financial impact.

Capital

- The M6 position shows a forecast spend of £220.5m against a budget of £215.8m, **a variance of £4.7m.** This is the net effect of acceleration in some areas and slippage against other schemes, as detailed below.

Higher than budgeted inflation, arising from increased global and economic uncertainty has significantly increased the risks facing the Council in terms of delivering both the revenue and capital budgets for 2022-23. We are monitoring closely the impact of inflation indices and Council spending and taking action as necessary to ensure increased costs are mitigated where possible.

Each quarter, key Balance Sheet indicators are reported; these are set out in Annex 2.

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Recommendations:

It is recommended that Cabinet:

1. Note the Council's forecast revenue and capital budget positions for the year and the commitment to develop a budget recovery plan.
2. Approve the use of the Council's 2022/23 Adult Social Care Fair Cost of Care and Market Sustainability funding (see paragraphs 12-16)
3. Approve the extension of the empty homes initiative for three years to 2024/25, with a change that the baseline over which Districts and Boroughs (D&Bs) receive funding is moved from 2019 to 2021 (see paragraphs 17-19)
4. Approve the creation of an inflation hardship contingency, to manage the risk of construction and other inflation levels in Your Fund Surrey projects and delegate to the Executive Director of Customer & Communities and the Deputy Chief Executive & Executive Director of Resources, in consultation with the Cabinet Member for Communities & Community Safety and the Cabinet Member for Finance & Resources the ability to, in exceptional circumstances, award up to 10% of the bid value when presented with robust evidence that the variance is caused by the movement in the construction market, or inflation increases, since the original bids were submitted. The contingency will be met from the existing overall Your Fund Surrey programme allocation (see paragraphs 23-25).

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:

1. **At M6, the Council is forecasting a full year £24.5m overspend against budget.** This comprises a £32.5m forecast overspend, offset by £8.0m from the initiation of budget recovery plans (BRP). Table 1 below shows the forecast revenue budget outturn for the year by Directorate.

Table 1 - Summary revenue budget forecast variances as of 30th September 2022

Directorate	M6 Full Year Forecast £m	M6 Budget Recovery Plans £m	22/23 Outturn Forecast at M6 £m	Annual Budget £m	Forecast Variance £m
Adult Social Care	408.8	(2.1)	406.7	402.8	3.9
Public Service Reform & Public Health	35.4	0.0	35.4	35.4	(0.0)
Children, Families and Lifelong Learning	246.8	(4.4)	242.4	222.2	20.1
Comms, Public Affairs & Engagement	2.1	0.0	2.1	2.2	(0.0)
Surrey Fire and Rescue	35.6	(0.3)	35.3	33.1	2.1
Customer & Communities	17.8	(0.1)	17.7	17.3	0.4
Environment, Transport & Infrastructure	136.6		136.6	136.5	0.0
Prosperity Partnerships & Growth	1.5	0.0	1.5	1.6	(0.1)
Resources	78.6	(1.1)	77.5	77.0	0.5
Central Income & Expenditure	82.2		82.2	84.7	(2.5)
Total before DSG High Needs Block Offset	**1,045.4**	**(8.0)**	**1,037.4**	**1,012.9**	**24.5**
DSG High Needs Block Offset	27.2		27.2	27.2	0.0
Total Budget Envelopes	**1,072.6**	**(8.0)**	**1,064.6**	**1,040.1**	**24.5**
Central Funding	(1,040.1)		(1,040.1)	(1,040.1)	0.0
Overall after central funding	**32.5**	**(8.0)**	**24.5**	**0.0**	**24.5**

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

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2. The forecast Directorate overspend of £32.5m relates primarily to:

Children, Families and Lifelong Learning (CFL) - £24.6m overspend, due to:

- £15m projected overspend on Home to School Transport (H2ST) - Demand pressures from the continuing increase in EHCPs are compounded by high fuel costs and other inflationary pressures increasing costs further, coupled with the ability of providers to "hand back" routes leading to higher costs in the retender process. Further forecast 9% increase in SEND pupil numbers from September are expected, but confirmation of these figures requires all current applications to be processed. There are still applications for the new academic year being processed, current demand increases are below the 9% forecast, but the usual trend is for numbers to increase from September up to Christmas as these applications are processed. Continued volatility in fuel prices remains a significant risk. The projection is net of changes from the implementation of the Council's new transport policy. A H2ST Task & Finish Group has been set up which will drive weekly progress, ensure clear action plans and be accountable in this area. There is also a focus on alternative delivery models, in collaboration with key stakeholders. We are taking a proactive approach to learning from other counties to support assumptions or inform strategies.

- £4.1m overspend on External Looked After Children (LAC) placements – due to numbers of LAC and the full year effect of some high-cost placements which came in late March. Reductions in residential placements through the big fostering partnership are yet to be delivered.

- £2.5m overspend on Children with Disabilities (CWD) Care - this is a residual pressure from 2021/22 due to high levels of demand for direct payments and personal support.

- £2.5m overspend on Quadrant area teams, CWD and Fostering staffing – this relates to the double funding of the assessed and supported year in employment (ASYE) social work cohort through the use of agency staff for three months while ASYE's gradually build up their caseload; and there are also additional staffing costs in fostering due to the level of agency staff. An efficiency around standardising leave between agency and permanent workers has also not been delivered due to workload requirements.

- £1.1m forecast overspend on Care Leavers due to the level of demand and increases in average costs.

Adult Social Care – £6.0m overspend: £6m pressure on the care package budget due to forecast non-achievement of efficiencies due specifically to market and demand pressures and capacity challenges (for which the service is working on mitigations), increased costs of care and rising assessed fees & charges debt resulting in an increased provision for bad debt and debt write offs. This is partially offset by some staffing underspends and one-off financial benefits largely related to old year accruals.

Surrey Fire and Rescue - £2.4m overspend primarily due to additional recruitment and training in response to recruitment by the London Fire Brigade and anticipated retirements and existing vacancies, together with increased costs of communication systems, staffing pressures through increased use of on-call staffing, ill health retirements, and increased costs of fuel and vehicle repairs. Some offsetting underspends are already included in the forecast, and officers continue to review these pressures and wider spend to identify any further mitigations.

Resources – £1.6m overspend is due mainly to price inflation on utilities and food, resulting in forecast pressures in Land & Property and Twelve15 respectively. In addition, there is continued increased demand for legal services. Furthermore, delays to the planned agile moves and energy price volatility mean that some of the Land & Property efficiencies are unlikely to be delivered.

Offset by:

Central Income and Expenditure - £2.5m underspend: the application of £1.5m of remaining Covid-19 funding to finance ongoing COVID cost implications in both Childrens, Families and Lifelong Learning and Customers & Communities, £0.3m increased interest receivable due to improved cash balances and yield and £0.7m underspend for redundancies reflecting fewer service restructures.

3. Through the budget envelope approach, Directorates are required to deliver services within their approved budget. Therefore, Directorates are tasked with mitigating activities to offset identified pressures, mitigate risks and maximise the opportunities available to contain costs.

4. In each of the last four financial years, this approach has been sufficient to deliver a year end position within budget. However, the unusual intensity of the pressures that the council is facing this year, means that additional measures have been required in order to protect the council's financial position. Therefore, Directorates currently forecasting an overspend, will deliver a budget recovery plan, which requires the identification of targeted additional in-year activities to mitigate the forecast overspend.

5. Through budget recovery plans, Directorates have to date identified £8m of additional activities in order to mitigate some of the remaining forecast overspend. Work continues to identify further measures and progress on the identification and delivery of these additional measures will be reported to Cabinet on an ongoing basis, as part of the monthly financial reporting.

6. The £8m identified as part of budget recovery plans, as at the end of September, relates to a number of mainly one-off opportunities:

Children, Families and Lifelong Learning (£4.4m budget recovery plan):
- £0.8m has been included based on a reduction in the DSG High Needs Block offsetting reserve contribution needed (this is a partial release of reserve);
- £3.6m initial reassessment of extra costs applicable to the pandemic, so potential increased drawdown of Covid-19 funding, these are predominantly within staffing and social care placements.

Adult Social Care (£2.1m budget recovery plan):
- £1.5m planned drawdown of reserves ringfenced for ASC originating from the service's underspend in 2018/19. Up until now this has been shown as an opportunity as it was considered it would be necessary to offset weighted risks very likely to materialise in the remainder of the year. There is now greater confidence that some of the risks can be mitigated enabling £1.5m to be utilised to reduce the BAU overspend. 9
- £0.6m Contain Outbreak Management Fund monies carried forward from 2021/22 that will be applied to relevant care package expenditure driven the ongoing impacts of the Covid-19 pandemic.

Surrey Fire & Rescue Service (£0.3m budget recovery plan) due to a number of measures including use of grants to cover existing staffing costs, reduced overtime through new ways of working and capitalisation of staff and other appropriate costs.

Resources (£1.1m budget recovery plan) – a range of measures including a review of reserves, reduced staffing costs including delaying non statutory recruitment and continual appraisal of premises costs to mitigate the challenging inflation pressures.

7. In addition to the forecast overspend position, we monitor emerging risks and opportunities throughout the year. These are activities that could impact on, but are not currently included in, the forecast outturn position. Wherever possible the potential financial value of risks and opportunities are estimated and scored for the likelihood of the risk or opportunity occurring, to calculate the weighted risk / opportunity. At the end of September there were £21.7m of weighted risks and £6m of weighted opportunities, resulting in net weighted risks of £15.7m, not currently included in the latest forecast outturn position.

8. As such, in addition to taking action to reduce the current forecast overspend, Directorates are taking action to mitigate these risks to avoid increased budget pressures.

Dedicated Schools Grant (DSG) update

9. The table below shows the projected forecast year end outturn for the High Needs Block. The forecast at month 6 is in-line with budget.

Table 2 - DSG HNB Summary

2022/23 DSG HNB Summary	
	£'m
DSG High Needs Block Grant (exc Academies)	202.2
Forecast outturn	229.4
Deficit/(surplus)	*27.2*
Budgeted overspend	27.2
Deficit/(surplus)	***0.0***

10. Within the forecast, there are £4m of stretch efficiencies RAG rated as red (plans to be developed). This is a reduction of £2.4m from the level at the start of the year (£6.4m) so further work is required during the year to ensure these are identified and delivered.

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11. The first quarter monitoring report was submitted to DfE in June for the safety valve agreement and the first quarter payment of £3m was received. The second quarter monitoring report was submitted in September and has also been approved and the second quarter payment of a further £3m has been received, bringing the total received so far from the DfE to £46.5m. The monitoring report identified that the Council remains on track with its agreed trajectory, although it also noted the increasing pressures caused by rising inflation, in particular to the long term funding of the planned capital programme.

Adult Social Care Fair Cost of Care and Market Sustainability Funding

12. The Council is receiving £2.7m of Fair Cost of Care and Market Sustainability (FCoC) funding in 2022/23 as part of the Adult Social Care reforms announced by government. In line with timescales stipulated by government, the Council has conducted cost of care exercises for older people care home (65+) and 18+ home care services. Information summarising the outcomes of these exercises was sent to the Department of Health & Social Care (DHSC) ahead of the mandated deadline of 14th October, together with a provisional market sustainability plan. The Council awaits further guidance from DHSC about the publication of this information.

13. As part of the documentation submitted to DHSC, the Council was required to set out how it plans to spend the 2022/23 FCoC funding. Grant conditions allow authorities to retain up to 25% of the funding to cover costs associated with conducting the cost of care exercises and production of the market sustainability plan (noting the final plan has to be submitted to DHSC by February 2023). All remaining funding must be utilised directly to support ASC providers.

14. Cabinet is requested to approve the following allocations of the 2022/23 funding:

- Just under £9,000 will be used to cover the cost of external consultants who were engaged to help ASC providers complete their cost of care returns. Recognising the scale of market pressures the Council will not be retaining any other funding towards its own internal costs of conducting the cost of care exercises.

- £2.012m will be paid to 18+ home care providers who on 30 September 2022 were registered on the Council's Approved Provider List (APL) care within the home dynamic purchasing system (DPS) that went live in October 2021. Funding will be allocated across providers based on the total number of hours of care commissioned by the Council with each provider on 30 September 2022. This will include legacy packages from previous home care frameworks with current APL DPS registered providers eligible to receive funding. Recognising the increased costs of fuel and less efficient use of care hours due to travel time, hours of care provided to people in rural or semi-rural parts of the county will be weighted higher for grant allocation purposes than hours of care provided in urban areas. Each provider will receive a single payment of its whole grant allocation for 2022/23.

- £0.675m will be paid to older people care home providers in Surrey based on the number of beds commissioned by the Council in each home on 30 September 2022 at or below the Council's 2022/23 guide prices for older people residential, residential dementia or nursing care. A single payment will be made for each care home covering the whole grant allocation due for 2022/23.

15. The larger share of FCoC funding proposed to be allocated to 18+ home care providers takes into account that these providers did not receive a fee uplift from April 2022. This is because the new APL DPS that went live in October 2021 planned for the first uplift to be awarded from April 2023. Providers were expected to price forecast inflationary pressures into their tendered prices, but there have been significant economic and political changes since the new DPS went live. The care home market, whilst facing similar challenges such as workforce and increased energy costs, has greater levels of income assurance, a clearer and more consistent approach to pricing and costs, and benefits from a larger self-funder market.

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16. Subject to Cabinet approval, payments will be made to providers as soon as practical in December 2022.

Empty Properties

17. In an initiative to reduce the number of empty properties throughout the County, in November 2020 Cabinet approved an Empty Properties initiative. The proposal reallocated the Council's share of increased council tax funding to the districts and boroughs (D&Bs) if agreed conditions were met. The reallocation was ringfenced to fund initiatives which supported a County supported initiative or project, such as reducing homelessness, addressing climate change or rethinking local transport delivery and the D&Bs had to set out the proposed use of the funding as part of the bidding process.

18. The scheme was available for any change to Empty Home policies that have become effective since April 2019. The cost of the scheme to the Council, depends on the number of D&Bs that implement a policy change and how that change compares to the preceding policy. Since the scheme was agreed applications worth £3.2m have been approved and the number of empty properties across the County has reduced by 153, in addition properties receiving reliefs have reduced by 733 and 241 extra empty properties are being charged a premium. This overall increase in the amount of Council Tax collected on an ongoing basis is factored into the MTFS.

19. It was recommended that the scheme be subject to an annual review. Cabinet are therefore asked to approve the extension of this initiative for three years to 2024/25, with a change that the baseline over which D&Bs receive funding is moved from 2019 to 2021. The financial impact of this can be contained within existing budgets set aside for this purpose.

Capital Budget

20. The 2022/23 Capital Budget was approved by Council on 8th February 2022 at £210.9m, with a further £71.0m available to draw down from the pipeline and £18m budgeted for

Your Fund Surrey expenditure. After adjustments for 2021/22 carry forwards and acceleration, the revised budget is £215.8m.

21. The Council is currently forecasting £220.5m of capital expenditure against this budget, an over-achievement of £4.7m. This is the net impact of accelerated spend in both Land & Property and Highways & Transport, including £15.4m highways schemes and £5m Local Enterprise Partnerships (LEPS) and road safety, offset by slippage relating to Ultra Low Emission Vehicles (ULEV) and bridges and elsewhere across the programme.

Table 3 below provides a summary of the forecast full-year outturn at M6.

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Strategic Capital Groups	Annual Budget £m	Outturn Forecast at M6 £m	M6 Forecast Variance £m
Property			
Property Schemes	77.9	85.7	7.7
ASC Schemes	1.7	1.7	0.0
CFLC Schemes	1.3	1.3	(0.0)
Property Total	**80.9**	**88.7**	**7.7**
Infrastructure			
Highways and Transport	87.6	92.4	4.9
Infrastructure and Major Projects	22.4	16.5	(5.9)
Environment	8.8	7.1	(1.7)
Surrey Fire and Rescue	6.4	3.0	(3.4)
Infrastructure Total	**125.2**	**119.0**	**(6.2)**
IT			
IT Service Schemes	9.7	12.8	3.1
IT Total	**9.7**	**12.8**	**3.1**
Total	**215.8**	**220.5**	**4.7**

22. The forecast variances relate to:

Highways and Transport schemes – programme acceleration against budget of £4.9m. Highway maintenance and local highway schemes totalling £10.7m have been accelerated from future years, as part of £50m planned acceleration across 2022-24. £4.5m of pipeline schemes are also expected to be delivered this year. These are offset by net slippage of £10.3m, including £2.5m for the Mole bridge strengthening scheme which is expected to span two financial years; £5.4m caused by delayed purchase of low emission buses while legal agreements with bus operators are finalised; and £2.2m reprofiling for the purchase of low emission community transport vehicles to allow a smaller number of vehicles to be tested operationally before further investment.

Infrastructure and Major Projects – projected underachievement to budget of £5.9m due to £4.8m slippage in the grant funded Housing Infrastructure Fund scheme, with early infrastructure works and land purchase now anticipated in 2023/24, and £1.2m slippage on Farnham town centre improvements due to a delay finalising the scope and design.

Environment schemes – projected underachievement to budget of £1.7m mainly caused by the need to secure a Managing Agent to deliver the Greener Homes 2 grant funded scheme. Delivery of £1.2m of the original funding of £3.2m has been secured, due to action taken by the Council, but the remaining £2m is no longer anticipated to be delivered.

Surrey Fire & Rescue Service – projected underachievement to budget of £3.4m due to slippage in the Fire Service vehicle replacement programme caused by delays in anticipated delivery dates of fire vehicles, recognising supply chain issues.

Property Schemes – programme acceleration against budget of £7.7m, mainly due to £9m accelerated spend in Special Educational Need (SEN) Strategy based on new scheme approvals, and £2.9m of inflationary pressure; £3.7m of spend on Extra Care housing and £2.9m accelerated spend in Independent Living, the budgets for both of these will be added when budgets are reset later this financial year; and £1.5m inflationary pressure on LAC schemes. This was offset by a £6.9m forecast underspend in the Schools Basic Need programme as a result of a number for projects either not coming forward, coming forward later than previously forecast or construction start on site being delayed due to planning; £2m hold on the Caterham Hill Library project due to local strategy issues; £1.3m slippage in Winter Maintenance Depot due to delays in construction spend on salt barns until after the winter gritting season; £1.2m slippage in Surrey Outdoor Learning & Development (SOLD) -Thames Young Mariners due to a requirement to reduce costs and associated scope; and £0.7m less spend due to delayed agile office moves. 9

IT schemes – programme acceleration against budget of £3.1m due to accelerated spend on the Unicorn WAN Wi-Fi scheme, the budget for which will be added when budgets are reset later this financial year.

Your Fund Surrey

23. In February 2020, the establishment of Your Fund Surrey was approved, enabling investment in priorities brought forward by local communities. Governance arrangements are in place to review and approve proposals brought forward by applicants, which includes the requirement for bids to include a contingency value to cover unanticipated costs.

24. Given the nature of these applications (which include large scale capital projects), alongside the current economic environment of significant inflation rates, it is proposed that Cabinet approve the creation of an inflation hardship contingency, to manage the risk of construction and other inflation levels. This would enable, in exceptional circumstances the further award of up to 10% of the bid value when presented with robust evidence that the variance is caused by the movement in the constriction market, or inflation increases, since the original bids were submitted. The onus remains very much on the applicant to deliver projects within the original requested amount. The contingency will be met from the existing overall Your Fund Surrey programme allocation.

25. This would apply to all projects having received Your Fund Surrey funding to date and all future Your Fund Surrey awards. The appropriate governance and approval route will be followed for the award, based on the bid plus the award contingency, to ensure the appropriate governance is followed for the total potential bid.

Inflation Update

26. Higher than budgeted inflation, arising from increased global and economic uncertainty, has significantly increased the risks facing the Council in terms of delivering the budget for 2022-23. We will be monitoring closely the impact of inflation indices and Council spending and take action as necessary to ensure increased costs are mitigated where possible.

27. Directorates should look to contain cost increases wherever possible to ensure services can be delivered within budget envelopes. Should mitigating actions not fully offset any experienced increase in costs then alternatives should be explored to contain spending.

28. It should also be noted that specific grants do not include any inflationary increase and therefore the associated expenditure has to be managed within the available grant, including impacts of inflation and demand changes. Holding expenditure within the available grant may prove to be more challenging and potentially require cost reduction.

29. Any use of reserves or contingency to support higher spending in 2022-23 will have a significant impact in subsequent years, due to the ongoing impact on the Medium-Term Financial Strategy (MTFS). The ongoing impact of price increases would need to be factored into the base budget on a recurring basis plus a further one-off contribution would be needed to replenish general reserves (depending on future assessment of risk). For this reason, it is essential that Directorates strive to contain price increases within budget envelopes or take mitigating actions where possible.

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30. Capital spending is more exposed to the impact of rising commodity, energy, and fuel costs than the revenue budget due to the impact on materials and delivery costs. Higher than anticipated inflation on projects, over and above the contingency element of the projects' budgets, can risk the viability of schemes. Where it has been identified that cost increases are putting at risk the ability to deliver the approved project within available budget, mitigating actions should be taken to reduce costs, including value engineering of schemes, i.e., modification of designs and/or scope to bring within available funding and deferring or de-prioritising projects. This process will be managed through the Capital Programme Panel.

31. Inflationary pressures within both the revenue and capital budget will be closely monitored throughout the financial year and updates on impacts and required mitigations will be included in future budget monitoring reports to Cabinet.

Consultation:

32. Executive Directors and Cabinet Members have confirmed the forecast outturns 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 Corporate 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:

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. Although significant progress has been made to improve the Council's financial position, the financial environment remains challenging. The UK is experiencing the highest levels of inflation for decades, putting significant pressure on the cost of delivering our services. Coupled with continued increasing demand and fixed Government funding this requires an increased focus on financial management to ensure we can continue to deliver services within available funding. In addition to these immediate challenges, the medium-term financial outlook beyond 2022/23 remains uncertain. With no clarity on central government funding in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.

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36. The Council has a duty to ensure its expenditure does not exceed the resources available. Contingency budgets held by the Council provide confidence that the budget remains balanced at this stage. However, it is recognised that the current economic climate and rising inflation provides a significant challenge to delivering services within available budget resources. Directorates are developing budget recovery plans, to include targeted additional in-year efficiencies to off-set the current forecast overspend. 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.

Legal Implications – Monitoring Officer:

37. 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.

38. 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:

39. 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.

40. 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:

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

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Consulted: Cabinet, Executive Directors, Heads of Service

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Forecast revenue budget as of 30th September 2022

Service	Cabinet Member	Full Year Gross budget £m	Full year net budget £m	Full Year net forecast £m	Full year net forecast variance £m
Education and Lifelong Learning	C Curran	248.2	21.4	20.8	(0.6)
Family Resilience	S Mooney	38.1	33.3	36.0	2.7
Corporate Parenting	S Mooney	120.4	106.5	109.7	3.2
Quality and Performance	S Mooney	10.3	9.2	9.3	0.1
Commissioning	S Mooney	136.2	53.2	68.1	14.9
CFLC Exec Director	S Mooney	(1.5)	(1.5)	(1.5)	(0.0)
Children, Families and Lifelong Learning		**551.7**	**222.2**	**242.4**	**20.1**
Public Health	M Nuti	35.6	34.5	34.5	(0.0)
Public Service Reform	M Nuti	1.1	0.9	0.9	(0.0)
Public Health and PSR		**36.8**	**35.4**	**35.4**	**(0.0)**
Adult Social Care	**M Nuti**	**549.6**	**402.8**	**406.7**	**3.9**
Highways & Transport	M Furniss / K Deanus	71.9	56.8	56.3	(0.5)
Environment	M Heath/ N Bramhall	77.0	74.7	75.0	0.3
Infrastructure,Planning & Major Projects	M Furniss	5.4	3.0	2.9	(0.1)
Leadership Team	M Furniss	1.5	1.5	1.7	0.2
Emergency Management	K Deanus	0.5	0.5	0.6	0.1
Environment, Transport & Infrastructure		**156.3**	**136.5**	**136.6**	**0.0**
Surrey Fire and Rescue	**D Turner- Stewart**	**38.8**	**33.1**	**35.3**	**2.1**
Armed Forces & Resilience	K Deanus	0.1	0.1	0.1	0.0
Comms, Public Affairs & Engagement	T Oliver	2.1	2.1	2.0	(0.0)
Communications, Public Affairs and Engag		**2.2**	**2.2**	**2.1**	**(0.0)**
PPG Leadership	T Oliver	0.3	0.3	0.3	(0.0)
Economic Growth	M Furniss	1.3	1.3	1.2	(0.0)
Prosperity, Partnerships and Growth		**1.6**	**1.6**	**1.5**	**(0.1)**
Community Partnerships	D Turner-Stewart	1.5	1.5	1.4	(0.1)
Customer Services	D Turner-Stewart	3.0	2.9	2.8	(0.0)
AD Culture & Active Surrey	D Turner-Stewart	19.5	6.7	7.2	0.5
Surrey Arts	D Turner-Stewart	0.4	0.4	0.4	0.0
Trading Standards	D Turner-Stewart	3.9	2.0	1.9	(0.1)
Health & Safety	D Turner-Stewart	0.7	0.3	0.3	0.0
Coroners	K Deanus	3.8	3.7	3.8	0.1
Customers and Communities		**32.7**	**17.3**	**17.7**	**0.4**
Land and Property	N Bramhall	32.5	24.0	24.4	0.3
Twelve15	D Lewis	20.1	(1.5)	(1.3)	0.2
Information Technology & Digital	D Lewis	19.1	18.5	18.5	(0.0)
Finance	D Lewis	13.5	6.0	5.8	(0.1)
People & Change	T Oliver	7.3	7.2	7.2	(0.0)
Joint Orbis	D Lewis	7.0	7.0	7.0	0.0
Legal Services	D Lewis	5.4	4.9	5.6	0.6
Business Operations	D Lewis	4.1	2.1	2.1	(0.0)
Democratic Services	D Lewis	4.0	3.8	3.7	(0.1)
Corporate Strategy and Policy	D Lewis	2.1	1.6	1.5	(0.1)
Executive Director Resources	D Lewis	2.0	1.9	2.1	0.2
Transformation and Strategic Commissioning	D Lewis	1.4	1.4	1.0	(0.4)
Performance Management	D Lewis	0.2	0.2	0.2	(0.0)
Resources		**118.6**	**77.0**	**77.5**	**0.5**
Corporate Expenditure	D Lewis	**108.0**	**84.7**	**82.2**	**(2.5)**
Total before DSG High Needs Block Offset		**1,596.4**	**1,012.9**	**1,037.4**	**24.5**
DSG High Needs Block Offset		**27.2**	**27.2**	**27.2**	**0.0**
Total Budget Envelopes		**1,623.6**	**1,040.1**	**1,064.6**	**24.5**
Central funding			**(1,040.1)**	**(1,040.1)**	**0.0**
Total Net revenue expenditure including DSG HNB		**1,623.6**	**0.0**	**24.5**	**24.5**

9

Balance Sheet Indicators

Debt

1. During the three months to 30 September 2022, the Council raised invoices totalling £122m. Overdue debt is the total debt less those balances not immediately due (i.e. less than 30 days old). There was a total £38.9m of overdue debt at the end of September, an increase of £2.4m since the last quarter.

2. Unsecured social care overdue debt has increased by £0.4m over the quarter. The Financial Assessments & Income Collection Team in ASC responsible for the recovery of social care debt take a range of actions to recover unsecured debts, In addition to undertaking probate searches, the team agree instalment arrangements, pursue recovery action, including via the Council's legal services team if necessary and take action to secure the debt where possible.

3. General debt increased has decreased by £3.5m since the last quarter.

4. Clinical commissioning group (CCG) debt has increased by £3.2m since the last quarter, although as with general debt the increase largely related to more recent debts and services are actively following up with CCGs to ensure the overdue debt is paid.

Table 1: Age profile of the Council's debt as at 30 September 2022

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	6.0	8.3	4.4	4.6	23.4	17.3
Care debt – secured	0.7	3.0	2.3	4.4	10.3	0.0
Total care debt	**6.7**	**11.3**	**6.7**	**9.0**	**33.6**	**17.3**
Schools, colleges and nurseries	1.7	0.5	0.0	0.1	2.3	0.6
Clinical commissioning groups	4.8	15.0	0.4	0.8	21.0	16.2
Other local authorities	1.6	1.8	-0.2	0.0	3.2	1.6
General debt	4.2	1.8	0.7	0.5	7.3	3.1
Total non-care debt	**12.3**	**19.1**	**0.9**	**1.5**	**33.9**	**21.5**
Total debt	**19.0**	**30.4**	**7.6**	**10.5**	**67.5**	**38.9**
Q1 2022/23	24.3	29.0	7.2	9.8	70.2	36.5
Change	-5.2	1.4	0.4	0.7	(2.7)	2.3

** Secured care debt does not become due until either the property is sold or after 90 days following the death of the resident, whichever is earlier.*

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

Treasury Management

5. 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 £468.7m and has not increased this year.

6. As at 30 September 2022, the weighted average interest rate of the Council's long term debt portfolio is 3.63%. The Treasury Strategy, approved by County Council in February 2022, continued the policy of internal borrowing and where necessary, to borrow short-term to meet cash flow liquidity requirements. Table 2 below shows a net £20m decrease in the Council's short-term borrowing activity since 30 June 2022.

Table 2: Short-term borrowing as at 30 September 2022

	£m
Borrowing outstanding as at 30 June 2022	103
Loans raised	10
Loans repaid	(30)
Current Balance as at 30 September 2022	**83**

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

7. The weighted average interest rate of the Council's short term external debt is 1.04% at 30 September 2022.

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Investments

8. The Council's average daily level of investments has been £138m during 2022/23, compared to an average of £57.1m during 2021/22. This reflects the receipt of grants and income at the start of the financial year, in advance of spend and the Council's strategic policy to maintain sufficient liquidity during this time and continue to borrow over shorter periods when appropriate. The current Bank of England (BoE) base rate is 2.25% with stepped increases forecasted in the next 6 months. 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 2022/23 due to the lower cash balances held and the need to maintain high liquidity.

9. **Table 3** shows the weighted average return on all investments the Council received in the quarter to 30 September 2022 is 1.48%. This compares to a 1.61% average Bank of England (BoE) base rate for the same period.

Table 3: Weighted average return on investments compared to Bank of England (BoE) base rate.	**Average BoE Base Rate**	**Weighted return on investments**
23 quarter 2	1.61%	1.48%
23 quarter 1	0.95%	0.77%
22 quarter 4	0.45%	0.28%
22 quarter 3	0.13%	0.03%
22 quarter 2	0.10%	0.02%
22 quarter 1	0.10%	0.01%
21 quarter 4	0.10%	0.01%
21 quarter 3	0.10%	0.03%
21 quarter 2	0.10%	0.14%
21 quarter 1	0.10%	0.31%

Note: All numbers in all tables have been rounded - which may cause a casting difference

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