Notice of Meeting

Council Overview & Scrutiny Committee

Date & time	Place	Contact	Chief Executive
Friday, 1 February 2013 at **10.00 am**	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	Bryan Searle or Andrew Spragg Room 122, County Hall Tel 020 8541 9019 or 020 8213 2673 bryans@surreycc.gov.uk or andrew.spragg@surreycc.gov.uk	David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Bryan Searle or Andrew Spragg on 020 8541 9019 or 020 8213 2673.

Members

Mr Mel Few (Chairman), Mr David Harmer (Vice-Chairman), Mr Mark Brett-Warburton, Mr Stephen Cooksey, Mr Steve Cosser, Mrs Clare Curran, Mr Eber A Kington, Dr Zully Grant-Duff, Mrs Sally Ann B Marks, Mr Steve Renshaw, Mr Nick Skellett CBE, Mr Chris Townsend, Mrs Denise Turner-Stewart, Mr Richard Walsh and Mrs Hazel Watson

Ex Officio Members:

Mrs Lavinia Sealy (Chairman of the County Council) and Mr David Munro (Vice Chairman of the County Council)

TERMS OF REFERENCE

The Committee is responsible for the following areas:

Performance, finance and risk monitoring for all Council services	HR and Organisational Development
Budget strategy/Financial Management	IMT
Improvement Programme, Productivity and Efficiency	Procurement
Equalities and Diversity	Other support functions
Corporate Performance Management	Risk Management
Corporate and Community Planning	Europe
Property	Communications
Contingency Planning	Public Value Review programme and process

PART 1
IN PUBLIC

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 5 DECEMBER 2012 (Pages 1 - 12)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (28 January 2013).
2. The deadline for public questions is seven days before the meeting (25 January 2013).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SELECT COMMITTEE

No referrals were made to Cabinet at the last meeting so there were no responses to report.

6 BUSINESS PLANNING 2013-2018 (Pages 13 - 140)

Scrutiny of the draft budget for 2013/2014

7 BUDGET MONITORING REPORT (Pages 141 - 186)

Purpose of the report: Scrutiny of Services and Budgets

This report presents the revenue and capital budget monitoring up-date for December 2012 with projected year-end outturn.

8 RECOMMENDATION TRACKER (Pages 187 - 198)

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings.

9 FORWARD WORK PROGRAMME (Pages 199 - 204)

The Committee is asked to review its Forward Work Programme.

10 COMPLETED AUDIT REPORTS (Pages 205 - 218)

Purpose of report: Scrutiny of Services

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last report to this Committee in December 2012 and provide an update on management action plans for audits previously reported to this Committee.

11 CHANGE & EFFICIENCY SERVICE REVIEW - IMT (Pages 219 - 224)

Purpose of the report: Scrutiny of Services Performance

This report is going to the Select Committee to provide an update on a number of IT matters including :

1. Novell, and the explanation of unplanned outages experienced late 2012
2. An update on planned PVR savings
3. Windows 8 implementation plans
4. Management/security of laptops and other mobile equipment
5. Status update on current IMT projects

12 2012/13 QUARTER THREE BUSINESS REPORT (Pages 225 - 292)

Purpose of the report: Scrutiny of Services and Budgets / Performance Management.

The Quarter Three Cabinet Business Report, to be received by the Cabinet on 5 February 2013, is provided to support the Council Overview and Scrutiny Committee in its performance, finance and risk monitoring role (for all Council services), enabling them to discuss and identify specific and relevant issues for further discussion at relevant Select Committees.

13 STAFFING BUDGET - STAFF NUMBERS AND MANAGEMENT OF VACANCIES (Pages 293 - 316)

Purpose of report: Scrutiny of Services and Budgets

The Council Overview & Scrutiny Committee considered a report on staffing budgets, numbers, vacancies and associated costs at its meeting in April 2012. As a result, it was recommended that further investigation be carried out into the way staff and vacancy numbers are calculated and managed with the objective of understanding the impact these practices have on budgeting, operational efficiency and hence the actual costs for the organisation.

A review was carried out by Zully Grant-Duff and Mark Brett-Warburton on behalf of the Committee. This report sets out their findings and recommendations for the Committee's consideration.

14 DATE OF NEXT MEETING

The next meeting of the Committee will be held at 10am on 13 February 2013.

David McNulty
Chief Executive
Published: Date Not Specified

MOBILE TECHNOLOGY – ACCEPTABLE USE

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- Distract other people
- Interrupt presentations and debates
- Mean that you miss a key part of the discussion

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Thank you for your co-operation

MINUTES of the meeting of the **COUNCIL OVERVIEW & SCRUTINY COMMITTEE** held at 10.00 am on 5 December 2012 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on 1 February 2013.

Members:

* Mr Mel Few (Chairman)
* Mr David Harmer (Vice-Chairman)
* Mr Mark Brett-Warburton
* Mr Stephen Cooksey
* Mr Steve Cosser
* Mrs Clare Curran
* Mr Eber A Kington
* Dr Zully Grant-Duff
* Mrs Sally Ann B Marks
* Mr Steve Renshaw

A Mr Nick Skellett CBE

* Mr Chris Townsend
* Mrs Denise Turner-Stewart
* Mr Richard Walsh

A Mrs Hazel Watson

Ex-officio Members:

Mrs Lavinia Sealy, Chairman of the County Council
Mr David Munro, Vice Chairman of the County Council

Present:

Denise Le Gal, Cabinet Member for Change & Efficiency
Peter Martin, Deputy Leader

* = present

143/12 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Hazel Watson and Nick Skellet. There were no substitutions.

144/12 MINUTES OF THE PREVIOUS MEETING: 14 NOVEMBER 2012 [Item 2]

The minutes were agreed as an accurate record of the meeting.

145/12 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of interests.

146/12 QUESTIONS AND PETITIONS [Item 4]

There were no questions or petitions.

147/12 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SELECT COMMITTEE [Item 5]

Key points raised during the discussion:

1. The Committee was asked to note the Cabinet response to the issues raised at the meeting of Council Overview & Scrutiny Committee (COSC) on 14 November 2012.

2. Members expressed disappointment with the Cabinet response. It was felt that the response suggested that the work of the Localism Task Group had been incorporated into the Community Partnerships Public Value Review (PVR). However, the Committee was concerned that although the Localism Task Group had provided a framework for debates around Localism to take place, the opportunity to have these discussions had not been taken by the Cabinet as not all the Task Group's recommendations had been addressed.

3. Members discussed the lack of a consistent definition of Localism. It was felt by some Members that there was a risk of it being solely an exercise in branding, rather than a robust opportunity to define an effective Localism agenda. The Committee acknowledged the importance of Localism and expressed a desire to ensure that it was implemented effectively.

Recommendations:

None.

Resolved:

That the Chairman of Council Overview & Scrutiny Committee and the Chairman of the Communities Select Committee organise a meeting with Cabinet Member for Community Services and 2012 Games and the Leader of the Council, in order to discuss the implementation of the Localism Task Group's recommendations.

Action by: Mel Few and Steve Cosser

Actions/further information to be provided:

None.

Committee Next Steps:

None.

148/12 RECOMMENDATION TRACKER [Item 6]

Declarations of interest: None.

Witnesses:

Carmel Millar (Head of HR and Organisational Development)

Denise Le Gal (Cabinet Member for Change and Efficiency)

Key points raised during the discussion:

1. The Chairman informed the Committee that he had written to the Leader of the Council in response to COSC 121. The Leader of the Council had responded that the issue was in hand.

2. The Committee was informed that COSC 122 was currently being implemented and would be available in future finance reports.

3. Responses were made available at the meeting in reference to COSC 123, COSC 124 and COSC 125. The Chairman adjourned the meeting from 10.20am to 10.30am in order to allow Members the opportunity to read the responses.

4. The Committee discussed the responses. It was recognised that in reference to COSC 123 the terminology had the benefit of reinforcing the concept of the "psychological contract" between employer and employee. However, it was emphasised that there was a need to ensure that the "psychological contract" was supported by the formal contract of employment. The Committee still believed that the wording "promise" raised expectations that could not be met and urged that this wording be reconsidered.

5. Members continued to voice their concerns that the target of 100% effective appraisals by 2017 was still not acceptable. It was expressed that appraisals were an opportunity to cascade down the key strategic objectives through the workforce, and that by deferring a target of 100% effective appraisals until 2017 it left the potential to create gaps in communicating key priorities.

6. The Committee outlined the need for regular performance appraisals and questioned whether there were problems with conducting and monitoring the appraisal process. The Head of Human Resources & Organisational Development outlined that appraisals were a top priority for the organisation, that the appraisal process itself was sound and that there were a number of initiatives in place to drive the emphasis on regular appraisals forward. This included training of both appraisees and appraisers.

7. The Committee was informed that there was a need to ensure that the appraisal system worked within individual service requirements. There was a discussion about the role of whole team appraisals as a means of addressing areas where there were large spans of line management responsibility. . Members expressed concerns that whole team appraisals were not effective in addressing the needs and requirements of an individual employee. The Committee discussed the possibility of having specific resource managers based within HR who could support the appraisal process in areas where it was proving difficult to deliver the 100% target.

8. It was reported to the Committee that the previous full staff surveys had indicated that 69% of staff had received an appraisal within the previous 12 months in 2011, and 73% in 2010. The Committee was informed that the results of the 2012 mini-survey indicated an improvement, particularly in the quality of appraisals, however these were pending publication.

9. The Committee asked to be provided with the individual service performance data in relation to the completion of annual appraisals. It was agreed that this would allow the relevant Select Committees to scrutinise areas where improvement could be implemented. It was explained by officers that the next opportunity for capturing appraisal completion data would be the staff survey in September 2013 and consequently figures provided to the Committee would not be the most recent.

10. The Committee noted in reference to COSC 126 and COSC 127 that the recommendations were being explored and would form part of the update report to Committee on 13 February 2013.

11. The Committee noted in reference to COSC 129 and COSC 130 that an update would be provided on 1 February 2013.

Recommendations:

That the Council Overview & Scrutiny Committee be provided with a break-down of appraisal data on a directorate by directorate level at its meeting in March 2013 in order to facilitate appropriate scrutiny by the relevant Select Committees.

Action by: Carmel Millar

Actions/further information to be provided:

None.

Committee Next Steps:

None.

149/12 FORWARD WORK PROGRAMME [Item 7]

Declarations of interest: None.

Witnesses: None.

Key points raised during the discussion:

1. The Chairman advised the meeting that he would be requesting a comprehensive list of all financial trusts the Council managed in order to scrutinise the governance and financial management thereof.

2. Subject to the review of this information it was proposed that this item be added to the Forward Work Programme as an agenda item for March 2013.

3. The Cabinet Member for Change and Efficiency welcomed the Committee's decision to scrutinise the issue. The Committee discussed the possibility of developing a framework for governance and the investment strategy as being two potential outcomes of looking at this item.

Recommendations:

None.

Actions/further information to be provided:

Financials and full details to be supplied to the Chairman.

Committee Next Steps:

The Committee will scrutinise the financial trusts managed by the County Council at its meeting held in March 2013.

150/12 CHANGE & EFFICIENCY SERVICE REVIEW - FINANCE [Item 8]

Declarations of interest: None.

Witnesses:
Sian Ferrison, Transformation and Development Manager
Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Committee was presented with an update on the progress of the Financial Management Public Value Review (PVR). It was reported that the focus has been on financial management across the organisation, and that the emphasis has been on both developing appropriate tools and training to enable good financial management.

2. In response to a question on the impact of training, the Committee was informed about the development of a new Financial Management training and development pathway programme. The training pathway programme had been directed at budget holders, and the feedback had been positive. Attendance had been at capacity for the training since its implementation and there was a waiting list for courses run from December 2012 to Spring 2013. Members raised a question regarding the logistics of the training programmes and queried what provisions were in place to deliver the training to those members of staff with workload pressures. The meeting was advised that the training sessions had been designed with these factors in mind, sessions were 3 hours long and delivered internally to 8-12 people at a time. New e-learning training packages were also in the process of being developed.

3. Members raised a question as to the progress of finalising the dashboard programme and whether there were any issues being experience in this regard. The Transformation and Development Manager responded by explaining that IMT and Finance Services had been working jointly to develop the customisation of the programme and were confident in the delivery of the budget monitoring forecasting tool and dashboard. The Committee was informed that the new dashboard worked in an intuitive manner and presented information in a clear way. The dashboard would be widely available to budget holders from the beginning of 2013. The Committee expressed an interest in having an opportunity to use the dashboard.

4. The Committee asked for examples of how the Financial Management PVR had reduced the level of bureaucracy. It was reported that this had been achieved through a number of measures; these included a risk-based approach to budget monitoring where those with stable (low-risk) budgets were no longer required to report on a monthly basis, to enable the organisation to focus resources on financial management of more complex, high risk budgets. In addition some transactions in the transfer journal processes had been automated.

5. The Committee acknowledged the achievements of the Financial Management PVR.

Actions/further information to be provided:

None.

Recommendations:

That a detailed report on the implementation of the financial dashboard and Member training programme are presented to COSC after May 2013.

Action by: Sian Ferrison

Select Committee next steps:

None.

151/12 BUDGET MONITORING REPORT [Item 9]

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Chairman began by giving a verbal update regarding the Finance Sub-Group meeting held on 3 December 2013. The Sub-Group had met with the Cabinet Member for Assets and Regeneration

Programmes and had received assurances that a Strategic Asset Paper would be published by January 2013. The Sub-Group had also met with the newly appointed Treasury Manager. It was reported that this had been felt to be a positive meeting with an assurance that a funding strategy was in the process of being developed.

2. Members raised a question regarding the reported under spend on the Walton Bridge Project. It was clarified that although the under spend was being reported for this year, the overall cost of the project would remain the same. This was due to the re-profiling of grant payments from the Department for Transport as their contribution had been received earlier than expected, leading to a consequent re-profiling of the County Council's contribution going forward.

3. The Committee raised a number of questions in relation to the Schools & Learning budget. It was queried why there was a reduction in the anticipated cost of providing Special Education Need (SEN) support to Surrey Schools. Members also questioned why an £0.8m saving by an outsourcing of some preventative services had not been pursued in 2012/2013.

4. Members requested further details on the tender process for the replacement of aged demountables in relation to schools projects, and whether this process had contributed to the delay in work beginning.

Actions/further information to be provided:

The Financial Reporting Manager agreed to provide further information to Members on the questions raised. This information would also be shared with Committee on 1 February 2013.

Action by: Kevin Kilburn

Recommendations:

None.

Select Committee next steps:

None.

152/12 COMPLETED AUDIT REPORTS [Item 10]

Witnesses:

Sue Lewry-Jones, Chief Internal Auditor

Denise Le Gal, Cabinet Member for Change & Efficiency

Key points raised during the discussion:

1. The Committee was informed that the internal audit of social media had made 4 high priority recommendations and details were tabled at the meeting. The Chief Internal Auditor informed the Committee that the current manner in which social media was being used meant that it was judged to be an activity with relatively low risk. It was noted that social media was currently managed in a centralised fashion, but as its usage became more widespread across the County there would need to be work undertaken to ensure that appropriate policies and controls were put in place. Members highlighted the need to ensure that older policies were being updated accordingly in order to take into account new technologies.

2. The Committee sought clarification on the technologies covered under the term “Social Media”. The Chief Internal Auditor confirmed that this included social networking sites and applications such as Facebook, Twitter and Flickr. It did not extend to email or telephone communications in this instance.

3. Members asked for further information regarding the Management Action Plan in place for the Review of Rental Income and the amber assessment in relation to the Property Asset Management System (PAMS) implementation. The Chief Internal Auditor explained that the implementation of PAMS was considered to be vital to progressing the Management Action Plan, however there were also appropriate interim measures in place.

4. Clarification would be provided about whether the progress report on the Voluntary, Communities, and Faith Sector (VCFS) framework audit was due to be presented to the Communities Select Committee or COSC

5. The Chairman of the Select Committee requested that the Cabinet Member for Change and Efficiency note the audit assessments of amber and red that fell within her portfolio, and monitor these accordingly.

Recommendations:

None.

Actions/further information to be provided:

None.

Committee Next Steps:

The Committee will receive further updates on completed internal audit reports at future meetings, and continue to focus its attention on audit reports with the audit opinion of either “Major Improvement Needed” or “Unsatisfactory” and/or high priority recommendations.

153/12 CHANGE & EFFICIENCY REVIEW - SHARED SERVICE CENTRE [Item 11]

Witnesses:

Simon Pollock, Interim Head of Shared Services
Neil Bradley, HR Group Manager

Denise Le Gal, Cabinet Member for Change & Efficiency

Key points raised during the discussion:

1. The Committee was provided with a high-level overview of the work undertaken by Shared Services. The Interim Head of Shared Services gave an account of the work currently underway in developing partnerships, highlighting that £1.1m income was being generated as a result of partnership work.

2. The Interim Head of Shared Services outlined for the Committee the appeal of partnership work with Shared Services to external partners. These factors included competitive pricing, a good reputation and the benefits of the public sector ethos.

3. The Committee questioned the ramifications to the County in relation to the hypothetical implications of Shared Services being unable to deliver services to partners, as a result of problems with capacity or as result of unforeseen circumstances. The Interim Head of Shared Services explained that there were several measures in place in order to ensure that there were robust evaluations of the service's capacity to deliver.

4. The Committee expressed further concerns around a possible risk to the integrity of the Council's data, given the need for partners to access areas of the County Council's IMT network. It was clarified that Shared Services worked in close conjunction with IMT to safeguard and manage any potential risk in relation to the issue.

5. The Committee was informed that challenges for Shared Services included an increase in de-centralised services, which would have potential negative impact on the efficiencies of scale in place. This was considered to be of particular concern in the areas of Education and Adult Services, where schools and care-homes could potentially choose to manage their own payrolls. There was a discussion around the potential impact a slow leakage of service provision away from Shared Services could cause, as it would prove more difficult to identify and implement effective efficiencies.

6. The Committee asked for further details on the Lean savings identified within the report. It was clarified that these referred to identified savings to other services, as a result of Shared Services having undertaken Rapid Improvement Events (RIE). These savings would be implemented at the discretion of individual services.

7. Members raised a question around the implications of the relocation of Shared Services from Conquest House to County Council. It was

reported to Committee that the move was positive as it helped foster closer working relationships with the other services. However, it was also felt that there was a potential barrier to attracting external partners and that this would be something to be explored in the future.

8. The Committee commended officers for the efficiency of the report.

Recommendations:

That a further update report be presented to the Committee in April 2013.

Action by: Simon Pollock

Actions/Further information to be provided:

None.

Committee Next Steps:

None.

154/12 SUPERFAST BROADBAND [Item 12]

Declarations of interest: None.

Witnesses:

Ben Skipp, Superfast Broadband Programme Manager
Lucie Glenday, Programme Director

Peter Martin, Deputy Leader

Key points raised during the discussion:

1. The Committee was provided with a brief update as to the current status of the Superfast Broadband project. Approval had been received from the European Commission to proceed with the project. BT had begun detailed survey work so that a deployment plan could be published in early 2013. A web presence publicising the project was being developed and would go live in the New Year.

2. The Committee questioned the estimated 0.3% who would not receive Superfast Broadband, and asked what measures were in place to identify and address issues around delivery. The Deputy Leader of the Council commented that the cost of addressing these issues had to be balanced against a practical and reasonable use of public money. It was reiterated that there would be a best endeavour to ensure that the coverage of Superfast Broadband access would be to all Surrey homes and businesses.

3. A question was raised as to the governance arrangements for the Superfast Broadband project. The Committee was informed that the work programme was overseen by a Joint SCC and BT Project Board, with a joint SCC/ BT Project Management Office running the day to day project operations from County Hall.

4. The Committee asked whether there had been suitable efforts made to ensure that the County Council was being identified as one of the key organisations in driving and developing this initiative. The Deputy Leader informed Committee that coverage from the trade press had been positive, while the public engagement with the project would be managed through County Council organised publicity events leading up to the launch of the project.

Recommendations:

None.

Actions/further information to be provided:

None.

Select Committee Next Steps:

The Committee to receive a further update report at its meeting on 13 February 2013.

155/12 STAFFING BUDGET - STAFF NUMBERS AND MANAGEMENT OF VACANCIES [Item 13]

Declarations of interest: None.

Witnesses:

Neil Bradley, HR Group Manager
Kevin Kilburn, Deputy Chief Finance Officer

Denise Le Gal, Cabinet Member for Change & Efficiency

Key points raised during the discussion:

1. The Committee was presented with a report outlining the review of the management of staff vacancies within the County Council. The Committee was informed that the purpose of the report had not been intended to question the justification of staffing levels, but to understand the process behind the management and identification of vacancies across the County Council. The Committee was informed that there was no consistent approach across individual services as to how vacancies were identified and managed. The report provided a series of recommendations that aimed to address the issues it had identified.

2. Members raised the question of the relationship between conditions of employment for agency staff and those employed directly by the County Council. It was indicated that current government legislation required employers to apply the same pay and conditions to agency staff as contracted staff after 12 weeks. It was reported that this often meant an increase in pay, as many agency staff were paid at a lower hourly rate. The Committee was also informed that prior to the legislation the cost of employing agency workers had been less than employing contracted staff for the County Council.

3. The Committee discussed the role of Select Committees in scrutinising vacancy management in directorates. It was felt by some Members that the demand-led nature of staffing in some Services, for example Adult Social Care and Children's Services, would make it difficult to scrutinise vacancy management without challenging the justification for staffing levels.

4. The Cabinet Member for Change & Efficiency welcomed the principles behind the report, however also raised questions about the implementation of the recommendations. The Committee was informed that using a zero-based budget to determine staffing levels would be a resource-hungry process and difficult to implement on an annual basis without incurring significant costs.

5. It was agreed that further consideration should be given to the wording of the recommendations arising from the review, and that the report should be brought back to the next meeting of the Committee

Recommendations:

None

Actions/further information to be provided:

The Committee to review the report at its meeting on 1 February 2013.

Select Committee Next Steps:
None.

156/12 DATE OF NEXT MEETING [Item 14]

It was noted that the next meeting of the Committee will be at 10.00am on Friday 1 February 2013.

Meeting ended at: 12.52 pm

Chairman

Cabinet

Tuesday, 5 February 2013 at 2.00 pm

Ashcombe Suite, County Hall,
Kingston upon Thames, Surrey KT1 2DN

Item 6

REVENUE AND CAPITAL BUDGET 2013/14 TO 2017/18

This paper has been circulated as part of the Cabinet agenda for the meeting on 5 February 2013. The agenda is available to view at: www.surreycc.gov.uk/committeepapers

If you would like a copy of this paper in another format, eg large print or braille, or another language please either call 020 8541 9068, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 9698, fax 020 8541 9009, or email james.stanton@surreycc.gov.uk.

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SURREY COUNTY COUNCIL

CABINET

DATE: **5 FEBRUARY 2013**

REPORT OF: **MR DAVID HODGE, LEADER OF THE COUNCIL**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR CHANGE & EFFICIENCY**

SUBJECT: **REVENUE AND CAPITAL BUDGET 2013/14 TO 2017/18, TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

To propose and recommend to the Full County Council:

- the draft revenue and capital budget for the five years 2013-18 and the level of the council tax precept for 2013/14; and
- the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2013-18, the policy for the provision of the repayment of debt (minimum revenue provision (MRP)), and the treasury management policy.

RECOMMENDATIONS

It is recommended that the Cabinet makes the following recommendations to the Full County Council on 12 February 2013:

Cabinet recommendations to Full County Council on the revenue and capital budget:

1. Note the Chief Finance Officer's statutory report on the robustness and sustainability of the estimates and the adequacy of the proposed financial reserves (Annex 2).
2. Note that dispensation has been sought for all county councillors to ensure their eligibility to vote on the recommendations in this report without any risk of non-compliance with the Localism Act 2011.
3. Set the County Council precept for band D council tax at £1,172.52, which represents a 1.99% increase.
4. Agree to maintain the Council Tax rate set above and delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals following receipt of the Final Financial Settlement.
5. Approve the County Council budget for 2013/14.
6. Agree the capital programme proposals specifically to:
    - fund essential schemes over the five year period, schools and non-schools, to the value of £695m including ring-fenced grants;
    - seek to secure capital receipts over the five year period to 2017/18 of £50m; and

- make adequate provision in the revenue budget to fund the capital programme.

7. Require Strategic Directors and Senior Officers to maintain robust budget monitoring procedures that enable Cabinet to monitor the achievement of efficiencies & service reductions through the monthly budget monitoring Cabinet reports, the quarterly Cabinet Member accountability meetings and the monthly scrutiny at the Council's Overview & Scrutiny Committee.
8. Require an approved business case for all revenue invest to save proposals and capital schemes before committing expenditure.

Cabinet recommendations to Full County Council on treasury management and borrowing:

9. Approve the Treasury Management Strategy for 2013/14 and approve that their provisions have immediate effect. This strategy includes:
   a. the investment strategy for short term cash balances;
   b. the prudential indicators (Annex 1, section B, Appendix B1);
   c. the treasury management policy (Annex 1, section B, Appendix B8);
   d. the minimum revenue provision policy (Annex 1, section B, Appendix B7).

It is further recommended that Cabinet makes the following decisions:

10. Approve the medium term financial plan (MTFP) for the financial years 2013-18, which includes:
    - approve the total Schools Budget of £621.5m (Annex 1, section A, paragraphs A32 to A34).
    - set the revenue risk contingency at £13m to mitigate against the risk of non-delivery of service reductions & efficiencies.
    - amend earmarked reserves (as in Annex 1, section A, Appendix A7) and apply £12m of general balances to support the 2013/14 budget.
    - apply £11m of the approved carry forward revenue budget from 2012/13 to support the 2013/14 revenue budget.
11. Agree to begin the process of reviewing the revenue budget and capital programme set out in the MTFP (2013-18) immediately after the first quarter of 2013/14.
12. Note the final detailed MTFP (2013-18) will come to Cabinet on 27 March 2013 for approval following scrutiny by Select Committees.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 12 February 2013 to agree the summary budget and set the council tax increase for 2013/14. Cabinet advises the Full County Council how best to meet the challenges the Council faces. The reasons underpinning the recommendations Cabinet is asked to make include:

- to ensure the Council maintains its financial resilience and protects its long term financial position;
- to enable the Council to meet the expectations of Surrey's residents as confirmed in their responses to the in depth consultation exercise;
- to provide adequate finances for key services such as school places, highways, adults social care and protecting vulnerable people.

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DETAILS

Introduction

1. This report brings together information to support Cabinet's decisions about Surrey County Council's overall financial planning. Among these is to set the rate of council tax for 2013/14.

2. It also summarises for the five financial years 2013-18 the Council's:

   - revenue and capital budgets;
   - financial and funding strategies; and
   - treasury management and borrowing proposals.

Revenue and capital budget

Revenue budget

3. The Local Government Finance Act 2012 brings significant changes to the system of local government finance operating from financial year 2013/14, in particular:

   - local retention of business rates; and
   - localisation of council tax support.

4. These changes bring a welcome shift to link local funding more closely to local economic growth and prosperity. However, the changes are complex and implementation brings increased volatility and uncertainty about actual levels of funding that will be generated locally. The ongoing challenging national economic outlook exacerbates these features.

5. The above makes prudent financial planning more critical, and complex. After allowing the changes to settle, Cabinet propose to review the MTFP 2013-18 at the end of the first quarter of 2013/14.

6. The Council's current medium term financial plan (MTFP 2012-17) set out a sustainable budget based on a council tax rise limited to 2.5% each year and delivery of £206m service reductions & efficiencies. Surrey is the most dependent of all shire counties on council tax for its funding (i.e. it receives the lowest proportion of grant) as illustrated in Figures 1 and 2 below. This makes the level of council tax particularly important in determining the long term financial stability of the Council.

Figure 1 Spending power – Surrey County Council

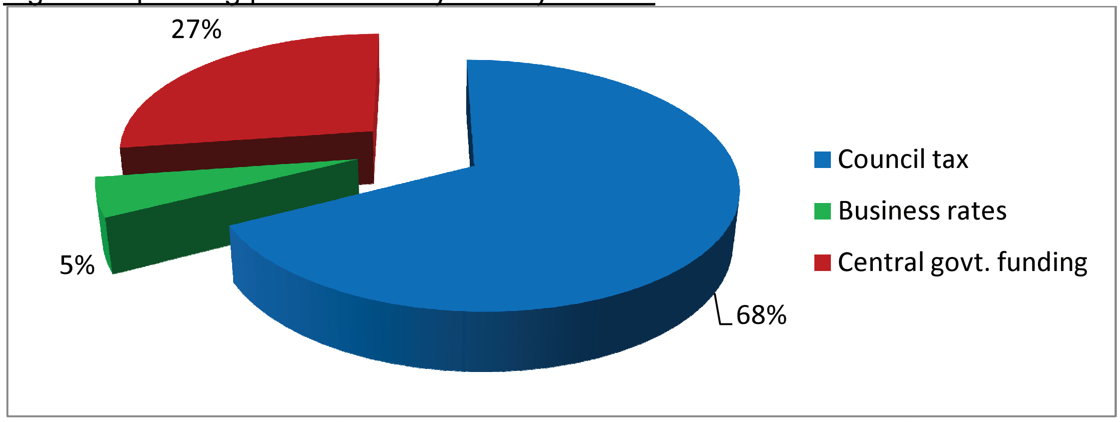
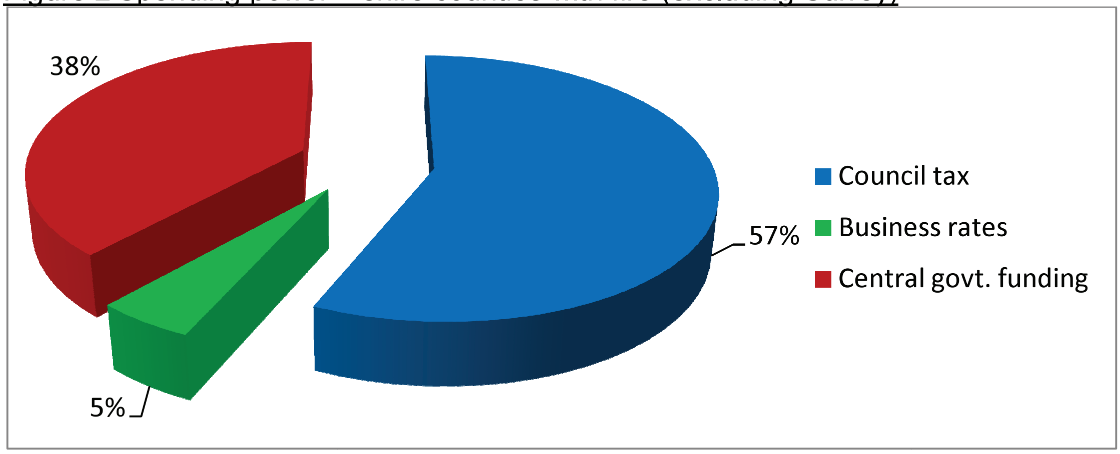


Figure 2 Spending power – shire counties with fire (excluding Surrey)



7. The decision as to what council tax rate to set for 2013/14, should be made in the context of the following parameters:

   - **Council tax freeze grant 2013/14**
     Offered by Government at the rate equivalent to a 1% rise, payable for two years to councils that freeze or reduce their council tax in 2013/14.
   - **Excessive council tax rise threshold 2013/14**
     Set by Secretary of State, Eric Pickles at 2% (in the Provisional Financial Settlement), above which a council must hold a referendum using a prescribed format to determine whether it has local residents' support for the rise proposed.

8. After due challenge, scrutiny and deliberation, Cabinet proposes a below inflation council tax rise of 1.99% in 2013/14, reverting to the current MTFP strategy of a council tax rise limited to 2.5% each year after that up to 2017/18.

9. Figures 3 and 4 overleaf show over the four years (2010 to 2014) the demand for services within the Council are up £204m. Over the same period the Council has seen government grant reduce by £48m, adding £252m pressure to the budget. During the same period, the Council has responded by delivering £194m of on-going service reductions & efficiencies and secured £37m additional funding through council tax rises. Having achieved these substantial savings, the shortfall in 2013/14 is proposed to be funded through use of the Council's balances, specifically set aside in recent years in anticipation of needing to smooth achievement of efficiencies over financial years.

Figure 3 Change in pressures and savings 2010 to 2014

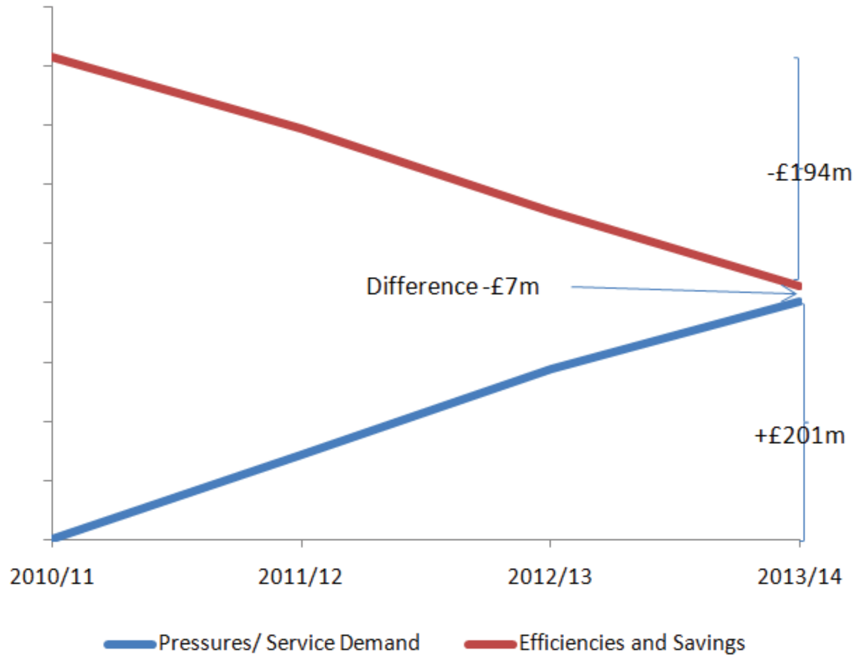
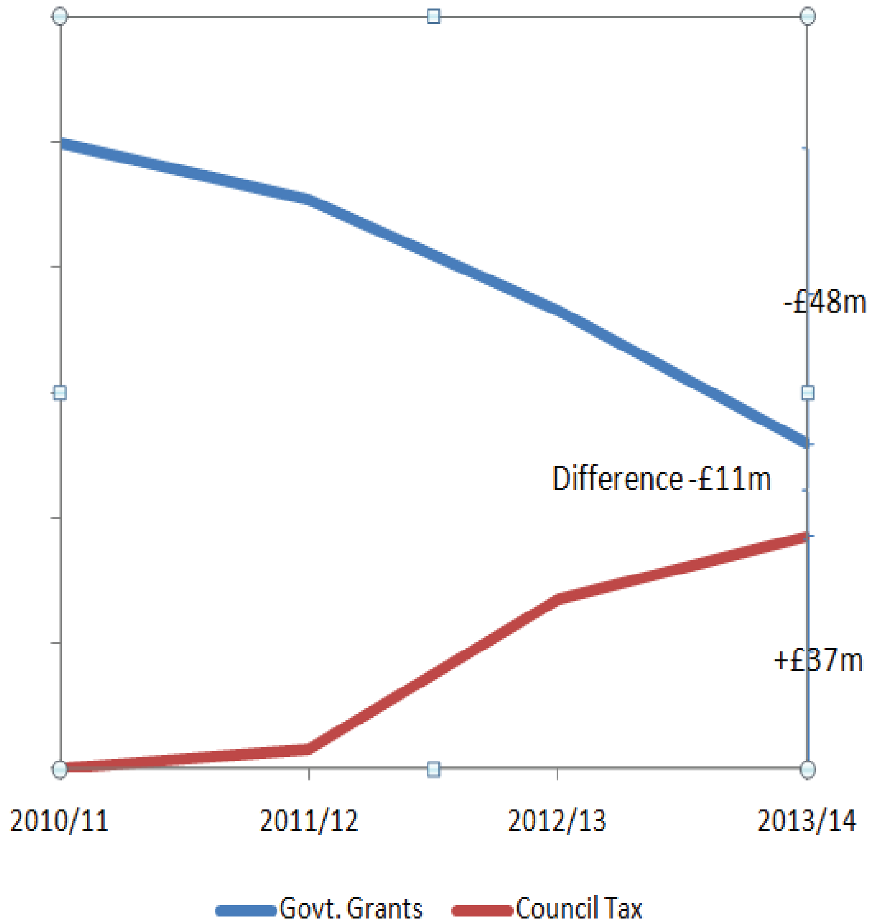


Figure 4 Change in funding 2010 to 2014



10. The forecast for service demands is expected to continue, meaning the Council's financial position is expected to remain challenging and could worsen. Spending

pressures arise mainly from increases in demand volumes for adult social care, school places and children's services.

11. In addition, the Council will start to address a £400m maintenance backlog on a highways network that is among the most heavily used in the country and other work to enable Surrey businesses to sustain, grow and thrive. Surrey's business base is a major contributor to the UK economy[1], second only to London and bigger than Birmingham, or Leeds and Liverpool combined, meaning that the Council's action to support Surrey's economy significantly benefits not just the local population, but the whole UK.

<u>Capital programme</u>

12. The Council has a substantial capital programme, approved as part of the MTFP 2012-17, and proposes to increase this programme to reflect the following changes:

    - recognise the additional demand for school places (from 8,000 to 12,000) by adding £45m to the programme;
    - add £25m over five years to partially address the backlog of highways repairs;
    - roll the annual recurring programme of property and highways maintenance forward into 2017/18.

13. This programme is funded from a combination of: Government capital grants, capital receipts, third party contributions, revenue reserves, and borrowing.

14. During 2012/13, the Council has reviewed the funding of this capital programme as follows.

    - In view of generally depressed property prices in the economy, asset disposals will only be completed where the Council cannot redevelop or reuse property to deliver value for money.
    - Third party contributions are expected to grow over the next five years following the introduction of the community infrastructure levy (CIL).
    - The level of funding through revenue contributions and borrowing is constrained by affordability of borrowing costs within revenue resources. This report sets out an up-dated minimum revenue provision policy and borrowing strategy aimed at most effectively linking the assets' useful lives with funding.

15. Finally, the level of government grant available to fund this capital programme remains unclear; over half of the anticipated government grants for 2013/14 have, at the date of this report, yet to be announced by Government and will not be known for future years until the next financial settlement. In view of this uncertainty the Cabinet proposes to review the capital programme once more details of government funding are known.

16. Annex 1A, from paragraph A67 and Appendix A4 provide further details of the Council's capital programme.

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[1] Surrey contributed £5.8bn in income tax and £28.3bn gross value added (GVA) to the UK economy in 2009. More GVA than Birmingham (£20.1bn) or Liverpool (£8.6bn) and Leeds (£17.8bn)

Treasury management and borrowing strategy

17. Each year the Full County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changed market conditions, changes in regulation, and other changes in the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. Annex B sets out updated versions of the County Council's treasury management policy statement and treasury management strategy.

18. The treasury management strategy since 2009/10 has followed an extremely cautious approach as a direct result of the Council's Icelandic bank experience. Moving forward into 2013/14, several changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite.

19. The changes are detailed in Annex 1B, and are summarised below.

    i. To maximise the benefit of current unprecedented low interest rates and high cash balances and set a minimum cash balance of £49m.
    ii. To expand the current counterparty list of institutions to which the Council will place short term investments to reflect market opinion and formal rating criteria. This means that Barclays Bank, whose rating change in 2012 reduced and effectively removed them from the eligible list, are now eligible again.
    iii. To increase the monetary limit for the two instant access accounts (Lloyds and RBS) from £40m to £60m since both have nationalised status and therefore minimum risk.
    iv. To adjust the Council's Minimum Revenue Provision policy.

CONSULTATION:

20. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a statistically significant sample.

21. The key findings are as follows:

    - the Council's current spending closely reflects the spending priorities of Surrey's residents;
    - the Council understands its residents;
    - a majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made;
    - residents attach value to the Council's services and reductions will cause dissatisfaction.

22. In addition, the Leader and Chief Finance Officer have held face to face meetings with representatives of Surrey's business community, voluntary sector and trade unions in October 2012 and January 2013.

RISK MANAGEMENT AND IMPLICATIONS:

23. The Council maintains an integrated risk framework to manage the significant challenges it faces and the associated emerging risks. The specific risks and opportunities facing the Council and recorded in the Leadership Risk Register are:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies;
- delivery of the waste infrastructure; and
- changes to health commissioning.

24. The Chief Finance Officer is satisfied the proposed budget, including increased risk contingency, general balances & reserves are sensible to address these risks.

Financial and Value for Money Implications

25. All the documented budget targets have been subject to a thorough value for money assessment.

Section 151 Officer Commentary

26. As required by legislation, the Chief Finance Officer has written a separate report, which is attached at Annex 2.

Legal Implications – Monitoring Officer

27. A dispensation has been sought for all county councillors to avoid any risk that they have a disclosable pecuniary interest which could affect their eligibility to vote on the recommendations in this report.

28. In view of the uncertainty highlighted in paragraph 15 of this report the Council has been asked to delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals to maintain the council tax rate it sets, should the Final Financial Settlement result in any late changes. If any such proposals cannot be accommodated without changes to the capital or borrowing strategies approved by Council a further report will need to be presented to Full Council in due course.

Equalities and Diversity

29. In approving the budget and the Council tax precept, the Cabinet and Full County Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010. Some management actions to meet the spending targets may have an equalities impact. Strategic Directors will consider these as they develop their detailed implementation plans, completing equality assessments as relevant and reporting their findings before the Cabinet sets detailed budgets on 27 March 2013.

30. In approving the overall budget and precept at this stage, the Cabinet and Full County Council will be mindful of the specific references in this report to the impact on people with protected characteristics under the Equality Act 2010 -

particularly the intention to improve services for vulnerable adults and children, supporting children and young people not in education, training or employment, and enabling elderly people to live independently.

WHAT HAPPENS NEXT:

31. The Full County Council will set its budget and council tax precept on 12 February 2013.

Contact Officer:
Sheila Little, Chief Finance Officer and Deputy Director of Change & Efficiency
Tel 020 8541 9223

Consulted:
Cabinet, Select Committees, all County Council Members, Chief Executive, Strategic Directors, Surrey's business community, voluntary sector, residents and trade unions.

Annexes:

Annex 1 – Section A	Revenue & capital budget report
Annex 1 – Section B	Treasury management strategy report
Annex 2	Chief Finance Officer Statutory Report (Section 25 report)

Appendices:

Appendix A.1	National economic outlook and public spending
Appendix A.2	Spending Review 2013 including details of provisional government grants for 2013/14
Appendix A.3	Revenue budget proposals
Appendix A.4	Capital programme proposals
Appendix A.5	Reserves & balances policy
Appendix A.6	SIMALTO results
Appendix A.7	Earmarked reserves
Appendix B.1	Prudential indicators - summary
Appendix B.2	Prudential indicators – details
Appendix B.3	Global economic outlook and the UK economy
Appendix B.4	Treasury management scheme of delegation
Appendix B.5	Institutions
Appendix B.6	Approved countries for investments
Appendix B.7	Annual minimum revenue provision (MRP) policy statement
Appendix B.8	Treasury management policy

Sources and background papers:
- DCLG revenue and capital provisional financial settlement papers from the DCLG web-site
- Budget working papers
- Various government web sites detailing provisional financial settlement details
- CIPFA Prudential Code for Capital Finance
- CIPFA Treasury Management in the Public Services: Code of Practice

- Investment guidelines under section 15(1)(a) of the Local Government Act 2003
- Audit Commission: Risk & Return: English Local Authorities and the Icelandic Banks

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Revenue and capital budget

Introduction

A.1. This report proposes the medium term financial plan (MTFP) 2013-18 that Cabinet has developed at its workshops beginning in July 2012 and concluding in January 2013. Throughout this period, Members have had opportunities to influence the MTPF's development through all Member seminars and select committee scrutiny. The proposed MTFP period (2013-18) rolls forward 1 year the current MTFP (2012-17) approved by Full County Council on 7 February 2012. It covers five years, matched to the corporate strategy.

A.2. This report:

- presents integrated revenue and capital strategies for the five-year period 2013/14 to 2017/18;
- presents the Chief Finance Officer's report to the Full County Council on the robustness and sustainability of the estimates and the adequacy of the reserves the budget provides; and
- proposes a Band D council tax requirement of £1,172.52 for 2013/14 and a 1.99% rise (44p a week for band D) in the level of council tax precept to fund this.

A.3. Following the agreement of a budget by the Full County Council on 12 February 2013, detailed service budgets will be prepared and submitted to the Cabinet on 27 March 2013 for approval. These will link to directorates' strategic plans that will also be approved at the 27 March 2013 Cabinet meeting.

A.4. The Provisional Local Government Finance Settlement announced from 19 December 2012 outlined the key grants and financial factors for the first two years of the new system of local government finance that will apply from April 2013. While most elements of the settlement have now been announced, some important factors are still unknown and several new factors are inherently more volatile. All of this makes the uncertainty in the figures proposed in the medium term financial plan relatively high and subject to change as the financial environment becomes clearer. Also, at the time of writing this report the Final Financial Settlement has not been announced, adding yet further uncertainty around the proposals.

A.5. In view this high level of uncertainty Cabinet proposes to review the Council's financial position and the MTFP 2013-18 at the end of the first quarter of 2013/14.

Summarised relevant strategies influencing the revenue and capital budget

Corporate strategy

A.6. The Council's ***One County One Team Corporate Strategy*** sets out a vision to be the most effective council in England by 2017. It includes the priorities and key areas the Council is focusing on to achieve this: investing smartly to support future economic growth, protecting those residents who need most help, and transforming the way the council works with residents, businesses and partners. A robust medium term financial plan is critical to delivering these ambitions and goals and ensuring excellent value for money for residents.

Financial and funding strategy update

Financial strategy

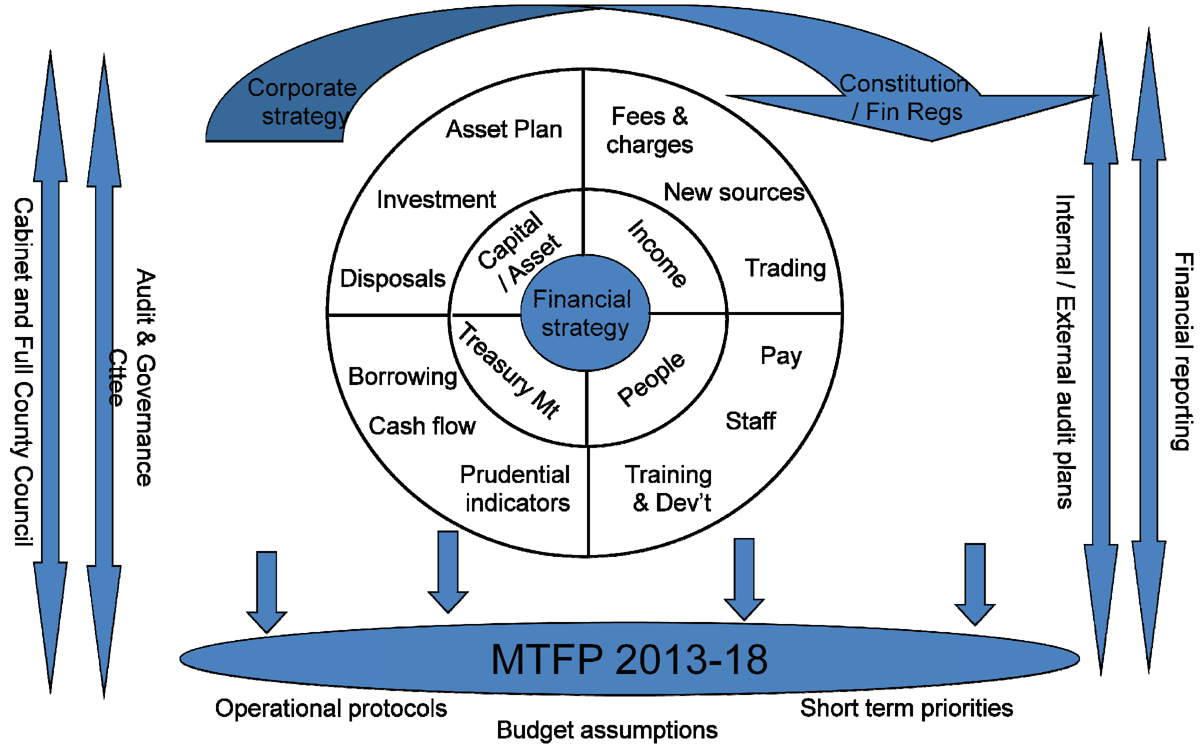
A.7. The Council's financial strategy originally set out in the 2012-17 MTFP, remains applicable and provides the strategic framework and overarching corporate financial policy document for managing the Council's finances and ensuring sound governance and compliance best practice.

A.8. The specific long term drivers of the financial strategy pertinent to the MTFP 2013-18 proposals are as follows.

- Keep any additional call on the council taxpayer to a minimum through continuously driving the efficiency agenda.
- Develop a funding strategy to reduce the Council's reliance on council tax and government grant income. The Council is heavily dependent on these sources of funding, which are under threat of erosion.
- Balance the Council's 2013/14 budget by reducing general balances to £16m and provide an increased risk contingency of £13m in the revenue budget. This reflects the present uncertainty and volatility of funding sources and spending pressures.
- Continue to maximise our investment in Surrey to:
  - improve direct services for vulnerable adults and children;
  - maintain and improve transport infrastructure to support business;
  - develop the workforce and Members and;
  - wherever possible, aim to invest in assets to generate annual income streams.

A.9. The financial strategy links a number of other strategies and essential governance arrangements as illustrated overleaf in Figure 1.

Figure1: Financial strategy in context



A.10. The financial strategy also links directly to the six components of One County, One Team Corporate Strategy established in 2012 and still relevant, as summarised below.

1. **Residents:**
   Over the medium term, the Council's strategy is to minimise the tax levels on both residents and businesses, encouraging individual philanthropy and social responsibility. The Council strives to enable informed and effective engagement in its financial planning through timely conversations and other interactions with residents, businesses and other interested stakeholders.

2. **Public value:**
   The Council will ensure it understands activity levels as well as the cost base, cost drivers and income potential of its functions, to inform cost reduction and charging policies. The Council will share its understanding transparently with operational managers and key stakeholders. Familiarity with benchmarking, trend performance and opportunities to improve, will help the Council to focus on cost reduction and good, long term planning. The Council will invest in the future and promote economic growth through innovation and constant challenge in services delivery.

3. **Partnerships:**
   The Council will co-operate and work effectively with other public bodies, including the voluntary sector, through agreeing clear objectives, responsibilities and accountabilities that are understood and recorded by all parties. The Council will implement community budgets where appropriate.

4. **Quality:**
   The Council will maintain the highest standards of financial governance, in terms of both policy and practice. The Council will maintain its financial reporting and financial management practices to ensure an unqualified audit opinion and value for money conclusion on its accounts each year.

5. **People:**
   The Council will determine clear objectives for employees and Members underpinned by investment in appropriate financial training. This will help employees and Members achieve the financial objectives. The Council will ensure that employees' skills and equipment keep pace with the financial challenges faced.

6. **Stewardship:**
   The Council will continue to produce a balanced and sustainable budget where income equals expenditure and that assures an appropriate level of financial resilience. The Council will make adequate provision to cover financial risks and ensure key assumptions are 'stress tested' (for public benefit, political acceptability and practical achievability).

A.11. The financial strategy will remain largely stable to 2018. Within this, budget assumptions, operational protocols and financial drivers may alter in the short term and each will be reflected in the annual budget planning process through the MTFP as relevant. These actions will make the MTFP the practical means to translate this strategy into reality.

Funding strategy

A.12. During 2012 the Council has developed a funding strategy further to position the Council to deliver diversified sources of funding that reduce the Council's reliance on council tax revenue and increase its resilience against future financial challenges.

A.13. Several drivers have created a pressing need to deliver this vision:

- the need to mitigate the effect of erosion of core sources of funding (council tax and government grant), jeopardising the Council's future financial resilience and prohibiting it from pursuing its long term financial strategy;
- the desire to develop a culture that focuses equally on funding sources as on spending pressures;
- the aim to address the mis-match between the size of the Council's budget and the relatively low level of income from fees and charges; and
- the need to provide a direct link to the financial strategy objectives, in particular:
  - to keep to a minimum any additional call on the council taxpayer through continuously driving the efficiency agenda; and
  - to continue to maximise our investment in Surrey to support business and wherever possible, aim to invest in assets to generate annual income streams.

A.14. The funding strategy is being delivered using a robust programme management framework to scope and plan a series of work streams, which will be delivered over a number of years.

A.15. The main work streams can be grouped into three themes.

- **Protecting the existing funding base**
  - localisation of business rates
  - localisation of council tax support;
  - schools funding.

- **Developing alternative sources of funding;**
  - economic stream (including Community Infrastructure Levy, New Homes Bonus and Local Enterprise Partnerships);
  - grants;
  - return on investments (treasury management);
  - fees and charges;
  - partnership opportunities;
  - assets (property).

- **Improving financial awareness, training and reporting;**
  - staff awareness, communications and engagement;
  - funding reporting in the medium term financial plan (MTFP);
  - financial reporting.

A.16. A number of dependencies are associated with the funding strategy, as outlined below:

- strong political appetite to lead the focus on funding and income actively;
- increased collaboration with district and borough colleagues and Surrey Leaders;
- embedding the drive for a commercial focus into individuals' roles to achieve the required ownership; and
- achieving buy-in and engagement throughout the whole organisation.

A.17. Progress against the strategy will be reported through quarterly performance reporting for the Change & Efficiency Directorate.

Revenue budget

Forecast Revenue Budget Outturn 2012/13

A.18. The revenue forecast outturn for 2012/13 at the end of December 2012 projects an underspend of £8.9m. The Cabinet will receive details of this in a separate report on this agenda.

A.19. It is proposed that this forecast underspend be carried forward to smooth spending across financial years, as part of the long term financial planning, and further consideration on use of balances and reserves will be necessary as the level of government grants receivable for future years becomes clearer (when the Final Financial Settlement is known).

Scenario planning 2013/14 to 2017/18

A.20. In setting the MTFP 2012–17, the Council assessed the remaining impact of the public expenditure constraints of 2010's Comprehensive Spending Review (CSR 2010) covering the period 2010-14 and details released in the annual local government finance settlement. The Council also made financial projections related to the changes proposed to the system of local government funding to localise retention of business rates and council tax support due to be implemented from April 2013. After including estimated budget pressures over the five years 2012/13 to 2016/17, the Council set itself a target of reducing annual revenue expenditure by £206m over the same period.

A.21. Appendix A1 summarises the national economic outlook, which highlights how the relevant economic outlook and future forecasts have changed in the last year.

A.22. The basic assumptions reflected in the MTFP (2012-17) have been assumed as remaining valid in moving this MTFP forward one year to cover 2013-18, except where emerging changes to the new funding arrangements and assumptions about growth in service pressures have changed. Cabinet members and senior officers rigorously reviewed, probed, assessed and validated the assumptions to determine the predicted scenario for medium term financial planning purposes. 80mIn developing the MTFP 2013-18, the Council has shared the stages of its medium term financial planning process more widely than previously. Cabinet members, senior officers and select committees participated in workshops and several financial planning update briefings have been provided for all members and other interested stakeholders.

A.23. The Council also conducted a robust, open, consultation and engagement process with stakeholders as outlined below from paragraph A.92 and detailed in Appendix A.6.

Budget planning assumptions

A.24. The Council's annual detailed service budget setting started in July 2012. This involved revisiting the assumptions, pressures and savings included in the MTFP 2012-17 and projecting forward a further year to 2017/18. Table 1 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 1 Budgetary assumptions 2013-18

Descriptor	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Pay inflation	1.5%	2.0%	2.0%	2.0%	2.0%
General, non-pay inflation	2.1%	2.1%	2.2%	2.2%	2.2%
Remainder of MTFP 2012-2017 saving programme	-£50m	-£33m	-£25m	-£27m	
Extra savings to meet new service funding and spending pressures	-£18m	-£39m	-£7m	-£8m	-£33m
Allowances for central pressures:					
• Revenue impact (borrowing) of the capital programme 2013-18	£1m	£2m	£6m	£8m	£9m
• Risk contingency	£13.0m	£8.0m	£8.0m	£8.0m	£8.0m

Note:

- differing percentages apply to contractual inflation
- new service funding and spending pressures includes statutory, contractual and demographic changes.

Service expenditure 2013-18

A.25. Table 2 summarises the Council's revenue expenditure budget for the five years 2013-18 and compares it to 2012/13's budget by main services.

Table 2 Revenue Expenditure Budget 2013-18

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Adults Social Care	332	341	352	369	387	411
Children, Schools & Families	289	288	296	301	298	307
Schools Delegated Budgets	519	522	516	514	514	514
Customer & Communities	71	70	72	75	73	75
Environment & Infrastructure	126	129	134	131	134	138
Public Health	0	23	29	32	35	39
Change & Efficiency	85	84	84	85	87	90
Chief Executive Office	14	15	14	14	14	14
Central Income & Expenditure	77	68	73	70	74	67
Additional savings to be found			-46	-55	-62	-79
Total expenditure	**1,513**	**1,540**	**1,524**	**1,536**	**1,554**	**1,576**

Service budget commentaries

A.26. Services are continuing to develop and test a range of proposals that will enable the Council to meet its budget reduction targets for 2013/14 and beyond. Appendix A3 contains a summary of the proposals for each budget category, with a brief commentary by services on the proposal evidenced by a summarised income and expenditure statement and expenditure by service.

A.27. Cabinet will receive the final detailed budget proposals for approval on 27 March 2013 after review by the appropriate Select Committees of detailed budget changes.

Funding 2013-18

Central Government Funding

A.28. From 2013/14, The Local Government Finance Act 2012 has fundamentally changed the local government funding system: to one based on partial retention of local business rates and localisation of council tax benefit support.

A.29. The Provisional Local Government Settlement for 2013/14 set out local authorities' "start up" funding related to the new local government financing system. Start up funding is equivalent to funding from the following sources:

- formula grant
- council tax freeze funding
- council tax support funding
- early intervention funding
- lead local flood authority funding
- learning disability & health reform funding

A.30. Table 3 shows actual level of funding included in the Provisional Financial Settlement compared to the assumptions made, illustrating that the total start up funding is close to that predicted, although there are variations within the individual areas. This demonstrates the increased uncertainty, and therefore risk, in forecasting long term planning going forwards.

Table 3 Provisional start up funding compared to expectations

	Expected funding £m	**Provisional settlement £m**
Council tax freeze grant 1	14	14
Council tax support	38	38
Early intervention grant	27	25
Local lead flood authorities' grant	0	0
Learning disabilities & health reform grant	60	68
Total grants rolled in	139	145
Formula funding	114	107
Share of returned topslice (safety net) etc.	0	2
Total start-up funding	253	254

A.31. The Council's plan is to balance its budget in 2013/14 and over the medium term of five years through a combination of service transformation mechanisms, earlier implementation of planned budget reductions & efficiencies and use of reserves. Table 4 outlines the revenue funding proposals.

Table 4 Revenue funding for 2013-18 MTFP

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
Council tax	-580	-550	-572	-586	-603	-622
Retained business rates	0	-44	-45	-47	-48	-49
UK Government grants	-916	-923	-907	-903	-903	-905
Use of reserves and balances	-17	-23				
Total funding	**-1,513**	**-1,540**	**-1,524**	**-1,536**	**-1,554**	**-1,576**

Schools' funding

A.32. The Council is required by legislation formally to approve the total Schools Budget. The Schools Budget includes schools' delegated budgets and other funding allocated to maintained schools, plus expenditure on a range of school support services specified by legislation, irrespective of the source of funding.

A.33. The Schools Budget (and the total County Council budget) excludes funding for academies.

A.34. Table 5 analyses the proposed total Schools Budget for 2013/14 is £621.5m, of which £600.7m is funded by Dedicated Schools Grant (DSG), £19.3m by Education Funding Agency (EFA) sixth form grants and £1.5m by County Council funding. The Schools Budget is a significant element of the Children, Schools and Families proposed total budget of £810m.

Table 5 Analysis of total Schools Budget for 2013/14

	Schools Delegated Budgets £m	Centrally Managed Services £m	Total £m
DSG 2013/14	482.2	111.6	593.8
DSG brought forward from previous years	5.8	1.1	6.9
	488.0	112.7	600.7
EFA sixth form grant	19.3		19.3
County Council contribution		1.5	1.5
Total Schools Budget	507.3	114.2	621.5

A.35. Centrally managed services include the cost of placements for pupils with special educational needs in non maintained special schools and independent schools, three year olds taking up the free entitlement to early education and childcare in private nurseries, part of the cost of alternative education (including part of the cost of pupil referral units), additional support to pupils with special educational needs and a range of other support services including school admissions

A.36. The County Council contribution is to fund part of the anticipated increase in new responsibilities for post 16s with lifelong learning difficulties and disabilities (LLDD).

A.37. DfE has required local authorities to simplify and standardise their formulas for funding schools in 2013/14, as a first step towards the aspiration of a national funding formula. Thus, major changes have been needed to Surrey's formula, which mean significant long term gains and losses to individual schools. In 2013/14 these gains and losses have been limited by a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee) and a 1% maximum per pupil increase (or ceiling) which is required to pay for the guarantee.

A.38. Schools will also receive pupil premium funding, based on: the number of pupils on free school meals at some time in the past six years, the number of looked after children and the number of pupils from service families (or who qualified as service children at some time within the last three years, or are in receipt of a war pension).

A.39. Funding for some support services for schools has now been transferred from general grant to a new education services grant. This grant is divided between the Council and individual Surrey academies in proportion to pupil numbers in each.

<u>Other grants</u>

A.40. There are a number of government grants that are newly included in plans. These reflect new areas of responsibility, meaning the funding will be matched by an increase in the council's need to spend. The most material of these are:

• Public health	£23m
• Education Services Grant (estimate)	£17m
• Bid funding from the Local Sustainable Transport Fund	£2m
• Social Fund	£1m
• Troubled families grant	£1m
• Business rates retention system top slice refund (estimate)	£1m

A.41. More minor sums totalling £1m will be received for responsibilities connected with the community right to challenge, the local reform & community voices funding, the Special Education Needs pathfinder project and the south-east protected landscape funding.

A.42. The Health and Social Care Act 2012 transfers substantial public health improvement duties to local authorities from 2013/14, funded by a ring-fenced specific grant based on estimates of historic spending from NHS Surrey. The budget is drafted in accordance with the £23.2m grant allocation.

A.43. This ring-fenced specific grant is designed to cover all the services transferring from the Primary Care Trust and allow for some growth. However, the Department of Health has recognised that £3.3m of genito-urinary medicine (GUM) services have been excluded incorrectly from the grant and allocated to the NHS. Discussions are on-going with the Council's health partners for this funding and a final budget position will be set within the resources available when the outcome is known.

A.44. Historic public health funding in Surrey has been below the level of our assessed need. Government stated policy is to rectify this underfunding. In the medium term the Council expects its public health grant to increase by 10% each year, which will assist the service to deal with the growing need for public health services.

Localisation of council tax support

A.45. From 2013/14, the Department for Work & Pensions will no longer have a national scheme of council tax benefit. At the same time, central government has imposed funding reductions requiring councils to make choices about changes to eligibility and levels of support. District & borough councils must implement their own local support schemes from 1 April 2013. The County Council has worked alongside Surrey districts & boroughs as they developed their schemes, with a view to:

- preserving the current high council tax collection rate,
- avoiding unintended cost consequences for council services, and
- avoiding detrimental impacts on frontline policing.

A.46. With these objectives in mind, the Council has made available up to £1m to fund the first year deficits that the Police, districts & boroughs would otherwise incur.

A.47. At the same time and to allow councils to mitigate some of the above funding reductions, the Government has localised some council tax exemptions and discounts. District & borough councils have been able to make local decisions about the level of these or whether to withdraw them altogether.

A.48. There are several direct impacts of the new arrangements:

- A reduction in council tax income. The central government subsidy previously paid into districts' & boroughs' collection funds will no longer exist. The County Council will bear its share of this loss (approximately 75%) estimated at approximately £45m.
- A new grant for council tax support (to partially compensate for the cessation of subsidy). The County Council's grant is confirmed as £38m and will be received as part of its baseline funding allocation.
- An increase in council tax yield from changes to discounts and exemptions. The approximate impact on the Council is an increase of £5m.
- A reduction in the council tax base (reflecting eligibility to council tax support).

A.49. These impacts are on-going and imply a number of newly assumed risks, namely the future levels of central government grant funding is uncertain and the cost of local support schemes will be subject to price (council tax rises) and volume (numbers of claimants) changes.

A.50. Although the Department for Communities & Local Government (DCLG) has identified the discrete council tax support scheme funding that has been included in the 2013/14 settlement, this will not be identifiable from 2014/15: making it more difficult to demonstrate how this has changed from year to year.

A.51. Changes in the volume and make-up of the claimant population will need to be monitored given different funding implications. Pensioner claimants are fully protected from localisation changes (in effect remaining on the 'old' national scheme) so any increase in their volume or proportion of caseload could have material implications.

A.52. The changes to the council tax base arising from localisation will also need to be closely monitored. This reduction has an on-going impact since it reduces authorities' ability to raise council tax and increases central dependency.

Local retention of business rates

A.53. The new business rates retention system (BRRS) will replace formula grant as the core funding for local authorities from 2013/14. This represents a major change and is the culmination of nearly two years' development. Under the current funding system, the proceeds from business rates are collected locally and paid into a national pool. Central government then distributes the pool together with revenue support grant (RSG) via the 'four block' model for formula grant. RSG is supplementary central funding to make the total available to local government up to the planned total spend on local government. RSG is received by individual local authorities as a non ring fenced grant.

A.54. The new funding system will see district & borough councils holding back half of the business rates income collected, to share locally with their county councils (80:20 in the districts' & boroughs' favour).

A.55. The remaining half represents central government's share of the amount collected, which it redistributes back to local authorities. The central share is combined with a number of existing specific grants which have been rolled into the business rates retention system.

A.56. These are allocated to each authority as a baseline funding allocation and an RSG allocation. Table 6 shows the Council's allocations as part of the national totals.

Table 6 Surrey County Council's start up funding

	2013/14	2014/15	SCC change	National change
RSG	£151.171m	£135.024m	-10.7%	-16.9%
Baseline funding	£100.570m	£103.654m	3.1%	3.1%
Start-up funding	£251.741m	£238.678m	-5.2%	-8.5%

A.57. Under the new system, central government establishes a baseline funding level for each local authority. In effect this is the local authority's portion of the "local share" (i.e. 50% of the estimated net business rates collected). This is the key figure that determines whether an authority will pay a tariff to central government or receive a top-up.

A.58. If an authority has a business rates baseline (government estimate of its business rates income) that is higher than its baseline funding level, the difference is paid to central government as a 'tariff'. All the Surrey districts are tariff authorities. Where the business rates baseline is less than its baseline funding level (as is the case for this council), an authority receives a 'top-up'. All county councils receive a top-up. Tariffs and top-ups are inflated annually by RPI to maintain their value in real terms.

A.59. Table 7 shows the calculation of the County Council's top-up funding.

Table 7 Surrey County Council's top up funding 2013/14 and 2014/15

	2013/14	**2014/15**
Funding baseline	£100.570m	£103.654m
less Business rates baseline	£43.863m	£45.208m
Top-up	£56.707m	£58.446m

A.60. The new funding system will alter the nature of the funding risks borne by the Council. Under the existing funding system, formula grant allocations are confirmed annually by the local government finance settlement. These are fixed allocations that do not vary in-year.

A.61. The Council's medium term financial planning makes the following assumptions for the new funding system:

- **Revenue support grant**
  Allocations will not change in-year, although there is a risk that the government may adjust annual control totals between years.
- **Business rates top-up grant**
  This will be fixed and predictable, being up rated by RPI annually.
- **Business rates income**
  This is uncertain and potentially volatile:
  - Budget figures reflect estimated rather than actual sums, since the latter are not known. Under the existing system, the forecasting risk was borne centrally, but under the BRRS this will be born locally as well.
  - The key drivers of volatility are the volume and value of successful valuation appeals, as these will reduce expected business rates income. At the start of the new system, the full billable sum for any outstanding appeals will have been charged to rate-payers and paid into the central pool. Any appeals that succeed after the start of the new system will have to be refunded at the expense of the local authorities concerned (i.e. the district & borough councils

and counties) and central government, in proportion to their shares of business rates income.
- In view of this, billing authorities will have had to make assumptions about the value of successful appeals in their estimates of business rates income. The County Council will bear 10% of any appeals losses across the county (districts & boroughs 40% and central government 50%).
- There are also vulnerabilities associated with the loss of large site business ratepayers from the county area.
- It is an anomaly of the system that there is no incentive upon the Valuation Office Agency (which undertakes business rates valuations) to reduce the number and value of successful appeals against their valuations, since any adverse financial consequences rest only with local and central government.

Council tax funding

A.62. The MTFP 2012-17 assumes council tax yield will increase by 2.5% annually through either an increase in the level of the tax or a compensating Council Tax Freeze Grant payment.

A.63. The Chancellor of the Exchequer announced the availability of a third Council Tax Freeze Grant to those authorities that freeze or reduced their band D council tax in 2013/14. The grant offered is equivalent to 1% of an authority's council tax, payable in 2013/14 and 2014/15.

A.64. In introducing the Provisional Local Government Settlement, the Secretary of State for Communities & Local Government set the council tax excessiveness principles (i.e. the maximum increase a council can set without a referendum) at 2.0%.

A.65. Members have received several financial planning update briefings outlining the impact on the 2013/14 budget and 2013-18 MTFP of accepting or declining Council Tax Freeze Grant and of increasing council tax at different rates. Cabinet has explored the options in depth in workshops.

A.66. The MTFP includes proposals to increase council tax by 1.99% in 2013/14 and to revert to council tax increases of 2.5% for the remaining years of the MTFP 2013-18.

Capital budget

Capital budget planning

A.67. The Council set a five year capital programme totalling £679m in the MTFP 2012-17. A significant element of this related to the supply of new school places, which totalled £244m and the recurring programme of transportation and highways maintenance totalling £150m.

A.68. For the MTFP 2013-18, the capital programme is reviewed and the new year of 2017/18 is included. The review has focused on the continuing forecast growth in school pupil numbers and the importance residents place on good roads.

A.69. In 2012/13 the council approved funding of £244m for the first five years of a ten year capital programme to provide an additional 16,000 school places by 2022. In compiling the 2013-18 capital programme it was recognised that the number of school places required was nearer 20,000 over the ten year period. This 4,000 increase in school places is largely due to the increasing birth rate and inward migration to the County. In order to address this issue effectively a formal review of the revised capital programme will be undertaken in the next six months.

A.70. For 2013/14 the capital funding for school places has increased from £42m to £72m. Overall an additional £45m has been added to the existing school place capital budget for new schemes starting in 2013/14. The existing and revised budget for the capital programme includes target procurement efficiency savings on capital schemes of 40% for primary schools and 20% for secondary schools on average.

A.71. Surrey has some of the most heavily used roads in the country and their up keep and maintenance play an important part of the county's economic success and prosperity. With a back log of £400m of repairs, the council is allocating a further £5m per year, or £25m, over the next five years.

Capital position 2012/13

A.72. The forecast in-year variance on the 2012/13 capital budget is an underspend of £7.3m against the approved revised budget of £147.9m. The principal reason for the underspend is the reprofiling of project spend.

A.73. To complete these projects, the Council will need to carry forward the funding for these schemes to future years. This decision is proposed as part of the budget outturn report and if approved, the amounts will be added to the capital budget for 2013–18.

Capital funding

A.74. Government departments have announced some, but not all, capital grants for 2013/14 and even fewer for 2014/15 in the provisional financial settlement. It is common for government departments to announce additional government grants during the financial year, so the Council includes a forecast for these. Table 8 shows the grants that have been announced for 2013/14 and those the Council still expects.

A.75. Central government provides capital grants to local authorities in two categories: 'ring-fenced' grants that are paid to local authorities for specific projects or to achieve an agreed outcome; and 'non ring-fenced' grants, which although awarded for a general purpose, can be used to fund local priorities. This is often referred to as the 'single capital pot'.

Table 8 Government capital grants 2013/14

Capital grants confirmed	**Provisional settlement**
Ring-fenced grants	
Walton bridge 2013/14	£4m
Local Sustainable Transport Fund (large)	£4m
Broadband Delivery UK (BDUK) broadband grant	£1m
Non ring-fenced grants	
Integrated transport block	£7m
Highways maintenance	£14m
Highways maintenance Autumn Statement	£3m
Local Sustainable Transport Fund	£1m
Community capacity capital grant	£2m
Fire capital grant	£1m
Total confirmed grants	**£37m**
Capital grants yet to be confirmed	**Estimate**
Ring-fenced grants	
Devolved formula capital (devolved to LA schools)	£2m
Safe cycling grant	£1m
Non ring-fenced grants	
Schools places	£15m
Schools capital maintenance	£14m
Total grants yet to be confirmed	**£32m**

A.76. In the 2012 Autumn Statement, the Chancellor of the Exchequer announced funding to all highways authorities for road maintenance. For Surrey County Council, this amounted to £2.6m and is a non ring-fenced grant. The Council will use this to fund its highways maintenance programme.

A.77. Capital grants are not known for future years and an estimate is made for each year. This estimate is reviewed annually and equivalent adjustments will be made to the capital programme.

A.78. Capital receipts, or income from the sale of assets, are an important part of funding the capital programme. In 2012 the Council set a target of £69m over the five year term of the financial plan from asset sales. During the year, the Council has reviewed its strategy towards asset sales in the light of generally lower property prices in the economy. Sales will only occur when property cannot be redeveloped or reused by the Council. While this will reduce the amount of asset sales over the next five years, those that are continuing have generated higher receipts.

A.79. The Council also funds its capital programme from contributions from third parties, such as developers and its own revenue budget. The part of the programme that cannot be funded by the above four sources is done so through borrowing. Table 9 shows the estimated capital funding for the period 2013-18.

Table 9 Capital funding 2013/14 to 2017/18

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Government grants	69	77	71	72	55
Capital receipts	14	26	5	5	0
Revenue reserves	1	4	3	2	4
Third party contributions	2	4	11	13	14
Borrowing	102	61	52	28	0
Total	188	172	142	120	73

Capital expenditure

A.80. Table 10 summarises the Council's capital programme for the five years of this medium term financial plan. This is shown in more detail in Appendix A4. Inclusion of a project in the approved capital programme is not authority for the scheme to commence. A detailed and robust business case is required before the project is approved.

Table 10 Summary of capital programme

Scheme Category	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
School places	72	80	61	48	0
Recurring programmes	63	66	65	63	65
Strategic capital projects	53	26	16	9	8
Total	188	172	142	120	73

Risk management arrangements

A.81. The Council's integrated risk framework enables identification and escalation of key risks. The Risk and Resilience Steering Group, chaired by the Assistant Chief Executive, brings together all elements of risk to provide a clear approach to managing risk and strengthening resilience across the council. The group consists of risk practitioners, directorate risk leads and specific service representatives. The Council's Risk and Resilience Forum, comprising of service risk and resilience representatives, focuses on the operational side of risk and develops risk registers, business impact analyses and continuity plans.

A.82. The Leadership Risk Register contains the Council's strategic risks. It cross-references these strategic risks to strategic directors' risk registers and shows clear lines of accountability for each risk at both senior management and Cabinet Member levels. The Risk and Resilience Steering Group reviews the Leadership Risk Register monthly prior to review by the Corporate Board as part of performance, finance and risk monitoring.

A.83. Cabinet receives the Leadership Risk Register as part of the quarterly business report. Audit & Governance Committee also reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Select Committee.

A.84. Significant financial and reputational risks and opportunities facing the Council and recorded in the Leadership Risk Register include:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies
- delivery of waste infrastructure
- changes to health commissioning.

A.85. Senior management and Members regularly monitor and manage these risks through the specific project boards, steering groups and partnerships to ensure that opportunities are exploited and the resulting risks are controlled to a tolerable level.

Reserves & balances

A.86. In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the net budget requirement, i.e. between £15m to £19m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. Going into 2012/13 the Chief Finance Officer recommended that the level of general balance was increased, to a maximum of £30m, in recognition of the unprecedented austerity agenda and anticipated future high level of service reductions & efficiencies likely to be required in future years.

A.87. In fact the Council's available general unallocated balances at 1 April 2012 were £28.8m. Going into 2013/14 the Chief Finance Officer recommends that the level of general balances is reduced to £16.8m by using £12m to support the 2013/14 revenue budget on a one-off basis. While significant service reductions & efficiencies remain to be delivered, this approach is considered to be prudent when combined with the proposal to increase the risk contingency within the revenue budget from £8m to £13m to mitigate in the base budget against the risk of non-delivery of service reductions & efficiencies in 2013/14.

A.88. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. The forecast total balance for all earmarked reserves at 31 March 2013 is £99.7m, down from £112.1m on 31 March 2012.

A.89. The MTFP (2013-18) includes the creation of a new reserve. To plan for future reductions in government grants and to help minimise council tax increases in future, the Council is creating a Revolving Investment & Infrastructure Fund to provide the revenue costs of funding initiatives that will deliver savings and enhance income in the longer term. This reserve will be set up with £20m, which is funded from combining the former Financial Investment Reserve of £9.5m and the Investment Fund of £5.0m. The balance will be made up from the surplus on the council tax collection fund.

A.90. The budget also includes planned contributions to and from the earmarked reserves. The Budget Equalisation Reserve holds the carried forward underspending from the previous year. This is currently forecast to be £11m and is planned to support the 2013/14 revenue budget.

A.91. In line with the MTFP (2012-17), there is a planned contribution of £2.1m to the Economic Downturn Reserve; created to allay the risks of erosion in the council's tax base due to the impact of the localisation of council tax benefit, business rate retention and any further downturn in the economy. The revenue budget also includes provision for interest payments to support the borrowing in line with the capital programme. However, there is a risk that if interest rates or other borrowing conditions change, then it would be better value for money in the medium to long term of borrowing in advance. An Interest Rate Risk Reserve of £3.7m would allow the flexibility for the council to borrow funds early if the circumstances changed. The balance of this reserve would be reviewed annually. Appendix A7 summarises the level and purpose of each of the Council's earmarked reserves, while Appendix A5 sets out the Council's policy on reserves and balances.

Engagement and consultation

A.92. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a good sample. There are further details on the methodology and results in Appendix A6. The summary headlines were as follows:

- **The Council's current spending closely reflects the spending priorities of Surrey's residents:**
  A majority of residents would leave the allocation of current spend as it is now, altering the existing budget only slightly through increased investment in highways services, with corresponding reductions to the opening hours of libraries and recycling centres.

- **The Council understands its residents:**
  The research company who ran the exercise reported that the similarity

between the council's current spending and residents' preferences was notable and not typical for councils.

- **A majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made in the following areas:**
  Highways maintenance, supporting young people into education, employment or training (including more apprenticeships), and supporting more older people to live independently

- **Residents attach value to the Council's services and reductions will cause dissatisfaction:**
  If service levels were scaled back to the most basic level that was presented in the budget survey, 96% of respondents indicated they would complain to the council.

A.93. The Leader and Chief Finance Officer have also held a series of face-to-face meetings with key partners and stakeholder groups, including local businesses, the voluntary, community and faith sector, and trade unions. The feedback from engagement and consultation activities was incorporated into the Council's budget scenario planning workshops and briefing sessions.

This Annex is supported by seven appendices:

Appendix A1	National economic outlook and public spending
Appendix A2	Settlement 2013 including details of provisional government grants for 2013/14
Appendix A3	Revenue budget proposals
Appendix A4	Capital programme proposals
Appendix A5	Policy statement on reserves and balances
Appendix A6	SIMALTO results
Appendix A7	List of earmarked reserves

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National economic outlook and public spending

A.1.1. The Council's financial and service planning takes place within the context of the national economic and public expenditure plans. This appendix explores that context and identifies the broad national assumptions within which the draft budget and MTFP have been framed.

The economy

A.1.2. One of the Government's self imposed targets is to tackle the national budget deficit. After taking into account cyclical or temporary effects it seeks to balance the current budget at the end of a rolling five year period, currently up to 2017/18. The Office for Budget Responsibly (OBR) recently assessed this target in their December 2012 report and forecast that in 2017/18 the cyclically adjusted current budget (CACB) will be in surplus by 0.9%. Table A1:1 summarises OBR's forecast.

A.1.3. The amount of money the Government borrows each year, Public Sector Net Borrowing (PSNB), is also due to fall to 1.6% of Gross Domestic Product (GDP) by 2017/18 compared with 7.9% in 2011/12. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 79.9% of GDP in 2015/16 before falling in the years thereafter.

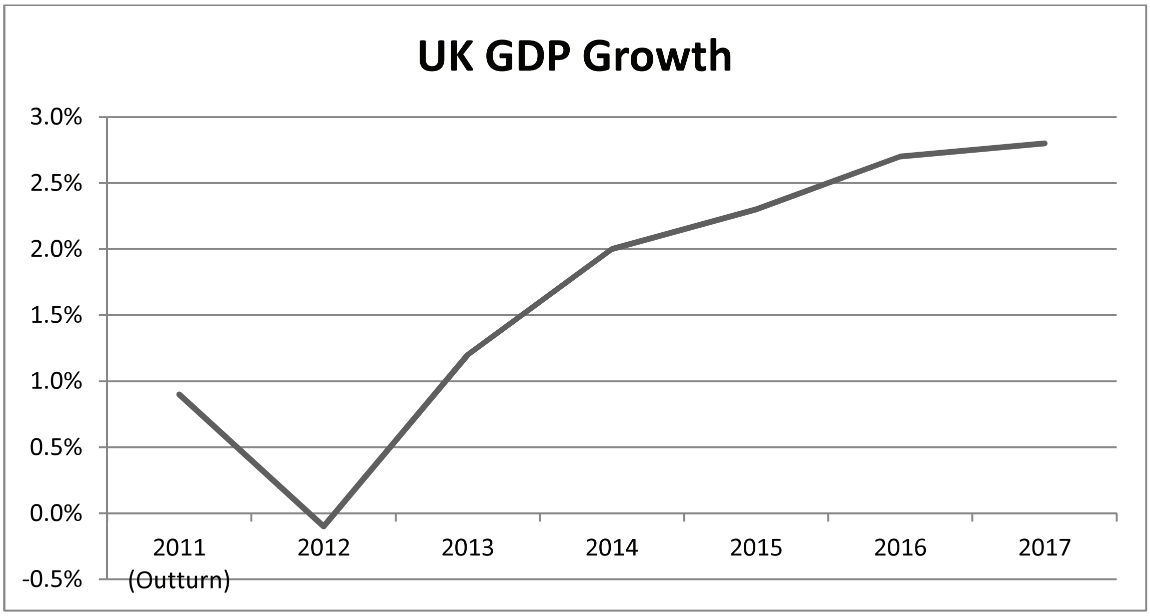
Table A1:1: UK borrowing levels as a per cent of GDP between 2011/12 and 2017/18.

	Per cent of GDP						
	Outturn	**Forecast**					
	11/12	**12/13**	**13/14**	**14/15**	**15/16**	**16/17**	**17/18**
Cyclically adjusted surplus on current budget	**-4.3**	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Public Sector Net Borrowing	**7.9**	5.1	6.1	5.2	4.2	2.6	1.6
Public Sector Net Debt	**66.4**	74.7	76.8	79.0	79.9	79.2	77.3

Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2012

A.1.4. The economy has performed less strongly in 2012 than OBR forecast in March 2012. This is a result of: weakness in net trade with other countries, weaker productivity and concerns over the Euro-area crisis depressing investment confidence. As such, OBR has lowered its economic growth forecasts for the UK to a 0.1% contraction in 2012 and 1.2% growth in 2013. The preliminary estimate from the Office for National Statistics is that the economy shrank by 0.3% in quarter four of 2012. Graph A1:1 shows OBR's growth figures for the next five years.

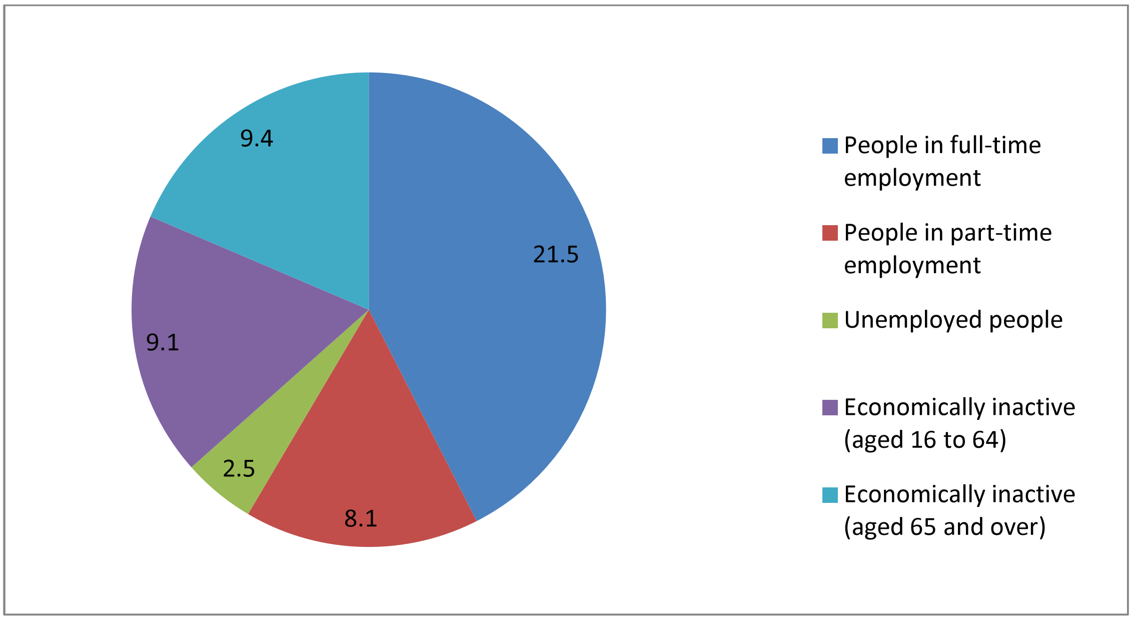
Graph A1: UK GDP growth:



Source: Office for Budget Responsibility, *Economic and Fiscal Outlook December 2012*

A.1.5. National unemployment is declining and the number of unemployed people fell by 82,000 between the two periods of May to July 2012 and August to October 2012. Figures for the three months up to October 2012 are 29.6 million people employed and 2.5 million people unemployed actively seeking work. The South East has the joint highest level of employment at 74.7% along with the East of England and the South West.

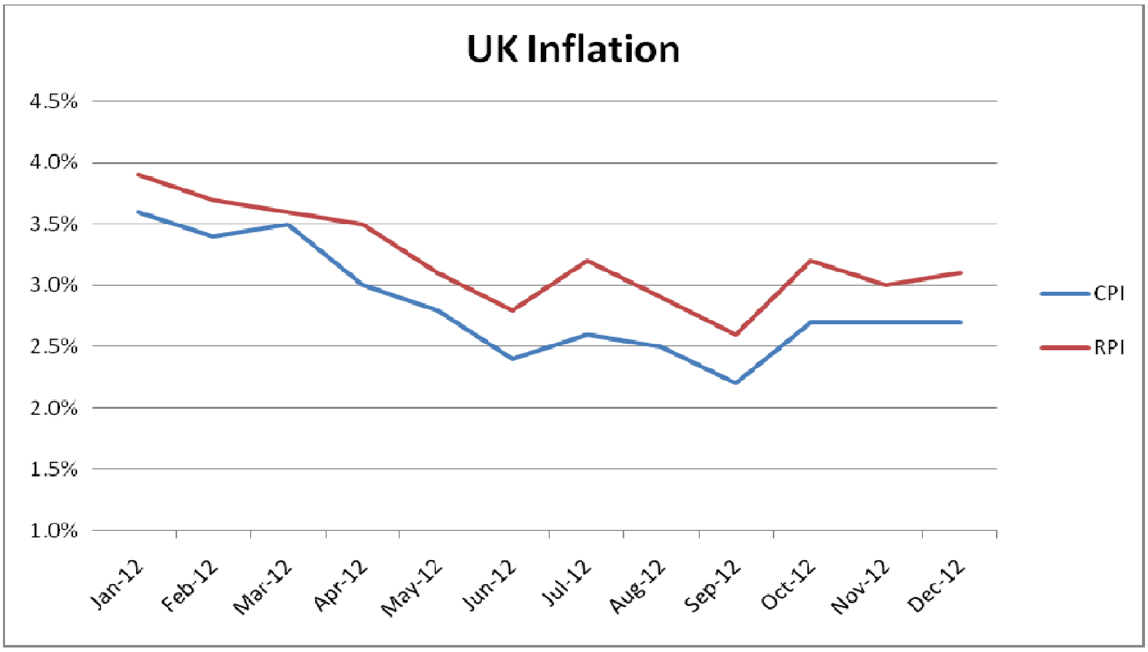
Graph A1:2 UK Labour Market August to October 2012 (millions)



Source: Office for National Statistics, *Summary of Labour Market Statistics December 2012*

A.1.6. CPI in the year to December 2012 showed an increase of 2.7% (a rate unchanged since October 2012). The largest price increase was in bills for gas and electricity but all increases were offset by downward pressures such as air fares rising at a slower rate than last year. The Retail Price Index (RPI) annual inflation stood at 3.1% (up 0.1 percentage points on November 2012). The main contributors to the rise were utility bills going up.

Graph A1:3: UK annual inflationary measures of CPI and RPI between January 2012 and December 2012.



Source: Office for National Statistics, *Consumer Price Indices October 2012.*

A.1.7. The Bank of England (BoE) is responsible for monetary and financial stability in the UK. The main tool at its disposal is to control the price of money through setting interest rates via the BoE base rate. The BoE responded to the recession with successive interest rate cuts in 2008 and 2009 and by March 2009 it was down to 0.5% where it has remained ever since. Many economic analysts are predicting that the rate will have to stay at this historic low for some time until the recovery is well established and growth levels are sustainable, with many independent forecasts not predicting an increase in the BoE base rate until 2014.

Public spending

A.1.8. On 5th December 2012 the Chancellor George Osborne presented the Autumn Statement to Parliament and in response to the economic environment the Government will continue to pursue its deficit reduction. The planned austerity programme will be extended by an additional year to 2017/18 and is an eighth year of cuts. A £6.6bn package of savings will be delivered from welfare, international development and departmental current spending. This will include a 1% reduction for the majority of departmental budgets in 2013/14, increasing to 2% in 2014/15. £5.5bn of the revenue savings will be re-invested in infrastructure as capital expenditure and provide support for long-term private investment, including science infrastructure and schools.

A.1.9. The Institute for Fiscal Studies (IFS) states that given the protection status of the NHS, schools and the aid budgets, spending on other public services will have to fall by around 3% in 2015/16. Local government will be exempt from a 1% budget reduction in 2013/14, but will be required to find 2% savings in 2014/15. For Surrey County Council (SCC) this is estimated to be a further savings requirement of between £6m and £10m.

A.1.10. Welfare spending is a significant call on central government spending, so the Government is implementing a package of welfare reforms aiming to reduce overall expenditure. These include:

- the introduction of universal credit
- the introduction of a benefits cap
- changes to housing benefit
- changes to the social fund
- the abolition of the Disability Living Allowance
- localisation of council tax support
- changes to child maintenance

A.1.11. The Government aims to make £3.7bn savings through cuts to benefits by 2015/16. Most working age benefits and tax credits will be up-rated by 1% for three years from April 2013 (below the rate of inflation). Disability and carers benefits will be up-rated by price inflation. The above changes will have both direct and indirect impacts on the council, some of which are outlined in other parts of this report. In consequence, through a cross service group, the county council is looking to anticipate and identify these and manage any service impacts arising.

A.1.12. The Government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). The annual rate of inflation has been running higher than this for the entirety of 2012 but is on a downward trend and significantly below the 5.2% peak in September 2011. This has been ascribed to lower energy prices and a fall in the price of imports in quarter two of 2012. The Bank of England (BoE) predicts inflation will stay above target in the first half of 2013 but move closer to 2% in the latter half as increased productivity and the easing of external prices such as commodities lower the pressure on companies' costs.

	Budget assumptions				
	2013/14 **£000s**	2014/15 **£000s**	2015/16 **£000s**	2016/17 **£000s**	2017/18 **£000s**
Business rates retention grants					
Revenue support grant and business rates top-up	**210,276**	**196,206**	**189,798**	**183,487**	**177,856**
Dedicated schools grant	**600,732**	**592,405**	**590,405**	**590,405**	**590,405**
Other government grants					
ACL, Skills Funding Agency	2,446	2,446	2,446	2,446	2,446
Area of ONB grant	137	137	137	137	137
Asylum Seekers	1,640	1,640	1,640	1,640	1,640
Bikeability	240	240	240	240	240
Community right to challenge	9	9	9	9	9
Education Funding Agency (ex YPLA)	19,331	19,331	19,331	19,331	19,331
Education services grant (ESG)	16,600	16,600	16,600	16,600	16,600
Extended rights to free travel & sustainable travel	835	835	835	835	835
Fire pensions	6,769	8,341	10,967	9,351	10,579
Fire revenue grant	379	405	405	405	405
GUM services	0	3,630	3,993	4,392	4,832
Lead local flood authorities	375	375	375	375	375
Local Sustainable Transport Fund	750	630	0	0	0
Local Sustainable Transp. Fund (large bid)	1,725	2,009	0.000	0.000	0
Local Reform and Community Voices DH revenue grant	700	700	700	700	700
Music Grant	1,043	1,061	1,061	1,061	1,061
New Homes Bonus	2,825	3,825	5,825	7,825	9,825
NHB-returned topslice	855	855	855	855	855
Private Finance Initiative	11,900	11,900	11,900	14,900	14,900
Public health	23,237	25,561	28,117	30,928	34,021
Pupil Premium	15,049	15,049	15,049	15,049	15,049
Registration service	21	21	21	21	21
Right to Control Trailblazers	165	0	0	0	0
SEN pathfinder	165	165	165	165	165
Social care reform grant	1,865				
Social fund (incl. administration)	1,162	1,145	1,145	1,145	1,145
South-east protected landscape	33	33	33	33	33
Troubled families	879	644	0	0	0
Youth Justice Board	896	896	896	896	896
Total other government grants	**112,030**	**118,482**	**122,744**	**129,338**	**136,099**
Total government grants	**923,038**	**907,093**	**902,947**	**903,230**	**904,360**

note: any minor casting anomalies are due to roundings.

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2013 – 18 Revenue budgets

A.3.1. This appendix contains the overall budget position for the council, then by category. Each budget is prefaced by a commentary outlining the 13/14 budget position, future issues affecting the directorate over the subsequent four years and how the directorate is going to manage the situation

A.3.2. The categories are in order:

- Adults Social Care
- Children, Schools & Families with Delegated Schools
- Customer & Communities
- Environment & Infrastructure
- Public Health (New for 13/14)
- Change and Efficiency
- Chief Executive Office
- Central Income & Expenditure

A.3.3. The revenue budgets have been rebased on the funding reporting strategy workstream recommendation from a Net Revenue expenditure position to a gross revenue expenditure position. All expenditure is gross rather than netted off for non government grant and council tax income (fees & charge). Funding is now inclusive of all government grants and local taxation (business rates surplus and council tax). However, to allow comparison with past years, both presentations of the budget are shown.

A.3.4. This appendix outlines the draft 2013/18 revenue budget by:

- income and expenditure type ; and
- total income and service expenditure

Surrey County Council

Chief Executive Officer: David McNulty

Chief Finance Officer and Deputy Strategic Director for Change & Efficiency: Sheila Little

Draft Income & Expenditure category

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
Local taxation - Council Tax	(580,026)	(550,429)	(571,843)	(585,944)	(603,546)	(621,656)
Local taxation - Business rates surplus	0	(43,863)	(45,208)	(46,655)	(47,821)	(49,303)
Local taxation	(580,026)	(594,292)	(617,051)	(632,599)	(651,367)	(670,959)
UK Government grants	(915,935)	(923,039)	(907,094)	(902,948)	(903,232)	(904,361)
Other bodies grants	(13,170)	(17,219)	(17,274)	(17,330)	(17,388)	(17,446)
Fees & charges	(74,671)	(79,355)	(80,083)	(81,089)	(82,117)	(82,342)
Property income	(3,880)	(4,125)	(4,387)	(4,483)	(4,582)	(4,683)
Income from investment	(992)	(594)	(222)	(97)	(44)	(5,166)
Joint working income	(12,232)	(15,739)	(15,940)	(16,107)	(16,254)	(16,401)
Reimbursements and recovery of costs	(27,340)	(25,905)	(20,917)	(22,003)	(22,491)	(22,872)
Total funding	(1,628,246)	(1,660,268)	(1,662,968)	(1,676,656)	(1,697,475)	(1,724,230)
Expenditure						
Service staffing	297,569	302,531	306,476	307,003	310,566	314,330
Service non-staffing	828,660	858,838	840,464	855,625	872,881	895,872
Schools - net expenditure	518,856	521,855	516,028	514,028	514,028	514,028
Total expenditure	**1,645,085**	**1,683,224**	**1,662,968**	**1,676,656**	**1,697,475**	**1,724,230**
less non government grant income	(132,285)	(142,937)	(138,823)	(141,109)	(142,876)	(148,910)
Revenue budget	1,512,800	1,540,287	1,524,145	1,535,547	1,554,599	1,575,320
less specific grant and local taxation income	(1,495,961)	(1,517,331)	(1,524,145)	(1,535,547)	(1,554,599)	(1,575,320)
Funded by reserves	**16,839**	**22,956**	**0**	**0**	**0**	**0**

Income & Expenditure by Category

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(1,628,246)	(1,660,268)	(1,662,968)	(1,676,656)	(1,697,475)	(1,724,230)
Budgets						
Adults Social Care	390,632	403,061	414,110	431,292	449,262	473,389
Children, Schools & Families	325,529	324,761	333,871	339,057	336,990	345,790
Schools Delegated Budgets	518,856	521,855	516,028	514,028	514,028	514,028
Customer & Communities	83,976	82,876	85,218	88,008	87,310	89,674
Environment & Infrastructure	135,526	142,804	145,643	143,298	146,751	150,776
Public Health		26,537	29,191	32,110	35,321	38,853
Change & Efficiency	96,704	96,219	97,491	98,039	101,030	104,305
Chief Executive Office	14,311	16,054	14,852	14,350	14,661	14,980
Policy Initiatives	1,508					
Central Income & Expenditure	78,044	69,057	73,152	70,419	74,451	72,297
Additional savings			-46,588	-53,945	-62,329	-79,862
Total	1,645,086	1,683,224	1,662,968	1,676,656	1,697,475	1,724,230
Funded by reserves savings	16,840	22,956	0	0	0	0

Government Grants

13/14 Grants	ASC £'000s	CSF £'000s	Schools £'000s	C&C £'000s	E&I £'000s	PH £'000s	CAE £'000s	CIE £'000s	13/14 £'000s
Core funding									
Business Rates Retention								**210,276**	**210,276**
Dedicated School Grant		107,618	482,177					3,991	**593,786**
Dedicated School Grant - 12/13 c/f		1,119	5,827						**6,946**
Total Dedicated schools grant	**0**	**108,737**	**488,004**	**0**	**0**	**0**	**0**	**3,991**	**600,732**
ACL, Skills Funding Agency				2,446					**2,446**
Area of ONB					137				**137**
Asylum Seekers		1,640							**1,640**
Education Funding Agency (YPLA)			19,331						**19,331**
Pupil Premium		529	14,520						**15,049**
Bikeability					240				**240**
Community right to challenge (£9,000)								9	**9**
Education Support Grant								16,600	**16,600**
Extended rights to travel		567			268				**835**
Fire pensions				6,769					**6,769**
Fire revenue grant				379					**379**
GUM services									**0**
Lead local flood authority					375				**375**
Local Reform and Community Voices Dept Health revenue grant	700								**700**
Local Sustainable Transp. Fund (large bid)					1,725				**1,725**
Local Sustainable Transp. Fund (std)					750				**750**
Music Grant				1,043					**1,043**
New Homes Bonus								2,825	**2,825**
New Homes Bonus - top slice								855	**855**
PFI								11,900	**11,900**
Public health						23,237			**23,237**
Registration Deaths				21					**21**
Right to Control	165								**165**
SEN Pathfinder		165							**165**
Social fund (incl. Administration)							1,162		**1,162**
South East Protected Landscape grant					33				**33**
Troubled Families		879							**879**
Youth Justice Board		896							**896**
Total other grants	**865**	**4,676**	**33,851**	**10,658**	**3,528**	**23,237**	**1,162**	**32,189**	**110,166**
13/14 UK Government grants	**865**	**113,413**	**521,855**	**10,658**	**3,528**	**23,237**	**1,162**	**246,456**	**921,174**
From the Balance Sheet:									
Social Care Reform grant	1,865								**1,865**
Total UK Government grants	**2,730**	**113,413**	**521,855**	**10,658**	**3,528**	**23,237**	**1,162**	**246,456**	**923,039**

Adults Social Care

Strategic Director: Sarah Mitchell
Strategic Finance Manager: Paul Carey-Kent

A.3.5. The Directorate faces pressures of £182m (£186m of movements, some of which are covered by new external funding) over the five year planning period, due mainly to the expected impact of increased numbers of people receiving services (£97m), inflation (£47m), the need to replace one-off savings (£15m) and a prudent view being taken of the possibility of a funding shortfall arising from the Government's planned implementation of reforms following on from the Dilnot Report (£20m). In that context, ASC is grateful for the additional corporate support proposed in 2013-14, which would reduce the savings requirement from £57m (were savings required to match all the pressures identified) to £44.5m in the first year of the strategy. The position remains extremely challenging, as the savings needed in 2013/14 are significantly greater than those required by the previous three years' budgets (£32m + £28m + £28m). However, the Directorate's success in 2010-13 does indicate that substantial savings can be made while the Directorate’s performance continues to improve.

A.3.6. In practice, the main impact of the savings actions planned should be to reduce the effect of those pressures. A whole suite of measures is in place designed to prevent the cost and intensity of care needs from rising: to re-able those who do require help so that long term care is not needed; to review existing packages to ensure that the most cost-effective and personalised care is in place; to minimise the cost of new packages by applying personalisation in a more creative way; and to make the best of partnership working to reduce the Council's costs. Given the scale of the challenge, sharp monitoring mechanisms are being developed at locality and county levels to help see these actions through. It is hoped that inflation can be minimised (as it has been in 2010-13) by developing joint commissioning approaches with our contracting partners. It is also critical to work closely with the NHS to obtain best value from the new structures which come into place from 1 April 2013.

A.3.7. Overall then, it is expected that spending will be considerably less than it would have been had no such actions been in place. Plans will continue to be overseen by an Implementation Board including a wide range of partner organisations and jointly chaired by the Cabinet Member for Adult Social Care and the Chairman of the Surrey Coalition, a consultative approach which has worked well to date.

Adults Social Care

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	0	(2,730)	(700)	(700)	(700)	(700)
Other bodies grants	(10,161)	(14,297)	(14,297)	(14,297)	(14,297)	(14,297)
Fees & charges	(37,800)	(37,800)	(37,800)	(37,800)	(37,800)	(37,800)
Property income:	0	0	0	0	0	0
Income from investment	0	0	0	0	0	0
Joint working income	(9,361)	(8,439)	(8,439)	(8,439)	(8,439)	(8,439)
Reimbursements and recovery of costs	(1,806)	(1,806)	(1,806)	(1,806)	(1,806)	(1,806)
Total funding	**(59,128)**	**(65,072)**	**(63,042)**	**(63,042)**	**(63,042)**	**(63,042)**
Expenditure						
Service staffing	71,943	73,765	74,072	73,695	73,301	73,167
Service non-staffing	318,689	329,296	340,038	357,597	375,961	400,222
Schools - net expenditure	0	0	0	0	0	0
Total expenditure	**390,632**	**403,061**	**414,110**	**431,292**	**449,262**	**473,389**
Less non government grant income	(59,128)	(62,342)	(62,342)	(62,342)	(62,342)	(62,342)
Revenue budget	**331,504**	**340,719**	**351,768**	**368,950**	**386,920**	**411,047**
Less specific grant income	0	(2,730)	(700)	(700)	(700)	(700)
Net Budget supported by Council Tax and general government grants	**331,504**	**337,989**	**351,068**	**368,250**	**386,220**	**410,347**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(59,128)	(65,072)	(63,042)	(63,042)	(63,042)	(63,042)
Expenditure by service:						
Personal Care & Support	291,294	297,980	308,221	325,315	343,196	366,724
Service Delivery	20,256	20,499	20,996	20,598	20,194	19,794
Transformation	2,167	3,135	3,034	3,099	3,162	3,227
Commissioning	75,258	78,753	79,113	79,482	79,860	80,742
Strategic Director	1,657	2,694	2,746	2,798	2,850	2,902
	390,632	403,061	414,110	431,292	449,262	473,389
Adults Social Care	**331,504**	**337,989**	**351,068**	**368,250**	**386,220**	**410,347**

<u>Children, Schools & Families and Delegated Schools</u>

Strategic Director: Nick Wilson
Strategic Finance Manager: Paula Chowdhury

Budget 2013/14

A.3.8. The base revenue expenditure budget for the Children, Schools and Families Directorate in 2012/13 is £289m and in 2013/14 the proposed budget is £288m, giving an overall net reduction of £1m.

A.3.9. This overall budget for 2013/14 includes increased funding of £19.1m for service pressures:

- £10.4m newly defined service requirements for the Directorate eg nursery provision for two year olds; Lifelong Learners with Disabilities and Difficulties (LLDD) transfer and a more defined role for local authorities around school improvement responsibilities.
- £4.1m around specific demand led service pressures, particularly the increase in numbers of children subject to a child protection plan and requiring services. These numbers have increased by 47% since the start of 2011 and have been a significant budget pressure throughout 2012/13, despite the unit costs reducing. The other demand led budgets affected by increasing demographics is around Special Educational Needs.
- £4.6m for general inflation, pay inflation, adjustment of carry forward funding and general demographic growth.

A.3.10. The Directorate also has included in their budget a savings target for 2013/14 of £9.7m. This has been allocated to each of the individual services – Schools and Learning £7m; Children's Services £2.2m and Services for Young People £0.5m.

A.3.11. The 2013/14 Directorate budget of £288m also includes funding reductions of £10.9m, which are mainly as a result of Dedicated Schools Grant delegation of budgets from being centrally managed to schools, plus other grant changes.

A.3.12. The schools delegated base revenue budget in 2012/13 is £519m and in 2013/14 is proposed at £522m. The total Children, Schools and Families budget for 2013/14 is £810m, compared to £808m in 2012/13.

Medium Term Financial Plan 2013-18

A.3.13. Over the five year period of the MTFP, the Directorate is anticipating budget pressures to continue around increasing child protection numbers, increasing pressure on demand led budgets and general demographic increases. Service pressures will be exacerbated as the welfare reforms are introduced and potentially more vulnerable families go into crisis.

A.3.14. School improvement is becoming an increasing issue for local authorities despite the overall funding reducing. In the new framework the old category of "satisfactory" has been replaced by a new designation of "requires improvement". The implication of this is that Surrey now needs to support around 100 schools in making urgent improvements rather than the current 15-20. This is a very significant increase in work and funding of £1.9m has been requested as part of the budget proposals.

A.3.15. The Directorate has made savings of over £41m over the last three years whilst facing the challenge of a further £29m savings over the next five years. It is expected that this target will increase over the period, due to further funding and policy changes from central government. The Directorate has recognised these challenges and has established a Public Value Programme to research and identify efficiency savings and reductions across the Directorate. The focus of this work will be around reviewing - Early Help strategies and strengthening the preventative services; disability services and support for families with complex needs. Part of this work will be about strengthening partnership working with Health, Boroughs and Districts, the Police and the voluntary sector, maximising local resources through joint commissioning, joint working practices and community budgets.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
Dedicated Schools Grant	(108,721)	(108,737)	(106,237)	(106,237)	(106,237)	(106,237)
Other UK Government grants	(6,498)	(4,676)	(4,441)	(3,797)	(3,797)	(3,797)
Fees & charges	(27,241)	(27,692)	(28,191)	(28,981)	(29,787)	(29,787)
Property income						
Income from investment						
Joint working income						
Reimbursements and recovery of costs	(8,939)	(9,165)	(9,415)	(9,415)	(9,415)	(9,415)
Total funding	**(151,399)**	**(150,270)**	**(148,284)**	**(148,430)**	**(149,236)**	**(149,236)**
Expenditure						
Service staffing	100,561	102,451	104,495	104,404	106,530	108,730
Service non-staffing	224,968	222,310	229,376	234,653	230,460	237,060
Schools - net expenditure						
Total expenditure	**325,529**	**324,761**	**333,871**	**339,057**	**336,990**	**345,790**
Less non government grant income	(36,180)	(36,857)	(37,606)	(38,396)	(39,202)	(39,202)
Revenue budget	**289,349**	**287,904**	**296,265**	**300,661**	**297,788**	**306,588**
Less specific grant income	(115,219)	(113,413)	(110,678)	(110,034)	(110,034)	(110,034)
Net Budget supported by Council Tax and general government grants	**174,130**	**174,491**	**185,587**	**190,627**	**187,754**	**196,554**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(151,399)	(150,270)	(148,284)	(148,430)	(149,236)	(149,236)
Expenditure by service:						
Children's Service	83,217	86,338	91,089	93,971	95,881	98,373
Schools & Learning	219,640	214,579	219,237	223,722	227,774	233,615
Services for Young People	17,797	20,652	20,547	18,969	15,397	15,815
Strategy & Central Resources	4,875	3,192	2,998	2,395	-2,062	-2,013
	325,529	324,761	333,871	339,057	336,990	345,790
Children, Schools & Families	**174,130**	**174,491**	**185,587**	**190,627**	**187,754**	**196,554**

Delegated Schools

Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	(518,856)	(521,855)	(516,028)	(514,028)	(514,028)	(514,028)
Total funding	**(518,856)**	**(521,855)**	**(516,028)**	**(514,028)**	**(514,028)**	**(514,028)**
Expenditure						
Schools - net expenditure	**518,856**	**521,855**	**516,028**	**514,028**	**514,028**	**514,028**
Total expenditure	**518,856**	**521,855**	**516,028**	**514,028**	**514,028**	**514,028**
Net Budget supported by Council Tax and general government grants	**0**	**0**	**0**	**0**	**0**	**0**

Customer & Communities

Strategic Director: Yvonne Rees
Strategic Finance Manager: Susan Smyth

A.3.16. The Directorate faces pressures of £8.5m over the five year planning period, predominately due to expected inflation of £7.5m which need to be covered by efficiency actions. There are no significant volume changes expected. In addition there are expected increases in grant funded Fire pension expenditure of £3.5m. Savings of £4.1m are planned over the five year period.

A.3.17. The Fire Service is continuing to implement the Public Safety Plan on a phased basis and the budget has been rebased upon an improved understanding of service pressures and changes to the timing at which savings are assessed as achievable, and to also reflect expected grant funded Fire pension increases. In response to the West Sussex withdrawal from Horley Fire Station, £0.13m has been included to allow for a temporary solution pending the results of the consultation on fire cover within the area. A one off allocation of £0.4m for the innovative contingency crewing pilot and funding of £0.4m over two years for interim arrangements to facilitate property rationalisations have also been added. There are planned savings of £2.4m resulting from property rationalisations linked to capital investment, £0.5m from implementing staff agency arrangements and additional income generation of £0.7m. Contributions to the Fire Vehicle and Equipment Replacement Reserve reduce by £2.0m over a four year period, as a result of expenditure being funded by government grant, which has helped to fund overall pressures.

A.3.18. Across the rest of Customers and Communities, planned savings and increased income of £1.3m from the previous MTFP remain on track as planned. Additional budget of £0.4m has been added to fund a team to aid economic growth building upon the Olympic Legacy. The Community Infrastructure Fund, used to award grants to community groups has been increased by £0.3m in 2013/14.

Customer & Communities

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	(10,727)	(10,658)	(12,274)	(14,900)	(13,284)	(14,512)
Other bodies grants	(3,009)	(2,922)	(2,977)	(3,033)	(3,091)	(3,149)
Fees & charges:	(9,273)	(9,135)	(9,230)	(9,325)	(9,422)	(9,519)
Property income:						
Income from investment						
Joint working income		(280)	(283)	(286)	(289)	(292)
Reimbursements and recovery of costs	(1,114)	(531)	(554)	(791)	(1,063)	(1,223)
Total funding	**(24,123)**	**(23,526)**	**(25,318)**	**(28,335)**	**(27,149)**	**(28,695)**
Expenditure						
Service staffing	57,043	57,323	58,350	58,310	58,943	59,358
Service non-staffing	26,933	25,553	26,868	29,698	28,367	30,316
Schools - net expenditure						
Total expenditure	**83,976**	**82,876**	**85,218**	**88,008**	**87,310**	**89,674**
Less non government grant income	(13,396)	(12,868)	(13,044)	(13,435)	(13,865)	(14,183)
Revenue budget	**70,580**	**70,008**	**72,174**	**74,573**	**73,445**	**75,491**
Less specific grant income	**(10,727)**	**(10,658)**	**(12,274)**	**(14,900)**	**(13,284)**	**(14,512)**
Net Budget supported by Council Tax and general government grants	**59,853**	**59,350**	**59,900**	**59,673**	**60,161**	**60,979**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(24,123)	(23,526)	(25,318)	(28,335)	(27,149)	(28,695)
Expenditure by service:						
Fire Service	45,428	45,751	47,716	49,780	48,332	49,932
Cultural Services	24,932	24,992	25,502	25,999	26,515	27,042
Customer Services	4,159	4,010	4,088	4,172	4,257	4,341
Trading Standards	2,540	2,480	2,531	2,581	2,633	2,687
Community Partnership & Safety	2,758	3,476	3,277	3,330	3,384	3,440
Directorate Support	4,159	2,167	2,104	2,146	2,189	2,232
	83,976	82,876	85,218	88,008	87,310	89,674
Customer & Communities	**59,853**	**59,350**	**59,900**	**59,673**	**60,161**	**60,979**

Environment & Infrastructure

Strategic Director: Trevor Pugh
Strategic Finance Manager: Tony Orzieri

2013/14 budget

A.3.19. Environment & Infrastructure faces pressures and growth of £5.7m in 2013/14 (net of funding changes), primarily inflation of £4.8m across all budgets including waste disposal, highways and local bus contracts. Two additional pressures are anticipated – the cost of replacing bus services previously operated by Countryliner (£0.3m) and costs of operating the concessionary fares travel scheme for the elderly and disabled (£0.3m) due to increased patronage and fares.

A.3.20. These pressures are offset by planned savings of £6.2m in 2013/14 (in addition to £10.6m expected to be made in 2012/13). These include savings from the ongoing "one team" organisational review (£1m), contract reviews (£0.8m), waste disposal (£0.6m) and savings from PVRs and the bus review (£0.4m). In addition a number of one-off savings will be made in 2013/14 while medium term strategies for delivering further sustainable savings are developed. These one off savings include use of accumulated parking income of £2.6m and other one off reductions to spend of £0.6m which includes ensuring that one-off grants are fully utilised against planned expenditure and that the Surrey Growth Fund budget remains at the level budgeted in the current year (2012/13). Where possible the impacts of these reductions will be mitigated through the use of income or developer money.

2013-18 budget

A.3.21. Over the 5 year period to 2017/18 Environment & Infrastructure faces pressures and growth of £19m, primarily inflation of £24m across the Directorate, offset by the reversal of one-off or time-limited grant expenditure and prior year funding. Work is ongoing to finalise the waste disposal contract variation and to take account of waste volume changes, and at this stage financial impacts are unclear and are therefore not reflected in this budget.

A.3.22. Over the same period savings of £7.6m are planned, plus one-off savings of £3.2m during 2013/14 explained above. Savings in Highways will rise to £3.5m by 2017/18 through efficiencies and additional income (including collaboration with SE7 partners, reducing insurance risks, improved management and recycling of waste materials, moving from reactive to planned maintenance). Environment will make savings of £1.7m by 2017/18 including by extracting value from recycled materials, reducing reliance on specialist advisors, reducing spend on waste minimisation and reviewing and reducing countryside expenditure. Savings will also be made through the one team organisational review (£1.8m) and review of bus services (£0.3m) and contract costs (£0.4m).

A.3.23. Further waste disposal efficiencies are planned in the medium term, in collaboration with partners across the Surrey Waste Partnership and SE7, by adopting a more consistent and efficient approach to disposal and recycling and taking advantage of new technologies and business models.

Environment & Infrastructure

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	(1,033)	(3,528)	(3,692)	(1,053)	(1,053)	(1,053)
Other bodies grants						
Fees & charges		(4,396)	(4,522)	(4,636)	(4,753)	(4,874)
Property income						
Income from investment						
Joint working income		(4,037)	(4,122)	(4,213)	(4,306)	(4,400)
Reimbursements and recovery of costs	(9,944)	(5,448)	(3,245)	(3,819)	(3,906)	(3,994)
Total funding	**(10,977)**	**(17,409)**	**(15,581)**	**(13,721)**	**(14,018)**	**(14,321)**
Expenditure						
Service staffing	22,355	21,203	21,132	21,181	21,487	21,917
Service non-staffing	113,171	121,601	124,511	122,117	125,264	128,859
Schools - net expenditure						
Total expenditure	**135,526**	**142,804**	**145,643**	**143,298**	**146,751**	**150,776**
Less non government grant income	(9,944)	(13,881)	(11,889)	(12,668)	(12,965)	(13,268)
Revenue budget	**125,582**	**128,923**	**133,754**	**130,630**	**133,786**	**137,508**
Less specific grant income	**(1,033)**	**(3,528)**	**(3,692)**	**(1,053)**	**(1,053)**	**(1,053)**
Net Budget supported by Council Tax and general government grants	**124,549**	**125,395**	**130,062**	**129,577**	**132,733**	**136,455**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(10,977)	(17,409)	(15,581)	(13,721)	(14,018)	(14,321)
Expenditure by service:						
Environment	61,024	64,301	64,834	62,231	62,479	64,336
Highways	47,892	49,303	50,747	53,159	55,353	56,628
Economy, Transport & Planning	26,264	29,855	30,313	28,537	29,418	30,319
Directorate costs & savings (to be allocated)	346	-655	-251	-629	-499	-507
	135,526	142,804	145,643	143,298	146,751	150,776
Environment & Infrastructure	124,549	125,395	130,062	129,577	132,733	136,455

Public Health

Director of Public Health: Akeem Ali
Strategic Finance Manager: Paul Carey-Kent

A.3.24. The Health and Social Care Act 2012 transfers substantial health improvement duties to local authorities from 2013/14, funded by a ring-fenced specific grant based on estimates of historic spending from NHS Surrey. The budget is drafted in accordance with the £23.2m grant allocation. This is designed to cover all the services transferring from the PCT, however the Department of Health have recognised that £3.3m of Genito-Urinary Medicine (GUM) Services have been incorrectly excluded from the grant and we are therefore approaching our local Clinical Commissioning Group (CCG) partners for this funding. Discussions will proceed on this basis, and a balanced budget position will be finalised within the resources available when the outcome is known.

A.3.25. In the medium term the expected 10% growth in funding each year should enable us to deal with volume and price issues, whilst recognising that there is a growing demand for Public health services and that there has been historic underfunding of Public health services in Surrey which needs to be rectified.

A.3.26. For 2013/14 and 2014/15 the budget will fund the council's new public health responsibilities including:

- The transfer of specialist public health staff from the NHS to local authorities
- The six mandatory service areas as outlined Health Lives Healthy People (DH,2011):

    1. Commissioning appropriate access to sexual health services
    2. Commissioning the NHS Health Check programme
    3. Commissioning the health child programme 5-19 years
    4. Commissioning the national child measurement programme
    5. Ensuring that plans are in place to protect the population's health
    6. Ensuring NHS commissioners receive the public health advice they need

- Commissioning of 15 discretionary services guided by local needs such as tobacco control, substance misuse services, obesity initiatives and accidental injury prevention as outlined in Health Lives Healthy People (DH, 2011).

A.3.27. In 2015 responsibility for services for children under the age of 5 will transfer to Local Authorities including health visiting, the healthy child programme and family nurse partnership. The expectation is that the budget currently allocated to these services will come to Local Authorities.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants [1]		(23,237)	(29,191)	(32,110)	(35,321)	(38,853)
Reimbursements and recovery of costs [2]		(3,300)				
Total funding		**(26,537)**	**(29,191)**	**(32,110)**	**(35,321)**	**(38,853)**
Expenditure						
Service staffing		**2,727**	**2,782**	**2,838**	**2,895**	**2,953**
Service non-staffing		**23,810**	**26,409**	**29,272**	**32,426**	**35,900**
Total expenditure	**0**	**26,537**	**29,191**	**32,110**	**35,321**	**38,853**
Less non government grant income	**0**	**(3,300)**	**0**	**0**	**0**	**0**
Revenue budget	**0**	**23,237**	**29,191**	**32,110**	**35,321**	**38,853**
Less specific grant income	**0**	**(23,237)**	**(29,191)**	**(32,110)**	**(35,321)**	**(38,853)**
Net Budget supported by Council Tax and general government grants	**0**	**0**	**0**	**0**	**0**	**0**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	0	(26,537)	(29,191)	(32,110)	(35,321)	(38,853)
Expenditure by service:						
Public Health		26,537	29,191	32,110	35,321	38,853
Public Health	0	0	0	0	0	0

Notes:

1. The grant for Public Health has been announced for 2013/14 and 014/15. It is assumed that following current government policy the funding will increase by 10% each year after this.
2. In 2013/14 £3.3m of GUM funding has been allocated to CCG's by the DoH. Public Health will work with local partners in 2013/14 to access this funding and work to adjust the funding for 2014/15

Change and Efficiency

Strategic Director: Julie Fisher

Strategic Finance Manager: Susan Smyth

A.3.28. Savings of £6.6 m will be delivered over the five years by delivering transformational change. Over the longer term, the Directorate will focus on delivering services and procuring services in partnership to drive efficiencies through economies of scale and securing improved commercial arrangements with suppliers. Partnership working is already helping to achieve savings. The Directorate will continue to develop its business support offer to other organisations, examples include the recent agreement to provide transactional and IT services to East Sussex. The Directorate will also seek to provide professional consultancy services such as human resources and procurement, through to specialised services including treasury and insurance services. Savings will be monitored throughout the year during regular cabinet member briefings and quarterly accountability meetings.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants		(1,162)	(1,145)	(1,145)	(1,145)	(1,145)
Fees & charges	(195)	(197)	(202)	(206)	(211)	(215)
Property income	(3,880)	(4,125)	(4,387)	(4,483)	(4,582)	(4,683)
Joint working income	(2,850)	(2,962)	(3,074)	(3,147)	(3,197)	(3,247)
Reimbursements and recovery of costs	(5,074)	(5,184)	(5,417)	(5,682)	(5,800)	(5,923)
Total funding	**(11,999)**	**(13,630)**	**(14,225)**	**(14,663)**	**(14,935)**	**(15,213)**
Expenditure						
Service staffing	35,817	35,453	35,970	36,687	37,355	38,116
Service non-staffing	60,887	60,766	61,521	61,352	63,675	66,189
Total expenditure	**96,704**	**96,219**	**97,491**	**98,039**	**101,030**	**104,305**
Less non government grant income	(11,999)	(12,468)	(13,080)	(13,518)	(13,790)	(14,068)
Revenue budget	**84,705**	**83,751**	**84,411**	**84,521**	**87,240**	**90,237**
Less specific grant income	0	(1,162)	(1,145)	(1,145)	(1,145)	(1,145)
Net Budget supported by Council Tax and general government grants	**84,705**	**82,589**	**83,266**	**83,376**	**86,095**	**89,092**

Change & Efficiency

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(11,999)	(13,630)	(14,225)	(14,663)	(14,935)	(15,213)
Expenditure by service:						
Property Services	39,997	40,121	40,732	40,483	42,077	43,810
Information Management & Technology	24,415	23,211	23,732	24,216	24,733	25,261
Finance	10,237	10,346	10,782	11,185	11,696	12,250
HR & Organisational Development	11,374	10,905	10,978	11,056	11,286	11,521
Shared Services	5,546	6,654	6,764	6,895	7,032	7,174
Procurement	3,135	3,184	3,246	3,310	3,377	3,444
Transformational Change	2,000	1,798	1,257	894	829	845
	96,704	96,219	97,491	98,039	101,030	104,305
Change & Efficiency	**84,705**	**82,589**	**83,266**	**83,376**	**86,095**	**89,092**

Chief Executive Office

Asst Chief Executive: Susie Kemp
Strategic Finance Manager: Susan Smyth

A.3.29. The Directorate faces ongoing pressures of £1.7m over the 5 year planning period. This is predominately due to expected inflation of £1.5m, but also £0.4m has been added to the Legal budget to reflect the increased costs due to both the number and complexity of child protection cases. These pressures are offset slightly by the removal of one off budgets in relation to the Superfast broadband project and Jubilee celebrations. A one off increase of £1.5m has been added to the 2013/14 budget to fund the estimated cost of holding County Council elections.

A.3.30. Savings of £1.0m are planned over the five year period. Of this £0.2m was achieved early during 2012/13 and is reflected within the 2013/14 budget. £0.8m is planned for 2015/16 through a reconfiguration of the directorate. This will require a significant change to the operation and design of the directorate.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants						
Other bodies grants						
Fees & charges	(162)	(135)	(138)	(141)	(144)	(147)
Property income:						
Income from investment						
Joint working income	(21)	(21)	(22)	(22)	(23)	(23)
Reimbursements and recovery of costs	(463)	(471)	(480)	(490)	(501)	(511)
Total funding	**(646)**	**(627)**	**(640)**	**(653)**	**(668)**	**(681)**
Expenditure						
Service staffing	8,897	9,183	9,363	9,546	9,737	9,931
Service non-staffing	5,414	6,871	5,489	4,804	4,924	5,049
Schools - net expenditure						
Total expenditure	**14,311**	**16,054**	**14,852**	**14,350**	**14,661**	**14,980**
Less non government grant income	(646)	(627)	(640)	(653)	(668)	(681)
Revenue budget	**13,665**	**15,427**	**14,212**	**13,697**	**13,993**	**14,299**
Less specific grant income	0	0	0	0	0	0
Net budget supported by Council Tax and general government grants	**13,665**	**15,427**	**14,212**	**13,697**	**13,993**	**14,299**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(646)	(627)	(640)	(653)	(668)	(681)
Expenditure by service:						
Chief Executive Office	494	472	481	491	501	511
Re-configuration of CEO Directorate	0	0	0	-800	-800	-800
Emergency Management	521	499	511	519	530	540
Communications	1,883	1,882	1,918	1,961	2,011	2,043
Legal & Democratic	7,836	9,899	8,572	8,740	8,919	9,104
Policy & Performance	3,577	3,302	3,370	3,439	3,500	3,582
	14,311	**16,054**	**14,852**	**14,350**	**14,661**	**14,980**
Chief Executive Office	13,665	15,427	14,212	13,697	13,993	14,299

Central Income & Expenditure

Strategic Director: Julie Fisher
Deputy Chief Finance Officer: Kevin Kilburn

A.3.31. The Central Income and Expenditure budget provides for items of income and expenditure that are not directly related to service provision, or are as a result of past decisions. This budget supports the council's corporate priorities by providing the resources to ensure the provision of the council's capital programme and has a sound financial standing both now and in the future. This is achieved through the use of the Risk Contingency budget and the long term stability of the pension fund.

A.3.32. The gross expenditure under this budget has reduced by £9m to £69m for the 2013/14 financial year. A significant part of this reduction - £11.8m – is due to the planned reversal of one-off budget items included in the 2012/13 budget. These include revenue contribution to the Invest to Save budget, which is now a standalone fund; a one contribution to the capital programme, and contributions to the council's earmarked reserves. In reviewing its treasury management policy, the council has reduced the minimum amount of cash it must hold and the estimated life of its new assets. Overall this has led to a saving of £3.4m.

A.3.33. On 1 April 2013 council is required by the Pensions Act 2008 to ensure that all its employees are enrolled into one of its pension schemes. Individuals will then be able to voluntarily leave the scheme. Although the number of employees remaining in the scheme cannot be forecast accurately, the council estimates that the cost of this will be around £1m.

A.3.34. The council holds a risk contingency budget to cover for savings and reductions not being made in full. The 2012-17 MTFP included £8m for the 2013/14 financial year, but with the increased level of savings and greater uncertainty around funding, this is being increased to £13m. This increase will be funded from the Budget Equalisation Reserve.

A.3.35. For the remainder of the five year plan the central income and expenditure budgets increases to £72m. This increase reflects two significant pressures. The first is the revenue financing of the council's capital programme, and the second is the impact of the triennial actuarial review of the pension fund. This is estimated to increase the employer contributions by £5m from 2014/15.

Central Income & Expenditure

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
Local taxation - Council Tax	(580,026)	(550,429)	(571,843)	(585,944)	(603,546)	(621,656)
Local taxation - Business Rates		(43,863)	(45,208)	(46,655)	(47,821)	(49,303)
UK Government grants	(270,100)	(246,456)	(233,386)	(228,978)	(227,667)	(224,036)
Other bodies grants						
Fees & Charges:						
Property income:						
Income from investment	(992)	(594)	(222)	(97)	(44)	(5,166)
Joint working income						
Reimbursements and recovery of costs						
Total funding	**(851,118)**	**(841,342)**	**(850,659)**	**(861,674)**	**(879,078)**	**(900,161)**
Expenditure						
Service staffing	953	426	312	342	318	158
Service non-staffing	77,090	68,631	72,840	70,077	74,133	72,138
Schools - net expenditure						
Total expenditure	**78,043**	**69,057**	**73,152**	**70,419**	**74,451**	**72,296**
Less non government grant income	(992)	(594)	(222)	(97)	(44)	(5,166)
Revenue budget	**77,051**	**68,463**	**72,930**	**70,322**	**74,407**	**67,130**
Less specific grant income	(850,126)	(840,748)	(850,437)	(861,577)	(879,034)	(894,995)
Net budget supported by Council Tax and general government grants	**(773,075)**	**(772,285)**	**(777,507)**	**(791,255)**	**(804,627)**	**(827,865)**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(851,118)	(841,342)	(850,659)	(861,674)	(879,078)	(900,161)
Expenditure by service						
Protected salaries & relocation	953	426	312	342	318	158
Pensions back funding	8,606	8,606	8,787	8,980	9,178	9,380
Redundancy & compensation	4,781	4,360	3,652	3,831	3,679	2,716
Invest to save	3,800	0	0	0	0	0
Risk contingencies	9,000	13,000	8,000	8,000	8,000	8,000
Changes to pension fund contributions	0	1,000	6,000	6,000	6,000	6,000
Land drainage precept	973	1,047	1,149	1,256	1,369	1,488
Contribution to/from reserves	9,229	3,597	4,183	-668	1,124	-656
Revenue Contribution to Capital Expenditure	2,000	0	0	0	0	0
Interest payable	16,073	15,983	16,944	17,700	19,347	19,386
Minimum Revenue Provision (MRP)	22,628	21,038	24,125	24,978	25,436	25,824
	78,043	69,057	73,152	70,419	74,451	72,296
Central Income and Expenditure	**(773,075)**	**(772,285)**	**(777,507)**	**(791,255)**	**(804,627)**	**(827,865)**

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		2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	MTFP 2013-18 Total £000s
Schools basic need							
CAE / Schools	Schools basic need	72,387	79,584	61,498	47,849		261,318
Recurring programmes							
ASC	Major adaptations	700	700	700	700	700	3,500
C&C	Fire vehicles & equipment reserve	1,652	2,284	1,190	1,368	2,018	8,512
C&C	Local Committee allocation	385	385	385	385	385	1,925
CEO	Community Building Grant scheme	150	150	150	150	150	750
CSF	Adaptations for children with disabilities	299	299	299	299	299	1,495
CSF	Foster carer grants	300	300	300	300	300	1,500
CSF	Schools devolved formula capital (ring-fenced grant) [1]	2,231	2,231	2,231	2,231	2,231	11,155
E&I	Highway maintenance	26,018	26,018	26,018	26,018	26,018	130,090
E&I	Bridge strengthening	2,076	1,956	1,956	1,956	1,956	9,900
E&I	Flooding & drainage	776	776	776	776	776	3,880
E&I	Local transport schemes	4,000	4,000	4,000	4,000	4,000	20,000
E&I	Maintenance at closed landfill sites	100	100	100	100	100	500
E&I	Rights of Way and byways	85	85	85	85	85	425
E&I	Road safety schemes	200	200	200	200	200	1,000
E&I	Safety barriers	256	256	256	256	256	1,280
E&I	Traffic signal replacement	550	550	550	550	550	2,750
E&I	Economic regeneration projects	1,000	1,000	1,000	1,000	1,000	5,000
CAE / Schools	Carbon reduction - Schools [1]	3,332	3,332	3,332	3,332	3,332	16,660
CAE / Schools	Schools - Disability Discrimination Act	447	456	466	477	487	2,333
CAE / Schools	Schools capital maintenance, inc.childrens centres [1]	10,328	10,328	10,328	10,328	10,328	51,640
CAE	Carbon reduction - Corporate	1,162	1,186	1,212	1,239	1,264	6,063
CAE	Fire risk assessments	358	365	373	382	390	1,868
CAE	Minor works/disability access	175	178	182	186	190	911
CAE	Non schools structural maintenance	5,454	5,526	5,604	5,683	5,797	28,064
CAE	IT Equipment Replacement Reserve	500	3,285	2,980	992	2,725	10,482
Total recurring programmes		**62,534**	**65,946**	**64,673**	**62,993**	**65,537**	**321,683**

		2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	MTFP 2013-18 Total £000s
Projects							
CAE / E&I	Basingstoke Canal Improvements	500	500	500	500		2,000
CAE / C&C	Cultural Services	150		1,250			1,400
CAE / C&C	Fire Station reconfiguration	2,000	4,500	3,500			10,000
CAE / C&C	Fire Stations minor works	200	200	200			600
CAE / C&C	Guildford Fire Station	2,530					2,530
CAE / C&C	Merstham Library	1,200					1,200
CAE / C&C	Fire training tower replacement		500				500
CAE / CSF	Portesbury SEN School	4,273	6,841	2,756	210		14,080
CAE / CSF	Portesbury SEN School-ring fenched grant	1,735					1,735
CAE / Schools	Replace aged demountables	3,265	1,585	985			5,835
CAE / CSF	SEN strategy	8,407	1,524				9,931
CAE / CSF	Short-Stay Schools	250					250
CAE / CSF	Youth Transformation	575	200				775
CAE	Joint Public Sector Property Projects	1,250	750				2,000
CAE	Projects to enhance income	350					350
CAE	Projects to reprovision and deliver capital receipts	2,000	2,400	200			4,600
ASC	Wellbeing centres	200	200	200	200		800
ASC	In-house capital improvement scheme	250	250	250	250	250	1,250
ASC	User led organisation hubs	150	150	150	150		600
E&I	Walton Bridge-ring fenced grant	4,004	444				4,448
E&I	Local sustainable transport fund grant	500	50				550
E&I	Local sustainable transport fund grant (large bid)	3,844	3,335				7,179
E&I	Safe cycling initiatives [1]	2,202					2,202
E&I	CIL funded schemes [2]	150	1,230	4,420	5,780	5,940	17,520
E&I	S.106 funded schemes [2]	1,700	1,700	1,700	1,700	1,700	8,500
CEO	Economic Development-Broadband	11,300					11,300
Total projects		**52,985**	**26,359**	**16,111**	**8,790**	**7,890**	**112,135**
Total Capital Schemes		**187,906**	**171,889**	**142,282**	**119,632**	**73,427**	**695,136**

Notes to Schemes

1. Spend will be linked to relevant capital grants which have not yet been announced
2. The CIL and S.106 scheme values are estimated amounts that reflect indicative funding levels for these schemes

Policy statement on reserves & balances

Introduction

A.5.1. This paper sets out the Council's policies underpinning the maintenance of a level of general balances and earmarked reserves within the Council's accounts.

Statutory Position

A.5.2. A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of balances and reserves needed for meeting estimated future expenditure when calculating the budget requirement.

A.5.3. Balances and reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies, this also forms part of general balances;
- a means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

A.5.4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of Balances and Reserves

A.5.5. The Council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event.

A.5.6. Although there is no generally recognised official guidance on the level of general balances to be maintained, the key factor is that the level should be justifiable in the context of local circumstances, and council taxpayers' money should not be tied up unnecessarily. The Council's external auditor comments on the level of balances and reserves as part of the annual audit of the council's financial position.

A.5.7. While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future liabilities.

Level of Balances and Reserves

A.5.8. In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the net budget requirement, i.e. between £15m to £19m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. Going into 2012/13 the Chief Finance Officer recommended that the level of general balance was increased, to a maximum of £30m, in recognition of the unprecedented austerity agenda and anticipated future high level of service reductions & efficiencies likely to be required in future years.

A.5.9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty.

A.5.10. In this context the Chief Finance Officer report on the budget for 2013/14 recommends:

- holding general balances to £16.8m, combined with;
- providing a risk contingency within the revenue budget of £13m (increased from £8m in 2012/13) to mitigate against the risk of non-delivery of the service reductions & efficiencies included in budget proposals;
- the creation of an earmarked Revolving Investment & Infrastructure Fund to cover the capital financing costs of long-term investment in initiatives that will deliver savings and enhance income in the longer term, thus increasing the Council's long term financial resilience.

Proposed Policy for 2013/14

A.5.11. General balances should only be held for the purposes of:

- helping to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- a contingency to cushion the impact of unexpected events or emergencies.

A.5.12. The application of general balances and reserves can, by definition only be used once and should therefore only be applied for one-off or non-recurring spending or investment or to smooth the effect of government funding reductions that have a disproportionate impact in any one year.

2012-13 Budget Public survey using SIMALTO modeling – Headline findings

A.6.1. The results of the survey are a **robust and reliable guide** to the views of Surrey residents. There were **701 responses**. The method used means the results reported are **representative of the whole county** - they include a balance of views from people of different ages, gender, socio-economic groups etc.

A.6.2. There are four key headline findings:

1. **The council's current spending closely reflects the spending priorities of Surrey's residents**
   A majority of residents would leave the allocation of current spend as it is now, altering the existing budget only slightly through increased investment in highways services, with corresponding reductions to the opening hours of libraries and recycling centres.

2. **The council understands its residents**
   The research company who ran the exercise reported that the similarity between the council's current spending and residents' preferences was notable and not typical for councils.

3. **A majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made in:**
   - Highways maintenance
   - Supporting young people into education, employment or training, including more apprenticeships
   - Supporting more older people to live independently

4. **Residents attach value to the council's services and reductions will cause dissatisfaction**
   If service levels were scaled back to the most basic level that was presented in the budget survey, 96% of respondents indicated they would complain to the council. They identified four areas that should be protected even if savings have to be made:

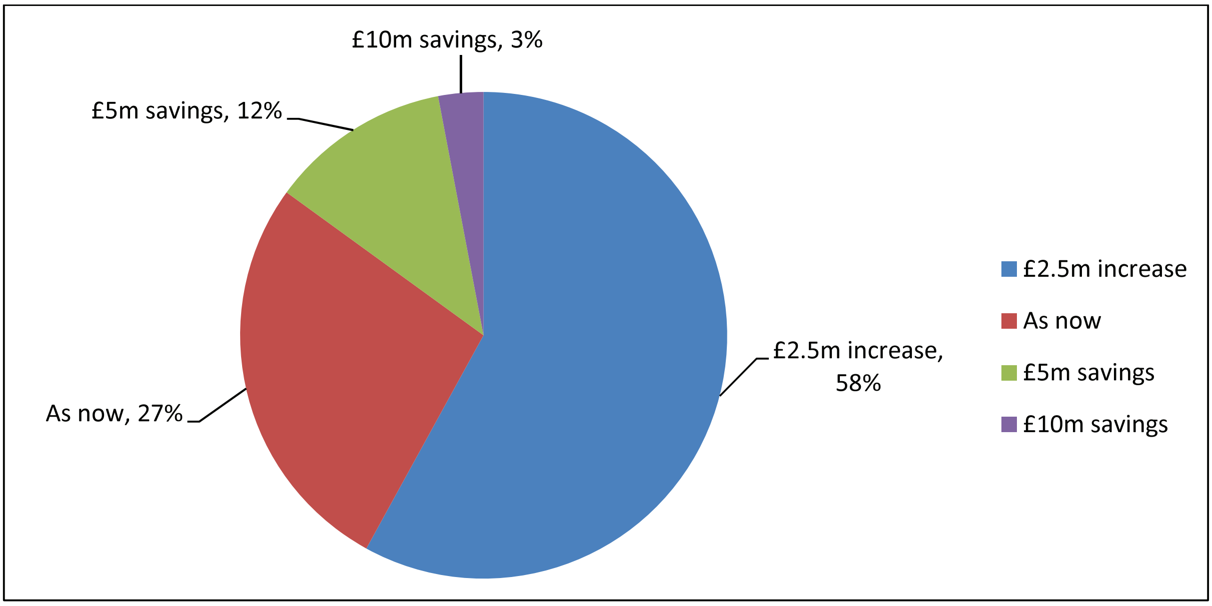
   - Fire and Rescue services
   - Highways maintenance
   - Residential care for dementia sufferers
   - Independent living for older people

A.6.3. The full set of data results from the survey can be found online at http://www.surreycc.gov.uk/your-council/consultations

Detailed results

A.6.4. Figure A6:1 shows that once informed about the impact of their service preferences on the council's spending (and their council tax) the consensus view from residents was slight increases to the current level of spend on the services they were surveyed on. 58% of respondents to the survey were willing to accept a £2.5m increase in council spend on the services (equating to a £6 annual council tax rise for the average home) to pay for their preferred service options.

Figure A6:1: Residents' budget scenario choice once informed of impact of their spending decisions (face-to-face sample)



A.6.5. Table A6.1 shows residents' consensus optimum service configurations for different spending scenarios. The column on the far right hand side illustrates the mix of services that residents expressed a preference for in a scenario where an additional £2.5m is invested in the services. The column of the far left hand side illustrates the mix of services that residents expressed a preference for in a scenario where spending on the services is reduced by £10m. The columns in-between illustrate the preferred mix of services in scenarios where spending on the services is reduced by £7.5m, £5m, £2.5m or remains as it is currently.

A.6.6. The yellow shaded options (in bold) indicate where the current service level has been 'improved', and the grey shading (italics) indicates reduction in service level.

Table A6.1: Optimum service configurations for different spending scenarios (face to face survey results)

Investment Scenario SIMALTO Points	-£10m 31	-£7.5m 41	-£5m 51	-£2.5m 61	As now 71	+£2.5m 81
Council Tax change	-	-	-	-	-	+£6
1 NEET support centres	*5 fewer*	*5 fewer*	As now	As now	As now	**More apprenticeships**
2 Children's centres	*6 fewer*	*6 fewer*	*6 fewer*	As now	As now	As now
3 Dementia care	*100 fewer*	As now	As now	As now	As now	As now
4 Elderly live at home	As now	As now	As now	As now	As now	**100 more**
5 Day centres	*Close 1*	*Close 1*	As now	As now	As now	As now
6 Learning difficulties	*20 fewer*	*20 fewer*	As now	As now	As now	As now
7 Fire and rescue	As now	As now	As now	As now	As now	As now
8 Library service	*Large reduction*	*Large reduction*	*Large reduction*	*Small reduction*	*Small reduction*	As now
9 Trading standards	*Halve protection*	*Halve protection*	*Halve protection*	As now	As now	As now
10 Arts & heritage	*No support*	*No support*	*No support*	*No support*	As now	As now
11 Road maintenance	As now	As now	As now	As now	**Increase**	**Increase**
12 Recycling centres	*Less hours*	*Less hours*	*Less hours*	*Less hours*	*Less hours*	As now
13 Bus routes	*Many fewer*	*Many fewer*	*Many fewer*	*Fewer*	As now	As now
14 Countryside estate	*Close all*	*Close all*	*Close all*	*Deteriorate*	As now	As now

A.6.7. Table A6:2 shows the complete hierarchy of preferred choices for the options on the SIMALTO grid. The options at the top of the list are those which the most number of residents selected as a priority. So, from a starting point where all services have reduced spending and provision the most popular thing to do when given a chance to allocate funds was to spend it on highways maintenance. The second most popular choice was to spend a further amount on highways maintenance. The third most popular choice was then to bring the number of fire engines back up. And so on.

Table A6:2: Complete hierarchy of preferred choices

Service	Change	% Preference Face-to-face	% Preference Web residents	Cost
11 Road maintenance	Big reduction → Reduction	91	93	£1m
11 Road maintenance	Reduction → as now	88	82	£1m
7 Fire and rescue	2 fewer → 1 fewer engine	86	89	£1m
1 NEET support	Close 10 centres → close 5	85	85	£1m
4 Elderly independent living	100 fewer → as now	84	89	£1m
7 Fire and rescue	1 fewer engine → as now	83	68	£1m
5 Disabled day centres	Close 2 → close 1	81	88	£500k
9 Trading standards	No support → Reduced	79	88	£250k
9 Trading standards	Reduce → as now	79	75	£250k
1 NEET support	Close 5 centres → as now	79	71	£1m
2 Children's centres	12 fewer → 6 fewer	78	83	£500k
2 Children's centres	6 fewer → as now	74	68	£500k
5 Disabled day centres	Close 1 → as now	73	75	£500k
6 Learning independence	20 fewer → as now	72	86	£1m
3 Dementia residential care	100 fewer → as now	72	71	£2.5m
12 Recycling centres	Fewer centres → fewer hours	70	84	£500k
13 Bus routes	12 fewer → 7 fewer	69	80	£1m
14 Countryside estate	Close sites → deterioration	67	81	£250k
14 Countryside estate	Deterioration → as now	67	71	£250k
13 Bus routes	7 fewer → as now	66	56	£1m
1 NEET support	As now → more apprenticeships	62	41	£500k
11 Road maintenance	As now → increase	62	44	£1m
8 Library services	Big reduction → Reduction	61	75	£500k
12 Recycling centres	Fewer hours → as now	58	64	£500k
8 Library services	Reduction → as now	53	57	£500k
2 Children's centres	As now → +1500 children	51	27	£500k
10 Arts & heritage	No support → as now	50	72	£250k
4 Elderly independent living	As now → 100 more	49	57	£1m
9 Trading standards	As now → Enhanced	47	37	£250k
7 Fire and rescue	As now → investment	35	13	£1m
6 Learning independence	As now → 20 more	30	55	£1m

continued ..

14 Countryside estate	As now → improved	30	24	£500k
13 Bus routes	As now → 7 more	27	13	£1m
11 Road maintenance	Increase → significant increase	27	15	£1m
1 NEET support	more apprenticeships → much more	24	14	£500k
10 Arts & heritage	As now → enhanced	24	26	£250k
2 Children's centres	+1500 children → +3000 children	22	9	£250k
8 Library services	As now → increase	22	12	£250k
9 Trading standards	Enhanced → + advice	21	12	£250k
3 Dementia residential care	As now → 100 more	19	23	£2.5m
12 Recycling centres	As now → some new	18	15	£500k
7 Fire and rescue	investment → more investment	15	4	£1m
14 Countryside estate	improved → much more	11	6	£500k
12 Recycling centres	some new → more new	9	3	£500k
8 Library services	Increase → + Sunday opening	8	5	£250k
13 Bus routes	7 more → 11 more	7	4	£1m

A.6.8. The results show that of the numerous individual changes to service levels from which residents could choose to prioritise, some key messages emerged regarding service enhancements that would cause them to be **most satisfied**, service levels that they most **wished to protect** from reductions, and others they would be relatively **less concerned** about if they were reduced:

Enhancement options that residents would be most satisfied with:

- More investment in Highways maintenance
- Investment in NEET support, including an increase in apprenticeships.
- Further investment in more older people being supported to live independently.

Services where provision should be protected even if savings have to be made:

- Fire and Rescue services.
- Highways maintenance.
- Residential care for dementia sufferers.
- Independent living for older people.

Service reduction options that would cause relatively least concern for residents (But which would still cause many people dissatisfaction)

- Reducing Libraries opening hours and fewer new books.
- Reducing opening hours for recycling facilities.
- Six to eight bus services removed.
- No support for Arts and Heritage services

RESEARCH METHODOLOGY

Background

A.6.9. The Council desired resident input into the 2013 Budget planning process that was as relevant and accurate as possible. Following a procurement process the SIMALTO Modelling approach was adopted. The Council has used this approach for budget consultations previously in 2005 and 2009. It has also been used by over 90 local authorities in the UK and worldwide.

A.6.10. This method asks respondents to make their priorities from a choice of defined alternative levels of each service. Respondents' choices are 'realistic' since the relative savings/extra costs of each different service level are shown to residents, and they only have fixed, constrained budgets to allocate across the competing service levels. This recognises some changes save/cost more than others, and residents (councils) cannot spend the same money twice

Method

A.6.11. The council prepared a matrix grid of 14 different services on which the level of service provision might be changed from 2012 to 2013[1]. Individual alternative levels of service are described, each with the relative cost of their change from other levels of the same attribute, e.g. increased investment in road and footway maintenance (4 units, (12 - 8) on attribute 11) costs the same as 6-8 enhanced weekday bus services (4 units, (12 - 8) on attribute 13).

A.6.12. Very approximately, 1 point on the grid represents £250,000 of council budget, and the current service 'costs' 71 points (approximately £18million) on the grid. Respondents were invited to carefully read the whole sheet, and then carry out the following tasks.

Task 1 Cross out any options they thought were unacceptable, i.e. would cause them to complain or seriously consider doing so if this level of service was provided.

Task 2 Indicate the 5 or 6 services they thought were most important.

Task 3 Read the options in the first option box on each row, and indicate how 'pleased' they would be if that level of service were to be provided by the council.

Task 4 Allocate between 29 and 31 points on improving the overall service from this basic first option box position (first priorities)

Task 5 Allocate a further 20 points – second priority improvements

Task 6 Allocate a further 20 points – third priority improvements

Task 7 Allocate a final 15 points of improvements – fourth priority improvements

After each of Tasks 4 to 7, respondents indicated how 'pleased' they would be if this improved level of service were to be provided (with no associated change in council tax being implied).

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[1] Note that the survey did not model the entire council budget. It focussed on 14 service areas with discretion to adjust spending levels

Task 8 Finally respondents were told the net effect that each of their scenarios would have on the county budget. The last scenario would require an approximate £6 annual increase in council tax for the average home.

First points allocation round	+30 point priorities	£10 million saving
Second points allocation round	+50 point priorities	£5 million saving
Third points allocation round	+70 point priorities	No change
Fourth points allocation round	+85 point priorities	£2.5 million increase (equates to approx £6 council tax increase for a Band D property)

Residents were then asked to select the scenario which they felt was most worth the cost.

Sample

A.6.13. A total of 701 people participated in the survey. The sample for the Simalto exercise was sourced using two different methods:

- 155 face-to-face interviews were completed to capture views that were representative of Surrey's residents across different ages and genders
- A web-based version of the Simalto exercise was run via the council's website. A total of 546 people participated in the web survey – 445 residents, 89 council officers and 12 Members.

A.6.14. When comparing the results between both samples, there are only very slight differences between their preferences.

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List of earmarked reserves

A.7.1 Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. Table A7.1 shows the Council's earmarked reserves. A description of each reserve follows below the table.

Table A7.1 Forecast year end balances for earmarked reserves

	Balance	**Projected balance**	
	31 March 2012 £m	**31 March 2013 £m**	**1 April 2013 £m**
Investment Renewals Reserve	11.1	12.2	12.2
Equipment Replacement Reserve	1.1	1.4	1.4
Vehicle Replacement Reserve	4.4	5.3	5.3
Waste Sites Contingency Reserve	0.3	0.3	0.3
Budget Equalisation Reserve	32.0	11.0	0.0
Financial Investments Reserve	9.5	9.5	0.0
Investment Reserve	5.0	5.0	0.0
Revolving Investment & Infrastructure Fund	0.0	0.0	20.0
Street Lighting Private Finance Initiative (PFI) Reserve	4.6	5.8	6.2
Insurance Reserve	7.2	7.4	7.4
Severe Weather Reserve	5.0	5.0	5.0
Eco Park Sinking Fund	3.0	8.0	8.0
Child Protection	1.3	2.7	2.7
Service Specific Government Grants	19.2	11.0	11.0
Interest Rate Risk Reserve	0.0	3.2	3.7
Economic Downturn Reserve	0.0	4.4	6.5
General Capital Reserve	8.4	7.5	7.5
Total earmarked reserves	**112.1**	**99.7**	**97.2**

Purpose of earmarked reserves

Investment Renewals Reserve enables services to invest to make savings in the future. The reserve makes loans to services, which are repayable. The recovery of the loan is tailored to the requirements of each business case, which is subject to robust challenge before approval as part of the Council's governance arrangements.

Equipment Replacement Reserve enables services to set aside revenue budgets to meet future replacement costs of large equipment items. Services make annual revenue contributions to the reserve and make withdrawals to fund purchases.

Vehicle Replacement Reserve enables the future cost of vehicle replacement to be spread over the life of existing assets through annual revenue contributions.

Waste Sites Contingency Reserve is held to meet as yet unquantifiable liabilities on closed landfill sites arising from the Environmental Protection Act 1990.

Budget Equalisation Reserve supports the following year's budget from previous years' income and carried forward revenue budget underspends. From 2011/12 £32m was brought forward and this was applied to support the 2012/13 revenue budget. The current forecast for the 2012/13 financial year is an underspending of £10m, which will be carried forward to support the 2013/14 budget.

Financial Investments Reserve was set up in 2008/09 to mitigate potential future losses due to the failure of banks and financial institutions the Council had deposits with (specifically Icelandic banks). During 2012/13 it has been determined that all of the outstanding money will be returned to the Council, albeit over a number of years, and it is therefore proposed that this reserve be converted to the Revolving Investment & Infrastructure Fund.

Street Light Private Finance Initiative (PFI) Reserve holds the balance of the street lighting PFI grant income over and above that used to finance the PFI to date. The balance will be used when future expenditure in year exceeds the grant income due in that same year. For 2013/14 this reserve will increase by £0.4m.

Insurance Reserve is to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992 and also possible claims against the council. The MMI company had limited funds to meet its liabilities, consequently, future claims against policy years covered by MMI may not be fully paid, so would be funded from this reserve. The council's actuary has advised that the council holds £3.5m for the MMI liability and a further £3.9m for other possible insurance claims.

Severe Weather/Civil Emergency Reserve enables the Council to act decisively and with real urgency in the event of a serious incident.

Eco Park Sinking Fund is to set aside the surpluses in the early years of the waste contract would smooth out the budget variations in later years. An initial contribution of £3m was made in 2010/11 and a further £5m was contributed during 2012/13.

Investment Reserve was established to provide funds for the council to acquire properties and respond quickly and to take advantage of changes in the property market to fund its capital programme. In 2013/14 it is proposed that this reserve be converted to the Revolving Investment & Infrastructure Fund.

Child Protection Reserve was set up in 2012/13 for the additional staffing costs as a result of the increase number of children subject to a child protection order. This reserve is to fund the costs until 2015/16, when the base budget will be increased to cover these costs.

Service Specific Government Grants Reserve holds government grants received in previous financial years which will be used to fund expenditure in the future.

Interest Rate Risk Reserve is to enable the Council to fund its capital programme from borrowing in the event of an expected change in interest rates or other borrowing conditions. The 2013/14 budget includes a £0.5m contribution to this reserve.

Economic Downturn Reserve is to allay the risks of erosion in the council's tax base due to the impact of the localisation of council tax benefit and a down turn in the economy.

Revolving Investment & Infrastructure Fund is to provide funding for initiatives that will deliver savings and enhance income in the longer term. This reserve will be set up with £20m: a combination of deleting the Financial Investment Reserve and the Investment Fund, with the balance to be made up from the surplus on the council tax collection fund (which will be determined before the end of the financial year 2012/13).

General capital Reserve holds unapplied capital grants largely arising due to late notification by government leaving it too late for the Council to be able to apply. The reserve is available to fund future capital expenditure.

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Treasury management strategy statement and prudential indicators 2013/18

Key issues and decisions

To set the Council's prudential indicators for 2013/14 to 2017/18, approve the minimum revenue provision (MRP) policy for 2013/14 and agree the treasury management strategy for 2013/14.

Introduction

B.1. Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changed market conditions, changes in regulation, and other changes in the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. This annex sets out updated versions of the Council's treasury management policy statement and Appendix B.8 sets out the Council's treasury management strategy.

B.2. Since 2009/10 the Council's treasury management strategy has followed an extremely cautious approach as a direct result of the Council's experience with Icelandic banks. Moving forward into 2013/14, several changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite. The changes are detailed below but can be summarised as follows.

- Maximise the benefit of current unprecedented low interest rates and our high cash balances by reducing the minimum cash balance from £135m to £49m. (paragraph B.26)
- Slightly expand the current counterparty list of institutions with which the Council will place short term investments to reflect market opinion as well as formal rating criteria. This means that Barclays Bank, whose rating change in 2012 reduced and effectively removed them from the eligible list is now eligible again. (paragraph B.45 to B.48 and Appendix B5)
- Increase the monetary limit for the two instant access accounts from £40m to £60m since both have nationalised status and therefore minimum risk. (paragraph B.43)
- Adjust the Council's minimum revenue provision policy to match the useful lives of the assets created or acquired.
  (paragraph B.77 and Appendix B7)

Background

B.3. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

B.4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

B.5. CIPFA defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Reporting requirements

B.6. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actual:

- treasury management policy, strategy statement and prudential indicators report
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy, stating how residual capital expenditure is charged to revenue over time;
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).
- mid year treasury management update reports
  - update of progress on treasury and capital position
  - amendment of prudential indicators where necessary
  - view on whether the treasury strategy is on target or whether any policies require revision.
- an annual treasury management outturn report
  - details of the actual prudential and treasury indicators and actual treasury operations compared with the estimates within the strategy.

Treasury management strategy for 2013/14

B.7. The strategy for 2013/14 covers two main areas:

- capital issues:
  - the capital plans and the prudential indicators;
  - the minimum revenue provision (MRP) strategy.
- treasury management issues:
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - prospects for interest rates;
  - the borrowing strategy;

- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

B.8. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Treasury management consultant

B.9. The Council uses Sector as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

B.10. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Training

B.11. Officers and members involved in the governance of the Council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the Council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through local authority networks. Sector provides daily, weekly and quarterly newsletters and update meetings are held with Sector twice a year.

B.12. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Capital prudential indicators 2013/14 to 2017/18

B.13. The Prudential Code plays a key role in capital finance in local authorities. The Prudential Code was developed as a professional code of practice to support local authorities in their decision making processes for capital expenditure and its financing. Local authorities are required by statutory regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

B.14. The Council's capital expenditure plans are the key driver of treasury management activity. The framework of prudential indicators aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the statement of accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.

B.15. Members are asked to approve the prudential indicators set out in Appendix B1. Details and explanations of all prudential terms are set out in Appendix B2.

Borrowing

B.16. The capital expenditure plans set out in Appendix A4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

B.17. Table B1 summarises the Council's treasury portfolio position at 31 March 2012, with forward projections. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the capital financing requirement or CFR), highlighting any over or under borrowing. The authority has adopted a treasury management strategy that favours fixed rate borrowing to provide certainty over borrowing costs and rates of interest.

Table B1: Current portfolio position

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Actual	**Projected**	**← - - - - - - - - - -**		**Estimated**		**- - - - - - - - - - →**
External debt	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt at 1 April	320	315	320	328	362	385	383
Expected change in debt	3	14	21	44	33	8	-17
Other long-term liabilities (OLTL)							
Expected change in OLTL	-8	-9	-13	-10	-10	-10	-13
Actual gross debt at 31 March	315	320	328	362	385	383	353
Capital financing requirement	**541**	**555**	**644**	**688**	**721**	**730**	**713**
Under/(over) borrowing	**-226**	**-235**	**-316**	**-326**	**-336**	**-347**	**-360**

B.18. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the capital finance requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

B.19. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Prospects for interest rates

B.20. The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table B2 provides the Sector central view on interest rates. Appendix B3 sets out a summarised report on global economic outlook and the UK economy.

Table B2: Prospects for interest rates

Annual average	Bank rate %	PWLB borrowing rates (including certainty rate adjustment) 5 year %	25 year %	50 year %
December 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
September 2013	0.50	1.60	3.80	4.00
December 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
September 2014	0.50	1.80	4.00	4.20
December 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
September 2015	1.25	2.50	4.60	4.80
December 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

B.21. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on the repayment of personal debt, inflation levels eroding disposable income, the general malaise about the economy and employment fears.

B.22. The primary drivers of the UK economy are likely to remain external. Some 40% of UK exports go to the Eurozone, so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK and has appeared to resolve the difficulties of the fiscal cliff now that the the Presidential elections are out of the way. US fiscal tightening and continuing Eurozone problems will continue to depress UK growth and we are likely to see the UK deficit reduction plans slip.

B.23. This challenging and uncertain economic outlook has several key treasury management implications.

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty (a counterparty is the opposite party participating in a financial transaction) risk. This continues to require the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2013/14 and beyond.
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timings of future borrowing will need to be monitored carefully.
- There will remain a cost of carry: any borrowing undertaken that results in an increase in the investment portfolio will incur a revenue loss between the borrowing cost and the investment return.

Borrowing strategy

B.24. The Council is currently maintaining a significantly under-borrowed position. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. At 31 March 2012, the level of under-borrowing amounted to £175.4m. This strategy is prudent and has proved to be extremely effective as investment returns are at a historic low and counterparty risk remains relatively high.

B.25. The question remains as to how much longer this under-borrowing strategy will be appropriate and relevant. The Council's current policy of funding external borrowing from internal reserves, thus saving the difference between the cost of capital and the investment return available in the money markets will not hold permanently. At some point in the medium term, the Council will be required to reverse this policy and fund its position from external sources as long term gilt yields and interest rates will eventually rise, thus impacting on the Public Work Loans Board (PWLB) rates.

B.26. The Council is faced with a loan repayment of £68m in September 2013. How this loan will be replaced and how the current internal borrowing gap will be eventually bridged will depend on market projections over 2013/14 and officers will take advice from the Council's treasury consultant (Sector) as to the future directions of the market over the next year. In the current low interest rate and low gilt yield environment, which is not expected to change in the short term, the Council is well placed to take advantage of this repayment in terms of funding it from reserves, and then refinancing it at the optimum time over the medium term future. To facilitate this, it is therefore recommended that the full County Council agree to reduce the minimum cash level from £135m to £49m.

B.27. There will be an optimal opportunity to take advantage of financing for the long term at historically low rates, just prior to those long term rates rising upwards. The Council must be strategically poised to take advantage of this opportunity and will assess the timing carefully in order to take full advantage. It is expected that the return to external borrowing will take place on a gradual basis in order to reduce the impact of reverse movements in the market to those anticipated. This underlines the Council's need to maintain a cautious and low risk approach and monitor on a daily basis the economic position against the Council's existing treasury position.

B.28. Against this background and the risks within the economic forecast, a level of continued caution will be adopted with the 2013/14 treasury management operations. The Chief Finance Officer's staff will continually monitor interest rates in financial markets and adopt a pragmatic approach to future changing circumstances.

B.29. There are two possible risks in 2013/14:

- The risk of an additional fall in long and short term rates (e.g. due to a marked increase of risks around a further relapse into recession or of risks of deflation). In this case, long term borrowings will be postponed, and potential debt rescheduling from fixed rate funding into short term borrowing will be considered.
- The risk of a rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case, the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

B.30. With regard to the latter risk, the UK is currently benefitting from a "safe haven" status outside the Eurozone, which has supported UK gilt prices and maintained historically low gilt yields (which underpin PWLB borrowing rates). Whilst the UK inflation position has improved significantly, and is expected to return to the Bank of England's Monetary Policy Committee's (MPC's) target of 2%, any deterioration of the UK inflation outlook may have a negative impact on the financial markets view of gilt prices, with a consequent rise in gilt (and therefore PWLB) interest rates. Whilst this outcome is not expected, it remains an outside possibility and highlights the higher risks in the longer term fixed interest rate economic forecasts.

B.31. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury management limits on activity

B.32. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, then they will impair the opportunities to reduce costs and improve performance. The indicators are as follows:

- **Upper limits on variable interest rate exposure**
  This identifies a maximum limit for the level of debt (net of investments) taken out at variable rates of interest.

- **Upper limits on fixed interest rate exposure**
  This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

- **Maturity structure of borrowing**
  These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

B.33. Cabinet is asked to recommend the Council approves the treasury indicators and limits in Table B3.

Table B3: Treasury indicators and limits

	2013/14 to 2017/18		**2012/13 year end projection**	
Upper limits on fixed interest rates	100%			
Upper limits on variable interest rates	25%			
Maturity structure of external borrowing	Lower	Upper	£m	
Under 12 months	0%	50%	84	26%
12 months to 2 years	0%	50%	0	0%
2 years to 5 years	0%	50%	0	0%
5 years to 10 years	0%	75%	10	3%
10 years and above	25%	100%	228	71%
Total external borrowing			**322**	**100%**

Policy on borrowing in advance of need

B.34. The Council will not borrow more than or in advance of its needs purely in order to benefit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved capital finance requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Debt rescheduling

B.35. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (significant premiums can be incurred).

B.36. The reasons for any rescheduling to take place will include:

- the generation of cash savings or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile or the balance of volatility).

B.37. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

B.38. All rescheduling will be reported to the Audit & Governance Committee at the earliest meeting following its action

Annual investment strategy

Investment policy

B.39. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities will be security first, liquidity second, then return as the third priority.

B.40. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on its lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three rating agencies (Fitch, Moody's and Standard & Poor's (S&P)). Using the Sector ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

B.41. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. Other information sources used will include the financial press (Financial Times), share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

B.42. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

B.43. Current investment counterparties identified for use in the financial year using currently approved rating criteria are listed in Appendix B5 under the 'specified' and 'non-specified' investments categories. Counterparty monetary limits are also set out in this appendix. There is only one proposed change with regard to the monetary limits and that is to increase the maximum amount to the Council's two instant access accounts from £40m to £60m. This will increase revenue by £200,000 per annum at current interest rate levels. Both of these counterparties are partly nationalised and this increase should only apply whilst each counterparty has nationalised status. A new category included within the schedule is pooled corporate bonds, a relatively new treasury investment category which will be further explored by the Chief Finance Officer. No further changes to limits and criteria are recommended, given the Council's desired prudent risk level.

B.44. The Chief Finance Officer, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing risks and associated interest rates at the time. All investments will be made in accordance with the Council's treasury management policy and strategy, and prevailing legislation and regulations. If the list of counterparties and their time or value limits need to be revised, amendments will be recommended to the Audit & Governance Committee.

Creditworthiness policy

B.45. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure it:

- maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security (this is set out in the specified and non-specified investment sections below); and
- has sufficient liquidity in its investments, for this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed (these procedures also apply to the Council's prudential indicators covering the maximum principal sums invested).

B.46. The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria determine an overall pool of counterparties considered to be high quality. It does not define the types of investment instruments to be used.

B.47. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies with one meeting the Council's criteria and the other not, the institution will fall outside the lending criteria. Credit rating information is supplied by Sector, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notifications of likely changes), rating outlooks (notification of possible longer term changes) are provided to officers almost immediately after they occur and this information is considered before dealing.

B.48. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is summarised in Appendix B5.

- Banks (1): good credit quality. The Council will only use banks which:
  - are UK banks; or
  - are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA.

  and have, as a minimum, the following Fitch, Moody's and S&P's credit ratings (where rated):
  - Short term: F1/P1/A1
  - Long term: A-/A3/A-
  - Viability/financial strength: BB+/C (Fitch and Moody's only)
  - Support: 3 (Fitch only)

- Banks (2): part nationalised UK banks, Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- Banks (3): The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- Bank subsidiaries: The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies: The Council will use all societies which meet the ratings for banks outlined above.

- Money market funds: AAA rated via all three rating agencies. Up to total £100m. £20m per fund.

- UK Government (including gilts and the DMADF)

- Local authorities, parish councils etc

- Supranational institutions

- Corporate bonds pooled funds

Country and Sector Considerations

B.49. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition,

- no more than £50m will be placed with any non-UK country at any time;

- AAA countries only apply as set out in Appendix B6;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings

B.50. Additional requirements under the Prudential Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches or outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

B.51. All investments will be limited to 364 days years. Further internal restrictions may be applied on recommendations from Sector.

B.52. The proposed criteria for specified and non-specified investments are shown in Appendix B5 for approval.

Country limits

B.53. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from all three rating agencies. This restriction does not apply to the UK, should it lose its AAA status.

In-house funds

B.54. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Instant access funds

B.55. The Council will seek to maximise its return on investments by retaining call account deposits in part nationalised banks (Lloyds and RBS) which pay a premium due to their weakened financial strength but remain supported by the UK Government. In addition, the council will utilise money market funds (up to the value of £100m).

Local authorities

B.56. Loans will be offered to local authorities that seek to borrow cash from alternative sources to the PWLB.

Investment returns expectations

B.57. The Bank Rate is forecast by Sector to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Sector's Bank Rate forecasts for financial year ends (March) are:

2012/13	2013/14	2014/15	2015/16
0.50%	0.50%	0.75%	1.75%

B.58. There are downside risks to these forecasts (i.e., the start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if the Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate. It should be noted that some city predicitons put the Bank Rate at 0.5% until the year 2020.

B.59. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next three years are as follows:

2013/14	0.50%
2014/15	0.60%
2015/16	1.50%

Investment treasury indicator and limit

B.60. This indicator concerns the total principal funds invested for greater than 364 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early liquidation of an investment, and based on the availability of funds after each year end.

B.61. The Council is asked to approve the treasury indicator and limit:

Table B4: Maximum principal sum invested >364 Days

	2013/14 % of portfolio	2014/15 % of portfolio	2015/16 % of portfolio
Principal sums invested > 364 days	0	0	0

B.62. This means that no investments should be for longer than 364 days. This keeps the strategy within the Council's desired level of prudent risk.

B.63. For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated overnight deposits.

Icelandic bank investments

B.64. The Council placed £20m of deposits with two failed Icelandic banks: Glitnir and Landsbanki. Of this £20m, the Council's exposure is £18.5m with the balance attributable to the Police and Crime Commissioner for Surrey. The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.

B.65. In order to be prudent, the Council has previously earmarked a balance of £9.5m on the assumption that a proportion of the deposits will not be recovered with the proviso that this write off may be revised based upon latest estimates and the guidance from CIPFA.

B.66. On 28 October 2011, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. These decisions are now final and there is no further right of appeal.

B.67. The current position is that 50% of the Landsbanki deposit and 84% of the Glitnir deposits have been repaid, with expected recovery rates now at 100% in respect of both banks (subject to exchange rate fluctuations). The balance owed on each deposit is shown in the Table B5.

Table B5: Balances owed on Icelandic bank deposits

Counterparty	Period (days)	Principal £000	Rate %	Principal repaid £000	Principal outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	4,992	5,008
		20,000		13,377	6,623

B.68. Previous provision has been made within the Council's accounts for an irrecoverable amount regarding the Icelandic bank debt. Given the Supreme Court of Iceland decision, it is now felt prudent to cut the provision in its entirety in order to reflect the confidence in recovering the full outstanding deposit, albeit paid back in instalments over a yet unknown period of time.

Investment risk benchmarking

B.69. A development in the revised Code on Treasury Management and the CLG consultation paper, as part of the improvements to reporting, is the consideration and approval of security and liquidity benchmarks. Whereas yield benchmarks are currently widely used to assess investment performance, security and liquidity benchmarks are new reporting requirements. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual report.

Security

B.70. The Council's maximum security risk benchmark for the current portfolio, when compared with these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio

Liquidity

B.71. The Council currently restricts deposits with each counterparty to term deposits only, the length of which is based upon individual assessment of each counterparty. The amount of available cash each day should never fall below £15m. A minimum core cash has recently been set at £49m by Cabinet. This provides a safety margin, to help ensure the Council need not borrow to fund daily expenditure. In respect of its liquidity, the Council seeks to maintain the following.

- Bank overdraft: £100,000.
- Liquid short term deposits of at least £15m available with a day's notice.
- Weighted average life benchmark is expected to be three months, with a maximum of one year.

Yield

B.72. The Council benchmarks the return on deposits against the 7-Day LIBID (London Interbank Bid Rate), and reports on this as part of the treasury monitoring reports.

Performance indicators

B.73. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy and effectiveness of the treasury management function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The performance indicators to be used for the treasury management function are:

- borrowing: actual rate of borrowing for the year less than the year's average rate relevant to the loan period taken; and
- investments: internal returns above the 7-day LIBID rate.

B.74. These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2012, and the Treasury Management Annual Report for 2013/14.

End of year investment report

B.75. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Report.

External fund managers

B.76. The Council does not currently employ an external fund manager.

Minimum revenue provision

B.77. The Council's policy on minimum revenue provision (MRP) is shown in Appendix B7.

Lead or contact officer:

Treasury	Phil Triggs, Strategic Manager, Pension Fund & Treasury 020 8541 9894
Capital	Wai Lok, Senior Accountant 020 8541 7756

Appendices:

Appendix B.1	Prudential indicators - summary
Appendix B.2	Prudential indicators – details
Appendix B.3	Global economic outlook and the UK economy
Appendix B.4	Treasury management scheme of delegation
Appendix B.5	Institutions
Appendix B.6	Approved countries for investments
Appendix B.7	Annual minimum revenue provision (MRP) policy statement

Sources and background papers:

CIPFA Prudential Code for Capital Finance

CIPFA Treasury Management in the Public Services: Code of Practice

Investment guidelines under section 15(1)(a) of the Local Government Act 2003

Audit Commission: ‘Risk & Return: English Local Authorities and the Icelandic Banks

PRUDENTIAL INDICATOR (1). AFFORDABILITY PRUDENTIAL INDICATORS	2011/12 Outturn	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure	123,900	140,586	187,906	171,889	142,282	119,632	73,427
	%	**%**	**%**	**%**	**%**	**%**	%
Ratio of financing costs to net revenue stream	5.30	4.85	5.01	5.25	5.33	5.48	4.87
Net borrowing requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
brought forward 1 April	537,949	540,950	555,036	644,027	688,039	721,500	729,688
carried forward 31 March	540,950	555,036	644,027	688,039	721,500	729,688	712,938
in year borrowing requirement	3,001	14,086	88,991	44,012	33,461	8,188	- 16,750
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	£'000
In year Capital Financing Requirement	3,001	14,086	88,991	44,012	33,461	8,188	- 16,750
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Financing Requirement as at 31 March	540,950	555,036	644,027	688,039	721,500	729,688	712,938
Affordable Borrowing Limit			**£**	**£**	**£**	**£**	**£**
Updated position of Current Capital Programme Increase per council tax payer			4.03	13.65	17.77	20.66	22.94

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2011/12 approved	2012/13 approved	2013/14 estimate	2014/15 estimate	2015/16 estimate	2016/17 estimate	2017/18 estimate
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	567,347	582,371	593,847	634,002	656,801	656,930	624,642
Other long term liabilities	56,869	69,088	81,768	92,037	88,009	83,742	79,391
TOTAL	**624,216**	**651,459**	**675,616**	**726,039**	**744,810**	**740,672**	**704,033**
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	510,474	523,308	530,516	566,785	586,446	584,434	553,684
other long term liabilities	56,869	69,088	81,768	92,037	88,009	83,742	79,391
TOTAL	**567,343**	**592,396**	**612,284**	**658,822**	**674,455**	**668,176**	**633,075**
Upper limit for fixed interest rate exposure							
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%	150%	150%	150%
Upper limit for variable rate exposure							
Net principal re variable rate borrowing / investments	-50%	-50%	-50%	-50%	-50%	-50%	-50%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£ nil	£ nil	£ nil	£ nil	£ nil	£ nil	£ nil

Maturity structure of new fixed rate borrowing during 2011/12	upper limit	lower limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

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Prudential indicators

Capital expenditure

B.2.1. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

B.2.2. Table B2.1 sets out actual and estimated capital expenditure and its funding for 2011/12 to 2017/18. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Actual and estimates of capital expenditure are set out for the previous, current and future years.

Table B2.1: Actual and estimated capital expenditure 2011/12 - 2017/18

	2011/12 **Actual** **£m**	**2012/13** **Projected** **£m**	**2013/14** **← - - - - - - - - - -** **£m**	**2014/15** **£m**	**2015/16** **Estimated** **£m**	**2016/17** **£m**	**2017/18** **- - - - - - - - - - →** **£m**
Capital expenditure	124	141	188	172	142	120	73
Financed by:							
Government grants	81	96	69	77	71	72	55
Capital receipts	15	10	14	26	5	5	0
Revenue, reserves and third party contributions	14	5	3	8	14	15	18
Net financing need for the year*	**14**	**30**	**102**	**61**	**52**	**28**	**0**

*Capital expenditure to be met by borrowing

<u>The Council's borrowing need (the capital financing requirement)</u>

B.2.3. The capital financing requirement (CFR) represents capital expenditure financed by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from the locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP). The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's borrowing requirement.

B.2.4. Table B2.2 sets out the Council's capital financing requirement (CFR). The capital financing requirement (CFR) represents capital expenditure financed by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from the locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP). The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes and they therefore do not form part of the Council's borrowing requirement.

<u>Table B2.2: Capital financing requirement (CFR) 2011/12 to 2017/18</u>

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 ← - - - - - - - - - - £m**	**2014/15 £m**	**2015/16 Estimated £m**	**2016/17 £m**	**2017/18 - - - - - - - - - - → £m**
Opening CFR	538	541	555	644	688	721	730
Add new borrowing:							
MRP and other financing movements*	-11	-15	-13	-17	-19	-19	-17
Net Financing Need**	14	29	102	61	52	28	0
Closing CFR	541	555	644	688	721	730	713
Total CFR movement	3	14	89	44	33	9	-17

*Other financing movements include the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

B.2.5. Gross borrowing refers to an authority's total external borrowing requirement. CIPFA has issued an amendment to the Prudential Code 2011 to replace the net debt indicator (which offset investments) with a gross debt indicator. CIPFA requires this amendment to be implemented from 2013/14. The reason for this change is to highlight instances of local authorities borrowing ahead of requirement.

B.2.6. Table B2.3 sets out the Council's and net gross debt. Gross borrowing refers to an authority's total external borrowing requirement. CIPFA has issued an amendment to the Prudential Code 2011 to replace the net debt indicator (which offset investments) with a gross debt indicator. CIPFA requires this amendment to be implemented from 2013/14. The reason for this change is to highlight instances of local authorities borrowing ahead of requirement.

Table B2.3: Gross borrowing requirement 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 ← - - - - £m**	**2014/15 £m**	**2015/16 Estimated £m**	**2016/17 £m**	**2017/18 - - - - → £m**
Gross borrowing	315	319	327	362	385	383	353
Investments	-229	-200	-130	-130	-130	-130	-130
Net borrowing	86	119	197	232	255	253	223
CFR	**541**	**555**	**644**	**688**	**721**	**730**	**713**

The Council's operational boundary

B.2.7. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

B.2.8. Table B2.4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Table B2.4: Operational boundary 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 ← - - - Estimated - - - → £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	510	523	530	567	586	584	554
Other long term liabilities	57	69	82	92	88	84	79
Total	**567**	**592**	**612**	**659**	**674**	**668**	**633**
Actual external debt	86	119	197	232	255	253	223

The Council's authorised limit

B.2.9. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

B.2.10. Table B2.5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limits is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

Table B2.5: Authorised limit for external debt 2012/13 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 ← - - - - Estimated - - - - → £m**	**2016/17 £m**	**2017/18 £m**
Borrowing	567	582	594	634	657	657	625
Other long term liabilities	57	69	82	92	88	84	79
Total	**624**	**651**	**676**	**726**	**745**	**741**	**704**
Actual external debt	86	119	197	232	255	253	223

Ratio of financing costs to net revenue stream

B.2.11. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme. A prudent level not to exceed would be 6%.

B.2.12. Table B2.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme. A prudent level not to exceed would be 6%.

Table B2.6: Ratio of financing costs to net revenue stream

	2012/13 Projected	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
		← - - - - - - - - - - Estimated - - - - - - - - - - →				
Ratio of financing costs to net revenue stream	4.85%	5.01%	5.25%	5.33%	5.48%	4.87%

Incremental impact of capital investment decisions on Council Tax 2013/14 to 2017/18

B.2.13. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for future years.

B.2.14. Table B2.7 sets out the incremental impact of capital investment decisions on Council Tax. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for future years.

Table B2.7: Estimated incremental impact of capital investment decisions on council tax 2013/14 to 2017/18

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Band D Council Tax	£4.03	£13.65	£17.77	£20.66	£22.94

Global economic outlook and the UK economy

<u>The global economy</u>

B.3.1. The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth at 1% in quarter 3 is unlikely to prove anything more than a washing out of the dip in the previous quarter and the preliminary estimate from the Office for National Statistics (ONS) is that the economy shrank by 0.3% in quarter 4.

B.3.2. The Eurozone sovereign debt crisis has abated somewhat following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request and so surrendering its national sovereignty to International Monetary Fund (IMF) supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the timeframe for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP, i.e. unsustainably high. The question remains as to how much damage a Greek exit will cause and whether contagion would spread to cause Portugal and Ireland to also leave the Euro, though the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on European Union (EU) banks.

B.3.3. Sentiment in financial markets has improved considerably since the ECB action plus the Eurozone's recent renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

B.3.4. The United States (US) economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the US President at the start of his re-election seems to have resolved itself but it has proved a major dampener, discouraging businesses from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

B.3.5. Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

The UK economy

B.3.6. The Government's austerity measures, aimed at getting the public sector deficit into order with a balanced budget over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone, our biggest trading partner, has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. It will be important for the Government to retain investor confidence in UK gilts so there is little room for it to change course other than to move back the timeframe.

B.3.7. Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is though little evidence that consumer confidence levels are recovering, nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, the availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic growth

B.3.8. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. QE was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the Bank of England Monetary Policy Committee (MPC) to vote for a further round of QE to stimulate economic activity regardless of any near term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment

B.3.9. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and the Bank Rate

B.3.10. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA Rating

B.3.11. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

B.3.12. Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus amongst analysts that the economy remains relatively fragile and, whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate and become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- elections due in Germany in 2013;
- the potential for protectionism, i.e., an escalation of the currency conflict/trade dispute between the US and China;
- the potential for action to curtail the Iranian nuclear programme;
- the situation in Syria deteriorating and impacting other countries in the Middle East

B.3.13. The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

B.3.14. Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

B.3.15. Sector believes that the longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields:

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields;
- the reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;
- the reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone;
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth;
- the possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's AAA rating at the start of 2013).

Treasury management scheme of delegation

Full Council

B.4.1 Approval of annual strategy.

Audit & Governance Committee

B.4.2. Receiving and reviewing regular monitoring reports.

Chief Finance Officer

B.4.3. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

- Raising borrowing or funding finance from the most appropriate of these sources:
  - Government's Public Works Loans Board
  - lenders' option borrowers' option (LOBO) loans
  - local bond issues
  - European Investment Bank
  - overdraft
  - banks and building societies
  - local authorities
  - lease finance providers
  - internal borrowing.

- Debt management:
  - managing the cost of debt;
  - delegate authority to treasury management staff to undertake borrowing and debt rescheduling activities.

- CIPFA Prudential Code for Capital Finance in Local Authorities:
  - ensuring that this requirement is not breached, taking into account current commitments, existing plans, and the proposals in the budget report.

- Investing:
  - setting more restrictive investment criteria in response to changing circumstances;
  - arranging investments using these instruments:
    - fixed term deposits with banks and building societies
    - money market funds
    - local authorities
    - Government's Debt Management Agency deposits
    - pooled funds: gilts and corporate funds;
  - compiling and updating the lending list, utilising the criteria for counterparties, in consultation with the treasury management consultants;
  - managing surplus funds and revenue from investments;
  - appointment and performance management of external cash managers (if considered necessary);
  - delegate authority to invest to designated treasury management staff.

- Loan rescheduling:
  - any debt rescheduling which will be done in consultation with the treasury management consultants.

- Policy documentation:
  - formulation and review of the treasury management strategy statement;
  - formulation and review of the treasury management practices (TMPs).

- Strategy implementation:
  - implementing the strategy, ensuring no breaches of regulations;
  - reporting to Cabinet any material divergence from the strategy making requests to Council to approve amendments to the strategy as required;
  - ensuring that treasury management activities are carried out in accordance with CIPFA Codes of Practice.

Institutions

B.5.1. The Council will use specific credit ratings to determine which institutions can be used for investments. For specified investments, an institution will require the highest short-term credit rating from at least one of the three main credit rating agencies. For non-specified investments, the criteria base will be increased to include the other main rating categories to ensure that any institutions used for lending in excess of 364 days are of the highest overall credit quality.

Banks and building societies

B.5.2. For banks and building societies, the following minimum requirements will permit only high quality institutions to be on the Council's lending list but will also allow a wide spread of institutions to choose from:

Rating	Fitch or equivalent from Moody's and Standard & Poor
Short-term	F1
Long-term	A
Individual / financial strength	bb+/C-
Support	3

B.5.3. Equivalent ratings are used as not all institutions are rated by all three rating agencies. Where an institution is rated by more than one agency, the lowest ratings will be used to determine whether it qualifies for inclusion on the list. This practice is known as the Lowest Common Denominator approach.

Money market funds

B.5.4. The County Council currently uses five money market funds on a regular basis, with qualifying requiring a AAA rating from either Fitch, Moody's or Standard & Poor.

Enhanced Cash / Bond Funds

B.5.5. The Council will consider using enhanced cash funds as part of its investments in 2013-14. Criteria for suitable funds is a fund credit quality (FCQ) rating of AAA and a fund volatility rating (FVR) of s1 (or equivalent) from the three main rating agencies (Fitch, Moody's or Standard & Poor's). The criteria would only allow the Council to use funds with the highest FCQ and those funds where performance has a low sensitivity to changing market conditions.

Other institution types

B.5.6. The following institutions are mentioned explicitly in the new guidance and associated legislation. Councils are not expected to lay down specific criteria for including these types of institution as they are either UK Government institutions or have a UK Government guarantee.

- UK Government including gilts and the Debt Management Office
- Local authorities as defined by the Local Government Act 2003
- Supranational institutions, e.g., the European Investment Bank

Specified investments

B.5.7. All such investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' credit criteria
DMA deposit facility	-
Term deposits: local authorities	-
Term deposits: fully nationalised banks	Short-term F1, Support 1
Term deposits: UK banks and building societies	Short-term F1, Long-term A-, Viability bb+, Financial Strength C-, Support 3
Term deposits: overseas banks	Short-term F1, Long-term A-, Viability bb+, Financial Strength C-, Support 3 (AAA rated countries)
Money market funds	AAA
Enhanced Cash / Bond Funds	AAAf / s1 or equivalent

Effective counterparty limits

	Fitch				Moody's			S&P			
Type	ST	LT	VIA*	Sup	ST	LT	FSR	ST	LT	Maximum Value	Maximum Term
Bank/Building Society	F1	A-	bb+	3	P-1	A3	C	A1	A-	£20m	3 months
Bank/Building Society	F1+	AA-	a-	2	P-1	Aa3	B	A1 +	AA-	£25m	1 year
Bank/Building Society	F1+	AA	a-	1	P-1	Aa2	B	A1 +	AA	£35m	1 year
Money Market Funds	AAA				AAA			AAA		£20m	1 year
Enhanced Cash / Bond Funds	AAA / v1				Aaa-bf			AAAf / s1		£20m	1 year
Debt Management Office	-				-			-		Unlimited	1 year
Supranational	-				-			-		£10m	1 year
Local Authority	-				-			-		£20m	1 year

* Fitch Viability rating replaced the Individual Strength rating in December 2011

i) Deposits are permitted with UK banks that do not comply with the Council's credit rating criteria subject to the following:
   a. they have been nationalised or part nationalised by the UK government; and /or
   b. they have signed up to the UK government financial support package.

ii) The use of Money Market Funds is restricted to funds with three AAA ratings (from each of the agencies) up to a maximum of £100m (with a maximum of £20m per Money Market Fund).

iii) An additional £20m (per call account) is made available to invest in overnight high interest call accounts with both RBS and Lloyds TSB (making a total of £60m limit with each). This will be maintained while they remain part nationalised.

B.5.8. Deposits with foreign banks are permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is AAA-rated with any of the three ratings agencies (Fitch, Moody's and Standard and Poor's).

- MMF = Money Market Fund

- DMADF = Debt Management Account Deposit Facility at the Bank of England
- ST = Short-Term
- LT = Long-Term
- Via = Viability rating
- Sup = Support rating
- FSR = Financial Strength Rating

F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.

P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.

A-1 Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

Illustrative counterparty list as at 28 January 2013

	Fitch Ratings				Moody's Ratings			S&P Ratings	
	S/T	L/T	Viab.	Supp	S/T	L/T	Str.	S/T	L/T
UK		AAA				AAA			AAA
HSBC	F1+	AA-	A+	1	P1	AA3	C	A1+	AA-
Lloyds	F1	A	BBB	1	P1	A2	C-	A1	A
Royal Bank of Scotland	F1	A	BBB	1	P2	A3	D+	A1	A
Nationwide Building Society	F1	A+	A+	1	P1	A2	C	A1	A+
Barclays	F1	A	A2	1	P1	A2	C-	A1	A+
Santander (UK)	F1	A	A2	1	P1	A2	C-	A1	A
Australia		AAA				AAA			AAA
Australia & NZ Banking Group	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Commonwealth Bank of Australia	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Macquarie Bank	F1	A	A	3	P1	A2	C-	A1	A
National Australia Bank	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Westpac Banking Corporation	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Canada		AAA				AAA			AAA
Canadian Imperial Bank	F1+	AA-	AA-	1	P1	AA2	B-	A1	A+
Bank of Montreal	F1+	AA-	AA-	1	P1	AA2	B-	A1	A+
Bank of Nova Scotia	F1+	AA-	AA-	1	P1	AA1	B	A1	A+
Royal Bank of Canada	F1+	AA	AA	1	P1	AA3	C+	A1+	AA-
Toronto-Dominion Bank	F1+	AA-	AA-	1	P1	AAA	B+	A1+	AA-
Finland		AAA				AAA			AAA
Nordea Bank	F1+	AA-	AA-	1	P1	AA3	C	A1+	AA-
Germany		AAA				AAA		A+	AAA
DZ Bank	F1+	A+		1	P1	A1	C-	A1+	AA-
Deutsche Bank	F1+	A+	A	1	P1	A2	C-	A1	A+
KfW	F1+	AAA		1	P1	AAA		A1+	AAA
Landswirtschaftliche Rentenbank	F1+	AAA		1	P1	AAA		A1+	AAA
Netherlands		AAA				AAA			AAA
ING Bank	F1+	A+	A	1	P1	A2	C-	A1	A+
Rabobank	F1+	AA	AA	1	P1	AA2	B-	A1+	AA
Bank Nederlandse Gemeemten	F1+	AAA			P1	AAA	A	A1+	AAA
Norway									
DnB NOR Bank	F1	A+	A+	1	P1	A1	C-	A1	A+
Singapore		AAA				AAA			AAA
Development Bank of Singapore	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
Oversea Chinese Banking Corp	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
United Overseas Bank	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
Sweden		AAA				AAA			AAA
Skandinaviska Enskilda Banken	F1	A+	A+	1	P1	A1	C-	A1	A+
Svenska Handelsbanken	F1+	AA-	AA-	1	P1	AA3	C	A1+	AA-
Swedbank AB	F1	A+	A+	1	P1	A2	C-	A1	A+
Switzerland		AAA				AAA			AAA
UBS AG	F1	A	A-	1	P1	A2	C-	A1	A

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Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- UK

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Annual minimum revenue provision (MRP) statement

B.7.1. Best practice guidance recommends that authorities prepare a statement of policy on making MRP in respect of the forthcoming financial year. Going forwards this policy will be submitted to Full County Council before the start of the financial year. The statement is required to indicate how the authority intends to fulfil its duty to make prudent provision. Whenever these proposals are subsequently reviewed, a revised statement will be put to Full County Council for approval.

Proposed minimum revenue provision policy statement

B.7.2. Prior to 2008/09, the Council, in accordance with legislation, made a contribution from revenue to cover 4% of the unfinanced borrowing that has been undertaken to support the capital programme.

B.7.3. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008 with 2008/09 being the first year of operation. The Council has assessed its method of MRP and is satisfied that the guidelines for its annual amount of MRP set out within this policy statement will result in its making the prudent provision that is required by the guidance.

B.7.4. Where capital expenditure was incurred before 1 April 2008, MRP will continue to be charged at the rate of 4% of the outstanding capital financing requirement, in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life method, as summarised in Table B7.1 below. MRP will be based on the estimated life of the assets purchased from unsupported borrowing.

Table B7.1 Estimated economic lives of assets

Asset class	**Estimated economic life**
Land and heritage assets	50 years
Buildings	40 years (unless value indicates otherwise)
Vehicles, equipment & plant	10-15 years
IT Equipment (Hardware)	3-10 years
Infrastructure: - bridge strengthening - lighting - structural maintenance - minor works	 40 years 20 years 12 years 7 years
Intangible Assets (such as computer software)	5 years
Properties held for economic regeneration	1% or 0% MRP charged.

B.7.5. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

B.7.6. MRP will be made at 1% for properties held that are not currently needed for service operational purposes, but may be in future or are being held to facilitate future economic growth or re-generation.

B.7.7. In the case of long-term debtors arising from loans made to third parties, or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), there will be no minimum revenue provision made. The Council will make a MRP on investments in service delivery companies based on a 100-year life.

B.7.8. The Council reserves the right to determine alternative MRP approaches in particular cases in the interests of making prudent provision where this is material, taking into account local circumstances, including specific project timetables and revenue earning profiles.

Treasury Management Policy

B.8.1. The County Council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

B.8.2. Surrey County Council defines its treasury management activities as:
"The management of the organisation's cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Risk appetite

B.8.3. The Council's appetite for risk in terms of its treasury management activities is low. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

Risk management

B.8.4. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

Value for money

B.8.5. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

B.8.6. The Council greatly values revenue budget stability and, therefore, will aim to borrow the majority of its long term funding needs at long term fixed rates of interest. However, short-term rate loans may be utilised where the yield curve provides opportunity. The Council will also constantly evaluate debt restructuring opportunities within the portfolio.

B.8.7. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

Investment policy

B.8.8. The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is a further important objective.

B.8.9. The Council will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Local Government Act 2003: Section 25
Report by the Chief Finance Officer

Introduction

2.1. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and precept, the Chief Finance Officer must report to it on the following matters:

- the robustness of the estimates made for the purposes of the calculations
- the adequacy of the proposed financial reserves.

2.2. The authority must have due regard to the report when making decisions on the budget and precept.

2.3. The Chief Finance Officer for the County Council is Sheila Little (in the post of Chief Finance Officer and Deputy Director for Change & Efficiency Directorate).

2.4. In expressing her opinion, the Chief Finance Officer has considered the financial management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the County Council and its overall financial standing.

2.5. Preserving the Council's financial resilience is a key long-term driver in the council's financial strategy that has been reflected in the current Medium Term Financial Plan (MTFP) (2012-17) and which continues as a core principle as the council moves forward to the next 5 year MTFP (2013-18).

2.6. Although the Council has successfully delivered significant efficiency savings & service reductions in each of the last two financial years (2010/11 £68m, 2011/12 £61m, and is forecast to deliver further savings for 2012/13 of £66m, the budget assumptions for the next MTFP (2013-18), includes significant further savings of £240m, making a total of around £435m over the eight year period. The level of savings delivered so far retain a balance of approximately an 80:20 split between meeting the austerity agenda through a combination of service efficiencies and tax increases, similar to central government's strategy for addressing the national fiscal deficit. However, continuing this level of further savings year on year is becoming harder for services to deliver, therefore increasing the risk in the MTFP (2013-18).

2.7. Further significant risk exists due to the following.

- The continuing unprecedented level of economic uncertainty: austerity seems likely to continue for at least the next 5 years.
- The introduction of the revised basis of local government funding. The changes to council tax benefit localisation support and the local retention of business rates increases the uncertainty around the level of actual funding the Council will receive in the future.

2.8. The Council is correctly focused on long term financial resilience and is proactively planning to apply one-off general reserves & balances totaling £18m to achieve a balanced budget in 2013/14 (as set out in paragraphs A86 to A91) plus a further £5m from balances to increase the risk contingency for 2013/14. The Council recognises that existing long term strategies are required to address this additional shortfall from 2014/15 and the plans to review the revenue and capital programme after the first quarter of 2013/14 will cover this.

2.9. Taken together, all of these risks will require careful consideration as to the prudent level of balances to be maintained and a review of the level of the risk contingency within the revenue budget. In recent years the Council has had a risk contingency within the revenue budget of £8m, principally to mitigate against non-delivery of service reductions & efficiencies and to facilitate smoothing of spend across financial years. For the first time, it is expected that around £5m of the £8m risk contingency will be required in 2012/13 indicating, as anticipated, that it is getting harder to deliver and sustain this year on year high level of new efficiencies. To mitigate against these risks, the Council proposes to increase the risk contingency to £13m for 2013/14 using balances.

2.10. The above risks apply where the Council continues with its long term MTFP strategy of annual council tax increases of 2.5% annually (except for 2011/12 where the Council accepted the first council tax freeze grant offer and 2012/13 where the Council increased council tax by 2.99%). However, accepting the Government's offer of a grant to compensate councils for not increasing council tax in 2013/14 with a grant equal to 1% council tax increase for each of two years (making a total grant over two years of £11.6m) for this Council, would mean it would be unable to sustain its MTFP plans without either:

- imposing significant council tax increases in 2014/15 and subsequent years; and/or
- developing alternative long term strategies to address reducing government grant funding and limited increases in council tax; and/or
- making additional reductions to front line services.

2.11. The forward assumption of increasing council tax by 2.5% for each of the subsequent MTFP years beyond 2013/14, is potentially optimistic in view of government's stated strategy to maintain zero council tax increases for the remainder of the current parliament and the prescriptive guidance set out in the Localism Act 2011 on how an authority must conduct a referendum if triggered. Together with the high level of service reductions & efficiencies required in the remaining four years of the MTFP beyond 2013/14, the Chief Finance Officer recommends that the Cabinet review the plans to deliver these efficiencies early in 2013/14 to be assured that these plans are sustainable and will not lead to the erosion of the Council's financial resilience.

Financial management arrangements

2.12. In 2012 the Council was an award winner in the transparency category for its quarterly close process: a rarity within the public sector. This positions the Council well to achieve a smooth annual audit. An unqualified opinion on the 2011/12 financial statements and an unqualified conclusion on the council's arrangements for securing value for money was achieved in 2011/12. The 2012/13 external audit will be the first under the newly appointed auditor, Grant Thornton. The Chief Finance Officer is working closely with the new auditors to ensure a smooth transition.

2.13. The Council has maintained a robust system of budget monitoring and control evidenced by the continuation of timely monthly reports to Cabinet. Where over-spends or under-spends have arisen, prompt management actions have been identified to minimise effect and to enable early corrective action to be put in place where relevant.

2.14. The system for monitoring the progress on the implementation of efficiency savings has been enhanced during 2012/13 in recognition of the increased risk due to the continued high efficiency targets year on year: increased focus on efficiencies by the chief executive and senior officers before onward reporting and scrutiny by the Leader and Cabinet as well as Overview Scrutiny Committee. This will continue during 2013/14 alongside the on-going monitoring of the delivery of the efficiencies identified as part of the Public Value Review (PVR) programme, completed during 2012.

2.15. Throughout 2012/13 the Council Overview Scrutiny Committee, comprising the Chairmen of all other Select Committees, continued to scrutinise all Cabinet budget monitoring reports following presentation to Cabinet. The capital monitoring was enhanced during 2012/13, with more focused review by the chief executive and senior officers each month, in advance of formal reporting to Cabinet.

2.16. The above approaches will be continued into 2013/14 and progress on the actions needed to achieve the required savings will be tracked. The Chief Finance Officer considers that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget in 2013/14.

Budget process

2.17. The budget planning process, established in 2011, following a 'lean' process review, was developed further for this MTFP (2013-18) process. The main enhancements were:

- introduction of an earlier 'scene setting' phase ahead of scenario planning
- additional face to face engagement with the business & voluntary sector communities, and trade unions
- additional all Member briefings at each phase

- enhancement of resident engagement - through Simalto survey
- further embedding of procurement efficiencies into the process.

2.18. The budget has been constructed by looking at expected activity for the future years rather than the incremental approach. This applies a consistent approach to preparing budget proposals across all services. The assumptions, calculations and proposals in this budget are the result of challenge and scrutiny by the Leader of the Council, Members of the Cabinet and Select Committees throughout the summer and autumn of 2012 and into January 2013, guided by advice from the Chief Executive, Strategic Directors and Chief Finance Officer

MTFP (2013-18) Budget assumptions

2.19. Table 2.1 below shows the main budget assumptions together with an assessment of their robustness and the risk they pose to the Council's financial position and strategy.

Table 2.1 Main budget assumptions 2013/14 to 2017/18

	Assumption	**Comments**
Pay inflation	2013/14 *1.5%* 2014-18 *2.0%*	These proposals follow a three year pay freeze.
General price inflation	2013-15 2.1% 2015-18 2.2%	General inflation relates to non service specific budgets only. Specific inflation allowances have been included in individual services budgets reflecting the assessment of Strategic Directors and the Head of Procurement of the likely cost increases.
Council tax benefit support localisation and business rate retention	N/A	The impact of the local government funding review has been central to developing the MTFP 2013-18. Consultation with government has been extensive throughout 2012 and a range of likely outcomes modeled in the Council's scenario planning.
Interest rates	Minimal changes in base rates during 2012/13	All existing debt is fixed interest and so not subject to interest rate variation. MTFP allows for new borrowing at on average 5%, but rates between 4.4% and 5.6% over the 5 year MTFP period. Interest on cash balances is assumed as 0.7% Sector, our treasury management advisers, forecast minimal changes in rates until at least mid 2014 and then gradual, low increases.

	Assumption	Comments
Capital receipts	£50m (to fund programme over 5 years 2013-18)	The list of proposed disposals includes only assets that do not fit with the capital strategy of investing in the Council's estate either to meet service needs or develop an income stream. Any shortfall on receipts would be funded from other available capital reserves.
Demand led pressures	Demand pressures in Children, Schools & Families and Adults Social Care	Both Children, Schools & Families and Adults Social Care are experiencing increasing demand on services over the MTFP period reflecting: • increases in Surrey's population aged +80, dementia care in particular; • increases in Surrey's school age population; • legislative changes affecting vulnerable adults' entitlement and eligibility for support from the council; • increases in the number of looked after children and in particular those with a care protection plan. There is an increasing risk that these demand pressures may be understated, leading directly to the need to sustain an increased risk contingency of £13m in 2013/14.
Efficiency and other service savings	£240m	Efficiency & service reductions identified by Strategic Directors who confirm that actions have been identified to deliver savings and the targets included in budget proposals are realistic and achievable, albeit these are going to be very challenging to implement. In addition there is a further £79m in savings and reductions to be identified and implemented by 2017/18.

2.20. It is the Chief Finance Officer's opinion that the general assumptions are realistic but that the proposed efficiency and other service savings are ambitious and there is substantial risk that they will not all be achieved within the required timescale. To mitigate this risk, the contingency sum built into the revenue budget has been increased from £8m to £13m for 2013/14.

2.21. In recognition of the need to invest to deliver some of the efficiencies & service reductions required, the invest to save fund created in 2010/11 against which services will be required to produce full business cases before any resources are actually released, will continue in 2013/14. As in 2012/13, this reserve will require services to 'repay' the investment released to them over an agreed period – thereby ensuring that this fund is replenished over time and available for future investment initiatives.

Level of Reserves and Balances

2.22. The final accounts for 2011/12 show available general balances at 31 March 2012 of £28.8m: a deliberate increase from previous years in anticipation of smoothing spending over the MTFP period. The latest budget monitoring position for 2012/13, as at the December 2012, forecasts that this level will remain at this level at 31 March 2013 and as detailed above, £12m of these general balances and £11m of carry forward reserves will be applied to the budget as one-off funding for 2013/14. Other adjustments to earmarked reserves, as set out in Annex 1A – Appendix A7, are recommended to preserve the Council's future long term financial resilience. This is particularly critical as government grants are expected to continue to reduce at the same time as local government funding becomes increasingly uncertain and service demand levels become increasingly volatile.

Financial Standing

2.23. The Council has complied fully with the requirements of the *Prudential Code for Capital Finance in Local Authorities*. The formal recommendation to the Council sets out the prudential indicators, which the Council must adhere to. The Chief Finance Officer is satisfied that the level of borrowing assumed in the indicators is affordable and sustainable. The MTFP (2013-18) makes provision for the financing of all proposed borrowing and assumes an extension of the strategy to borrow internally unless external factors (i.e. interest rates and or capping limits) alter and make early borrowing appropriate.

2.24. The Council had £18.6m placed on deposit with two Icelandic banks, which has been at risk following the administration of these banks in October 2008. The Audit & Governance Committee has received regular updates on the progress in, and prospects of, recovery of the deposits that are at risk. The Council has now received repayment of £13.4m (84% for Glitnir and 50% for Landsbanki bank) and legal rulings have concluded that the remaining funds will be received in due course. The Chief Finance Officer therefore advises that it is acceptable to close the Financial Investments Reserve of £9.5m set up to mitigate against possible losses.

2.25. The County Council maintains a number of other earmarked reserves. This includes existing funds to smooth the cost of replacing vehicles and IT equipment, to provide a source of funds for internal investment, to protect against interest rate changes and the impact of an economic downturn, together with a new reserve to facilitate long term investment aimed at maximising long term financial resilience. There are sufficient funds in these reserves to meet expenditure likely to fall on them during 2013/14 and are available for other uses in case of emergency.

Risk Assessment

2.26. The Council has recently been shortlisted for a national award for its corporate governance arrangements, which recognises improvements made.

In response to the significant challenges that the Council is facing and the associated emerging risks, an integrated risk framework comprising the separate disciplines of risk management is well established in the Council and will be maintained. This has seen several changes to the risk governance arrangements embedded in the Council and the close link between risk registers and business impact analyses and continuity plans has been sustained throughout 2012/13 and will continue into 2013/14. Similarly the Leadership Risk Register remains in place and will continue to be monitored monthly by the chief executive and senior officers, and reviewed by Cabinet quarterly in 2013/14.

2.27. The specific risks and opportunities facing the council and recorded in the Leadership Risk Register are:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies;
- delivery of the waste infrastructure; and
- changes to health commissioning.

2.28. The Chief Finance Officer is satisfied that the proposed budget, including increased risk contingency, general balances and reserves sufficiently address these risks Additional resilience has been assured over the long term through the creation of new earmarked reserve for long term investment and infrastructure initiatives.

Future years

2.29. The proposed budget addresses the estimated reduction in funding over the next five years and sets out a plan to ensure that the Council can deliver budgets within estimated available resources. The plan will require close monitoring and, in view of the increased uncertainty around government funding, council tax and business rates, as well as volatile service demands, it is likely that adjustments will be required during 2013/14 to take account of unforeseen events and changes in the underlying assumptions. However, it sets a clear direction for the future and places the Council in a sensible position to meet the challenges ahead.

2.30. Given the scale of the financial challenges facing the public sector, the Chief Finance Officer must emphasise the high likelihood that the next comprehensive spending round will introduce further government grant cuts, meaning any changes to services over the MTFP (2013-18) period must be sustainable in the long term.

Conclusion

2.31. The Chief Finance Officer considers that the budget proposals recommended by the Cabinet are robust and sustainable. However, there are considerable risks associated with the increased uncertainty in a number of areas:

- the achievement of efficiencies & service reductions year on year;
- the transfer of uncertainty regarding the level of funding to local authority as result of the local government funding changes introduced from April 2013;
- the volatility implicit in the level of service demands; and
- the current economic situation and expected long term austerity faced by the country.

2.32. The above means a review of the MTFP (2013-18) is recommended after quarter one 2013/14 to validate assumptions and timescales.

SURREY
COUNTY COUNCIL

Council Overview and Scrutiny Committee
1 February 2013

BUDGET MONITORING REPORT FOR DECEMBER 2012 (PERIOD 9)

Purpose of the report: This report presents the revenue and capital budget monitoring up-date for December 2012 with projected year-end outturn.

Introduction:

1. The December 2012 month end budget report will be presented to the cabinet meeting on Tuesday 5 February 2013.
2. Annex 1 to this report sets out the council's revenue and capital forecast of the year-end outturn at the end of October. As December also marks the end of the third quarter, the report also includes the balance sheet and information on reserves and the council's debt.
3. The forecast is based upon current year to date income and expenditure and projections using information available at the end of the month. The report provides explanations for significant variations from the budget.

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Budget Monitoring – December 2012

Summary - Revenue

For a number of years the council has used a multiyear approach to budget setting, and as a part of this process unused budget in a year can support the following year's budget. The 2013/14 Budget Report, which is considered by the Cabinet on 5 February, details how budget from 2012/13 is being used in the following year.

As a part of its sound and robust financial planning process, the council recognised that 2012/13 is a challenging budget and built in a risk contingency to cover a number of eventualities. Specifically within its budget, the Council provided a £9.0m risk contingency to mitigate against new service demand pressures and possible non achievement of efficiencies & service reductions. This report proposes to allocate £4.6m of this contingency against the costs of increased demand for services. Predominantly, Adults Social Care and Children's Services are incurring greater volume increases than predicted for 2012/13. These services continue to make every effort to deliver balanced budgets. However, there is a clear risk they will not achieve this. As a part of the council's multi-year approach to financial management, we anticipate the remaining risk contingency of £4.4m will support the 2013/14 budget.

Despite facing growing demand and volume pressures, all other directorates (except Environment & Infrastructure) are meeting the challenging constraints and forecasting to underspend. The Council's total forecast under spending for 2012/13 is -£4.5m, or -0.3%. After applying the contingency, the net forecast under spending is -£8.9m.

The council's Medium Term Financial Plan (MTFP) 2012-17 set a £71.1m target for savings and efficiencies for the 2012/13 financial year. The current forecast is to achieve £65.8m of those savings identified in the MTFP. However, alternative one-off savings are being found, which leads the overall budget forecast to be underspent.

Summary - Capital

MTFP 2012-17 set a £683m five year capital programme. The updated capital budget for 2012/13 is £148m. Capital programmes inherently include uncertainties on timing and cost, and often therefore under spend. The current year's overall capital forecast outturn is a £7.4m under spend. This is for a mixture of reasons, including savings on better procurement leading to real underspendings as well as the complete delivery of some projects being in the next financial year. The council is also looking to bring forward some schemes and purchases, but at present it is not certain that these costs will be incurred in this financial year.

Summary – Quarterly accounts

As part of the on-going strategy to improve transparency and timing of financial reporting, the Council opts to produce quarterly key financial statements (e.g. Balance sheet) and to inform Members of key treasury management indicators. These are all included in this report.

Recommendations:

That Cabinet:

1. notes the projected revenue budget underspend; (Annex 1 – Section A) and the capital programme direction; (Section B)
2. confirms that government grant changes are reflected in directorate budgets; (Section C)

Revenue Budget - Month End Financial Position – December 2012

1. The updated revenue budget for the 2012/13 financial year is £1,536.5 million. Annex 1 Section C provides more details on this along with changes to government grants and inter-directorate virements.
2. Table A1 shows the updated net revenue budget for each directorate and also schools.

Table A1 – Directorate net revenue budgets, expenditure and forecasts

	Year to Date Budget	Year to Date Actual	Full Year Budget	Remaining Forecast Spend	Outturn Forecast	Forecast Variance
	£m	£m	£m	£m	£m	£m
Adult Social Care	252.7	255.5	337.2	86.0	341.5	4.3
Children, Schools & Families	219.6	210.2	295.5	81.8	292.0	-3.5
Schools	522.2	382.5	522.3	139.7	522.2	-0.1
Customers & Communities	55.3	54.0	74.3	18.2	72.2	-2.1
Environment & Infrastructure	94.1	92.2	130.7	39.6	131.8	1.1
Change & Efficiency	64.9	59.6	87.8	25.8	85.4	-2.4
Chief Executive's Office	10.4	10.4	14.0	3.7	14.1	0.1
Central Income & Expenditure	51.2	49.2	67.0	15.9	65.1	-1.9
Net Service Expenditure	**1270.4**	**1113.6**	**1528.8**	**410.7**	**1524.3**	**-4.5**
Risk contingency	0.0	0.0	9.0	4.6	4.6	-4.4
Net Revenue Expenditure	**1270.4**	**1113.6**	**1537.8**	**415.3**	**1528.9**	**-8.9**

3. The Council set aside a risk contingency of £9.0m and this will be earmarked to offset additional pressures. There is +£4.6m of earmarked additional pressures. Predominately, the demand and volume pressures within the Adult Social Care and Children's Services and the forecast overspend on £0.3m on road maintenance. Any remaining contingency would be used to support the 2013/14 budget. Based upon the current forecast, we would transfer £4.4m of the risk contingency to reserves at year end.
4. In addition to the above earmarked pressures, Environment & Infrastructure is predicting an overspend (+£0.8m). Offsetting this overspend are Children, Schools and Families (-£3.5m), Customers & Communities (-£2.1m), Change & Efficiency (-£2.4m) and Central Income & Expenditure (-£1.9m). This leads to a -£8.9m underspend.

Adults Social Care: (Current Forecast: is an overspend of +£4.3m or +1.4%, an increase in overspend of +£0.3m from the previous month)

5. The directorate is predicting to be overspent by +£4.3m at year end, an increase of +£0.3m from the November position. The main reasons for this follow:
    - all of the £3.8m underspend carried forward from 2011/12 has now been used to fund new pressures,

- there are growing demand pressures within the main client groups, including transition from children's services, a trend which has increased since November but has been offset by increased income and,
- staff recruitment difficulties and the need for complex partnership working have slowed delivery of some savings.

6. The Older People Services forecast is +£4.4m overspend, People with Physical & Sensory Disabilities (PSD) predicts +£2.1mm overspend, +£8.1m for People with Learning Disabilities (PLD) ; Mental Health -£0.1m underspend, offset by -£5.2m other expenditure and -£5.0m overachievement in income.
7. The Whole Systems funding programme is in the second of its four years, with £10.2m allocation received in 2012/13. Joint plans have been agreed with NHS Surrey to spend this money on new projects which should help in the longer term to reduce pressures on care and health budgets through preventative mechanisms such as telecare and telehealth. The funding is being retained on the balance sheet and drawn down to match expenditure as it is incurred. Due to growing demand pressures it is proposed that £0.8m of Whole Systems funds will be drawn down as a contribution to help offset these pressures. This represents a reallocation of funding previously set aside for internal ASC projects and as such would not directly affect plans agreed with health and other partners.
8. In addition to the Whole Systems funding, £2.4m of Dept of Health funding allocated to the County Council via the PCT was received late in 2011/12 and so remained unspent at year-end. Given the reduction in this year's forecast of achievable savings, £2m of this funding is drawn down as a contribution towards ASC's wider budget pressures. Every effort will be made to maximise savings in the remainder of the year, which may reduce the amount of Department of Health funding needed for this purpose.
9. Further to the above health funding streams, the government has recently announced Winter Pressures funding for 2012/13. The County Council has bid for £2.9m of this funding on the basis of the pressures forecast to be incurred over the winter period. The pro rata allocation to Surrey would be £1.6m, so it is hoped that this is the minimum amount that will be received. This potential funding has not been included in the December position, but whatever income is received, the outcome should be known by the end of January, will help to reduce the current level of projected overspend.
10. The policy line summary shown above for Adult Social Care does not include a £1m contribution from the corporate centre to fund additional temporary staff to support more rapid progress with personalisation, which is to be matched by a £1m contribution from ASC. The recruitment of these staff is now due to take place next year, so hence the £1m corporate contribution has been included in the 2013/14 budget as part of the forward budget setting process.
11. This position does include the £1m corporate contribution towards partnership working with the districts and borough councils, which is matched by £1m from ASC. It is expected that this £2m will be spent in year, but in view of the separate identification of the sum by the leader for this partnership purpose, any balance will be retained on the balance sheet if not fully spent in 2012-13 for draw down in 2013-14.

Summary of Management Actions included in the December projections

Forecast Efficiency Savings in the remainder of 2012/13:

- £ (1.7) m - Maximising Income through partnership arrangements. CHC savings of £ (1.3) m have been validated as at the end of December 2012. Based on 2011/12 performance and the backlog of cases still awaiting assessment additional savings are expected, but full year savings have been reduced to £3m because of risks brought about by changes in health economy and growing numbers of individuals losing CHC with associated backdated payments to health that reduce the net CHC savings the department secures.
- £ (0.1) m - S256 Attrition - £ (2.0) m of savings were achieved in full as at the end of December. A further £ (0.1) m of savings are projected for the remainder of the financial year.
- £(0.3)m - Delays in recruitment of the specialist PLD review team mean that achievement of some LD PVR savings will be delayed. Total savings in 2012/13 are now forecast to be £0.6m, of which £0.3m of savings had been achieved by the end of December 2012.
- £ (0.1) m - Home Based Care Tender - a retender exercise has been completed by Procurement for 2012/13. This is anticipated to deliver savings as existing packages cease and are replaced by lower cost new services.
- £(0.2)m - Consistent application of the RAS - it is anticipated that a proportion of service users currently receiving a direct payment, will be identified as needing lower cost packages which will lead to reclaims of surplus balances. £2.1m of reclaims had been achieved by the end of December 2012.
- £ (0.2) m - Further reductions in staffing costs - the current projections include ambitious recruitment plans. An adjustment has been made to account for some potential slippage of these plans.
- £(2.0)m - As a result of the reduction in this year's forecast savings it is now proposed that £2m of Additional Department of Health funding is drawn down as a contribution towards ASC's wider budget pressures.
- £(0.6)m - An adjustment has been applied to Older People Home Care projections to account to breaks in service and ceases not yet actioned in the AIS. This is in line with prior years' trends.
- £(0.8)m - £0.8m of Whole Systems funding previously set aside for internal ASC projects is now planned to be drawn down as a contribution to the wider ASC budget pressures.

Older People: £4.4m overspend, an increase of +£1.0m from November

The key variances within Older People services are:

- £3.4m - Overspend on Nursing and Residential placements mainly due to demand pressures that it has not been possible to absorb within the budget and underachievement against preventative, CHC and RAS savings against these policy lines.
- £1.1m - Spot Home Based Care pressures primarily due to MTFP efficiencies in relation to preventative savings not expected to be fully achieved within the current financial year.

- £1.2m - Overspend in relation to Other Community Services, including respite, day care and transport due to strategic shift as part of the personalisation agenda.
- £0.6m - Overspend within In-House residential homes including Day Care, due to MTFP efficiencies ascribed to this budget area being achieved within other areas in Service Delivery.
- £(1.3)m - Underspend within the Reablement service due to a high level of vacancies and delays in the appointment process.
- £(0.6)m - Underspend on Direct Payments primarily due to a reduction in the actual start position and an overachievement against the demography and inflation efficiencies.

£(0.8)m of management actions are included in the November monitoring position for Older People.

The main changes from last month are:

- £0.4m - Increase across Older People spot care packages mainly in Nursing due to changes in future forecasts to reflect current demand and back-dated packages.
- £0.3m - Reduction in Management Actions
- £0.2m - Other community care packages primarily due to a £100k increase in S256 transport costs for people who have transferred from Ethel Bailey to supported living plus an increase of £100k in respite and other community services as part of SDS support planning.
- £0.1m - Increase in in-house Residential Homes

<u>Physical Disabilities: £2.0m overspend, an increase of £0.5m from November</u>

The key variances within Physical Disability services are:

- £1.4m - Overspend on Direct Payments due to the start position in spot care being higher than budgeted and a net increase of 107 DP services from April to December 2012/13.
- £0.6m - Overspend on Supported Living due to the start position in spot care being higher than budgeted, together with the under-achievement against preventative and strategic shift efficiencies.
- £0.3m - Overspend on Nursing spot care, mainly due a net increase of 8 spot nursing care packages so far this year plus some MTFP savings being achieved against other policy lines.
- £(0.3)m - Underspend on Residential care, primarily due to lower than anticipated volumes of PSD transition clients.

£(0.1)m of management actions are included in the December monitoring position for PSD.

The main changes from last month were:

- £0.2m - Increase in Supported Living costs, mainly due to a net increase of 9 services in the last month.
- £0.2m - Increase in other PSD spot care costs, most notably Residential care due to 2 new packages being commissioned during December.
- £0.1m - Reduction in Management Action planned savings.

Learning Disabilities: £8.1m overspend, an increase of £1.0m from November

The key variances within People with Learning Disabilities services are:

- £2.9m - Overspend for PLD Transition clients due to growing demand pressures and increased volumes above those previously anticipated, forecast non-achievement of the £1m Optimisation of Transition Pathways efficiency and a number of high cost packages that the department has had to pick up this year.
- £2.6m - Overspend on Residential spot care mainly due to forecast under-achievement against strategic supplier review, preventative efficiencies, LD PVR and strategic shift efficiencies.
- £2.0m - Overspend on Supported Living spot care excluding S256 and Transition clients primarily because the start position was £1m higher than budgeted due to increased volumes in late 2011/12 (in line with the focus on community based provisions as part of personalisation), a net increase of 54 Supported Living services between April and December 2012 and under-achievement against preventative savings.
- £1.2m - Overspend on former S256 PLD clients due to anticipated under-achievement against MTFP efficiencies.
- £0.2m - Overspend on Nursing spot care due to a net increase of 3 services since the start of the financial year.
- £(0.6)m - Underspend across other community services, particularly on Other Community Care and Respite Care, due to a lower start of year position than originally forecast and a higher proportion of savings expected to be achieved against these service areas than was budgeted.
- £(0.2)m - Underspend on In-house Supported Living, Day Services and Residential care.
- £(0.5)m of management actions are included in the December monitoring position for PLD.

The main changes from last month were:

- £0.6m - Reduction in Management Action planned savings, mainly relating to the reduction in forecast LD PVR savings this year.
- £0.3m - Increase in Residential spot care due to a high cost package being commissioned in December and correction of errors in the previous month's projections.
- £0.1m - Increase in Other Community Care due to a net increase of 12 services in December.

Mental Health: £(0.1)m underspend, no significant change in projection from November

The £0.1m underspend on Mental Health is due to an underspend on Substance Misuse within Residential Care offset by an overspend within Supported Living/Home Based care services

No significant change from the November report.

Other expenditure: £(5.2)m underspend, an increased underspend of £(1.1)m from November

The key reasons for the underspend on Other Expenditure are:

- £(2.6)m - Underspend on core establishment including on-costs due to ongoing workforce reconfiguration and delays in recruitment.
- £(2.0)m - Funds brought forward from 2011/12 being used to offset pressures within the main client group budgets.
- £(0.6)m - Underspend on Supporting People - this is due to achievement of the Supporting People efficiency through the renegotiation of contracts in respect of volume and unit costs ahead of the 4 year plan.

£(0.3)m of management actions are included in the December monitoring position for Other Expenditure.

The main changes from last month were:

- £(0.6)m - Increased underspend on core establishment budgets due to further recruitment delays and a senior management decision to not commence any new recruitment until the start of the next financial year.
- £(0.4)m - Increased underspend on funds carried forward from 2011/12 as a contribution to pressures within the main client groups.
- £(0.1)m - Reduction in the Supporting People spend due to the renegotiation of contracts.

Income: £(5.0)m surplus, an increased surplus of £(1.0)m from November

The key variances that make up the overall surplus forecast on income are:

- £(5.8)m - Surplus on Other Income due to £(3.5)m of draw downs of Additional Department of Health funding, Whole Systems and other historic balance sheet funding to help offset wider pressure, unbudgeted refunds for clients who are determined as CHC with a backdated effective date £(1.9)m ,unbudgeted income within Service Delivery of £(0.3)m and £(0.1)m additional Carers income.
- £(0.6)m - Potential surplus on Fees & Charges based on the year to date position. Further work is underway to validate this potential surplus.
- £1.1m - Shortfall on Joint Funded care package income, mainly caused by a reduction in the number of joint funded clients due to ongoing reviews of historical joint funding arrangements which usually result in clients being determined as either 100% CHC or 100% social care.
- £0.3m - Shortfall on Section 256 fees & charges and Section 256 Mental Health income caused by reductions in S256 user numbers and offset by reductions in expenditure as a result.

£(4.3)m of management actions are included in the November monitoring position for Income.

The key changes from last month were:

- £(0.5)m - Increase in Other Income due to £(0.2)m changes to Management Actions in respect of CHC, increase of £(0.1)m in Q3 bad debt provision, reimbursement of £(0.1)m against Carer break vouchers not previously projected plus a £(0.1)m increase in income projected within Service Delivery
- £(0.4)m - Increase in Fees & Charges due to an increase in the Management Action to reflect a potential overachievement of fees and charges across this financial year based on current billed income.
- £(0.1)m - An increase in projected Joint Funded care package income.

Children, Schools & Families: (Current Forecast: Underspent by -£3.5m or -1.4%, -£2.0m increase in underspend since November).

12. The projected year end revenue position for Children Schools and Families is for an underspend of -£3.5 m against the county's budget. Of this - £0.5m relates to a delayed schools funded project and the remaining -£3.5m to council funded services. This increase in SCC underspend of £2,0m is mainly due to the identification of additional net income for Commercial Services.

13. In addition Children Schools and Families projects a £2.2m underspend related to Dedicated Schools Grant funded services which is determined by the Schools Forum.
Children's Services

14. The projected overspend has reduced slightly since last month by £0.3m to £2.2m. As previously reported the main reason for the overspend is an increase in the number of children receiving services despite the service largely meeting its efficiency targets. The main variations giving rise to the overspend and changes from last month are:

    - Looked After Children and Children in Need, both staffing and care costs - these budgets remain under pressure due to the impact of increased referral rates (+£0.9m) and the need to cover statutory work with agency staff in vacant positions (+£0.7m), although the latter has reduced a little this month (-£0.2m) due to both permanent and agency staff changes.

    - Agency Placements - the projected overspend for both children with disabilities and care increased this month by +£0.1m to +£2.1m. This reflects the increasing number of placements being made throughout the year. Management action to avoid high cost placements continues.

    - Fostering and Adoption Allowances – There is no change to the projection this month. The overall pressure on this budget (+£0.7m reflects a rising number of allowances and Special Guardianship orders.

    - Leaving Care and Asylum Seekers – the overspend on these services has increased slightly this month and now stands at +£0.4m resulting from a steady increase in the numbers requiring a service.

    - Safeguarding Services - the overspend remains broadly unchanged at +£0.4m representing an efficiency saving that will not be realised in full due to the increased number of children the service is seeing. Cabinet member approval has been given to vire underspent resources from elsewhere to safeguarding to put the budget for this service on a more realistic basis going forward and this will be processed in January.

15. Overall service pressures are being offset by underspent staffing budgets across the service (-£0.9m) and by the unallocated contingency within central budget (-£1.0m).

Schools & Learning

16. The anticipated underspend for schools and learning has increased this month by -£2.3m to -£4.5m on county funded services. There is a further underspend of -£2.6m relating to DSG funded areas as last month. A further -£0.5m underspend relates to broadband provision in schools and is funded by them from delegated budgets. The project is delayed and the budget will underspend although it and the matching schools funding will be carried forward.
17. The main reason for the increased underspend is the identification of additional net income of £1.3m for Commercial Services due to rising activity through the year. The forecast assumes that this higher level of activity continues to year end and that there is no significant disruption to schools due to poor weather.
18. A further underspend has been identified in relation to early years of -£0.5m bringing the overall projected position for the service to -£4m. The increase in the underspend relates to nursery provision for two year olds -£0.25m, (bringing the underspend here to -£0.85m) and -£0.16 on the working together project. The other main reasons for the Early Years underspend relate to: three and four year old (DSG) provision (-£1.65m), building a world class workforce bursaries underutilised (-£0.27m), application of grant from previous years (-£0.2m), children's centres (-£0.5m) and staffing vacancies (-£0.4m).
19. The transport budgets are now expected to be broadly on budget. Previously an overspend of £0.4m was expected.
20. The ISPSB allocations had been expected to underspend by -£0.8m, but this has now reduced to -£0.4m as more children with additional needs in mainstream schools are identified. The overspend on agency placements however is virtually unchanged since last month (+£0.5m).
21. In addition to the above there are staffing underspends across the directorate of- £1.7m largely arising from the implementation of the service restructure and decisions to hold vacant posts pending clarifications of future funding arrangements and delegation.

Services for Young People

22. Services for Young People are projecting a balanced budget

Strategic and Central Resources

23. The main budget item under the Strategic Director's control is the residual balance of the carried forward underspend from 2011/12 not yet allocated. The total carry forward was £7.4m of which £3.6m was transferred to the Child Protection Reserve, £1m for ongoing funding of the CSF Change Programme and £0.4m for schools' broadband. Other items are expected to make further in-roads into the balance. The current estimate is that £1m will remain unspent offsetting overspends elsewhere in the directorate.

Customer & Communities (Current Forecast: -£2.0m underspend or -2.8%, an increase in underspend of £0.6m from last month)

24. The directorate is currently projecting an underspend of -£2.0m against a budget of £74.2m. This is predominantly due to confirmation that there are no commitments against the Olympics contingency (£1.0m), underspends in member allocations where payments

are unable to be made this financial year (£0.5), increased income in Registration (£0.3m) and miscellaneous savings across the remaining services.

25. There is a projected underspend of £1,256,000 in Directorate Support. This is mainly due to there being no call against the Olympic contingency (£1,000,000). In addition there are net underspends within the team on staffing, (£169,000), projects (£53,000), and Olympic cycle races (£34,000) against the £2m cap.
26. Community partnership and safety are projecting an underspend of £613,000. This is due to an expected underspend on member allocations (£487,000) arising from anticipated delays in receiving signed funding agreements preventing payments being made before 31 March. The service will have a firmer position on the likely committed underspend by the end of February and will request that this be carried forward to allow these to be honoured early in 2013/14.
27. It is likely there will be an underspend on the Community Improvement Fund due to delays in getting signed funding agreements back preventing payments being made before 31 March. This is difficult to accurately estimate.

Environment & Infrastructure (Current forecast: +£1.1m overspend, an increase in overspend of £0.1 from last month)

28. The directorate is forecasting a +£1.1m overspend: Highways are predicting a +£1.0m overspend and Economy, Planning and Transport are predicting a +£0.5m overspend. Offsetting these overspends is an -£0.3 underspend in Environment and an -£0.1m underspend in other Directorate costs.
29. Highways capital recharges + £0.6m (overspend): There is likely to be a shortfall in the recharge of staff costs to capital schemes, as a result of the phasing of applicable activities (e.g. for design and preparation works).
30. Staffing - £0.5m (underspend): An underspend is expected following vacancies in the earlier part of the financial year following the directorate wide restructures. The forecast makes allowance for additional temporary staff employed to deliver projects across the Directorate.
31. Local bus services & concessionary fares + £0.5m (overspend): Local bus services are expected to overspend by +£0.3m, primarily due to the need to replace services previously operated by Countryliner. The Concessionary Fares scheme for reimbursement of travel costs for elderly and disabled passengers is currently expected to overspend by +£0.2m. The actual cost this year will depend on patronage which could be influenced by a number of factors, and this pressure will be recalculated as more data becomes available through the year.
32. Highways maintenance +£0.8m (overspend): An overspend is expected primarily due to additional road maintenance, illuminated street furniture repairs and winter maintenance.
33. Other variations – smaller variations across the directorate combine to a net underspend of -£0.3m.
34. **Change & Efficiency (Current forecast: -£2.4m underspend or -2.8%, an increase in underspend of £0.8m from the previous month)**
35. Overall, the Change and Efficiency revenue budget is projected to underspend by -£2.4m for the year consisting of underspends in Property (-£2.5m), Human Resources (-£0.8m),

Finance (-£0.3m), other minor variations (-£0.4m), offsetting an overspend in IMT of £1.7m

36. The budget for the directorate includes efficiency savings of £7.9m, of which £7.1m will be delivered. The shortfall is in relation to IMT where one-off network savings from Cable and Wireless (£0.5m) will not be achieved, nor will the expected income from partner contributions to the Data Centre. However, the ongoing network savings from 2013-14 through the new Unicorn contract are on course to be delivered and partners are expected to begin to take space in the new financial year, following the implementation of the shared network (Unicorn), which will significantly reduce the implementation cost for participation.

37. Significant savings of £1.1m are expected on the Carbon Reduction Commitment budget. Data has now been submitted to the CRC commission and following a review of the quality of the data, the likelihood of fines has been significantly reduced. In addition, in view of the number of licences purchased last year together with reductions in energy consumption achieved, it is unlikely that the cost of allowances will reach the levels expected during budget setting.

38. There is expected to be a saving on the utilities budget of £0.6m. This is based on the estimated energy prices (from October) through the Laser contract. This saving is due to two key factors - procurement activity to deliver a reduction in electricity prices and a lower increase in gas prices than originally expected. It is also due to the capital investment made, including new boilers and smart metering which facilitate greater control over energy usage. The forecast is subject to weather conditions over the winter months, and further savings will be made if temperatures are fairly mild over the peak consumption period. Conversely, if temperatures are extremely cold for a significant period the savings may reduce.

39. Further savings (£1m) are expected through the reconfiguration of the office portfolio, where some moves have happened in advance of the original plan, allowing us to relinquish our rent liability earlier than expected and as a result of rent-free periods negotiated on new leases such as the main data centre.

40. A comprehensive review of the planned maintenance budget has been completed and confirms a projected underspend of £0.8m, as a result of the new contracts implemented this year. Part of this is a reduction in work delivered during the transition, however the new contracts have delivered procurement savings in the region of 11%. These savings are partly offset by an increase in responsive repairs and maintenance (+£0.4m) as a result of the heavy rainfall earlier in the year. Income from rents are expected to be below budget as a result of Countryliner going into administration (+£0.1m), and incorrect budget assumptions in respect of rents Mayford Business Centre and Gypsy sites (+£0.2m).

41. An underspend of £0.6m is expected within Human Resources and Finance on staffing costs as a result of the prudent holding of vacancies prior to restructure implementation in order to reduce redundancy costs. In both cases, recruitment to posts is substantially completed however the majority of new starters are unlikely to be in place until the new (calendar) year. A further underspend of £0.1m is expected within Procurement as result of vacancies and the sharing of resources with East Sussex.

42. There will be an underspend in the Smarter Working team of £0.2m, which will be requested as a carry-forward in order to fund staff on secondment who are working with services to help maximise the benefits of the recent investment in mobile technology.

43. All of the above savings help to offset an overspend in IMT totalling £1.7m. In particular there is an increased spend in IMT of £0.3m for dual running costs in the final quarter to ensure the new Unicorn contract with BT can go live on 1 April and efficiency savings of £0.5m have not been met with regard to the Cable & Wireless contract, costs associated with bringing SAP hosting in-house were higher than originally anticipated due to timing changes, In addition, in order to escalate the delivery of a step-change in IT capability across the organisation, some investment planned for next year will be brought forward. These initiatives include an improved and more resilient scanning solution and upgrade to the Citrix hardware.

Chief Executive's Office (Current Forecast: £0.1m overspend or 0.4%, an increase in overspend of £0.1m from last month).)

44. The overall projection for the directorate is a small overspend of £0.1m against a total revenue budget of £14.0m. The directorate is managing a large pressure within Legal (£0.46m) through the careful management of staff vacancies and early achievement of efficiencies within Policy and Performance.

45. Legal and Democratic Services are forecasting an overspend of £0.4m due to the expected continuation of high levels of complex Child Protection cases in 2012/13, despite additional funding of £185,000 being added from Children's, Schools and Families' carry forward to provide additional staffing. Management action is being taken to minimise the impact. Underspends in other departments, in particular within Policy, Performance & Audit (£0.2m) due to current staff vacancies partially offset this pressure to result in the net predicted budget position.

Central Income & Expenditure (Current Forecast: -£1.9m underspend or -2.6%, a decrease in underspend of £0.1m from last month)

46. The full year forecast for the Central Income and Expenditure budget is an underspend of -£1.9m. The most significant reason is a lower than estimated provision of the repayment of debt (-£1.2m). This is because the 2011/12 capital programme underspent resulting in less capital expenditure being funded from borrowing than anticipated.

47. The budget for interest on short term investments is based on assumptions around available cash balances and interest rates. Although interest rates have not risen, cash balances are higher than forecast and it is expected that the council will receive interest income of £0.6m in excess of the budget. In addition, a provision is made in the budget for interest to be paid to schools on their balances. With continuing low interest rates this is unlikely to occur leading to an underspending of -£0.2m.

48. Expenditure on Redundancy and Compensation is currently in line with the budget, and there have been 111 new cases approved this year against 138 assumed in the budget – and increase of 7 from November. Expenditure on this budget going forward depends on the decisions and outcomes of service re-structures and also the possibility of some people being re-deployed. Therefore the number of cases may increase in future months so this budget will continue to be closely monitored.

Staffing Costs

49. The Council's total full year budget for staffing is £305.8m. Expenditure to the end of December 2012 is £221.4m.

50. The Council employs three categories of paid staff.

- Contracted staff are employed on a permanent or fixed term basis and are paid through the Council's payroll. These staff are contracted to work full time, or part time.
- Bank staff are contracted to the Council and paid through the payroll but have no guaranteed hours.
- Agency staff are employed through an agency with which the Council has a contract.

51. Bank and agency staff enable managers to manage short term variations in demand for services or vacancies for contracted staff.

52. A degree of flexibility in the staffing budget is good, as is some staff turnover, which allows new ideas and thinking into the workforce from other organisations. The Council aims to incur between 88% and 95% of its staffing costs from contracted staff, depending on the particular Directorate service needs. The current level of 92% has been stable for most of the current year.

53. Table A2 shows the staffing expenditure for the first nine months of the year against budget, analysed among the three staff categories.

Table A2 – Staffing costs to end of December 2012.

	Budget £m	Actual £m	%	Variance £m
Contracted		203.0	92%	
Agency		10.9	5%	
Bank		7.5	3%	
Total Staffing Cost	229.3	221.4		-7.9

54. The favourable current variance of £7.9m is due to a combination of vacancies in the process of being filled, vacancies being held unfilled prior to restructures and a more economical mix of staffing grades being employed than budgeted.

55. In setting the budget, the Council based the staffing cost estimate on 7,700 full time equivalent (FTE) staff. Table A3 shows that there are 7,334 contracted FTEs in post at the end of December.

Table A3: Full Time Equivalent by directorate

Directorate	**Nov FTE**	**Dec FTE**
Adult Social Care	1,890	1,887
Children Schools & Families	2,524	2,533
Customer and Communities	1,468	1,464
Environment & Infrastructure	496	502
Change & Efficiency	773	772
Chief Executive Office	179	176
Total	**7,330**	**7,334**

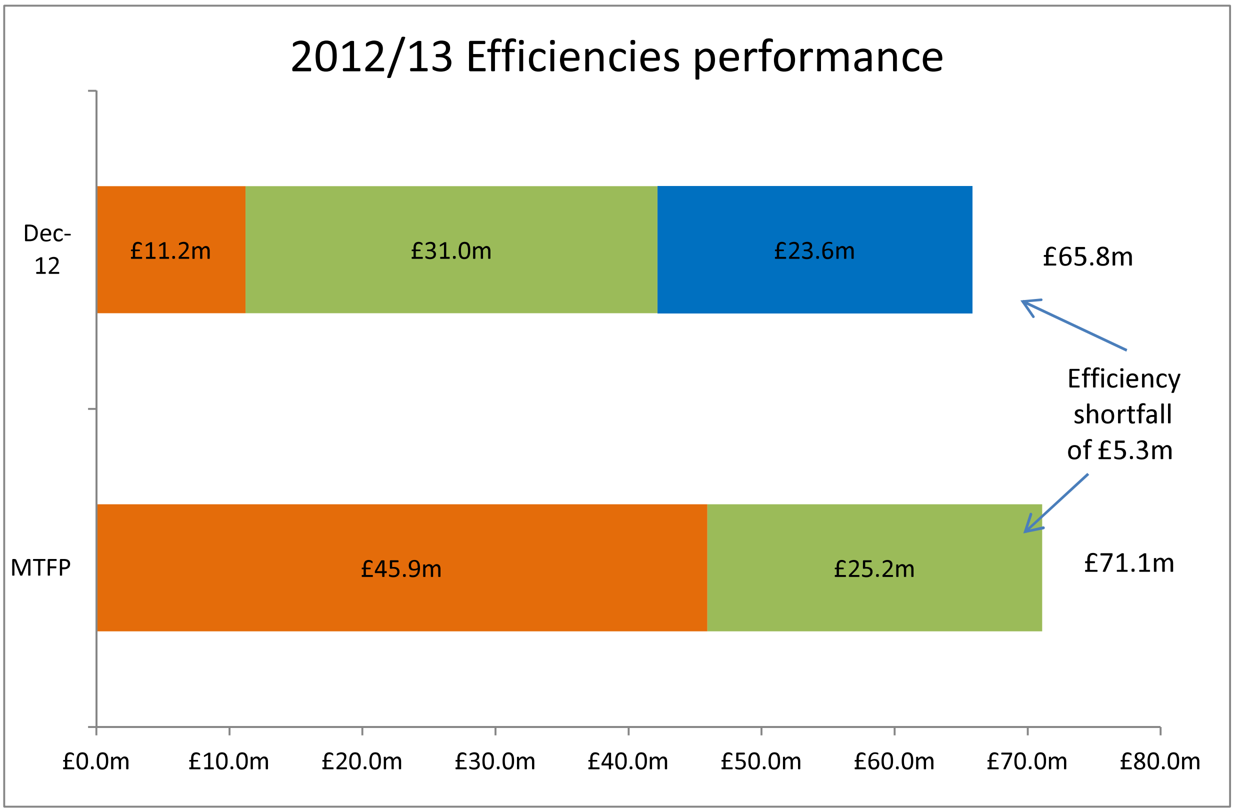
56. There are 127 "live" vacancies, for which active recruitment is currently taking place. The remaining vacancies are either filled by agency and bank staff on a short term basis or not being actively recruited to at present.

Table A4- full time equivalents in post and vacancies

	Dec FTE	Nov FTE
Budget	7,700	7,700
Occupied contracted FTE	7,330	7,299
"Live" vacancies (ie: actively recruiting)	127	204
Vacancies not occupied by contracted FTEs	243	197

Efficiencies

57. For the current year the Council has a savings target of £71.1m, which was set out in the MTFP. The current forecast is for £65.8m of these to be achieved.



58. Although there is a shortfall in achieving the efficiencies in the Medium Term Financial Plan, Strategic Directors are looking to deliver all of their £11.2m amber savings to add to the £31.0m green savings and £23.6m already delivered. The MTFP 2012-17 savings are long term savings but directorates are supporting long term saving shortfalls with one-off savings or expenditure under spends.

Adult Social Care

59. A comprehensive review of savings plans conducted in September led to the removal of some high risk savings from the previous month's projections and their replacement largely with temporary one-off measures (£8.4m) which will help to contain this year's overspend, but will leave a sustainable challenge in the following years. The need to replace these one-off measures is being highlighted as part of the forward budget setting process.

Children Schools & Families

60. A number of challenging savings targets in 2012/13 are no longer achievable for a variety of reasons: savings through restructuring of Schools & Learning of £0.5m due to the need to create a structure to meet increasing demand from demographic growth; the £0.8m

saving by outsourcing some preventative services is delayed; savings by managing transport contracts of £0.4m. Schools and Learning had set aside a contingency of £2.0m in order to meet any demographic growth pressures in year, £1.5m of which is effectively being used to meet these costs of managing demand. A virement has now been approved and actioned to realign budgets to reflect anticipated activity and costs.

Environment & Infrastructure

61. A comprehensive review of performance against efficiency targets is under way. At this stage a number of shortfalls are expected, primarily in respect of contract cost savings, recharge of staff costs to the Local Sustainable Transport Fund grant, and the cost of concessionary fares where increased patronage has impacted on costs. In future years, planned savings from parking income are not now expected to be made.

Central Income & Expenditure

62. The budget included a savings target of £0.2m on the Minimum Revenue Provision for the current year. However, following the final audit of the 2011/12 accounts, capital expenditure and borrowing was lower than forecast and this has led to an ongoing saving of £1.2m more than anticipated.

Capital Budget - Month End Financial Position – December 2012

63. In agreeing significant capital investment as part of the MTFP for 2012-17 in February 2012, the Council demonstrated its firm long term commitment to stimulating economic recovery in Surrey. The total capital programme is £685m over the 5 year MTFP (2012/17) period, with £147.9m planned in 2012/13. This is a decrease of £0.6m on the budget reported in November, which is mostly due to the re-phasing of the government grant for Walton Bridge that replaces the need for the council to fund this year's expenditure.

64. The current forecast is for an underspending on the budget of -£7.4m, which is summarised in table B1. This is for a mixture of reasons, including savings on better procurement leading to real underspendings as well as the complete delivery of some projects being in the next financial year. One significant factor in this forecast underspending is that following a European Court decision, the council can now proceed with the broadband programme and capital costs will start to be incurred in 2013/14. The council is also looking to bring forward some schemes and purchases, but at present it is not certain that these costs will be incurred in this financial year.

65. On a scheme by scheme basis the budgets include the funding carried forward for projects continuing from 2011/12. With all large capital programmes there will inevitably be some in-year variation through changes to the timing of some spend and through successful delivery of efficiencies. Due to these risks a corporate adjustment to the forecast of £9.5m was made earlier in the year.

Table B1- 2012/13 Capital budget

	Revised Full Year Budget £000s	YTD Actual £000s	Committed £000s	**Apr –Nov YTD & Committed £000s**	Dec - Mar Remaining Forecast £000s	**Full Year Forecast £000s**	**Full Year Variance £000s**
Adult Social Care	**1,687**	381	562	**943**	579	**1,522**	**-165**
Children, Schools & Families	**8,851**	10,004	250	**10,254**	-2,020	**8,234**	**-617**
Schools Basic Need	**31,992**	20,898	3,437	**24,335**	5,649	**29,984**	**-2,008**
Customers & Communities	**5,403**	1,757	135	**1,892**	915	**2,807**	**-2,596**
Environment & Infrastructure	**51,590**	35,103	17,953	**53,056**	-2,700	**50,265**	**-1,325**
Change & Efficiency	**47,761**	25,677	8,900	**34,577**	10,933	**45,510**	**-2,251**
Chief Executive's Office	**10,173**	173	0	**173**	2,000	**2,173**	**-8,000**
c.fwd adjustment	**-9,525**			**0**	0	**0**	**9,525**
Total	**147,932**	**93,993**	**31,237**	**125,230**	**15,356**	**140,495**	**-7,437**

Children, Schools & Families

66. The forecast under spend of -£0.6m is principally caused by additional £2.5m funding received for school funded capital projects.

School Basic Need

67. The Schools Basic Need programme is expected to be -£2.0m under budget; which is the net result of bringing schemes forward and of procurement savings made on the

demountables programme and reductions in the programme where schemes are no longer required.

Customer & Communities

68. The Fire & Rescue Service vehicle and equipment replacement scheme is currently underspent by £1.3m. There is a significant programme of purchases underway for the financial year. It is estimated that a further £240,000 will be committed and goods received within this financial year. Additional commitments are planned but it is likely that all will be received by 31 March 2013 due to the lead time for procurement.

69. The Fire Service, Mobilising Control scheme is currently £1.2m underspent. This is a complex two year project and the service are working hard to ensure that they maximise the benefits from the resulting acquisitions. The budget will need to be reprofiled as expenditure will be incurred over the two year grant life.

Environment & Infrastructure

70. The Directorate is forecasting a £1.3m underspend:

- **Developer funded schemes - £1.0m (underspend).** This includes schemes funded from S106 developer contributions which form part of the Local Sustainable Transport Fund project. Following the re-profiling of grant agreed with the Department for Transport this will be spent in future years.
- **Highways maintenance +£0.5m (overspend).** Additional schemes have been carried out this year, and additional costs have been incurred disposing of tarmac.
- **Pay and display - £0.4m (underspend).** Fewer schemes are expected to be progressed this year. The programme is under review to determine whether this underspend is required in future years.
- **Other variations -£0.4m (underspend).** Smaller variations, including underspends on bridge strengthening and maintenance at closed landfill sites combine to this underspend.

Change & Efficiency

71. Delivery against the remaining CAE capital programme is expected to be £2.3m under budget.

72. Schools projects are expected to be under-spent by £2.1m. The tender process for the replacement of aged demountables has delivered a saving of £0.4m however work will not now start until the new financial year, creating an in-year underspend.

73. Non-schools projects will underspend by £5.0m. The overage payment of £2.1m in relation to the Waste site at Charlton Lane is now unlikely to proceed this financial year. Other variances are primarily as a result of planning issues particularly in relation to Gypsy sites and Cobham Library re-provision. The Fire Station reconfiguration project (of which £0.5m was expected to be incurred this year) has been delayed on request by the Fire Service.

74. There is a projected overspend on IT projects (£0.6m) funded by the Equipment Renewal Reserve in the current year. This is due to the significantly increased number of laptops that were purchased as part of the desktop refresh in order to facilitate more mobile and remote working. Additional contributions to the reserve have been made this year from the revenue budget to cover the expenditure. The Adult Social Care

Infrastructure Grant (-£0.6m) needs to be carried forward to fund systems improvements in the future.

75. The award of a contract to replace the SWAN network with a Surrey wide Public Sector network is proceeding following approval from Cabinet. In order for the network to be ready there will be a significant up-front investment of £4m. Options appraisal was completed which determined that the most cost effective methodology would be for the council to purchase equipment required rather than paying over the life of the contract. Savings of will be achieved in future years' revenue expenditure.

Chief Executive Office

76. The Chief Executive Office has responsibility for delivering the superfast broadband initiative. The Cabinet has committed to ensuring that access to superfast broadband is available to all business and residential premises in Surrey. In addition to this the Surrey Public Sector Network project will focus on broadband access for Public Sector and third sector bodies.

77. Cabinet approved the preferred bidder in July and the contract was awarded in September. State aid approval has now been received, enabling the contract to start. Detailed planning has commenced, but not completed, with the contractor clarifying the likely profile of expenditure from 2012 to 2014. Currently the estimate is that £2.0m of expenditure is anticipated in 2012/13, with the remaining £18.0m spent over 2013/14 & 2014/15. Cabinet have approved the establishment of a Joint Operation Centre (JOC), based at County Hall, to implement the contract. It is anticipated that the costs of the JOC (approx. £0.6m for 2 years) will be funded from the £1.3m provided by Broadband Delivery UK (BDUK).

Government grants and budget revenue budget virements

Updated Budget

78. The Council's 2012/13 revenue expenditure budget was initially approved at £1,512.7 million. Subsequently the Cabinet approved the use of reserves built up in 2011/12 to augment this. This approval increased the budget to £1,527.3m. In addition to grant changes, DSG carry forwards, academy conversions and other minor movements in quarters 1 & 2, minor movements in October and November, there was an adjustment for academy conversions in December and other minor movements. These changes are summarised in table C1.

Table C1: Movement of 2012/13 revenue expenditure budget

	Council Tax	Formula Grant	Government Grants	Reserves	Total
	£m	£m	£m	£m	£m
Original MTFP	580.0	148.6	767.3	16.8	**1,512.7**
Previous changes					
Q1 changes			0.9	14.6	**15.5**
Q2 changes		1.0	16.6	-2.2	**15.4**
October and November changes			0.3	1.3	1.6
Previous changes		**1.0**	**17.8**	**13.7**	**32.5**
December changes					
School adjustments			-7.5		**-7.5**
Minor changes			0.1		**0.1**
December changes		**0.0**	**-7.4**		**-7.4**
Updated budget – Dec 2012	**580.0**	**149.6**	**777.7**	**30.5**	**1,537.8**

79. When the Council agreed the 2012-2017 MTFP in February 2012, government departments had not determined the final amount for a number of grants. Services therefore made an estimate of the likely level of grant. The general principle agreed by Cabinet was that any changes in the final amounts, whether higher or lower, would be represented in the service's expenditure budget.

80. Government grant changes in December totalled - £7,275,844. This comprised:

- school adjustments including academy adjustments and Salix loans (-£7,503,722) and
- minor changes in Change and Efficiency and Schools .

81. The Cabinet is asked to note these grant changes and approve that they are allocated to the relevant services.

82. In controlling the budget during the year, budget managers are occasionally required to transfer, or vire, budgets from one area to another. In most cases these are administrative or technical in nature, or of a value that is approved by the Chief Finance Officer. Virements above £250,000 require the approval of the Cabinet Member. In December there was a virement of £1,000,000 from Central Income and Expenditure to

Adult Social Care being the interest payable on capital financing. Table C2 below shows the updated revenue budget that includes the changes in government grants and virements since the beginning of the year

Table C2: 2012/13 updated revenue expenditure budget – December 2012

	Original MTFP Budget	2011/12 Carry Forwards	Government Grants	Virements	Full Year Updated Budget
	£m	£m	£m	£m	£m
Adult Social Care	331.5	3.8		1.9	337.2
Children, Schools and Families	289.3	3.9	3.6	-1.3	295.5
Schools	518.9		4.0	-0.6	522.3
Customers and Communities	70.6	1.8	0.9	1.0	74.3
Environment and Infrastructure	125.6	2.3	1.8	1.0	130.7
Change and Efficiency	84.7	2.3	0.1	0.7	87.8
Chief Executive's Office	13.7			0.3	14.0
Corporate Projects	1.5			-1.5	0.0
Central Income / Expd.	68.1	0.4		-1.5	67.0
Service Revenue Expenditure	1503.9	14.5	10.4	0.0	1528.8
Risk Contingency	9.0				9.0
Total Revenue Expenditure	**1512.9**	**14.5**	**10.4**	**0.0**	**1537.8**

Balance Sheet as at 31 December 2012

83. This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the authority. The net assets of the authority totalling £110m are matched by the reserves held by the council.

	Note	As at 31.12.12	As at 31.03.2012	As at 31.03.2011
		£m	£m	£m
Property, plant & equipment	1	1,265.4	1,257.8	1,314.0
Heritage assets (historical collections and notable paintings)		0.7	0.7	0.0
Intangible assets (IT software & licences)		6.2	7.1	8.8
Long term investments		0.2	0.3	0.2
Long term debtors		0.5	0.5	0.6
Long term assets		**1,274.9**	**1,266.4**	**1,323.6**
Short term investments	2	97.2	99.9	60.5
Assets held for sale		4.0	4.6	8.1
Inventories (eg: salt and grit store)		1.0	1.4	1.4
Short term debtors		96.7	100.8	85.5
Cash & cash equivalents	2	147.2	109.8	78.0
Current assets		**346.1**	**316.5**	**233.4**
Short term borrowing		-14.2	-15.1	-15.1
Short term creditors (including revenue grants in advance)	3	-192.9	-180.0	-166.0
Short term provisions (eg: staff cost relating to untaken leave)		-1.1	-17.7	-17.4
Capital grants, receipts in advance		-1.2	-1.2	0.0
Current liabilities		**-209.6**	**-214.0**	**-198.5**
Long term provisions (eg: insurance)		-8.4	-8.0	-7.4
Long term borrowing (eg: capital loans)		-306.2	-306.2	-306.3
Other long term liabilities (eg: pension fund)		-984.9	-984.5	-867.3
Capital grants, receipts in advance		0.0	0.0	-40.7
Long term liabilities		**-1,299.5**	**-1,298.7**	**-1,221.7**
Net assets		**110.0**	**70.2**	**136.9**
Funded by:				
Usable reserves (eg: general balances, earmarked reserves)	4	-305.3	-269.1	-167.6
Unusable reserves (eg: pension, capital & revaluation reserves)	5	195.3	198.9	30.7
Net reserves		**-110.0**	**-70.2**	**-136.9**

Note 1: **Property, plant and equipment**. This item includes the value of the council's assets, which include capital expenditure, revaluations and depreciation.

Note 2: **Short term investments and cash equivalents**: The timing of the council tax receipts and government grants is towards the start of the year. Cash balances are invested on a short term basis. Cash equivalents are convertible to cash without penalty on demand.

Note 3: **Revenue grants receipts in advance:** Government grants with conditions are shown as a liability on the council's balance sheet. Those without conditions are treated as earmarked reserves (see note 4). Government grants are paid earlier in the year and so balances build up to be used later in the year, as described in Note 2.

Note 4: **Usable reserves:** The increase in usable reserves is principally caused by the early payment of government grants

Table D1: Usable reserves

	Balance 31 March 2012 £m	Movement £m	Balance 31 Dec 2012 £m
General fund balance	-28.8	0	-28.8
Schools' balances	-49.8	-2.5	-52.3
Earmarked reserves	-104.6	17.4	-87.2
Revenue grants unapplied	-19.2	-45.3	-64.5
Capital grants and contributions unapplied	-66.7	-5.7	-72.4
Total Usable Reserves	**-269.1**	**-36.2**	**-305.3**

Note 5: **Unusable reserves**: The unusable reserves are not cash backed and reflect the adjustments required to conform to International Financial Reporting Standards. They do not reflect any changes in the pension fund actuarial report, which is due in 2013 or our external valuation of fixed assets.

Table D2: Unusable reserves

	Balance 31 March 2012 £m	Movement £m	Balance 31 Dec 2012 £m
Revaluation reserve	-235.1	4.8	-230.3
Capital adjustment account	-494.1	-8.4	-502.5
Collection fund adjustment account	-6.4	0	-6.4
Pension reserve	919.2	0	919.2
Accumulated absences account	15.3	0	15.3
Total Unusable Reserves	**198.9**	**-3.6**	**195.3**

Debt

84. At the end of the third quarter of 2012/13 the Accounts Payable team raised invoices totalling £128.7m.

85. Table D3 shows the age profile of the council's care, and non-care related debt.

Table D3: Further information on debts

Account Group	<1 Month £m	2-12 Months £m	1-2 Years £m	+2 years £m	Total £m	Overdue Debt £m
Care debt - unsecured	4.1	2.0	1.2	2.8	10.1	6.1
Care debt - secured	0.6	2.4	1.7	3.0	7.6	
Total Care	**4.7**	**4.4**	**2.9**	**5.8**	**17.7**	**6.1**
General debt	2.1	2.2	0.4	0.3	5.0	2.9
Property	0.1	0.1	0.1	0.0	0.3	0.2
Total Non-care Debt	**2.2**	**2.3**	**0.5**	**0.3**	**5.3**	**3.1**
Total Debt	**6.9**	**6.7**	**3.4**	**6.1**	**23.0**	**9.2**

86. The amount still outstanding of these invoices was £23.0m of gross debt at 31 December 2012, which is a reduction of £1.5m from the same point in 2011. The gross debt is adjusted to take into account those balances not immediately due (i.e. less than 30 days old), or collectable (i.e. secured on property). This produces the figures for net debt, which is shown in table D4.

Table D4 –Overdue debt summary as at 31 December 2012

	2012/13 Q3 £m	2011/12 Q4 £m	2011/12 Q3 £m	2010/11 Q4 £m	2009/10 Q4 £m
Care Related Debt	6.1	6.1	6.3	6.8	6.1
Non Care related debt	3.1	3.0	3.5	3.9	3.6
Total	**9.2**	**9.1**	**9.8**	**10.7**	**9.7**

87. The overall trend is for overdue debt to be falling from £9.8m at the end of December 2011 to £9.2m at the end of December 2012. An important aspect of this reduction in overdue debt is the amount of care related debt secured on property. The council has focused on increasing debt secured against property and this has risen from £5.9m in March 2010 to £7.6m in December 2012.

88. The council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for December was 22 days.

89. The Chief Finance Officer has delegated authority to write off irrecoverable debts in line with financial regulations. This quarter (Q3 2012/13), 127 such debts have been written off with a total value of £156,566, of which £58,000 is care related and £98,566 is non care debt related.

TREASURY MANAGEMENT

Borrowing

90. The Council borrows money to finance the amount of our capital spending that exceeds receipts from grants, third party contributions, capital receipts and reserves. The Council must also demonstrate that the costs of borrowing are affordable, prudent and sustainable under the Prudential Code.

Long-term Borrowing	**£m**
Debt outstanding as at 1 April 2012	305.2
Loans raised	0.0
Loans repaid	0.0
Current balance as at 31 December 2012	**305.2**
Borrowing requirement for the year	**N/a**

Due to low interest rates earned on cash balances held until spent (referred to as the "cost of carry"), there has been no borrowing to meet the Capital Financing Requirement (CFR) during the 2012/13 financial year. Any unsupported capital expenditure has been met from cash reserves.

The Council is able to undertake temporary borrowing for cash flow purposes, but has not required any during this financial year. The Council also manages cash on behalf of Surrey Police Authority (£5m as at 31 December 2012) which is classed as temporary borrowing.

Authorised Limit / Operational Boundary
The following prudential indicators control the overall level of borrowing:

The **Authorised Limit** represents the limit beyond which borrowing is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing needed with headroom for unexpected cash flow. This is a statutory limit determined under section 3(1) of the Local Government Act 2003.

The **Operational Boundary** is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure the authorised limit is not breached.

Borrowing against the authorised limit and operational boundary is shown below.

	Authorised Limit £m	Operational Boundary £m
Gross Borrowing	310	310
Limit / Boundary	662	602
Headroom	352	292

Capital Financing Requirement
The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for a capital purpose. The Council must ensure that, in any one year, net external borrowing does not, except in the short-term exceed the estimated CFR for the next three years. The Council's position against the estimated CFR, as reported to the County Council in March 2012 is shown below. The current borrowing position shows a net position of £79.4m more in borrowing than we hold in short term deposits. This is due to the low cash balances held at the end of December, with there being no precept collection during that month..

CFR £m			Net Borrowing £m
2012/13	2013/14	2014/15	
572.0	629.4	653.2	79.4

Maturity Profile
The Council has reduced its exposure to large fixed rate loans falling due for refinancing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code, as shown in the table below:

	Upper Limit	Lower Limit	Actual
Repayable in 2012/13 (1year)	50%	0%	1.8%
Repayable in 2013/14 (1-2 years)	50%	0%	21.9%
Repayable from 2014/15 to 2016/17 (2-5 years)	50%	0%	0.0%
Repayable from 2017/18 to 2021/22 (5-10 years)	75%	0%	3.1%
Repayable from 2022/23 to 2026/27 (10-15 years)	75%	0%	0.0%
Repayable from 2027/28 to 2036/37 (15-25 years)	75%	0%	2.3%
Repayable from 2037/38 onwards (25-50 years)	100%	25%	71.0%

Early Debt Repayment and Rescheduling
There has been no early repayment or rescheduling in 2012/13.

Investments
The Council had an average daily level of investments of £281m throughout 2011/12, with a projection of £300m expected for 2012/13. The balance of funds managed on behalf of schools within this figure stood at £55m at the end of December .

Cash is invested on the money markets through one of the Council's four brokers, or directly with counterparties through the use of call accounts, money market funds or direct deal facilities. A breakdown of activity during the year to 31 December 2012 is given below:

Timed Deposits	**Number**	**Average Value £m**
Deals using a Broker	53	3.3
Direct deal facilities	0	0
Deals with DMO	124	40.0
Call		**Limits £m**
- Active call accounts	2	80.0
- Active money market funds	5	100.0

The weighted average return on all investments received to the end of the third quarter in 2012/13 is 0.57%. This compares favourably to the average 7-day London Interbank Bid rate (LIBID) of 0.41% for the equivalent period. The comparison is shown in the following table:

	Average 7-day LIBID	**Weighted Return on Investments**
Quarter 1	0.45%	0.68%
Quarter 2	0.40%	0.53%
Quarter 3	0.36%	0.52%
2012/13 total	**0.41%**	**0.57%**
2011/12 total	0.48%	0.73%

Iceland
The key local issue of concern in relation to the treasury strategy is the Council's £20m deposits with two failed Icelandic banks, Glitnir and Landsbanki. Of this £20m, the Council's exposure is £18.5m with the balance attributable to Surrey Police Authority.

The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.

On 28 October, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. These decisions are now final with no further right of appeal.

The current position is that 50% of Landsbanki and over 84% of Glitnir deposits have been repaid, with expected recover rates now at approximately 100% for both banks (subject to exchange rate fluctuations). The balance owed on each deposit is shown in the table below.

Counterparty	Period	Principal £000	Rate	Principal Repaid £000	Principal Outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	4,992	5,008

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Overview & Scrutiny Select Committee
Finance Review Group

28 January 2013

Budget Monitoring
Change & Efficiency and Chief Executive's Office
Central Income & Expenditure

Purpose of the report:

This report, requested by the committee, provides supplementary detailed budget monitoring information for Change & Efficiency and Chief Executive's Office.

The report provides information based upon December month-end reporting and provides background to the monthly budget monitoring report provided to Cabinet.

Report contact: Susan Smyth, Strategic Finance Manager
Kevin Kilburn, Deputy Head of Finance

Change and Efficiency

December 2012 Budget Monitoring - Change and Efficiency						
Revenue Budget				**Strategic Director: Julie Fisher**		
	Year to Date			**Full Year**		
Policy Budget	**Budget**	**Acutal**	**Variance**	**Budget**	**Forecast**	**Variance**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Property						
Building Running Costs	10,419	8,943	-1,476	13,892	13,487	-405
Utilities	2,866	1,989	-877	4,389	3,789	-600
Repairs & Maintenance	5,101	4,509	-592	8,012	7,581	-431
Carbon Reduction Commitments	1,081	306	-775	1,441	374	-1,067
Property Projects	1,808	1,819	11	2,313	2,316	3
Support & Management	2,668	2,693	26	3,557	3,518	-40
Total Property	**23,943**	**20,259**	**-3,684**	**33,605**	**31,064**	**-2,540**
IMT						
Support & Delivery	5,043	5,550	507	6,724	7,268	544
Network Contracts	3,958	3,858	-100	5,278	5,578	300
Design & Build	4,786	5,289	503	6,381	7,651	1,270
Project Office	3,625	3,502	-123	4,771	4,746	-25
Management & Business Change	1,328	844	-484	1,770	1,339	-432
Total IMT	**18,740**	**19,043**	**304**	**24,924**	**26,582**	**1,658**
HR & OD						
Training	3,143	2,791	-352	4,148	4,016	-132
Recruitment Fees	500	529	28	667	717	50
Staffing, occupational health & other costs	3,417	2,979	-437	4,556	3,864	-691
Total Human Resources and OD	**7,061**	**6,300**	**-761**	**9,370**	**8,597**	**-773**
Finance						
Finance	5,102	4,607	-496	6,522	6,257	-265
Insurance	2,087	1,964	-124	2,783	2,783	0
Total Finance	**7,190**	**6,571**	**-619**	**9,305**	**9,040**	**-265**
Shared Services						
Income Management	621	546	-74	579	563	-16
Procure to Pay	912	981	69	1,403	1,396	-7
HR & Payroll	991	778	-212	1,321	1,037	-284
Customer & Improvement	758	834	76	1,067	1,187	120
Total Shared Services	**3,281**	**3,139**	**-142**	**4,370**	**4,183**	**-188**
Procurement & Commissioning	**2,682**	**2,388**	**-294**	**3,581**	**3,486**	**-95**
Transformational Change						
Change Team & Strategic Director	740	535	-205	987	631	-356
My Work - project expenditure	1,266	1,322	56	1,688	1,801	113
Total Transformational Change	**2,006**	**1,857**	**-149**	**2,675**	**2,432**	**-243**
TOTAL	**64,902**	**59,557**	**-5,345**	**87,831**	**85,384**	**-2,447**
Subjective Analysis	**YTD Budget**	**YTD Actual**	**YTD Variance**	**Full Year Budget**	**Full Year Forecast**	**Full Year Variance**
	£000s	£000s	£000s	£000s	£000s	£000s
Income	-8,755	-9,889	-1,134	-12,147	-12,738	-591
Staffing	29,959	29,946	-13	39,998	39,597	-401
Non-staffing	43,698	39,500	-4,198	59,980	58,525	-1,455
Total Expenditure	73,657	69,446	-4,211	99,978	98,122	-1,856
TOTAL	**64,902**	**59,557**	**-5,345**	**87,831**	**85,384**	**-2,447**

1. The Change & Efficiency revenue budget is projected to underspend by £2.4m for the year. The budget for the directorate includes efficiency savings of £7.9m, of which £7.1m will be delivered. The shortfall is in relation to IMT where one-off network savings from Cable and Wireless (£0.5m) will not be achieved, nor will

the expected income from partner contributions to the Data Centre. However, the ongoing network savings from 2013-14 through the new Unicorn contract are on course to be delivered and partners are expected to begin to take space in the Data Centre in the new financial year, following the implementation of the shared network (Unicorn), which will significantly reduce the implementation cost for participation.

2. Significant savings of £1.1m are expected on the Carbon Reduction Commitment budget Data has now been submitted to the CRC commission and following a review of the quality of the data, the likelihood of fines has been significantly reduced. In addition, in view of the number of licences purchased last year together with reductions in energy consumption achieved, it is unlikely that the cost of allowances will reach the levels expected during budget setting.

3. There is expected to be a saving on the utilities budget of £0.6m. This is based on the estimated energy prices (from October) through the Laser contract. This saving is due to two key factors - procurement activity to deliver a reduction in electricity prices and a lower increase in gas prices than originally expected. It is also due to the capital investment made, including new boilers and smart metering which facilitate greater control over energy usage. The forecast is subject to weather conditions over the winter months, and further savings will be made if temperatures are fairly mild over the peak consumption period. Conversely, if temperatures are extremely cold for a significant period, the savings may reduce.

4. Further savings (£1m) are expected through the reconfiguration of the office portfolio, where some moves have happened in advance of the original plan, allowing us to relinquish our rent liability earlier than expected and as a result of rent-free periods negotiated on new leases such as the main data centre site.

5. A comprehensive review of the planned maintenance budget has been completed and confirms a projected underspend of £0.8m, as a result of the new contracts implemented mid-year. Part of this is a reduction in work delivered during the transition, however the new contracts have delivered procurement savings in the region of 11%. These savings are partly offset by an increase in responsive repairs and maintenance (£0.4m) as a result of the heavy rainfall earlier in the year.

6. Income from rents are expected to be below budget as a result of Countryliner going into administration (£0.1m), and incorrect budget assumptions in respect of rents from Mayford Business Centre and Gypsy sites (£0.2m), as reported last month.

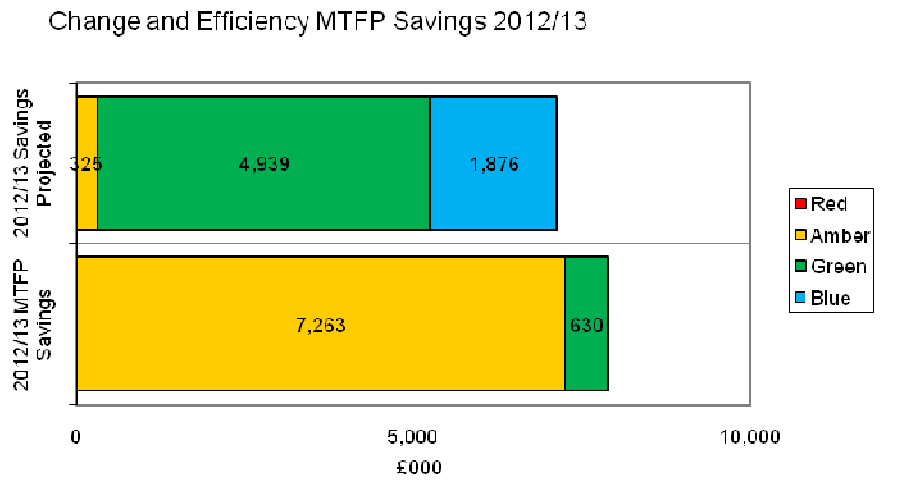
7. An underspend of £0.8m is expected within Human Resources and Finance on staffing costs as a result of the prudent holding of vacancies prior to restructure implementation, in order to reduce redundancy costs. In both cases, recruitment to posts is substantially completed however the majority of new starters are unlikely to be in place until the new (calendar) year. A further underspend of £0.1m is expected within Procurement as result of vacancies and the sharing of resources with East Sussex.

8. Human Resources and Shared Services have delivered new income generation of £0.5m.

9. There will be an underspend in the Smarter Working team of £0.2m, which will be requested as a carry-forward in order to fund staff on secondment who are working with services to help maximise the benefits of the recent investment in mobile technology.

10. All of the above savings help to offset an overspend in IMT totalling £1.7m. In particular there is an increased spend of £0.3m for dual running costs in the final quarter to ensure the new Unicorn contract with BT can go live on 1st April and efficiency savings of £0.5m have not been met with regard to the Cable & Wireless contract, costs associated with bringing SAP hosting in-house were higher than originally anticipated due to timing changes. In addition, in order to escalate the delivery of a step-change in IT capability across the organisation, some investment planned for next year will be brought-forward. These initiatives include an improved and more resilient scanning solution and upgrade to the Citrix hardware.

Reduction / Efficiency Saving	Forecast Status	Target 2012/13 £000	Forecast 2012/13 £000	Variance 2012/13 £000
Procurement savings	B	330	330	0
Procurement savings	G	300	300	0
PVR savings (HR, Finance, IMT, Shared Services)	G	1,045	1,045	0
PVR savings (Property)	A	325	325	0
IMT applications	B	1,420	1,220	-200
IMT networks	A	500	0	-500
Impact of front line changes	G	100	100	0
Energy usage	B	226	226	0
Energy usage	G	200	200	0
Making a Difference	G	3,094	3,094	0
Responsive maintenance	G	0	0	0
Property income	G	50	50	0
Public sector offer	B	100	100	0
Public sector offer	G	53	0	-53
Partnerships and collaboration	G	150	150	0
Total Change and Efficiency savings		**7,893**	**7,140**	**-753**



Change and Efficiency Staffing – FTE 2012/13

Many of the PVR savings included in the budget will result in a reduction in staff posts, the effect of these savings, and the current staff in post can be seen in this table.

Staffing budgets were carried forward for Transformational Change and Procurement, which is why the number of FTE at the end of the year is greater than the number of FTE at the start of the year. Property is currently working through the restructure process, and which is why there are more staff in post than FTE at the moment.

FTE	MTFP (Start of Year)	MTFP (End of Year)	Actual (Dec 12)
Property	151	139	146
IMT	153	151	156
HR & OD	147	139	145
Finance	111	106	94
Shared Services	206	174	169
Procurement	48	49	49
Transformational Change	6	9	11
Total Change and Efficiency	822	767	770

Capital

11. The Schools Basic Need programme is expected to be £2m under budget, a reduction in expected expenditure of £1.3m compared to last month's forecast. This includes procurement savings made on the demountables programme and reductions in the programme where schemes are no longer required.

12. Delivery against the remaining CAE capital programme is expected to be £2.3m under budget, bringing the total including Schools Basic Need to £4.3m, a reduction in expected spend of £3.7m compared to the projection last month. To put these figures into context, the forecast year-end position across all capital budgets managed by CAE means that the programme will be 95% delivered against the original spend target.

13. The recurring programmes are currently projected to overspend as a result of bringing works forward under the maintenance programme from 2013/14 in order to reduce reactive maintenance in future years. A small underspend is expected on the DDA and minor works budgets where the spend is demand-led.

14. Other schools projects are expected to be under-spent by £2.1m. The tender process for the replacement of aged demountables has delivered a saving of £0.4m however work will not now start until the new financial year, creating an in-year underspend.

15. Non-schools projects will underspend by £5.0m. The overage payment of £2.1m in relation to the Waste site at Charlton Lane is unlikely to proceed this financial year. Other variances are primarily as a result of planning issues particularly in relation to Gypsy sites and Cobham Library re-provision. The Fire Station reconfiguration project (of which £0.5m was expected to be incurred this year) has been delayed on request by the Fire Service.

16. There is a projected overspend on the Equipment Renewal Reserve in the current year in order to facilitate more mobile and remote working. Additional contributions to the reserve have been made this year from the revenue budget to cover the expenditure. The Adult Social Care Infrastructure Grant needs to be carried forward to fund systems improvements in the future.

17. The award of a contract to replace the SWAN network with a Surrey wide Public Sector network is proceeding following approval from Cabinet. In order for the network to be ready there will be a significant up-front investment of £4m, of which £3.1m will be spent this year, with the remainder spread over the following five years to provide equipment refresh. Options appraisal was completed which determined that the most cost effective methodology would be for the council to purchase equipment required rather than paying over the life of the contract. Savings will be achieved in revenue expenditure in future years.

Change and Efficiency

As at 31st Dec 2012

Capital Summary Position

	Year to Date			Full Year			Committed	Total	Scheme Life		
	Budget	Actual	Variance	Budget	Forecast	Variance	on SAP	Committed	Budget	Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Schools Basic Need	**23,453**	**20,898**	**-2,555**	**31,993**	**29,984**	**-2,009**	**3,437**	**24,335**	**246,111**	**282,119**	**36,008**
Schools DDA	245	169	-76	438	426	-12	132	301			
Schools Carbon Reduction	2,333	1,170	-1,163	3,165	3,551	386	810	1,980			
Schools Capital Maintenance	8,115	8,439	324	11,075	13,514	2,439	3,902	12,341			
Recurring Programmes - Schools	**10,693**	**9,778**	**-915**	**14,678**	**17,491**	**2,813**	**4,844**	**14,662**			
Fire Risk / minor works / DDA	596	201	-395	1,116	800	-316	114	315			
Carbon Reduction	2,261	515	-1,746	3,584	3,316	-268	723	1,238			
Capital Maintenance	4,507	3,245	-1,262	5,590	5,810	220	2,530	5,775			
Recurring Programmes - Non-Schools	**7,364**	**3,961**	**-3,403**	**10,290**	**9,926**	**-364**	**3,367**	**7,328**			
SEN Strategy	2,728	2,487	-241	3,044	3,097	53	48	2,535	28,809	28,809	0
Portesbury	65	63	-2	600	511	-89	0	63	16,533	16,533	0
Other Schools Projects	445	133	-312	2,191	157	-2,034	0	133	9,666	9,666	0
Projects - Schools	**3,238**	**2,683**	**-555**	**5,835**	**3,765**	**-2,070**	**48**	**2,731**	**55,008**	**55,008**	**0**

	Year to Date			Full Year			Committed	Total	Scheme Life		
	Budget	Actual	Variance	Budget	Forecast	Variance	on SAP	Committed	Budget	Forecast	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Consort House	1,518	1,518	0	1,518	1,518	0	13	1,531	9,904	9,904	0
Land Payments for Waste	850	878	28	3,050	878	-2,172	0	878	10,441	10,441	0
Gypsy Sites	413	180	-233	2,050	600	-1,450	115	295	5,835	5,835	0
Guildford Fire Station	302	288	-14	1,000	558	-442	273	561	5,050	5,050	0
MaD	350	793	443	928	928	0	0	793	1,700	1,700	0
Projects to enhance income	570	1,286	716	1,100	1,436	336	31	1,317	2,535	3,635	1,100
Other Non-Schools Projects	1,787	1,317	-470	3,472	2,110	-1,362	159	1,476	19,658	19,658	0
Projects - Non-Schools	**5,790**	**6,260**	**470**	**13,118**	**8,028**	**-5,090**	**591**	**6,851**	**55,123**	**56,223**	**1,100**
Total Property	**50,538**	**43,580**	**-6,958**	**75,914**	**69,194**	**-6,720**	**12,287**	**55,867**	**356,242**	**393,350**	**37,108**
IMT Equipment Replacement Reserve	1,518	2,695	1,177	2,025	2,896	871	50	2,745	7,447	7,447	0
Data Centre Replacement	228	299	71	303	303	0	0	299	2,200	2,200	0
Adults Social Care Infrastructure Grant	0	0	0	608	0	-608	0	0	782	782	0
Unicorn Implementation	0	0	0	0	3,101	3,101	0	0	0	4,006	4,006
Total IMT	**1,746**	**2,994**	**1,248**	**2,936**	**6,300**	**3,364**	**50**	**3,044**	**10,429**	**14,435**	**4,006**
Budget to be reprofiled	678	0	-678	**904**	**0**	-904	**0**	**0**	**0**	**0**	0
Total Change and Efficiency	**52,962**	**46,574**	**-6,388**	**79,754**	**75,494**	**-4,260**	**12,337**	**58,991**	**366,671**	**407,785**	**41,114**

Chief Executive's Office

December 2012 Budget Monitoring - Chief Executive's Office

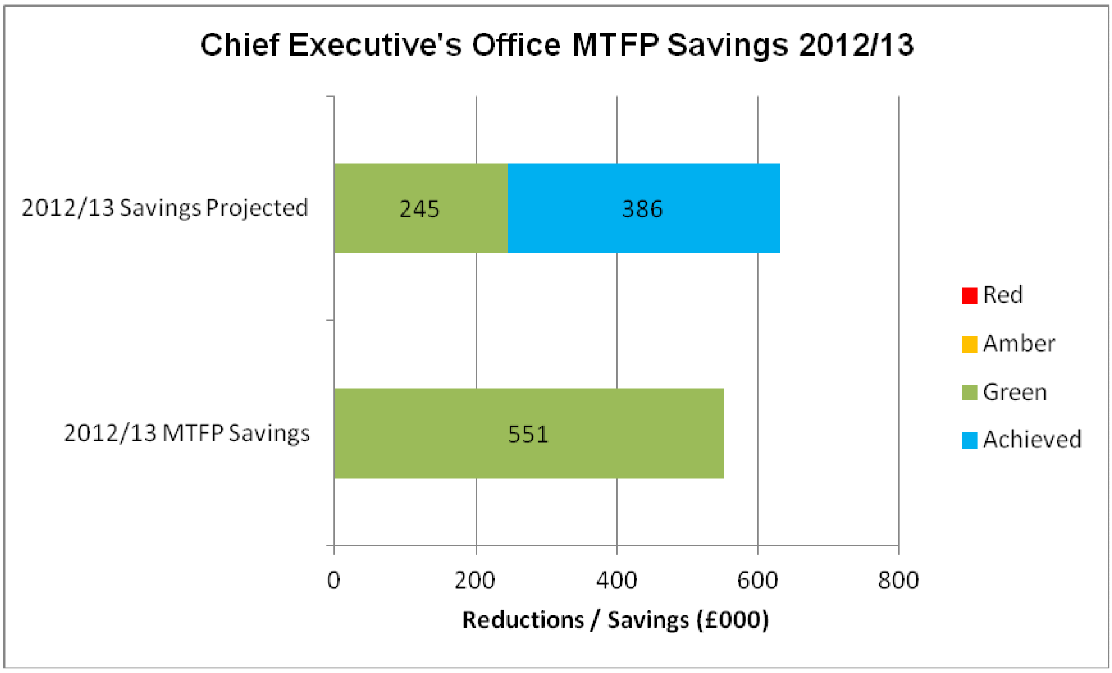
Revenue Budget	YTD Budget	YTD Actual	YTD Variance	Full Year (Revised) Budget	Full Year Projection	Full Year Variance
	£000s	£000s	£000s	£000s	£000s	£000s
Strategic Leadership	354	315	-39	472	457	-15
Strategic Leadership Total	**354**	**315**	**-39**	**472**	**457**	**-15**
Emergency Management	392	404	12	523	533	10
Emergency Management Total	**392**	**404**	**12**	**523**	**533**	**10**
Communications Team	901	864	-37	1,201	1,170	-31
Central Communications	270	253	-17	510	470	-40
Surrey Matters	167	167	0	222	222	0
Communications Total	**1,338**	**1,284**	**-54**	**1,933**	**1,862**	**-71**
Legal Services	3,053	3,426	373	4,071	4,533	462
Democratic Services Team	1,479	1,423	-56	1,849	1,785	-64
Member Allowances & Expenses	1,365	1,321	-44	1,942	1,912	-30
Local Elections	22	0	-22	30	15	-15
Legal & Democratic Services Total	**5,919**	**6,170**	**251**	**7,892**	**8,245**	**353**
Corporate Policy & Performance	1,160	1,014	-146	1,555	1,356	-199
Corporate Subscriptions	166	166	0	221	201	-20
Voluntary & Community Sector Support	426	426	0	568	580	12
Projects (SFBB & SEEC)	150	150	0	200	200	0
Audit	500	478	-22	668	655	-13
Policy, Performance & Audit Total	**2,402**	**2,234**	**-168**	**3,212**	**2,992**	**-220**
TOTAL	**10,405**	**10,407**	**2**	**14,032**	**14,089**	**57**

Subjective Budget	YTD Budget	YTD Actual	YTD Variance	Full Year (Revised) Budget	Full Year Projection	Full Year Variance
	£000s	£000s	£000s	£000s	£000s	£000s
Staffing	6,906	6,838	-68	9,207	9,170	-37
Non Staffing	3,991	4,169	178	5,471	5,606	135
Income	-492	-600	-108	-646	-687	-41
Net Expenditure	**10,405**	**10,407**	**2**	**14,032**	**14,089**	**57**

The overall projection for the directorate is a small overspend of £57,000 against a total revenue budget of £14.0m. The directorate is managing a large pressure within Legal through the careful management of staff vacancies and early achievement of efficiencies within Policy and Performance.

Legal Services is forecasting an overspend of £0.5m due to the expected continuation of high levels of complex Child Protection cases in 2012/13. Management action is being taken to minimise the impact. Underspends in other departments, in particular within Policy, Performance & Audit due to current staff vacancies partially offset this pressure to result in the net predicted budget position.

Reductions / Efficiency Saving	Forecast Status	MTFP 2012/13 £'000	Forecast 2012/13 £'000	Variance 2012/13 £'000
PVR Restructure	G	**195**	**195**	**0**
Reduction in Staffing costs	G	**50**	**50**	**0**
Legal Services	B	**46**	**46**	**0**
Supplies & Services	B	**89**	**89**	**0**
Voluntary Sector Grant reduction	B	**100**	**210**	**110**
Communications	B	**25**	**25**	**0**
Emergency Management	B	**16**	**16**	**0**
Income	R	**30**	**0**	**-30**
Total Chief Executive's Office Savings		**551**	**631**	**80**



Chief Executive's Office Staffing – FTE 2012/13

FTE	MTFP (Start of Year)	MTFP (End of Year)	Actual (Dec 12)
Strategic Leadership	2	2	2
Comunications	21	22	24
Democratic Services	40	41	41
Legal Services	62	66	63
Emergency Planning	10	9	11
Corporate Policy, Performance and Audit	*39	38	37
Total Chief Executive's Office	174	178	178

* Published MTFP figure included incorrect figure for Policy, Performance & Audit (39 fte funded not 29 as published).

Increase in posts funded from £185,000 transfer from Childrens Services to Legal Services (approved for three years from 12/13). Actual FTE increase due to maternity cover, apprenticeships, temporary posts funded from 11/12 carry forwards and Legal posts funded from Childrens Services budget transfer.

Capital

The Superfast broadband contract was awarded to BT in September and State aid approval has been given. Surrey is currently finalising contract conditions with BT and is expecting an effective start date shortly. BDUK are providing an additional £1.3m of funding on top of Surrey's budget of £20m. Detailed planning currently underway will inform the expected profile of expenditure which will be updated as soon as possible.

Chief Executive's Office
As at 31st December 2012
Capital Summary Position

	Year to Date			Full Year			Committed	Total	Scheme Life		
	Budget £000s	Actual £000s	Variance £000s	Budget £000s	Forecast £000s	Variance £000s	on SAP £000s	Committed £000s	Budget £000s	Forecast £000s	Variance £000s
Community Buildings Grant Scheme	115	173	58	173	173	0	0	0	773	773	0
Economic Development (incl. Superfast Broadband)	6,667	0	-6,667	10,000	2,000	-8,000	0	0	20,000	20,000	0
Total Chief Executive's Office	**6,782**	**173**	**-6,609**	**10,173**	**2,173**	**-8,000**	**0**	**0**	**20,773**	**20,773**	**0**

Central Income and Expenditure

As at end December 2012

	Year to Date Budget £000s	Year to Date Actual £000s	Year to Date Variance £000s	Full Year Budget £000s	Remaining Forecast Spend £000s	Outturn Forecast £000s	Full Year Variance £000s
Protected salaries and relocation costs	715	374	-341	953	579	953	0
Pension back funding	6,455	6,462	7	8,606	2,154	8,616	10
Redundancy & Compensation	2,494	3,004	510	4,781	1,777	4,781	0
Risk contingencies	0	0	0	9,000	9,000	9,000	0
Land drainage precept	730	712	-18	973	237	949	-24
Contribution to/from(-) reserves	11,770	11,770	0	11,770	0	11,770	0
Interest payable	7,404	6,962	-442	13,253	6,128	13,090	-163
New Homes Bonus Investment	0	0	0	1,485	1,485	1,485	0
Minimum Revenue Provision for loans	22,629	21,429	-1,200	22,629	0	21,429	-1,200
Interest receivable	-948	-1,272	-324	-992	-282	-1,554	-562
Contributions to capital		0	0	2,480	2,480	2,480	0
Other		-202	-202	-10	43	-159	-149
Net Expenditure	**51,249**	**49,239**	**-2,010**	**74,928**	**23,601**	**72,840**	**-2,088**

	Year to Date Budget £000s	Year to Date Actual £000s	Year to Date Variance £000s	Full Year Budget £000s	Remaining Forecast Spend £000s	Outturn Forecast £000s	Full Year Variance £000s
Income	-948	-1,272	-324	-992	-282	-1,554	-562
Expenditure:							
Staffing	715	374	-341	953	579	953	0
Non Staffing	51,482	50,137	-1,345	74,967	23,304	73,441	-1,526
Total Expenditure	52,197	50,511	-1,686	75,920	23,883	74,394	-1,526
Net Expenditure	**51,249**	**49,239**	**-2,010**	**74,928**	**23,601**	**72,840**	**-2,088**

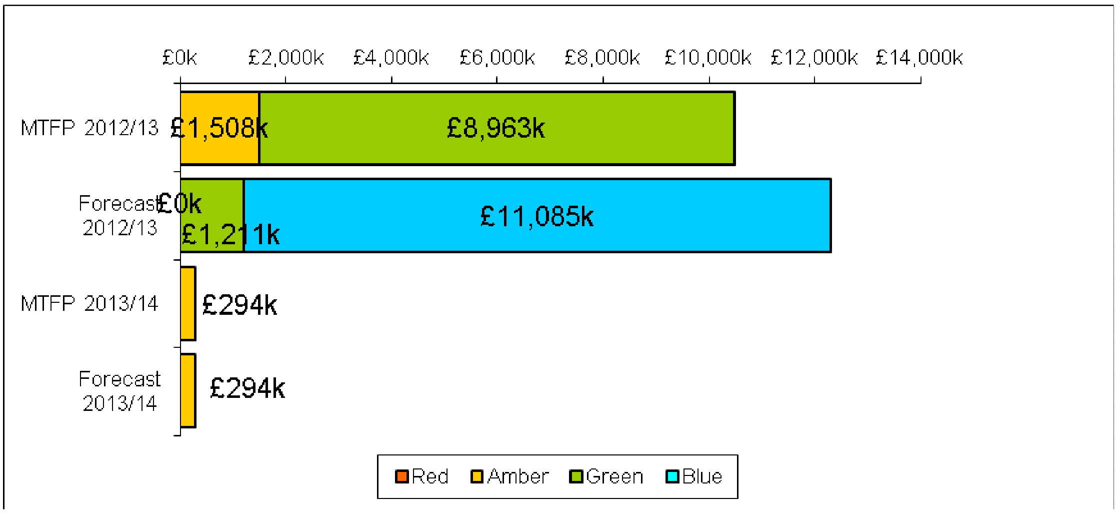
The full year forecast for the Central Income and Expenditure budget is an underspend of
-£1.9m. The most significant reason is a lower than estimated provision of the repayment of debt (-£1.2m). This is because the 2011/12 capital programme underspent resulting in less capital expenditure being funded from borrowing than anticipated.

The budget for interest on short term investments is based on assumptions around available cash balances and interest rates. Although interest rates have not risen, cash balances are higher than forecast and it is expected that the council will receive interest income of £0.6m in excess of the budget. In addition, a provision is made in the budget for interest to be paid to schools on their balances. With continuing low interest rates this is unlikely to occur leading to an underspending of -£0.2m.

Expenditure on Redundancy and Compensation is currently in line with the budget, and there have been 111 new cases approved this year against 138 assumed in the budget – and increase of 7 from November. Expenditure on this budget going forward depends on the decisions and outcomes of service re-structures and also the possibility of some people being re-deployed.

Therefore the number of cases may increase in future months so this budget will continue to be closely monitored..

Reductions / Efficiency Savings		MTFP 2012/13 £'000	Forecast 2012/13 £'000	Variance 2012/13 £'000
Removal of Invest to Save Budget	B	8,963	8,963	0
Reduced inflation on precept and pension Backfunding	B	438	438	0
PVR Savings on capital costs	B	278	278	0
Reduced interest due to lower borrowing	G	241	241	0
Reduced MRP	B	206	1,406	1,200
Additional interest on investments	G	345	970	625
Total		**10,471**	**12,296**	**1,825**



The Central Income and Expenditure budget is on track to exceed the savings targets in the Medium Term Financial Plan. Of the total target of £10.5m, £11.1m of the savings have already been achieved. -£1.2m of this is due to the Minimum Revenue Provision being lower than forecast.

The 2011/12 base budget for the Invest to Save budget of £8.9m was removed from the 2012/13 budget, and the budget reductions for both pensions backfunding and reduced interest payments due to the Financial Management PVR have been achieved.

Due to higher cash balances than in previous years, the council is expected to exceed the increased target for interest on short term investments.

The savings on interest payable is still an amber risk. Although no borrowing is expected this year, it is dependent on capital expenditure.

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Item 8

Council Overview & Scrutiny Committee
1 February 2013

RECOMMENDATIONS TRACKER

1 The Committee is asked to review its Recommendations Tracker, which is attached.

2 The recommendations tracker allows Committee Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated after each Committee. Once an action has been completed and reported to the Committee, it will be removed from the tracker. The next progress check will highlight to Members where actions have not been dealt with.

Recommendation:

That the Committee reviews progress on the implementation of its recommendations and actions.

Next Steps:

The Committee will review its recommendations tracker at each of its meetings.

Report contact: Bryan Searle, Senior Manager Scrutiny and Appeals.

Contact details: 020 8541 9019, bryans@surreycc.gov.uk.

Sources/background papers: None.

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COUNCIL OVERVIEW AND SCRUTINY COMMITTEE
ACTIONS AND RECOMMENDATIONS TRACKER – February 2013

The recommendations tracker allows Committee Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated following each Committee. Once an action has been completed and reported to the Committee, it will be removed from the tracker.

Date of meeting and reference	Item	Recommendations/Actions	Responsible officer or member	Response	Next progress check:
17/04/12 COSC 63	Staff Vacancies [Item 9]	That the Finance Sub-Group investigate further how decisions about vacancies are handled by services, and the impacts of these decisions on budgets.	Bryan Searle	The review has been completed and a report was shared with Committee on 5 December 2012. There will be a further review of the recommendations at the Committee meeting today.	01/02/13

17/04/12 COSC 65	Business Continuity [Item 11]	That a further report concerning the following issues be submitted to the Committee in July 2012: ○ Work underway to ensure the move of the Director for Public Health's team is incorporated into the SCC Business Continuity Management. ○ The maintenance of Business Continuity arrangements alongside the current changes in the estate and IMT portfolios.	Ian Good	This item was deferred by Committee and has now been re-scheduled in the work programme.	Complete
13/06/12 COSC 94	Scrutiny Annual Report [Item 11]	That work be undertaken to understand the influence of Select Committee recommendations on decisions made by the Cabinet.	Bryan Searle/Democratic Services	This will be addressed as part of the Democratic Services Scrutiny Improvement Plan and details will be shared with Members as agreed at the meeting on 18 October 2012.	01/02/2013
11/07/12 COSC 104	Superfast Broadband [Item 13]	That details of the proposed governance arrangements and organisation structure for the Joint Operations Centre be shared with the Committee.	Ben Skipp	Information was provided as part of an update report at the meeting on 5 December 2012.	Complete

12/09/12 COSC 109	Change & Efficiency Service Review [Item 13]	Further details of the staffing structure prior to and following the reorganisation, as well as the savings achieved by bringing services back in-house, to be provided to the Committee.	John Stebbings	The Committee to receive a report at its meeting on 13 February 2013.	Complete
18/10/12 COSC 115	One Team Review [Item 11]	That a further progress report be presented to the Committee at its meeting on 13 February 2013	Louise Footner/ Sally Wilson	The Committee to receive a report at its meeting on 13 February 2013.	Complete
14/11/12 COSC 121	Budget Monitoring [Item 10]	That the Chairman write to David Hodge on behalf of the Committee to request that he seek reassurance from all Cabinet Members that the risks of overspends within their portfolios have been properly assessed, and that appropriate steps have been put in place to address any potential overspends identified.	Mel Few	An update was received at the Committee on 5 December 2012	Complete
14/11/12 COSC 122	Budget Monitoring [Item 10]	That Finance reports on a monthly basis (in a format of month and year to date) all one-off transfers from reserves by individual services to cover budget shortfalls.	Kevin Kilburn	An update will be provided at the meeting.	01/02/13

14/11/12 COSC126	Surrey-i	That, in order to optimise the benefits of Surrey-i, a review be undertaken to re-establish the future user market for the service, identify their specific requirements, and ensure that any further development of Surrey-i is primarily tailored towards meeting the needs of the target audience.	Ben Unsworth	These recommendations are being explored and will form part of the update to Committee on 13 February 2013	Complete
14/11/12 COSC127	Surrey-i	That consideration be given to the viability of covering the costs of Surrey-i through charging for use of the service.	Ben Unsworth	These recommendations are being explored and will form part of the update to Committee on 13 February 2013	Complete
14/11/12 COSC129	Procurement Partnership with East Sussex County Council [Item 12]	That further information be provided about the forecast procurement savings and how these will be split between Surrey County Council and East Sussex County Council.	Andrew Forzani	An update will be provided at the meeting.	01/02/13
14/11/12 COSC 130	Procurement Partnership with East Sussex County Council [Item 12]	That the lessons learnt from the process of developing the Procurement Partnership are formally recorded in order that they can be used in future instances.	Andrew Forzani	An update will be provided at the meeting.	01/02/13

05/12/12 COSC 131	Recommendations Tracker [Item 6]	That the Council Overview & Scrutiny Committee be provided with a break-down of appraisal data on a directorate by directorate level at its meeting in March 2013 in order to facilitate appropriate scrutiny by the relevant Select Committees.	Carmel Millar	This has been added as an item for the Forward Work Programme for 13 March 2013.	Complete
05/12/12 COSC 132	Change & Efficiency Service Review – Finance [Item 8]	That a detailed report on the implementation of the financial dashboard and Member training programme are presented to COSC after May 2013.	Sian Ferrison	This item will be added to the Forward Work Programme for the new Council.	06/2013
05/12/12 COSC 133	Change & Efficiency Service Review – Shared Service Centre [Item 8]	That a further update report be presented to the Committee in April 2013.	Simon Pollock	This item has been added to the Forward Work Programme for 17 April 2013	Complete

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Responses to queries raised in Budget Monitoring Report [Item 9] at Council Overview & Scrutiny Committee - 5 December 2012

“The Committee raised a number of questions in relation to the Schools & Learning budget. It was queried why there was a reduction in the anticipated cost of providing Special Education Need (SEN) support to Surrey Schools. Members also questioned why an £0.8m saving by an outsourcing of some preventative services had not been pursued in 2012/2013.”

[Please refer to Item 9, Annexe 1, Para. 42-45]

> The reduction in SEN support to children is within Surrey maintained schools, as opposed to out of county placements. Currently there are 12,923 children in receipt of SEN services in Surrey schools and a further 715 in out county placements. The latter has a annual budget of £39m
>
> This underspend relates to vacancies in first 6 months of the year, but are now fully staffed.”
>
> There were some services, such as Education Welfare Officer and Raising Ethnic Minority Achievement (REMA), planned to be outsourced, but after further detailed work this was not the right time to do so. It has not ruled out completely and remains an option for the future.

Further details were requested about the following underspend**:**

Para. 89 -- Pay and display - £0.3m (underspend) Fewer schemes are expected to be progressed this year. The programme is under review to determine whether this underspend is required in future years.

> At the start of 12/13 the projected spend was £460k. Expected costs were -
>
> Runnymede - £100K
> Waverley - £130K
> Reigate and Banstead - £120K
> Woking - £30K
> Mole Valley - £20K
> Tandridge - £60K
>
> Schemes need to be approved by Local Committees who have been rejecting proposals. The parking manager now expects spend of just £60k with schemes in Farnham (£40K) and Woking (£20K), & in both cases works/machines have been ordered.”

“Members requested further details on the tender process for the replacement of aged demountables in relation to schools projects, and whether this process had contributed to the delay in work beginning.”

[Please refer to Item 9, Annexe 1, Para. 91]

With reference to the tender for school demountables, this was conducted, is in place and there was no delay as a result of that exercise.

The demountables are used when admissions applications exceed forecasts and there is a need to urgently deliver school places accommodation by the August. This is usually with only 4-6 months to put a building in place.

The demountables tender was conducted on time and used it to deliver the urgent places identified in the summer of 2012, however the performance of the supplier was not wholly satisfactory and these issues need to be addressed. Coinciding with this was a decision to work on a permanent solution to replace demountables, which are not liked by schools, members and officers. A new specification has been developed which has longer life-span (30 years plus), gains full planning permission and is clad in a way that it is for all intents and purposes similar in appearance to a bricks and mortar build solution. We are expecting tenders for these in January and will be used for next year's urgent Schools Basic Need and aged demountables replacements.

Kevin Kilburn
Deputy Chief Finance Officer
Finance Service
Change & Efficiency Directorate
Surrey County Council

Council Overview & Scrutiny Committee
1 February 2013

Item 6: Recommendations Tracker

COSC 129 (14/11/12):

"That further information be provided about the forecast procurement savings and how these will be split between Surrey County Council and East Sussex County Council."

> Forecast savings for 12/13 and 13/14 are £2.8m roughly split as 70% for SCC and 30% for ESCC.

COSC 130 (14/11/12):

"That the lessons learnt from the process of developing the Procurement Partnership are formally recorded in order that they can be used in future instances. "

> Lessons from the first year of the partnership will be formally recorded and reviewed at the end of April with ESCC and fed back into the Council.

Andrew Forzani
Head of Procurement & Commissioning
Change & Efficiency Directorate
Surrey County Council

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Council Overview & Scrutiny Committee
1 February 2013

FORWARD WORK PROGRAMME

1 The Committee is asked to review its Forward Work Programme, which is attached as **Item 9a**.

Recommendations:

(a) That the Committee reviews its own work programme and makes suggestions for additions or amendments as appropriate

Next Steps:

The Committee will review its own work programme and the task group tracker and/or the work programmes of the Select Committees at each of its meetings.

Report contact: Bryan Searle, Senior Manager, Scrutiny and Appeals.

Contact details: 020 8541 9019, bryans@surreycc.gov.uk

Sources/background papers: None.

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OVERVIEW AND SCRUTINY WORK PROGRAMME
January 2013 to March 2013

(items added or changed since the previous meeting are highlighted in **BOLD**).

February 2013				
Date	**Title**	**Description**	**Accountable Officer**	**Method of Handling**
13/2/13	Completed Audit Reports	To update the Committee on the Internal Audit reports completed since the previous meeting, and to consider those reports on services within the Committee's remit where concerns have been identified.	Sue Lewry-Jones	Report to Committee
13/2/13	Communications Team	To review the draft recommendations from the One Team Communications Review and how the service objectives link to the Corporate Strategy.	Louise Footner/ Sally Wilson	Report to Committee
13/2/13	Superfast Broadband – Quarterly Monitoring	To scrutinise implementation of the Superfast Broadband contract.	Ben Skipp	Report to Committee
13/2/13	Surrey-i	To receive a further update report on Surrey-i following recommendations made by Committee on 14 November 2012	Ben Unsworth	Report to Committee
13/2/13	Change & Efficiency Service Review: Property	Property Service performance, the status of capital schemes and challenges faced by the service (follow-up to discussion at the meeting in September 2012). The report will also include further details of the staffing structure prior to and following the reorganisation and the savings achieved by bringing services back in-house.	John Stebbings	Report to Committee

March 2013				
Date	**Title**	**Description**	**Accountable Officer**	**Method of Handling**
13/3/13	Budget Monitoring Report	To review the month end budget report and make recommendations as appropriate.	Kevin Kilburn	Report to Committee
13/3/13	Completed Audit Reports	To update the Committee on the Internal Audit reports completed since the previous meeting, and to consider those reports on services within the Committee's remit where concerns have been identified.	Sue Lewry-Jones	Report to Committee
13/3/13	**Appraisal Data**	**To provide a break-down of appraisal data on a directorate by directorate level in order to facilitate appropriate scrutiny by the relevant Select Committees.**	**Carmel Millar**	**Report to Committee**
13/3/13	**Business Continuity**	**To receive a further progress report on Business Continuity in relation to the Public Health team, IMT and Property to include the following:** • **Work underway to ensure the move of the Director for Public Health's team is incorporated into the SCC Business Continuity Management.** • **The maintenance of Business Continuity arrangements alongside the current changes in the estate and IMT portfolios.**	**Ian Good**	**Report to Committee**
13/3/13	**Financial Trust Management**	**The Committee will scrutinise the financial trusts managed by the County Council at its meeting held in March 2013.**	**Nicole O'Connor**	**Report to Committee**

13/3/13	**Procurement Partnership with East Sussex County Council**	**To receive a further progress report on the Procurement Partnership with East Sussex County Council.**	**Andrew Forzani**	**Report to Committee**

April 2013				
Date	**Title**	**Description**	**Accountable Officer**	**Method of Handling**
17/4/13	Budget Monitoring Report	To review the month end budget report and make recommendations as appropriate.	Kevin Kilburn	Report to Committee
17/4/13	Completed Audit Reports	To update the Committee on the Internal Audit reports completed since the previous meeting, and to consider those reports on services within the Committee's remit where concerns have been identified.	Sue Lewry-Jones	Report to Committee
17/4/13	**Change & Efficiency Review: Shared Service Centre**	**To receive a further progress report on the Shared Services Centre.**	**Simon Pollock**	**Report to Committee**

To be scheduled/possible future items:

- *Meeting with the Chief Executive of Surrey Connects*
- *Quality Board*
- *Surrey First*

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Council Overview and Scrutiny Committee
1 February 2013

Completed Internal Audit Reports

Purpose of the report: Scrutiny of Services

The purpose of this report is to inform Members of the Internal Audit reports that have been completed since the last report to this Committee in December 2012.

Introduction:

1. On 22 February 2010 the Audit & Governance Committee recommended that a standing 'internal audit' item be put on all Select Committee agendas. This Committee has agreed to consider all relevant Internal Audit reports that have attracted an audit opinion of either "Major Improvement Needed" or "Unsatisfactory" and/or those with high priority recommendations.

2. This report provides a list of the 11 Internal Audit reports that have been issued since the last report to this Committee in December 2012. Of the audit reports issued, one attracted an audit opinion of "Unsatisfactory" and two attracted an audit opinion of "Major Improvement Needed"

Internal Audit and the Reporting Process:

3. The Accounts and Audit Regulations 2011 require that a local authority "must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". The Internal Audit plan for 2012/13, which sets out the work that Internal Audit will complete during the year to meet its statutory responsibility, was approved by Audit and Governance Committee on 5 April 2012.

4. The Internal Audit reporting and escalation policy requires that all final audit reports are circulated with a management action plan, agreed by the relevant Head of Service, which sets out what management action is proposed in response to audit recommendations. Included in the audit report is the auditor's opinion on the controls in place. The audit opinion will fall into one of the following agreed classifications:

   - Effective
   - Some Improvement Needed

- Major Improvement Needed
- Unsatisfactory

5. All final audit reports are circulated to the relevant strategic director; the Cabinet Portfolio holder; and, the relevant Select Committee Chairman. In addition, all members of the Audit and Governance Committee receive full copies of all Internal Audit reports.

Internal Audit Reports issued since the last report to this Committee:

6. The table below shows all the audit reports (including audit opinion) that have been issued since the last report to this Committee on 5 December 2012:

	Audit	Opinion	Number of recommendations rated as High Priority	Relevant Select Committee	Cabinet Member
1	Materials Testing Laboratory	Some Improvement Needed	2	E&TSC	John Furey
2	Follow-up review of Direct Payments Audit	Major Improvement Needed	n/a*	ASC	Michael Gosling
3	LASER Contract Governance	Some Improvement Needed	1	COSC	Denise Le Gal
4	Unofficial School Funds	Some Improvement Needed	1	ESC	Linda Kemeny
5	Corporate Purchasing Cards	Major Improvement Needed	6	COSC	Denise Le Gal
6	Capital Programme Management - Schools Basic Need	Some Improvement Needed	0	COSC	Denise Le Gal
7	Records Management	Effective	0	COSC	Denise Le Gal
8	Superfast Broadband	Some Improvement Needed	0	COSC	Denise Le Gal
9	Special Schools - Funding of Residential Provision	Unsatisfactory	4	ESC	Linda Kemeny
10	Illuminated Street Furniture contract	Some Improvement Needed	1	E&TSC	John Furey
11	Asset Management ICT	Some Improvement Needed	1	COSC	Denise Le Gal

* Note – this follow/up audit did not include any new recommendations, the original audit had 4 High Priority recommendations

7. The Direct Payments follow-up audit was discussed at a meeting of the Adult Social Care Select Committee on 30 November 2012.

8. The LASER Contract Governance audit report was discussed at a meeting of the Audit and Governance Committee on 6 December.

9. A summary of the key findings and recommendations for those audits above which were rated “Unsatisfactory” or “Major Improvement Needed” and/or have High Priority Recommendations, is attached as Annex A.

IMPLICATIONS:

10. There are no direct implications (relating to finance, equalities, risk management or value for money) arising from this report. Any such matters highlighted as part of the audit work referred to in this report, would be progressed through the agreed Internal Audit Reporting and Escalation Policy.

Recommendations:

11. That the Committee notes the audits completed in the period and considers whether any additional action is required.

Next Steps:

12. That the Committee receives further updates on completed internal audit reports at future meetings, and continues to focus its attention on audit reports with the audit opinion of either “Major Improvement Needed” or “Unsatisfactory” and/or high priority recommendations.

Report contact:
Sue Lewry-Jones **Contact details:** 020 8541 9190
Chief Internal Auditor

Sources/background papers:

- 2009/10 Review of the Effectiveness of the System of Internal Audit, Audit & Governance Committee, 22 February 2010
- Final audit reports and agreed management action plans

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Completed Audit Reports (November – December 2012)

Annex A

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Materials Testing Laboratory	The Materials Testing Laboratory (MTL) forms part of Asset Planning Group and currently holds national accreditation to perform over 70 materials tests. Work is concentrated on testing, auditing and reporting on compliance standards for the major highway maintenance contracts in Surrey. With expenditure of approximately £1.323m per annum the MTL also offers its services to around 70 external users.	The MTL is a valuable resource to SCC undertaking a critical role in ensuring that management receives accurate and knowledge based information on the condition and maintenance of its highway assets. It ensures that assets are maintained or repaired to the required standards in order that the maximum benefit may be derived from budgets. The MTL offers its services to external clients in both the private and public sectors and the income this generates helps to reduce the overall cost of the service. In the course of this work the MTL has built up a reputation for high quality work which reflects well not only on the service but Surrey County Council as a whole. The audit identified a need to improve the level of detail of time recording and the basis for recharges.	Some Improvement Needed	Management should consider a revision to the coding arrangements within the ETCi time recording system in order that a more detailed breakdown is available for billing purposes. In addition, regular checks should be undertaken to ensure that the recharged hours are broadly in line with those expected for the work completed in the period. Where significant variations arise then explanations for these should be sought. (**H**) Management should revisit the calculations of recharge rates in order to ensure that the constituent parts are fully identified and costed to enable better informed decisions on applicable rates. As far as possible staff hours should be recharged at a consistent rate which ensures the recovery of actual costs incurred. (**H**)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Follow Up Review of Direct Payments: Controls Mitigating Fraud	A review of Direct Payments (DPs) was included in the 2011/12 Annual Audit Plan. This report follows up the recommendations of that review agreed in a management action plan. The April 2012 Audit looked specifically at the controls in place to mitigate fraud in DPs and did not assess the efficacy of the care provided or the capacity of self directed support to transform lives.	Adult Social Care Management have substantially improved the DP framework and made significant progress in reducing the number of overdue Social Care Reviews (SCRs). Testing indicated that progress has been made in reducing the number of overdue SCRs (732 reduced to 292) and that the impact of amendments to the reconciliation procedure have not yet been felt (40-50% of service users failing to provide reconciliations in a timely manner in both reviews). Due to the results of the testing, particularly the remaining outstanding SCRs, the Auditor is as yet unable to provide reasonable assurance that the controls to prevent fraud in DPs are now adequate. However, it should be noted that in the Auditor's opinion the appropriate measures are in place but there will be a time lag before they impact the results of audit testing. The Auditor would expect to see further improvement in a future review.	Major Improvement Needed	No new recommendations

LASER Contract Governance	The LASER (Local Authorities in South East Region) Framework is managed through Kent County Council (KCC) Commercial Services and allows for the provision of gas and electricity. Surrey County Council (SCC) has been using LASER since 2000. In March 2012 the former LASER Head of Energy procurement was convicted on charges related to a £2m fraud.	The Energy Manager was appointed in April 2012 as one of two County Council representatives on the LASER Governance Panel. This appointment is for a one year period only – as maternity cover - however it does provide an opportunity to influence governance arrangements. The audit noted there was no formal opportunity for member scrutiny of LASER contract performance.	Some Improvement Needed	As a member of the LASER Governance Panel the Energy Manager should look to ensure that: • a progress update on reimbursement of overpayments related to the fraud is given at each meeting of the Governance Panel until the matter is resolved. • the Governance Panel request immediate reimbursement to members by LASER, of a proportion of the overpaid monies • performance of LASER is reviewed by the Governance Panel – at least biannually - against available industry benchmarking information • the Governance Panel is updated on the findings, and resultant actions, of the recent KCC Internal Audit report • The Governance Panel gives consideration to the periodic replacement of the Independent Industry Consultant and has the opportunity to influence their terms of reference • Consideration is given to reviewing the Terms of Reference of the Governance Panel to extend its remit to include wider governance matters such as those referred to above. **(H)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Unofficial School Funds	Schools are required to have their unofficial funds audited. This is the money obtained locally for anything as opposed to the delegated money for educational purposes supplied through the authority. A check of audit certificates; approval of governors; and, independence of auditors, took place across a large sample of schools	Of the 112 schools reviewed: • 77 were found to be fully compliant; • 23 were partially compliant eg there may have been delays in the accounts being submitted for independent audit or approval by governors, or a deficiency in the independence of the person examining the accounts; • 12 either did not provide the required information to the Internal Auditor within the time frame requested or have agreed they have not been compliant with the procedures. For the former, the auditor has agreed revised submission dates for schools to supply the relevant information.	Some Improvement Needed	Chairmen of Governors at schools identified as non compliant will be informed of the requirements to adhere to the Surrey Scheme for Financing Schools for School Unofficial Funds. **(H)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Corporate Purchasing Cards	There are 400 plus card holders spending £1.9million per annum using the card. The compliance with purchasing card rules was checked. This was to provide assurance that risks to loss of finance to the council was low	In the vast majority of cases card usage was found to be correct and the guidance complied with. However, the testing had identified a number of failures to comply with the Rules and Guidance including some inappropriate expenditure. This was exacerbated by the failure of some managers to monitor purchasing card expenditure.	Major Improvement Needed	Ensure all card holders and line managers are aware of their responsibilities relating to purchase cards. **(H)** There should be a clear escalation process to deal with possible breaches of rules identified by the Card Compliance Team. **(H)** Guidance regarding use of the card when existing contracts are in place should be clarified. **(H)** The guidance should make it clear that eligible expenses relating to refreshments and travel should be claimed via the Portal, rather than paid for using a purchasing card. **(H)** Senior management should be reminded that cards should only be used by the named user. **(H)** Card holders and their line managers should be made aware of changes to guidance for card use. **(H)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Special Schools – Funding of Residential Places	Currently, funding of residential special schools is based on Surrey County Council (SCC) purchasing a level of capacity at each institution on a planned number of placements. For the 2011/12 school year, Surrey's maintained special schools received £4.1 million of funding from the Council for residential placements. From 2013, central government will change funding arrangements for schools, with levels being calculated based on actual, rather than planned, usage.	Most schools visited for this audit were not offering to pupils the full number of residential places for which they had been given funding in the 2011/12 academic year. Occupancy rates for existing places varied considerably, though the clear trend was a shortfall on the uptake of residential services, with half the schools filling less than 50% of funded places. The current practice of not including a residential requirement on a pupil's statement of SEN is not consistent with published SCC SEN strategic objectives. The Auditor could not identify an agreed SCC definition of 'residential accommodation'. In the absence of guidance from the Schools and Learning Service or a requirement on a pupil's SEN statement, schools offered different residential services linked to individual pupil development with insufficient reference to wider SCC strategic objectives. The Auditor is not satisfied that the Schools and Learning Service currently have sufficient management information on residential provision at special schools in order to effectively commission services, conduct robust business planning, or monitor progress against SEN objectives.	Unsatisfactory	The Head of Schools and Learning should consider engaging with the Heads of Surrey's special schools to agree new arrangements for funding residential places which takes into account the number of beds at each school and establishes a defined occupancy rate. **(H)** The Head of Schools and Learning should consider a review which encompasses both strategic planning and current operational practice, and make revisions to ensure they are consistent with one another. **(H)** The Head of Schools and Learning should consider devising and implementing a precise definition of 'residential accommodation' which precisely defines the service that is being commissioned. **(H)** The Head of Schools and Learning should consider requiring schools, as part of the commissioning process, to report at agreed regular intervals on nightly planned and actual occupancy rates. **(H)**

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Illuminated Street Furniture (ISF)	In March 2010 the Council commenced a 25 year PFI contract for the replacement and maintenance of street lighting assets. In parallel with this is a second contract covering maintenance of 'illuminated street furniture', that is signs, bollards etc. Whilst this work is also undertaken by the PFI contractor (Skanska) the contract operates independently from the PFI contract and has its own operational arrangements and performance measures.	Overall our testing indicated that the contract was running smoothly with the contractor achieving the targets set within the contract. Client side management has also been successful in negotiating a reduction in the contractor's rates following a benchmarking exercise with other authorities. It was noted, however, that the contract Schedule of Rates (SoR) had been incorrectly updated in relation to one particular area which had led to overcharging which should now be recovered from the contractor.	Some Improvement Needed	Management should raise the matter with the contractor and re-examine the SoR to confirm that the appropriate updates have taken effect. Going forward the SoR should be test checked post annual updating to minimise any risk of recurrence. Finally, management should review the contractor's monthly accounts and recover any overcharges they identify. (**H**)

Audit	Background to review	Key findings	Audit opinion (1)	Recommendations for improvement (Priority) (2)
Asset Management ICT	Since 2010/11 the council has been engaged in a large scale improvement of its IT infrastructure. This is intended to drive efficiencies in the workplace and replace equipment and software that has reached the end of its life cycle. The value of this investment is in excess of £4 million and thus the management of these assets is crucial to achieve value for money from this investment.	As part of the move to a centralised server based architecture, applications are for the most part stored and deployed to end users from remote Application servers. However, a search (using the Applications Manager tool) for local installations of software (i.e. on the user's harddrive) identified 35 "unknown" installations. The audit concluded that the new physical devices installed as a result of this project are actively managed and locatable.	Some Improvement Needed	IMT to investigate the "unknown" installations and manage appropriately. **(H)**

[1] **Audit Opinions**

Effective	Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Some Improvement Needed	A few specific control weaknesses were noted; generally however, controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met.
Major Improvement Needed	Numerous specific control weaknesses were noted. Controls evaluated are unlikely to provide reasonable assurance that risks are being managed and objectives should be met.
Unsatisfactory	Controls evaluated are not adequate, appropriate, or effective to provide reasonable assurance that risks are being managed and objectives should be met.

[2] **Audit Recommendations**

Priority High (H) - major control weakness requiring immediate implementation of recommendation
Priority Medium (M) - existing procedures have a negative impact on internal control or the efficient use of resources
Priority Low (L) - recommendation represents good practice but its implementation is not fundamental to internal control

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SURREY
COUNTY COUNCIL

Name of the Select Committee: Council Overview & Scrutiny Committee

Date of meeting: 1 February 2013

IMT Update

Purpose of the report: Scrutiny of Services Performance

This report is going to the Select Committee to provide an update on a number of IT matters including:

1. Novell and the explanation of unplanned outages experienced late 2012
2. An update on planned PVR savings
3. Windows 8 implementation plans
4. Management/security of laptops and other mobile equipment
5. Status update on current IMT projects

Introduction:

1. This report provides an update on a number of IMT initiatives.

Novell Issues

2. Novell issues/system outages. On the 19th and 25th of September 2012 some customers based on the Surrey County Council Citrix infrastructure experienced severe issues which directly impacted their ability to use key applications.

3. A significant number of Citrix users (~1,000) worked normally. The true impact of this incident is unknown but we do know that we have between 1,000 and 2,000 Citrix users at any one time. On average we have in the region of 1,300 concurrent users.

4. The incident was tightly managed as a major incident with engineers from IMT and various suppliers (Novell, Citrix) working round the clock.

5. The issue was caused by the Novell Load Balancing Software which was rectified by rebuilding the Citrix Server Farm.

6. The issues were resolved in full by the 5th October 2012. A full detailed incident report is available.

IMT Update – PVR Savings

7. Please find the latest update on the IMT PVR Savings

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Financial savings achieved / forecast – 2013-2017				
Savings Item	**£**	**Target completion date**	**Status**	**Management Plan**
Networks (incl. MaD changes)	£ 539,000	31/03/16	**OnTrack – but one off saving of £500k from CW in 2012/13 will not be delivered.**	Competitive Dialogue for new PSN contract UNICORN has now concluded with contract awarded to BT. Current SWAN network contract ends March 2013. Implementation underway – 200 sites in 3 months is challenging. We were hoping to deliver £500k one off savings during the CWW transition – this was not possible due to complex negotiations and time delays in procurement.
Applications Support & software	£ 570,000	31/03/14	**OnTrack but challenging**	Savings of £380k pa delivered to date - new Libs IT contract and cost reductions of support and maintenance of other applications. Remaining £190k pa savings on track for delivery through cost reductions programme.
SAP	£ 1,101,000	31/03/14	**OnTrack**	£1m pa savings will be delivered in 2013/14 through negotiations with SAP, Capgemini support and bringing back hosting to new in-house Data Centres. This work will be completed in partnership with ESCC. Further work on reducing costs of SAP to continue for delivery in 2013/14.
Org Design / Process Efficiencies	£ 280,000	31/03/14	**OnTrack**	IMT restructuring and review of IT processes will continue through 2012/13 to deliver savings.
Data Centre	£ 450,000	31/03/13	**COMPLETE**	Savings delivered early. Citrix Farm hosted by C&WW brought back to in-house Data Centre in April 2011.
Data Centre Income generation	£ 413,000	31/03/16	**OnTrack**	New Data Centre in Redhill completed in November 2012. Next steps are to bring Surrey First / SE7 and other partners into new facility. Guildford, Woking and ESCC are first planned.
TOTAL	**£ 3,353,000**			

IMT Update –Windows 8

8. Windows 8 is the current release of the Windows Operating System produced by Microsoft for use on personal computers, including home and business desktops, laptops and tablet PCs.

9. The operating system was released for general availability on October 26, 2012.

10. Windows 8 introduces significant changes to the operating system's platform, improving its user experience on mobile devices such as tablets to rival other mobile operating systems like Android and Apple's iOS.

11. Windows 8 introduces a new touch-friendly user interface, featuring a new Start Screen with a grid of dynamically updating tiles that represent applications. The Start screen replaces the "Start menu" of earlier Windows versions. There is a new app platform with an emphasis on touchscreen input, and the new Windows Store to obtain and/or purchase applications.

12. IMT have worked with Mircosoft and have piloted a number of Windows 8 devices over the summer and have established that a significant amount of effort will be required to make them work effectively in our corporate environment. The majority of our business applications do not currently fully function under Windows 8.

13. In 2012 IMT completed a rollout of Windows 7 across the County Council replacing more than 7,500 devices.

14. For the next year we will continue to keep a watching brief on Windows 8 and will ensure that all our Windows 7 devices are working effectively.

IMT Update – Management/security of laptops and other mobile equipment

15. We continue to manage our laptops and mobile equipment according too the GCSx Government Security Guidelines.
16. We have recently been audited by internal audit and have our external GCSx Audit in the Summer to ensure that we fully comply.
17. All laptops and mobile devices are fully encrypted and can be managed remotely by IMT.
18. IMT have completed a successful Bring Your Own Device Trial (BYOD) – where use of the GOOD technology is used to provide access to a limited number of SCC Software Applications (Notes, S-Net, Shared Drives etc) from an individuals home device (i.e. Smartphone or mobile device).
19. We hope to extend this trial to all SCC Employees during 2012 and also to extend the trial to home PC's. The GOOD Software does not currently operate on home PC's.

Status update on current IMT Projects

20. Please find the latest update on the IMT Projects as an addendum to this document.

Conclusions:

21. This report provides an update on a number of IMT matters as requested by the Council Overview & Scrutiny Committee.

Financial and value for money implications

22. None

Equalities Implications

23. None

Risk Management Implications

24. None

Implications for the Council's Priorities or Community Strategy

25. The information provided today supports the key Council priorities and has been approved by each Strategic Directorates Technology Board.

Recommendations:

26. This is an update on a number of IT topics – the purpose of this report is to inform the members of the Council Overview & Scrutiny Committee.

Next steps:

Identify future actions and dates.

Report contact: Paul Brocklehurst, Head of IMT

Contact details: 02085417210

Sources/background papers: PVR Updates, Service Plan, IMT PVR, Monthly IMT Plan

IMT Monthly Status Report 08/01/13

Stage						
	Planning	Transition to BAU	Scoping	Procurement	Closeout - Post Project Review	Mobilisation
	Implementation	Contract Negotiation	Design / Build	Upgrade	Analysis & Design	

Score: 61 old scoring = 90% new scoring system

Directorate	Priority	Projects/SWPs	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	DoT	IMT Delivery	Service Readiness
Adult Social Care	90%	AIS - Phase 3	Phase 2 Implementation											Phase 3 Implementation				Business Process Review						←→	On Schedule	On Schedule
Adult Social Care	90%	SWIFT AIS V27 Upgrade					Planning			Upgrade						Implementation								←→	On Schedule	On Schedule
Adult Social Care	75%	Reablement Scheduling & Monitoring	Procurement			Pilot Team Implementation																		↓	Behind Schedule	On Schedule
Change & Efficiency	90%	Implementation of Primary Data Centre	Design / Build				Implementation							Project Review	Onboarding Partners									↑	Closed	Closed
Change & Efficiency	90%	Admin Offices Rationalization - Phase 2	Implementation										Close-Project Review											↑	Closed	Closed
Change & Efficiency	90%	UNICORN (Telephony and data network)	Procurement									Planning & Implementation - SWAN ESIP replacement						ongoing programme untill end 2						←→	On Schedule	On Schedule
Change & Efficiency	90%	Schools HR Interface (Winshuttle)	Procure ment	Implementation											Closeout									←→	On Schedule	On Schedule
Change & Efficiency	90%	Modern Worker including EDM	Phase 1 implimentation (scoping, pilots , roadmaps and investment planning)																			ongoing untill mid 2017		←→	On Schedule	On Schedule
Change & Efficiency	90%	Pension Administration System Upgrade - Altair (Heywood)	Supplier Engagement					Implementation			Mobilisation				Close-Project Review									←→	On Schedule	On Schedule
Change & Efficiency	84%	PAMS (Property Asset Management System)	Procurement				Phase 1A Implementation							Phase 1B Implementation			Phase 2 Implementation					Phase 3 Nov 2013		←→	On Schedule	On Schedule
Change & Efficiency	84%	SAP Trasformation	Transfer											DR		Support & Seabass			Futures					←→	On Schedule	On Schedule
Change & Efficiency	82%	Finance PVR - BI Solutions & Reporting	Procurement			Anallysis & Design			Implementation - Reporting for all directorates								Forecasting for CAE & CEX - Soft launch	Forecasting for remaining directorates - June13 Go Live						←→	On Schedule	On Schedule
Change & Efficiency	75%	Dynamic Learning Environment (DLE)	Procurement			Implementation											Closeout							↓	Amber	On Schedule
Change & Efficiency	73%	EDM Scanning Solution for Invoicing & Personnel Records	Planning/ Business Case revision for Acounts Payable														Procure ment	Implementation						↓	Behind Schedule	Behind Schedule
Change & Efficiency	67%	Web Content Management: P1 Live, P2 TBD	Phase 1 Live	Phase 2 implimentation																				←→	On Schedule	On Schedule
Change & Efficiency + Central Surrey Health	70%	Central Surrey Health								Planning		Scoping			Implementation (on going untill June 2013). User Equipment Rollout Feb 2013 - Sep 2013									←→	On Schedule	On Schedule
Chief Executive's Office	63%	Legal Transformation	Implementation																					←→	On Schedule	On Schedule
Chief Executive's Office	59%	Committee Management System	Procurement			Implementation																		←→	On Schedule	On Schedule
Children, Schools & Families	90%	New Children's/ ICS System	Phase 2 Controcc Implementation											Transition to BAU		Phase 3 - ESCR and eCAF								←→	On Schedule	On Schedule
Children Schools & Families	87%	Youth Technical Services and Youth Restructure & TUPE	Scoping and Implementation			Design / Build					Implementation													←→	On Schedule	On Schedule
Children, Schools & Families	82%	Schools Broadband Implementation	Implimentation Phase 3									Contract Negotiation					Transition to UNICORN							↑	On Schedule	On Schedule
Children Schools & Families	72%	CSF HUB										Phase 1 - Schools Information Sharing												←→	On Schedule	On Schedule
Customers & Communities	88%	Libraries IT System	Phase 1 Implementation				Phase 2 Implementation								Closeout									↑	Closed	Closed
Environment & Infrastructure	85%	Concessionary Fares Phase 2	Procurem	Implementation				Phase 3 HOPS Procurement		Mobilisation - Phase 2 & 3 Live				Close-Project Review										↑	Closed	Closed
Environment & Infrastructure	85%	MIDAS - Developer Contribution Monitoring - S106 & CIL	Planning & Scoping				Phase 1 Implementation									Phase 2 Scoping		Phase 3 TBD				Ongoing untill 2014		↑	On Schedule	On Schedule
Environment & Infrastructure	75%	Travel Smart		Planning & Scoping CMS & Journey Planner Components												Phase 1 Implementation								↑	On Schedule	On Schedule
Public Health	61%	Public Health	Procurement			Implementation			Transition to BAU					Closeout										↑	Closed	Closed

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SURREY COUNTY COUNCIL

COUNCIL OVERVIEW AND SCRUTINY COMMITTEE
1 February 2013

2012/13 QUARTER THREE BUSINESS REPORT

Purpose of the report: Scrutiny of Services and Budgets / Performance Management.

The Quarter Three Cabinet Business Report, to be received by the Cabinet on 5 February 2013, is provided to support the Council Overview and Scrutiny Committee in its performance, finance and risk monitoring role (for all Council services), enabling them to discuss and identify specific and relevant issues for further discussion at relevant Select Committees.

Introduction/Background:

1. Each quarter, the Cabinet receives a Quarterly Business Report (attached) setting out the progress the Council has made in delivering the One County One Team Corporate Strategy 2012-2017.

2. The 2012/13 Quarter Three report includes Council-wide results on customer feedback, finance, workforce and performance, the progress reports of the One County One Team People Strategy 2012/17 and the One County One Team Fairness and Respect Strategy 2012/17 and the January 2013 Leadership Risk Register.

3. To support the Committee to fulfil its performance, finance and risk monitoring role the Committee has asked to receive the same Business Report information as the Cabinet. To ensure that questions can be raised in a timely manner, the report will be considered at the first meeting following the consideration by the Cabinet.

4. The information within the report will enable the Committee to scrutinise the Council's performance, finance and risks and refer detailed questions to the appropriate Select Committee.

Recommendations:

5. The Committee is asked to comment on the Quarter Three Business Report and make any recommendations as appropriate.

Next steps:

- The Committee refers any agreed issues or questions relating to specific elements of the Business Report to relevant Select Committees for discussion.

Report contact: Ben Unsworth, Senior Performance and Research Manager, Performance and Change, Chief Executive's Office

Contact details: 020 8541 7257 ben.unsworth@surreycc.gov.uk

Sources/background papers:
- Surrey Residents Survey results
- One County, One Team Corporate Strategy 2012/17
- Directorate Strategies and Business Plans 2011/15
- One County, One Team: Fairness and Respect Strategy 2012/17
- One County, One Team: People Strategy 2012/17

Section 151 Finance cleared on:	16/01/13
Strategic Director cleared on:	SK 10/01/13 JF 10/01/13
Cabinet Member cleared on:	14/01/13

SURREY COUNTY COUNCIL

CABINET

DATE: **5 FEBRUARY 2013**

REPORT OF: **MR PETER MARTIN, DEPUTY LEADER**

MS DENISE LE GAL, CABINET MEMBER FOR CHANGE AND EFFICIENCY

LEAD OFFICERS: **SUSIE KEMP, ASSISTANT CHIEF EXECUTIVE**

JULIE FISHER, STRATEGIC DIRECTOR FOR CHANGE AND EFFICIENCY

SUBJECT: **2012/13 QUARTER THREE BUSINESS REPORT**

SUMMARY OF ISSUE:

For the Cabinet to acknowledge and discuss the success that Surrey County Council has achieved during the third quarter of 2012/13 (demonstrated by the latest available Council-wide results on customer feedback[1], finance, workforce and performance, the progress report on the One County One Team People Strategy 2012/17 and the January 2013 Leadership Risk Register).

RECOMMENDATIONS:

It is recommended that the Cabinet:

1. Notes the Quarter Three Business Report covering Residents Survey feedback, people performance, financial stewardship and individual Directorate performance.

2. Notes the progress made in implementing the One County One Team People Strategy 2012/17.

3. Agrees the Leadership Risk Register as of January 2013.

REASON FOR RECOMMENDATIONS:

- To ensure effective business management of the County Council and delivery of improved outcomes and value for money for Surrey residents.

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[1] The Surrey Residents Survey is a telephone interview survey conducted throughout the year by Swift Research, an independent research company, with randomly selected Surrey residents. In each three month period, 1,650 people are interviewed, 150 from each of the Surrey Districts and Boroughs. This totals 6,600 interviewees from across the county per annum.

- To ensure proper implementation of the Council's One County One Team People Strategy 2012/17.

- To ensure proper consideration of Leadership Risks.

DETAILS:

Report structure

The report should be read with reference to the following annexes:

Annex 1

One County One Team Quarter Three Business Report 2012/13. This has four sections:

- Residents / Value performance
- People performance
- Financial stewardship
- Quality / Partnerships performance

Annex 2

Quarter Three Business Report – Progress towards Directorate priorities which details measurement against priorities by individual Directorate.

Annex 3

Detailed report showing progress of the implementation of the One County One Team People Strategy 2012/17.

Annex 4

Leadership Risk Register as at January 2013.

Highlights

1. Surrey County Council is a Council performing well with **95% of residents satisfied with their neighbourhood as a place to live**.

2. This report is the third 2012/13 Business Report to measure progress against the priorities set out in the **One County, One Team Corporate Strategy 2012/17**. The report includes an enhanced scorecard (Annex 1), supported by detailed commentary (Annex 2).

3. The report celebrates examples of **key achievements** during the quarter, including the completion of the Council's three year Public Value Review programme, the launch of the Council's 'Switch and Save' energy scheme and being shortlisted for the **Council of the Year** as part of the Local Government Chronicle (LGC) Awards 2013.

4. Surrey has recently taken part in **high profile meetings to make the case for Surrey's interests**. Brandon Lewis MP, Local Government Minister, visited the County Council on 15 January and met with the Leader, Deputy Leader, Chief Executive and Strategic Director for Environment and Infrastructure. The main item on the agenda was the scale of the economy in Surrey and the potentially major role that Surrey can play in delivering growth to the wider UK economy with greater support from central government. The Minister also heard about how the Council is dealing with the serious financial challenges it faces, including work to join up and reduce costs across public services within Surrey and across the South East. On 8 January 2013, the Leader, Deputy Leader and Chief Executive also met with Kevin Hurley, the Police and Crime Commissioner for Surrey and Jeff Harris, the Deputy Police and Crime Commissioner for Surrey to discuss issues including shared priorities in relation to community safety.

5. Surrey County Council has been shortlisted for three awards as part of the LGC Awards 2013. The shortlisted categories are for **Council of the Year**, the **Health and Social Care** category for the work being done on Prevention through Partnership and **Corporate Governance**. The results of the awards will be announced in March 2013.

6. On 11 December 2012, the Leader of the Council, David Hodge, unveiled a new '**switch and save**' scheme through which households and businesses will be able to bulk buy their energy, enabling them to switch to cheaper gas and electricity bills. Residents can register at www.surreyswitchandsave.org. An auction with energy providers will be held in February 2013 following which people will be told of the deal and given the option to switch.

7. The Cabinet approved a list of **major road schemes** designed to reduce congestion and boost economic growth on 27 November 2012. The list was drawn up in preparation for a series of new funding opportunities from Government worth millions of pounds. Initial work will begin on the road projects so that when funding becomes available, Surrey's bids will be ready for submission, enhancing the chances of securing funds.

8. Surrey County Council and the University of Surrey joined forces and have completed a new £4.5m road scheme to **ease congestion** outside the Surrey Research Park, Guildford. The University invested £2.5m and the Council contributed £2m to remove a roundabout and replace it with a crossroads with traffic lights. More than 140 companies are served by the Research Park and the Royal Surrey County Hospital and the Surrey Sports Park are nearby.

9. The Council has met the published target to fill **200 apprentice places** four months early. Under the scheme launched in July 2012, the Council offered to match the Government's Apprenticeship Grant for Business with a Surrey grant of £1,500, bringing the total available to £3,000.

10. Surrey County Council has won the **2012 national innovation award** from the Society of Information Technology Management (Socitm) for innovative use of technology through trialling a scheme that sees staff using their own laptops, smartphones or other devices to do their job.

Residents / Value (Annex 1)

11. The latest provisional Surrey Residents Survey results (for October and November 2012) show that **two out of every three** (**66%) residents are satisfied with the way the Council runs things**.

12. The latest provisional **Surrey Residents Survey** results indicate that although the year to date results are relatively stable, there has been a slight dip against key headline measures including the percentage of residents who are satisfied with the way the Council runs things, the percentage of residents who think the Council provides good value for money, the percentage of residents who feel that Surrey County Council keeps people informed and the percentage of residents who feel that they can influence decisions (Annex 1) during October and November 2012. These results will be closely monitored to assess whether they represent a trend or an anomaly.

13. The Council is continuing to **work closely with residents** to test satisfaction and engagement. For example, over 700 people completed the Council's **budget consultation** to capture residents' views about Council spending and service priorities. The survey has revealed that Surrey's spending closely reflects residents' priorities. The survey results are presented as part of the Revenue and Capital Budget 2013/14 to 2017/18 report (agenda item 6).

14. At the end of November, 94% of those contacting the **Council's Contact Centre** were satisfied, significantly exceeding the target of 85%. In addition, 89% of all stage one **complaints** were dealt with within timescale and 88% of **Freedom of Information Act requests** were responded to within the 20 working days target.

15. Over £356,000 of the **Community Improvement Fund** has been awarded to support projects that will make a difference in local areas. An indoor community swimming pool, an outdoor ball games area and a Scout group are among the 12 community projects that were successful in securing funding.

Quality/Partnerships (Annex 1 and Annex 2)

16. The Cabinet approved the **Directorate Strategies 2012/17** on 27 March 2012. A summary of progress towards achieving the priorities contained in them is included in the Quality/Partnerships quadrant of the Scorecard (Annex 1) with a full commentary in Annex 2.

17. Overall, there has been **strong progress during the third quarter**. The following examples demonstrate some of the achievements during the period:

- Following the Cabinet approval for BT to be the preferred supplier for **Superfast Broadband in Surrey**, on 21 November 2012, the UK received the necessary State Aid Approval from the European Union. As the project is largely publicly funded (£20m from Surrey County Council, £1.3m from the Government's Broadband Delivery UK Fund and £11.8m from BT), the project was subject to EU competition law and the European Commission had to approve the programme. The Superfast Broadband project will only spend public money to provide superfast broadband to those areas that could not access it through the commercial market. The decision means that the project implementation can begin so that nearly 100% of Surrey businesses and homes will have access to superfast broadband by the end of 2014.

- At the end of quarter two (latest available data), there were only 60 **first time entrants to the Youth Justice System** (meeting the target of 100), significantly fewer than 140 first time entrants at the same time in 2011/12 and 428 first time entrants at the same time in 2009/10. This reduction has been achieved through **Youth Restorative Intervention** which enables the Youth Justice Partnership to effectively deal with lower level offending behaviour without recourse to criminalising children and young people.

- From April 2012 to the end of November 2012, a total of 2,258 **Home Fire Safety Visits** have been conducted, of which 69% were to households at risk. This is a significant improvement from 57% in 2011/12 and exceeds the 2012/13 target of 60%.

- The **Surrey Information Point** website has been re-launched with new features such as a text messaging service. The website now features all regulated care providers in Surrey and helps adults and carers in Surrey to find advice and information in their local area.

18. The Council recognises that there is **no room for complacency** in ensuring the delivery of high quality services to Surrey residents. Difficult issues are being tackled and concerted action is being taken in a number of priority areas, including:

- The average **cost per contact** (the total money spent on customer contact divided by the total number of contacts) of 46 pence is slightly above the year-to-date target of 44 pence. The Council is continuing to encourage residents to use lower cost methods of contacting the Council, such as the internet, where it is appropriate to do so, and while maintaining high levels of customer satisfaction.

- At the end of November 2012, a total of 53% of waste collected had been **recycled**, against the profiled year to date target of 60%. Falling demand from China and India has impacted on rigid plastic recycling and the Council continues to work with SITA (the Council's waste contractor) to identify suitable markets for wood that is currently being stored until the waste wood market recovers. New collection systems, including food waste, were introduced in Reigate and Banstead in July 2012 with a phased rollout and in Tandridge in October 2012. These schemes will help to improve recycling rates, but will be subject to a time lag before improvements are reflected in the performance data. Surrey County Council was ranked 9th out of 32 Waste Disposal Authorities in England for waste recycled in 2011/12.

- Surrey is ranked 21st out of 152 local authorities (an improvement from 23rd in 2011) and 5th out of 11 statistical neighbours for the percentage of pupils achieving five or more GCSEs or equivalent at grades A* to C including English and mathematics based on the latest provisional **educational attainment results** (not including results for pupils at independent schools). However, there has been a small decrease in the proportion of pupils who achieved five or more **GCSEs or equivalent at grades A* to C** including English and mathematics (62.9% compared to 63.5% in 2011). The Council is currently undertaking a full review of the School Improvement Strategy which will inform the annual School Improvement Plan.

People (Annex 1 and Annex 3)

19. The **One County One Team People Strategy 2012/17** was approved by the Cabinet on 29 May 2012 setting out 12 County Council promises to its staff. Overall progress towards delivering the 12 promises is reported in the People quadrant of Annex 1 with a detailed progress report in Annex 3.

20. Surrey continues to perform well for **sickness absence** (reported in the People quadrant of Annex 1) compared to local government peers. When staff working with vulnerable adults are excluded (they are not allowed to work with vulnerable adults when ill), the sickness absence rate was 7.09 days per FTE at November 2012, achieving the Council target of 7.2 days per FTE. The latest Chartered Institute of Personnel and Development (CIPD) absence survey (2012) shows that the local government average was 8.1 days per FTE (down from 10.9 days in 2011). Sheffield City Council recognised Surrey County Council's success and asked Surrey County Council to share examples of how sickness absence is being tackled within the Adult Social Care Directorate.

21. The December **workforce costs** are reported alongside this report as part of the Month End Budget Report as at the end of December 2012 (agenda item 9).

Financial stewardship (Annex 1 and Annex 2)

22. The Council has set a **Revenue Efficiencies and Savings** target of £71.1m in 2012/13, set out in the Medium Term Financial Plan (MTFP). At the end of November 2012, £21.1m of the savings had been achieved and 'banked'. However, there remains a forecast shortfall of £5m in the year-end savings expected to be delivered against the MTFP target.

23. Efficiencies and savings have been achieved through a **rigorous focus on ensuring value for money**. This is evidenced, for example, by the completion of the programme of Public Value Reviews.

24. The Council successfully completed the three year programme of **Public Value Reviews** that took a systematic and focused look at services and functions to ensure that the things most important to Surrey residents were at the heart of the Councils' work. The programme has been acknowledged by Sir Merrick Cockell, Chairman of the Local Government Association (LGA) who has asked the LGA Productivity Team to consider opportunities to promote Surrey's Public Value Review programme, recognising that it contains good practice that other Councils could benefit from. The programme consisted of 29 reviews and successfully identified a total of £279m savings to be delivered by 2016. A closing report for the PVR Programme was presented to the Cabinet on 27 November 2012.

25. On 18 December 2012, the Cabinet agreed to support the establishment of a **partnership agreement** between Surrey and East Sussex County Councils under which Surrey will carry out transactional support activities and IT hosting services on behalf of East Sussex. East Sussex and Surrey County Councils are already **working in collaboration** by establishing a joint

procurement team and are working together to utilise combined buying power in order to deliver better contract value to both organisations. The Council has exceeded the quarter three **procurement savings target**, achieving £17.8m savings.

26. The Council continues to work to support local businesses and on 22 November 2012, hosted a **business engagement workshop** to explore ways local authorities and the business community can work better together. The latest six monthly results demonstrate that the Council is currently driving 50% of spend on **goods and services to local businesses**, representing £316m spend in the local economy.

27. The **Olympic Games and Tour of Britain** sporting events generated more than £51m for Surrey's economy[2]. The county hosted the men's and women's cycling road races at the summer Olympic Games and staged the final leg of the Tour of Britain in September 2012. In total, the Olympic events benefitted the county's economy by almost £44m, in addition to over £800m of Games-related contracts that were secured by Surrey businesses[3]. The Tour of Britain stage from Reigate to Guildford generated almost £7.2m for Surrey's economy. Following the Olympics, hotels and tourist organisations in Surrey said they had started taking bookings from cyclists who wanted to ride the Olympic race routes.

28. The December 2012 financial position is presented to the Cabinet alongside this report as the **Month End Budget Report** (agenda item 9).

29. The November 2012 financial position is reflected in the financial **Stewardship** quadrant of the Scorecard (Annex 1).

Leadership Risk Register (Annex 4)

30. The **Leadership Risk Register** as at January 2013 is attached to this report as Annex 4.

31. The Risk and Resilience Steering Group, chaired by the Assistant Chief Executive, coordinates and reviews risk activity across the organisation. The Steering Group also reviews the Leadership Risk Register prior to review by Corporate Board as part of performance, finance and risk monitoring.

32. The Audit and Governance Committee reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Select Committee.

CONSULTATION:

33. The 2012/13 Quarterly Business Report has been produced in consultation with the Members and officers listed at the end of this report.

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[2] This estimation is based on the industry standard model used for calculating the impact of the Tour of France and Tour of Britain.
[3] This figure has been provided by the Olympic Delivery Authority.

RISK MANAGEMENT AND IMPLICATIONS:

34. Risk management implications to areas covered in this report are covered in either the Leadership Risk Register (Annex 4) or in the relevant Strategic Director and Service Risk Registers. Directorate and Service management teams review current and emerging risks and ensure that risks are escalated and reported where appropriate.

Financial and Value for Money Implications

35. The Annex 1 scorecard contains **Directorate level financial information** and details the delivery of the Council's Revenue Efficiencies and Savings target.

36. Tracking financial information alongside other key performance indicators as part of the quarterly Business Report is an important part of the Council's approach to ensuring **value for money** for residents.

Section 151 Officer Commentary

37. The section 151 officer confirms that forecast budget outturn and savings figures quoted in this report and annexes were correct at the end of November 2012. A separate report on this agenda will provide an updated position to the end of December 2012. Both the revenue and capital budgets continue to be monitored closely and reported to the Cabinet, particularly the risks in achieving the Medium Term Financial Plan targets for savings and efficiencies.

Legal Implications – Monitoring Officer

38. There are no legal implications/legislative requirements arising directly from this report.

Equalities and Diversity

39. This report provides a summary of progress towards achieving the Council's priorities set out within Directorate Strategies so does not require a specific Equality Impact Assessment. Where appropriate, Equality Impact Assessments will be completed for individual Directorate priorities.

WHAT HAPPENS NEXT:

- Remedial action takes place.
- The Cabinet continues to receive Quarterly Business Reports (the Quarter Four 2012/13 report will be considered on 23 April 2013).
- The next update of the One County One Team People Strategy 2012/17 will be reported to the Cabinet as part of the Quarter Four Business Report (due to be considered by the Cabinet on 23 April 2013).
- The next six monthly update of the One County One Team Fairness and Respect Strategy 2012/17 will be considered by the Cabinet as part of the Quarter Four Business Report 2012/13 (due to be considered by the Cabinet on 23 April 2013).
- Quarterly reports of progress against key Directorate indicators and commitments are published online at www.surreycc.gov.uk/ourperformance

- The Council Overview and Scrutiny Committee will review Council performance at the meeting on 13 February 2013.
- Select Committees continue to scrutinise work programmes and performance.
- Quality Board will continue to ensure effective self-regulation, oversight and assurance of quality management across the Council, via the implementation of the One County One Team Quality Management Framework.
- Risk officers continue to work with Directorate Management Teams to review current and emerging risks, and ensure that risks are escalated where appropriate.

Contact Officer:
Tim Yarnell, Performance Manager, 020-8541-7047

Consulted:
David Hodge, Leader of the Council
Corporate Leadership Team (CLT)
Justin Newman, Lead Performance and Change Manager, Policy and Performance
James Brown, Performance Lead, Children, Schools and Families
Tracy Waters, Performance Lead, Customers and Communities
Colin Blunden, Waste Finance and Performance Team Manager, Environment and Infrastructure
Gary Strudwick/Linda Moore, Performance Leads, Adult Social Care
Jon Savage, Performance and Change Manager, Head of Transformation, Change and Efficiency
Tim Vamplew, Research Manager, Policy and Performance
Matthew Baker, Deputy Head of HR and Organisational Development
Cath Edwards, Risk and Governance Manager, Change and Efficiency
Verity Royle, Principal Accountant, Change and Efficiency
Kevin Kilburn, Financial Reporting Manager, Change and Efficiency
Grisilda Ponniah, Corporate Information Governance Manager, Legal and Democratic Services

Annexes:
Annex 1 – Quarter Two Business Report Scorecard
Annex 2 – Progress Towards Directorate Priorities
Annex 3 – One County, One Team, People Strategy 2012/17 progress report
Annex 4 – Leadership Risk Register

Sources/background papers:
- Surrey Residents Survey results
- One County, One Team Corporate Strategy 2012/17
- Directorate Strategies and Business Plans 2011/15
- One County, One Team: Fairness and Respect Strategy 2012/17
- One County, One Team: People Strategy 2012/17

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ANNEX 1

www.surreycc.gov.uk

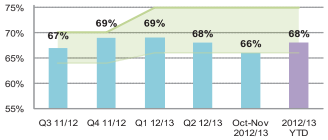
SURREY COUNTY COUNCIL

ONE COUNTY, ONE TEAM - QUARTER THREE BUSINESS REPORT 2012/13

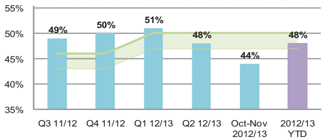
RESIDENTS / VALUE

= Target = Standard & stretch target range

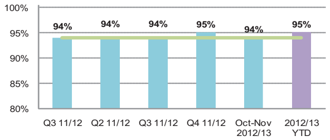
% of Residents who are satisfied with the way the Council runs things



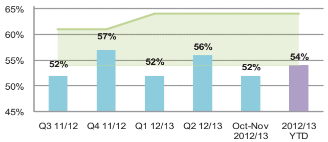
% of Residents who think the Council provides good value for money



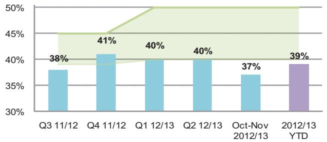
% of Residents who are satisfied with their neighbourhood as a place to live



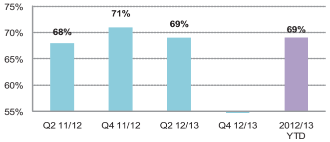
% of Residents who feel that SCC keeps people informed



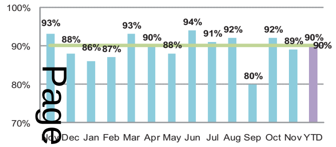
% of Residents who feel that they can influence decisions



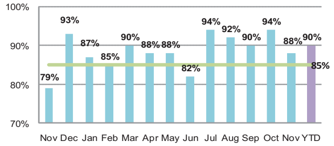
% of Residents who were satisfied with how they were served by SCC staff



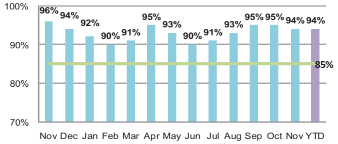
% of stage one complaints dealt with to timescale



% of FOI requests responded to within 20 working days

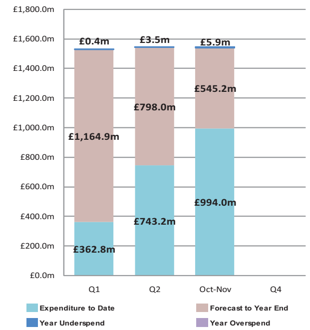


Customer satisfaction with the contact centre



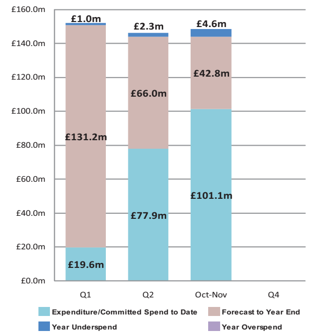
FINANCIAL STEWARDSHIP

Revenue

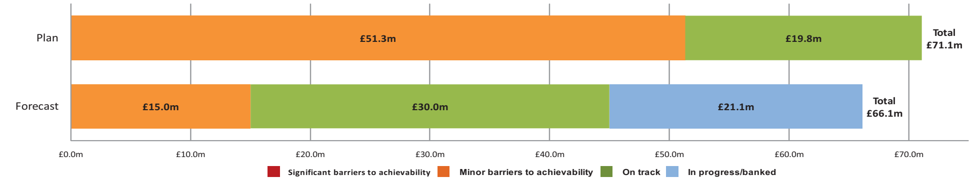


Directorate Budget Analysis as of November 2012				
Budget Analysis	Latest Budget	Year End Forecast	Variance	% Variance
Adult Social Care	£336.2m	£340.1m	£3.9m	1.2%
Children, Schools and Families	£295.4m	£293.9m	-£1.5m	-0.5%
Schools	£529.7m	£529.7m	£0.0m	0.0%
Customers and Communities	£74.2m	£72.9m	-£1.3m	-1.8%
Environment and Infrastructure	£130.7m	£131.7m	£1.0m	0.8%
Change and Efficiency	£87.7m	£86.1m	-£1.6m	-1.8%
Chief Executive's Office	£14.0m	£14.0m	£0.0m	0.0%
Central Income / Expenditure inc. Risk Contingency budget	£77.2m	£70.8m	-£6.4m	-8.3%
Total	£1545.1m	£1539.2m	-£5.9m	-0.4%

Capital



Revenue Efficiencies and Savings Target



PEOPLE

Staffing Costs to end of November 2012

Surrey County Council November 2012	Budget £m	Actual £m	%	Variance £m
Contracted Staff		22.7	91%	
Agency		1.3	4%	
Bank & Casual		1.1	5%	
Total Staffing Cost	25.4	25.1		-0.4

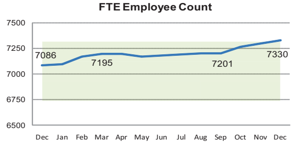
Surrey County Council YTD	Budget £m	Actual £m	%	Variance £m
Contracted Staff		180.3	92%	
Agency		9.7	5%	
Bank & Casual		6.7	3%	
Total Staffing Cost	203.5	196.6		-6.9

Surrey County Council Year End Forecast	Budget £m	Forecast £m		Variance £m
Total Staffing Cost	304.8	299.7		-5.1

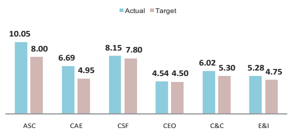
People Strategy Promise Delivery	
Everyone will have an effective annual appraisal	
Everyone will have a personal development plan	
Every team to have regular team meetings or discussions	
Everyone will have regular time with their manager	
Everyone will have 20 hours training and development per year	
Every manager will undertake people management development	
Every manager will receive coaching training	
Everyone will be trained to a minimum level of IT competency	-
Everyone will have a fair and manageable workload	
We will help each other & act early to provide extra help and support	
We will maximise smarter working	
Everyone will have the right equipment and training to do their job	-

Workforce composition	To be reported as part of the Q4 Business Report on 23 April 2013

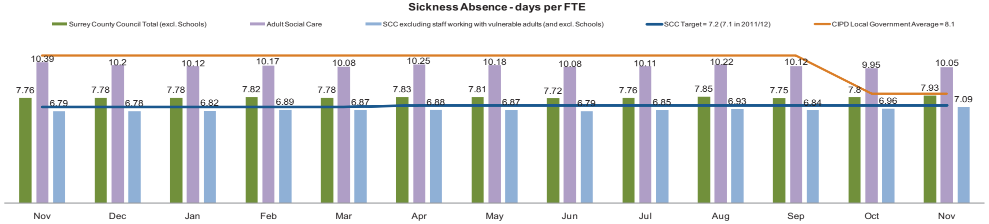
FTE Employee Count



Latest Sickness Absence by Directorate



Sickness Absence - days per FTE



QUALITY / PARTNERSHIPS

Adult Social Care
Staff development
Personalisaton *
Local, accessible & flexible services
Carers support *
Reduce hospital admissions *
User voice / joined up services
Health and social care pathways
Transforming in-house services
Service signposting
Deliver MTFP efficiency savings

Change and Efficiency
Support local suppliers
Deliver £25m Procurement savings
Reduce Council CO2 emissions
Support regeneration and growth
UNICORN data centre and network
Future funding
Deliver partnership income & efficiencies
Increase internships and apprenticeships

Children Schools and Families
Restorative youth justice
Early support
Targeted support *
Safeguarding
Support for children with disabilities
Participation education, training or employment
Invest in support to schools *
Invest in school buildings
Realise children's potential

Chief Executive's
Understand Surrey residents*
Prepare for post election Council
Complete the PVR programme
Deliver Superfast Broadband *
Working with the VCFS *
Develop Social media

Customers and Communities
Safe & successful 2012 Olympics
Resident / local engagement
Reduce domestic abuse *
Improve fire prevention
Community partnered libraries
Contacts through digital channels
Cost per contact
Deliver the C&C PVR programme
Excellent customer experience

Environment and Infrastructure
Encourage economic growth
Develop infrastructure funding bids
Basingstoke Canal funding
Invest in carbon reduction schemes
Repair road defects
Road schemes and repairs
Develop road investment programme
Walton Bridge construction
Reduce cyclists killed/seriously injured
Improve recycling rates
Eco-Park construction

Detailed results and commentary for all Directorate priorities are reported in Annex 2

* Denotes a Fairness and Respect priority from the *One County One Team* Fairness and Respect Strategy 2012-17

5 February 2013

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Quarter Three 2012/13 Business Report

Annex 2

Progress Towards Directorate Priorities

	=	Target has been met
	=	Target has been missed, but performance is within acceptable tolerances
	=	Target has not been met and performance is outside of acceptable tolerances

* Denotes a Fairness and Respect priority from the *One County One Team* Fairness and Respect Strategy 2012/17

Adult Social Care

Priority	YTD Result	YTD Target	YTD RAG
Develop staff with the values, attitude, motivation, confidence, training, supervision and tools to facilitate the outcomes of people who use services and carers want.	Amber	Green	

Adults Social Care and HR continue to work together in reducing levels of short and long term sickness absence across the Directorate. Although the RAG remains at amber, sickness absence has decreased over the past 12 rolling months and as at 31 October 2012 had reached 9.95 days, although still above the ASC target of 8 days per FTE.

Proactive action has been taken over the past quarter to improve the analysis and sharing of absence data, allowing for greater scrutiny at team level and identifying trends or hotspots of absence and accountability for this at management level. In addition, HR are identifying where individual absence is considered to be an 'outlier' within the absence data and reporting this separately, to get a greater understanding of the true picture of sickness absence within teams. Long term cases (outliers) of sickness absence are actively managed through the Step Change process, as well as those individuals breaching one of the policy triggers.

Over the next quarter alongside the continued work with managers on the Step Change Process, a number of wellbeing initiatives are planned for ASC including the promotion and facilitation of team and individual Wellbeing Assessments and the use of 'Workplace Health Checks' in partnership with the Trade Unions, looking at how staff are supported in the workplace.

There is also the planned implementation of additional tools and systems to assist managers with managing absence, the introduction of a "HR Dashboard" enabling managers to have real-time access to detailed information on their direct reports, and the electronic system "e-risk" for Occupational Health referrals. The online referral system (e-risk) will improve the OH process for managers, allowing for 'real time' updates and transparency of the referral process from day one to case closure as well as 24/7 accessibility. The move to an online system will allow for greater reporting of management information and trends and support the continued work to reduce sickness absence across the directorate.

Priority	YTD Result	YTD Target	YTD RAG
Embed personalisation by working towards personal budgets for everyone eligible for ongoing social care, developing creative solutions and working with providers to ensure services are available*	Green	Green	

We remain committed to delivering the benefits of personalisation to the residents of Surrey. This includes supporting them to take control of their own support and creating innovative support plans. We have successfully rolled out a new framework and training programme for staff to support this. This work continues and we are now concentrating on reducing the recording burden in order to free staff up to better support those who request it. All new people coming to us for support are provided with a personal budget and we are offering this to existing people as fast as we are able; the work on the recording system will speed this offer up.

Priority	YTD Result	YTD Target	YTD RAG
Embrace a community-based approach, using the JSNA (Joint Strategic Needs Assessment), community budgets and joint working with partners to identify the needs of local communities, utilise available resources to best effect and deliver local, accessible and flexible services.	Green	Green	

The Leader of Surrey County Council has created a Preventative Services Fund to develop local partnership plans. A series of locality based discussions have taken place across all Borough and District Councils to formulate plans by 31 December. Previously identified workstreams have continued. These includes the mainstreaming of Telecare where a recently enhanced free telecare equipment offer has been made to Borough and District Councils to enable them to charge their community alarm rate to support the scaling up of Surrey wide activity. Community Alarm rates are being charged from 1 October with service level agreements signed off with all Borough and District Councils by 1 January 2013. Surrey has recruited four Telecare Installers and comprehensive awareness raising and training programmes are being developed Surrey wide. Attention is now turning to developing and piloting a 24-hour response service to enhance the preventive benefits of telecare. We are developing 11 Wellbeing Centres and Telecare Demonstrator Sites across Surrey with the first Wellbeing Centre being launched at Manor Farm in May 2013 and a further five Wellbeing Centres planned to be launched within this financial year. We are looking to develop Meals on Wheels services in Mole Valley and Reigate and Banstead to ensure county-wide provision. The Volunteering Project is being developed using Whole Systems funding. This project will support the scaling up of Telecare, development of preventative services and the emerging local plans.

Priority	YTD Result	YTD Target	YTD RAG
Support all carers to balance their caring roles and maintain their independence and desired quality of life.*	Amber	Green	

The Carers Practice and Performance Group is chaired by Dave Sargeant (Assistant Director - Personal Care and Support) with representatives from Adult Social Care, Surrey and Borders Partnership Trust (SABPT), the carers voluntary sector and an Elected Member. The first tranche of performance information was reviewed by the group at the meeting on 14 September 2012 and showed positive trends. Updated performance information was shared with the Adults Select Committee at the end of November 2012. Work is underway to improve support for young carers, including a new e-learning package "Young Carers Aware" which was launched at the end of October 2012. Early indications are that staff are taking up this opportunity and the expectation is that all staff will have completed the e-learning by end of December 2012. There is on-going progress in recruiting 13 Assistant Practitioner (Carers) posts - with eight appointments made to-date and recruitment on-going as a priority. The amber status continues to reflect the early stage of this work and that much remains yet to be done by the Carers Practice and Performance Group.

Priority	YTD Result	YTD Target	YTD RAG
Reduce hospital admissions, lengths of stay and support people to live in their homes by investing in a whole systems preventative approach with telecare, telehealth, reablement, virtual wards etc.*	Green	Green	✓

The Whole Systems Partnership Fund aims to transform the way care is delivered and improve health outcomes for people living in Surrey with a long term condition through a combined health and social care approach. It is governed jointly by Surrey County Council and NHS Surrey. The highlights this quarter included:

- The procurement process for Telehealth is nearing an end and the number of devices installed will rapidly increase once the provider has been selected.

- 90% of GPs are using a risk management tool, which helps identify people with a long term condition to enable targeting of services / intervention.

- Virtual Wards, which provide targeted, proactive and supportive education of individuals at high risk are working well to reduce the number of unplanned hospital admissions.

- From 1/10/12 social care staff based in acute hospitals have been working weekday evenings and weekends. This has enabled staff to have more contact with carers, relatives, providers and health staff and has supported timely discharge.

- Additional occupational therapists, reablement staff and staff arranging care provision have also helped to support discharge.

Priority	YTD Result	YTD Target	YTD RAG
Provide leadership in the health and social care system by ensuring a strong user voice and that people experience joined up services arranged around their needs.	Green	Green	✓

The Health and Wellbeing Board has agreed its work and development programme through until it assumes its statutory responsibilities in April 2013. The programme combines a) focused work to develop the Board as an effective strategic partnership and b) task or issue -specific areas that will support the Clinical Commissioning Group (CCG) accreditation process, the production of the joint health and wellbeing strategy, the JSNA refresh, the transition of Public Health and the emerging health and social care structures (as part of dissolution of the PCT). At their September 2012 meeting, the Board endorsed the engagement process for the strategy, which will run between October 2012 and January 2013. In October the Board held a development session on adult mental health, the outcomes of which will contribute to joint work between the lead CCG and the County Council. Governance and accountability arrangements to ensure delivery of the strategy have also been agreed.

Priority	YTD Result	YTD Target	YTD RAG
Operate integrated and effective health and social care pathways with our NHS community partners.	Green	Green	✓

The redesign of health and social care pathways is being supported by the whole systems partnership fund. As per the whole system priority, funding has been allocated for spend and all associated projects are on track to meet agreed timescales.

Priority	YTD Result	YTD Target	YTD RAG
Transform in-house services to deliver care and support which reflect local need, with robust pricing structures and governance arrangements, as part of a cost effective and sustainable service.	Amber	Green	!

Service Delivery is developing responses to the Learning Disability Public Value Review (PVR) outcomes. These are being managed through a commissioning led project board with workstreams for learning disability residential accommodation, day opportunities and supported living services. The project is scoping high level future options and the next phase of work will be to generate a costed business case for the future of the in-house services exploring alternative delivery models - this project is working as part of a wider corporate approach. There are strong links to the work on Older People's Accommodation with Care. The status of this project is amber, reflecting its complexity and scale and the challenging nature of decisions to be taken.

Priority	YTD Result	YTD Target	YTD RAG
Provide clear signposting for all Surrey residents, irrespective of their ability to pay, to social care and support services, so they can lead more independent and fulfilled lives.	Green	Green	✓

The Information and Advice Project is progressing well on some key deliverables most notably:

1. The Surrey Information Summit took place on Wednesday 5 December 2012 which was an essential forum for staff from all Surrey organisations who have a role in providing information and advice about care and support, and Members. It also highlighted the shared responsibility of all agencies in providing people with good information and advice along the care pathway. The agenda included an update on services within Adult Social Care, the Health and Wellbeing agenda, role play with examples of good and bad information, advice and signposting and its impacts and some accessible communications principles. The focus of the day was on information zones and networking where attendees could visit areas of interest and speak to multi-agency representatives about their enquiries. The zones included Money Matters, Carers' Support, Keeping People Safe, Health and Wellbeing, Dementia and a Personal Care and Support 'Surgery'. There was also a demonstration area where guests could see what equipment is available and try them out (telecare, equipment assessment tools, Surrey Information Point and other websites). A new Adult Social Care DVD was launched at the event. The day was a great success, with lots of positive feedback received from delegates, who found the event very useful, particularly the opportunity to network with a range of agencies.

2. Surrey Information Point has undergone an upgrade that includes a fresher, less cluttered design and excellent new functions - the ability to text records (particularly good for people who are deaf or hard of hearing), addition of videos, the splitting of 'services' from other records making it easier to find organisations or providers, the addition of a news section on the home page and better quality printing

outputs. The website now also features all regulated care providers in Surrey.

A full training programme is currently being developed to be rolled out in January 2013, to ensure as many Adult Social Care staff use this central resource as possible and a wider promotional campaign with partners and the voluntary sector will be implemented, alongside separate awareness initiatives with Surrey residents.

3. A new public awareness campaign on how to access Adult Social Care is being planned to launch at the end of January 2013. Focus groups and street testing have helped inform the final creatives and messages we will be using to ensure people understand the communication. We will not be using the Live Life Your Way theme but reinforcing how we can help people make the right choices. We will continue to promote Surrey Information Point and the Adult social Care phone line. The three existing Hubs will have separate promotional activity locally. We are also producing a new information leaflet called 'Do you know where to go for local care and support services?' which will serve to signpost people to local organisations who can help.

4. GP engagement – Clinical Commissioning Groups are being contacted and meetings with Practice Managers being set up to discuss maximum display and usage of social care information (in all its formats) in GPs surgeries and advising GPs how they can access greater information on local community services.

Priority	YTD Result	YTD Target	YTD RAG
Deliver efficiency savings identified in the Medium Term Financial Plan.	Amber	Green	!

Adult Social Care (ASC) has a target of £28.4m of efficiency savings built into the 2012/13 budget. There has been slippage against the actions planned, and so one-off measures have been taken to cover that so far as possible. Nonetheless, it is expected that there will be a shortfall of around £1m against the £28.4m target (the predicted outturn for ASC is +£3.9m overspent, which also incorporates the effect of unexpected increases in demand). The key reasons for slippage are recruitment delays such that dedicated task teams have not been able to review cases as soon as planned; the transitional state of the health system making it harder to take forward partnership developments; the complexities involved in developing and gaining approval for the way ahead with in-house services; and the need to review how the preventative agenda, including Telecare, is taken forward in the context of the Government's Caring For Our Future White Paper.

Children, Schools & Families

Priority	YTD Result	YTD Target	YTD RAG
Reduce the number of young people who are involved in crime or are the victims of crime through the delivery of restorative youth justice practice.	60	100	✓

The number of first time entrants to the youth justice system continues the progress made in 2011/12 with 32 in Q2 (60 cumulative for the year to date) against a target of 50 (100 cumulative) . This reduction has been achieved through the introduction of the Youth Restorative Intervention (YRI) which enables the youth justice partnership to effectively deal with lower level offending behaviour without recourse to criminalising children and young people. Surrey remains amongst the best in the country for custodial sentences, first time entrants and reoffending. All indicators in Surrey are improving compared to static regional and declining national trends for reoffending.

Please note: The reporting of Youth Offending figures is one quarter in arrears.

Priority	YTD Result	YTD Target	YTD RAG
Organise our services to make them more local and joined up with partners to ensure support is offered at the earliest opportunity.	Green	Green	✓

Deliver localised services through implementing the recommendations of Children Schools and Families (CSF) Public Value Programme:

The first phase of the programme, to assess and understand the current provision across the Directorate and its partners, largely involved a needs analysis, a review of effective practice nationally and locally and of national and international research, consultation with Surrey front line staff, external strategic partners and families. This analysis involved the shaping of current to future provision and in phase 2, options and testing will identify the cost of meeting this future need. Options for the future provision are to be generated from the projects (identified priority areas) focusing on early help, family support and children with disabilities through the partnership groups set up. The purpose of these groups working within the priority areas and led by the sponsors is to provide ongoing verification of the research analysis and findings and to provide a creative forum for the testing of ideas and options. The Public Value programme is on track to provide Cabinet with an update on progress and to agree the emerging strategy with timescales on 5 February 2013.

Improve Partnership Effectiveness:

Progress has been made on recommendations from the peer challenge and OfSTED inspection. The Strategic Director has consulted on partnership proposals with key partners. Consultation has focused on establishing wider membership of the Children and Young People's Board and an agreed direction of travel to strengthen partnership arrangements. Progress has been made on key priorities - an early help plan has been developed and structures have been put in place to engage partners in the design of a longer term early help strategy. Progress has been made on the joint central referral unit (Surrey County Council and Surrey Police) and social workers will move into the unit within the next quarter.

Priority	YTD Result	YTD Target	YTD RAG
Provide targeted support to families with low incomes to increase access to employment, training and support networks.*	Amber	Green	

Surrey County Council, in partnership with Surrey Police, Borough and District Councils and other local agencies, has developed and now agreed the Family Support Programme to help families who are faced with multiple problems and are struggling to cope. Families identified through this programme will be supported through a coordinated Team Around the Family approach with each family receiving some dedicated support. It is planned that there will be a Family Support Team covering each Borough and District and work is under way to establish teams in Elmbridge, Guildford, Reigate and Banstead, Spelthorne and Woking. The arrangements will be extended countywide by October 2013. Key outcomes for the families will include improving school attendance, getting into work and reducing involvement in anti-social behaviour.

Priority	YTD Result	YTD Target	YTD RAG
Work with partners to develop our safeguarding, targeted and early help services.	Green	Green	

Services to protect children and young people who are suffering or likely to suffer from significant harm are effective:

The new Surrey Safeguarding Children Board (SSCB) review found the Area Partnership Groups to be effective and engagement to be positive. This was borne out by the September 2012 inspection of the local arrangements for the protection of children by OfSTED which found "children who are at risk of harm are protected through effective and prompt action by the County Council and the police. Senior officers within the Council, well supported by Elected Members, have delivered significant improvements to practice and service delivery from a low base. Staffing levels have improved, resulting in children at risk of harm and most children in need receiving a timely service from children's social care." The new safeguarding support team is now in place and safeguarding summits are a regular occurrence.

Promote the development of early help and targeted services through leadership and shared work with strategic partners:

The early help project, sponsored by the Assistant Director for Children's Services and Safeguarding has moved on to develop the recommendations from OfSTED with the Public Value Partnership Reference Group, which includes partners. The group has set up task groups to work on key aspects such as Strategy, Collaborative Working, Processes and approaches and Thresholds. Key partners are the chairs of these task groups so that we embed true partnership working from the outset. The reference group is fundamental in enabling a collaborative partnership approach to developing and implementing future options. Progress is continuing to be made through these groups, however, will move at different timescales in line with the overall programme plan. The Public Value programme is on track to provide Cabinet with an update on progress and to agree the emerging strategy with timescales on 5 February 2013.

Priority	YTD Result	YTD Target	YTD RAG
Improve family support and education for children with disabilities by joining up the health, care and education services we provide to these children.	Green	Green	✓

The project aims to deliver a whole system, with partners for children and young people with disabilities, while fulfilling the major themes of the Government's 2012 Special Educational Needs and Disabilities (SEND) Green Paper. The project is on track and now working at aligning with the Pathfinder and SE7 work already completed.

The Public Value programme is on track to provide Cabinet with an update on progress and to agree the emerging Strategy with timescales on 5 February 2013.

Priority	YTD Result	YTD Target	YTD RAG
Deliver the plan to raise the participation age of Surrey's young people (from age 16 to 17) in education, training and employment from September 2013.	95.3%	96.2%	!

Surrey young people face significant economic challenges reflecting the national context surrounding the UK double dip recession. Over the last three years, there has been a dramatic fall in the number of young people aged 16-18 in employment, particularly those in employment without training.

Raising and widening participation remains the Service's performance challenge. Our Strategy is set out in the Young People's Employability Plan and is built on five key actions:

- Preparing young people for participation
- Commissioning and developing new opportunities
- Aligning aspirations with opportunities
- Overcoming barriers to participation
- Tackling worklessness in families

Against this challenging backdrop, the number of young people who are NEET continues to fall. In July 2012, the number dropped below 1,000 for the first time since the end of the Transformation Project, meaning we are on track for 97% participation by March 2013.

Priority	YTD Result	YTD Target	YTD RAG
Invest in our support to schools to further improve the attainment of pupils, especially those from vulnerable groups.*	Amber	Green	!

Students gaining five good GCSEs including English and Maths in Summer 2012:
Issues with the grading of GCSE English assessments emerged in August 2012 and have since been widely publicised in the media. This has had a widespread impact on all measures that incorporate GCSE English, affecting a large number of pupils, schools and the majority of local authorities. Ofqual conducted an inquiry but concluded that the grades were valid. A legal challenge has been launched by some head teachers and local authorities to contest this decision but the outcome has yet to be determined.

Surrey is ranked 21st out of 152 local authorities (an improvement from 2011) and 5th out of 11 statistical neighbours for the percentage of pupils achieving five or more GCSEs or equivalent at grades A* to C including English and mathematics. Despite a small decrease in the proportion of pupils who achieved five or more GCSEs or equivalent at grades A* to C including English and mathematics (62.9% compared to 63.5% in 2011) this remains above south east and national comparators.

Two of Surrey's mainstream schools are below the government floor standards according to the provisional data. These schools have not reached specified thresholds for pupils achieving five or more GCSEs or equivalent at grades A* to C including English and mathematics nor for pupils making expected progress in English or in mathematics.

The Department for Education will release revised secondary school data in late January 2013 alongside the annual Performance Tables for all schools in England.

Free School Meals (FSM) and Children Looked After (CLA) students gaining five good GCSEs including English and Maths in Summer 2012:
A comprehensive local authority school improvement plan remains in place to respond to the new floor standards that incorporate both pupil progress and attainment. One key priority over the last year has been the continued support for all children, but in particular those most vulnerable such as pupils eligible for free school meals or looked after children, to enjoy and achieve and make progress at all stages of their learning.

This measure was produced for the first time in 2011. Disadvantaged pupils falling into the FSM/CLA group performed better than their counterparts nationally in all three key measures at key stage 4 last year (five good GCSEs including English and maths; expected progress in English and expected progress in maths).

Overall in 2011, pupils eligible for free school meals (but not specifically CLA pupils) showed improved attainment across all key stages, narrowing the gap between pupils eligible for free school meals and their peers. In Surrey, 34.3% of pupils gained five good GCSEs including English and maths compared with 33.9% nationally; 56.9% of pupils made expected progress in English in Surrey compared with 54.3% nationally and whilst 44.2% of pupils nationally made expected progress in maths, 47.5% made expected progress in maths in Surrey.

In addition in 2011, FSM pupils showed improved attainment across all key stages, narrowing the gap between pupils eligible for free school meals and their peers. At key stage 2, the gap between FSM pupils and their peers achieving the expected threshold in both English and maths narrowed by one percentage point from 2010 to 2011; at key stage 4 in 2011 the gap reduced by more than four percentage points for those achieving five good GCSEs including English and maths compared with 2010.

Provisional GCSE results for this cohort of pupils in Surrey have been released and are currently being analysed for use in setting local targets early in the Spring term summer 2013. The Department for Education will release revised secondary school data in late January 2013 alongside the annual Performance Tables for all schools in England.

Priority	YTD Result	YTD Target	YTD RAG
Invest in school buildings and new schools places to meet the rising pupil population.	Green	Green	✓

On track to deliver school places:

The number of places required for September 2012 was 1,437 which were delivered on time via a programme of modular builds and adaptations. Further work is underway for additional schemes for delivery of planned school places, meeting basic need projections, in the next two - three years. This is to support a strategy to reduce the amount of temporary accommodation in lieu of permanent build. Schools Commissioning , Property and Procurement are working with the Hampshire Partnership to deliver the required number of places, remaining within the funding allocated to the Medium Term Financial Plan (MTFP) over a five year period - 2012-2017.

School places will be delivered within budget:

The school basic need medium term financial plan allocated funding for 2012/13 is £30m, with a further carry forward budget of £2m, giving a total 2012/13 School Basic Need budget of £32m. The forecast costs on those schemes currently scheduled is £31.3m, giving a forecast reported underspend of (£0.7m) for 2012/13, as at the end of October 2012.

In summary school places required for September 2012 have been delivered.
All current schemes are subject to value engineering to ensure the overall envelope is not exceeded. Additional schemes have been identified for the MTFP and a revision has been made to include the five year period to 2018. Due to spikes in demand some of these schemes will need to be incorporated in the programme between 2014 and 2015. The current business planning process for 2013/18 is reporting this additional demand.

Priority	YTD Result	YTD Target	YTD RAG
Improve the effectiveness of services to those children and families most at risk of not achieving their potential.	Amber	Green	!

Young people identified in Year 11 as at risk of not participating in post-16 education, training or employment are participating at the start of the second term of Year 12:

Work continues with schools and other partners ahead of the first measure of this outcome in January 2013 to ensure the greatest number of young people who are at risk of becoming not in education, employment or training (NEET) as they leave school are helped into appropriate education, employment or training. A recent analysis of the 2012 Risk of NEET Indicator (RONI) cohort identified that 80% of this group have learning difficulties and disabilities. The additional targeted support on this priority group is anticipated to begin having an impact during 2013.

KS2 progress by low/middle/high attainment groups:

English:
Low 76%;
Middle 91%;
High 87%

Maths:
Low 63%;
Middle 87%;
High 91%

KS4 progress by low/middle/high attainment groups:

Despite an increase in the percentage of pupils making expected progress in both English and mathematics between key stage 1 and 2, Surrey remains below the national average for pupils making progress in English and in mathematics, based on revised data (published December 2012). Surrey is ranked 128th out of 152 local authorities for expected progress in English and 97th in mathematics.

From key stage 2 to key stage 4, the percentage of Surrey pupils making expected progress in mathematics has increased 2.5 percentage points compared to 2011, maintaining fifth position in the statistical neighbour rankings (based on provisional results).

An implication of issues surrounding the grading of English GCSE has meant that the percentage of Surrey pupils making expected progress in English from key stage 2 to key stage 4 has fallen five percentage points compared to last year. However, Surrey is ranked 3rd out of 11 statistical neighbours. This is an improvement of 2 places compared to last year (based on provisional results).

Further detailed results for both key stage 2 and key stage 4 cohorts of pupils in Surrey will be released in late 2012/early 2013 with national and regional comparators made available by the Department for Education. This data will then be used to inform the setting of local targets early in the Spring term for these groups for summer 2012 and summer 2013.

Education Select Committee (ESC) has also requested further detail on a number of topics including the relationship between school type (infant/junior/primary) and progress between key stages 1 and 2 - this will be taken to ESC in early 2013.

Customers & Communities

Priority	YTD Result	YTD Target	YTD RAG
Deliver a safe and successful Olympic experience in Surrey, maximising the long-term benefits for the county.	Green	Green	✓

Following the successful delivery of the cycle races for the 2012 Games, the 2012 Project Board was officially closed on 1 October 2012.

Work to develop the delivery of Legacy benefits will now be taken forward by Surrey County Council's Chief Executive's Office. As this work is developed new milestones will be assigned to measure success.

Priority	YTD Result	YTD Target	YTD RAG
Increase resident engagement, strengthen local democracy and place much greater emphasis on partnership working.	Green	Green	✓

The Community Partnerships Team is committed to increasing resident engagement, strengthening local democracy and placing greater emphasis on partnership working. This includes supporting Members and partners to enable better local decision making, improving the information available to Members and residents, and monitoring whether people who use our services are satisfied.

Since the last report, work has continued to develop Local Committee web casting. Making the Local Committees more visible and accessible is one of the priorities from the Public Value Review. Local Committees in Mole Valley and Woking continue to be available via webcast as part of a year-long pilot project, which will help determine whether sufficient demand exists to continue web casting. The initial set of broadcasts generated more views than individuals that physically attending the meetings. Nonetheless, take-up of the service has been low and there is more work to do to increase awareness. The service is advertised on the Committee websites and on distributed papers and is available through the Surrey County Council website. The pilot will continue to the end of the project year or until a business case is submitted to demonstrate its effectiveness.

The use of social media is also being developed. The Elmbridge Local Committee twitter account is now re-tweeting comments from key officers in the area and as a consequence has increased its number of followers. The benefits of the platform include linking key officers from different services and sharing information quickly and effectively with a wide audience. Initially the account is being used to distribute information relating to the Committee and its decisions. In the long-term, the ambition is to explore using the account as a means of engaging residents through dialogue with their Local Committee. Further work is planned to raise the profile and effectiveness of the account.

In Guildford, a meeting held to review local priorities was well attended with 65 local representatives comprising resident associations, parish councils, key officers from both Guildford Borough Council and Surrey County Council and members of the Local Committee. The evening identified a number of priorities including traffic - congestion, transportation; housing/planning, cleanliness/service provision; culture and identity. These priorities will be used to influence service planning at Surrey County Council and the Local Committee will focus on these over the coming year and beyond.

Priority	YTD Result	YTD Target	YTD RAG
Reduce instances of domestic abuse through strong leadership and partnership working.*	29%	29%	✓

The indicator measures the percentage of repeat incidents of domestic abuse, that is, people who are already known to the police as having experienced a domestic abuse incident in the past. The focus is on reducing the percentage of repeat incidents of domestic abuse.

For the year-to-date, 29% of domestic abuse incidents were reported as repeat incidents, matching the target set at the start of the year.

Recently, the Community & Public Safety Board (CPSB), agreed that there should be a key public message for domestic abuse that is widely visible, clearly understood, shared and consistent across all agencies. The consistency of image and key message is seen as critical in creating a strong brand and identity for future work on domestic abuse in the county. A logo and strap line, "Surrey Against Domestic Abuse", was agreed by the CPSB at the beginning of December 2012 and will be used as the primary campaign theme by all agencies to drive cultural change and raise awareness.

The Surrey Domestic Abuse Communications Group has a programme of campaigns for delivery in 2012-13, jointly funded by partner agencies. Activities this year have included a victim related radio campaign during Euro 2012 and the Olympic Games, and Domestic Abuse week in October. A campaign will run January to March 2013 that will focus on the impact of domestic abuse on children. The Communications Group is developing a multi-agency web site for future domestic abuse campaigns and signposting. This will go live in January 2013 (http://www.surreyagainstda.info/).

A Surrey Domestic Abuse Development Group has been established on behalf of the CPSB to ensure that activities aimed at tackling domestic abuse are co-ordinated and involve multi-agency responses, therefore contributing to a reduction in the incidents and impact of domestic abuse. The Group will oversee the development of a new Domestic Abuse (DA) Strategy and the delivery of the DA Review pilots on information sharing, early identification and support to those affected by DA including children and young people.

Work has begun to undertake an audit of training currently delivered by county council directorates and partner agencies. This will consider what is currently provided, requirements for the future, and options for delivery.

Priority	YTD Result	YTD Target	YTD RAG
Improve fire prevention through increasing the number of Home Fire Safety Visits that are targeted on vulnerable households.	69%	60%	✓

To help prevent fires occurring in the first place, Surrey Fire and Rescue Service visit residents in their own homes to give advice on fire safety. Households that are most at risk of fire are a high priority to receive such a visit. High risk factors include people over 60 years; living alone; mental health issues; alcohol and/or drug dependency; and smokers. The more factors that apply, the higher the risk.

The Home Fire Safety Visit (HFSV) focuses on three key areas of fire safety; prevention, detection, and devising an escape plan. The Service provides advice on potential problem areas in the home as well as advice on how to install and maintain smoke alarms. In addition, guidance is given on how to stay safe from fire - including kitchen hazards, safe disposal of smoking materials, candles, heaters, electric blankets and dangers from harmful substances.

During 2011/12, 57% of HFSVs were targeted on households considered to be vulnerable to fire. Performance has improved significantly during the first eight months of 2012/13. From the beginning of

April to the end of November 2012, a total of 2,258 visits have been carried out, of which 69% were to households at risk. The Service is exceeding its target to ensure that at least 60% of visits are to households that are most at risk of fire, and we are confident that this strong performance will continue.

To ensure the target continues to be met, each Borough has a plan to carry out targeted Home Fire Safety Visits in their area. These plans are based on knowledge of the local area, and ensuring that there are good arrangements in place with other agencies to enable referrals to be made where a vulnerable person would benefit from a visit. Each month, the performance of each station is analysed to check that the targets agreed in the Borough plans are being met.

The HFSV work contributes to the Service's overall aim to reduce the number of accidental dwelling fires in Surrey and, if there is a fire, to reduce the number of deaths and injuries that occur as a result.

In comparison with other similar Fire and Rescue Authorities, Surrey's rate of accidental dwelling fires per 10,000 population is 5.3. This is the same as the 'average' for the 17 other authorities for which we have comparable information. The number of fire related fatalities is very low, and Surrey has one of the best records.

Priority	YTD Result	YTD Target	YTD RAG
Establish 10 community partnered libraries as part of an innovative library service.	Green	Green	✓

The indicator for community partnered libraries (CPLs) measures the progress of the programme to establish ten CPLs.

Tattenhams Library opened as a community partnered library on 12 November 2012, with additional opening times totalling four hours. It followed Byfleet in September and New Haw in October as the third CPL.

The Byfleet and New Haw branches have had their first monthly reviews. Opening hours have been maintained, and the volunteers are running their libraries with energy and enthusiasm. In accordance with plans the CPL Support Team has stepped back from Byfleet and likewise New Haw.

The Service continues to meet with steering groups for other libraries to progress plans for the other planned CPLs. Virginia Water opened as a CPL on 12 January 2013 whilst Warlingham will run as a CPL from 22 January 2013. The latter will have a paid staff model, funded by the Parish Council.

The Service met with Ewell Court on 20 November 2012 to discuss implementation as a CPL, and again on 8 January 2013. The Service attended the first meeting of Warlingham Management Board on 10 December 2012. A meeting was held with Stoneleigh Steering Group on 11 December 2012 with a view to opening as a CPL on 16 February 2013, and on the same day a meeting was held with Bramley Steering Group. The service is still to re-engage with Bagshot Steering Group and to establish the situation regarding Lingfield.

Priority	YTD Result	YTD Target	YTD RAG
Become a truly 24/7 online Council: Contacts through digital channels.	5,367,827	5,263,437	

The number of visits to the Surrey County Council website is 10% lower for the year-to-date compared to figures at the same point last year. This is partly due to the relocation of the Libraries Service homepage from the Council website to anywhere.me (this averaged 55,000 visits per month broadly equating to the size of the fall).

A study of web visits is currently under way to improve understanding of how residents are using the Council's web services.

The number of contacts through social media; Twitter and YouTube, has risen throughout the year to 36,500 tweets and 29,900 views respectively for the year-to-date.

Priority	YTD Result	YTD Target	YTD RAG
Become a truly 24/7 online Council: Cost per contact.	46p	44p	

Cost per contact[1] is a measure of how well the authority is performing at moving contact to cheaper channels, such as to the internet, where it is appropriate to do so and whilst maintaining high levels of customer satisfaction. The figure represents the total money spent on customer contact divided by the total number of contacts (digital (such as internet and e-mail) and telephone).

Generally the cost per contact figure will decrease with a higher ratio of contacts through digital channels and less contacts through telephone calls which are significantly more expensive per contact.

The cost per contact figure for the year to the end of November 2012 was 46 pence, two pence above the year-to-date target of 44 pence.

The number of telephone calls for the year to date is six percent higher than at the same point last year. However, the rate of increase of telephone calls has dropped substantially since the early months of the year and there is a good chance that the number of calls at the end of the year will be a close reflection of last year's numbers.

[1] This figure represents the total Contact Centre and Digital Delivery team budgets divided by the number of digital and telephone contacts. It does not include costs associated with IMT systems and other support functions

Priority	YTD Result	YTD Target	YTD RAG
Complete the programme of Public Value Reviews for Customers and Communities and implement the agreed recommendations.	Green	Green	✓

In 2009, the Council began a three-year programme of 'Public Value Reviews'. The programme looked at each service and function of the Council. The objective was to identify ways of improving services for Surrey residents and to continue to provide value for money, ensuring that services had plans in place to meet the financial challenges ahead.

This indicator measures progress to complete the programme of PVRs within the Customers and Communities Directorate, and progress to implement action plans.
Out of a total of 29 reviews across the Council, the Customers and Communities Directorate was committed to completing nine reviews by the end of 2012. This has been achieved, with reviews having been completed in Fire and Rescue; Trading Standards; Libraries; Customer Services; Registration; Heritage; Adult Community Learning; Surrey Arts and Community Partnerships. The final four reviews were completed in November 2012.

As well as financial savings, examples of other benefits to Surrey residents include a revised emergency response standard for Surrey Fire and Rescue Service and an investment in home fire safety visits; investment in customer services, with a centralised point of contact for customers; better advice for local businesses; on-line bookings for weddings and civil partnerships and reduced appointment times for the nationality checking service; the introduction of wifi into all our public libraries and implementation of the community partnered libraries programme.

Priority	YTD Result	YTD Target	YTD RAG
Ensure an excellent customer experience through well-trained and motivated staff who exhibit Surrey values.	Green	Green	✓

Most people choose whether to use the services within the Customers and Communities Directorate. Providing services to a high standard is vital in retaining custom, and having staff that are well trained and motivated has an important bearing on the quality of customer service.

Actions have been planned through the year on areas including communications, planning and change management. In order to monitor performance and assess progress a survey of staff was undertaken.

The survey results were recently received (as part of the Council-wide staff survey) and analysis is ongoing that will help us to assess the progress of our action plan in improving our communication with staff, planning and change management, training and service quality; and whether this will have improved staff motivation and satisfaction.

Environment & Infrastructure

Priority	YTD Result	YTD Target	YTD RAG
Work with District and Borough Councils and other partners to encourage economic growth.	Green	Green	✓

Surrey Future is a joint initiative to protect and improve Surrey's economic prosperity in the long term. It will be a rolling programme of sustainable interventions that recognise and link to other strategies in this field, such as 'Surrey Connects'. Surrey Future will help to identify and prioritise investment schemes and enable us to lobby government and effectively lever funding for these schemes.

Three key areas provide the current focus: overall partnership governance, Rail Strategy, and Congestion Programme.

Partnership governance: The Surrey Future Steering Board (at Chief Executive level) met and agreed the current work programme in late November 2012. Future Surrey wide issues were considered, and 2013 work streams will be agreed at the January meeting. A 'launch' conference has been agreed in outline for early March 2013.

Rail Strategy: Arup have been appointed to develop the Surrey Rail Strategy. During December 2012 intensive discussions have taken place with Members, partners and Arup to identify key issues. A draft strategy will be completed by March 2013.

Congestion Programme: A first draft programme is being discussed with key partners. A consultation will be launched in February 2013 featuring summary and main programme documents.

Priority	YTD Result	YTD Target	YTD RAG
Develop bids for new funding to improve infrastructure and services.	Green	Green	✓

So far this financial year, Environment and Infrastructure has successfully bid for and secured more than Surrey's anticipated per capita share of Local Sustainable Transport Fund (LSTF) with success in three Surrey Travel SMART bids: Key Component Bid £3.93 million (April 2011); Large Bid £14.3 million (June 2012) and a successful thematic bid in partnership with Hampshire County Council (a portion of) £3.81 million (this was not included in the target).

A number of further bids have been submitted with decisions awaited:

Bids to the Growing Places Fund (against an estimated per capita share for Surrey of £4.8 million) were made during quarter two: Sheerwater Link Road scheme (bid for £2 million led by Woking Borough Council) and Tannery Studios (bid for £200,000) are 'likely to be funded' by Enterprise M3, subject to completion of due diligence. The proposed Farnham Town Centre Package (bid for £2 million) and Surrey Wood Hubs Project (bid for £767,000) will be further developed. Caterham Fast Fibre Hubs has also received £163,000 from Coast to Capital's Growing Places Fund (this is a business-led bid).

At the beginning of December 2012 a further bid was submitted to the Department for Transport (DfT) Cycling Safety Fund for £1.532 million (against an estimated per capita share for Surrey of £0.5 million) for schemes at Walton Bridge and central Leatherhead. Two further schemes were also proposed, namely: wider links from Leatherhead Town Centre and Egham Causeway. The outcome of the bid will be known in March 2013.

Looking ahead, Surrey will begin work preparatory work to draw up proposals for a number of major transport schemes in readiness to be able to bid for further DfT funding (envisaged per capita share to be £7-10 million per annum in each of the next four years) in the coming years.

Priority	YTD Result	YTD Target	YTD RAG
Secure external investment in the Basingstoke Canal to ensure its future value and use.	Amber	Green	

Essential remedial work on the canal locks and infrastructure (to protect against flood risk) remains on track against the existing capital programme. Best practice research into improving the design of the locks and geological surveying to identify potential bore-hole locations continues.

Improving the water supply for the canal has also been investigated and the University of Southampton, who were commissioned in the previous quarter to test the model developed earlier this year, have now begun work and will report in the late spring. This will be followed by final external testing and validation from a third party.

The main options for economic development of the canal are focussed on the Mytchett Canal Centre Site. An initial report by Colliers (consultants) has been reviewed and clarifications sought so that options can be assessed. In addition, further work is required with non-SCC developers (e.g. District and Borough Councils; Ministry of Defence) to understand fully other potential economic development opportunities and how these relate to proposed options for the canal centre site.

Therefore, it is anticipated that a more detailed business case will be developed by the end of March 2013, with feasibility studies on preferred options taking place in the 2013-14 financial year.

Priority	YTD Result	YTD Target	YTD RAG
Invest in new schemes to reduce costs and carbon impact for the Council and Surrey residents and businesses.	Green	Green	

A key performance indicator has been developed to enable the monitoring of renewable energy generated from renewable energy systems installed on Surrey County Council's estate. This will enable Surrey County Council to monitor effectively the impact of investment in carbon reduction schemes. Baseline data of the current installed capacity for 2012/13 is largely complete. This will facilitate target setting for future years as part of the revised Surrey County Council Energy Strategy next year.

Work is ongoing via third party investment to install solar photovoltaic (PV) cells at Surrey schools. This benefits the schools through reduced unit cost for solar PV generated energy.

Draft outline business case proposals have been produced for a number of carbon reduction schemes as follows:
i) Wood Hub sites for wood chip boiler fuel have been identified at four locations - the next stage is an options assessment on the sites and optimum finance and management arrangements.
ii) Biomass boiler installation - a proposed scaling up of the current work to identify sites for biomass boilers as part of the boiler replacement programme on both schools and corporate sites.

Priority	YTD Result	YTD Target	YTD RAG
Repair road defects within specified timescales and to budget.	Green	Green	

% of immediate responses attended to and made safe to public within 2 hours	98.15%	98.00%	
% of safety defects repaired within 28 days	98.06%	98.00%	
% of safety defects responded to within 24 hours in accordance with the risk matrix	98.59%	98.00%	

Repair of highway defects are categorised as P1 - immediate response (requires attendance and top be made safe within two hours), P2 - high risk safety defect (requires at least a temporary repair within 24 hours and permanent repair within 28 days) and P3 - low risk safety defect (requires attendance and repair within 28 days). Non-safety related defects are categorised as P4 and are included in planned maintenance activities but are subject to available budgets.

During the quarter, the following volumes of defects have been reported and repaired: P1 - 1476, P2 - 6821, P3 – 9117.

In general terms response to highways emergencies and safety defects has remained high with more than 98% of defects responded to and repaired within their timescales. Forecasting of weather conditions, defect volumes reported and undertaking pre-emptive repairs has enabled May Gurney to add additional gangs - for example during periods of high winds and rain, specialist Arboriculture teams are put on stand-by making them able to respond to damaged and fallen trees more quickly.

An exception to this high performance occurred in October 2012 following reintroduction of mobile IT equipment to the service provider's repair gangs. Due to information flow and synchronisation issues with the IT equipment, productivity dropped significantly with the gangs completing fewer jobs per day than previously achieved. To mitigate the drop in productivity the service provider increased resource levels by 20%. This increase unfortunately did not sufficiently impact on the 24 hour response performance result (85% for the month) but did positively contribute to achieving the 28 day response target. The mobile IT equipment has now been removed from the repair gang's process and productivity returned to anticipated levels achieving greater than 98% in November 2012 on 24 hour jobs.

Further work is being undertaken by May Gurney's IT Department to evaluate the mobile solution to ensure that it provides the intended benefits (real-time tracking of data, capture of photos linked to Work Orders, etc) without compromising on the ground productivity. It will only be reintroduced when all parties are satisfied of its reliability.

Priority	YTD Result	YTD Target	YTD RAG
Deliver existing road schemes within specified timescales and to budget.	100%	100%	✓

This performance indicator measures the number of Planned Maintenance jobs completed on time in line with the programme of works. The measure takes into account delays which result from factors outside of the contractor's control (for example. severe weather, allowing utility work to be completed before the road is resurfaced, etc) and so performance is measured against any agreed revised programme date.

A total of 826 jobs have been carried out during this quarter covering a variety of work types from carriageway and footway resurfacing to large patch repairs and drainage repairs. All were completed as planned.

Consistently high scheme completion rates (this is the fourth month in a row that 100% of schemes have been completed within timescales) have been facilitated by Surrey County Council engineers and their counterparts in May Gurney working closely together to ensure that, once commissioned, schemes are suitably programmed and delivered to time.

Priority	YTD Result	YTD Target	YTD RAG
Improve Surrey's roads by developing a five-year capital investment programme (to begin in 2013) and extending local decision-making.	Green	Green	✓

The objectives of Project Horizon are to implement a fixed five-year Maintenance Programme to repair the worst ten percent of roads in the county in priority order, deliver schemes and reduce major maintenance costs by a minimum of 15 percent.

Programmed public consultation road shows at a number of venues across the county were well attended during October and November 2012. Member engagement ran parallel to this and included informal Local Committee meetings.

Resident and Member views have been evaluated and used to prepare a draft Master Programme. Consultation identified some additional roads not identified originally. Members are being consulted on these and they are also currently being walked/assessed by Project Horizon engineers for suitability for inclusion and prioritisation within the programme.

First draft of contracts with supply chain partners (incorporating changes to existing terms and conditions) have also been prepared.

A detailed report will be considered by Surrey County Council Cabinet in February 2013.

Priority	YTD Result	YTD Target	YTD RAG
Construct the new Walton Bridge on time and on budget to ensure it becomes operational by 2014.	Green	Green	

The main arches of the new Bridge are now in place having been erected in late October 2012.

Following placement of the arches, welding of the main arch steelwork was ongoing during November and December 2012, along with final assembly of the deck sections. The Shepperton abutment works have begun along with drainage diversion works on both sides of the river.

High river flows and some adverse weather in December 2012 prevented completion of welding activities causing some delay in removing the river works protection. As a result of this the project is delayed slightly by 11 days. However, the contract end date remains the same (April 2014) and the current predicted handover of the Thames Bridge remains July 2013 as a recovery programme is developed.

Priority	YTD Result	YTD Target	YTD RAG
Reduce the number of cyclists killed or seriously injured on our roads.	Green	Green	

The project team has been undertaking a comprehensive programme of activities to enable more cycling and to improve cycling safety. This work has included: carrying out a review of current activities; developing improved infrastructure standards; formulating future monitoring arrangements; and reviewing further funding sources. These activities are expected to be complete by early January, and will form a comprehensive basis for the development and delivery of a Cycling Strategy and delivery plan that are due to be agreed by March 2013.

Notably, as part of this work, the project team have submitted a bid to the Department for Transport (DfT) Cycle Safety Fund for funding of over £1.5 million to develop improved cycling infrastructure in priority areas of the county, namely in Walton on Thames and Leatherhead, based on usage and casualty statistics. A key element of the schemes is provision of high quality cycle paths separated from vehicle traffic. Match funding sources have been identified for these schemes, as our preferred schemes. However, in addition, bids have also been submitted without match funding for further schemes: an extended scheme in Leatherhead, a scheme in Egham Causeway, and scheme in Kingston Road, Staines. The total bid including these schemes amounts to £3.2 million. The outcome of the DfT bids is expected in March 2013.

Meanwhile, Bikeability cycle training continues across the county. A successful bid resulted in an increased grant from DfT (up from £60K to £240K) which has enabled Surrey County Council to run level two Bikeability training for 10 year old children with improved instructor to pupil ratios (1:4 instead of 1:6) and hold prices of the training. In addition, in excess of 130 requests have now been received since the online customised training enquiry form was initiated, from which individuals or small groups have received customised training.

Priority	YTD Result	YTD Target	YTD RAG
Improve recycling performance so that it is consistent with the 2013/14 target of 70%.	53%	60%	

Whilst year to date recycling rates continue to rise slowly against the extremely challenging targets, rates have slipped below both monthly and YTD targets in November 2012. There are a number of factors that have affected recycling performance:

The loss of wood recycling outlets has reduced the opportunity for recycling this material. We continue to work with SITA (the Council waste contractor) to identify suitable markets for wood. Meanwhile, much of Surrey's waste wood is being stored whilst we wait for the market to recover.

Rigid plastic recycling outlets have been lost due to falling demands from China and India. We continue to work with SITA to improve quality of the material collected for which there is more market opportunity. Meanwhile, plastic is now going to energy from waste where possible.

We continue to work closely with our waste contractor SITA to identify new recycling opportunities at our Community Recycling Centres (CRCs). SCC already divert well in excess of 80% of material collected from our Community Recycling Centres from landfill either by recycling it or recovering energy from it (by sending it to a waste to energy plant). SITA will soon be commencing the decommissioning of mattresses collected from the CRCs. The metal springs will be extracted and sent for recycling, whilst the foam and fabric will be sent for energy recovery.

Introduction of new collection systems, including food waste, is beginning to increase Waste Collection Authority (WCA) recycling rates. Reigate and Banstead (commencing July 2012 and with phased rollout in subsequent months) and Tandridge (October 2012) implemented new collection schemes which will help to improve recycling rates, but there will be a time lag associated with these rollouts before performance improvements are seen.

Surrey County Council is ranked 9 out of 32 Waste Disposal Authorities in England for waste recycled in 2011/12 [Source: WasteDataFlow]. Surrey has also made especially good progress in the recycling of dry materials (this excludes food and garden waste). Between 2010/11 and 2011/12 Surrey moved into the top quartile, from 13th place to 6th with an increase from a dry recycling rate of 27.4% to 29.1%.

Priority	YTD Result	YTD Target	YTD RAG
Begin construction of the Eco Park to ensure it becomes operational by 2014.	Green	Green	✓

Final planning permission for the Eco Park was granted in March 2012 and a number of conditions were imposed which have to be acted upon before work on the Eco Park commences. These planning conditions involve a wide variety of technical schemes which are now being discharged. Over half of these schemes have been submitted to the Surrey County Planning Authority for approval. The remainder will be submitted by early 2013.

One of these planning conditions is a requirement to move a footpath on the Eco Park site. As objections have been expressed by local residents, a hearing will take place in mid January 2013, chaired by the Planning Inspectorate. All parties have now submitted their statement of case (evidence) in preparation for the hearing.

Due to the time that has elapsed since the Eco Park was first proposed in 2010, SITA (The County Council waste contractor) have been undertaking a further procurement process to appoint an Engineering, Procurement and Construction (EPC) contractor. As part of this, because the original technology provider for the gasification plant is no longer available an alternative one will need to be appointed. This change of provider will require variations to the existing environmental permit and planning application. Surrey County Council will be working with SITA to process these variations.

Whilst the procurement process is still underway, SITA have chosen their preferred bidder for the EPC contractor.

Surrey County Council's waste contract with SITA also needs to be amended in order to deliver the Eco Park. Therefore, Surrey County Council is working with SITA and its advisors to update the contract and related financial model. Some delays in updating the financial model have been experienced, and a report will be submitted to the Cabinet on the contract variation once the required due-diligence has been completed.

Change & Efficiency

Priority	YTD Result	YTD Target	YTD RAG
Support our local economy by driving 50% of our spend through Surrey suppliers.	50%	45%	

This indicator is reported on a six monthly basis for the previous twelve months, looking at spend with suppliers in Surrey post-codes. The end of year performance for 2011/12 was at 41.6%.

The improvement in quarter two reflects new contracts, as well as an analysis of the supply chain for all contracts over £500k to identify situations where the supplier's invoice address is a non-Surrey processing centre but the delivery itself is within the county, and where larger suppliers who are not themselves Surrey-based actually pass much of what we spend with them on to Surrey-based sub-contractors.

Priority	YTD Result	YTD Target	YTD RAG
Deliver £25m of savings through better management of our suppliers and joining up our procurement spend with partners across the South East region.	£17.8m	£15.0m	

This indicator remains on track for delivery against target, with savings from a number of significant projects in the pipeline remaining to be signed off by year-end.

Priority	YTD Result	YTD Target	YTD RAG
Reduce CO_2 emissions and energy usage from Council buildings by 21% from the 2009/10 baseline of 35,417,941 kWh.	13.20%	16.50%	

Energy and CO_2 reduction performance has dropped marginally due to the cold weather during September 2012. Energy performance remains on target and CO_2 marginally behind target. It is important to note that both Energy and CO_2 reduction levels are above the original reduction targets set and the CO_2 reduction only marginally behind the stretched targets agreed by Cabinet.

There has been progress with the energy and carbon reduction programme and key projects such as the new Primary Data Centre will significantly cut energy use.

Priority	YTD Result	YTD Target	YTD RAG
Identify and develop opportunities to maximise the use of assets to support regeneration projects and the economic growth agenda in partnership with external organisations for the benefit of Surrey residents.	Green	Green	✓

Eight viability studies and three feasibility studies are now in progress, one of which (Knowle Green) has the benefit of being granted 'Pathfinder' status by Department for Communities Local Government in January 2012.

Two of the partnership projects have now passed through the Viability and Feasibility stages and are on target for completion before 31 March 2013.

Priority	YTD Result	YTD Target	YTD RAG
Delivery of the Surrey Primary Data Centre and a single IT Network (UNICORN) project that will unify Surrey public services and deliver Superfast Broadband.	Green	Green	✓

Migration of County Hall Data Centre services to the new Primary Data Centre (PDC) in Redhill was completed successfully in November 2012. The whole SAP server environment has also been brought in-house to the Secondary Data Centre during this period and will migrate over to the PDC in the new year. Discussions are advancing with District and Borough colleagues, as well as Health, Higher and Further Education (HFE) and Police colleagues regarding migrating their services with Guildford Borough Council expected to migrate first.

Unicorn Network - work has progressed rapidly post contract signing with the core network build completion plus a number of pilot sites by January 2013. The initial order includes all 11 Surrey Districts and Boroughs and the project is fully on track for completion by end March 2013. Broad discussions are being held with a range of partners from different sectors within Surrey and Berkshire regarding their future use.

Priority	YTD Result	YTD Target	YTD RAG
Reduce reliance on government grant and council tax for future funding.	Green	Green	✓

A Funding Strategy has been developed to support the Financial Strategy which underpins the Corporate Strategy aimed to deliver, over the longer term, "diversified sources of funding that reduces the Council's reliance on council tax revenue and increases our resilience against future financial challenges."

Although the programme is being led by Finance, and sponsored by the Chief Finance Officer, engagement with experts across several Services is key to maximising opportunities.

The programme of work combines a wide range of work streams which fall into three main themes:
a) Protecting our existing funding base
b) Developing alternative sources of funding
c) Improving financial awareness, training and reporting.

There are a number of drivers that have created a need to deliver this vision, and the emphasis in 2012/13 is to develop the framework, direction and targets for delivery over the current Medium Term

Financial Plan period (2012-2017)
a) to prevent any erosion of our core sources of funding (Council Tax, School Funding and Government Grant) jeopardising the future financial resilience of the organisation and prohibiting the organisation pursuing its long term Financial Strategy
b) to develop an organisational culture that focuses equally on funding sources as spending pressures. The aspiration is that it becomes 'normal' to focus on funding
c). to address the mis-match between the size of the Council's budget and the relatively low level of income from fees and charges
d) to provide a direct link to the Financial Strategy objectives (as agreed as part of the 2012-17 budget report at Council in February 2012), in particular:
- to continue to contain cost pressures through continuing to drive the efficiency agenda;
- to continue to maximise our investment in Surrey.

Significant stakeholder engagement and political support will be required to enable the delivery of this programme over the long term, which includes bringing together significant work already being delivered across the organisation which supports this agenda.

Programme progress is being reported through a variety of governance arrangements, including Change and Efficiency Leadership Team, Cabinet, Audit and Governance Committee and Overview & Scrutiny Select Committee.

Priority	YTD Result	YTD Target	YTD RAG
Continue to develop and deliver income and efficiencies through partnership working and our business solutions offer.	Green	Green	✓

We are currently in detailed discussions with a number of public sector organisations for the provision of back office functions. A project team has been established to ensure that any partnership arrangements that we enter into are successful.

The partnership arrangements with East Sussex and Hampshire are progressing well. A paper outlining a development in the partnership relationship with East Sussex County Council for the delivery of Shared Services was approved by Cabinet in December 2012.

Priority	YTD Result	YTD Target	YTD RAG
Increase the number of internship and apprenticeship opportunities within Surrey.	77	75	✓

The target for 2012/2013 is 100, with 20 (20%) of this target coming from either Looked After Children or employability and/or mental health background.

The result of 77 relates to the period 1 April to 14 November 2012 and is inclusive of our permanent staff. We are currently recruiting to six vacancies.

The number from either Looked After Children or employability and/or mental health background is currently five and below the stated target at this time.

Chief Executive's Office

Priority	**YTD Result**	**YTD Target**	**YTD RAG**
Increase our understanding of the needs and aspirations of Surrey's residents and their differing experiences of Council services, including establishing a research programme and increasing the use of Surrey-i.*	Green	Green	✓

- All agreed research programme milestones for quarter three have been achieved. These included:
    - Troubled families data analysis. This was part of a programme to identify families in Surrey with complex needs including parents who are not in employment or children that are not attending school.
    - Planning and management of a public consultation on the Council's budget. Over 700 people completed the survey including residents, staff and Members. The results will be used in budget setting discussions.
    - Management of a welfare reform qualitative research programme. The objective of the research was to identify the impact that reform of the welfare system may have on vulnerable residents. All fieldwork has been completed and the findings will be used to inform policy development.
    - The latest Census 2011 release was analysed and published on Surrey-i in December. New data that was released included profiles of ethnicity and religion and health and social care data.
- Additional pieces of research have been undertaken as part of the research programme including:
    - Resident insight for the collective energy switching scheme (a scheme designed to secure a better energy deal for Surrey residents to save them up to £250 a year on their energy bills).
    - Customer insight to improve understanding of residents who use the Surrey countryside and are on the Countryside Service's mailing list.

There were 5,339 unique visitors to Surrey-i between 1st October and 29th November 2012. This is approximately 300 more unique visitors compared with the same period last quarter (5,051)

Priority	YTD Result	YTD Target	YTD RAG
Preparing for the next Council, beyond the 2013 elections, and achieving the SE Charter Plus for Elected Member Development.	Green	Green	✓

A Members' Survey was sent to all Members in mid-October, which closed on 12 November 2012. The survey was completed by 29 Members (36%) and the responses are being analysed to inform the way we support Members, including the timing and content of learning and development activities for the new Council.

The Charter Plus award is the more advanced award on the Charter for Elected Member Development. The Charter for Elected Member Development helps Councils to adopt a structured approach to Member development and to build Elected Member capacity. The Council achieved Charter status in the last financial year, and is aiming for Charter Plus status to further develop and improve Member development arrangements. As part of its action plan towards achieving Charter Plus status, the Member Development Steering Group (MDSG) will be reviewing the Member Development Strategy at its next meeting, as well as agreeing a format for Personal Development Plans for Members.

The Council is making preparations for the newly elected administration following the County elections in May 2013. The MDSG has approved plans for a pre-election open afternoon for prospective councillors and a general induction timetable.

Priority	YTD Result	YTD Target	YTD RAG
Working with Directorates and partners to complete the three-year Public Value Review programme.	Green	Green	✓

The Council's Public Value Review (PVR) programme was launched in 2009 to take a systematic and focused look at the Council's services and functions over a three-year period. The objective was to improve outcomes for residents whilst delivering better value for money.

The PVR programme was formally closed by the Cabinet on 27 November 2012. A closing report was produced, outlining the programme's achievements including:
- Forecast delivery of £279m savings for the Council by 2015/16;
- 29 reviews completed covering almost all Council activity;
- Estimated £10m saving through Council staff and Members carrying out reviews themselves, thereby avoiding consultancy costs.

Progress in the implementation of recommendations from the PVRs will continue to be monitored by Directorate Leadership Teams and through the Council's finance, performance and risk management arrangements. Select Committees will also play a key role in tracking improvements and savings via monitoring and scrutiny.

The PVR closing report was circulated widely including to Members, Ministers, Surrey MPs, partners and think tanks.

Priority	YTD Result	YTD Target	YTD RAG
Ensure rural communities have access to services through new technologies by driving delivery of Superfast Broadband in the least accessible parts of Surrey.*	Green	Green	

EU State Aid approval was secured for the Council's Superfast Broadband (SFBB) project on 21 November 2012. As the project is partly funded by the Council and national government, the project was subject to EU competition law and the European Commission had to approve the project. This means that approximately 90,000 premises that were not included in plans by the private sector to upgrade the national broadband infrastructure will be able to proceed with the project and can now move forwards with the implementation phase.

A joint project team of officers from the Council and BT has been working together in anticipation of State Aid approval and is now established in a Programme Management Office based in County Hall. The team is also joined by the Council's new SFBB Programme Director to oversee implementation of the project. Work will begin in 2013 on the survey work and site preparation to commence installation of the SFBB infrastructure.

Priority	YTD Result	YTD Target	YTD RAG
Working with the Voluntary, Community and Faith Sector to design new ways to deliver shared outcomes for individuals, families and communities, including increasing volunteering rates across all of Surrey's communities.*	Amber	Green	

The Council has agreed the outcomes that will support an effective voluntary, community and faith sector (VCFS) through close working with VCFS, District and Borough Council and Health partners. A key element of the outcomes focuses on increasing volunteering. The aim of thee new approach is to support an effective and sustainable VCFS infrastructure in Surrey.

Following widespread consultation and engagement with partners, the Council has agreed proposals to fund infrastructure organisations in 2013-14 in a way that provides maximum financial stability, maintaining funding as close as possible to 2012/13 levels. Detailed work is underway with District and Borough Councils, Health and VCFS organisations to design a new outcomes-based performance management framework for implementation from April 2013. This will provide a strong evidence base of the delivery of the outcomes, including volunteering, through more timely and proportionate reporting.

The Council has published a draft refresh of its 'Framework for working with the VCFS' which was originally published in 2010. This is to bring it into line with the Council's Corporate Strategy and ensure the principles remain relevant and drive continued improvement in the way the Council manages relationships with the VCFS. The draft refreshed Framework is currently available for consultation and a final version will be published in February 2013.

Priority	YTD Result	YTD Target	YTD RAG
Working with Directorates and partners to find ways of using social media to improve service delivery and public Involvement.	Green	Green	✓

There has been a consistent rise in the use of social media as a means of involving the Surrey public in issues that are important to them, such as winter preparations and flooding advice. There were 22,000 views of the Digital Press Office, while the three major Twitter accounts all saw a 13% increase in usage. For example:

- Surrey News Twitter followers increased by 742 from the last quarter to 6,434
- Surrey Matters Twitter followers increased by 690 to 5,948
- Go Surrey Twitter following increased by 275 to 2,705

The most significant news tweet was about flooding advice (circulation of 42,000) and resulted in the Local Government Minister, Brandon Lewis, becoming a follower. Media-related work also increased interaction with key opinion-formers, including the Guardian's education editor and the British Association of Social Workers.

Social media are increasingly important elements of resident-focused campaigns run by the Communications team to support different services, offering a two-way mechanism to engage residents. Throughout October and November 2012 the Surrey Matters Twitter feed had 311 retweets and 438 @mentions. The most popular Twitter topics were around National Adoption Week (64 clicks) and Walton Bridge (62 clicks to the live webcam and 225 views of pictures). Alcohol Awareness Week received 63 clicks and 22 retweets, reaching more than 52,000 people.

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Quarter Three 2012/13 Business Report

Annex 3

One County, One Team:

People Strategy 2012-2017

January Progress Report

Report of:	Ms Denise Le Gal, Cabinet Member for Change and Efficiency
Lead Officer:	Carmel Millar, Head of Human Resources & Organisational Development

The people strategy 2012-17 sets the direction for people, culture and performance over the next five years. The strategy is pivotal in helping us attract and retain talent. This report complements the Q3 Cabinet scorecard commentary and provides an update of the progress on implementing the people strategy agreed on 29 May 2012. Establishing the Strategy and aligning effective targets is an iterative process, therefore small amendments have been made to previous versions of the Strategy in order to improve the overall reporting.

1. Strategic direction

1.1. Our people strategy aims to enable everyone to reach their potential so they can give their best for the people of Surrey.

2. Progress and focus

2.1. A programme board is in place attended by Change and Efficiency Directorate Leadership Team and SCC's Head of Communications. The focus of the board will include monitoring and advising on monitoring and engagement.

2.2. Our progress is measured against the twelve people strategy promises, six of which relate to the outturn from the last employee mini survey carried in September 2012. This survey was sent out to 3610 employees and had a response rate of 45% (1635 employees). The remaining six promises are measured from management information.

2.3. Summary Q4 focus is on: 1) improving the systems we rely on to provide us information and deliver our people development activity and 2) discussing how we can be more supportive of each other.

3. Recommendations

3.1. Cabinet to note progress made against the people strategy promises.

3.2. As many of our promises are measured annually through our employee survey, we propose to monitor and report quarterly progress against information available through our management systems.

Table 1: The People Strategy work-streams

Workforce Development & Performance	• Strategic workforce planning • Employee performance and appraisal • Strategic partnerships
Nurturing talent	• Employee and management development • Coaching • IT competency
My Reward	• Modern reward for recruitment & retention • Career frameworks • Flexible rewards and benefits
Well-being	• Health, safety & well being for all staff • Fairness & Respect • Inclusive culture
Employee Experience	• Smarter tools & systems • Smarter working

Promise:	2012 Result	2012 Target	2012/13 RAG
Everyone will have an effective annual appraisal	70%	80%	!

All eligible employees should have an effective annual review of their performance and a discussion about their development and objectives for the coming year. This promise is measured by the responses to the question in the employee mini survey relating to receiving an annual appraisal in the last 12 months. For information on effectiveness of appraisal, responses to the survey's appraisal usefulness questions are also presented below.

Employees Survey Questions:	2010	2011	2012	2013	2014	2015	2016
Have you had an annual appraisal in the last 12 months	73%	69%	70%	-	-	-	-
How useful did you find it for:	-	-	-	-	-	-	-
My work and responsibilities	71%	74%	79%	-	-	-	-
My future career and development	47%	49%	60%	-	-	-	-
Providing a full and open discussion of my strengths	70%	72%	77%	-	-	-	-
Providing a full and open discussion of my areas for improvement	67%	68%	73%	-	-	-	-
Target/objective setting for the coming year	65%	68%	72%	-	-	-	-

The 2012/13 target (80% of eligible employees) was challenging when profiled against the previous two years' outturns. This challenge was set to reflect the actions completed throughout 2012 which would help get more appraisals carried out: simplified paperwork, practical guidance and flexibility to schedule appraisals during the year.

In response to these results, specific actions are being taken in areas where appraisal take up is lower than average. Where the appraisal process is being regularly used by teams we are getting positive feedback around its benefits. We share this good practice across the organisation.

To support ongoing review and monitoring of appraisal activity, it is vital a fully effective method of recording and reporting on appraisal completion is established due to the lack of functionality relating to appraisal recording in SAP that was discovered earlier this year. An interim solution is currently being developed to support the next appraisal promotion and review which should ensure it is easy for managers to record results and for accurate reports to be prepared and submitted for quarterly updates.

Promise:	2012 Result	2012 Target	2012/13 RAG
Everyone will have a development plan linked to their goals and organisational goals	72%	70%	✓

Employee Survey Questions:	2010	2011	2012	2013	2014	2015	2016
I have had the opportunity to discuss my career development in the last 12 months	not	asked	56%	-	-	-	-
I understand how my work supports the residents of Surrey	not	asked	88%	-	-	-	-
Net Results:	-	-	72%	-	-	-	-

This indicator is about employees having opportunities to discuss their development and how it links to their and the organisation's goals, this may be considered part of, or outside the appraisal process. The development plan is an outcome of these discussions, normally agreed and monitored with an individual's line manager. This promise will be measured by the responses to two new questions outlined in the table above. The target was set at 70% in consideration of the focus across the organisation on ensuring activity makes a genuine difference to residents.

As a whole, the organisation has been undergoing significant change with restructures in all areas as a result of needing to change direction and ensure fitness for future challenges. Though appraisal figures indicate development plans are being set, restructures have created uncertainty for some employees and cohesive plans linked to organisational goals may have suffered.

Equally, there have been strong messages from leaders around our direction of travel, why such direction is necessary and how such changes reflect on the residents we work for. The excellent result we see in employees understanding how their work supports residents of Surrey is indicative of the clear 'One Team' approach the organisation is developing and the strong communications that ensure all of us understand how our work affects residents.

Development of this promise will be focused alongside the appraisal activity as well as ensuring continued communication relating to the link between employees and residents.

Promise:	2012 Result	2012 Target	2012/13 RAG
Every team to have regular team meetings or discussions	78%	75%	✓

Employee Survey Questions:	2010	2011	2012	2013	2014	2015	2016
In the last 12 months, how often have you had a team meeting (in the last three months)?	not	asked	80%	-	-	-	-
My immediate line manager/ supervisor encourages us to share good ideas and create innovative solutions	72%	77%	76%	-	-	-	-
Net Results:	72%	77%	78%	-	-	-	-

Having opportunities for informal learning, knowledge sharing and problem solving is key for high performing teams. This promise is measured by the responses to two questions in the employee survey as tabled above. One question is new and therefore provides no previous historical comparisons.

In the STARS Programme, we have the following offers to support team performance & the One Team ethos:

All staff

ILM award effective team skills (level 2)

ILM award in workplace coaching (level 2)

Coping positively with change

Dealing with challenging situations

Manager Development

Building team effectiveness (bespoke)

Identify and resolve stress in teams

Looking after staff during change

Building organisational relationships (part of people management pathways)

Managing performance through people (part of people management pathways)

Senior Leadership Programme

Leading people through change; Building personal resilience; Effective personal leadership; Strategic and change leadership.

ICONIC

Additional areas under development in 2013:

Innovation workshop
Aspiring Iconic

It is worth noting that ongoing restructures have led to a degree of uncertainty; however there have been high levels of consultation throughout and managers have been encouraged to discuss issues as openly as possible with employees. Added to this, a culture of open dialogue has been promoted from interventions ranging from the coaching programme to employee's use of Chat Zone.

Promise:	2012 Result	2012 Target	2012/13 RAG
Everyone will have regular time with their manager focused on their performance	62%	70%	!

Employee Survey Question:	2010	2011	2012	2013	2014	2015	2016
My immediate line manager/ supervisor meets with me regularly to talk about my performance	60%	61%	62%	-	-	-	-
Net Results:	60%	61%	62%	-	-	-	-

The organisation has committed that all employees are entitled to regular discussions regarding their performance. This is congruent with the quality framework whereby performance at an individual and project level should be reviewed and feedback sought in order to improve individual and organisational performance.

This promise is measured by the responses to a question in the employee survey as tabled above. The 2012 target of 70% was based on a stretch target from previous results for this indicator. This reflects the work to improve appraisal and development plan completion and to build up a coaching culture across the organisation.

The appraisal promotional work has raised the focus of performance and the need for all colleagues to have conversations about their work and how they are doing. Coaching development is also playing a key part in giving managers the confidence and ability to raise subjects they have previously found difficult to discuss.

To accelerate positive results, it is proposed a dialogue is initiated to increase the focus on positive performance conversations being part of how we get things done. The completion of the PVRs should also assist in establishing a more secure and confident environment for discussions.

Promise	Q3 YTD Result	Q3 YTD Target	Q3 YTD RAG
Everyone will have the equivalent of 20 hours a year training and development	9 hours	12 hours	!

Management Information:	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Number of hours per annum spent in training and development per FTE	not	recorded	9 hrs	-	-	-	-
Net Results:	-	-	9 hrs	-	-	-	-

This promise is reported from management information taken from the organisation's business systems. The year to date target is 12 hours which is part of the overall 20 hours for 2012/13. This will then increase incrementally to 36 hours by 2017.

The reported figure of nine hours significantly underestimates the actual levels of learning and development (L&D) being carried out. It is estimated that at least an extra 40% of unrecorded training activity takes place (coaching, mentoring, Continuous Professional Development, away days, shadowing, e-learning) Currently, our new learning system (referred to as the Dynamic Learning Environment) is being implemented, which is leading to learning data being held in separate places and often, not entered onto systems in anticipation of the new offering. For these reasons it is difficult at this time to provide a realistic indication of time spent on L&D per FTE but over subsequent months, it is hoped a clearer picture will emerge.

A significant contributor to this is the new Organisation and People Development Service (OPD) is now in full operation and a lot of work has been completed this quarter to assess, capture and understand the gaps in our current learning and development offer to the organisation. Communications campaigns have been discussed to promote what we do have in place to the appropriate target audiences to promote and encourage further participation. A large number of the classroom based training we currently offer has now been converted so that it can also be delivered as e-learning, or may use a combined use of both methods to support accessibility of this learning.

Activities have been initiated to ensure we are regularly reporting on all classroom based training and work continues to drive forward the delivery of our new Dynamic Learning Environment in January 2013. This will provide an efficient way of monitoring completion of not only classroom training but all forms of blended learning and training support. Once this is complete recording of completion of e-learning training is expected to boost the number of hours training and development undertaken.

A final consideration for the lower than expected YTD result may also be attributable to OPD completing its restructuring with new roles being defined and vacancies filled. As the team has established itself by the end of the year, it is now in good shape to focus on improving this metric for next quarter.

Going forward it will be possible to monitor and report on this metric on a quarterly basis, provided ongoing progress relating to course uptake and employee development.

Promise	Q3 YTD Result	Q3 YTD Target	Q3 YTD RAG
Every manager will undertake the people management development modules	541 days of learning	790 days of learning	❌

Management Information:	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Number of days of learning carried out by managers	not	recorded	541 days	-	-	-	-
Net Results (days):	-	-	541	-	-	-	-

This promise is measured from management information. The target for the end of 2012/13 is 1,360 management development training days for a management cohort of approximately 550 managers. The overall target for this five year project is 5,838 days. The YTD target is 790 which as the table demonstrates, has not been achieved.

A key issue identified in progressing this promise is ongoing dialogue with managers relating to the importance of accommodating training and development within their working schedules. Another factor is likely to be a similar lack of recording of information, as demonstrated by the 20 hours per year L&D promise.

As part of the Management Development project, work is being undertaken to review and improve this. Initially work is being done to develop a new communications plan for the modules in order to raise awareness of the courses, the requirement upon managers to complete the modules, and to promote the prestige of gaining an externally accredited qualification as part of their development at SCC. The aim of this is to increase take up for Q4.

Additionally, work is underway looking at identifying managers who have achieved an equivalent competency level through alternative means, for instance with a previous employer, in order to recognise their level of proficiency without requiring them to duplicate comparable training.

Leadership Teams in Directorates will be monitoring that managers attend these courses.
Consideration for the lower than expected YTD result may also be attributable to the OPD service completing its restructuring with new roles being defined. Reducing the drive to market and promote delivery against this promise.

Note: The coaching element of this promise is now reported as part of 'Everyone will receive coaching training' to ensure consistency of reporting.

Promise	Q3 YTD Result	Q3 YTD Target	Q3 YTD RAG
Every manager will receive coaching training	267 people	230 people	✓

Management Information:	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Advanced Coaching	no record	227	-	-	-	-	-
ILM level 3 Workplace coaching	no record	40	-	-	-	-	-
Coaching e learning	not started	not started	-	-	-	-	-
Net Results:	-	267	-	-	-	-	-

Our progress towards the year end targets is strong on manager's training (meets quarter 3 target). Although reporting focuses on managers, it should be noted that coaching training is also available for non-managers.

Three further cohorts started in this quarter for both Advanced Coaching for Change and ILM level 3 in Workplace Coaching. Further coach training programmes are now being commissioned for 2013/14.

An evaluation of the coach training programmes was completed and presented to Corporate Board. Some key highlights were:

- 95% of past delegates said they now often use a coaching style in informal conversations
- 84% feel that they have more effective and honest conversations with others
- 83% feel that their own performance has improved as a result of the course
- 73% feel that making use of coaching skills and knowledge helps Surrey County Council to improve its services to residents

Our pool of internally trained coaches was initially launched incrementally through face-to-face communications with each directorate in a six weekly cycle. In October this approach was started with the launch to the Chief Executive's Office and take up was slow. We evaluated this approach, and concluded that it should be developed into a broadcast campaign to all directorates. This will begin in December.

Note: This promise now includes all coaching to ensure consistency of reporting. Previously the managers promise was included in 'Every manager will undertake the people management development and coaching modules'.

Promise	Q3 YTD Result	Q3 YTD Target	Q3 YTD RAG
Everyone will be trained to a minimum level of IT competency	not live as yet	-	-

Management Information:	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
TBA	no	record	Not live as yet	-	-	-	-
Net Results:	-	-	-	-	-	-	-

The current focus of this promise is to perform a diagnostic assessment of IT competence across the entire organisation. Information collected from this diagnosis will then be used to tailor appropriate training to enable everyone to make the most of the infrastructure, systems and applications that are available.

HR&OD are currently working with the diagnostic tool provider to deliver an initial pilot exercise to assess 25 employees with a second larger pilot of 150 employees assessed by the end of March 2013. The initial pilot has uncovered a number of amendments that are required to ensure the tool is fit for purpose and those amendments are being currently being carried out before the second pilot commences. Following completion of the pilots the assessment will be rolled out to the whole organisation on an incremental basis. This will ensure the resources to provide follow up support can be effectively deployed as the scheme is rolled out. The aim is all assessment and training related to this promise is completed by March 2015.

Promise:	2012 Result	2012 Target	2012/13 RAG
Everyone will have a fair and manageable workload	57%	80%	

Employee Survey Question:	2010	2011	2012	2013	2014	2015	2016
I feel I have a fair and manageable workload	not	asked	57%	-	-	-	-
Net Results:	-	-	57%	-	-	-	-

This promise is measured by the responses to one question in the employee survey tabled above.

The Health & Safety Executive recommends that employees in all organisations have a well designed, organised and managed workload. Stress is the biggest cause of sickness within the council and there is a direct correlation with an unmanageable workload and the amount of stress experienced. Our Employee Assistance Programme, provided by Workplace Options, is a 24 hour, confidential service that can support staff and their families. The monitoring of the service indicates that 70% of all contacts are in relation to personal matters and 30% of all contacts are in relation to work related matters. Further work is required to identify the level of work related stress and non-work related stress in relation to absence. As all mental health is currently reported in the stress absence category, there is a requirement to create additional mental health categories to record this type of absence more accurately. Managers are responsible for assessing the impact on employees such as longer working hours over long periods and signs of behaviour changes (e.g. frustration, resentment against their manager and colleagues or in some circumstances anger).

An excessive workload can also have an impact on the employee's longer term health and well-being - spending less time with their family, constant fatigue and sleeplessness. It is likely that the performance of the employee and the team will be adversely affected where workload levels remain too high for a sustained period. An employee may no longer cope with this sustained workload pressure; regularly complaining to their manager and colleagues and this ultimately could lead to long term sickness. Therefore there are many direct and indirect consequences to having an unmanageable workload.

Conversely there are many benefits resulting from a manager and employee reviewing whether there is a fair and balanced workload. The employee will have clarity about their role and responsibility and will have a greater appreciation about how their accountability and how their role can support the service. This is also likely to lead to greater engagement and stronger collaboration with colleagues within and between teams. If the workload is balanced the employee will have more time to prepare and plan as well as to develop relationships to be more effective and add more value. Ultimately a regular assessment of workload will improve the wellbeing of the employee, improve teamwork and performance.

The HSE has produced a number of Standards that support the importance of undertaking workload assessments. In particular the Management Standard identifies that every organisation will provide employees with adequate and achievable demands in relation to the hours of work and the number of deadlines. In addition the manager will assess how the employee's skills are matched to job demands and how the employee's concerns about the work environment are addressed.

To improve this area, discussions are being carried out relating to how we prioritise and manage work more effectively. It is also recommended that leaders within the organisation play an active role in considering priorities and provide clarity around what work is vital and what activity will be curtailed, especially as resources become increasingly constricted. This work is continuous and on-going.

Promise:	2012 Result	2012 Target	2012/13 RAG
We will help each other and act early when someone needs extra help and support	78%	80%	!

Employee Survey Questions:	2010	2011	2012	2013	2014	2015	2016
I receive timely help and support I need from my colleagues	87%	88%	79%	-	-	-	-
My immediate line manager/supervisor creates a workplace where I feel supported	68%	71%	76%	-	-	-	-
Net Results:	76%	80%	78%	-	-	-	-

This promise is about all of us taking responsibility for each others' well-being. We know from previous employee surveys that we are above the IPSOS Mori top 10 organisations as regards 'I am treated with fairness and respect'. However, it is not everyone's experience and harassment and bullying is a concern for some of our employees which is not acceptable. This promise will be measured by the responses to two questions in the employee survey as tabled above.

Achieving nationally recognised high standards in this area is due to a range of support offerings we have successfully developed. These include nominated Local Workplace Fairness Champions to support any employee experience unfairness in any form at work; our Employee Assistance Programme as a confidential means of receiving telephone and face-to-face counselling or support on both work and personal matters ranging from emotional to legal and financial; a pool of trained mediators and restorative justice practitioners to advise all parties on formal and informal employee cases; confidential support for managers via HR and an advice line; STARS courses and on-line tools and to improve work load management, prioritisation and resilience; and team help check sessions for confidential group discussions relating to working practices and environment. Added to these interventions, coaching has proved to be a very effective medium for addressing issues such as minor personality clashes between individuals which has contributed greatly to people feeling supported and preventing initially minor incidents escalating.
.
New projects are currently in the scoping, planning and delivery stages namely : Employee Medical Health checks (working title): Give all employees access to on-site comprehensive health checks, comprising, Lifestyle, BMI, blood pressure, cholesterol, blood sugar etc and also including a screening questionnaire on stress and mental health indicators. The pilot will be trailed in late January 2013, with full rollout expected from February. Time To Change Surrey (working title): A broad project to develop employers to become positive about mental health, using various initiatives and promotions. The national Time To Change campaign pledge will be taken in January, which includes a series of supporting actions. CAE Experiential Survey - Culture and Behaviours: In response to the recent Employee Mini-Survey, a survey was launched for all CAE employees, to explore culture, support and behaviour, focussing on leadership. The Survey was sent out on the 14 November for 2 weeks until 28 November. A series of local action plans, initiatives and activities are currently being planned.

Promise	Q3 YTD Result	Q3 YTD Target	Q3 YTD RAG
We will maximise smarter working	48.5%	50%	!

Management Information:	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Information collected – percentage adopting 'mobile profile'	not	recorded	55%	-	-	-	-
Net Results:	-	-	55%	-	-	-	-

This indicator represents the percentage of those, whose information we have collected, have adopted a "mobile profile" in how they work. This is part of the Making a Difference programme and relates to the work profiles (Dweller, Team Resident, Venue User, Networker, Roamer, Home worker).

IMT have now rolled out over 4,000 mobile devices to enable the shift in staff to work in a more flexible way. There is now an increased focus on realising the benefits of the new technology and helping teams make the shift and changes in behaviours to more flexible ways of working. This is being done and supported through the use of the Smarter Working Managers from the Transformation Service working alongside teams.

Q3 is the first period for the year when the target for staff to work in a more flexible way has not been met. The position is being reviewed across the services to assist them further in moving forward and achieving the year-end target.

Promise	Q3 YTD Result	Q3 YTD Target	Q3 YTD RAG
Everyone will have the right equipment and training to enable them to do their job	-	-	-

Management Information:	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
TBA	no	record	-	-	-	-	-
Net Results:	-	-	-	-	-	-	-

The extensive roll out of laptops is a clear acknowledgement that people want to use this type of mobile devise to do their job effectively. As staff gain in confidence using new technology and linked to the Promise, of staff being trained to a minimum competency standard, services will identify other potential mobile devices that will continue to improve the services that they provide. In developing this detail, the services will be informing the council's IT strategy for effective and innovative service delivery.

The success of this Promise will be achieved through a number of measures:

a) The number of staff taking part in IT competency training (see separate promise)
b) The number of test projects of new technologies that become mainstream for service delivery
c) A further increase in the number of lap tops or similar devices issued will also be a measure of the success that staff have the right equipment for their jobs.

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Quarter Three 2012/13 Business Report

Annex 4

Leadership Risk Register

as at January 2013

Report of:	Mr David Hodge, Leader of the Council
Lead Officer:	David McNulty, Chief Executive

Leadership risk register as at 2 January 2013

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Existing controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)	Committee review
L1	ASC2 CAC1,8,15 CAE9 CSF2 EAI6,7	**Medium Term Financial Plan** - Failure to achieve savings in the Medium Term Financial Plan (2012-2017) and additional service demand leads to increased pressure on service provision and damage to reputation.	**High**	- Monthly reporting to Corporate Board and Cabinet on the forecast outturn position to enable prompt management action - Generation of alternative savings and income - Adequate provision through the risk contingency	Corporate Leadership Team / Sheila Little	David Hodge	**High**	Council Overview & Scrutiny Committee - on each agenda Adult Social Care SC: - 30 November 2012 (Budget monitoring) Children & Families SC: - 19 December 2012 (Budget monitoring)
L14	ASC5 CAE17 CSF22	**Future Funding** - Gradual erosion of the council's main sources of funding (council tax and the proposed new method of calculating formula grant) upon which the council is highly dependent and reductions in other funding (for example in relation to academy schools) leads to financial loss, damage to reputation and failure to deliver services.	**High**	- Continued proactive modelling and horizon scanning of the financial implications of local government funding changes and subsequent review of Medium Term Financial Plan (2012-2017) assumptions as relevant - Close working with district and borough colleagues to shape the direction of council tax localisation and business rate retention policies as well as active responses to government consultations - Development of longer-term funding strategy to develop alternative sources of funding - Not withstanding actions above, there is a high risk of central government policy changes impacting on the council's financial position.	Corporate Leadership Team / Sheila Little	David Hodge	**High**	Audit and Governance Committee: - 3 October 2012 (Funding Strategy update) Adult Social Care SC: - 19 September 2012 (Social Care funding) Council Overview & Scrutiny Committee: - 5 December 2012 (Funding Strategy)

Leadership risk register as at 2 January 2013

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Existing controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)	Committee review
L7	CAE12 EAI1,2	**Waste** - Failure to deliver key waste targets (including key waste infrastructure) could lead to negative impact	**High**	- This is a priority issue for the service manager with strong resourcing and project planning in place that is monitored at board level. - Further work with the Districts and Boroughs continue, to review waste plans to achieve the targeted increase in recycling. - Notwithstanding the controls above, there is still a risk that delivery could be delayed by external challenge and levels of recycling are strongly influenced by district and borough collection arrangements which are not within SCC's direct control. Although the council continues to work in partnership to achieve the desired outcome.	Trevor Pugh	John Furey	**High**	Environment & Transport SC: - 1 March 2012 (Waste Partnership)
L11	ASC12 CEO7 CSF18	**Information Governance** - Failure to effectively act upon and embed standards and procedures by the council leads to financial penalties, reputational damage and loss of public trust as a result of enforcement action taken by the Information Commissioner.	**High**	- Secure environment through the Egress encrypted email system - Internal Audit Management Action Plans in place that are monitored by Audit & Governance Committee and Select Committees - Ongoing communications campaign and training - Monitoring of compliance by Quality Board and Governance Panel - Despite the actions above, there is a continued risk of human error that is out of the council's control.	Corporate Leadership Team	Denise Le Gal	**High**	Council Overview & Scrutiny Committee: - Monitored through internal audit reports

Leadership risk register as at 2 January 2013

Owner: David McNulty

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Existing controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)	Committee review
L3	CAC2,5,12 CAE3 CEO3	**Business Continuity, Emergency Planning and the event of industrial action** - Failure to plan, prepare and effectively respond to a known event or major incident results in an inability to deliver key services	**High**	- The Risk and Resilience Steering Group meets regularly to coordinate and lead on strategic resilience planning. - The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. -Services have adequate and up to date business continuity plans. - Continued consultation with Unions and regular communication to staff.	Corporate Leadership Team	Kay Hammond	**Medium**	Council Overview & Scrutiny Committee: - date tbc (Business Continuity)
L2	ASC4,9 CAE1,2,16 CAC13 CSF4 EAI4,8	**Fit for the Future** - Failure to deliver major change programmes and drive effective partnership working leads to the organisation not being fit for purpose, an inability to meet efficiency targets, improve performance and drive culture change	**High**	- Delivery of change is tracked at both directorate and Corporate Board level with key indicators included in the Quarterly Business Report to the Cabinet. - Communications, engagement and the STARS programme are designed to respond to identified issues and gaps.	Corporate Leadership Team	Cabinet	**Medium**	Council Overview & Scrutiny Committee: - 14 November 2012 (Procurement Partnership)
L9	ASC11 CAE13 CSF8	**NHS Reorganisation** - The Health and Well Being Board does not provide the necessary whole system leadership to implement the Health and Social Care Act.	**High**	- SCC identified as a National Leader in implementing the Health and Social Care Act. - Transition to new system is being managed well with strong joint leadership arrangements in place	Sarah Mitchell	Michael Gosling	**Medium**	Health Scrutiny Committee: - 15 November 2012 (NHS Surrey)

Leadership risk register as at 2 January 2013 **Owner: David McNulty**

Ref	Directorate register ref	Description of the risk	Inherent risk level (no controls)	Existing controls	Risk owner – Officer	Risk owner – Member	Residual risk level (after existing controls)	Committee review
L4	CAE5,7	**IT systems** - major breakdown and disruption of systems leads to an inability to deliver key services	**High**	- Additional resilience has been brought about by the go-live of the Primary and Secondary Data Centres. - Design and implementation of a new 64 bit Citrix farm is in progress that will bring resilience and performance enhancements. - Work in progress to increase the performance of login/logout times. - UNICORN Network is fully on track for completion by the end of March 2013.	Julie Fisher	Denise Le Gal	**Medium**	Council Overview & Scrutiny Committee: - 16 May 2012 (IT rollout update)
L5	ASC7,16 CSF6,16	**Safeguarding** - avoidable failure in Children's and/or Adults care leads to serious harm or death	**High**	- Appropriate and timely interventions by well recruited, trained, supervised and managed professionals, with robust quality assurance and prompt action to address any identified failings.	Sarah Mitchell / Caroline Budden	Michael Gosling/ Mary Angell	**Medium**	Children & Families Select Committee and Adult Social Care Committee: - on each agenda

Key to references:

ASC = Adult Social Care
CAC = Customers and Communities
CAE = Change and Efficiency
CEO = Chief Executive's Office
CSF = Children, Schools and Families
EAI = Environment and Infrastructure

Movement of risks

Ref	Risk	Date added	Residual risk level when added	Movement		Current residual risk level
L1	Medium Term Financial Plan	Aug 12	High	-	-	High
L2	Fit for the Future	May 10	High	Jan 12	⇩	Medium
L3	Business Continuity and Emergency Management	May 10	Medium	Aug 12	⇩	Medium
L4	IT systems	May 10	Medium	-	-	Medium
L5	Safeguarding	May 10	Medium	-	-	Medium
L6	*Resource Allocation System in adults personalisation*	*May 10*	-	*Aug 12*	*	-
L7	Waste	May 10	High	-	-	High
L8	*Integrated Childrens System*	*May 10*	-	*Feb 11*	*	-
L9	NHS reorganisation	Sep 10	High	Jan 12	⇩	Medium
L10	*2012 project management*	*Sep 10*	-	*Aug 12*	*	-
L11	Information governance	Dec 10	High	-	-	High
L12	*LLDD budget transfer*	*May 11*	-	*Mar 12*	*	-
L13	*2012 command, control, coordination and communication*	*Dec 11*	-	*Sep 12*	*	-
L14	Future funding	Aug 12	High	-	-	High

* Removed from the risk register

SURREY COUNTY COUNCIL

Council Overview & Scrutiny Committee
1 February 2013

MANAGEMENT OF STAFF VACANCIES

1 The Council Overview & Scrutiny Committee considered a report on staffing budgets, numbers, vacancies and associated costs at its meeting in April 2012. As a result, it was recommended that further investigation be carried out into the way staff and vacancy numbers are calculated and managed with the objective of understanding the impact these practices have on budgeting, operational efficiency and hence the actual costs for the organisation.

2 A review was carried out by Zully Grant-Duff and Mark Brett-Warburton on behalf of the Committee. This report sets out their findings and recommendations for the Committee's consideration.

Conclusions:

3 It is recognised that a number of improvements have been made recently to the quality and timeliness of staff monitoring information, in that the Cabinet receives monthly reporting information that provides a picture across the organisation of staff costs and FTE numbers. There is also detailed directorate-level monitoring by Strategic Directors, heads of services, and HR. For some services there is specific monitoring with reference to the optimal organisational structure, and posts within it are reviewed as part of the annual budget process.

4 The Council has put in place a clear process which requires approval of vacancies at Strategic Director level, and this is complied with across all directorates, although these decisions have in some cases been delegated to Heads of Service on the basis that they have the requisite knowledge to manage their operational requirements.

5 Whilst the review identified much good practice in the way vacancies are managed within the County Council, it is felt there needs to be a more robust approach to the way vacancies are categorised and subsequently reflected in the budget.

6 Vacancies are currently reported as either 'live' (i.e. actively being recruited to) or as 'not occupied by contracted FTEs'. This latter gives no indication

about how long the post has been vacant or if there is any intention to recruit to it in the future. The monitoring report presented to Cabinet and the Council Overview & Scrutiny Committee explains that some of those vacancies which aren't being actively recruited to may be filled by bank or agency staff on a short-term basis, although there is no information about the proportion of the posts filled in this way or explanation of the reasons why. As stated in paragraph 17 of the main report, data on agency staff is only monitored from the point of view of budget spend, due to the difficulties in obtaining reliable information in terms of the FTE.

7 There may be several reasons why a decision is made not to start the process of recruiting to a vacancy, including services needing to make short-term budget savings and the desire to avoid recruitment and potential redundancy costs if a subsequent re-organisation of the service is planned or anticipated. This is a prudent approach for managers to take. However, it is important to make a distinction between real savings and what might be considered notional savings, resulting from vacant posts remaining in the organisational structure, but for which there is no need in terms of their being critical to service delivery. It could be argued that the eventual savings if these posts are subsequently deleted are only nominal, as no expenditure was expected against these posts.

8 From the work undertaken, the Task Group concluded that the treatment of vacant positions in the budgeting process could lead to budget reserves since there are no consistent criteria as to what constitutes a vacant position within the organisation.

Recommendations:

The Task Group therefore **recommends**:

(a) That a policy is formulated to define what constitutes a vacant position in the organisation structure.

(b) That criteria are established which vacant positions must meet in order to remain in the organisation structure together with the operating budget allowance.

(c) That the definition and criteria be consistently applied in all services in the management of their business plans.

Report contact: Bryan Searle, Senior Manager Scrutiny and Appeals.

Contact details: 020 8541 9019, bryans@surreycc.gov.uk.

Sources/background papers: None.

MANAGEMENT OF STAFF VACANCIES

INTRODUCTION

1. The Council Overview & Scrutiny Committee considered a report on staffing budgets, numbers, vacancies and associated costs at its meeting in April 2012. As a result, it was recommended that further investigation be carried out into the way staff and vacancy numbers are calculated and managed with the objective of understanding the impact these practices have on budgeting, operational efficiency and hence the actual costs for the organisation.

2. A review was carried out by Zully Grant-Duff and Mark Brett-Warburton on behalf of the Committee. This report sets out their findings and recommendations for the Committee's consideration.

3. The scope of the review was:
   - understanding how vacancies are defined and monitored, and
   - understanding whether staffing and vacancy figures can be formulated as a benchmark for future scrutiny by Select Committees in considering the efficiency of each directorate.

4. Justification or analysis of the management decisions regarding staff and vacancy numbers was expressly outside the scope of this review as these must remain the responsibility of the management teams within each directorate.

5. Recognising that each directorate has unique staffing requirements and pressures, meetings were held with each Stategic Director and representatives from the Human Resources and Organisational Development Service.

DEFINITIONS

6. The County Council uses four categories to describe staff resources:
   - Contracted Staff;
   - Bank/Casual Staff;
   - Agency/Temp;
   - Contractor/Consultant.

   For budgeting purposes the staffing levels are expressed as Full-time Equivalents (FTE) to account for part-time as well as full-time roles. Definitions are set out in **Annexe 1**.

TASK WORK

7. Discussions were held with the five Strategic Directors and the Assistant Chief Executive in order to gain a better understanding of staffing and vacancy issues across the organisation and the specific issues within each Directorate. The findings from those discussions are summarised in **Annexe 2**. In addition, meetings were held with representatives from Human Resources and Organisational Management.

8. Details of the staff numbers and budgets for each of the Directorates are set out in **Annexe 3**.

STAFFING COSTS

9. Staffing costs across the organisation are monitored at Member level on a monthly basis at meetings of the Cabinet and the Council Overview & Scrutiny Committee. The planned establishment costs and Budgeted FTE in the 2012/13 Medium Term Financial Plan (MTFP) are shown in the table below, together with the FTE occupied by contracted staff.

2012/13 (planned)	Staffing cost (£000s)	Budgeted FTE	November 2012 Occupied FTE
Adult Social Care	67,412	2116	1886
Children, Schools & Families	100,561	2663	2506
Customers & Communities	57,043	1474	1467
Environment & Infrastructure	22,355	516	492
Change & Efficiency	35,817	767	774
Chief Executive's Office	8,897	164	174
Central	953 *	0	0
TOTAL	293,038	7700	7299

** This to cover the cost of salary protection (where posts are made redundant and staff are appointed to a different post within the Council on a lower salary point, following the redeployment process). The budget is held centrally.*

10. A breakdown of the staffing figures at directorate-level is set out in **Annexe 3**.

11. At any time the number of actual (contracted) FTE will be less than the Budgeted FTE (in the table above, 401 less). Some, but not all, of those 401 will be filled by agency and bank workers. Where the budgeted FTE unfilled by contracted staff or bank or agency exceeds the allowance made for normal turnover (the vacancy factor) a favourable variance against establishment budget will occur. There is no standard vacancy factor applied to the budget of each Directorate.

12. The control point for establishment cost is budget monitoring of the actual spend compared to the establishment budget. Whatever the source of labour (e.g. contracted or agency staff), the total is monitored against the total establishment budget (see the table in paragraph 15 below).

13. As bank and agency staff are a variable cost, they give flexibility to the organisation to manage work or seasonal peaks and assist management (when the size or shape of the organisation is changing) to complete work without incurring the liabilities of permanent staff. Generally, keeping workforce cost variable is considered to be good practice.

14. In the current circumstances, a range for the contracted staff of between 87.5% and 95% of the total is felt to be desirable. A level higher than 95% is too inflexible with too high a fixed cost, whereas at a level much lower than 87.5% the organisation may start to become too unstable.

15. Actual staffing costs as at the end of September 2012 were as follows:

	Budget £m	Actual £m	%	Variance £m
Contracted		134.7	92%	
Agency		7.1	5%	
Bank		4.7	3%	
Total Staffing Cost	152.0	146.5		-5.5

16. The County Council does not have FTE data for agency staff. Collection of this information has been tried in the past but the data was not reliable and its collection was a huge resource requirement. Many agency workers only work a few hours a week and often over a range of different cost centres - especially in the care services. Obtaining this data from Manpower, or any future agency provider, would be at a cost. The view of both HR and Finance

is that the benefit is not worth the cost, and agency costs should be managed within the overall cash budget.

17. Detailed Workforce Information Reports are produced monthly by HR and Organisational Development and include a set of high level indicators such as staffing levels and costs, which enable performance and trends to be tracked.

VACANCIES

18. There is an inherent ambiguity in the identification of vacancies and whether or not a vacancy is actively being recruited to, or has become superfluous. The core establishment of posts is made up of three components: i. contracted full-time staff; ii. contracted part-time staff; iii. a balance made up of agency, bank/casual and vacant roles. The status of the roles, agency, bank/casual and vacant, collectively making the balance, are designated as either a live post/recruiting or, not-recruiting. The ambiguity arises in defining when a vacant post is not recruiting and no longer required.

19. There is no general consensus between the directorates at what point a vacant post is judged as no longer necessary and deleted, and there isn't a systematic approach for evaluating vacancies and their inclusion in the organisational structure.

PHANTOM VACANCIES

20. During the Summer of 2012, the County Council carried out a 'phantom vacancy' exercise. The purpose of this exercise was to validate the organisational management structure to ensure that all staff are allocated to the correct teams and to identify posts which were still showing in the structure but for which there was no longer an intention to recruit to. Therefore the aim of the project was to ensure that the organisation chart accurately reflects the staffing structures which are actually in place across the County Council, rather than to review the justification for individual posts.

21. In the future, as a result of new integrity reporting processes designed to ensure that staff are recorded against the correct positions, and with potential investment in a new applicant tracking system that integrates with SAP, it is hoped it will not be necessary to repeat the project to the same extent. There are also plans to report to the Recruitment Team on the period of time a position is vacant to see what further assistance they can offer the service recruiting to the post, to help reduce agency costs where agency staff are being used to fill the post.

CONCLUSIONS

22. It is recognised that a number of improvements have been made recently to the quality and timeliness of staff monitoring information, in that the Cabinet receives monthly reporting information that provides a picture across the organisation of staff costs and FTE numbers. There is also detailed directorate-level monitoring by Strategic Directors, heads of services, and HR. For some services there is specific monitoring with reference to the optimal organisational structure, and posts within it are reviewed as part of the annual budget process.

23. The Council has put in place a clear process which requires approval of vacancies at Strategic Director level, and this is complied with across all directorates, although these decisions have in some cases been delegated to Heads of Service on the basis that they have the requisite knowledge to manage their operational requirements.

24. Whilst the review identified much good practice in the way vacancies are managed within the County Council, it is felt there needs to be a more robust approach to the way vacancies are categorised and subsequently reflected in the budget.

25. Vacancies are currently reported as either 'live' (i.e. actively being recruited to) or as 'not occupied by contracted FTEs'. This latter gives no indication about how long the post has been vacant or if there is any intention to recruit to it in the future. The monitoring report presented to Cabinet and the Council Overview & Scrutiny Committee explains that some of those vacancies which aren't being actively recruited to may be filled by bank or agency staff on a short-term basis, although there is no information about the proportion of the posts filled in this way or explanation of the reasons why. As stated in paragraph 16, data on agency staff is only monitored from the point of view of budget spend, due to the difficulties in obtaining reliable information in terms of the FTE.

26. There may be several reasons why a decision is made not to start the process of recruiting to a vacancy, including services needing to make short-term budget savings and the desire to avoid recruitment and potential redundancy costs if a subsequent re-organisation of the service is planned or anticipated. This is a prudent approach for managers to take. However, it is important to make a distinction between real savings and what might be considered notional savings, resulting from vacant posts remaining in the organisational structure, but for which there is no need in terms of their being critical to service delivery. It could be argued that the eventual savings if these posts

are subsequently deleted are only nominal, as no expenditure was expected against these posts.

27 From the work undertaken, the Task Group concluded that the treatment of vacant positions in the budgeting process could lead to budget reserves since there are no consistent criteria as to what constitutes a vacant position within the organisation. The Task Group therefore **recommends**:

(a) That a policy is formulated to define what constitutes a vacant position in the organisation structure.

(b) That criteria are established which vacant positions must meet in order to remain in the organisation structure together with the operating budget allowance.

(c) That the definition and criteria be consistently applied in all services in the management of their business plans.

DEFINITIONS

The following definitions are used by the County Council to categorise staff and in the monitoring of staff resources:

Contracted Employee: These are employees on permanent or fixed- term contracts in positions on the organisational management structure. They have a contract of employment and there is a mutuality of obligation, which means the County Council is obliged to provide work and they are obliged to carry it out. For such employees the County Council incurs the costs of salaries and on-costs (e.g. NI and pension), the costs of recruitment and training and a liability in respect of potential redundancy. When appointed they are assigned a Full Time Equivalent (FTE) percentage, with full time equal to 100%.

Casual/Bank Employee: An on-going, flexible arrangement to employ someone on a permanent contract who will work on an 'on-call' or 'cover' basis. It is a 'zero-hours' contract - a bank employee is paid only for those hours worked, and there is no requirement to offer a set amount of work. Bank employees receive all Surrey Pay terms and conditions as normal (pro rata to the actual amount of work undertaken) and are paid on an hourly basis together with any relevant overtime and 'shift' allowances. The Council incurs the same costs (pro rata) as it does with a permanent employee, with the exception that a redundancy liability is not applicable and that some Bank staff may be less likely to have joined the pension scheme. Bank staff are not assigned an FTE. They represent a variable cost.

Agency Worker//Temp: Agency workers are supplied as temporary "in-house" workers by Manpower employment agency or an agency approved by the Procurement Review Group for which the County Council pays a fee. The individual has the legal rights of a worker (e.g. the right to a safe place of work etc.) but not the rights and entitlements of an employee. Since October 2011 under the agency worker regulations the worker has to have the same pay as an employee after 12 weeks service. They may be paid an hourly rate (plus overtime and allowances where relevant), or daily rates. Agency staff are not assigned an FTE. They represent a variable cost.

Contractor/Consultant: A contractor or consultant is a person, firm or company that is selling skills, knowledge and/or professional expertise to the Council. Consultancy, contractors and contractor services come in to support the organisation, often to help deliver projects. Any contract for these services is based on the services being provided and not a contract of employment. Contracts are approved by the Procurement Review Group and payments made are on the basis of a fee not a salary.

Budgeted Full-Time Equivalent (FTE): The establishment budget is comprised of an assumed workforce required to carry out the services. It has an assumed grade mix and the grades in each Directorate have a ‘standard’ cost assumed for each grade. In addition, within these costs, an assumption is made that at normal turnover rates there will be some vacancies at some time and this is deducted from establishment budgets. This vacancy factor varies between services.

ANNEXE 2

SUMMARIES OF DISCUSSIONS WITH STRATEGIC DIRECTORS

ADULT SOCIAL CARE

The budgeted establishment for Adult Social Care is 2,116 FTE for 2012/2013. The service has recently undergone a major re-structure to address issues such as shortages of experienced care staff, staff retention and variation of tasks and responsibilities within the same roles across the County. The process began in 2010, and included the benchmarking of caseload with other authorities.

All current cases are mapped by postcode, and then a formula based on the complexity of cases is applied to determine the staffing levels required. However there has been additional pressure as a result of a high caseload in learning disability services.

Overall the establishment has been reduced in order to achieve budget savings. There has only been growth in the establishment where the NHS has provided additional funding to meet the costs of those responsibilities which have transferred to the County Council.

Detailed monitoring information is used to monitor vacancies within teams. There has been an increasing dependence on agencies for the supply of social care staff, as more people with the appropriate skills and qualifications are opting to be employed by agencies rather than councils. However, agency staff are not employed by the Council at a higher rate than contracted staff unless it is absolutely essential.

Social workers are under particular pressure at the present time due to high case loads, and a rigorous process is being undertaken to identify those cases which can be closed. Each Borough/District team currently has two or three vacancies which is adding to the pressure, but these are actively being recruited to. In other parts of the service managers will hold vacancies in order to achieve savings, and each year there is a process of managing-down demand and looking for alternative options for service delivery.

Adult Social Care is a demand-led service, so there needs to be flexibility to respond. Vacancies may be held to reduce spending in order to be able to respond to later increases in demand. However, if demand increases significantly (for example in the event of a hard winter), the increased spending on staff will need to be balanced by savings elsewhere. Approval to recruit to posts is carried out at Assistant Director level.

CHANGE & EFFICIENCY

At the start of the 2012/2013 Financial Year, Change & Efficiency had an establishment of 822 FTE. However, within the 2012 to 2017 Medium Term Financial Plan (MTFP), the Directorate has a budgeted establishment FTE of 767, and is expected to achieve this staffing level by the end of March 2013. The budget received for the current year was set at a level which assumed a phased reduction in FTE to 767 by the end of March 2013.

The MTFP sets the budget for the workforce irrespective of the type of employment (e.g. permanent or agency), and managers make the most appropriate decisions based on the circumstances at the time.

Posts are removed from the establishment when there is a reduction in the workload for that role or the area of work ceases altogether. This can come about as a result of processes being streamlined or automated. If posts which are likely to be impacted on by a future process change become vacant, the vacancy is likely to be held by service managers pending a planned re-organisation or re-structuring.

Posts may be filled by agency or bank staff because of the temporary or seasonal nature of the work, in order to achieve flexibility, or because of difficulties in finding a permanent employee. Managers and heads of services are accountable for delivering the service within the budget allocated.

There are no criteria to determine how long a vacancy can remain unfilled, although vacancies will be reviewed as part of the business planning process and removed if it is agreed that there is no longer a need for the role. The key issue is what can be delivered within the budget available.

Interim appointments are made where specialist skills are required on a time-limited basis, for example in relation to the development of the new Data Centre, as this may be a more cost-effective or timely solution than seeking to make a permanent appointment. The Directorate is looking to develop an associate pool in future. This would ensure that there was the flexibility to bring additional people in to meet demand as and when necessary, but they would have the advantage of being able to develop knowledge of the County Council. The individuals who would form the associate pool are likely to be self-employed and would wish to retain that status, so appointment on a bank contract with the County Council would be unlikely to suit them.

Approval to recruit is delegated to heads of services. As a general point, bank staff who are fully employed for an extended period would become eligible to transfer to a regular contract, although in practice their remuneration would be unaffected.

CHILDREN SCHOOLS & FAMILIES

The budgeted establishment for Children, Schools & Families is 2,663 FTE for 2012/2013, equating to a headcount of 4,249. These are non-schools staff – a further 23,000 people are employed by schools across the County, of which approximately 7,000 are employed directly by the County Council rather than by schools themselves.

There are currently several reorganisations underway across the Directorate. Many of these relate to Central Government changes, but they will also be a response to the County Council's changing priorities for children and/or families.

High-value specialist staff are brought in on an agency basis where variations in the demand for their work makes that a more cost-effective option than employing someone on a permanent contract all year round.

The preference of the Strategic Director is to work with headcount figures rather than FTE, as the actual number of people in post will have an impact on overheads. Also, the headcount figure provides a more accurate picture of staff turn-over within the Directorate.

The Public Value Review identified savings across the Directorate, but these targets have had to be re-focused due to changes to service priorities, and alternative savings will need to be found. There is significant pressure from increasing demand, with 20% more children in the County and high demand in the areas of special educational needs and child protection. Investment is being sought, particularly in child protection, to help meet this demand.

There are currently more child protection cases than can be dealt with by the available social workers, and therefore approximately 40 agency staff have been employed. This is not the preferred solution as agency workers are able to command higher rates of pay than permanent staff and will lead to an over-spend against the budget, but the need is driven by demand. Also, as social workers support a particular child for up to two years, this is not just a short-term issue. The agency staff will be encouraged to take up permanent contracts with the County Council, but it is often their preference to work as a locum because of the flexibility it allows. The impact of this is that permanent posts in the organisation structure can remain vacant for two years or more. In areas needing flexible resourcing (for example contact supervisors and home tutors), bank staff are used in preference to agency staff as they are known to the service and children.

Recruitment difficulties are more acute in the North East Surrey Team, as its proximity to London means that it is competing against the incentives offered by London boroughs. East Sussex County Council has recently made significant investment in children's social care, and it is expected that this will have an impact on the retention of staff in Surrey.

Monitoring of vacancies is undertaken on a monthly basis with heads of services. Performance scorecards are used to provide summary information, and this is backed up with detailed narrative. There is not a fixed period before deleting a vacancy.

The Strategic Director is not required to approve all recruitment requests, as this would not be practicable in a Directorate of over 4,000 staff. Responsibility is delegated to level four managers who operationally manage services and are accountable for their budget and staffing. Workloads are managed on a dynamic basis through supervision, with resource pressures highlighted with senior managers and ultimately Members where necessary. The recent Ofsted inspection report and staff survey confirmed that workloads in the Directorate are manageable.

CUSTOMERS & COMMUNITIES

There are 2,133 posts in the Customers & Communities structure, equating to 1,475.5 fte, although there can be significant seasonal variations due to the nature of the services provided. Several services within the Directorate have undergone or are in the process of undergoing a Public Value Review, which means that the organisation structure is scrutinised in detail and often re-designed from scratch.

Services assess their need to fill posts on a regular basis, with decisions based on current and anticipated future budgets as well as the way services are delivered or are planned to be delivered. In services such as libraries where the demands on the service are constantly evolving, regular reviews are undertaken to ensure appropriate allocation of staff. All services within the Directorate review the need for posts as vacancies arise, as part of a routine business planning process.

92% of the Directorate's budget is spent on staff, and some posts (for example in heritage services) are funded externally. These posts are normally fixed-term. The business planning process determines the level of service which will be provided and therefore the budget available for staffing, and heads of services manage vacancies within the budgets available to them. The Strategic Director discusses the vacancy position in services at one-to-one meetings with heads of services.

Very few agency staff are employed across the Directorate. It is not felt to be a cost-effective approach to filling vacancies on a short-term basis, and agency staff tend not to have the specialist skills necessary for the roles required.

Bank staff are used extensively in services such as Libraries and Registration. Registrars, for example, are in high demand from April to October due to the seasonality of weddings, but there is relatively low demand for the remainder of the year. Registration is an important source of income, and the use of bank staff allows this to be optimised during the period of maximum demand whilst minimising staff costs during the quieter periods. In other services such as Adult & Community Learning, the use of bank staff provides a cost-effective approach to managing termly fluctuations in demand. Libraries are currently using higher than normal levels of bank staff to provide support until community libraries are established.

In certain services, a small number of vacancies have been held open for various reasons, including budget constraints, a review of the changing needs of the service and planned service reviews. The impact of vacancies on staff workload and welfare is addressed as part of monthly one-to-one discussions with staff and the appraisal process, as well as through discussions at team meetings and monitoring by the Leadership Team.

The requirement for the Strategic Director to approve recruitment requests was delegated to heads of services as a result of changes to the Strategic Director's role. A standard template is used by team managers for each recruitment request, which identifies the business case and budget implications. The need for the role is challenged, and requests have been declined or amended to fixed-term in the light of budget implications or other issues such as a pending re-structure.

CHIEF EXECUTIVE'S OFFICE

Organisation Structure

The staffing budget for the Chief Executive's Office is 164 FTE, and the headcount is 201. The present staffing structure was established as a result of a Public Value Review completed in 2011, and only posts within that structure can be recruited to. Equally, no posts are removed from the structure unless the head of service undertakes a further review and determines that there is no longer a need for that role, although the focus/emphasis of some roles can and has been varied.

Legal & Democratic Services is currently just over 4 FTE above its establishment, which is a result of increased demand for childcare lawyers. These posts have been filled by agency staff as a result of recruitment difficulties caused by high demand nationally. The Communications and Emergency Management Teams have also appointed to posts above their establishment on short-term contracts in order to manage the workload arising from the Olympics.

The majority of staff in the Chief Executive's Office are employed on permanent contracts, with the exceptions of agency appointments in Legal & Democratic Services (for childcare lawyers) and School Appeals Clerks, who are appointed on bank contracts due to the seasonal nature of their work.

The staffing budget, rather than staff numbers themselves, is used for monitoring purposes. The Assistant Chief Executive holds monthly meetings with the Directorate's finance manager to discuss the detailed figures. There have been discussions about whether there should be an increase in the Legal & Democratic Services budget in the light of the pressures on staff arising from the increased workload on child protection issues.

Within the requirements to meet targets and remain within the agreed budget, and subject to the controls and monitoring arrangements in place, heads of services have the flexibility to manage vacancies and take recruitment decisions.

All approval requests are signed off personally by the Assistant Chief Executive, with the exceptions of childcare lawyers due to the high current demand in that area, and additional administrative staff in the Emergency Management Team in the event of a major incident. In both cases the heads of service have the authority to approve appointments. For routine requests, Assistant Chief Executive will challenge the need for or the type of appointment if felt necessary.

ENVIRONMENT & INFRASTRUCTURE

Organisation Structure

Environment & Infrastructure's new staffing structure went live on 1 April 2012. There are 570 posts in the new structure, 18 of which were vacant as at the beginning of October 2012. Of these, 13 were being actively recruited to and 5 were being held pending a further efficiency reviews. Some further posts within the structure are planned for deletion in the future when funding expires or the particular programme of work is completed. The structure in place is considered to be optimal for the running of the service, and all posts will need to be justified as part of the annual budget process.

Although it is important to measure headcount, a more important measure is whether services are being delivered to the required standard within the budget available. Within that budget managers have the flexibility to determine how many and what level of posts will meet the business need most effectively.

A detailed quarterly report is used by the Strategic Director and his Management Team to monitor the status of vacancies, and decisions are made to delete, fill or hold the vacancies. Decisions are based on service delivery requirements and the budget position. The Director will monitor spending against budget and service performance, but Senior managers are responsible for the detailed management of vacancies.

Agency staff are used to fill some posts, and this may be the most appropriate solution where the post is for a fixed-term, seasonal or specialist role. In other cases, a review will be carried out if posts have been filled by agency staff for six months. Whilst the hourly rate for agency staff may be higher than for contracted staff, this would not be an issue for a short-term appointment as there would be savings on recruitment costs and overheads.

Staff are employed on bank contracts where the nature of the work is ad hoc and/or seasonal. For example, there are approximately 70 Bikeability instructors who carry out cycling proficiency work with schools. Four of these have now been appointed on permanent contracts as they were increasingly working more regular hours and taking on other related duties.

Vacancies may be held to manage pressures in the staffing budget or if there is a re-structure pending which may impact on those posts. If vacancies are held, consideration will be given to the impacts on service performance, staff workload and welfare as part of the quarterly monitoring discussion.

Authorisation is required from the Strategic Director before vacancies can be advertised. Requests must set out the business need and funding arrangements.

ANNEXE 3

BREAKDOWN OF ESTABLISHMENT BY DIRECTORATE
(November 2012)

(a) Adult Social Care

	FTE	**Headcount**
Budgeted Establishment (2012/13 planned - MTFP)	2116	
Occupied:		
Full-time	1292	1292
Part-time	594	1187
Total	1886	2479
“Live” vacancies (i.e.: actively recruited)	37	
Vacancies not occupied by contracted FTEs and not currently ‘Live’	193	

YTD Workforce Costs	**Actual**	**Budget**
Contracted	£34,890,140	
Agency	£2,275,091	
Bank	£911,688	
Total	£38,076,919	£40,651,880

(b) Change & Efficiency

	FTE	Headcount
Budgeted Establishment (2012/13 planned - MTFP)	767	
Occupied:		
Full-time	695	695
Part-time	79	146
Total	774	841
"Live" vacancies (i.e.: actively recruited)	11	
Vacancies not occupied by contracted FTEs and not currently 'Live'	0	

YTD Workforce Costs	Actual	Budget
Contracted	£21,040,800	
Agency	£2,037,220	
Bank	£31,825	
Total	£23,109,846	£23,260,156

(c) Chief Executive's Office

	FTE	Headcount
Budgeted Establishment (2012/13 planned - MTFP)	164	
Occupied:		
Full-time	158	158
Part-time	16	40
Total	174	198
"Live" vacancies (i.e.: actively recruited)	2	
Vacancies not occupied by contracted FTEs and not currently 'Live'	0	

YTD Workforce Costs	Actual	Budget
Contracted	£5,047,739	
Agency	£259,237	
Bank	£13,028	
Total	£5,320,004	£5,370,880

(d) Children & Families

	FTE	Headcount
Budgeted Establishment (2012/13 planned - MTFP)	2663	
Occupied:		
Full-time	1417	1417
Part-time	1099	2850
Total	2506	4267
"Live" vacancies (i.e.: actively recruited)	89	
Vacancies not occupied by contracted FTEs and not currently 'Live'	68	

YTD Workforce Costs	Actual	Budget
Contracted	£54,379,248	
Agency	£2,972,926	
Bank	£2,100,322	
Total	£59,452,495	£61,058,292

(e) Customers & Communities

	FTE	Headcount
Budgeted Establishment (2012/13 planned - MTFP)	1474	
Occupied:		
Full-time	1108	1108
Part-time	359	929
Total	1467	2037
"Live" vacancies (i.e.: actively recruited)	45	
Vacancies not occupied by contracted FTEs and not currently 'Live'	0	

YTD Workforce Costs	Actual	Budget
Contracted	£30,226,700	
Agency	£265,940	
Bank	£2,390,961	
Total	£32,883,600	£33,507,876

(f) Environment & Infrastructure

	FTE	Headcount
Budgeted Establishment (2012/13 planned - MTFP)	516	
Occupied:		
Full-time	459	459
Part-time	33	116
Total	492	575
"Live" vacancies (i.e.: actively recruited)	20	
Vacancies not occupied by contracted FTEs and not currently 'Live'	4	

YTD Workforce Costs	Actual	Budget
Contracted	£11,707,347	
Agency	£538,705	
Bank	£199,076	
Total	£12,445,128	£13,383,500