

Budget monitoring period six 2016/17 (September 2016)

Summary recommendations

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2016/17 is a +£22.4m overspend (paragraph 1).
2. Forecast efficiencies and service reductions for 2016/17 is £60.3m (paragraph 32).
3. The quarter end positions for: balance sheet, earmarked reserves, debt and treasury management (paragraphs App 8 to App 22).
4. The Section 151 Officer's commentary, Financial and Value for Money Implications and the Monitoring Officer's Legal Implications commentary (main report, paragraphs 14 and 18).

Cabinet is asked to approve the following.

5. Members and officers to act urgently to identify, agree and implement actions to reduce the 2016/17 overspend (paragraph 4).
6. Cabinet and other leading members to bring the council's budget issues to the attention of Surrey's MPs (paragraph 5).
7. Request to reprofile Surrey Fire & Rescue Service's capital budget (paragraph 42).

Revenue summary

The +£22.4m overspend forecast in this report is unprecedented for Surrey County Council. This adds to the Council's largest planned use of reserves (£24.8m) to support the revenue budget. It marks the coalescence of several significant funding and demand pressures on the council. Significantly, the forecast overspend closely matches the "shock" reduction in 2016/17 Revenue Support Grant the Government imposed upon the council less than a year ago.

In February 2016 Surrey County Council set its Medium Term Financial Plan 2016-21, including its gross expenditure budget for the 2016/17 financial year at £1,686m. The 2016/17 budget includes measures determined at short notice aimed at mitigating the impact of the shock funding reduction. A key objective of the councils' Medium Term Financial Plan 2016-21 is to increase the council's overall financial resilience. This plan includes making efficiencies totalling £82.9m during 2016/17. The forecast efficiencies is now only £60.3m, largely due to rising demographic demand.

The +£22.4m forecast revenue budget variance confirms the Section 151 Officer's view expressed in her Budget Report to the Council in February 2016 that the council's financial situation is serious. Previous Cabinet reports have reported that the 2016/17 budget is balanced, but not yet sustainable in future years. This report highlights that the current year's budget is no longer balanced and the cost, demand and funding pressures the council had expected to meet from 2017/18 onwards are already having a significant and detrimental impact on the council's finances.

To achieve a balanced and sustainable budget Cabinet urgently needs to agree a plan of the actions necessary to resolve this situation.

The net overspend mainly relates to:

- +£21.0m net forecast overspend in Adult Social Care, largely due to the service's inability to achieve its demanding £55m savings target (paragraphs 10 to 13);
- +£4.3m overspend in Children's Services (paragraphs 14 and 15); and

- +£1.1m net overspend in Schools & SEND (Special Educational Needs & Disabilities) (paragraph 16);

offset by

- -£2.0m underspend from higher than budgeted retained business rates income and reduced interest charges (paragraph 17);
- -£0.8m additional savings in Property (paragraph 18); and
- -£0.7m additional savings from the council's contribution to Orbis Joint Operating Budget (paragraph 19).

The Schools & SEND service has also highlighted further budget pressure risks of between £1m and £3m in the high needs block and early years. Environment & Planning has highlighted a range of risks to the 2016/17 waste management budget.

In addition to Adult Social Care's £21.0m shortfall in achieving savings, Environment & Planning anticipates a further £1.4m savings shortfall from projects to optimise waste management.

The council's +£22.4m forecast revenue budget outturn is unprecedented. It is vital members and officers now act urgently to identify and implement the means to reduce the overspend in 2016/17 and address ongoing efficiency shortfall issues affecting 2017/18 and subsequent years.

To support 2016/17, Cabinet approved use of £24.8m from reserves and carry forward of £3.9m to fund continuing planned service commitments. The council currently has £21.3m in general balances.

In February 2016, Cabinet approved the council's Financial Strategy 2016-21. The Financial Strategy aims to:

- secure the stewardship of public money;
- ensure financial sustainability and
- enable the transformation of the council's services.

Capital summary

Creating public value by improving outcomes for Surrey's residents is a key element of Surrey County Council's corporate vision and it is at the heart of its £638m capital programme in MTFP 2016-21. As at 31 August 2016, services forecast spending £148m against the £156m current 2016/17 budget and £209m in total, including long term investments.

As part of increasing the council's overall financial resilience, it plans net £61m investment in long term capital investment assets in 2016/17 to add to the £120m invested in the period to 31 March 2016 (paragraphs 40 and 41).

Revenue budget

Overview

1. As at 30 September 2016, the year to date revenue budget variance is +£11.0m overspend and forecast year end budget variance is +£22.4m overspend.
2. The overall forecast overspend is mainly due to:
 - +£21.0m forecast overspend in Adult Social Care (ASC), including +£10.2m Family, Friends and Community increasing price pressures, non-achievement of the 20% stretch target and lower direct payments reclaims; +£5.9m from higher demand growth across the whole health and social care system preventing delivery of demand management savings; +£2.9m reduction in savings from grants and contracts; +£0.9m change to health and social care integration savings, +£1.3m contractual commitments and other pressures, partially offset by -£2.2m due to lower than anticipated costs for Deprivation of Liberty Safeguards (DoLS) assessments;
 - +£4.3m forecast overspend in Children's Services due to demand, including adding: +£2.8m pressure for more social work capacity from extra permanent staff and locums; +£1.2m costs of additional placements; +£1.0m higher demand for care for asylum seeking children and support for children with disabilities; partly offset by -£0.7m savings elsewhere in the service.
 - -£2.0m forecast underspend in Central Income & Expenditure from -£0.9m higher business rates receipts and -£1.1m reduced interest charges due to changes to the Treasury Management Strategy agreed by county council in July 2016.
 - -£1.1m forecast underspend in Schools & SEND (Special Educational Needs and Disabilities) from underspends on central budgets and overspends on transport.
3. The +£22.4m forecast budget variance confirms the Section 151 Officer's view that the council's financial situation is serious. Previous Cabinet reports have reported the 2016/17 budget as balanced, but the council's budgets were not yet sustainable in future years. This report highlights that the current year's budget is no longer balanced, and the cost, demand and funding pressures the council had expected to face from 2017/18 onwards are already having significant and detrimental impact on the council's finances.
4. To achieve a balanced and sustainable budget action is urgently required to identify and agree a plan to resolve this situation. It is imperative action is taken to:
 - identify, agree and implement actions to reduce the 2016/17 overspend;
 - identify, agree and implement actions to mitigate the impact of shortfalls in achieving efficiencies in 2016/17 on 2017/18 and subsequent years;
 - report progress with this work to Cabinet as part of the monthly budget monitoring report.
5. The unprecedented scale of the council's forecast budget variance arises from a mixture of causes, including: the "shock" £20m funding reduction imposed on the council less than a year ago in the 2016/17 finance settlement; and the accelerated pressure growth from costs and demand. It is vital the council brings the matters and their overall impact to the attention of Surrey's MPs to enlist their help in resolving them.

Revenue budget monitoring position

6. Table 1 summarises the council's year to date and forecast year end gross income and expenditure positions compared to the full year revised budget. The full year revised net expenditure budget to be met from reserves is £24.8m. The actual year to date total net expenditure is -£5.9 m. This compares to the profiled, budgeted year to date net expenditure of -£16.9m. The difference between the two is +£11.0m year to date overspend (increased from +£6.7m overspend as at 31 August 2016). This is summarised in Table 1 below and in more detail in Table App1 in the Appendix.

Table 1: 2016/17 revenue budget subjective summary as at 30 September 2016

Subjective summary	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Gross income	-1,649.6	-837.6	-1,655.4	-5.8
Gross expenditure	1,674.4	831.7	1,702.8	28.4
Total net expenditure	24.8	-5.9	47.4	22.4

Note: * Profiled year to date net budget is -£16.9m compared to actual net expenditure of -£5.9m

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

7. In the appendix, Table App1 outlines the updated revenue budget by service after in year budget virements and carry forward of budgets from the 2015/16 financial year.
8. In March 2016, Cabinet approved the council's 2016/17 revenue expenditure budget at £1,686.0m. Changes in the first six months of 2016/17 to reflect agreed carry forwards and other budgetary adjustments reduced the expenditure budget as at 30 September 2016 to £1,674.4m. Table 2 shows the updated budget, including services' net expenditure budgets (gross expenditure less income from specific grants and fees, charges and reimbursements) and funding of -£672.2m from local taxation and £24.8m from reserves.
9. Table 2 shows the revenue budget position analysed by services and the council's general funding sources. For each service, the table shows the net expenditure position (gross expenditure less income from specific grants and fees, charges and reimbursements). The council's general funding sources include general government grants, local taxation (council tax and business rates) and planned use of reserves.

Table 2: 2016/17 updated revenue budget forecast as at 30 September 2016

Service	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Economic Growth	1.7	0.3	1.7	0.0
Strategic Leadership	1.0	0.4	0.9	-0.1
Adult Social Care	368.5	200.2	389.5	21.0
Children's and Safeguarding services	97.8	49.9	102.0	4.3
Commissioning & Prevention	37.8	17.5	37.5	-0.3
Schools & SEND (Special Educational Needs & Disabilities)	63.2	30.3	64.3	1.1
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	3.8	1.2	3.7	-0.1
Coroner	1.8	0.8	1.8	0.0
Cultural Services	9.6	4.9	9.4	-0.1
Customer Services	3.5	1.6	3.4	-0.1
C&C Directorate Support	1.0	0.5	1.0	0.0
Emergency Management	0.5	0.2	0.4	-0.1
Surrey Fire & Rescue Service	33.2	16.8	33.3	0.1
Trading Standards	2.0	1.0	1.9	-0.1
Environment & Planning	79.7	40.8	80.0	0.3
Highways & Transport	44.9	20.3	44.9	0.0
Public Health	0.3	0.2	0.5	0.2
Central Income & Expenditure	56.4	7.3	55.3	-1.1
Communications	2.1	1.0	2.1	0.0
Finance	3.1	1.3	3.0	-0.1
Human Resources & Organisational Development	4.3	1.6	4.2	-0.1
Information Management & Technology	13.1	5.8	13.1	0.0
Legal Services	3.9	1.7	4.2	0.2
Democratic Services	4.5	2.1	4.4	-0.1
Strategy & Performance	1.7	0.9	1.6	-0.1
Procurement	0.9	0.4	0.8	0.0
Property	20.9	7.2	20.1	-0.8
Orbis Joint Operating Budget	38.0	17.1	37.4	-0.7
Business Operations	0.2	0.1	0.2	0.0
Total services' net revenue expenditure	899.4	433.5	922.8	23.3
General funding sources				
General Government grants	-202.3	-102.4	-201.7	0.6
Local taxation (council tax and business rates)	-672.2	-337.1	-673.7	-1.5
Total general funding	-874.5	-439.5	-875.4	-0.9
Total movement in reserves	24.8	-5.9	47.4	22.4

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

Significant revenue budget variances

Adult Social Care - +£21.0m overspend (+£13.6m increase since 31 August 2016)

10. Adult Social Care forecasts an adverse year end variance of +£21.0m. This very significant overspend is almost entirely due to very high levels of cost and demand pressures preventing ASC from achieving the hugely ambitious £55m increase in savings budgeted for 2016/17 (an increase of over 50%). ASC forecasts delivering £34.3m savings against its £55.3m target. Despite the mounting pressures it faces, ASC expects to continue to deliver similar levels of savings as it has in 2015/16 and previous years.
11. Huge efforts continue to progress health and social care integration, which will improve both the cost and quality of long term service delivery. However, this has not yet reduced demand. Demand continues to grow in terms of hospital admissions and social care packages. Combined with higher prices for social care, particularly since

the introduction of the National Living Wage, it is not possible to achieve a short to medium term increase in savings of this scale without adversely affecting the council's performance of its statutory social care duties.

12. It is evident that adult social care across the country requires a new funding model to be sustainable. The Kings Fund published a report this month that estimates the national social care funding gap will rise to between £2.8bn and £3.5bn by 2019/20 without funding reform. The council is actively making the case to government for additional social care funding and this year's forecast outturn position is a stark indication of the scale of financial pressure if the government does not provide local authorities a means for additional funding.
13. ASC will continue to explore short term options to reduce its overspending over the coming months. The principal reasons for the variance are described below.
- The Family, Friends & Community programme continues to face challenges in reducing the cost of new care packages in the context of increasing price pressures in the market and (as in previous years) not fully achieving the 20% stretch target. In addition, FFC forecasts a £3m shortfall on direct payment reclaims. In total, this adds +£10.2m pressure to the budget.
 - A continued increased rate of demand growth across the whole health and social care system in Surrey (at 7% rather than the budgeted 4%) is preventing delivery of savings from demand management and from a shift in the care pathway for Older People. In total this adds +£5.9m pressure to the budget.
 - ASC's contracts & grants review budgeted 50% expenditure reductions. After completing impact assessments, ASC decided implementing the savings fully would impinge on delivery of statutory duties, leave some people at risk and potentially lead to higher medium term costs. ASC forecasts achieving £2.9m savings against the £5.8m target, which adds +£2.9m pressure to this budget.
 - Considerable work continues on health and social care integration. The development of Sustainability and Transformation Plans is shifting the focus and changing the nature and timing of the planned 2016/17 savings. This adds +£0.9m pressure to this budget.
 - In addition to these challenges with savings plans, +£1.3m increased contractual commitments for the provision of some services plus other staffing and demand pressures are largely offset by -£2.2m lower costs of conducting Deprivation of Liberty Safeguard (DoLS) assessments than previously anticipated.

Children's Services - +£4.3m overspend (+£1.0m increase since 31 August 2016)

14. Demand for Children's Services continues to increase. Improvements such as investment in Child and Adolescent Mental Health Service (CAMHS) and creating a Multi Agency Safeguarding Hub (MASH) are progressing with the intention of reducing longer term demand. However demand for services particularly care for looked after children (LAC) and unaccompanied asylum seekers exceeds that planned. This additional demand is leading to the following budget pressures.
- +£2.8m need for social work capacity due to higher demand, including +£1.3m for 26 more posts than budgeted and +£0.9m cost pressure from 87 locums (though this is projected to reduce). On average, locums cost £20,000 a year more than permanent staff.

- +£1.2m additional placement costs for the 221 children currently in ongoing placements compared to the 204 budgeted. Within this, demand for much more expensive residential placements is rising more quickly (63) than planned (46).
- +£0.6m care for a high level of asylum seeking children following demand increases over the past 18 months. With world events, these are not expected to fall. The Home Office has increased the level of funding, but this only applies to new cases from 1 July 2016.
- +£0.4m greater demand for services to support children with disabilities, particularly care packages.

15. These pressures are in part offset by -£0.7m savings elsewhere including from investment in the social work academy starting part way through the year and additional income from the adoption service and CAMHS.

Schools & SEND - +£1.1m overspend (+£2.1m increase since 31 August 2016)

16. Within the overall Schools & SEND (Special Educational Needs and Disabilities) forecast underspend position, there are some significant forecast variances.
- +£2.0m overspend on services funded by the SEND high needs block element of Dedicated Schools Grant (DSG)
 - +£1.2m overspend on transport overall, including: +£1.3m SEND transport (this remains an area of concern following 2015/16's +£1.5m overspend); +£0.2m overspend on alternative provision; and -£0.4m underspend on mainstream transport.
 - -£1.9m underspend on centrally held budgets, following reviews to identify non-essential spend. In particular, the service is unlikely to need the budget covering the risk of legislative reforms, demographic pressures and excess inflation.

Central Income & Expenditure - -£2.0m underspend (-£0.6m decrease since 31 August 2016)

17. As at 30 September 2016, Central Income & Expenditure (CIE) forecasts -£2.0m year end underspend. This is due to:
- -£0.9m higher forecast business rates income than budgeted as a result of the final 2015/16 business rates receipts being greater than forecast; and
 - -£1.1m forecast savings on the interest payable budget from lower interest rates and the use of short term borrowing.

Property Services - -£0.8m (-£0.8m increase since 31 August 2016)

18. Property's forecast underspend includes:
- -£0.5m following its cyclical maintenance review;
 - -£0.2m from utilities based on the year to date variance leads and subject to weather conditions; and
 - -£0.2m additional rebates, following effectively challenging several rates.

Orbis Joint Operating Budget - -£0.7m (-£0.4m increase since 31 August 2016)

19. Orbis Joint Operating Budget services are on track to deliver £1.2m efficiencies in 2016/17 and are managing costs ahead of the savings required in 2017/18. As a

result Orbis in total is likely to deliver £1.0m of 2017/18's savings early and so the council's contribution to Orbis will be -£0.7m lower than budgeted.

Areas to be aware

20. At this point in the financial year, services may yet encounter delivery challenges, which present risks to their 2016/17 outturn positions.

Children, Schools & Families – Schools & SEND

21. Further SEND and early years budget pressures of between £1m and £3m are possible in the SEND high needs block and early years funded by DSG. The service is working to confirm the forecasts reflecting placement decisions from September 2016.

Environment & Planning

22. The waste budget faces a number of pressures this year. Some savings have been delayed (e.g. introduction of charges for some non-household waste at community recycling centres) or have significant risks attached. Also, discussions with Sita in respect of the timing and cost of some activities are ongoing and could impact on spend this year. Finally, a number of recently introduced measures are expected to impact on waste volumes, but at this stage it is too early to assess those impacts accurately. Further work is required to understand the financial impact of these issues and to identify any further opportunities to reduce costs, the outcome of which will be reported to a future meeting.

Revolving Infrastructure & Investment Fund

23. Table 3 shows the council forecasts generating net income of -£1.3m in 2016/17 (after subtracting funding costs and other expenses) by the joint venture project to deliver regeneration in Woking town centre, from various property acquisitions made for future service delivery and from the Halsey Garton Property group. The council anticipates transferring the net income to the Revolving Infrastructure and Investment Fund at the year end.
24. Capital expenditure in 2016/17 includes equity investment and loans to the Halsey Garton Property group, development of the former Thales site in Crawley, further loans to the Woking Bandstand Joint Venture Company and other town centre development projects.

Table 3: Summary revenue and capital position as at 30 September 2016

	YTD actual £m	Full year forecast £m
Revenue		
Income	-4.0	-9.1
Expenditure	0.1	0.5
Net income before funding	-3.9	-8.6
Funding costs	3.4	7.3
Net revenue income after funding	-0.5	-1.3
Capital		
Expenditure	68.1	61.0

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

Staffing costs

25. The council employs three categories of staff.
- Contracted staff employed on a permanent or fixed term basis and 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 employed through an agency with which the council has a contract.
26. Bank and agency staff enable managers to manage short term variations in service demand, or contracted staff vacancies. This is particularly the case in social care. Some flexibility in the staffing budget is sensible, as it allows the council to vary a portion of staffing costs.
27. The council sets its staffing budget on the estimated labour needed to deliver its services. It expresses this as budgeted full time equivalent (FTEs) staff and converts it to a cost for the budget. The budget includes spending on all three categories of staff and is the key control in managing staffing expenditure. The council's total full year staffing budget for 2016/17 is currently £276.9m based on 7,123 budgeted FTEs.
28. The council has 611 live vacancies, where it is actively recruiting. 489 of these vacancies are in social care.

Table 4: Full time equivalents in post and vacancies as at 30 September 2016

	FTE
Budget	7,123
Occupied contracted FTEs	6,426
Live vacancies (i.e. actively recruiting)	611

29. Table 5 shows staffing cost as at 30 September 2016 against service budgets and analysed among the three staff categories of contracted, bank and agency staff. Table 5 also shows services' budgeted FTEs. Budget variances can arise for several reasons including: the budget for some FTEs is held in a different service from where the postholder works in the organisation (for example the HR&OD budget covers apprentices' costs, but the occupied FTEs appear in the service they work in); secondees' budgeted posts appear in the seconding service, but the occupied FTE appears in the service they are seconded to (or not at all if the secondment is to an external body). The income from recharges for secondments is within services' other income.
30. Agency or bank staff often cover vacancies on a temporary basis. The number of temporary staff does not translate easily into an FTE number as these may be for a few hours only, part time etc. The easiest measure for monitoring staffing is cost, using the total expenditure and variance shown in Table 5 and Table App3 in the appendix.
31. Table 5 shows the year to date budget as at 30 September 2016 is £136.5m and expenditure incurred is £137.8m. Table App 3 shows the +£1.3m year to date overspend on employment costs and services' forecast a balanced position at year end.

Table 5: Staffing costs and FTEs to 30 September 2016

Service	<----- Staffing spend by category ----->						Amended Budgeted FTE	Occupied contracted FTEs
	YTD staff budget £m	Contracted £m	Agency £m	Bank & casual £m	Total £m	Variance £m		
Strategic Leadership	0.5	0.4	0.0	0.0	0.4	-0.1	10	9
Adult Social Care	30.1	28.5	1.3	1.0	30.8	0.6	1,860	1,541
Children, Schools & Families ¹	57.3	52.5	4.1	2.3	58.9	1.6	2,956	2,738
Community Partnership & Safety	0.6	0.6	0.0	0.0	0.6	0.0	25	26
Coroner	0.2	0.1	0.1	0.0	0.3	0.1	2	2
Cultural Services	9.4	8.5	0.0	0.8	9.3	-0.1	507	517
C&C Directorate Support	0.5	0.5	0.0	0.0	0.5	0.0	26	24
Emergency Management	0.2	0.3	0.0	0.0	0.3	0.0	12	11
Surrey Fire & Rescue Service	13.8	13.5	0.1	0.7	14.3	0.5	648	604
Trading Standards	1.6	1.5	0.1	0.0	1.5	-0.1	75	64
Environment & Planning	4.9	4.8	0.0	0.1	4.9	0.0	215	202
Highways & Transport	7.7	6.5	0.1	0.1	6.7	-1.0	370	310
Public Health	1.4	1.2	0.0	0.0	1.2	-0.1	48	42
Central Income & Expenditure	0.0	0.0	0.0	0.0	0.0	0.0		0
Communications	0.6	0.6	0.0	0.0	0.7	0.0	22	24
Customer Services	1.8	1.6	0.1	0.0	1.7	-0.1	107	92
Legal & Democratic Services	2.7	2.4	0.0	0.0	2.5	-0.2	129	108
Strategy & Performance	1.0	1.0	0.0	0.0	1.0	0.0	27	30
Orbis Joint Operating Budget and Business Services ²	2.1	1.9	0.2	0.0	2.2	0.0	84	82
Service net budget	136.5	126.6	6.1	5.1	137.8	1.3	7,123	6,426

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

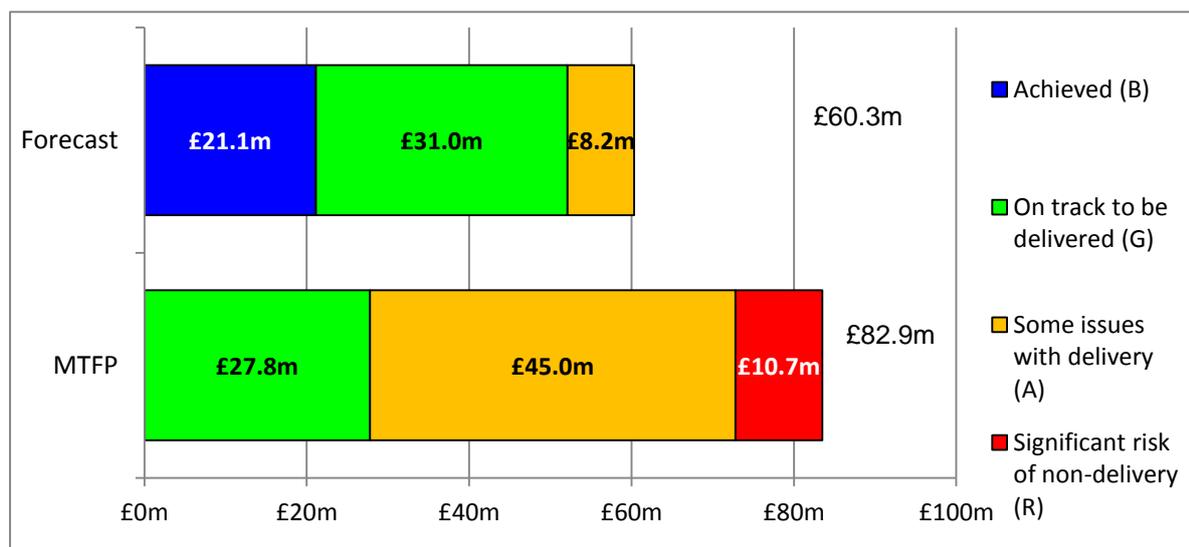
1 - Children, Schools & Families' FTEs include: Children's & Safeguarding, Commissioning & Prevention, Schools & SEND and Delegated Schools

2 - The Orbis Joint Operating Budget is formally delegated to the Joint Operating Committee for management (including staffing), as such the council's monitoring only reports its contribution to the joint budget. The cost of staff that are managed by the partnership but sit outside of the Joint Operating Budget, for example staff delivering the Local Assistance Scheme, is reported in the table above

Efficiencies

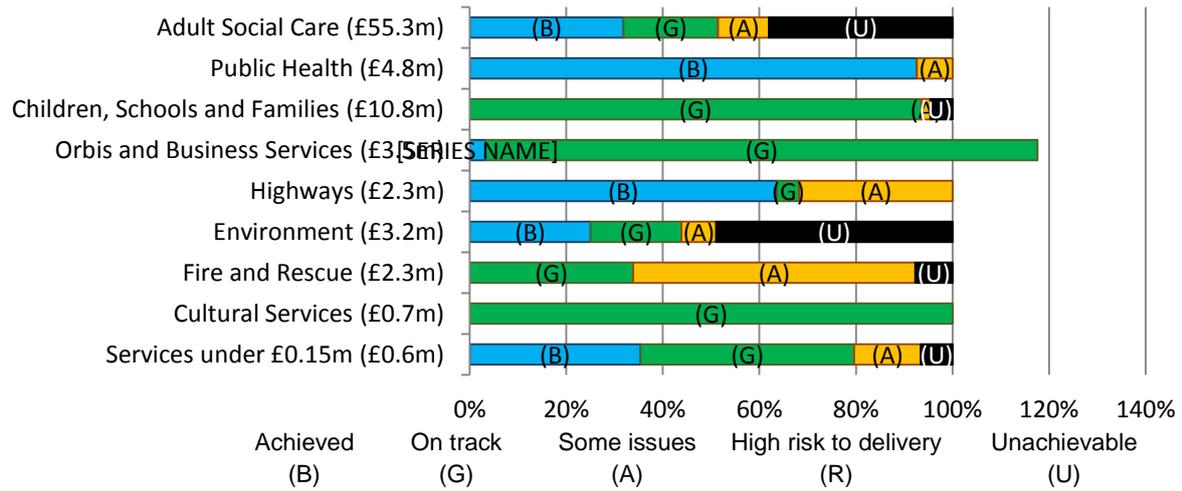
32. MTFP 2016-21 incorporates £82.9m efficiencies in 2016/17. Council services currently forecast to achieve £60.3m of this target (down from £75.8m as at 31 August 2016) and recognise the level of risk involved in delivery of the efficiencies. Figure 1 summarises services' overall efficiency targets, their forecasts for achieving the efficiencies and the risks to achieving them.

Figure 1: 2016/17 overall risk rated efficiencies as at 30 September 2016



33. Each service's assessment of its progress on achieving efficiencies uses the following risk rating basis:
- RED – significant or high risk of saving not being achieved, as there are barriers preventing the necessary actions to achieve the saving taking place;
 - AMBER - a risk of saving not being achieved as there are potential barriers preventing the necessary actions to achieve the saving taking place;
 - GREEN – plans in place to take the actions to achieve the saving;
 - BLUE – the action has been taken to achieve the saving.
34. Figure 1 above, shows that overall there is a projected shortfall in the delivery of efficiencies of £22.5m (up from £7.7m as at 31 August 2016).
35. Figure 2 overleaf, shows services' risk ratings for achieving their efficiencies.

Figure 2: 2016/17 efficiencies risk ratings by service as at 30 September 2016



36. As at 30 September 2016, the main significant variations in services' progress against their MTFP 2016-21 efficiencies & service reductions were as follows.

- £21.0m in Adult Social Care is unachievable due to issues affecting savings planned from: Friends, Family & Community programme, demand management, and health and social care integration as outlined in paragraphs 10 to 13.
- £1.4m shortfall in Environment & Planning, primarily Waste Management, where the introduction of charges for non-household waste at community recycling centres was delayed, and waste contract savings have not yet been secured.

Capital budget

37. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £638m 2016-21 MTFP capital programme.
38. Cabinet approved the original capital expenditure budget for 2016/17 at £194.4m and carry forward of £13.0m scheme budgets requested in the 2015/16 Outturn report. In July 2016, Cabinet approved -£55.8m reprofiling from the 2016/17 capital budget into the remaining years of the capital programme. As at 30 September 2016, capital virements totalled £4.7m.
39. Table 6 shows the construction of the current year capital expenditure budget from the MTFP budget.

Table 6: Capital expenditure budget 2016/17 as at 30 September 2016

	MTFP budget	2015/16 budget c/fwd	Budget virement	Reprofile	Current full year budget
	£m	£m	£m	£m	£m
School basic need	75.6	-8.1		-34.2	33.2
Highways recurring programme	58.1	-0.2	-0.4		57.6
Property & IT recurring programme	25.7	4.5	-0.4	0.5	31.2
Other capital projects	35.0	16.8	5.5	-22.1	34.3
Service capital programme	194.4	13.0	4.7	-55.8	156.3
Long term investments					0.0
Overall capital programme	194.4	13.0	4.7	-55.8	156.3

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

40. Table 8 compares the current full year overall capital programme budget of £156.3m to the current forecast expenditure for the service capital programme of £148.3m and the current forecast expenditure for the overall capital programme, including long term investments of £209.3m.

Table 8: Forecast capital expenditure 2016/17

	Current full year budget	Apr - Sep actual	Oct - Mar projection	Full year forecast	Full year variance
	£m	£m	£m	£m	£m
Schools basic need	33.2	21.1	12.1	33.2	0.0
Highways recurring programme	57.6	20.3	37.3	57.6	0.0
Property & IT recurring programme	31.2	14.1	16.9	30.9	-0.2
Other capital projects	34.3	8.4	18.1	26.5	-7.8
Service capital programme	156.3	63.8	84.4	148.3	-8.0
Long term investments	0.0		61.0	61.0	61.0
Overall capital programme	156.3	63.8	145.4	209.3	53.0

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

41. Approved Investment Strategy spending is expected to be £61.0m in 2016/17 and total capital expenditure £209.3m. There are no significant variances to the current service capital programme

Surrey Fire & Rescue Service - Joint Transport project capital reprofile request (£4.8m)

42. The Joint Transport project capital scheme is a grant funded collaborative project to provide an integrated transport function between Surrey Fire & Rescue Service (SFRS) and other blue light organisations operating in Surrey and Sussex. Due to delays and its scale, the project is only likely to achieve certain elements in 2016/17

10 around: fuel, workshops planning and telematics design. SFRS has reviewed the capital project and seeks to re-profile £4.8m to future years. The grant provider has been informed and confirmed project duration extension.

Appendix to Annex

Updated budget - revenue

App 1. The council's 2016/17 revenue expenditure budget was initially approved at £1,686.0m. Adding virement changes in the first six months of 2016/17 reduced the expenditure budget as at 30 September 2016 to £1,674.4m. Table 1 shows the updated budget, Table App1 shows the original and updated income and expenditure budgets, including the overall net expenditure the council plans to meet from reserves.

Table App1: 2016/17 updated revenue budget as at 30 September 2016

	MTFP income £m	Carry fwds & Internal movements £m	Approved income £m	MTFP expenditure £m	Carry fwds & Internal movements £m	Approved expenditure £m	Updated net expenditure budget £m
Economic Growth	0.0	0.0	0.0	1.7	0.0	1.7	1.7
Strategic Leadership	0.0	0.0	0.0	1.0	0.0	1.0	1.0
Adult Social Care	-60.9	-8.4	-69.3	429.5	8.2	437.8	368.5
Children, Schools & Families*	-167.7	3.9	-163.8	365.3	-2.8	362.5	198.7
Delegated Schools	-457.7	12.9	-444.8	457.7	-12.9	444.8	0.0
Community Partnership & Safety	-0.2	0.0	-0.2	3.0	0.9	3.9	3.8
Coroner	0.0	0.0	0.0	1.8	0.0	1.8	1.8
Cultural Services	-13.1	0.1	-13.1	22.7	-0.1	22.6	9.6
Customer Services	-0.1	0.0	-0.1	3.6	0.0	3.6	3.5
Directorate Support	-0.1	0.0	-0.1	1.1	0.1	1.1	1.0
Emergency Management	0.0	0.0	0.0	0.5	0.0	0.6	0.5
Surrey Fire and Rescue Service	-13.6	-0.8	-14.4	46.8	0.8	47.5	33.2
Trading Standards	-1.7	0.0	-1.7	3.7	0.0	3.7	2.0
Environment & Planning	-6.5	-1.9	-8.5	86.3	1.9	88.2	79.7
Highways & Transport	-7.6	-0.1	-7.6	51.9	0.6	52.5	44.9
Public Health	-38.5	0.0	-38.5	38.8	0.0	38.8	0.3
Central Income & Expenditure	-0.5	-0.3	-0.8	60.0	-2.9	57.2	56.3
Communications	0.0	0.0	0.0	2.0	0.1	2.2	2.1
Orbis - Joint and Managed	-17.2	6.2	-11.0	97.7	-6.2	91.5	80.6
Legal & Democratic Services	-0.5	0.0	-0.6	9.0	0.0	9.0	8.5
Strategy & Performance	-0.8	0.0	-0.8	1.9	0.5	2.5	1.7
Service total	-786.7	11.5	-775.1	1,686.0	-11.5	1,674.4	899.3
Government grants	-202.3		-202.3			0.0	-202.3
Local taxation	-672.2	0.0	-672.2		0.0	0.0	-672.2
Grand total	-1,661.2	11.5	-1,649.6	1,686.0	-11.5	1,674.4	24.8

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

App 2. When Council agreed the MTFP in February 2016, some government departments had not determined the final amount for some grants. Cabinet agreed the principle that services would estimate their likely grant and services' revenue budgets would reflect any changes in the final amounts, whether higher or lower.

App 3. To control their budgets during the year, managers occasionally need to transfer, or vire budgets from one area to another. In most cases these are administrative or technical in nature, or of a value the Director of Finance can approve. Virements above £500,000 require the relevant Cabinet Member's approval. There were two virements above £500,000 in the first six months of 2016/17, none in September.

App 4. The delegated schools budgets have reduced to recognise effect of further school conversions to academy status.

App 5. Table App 2 summarises the movements to the revenue expenditure budget.

Table App 2: 2016/17 revenue expenditure budget movements as at 30 September 2016

	Income £m	Expenditure £m	Earmarked reserves £m	General balances £m	Virement Count
MTFP	-1,661.2	1,686.0		24.8	
Carry forwards		3.9	-3.9	0.0	1
	-1,661.2	1,689.9	-3.9	24.8	1
Q1 movements	5.7	-5.7		0.0	75
July and August movements	-2.5	2.5	0.0	0.0	14
September movements					
Internal service movements	-4.9	4.9	0.0	0.0	21
Cabinet approvals	0.0	0.0	0.0	0.0	0
Funding changes	13.1	-13.1	0.0	0.0	1
Total September movements	8.2	-8.2	0.0	0.0	22
September approved budget	-1,649.6	1,678.4	-3.9	24.8	126

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

App 6. Table App 3 shows the year to date and forecast year end gross revenue position supported by general balances.

Table App 3: 2016/17 Revenue budget forecast position as at 30 September 2016

	Year to date			Full year			
	Budget £m	Actual £m	Variance £m	← Budget £m	Remaining forecast £m	→ Projection £m	Variance £m
Income:							
Local taxation	-337.0	-337.1	-0.1	-672.2	-336.6	-673.7	-1.5
Government grants	-422.5	-412.2	10.3	-824.5	-404.0	-815.6	8.9
Other income	-75.0	-88.3	-13.3	-152.9	-77.8	-166.1	-13.2
Income	-834.5	-837.6	-3.1	-1,649.6	-818.4	-1,655.4	-5.8
Expenditure:							
Staffing	136.5	137.8	1.3	276.9	139.2	277.0	0.1
Service provision	444.0	456.8	12.8	952.8	522.2	981.0	28.3
Non schools sub-total	580.5	594.6	14.1	1,229.7	661.4	1,258.0	28.4
Schools expenditure	237.1	237.1	0.0	444.8	207.7	444.8	0.0
Total expenditure	817.6	831.7	14.1	1,674.4	869.1	1,702.8	28.4
Movement in balances	-16.9	-5.9	11.0	24.8	50.7	47.4	22.4

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

Updated budget – capital

App 7. Cabinet approved £13.0m carry forward of scheme budgets requested in 2015/16's Outturn report and approved -£55.8m reprofiling of expenditure from 2016/17 to the remaining years of the 2016-21 capital programme in July 2016. Capital virements made in September amount to £0.1m to add to the net total £4.6m virements made between April and August 2016. Table App 4 summarises the capital budget movements for the year.

Table App 4: 2016/17 Capital budget movements as at 30 September 2016

	1 Apr 2016 £m	31 Aug 2016 £m	30 Sep 2016 £m
MTFP (2016-21) (opening position)	194.4	194.4	194.4
In year changes			
Carry forwards from 2015/16		13.0	13.0
Property Services' reprofiling		-55.4	-55.4
Environment & Infrastructure reprofile		-0.5	-0.5
Reprofiling & carry forwards		-42.9	-42.9
Virements			
In year changes			
Limmerlease (Watts Gallery Trust)		1.0	1.0
Woodfuel & timber grant		0.3	0.3
Lindon Farm		-1.8	-1.8
Salt barns		0.2	0.2
Horley Library		2.1	2.1
IMT contributions to Equipment Replacement Reserve		0.5	0.5
Schools contributions		1.3	1.3
East Surrey Integrated Care unit - ASC		0.9	0.9
Local transport systems		0.2	0.3
In year budget changes		4.6	4.7
2016/17 updated capital budget		156.2	156.3

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

Balance sheet

App 8. Table App 5 shows a summary of the council's balance sheet as at 30 September 2016.

Table App 5: Balance sheet

As at 31 Mar 2016		As at 30 Sep 2016	
	£m		£m
1,792.9	Property, plant & equipment	1,811.2	
1.0	Heritage assets	1.0	
62.9	Investment property	62.9	
5.5	Intangible assets	5.1	
3.2	Long Term Investments	19.1	
28.7	Long term debtors	75.4	
1,894.2	LONG TERM ASSETS	1,974.6	
65.0	Short term investments	30.4	
0.8	Intangible assets	0.8	
24.2	Assets held for sale	24.2	
1.4	Inventories	0.8	
152.1	Short term debtors	119.2	
0.0	Cash & cash equivalents	20.3	
243.5	CURRENT ASSETS	195.6	
-19.6	Short term cash & cash equivalents	0.0	
-30.9	Short term borrowing	-36.8	
-182.1	Creditors	-185.6	
-3.1	Provisions	-2.4	
-0.1	Revenue grants receipts in advance	-0.1	
-0.3	Capital grants receipts in advance	-0.3	
-7.6	Other short term liabilities	-7.6	
-243.7	CURRENT LIABILITIES	-232.8	
-30.6	Provisions	-29.6	
-397.8	Long term borrowing	-397.8	
-1,383.5	Other long term liabilities	-1,383.5	
-1,811.9	LONG TERM LIABILITIES	-1,811.0	
82.1	NET ASSETS	126.5	
-317.1	Usable reserves	-411.0	
235.0	Unusable reserves	284.5	
-82.1		-126.5	

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

Earmarked reserves

Table App 6: Earmarked revenue reserves as at 30 September 2016

	Opening balance 1 Apr 2016 £m	Balance at 30 Sep 2016 £m	Forecast 31 Mar 2017 £m
Revolving Infrastructure & Investment Fund	21.1	11.1	11.1
Budget Equalisation Reserve	13.1	6.9	11.7
Eco Park Sinking Fund	11.7	5.8	4.4
Insurance Reserve	11.9	7.7	7.7
Investment Renewals Reserve	8.8	9.2	2.1
General Capital Reserve	5.2	5.2	5.2
Street lighting PFI Reserve	5.1	4.4	4.4
Vehicle Replacement Reserve	3.9	3.9	2.0
Economic Downturn Reserve	9.2	9.2	9.2
Public Health Reserve	2.7	0.0	0.0
Economic Prosperity Reserve	2.5	2.5	2.5
Equipment Replacement Reserve	2.1	3.0	2.0
Child Protection Reserve	1.1	0.1	0.0
Business Rate Appeals Reserve	1.3	1.3	1.3
Pension Stabilisation Reserve	1.1	0.0	0.0
Interest Rate Reserve	1.0	1.0	1.0
Total earmarked revenue reserves	101.8	71.3	64.6
General Fund Balance	21.3		21.3

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

Debt

App 9. During the six months to 30 September 2016, the Accounts Payable team raised invoices totalling £149.6m (up from £83.8m at 30 June 2016). The amount overdue on these invoices was £23.2m of gross debt as at 30 September 2016 (down from £24.6m at 30 June 2016). Table App 7 shows the age profile of the council's debts. The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old).

Table App 7: Age profile of the council's debts as at 30 September 2016

Account group	<1 month £m	2-12 months £m	1-2 years £m	+2 years £m	Gross debt £m	Overdue debt £m
Care debt – unsecured	3.4	5.2	1.9	3.3	13.8	10.5
Care debt – secured	0.5	2.1	1.6	3.2	7.4	6.9
Total care debt	3.9	7.3	3.6	6.5	21.3	17.4
Schools, colleges and nurseries	1.6	1.5	0.0	0.0	3.1	1.5
Clinical commissioning groups	8.4	1.0	0.1	0.2	9.7	1.3
Other local authorities	1.5	0.9	0.2	0.1	2.7	1.2
General debt	2.2	1.5	0.3	0.0	4.1	1.9
Total non-care debt	13.8	4.8	0.6	0.4	19.6	5.8
Total debt	17.6	12.1	4.2	6.9	40.8	23.2

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

App 10. Adjusting the overdue debt to take into account those balances not secured (on property) produces the overdue, unsecured debt figures shown in Table App 8. Over the quarter, overdue, unsecured debt has fallen by £1.9m, wholly due to reductions in non-care related debt.

Table App 8: Overdue, unsecured debt summary as at 30 September 2016

	2016/17 Q2 £m	2016/17 Q1 £m	2015/16 Q4 £m	2014/15 Q4 £m	2013/14 Q4 £m
Care related debt	10.5	10.5	10.8	8.9	6.5
Non care related debt	5.8	7.7	7.6	4.2	3.1
Total	16.3	18.2	18.4	13.1	9.6

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

App 11. The council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for the period 1 April 2016 to 30 September 2016 was 28 days (down from 32 days as at 30 June 2016).

App 12. The Director of Finance has delegated authority to write off irrecoverable debts in line with financial regulations. During the quarter to 30 September 2016, the Director of Finance has written off 121 such debts with a total value of £267,732, of which £257,380 is care related and £10,352 is non care related debt.

Treasury management

Borrowing

App 13. 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 the costs of borrowing are affordable, prudent and sustainable under the Prudential Code. Table App 9 shows movements in the council's long term borrowing.

Table App 9: Long term borrowing as at 30 September 2016

	£m
Debt outstanding as at 1 April 2016	397.2
Loans raised	0.0
Loans repaid	0.0
Current balance as at 30 September 2016	397.2

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

App 14. The weighted average interest rate of the council's entire long term debt portfolio is 4.1% as at 30 September 2016.

App 15. The council also manages cash on behalf of Surrey Police Authority (£37.9m as at 30 September 2016) which is classed as temporary borrowing.

Authorised limit and operational boundary

App 16. 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.

Table App 10: Borrowing against the authorised limit and operational boundary as at 30 September 2016

	Authorised limit £m	Operational boundary £m
Gross borrowing	397.2	397.2
Limit / boundary	882.9	608.9
Headroom	485.7	211.7

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

Capital Financing Requirement

App 17. 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. Table App 11 shows the council's position against the estimated CFR, as reported to the County Council in February 2016. The council's net current borrowing position of £332.7m more in borrowing than the council holds in short term deposits is substantially below its CFR.

Table App 11: The council's position against the estimated CFR

Capital Financing Requirement			Net borrowing
2015/16	2016/17	2017/18	
£870.9m	£916.4m	£950.3m	£332.7m

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

Maturity profile

App 18. The council sets limits for the maturity structure of borrowing in accordance with the Prudential Code, as shown in Table App 12. The actual amounts as at 30 September 2016 exclude balances invested on behalf of Surrey Police Authority.

Table App 12: Maturity structure of the council's borrowing as at 30 September 2016

	Upper limit	Lower limit	Actual
Repayable in 1 year*	50%	0%	0%
Repayable in 1-2 years	50%	0%	0%
Repayable in 2-5 years	50%	0%	0%
Repayable in 5-10 years	75%	0%	2%
Repayable in 10-15 years	75%	0%	0%
Repayable in 15-25 years	75%	0%	2%
Repayable in 25-50 years	100%	25%	96%

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

Early debt repayment and rescheduling

App 19. The council has not made early repayments or rescheduled debt in 2016/17.

Investments

App 20. The council had an average daily level of investments of £181.6m throughout 2015/16, with an average of £87.7m so far in 2016/17. The balance of funds managed on behalf of schools was £57.1m at 30 September 2016.

App 21. The council invests cash on the money markets through one of its five brokers, or directly with counterparties through the use of call accounts, money market funds or direct deal facilities, or with the Debt Management Office (DMO). Table App 13 shows activity during the six months to 30 September 2016.

Table App 13: Deposit activity for the six months up to 30 September 2016

Timed deposits	Number	Average value £m	
Deals using a broker	0	0	
Direct deal facilities	0	0	
Deals with DMO	0	0	
Instant access	Number	Individual limit £m	Total limit £m
Active call accounts	1	20.0	20.0
Active money market funds	5	25.0	125.0

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

App 22. The weighted average return on all investments received in the quarter to 30 September 2016 is 0.45%. This compares to the average 7-day London Interbank Bid Rate (LIBID) of 0.28% for the same period. Table App 14 shows the comparison.

Table App 14: Weighted average return on investments compared to 7-day LIBID

	Average 7-day LIBID	Weighted return on investments
Quarter 2	0.28%	0.45%
2015/16 total	0.36%	0.54%
2014/15 total	0.35%	0.42%

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