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**

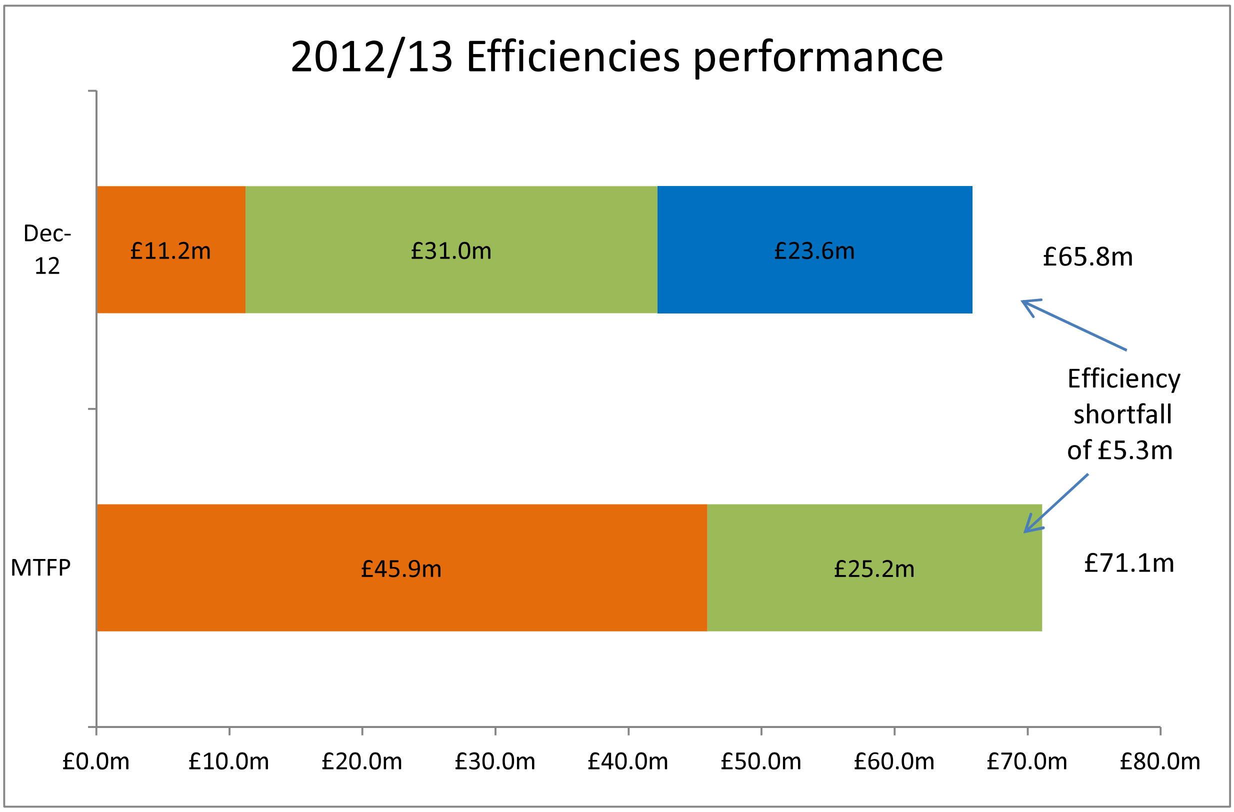
56. There are 127 "live" vacancies, for which active recruitment is currently taking place. The remaining vacancies are either filled by agency and bank staff on a short term basis or not being actively recruited to at present.

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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