

Budget monitoring period eleven 2016/17 (February 2017)

Summary recommendations

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2016/17 is -£6.8m underspend, an improvement from -£3.5m last month (paragraph 1).
2. Forecast efficiencies and service reductions for 2016/17 is £66.4m, up by £0.1m from last month (paragraph 50).
3. The Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary (main report, paragraphs 16 to 23).

Cabinet is asked to approve the following.

4. Transfer -£2.0m underspend on the New Homes Bonus grant allocated to infrastructure projects to the Budget Equalisation Reserve (paragraph 27)
5. Reprofile £0.15m capital contribution to the Godalming flood alleviation scheme from 2016/17 to 2017/18 (paragraph 61).

Revenue summary

As at 28 February 2017, the council forecasts achieving a -£6.8m underspend at year end.

The budget monitoring report to Cabinet in October 2016 showed a +£22.4m forecast overspend as at 30 September 2016. Cabinet required officers to take effective measures to bring the 2016/17 budget back into balance. This report confirms the measures taken over the succeeding five months by the Chief Executive and the Director of Finance, with directors' support have resulted in a -£29.2m improvement in the council's forecast outturn.

Cabinet has continued to avoid further spending commitments, wherever possible, until it has assurances of a balanced budget for 2017/18 and a sustainable Medium Term Financial Plan (MTFP).

Achieving a balanced budget outturn in 2016/17 has included one-off measures and delays to spend as well as genuine efficiencies, such as achieving future years' savings early. One-off measures do not address the fundamental issue of service overspends, particularly in social care. These overspends are driven by: the increased numbers of those who need services, the increased complexity of their needs and the increasing costs of meeting those needs. That mix, plus the savings already achieved and the continuing reduction in central government funding make the council's longer term financial resilience a serious challenge.

In February 2016 Surrey County Council set its £1,686m revenue gross expenditure budget for the 2016/17 financial year. The 2016/17 budget includes measures determined at short notice aimed at mitigating the impact of the shock funding reduction by Government. A key objective of MTFP 2016-21 is to increase the council's overall financial resilience. This plan includes making efficiencies totalling £82.9m during 2016/17. As at 28 February 2017, the council forecasts achieving £66.4m efficiencies.

The cost reductions the council has achieved in 2016/17 are largely due to spending delays and one off savings measures. These short term actions do not remove the continuing pressures on the council's financial position shown by the £17m shortfall against its planned efficiencies. Significant underlying consequences of this shortfall remain for future

years. For example, despite improvement in its forecast outturn again this month, Adult Social Care still carries a £19m shortfall against its planned ongoing savings (plus £1m planned one off savings). This underlying effect will continue into 2017/18.

The Section 151 Officer expressed the view in her Annex to the Budget Report in February 2017 that the risks to the council's financial situation have become even more serious in the last year. During 2017/18, the council must deliver already stretching service reduction plans of £93m, plus it must identify up to £22m of additional permanent service reductions to replace the one off measures the council is using to balance the 2017/18 budget and move towards a sustainable budget for future years.

The forecast underspend mainly relates to +£24.8m demand increases in the council's main social care services to adults and children, offset by reductions in other services.

- +£14.8m overspend in Adult Social Care (-£1.0m change) includes achieving £36m savings against a demanding £55m savings target. The shortfall is largely due to demand and price pressures preventing the service from achieving the stretch target (paragraphs 10 to 17).
- +£10.0m overspend in Children's Services (+£0.3m change) due to demand (paragraphs 18 and 19).
- -£3.5m underspend in Schools & SEND (Special Educational Needs & Disabilities) (-£0.5m change) largely due to underspends on centrally held budgets and Commercial Services' increased contribution to overheads set against an overspend on Dedicated Schools Grant (DSG) services supporting SEN (paragraphs 20 and 21).
- +£0.1m overspend in Commissioning & Prevention within Children, Schools & Families directorate (+£0.4m change) (paragraph 22).
- -£1.7m net underspend in Highways & Transport (-£0.8m change) from measures including maximising income and developer funding, delaying or stopping recruitment, and deferring non-essential works and equipment purchases (paragraph 23).
- -£15.4m net underspend in Central Income & Expenditure (no change) from savings on minimum revenue provision (MRP) and interest payable (paragraphs 24 to 27 and 35).
- -£8.8m total savings contribution by all Orbis services from stopping some spending and deliver additional future savings early (paragraphs 28 to 31 and 36).

This report also outlines areas for Cabinet to be aware of in Children, Schools & Families and Environment & Planning, plus potential carry forward requests (paragraphs 34 to 38).

To support 2016/17, Cabinet approved use of £24.8m reserves and £3.9m carry forward to fund continuing planned service commitments. The council has £21.3m general balances. An underspending in the 2016/17 financial year, will lead to an increase in the projected level of reserves and balances.

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 28 February 2017, services forecast spending £124m against the £141m current 2016/17 budget

As part of increasing the council's overall financial resilience, it plans £132m net investment in long term capital investment assets in 2016/17 (paragraphs 59 and 60). This means total capital spending, including long term investments, will be £255m in 2016/17.

Revenue budget

Overview

1. As at 28 February 2017, the forecast year end budget variance is -£6.8m underspend (increased from -£3.5m as at 31 January 2017).
2. The overall forecast underspend is mainly due to +£24.8m overspends in social care of: +£14.8m in Adult Social Care, and +£10.0m in Children's Services. These are largely offset by the following underspends: -£15.4m in Central Income & Expenditure, -£3.5m in Schools & SEND, -£1.7m in Highways & Transport, -£8.8m for all services provided by Orbis and other smaller underspends.
3. While the forecast outturn position is underspent, the underlying forecast budget variance remains significant. The Section 151 Officer now takes the view that the council's financial situation has become even more serious in the last year. The cost, demand (such as the growth across the whole health and social care system in Surrey and care for looked after children) and funding pressures the council had expected to face from 2017/18 onwards have already had a significant and detrimental impact on the council's finances in 2016/17.
4. The council has taken the following actions to bring the budget back into balance by the end of the financial year:
 - the Chief Executive and Director of Finance have agreed a series of actions with service directors and are meeting regularly to review progress;
 - all services are delaying planned spending in year;
 - all services are reviewing all options to identify how they can manage service demands more effectively; and
 - Cabinet will, wherever sensible, not agree further spend commitments until a balanced budget is assured and progress towards a sustainable MTFP made.
5. All services continue to reduce expenditure through measures including:
 - freezing recruitment where possible;
 - reducing meetings and attendance at meetings to bring down travel costs;
 - avoiding or reducing all administrative costs such as printing, venue hire, IT equipment, telephony etc.

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 was budgeted to be £24.8m. Table App1 in the appendix outlines the updated revenue budget by service after in year budget virements and carry forward of budgets from the 2015/16 financial year.
7. Table 1 shows the actual year to date total net expenditure met from reserves is £77.4m. This compares to the profiled, budgeted year to date net expenditure of £87.9m. The difference between the two is -£10.5m year to date underspend (increased from -£10.0m underspend as at 31 January 2017). Table App3 in the appendix shows more detail.

Table 1: 2016/17 revenue budget subjective summary as at 28 February 2017

Subjective summary	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Gross income	-1,650.3	-1,457.3	-1,660.9	-10.6
Gross expenditure	1,675.1	1,534.8	1,678.9	3.8
Total net expenditure	24.8	*77.4	18.0	-6.8

Note: * Profiled year to date net budget is £87.9m compared to actual net expenditure of £77.4m

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

8. In March 2016, Cabinet approved the council's 2016/17 revenue expenditure budget at £1,686.0m. Changes in the first eleven months of 2016/17 to reflect agreed carry forwards and other budgetary adjustments, reduced the expenditure budget as at 28 February 2017 to £1,675.1m. 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 net revenue budget position analysed by services and the council's general funding sources. For each service, Table 2 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 net revenue budget forecast as at 28 February 2017

Service	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Economic Growth	1.7	0.8	1.2	-0.5
Strategic Leadership	1.0	0.8	0.9	-0.1
Adult Social Care	367.3	349.0	382.1	14.8
Children's and Safeguarding services	92.5	91.8	102.5	10.0
Commissioning & Prevention	40.7	35.1	40.8	0.1
Schools & SEND (Special Educational Needs & Disabilities)	63.2	54.7	59.7	-3.5
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	3.4	2.0	2.6	-0.8
Coroner	1.8	1.4	1.6	-0.2
Cultural Services	9.6	8.0	9.2	-0.4
Customer Services	3.5	3.0	3.3	-0.2
C&C Directorate Support	1.0	0.8	0.9	-0.1
Emergency Management	0.5	0.4	0.4	-0.1
Surrey Fire & Rescue Service	33.0	30.1	32.8	-0.2
Trading Standards	2.0	1.8	1.9	-0.1
Environment & Planning	79.6	74.9	80.3	0.7
Highways & Transport	45.4	39.3	43.7	-1.7
Public Health	0.0	0.0	0.1	0.1
Central Income & Expenditure	58.0	27.6	42.6	-15.4
Communications	2.2	1.9	2.1	-0.1
Finance	3.1	2.2	2.3	-0.8
Human Resources & Organisational Development	4.3	3.2	3.5	-0.8
Information Management & Technology	13.1	10.9	12.2	-0.9
Democratic Services	3.9	3.6	4.0	0.1
Legal Services	4.5	4.0	4.4	-0.1
Strategy & Performance	1.8	1.4	1.5	-0.3
Procurement	0.9	0.7	0.8	-0.1
Property	21.0	14.9	16.8	-4.2
Orbis Joint Operating Budget	38.2	32.4	36.2	-2.0
Business Operations	-0.1	0.0	-0.1	0.0
Total services' net revenue expenditure	897.1	796.7	890.4	-6.7
General funding sources				
General Government grants	-200.1	-179.7	-200.1	0.0
Local taxation (council tax and business rates)	-672.2	-539.6	-672.3	-0.1
Total general funding	-872.3	-719.3	-872.4	-0.1
Total movement in reserves	24.8	77.4	18.0	-6.8

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

Significant revenue budget variances

Adult Social Care - +£14.8m overspend (-£1.0m change since 31 January 2017)

10. Adult Social Care (ASC) forecasts +£14.8m year end overspend. The -£1.0m improvement in ASC's forecast overspend includes -£0.6m increase in direct payment reclaims in the Family, Friends and Community (FFC) programme.
11. The remaining forecast overspend is still very significant and almost entirely due to failure to achieve the ambitious additional savings budgeted for 2016/17 over and above the level of savings that ASC has typically achieved in recent years. Seismic change to demand growth and large scale service redesign were required for ASC to achieve these additional savings in such a short amount of time. Huge effort continues to progress health and social care integration, which will improve both the

cost and quality of service delivery in the long term. However this is not yet reducing demand, indeed demand continues to grow in terms of hospital admissions and social care packages. When combined with the need to pay higher prices for social care provision to maintain market sustainability (particularly since the introduction of the National Living Wage) it has not been possible to achieve this scale of additional savings in the timescale required.

12. Demand in most of the key service areas which support the highest volume of individuals has continued to rise compared to the budgeted demand, resulting in significant service pressures. In addition, demand growth was most significant in the first half of the financial year which has the greatest cost impact on this year's budget.
13. It is evident adult social care requires a new funding model to be sustainable. In September 2016, the Kings Fund estimated the national social care funding gap will rise to between £2.8bn and £3.5bn by 2019/20 without funding reform. This council has played a leading role in raising the profile of the issue and welcomed the Chancellor of the Exchequer's Budget announcement of 8 March 2017 to provide £2bn additional funding for local government to meet some of the rising costs of adult social care over the next three years. However, the way the Government allocates 90% of the new funding means the sums Surrey residents pay through the adult social care precept reduce the council's share of the new grant funding to amounts lower than if the Government had allocated the grant on the basis of relative need.
14. ASC's action plan to reduce its 2016/17 overspend includes the following measures.
 - Reduce demand through a more robust assessment process across three areas:
 - work closely with CCGs (clinical commissioning groups) to manage care services for older people at a locality level, with renewed emphasis on managing demand within budgetary constraints;
 - specialised assessors and managers will manage care packages for people aged 18-64 with physical & sensory disabilities and with learning disabilities;
 - robustly manage the Transition 18-25 budget for individuals moving from Children's or education services to ensure best value in all new care packages.
 - Continue emphasis on maximising income following implementation of the new charging policy.
15. Initial modelling indicates that these measures could bring down the ASC overspend reported in September by £4m-£5m. As at 28 February 2017, ASC has reduced care costs by -£2.4m and forecasts raising -£1.5m additional fees & charges income for this year. This represents -£3.9m towards the £4m-5m target to reduce the overspend.
16. The principal reason for the forecast overspend is +£19.8m forecast shortfall against ASC's savings target (of which +£18.7m is a shortfall against ongoing savings) adding pressure to the budget as described below.
 - +£9.2m from the Family, Friends & Community (FFC) programme, which 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 savings target. FFC also forecasts a +£0.9m shortfall on direct payment reclaims.

- +£5.9m from the high rate of demand growth across the whole health and social care system in Surrey is preventing delivery of savings from demand management and from a shift in the care pathway for older people.
 - +£2.2m from ASC's contracts & grants review's 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 identified -£3.6m savings against the -£5.8m target, leaving a +£2.2m pressure on the ASC budget.
 - +£0.7m from the considerable work continues on health and social care integration, within which the development of Sustainability and Transformation Plans is shifting the focus, nature and timing of the planned 2016/17 savings.
 - +£0.4m from implementation of the pay & reward proposals reducing forecast staff turnover savings.
 - +£1.3m from underachievement against other savings plans affected by the continued demand growth.
17. In addition to these challenges with its savings plans, ASC's other variances that reduce the overall forecast overspend to +£14.8m are:
- +£1.3m increased contractual commitments for the provision of some services;
 - -£2.5m lower costs of conducting Deprivation of Liberty Safeguard (DoLS) assessments;
 - -£1.5m increased fees & charges from the increase in demand and the change in the charging policy; and
 - -£2.4m reduction in the spot care forecasts from actions as part of implementing the new system and gatekeeping access to services.

Children's Services - +£10.0m overspend (+£0.3m change since 31 January 2017)

18. Children's Services forecasts +£10.0 m year end overspend. This +£0.3m increase in the forecast since 31 January 2017 reflects continuing pressure on external placements for looked after children (LAC).
19. 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 LAC and unaccompanied asylum seekers continues to exceed that planned. This is leading to the following budget pressures.
- +£2.4m need for social work capacity due to higher demand, including cost pressure for 36.4 more posts than budgeted and from the large number of locums who, on average costs £20,000 a year more than permanent staff.
 - +£0.7m additional resources have been required for the MASH. The MASH began operation in October and additional staff have been needed to manage demand as new approaches and processes bed in. The resources needed to operate the MASH are being reviewed in the context of the wider social care system.
 - +£3.9m additional placement costs for the 241 children currently in ongoing placements compared to the 204 budgeted. Within this: demand for much more expensive residential placements is currently higher (70) than planned (46); and the number of residential family assessment placements is 28 for the year to 28 February 2017, compared to 12 budgeted for the whole year. Children's

services had anticipated the number of external residential and external fostering placements would reduce over the remainder of the year in line with previous years. This has not happened as expected, increasing the pressures against this budget further.

- +£2.1m cost of 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. However, this only applies to new cases from 1 July 2016. A thorough review of the forecast by Children's Services confirmed the cost of unaccompanied asylum seeking children has risen by 7% since 2015/16 and the costs for those over 18 has increased by +£0.5m due to the number of young people continuing in their external fostering placement in line with the Government's "staying put" initiative.
- +£1.0m greater demand for services to support children with disabilities, particularly care packages.

Schools & SEND - -£3.5m underspend (-£0.5m change since 31 January 2017)

20. Schools & SEND (Special Educational Needs and Disabilities) forecasts -£3.5m underspend at year end. This continuing reduction is mainly due to: further improvement in the position of Commercial Services due to reduction in food costs following contract retendering and more trading days in schools this year; and an offsetting pressure on DSG services supporting SEN.
21. Schools & SEND's overall forecast underspend position includes significant variances:
 - +£1.2m overall overspend on transport, including +£1.2m SEND transport, +£0.3m overspend on alternative provision and -£0.3m underspend on mainstream transport;
 - +£0.7m overspend on the social care element of external residential education placements reflecting the ongoing pressure on placement budgets across social care and education;
 - +£0.5m additional overspend on DSG funded services;
 - -£3.0m underspend on centrally held budgets;
 - -£0.8m additional income; and
 - -£1.9m contribution to overheads by Commercial Services.

Commissioning & Prevention - +£0.1m overspend (+£0.4m change since 31 January 2017)

22. Commissioning & Prevention forecasts +£0.1m overspend at year end. The position has deteriorated over the last month mainly due to increasing costs for free nursery entitlement. The overall position includes some significant offsetting variances.
 - -£1.2m planned investment in Early Help is unlikely to be spent fully in 2016/17.
 - -£0.5m lower costs from careful management of vacancies in the central transformation team.
 - +£1.3m expenditure on free early education for two year olds in excess of the grant funding available as: the grant is based on DFE returns each January, which tend to be lower than the number of children taking up places across the year; and providers' charges are higher than the rate of grant received.
 - +£0.3m additional staffing to support work with Children in Need as part of the Children's Service improvement plan.

- +£0.2m shortfall on SOLD's (Surrey Outdoor Learning Development) stretch income target.

Highways & Transport - -£1.7m (-£0.8m change since 31 January 2017)

23. Earlier in the financial year Highways & Transport identified a number of pressures across the service including delayed implementation of savings, increased street lighting energy costs following the introduction of a new pricing tariff, and higher than budgeted insurance claim costs. In response the service agreed measures to offset these pressures, which it expects to generate -£1.8m overall underspend in 2016/17. The measures include maximising income and developer funding, delaying or stopping recruitment, and deferring non-essential works and equipment purchases. The forecast underspend has increased since last month due to a number of unrelated factors, including delays and lower than expected costs for some works and insurance claims.

Central Income & Expenditure - -£15.4m underspend (no change since 31 January 2017)

24. Central Income & Expenditure forecasts -£15.4m year end underspend. This includes -£8.2m saving on the council's minimum revenue provision (MRP) and -£8.9m saving on interest payable.
25. -£8.2m forecast MRP saving is due to a change in the amounts the council sets aside for repayment of loans. The changes are consistent with the council's approved policy and realise significant short to medium term savings.
26. -£8.9m forecast interest payable savings include: -£3.9m additional contributions from the Investment Strategy, as new investments undertaken since setting the MTFP budget have led to increased income; -£1.2m savings from minimising cash balances and using internal cash to fund capital expenditure and -£1.8m from lower interest rates.
27. The Central Income and Expenditure budget also includes -£2.0m underspend against the New Homes Bonus grant allocated to infrastructure projects. Central Income & Expenditure requests approval to transfer this to the Budget Equalisation Reserve to help support expenditure in this area during 2017/18.

Property Services - -£4.2m (-£0.8m change since 31 January 2017)

28. Property forecasts -£4.2m year end underspend. This is largely due to the decision to stop some building maintenance spend and reprioritise the maintenance programme over several years accounting for -£1.9m. The remainder is partly because of the favourable weather conditions causing less spend in areas such as reactive maintenance.

Information Technology & Digital - £0.9m (-£0.3m change since 31 January 2017)

29. Information Technology & Digital (IT&D) forecasts -£0.9m year end underspend. This is largely due to stopping spend on areas such as wifi and a pause in the modern worker programme, which IT&D intends to pick up again in 2017/18.

Orbis Joint Operating Budget - -£2.0m (-£0.3 change since 31 January 2017)

30. Orbis Joint Operating Budget services are on track to deliver £1.2m efficiencies in 2016/17 and continue to review their costs and income to deliver a further challenging £3.9m efficiencies next year. Services are holding vacancies and managing non staffing costs ahead of the savings required in 2017/18. As a result Orbis Joint Operating Budget in total is likely to deliver £2.6m of 2017/18's savings early and -£0.4m one off savings, so the council's 70% contribution to Orbis will be -£2.0m lower than budgeted.
31. In addition to Property and IT&D, other budgets managed by Orbis forecast underspending by -£1.6m, including from delivering -£0.6m Finance savings early and stopping spend of -£0.3m. The total contribution by all Orbis services to the council's overall underspend is -£8.8m.

Areas to be aware

32. At this point in the financial year, some services still face risks to their 2016/17 outturn positions.

Children, Schools & Families – (Dedicated Schools Grant (DSG))

33. Services funded through the high needs and early years blocks of DSG are overspending.
 - There is already a budget pressure included in the forecast of +£1.3m for Early Years as Schools Forum rejected funding this from DSG funding
 - Schools Forum has approved for the High Needs Block DSG forecast overspend of £4.8m to be carried forward and funded from within the 2017/18 DSG. Demand and spend for SEND services continues to increase and any additional overspend could potentially require funding from the council. Schools & SEND currently forecast a £0.5m additional overspend in high needs DSG funded services.

Environment & Planning

34. Environment & Planning currently forecasts +£0.8m overspend primarily against the Waste budget. Some savings have been delayed (e.g. introduction of charges for some non-household waste at community recycling centres and contract cost reductions). Other smaller financial pressures within Environment & Planning include bus contract costs, Countryside management and shortfalls against some savings plans. The forecast overspend takes account of steps taken during the year to reduce costs in order to offset these pressures, including delaying or stopping recruitment and maximising income.

Potential carry forward requests

35. Redundancies due to service restructuring plans to meet MTFP savings have been lower in 2016/17 than initially anticipated. This budget is difficult to predict and the number of redundancies is expected to be weighted towards the year end. Consequently, it might underspend by approximately -£1.9m. If this materialises Central Income & Expenditure will request a carry forward to 2017/18.
36. Orbis anticipates making £0.7m carry forward requests of: £0.2m in Human Resources & Organisational Development for apprentices and occupational health

assessments; and £0.5m in Information Technology & Digital to continue the modern worker programme.

37. The Community Improvements Fund has £261,000 committed grants and Member Allocations has £99,000 committed allocations they intend to request carry forwards to 2017/18 for.
38. Funds were returned to the council from Surrey Connects in 2014/15. These were carried forward into 2015/16, with the remaining balance subsequently carried forward into 2016/17, while an investment plan was developed. The Economic Development team forecasts £157,000 funding will remain at year end, which it intends to request £115,000 carry forward.

Revolving Infrastructure & Investment Fund

39. Table 3 shows the council forecasts generating -£1.8m net income this year by the joint venture project to deliver regeneration in Woking town centre, various property acquisitions made for future service delivery and the Halsey Garton Property group. The council anticipates transferring the net income to the Revolving Infrastructure & Investment Fund at the year-end.
40. Net revenue income is reported after deducting assumed funding costs. The council may fund its capital expenditure through the use of reserves, capital receipts and prudential borrowing. As the council does not hypothecate these funding sources against individual projects or acquisitions, we assume that all the council's activities in progressing the Investment Strategy will increase the requirement to borrow. The council requires all investments to demonstrate a return in excess of the assumed cost of capital which it calculates based on assumptions in the MTFP and adjusted if required for market conditions. As a result of changes in the treasury management strategy, the reduction in base rates since August 2016 and the expectation of continued low long-term interest rates, the assumed funding rate has reduced leading to an increase in the overall return.
41. The council charges the assumed cost of capital to each individual investment in a similar way to an inter-company charge. As the council has made extensive use of cash resources rather than borrowing this year, the Central Income & Expenditure budget reports an underspend on interest payable.
42. Net capital expenditure in 2016/17 includes equity investment and loans to the Halsey Garton Property group, development of the former Thales site in Crawley and a capital receipt from the sale of an office asset in the portfolio. Woking Bandstand has fully repaid loans to the council as the project moves into its second phase. The forecast includes additional financing to Halsey Garton for a new property purchase, as approved by Cabinet in February 2017.

Table 3: Summary revenue and capital position as at 28 February 2017

	YTD actual	Full year forecast
Revenue	£m	£m
Income	-8.1	-9.7
Expenditure	0.2	0.4
Net income before funding	-7.9	-9.3
Funding costs	6.8	7.5
Net revenue income after funding	-1.1	-1.8
Capital expenditure	113.8	131.5

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

Staffing costs

43. 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.
44. 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.
45. 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. During the year, changes to services' FTE budgets have resulted in an overall increase from the council's original 2016/17 budget of 7,129 FTE. The main adjustment was for a change in the employment contracts of adult centred learning tutors from bank staff, to contracted staff working annualised hours. The council's full year staffing budget for 2016/17 is currently £277.8m based on 7,145 budgeted FTEs.
46. The council has 687 vacancies, measured as the difference between budgeted and occupied FTEs. It is recruiting for 385 of these vacancies (up from 375 last month). 310 of these live vacancies are in social care (up from 277 last month).

Table 4: Full time equivalents in post and vacancies as at 28 February 2017

	FTE
Budget	7,145
Occupied contracted FTEs	6,458
FTE vacancies (budget less occupied FTEs)	687
Live vacancies (i.e. actively recruiting)	385

47. Table 5 shows staffing cost as at 28 February 2017 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 services where the apprentices work); 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.
48. 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 the Staffing expenditure line in Table App3 in the appendix.

49. Table 5 shows the year to date budget as at 28 February 2017 is £254.1m and expenditure incurred is £233.8m. Table App 3 shows +£0.7m overspend at year to date on employment costs and at year end.

Table 5: Staffing costs and FTEs to 28 February 2017

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	0.9	0.8	0.0	0.0	0.8	-0.1	10	7
Adult Social Care	55.9	52.6	2.6	1.7	56.9	1.0	1,860	1,537
Children, Schools & Families ¹	108.0	98.4	7.7	4.1	110.3	2.3	2,956	2,796
Community Partnership & Safety	1.1	1.1	0.0	0.0	1.1	0.0	25	23
Coroner	0.4	0.2	0.2	0.0	0.5	0.1	2	2
Cultural Services	17.3	15.5	0.0	1.4	17.0	-0.3	529	528
C&C Directorate Support	0.9	0.9	0.0	0.0	0.9	-0.1	26	24
Emergency Management	0.4	0.4	0.0	0.0	0.4	0.0	12	10
Surrey Fire & Rescue Service	25.4	24.2	0.1	1.4	25.8	0.3	648	580
Trading Standards	3.0	2.6	0.1	0.0	2.7	-0.2	75	59
Environment & Planning	8.6	8.3	0.1	0.2	8.5	-0.1	215	193
Highways & Transport	14.6	12.4	0.3	0.1	12.8	-1.8	370	312
Public Health	2.2	2.2	0.0	0.0	2.2	0.0	48	41
Central Income & Expenditure	0.0	0.1	0.0	0.0	0.1	0.1	0	0
Communications	1.2	1.2	0.1	0.0	1.2	0.0	22	28
Customer Services	3.2	2.9	0.2	0.0	3.1	-0.2	107	100
Legal & Democratic Services	4.9	4.5	0.1	0.0	4.6	-0.3	129	111
Strategy & Performance	1.8	1.8	0.0	0.0	1.9	0.0	27	27
Orbis Joint Operating Budget and Business Services ²	4.1	3.7	0.4	0.1	4.1	0.1	84	80
Service net budget	254.1	233.8	11.8	9.2	254.8	0.7	7,145	6,458

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

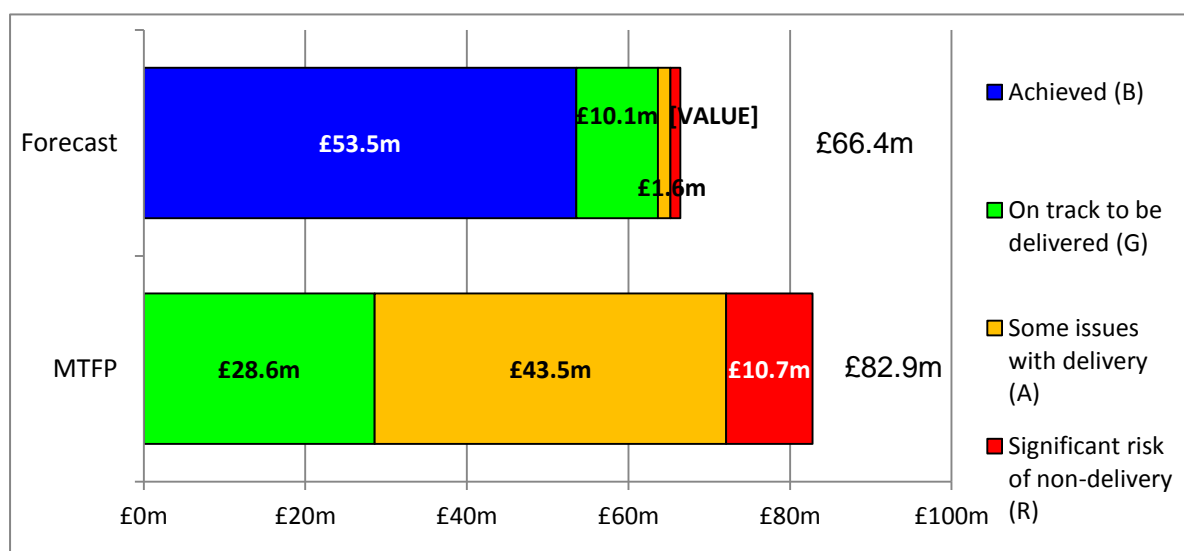
1 - Children, Schools & Families' FTEs include: Children's & Safeguarding, Commissioning & Prevention, Schools & SEND and Delegated Schools

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 is reported in the table above (for example staff delivering the Local Assistance Scheme).

Efficiencies

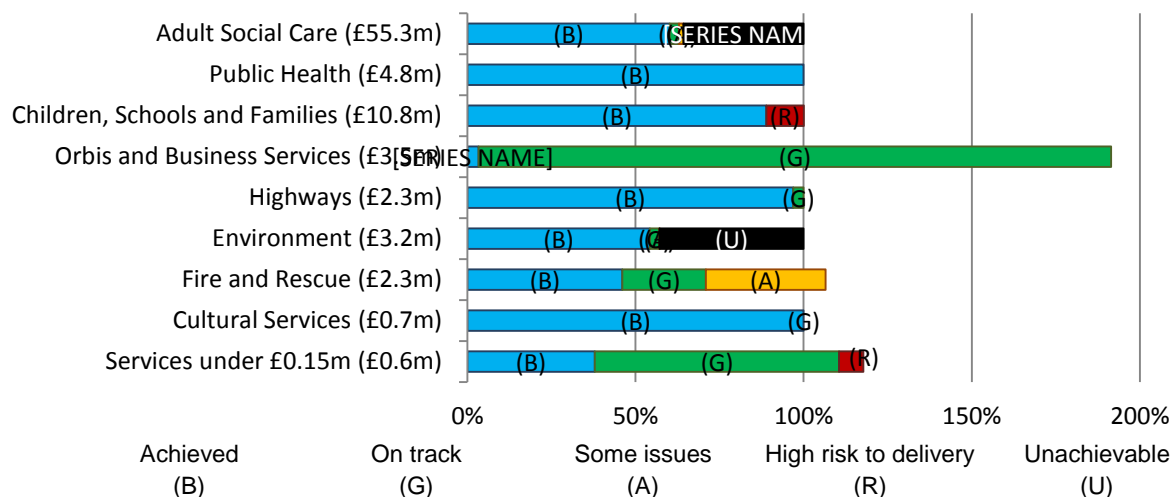
50. MTFP 2016-21 incorporates £82.9m efficiencies in 2016/17. Council services currently forecast to achieve £66.4m of this target (£0.1m improvement since 31 January 2017). This represents a £16.5m shortfall overall.
51. Services review progress with their efficiency plans to assess:
- the extent of each efficiency's deliverability,
 - the risks to delivery and
 - the value of the savings they will achieve.
52. 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 28 February 2017



53. 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.
54. Figure 2 overleaf, shows services' risk ratings for achieving their efficiencies.

Figure 2: 2016/17 efficiencies risk ratings by service as at 28 February 2017



55. As at 28 February 2017, the main significant variations in services' progress against their MTFP 2016-21 efficiencies & service reductions were as follows.

- £19.8m shortfall in Adult Social Care is unachievable due to issues affecting savings planned from: Friends, Family & Community programme, demand management, health and social care integration, staff turnover and optimising transition as outlined in paragraph 16.
- £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

56. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £638m 2016-21 MTFP capital programme.
57. 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 the period to 28 February 2017, Cabinet approved -£73.0m reprofiling and £7.1m capital virements. In February 2017 capital virements reduced by £0.4m. Paragraph App 6 and Table App 4 detail the movements.
58. Table 6 shows the derivation of the current year capital expenditure budget from the MTFP budget.

Table 6: Capital expenditure budget 2016/17 as at 28 February 2017

	MTFP budget £m	2015/16 budget c/fwd £m	Budget virement £m	Reprofile £m	Current full year budget £m
School basic need	75.6	-8.1		-34.2	33.2
Highways recurring programme	58.1	-0.2	-12.4		45.5
Property & IT recurring programme	25.8	5.2	-0.4	0.5	31.2
Other capital projects	34.9	16.0	19.5	-39.2	31.2
Service capital programme	194.4	13.0	6.7	-73.0	141.2
Long term investments					0.0
Overall capital programme	194.4	13.0	6.7	-73.0	141.2

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

59. Table 7 compares the current full year overall capital programme budget of £141.2m to the current forecast expenditure for the service capital programme of £123.7m and the current forecast expenditure for the overall capital programme, including long term investments, of £255.2m.

Table 7: Forecast capital expenditure 2016/17 as at 28 February 2017

	Current full year budget £m	Apr - Feb actual £m	Mar projection £m	Full year forecast £m	Full year variance £m
Schools basic need	33.2	30.8	1.5	32.2	-1.0
Highways recurring programme	45.5	36.0	9.5	45.5	-0.1
Property & IT recurring programme	31.2	21.1	1.7	22.8	-8.4
Other capital projects	31.2	17.9	5.3	23.2	-8.0
Service capital programme	141.2	105.7	17.9	123.7	-17.5
Long term investments	0.0	113.8	17.7	131.5	131.5
Overall capital programme	141.2	219.5	35.7	255.2	114.0

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

60. Approved Investment Strategy spending is expected to be £131.5m in 2016/17 (as outlined in paragraphs 39 to 42) and total capital expenditure £255.2m. There are no significant variances to the current service capital programme.

Capital reprofiling request

61. Subject to formal Cabinet Member approval, the council intends to contribute £0.350m to the Godalming flood alleviation scheme, led by the Environment Agency. This contribution will be made from the council's Flood Resilience capital budget. It was intended to spread this contribution across the financial years 2016-19. However

due to scheme delays, Highways & Transport now requests to reprofile £0.150m contribution, originally intended for 2016/17, into 2017/18.

Appendix to Annex

Updated budget - revenue

App 1. The council's original 2016/17 revenue expenditure budget was approved as £1,686.0m. Adding virement changes in the first eleven months of 2016/17 decreased the expenditure budget as at 28 February 2017 to £1,675.1m. Table 1 summarises the updated budget. Table App1 shows the original and updated income and expenditure budgets by service, including the overall net expenditure the council plans to meet from reserves.

Table App1: 2016/17 updated revenue budget as at 28 February 2017

	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	-7.1	-68.0	429.5	5.8	435.3	367.3
Children, Schools & Families	-167.7	2.2	-165.4	365.3	-3.5	361.8	196.4
Delegated Schools	-457.7	13.0	-444.7	457.7	-13.0	444.7	0.0
Community Partnership & Safety	-0.2	0.0	-0.2	3.0	0.5	3.5	3.4
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	0.0	22.7	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 & Rescue Service	-13.6	-0.9	-14.5	46.8	0.7	47.5	33.0
Trading Standards	-1.7	0.0	-1.7	3.7	0.0	3.7	2.0
Environment & Planning	-6.5	-2.1	-8.7	86.3	2.0	88.2	79.6
Highways & Transport	-7.6	-0.2	-7.8	51.9	1.3	53.2	45.4
Public Health	-38.5	0.0	-38.5	38.8	-0.3	38.5	0.0
Central Income & Expenditure	-0.5	-0.3	-0.8	60.0	1.2	61.2	60.4
Communications	0.0	0.0	0.0	2.0	0.2	2.2	2.2
Orbis - Joint and Managed	-17.2	6.2	-11.0	97.7	-6.3	91.4	80.5
Legal & Democratic Services	-0.5	0.0	-0.5	9.0	0.0	9.0	8.5
Strategy & Performance	-0.8	0.0	-0.8	1.9	0.6	2.5	1.8
Service total	-786.7	10.9	-775.8	1,686.0	-10.9	1,675.1	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	10.9	-1,650.3	1,686.0	-10.9	1,675.1	24.8

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

App 2. When Full Council agreed the 2016-21 MTFP in February 2016, some government departments had not determined final amounts for some grants. Cabinet agreed the principle that services would estimate their likely grant and their 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 eleven months of 2016/17, none in February.

App 4. Table App 2 summarises the movements to the revenue expenditure budget.

Table App 2: 2016/17 revenue expenditure budget movements as at 28 February 2017

	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
Q2 movements	-7.2	7.2		0.0	49
Q3 Movements	9.9	-9.9		0.0	81
January movements	0.4	-0.4		0.0	21
February movements					
Internal service movements	2.3	-2.3	0.0	0.0	20
Funding changes	-0.2	0.2	0.0	0.0	1
Total February movements	2.1	-2.1	0.0	0.0	21
February approved budget	-1,650.3	1,679.0	-3.9	24.8	246

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

App 5. 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 28 February 2017

	Year to date			←	Full year			→
	Budget £m	Actual £m	Variance £m		Remaining forecast £m	Projection £m	Variance £m	
Income:								
Local taxation	-539.6	-539.6	-0.1	-672.2	-132.6	-672.3	-0.1	
Government grants	-767.3	-747.0	20.3	-825.2	-54.9	-801.9	23.3	
Other income	-139.9	-170.7	-30.8	-152.9	-16.0	-186.7	-33.8	
Income	-1,446.8	-1,457.3	-10.6	-1,650.3	-203.5	-1,660.9	-10.6	
Expenditure:								
Staffing	254.1	254.9	0.8	278.4	24.2	279.1	0.7	
Service provision	849.6	848.9	-0.7	952.1	106.3	955.2	3.1	
Non schools sub-total	1,103.8	1,103.9	0.1	1,230.5	130.5	1,234.3	3.8	
Schools expenditure	430.9	430.9	0.0	444.6	13.7	444.6	0.0	
Total expenditure	1,534.7	1,534.8	0.1	1,675.1	144.2	1,678.9	3.8	
Movement in balances	87.9	77.4	-10.5	24.8	-59.4	18.0	-6.8	

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

Updated budget – capital

App 6. Cabinet approved the original capital expenditure budget for 2016/17 at £194.4m and £13.0m carry forward of scheme budgets requested in 2015/16's Outturn report. In the period to 31 January 2017, Cabinet approved -£73.0m reprofiling including: -£55.8m from 2016/17 into future years in July 2016; £4.8m for Fire Service transformation in October 2016; plus £11.5m for Highways and £0.8m for Property in January 2017. Capital virements made in February amount to -£0.4m to reduce the net total to £6.7m virements made between 1 April 2016 and 28 February 2017. Table App 4 summarises the capital budget movements for the year.

Table App 4: 2016/17 Capital budget movements as at 28 February 2017

	1 Apr 2016 £m	31 Jan 2017 £m	28 Feb 2017 £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
Joint Fire transport transformation project		-4.8	-4.8
Fire station reconfiguration		-0.8	-0.8
Local Growth Fund Projects		-10.7	-10.7
Highway maintenance		-0.8	-0.8
Reprofiling & carry forwards		-60.0	-60.0
Virements - In year changes			
Limnerlease (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		3.2	3.2
Developer contributions to schools		0.5	0.7
East Surrey Integrated Care unit - ASC		0.9	0.9
River Thames Contribution			-0.7
Local transport systems		0.3	0.3
In year budget changes		7.1	6.7
2016/17 updated capital budget		141.5	141.1

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

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