

Budget monitoring: Outturn 2016/17 (31 March 2017)

Summary recommendations

Cabinet is asked to note the following.

1. The council achieved -£6.7m overall underspend for 2016/17 (paragraph 1). 2016/17 is the seventh successive year, the council has achieved a small underspend or balanced outturn.
2. Against this underspend, the council has made +£1.0m provision for the possible payment of legal costs and claims related to a number of contract compliance issues (paragraph 6). After making this provision, the council has -£5.7m available to transfer to reserves.
3. The underspend includes £1.6m of carry forward requests for spending on planned service commitments that continue beyond 2016/17. If Cabinet approves the carry forward requests, the remaining underspend is -£4.1m. This is 0.2% of the council's £1,686m full year gross expenditure budget.
4. Services achieved £66.4m efficiencies and savings (paragraph 53) against the planned target of £82.9m.
5. The council invested £257m through its capital programme in 2016/17, comprising £126m service capital programme and £131m long term investments (paragraph 64).
6. The council's year end earmarked reserves and balances, debt analysis and treasury management report (paragraphs App 8 to App 23).

Cabinet is asked to approve the following.

7. £5.7m transfer of remaining revenue underspend to the Budget Equalisation Reserve (paragraph 7).
8. £1.6m revenue carry forward requests to be funded from within the £5.7m transferred to the Budget Equalisation Reserve (paragraph 3 and Annex 2).
9. £3.5m carry forward overspend on services funded from dedicated schools grant (DSG) (paragraph 27).
10. £5.8m increases in the capital budget for: third party contributions and grant allocation increases (£1.5m) and the delegated school funding drawdown (£4.3m) (paragraph 61).
11. £17.0m capital programme reprofiling and carry forward requests (paragraph 66 and 67 and Annex 2).
12. Cabinet to approve services' draw down of amounts carried forward, as and when they are needed, as part of the monthly budget monitoring process (paragraph 5 for revenue and paragraph 67 for capital).
13. £1.8m transfer of Revolving Infrastructure and Investment Fund net income to the Budget Equalisation Reserve (paragraph 42).
14. £2.9m transfer from the Vehicle Replacement Reserve to the Budget Equalisation Reserve.

Revenue summary

Surrey County Council set its gross expenditure budget for the 2016/17 financial year at £1,686m. The 2016/17 budget included measures determined at short notice aimed at mitigating the impact of the Government's shock funding reduction. A key objective of the Medium Term Financial Plan (MTFP) 2016-21 was to increase the council's overall financial resilience and included making £82.9m planned efficiencies.

This report confirms the council has underspent by -£6.7m and kept total net spending within its budget for the financial year 2016/17. The underspend is a significant turnaround from +£22.4m forecast overspend reported as at 30 September 2016. Cabinet then required officers to take effective measures to bring the 2016/17 budget back into balance. This report confirms the measures taken by the Chief Executive and Director of Finance, with directors' support have resulted in a -£29.1m improvement in the council's forecast outturn. Also, Cabinet has avoided further spending commitments, wherever possible, until it has assurances of a balanced budget for 2017/18 and a sustainable MTFP.

Achieving a balanced budget outturn in 2016/17 has included genuine additional efficiencies, such as achieving future years' savings early, as well as one-off measures and delays to spend. However, the outturn position includes a £16m shortfall against the council's planned efficiencies for 2016/17 which carries significant underlying consequences into future years.

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.

The forecast underspend mainly relates to +£25m demand increases in the council's main social care services to adults and children, offset by reductions in other services.

- +£14.6m overspend in Adult Social Care (no change from February 2017) 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 19).
- +£10.6m overspend in Children's Services (+£0.6m change from February 2017) due to demand (paragraphs 20 to 22).
- -£0.5m underspend in Schools & SEND (Special Educational Needs & Disabilities) (+£3.0m change from February 2017) 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 23 to 27).
- -£0.6m overspend in Commissioning & Prevention within Children, Schools & Families directorate (-£0.7m change from February 2017) (paragraph 28).
- -£1.3m net underspend in Highways & Transport (+£0.4m change from February 2017) from measures including maximising income and developer funding, delaying or stopping recruitment, and deferring non-essential works and equipment purchases (paragraph 29).
- -£16.9m net underspend in Central Income & Expenditure (-£1.5m change from February 2017) from savings on minimum revenue provision and interest payable (paragraphs 31 to 34).
- -£9.5m total savings contribution by all Orbis services (-£0.7m change) from stopping some spending and deliver additional future savings early (paragraphs 35 to 39).

- -£0.5m net underspend in Cultural Services (-£0.1m change from February 2017) mainly due to staff vacancies and additional income from activities (paragraph 40).
- -£1.1m underspend in Strategy & Performance (-£0.3m change from February 2017) mainly against Surrey Growth Fund and Surrey Connects budgets (paragraph 41).

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. At outturn, the -£6.7m underspend for the 2016/17 financial year will lead to an increase in the projected level of provisions and reserves.

Capital summary

Creating public value by improving outcomes for Surrey's residents is a key element of Surrey County Council's corporate vision and it is at the heart of its £638m capital programme in MTFP 2016-21. As at 31 March 2017, services spent £126m against the updated 2016/17 service capital budget of £147m.

Services underspent by -£21m against the capital budget and request to carry forward and reprofile £17m to 2017/18 (paragraphs 65 and 66).

To help increase its overall financial resilience, the council invested £131m in long term capital investment assets, under the approved Investment Strategy in 2016/17 (paragraphs 42 to 45). Total capital expenditure for 2016/17, including long term investments, amounted to £257m (paragraph 64).

Revenue budget

1. As at 31 March 2017 the council achieved -£6.7m overall underspend.
2. In March 2016, Cabinet approved the council's 2016/17 gross expenditure budget at £1,686.0m, financed by -£1,661.2 gross income and -£24.8m from reserves. Changes during 2016/17 reflecting agreed carry forwards and small budgetary adjustments reduced the gross expenditure budget to £1,669.1m and gross income budget to -£1,644.3m. The council's planned use reserves to balance 2016/17 remained at -£24.8m.

Revenue budget carry forward requests

3. During 2017/18, the council must deliver already stretching service reduction plans of £93m, plus it must identify up to £11m of additional service reductions to balance the 2017/18 budget and continue to move towards a sustainable budget for future years. The council's reserves are already at minimum safe levels and are being further depleted by £10m to balance the 2017/18 budget. It is therefore appropriate to use the 2016/17 budget underspend to replenish reserves to mitigate the risk of non-delivery of significant savings targets in 2017/18.
4. Services request to carry forward £1.6m to support ongoing projects as detailed in Annex 2. These include:
 - £0.4m Strategy & Performance
 - £0.5m Community Partnership & Safety;
 - £0.7m Orbis managed budgets (Information Technology & Digital and Human Resources & Organisational Development).
5. Amounts approved for carry forward will reside in the Budget Equalisation Reserve. As and when services need and are ready to use their amounts carried forward, they will make a request to draw down the relevant amount as a virement as part of the monthly budget monitoring reports to Cabinet.

Revenue budget provision

6. Finance has identified the need for a provision for the possible payment of legal costs and claims related to a number of contract compliance issues. The amounts and timing of any payments are currently uncertain. However the Director of Finance considers it appropriate to set aside £1.0m to cover potential future costs arising from these claims.

Revenue budget outturn position

7. Table 1 summarises the council's 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 £24.8m. The 2016/17 full year outturn is -£6.7m underspent. This is subject to £1.0m provision leaving -£5.7m available for appropriation to the Budget Equalisation Reserve. As outlined above, approved carry forward requests will be held within the Budget Equalisation Reserve until services are ready to use them. Table App3 in the Appendix gives more detail.

Table 1: 2016/17 revenue budget subjective outturn summary

| Subjective summary | Full year final budget £m | Full year outturn £m | Full year variance £m |
|--------------------------------------|--|-------------------------------------|--------------------------------------|
| Gross income | -1,644.3 | -1,658.5 | -14.2 |
| Gross expenditure | 1,669.1 | 1,676.6 | 7.5 |
| Total net expenditure | 24.8 | 18.1 | -6.7 |
| Provision for legal costs and claims | | 1.0 | 1.0 |
| Movement in reserves | 24.8 | 19.1 | -5.7 |

Potential 2016/17 carry forwards included within the Budget Equalisation Reserve

| | | |
|--|-----|-----|
| | 1.6 | 1.6 |
|--|-----|-----|

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

8. Table App1 in the appendix, outlines the full year revised revenue budget by service after taking account of virements and budgets carried forward from 2015/16. Table App2 in the appendix analyses the movements further.
9. Table 2 shows the council's net revenue budget outturn position analysed by services and general funding sources. A service's net expenditure comprises its gross expenditure less income from specific grants, fees, charges and reimbursements. General funding sources include general government grants, local taxation (council tax and business rates) and planned use of reserves. The table shows most services achieved a balanced outturn or underspend in 2016/17.

Table 2: 2016/17 revenue budget outturn

| Service | Full year final budget £m | Full year position £m | Full year variance £m |
|---|--|--------------------------------------|--------------------------------------|
| Economic Growth | 1.7 | 0.9 | -0.8 |
| Strategic Leadership | 1.0 | 0.9 | -0.1 |
| Adult Social Care | 367.3 | 381.9 | 14.6 |
| Children's Services | 92.4 | 103.1 | 10.7 |
| Commissioning & Prevention | 40.7 | 40.1 | -0.6 |
| Schools & SEND | 63.1 | 62.6 | -0.5 |
| Delegated Schools | 0.0 | 0.5 | 0.5 |
| Community Partnership & Safety | 3.4 | 2.4 | -1.0 |
| Coroner | 1.8 | 1.6 | -0.2 |
| Cultural Services | 9.6 | 9.1 | -0.5 |
| Customer Services | 3.5 | 3.3 | -0.2 |
| C&C Directorate Support | 1.0 | 0.9 | -0.1 |
| Emergency Management | 0.5 | 0.4 | -0.1 |
| Surrey Fire & Rescue Service | 33.3 | 32.8 | -0.5 |
| Trading Standards | 2.0 | 2.0 | 0.0 |
| Environment & Planning | 79.6 | 80.4 | 0.8 |
| Highways & Transport | 45.0 | 43.7 | -1.3 |
| Public Health * | 0.0 | 0.0 | 0.0 |
| Central Income & Expenditure | 58.9 | 42.0 | -16.9 |
| Communications | 2.2 | 2.0 | -0.2 |
| Finance | 3.1 | 2.2 | -0.9 |
| Human Resources & Organisational Development | 4.3 | 3.6 | -0.7 |
| Information Technology & Digital | 13.1 | 11.7 | -1.4 |
| Legal Services | 3.9 | 3.8 | -0.1 |
| Democratic Services | 4.5 | 4.4 | -0.1 |
| Strategy & Performance | 1.8 | 1.5 | -0.3 |
| Procurement | 0.9 | 0.8 | -0.1 |
| Property | 21.0 | 16.8 | -4.2 |
| Joint Operating Budget ORBIS | 37.6 | 35.3 | -2.3 |
| Business Operations | -0.1 | -0.1 | 0.0 |
| Total services' net revenue expenditure | 897.1 | 890.6 | -6.5 |
| General funding sources | | | |
| General Government grants | -200.1 | -200.2 | -0.1 |
| Local taxation (council tax and business rates) | -672.2 | -672.3 | -0.1 |
| Total general funding | -872.3 | -872.5 | -0.2 |
| Total net expenditure | 24.8 | 18.1 | -6.7 |

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

* Public Health's gross expenditure budget matches its £38.5m grant funding. Taken together this gives Public Health a £0.0m net expenditure budget. Table App1 in the appendix gives more detail.

Significant revenue budget variances

Adult Social Care - +£14.6m overspend (no change since 28 February 2017)

- Adult Social Care's (ASC) +£14.6m year end overspend is almost entirely due to failure to achieve the ambitious additional savings budgeted for 2016/17 over and above the level of savings ASC has typically achieved in recent years.
- Although ASC's outturn position is a significant overspend, it is important to highlight the positive impact of the actions taken by ASC's leadership team to manage

pressures down and reduce the overspend from +£21.0m forecast as at 30 September 2016 to the +£14.6m outturn position.

12. The £36m savings ASC has achieved in 2016/17 is consistent with the levels of savings achieved in 2014/15 (£39m) and 2015/16 (£36m). Continuing to generate the same level of savings has required new approaches and it is important to recognise this as an achievement in the context of the acute and growing financial pressures relating to ASC in Surrey. The scale of these pressures across the whole health and social care system that has prevented ASC from achieving its £55m savings target.
13. Seismic change to demand growth and large scale service redesign were required for ASC to achieve these additional savings in such a short 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 leading to reduced 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 in order to maintain market sustainability (particularly since the introduction of the National Living Wage) it has not been possible to achieve this level of increased savings and the updated Medium Term Financial Plan recognises this.
14. Demand in the majority of key service areas which support the highest volume of individuals has continued to rise compared to 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 the year's budget.
15. 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 year's outturn position is a stark indication of the scale of financial pressures already applying. This council has played a leading role in making the case for additional funding for social care and welcomed the Chancellor of the Exchequer's Spring Budget announcement 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, this falls considerably short of addressing the funding gap and the council will continue to press for funding that more truly reflects the social care needs of the local population of Surrey.
16. ASC's actions 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.

17. Initial modelling indicated these measures could bring down the ASC overspend reported in September by £4m-£5m. At outturn, ASC had reduced care costs by -£2.1m and raised -£1.4m additional fees & charges income, making -£3.5m towards the £4m-5m target.
18. The principal reason for the forecast overspend is +£19.1m forecast shortfall against ASC's savings target (of which +£18.3m is a shortfall against ongoing savings) adding pressure to the budget as described below.
- +£8.7m underachievement on the Family, Friends & Community (FFC) programme, due to continuing challenges in reducing the cost of new care packages in the context of growing market pricing pressures and (as in previous years) not fully achieving the 20% stretch savings target. There was also +£0.3m 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.
 - +£1.7m underachievement against the contracts & grants review's budgeted 50% expenditure reductions. After completing impact assessments, ASC decided implementing the savings fully would affect delivery of statutory duties, leave some people at risk and potentially lead to higher medium term costs. ASC identified -£2.9m savings against the -£5.8m target, plus -£1.2m one-off in year underspends.
 - +£1.2m from the considerable continuing work on health and social care integration, within which the development of Sustainability and Transformation Plans shifted the focus, nature and timing of some savings.
 - +£0.8m from implementation of the pay & reward proposals reducing forecast staff turnover savings.
 - +£0.8m from underachievement against other savings plans affected by the continued demand growth.
19. In addition to these challenges with its savings plans, ASC's other variances that reduce the overall overspend to +£14.6m are:
- +£1.3m increased contractual commitments for the provision of some services;
 - -£2.3m lower costs of conducting Deprivation of Liberty Safeguard (DoLS) assessments;
 - -£1.4m increased fees & charges from the increase in demand and the change in the charging policy; and
 - -£2.1m reduction in the spot care forecasts from actions as part of implementing the new system and gatekeeping access to services.

Children's Services - +£10.7m overspend (+£0.7m change since 28 February 2017)

20. Children's Services' +£10.7m year end overspend is +£0.7m increase on the forecast as at 28 February 2017 reflecting greater pressure than anticipated on external placements for looked after children (LAC) and care leavers.
21. Improvements such as investment in Child and Adolescent Mental Health Service (CAMHS) and creating a Multi Agency Safeguarding Hub (MASH) progressed with the intention of reducing longer term demand. However demand for services, particularly care for LAC and unaccompanied asylum seekers exceeded that planned.

These demands remains high, as recognised in the additional resources allocated to the Children's Services budget in 2017/18.

22. During 2016/17 Children's Services experienced the following budget pressures.
- +£2.6m need for social work capacity due to higher demand, leading to staff being recruited in excess of established posts and a significant number of locums who, on average cost £20,000 a year more than permanent staff.
 - +£0.5m additional resources have been required for the MASH. The MASH began operation in October and it has needed additional staff to manage demand as new approaches and processes bed in. The resources needed to operate the MASH are under review in the context of the wider social care system including Early Help.
 - +£4.6m additional placement costs for the 241 children currently in ongoing placements compared to the 204 budgeted. Within this: average demand during 2016/17 for much more expensive residential placements was higher (70) than planned (46); and the number of residential family assessment placements was 28 compared to 12 budgeted for the whole year.
 - +£0.6m additional pressures from care leavers as the number remaining in their placements after they turn 18 has increased by more than anticipated.
 - +£2.0m 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. The cost of unaccompanied asylum seeking children was 7% higher than 2015/16 and the costs for those over 18 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 - -£0.5m underspend (+£3.0m change since 28 February 2017)

23. Schools & SEND's (Special Educational Needs and Disabilities) -£0.5m year end underspend includes +£3.0m overspend on SEND funded from Dedicated Schools Grant (DSG), which is due to be carried forward and met from DSG in 2017/18; and -£3.5m underspend on county funded services.
24. The main reasons for the underspend on county funded services are:
- -£3.0m underspend on budgets held centrally to offset pressures elsewhere in the service;
 - -£2.0m contribution to overheads by Commercial Services, including from a new food contract delivering better value for money and an extended trading period due to the number of days in the academic year falling in 2016/17;
 - -£0.5m from holding vacancies and limiting running costs to contribute to balancing the council's overall 2016/17 budget;
 - +£1.5m overall overspend on transport, including +£1.5m SEND transport reflecting the increased number of academic days in 2016/17 and higher pupil numbers, although this was mitigated by more efficient route planning, +£0.3m overspend on alternative provision and -£0.3m underspend on mainstream transport;

- +£0.8m overspend on the social care element of external residential education placements reflecting the ongoing pressure on placement budgets across social care and education.
25. The main reason for DSG funded services' +£3.0m overspend was due to ongoing rising demand to support children with SEND. This was in the mainstream and special sectors. Mainstream schools saw a 10% increase in the number of pupils with additional funding, leading to +£1.0m overspend. The special sector mainly saw a further 10% increase in the number of children placed in non-maintained and independent schools (NMIs) leading to +£3.4m overspend.
 26. These overspends were partly offset by underspends on other DSG funded budgets including: -£1.5m lower spend on post 16 placements and -£0.9m additional income from other local authorities placing pupils at Surrey schools.
 27. In January 2017, Schools Forum agreed to carry forward the then anticipated +£4.8m overspend, placing pressure on the 2017/18 budget and increasing the need for savings to achieve a balanced budget. Previous budget monitoring reports had raised this as a funding risk. The overspend is now lower than anticipated, partly easing the pressures against the background of increasing demand in 2017/18.

Commissioning & Prevention - -£0.6m underspend (-£0.7m change since 28 February 2017)

28. Commissioning & Prevention's -£0.6m year end underspend mainly relates to: -£1.1m planned investment in Early Help, which the service did not spend in full due to decisions not to progress some projects and recruitment in light of the pressures on the council's overall budget; -£0.5m lower costs from careful management of vacancies in the central transformation team; partially offset by +£1.0m expenditure pressures on free education for two year olds of in excess of the grant funding available from DSG (the grant is based on returns to the Department for Education (DfE) 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). The Early Years overspend is -£0.6m lower than anticipated as at 28 February 2017 due to more placements being recorded on the January 2017 DfE return than expected. This will also increase income in 2017/18. Funding rates for providers in 2017/18 have been set to match funding from DfE and efforts continue to maximise grant, both of which will reduce pressures on this budget.

Highways & Transport - -£1.3m (+£0.4m change since 28 February 2017)

29. Highways & Transport's -£1.3m (3%) year end underspend is the net result of several pressures and savings. These include pressures due to: planned savings being delayed (including winter maintenance and switching off street lights); increased street lighting energy costs due to a revised tariff; and higher than budgeted insurance claims. Compensating savings including use of developer receipts and delayed works offset these pressures. The position includes -£2.0m underspend against employee costs, which is offset by the costs of contractors and consultants and reduced income and recharges.
30. The final outturn represents +£0.5m change compared to the position forecast as at 28 February 2017. This is due to several factors including higher than forecast street lighting energy costs following the introduction of a new pricing tariff, transfer of

budget to capital to fund additional flooding & drainage works and reduced usage of New Homes Bonus grant for preparatory work on local growth deal schemes.

Central Income & Expenditure - -£16.9m underspend (-£1.5m change since 28 February 2017)

31. Central Income & Expenditure's -£16.9m year end underspend includes -£8.2m saving on the council's minimum revenue provision (MRP) and -£9.0m saving on interest payable. The -£1.5m change from the position forecast as at 28 February 2017 is largely due to -£0.9m underspend on the redundancy budget, as highlighted last month and a decrease in corporate overheads.
32. The -£8.2m 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. The council regularly reviews the MRP policy to ensure the provision continues to be prudent and does not put unnecessary pressure on the council's revenue budget.
33. The -£9.0m underspend on interest payable includes: -£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.
34. Within the interest payable budget is New Homes Bonus grant spending on infrastructure projects. This underspent by -£2.0m and has been appropriated to the Budget Equalisation Reserve, as agreed last month, to help support expenditure in 2017/18.

Orbis managed and joint operating budgets

Orbis Joint Operating Budget - -£2.3m (-£0.3 change since 28 February 2017)

35. Surrey County Council's 70% contribution to Orbis Joint Operating Budget services' budget is -£2.3m underspent. This is due to Orbis delivering £2.9m efficiencies early plus £0.5m one-off savings. The -£0.3m change from the position forecast as at 28 February 2017 is mainly because additional Information Technology & Digital (IT&D) budget to enable the effective delivery of Orbis was not needed in 2016/17.

Property Services - -£4.2m (no change since 28 February 2017)

36. Property's -£4.2m year end underspend is largely due to: the decision to reprofile and reprioritise the building maintenance programme over several years to help the council's current financial situation; and one-off savings on reactive maintenance; additional income and building running costs, partly from favourable weather conditions.

Information Technology & Digital - -£1.3m (-£0.4m change since 28 February 2017)

37. IT&D's -£1.3m year end underspend is largely due to the decision to pause spend on areas such as wifi roll out and some projects in the modern worker programme, to assist the current financial situation. The -£0.4m change in the outturn position from that forecast as at 28 February 2017 is mainly because spend on applications was lower than anticipated.

Other budgets managed by Orbis

38. In addition to Property and IT&D, other budgets managed by Orbis have helped the current financial situation by saving -£1.7m, including -£0.9m in Finance and -£0.7m in Human Resources & Organisational Development (HR&OD).

Orbis summary

39. Orbis services' total contribution to the council's overall underspend is -£9.5m.

Cultural Services - £0.5m (-£0.1m change since 28 February 2017)

40. Cultural Services underspent by £0.5m. This is mainly due to staff vacancies in Libraries and the overachievement of income in the Registration Service and Adult & Community Learning due to an increase in ceremonies and courses.

Strategy & Performance - £1.1m (-£0.3m change since 28 February 2017)

41. Strategy & Performance (including Economic Growth) underspent by -£1.1m. This is mainly due to Economic Growth's uncommitted Surrey Growth Fund and Surrey Connects budgets (£0.8m) plus holding staff vacancies and service savings in preparation for future efficiency savings.

Revolving Infrastructure & Investment Fund

42. 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 proposes to transfer the net income for the year to the Budget Equalisation Reserve.
43. 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.
44. 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.
45. 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.

Table 3: Summary revenue and capital position as at 31 March 2017

| | Full year outturn |
|---------------------------------|------------------------------|
| Revenue expenditure | £m |
| Income | -9.7 |
| Expenditure | 0.4 |
| Net income before funding | -9.3 |
| Funding costs | 7.5 |
| Net income after funding | -1.8 |
| Capital expenditure | 131.3 |

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

Staffing costs

46. 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.
47. 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.
48. 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 £278.2m based on 7,145 budgeted FTEs.
49. The council has 697 vacancies, measured as the difference between budgeted and occupied FTEs. It is recruiting for 311 of these vacancies (down from 385 last month). 228 of these live vacancies are in social care (down from 310 last month).

Table 4: Full time equivalents in post and vacancies as at 31 March 2017

| | FTE |
|---|------------|
| Budget | 7,145 |
| Occupied contracted FTE | 6,448 |
| FTE vacancies (budget less occupied FTEs) | 697 |
| "Live" vacancies (i.e. actively recruiting) | 228 |

50. Table 5 shows staffing cost as at 31 March 2017 against service budgets and analysed among the three staff categories of contracted, bank and agency staff. Table 5 also shows services' budgeted FTEs and occupied contracted FTEs. Variances between these two figures can arise for several reasons including: the budget for some FTEs is held in a different service from where the postholder works

in the organisation (for example the HR&OD budget covers apprentices' costs, but the occupied FTEs appear in the service where they 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.

51. 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.
52. Table 5 shows the 2016/17 staffing budget was £278.2m and expenditure incurred is £279.4m. Table App 3 shows +£1.2m year end overspend on employment costs.

Table 5: Staffing costs and FTEs to 31 March 2017

| Service | ←----- Staffing spend by category -----→ | | | | | | Amended budget FTE | Occupied contracted FTE |
|---|--|---------------|-------------|------------------|--------------|-------------|--------------------|-------------------------|
| | 2016/17 budget £m | Contracted £m | Agency £m | Bank & casual £m | Total £m | Variance £m | | |
| Strategic Leadership | 1.0 | 0.9 | 0.0 | 0.0 | 0.9 | -0.1 | 10 | 7 |
| Adult Social Care | 60.8 | 57.3 | 3.0 | 1.8 | 62.1 | 1.3 | 1,860 | 1,529 |
| Children, Schools & Families ¹ | 119.0 | 108.2 | 8.7 | 4.7 | 121.5 | 2.6 | 2,956 | 2,794 |
| Community Partnership & Safety | 1.2 | 1.2 | 0.0 | 0.0 | 1.2 | -0.1 | 25 | 23 |
| Coroner | 0.4 | 0.3 | 0.2 | 0.0 | 0.5 | 0.1 | 2 | 2 |
| Cultural Services | 18.9 | 16.9 | 0.0 | 1.7 | 18.6 | -0.2 | 529 | 525 |
| C&C Directorate Support | 1.0 | 1.0 | 0.0 | 0.0 | 1.0 | -0.1 | 26 | 24 |
| Emergency Management | 0.5 | 0.5 | 0.0 | 0.0 | 0.5 | 0.0 | 12 | 10 |
| Surrey Fire & Rescue Service ² | 27.7 | 26.4 | 0.1 | 1.5 | 28.1 | 0.3 | 648 | 586 |
| Trading Standards | 3.2 | 2.9 | 0.1 | 0.0 | 2.9 | -0.3 | 75 | 60 |
| Environment & Planning | 9.5 | 9.1 | 0.1 | 0.2 | 9.4 | -0.1 | 215 | 195 |
| Highways & Transport | 15.9 | 13.5 | 0.3 | 0.1 | 13.9 | -2.0 | 370 | 310 |
| Public Health | 2.4 | 2.4 | 0.0 | 0.0 | 2.4 | 0.0 | 48 | 40 |
| Central Income & Expenditure | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0 | 0 |
| Communications ³ | 1.3 | 1.3 | 0.1 | 0.0 | 1.4 | 0.1 | 22 | 27 |
| Customer Services | 3.5 | 3.1 | 0.2 | 0.0 | 3.4 | -0.2 | 107 | 97 |
| Legal & Democratic Services | 5.4 | 4.9 | 0.1 | 0.0 | 5.0 | -0.4 | 129 | 112 |
| Strategy & Performance | 2.0 | 2.0 | 0.0 | 0.0 | 2.0 | 0.0 | 27 | 26 |
| ORBIS Managed Budgets | 4.5 | 3.9 | 0.4 | 0.1 | 4.4 | 0.0 | 84 | 80 |
| Service net budget | 278.2 | 255.4 | 13.5 | 10.2 | 279.4 | 1.2 | 7,145 | 6,448 |

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 - Surrey Fire & Rescue Service (SFRS) includes savings from workforce reform and fire station reconfigurations. Reductions in FTEs are ahead of expected profile. However, fire station reconfiguration delays mean SFRS incurred higher overtime payments to maintain the current service provision.

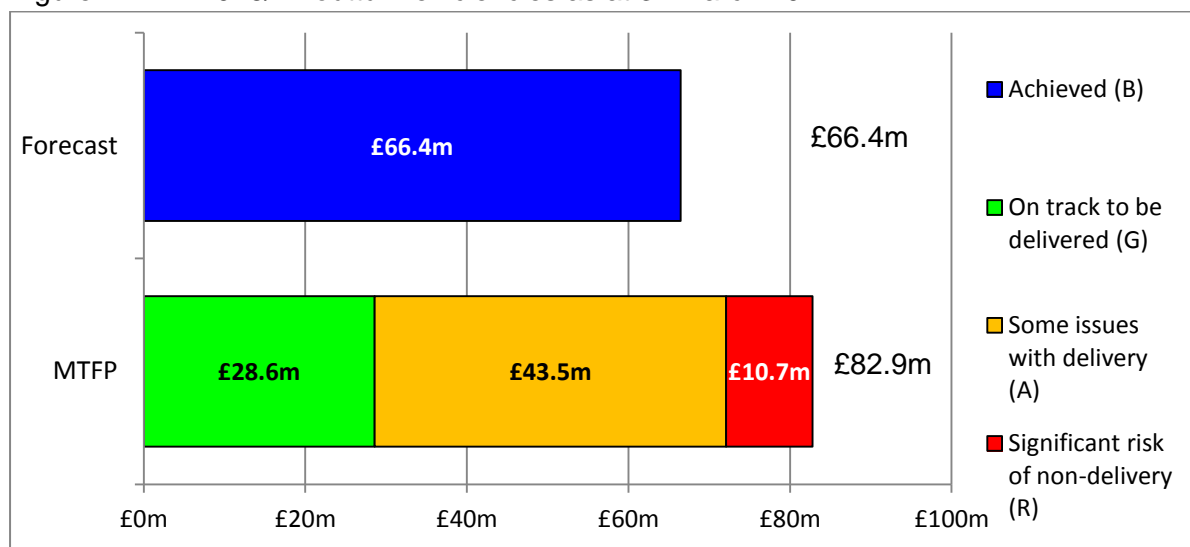
3 - Communications includes a financial budget virement for five posts transferred from Children, Schools & Families to rationalise communications into one team. The virement adjustments do not include FTE changes.

4 - 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

53. MTFP 2016-21 incorporates £82.9m of efficiencies in 2016/17. Against this, the council achieved £66.4m (no change from 28 February 2017). This represents a shortfall of £16.5m. Achieving ongoing efficiencies reduces pressure on the budget in future years. A shortfall against planned ongoing savings means the spending pressure the efficiency was intended to alleviate continues into subsequent years. MTFP 2017-20 provides for the additional pressures arising from the 2016/17 shortfall.
54. 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.
55. Figure 1 summarises the council's overall efficiencies target, the risks to achieving them at the outset and their achievement.

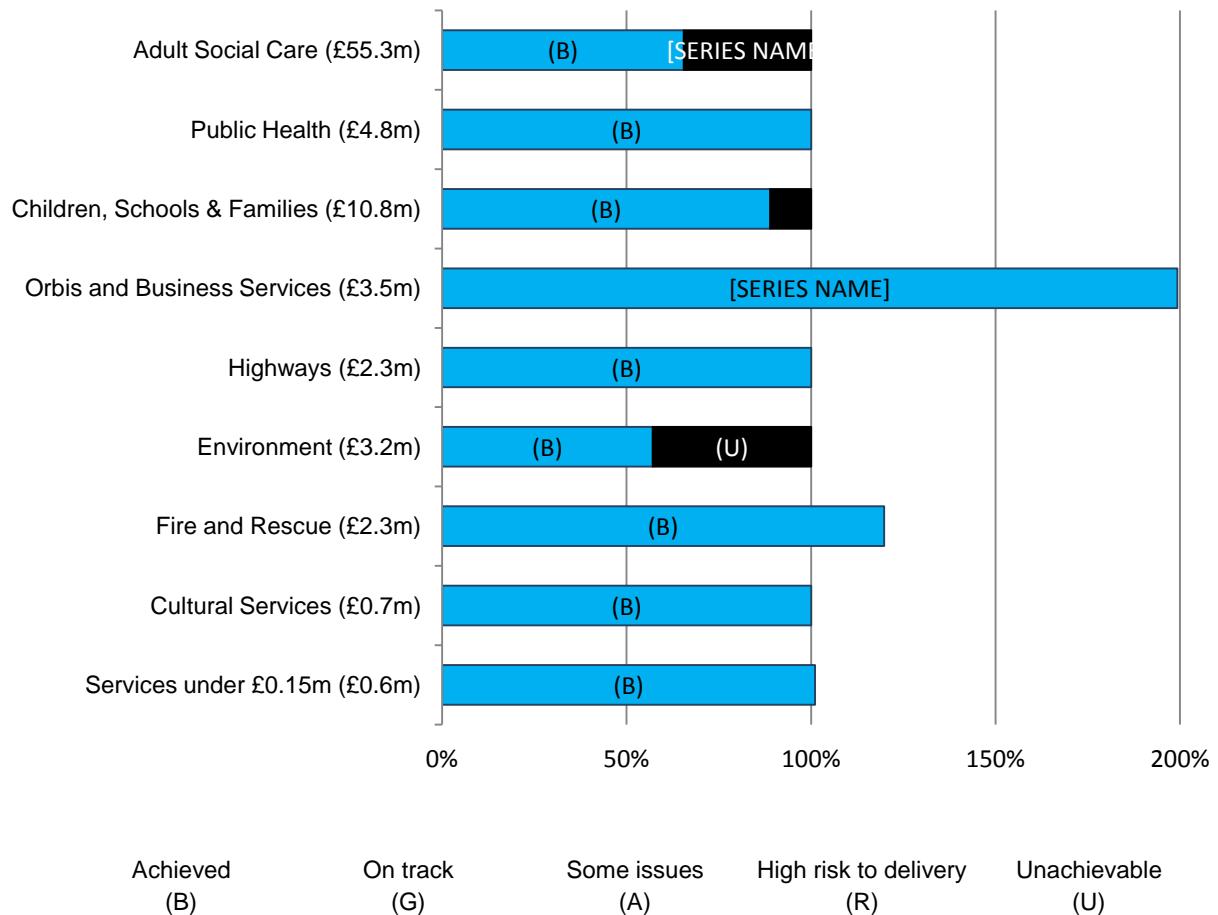
Figure 1: 2016/17 outturn efficiencies as at 31 March 2017



56. 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.
57. Figure 2 overleaf, shows services' risk ratings for achieving their efficiencies.
58. As at 31 March 2017, the main significant variations in services' progress against their MTFP 2016-21 efficiencies & service reductions were as follows.

- £19.1m 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 18.
- £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.

Figure 2: 2016/17 efficiencies outturn by service as at 31 March 2017



Capital budget

59. The council demonstrated its firm long term commitment to supporting Surrey's economy through its £638m 2016-21 MTFP capital programme.
60. 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 up to 31 March 2017, Cabinet approved -£73.0m reprofiling and £6.7m capital virements. Paragraph App 5 and Table App 4 detail the movements.
61. A year end review of third party contributions and grant allocations identified funding variations compared to budgets for some schemes. The overall effect is £1.5m increase to the final capital budget for 2016/17. The review also identified £4.3m school capital funding, previously only reported to Schools Forum that should have been included within the 2016/17 capital budget.
62. Table 6 shows the derivation of the 2016/17 capital expenditure budget from the MTFP budget, including the budget changes identified by the review as outlined above.

Table 6: Capital expenditure budget 2016/17 as at 31 March 2017

| | MTFP budget £m | 2015/16 budget c/fwd £m | Budget virement £m | Reprofile £m | 2016/17 full year budget £m | Contribution and funding increases £m | 2016/17 final budget £m |
|--------------------------------------|----------------------|-------------------------------|--------------------------|-----------------|--------------------------------------|--|-------------------------------|
| School basic need | 75.6 | -8.1 | | -34.2 | 33.3 | | 33.3 |
| Highways recurring programme | 58.1 | -0.2 | -12.4 | | 45.6 | 2.3 | 47.9 |
| Property & IT recurring programme | 25.8 | 5.2 | -0.4 | 0.5 | 31.2 | | 31.2 |
| Other capital projects | 34.9 | 16.0 | 19.5 | -39.2 | 31.1 | 3.4 | 34.6 |
| Service capital programme | 194.4 | 13.0 | 6.7 | -73.0 | 141.1 | 5.8 | 146.9 |
| Long term investments | | | | | 0.0 | | 0.0 |
| Overall capital programme | 194.4 | 13.0 | 6.7 | -73.0 | 141.1 | 5.8 | 146.9 |

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

63. Capital schemes are by their nature longer term, and planned in year expenditure will vary depending on a range of external circumstances such as planning permission and site conditions. The council's approach to this is to ensure that, where necessary, the funding to complete schemes is re-profiled into future years.
64. Table 7 compares the £146.9m revised full year budget to the £125.8m service capital programme outturn. Adding the £131.3m long term investments made under the approved Investment Strategy (paragraphs 42 to 45) brings the council's total capital expenditure to £257.2m.

Table 7: Capital expenditure 2016/17

| | Full year budget £m | Full year outturn £m | Variance £m | Reprofile / carry fwd £m | Full year variance £m |
|-----------------------------------|---------------------------|----------------------------|----------------|--------------------------------|-----------------------------|
| Schools basic need | 33.3 | 32.9 | -0.4 | 0.4 | 0.0 |
| Highways recurring programme | 47.9 | 47.4 | -0.5 | 0.5 | 0.0 |
| Property & IT recurring programme | 31.2 | 24.85 | -6.7 | 6.7 | 0.0 |
| Other capital projects | 34.6 | 21.2 | -13.5 | 9.4 | -4.1 |
| Service capital programme | 146.9 | 125.8 | -21.1 | 17.0 | -4.1 |
| Long term investments | 0.0 | 131.3 | 131.3 | 0.0 | 131.3 |
| Overall capital programme | 146.9 | 257.2 | 110.2 | 17.0 | 127.3 |

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

Capital programme variance

65. The 2016/17 capital programme variance is -£21.1m underspent against the approved final service budget of £146.9m. The main areas of the overall underspend are Property and IT recurring programme and other projects due to Cabinet's strategy of avoiding further spending commitments, wherever possible, until it had assurances of a balanced budget for 2017/18 and a sustainable MTFP and services reprofiling expenditure to reduce pressure on the council's budget.

Capital budget carry forward requests

66. From the -£21.1m underspend, services request to carry forward £17.0m to support ongoing projects as detailed in Annex 2. These include:

- -£2.9m Delegated Schools
- £0.5m Schools & SEND (School Kitchens)
- £0.4m Property - school basic need
- £4.1m Property - projects
- £2.8m Property - non-schools recurring programme
- £2.7m Property - schools recurring programme
- £1.4m Environment & Planning
- £0.5m Highways & Transport
- £0.9m Information Technology & Digital
- £0.3m Surrey Fire & Rescue Service
- £0.2m Strategy & Performance
- £0.1m Community Partnership & Safety and Cultural Services;
- £0.1m Adult Social Care.

67. Capital carry forward balances will need to be requested by the service during the year, when they are required. Once approved, as part of the monthly budget monitoring process, capital budgets will be increased accordingly.

Appendix to Annex 1

Updated budget - revenue

App 1. The council's 2016/17 revenue expenditure budget was initially approved at £1,686.0m. Adding virement changes approved throughout the year reduced the expenditure budget as at 31 March 2016 to £1,669.1m. Table App1 shows the council's original and updated income and expenditure budget, including the overall net expenditure the council plans to meet from reserves of £24.8m.

Table App1: 2016/17 updated revenue budget as at 31 March 2017

| Service | MTFP Income £m | Carry fwds & internal movements £m | Approved income £m | MTFP expenditure £m | Carry fwds & internal movements £m | Approved expenditure £m | Final 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 | -9.5 | -70.4 | 429.5 | 8.2 | 437.7 | 367.3 |
| Children's Services | -8.0 | -1.1 | -9.1 | 104.7 | -3.2 | 101.5 | 92.4 |
| Commissioning & Prevention | -51.9 | 3.1 | -48.8 | 89.7 | -0.3 | 89.5 | 40.7 |
| Schools & SEND | -107.8 | 8.8 | -99.0 | 170.8 | -8.7 | 162.1 | 63.1 |
| Delegated Schools | -457.7 | 10.7 | -447.0 | 457.7 | -10.7 | 447.0 | 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 | -0.6 | -14.2 | 46.8 | 0.7 | 47.5 | 33.3 |
| 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 | 0.8 | 52.7 | 45.0 |
| Public Health * | -38.5 | 0.0 | -38.5 | 38.8 | -0.3 | 38.5 | 0.0 |
| Central Income & Expenditure | -2.7 | 1.6 | -1.1 | 60.0 | 0.1 | 60.1 | 58.9 |
| Communications | 0.0 | 0.0 | 0.0 | 2.0 | 0.2 | 2.2 | 2.2 |
| Finance | -1.4 | 0.0 | -1.4 | 4.5 | 0.0 | 4.5 | 3.1 |
| Human Resources & Organisational Development | -0.1 | 0.0 | -0.1 | 4.7 | -0.3 | 4.4 | 4.3 |
| Information Management & Technology | -0.8 | 0.0 | -0.8 | 13.2 | 0.6 | 13.8 | 13.1 |
| Legal & Democratic Services | -0.5 | 0.0 | -0.5 | 9.0 | -0.1 | 8.9 | 8.4 |
| Strategy & Performance | -0.8 | 0.0 | -0.8 | 1.9 | 0.6 | 2.5 | 1.8 |
| Procurement | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.9 | 0.9 |
| Property | -8.3 | -0.4 | -8.7 | 29.5 | 0.1 | 29.7 | 21.0 |
| Joint Operating Budget ORBIS | -6.7 | 6.7 | 0.0 | 44.7 | -7.1 | 37.6 | 37.6 |
| Business Operations | 0.0 | 0.0 | 0.0 | 0.2 | -0.3 | -0.1 | -0.1 |
| Services total | -788.9 | 16.9 | -772.0 | 1,686.0 | -16.9 | 1,669.1 | 897.1 |
| General funding sources | | | | | | | |
| General Government grants | -200.1 | | -200.1 | | | 0.0 | -200.1 |
| Local taxation (council tax and business rates) | -672.2 | 0.0 | -672.2 | | 0.0 | 0.0 | -672.2 |
| Total | -1,661.2 | 16.9 | -1,644.3 | 1,686.0 | -16.9 | 1,669.1 | 24.8 |

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

* Public Health receives £38.5m grant funding, to which it matches its gross expenditure budget to give a net expenditure budget of £0.0m.

App 2. When Council agreed the MTFP in February 2016, some government departments had not determined the final amount for some grants. Cabinet agreed the principle

that services would estimate their likely grant and services' revenue budgets would reflect any changes in the final amounts, whether higher or lower.

App 3. To control their budgets during the year, managers occasionally need to transfer, or vire budgets from one area to another. In most cases these are administrative or technical in nature, or of a value the Director of Finance can approve. Virements above £500,000 require the approval of the relevant Cabinet Member. There were two virements requiring Cabinet Member approval during 2016/17, none in March 2017. Table App 2 summarises the movements to the revenue expenditure budget during 2016/17.

Table App 2: 2016/17 revenue expenditure budget movements as at 31 March 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 and February movements | 2.5 | -2.5 | | 0.0 | 125 |
| March movements | | | | | |
| Internal service movements | 6.0 | -6.0 | 0.0 | 0.0 | 35 |
| Total March movements | 6.0 | -6.0 | 0.0 | 0.0 | 35 |
| Final approved budget | -1,644.3 | 1,673.0 | -3.9 | 24.8 | 285 |

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

App 4. Table App 3 shows the outturn gross revenue position and variances supported by general balances.

Table App 3: 2016/17 Revenue budget outturn positions

| | Full year final budget £m | Full year outturn £m | Full year variance £m |
|-----------------------------|---------------------------------|----------------------------|-----------------------------|
| Income: | | | |
| Local taxation | -672.2 | -672.3 | -0.1 |
| Government grants | -816.3 | -785.0 | 31.3 |
| Other income | -155.8 | -201.2 | -45.4 |
| Total income | -1,644.3 | -1,658.5 | -14.2 |
| Expenditure: | | | |
| Staffing | 278.2 | 279.4 | 1.2 |
| Service provision | 943.9 | 949.7 | 5.8 |
| Non schools sub-total | 1,222.1 | 1,229.1 | 7.0 |
| Schools expenditure | 447.0 | 447.5 | 0.5 |
| Total expenditure | 1,669.1 | 1,676.6 | 7.5 |
| Movement in balances | 24.8 | 18.1 | -6.7 |

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

Updated budget – capital

- App 5. 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 up to 28 February 2017, Cabinet approved -£73.0m reprofiling and £6.7m capital virements.
- App 6. The year end process requires budget transfers to be incorporated into the outturn budget figures. The year end review outlined in paragraph 61 identified £1.5m increase in third party contributions or grant allocations and £4.3m school capital funding, both of which should be included within the 2016/17 capital budget.
- App 7. Capital virements made in March amounts to -£1.5m to increase the net total to £8.1m virements made in 2016/17. Table App 4 summarises the capital budget movements for the year.

Table App 4: 2016/17 Capital budget movements 2016/17

| | 1 Apr 2016 £m | 28 Feb 2017 £m | 31 Mar 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 |
| Delegated schools funding | | | 4.3 |
| Reprofiling & carry forwards | | -60.0 | -55.7 |
| 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 | | 0.7 | 0.7 |
| East Surrey Integrated Care unit - ASC | | 0.9 | 0.9 |
| River Thames Contribution | | -0.7 | -0.7 |
| Local transport systems | | 0.3 | 0.3 |
| Environment & Highway increase contributions | | | 1.8 |
| Fire & rescue net redistribution of allocation | | | 0.0 |
| Superfast broadband reprofile contributions | | | -0.3 |
| In year budget changes | | 6.7 | 8.1 |
| 2016/17 updated capital budget | 194.4 | 141.1 | 146.9 |

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

Earmarked reserves

App 8. Table App5 shows the council's earmarked reserves and general balances, including the opening and closing balances for 2016/17 and appropriations to and from reserves to give the opening usable balance on 1 April 2017.

Table App 5: Earmarked revenue reserves as at 31 March 2017

| | Opening balance 1 Apr 2016 £m | Balance at 31 Mar 2017 £m | Appropriations to BER £m | Proposed use to support 2017/18 budget £m | Forecast balance at 1 Apr 2017 £m |
|--|--|---------------------------------|--------------------------------|--|--|
| Revolving Infrastructure & Investment Fund | 11.1 | 11.1 | | | 11.1 |
| Budget Equalisation Reserve (BER) | 6.9 | 16.6 | * 7.5 | -10.0 | ** 14.1 |
| Eco Park Sinking Fund | 5.8 | 4.4 | | | 4.4 |
| Insurance Reserve | 6.5 | 7.7 | | | 7.7 |
| Investment Renewals Reserve | 8.8 | 4.9 | | | 4.9 |
| General Capital Reserve | 5.2 | 4.4 | | | 4.4 |
| Street lighting PFI Reserve | 5.1 | 4.4 | | | 4.4 |
| Vehicle Replacement Reserve | 3.9 | 0.0 | | | 0.0 |
| Economic Downturn Reserve | 9.2 | 9.2 | | | 9.2 |
| Public Health Reserve | 2.7 | 0.0 | | | 0.0 |
| Economic Prosperity Reserve | 2.5 | 2.5 | | | 2.5 |
| Equipment Replacement Reserve | 2.1 | 0.7 | | | 0.7 |
| Child Protection Reserve | 1.1 | 0.0 | | | 0.0 |
| Business Rate Appeals Reserve | 1.3 | 1.3 | | | 1.3 |
| Pension Stabilisation Reserve | 0.0 | 0.0 | | | 0.0 |
| Interest Rate Reserve | 1.0 | 1.0 | | | 1.0 |
| Total earmarked revenue reserves | 73.2 | 68.2 | 7.5 | -10.0 | ** 65.7 |
| General Fund Balance | 21.3 | 21.3 | | | 21.3 |

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

* £7.5m appropriations to the Budget Equalisation Reserve are:

£5.7m from the underspend remaining after making £1.0m provision for legal costs and claims

£1.8m net income on Revolving Infrastructure & Investment Fund investments

** Budget Equalisation Reserve and total earmarked revenue reserves balances on 1 April 2017 include £1.6m amounts carried forward from 2016/17

Debt

App 9. During 2016/17, the Accounts Payable team raised invoices totalling £299.2m (up from £213.9m as at 31 December 2016). The amount outstanding on these invoices was £38.9m of gross debt as at 31 March 2017. Table App 6 shows the age profile of the council's debts. The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old).

Table App 6: Age profile of the council's debts as at 31 March 2017

| Account group | <1 month £m | 2-12 months £m | 1-2 years £m | +2 years £m | Total £m | Overdue debt £m |
|---------------------------------|-------------------|----------------------|--------------------|-------------------|-------------|-----------------------|
| Care debt – unsecured | 4.6 | 3.6 | 2.0 | 3.3 | 13.4 | 8.9 |
| Care debt – secured | 0.3 | 2.3 | 1.6 | 3.7 | 7.9 | 7.6 |
| Total care debt | 4.9 | 5.9 | 3.6 | 6.9 | 21.3 | 16.4 |
| Schools, colleges and nurseries | 1.3 | 0.2 | 0.0 | 0.0 | 1.5 | 0.2 |
| Clinical commissioning groups | 4.3 | 0.5 | 0.1 | 0.1 | 5.0 | 0.7 |
| Other local authorities | 5.2 | 0.7 | 0.1 | 0.3 | 7.9 | 1.0 |
| General debt | 3.0 | 1.5 | 0.3 | 0.1 | 4.8 | 1.8 |
| Total non-care debt | 13.8 | 2.9 | 0.5 | 0.5 | 17.6 | 3.8 |
| Total debt | 18.7 | 8.7 | 4.1 | 7.4 | 38.9 | 20.2 |

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

App 10. Adjusting the gross debt to take into account those balances not immediately due (i.e. less than 30 days old) or collectable (i.e. secured on property) produces the overdue debt figures shown in Table App 7.

Table App 7: Overdue debt summary as at 31 March 2017

| | 2016/17 Q4 £m | 2016/17 Q3 £m | 2016/17 Q2 £m | 2016/17 Q1 £m | 2015/16 Q4 £m | 2014/15 Q4 £m | 2013/14 Q4 £m |
|-----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Care related debt | 8.9 | 9.4 | 10.5 | 10.5 | 10.8 | 8.9 | 6.5 |
| Non care related debt | 3.8 | 5.2 | 5.8 | 7.7 | 7.6 | 4.2 | 3.1 |
| Total | 12.7 | 14.6 | 16.3 | 18.2 | 18.4 | 13.1 | 9.6 |

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

App 11. The council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for the period 1 April 2016 to 31 March 2017 was 22 days (up from 20 days as at 30 December 2016).

App 12. Non care related debt includes £0.7m with clinical commissioning groups and £1.0m with other local authorities.

App 13. Changes introduced under the Care Act mean it is no longer possible to place a charge on an individual's property resulting in a rise in the level of unsecured debt (as this debt would previously have been reported as secured). The level of unsecured care related debt has reduced by £1.9m (18%) during 2016/17 from Adult Social Care and Business Operations working together to review how to process more care related debt through legal channels.

App 14. The Director of Finance has delegated authority to write off irrecoverable debts in line with financial regulations. This quarter (Q4 2016/17) the Director of Finance has written off 122 such debts with £352,131 total value, of which £275,691 is care related and £76,440 is non care related debt.

Treasury management

Borrowing

App 15. The council borrows money to finance the amount of our capital spending that exceeds receipts from grants, third party contributions, capital receipts and reserves. The council must also demonstrate the costs of borrowing are affordable, prudent and sustainable under the Prudential Code.

Table App 8: Long-term borrowing as at 31 March 2017

| | £m |
|--|--------------|
| Debt outstanding as at 1 April 2016 | 397.2 |
| Loans raised | 0.0 |
| Loans repaid | 0.0 |
| Current balance as at 31 March 2017 | 397.2 |

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

App 16. The council also manages cash on behalf of Surrey Police Authority (£24.7m as at 31 March 2017) which is classed as temporary borrowing.

Authorised limit and operational boundary

App 17. The following prudential indicators control the overall level of borrowing:

- The authorised limit represents the limit beyond which borrowing is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing needed with headroom for unexpected cash flow. This is a statutory limit determined under section 3(1) of the Local Government Act 2003.
- The operational boundary is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure the authorised limit is not breached.

Table App 9: Borrowing against the authorised limit and operational boundary as at 31 March 2017

| | Authorised limit £m | Operational boundary £m |
|------------------|--------------------------------|------------------------------------|
| Gross borrowing | 512.2 | 512.2 |
| Limit / boundary | 928.1 | 676.9 |
| Headroom | 415.9 | 164.7 |

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

Capital Financing Requirement

App 18. The Capital Financing Requirement (CFR) represents the council's underlying need to borrow for a capital purpose. The council must ensure that, in any one year, net external borrowing does not, except in the short-term, exceed the estimated CFR for the next three years. Table App 10 shows the council's position against the estimated CFR, as reported to the County Council in February 2017. The current borrowing position shows a net position of £490.4m more in borrowing than the council holds in short term deposits.

Table App 10: The council's position against the estimated CFR

| Capital Financing Requirement | | | Net borrowing |
|--------------------------------------|----------------|----------------|----------------------|
| 2016/17 | 2017/18 | 2018/19 | |
| £1,084.0m | £1,143.7m | £1,154.7m | £490.4m |

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

Maturity profile

App 19. The council sets limits for the maturity structure of borrowing in accordance with the Prudential Code, as shown in Table App 11. The actual amounts as at 31 March 2017 exclude balances invested on behalf of Surrey Police Authority.

Table App 11: Maturity structure of the council's borrowing as at 31 March 2017

| | Upper limit | Lower limit | Actual |
|--------------------------|--------------------|--------------------|---------------|
| Repayable in 1 year* | 50% | 0% | 26.0% |
| Repayable in 1-2 years | 50% | 0% | 0.0% |
| Repayable in 2-5 years | 50% | 0% | 0.0% |
| Repayable in 5-10 years | 75% | 0% | 1.8% |
| Repayable in 10-15 years | 75% | 0% | 0.0% |
| Repayable in 15-25 years | 75% | 0% | 1.3% |
| Repayable in 25-50 years | 100% | 25% | 70.9% |

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

Early debt repayment and rescheduling

App 20. There has been no early repayment or rescheduling in 2016/17.

Investments

App 21. The council had an average daily level of investments of £79.3m during 2016/17 and an average of £181.6m in 2015/16. The council's total investments includes schools' balances. The balance of schools' accounts was £43.0m at 31 March 2017.

App 22. The council invests cash on the money markets through one of five brokers, directly with counterparties through the use of call accounts, money market funds or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits were agreed during 2016/2017. It has been beneficial to place cash within money market funds to facilitate a liquid cash flow and the rate of return for money market funds decreased at a lower rate than other investment opportunities after the EU Referendum on 23 June 2016 and the reduction in the bank base rate on 4 August 2016. Table App 12 gives a breakdown of activity during the year to 31 March 2017.

Table App 12: Deposit activity up to 31 March 2017

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

App 23. The weighted average return on all investments received in the quarter to 31 March 2017 is 0.26%. This compares to the average 7-day London Interbank Bid Rate (LIBID) of 0.11% for the same period. During the whole of 2016/17, the weighted average return on all investments is 0.38%, compared to the equivalent average 7-day London Interbank Bid Rate (LIBID) of 0.20%. Table App 13 shows the comparison.

Table App 13: Weighted average return on investments compared to 7-day LIBID

| | Average 7-day LIBID | Weighted return on investments |
|----------------------|--------------------------------|---|
| Quarter 4, 2016/17 | 0.11% | 0.26% |
| 2016/17 total | 0.20% | 0.38% |
| 2015/16 total | 0.36% | 0.54% |

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

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