

Budget monitoring for period two of 2017/18 (May 2017)

Summary

Surrey County Council set its 2017/18 budget in the context of significant rising demand pressures (particularly in social care) compounded by falling Government funding and continuing restraint on the council's ability to raise funds locally without triggering a referendum. Consequently, to achieve a sustainable budget, the council would have needed to make £150m savings. However, the use of a series of one off measures meant the council faced having to plan to deliver an unprecedented high level of £104m savings to balance the 2017/18 budget. Delivering this on top of £450m savings already made since 2010 is a significant challenge.

To assist in the challenge of delivering these savings of £104m this year, the tracker for monitoring progress of efficiencies has been enhanced to reflect progress against milestones, consultations and equalities impact assessments (EIAs). Each month budget holders update the tracker supported by Finance, Directors review the tracker and report key messages to Cabinet. The tracker identifies the risks of not achieving savings at an early stage and the impact of late delivery, enabling remedial action where appropriate.

After two months of the financial year, services have already achieved over £30m savings with another £38m on track for delivery. Whilst this is good early progress, savings plans of £14m face potential barriers, a further £6m are considered at serious risk and a further £7m are now considered to be unachievable (including nearly £3m in Early Help; £3m due to delays to savings in waste disposal, and £1m delays in Fire & Rescue Service savings). In addition, while £9m of savings have yet to be identified fully, Cabinet team and Senior Management team have held discussions about possibilities and further discussions are progressing.

In setting the 2017/18 budget, the council faced significant demand and cost pressures, mostly in social care. In some services a small change in volume can lead to significantly increased costs. The experience of the first two months of the year has seen numbers increase above what was expected even a short period ago. In Children's Services, demand continues to increase and is adding +£9m pressure. In Public Health, retendering of a major contract is adding nearly +£2m pressure.

Currently, there are some offsetting forecast underspends, such as in Schools & SEND (Special Educational Needs and Disabilities). However at this early stage and before the council has identified mitigating actions, the combined impact of the lower savings and rising demand is +£24m forecast overspend for 2017/18.

To mitigate the impact of savings shortfalls and service pressures, the council is seeking alternative savings and cost reductions; and looking to delay expenditure where possible.

Summary recommendations

This is the first regular budget monitoring report for 2017/18 and gives an early indication as to the confidence of delivering these savings. Being so early in the year does mean the council needs to balance its mitigating actions carefully so as not to affect service delivery unnecessarily, while also recognising the importance of managing any overspends down.

Cabinet is asked to note the following.

1. Early forecast revenue budget outturn for 2017/18, ahead of identifying mitigating actions, is +£24m overspend (paragraph 1). This includes:
 - +£9m savings to be identified,
 - +£7m savings considered unachievable,
 - +£11m service pressures.
2. Forecast savings for 2017/18 total £88.4m against £104.0m target (paragraph 31).
3. The Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary (main report, paragraphs 15 to 18w).
4. Cabinet is asked to approve the following revenue budget virements:
 - £1m from Early Help to the Multi Agency Safeguarding Hub (paragraph 28);
 - £3m from Schools & SEND to Children's Services (paragraph 29);
 - £14,000 from Budget Equalisation Reserve to Surrey Safeguarding Board (paragraph 30).

Revenue budget summary

In March 2017 Cabinet approved Surrey County Council's Medium Term Financial Plan (MTFP) 2017-20. This incorporates the £1,672m gross expenditure budget for the 2017/18 financial year set by Full County Council in February 2017. MTFP 2017-20 is a key means for delivering the council's strategic aims in the face of rising pressures from growth in demand for services (particularly social care) and continuing falls in Government funding, which both put significant strains on the council's finances.

The Section 151 Officer's Annex to the Budget Report in February 2017 expressed the view that the risks to the council's financial position had become even more serious during 2016/17. To alleviate these risks and move towards a sustainable financial position, the council needs to achieve £104m savings in 2017/18 to balance this year's budget.

As at 31 May 2017, the council forecasts +£24m overspend at year end. The main variances (outlined in paragraphs 7 to 23) relate to:

- +£9.0m savings yet to be identified;
- +£6.6m forecast underachievement of savings, made up of
 - +£2.6m in Early Help
 - +£2.7m in Waste
 - +£1.3m in Fire & Rescue; and
- +£8.2m net service pressures, including
 - +£9.0 demand in Children's Services
 - +£3.0m staffing in Children's Services
 - +£1.7m contractual issues in Public Health
 - £4.9m underspend in Schools & SEND

The council has £21m general balances and £66m earmarked reserves. The Director of Finance regards this as being at the minimum safe level. Taking no action to mitigate overspending against the 2017/18 budget at the current forecast level would require £24m unplanned use of reserves. £24m is more than a quarter of the council's total revenue 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 £387m capital programme in MTFP 2017-20. As at 31 May 2017, services forecast spending £171m against the £186m current 2017/18 capital budget. Significant variances include: underspends in Surrey Fire & Rescue Service for the joint transport project, purchase of land for Waste projects and Cranleigh School (paragraph 47).

As part of increasing the council's overall financial resilience, it currently plans £34m net investment in long term capital investment assets in 2017/18 (paragraphs 50 to 53). This means total capital spending, including long term investments, is forecast to be £205m in 2017/18.

Revenue budget

Overview

1. As at 31 May 2017, the forecast year end budget variance is +£23.8m overspend.
2. The overall forecast overspend is mainly due to: +£6.6m forecast underachievement on savings; £9.0m savings which remain unidentified; service pressures of +£12.1m in Children's Services and +£1.7m in Public Health; offset by -£4.9 forecast underspends in Schools & SEND and -£0.5m in Highways & Transport (paragraphs 7 to 23).
3. While a forecast outturn overspend position of this size so early in the financial year is significant, it important to balance remedial action with avoiding services being reduced unnecessarily. It also gives Cabinet some time to approve remedial actions for services to deliver offsetting savings.

Revenue budget monitoring position

4. In March 2017, Cabinet approved the council's 2017/18 gross revenue expenditure budget at £1,672.4m, gross revenue income budget at -£1,660.6m and use of reserves at -£11.8m.
5. Changes in the first two months of 2017/18 to reflect agreed carry forwards and other budgetary adjustments, increased the gross expenditure budget as at 31 May 2017 to £1,672.8m and the gross income budget to £1,661.0m. Approved use of reserves remains unchanged. Table App1 in the appendix outlines the updated revenue budget by service after in year budget virements and budget carry forwards from the 2016/17 financial year.
6. Table 1 shows the updated net revenue expenditure budget position analysed by service. Net revenue expenditure budgets are services' gross expenditure less income from specific grants and fees, charges and reimbursements. Net revenue budgets do not include income from the council's general funding sources, which are general government grants and local taxation (council tax and business rates). Table App3 in the appendix shows year to date and forecast year end positions for the council's general funding sources.

Table 1: 2017/18 updated net revenue budget forecast as at 31 May 2017

Service	Full year	YTD actual	Full year	Full year
	revised budget		projection	
	£m	£m	£m	£m
Economic Growth	1.0	0.2	1.0	0.0
Strategic Leadership	0.9	0.2	0.9	0.0
Adult Social Care	361.5	58.6	361.5	0.0
Children's and Safeguarding services	103.2	17.9	115.3	12.1
Commissioning & Prevention	33.7	5.7	36.3	2.6
Schools & SEND (Special Educational Needs & Disabilities)	65.4	9.4	60.5	-4.9
Delegated Schools	-1.2	-1.2	-1.2	0.0
Community Partnership & Safety	2.7	0.6	2.8	0.1
Coroner	1.7	0.3	1.7	0.0
Cultural Services	9.3	1.4	9.3	0.0
Customer Services	3.4	0.5	3.4	0.0
C&C Directorate Support	0.8	0.1	0.8	0.0
Emergency Management	0.5	0.1	0.5	0.0
Surrey Fire & Rescue Service	31.8	5.3	33.1	1.3
Trading Standards	1.9	0.2	1.9	0.0
Place Development & Waste	81.3	13.5	83.9	2.6
Highways & Transport	44.7	6.4	44.2	-0.5
Public Health	0.0	0.0	1.7	1.7
Communications	2.1	0.3	2.1	0.0
Finance	2.8	0.5	2.8	0.0
Human Resources & Organisational Development	3.8	0.4	3.8	0.0
Information Management & Technology	12.5	1.5	12.5	0.0
Legal Services	4.0	0.7	4.0	0.0
Democratic Services	5.8	1.5	5.8	0.0
Strategy & Performance	1.4	0.2	1.4	0.0
Procurement	0.9	0.0	0.9	0.0
Property	21.6	2.7	21.6	0.0
Joint Operating Budget ORBIS	37.6	5.7	37.6	0.0
Business Operations	-0.1	0.0	-0.1	0.0
Central Income & Expenditure	54.3	-0.4	54.3	0.0
Savings to be identified	-9.0			9.0
Services' total net revenue expenditure	880.4	132.3	904.2	23.8

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

Significant net revenue budget variances

Children's Services - +£12.1m overspend (+£12.1m change since 1 April 2017)

- Children's Services continues to experience exceptional demand for services continuing patterns seen in recent months and is therefore forecasting a +£12.1m overspend. This is leading to pressures seen against staffing budgets of +£3m, and significant demand pressures around the cost of placements for looked after children, care leavers and Unaccompanied Asylum Seeker Children (UASC) of +£9m.
- Increased demand from children requiring support has led to the need for additional social work capacity and the need to have 45.5 staff above establishment at this time. Although the number of locums has reduced over the past six months as the permanent workforce stabilises. The service has 85.5 locums to staff both the Multi Agency Safeguarding Hub (MASH) and the Children's Services frontline teams.

9. There are also staffing pressures in the MASH. The MASH was established in October 2016 and it is now clear that the original staffing establishment is insufficient to manage the number of contacts and workflow currently being experienced. In recognition of this a £1m virement from Commissioning & Prevention to Children's Services is proposed which recognises the part the MASH plays in the wider early help system.
10. Pressures from increases in the number of looked after children are mainly being seen in the external placement budget, particularly the highest cost residential placements (£219,000 a year). During business planning the service reasonably estimated at that stage a total of 216 external placements. At the end of May 2017 there were 249 children in external placements, the majority having very complex needs. The forecast assumes that external placement numbers will continue to increase, however, this could be a volatile picture over the next few months.
11. As in previous years, the local authority is having to subsidise UASC costs, as the grant funding is insufficient to cover the total cost. In 2017/18 the service is expecting this to lead to an overspend of +£1.5m for direct placement costs. The government did increase the level of grant from July 2016 and Surrey now receives the higher rate of grant for 45% of the young people concerned. Nevertheless the new higher rate of grant is not sufficient to cover placement costs, e.g. for a 16/17 year old the short fall is £4,000 a year for those on the new rate and £11,000 a year for those on the legacy rate.
12. The number of UASC being supported as looked after children has reduced as a high number of children turn 18 and move on to the leaving care service. Again the rate of grant is insufficient to cover the costs of care leavers and contributes +£0.8m to a +£1.3m anticipated overspend for leaving care. A further +£0.5m of this overspend arises from the need for more supportive packages for young people as they turn 18.

Schools & SEND - -£4.9m underspend (-£4.9m change since 1 April 2017)

13. Overall Schools & SEND is estimating an underspend of -£4.9m at the year end.
14. The main reason for this is -£3m funding for increased SEND demand, which although demand has increased significantly, it isn't as high as originally estimated, in particular around post 16 placements. This is a relatively new area of responsibility, where the service does not have trend data and the level of transfer from Learning Disability Agreements to the new legislative requirement for an Education, Health and Social care Plan (EHCP) was untested.
15. In addition there are projected underspends against the central allowance for retirement costs (-£0.6m), which the council is legally required to fund in schools and contracts (-£0.4m).
16. Recruitment difficulties mean that there are currently short term underspends against staffing budgets principally in the education psychology teams and SEND operations (-£1.5m). These posts do need to be filled and the service is actively recruiting to ensure it meets its requirement around EHCPs, so the forecast is likely to change.
17. These underspends are in part offset by an emerging overspend on SEN transport of +£0.5m. The number of children travelling increased towards the end of 2016/17 with overall numbers increasing by 105 across the year. If continued, these trends will

place pressure on the budget in 2017/18. The position will be clearer from September when travel patterns for the new academic year are established. Although volumes are increasing, work is underway to develop travel training for young people with SEN and change the SEN transport service, with £7.5m gross savings planned over four years.

Commissioning & Prevention - +£2.6m overspend (+£2.6m change since 1 April 2017)

18. The Early Help service is developing a new operational model for the early help system to provide a cohesive and coordinated support offer for families. The development phase has been extended to ensure the offer is 'right' for Surrey, in the context of increasing demand currently being experienced across the social care system in Surrey. The full savings anticipated as a result will not be delivered in 2017/18. However, the reconfiguration of support and commissioning services have delivered £2.3m savings for 2017/18.

Place Development & Waste - +£2.5m overspend (+£2.5m change since 1 April 2017)

19. Place Development & Waste forecasts +£2.5m overspend, representing the net of a number of pressures and offsetting savings, primarily within the waste disposal service. Waste currently forecasts +£2.6m overspend due to savings which are not expected to be achieved this year, or only partially achieved. These include savings from improved kerbside recycling performance, better management of recycled materials, and further changes at community recycling centres (which require public consultation and Cabinet approval). In addition a number of risks exist. The forecast assumes a total of £2m can be saved this year by making structural changes to the waste contract. Progress is ongoing, for example a £12m contract refinancing was approved by Cabinet in March 2017 and completed earlier this month. However this is a challenging project and delivery is not entirely within the council's control.
20. The service (and the wider Environment & Infrastructure (E&I) directorate) is reviewing planned income & expenditure to identify additional savings to compensate for overspends, including taking advantage of recent contract retender savings and holding vacant posts. Through these measures it is currently expected to reduce the pressure to +£2.5m. Additional measures across the wider E&I directorate outlined in paragraph 21 are expected to further reduce this to +£2.0m.

Highways & Transport - -£0.5m underspend (-£0.5m change since 1 April 2017)

21. The Highways & Transport service is reviewing planned income and expenditure to identify additional savings to compensate for overspends elsewhere in the E&I directorate. Potential measures include delaying planned works and maximising income. There are varying degrees of certainty over the delivery of these savings. At this stage, it is expected Highways & Transport can achieve a net underspend of -£0.5m, which together with savings outlined in paragraph 20 would reduce the pressure across the E&I directorate to +£2.0m.

Surrey Fire & Rescue Service - +£1.3m overspend (+£1.3m change since 1 April 2017)

22. Surrey Fire & Rescue Service forecasts +£1.3 m year end overspend. This is mainly due to not achieving £0.9m Fire cover reconfiguration saving in 2017/18 due to delaying closure of Staines fire station until the new fire station is completed. In addition, as no collaborative activity is expected to start this financial year, two

collaborative blue light savings projects for fleet activities and mobilising of £0.2m each will not be achieved. The service is reviewing its operational expenditure to determine if it can find alternative savings to help offset the +£1.3m overspend.

Public Health - +£1.7m overspend (+£1.7m change since 1 April 2017)

23. Public Health forecasts +£1.7m year end overspend. This overspend is largely due to delays to implementing the new integrated sexual health service provider contract and having to extend the existing contract. As a priority Public Health leadership team is reviewing a series of mitigating actions to reduce the forecast overspend and will update the forecast monthly to reflect this.

Areas to be aware

24. At this point in the financial year, some services still face risks to their 2017/18 outturn positions.

Children, Schools & Families – (Dedicated Schools Grant)

25. At period two the budgets for SEND services funded by the Dedicated Schools Grant (DSG) are expected to be broadly on budget after taking into account the need to meet the High Needs Block DSG overspend that occurred in 2016/17. However, there are some significant challenges in this budget with additional places for children with special needs in our special schools and units (+£1.6m) and in the Non Maintained and Independent (NMI) sector (+£1m). There is also a challenging savings plan of £13m being worked through with special schools and school partners.
26. As in previous years it is anticipated that any overspend or underspend on the high needs services funded from DSG, will be managed across the financial years and within the DSG funding. This will be subject to School Forum approval in January 2018, as in previous years.

Revenue budget virement requests

27. Cabinet is asked to approve the following.
28. A virement of £1m from the Commissioning & Prevention budget to the Multi Agency Safeguarding Hub (MASH) budget in Children's Services recognising the increased activity undertaken in the MASH is part of the wider Early Help system.
29. A virement of £3m from the central budget in Schools & SEND to meet demand pressures in Children's Services.
30. A virement of £13,836 from the Budget Equalisation Reserve (approved carry forwards) to Surrey Safeguarding Board for activities augmenting those planned for 2017/18.

Efficiencies

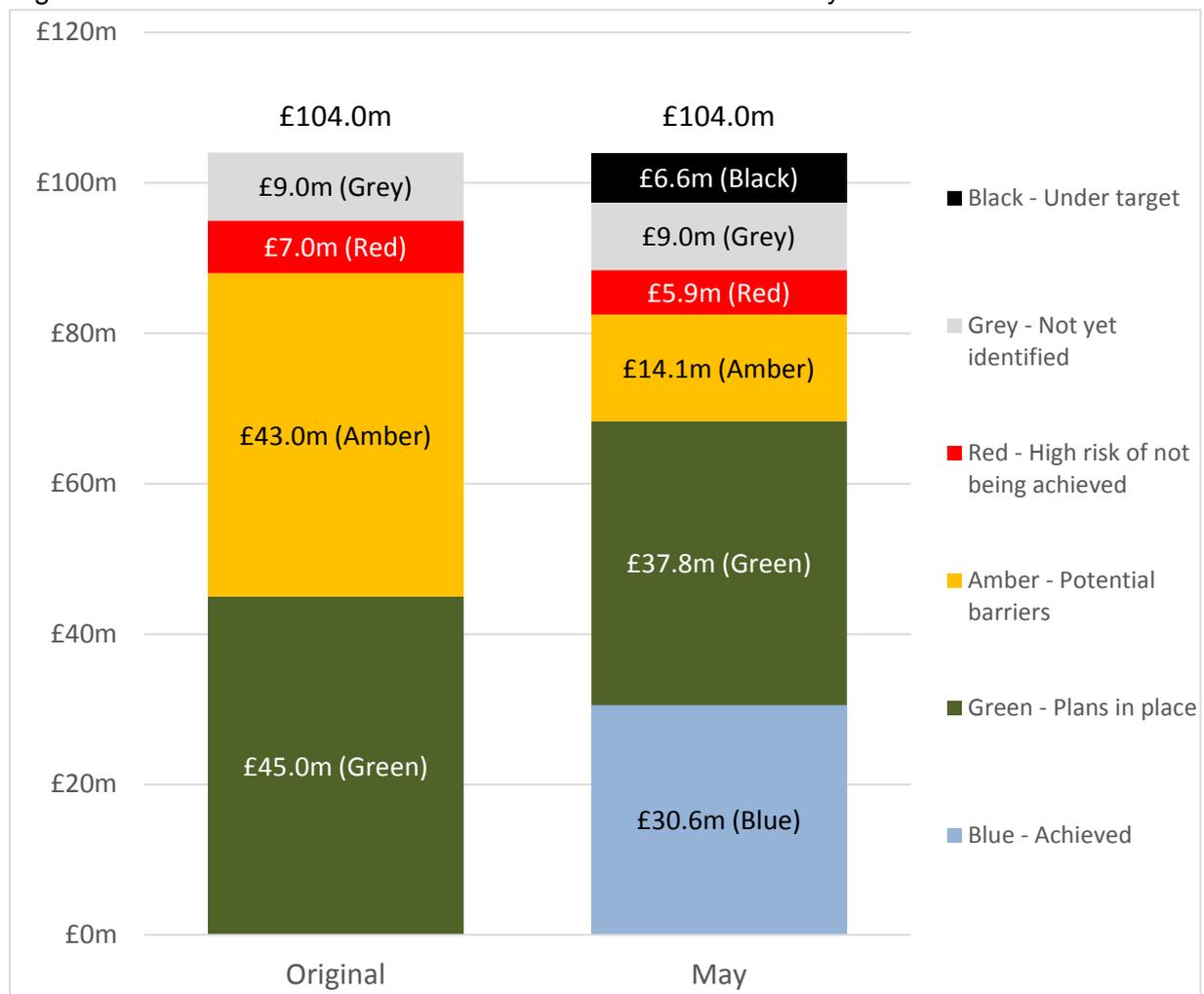
31. MTFP 2017-20 includes £104.0m efficiencies in 2017/18. Council services currently forecast to achieve £88.4m of this target. This represents a £15.6m shortfall, comprising £9.0m savings the council has yet to identify and £6.6m savings it considers unachievable. As outlined in the summary to this report annex, services

have increased the rigour with which they track progress with their savings plans. The tracker includes:

- achievement of savings to date;
- significant milestones and key actions;
- progress of required EIA or consultations;
- the extent of each efficiency plan's deliverability;
- the risks to delivery;
- the value of the savings the plans will achieve; and
- additional and offsetting savings to help meet the overall target.

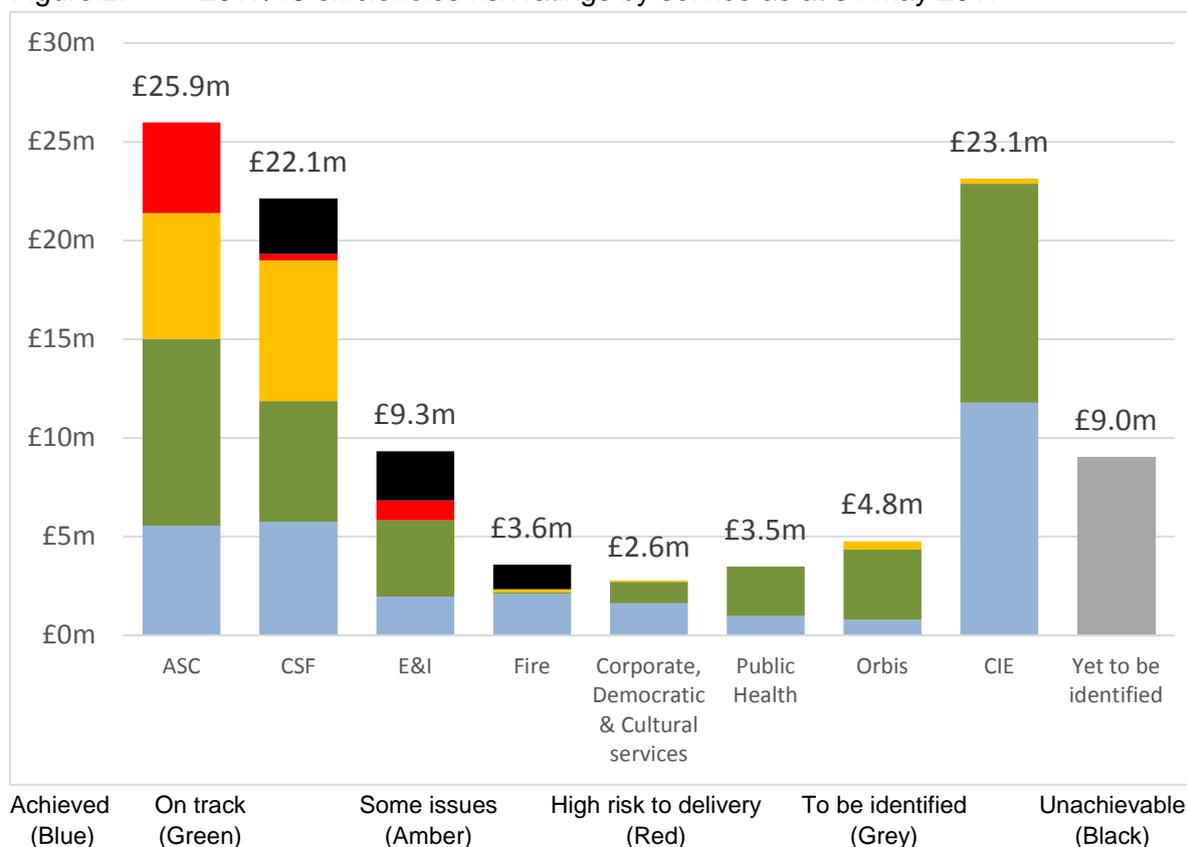
32. Figure 1 summarises the council's overall efficiency targets, the forecast for achieving them and the deliverability risks. By month two of 2017/18, services have made good progress to have already achieved over £30m savings and be on track to achieve another £38m. A further £14m savings plans potentially face barriers to achievement and £6m are at high risk of non-achievement.
33. Nearly £7m of savings plans are now considered not to be achievable, mainly in the areas of Early Help, Waste Disposal and Fire. In addition, a further £9m of savings are yet to be identified. Services continue to seek alternative savings for delivery in 2017/18, but as at 31 May 2017 these are not yet identified.

Figure 1: 2017/18 overall risk rated efficiencies as at 31 May 2017



34. Figure 2 shows service directorates' updated risk ratings for achieving their efficiencies this year. The main areas of concern are unachievable savings in CSF, E&I and Fire, with significant savings in ASC being at risk.

Figure 2: 2017/18 efficiencies risk ratings by service as at 31 May 2017



35. As at 31 May 2017, the main significant variations in services' progress against their MTFP 2017-20 efficiencies and service reductions were as follows.

- £9.0m shortfall for savings yet to be identified.
- £2.6m shortfall in Early Help as outlined in paragraph 18;
- £2.7m shortfall in Waste as outlined in paragraph 19; and
- £1.3m shortfall in Fire & Rescue as outlined in paragraph 22.

Staffing costs

36. 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.
37. 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.

38. The council sets its staffing budget on the estimated labour needed to deliver its services. It expresses this as budgeted full time equivalent (FTEs) staff and converts it to a cost for the budget. The budget includes spending on all three categories of staff and is the key control in managing staffing expenditure. The council's full year staffing budget for 2017/18 is £278.2m based on 7,039 budgeted FTEs.
39. The council has 586 vacancies, measured as the difference between budgeted and occupied FTEs. It is recruiting for 421 of these vacancies (up from 420 in April 2017). 330 of these live vacancies are in social care (up from 324 in March 2017).
40. Table 2 shows staffing cost as at 31 May 2017 against service budgets and analysed among the three staff categories of contracted, bank and agency staff. Table 2 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.
41. 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 2 and the Staffing expenditure line in Table App3 in the appendix.
42. Table 2 shows the year to date budget as at 31 May 2017 is £46.0m and expenditure incurred is £44.5m. Table App 3 shows +£3.2m forecast overspend on employment costs at year end. This position includes the impact of demand for increased social work and safeguarding capacity in Children's Services as outlined in paragraphs 8 and 9.

Table 2: Staffing costs and FTEs to 31 May 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	0.1	0.1	0.0	0.0	0.1	0.0	9	9
Adult Social Care	10.4	9.5	0.3	0.3	10.1	-0.3	1,754	1513
Children, Schools & Families ¹	19.6	17.4	1.1	0.7	19.2	-0.3	3,013	2827
Community Partnership & Safety	0.2	0.2	0.0	0.0	0.2	0.0	25	24
Coroner	0.1	0.0	0.0	0.0	0.1	0.0	2	2
Cultural Services	3.2	2.8	0.0	0.2	3.0	-0.1	529	523
C&C Directorate Support	0.0	0.0	0.0	0.0	0.0	0.0	26	22
Emergency Management	0.1	0.1	0.0	0.0	0.1	0.0	12	11
Surrey Fire & Rescue Service	4.4	4.1	0.0	0.3	4.4	0.0	608	580
Trading Standards	0.6	0.5	0.0	0.0	0.5	-0.1	74	62
Place Development & Waste	1.6	1.6	0.0	0.0	1.6	0.0	200	193
Highways & Transport	2.6	2.1	0.1	0.0	2.2	-0.3	371	304
Public Health	0.4	0.4	0.0	0.0	0.4	0.0	46	40
Central Income & Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0	
Communications	0.2	0.2	0.0	0.0	0.2	0.0	31	32
Customer Services	0.6	0.5	0.0	0.0	0.5	0.0	102	94
Legal & Democratic Services	0.9	0.8	0.0	0.0	0.8	-0.1	125	112
Strategy & Performance	0.3	0.3	0.0	0.0	0.3	0.0	27	25
Managed Orbis ²	0.7	0.4	0.1	0.0	0.5	-0.2	85	80
Service net budget	46.0	41.2	1.8	1.5	44.5	-1.5	7,039	6,453

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 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).

Capital budget

43. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £387m 2017-20 MTFP capital programme.
44. Cabinet approved the original capital expenditure budget for 2017/18 at £186.0m and carry forward of £17.0m scheme budgets requested in the 2016/17 Outturn report. In the period to 31 May 2017, Cabinet approved £1.8m reprofiling and -£2.6m capital virements. Paragraph App 6 and Table App 4 detail the movements.
45. Table 3 shows the derivation of the current year capital expenditure budget from the MTFP budget.

Table 3: Capital expenditure budget 2017/18 as at 31 May 2017

	MTFP budget £m	2016/17 budget c/fwd £m	Budget virement £m	Reprofile £m	Current full year budget £m
School basic need	72.2				72.2
Highways recurring programme	49.3	1.5	-2.5		48.3
Property & IT recurring programme	52.2				52.2
Other capital projects	12.3	0.3			12.6
Service capital programme	186.0	1.8	-2.5	0.0	185.3
Long term investments					0.0
Overall capital programme	186.0	1.8	-2.5	0.0	185.3

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

46. Table 4 compares the current full year overall capital programme budget of £185.3m to the current forecast expenditure for the service capital programme of £171.1m and the current forecast expenditure for the overall capital programme of £205.5m. The overall programme in 2017/18 includes £34.4m Approved Investment Strategy spending on long term investments (as outlined in paragraphs 50 to 53).

Table 4: Forecast capital expenditure 2017/18 as at 31 May 2017

	Current full year budget £m	Apr - May actual £m	Jun - Mar projection £m	Full year forecast £m	Full year variance £m
Schools basic need	72.2	6.3	65.9	72.2	0.0
Highways recurring programme	48.3	3.8	44.4	48.2	0.0
Property & IT recurring programme	52.2	4.0	40.3	44.3	-7.9
Other capital projects	12.6	1.3	5.1	6.4	-6.2
Service capital programme	185.3	15.4	155.7	171.1	-14.1
Long term investments	0.0	0.3	34.1	34.4	34.4
Overall capital programme	185.3	15.7	189.8	205.5	20.3

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

Significant capital budget variances

47. The -£14.1m forecast underspend on the 2017/18 capital programme is mainly due to the following variances:
- Surrey Fire & Rescue Service's joint transport project currently forecasts -£4.5m underspend for 2017/18, due to project delays while plans are developed the Transport function across partners is designed and workshop options explored;
 - Place Development & Waste no longer plans to purchase land for Waste projects in 2017/18, leading to a -£3.7m forecast underspend; and
 - the project for Cranleigh School to deliver a capital receipt has suffered delays, leading to a -£4.4m forecast underspend in 2017/18.
48. The Schools Basic Need programme's annual review is in process. Issues under consideration include: a planned new free school, planning and highway issues and deferred schemes.
49. Reviews of each of these areas is likely to propose some reprofiling of the 2017/18 capital budget within the scope of the whole capital programme next month.

Revolving Infrastructure & Investment Fund

50. Table 5 shows that the council will generate -£2.5m net income this year from various property acquisitions made by the council and the Halsey Garton Property group. The council anticipates transferring this net income to the Revolving Infrastructure & Investment Fund at the year-end.
51. The council portfolio comprises properties purchased for future service delivery or economic regeneration. The portfolio forecasts a net cost of £0.8m this year, largely due to the development underway at the former Thales site in Crawley. In 2017/18 this scheme will cost the council an estimated £1.5m. However once the second phase building becomes fully operational in 2019/20 the development will generate -£1.3m net income a year.

52. The Halsey Garton portfolio will generate net income of -£3.4m this year, comprised of an estimated dividend of -£1.4m and -£2.0m net interest margin on loans provided to the company by the council.
53. Net capital expenditure in 2017/18 of £34.4m includes additional equity investment and loans to the Halsey Garton Property group and the development of the former Thales site in Crawley. Expenditure is included in the capital forecast once approved by the Investment Board or Cabinet, as appropriate.

Table 5: Summary revenue and capital position as at 31 May 2017

Revenue statement	YTD actual £m	Full year forecast £m
Council portfolio		
Income	-0.7	-4.3
Expenditure	0.1	0.8
Funding	0.6	4.3
Net income/cost	0.0	0.8
Halsey Garton portfolio		
Dividend	0.0	-1.3
Net interest margin	-0.3	-2.0
Net income	-0.3	-3.3
Total net income	-0.3	-2.5
Capital expenditure	0.3	34.4

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

Appendix to Annex

Updated budget - revenue

App 1. The council's original 2016/17 revenue expenditure budget was approved as £1,672.4m. Adding virement changes in the first two months of 2017/18 increased the expenditure budget as at 31 May 2017 to £1,672.8m. 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: 2017/18 updated revenue budget as at 31 May 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	1.0	0.0	1.0	1.0
Strategic Leadership	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Adult Social Care	-99.1	-0.1	-99.2	460.8	0.0	460.8	361.6
Children's Services	-10.6	-0.1	-10.7	112.8	0.2	113.0	102.3
Commissioning & Prevention	-73.0	0.3	-72.7	107.7	-0.3	107.4	34.7
Schools & SEND	-170.1	-0.3	-170.4	234.3	0.4	234.7	64.3
Delegated Schools	-345.1	0.0	-345.1	345.1	0.0	345.1	0.0
Community Partnership & Safety	-0.2	0.0	-0.2	2.9	0.0	2.9	2.7
Coroner	0.0	0.0	0.0	1.7	0.0	1.7	1.7
Cultural Services	-13.3	0.0	-13.3	22.6	0.0	22.6	9.3
Customer Services	-0.1	0.0	-0.1	3.5	0.0	3.5	3.4
Communities Support function	-0.2	0.0	-0.2	0.9	0.0	0.9	0.7
Emergency Management	-0.1	0.0	-0.1	0.6	0.0	0.6	0.5
Surrey Fire & Rescue Service	-12.2	0.0	-12.2	44.0	0.0	44.0	31.8
Trading Standards	-1.8	0.0	-1.8	3.7	0.0	3.7	1.9
Place Development & Waste	-8.0	0.0	-8.0	89.3	0.0	89.3	81.3
Highways & Transport	-8.1	0.0	-8.1	52.8	0.0	52.8	44.7
Public Health	-37.9	0.0	-37.9	37.9	0.0	37.9	0.0
Central Income & Expenditure	-0.4	-0.2	-0.6	54.5	0.5	54.9	54.2
Communications	0.0	0.0	0.0	2.1	0.0	2.1	2.1
Orbis - Joint and Managed	-10.3	0.0	-10.3	89.9	-0.4	89.4	79.1
Legal & Democratic Services	-0.6	0.0	-0.6	10.4	0.0	10.4	9.8
Strategy & Performance	-0.8	0.0	-0.8	2.3	0.0	2.3	1.5
Service total	-792.0	-0.4	-792.4	1,681.4	0.4	1,681.8	889.5
Savings to be identified				-9.0		-9.0	-9.0
Total	-792.0	-0.4	-792.4	1,672.4	0.4	1,672.8	880.5
General funding sources							
Government grants	-150.1		-150.1			0.0	-150.1
Local taxation	-718.6		-718.6			0.0	-718.6
Grand total	-1,660.6	-0.4	-1,661.0	1,672.4	0.4	1,672.8	11.8

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

App 2. When Full Council agreed the 2017-20 MTFP in February 2017, 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 was one virements above £500,000 in the first two months of 2017/18.

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

Table App 2: 2017/18 revenue expenditure budget movements as at 31 May 2017

	Income £m	Expenditure £m	Earmarked reserves £m	General balances £m	Virement count
MTFP	-1,660.6	1,672.4		11.8	
Carry forwards				0.0	0
	-1,660.6	1,672.4	0.0	11.8	0
April movements	0.1	-0.1		0	13
May movements					
Internal service movements	-0.5	0.5		0.0	22
Total April & May movements	-0.4	0.4		0.0	35
May approved budget	-1,661.0	1,672.8	0.0	11.8	35

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: 2017/18 Revenue budget forecast position as at 31 May 2017

	Year to date			Full year			
	Budget £m	Actual £m	Variance £m	← Budget £m	Remaining forecast £m	Projection £m	→ Variance £m
Income:							
Local taxation	-153.2	-153.2	0.0	-777.1	-623.9	-777.1	0.0
Government grants	-100.8	-97.9	2.9	-699.4	-599.5	-697.4	2.0
Other income	-30.3	-36.4	-6.1	-184.5	-157.6	-194.0	-9.5
Income	-284.3	-287.5	-3.2	-1,661.0	-1,381.0	-1,668.5	-7.5
Expenditure:							
Staffing	46.2	44.7	-1.5	278.2	236.7	281.4	3.2
Service provision	153.5	148.2	-5.3	980.0	849.7	1,008.1	28.1
Non schools sub-total	199.7	192.9	-6.8	1,258.2	1,086.4	1,289.5	31.3
Schools expenditure	62.1	62.1	0.0	414.6	352.5	414.6	0.0
Total expenditure	261.8	255.0	-6.8	1,672.8	1,438.9	1,704.1	31.3
Movement in balances	-22.5	-32.5	-10.0	11.8	57.9	35.6	23.8

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 £186.0m and £17.0m carry forward of scheme budgets requested in 2016/17's Outturn report. In the period to 31 May 2017, Cabinet approved -£2.6 m reprofiling. Capital virements made in the period to May amount to £1.8m. Table App 4 summarises the capital budget movements for the year.

Table App 4: 2017/18 capital budget movements as at 31 May 2017

	1 Apr 2017 £m	31 May 2017 £m
MTFP (2017-20) (opening position)	186.0	186.0
In year changes		
Carry forwards from 2016/17		1.8
Reprofiling & carry forwards		1.8
Virements - In year changes		
Local Growth deal configured in March 2017		-2.6
In year budget changes		-2.6
2017/18 updated capital budget		185.3

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

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