

Budget monitoring for period eight of 2017/18 (November 2017)

Summary

The Council set its 2017/18 budget in the context of significant rising demand pressures (particularly in social care), falling Government funding and continuing restraint on the council's ability to raise funds locally. Consequently, to achieve a sustainable budget, the council would have needed to make £151m savings. However, the use of a series of one off measures meant the council faced having to plan to deliver an unprecedentedly 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 help meet this significant challenge Finance and directors support budget holders to monitor savings closely using an efficiency tracker outlined in paragraph 45. The tracker enables remedial action where appropriate and reporting of key messages to Cabinet.

Within 2017/18's £104m savings target, the council has agreed plans for £95m savings, with £9m savings to be identified. As at 30 November 2017 services forecast making £79m of these planned savings. Services have already achieved £55m savings with another £19m on track for delivery, while £5m face potential barriers. £16m savings are considered to be unachievable at this stage in 2017/18 (mainly in Adult Social Care, Early Help and Waste Disposal).

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 eight months of 2017/18 has seen numbers increase above what was expected even a short period ago. In Children's Services, demand continues to increase and is expected to add a £9m pressure by the end of the financial year. In Adult Social Care, increased market inflation costs have added nearly £2m to the forecast overspend. In Public Health, retendering of a major contract is forecast to result in a delay to planned changes and a pressure of up to £2m in this financial year. Currently, there are offsetting forecast underspends, including in: Orbis, Children, Schools & Families, Highways & Transport, Place Development & Waste, Central Income & Expenditure, Surrey Fire & Rescue and other aspects of Adult Social Care.

After eight months of 2017/18 the combined impact of delivering lower savings than planned and demand rising faster than anticipated is a £19m forecast overspend for 2017/18 before further mitigating action. The actions services have already taken as part of the recovery plan to manage down the overspend amount to £4m, including:

£1.1m in Orbis from rescheduling spending,
£1.3m in Surrey Fire & Rescue Service from a range of measures,
£1.0m in Children, Schools & Families directorate through holding vacancies and
£0.6m in Environment & Infrastructure directorate through delays in planned work.

However there remains considerable risks of volatility in a number of key budgets that are outside the council's control and the forecast position for the year end could worsen by up to £11m. This would increase the council's forecast overspend to around £30m.

Given the forecast overspend, services need to continue to take all reasonable action to manage costs within available resources by keeping costs down and maximising income.

Summary recommendations

As the forecast financial position could worsen and the council has a duty to ensure its expenditure does not exceed resources available, the outlook for future years means planned use of reserves at this time is not the solution to achieving a sustainable financial position.

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2017/18 is £19m overspend (paragraphs 1 and 8 to 38). This includes:
£9m savings to be identified,
£16m savings considered unachievable in 2017/18,
£14m service demand and cost pressures
less
£20m underspends, additional savings and income.
2. Significant risks to the revenue budget (paragraphs 39 to 44) could add £11m to the forecast overspend, including: £8m in Children, Schools & Families and £2m in Adult Social Care.
3. Forecast planned savings for 2017/18 total £79m against £95m agreed savings and £104m target (paragraph 45).
4. All services continue to take all reasonable action to keep costs down and optimise income (eg minimising spending, managing vacancies wherever possible etc.).
5. The Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary in paragraphs 16 to 19 of the main budget monitoring report to Cabinet state that the council has a duty to ensure its expenditure does not exceed resources available and move towards a sustainable budget for future years.

Cabinet is asked to approve the following

6. Draw down £23,000 from Community Buildings grant scheme for planned spend on school kitchen schemes in 2017/18 (paragraph 61).
7. £0.5m of the current £0.8m Adult Social Care Major Adaptations capital budget to be spent on items purchased from the community equipment store capitalised under the accounting policy for community equipment from 1 April 2017 (paragraph 62).

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 30 November 2017, the council forecasts £19m overspend at year end with £11m significant additional budget risk. The main variances (paragraphs 8 to 38) relate to:

- £9m savings yet to be identified;
- £16m forecast underachievement of savings, including
 - £11m in Adult Social Care
 - £3m in Early Help and
 - £2m in Waste
- £6m net service pressures and underspends, including
 - £8m demand in Children's Services
 - £2m contractual issues in Public Health
 - less*
 - £4m net underspends, additional income and other pressures in Adult Social Care
 - £3m cost reductions in Environment & Infrastructure
 - £3m underspends and early achievement of savings in Orbis
 - £4m net underspend in Children, Schools & Families
 - £1m underspend in Central Income & Expenditure and
 - £1m aggregate smaller underspends in other services.

The council currently forecasts to have £21m general balances and £65m reserves earmarked for specific purposes at year end. The Director of Finance regards this as being at the minimum safe level in the context of the future uncertainty the council faces.

Capital budget 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 30 November 2017, services forecast spending £125m against the £146m current 2017/18 capital budget. The main significant variances are: Local Growth Deal programme changes; agreement with Department for Transport for works to take place in 2018/19; project delays and reprofiling in Orbis plus Surrey Fire & Rescue Service's underspend on the joint transport project and vehicle and equipment replacements (paragraph 60).

As part of increasing its overall financial resilience, the council currently plans £101m net investment in long term capital investment assets in 2017/18 (paragraphs 63 to 66). This brings total forecast capital spending in 2017/18, including long term investments, to £226m.

Revenue budget

Overview

1. As at 30 November 2017, the forecast year end budget variance is £19m overspend, a £1m increase on the position reported as at 31 October 2017. The main changes since October include £2m increase in Adult Social Care's forecast overspend due to cost pressures partly offset by additional savings in Orbis and reductions in costs in Children's Services and Surrey Fire & Rescue Service.
2. These changes mean the overall forecast overspend includes: £9m savings that remain unidentified; £16m forecast underachievement on savings; and £6m net service underspends (paragraphs 8 to 38).
3. In addition, considerable risks of volatility remain in a number of key budgets that are outside of the council's control and the forecast position for the year end could worsen by up to £11m (paragraphs 39 to 44).
4. At this point in the year, a forecast outturn overspend position of this size remains significant and the council needs to continue to act to keep costs down and optimise income while balancing actions so as not to affect service delivery unnecessarily.

Revenue budget monitoring position

5. 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.
6. Changes in the first eight months of 2017/18 to reflect agreed carry forwards and other budgetary adjustments, decreased the gross expenditure budget as at 30 November 2017 to £1,657.9m and the gross income budget to £1,646.0m. 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.
7. 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 30 November 2017

Service	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Economic Growth	1.0	0.6	1.1	0.1
Strategic Leadership	0.9	0.6	0.8	-0.1
Adult Social Care	362.2	237.8	369.5	7.3
Children's and Safeguarding services	106.3	75.6	114.4	8.1
Commissioning & Prevention	33.8	22.1	36.8	3.0
Schools & SEND (Special Educational Needs & Disabilities)	61.2	40.6	56.4	-4.8
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	0.0	0.0	0.0	0.0
Coroner	1.7	1.2	1.7	0.0
Cultural Services	9.3	5.9	8.9	-0.4
Customer Services	3.4	2.0	3.2	-0.2
C&C Directorate Support	0.8	0.4	0.6	-0.2
Emergency Management	0.5	0.3	0.5	0.0
Surrey Fire & Rescue Service	31.8	21.1	31.8	0.0
Trading Standards	1.9	1.2	1.9	0.0
Place Development & Waste	82.0	49.3	82.1	0.1
Highways & Transport	46.6	28.3	46.0	-0.6
Public Health	0.0	0.0	2.1	2.1
Communications	2.0	1.1	1.9	-0.1
Finance	2.8	1.8	2.8	0.0
Human Resources & Organisational Development	3.9	1.7	3.4	-0.5
Information Management & Technology	12.5	7.0	12.1	-0.4
Legal Services	4.0	2.4	3.9	-0.1
Democratic Services	5.8	4.2	5.5	-0.3
Strategy & Performance	1.4	0.9	1.3	-0.1
Procurement	0.9	0.5	0.9	0.0
Property	21.3	10.9	20.5	-0.8
Joint Operating Budget ORBIS	37.6	22.6	36.6	-1.0
Business Operations	-0.1	-0.1	-0.1	0.0
Central Income & Expenditure	54.0	29.0	44.6	-9.4
Savings to be identified	-9.0	0.0	0.0	9.0
Services' total net revenue expenditure	880.6	569.1	891.3	10.7
General funding sources				
General Government grants	-150.1	-95.5	-142.1	8.0
Local taxation (council tax and business rates)	-718.6	-223.8	-718.6	0.0
Total general funding	-868.7	-319.3	-860.7	8.0
Total movement in reserves	11.9	249.8	30.6	18.7

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

Significant net revenue budget variances

Adult Social Care - £7.3m overspend (£1.8m deterioration since 31 October 2017)

8. As at 30 November 2017, Adult Social Care (ASC) forecasts £7.3m year end overspend. The £1.8m increase in the overspend is due to increased market inflation costs.
9. Against its £25.9m efficiency target, ASC forecasts to achieve £15.1m, a £10.8m shortfall. The shortfall relates to underachievement of savings including:
 - £4.0m in reducing ASC demand pressures;

- £3.1m in services to people with learning disabilities;
 - £1.6m from continuing healthcare plans
 - £1.1m from support package guidelines in services for older people;
 - £0.5m from contracts, grants and housing related support; and
 - £0.4m of other savings - optimising staff travel and Section 256 client savings.
10. Significant mitigations against this shortfall in planned ASC savings include: £1.8m staffing budget underspends not linked to savings plans and £3.9m overachievement of fees and charges income due to increased demand in Older People and the work undertaken by ASC to review financial assessments, ensure benefit entitlements are claimed and changes in circumstances are accounted for in assessments.

Children's Services - £8.1m overspend (£0.4m improvement since 31 October 2017)

11. Children's Services continues to experience exceptional demand for services continuing patterns seen in recent months and forecasts £8.1m overspend.
12. The level of demand is leading to £2.5m pressures against staffing budgets and £6.6m significant demand pressures around the cost of placements for looked after children (LAC), care leavers and Unaccompanied Asylum Seeker Children (UASC). These pressures are partly offset by £1.0m net underspends in other areas of the service.
13. Increased demand from children requiring support has led to the need for additional social work capacity and the need to have 30 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 74 locums to staff both the Multi Agency Safeguarding Hub (MASH) and the Children's Services frontline teams. This includes the staffing pressures in the MASH. The MASH was established in October 2016 and the original staffing establishment had to be increased to manage the number of contacts, processes and workflows being experienced.
14. Pressures from increases in the number of LAC are mainly seen in the external placement budget, particularly the highest cost residential placements (£219,000 a year). The majority of these children have very complex needs and the service expects a £3.5m overspend. During business planning for 2017/18, the service reasonably estimated a total of 216 external placements. The latest budget allows for 244 placements. As at 30 November 2017 there were 281 children in external placements. The number of placements is volatile and the forecast assumes external placement numbers will continue to increase during the remainder of the year.
15. As in previous years, the council has to subsidise UASC costs, as the grant funding is insufficient to cover total cost. In 2017/18 the service expects this to lead to £2.1m overspend on direct placement costs. The government raised the level of grant for UASC direct placement costs from July 2016 and Surrey receives the higher rate of grant for 51% of the young people concerned who are under 18. Nevertheless the new higher rate of grant is insufficient to cover direct placement costs and adding staffing and other necessary direct costs means the shortfall for a 16 or 17 year old against full cost is £18,000 a year for the new rate and £24,000 a year for the legacy rate.

16. The number of UASC supported as LAC has reduced as a high number turn 18 and move on to the leaving care service. Again the grant is insufficient to cover costs and most of the young people are on the lower legacy grant rate of £150 a week whereas current support costs are £337 a week. These pressures do not include any of the staffing costs associated with supporting looked after asylum seeking children and care leavers that contribute to the demand for social work staff and the consequent overspends described above. The service estimates the total unsubsidised annual cost of supporting asylum seeking children is £4m in 2017/18.
17. In addition the service anticipates £1.1m overspend for the leaving care service, mainly arising from the need for more supportive packages for young people as they turn 18 and for more staff to support the rising numbers.

Schools & SEND - £4.8m underspend (no change since 31 October 2017)

18. Overall Schools & SEND estimates £4.8m underspend at year end. The main reason for the underspend is due to one off adjustments to the Dedicated Schools Grant funded services including inflation and demographics of around £3m.
19. Recruitment difficulties during the year mean there are currently £0.5m short term underspends against staffing budgets, principally in the education psychology teams. The service has now recruited to these posts, ensuring it can meet its requirements around Education, Health and Care Plans (EHCPs). In addition there are projected underspends of £0.5m against the central allowance for retirement costs and £0.6m against use of grant funding for SEND reform.
20. Commercial Services expects £0.8m underspend due to a greater than budgeted contribution to overheads, particularly for school catering. Further improvement in the trading position will become clearer as the new academic year progresses.
21. These underspends are in part offset by an anticipated £1.2m overspend on SEN transport. The number of children travelling increased towards the end of 2016/17 with overall numbers increasing by 105 across the year. This trend has continued with 63 more children travelling between October 2016 and October 2017. Although volumes are increasing, work is underway to develop travel training for young people with SEN and encourage the take up of the parental travel allowance.
22. The service forecasts £1.2m under recovery of trading income, partly due to vacancies for educational psychologists and because schools have not taken up the services of specialist teachers as budgeted.
23. £0.9m pressures are emerging on the social care element of education placements, as more residential school placements are made for the social care needs of children with SEND.

Commissioning & Prevention - £2.9m overspend (no change since 31 October 2017)

24. Commissioning & Prevention anticipates £2.9m year end overspend. The main reason for the overspend is the planned delay implementing the transformation programme for Early Help. The service is developing a new operational model for early help to provide a cohesive and coordinated support offer for families. The service extended the development phase to ensure the offer is right for Surrey in the context of increasing demand currently experienced across the social care system

locally. As a result, the full savings anticipated will not be delivered in 2017/18. However, the reconfiguration of support and commissioning services has delivered £2.3m savings for 2017/18.

Place Development & Waste - balanced (no change since 31 October 2017)

25. Place Development & Waste (PDW) forecasts a balanced year end position resulting from a number of pressures and offsetting savings, primarily within waste disposal.
26. Waste disposal currently forecasts a shortfall against £2.6m planned 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). These shortfalls are expected to be offset by the financial implications of delayed construction of the Eco Park, which in turn delays costs until 2018/19. In addition a number of risks exist. The forecast assumes the service can save a total of £2m 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 in June 2017. However this is a challenging project and delivery is not entirely within the council's control.
27. Other pressures include £0.3m residual savings from 2016/17 and residual savings from 2016/17 for which no plan currently exists. PDW (and the wider Environment & Infrastructure directorate) is reviewing planned income and expenditure to identify £0.3m additional savings to compensate for overspends, including taking advantage of recent bus contract retender savings and holding vacant posts. Through these measures it currently expects to offset this pressure and spend in line with budget.

Highways & Transport - £0.6m underspend (no change from 31 October 2017)

28. Highways & Transport (H&T) forecasts £0.6m net underspend at year end. The service has reviewed planned income and expenditure to identify additional savings to help offset £0.2m higher than expected inflation on street lighting energy costs (the budget assumed a 5% increase, but inflation is currently 12%) and overspends elsewhere.
29. H&T has agreed several measures to reduce costs, including deferring planned hedge flailing, sign replacement and tree works, deferring drainage investigations and a safety barrier survey, and deferring equipment purchases. It has reviewed these measures to ensure safety is not compromised and the Cabinet Member has agreed them on the basis that should there be a need to respond to any safety critical work or risk to income, delayed work may need to be reinstated. At this stage, taking account of the above measures, H&T expects to achieve £0.6m net underspend.

Surrey Fire & Rescue Service - balanced (£0.2m improvement since 31 October 2017)

30. Surrey Fire & Rescue Service (SFRS) forecasts a balanced year end position. SFRS has significant savings plans of £3.6m for the year and is on target to achieve £3.4m.
31. SFRS has confirmed £1.4m cost pressures. These are from: £0.9m delayed fire cover re-configuration saving, which will not be achieved while continuing to operate two appliances within Spelthorne; £0.4m blue light collaboration activities as no

collaboration savings are expected this year due to the positioning of partners; and £0.1m contingency crewing due to part year savings.

32. These pressures are offset by £1.4m savings which include: £0.5m early achievement of planned middle management staff savings; £0.4m reductions in employer's pension contribution rates; £0.2m in house restructuring of fleet operations; and £0.3m other staffing, supplies and services savings.

Public Health - £2.1m overspend (no change since 31 October 2017)

33. Public Health (PH) forecasts £2.1m year-end overspend. £1.7m of this overspend is due to having to extend the existing sexual health service contract. As a priority PH leadership team is reviewing a series of mitigating actions to reduce the forecast overspend and will update the forecast monthly to reflect this. The remaining forecast £0.4m overspend is mainly on public health services for children and young people (0-19).

Central Income & Expenditure – £1.4m underspend (no change since 31 October 2017)

34. Central Income & Expenditure forecasts £1.4m year end underspend. This is mainly due to an underspend on the amount the council needs to set aside for the minimum revenue provision (MRP).
35. MRP is the amount the council needs to set aside for the future repayment of external borrowing, calculated with reference to the council's balance sheet as at the end of the previous financial year. Following completion of the council's audited accounts, the amount the council needs to set aside as MRP is £1.4m less than budgeted. The council's 2017/18 underspend on MRP is mainly due to underspends in 2016/17's general capital programme.

Orbis - £2.7m underspend (£0.6m improvement since 31 October 2017)

36. Orbis forecasts £2.7m year end underspend. This comprises £1.7m underspend on budgets Orbis manages on behalf of the council and £1.0m underspend on the council's 70% contribution to Orbis' operating and investment costs.
37. Orbis is on target to deliver its £2.3m savings target from the budgets it manages on behalf of the council and forecasts a further £1.7m underspend. The significant forecast underspends are: £0.8m in Property, £0.5m in Human Resources & Organisational Development and £0.4m in IT & Digital. Services have made decisions to delay spend and the underspend is also due to the relatively stable weather conditions.
38. Orbis is on target to deliver its total £3.9m 2017/18 efficiencies across the partnership plus a further £0.6m early achievement of total 2018/19 savings. Overall, Orbis forecasts £1.4m underspend on its total operating budget and investment (on which the council makes a 70% contribution, equating to £1.0m underspend).

Additional budget risks

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

Children, Schools & Families –

(SEND services funded by Dedicated Schools Grant (DSG) and Early Years)

40. As at 30 November 2017, SEND services funded by DSG forecast £8.9m overspend. There are some significant challenges in the 2017/18 high needs block budget, mainly around placements in the Non Maintained and Independent sector being significantly higher than planned and the challenging £13m savings plan being worked through with special schools and school partners.
41. As in previous years it is anticipated any overspend or underspend on the high needs services funded from DSG, will be managed across the financial years and within DSG funding. Schools' Forum has agreed this principle and the local authority is currently expecting and planning for DSG spend to be contained within DSG funding.
42. Free early education (FEE) for three and four year olds now expects £1.0m underspend. Numbers fell in the autumn term meaning the council will be funded for a higher number of children than the average number in placement over the year. Uncertainties remain as funding is based on pupil counts in January so will not be confirmed until the end of the financial year and the position on two year olds and in particular the new provision for 30 hours free childcare from September will be confirmed once more data is available.

Adult Social Care

43. ASC faces £1.5m additional risks to its budget. These risks arise from: service demand rising above current levels, prices for care packages increasing more than budgeted and some savings slipping or not being achieved.

Waste disposal

44. Making structural changes to the waste contract is a challenging project and delivery is not entirely within the council's control. If it is not delivered, the 2017/18 forecast position could deteriorate by £1.2m.

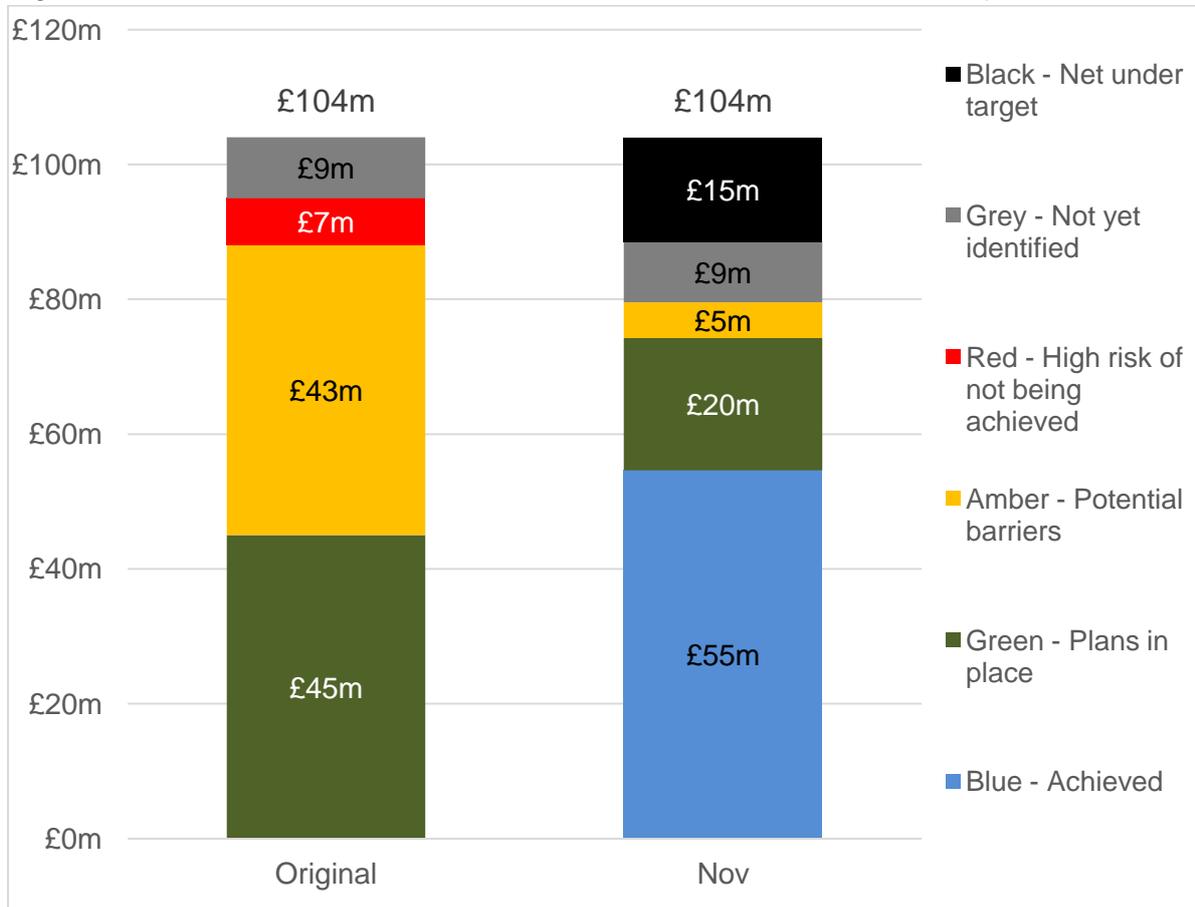
Efficiencies

45. MTFP 2017-20 includes £104m efficiencies in 2017/18. Council services currently forecast to achieve £79m of this target. This is a £25m shortfall, comprising £9m savings the council has yet to identify and £16m savings considered unachievable in 2017/18. As outlined in the summary to this annex, services have increased the rigour with which they track their savings plans' progress. The tracker includes:

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

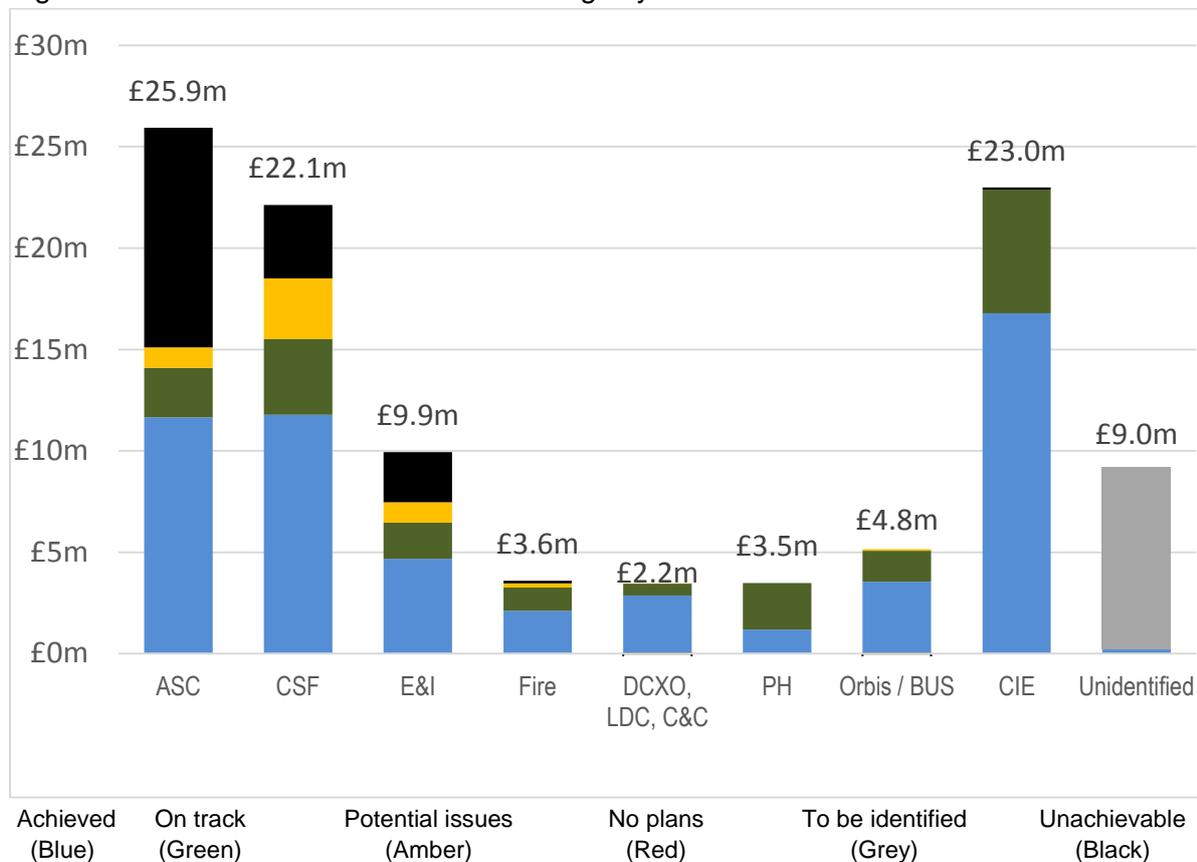
46. Figure 1 summarises the council's overall efficiency targets, the forecast for achieving them and the deliverability risks. By month eight of 2017/18, services have: achieved £55m savings, with £19m plans on track and £5m plans potentially facing barriers to achievement. However, the most significant issues are: £16m MTFP planned savings now considered not to be achievable in 2017/18, mainly in the areas of ASC, Early Help and Waste Disposal; plus a further £9m of savings yet to be identified. To help mitigate the impact of these on the overall budget, services need to continue to take all reasonable actions to keep costs down and optimise income (eg minimising spending, managing vacancies wherever possible etc).

Figure 1: 2017/18 risk rated efficiencies as at 30 November 2017 compared to MTFP



47. Figure 2 shows service directorates' updated risk ratings for achieving their efficiencies this year. The main areas of concern are: non-achievement of planned savings in Adult Social Care, Commissioning & Prevention and Place Development & Waste, plus savings yet to be identified.
48. As at 30 November 2017, the main significant variations in services' progress against their MTFP 2017-20 efficiencies and service reductions include:
- £9.0m shortfall for savings yet to be identified;
 - £10.8m shortfall in ASC related to whole systems demand and market pressures, partly offset by £5.9m underspends and additional income (paragraphs 8 to 10);
 - £2.7m shortfall in Early Help as outlined in paragraph 24 and
 - £2.6m shortfall in Waste Disposal as outlined in paragraph 26

Figure 2: 2017/18 efficiencies risk ratings by directorate as at 30 November 2017



Staffing costs

49. 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.
50. 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.
51. 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 £278.6m based on 7,039 budgeted FTEs.
52. The council has 757 FTE vacancies (the difference between budgeted and occupied FTEs). It is recruiting to 481 of these vacancies, 330 of them are in social care.
53. Table 2 shows staffing costs as at 30 November 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 post holder 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.
54. 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.
55. Table 2 shows £3.3m year to date underspend against the £185.7m budget as at 30 November 2017. Table App 3 shows services forecast £1.3m year end underspend on employment costs. This includes the impact of demand for increased social work and safeguarding capacity in Children's Services outlined in paragraphs 12 and 13.

Table 2: Staffing costs and FTEs to 30 November 2017

Service	<----- Staffing spend by category ----->						Amended budgeted FTE	Occupied contracted FTEs
	YTD staff budget £m	Contracted £m	Agency £m	Bank £m	Total £m	Variance £m		
Strategic Leadership	0.6	0.6	0.0	0.0	0.6	0.0	9	7
Adult Social Care	41.2	37.1	1.3	1.0	39.4	-1.8	1,754	1,439
Children, Schools & Families ¹	79.3	71.6	5.3	3.1	80.0	0.7	3,013	2,782
Community Partnership & Safety ²	0.0	0.0	0.0	0.0	0.0	0.0	25	0
Coroner	0.3	0.2	0.1	0.0	0.3	0.0	2	2
Cultural Services	12.4	11.2	0.0	1.1	12.4	0.0	529	525
Communities Support Function	0.5	0.5	0.0	0.0	0.5	0.0	26	15
Emergency Management	0.3	0.3	0.0	0.0	0.3	0.0	12	11
Surrey Fire & Rescue Service	17.9	16.8	0.1	1.0	17.8	-0.1	608	559
Trading Standards	2.2	2.0	0.1	0.0	2.1	-0.1	74	68
Place Development & Waste	7.8	7.2	0.1	0.3	7.5	-0.3	200	189
Highways & Transport	9.8	8.3	0.5	0.0	8.8	-1.0	371	309
Public Health	1.7	1.6	0.0	0.0	1.6	0.0	46	41
Central Income & Expenditure	0.8	0.9	0.0	0.0	0.9	0.0	0	0
Communications	0.9	0.9	0.0	0.0	0.9	0.0	31	30
Customer Services	2.3	2.0	0.0	0.0	2.1	-0.2	102	94
Legal Services	2.4	2.1	0.1	0.0	2.2	-0.2	79	70
Democratic Services	1.3	1.2	0.0	0.0	1.2	-0.1	46	37
Strategy & Performance	1.2	1.2	0.0	0.0	1.2	-0.1	27	24
Managed ORBIS	2.9	2.4	0.3	0.0	2.7	-0.2	85	79
Service net budget	185.7	167.8	7.9	6.7	182.4	-3.3	7,039	6,282

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 - Following reorganisation, Community Partnership & Safety FTEs now appear within Highways & Transport

3 - The Orbis Joint Operating Budget is formally delegated to the Joint Operating Committee for management (including staffing) as such the council's monitoring reports its contribution to the joint budget only. Table 2 does show staff managed by Orbis who are outside the Joint Operating Budget (e.g. delivering the Local Assistance Scheme).

Capital budget

56. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £387m 2017-20 MTFP capital programme.
57. 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. Up to 30 November 2017, Cabinet approved £14.1m draw down of carry forwards, -£55.2m net reprofiling and £1.1m net capital virements. Paragraph App 6 and Table App 4 show the movements.
58. Table 3 shows the MTFP budget and the current year capital expenditure budget.

Table 3: Capital expenditure budget 2017/18 as at 30 November 2017

	MTFP budget £m	2016/17 budget c/fwd £m	Reprofile £m	Budget virement £m	Current full year budget £m
School basic need	72.2	0.4	-40.9		31.8
Highways recurring programme	49.3	0.0		-0.7	48.5
Property & IT recurring programme	52.2	11.0	-14.3	-1.2	47.7
Other capital projects	12.3	2.7		3.0	18.0
Service capital programme	186.0	14.1	-55.2	1.1	146.0
Long term investments					0.0
Overall capital programme	186.0	14.1	-55.2	1.1	146.0

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

59. Table 4 compares the £146.0m current full year overall capital programme budget to the £124.6m current forecast expenditure for the service capital programme and the £225.2m current forecast expenditure for the overall capital programme. The overall programme in 2017/18 includes £100.6m approved Investment Strategy spending on long term investments (as outlined in paragraphs 63 to 66).

Table 4: Forecast capital expenditure 2017/18 as at 30 November 2017

	Current full year budget £m	Apr - Nov actual £m	Dec - Mar projection £m	Full year forecast £m	Full year variance £m
Schools basic need	31.8	26.0	5.8	31.8	0.0
Highways recurring programme	48.5	20.7	18.9	39.6	-9.0
Property & IT recurring programme	47.7	20.9	21.0	41.9	-5.8
Other capital projects	18.0	6.6	4.8	11.4	-6.5
Service capital programme	146.0	74.1	50.5	124.6	-21.3
Long term investments	0.0	86.6	14.0	100.6	100.6
Overall capital programme	146.0	160.7	64.5	225.2	79.2

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

Significant capital budget variances

60. The £21.3m forecast underspend on the 2017/18 service capital programme is mainly for the following reasons.
- £6.8m underspend in Place Development & Waste due to changes within the Local Growth Deal programme of road and transport improvement schemes. This underspend spans a number of schemes and is caused by various factors, such as where works have been reprogrammed (e.g. to take account of other planned

highway schemes) or delayed, or where schemes are awaiting approval from the LEPs. Once amounts are clear, a request will be made to Cabinet to reprofile budgets across financial years.

- £2.2m underspend in Highways & Transport primarily in respect of the National Productivity Improvement Fund (NPIF) grant where £1.8m has been earmarked for works agreed with the Department for Transport to take place in 2018/19. Once amounts are clear, a request will be made to Cabinet to reprofile budgets across financial years.
- £5.8m underspend in Orbis includes planning and environmental delays on Property projects, delays to school schemes, recurring maintenance and SEN strategy and reprofiling of IT server and network replacement to future years.
- £4.5m underspend in Surrey Fire & Rescue Service's grant funded joint transport project due to the scale and timing of the project. The council holds the grant on behalf of the three fire and rescue authorities in Surrey and Sussex. The funds have been allocated to individual workshop projects across Surrey and Sussex. Business plans for each workshop are progressing.
- £1.8m underspend on fire vehicle and equipment replacements, for which Cabinet required Investment Panel approval of business cases.

Capital budget virement requests

61. Community Partnerships requests to draw down £23,000 from Community Buildings grant scheme for planned spend on school kitchen schemes in 2017/18. The expenditure will be met by a ring fenced grant.
62. Adult Social Care requests approval for £0.5m virement of the current £0.8m Major Adaptations capital budget to be spent on items purchased from the community equipment store. These items have been capitalised under the accounting policy for community equipment from 1 April 2017. The community equipment budget is a pooled budget, shared with the clinical commissioning groups (CCGs) in Surrey.

Revolving Infrastructure & Investment Fund

63. Table 5 shows that the council will generate £3.8m 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.
64. The council portfolio comprises properties purchased for future service delivery or economic regeneration. The portfolio forecasts £0.5m net cost 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 £1.3m. However once the second phase building becomes fully operational in 2019/20 the development will generate £1.2m net income a year.
65. The Halsey Garton portfolio will generate £4.3m net income this year, comprising £1.6m estimated dividend and £2.7m net interest margin on loans provided to the company by the council.
66. Net capital expenditure in 2017/18 of £100.6m includes additional equity investment and loans to the Halsey Garton Property group and the development of the former Thales site in Crawley. The forecast for the year is net of £2.3m estimated in tenant contributions to capital works.

Table 5: Summary revenue and capital position as at 30 November 2017

Revenue statement	YTD actual £m	Full year forecast £m
Council portfolio		
Income	-2.8	-4.3
Expenditure	0.4	0.8
Funding	2.7	4.0
Net income/cost	0.3	0.5
Halsey Garton portfolio		
Dividend	0.0	-1.6
Net interest margin	-1.6	-2.7
Net income	-1.6	-4.3
Total net income	-1.3	-3.8
Capital expenditure	86.6	100.6

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

Appendix to Annex

Updated budget - revenue

App 1. The council's original 2017/18 revenue expenditure budget was approved as £1,672.4m. Adding virement changes in the first eight months of 2017/18 decreased the expenditure budget as at 31 October 2017 to £1,657.9m. 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 30 November 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	-0.1	0.9	0.9
Adult Social Care	-99.1	-4.1	-103.2	460.8	4.7	465.4	362.2
Children's Services	-10.6	-0.1	-10.7	112.8	4.2	117.0	106.3
Commissioning & Prevention	-62.5	0.3	-62.2	97.2	-1.2	96.0	33.8
Schools & SEND	-109.9	-4.2	-114.1	175.2	0.1	175.3	61.2
Delegated Schools	-415.8	16.6	-399.2	414.6	-15.4	399.2	0.0
Community Partnership & Safety	-0.2	0.2	0.0	2.9	-2.9	0.0	0.0
Coroner	0.0	0.0	0.0	1.7	0.0	1.7	1.7
Cultural Services	-13.3	0.3	-13.0	22.6	-0.3	22.3	9.3
Customer Services	-0.1	0.0	-0.1	3.5	0.0	3.5	3.4
Communities Support function	-0.2	0.1	-0.1	0.9	0.0	0.9	0.8
Surrey Fire & Rescue Service	-0.1	0.0	-0.1	0.6	0.0	0.6	0.5
Community Partnership & Safety	-12.2	-0.1	-12.3	44.0	0.1	44.1	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	0.8	90.0	82.0
Highways & Transport	-8.1	-0.1	-8.2	52.8	2.0	54.8	46.6
Public Health ¹	-37.9	6.2	-31.7	37.9	-6.2	31.7	0.0
Central Income & Expenditure	-0.4	-0.2	-0.6	54.5	0.2	54.7	54.0
Communications	0.0	0.0	0.0	2.1	-0.1	2.0	2.0
Finance	-1.4	0.0	-1.4	4.2	0.0	4.2	2.8
Human Resources & Organisational Development	0.0	0.0	0.0	4.3	-0.4	3.9	3.9
Information Technology & Digital	-0.4	0.0	-0.4	12.9	0.0	12.9	12.5
Legal Services	-0.4	0.0	-0.4	4.4	0.0	4.4	4.0
Democratic Services	-0.2	0.0	-0.2	6.1	-0.1	6.0	5.8
Strategy & Performance	-0.8	0.0	-0.8	2.3	-0.1	2.2	1.4
Procurement	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Property	-8.5	-0.3	-8.8	30.1	0.0	30.1	21.3
Joint Operating Budget ORBIS	0.0	0.0	0.0	37.6	0.0	37.6	37.6
Business Operations	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1
Service total	-792.0	14.6	-777.4	1,681.5	-14.6	1,666.9	889.6
Savings to be identified				-9.0		-9.0	-9.0
Total	-792.0	14.6	-777.4	1,672.5	-14.6	1,657.9	880.6
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	14.6	-1,646.0	1,672.5	-14.6	1,657.9	11.9

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

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

2 - Community Partnership & Safety is now reported within Highways & Transport

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 were three virements above £500,000 in the first eight 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 30 November 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
Total Quarter 1 movements	0.5	-0.5		0.0	66
Total Quarter 2 movements	0.1	-0.1	0.0	0.0	65
October movements	14.1	-14.1	0.0	0.0	28
November movements					
New funding and expenditure	0.0	0.0		0.0	1
Significant changes to how service are delivered	0.0	0.0		0.0	1
Internal service movements	0.0	0.0		0.0	12
Total November movements	0.0	0.0	0.0	0.0	14
Final approved budget	-1,646.0	1,657.9	0.0	11.9	173

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 30 November 2017

	Year to date			Full year			
	Budget £m	Actual £m	Variance £m	← Budget £m	Remaining forecast £m	Projection £m	→ Variance £m
Income:							
Local taxation	-223.8	-223.8	0.0	-718.6	-494.8	-718.6	0.0
Government grants	-492.1	-481.1	11.0	-739.6	-253.4	-727.7	11.9
Other income	-124.1	-146.2	-22.1	-187.7	-60.2	-204.4	-16.7
Income	-840.0	-851.1	-11.1	-1,646.0	-808.4	-1,650.7	-4.8
Expenditure:							
Staffing	185.7	182.4	-3.3	278.4	102.5	277.1	-1.3
Service provision	649.6	637.8	-11.8	978.3	332.2	1,003.1	24.8
Non schools sub-total	835.3	820.2	-15.1	1,256.8	434.7	1,280.2	23.5
Schools expenditure	280.8	280.8	0.0	401.1	120.3	401.1	0.0
Total expenditure	1,116.1	1,101.0	-15.1	1,657.9	555.0	1,681.3	23.5
Movement in balances	276.1	249.9	-26.2	11.9	-253.4	30.6	18.7

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 2017/18 at £186.0m and £17.0m carry forward of scheme budgets requested in 2016/17's Outturn report. In the period to 30 November 2017, Cabinet approved £1.1m net virements, £14.1m draw down of carry forwards and -£55.2m reprofiling. Table App 4 summarises the -£40.0m net movement in the capital budget for the year to 30 November 2017.

Table App 4: 2017/18 capital budget movements as at 30 November 2017

	30 Nov 17 £m	30 Nov 17 £m
MTFP (2017-20) (opening position)		186.0
Reprofiling & carry forwards drawn down		
Carry forwards drawdown - Property services	10.0	
Carry forwards drawdown – IT & Digital	1.0	
Carry forwards drawdown - Schools Devolved Budget	2.6	
Carry forwards drawdown - Highways Maintenance	0.3	
Carry forwards drawdown - Highways Local Schemes	-0.3	
Carry forwards drawdown – Schools Kitchens and other scheme	0.1	
Carry forwards drawdown - Schools third party contributions	0.4	
<i>Sub-total – carry forwards drawn down</i>		14.1
Reprofiling - Property services	-14.4	
Reprofiling - School Basic Need	-40.9	
Reprofiling - IT & Digital	0.1	
<i>Sub-total - reprofiling</i>		-55.2
Total reprofiling & carry forwards drawn down		-41.1
Virements		
Local Growth Deal configured in March 2017 (reduced grant)	-2.6	
Schools Devolved Budget	-0.2	
School Capital Maintenance (reduced grant)	-0.7	
Free Early Education 30hrs (new grant)	0.9	
Schools third party contributions	1.8	
Changes to the capital budget after the MTFP was agreed	1.9	
Total virements		1.1
In year budget changes		-40.0
2017/18 updated capital budget		146.0

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