Budget monitoring for period ten of 2017/18 (January 2018)

Summary

After ten months of 2017/18, mitigating actions taken by the council have reduced the forecast overspend as at 31 January 2018 to £6m. This is a £13m improvement in the last two months and £18m improvement since 30 June 2017. It represents huge progress to address the changes to the council's circumstances, particularly rising demand pressures in social care. The progress is mainly due to specific actions by the council to stop or reschedule work to deliver savings in 2017/18 and maintain reserves.

Services need to continue to take all appropriate action to manage available resources by keeping costs down and optimising income to reduce the forecast overspend even further.

To help ensure the council achieves its medium term savings programme, Cabinet requires the Chief Executive and the Director of Finance to continue to: ensure delivery of existing MTFP efficiencies; and ensure services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures.

Background

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 over £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 42. 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 31 January 2018 services forecast making £79m of these planned savings. Services have already achieved £68m savings with another £9m on track for delivery, while £2m face potential barriers. Net £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 ten 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 adding a £10m pressure this financial year. In Adult Social Care, increased market inflation costs have added £3m 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 nearly £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, and other aspects of Adult Social Care.

Summary recommendations

The council has a duty to ensure its expenditure does not exceed available resources. The forecast financial position could worsen and the outlook for future years remains uncertain. As the council proposes to use £24m reserves to balance the 2018/19 budget, using reserves to balance 2017/18 is not a sustainable solution to the council's financial position.

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2017/18 is £6m overspend (paragraphs 1 and 7 to 41). This includes:
   £9m savings to be identified,
   £16m net savings considered unachievable in 2017/18,
   £13m service demand and cost pressures
   less
   £32m net underspends, additional savings and income.

2. Forecast planned savings for 2017/18 total £79m against £95m agreed savings and £104m target (paragraph 42).

3. All services continue to take all appropriate action to keep costs down and optimise income (eg minimising spending, managing vacancies wherever possible etc.).

4. 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

5. Transfer the Waste underspend, currently estimated at £1.8m, to the Waste Sinking Fund at financial year end to meet future costs (paragraph 26).

6. Transfer £3.9m to the Budget Equalisation Reserve in respect of additional Business Rates income (paragraph 38)

7. Draw down £0.9m to fund Place Development & Waste capital schemes (paragraph 58).

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 financial challenges facing Surrey County Council as it sets the budget for 2017/18 are now even more serious"*. 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 January 2018, the council forecasts £6m overspend at year end. The main variances (paragraphs 7 to 41) relate to:

- £9m savings yet to be identified;
- £16m forecast total underachievement of savings, including
  - £11m in Adult Social Care
  - £3m in Early Help
  - £4m in Waste
  - net of
  - £2m overachievement or early achievement of savings in other services.
- £13m service pressures including
  - £8m demand in Children's Services
  - £3m price pressures in Adult Social Care
  - £2m contractual issues in Public Health
- Less £32m net underspends, including
  - £6m net underspends, additional income and other pressures in Adult Social Care
  - £5m cost reductions in Environment & Infrastructure
  - £9m underspends and early achievement of savings in Orbis
  - £6m net underspend in Children, Schools & Families and
  - £6m underspends in Central Income & Expenditure .

At year end, the council currently forecasts to have £21m general balances and £65m reserves earmarked for specific purposes. The Director of Finance regards this as being at the minimum safe level in the context of the future uncertainty the council faces and the planned use of £24m reserves to balance 2018/19's budget.

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 31 January 2018, services forecast spending £113m 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; reprofiling and project deferrals in Orbis plus Surrey Fire & Rescue Service's underspend on the joint transport project (paragraph 57).

As part of increasing its overall financial resilience, the council currently plans £105m net investment in long term capital investment assets in 2017/18 (paragraphs 59 to 62). This brings total forecast capital spending in 2017/18, including long term investments, to £218m.

Revenue budget

Overview

1. As at 31 January 2018, the forecast year end budget variance is £6m overspend, a £5m reduction on the position reported as at 31 December 2017. The main changes since December include: £1m reduction in Children's Services' forecast overspend mainly due to reductions in anticipated placement costs, £1m increase in Orbis' forecast underspend due to lower costs, and £2m increase in Central Income & Expenditure's underspend due to reductions in spend against the redundancy budget, plus net £1m improvements against other service budgets.

2. These changes mean the overall forecast overspend includes: £9m savings that remain unidentified; £18m forecast savings considered unachievable in 2017/18; and £21m net service underspends (paragraphs 7 to 41).

3. The forecast outturn overspend position 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

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 ten months of 2017/18 to reflect agreed carry forwards and other budgetary adjustments, decreased the gross expenditure budget as at 31 January 2018 to £1,639.4m and the gross income budget to £1,627.6m. 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 January 2018

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	0.7	0.8	-0.1
Adult Social Care	354.7	295.3	361.7	7.0
Children's and Safeguarding services	106.2	93.6	113.2	7.0
Commissioning & Prevention	33.8	25.5	36.1	2.3
Schools & SEND (Special Educational Needs & Disabilities)	64.1	48.2	60.4	-3.7
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	0.0	0.0	0.0	0.0
Coroner	1.7	1.4	2.0	0.3
Cultural Services	9.3	7.2	8.8	-0.5
Customer Services	3.4	2.5	3.2	-0.2
C&C Directorate Support	0.7	0.5	0.6	-0.1
Emergency Management	0.5	0.4	0.5	0.0
Surrey Fire & Rescue Service	31.8	26.3	31.6	-0.2
Trading Standards	1.9	1.5	1.9	0.0
Place Development & Waste	82.0	67.1	82.0	0.0
Highways & Transport	46.5	35.7	45.7	-0.8
Public Health	0.0	0.0	2.1	2.1
Communications	2.0	1.4	1.7	-0.3
Finance	2.8	2.2	2.6	-0.2
Human Resources & Organisational Development	4.0	2.1	3.1	-0.9
Information Management & Technology	12.4	8.6	11.5	-0.9
Legal Services	4.0	3.1	4.1	0.1
Democratic Services	6.0	5.0	5.6	-0.4
Strategy & Performance	1.3	1.0	1.2	-0.1
Procurement	0.9	0.7	0.9	0.0
Property	21.5	13.8	18.0	-3.5
Joint Operating Budget ORBIS	37.5	28.0	34.1	-3.4
Business Operations	-0.1	-0.1	-0.1	0.0
Central Income & Expenditure	45.2	34.0	37.8	-7.4
Savings to be identified	-9.0		0.0	9.0
Services' total net revenue expenditure	**867.2**	**706.4**	**872.4**	**5.2**
General funding sources				
General Government grants	-136.7	-118.2	-131.8	4.9
Local taxation (council tax and business rates)	-718.6	-639.5	-722.5	-3.9
Total general funding	**-855.3**	**-757.7**	**-854.3**	**1.0**
Total movement in reserves	**11.9**	**-51.3**	**18.1**	**6.2**

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

Significant net revenue budget variances

Adult Social Care - £7.0m overspend (£0.6m improvement since 31 December 2017)

7. As at 31 January 2018, Adult Social Care (ASC) forecasts £7.0m year end overspend. The £0.6m decrease in overspend is mainly due to: increased shortfall against ASC's savings target offset by increased recovery of unspent direct payments and joint working income plus lower costs for home based care harmonisation and general care packages.

8. ASC forecasts to achieve £14.5m against its £25.9m efficiency target, a £11.4m shortfall. The shortfall relates to underachievement of savings including:

- £4.0m in reducing ASC demand pressures;
- £3.0 m in services to people with learning disabilities;
- £2.3m from continuing healthcare plans
- £1.1m from support package guidelines in services for older people;
- £0.4m from contracts, grants and housing related support; and
- £0.6m other savings - optimising staff travel and Section 256 client savings.

9. Aside from its savings shortfall, ASC also has £3.4m other pressures, largely price pressures on services to people with learning disabilities.

10. Significant underspends include: £2.4m 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 - £7.0m overspend (£0.9m improvement since 31 December 2017)

11. Children's Services continues to experience exceptional demand for services continuing patterns seen in recent months and forecasts £7.0m overspend. This £0.9m improvement compared to the position at the end of December is mainly due to reductions in anticipated placement costs.

12. The level of demand is leading to £3.4m pressures against staffing budgets and £6.2m significant demand pressures around the cost of placements for children looked after, care leavers and Unaccompanied Asylum Seeker Children (UASC). These pressures are partly offset by £2.7m 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 32 staff above establishment at this time. Although the number of locums has been reducing, the service has 93 locums to staff both the Multi Agency Safeguarding Hub (MASH) and the Children's Services frontline teams, reflecting plans to recruit more locums to meet current work pressures.

14. Pressures from increases in the number of children looked after 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 £2.7m overspend. As at 31 January 2018 there were 293 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 £1.8m 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 61% of the young people concerned who are under 18. The proportion on the higher grant rate is increasing with new arrivals and as young people turn 18. Nevertheless the new higher rate of grant is insufficient to cover direct placement costs and 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 looked after UASC has reduced as a high number turn 18 and move on to the leaving care service. Again the grant is insufficient, as the funded rate is substantially below the relevant support costs. Most of the young people are on the lower legacy grant rate of £150 a week while 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 £2.1m 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 - £3.7m underspend (£0.1m improvement since 31 December 2017)

18. Overall Schools & SEND estimates a £3.7m underspend at year end. The main reason for this planned underspend relates to central budgets which are expected to underspend by £4.7m, offsetting other pressures across Children, Schools & Families.

19. Commercial Services estimates £1.7m underspend due to a greater than budgeted contribution to overheads, particularly for school catering.

20. These underspends are in part offset by an anticipated £2.2m overspend on SEND transport. The number of pupils travelling usually settles at the start of the autumn term, but this year numbers have continued to rise through October and November. Schools & SEND forecasts had been based on an increase of 100 pupils across the year, but the latest data suggests this will be 137. This reflects the rise in the number of Education Health and Care Plans. It is now unlikely Schools & SEND will achieve the savings scheduled for 2017/18 due to delays implementing the new policy and implementing the travel training contract.

21. There is a £0.8m pressure on the school agency budget related to the social care element of SEND placements.

22. As at 31 January 2018, SEND services funded by Dedicated Schools Grant (DSG) forecast £9.2m overspend. There are some significant challenges in the 2017/18 high need block budget as the number of pupils requiring support has increased by 1,000 since January 2017. This is mainly reflected in additional placements in the Non Maintained Independent sector resulting in expenditure significantly higher than planned. 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 currently expects and is planning for DSG spend to be contained within DSG funding.

Commissioning & Prevention - £2.3m overspend (£0.2m improvement since 31 December 2017)

23. Commissioning & Prevention anticipates £2.3m year end overspend. The main reason for this 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 related savings will not be delivered in 2017/18. However, the reconfiguration of support and commissioning services has delivered £2.3m savings for 2017/18.

24. Free early education for three and four year olds funded from DSG now forecasts a £2.2m 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. However, 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. As this is funded from DSG, any benefit will not affect the council's general resources.

Place Development & Waste - balanced (no change since 31 December 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 £3.6m planned savings, which are not expected to be achieved this year, or only partially achieved. These include savings from further improvements to kerbside recycling performance, better management of recycled materials, contract changes, and further changes at community recycling centres. 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. These delays are expected to lead to an underspend at the end of the year, currently estimated at £1.8m, and the forecast assumes that this is transferred to the Waste Sinking Fund in order to meet those costs when they arise in future financial years.

27. Other pressures include £0.3m residual savings from 2016/17 and pressures against the Rights of Way service. PDW (and the wider Environment & Infrastructure directorate) has reviewed planned income and expenditure and identified £0.3m additional savings to compensate for overspends, including taking advantage of 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 - £0.8m underspend (£0.3m improvement since 31 December 2017)

28. Highways & Transport (H&T) forecasts a £0.8m net underspend at year end. The service has reviewed planned income and expenditure to identify additional savings to help offset higher than expected inflation on street lighting energy costs (the budget assumed a 5% increase, but inflation is currently 11%) 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. In addition several smaller changes have occurred which have increased the forecast underspend, including lower than expected insurance costs and additional income. At this stage, taking account of the above measures, H&T expects to achieve £0.8m net underspend.

Surrey Fire & Rescue Service - £0.2m underspend (no change since 31 December 2017)

30. Surrey Fire & Rescue Service (SFRS) forecasts £0.2m year end underspend. SFRS has significant savings plans of £3.6m for the year and is on target to achieve them in full.

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. In addition SFRS expects a £0.2m payroll cost pressure to reflect an anticipated higher than budgeted national fire fighter pay award.

32. These pressures are offset by £1.8m 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 staffing savings; and £0.4m, supplies and services savings.

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

33. Public Health (PH) forecasts £2.1m year-end overspend. £1.7m is due to having to extend the existing sexual health service contract. The remaining forecast £0.4m overspend is mainly on public health services for children and young people (0-19).

Central Income & Expenditure – £6.4m underspend (£2.0m improvement since 31 December 2017)

34. Central Income & Expenditure (CIE) forecasts £6.4m year end underspend. This is mainly due to underspends on: the projected amount of interest payable; the redundancy budget; and the amount the council needs to set aside for the minimum revenue provision (MRP).

35. CIE projects a £3.0m full year underspend on interest payable. Quarterly reconciliation found the increase in investments means the contribution from the investment strategy to cover the cost of borrowing for those investments is higher than expected. The contribution is also more than the actual costs incurred due to the success of the council's continued short term borrowing strategy. These combine to give a forecast £2.0m underspend. In addition, at this point in the year it is now clear that amounts held within this budget to cover the potential costs of interest rate rises will not be required, leading to a further £1.0m forecast underspend.

36. The redundancy budget is projected to underspend by £2.0m. Spending depends on services' savings plans and the current level of restructurings expected to occur before the end of the 2017/18 financial year is now less than previously anticipated.

37. 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.

38. Following the final reconciliation of business rates income from the Surrey Pool, the county council will receive £3.9m more income than previously forecast. As this is already included in the 2018/19 budget, it is proposed to add this to the Budget Equalisation Reserve to support future years' budgets.

Orbis - £8.9m underspend (£0.8m improvement since 31 December 2017)

39. Orbis forecasts £8.9m year end underspend. The £0.8m improvement in the forecast outturn follows £5.4m improvement in December due to specific actions to stop or reschedule work to deliver savings in 2017/18. The £0.8m improvement in January is a result of:

- £0.3m lower cost of utilities due to favourable winter weather;
- £0.2m SCC share of Orbis operating budget further savings, mainly one-off increased payroll income and holding vacancies;
- £0.1m SCC share of Orbis investment; and
- £0.1m lower uplift rates than anticipated for the building cleaning contract.

40. Orbis is on target to deliver its £2.3m savings target from the budgets it manages on behalf of the council. Orbis' forecast underspend comprises: £5.5m underspend on budgets Orbis manages on behalf of the council, of this £2.4m is from pausing or stopping work to deliver savings and £0.5m early delivery of 2018/19 savings; £1.9m underspend saving on the council's investment in the Orbis partnership, and £1.5m underspend on the council's 70% contribution to Orbis' operating costs, £0.8m of this is early delivery of 2018/19 savings..

41. Orbis anticipates requesting to carry forward £0.9m from its 2017/18 underspend to fund: planned maintenance, IT modern worker programme, a new learning management system and deferred Orbis investment.

Efficiencies

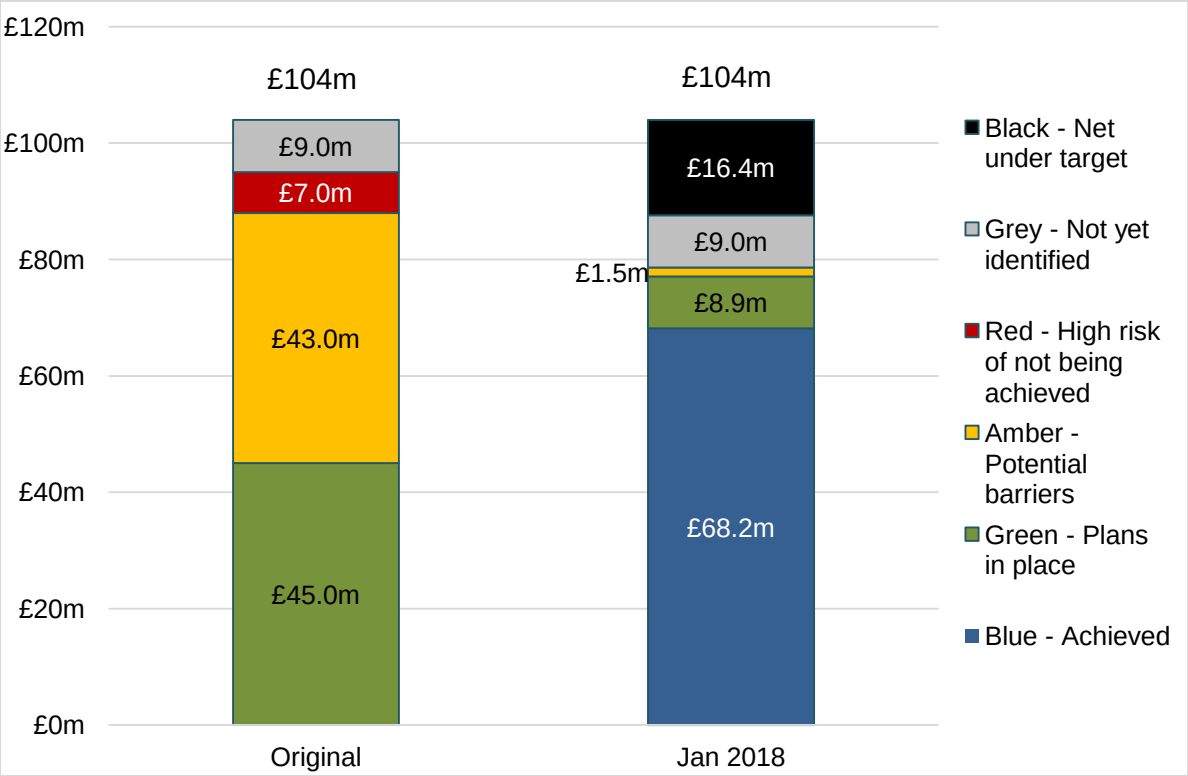
42. MTFP 2017-20 includes £104m efficiencies in 2017/18. Council services currently forecast to achieve £79m of this target. This is a £25m shortfall, comprising £9m savings the council has yet to identify and £16m net savings considered unachievable in 2017/18. As outlined in the summary to this annex, 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.

43. Figure 1 summarises the council's overall efficiency targets, the forecast for achieving them and the deliverability risks. By month ten of 2017/18, services have: achieved £68m savings, with £9m plans on track and £2m 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 31 January 2018 compared to MTFP

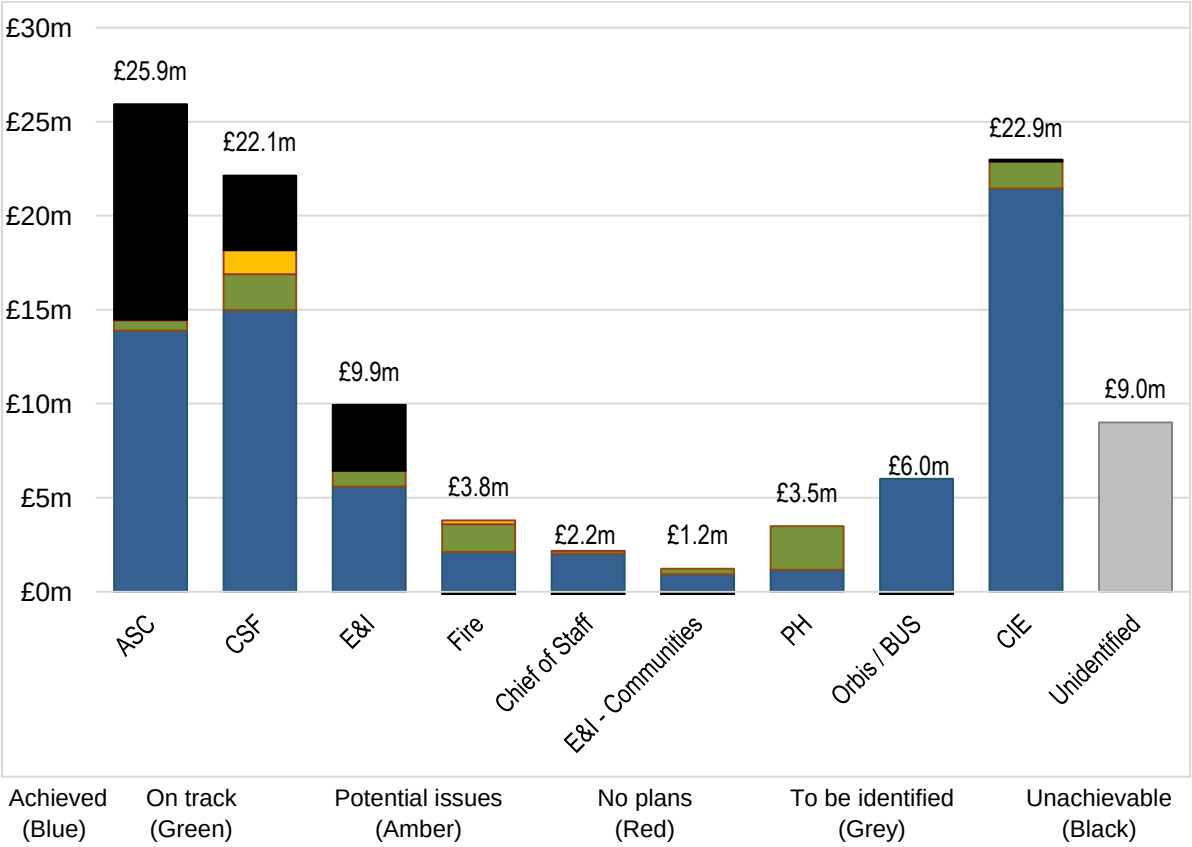


44. Figure 2 shows service directorates' updated risk ratings for achieving their efficiencies this year. The main areas of concern are: non-achievement of planned savings in Adult Social Care, Commissioning & Prevention and Place Development & Waste, plus savings yet to be identified.

45. As at 31 January 2018, 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;
- £11.4m shortfall in ASC related to whole systems demand and market pressures (paragraphs 7 and 8);
- £2.7m shortfall in Early Help as outlined in paragraph 23 and
- £3.6m shortfall in Waste Disposal as outlined in paragraph 25

Figure 2: 2017/18 efficiencies risk ratings by directorate as at 31 January 2018



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. The council's full year staffing budget for 2017/18 is £278.6m based on 7,039 budgeted FTEs.

49. The council has 754 FTE vacancies (the difference between budgeted and occupied FTEs). It is recruiting to 470 of these vacancies, 314 of them are in social care.

50. Table 2 shows staffing costs as at 31 January 2018 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.

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 2 and the Staffing expenditure line in Table App3 in the appendix.

52. Table 2 shows £4.5m year to date underspend against the £232.5m budget as at 31 January 2018. Table App 3 shows services forecast £2.5m 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 paragraph 13.

Table 2: Staffing costs and FTEs to 31 January 2018

		<------- Staffing spend by category -------->						
Service	**YTD staff budget £m**	**Contracted £m**	**Agency £m**	**Bank £m**	**Total £m**	**Variance £m**	***Amended budgeted FTE***	***Occupied contracted FTEs***
Strategic Leadership	0.7	0.7	0.0	0.0	0.7	0.0	*9*	*9*
Adult Social Care	51.4	46.3	1.7	1.3	49.2	-2.2	*1,754*	*1,444*
Children, Schools & Families [1]	99.7	89.6	7.1	3.9	100.6	0.8	*3,013*	*2,778*
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	0.4	0.0	*2*	*3*
Cultural Services	15.5	14.0	0.0	1.4	15.5	-0.1	*529*	*520*
Communities Support Function	0.6	0.5	0.0	0.0	0.5	-0.1	*26*	*15*
Emergency Management	0.4	0.4	0.0	0.0	0.4	0.0	*12*	*9*
Surrey Fire & Rescue Service	22.4	21.0	0.1	1.1	22.2	-0.1	*608*	*549*
Trading Standards	2.7	2.5	0.1	0.0	2.6	-0.1	*74*	*66*
Place Development & Waste	9.7	8.8	0.1	0.3	9.3	-0.5	*200*	*196*
Highways & Transport	12.2	10.4	0.7	0.0	11.1	-1.0	*371*	*323*
Public Health	2.1	2.0	0.0	0.0	2.0	-0.1	*46*	*40*
Central Income & Expenditure	1.0	1.1	0.0	0.0	1.1	0.0	*0*	*0*
Communications	1.1	1.1	0.0	0.0	1.2	0.0	*31*	*27*
Customer Services	2.9	2.5	0.0	0.0	2.5	-0.3	*102*	*95*
Legal Services	3.0	2.6	0.1	0.0	2.7	-0.3	*79*	*70*
Democratic Services	1.6	1.5	0.0	0.0	1.5	-0.1	*46*	*37*
Strategy & Performance	1.5	1.3	0.0	0.0	1.3	-0.2	*27*	*25*
Managed ORBIS	3.7	3.0	0.4	0.1	3.4	-0.2	*85*	*79*
Service net budget	**232.5**	**209.5**	**10.5**	**8.1**	**228.1**	**-4.5**	***7,039***	***6,285***

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

53. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £387m 2017-20 MTFP capital programme.

54. 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 31 January 2018, Cabinet approved £14.1m draw down of carry forwards, -£54.2m net reprofilings and £0.5m net capital virements to give £146.5m current full year overall capital programme budget. Paragraph App 6 and Table App 4 show the movements.

55. Table 3 shows the MTFP budget and the current year capital expenditure budget.

Table 3: Capital expenditure budget 2017/18 as at 31 January 2018

	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	0.0	-40.9	**31.8**
Highways recurring programme	49.3	0.0	-1.5	1.6	**49.3**
Property & IT recurring programme	52.2	11.0	-1.2	-14.3	**47.7**
Other capital projects	12.3	2.7	3.3	-0.6	**17.7**
Service capital programme	**186.0**	**14.1**	**0.5**	**-54.2**	**146.5**
Long term investments					**0.0**
Overall capital programme	**186.0**	**14.1**	**0.5**	**-54.2**	**146.5**

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

56. Table 4 compares the £146.5m current service capital programme budget to the £113.2m forecast expenditure to show a £33.4m underspend. The overall 2017/18 capital programme also includes £104.6m approved Investment Strategy spending on long term investments (as outlined in paragraphs 59 to 62). Adding this to the service capital programme gives £217.7m overall forecast expenditure for 2017/18.

Table 4: Forecast capital expenditure 2017/18 as at 31 January 2018

	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**	25.4	6.4	**31.8**	**0.0**
Highways recurring programme	**49.3**	24.3	13.0	**37.2**	**-12.1**
Property & IT recurring programme	**47.7**	18.8	13.3	**32.1**	**-15.6**
Other capital projects	**17.8**	8.1	3.9	**12.0**	**-5.8**
Service capital programme	**146.6**	**76.5**	**36.6**	**113.2**	**-33.4**
Long term investments	**0.0**	91.9	12.7	**104.6**	**104.6**
Overall capital programme	**146.6**	**168.4**	**49.3**	**217.7**	**71.1**

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

Significant capital budget variances

57. The £33.4m forecast underspend on the 2017/18 service capital programme is mainly for the following reasons.

- £8.0m 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.

- £4.1m underspend in Highways & Transport (H&T) including: 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; highway maintenance where £0.8m earmarked for the A23 resilience scheme will now be required next year; the council's intended £0.5m contribution to the DfT challenge fund which is no longer required; and other smaller variations where the timing of maintenance works has changed.
- £15.6m underspend in Orbis includes £5.1m underspend on building maintenance following the asset strategy review, planning and environmental delays on Property projects, school schemes, SEN strategy, Gypsy sites plus reprofiling 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.

Capital budget virement requests

58. The 2016/17 outturn included approved capital carry forward requests totalling £1.950m for service areas managed within Place Development & Waste. Cabinet is asked to approve £0.850m draw down in 2017/18 to fund: £0.545m expenditure on Local Growth Deal schemes; £0.245m Secondary Shopping Centre Improvements; £0.081m Basingstoke Canal; and other smaller schemes. The remaining underspend from 2016/17 relates to further works at the Basingstoke Canal, Newlands Corner improvements, closed landfill site maintenance and Secondary Shopping Centre. Further draw downs may need to be requested in 2017/18 or 2018/19 as these schemes are progressed.

Revolving Infrastructure & Investment Fund

59. 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.

60. 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 £1.3m net income a year.

61. 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.

62. Net capital expenditure in 2017/18 of £104.6m includes additional equity investment and loans to the Halsey Garton Property group and the development of the former Thales site in Crawley and Farnham town centre. The forecast for the year is net of £1.6m estimated in tenant contributions to capital works.

Table 5: Summary revenue and capital position as at 31 January 2018

Revenue statement	**YTD actual £m**	**Full year forecast £m**
Council portfolio		
Income	-3.5	-4.3
Expenditure	0.5	0.8
Funding	3.4	4.0
Net income/cost	0.4	0.5
Halsey Garton portfolio		
Dividend	0.0	-1.6
Net interest margin	-2.2	-2.7
Net income	-2.2	-4.3
Total net income	**-1.8**	**-3.8**
Capital expenditure	**91.9**	**104.6**

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 £1,672.5m. Adding virement changes in the first ten months of 2017/18 reduced the expenditure budget as at 31 January 2018 to £1,639.4m. 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 January 2018

	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	-11.7	-110.8	460.8	4.7	465.5	354.7
Children's Services	-10.6	-0.4	-11.0	112.8	4.4	117.2	106.2
Commissioning & Prevention	-62.5	5.1	-57.4	97.2	-6.0	91.2	33.8
Schools & SEND	-109.9	-1.3	-111.2	175.2	0.1	175.3	64.1
Delegated Schools	-415.8	21.6	-394.2	414.6	-20.4	394.2	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	-0.1	0.8	0.7
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	1.9	54.7	46.5
Public Health [1]	-37.9	6.2	-31.7	37.9	-6.2	31.7	0.0
Central Income & Expenditure	-0.4	-0.2	-0.7	54.5	-8.6	45.9	45.2
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	-0.3	4.0	4.0
Information Technology & Digital	-0.4	0.0	-0.4	12.9	-0.1	12.8	12.4
Legal Services	-0.4	0.0	-0.4	4.4	0.0	4.4	4.0
Democratic Services	-0.2	-0.4	-0.6	6.1	0.5	6.6	6.0
Strategy & Performance	-0.8	0.5	-0.3	2.3	-0.7	1.6	1.3
Procurement	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Property	-8.5	-0.3	-8.8	30.1	0.2	30.3	21.5
Joint Operating Budget ORBIS	0.0	0.0	0.0	37.6	-0.1	37.5	37.5
Business Operations	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1
Service total	**-792.0**	**19.6**	**-772.3**	**1,681.5**	**-33.1**	**1,648.4**	**876.1**
Savings to be identified				**-9.0**		**-9.0**	**-9.0**
Total	**-792.0**	**19.6**	**-772.3**	**1,672.5**	**-33.1**	**1,639.4**	**867.1**
General funding sources							
Government grants	-150.1	13.4	-136.7			0.0	-136.7
Local taxation	-718.6		-718.6			0.0	-718.6
Grand total	**-1,660.7**	**33.1**	**-1,627.6**	**1,672.5**	**-33.1**	**1,639.4**	**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 such virements above £500,000 in the first ten 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 January 2018

	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	0.0	66
Total Quarter 2 movements	0.1	-0.1	0.0	0.0	65
Total Quarter 3 movements	19.7	-19.7	0.0	0.0	62
January movements					
Internal service movements	19.7	-19.7	0.0	0.0	16
Total December movements	19.7	-19.7	0.0	0.0	16
Final approved budget	**-1,627.6**	**1,639.4**	**0.0**	**11.9**	**209**

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 January 2018

	Year to date			← Full year			→
	Budget £m	Actual £m	Variance £m	Budget £m	Remaining forecast £m	Projection £m	Variance £m
Income:							
Local taxation	-639.9	-639.5	0.4	-718.6	-79.0	-722.5	-3.9
Government grants	-626.4	-612.8	13.6	-720.9	-92.2	-705.0	15.9
Other income	-156.3	-184.2	-27.9	-188.4	-31.5	-215.7	-27.3
Income	**-1,422.6**	**-1,436.5**	**-13.9**	**-1,627.9**	**-202.7**	**-1,643.2**	**-15.3**
Expenditure:							
Staffing	232.6	228.1	-4.5	279.1	48.3	276.7	-2.5
Service provision	807.7	804.3	-3.4	964.7	170.1	988.6	23.9
Non schools sub-total	1,040.3	1,032.4	-7.9	1,243.8	218.4	1,265.3	21.5
Schools expenditure	352.9	352.9	0.0	396.0	43.1	396.0	0.0
Total expenditure	**1,393.2**	**1,385.3**	**-7.9**	**1,639.8**	**261.5**	**1,661.3**	**21.5**
Movement in balances	**-29.4**	**-51.3**	**-21.8**	**11.9**	**58.8**	**18.1**	**6.2**

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 31 January 2018, Cabinet approved £0.6m net virements, £14.1m draw down of carry forwards and -£54.2m reprofiling. Table App 4 summarises the -£39.5m net movement in the capital budget for the year to 31 January 2018.

Table App 4: 2017/18 capital budget movements as at 31 January 2018

	30 Nov 17 £m	31 Dec 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	
Sub-total – carry forwards drawn down		*14.1*
Reprofiling –from 2016/17 to 2017/18	1.9	
Reprofiling - Property services	-14.4	
Reprofiling - School Basic Need	-40.9	
Reprofiling - Fire	-0.9	
Reprofiling - IT & Digital	0.1	
Sub-total - reprofiling		*-54.2*
Total reprofiling & carry forwards drawn down		**-40.1**
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	2.3	
Highways safety defects - grant funded	0.9	
Total virements		**0.6**
In year budget changes		**-39.5**
2017/18 updated capital budget		**146.5**

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

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