

Budget monitoring for period eleven of 2017/18 (February 2018)

Summary

After eleven months of 2017/18, mitigating actions taken by the council have reduced the forecast overspend as at 28 February 2018 to £3.6m. This is a £2.6m improvement in the last month and £20m 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 the council's 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 47. 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 28 February 2018 services forecast making £79m of these planned savings. Services have already achieved £71m savings with another £6m 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, Children, Schools & Families 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 eleven 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 adding £10m pressure this financial year. In Adult Social Care, increased market inflation has added £3m to the forecast overspend. In Public Health, negotiations have reduced the cost of having to extend a major contract, but it is still forecast to result in £1m pressure. In Central Income & Expenditure, a review of provisions concluded the council needs to add nearly £2m to cover potential liabilities. Against these, 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 plans to use £21m reserves to balance the 2018/19 budget, further use of reserves to balance 2017/18 impedes reaching 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 less than £4m overspend (paragraphs 1 and 7 to 45). This includes:
£9m savings to be identified,
£16m net savings considered unachievable in 2017/18,
£14m service demand and cost pressures
less
£35m net underspends, additional savings and income.
2. Forecast planned savings for 2017/18 total £79m against £95m agreed savings and £104m target (paragraph 47).
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 20 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. Reprofile £8.0m previously reported as capital underspend in Place Development & Waste due to changes within the Local Growth Deal programme of road and transport improvement schemes funded primarily from grant, developer monies and partner contributions (paragraph 63) as reflected in MTFP 2018-21.

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 28 February 2018, the council forecasts £4m overspend at year end. The main variances (paragraphs 7 to 45) relate to:

- £9m savings yet to be identified;
- £16m forecast total underachievement of savings, including
 - £11m in Adult Social Care
 - £4m in Children, Schools & Families
 - £3m in Waste
 - net of
 - £2m overachievement or early achievement of savings in other services.
- £14m service pressures including
 - £10m demand in Children's Services
 - £3m price pressures in Adult Social Care
 - £1m contractual issues in Public Health
- Less £35m net underspends, including
 - £9m net underspends, additional income and other pressures in Adult Social Care
 - £4m cost reductions in Environment & Infrastructure
 - £11m underspends and early achievement of savings in Orbis
 - £5m net underspend in Children, Schools & Families
 - £4m net underspends in Central Income & Expenditure and
 - £2m net underspends in other services.

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 £21m 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 28 February 2018, services forecast spending £109m against the £141m 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 62).

As part of increasing its overall financial resilience, the council currently plans £103m net investment in long term capital investment assets in 2017/18 (paragraphs 64 to 67). This brings total forecast capital spending in 2017/18, including long term investments, to £212m.

Revenue budget

Overview

1. As at 28 February 2018, the forecast year end budget variance is £4m overspend, a £2m reduction on the position reported as at 31 January 2018. The main changes since January include: £1m reduction in Public Health's forecast overspend from negotiating reduced cost for the extended contract, £1m reduction in Adult Social Care's forecast overspend for a variety of reasons, £2m increase in Orbis' forecast underspend due to lower costs less £2m reduction in Central Income & Expenditure's forecast underspend, mainly from the need to provide for potential future liabilities .
2. These changes mean the overall forecast overspend includes: £9m savings that remain unidentified; net £16m forecast savings considered unachievable in 2017/18; and £21m net service underspends (paragraphs 7 to 45).
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 eleven months of 2017/18 to reflect agreed carry forwards and other budgetary adjustments, increased the gross expenditure budget as at 28 February 2018 slightly to £1,639.7m and the gross income budget to £1,627.8m. 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 28 February 2018

Service	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Economic Growth	1.0	0.7	0.9	-0.1
Strategic Leadership	0.9	0.8	0.8	-0.1
Adult Social Care	354.4	324.7	360.5	6.1
Children's and Safeguarding services	106.2	101.6	112.9	6.7
Commissioning & Prevention	33.8	30.8	35.8	2.0
Schools & SEND (Special Educational Needs & Disabilities)	64.1	53.4	60.8	-3.3
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	0.0	0.0	0.0	0.0
Coroner	1.7	1.6	2.1	0.4
Cultural Services	9.3	7.7	8.7	-0.6
Customer Services	3.4	2.8	3.1	-0.3
C&C Directorate Support	0.7	0.6	0.6	-0.1
Emergency Management	0.5	0.3	0.5	0.0
Surrey Fire & Rescue Service	31.8	28.8	31.6	-0.2
Trading Standards	1.9	1.8	1.8	-0.1
Place Development & Waste	82.1	68.0	82.1	0.0
Highways & Transport	46.5	38.9	45.9	-0.6
Public Health	0.0	0.0	0.9	0.9
Communications	2.0	1.5	1.7	-0.3
Finance	2.8	2.4	2.5	-0.3
Human Resources & Organisational Development	4.0	2.3	2.8	-1.2
Information Management & Technology	12.4	9.6	11.2	-1.2
Legal Services	4.0	3.4	4.1	0.1
Democratic Services	6.0	5.3	5.5	-0.5
Strategy & Performance	1.3	1.1	1.1	-0.2
Procurement	0.9	0.8	0.8	-0.1
Property	21.5	15.4	17.1	-4.4
Joint Operating Budget ORBIS	37.5	30.8	34.0	-3.5
Business Operations	-0.1	-0.1	-0.1	0.0
Central Income & Expenditure	45.5	33.8	40.5	-5.0
Savings to be identified	-9.0		0.0	9.0
Services' total net revenue expenditure	867.2	768.8	870.2	3.0
General funding sources				
General Government grants	-136.7	-126.6	-131.8	4.9
Local taxation (council tax and business rates)	-718.6	-714.7	-722.9	-4.3
Total general funding	-855.3	-841.3	-854.7	0.6
Total movement in reserves	11.9	-72.5	15.5	3.6

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

Significant net revenue budget variances

Adult Social Care - £6.1m overspend (£0.9m improvement since 31 January 2018)

- As at 28 February 2018, Adult Social Care (ASC) forecasts £6.1m year end overspend. The £0.9m decrease in overspend is mainly due to: £0.3m reduced shortfall against ASC's savings target; £0.3m increased joint working income primarily from additional Better Care Fund (BCF) incomes due an underspend against the overall BCF budget; £0.2m reduction in staffing costs; £0.1m increase in fees and charges, £0.1m decrease in care expenditure; partly offset by £0.2m increase in bad debt provision.

8. ASC forecasts to achieve £14.7m against its £25.9m efficiency target, a £11.2m shortfall. The shortfall includes:
 - £4.0m in reducing ASC demand pressures;
 - £2.8m 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 £3.6m other pressures, largely price pressures on services to people with learning disabilities.
10. Significant underspends include: £4.2m 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; £2.6m staffing budget underspends not linked to savings plans; and £1.8m underspends in care, service delivery and contracts & grants.

Children's Services - £6.6m overspend (£0.4m improvement since 31 January 2018)

11. Children's Services continues to experience exceptional demand for services continuing patterns seen in recent months and forecasts £6.6m overspend. This £0.4m improvement compared to the position at 31 January 2018 is mainly due to additional government grant for asylum seeking children distributed in January.
12. The level of demand is leading to £3.6m pressures against staffing budgets and £5.8m significant demand pressures around the cost of placements for children looked after, care leavers and Unaccompanied Asylum Seeker Children (UASC). In addition to the £0.4m extra government grant funding, £2.7m net underspends in other areas of the service mainly offset these pressures.
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 been reducing, the service has 91 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 28 February 2018 there were 302 children in external placements an increase of nine compared to the previous month.
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 £1.4m overspend on direct placement costs. This has reduced due to additional government grant from the Controlling Migration Fund.
16. 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.

17. 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..
18. Children's Services anticipates £2.4m overspend for the leaving care service, mainly arising from increasing numbers, the need for more supportive packages for young people as they turn 18 and for more staff to support the rising numbers.

Schools & SEND - £3.3m underspend (£0.4m deterioration since 31 January 2018)

19. Overall Schools & SEND estimates a £3.3m 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.
20. Commercial Services estimates £1.5m underspend due to a greater than budgeted contribution to overheads, particularly for school catering.
21. The main pressure for Schools & SEND is £2.3m 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 into the spring term. 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.
22. There is a £0.8m pressure on the school agency budget related to the social care element of SEND placements.
23. As at 28 February 2018, SEND services funded by Dedicated Schools Grant (DSG) forecast £9.3m 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. 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 - £2.0m overspend (£0.3m improvement since 31 January 2018)

24. Commissioning & Prevention anticipates £2.0m 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. 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.

25. Free early education for three and four year olds funded from DSG now forecasts a £3.0m 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. 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 January 2018)

26. Place Development & Waste (PDW) forecasts a balanced year end position resulting from a number of pressures and offsetting savings, primarily within waste disposal.
27. 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. Cabinet has agreed to transfer this underspend to the Waste Sinking Fund at the end of the financial year, to meet those costs when they arise in future financial years.
28. Other pressures totalling £0.4m include 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 £0.4m 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 - £0.6m underspend (£0.2m deterioration since 31 January 2018)

29. Highways & Transport (H&T) forecasts a £0.6m net underspend at year end. The reduction in the forecast underspend since 31 January 2018 is due to several factors including costs associated with recent severe weather, essential road repairs and funding member allocations expenditure from current budgets rather than from carry forward of underspends from 2016/17, as had been planned.
30. Earlier in the financial year H&T agreed several measures to reduce costs and offset pressures, including deferring planned hedge flailing, sign replacement and tree works, deferring drainage investigations and a safety barrier survey, and deferring equipment purchases. The service reviewed these measures to ensure safety was not compromised and the Cabinet Member agreed them on that basis. Since then a number of smaller changes have occurred which have the effect of increasing this underspend. Offsetting these are a number of pressures, most significantly street

lighting energy costs where inflation has been higher than expected (the budget assumed a 5% increase, but inflation is currently 11%). Taking account of the above, H&T expects to achieve £0.6m net underspend.

Surrey Fire & Rescue Service - £0.2m underspend (no change since 31 January 2018)

31. 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.
32. 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 £0.4m payroll cost pressure to reflect an anticipated higher than budgeted national fire fighter pay award.
33. These pressures are offset by £2.0m savings which include: £0.5m early achievement of planned middle management staff savings; £0.5m reductions in employer's pension contribution rates; £0.2m in house restructuring of fleet operations; and £0.4m staffing savings; and £0.4m, supplies and services savings. The increase in payroll savings is attributed to the unexpected leavers who are transferring to other Fire authorities.

Public Health - £0.9m overspend (£1.2m improvement since 31 January 2018)

34. Public Health (PH) forecasts £0.9m year-end overspend. The £1.2m improvement from the amount reported previously is due to:
 - £0.9m lower payments negotiated for the extended sexual health (genito-urinary medicine - GUM) service contract to reflect much reduced provider activity than anticipated; and
 - £0.3m one off savings relating to reduced demand and contract negotiations in non-GUM sexual health, health checks and substance misuse.
35. The £0.9m forecast overspend includes:
 - £0.8m remaining overspend from having to extend the existing sexual health service contract;
 - £0.4m on public health services for children and young people (0-19); less
 - £0.3m one off savings.

Central Income & Expenditure – £4.4m underspend (£2.0m deterioration since 31 January 2018)

36. Central Income & Expenditure (CIE) forecasts £4.4m year end underspend. This is mainly due to the following underspends: £2.5m on interest payable; £2.0m on the redundancy budget; and £1.4m on the amount the council needs to set aside for the minimum revenue provision (MRP). Offsetting these underspends CIE forecasts making £1.5m contribution to provisions.

37. CIE projects a £2.5m 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 £1.5m 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, adding £1.0m to the forecast underspend.
38. The redundancy budget is projected to underspend by £2.0m. Spending depends on services' savings plans and the level of restructurings expected to occur before the end of the 2017/18 financial year is less than previously anticipated.
39. 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.
40. A review of provisions concluded the council should increase its provision for potential claims under employment legislation by £1.5m.
41. The council's Waste PFI has experienced a number of delays since its inception. The PFI credits relating to this project, which the council receives from DEFRA, were reduced pending the completion and operation of the largest asset associated with the scheme. Initially the council expected the planned step increase in the amount of PFI credits received from 2017/18 onwards would be achieved in 2017/18. It now looks increasingly likely this will not be the case and the increase in PFI credits will be delayed until at least the second quarter of 2018/19. This results in an under-recovery of PFI credits compared to the £8m budget. This is not a permanent under recovery as the step increase in PFI credits will be achieved in future years when grant income will exceed the current budget assumptions. At its October 2018 meeting, Cabinet agreed to use the Budget Equalisation Reserve to 'smooth' the impact of this under recovery and approved to draw down £8m from the Budget Equalisation Reserve to the Central Income & Expenditure budget to negate this under recovery in 2017/18.
42. In addition, the following amounts received during 2017/18 have been transferred to reserves, as previously approved:
- £3.4m received from East Surrey CCG;
 - £3.1m of DSG to replenish reserves for the overspend in 2016/17; and
 - £4.3m additional income received relating to previous years' surplus on the business rates pool.

Orbis - £10.6m underspend (£1.7m improvement since 31 January 2018)

43. Orbis forecasts £10.6m year end underspend. The £1.7m improvement in the forecast outturn as at 28 February 2018 is mainly as a result of:
- £0.9m lower maintenance and utilities costs in Property;
 - £0.3m underspends in IT & Digital; and

- £0.2m lower underspends in Human Resources & Organisational Development.
44. Orbis is on target to deliver its £2.3m savings target from the budgets it manages on behalf of the council plus £0.5m of 2018/19 savings achieved early. Orbis' forecast underspend comprises: £7.1m underspend on budgets Orbis manages on behalf of the council, of this £2.5m 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 £1.7m underspend on the council's 70% contribution to Orbis' operating costs.
45. Orbis anticipates requesting to carry forward £0.6m from its 2017/18 underspend to fund: planned maintenance, IT modern worker programme and Orbis investment.

Revenue carry forward requests

46. In addition to the expected carry forward requests outlined above, Economic Development anticipates making a request to carry forward £311,000 revenue at year end. This is the balance of funding (originally from 2014/15) that was not required in 2017/18 due to utilising other savings and project delays. This will be used to fund new and on-going activities in 2018/19. Cabinet will review all requests to carry forward funds from 2017/18 as part of its consideration of the council's overall financial outturn position in April 2018.

Efficiencies

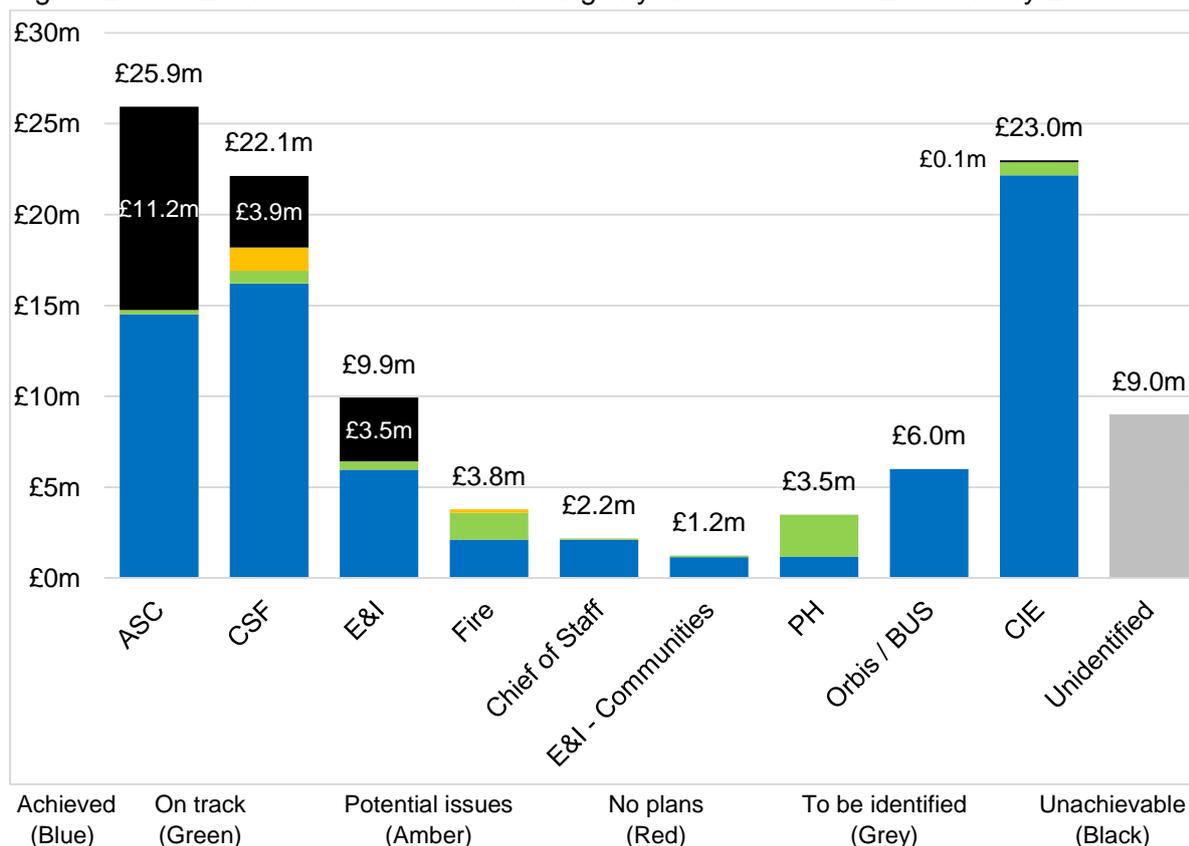
47. MTFP 2017-20 includes £104m efficiencies in 2017/18. Council services currently forecast to achieve £79m of this target. This is a £25m shortfall, comprising £9m savings the council has yet to identify and £16m net savings considered unachievable in 2017/18. As outlined in the summary to this annex, 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.
48. Figure 1 summarises the council's overall efficiency targets, the forecast for achieving them and the deliverability risks. By month eleven of 2017/18, services have: achieved £71m savings, with £6m 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 28 February 2018 compared to MTFP



49. 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.
50. As at 28 February 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;
 - £11.2m shortfall in ASC related to whole systems demand and market pressures (paragraphs 7 and 8);
 - £1.5m shortfall in Schools & SEND's new transport policy and delays to the travel training contract as outlined in paragraph 21;
 - £2.5m shortfall in Early Help as outlined in paragraph 24 and
 - £3.5m shortfall in Waste Disposal as outlined in paragraph 27.

Figure 2: 2017/18 efficiencies risk ratings by directorate as at 28 February 2018



Staffing costs

51. 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.
52. 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.
53. 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.
54. The council has 732 FTE vacancies (the difference between budgeted and occupied FTEs). It is recruiting to 436 of these vacancies, 290 of them are in social care.
55. Table 2 shows staffing costs as at 28 February 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.

56. 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.
57. Table 2 shows £4.2m year to date underspend against the £255.5m budget as at 28 February 2018. Table App 3 shows services forecast £2.8m 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 28 February 2018

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	0.8	0.7	0.0	0.0	0.7	0.0	9	9
Adult Social Care	56.3	50.9	1.8	1.4	54.1	-2.2	1,754	1,445
Children, Schools & Families ¹	109.7	98.8	7.9	4.3	111.0	1.3	3,013	2,776
Community Partnership & Safety ²	0.0	0.0	0.0	0.0	0.0	0.0	25	0
Coroner	0.4	0.2	0.1	0.0	0.4	0.1	2	3
Cultural Services	17.1	15.4	0.0	1.6	17.0	0.0	529	523
Communities Support Function	0.7	0.6	0.0	0.0	0.6	-0.1	26	15
Emergency Management	0.5	0.4	0.0	0.0	0.4	0.0	12	9
Surrey Fire & Rescue Service	24.6	23.0	0.2	1.2	24.4	-0.2	608	549
Trading Standards	3.0	2.7	0.1	0.0	2.8	-0.2	74	68
Place Development & Waste	10.7	9.7	0.1	0.4	10.2	-0.5	200	196
Highways & Transport	13.4	11.5	0.8	0.0	12.3	-1.1	371	334
Public Health	2.3	2.1	0.0	0.0	2.1	-0.1	46	42
Central Income & Expenditure	1.1	1.2	0.0	0.0	1.2	0.0	0	0
Communications	1.3	1.3	0.0	0.0	1.3	0.0	31	29
Customer Services	3.1	2.7	0.0	0.0	2.8	-0.3	102	95
Legal Services	3.3	2.9	0.1	0.0	3.0	-0.3	79	72
Democratic Services	1.8	1.6	0.0	0.0	1.6	-0.1	46	37
Strategy & Performance	1.7	1.6	0.0	0.0	1.6	0.0	27	26
Managed ORBIS	4.0	3.3	0.4	0.1	3.7	-0.3	85	79
Service net budget	255.5	230.7	11.6	9.0	251.3	-4.2	7,039	6,307

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

58. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £387m 2017-20 MTFP capital programme.
59. 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 28 February 2018, Cabinet approved £16.7m draw down of carry forwards, -£62.2m net reprofiling and £0.1m net virements to give £140.7m current full year overall capital programme budget. Paragraph App 6 and Table App 4 show the movements.
60. Table 3 shows the MTFP budget and the current year capital expenditure budget.

Table 3: Capital expenditure budget 2017/18 as at 28 February 2018

	MTFP budget £m	2016/17 budget c/fwd £m	Reprofile £m	Other movements £m	Current full year budget £m
School basic need	72.2	0.4	-40.8	0.0	31.8
Highways recurring programme	49.3	2.1	-5.8	-4.4	41.3
Property & IT recurring programme	52.2	10.6	-14.3	-0.8	47.7
Other capital projects	12.3	3.6	-1.3	5.3	19.9
Service capital programme	186.0	16.7	-62.2	0.1	140.7
Long term investments					0.0
Overall capital programme	186.0	16.7	-62.2	0.1	140.7

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

61. Table 4 compares the £140.7m current service capital programme budget to the £108.9m forecast expenditure to show a £31.8m underspend. The overall 2017/18 capital programme also includes £102.8m approved Investment Strategy spending on long term investments (as outlined in paragraphs 64 to 67). Adding this to the service capital programme gives £211.7m overall forecast expenditure for 2017/18.

Table 4: Forecast capital expenditure 2017/18 as at 28 February 2018

	Current full year budget £m	YTD actual £m	Remaining projection £m	Full year forecast £m	Full year variance £m
Schools basic need	31.8	26.3	1.3	27.6	-4.2
Highways recurring programme	41.3	27.8	8.8	36.6	-4.8
Property & IT recurring programme	47.7	20.8	10.2	31.0	-16.7
Other capital projects	19.9	10.2	3.5	13.7	-6.1
Service capital programme	140.7	85.0	23.9	108.9	-31.8
Long term investments	0.0	99.3	3.5	102.8	102.8
Overall capital programme	140.7	184.3	27.3	211.7	71.0

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

Significant capital budget variances

62. The £31.8m forecast service capital programme underspend is mainly for the following reasons.
- £4.8m underspend in Highways & Transport, including: National Productivity Improvement Fund grant where £1.9m has been earmarked for works agreed with the Department for Transport (DfT) to take place in 2018/19; highway maintenance

where £0.9m earmarked for the A23 resilience scheme will also be required in 2018/19; the council's intended £0.5m contribution to the DfT challenge fund which is no longer required; and other smaller variations due to changes in the timing of maintenance works.

- £20.9m underspend in Orbis includes £5.4m 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. The £5.4m increase in the underspend is mainly due to £4.2m delays on seven school basic need projects.
 - £4.7m underspend in grant funded collaborative project to provide an integrated transport function between Surrey Fire & Rescue Services and other blue light organisations within Surrey and Sussex. The project continues to suffer delays due to the scale of the project and as at 28 February 2018 forecasts spending only £0.3m in 2017/18. This will include implementing shared bulk fuel operations and delivering phase 1 of the hub and spoke workshops. Surrey Fire & Rescue Services will request to carry forward £4.7m capital funding to continue this grant funded project to deliver an integrated transport function across blue light partners.
63. The movements to the service capital programme include £8.0m reprofiling. This is for a previously reported underspend in Place Development & Waste (PDW) arising due to changes within the Local Growth Deal programme of road and transport improvement schemes funded primarily from grant, developer monies and partner contributions. These changes span a number of schemes and are 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 (Local Enterprise Partnerships). PDW requests to reprofile and amend the capital budget across years to take account of these changes. These changes are reflected in MTFP 2018-21.

Revolving Infrastructure & Investment Fund

64. 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.
65. 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 £1.3m. However once the second phase building becomes fully operational in 2019/20 the development will generate an estimated £1.3m net income a year.
66. 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.
67. Net capital expenditure in 2017/18 of £102.8m 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 £1.4m estimated in third party contributions to capital.

Table 5: Summary revenue and capital position as at 28 February 2018

Revenue statement	YTD actual £m	Full year forecast £m
Council portfolio		
Income	-4.0	-4.3
Expenditure	0.6	0.8
Funding	3.7	4.0
Net income/cost	0.3	0.5
Halsey Garton portfolio		
Dividend	0.0	-1.6
Net interest margin	-2.4	-2.7
Net income	-2.4	-4.3
Total net income	-2.1	-3.8
Capital expenditure	99.3	102.8

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 eleven months of 2017/18 reduced the expenditure budget as at 28 February 2018 to £1,639.7m. 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 28 February 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	4.4	465.1	354.3
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	90.1	82.1
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	-8.3	46.2	45.5
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	19.5	-772.5	1,681.5	-32.9	1,648.7	876.2
Savings to be identified				-9.0		-9.0	-9.0
Total	-792.0	19.5	-772.5	1,672.5	-32.9	1,639.7	867.2
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	32.9	-1,627.8	1,672.5	-32.9	1,639.7	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 eleven 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 28 February 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	19.7	-19.7	0.0	0.0	16
February movements					
Internal service movements	-0.1	0.1		0.0	8
Total February movements	-0.1	0.1	0.0	0.0	8
Final approved budget	-1,627.8	1,639.7	0.0	11.9	217

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 28 February 2018

	Year to date			Full year			
	Budget £m	Actual £m	Variance £m	← Budget £m	Remaining forecast £m	Projection £m	→ Variance £m
Income:							
Local taxation	-714.6	-714.7	-0.2	-718.6	-8.2	-722.9	-4.3
Government grants	-690.0	-667.0	23.0	-720.8	-35.3	-702.3	18.5
Other income	-171.7	-202.4	-30.7	-188.4	-16.0	-218.4	-30.0
Income	-1,576.3	-1,584.1	-7.9	-1,627.8	-59.5	-1,643.6	-15.8
Expenditure:							
Staffing	255.5	251.3	-4.2	278.7	24.6	275.9	-2.8
Service provision	886.3	871.0	-15.3	965.0	104.2	987.3	22.3
Non schools sub-total	1,141.8	1,122.3	-19.5	1,243.7	128.8	1,263.2	19.5
Schools expenditure	389.3	389.3	0.0	396.0	6.7	396.0	0.0
Total expenditure	1,531.1	1,511.6	-19.5	1,639.7	135.5	1,659.2	19.5
Movement in balances	-45.2	-72.5	-27.4	11.9	76.0	15.6	3.6

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 28 February 2018, Cabinet approved £16.7m draw down of carry forwards and -£62.2m reprofiling and £0.1m net virements. Table App 4 summarises the -£45.6m net movement in the capital budget for the eleven months to 28 February 2018.

Table App 4: 2017/18 capital budget movements as at 28 February 2018

	£m	£m
MTFP (2017-20) (opening position)		186.0
Carry forwards drawn down		
Carry forwards drawdown - Property services	10.0	
Carry forwards drawdown – IT & Digital	1.0	
Carry forwards drawdown – Superfast broadband	0.5	
Carry forwards drawdown - Schools Devolved Budget	2.6	
Carry forwards drawdown - Highways Maintenance	1.9	
Carry forwards drawdown - Highways Local Schemes	-0.3	
Carry forwards drawdown – Local Enterprise Partnerships	0.5	
Carry forwards drawdown – Schools Kitchens and other scheme	0.1	
Carry forwards drawdown - Schools third party contributions	0.4	
Total carry forwards drawn down		16.7
Reprofiling		
Reprofiling – Property and IT recurring programme	-14.3	
Reprofiling - School Basic Need	-40.8	
Reprofiling – Highways recurring programme	-5.8	
Reprofiling - Fire	-0.9	
Reprofiling - Other	-0.4	
Total reprofiling		-62.2
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	
Local Enterprise Partnerships' funding	-2.7	
Schools third party contributions	4.1	
Highways safety defects - grant funded	0.9	
Total virements		-0.1
In year budget changes		-45.6
2017/18 updated capital budget		140.4

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