Budget monitoring: outturn 2017/18 (31 March 2018)

Overview

For the 2017/18 financial year, Surrey County Council achieved £1.3m revenue underspend, £80m savings and £212m capital expenditure, including on long term investments.

Despite the council achieving a record level of £80m savings during 2017/18 and a small overall underspend, this was short of the £104m efficiencies target: adding significant pressure to future years' budgets and making the challenge to achieve a sustainable financial position even more challenging.

As at 30 June 2017, the budget monitoring report to Cabinet forecast a £24m overspend driven by: increased numbers of those who need services, the increased complexity of their needs and the increasing costs of meeting those needs. Significant management recovery actions since then have involved early achievement of 2018/19 savings, significant one off measures and spending delays, resulting in the outturn position reported here.

The council recognises it faces a considerable challenge to deliver a sustainable financial position in the longer term. The change management and transformation work agreed by the Leader will ensure the council will complete a significant transformation programme to deliver services differently from 2019/20 to move towards a sustainable financial position from 2020/21.

Summary recommendations

Cabinet is asked to note the following.

1. The council achieved £1.3m overall revenue underspend for 2017/18 (paragraph 1). Since 2009/10, the council has always achieved a small underspend or balanced outturn. The £1.3m underspend is less than 0.08% of the £1,672m gross expenditure budget for 2017/18 that County Council set in February 2017.

2. Services achieved £80m total savings against £95m agreed savings plans and £104m target (paragraph 52).

3. The council planned to transfer £11.8m from reserves to balance 2017/18. After transferring the net underspend for 2017/18 and other movements in the year, the closing balance for earmarked reserves as at 31 March 2018 is £81.4m. After deducting planned use of £20.9m earmarked reserves to balance 2018/19, this leaves £60.5m earmarked reserves and £21.3m general balances, which the Director of Finance considers to be the minimum safe levels.

4. The underspend does not include £1.0m revenue carry forward requests for spending on planned service commitments that continue beyond 2017/18 (paragraphs 49 to 51 and Annex 3). If Cabinet agrees to fund all carry forward requests, earmarked reserves brought forward as at 1 April 2018 will fall to £59.5m.

5. The council invested £212m through its capital programme in 2017/18, comprising £109m service capital programme (59% of the original service capital programme)

and £103m long term investments (paragraph 65). Services have requested to carry forward and reprofile £35m capital expenditure.

6. The council's year end earmarked reserves and balances, debt analysis and treasury management report (paragraphs App 7 to App 23).

7. All services must continue to take all appropriate action to keep costs down and optimise income (e.g. minimising spending, managing vacancies wherever possible).

8. 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.

9. £1.3m transfer of net 2017/18 underspend to the Budget Equalisation Reserve.

10. £1.0m revenue carry forward requests to be funded from the Budget Equalisation Reserve (paragraph 50 and Annex 3).

11. £2.1m capital virement requests within Highways & Transport (paragraph 67).

12. £34.9m capital programme reprofiling and carry forward requests (paragraphs 68 to 70 and Annex 3).

13. As in 2017/18, that Cabinet approves services' draw down of amounts carried forward, as and when they are needed, as part of the monthly budget monitoring process (paragraph 51 for revenue and paragraph 69 for capital).

14. £3.9m transfer of Revolving Infrastructure & Investment Fund net income to the Budget Equalisation Reserve (paragraph 71).

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 2017/18 set by County Council in February 2017. A key objective of MTFP 2017-20 was to deliver 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, both of which put significant strains on the council's finances.

This report confirms the council has underspent by £1.3m for the 2017/18 financial year. The outturn position is a significant turnaround from £24.0m overspend forecast as at 30 June 2017. Achieving this turnaround has included genuine additional efficiencies, such as achieving future years' savings early, as well as one-off measures and spending delays. While the one-off measures used in 2017/18 helped address current budget issues, they did not, and do not address the underlying and continuing issue of ongoing service overspends, which adds pressure to future years.

As at 31 March 2018, the council's £1.3m underspend for 2017/18 includes the following main variances (paragraphs 7 to 48).

- £9m savings not identified;

- £15m net underachievement of 2017/18 savings, including
  - £12m in Adult Social Care
  - £3m in Children, Schools & Families
  - £4m in Environment & Infrastructure
  - net of
  - £4m overachievement or early achievement of savings in other services.
- £15m service pressures including
  - £10m demand in Children, Schools & Families
  - £4m price pressures in Adult Social Care
  - £1m contractual issues in Public Health

Less

- £40m net underspends, including
  - £10m net underspends, additional income and other pressures in Adult Social Care
  - £8m net underspends in Children, Schools & Families
  - £5m cost reductions in Environment & Infrastructure
  - £11m underspends and early achievement of savings in Orbis
  - £6m underspend in Central Income & Expenditure.

This revenue outturn position and the planned use of £21m reserves to balance 2018/19's budget means the council will bring forward £21m general balances and £60m reserves earmarked for specific purposes on 1 April 2018. The Director of Finance regards this as being at the minimum safe level in the context of the future uncertainty the council faces.

Balancing the council's 2018/19 budget requires significant use of one off funding. As such, the council needs urgently to transform services to set a sustainable budget in 202/21. The Section 151 Officer's Annex to the Budget Report in February 2018 concluded that the combination of these issues "… *represent a very serious capacity and financial challenge to the council in 2018/19."* In order to meet this challenge of achieving a sustainable budget from 2020/21, during 2018/19 the council must:

- deliver £66m cost reductions and efficiencies in year;
- prepare to deliver £50m more cost reductions and efficiencies in 2019/20; and
- identify, plan and prepare to implement a further £80m service transformation cost reductions and efficiencies in 2019/20.

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 March 2018, services spent £109m against the £146m final 2017/18 capital budget (and £186m original capital budget). The main 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 66).

As part of increasing its overall financial resilience, the council made £103m net investment in long term capital investment assets in 2017/18 (paragraphs 71 to 74). This brought total capital spending in 2017/18, including long term investments, to £212m.

11

Revenue budget

Overview

1. As at 31 March 2018, the year end budget variance is £1.3m underspend, a £4.9m improvement on the position reported as at 28 February 2018. The main changes during March, compared to the position forecast as at 28 February 2018 include the following improvements in financial position: £0.9m in Adult Social Care; £1.0m in Children, Schools & Families; £0.7m in Environment & Infrastructure; £1.4m in Central Income & Expenditure and £1.0m net improvement across other services.

2. These changes mean the overspend includes: £9m unidentified savings; net £15m savings found to be unachievable in 2017/18; and £25m net service underspends (paragraphs 7 to 48). The overall £24m shortfall against the council's planned ongoing efficiencies for 2017/18, has significant underlying consequences for future years. As such, 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

3. In March 2017, Cabinet approved the council's 2017/18 revenue budget at: £1,672.4m gross expenditure, £1,660.6m gross income and £11.8m use of reserves.

4. Changes in the period to 31 March 2018 to reflect agreed carry forwards and other budgetary adjustments, decreased the gross expenditure budget to £1,651.9m and the gross income budget to £1,640.1m, with use of reserves unchanged at £11.8m. Table App1 in the appendix outlines the updated revenue budget by service.

5. Table 1 analyses the 2017/18 updated net revenue expenditure budget position by service. It also shows how proposed carry forwards affect each service's net variance. If Cabinet approves all carry forwards, the net underspend for 2017/18 is £0.3m.

6. Net revenue expenditure is 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 compares the budget and outturn positions for council's 2017/18 revenue income and expenditure.

Table 1: 2017/18 net revenue budget outturn

Service	Full year budget £m	Full year position £m	Full year variance £m	Proposed carry forward £m	Variance net of proposed carry forward £m
Economic Growth	1.0	0.8	-0.2	0.3	0.1
Strategic Leadership	0.9	0.8	-0.1		-0.1
Adult Social Care	354.2	359.4	5.2		5.2
Children's and Safeguarding services	106.3	112.7	6.4		6.4
Commissioning & Prevention	33.8	35.4	1.6		1.6
Schools & SEND (Special Educational Needs & Disabilities)	64.1	60.5	-3.6		-3.6
Delegated Schools	0.0	0.0	0.0		0.0
Community Partnership & Safety	0.0	0.0	0.0		0.0
Coroner	1.7	2.1	0.4		0.4
Cultural Services	9.4	8.5	-0.9		-0.9
Customer Services	3.4	3.0	-0.4	0.0	-0.4
C&C Directorate Support	0.7	0.6	-0.1		-0.1
Emergency Management	0.5	0.4	-0.1		-0.1
Surrey Fire & Rescue Service	31.8	31.6	-0.2		-0.2
Trading Standards	1.9	1.8	-0.1		-0.1
Place Development & Waste	83.0	83.0	0.0		0.0
Highways & Transport	46.5	45.2	-1.3	0.2	-1.1
Public Health	0.0	0.7	0.7		0.7
Communications	1.9	1.6	-0.3	0.1	-0.2
Finance	2.7	2.4	-0.3		-0.3
Human Resources & Organisational Development	3.9	2.8	-1.1		-1.1
Information Management & Technology	12.1	11.0	-1.1	0.2	-0.9
Legal Services	4.0	3.8	-0.2	0.1	-0.1
Democratic Services	6.0	5.5	-0.5		-0.5
Strategy & Performance	1.5	1.4	-0.1		-0.1
Procurement	0.9	0.8	-0.1		-0.1
Property	21.4	16.9	-4.5		-4.5
Joint Operating Budget ORBIS	37.5	33.9	-3.6	0.2	-3.4
Business Operations	-0.1	-0.1	0.0		0.0
Central Income & Expenditure	57.7	52.3	-5.4		-5.4
Unidentified savings	-9.0	0.0	9.0		9.0
Services' total net revenue expenditure	**879.6**	**878.8**	**-0.8**	**1.0**	**0.2**
General funding sources					
General Government grants	-149.2	-145.2	4.0		4.0
Local taxation (council tax and business rates)	-718.6	-723.1	-4.5		-4.5
Total general funding	**-867.8**	**-868.3**	**-0.5**		**-0.5**
Total movement in reserves	**11.8**	**10.5**	**-1.3**	**1.0**	**-0.3**

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

Significant net revenue budget variances

Adult Social Care - £5.2m overspend (£0.9m improvement since 28 February 2018)

7. Adult Social Care (ASC) achieved £5.2m year end overspend. This is mainly due to: £11.6m shortfall against ASC's £25.9m savings target plus £4.0m other pressures less £5.2m additional income and £5.2m other underspends.

8. The £0.9m decrease in overspend since 28 February 2018 is mainly due to: £0.4m reduction in savings; £0.6m full year market inflation impact for learning disabilities cost of care project; £0.2m reduction in staffing costs; £0.2m reduction in provision for

doubtful debts; £0.7m increase in additional income, from additional Better Care Fund income, and growth in joint funded income and reimbursements; £0.3m increase in fees & charges; and £0.6m reduction in care expenditure.

9. ASC achieved £14.3m against its £25.9m efficiency target, a £11.6m shortfall. The shortfall includes:

   - £4.0m in reducing ASC demand pressures;
   - £3.0m in services to people with learning disabilities;
   - £2.5m 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.

10. In addition, ASC has £4.0m other pressures, largely price pressures on services to people with learning disabilities.

11. Significant favourable variances include: £4.4m 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; £2.8m staffing budget underspends not linked to savings plans; and £1.8m underspends in care, service delivery and contracts & grants.

Children's Services - £6.4m overspend (£0.2m improvement since 28 February 2018)

12. Children's Services experienced exceptional demand for services in 2017/18, which is the main reason for its £6.4m overspend. This £0.2m improvement from the position forecast as at 28 February 2018 relates to lower than expected pressures on external placements and care leavers packages.

13. Despite significant investment in Children's Services following a £10.7m overspend in 2016/17, demand has continued to increase, particularly placements for looked after children and support for care leavers. Demand remains high and the 2018/19 Children's Services budget has an additional £19m allocation.

14. Higher demand has led to the need for additional social work capacity, leading to staff being recruited in excess of establishment posts, as at 31 March 2018 there were 49 FTE above establishment. There have also been a significant number of locums in the service, each of whom costs £20,000 a year more than a permanent member of staff. Additional resources have been allocated in 2018/19 to address staffing pressures.

15. The Multi Agency Safeguarding Hub (MASH) has required extra staff resources due to high levels of demand resulting in £0.9m overspend. External agency placements exceeded budget by £1.9m. Placement numbers exceeded budget throughout the year and as at 31 March 2018 there were 315 children in external placements: 207 in external fostering, 87 in external residential and 21 in semi-independent. The budget allowed for 244 placements (154 external fostering, 72 external residential and 18 semi-independent placements). The average cost of an external residential placement is £219,000 a year and an external fostering placement is £50,000 a year.

16. In addition, £1.7m pressures related to care leaver have continued, as both the number of care leavers and those remaining in placements after age 18 have increased by more than anticipated.

17. Surrey also continues to care for a high level of asylum seeking children, as at 31 March 2018 there were 107 unaccompanied asylum seeking children (UASC) and a further 192 Care Leaver UASC being supported by the grant. Although the numbers of UASC has reduced compared to 2016/17, there has been a significant increase in the number of care leaver UASC. The Home Office increased the UASC funding rate in 2016/17, but this only applies to new cases who arrived in the UK after 1 July 2016. The council is starting to see the benefit of the increase in rates for UASC, with 71 funded under the new national rate grant and only 36 on the old legacy grant rate. However for Care Leaver UASC the council still has 168 young people on the old legacy rate and only 24 on the new national rate. Nevertheless the new higher grant rate is still insufficient to cover placement costs, e.g. for a 16/17 year old, based on current average costs, the shortfall is £16,000 a year for those on the new rate and £24,000 a year for those on the legacy rate. Similarly with Care Leaver UASC the rate of grant is insufficient to cover costs and most of the young people are on the lower legacy grant rate of £150 a week whereas current support costs are £337 a week.

18. As in previous years, the council has to subsidise UASC, as the grant funding is insufficient to cover the total cost. In 2017/18 the level of subsidy is approximately £4m.

Schools & SEND - £3.6m underspend (£0.3m improvement since 28 February 2018)

19. Overall Schools & SEND underspent by £3.6m for 2017/18. The main reason for this planned underspend relates to central budgets which underspent by £4.7m, offsetting other pressures across the Children, Schools & Families directorate.

20. 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 in 2017/18 numbers continued to rise into the spring term. Schools & SEND's budget was based on 100 more pupils spread across the year, but the latest data suggests this is 137. This reflects the rise in the number of Education Health and Care Plans. Schools & SEND did not achieve the savings scheduled for 2017/18 due to delays implementing the new policy and implementing the travel training contract.

21. The school agency budget experienced £0.6m pressure related to the social care element of SEND placements.

22. SEND services funded by Dedicated Schools Grant (DSG) overspent by £9.3m. This is due to: the number of pupils needing support increased by 867 over the twelve months since January 2017; the service starting the financial year £3m overspent; and the service not achieving all of its £10m planned savings. As in previous years, the DSG high needs block overspend will be managed across financial years and within DSG funding. This principle has been agreed with Schools Forum.

23. While the number of pupils needing support has stabilised towards the end of the financial year, the council still needs to find school placements for some pupils. This will continue to add pressure to the budget in 2018/19.

24. Commercial Services achieved £1.5m underspend due to a greater than budgeted contribution to overheads, particularly for school catering.

Commissioning & Prevention - £1.6m overspend (£0.4m improvement since 28 February 2018)

25. Commissioning & Prevention overspent by £1.6m in 2017/18. This reduced by £0.4m compared to the forecast at 28 February 2018 largely due to lower than planned spending in Family Services.

26. The overall overspend is mainly due to the planned delay implementing the Early Help transformation programme. 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 experienced across the social care system in the county and did not deliver the related planned savings in 2017/18. However, reconfiguring support and commissioning services delivered £2.3m savings in 2017/18.

27. Free early education for three and four year olds funded from DSG underspent by £3.1m. Numbers fell in the autumn term meaning the council was funded for a higher number of children than the average number in placement over the year. As this is funded from DSG, it does not affect the council's general resources.

Place Development & Waste - balanced (no change from 28 February 2018)

28. Place Development & Waste (PDW) expenditure is in line with budget at the end of the year.

29. Waste disposal experienced a shortfall of £3.8m against planned savings, which were not delivered 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 were offset by the delayed construction of the Eco Park, which in turn delayed costs until 2018/19. These delays led to an underspend at the end of the year of £2.3m which, following Cabinet approval earlier in the year, was transferred to the Waste Sinking Fund in order to meet those costs when they arise in future financial years.

30. There are smaller variations across a number of other budgets, including transport, rights of way, and planning, which offset each other.

Highways & Transport - £1.3m underspend (£0.7m improvement since 28 February 2018)

31. Highways & Transport (H&T) achieved £1.3m year end underspend. The improvement from the underspend forecast as at 28 February 2018 is due to several factors including delayed drainage and bridge assessment works, lower than expected costs on several road repair schemes, increased highways income, and slippage to approved member's allocations projects.

32. The main variances are as follows. H&T experienced pressures of £0.4m on street lighting energy due to cost increases and £0.3m on winter maintenance, due to recent severe weather. Offsetting these were several smaller variations across other highway maintenance and associated budgets. These include measures agreed earlier in the

financial year to reduce costs, such as deferring planned works, investigations and equipment purchases. Additional underspends include employee vacancies, income, insurance costs and members' allocations, where funds had been committed but not yet spent as at 31 March 2018.

33. H&T requests to carry forward £155,000 for: member allocations, bridges and structures and traffic signals maintenance (paragraph 50 and Annex 3).

Surrey Fire & Rescue Service - £0.2m underspend (no change since 28 February 2018)

34. Surrey Fire & Rescue Service (SFRS) achieved £0.2m year end underspend. SFRS achieved this by implementing a number of cost savings activities during the year.

35. SFRS had significant planned savings of £3.6m for 2017/18. In achieving this, SFRS had to deliver £1.4m alternative, compensating savings. This was due to £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 to the £1.4m unachieved savings, SFRS had £0.4m payroll cost pressure for the outstanding national firefighter pay award which is anticipated to be higher than budgeted, resulting in £1.8m total pressure.

36. In addition to delivering its planned savings total, SFRS offset its £1.8m budget pressure by achieving £2.0m of new savings, which include £0.5m early achievement of planned middle management staff savings, £0.5m reduction in employer's pension contribution rates, £0.2m in house restructuring of fleet operations, £0.4m other staffing and £0.4m supplies and services savings.

Public Health - £0.7m overspend (£0.2m improvement since 28 February 2018)

37. Public Health (PH) overspent by £0.7m at year-end. Public Health met all of its £2.7m savings target. The £0.7m overspend includes:

    - £0.8m overspend from having to extend the existing sexual health contract;
    - £0.4m on public health services for children and young people (0-19);
      less
    - £0.5m one off savings and underspends.

Central Income & Expenditure – £5.8m underspend (£1.4m improvement since 28 February 2018)

38. Central Income & Expenditure (CIE) underspent by £5.8m at year end. This is mainly due to the following underspends: £2.5m on interest payable; £1.5m on the redundancy budget; £1.4m on the amount the council needs to set aside for the minimum revenue provision (MRP) and £1.9m Government grant income. Partially offsetting these underspends, CIE made £1.5m contribution to provisions.

39. There is £2.5m full year underspend on interest payable in 2017/18. The contribution from the investment strategy to cover the cost of borrowing for these investments is higher than expected, due to additional spend in this area and accentuated by the council's continued short term borrowing strategy resulting in the contribution being in

excess of the actual costs incurred. In addition, there is £1.0m underspend in relation to amounts held within this budget to cover the potential costs of interest rate rises.

40. The redundancy budget underspent by £1.5m. Spending depends on services' restructuring plans and the staff affected. The impact of this in 2017/18 has been less than provided in the budget.

41. MRP is the amount the council has to set aside for the future repayment of external borrowing. It is calculated with reference to the council's balance sheet as at the end of the previous financial year. The amount the council needed to set aside as MRP is £1.4m less than budgeted. This is mainly due to underspends in 2016/17's general capital programme.

42. When the council sets its budget, it has to make assumptions about the level of the various Government grants it will receive. The budget included an amount to offset any reductions in the grant received compared to that anticipated. £1.9m of this was not required during 2017/18.

43. A review of the appropriateness of the levels of provisions held by the council concluded it should increase the provision for potential liabilities under employment legislation by £1.5m.

44. In addition, the following amounts received during 2017/18 have been transferred to reserves, as previously approved:

    - £3.4m received from East Surrey CCG (Clinical Commissioning Group);
    - £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.

45. The council's Waste PFI has experienced a number of delays since its inception. The council receives PFI credits relating to this project from DEFRA (the Department for Agriculture, Fisheries and Rural Affairs) who reduced the credits pending completion and operation of the scheme's largest asset. 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. This will not, now 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 2017 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.

Orbis - £10.8m underspend (£0.2m improvement since 28 February 2018)

46. Orbis achieved £10.8m year end underspend. The £0.2m improvement from the outturn forecast as at 28 February 2018 is due to a range of variances including:

    - £0.1m lower contribution to Orbis by the council;
    - £0.2m underspends across Property; and
    - £0.1m net increase in IT & Digital spend.

47. Orbis achieved all of its £4.8m savings target for 2017/18 and achieved £1.3m of 2018/19 savings early. Orbis' total underspend comprises:

    - £7.1m underspend on budgets Orbis manages on behalf of the council, of which £2.4m is from pausing or stopping work to deliver savings and £0.5m is early delivery of 2018/19 savings;
    - £1.9m underspend on the council's investment in the Orbis partnership, and
    - £1.8m underspend on the council's 70% contribution to Orbis' operating costs.

48. Orbis requests to carry forward £0.4m from its 2017/18 underspend to fund: IT modern worker programme and Orbis investment as outlined in paragraph 50 and detailed in Annex 3.

Revenue carry forward requests

49. During 2018/19, the council must deliver already stretching service reduction plans of £66m, plus it must prepare to deliver £50m service reduction plans in 2019/20 and identify, plan and prepare to implement over £80m additional service transformation reductions to balance the 2019/20 budget and move towards a sustainable budget for future years. The council's reserves are already at minimum safe levels and are being further depleted by the 2017/18 overspend and £21m to balance the 2018/19 budget. It is therefore appropriate to minimise use of existing reserves to mitigate the risk of non delivery of significant savings targets in 2018/19 and future years.

50. Services request to carry forward £1.0m to support ongoing projects as outlined above and detailed in Annex 3. These include:

    - £155,000 in H&T for Member allocations, bridges and structures and traffic signal maintenance;
    - £300,000 in Economic Growth;
    - £100,000 in Legal Services for a postponed childcare case;
    - £70,000 in Communications for public engagement activity;
    - £30,000 in Customer Services for a new customer feedback system;
    - £370,000 in Orbis for: IT modern worker programme and Orbis investment;

51. As in 2017/18, amounts approved for carry forward will reside in the Budget Equalisation Reserve. As and when services need and are ready to use their amounts carried forward, they will make a request for Cabinet to approve draw down of the relevant amount as a virement as part of the 2018/19's monthly budget monitoring reports.

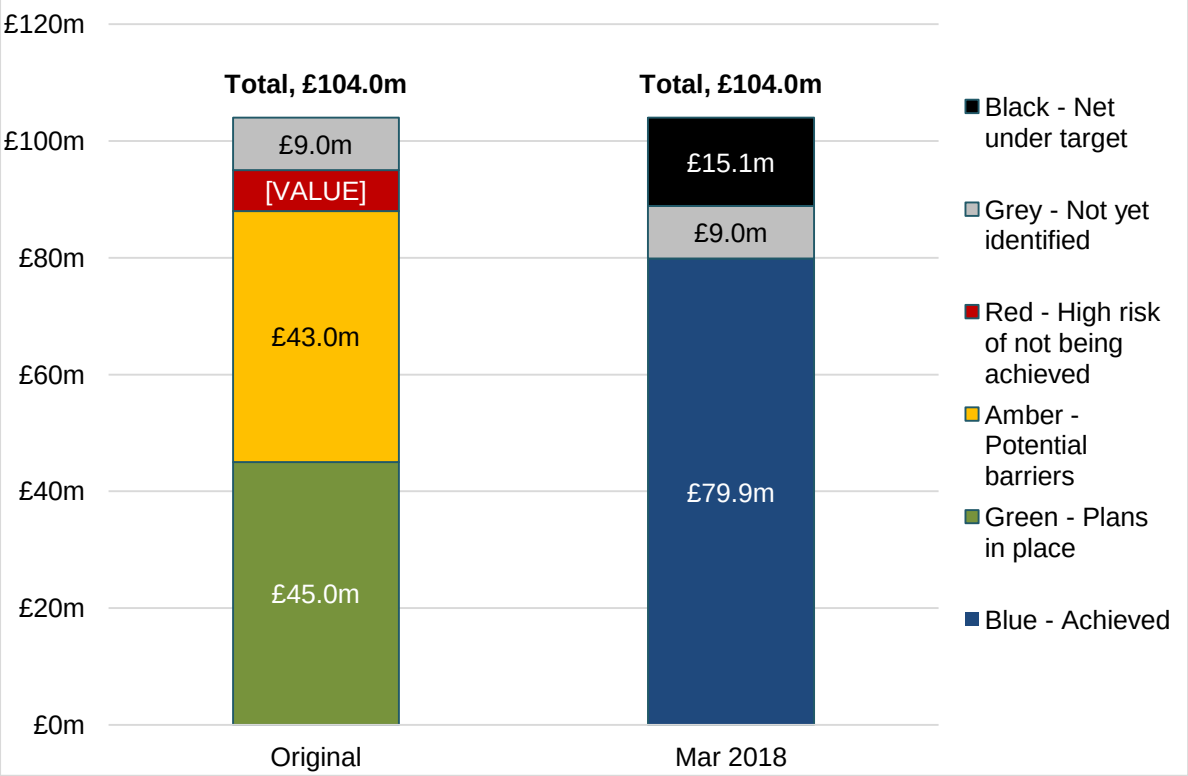
11

Efficiencies

52. MTFP 2017-20 includes £104m efficiencies for 2017/18. Against this council services achieved £80m savings. The shortfall comprises £9m savings the council did not identify and £15m net savings found to be unachievable in 2017/18, mainly in ASC, Early Help and Waste Disposal; partly offset by overachievement of savings in other services. The shortfall adds significant pressure to the council's future years' budgets and intensifies the challenge of achieving a sustainable longer term financial position.

53. Figure 1 summarises the council's overall efficiency targets, the risks to achieving them at the start of 2017/18 and their achievement by the end of 2017/18.

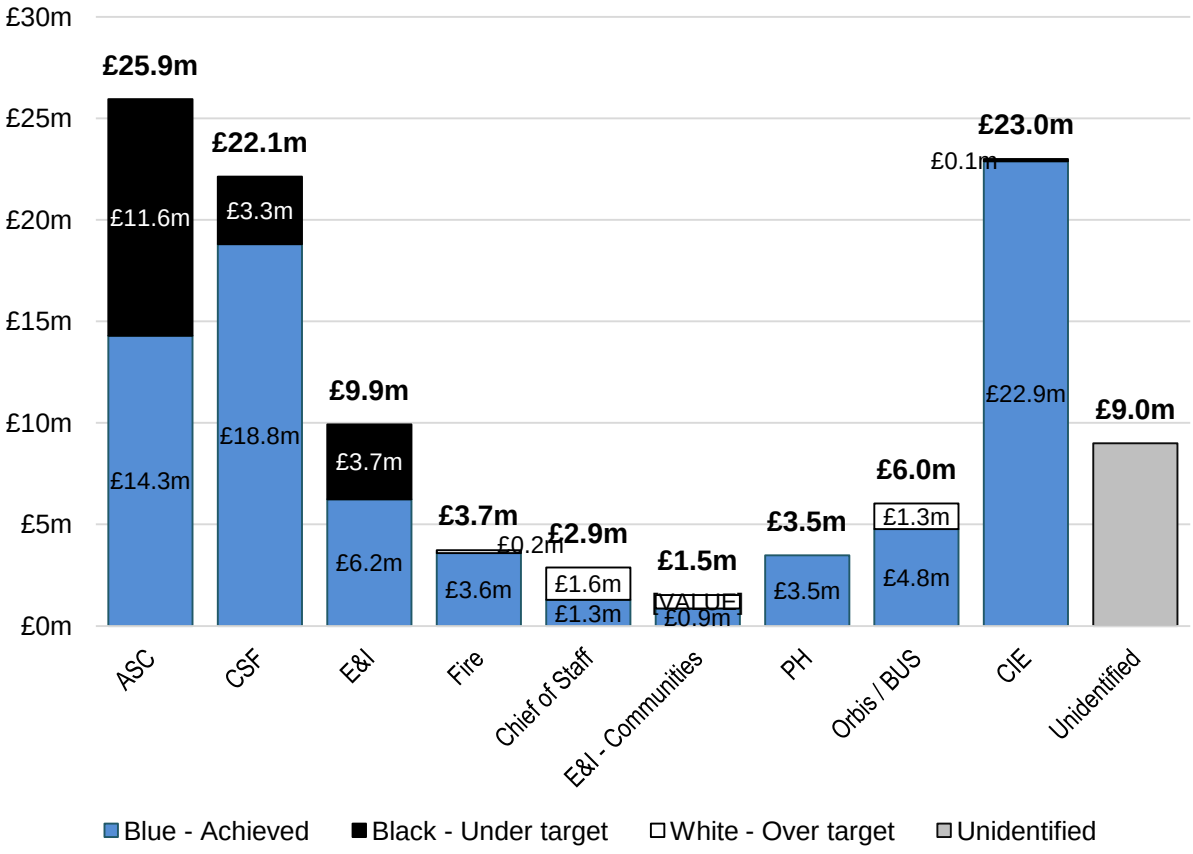
Figure 1: 2017/18 efficiencies achieved as at 31 March 2018 compared to MTFP



54. Figure 2 shows directorates' outturn achievement of their 2017/18 efficiencies. The main significant variations in services' progress against their MTFP 2017-20 efficiencies and service reductions include:

- £9.0m shortfall for savings not identified;
- £11.6m shortfall in ASC related to whole systems demand and market pressures (paragraphs 7 and 9);
- £1.5m shortfall in Schools & SEND's new transport policy and delays to the travel training contract (paragraph 20);
- £2.5m shortfall in Early Help (paragraph 25);
- £3.8m shortfall in Waste Disposal (paragraph 29); and
- £1.3m over achievement of savings in Orbis (paragraph 47).
- £2.5m overachievement in other services.

Figure 2: 2017/18 efficiencies achieved by directorate as at 31 March 2018



Staffing costs

55. 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.

56. 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.

57. 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 original full year staffing budget for 2017/18 was £278.7m based on 7,039 budgeted FTEs.

58. As at 31 March 2018, the council had 725 FTE vacancies (the difference between budgeted and occupied FTEs). It is recruiting to 519 of these vacancies, 410 of them are in social care.

59. Table 2 shows staffing costs as at 31 March 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.

60. 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.

61. Table 2 shows services' £3.3m outturn underspend against the £278.7m 2017/18 budget (reiterated in Table App 3 as outturn underspend on employment costs).

Table 2: Staffing costs and FTEs as at 31 March 2018

		<------- Staffing spend by category -------->						
Service	**2017/18 budget £m**	**Contracted £m**	**Agency £m**	**Bank £m**	**Total £m**	**Variance £m**	***Amended budgeted FTE***	***Occupied contracted FTEs***
Strategic Leadership	0.8	0.8	0.0	0.0	0.8	0.0	*9*	*10*
Adult Social Care	61.5	55.5	2.1	1.5	59.1	-2.4	*1,754*	*1,441*
Children, Schools & Families [1]	119.6	108.5	9.0	4.8	122.4	2.7	*3,013*	*2,774*
Community Partnership & Safety [2]	0.0	0.0	0.0	0.0	0.0	0.0	*25*	*0*
Coroner	0.4	0.3	0.2	0.1	0.5	0.1	*2*	*3*
Cultural Services	18.6	16.8	0.0	1.7	18.6	0.0	*529*	*517*
Communities Support Function	0.7	0.6	0.0	0.0	0.6	-0.1	*26*	*15*
Emergency Management	0.5	0.5	0.0	0.0	0.5	0.0	*12*	*10*
Surrey Fire & Rescue Service	26.8	25.1	0.2	1.3	26.6	-0.2	*608*	*552*
Trading Standards	3.2	3.0	0.1	0.0	3.1	-0.2	*74*	*67*
Place Development & Waste	11.7	10.6	0.1	0.4	11.1	-0.6	*200*	*196*
Highways & Transport	14.5	12.6	0.9	0.0	13.4	-1.1	*371*	*345*
Public Health	2.5	2.4	0.0	0.0	2.4	-0.1	*46*	*43*
Central Income & Expenditure	1.3	1.1	0.0	0.0	1.1	-0.1	*0*	*0*
Communications	1.4	1.4	0.0	0.0	1.4	0.0	*31*	*27*
Customer Services	3.4	3.0	0.0	0.0	3.0	-0.4	*102*	*97*
Legal Services	3.6	3.1	0.1	0.0	3.2	-0.4	*79*	*73*
Democratic Services	1.9	1.7	0.0	0.0	1.8	-0.2	*46*	*37*
Strategy & Performance	1.9	1.7	0.0	0.0	1.8	-0.1	*27*	*26*
Managed ORBIS	4.4	3.6	0.5	0.1	4.1	-0.3	*85*	*79*
Service net budget	**278.7**	**252.3**	**13.2**	**9.9**	**275.4**	**-3.3**	***7,039***	***6,314***

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

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

63. 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 March 2018, Cabinet approved £17.1m draw down of carry forwards, -£62.2m net reprofilings and £5.0m net virements to give £145.9m final full year service capital programme budget. Paragraph App 6 and Table App 4 show the movements.

64. Table 3 shows the derivation of the final service capital programme budget from the original MTFP budget.

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

	MTFP budget £m	2016/17 budget c/fwd £m	Reprofile £m	Other movements £m	Final full year budget £m
School basic need	72.2	0.4	-40.8	-0.1	**31.7**
Highways recurring programme	49.3	2.1	-5.8	-2.9	**42.7**
Property & IT recurring programme	52.2	10.6	-14.3	-0.7	**47.8**
Other capital projects	12.3	4.0	-1.3	8.7	**23.7**
Service capital programme	**186.0**	**17.1**	**-62.2**	**5.0**	**145.9**
Long term investments					**0.0**
Overall capital programme	**186.0**	**17.1**	**-62.2**	**5.0**	**145.9**

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

65. Table 4 compares the £145.9m final service capital programme budget to the £109.1m actual capital expenditure in the period April 2017 to March 2018 to give a £36.8m underspend. The overall 2017/18 capital programme also includes £103.1m approved Investment Strategy spending on long term investments (as outlined in paragraphs 71 to 74). Adding this to the service capital programme gives £212.2 m outturn total capital expenditure for 2017/18.

Table 4: Outturn capital expenditure 2017/18

	Final full year budget £m	Apr – Mar actual £m	Proposed carry forward & reprofiling £m	Full year forecast £m	Full year variance £m
School basic need	**31.7**	27.7	4.0	**31.7**	**0.0**
Highways recurring programme	**42.7**	35.8	6.4	**42.2**	**-0.5**
Property & IT recurring programme	**47.8**	31.4	16.3	**47.8**	**0.0**
Other capital projects	**23.7**	14.1	8.2	**22.4**	**-1.3**
Service capital programme	**145.9**	**109.1**	**35.0**	**144.1**	**-1.8**
Long term investments	**0.0**	103.1		**103.1**	**103.1**
Overall capital programme	**145.9**	**212.2**	**35.0**	**247.2**	**101.3**

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

Significant capital budget variances

66. The £36.8m service capital programme actual underspend is mainly due to the following significant variances.

- £5.2m underspend in Highways & Transport, primarily for the National Productivity Improvement Fund (NPIF) grant where £1.9m has been earmarked for works taking place in 2018/19; £1.1m highway maintenance, where works are ongoing or will commence in 2018/19; £1.0m flood resilience, where several larger schemes have been delayed; and the council's intended £0.5m contribution to the Department for Transport challenge fund - which is no longer required. A number of other smaller variations are primarily related to changes in the timing of works. H&T requests to carry forward £4.7m to complete schemes (Annex 3).
- £2.3m underspend in Place Development & Waste due to delays across several budgets, most significantly Local Growth Deal schemes which underspent by £1.7m for several reasons including poor weather, and Community Infrastructure Levy schemes which underspent by £0.5m. Other smaller variations include delayed maintenance works at closed landfill sites.
  PDW requests that £0.07m of funds approved for carry forward at the end of 2016/17 are applied to fund expenditure during 2018/19 on countryside projects. PDW also requests to carry forward £1.8m to complete schemes. (Annex 3).
- £20.4m underspend in Orbis includes underspends 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.
- £4.7m underspend in a grant funded collaborative project to provide an integrated transport function between Surrey Fire & Rescue Services and other blue light organisations within Surrey and Sussex. Expenditure has suffered delays due to the scale of the project. The majority of the funding has now been allocated to projects, including the provision of four workshops across Surrey and Sussex. These projects are now progressing. SFRS requests to reprofile the underspent grant funding into 2018/19 to continue the project.
- £2.4m schools' devolved capital schemes and funded by other contributions controlled and managed by individual schools.

Capital virement requests

67. Highways & Transport requests approval for three capital virements totalling £2.1m, as follows.

- Draw down £0.67m Operation Horizon discount and value engineering savings from the Opportunity Pot to fund major maintenance schemes.
- Apply £0.6m developer funding to local highways schemes.
- Transfer £0.83m from Highways & Transport (major maintenance) to Place Development (local growth deal schemes) to use as match funding for works on the A217.

Capital budget carry forward and reprofiling requests

68. From the £36.8m underspend on actual expenditure for the period April 2017 to March 2018, services request to carry forward £34.9m to support ongoing projects as detailed in Annex 3. These include:

- £1.0m in Children, School & Families (excluding schools) for projects for 30 hours free early education, early years portal and kitchen upgrades;
- £2.4m schools' controlled and managed schemes;

- £18.2m in Property schemes divided among school basic need, recurring maintenance programme and capital projects;
- £4.7m in Highways & Transport to complete schemes;
- £1.8m in Place Development & Waste for LEP-funded and other schemes;
- £4.8m in Surrey Fire & Rescue Services to complete the purchase of two fire appliances; and
- £2.0m in IT & Digital for equipment and projects.

69. As in 2017/18, capital balances approved for carry forward will reside in the Budget Equalisation Reserve. As and when services need and are ready to use the amounts carried forward, they will make a request for Cabinet to approve draw down of the relevant amount as a virement as part of the 2018/19's monthly budget monitoring reports.

70. Place Development & Waste's 2016/17 outturn included approved capital carry forward requests totalling £1.965m. In January 2018 Cabinet approved use of £0.850m to support the 2017/18 capital programme. PDW now seeks approval to apply £0.07m of this to fund expenditure during 2017/18, and to reprofile the remaining £0.5m into 2018/19 to fund works at Basingstoke Canal and committed Secondary Town Centre Improvement schemes.

11

Revolving Infrastructure & Investment Fund

71. Table 5 shows that the council generated £3.9m net income in 2017/18 from various property acquisitions made by the council and the Halsey Garton Property group. The council proposes to transfer this net income to the Revolving Infrastructure & Investment Fund.

72. The council portfolio comprises properties purchased for future service delivery or economic regeneration. This portfolio has cost £0.4m this year, largely due to the development underway at the former Thales site in Crawley. In 2017/18 this scheme 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.

73. The Halsey Garton portfolio has generated £4.3m net income in 2017/18, comprising £1.6m estimated dividend and £2.7m net interest margin on loans provided to the company by the council.

74. Net capital expenditure in 2017/18 of £103.1m 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 capital outturn for the year is net of £1.1m in third party contributions to capital.

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

Revenue statement	Full year outturn £m
Council portfolio	
Income	-4.3
Expenditure	0.7
Funding	4.0
Net income/cost	0.4
Halsey Garton portfolio	
Dividend	-1.6
Net interest margin	-2.7
Net income	-4.3
Total net income	-3.9
Capital expenditure	**103.1**

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 during 2017/18 reduced the expenditure budget as at 31 March 2018 to £1,651.9m. Table App1 shows the original and updated income and expenditure budgets by service, including the overall net expenditure the council plans to meet from reserves.

Table App1: 2017/18 updated revenue budget as at 31 March 2018

	MTFP income £m	Carry fwds & internal movements £m	Approved income £m	MTFP expenditure £m	Carry fwds & internal movements £m	Approved expenditure £m	Final net expenditure budget £m
Economic Growth	0.0	0.0	0.0	1.0	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	-10.8	-109.9	460.8	3.4	464.1	354.2
Children's Services	-10.6	-0.4	-11.0	112.8	4.5	117.3	106.3
Commissioning & Prevention	-62.5	5.3	-57.2	97.2	-6.2	91.0	33.8
Schools & SEND	-109.9	7.9	-102.0	175.2	-9.1	166.1	64.1
Delegated Schools	-415.8	11.7	-404.1	414.6	-10.5	404.1	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	-0.2	22.4	9.4
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
Emergency Management	-0.1	0.0	-0.1	0.6	0.0	0.6	0.5
Surrey Fire & Rescue Service	-12.2	-0.4	-12.6	44.0	0.4	44.4	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	1.7	91.0	83.0
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	3.9	58.4	57.7
Communications	0.0	0.0	0.0	2.1	-0.2	1.9	1.9
Finance	-1.4	0.0	-1.4	4.2	-0.1	4.1	2.7
Human Resources & Organisational Development	0.0	0.0	0.0	4.3	-0.4	3.9	3.9
Information Technology & Digital	-0.4	0.0	-0.4	12.9	-0.4	12.5	12.1
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	-0.5	1.8	1.5
Procurement	0.0	0.0	0.0	0.9	0.0	0.9	0.9
Property	-8.5	-0.3	-8.8	30.1	0.1	30.2	21.4
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**	**-772.4**	**1,681.5**	**-20.6**	**1,660.9**	**888.6**
Savings to be identified				**-9.0**		**-9.0**	**-9.0**
Total	**-792.0**	**19.6**	**-772.4**	**1,672.5**	**-20.6**	**1,651.9**	**879.6**
General funding sources							
Government grants	-150.1	0.9	-149.2			0.0	-149.2
Local taxation	-718.6		-718.6			0.0	-718.6
Grand total	**-1,660.7**	**20.5**	**-1,640.2**	**1,672.5**	**-20.6**	**1,651.9**	**11.8**

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 County 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 during 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 March 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	12.7	-12.7	0.0	0.0	16
February movements	-0.1	0.1	0.0	0.0	8
March movements					
Internal service movements	-12.3	12.3		0.0	58
Total Quarter 4 movements	0.3	-0.3	0.0	0.0	82
Final approved budget	**-1,640.1**	**1,651.9**	**0.0**	**11.8**	**275**

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

App 5. Table App 3 shows the year end gross revenue position supported by general balances.

Table App 3: 2017/18 Revenue budget position as at 31 March 2018

	Full year final budget £m	Full year outturn £m	Full year variance £m
Income:			
Local taxation	-718.6	-723.1	-4.5
Government grants	-733.8	-706.2	27.6
Other income	-187.7	-226.4	-38.7
Income	-1,640.1	-1,655.7	-15.6
Expenditure:			
Staffing	278.7	275.4	-3.3
Service provision	967.3	984.9	17.6
Non schools sub-total	1,246.0	1,260.3	14.3
Schools expenditure	405.9	405.9	0.0
Total expenditure	1,651.9	1,666.2	14.3
Movement in balances	11.8	10.5	-1.3

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 March 2018, Cabinet approved £17.1m draw down of carry forwards, -£62.2m reprofiling and £5.0m net virements. Table App 4 summarises the -£40.1m net movement in the capital budget for the 2017/18.

Table App 4: 2017/18 capital budget movements as at 31 March 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 – Place Development	0.4	
Carry forwards drawdown – Schools Kitchens and other scheme	0.1	
Carry forwards drawdown - Schools third party contributions	0.4	
Total carry forwards drawn down		**17.1**
Reprofiling		
Reprofiling – Property and IT recurring programme	-14.3	
Reprofiling - School Basic Need	-40.8	
Reprofiling – Local Enterprise Partnerships	-5.8	
Reprofiling - Fire	-0.9	
Reprofiling - Super fast Broadband	-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	-1.9	
Adult Social Care	1.8	
Revenue contributions to capital outlay (RCCO) & other grant funding	0.5	
Place Development & Waste - external funding and grants	0.7	
Schools third party contributions	5.0	
Highways safety defects - grant funded	1.5	
Total virements		**5.0**
In year budget changes		**-40.1**
2017/18 updated capital budget		**145.9**

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

Earmarked reserves

App 7. Table App 5 shows the council's earmarked reserves and general balances, including the opening and closing balances for 2017/18 and appropriations to and from reserves to give the opening usable balance on 1 April 2018.

Table App 5: Earmarked revenue reserves as at 31 March 2018

	Closing balance 31 Mar 2017 £m	Agreed support for 2017/18 budget £m	Opening balance 1 Apr 2017 £m	Movement in year £m	Closing balance 31 Mar 2018 £m	Agreed support for 2018/19 budget £m	Proposed carry forwards £m	Opening balance 1 Apr 2018 £m
Revolving Infrastructure & Investment Fund	11.1		11.1	3.9	15.0			15.0
Budget Equalisation Reserve	26.1	-11.8	14.3	4.2	18.5	-4.6	-1.0	12.9
Eco Park Sinking Fund	4.4		4.4	2.3	6.7			6.7
Insurance Reserve	7.7		7.7	1.4	9.1			9.1
Investment Renewals Reserve	5.0		5.0	0.0	5.0			5.0
General Capital Reserve	5.3		5.3	0.1	5.4			5.4
Street lighting PFI Reserve	4.4		4.4	-0.7	3.7			3.7
Economic Downturn Reserve	9.2		9.2	0.0	9.2	-9.2		0.0
Economic Prosperity Reserve	2.5		2.5	0.0	2.5	-2.5		0.0
Equipment Replacement Reserve	0.7		0.7	1.6	2.3			2.3
Business Rate Appeals Reserve	1.3		1.3	2.3	3.6	-3.6		0.0
Interest Rate Reserve	1.0		1.0	0.0	1.0	-1.0		0.0
Total earmarked revenue reserves	**78.7**	**-11.8**	**66.9**	**14.5**	**81.4**	**-20.9**	**-1.0**	**59.5**
General Fund Balance	**21.3**		**21.3**					**21.3**

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

Debt

App 8. During 2017/18, the Accounts Payable team raised invoices totalling £320.9m (up from £237.2m as at 31 December 2017 and compared to £299.2m during 2016/17). The amount outstanding on these invoices was £41.3m of gross debt as at 31 December 2017 (down from £45.1m at 31 December 2017). Table App 6 shows the age profile of the council's debts. The overdue debt is the gross debt less those balances not immediately due (i.e. less than 30 days old). Overdue debt as at 31 March 2018 is £24.0m (the same as at 31 December 2017). Non care related debt includes £0.9m with clinical commissioning groups and £2.9m with other local authorities.

Table App 6: Age profile of the council's debts as at 31 March 2018

Account group	<1 month £m	2-12 months £m	1-2 years £m	+2 years £m	Gross debt £m	Overdue debt £m
Care debt – unsecured	5.5	4.4	1.9	3.6	15.4	9.9
Care debt – secured	0.4	2.5	2.2	4.3	9.3	8.9
Total care debt	**5.8**	**6.9**	**4.1**	**7.9**	**24.7**	**18.9**
Schools, colleges and nurseries	1.3	0.1	0.0	0.0	1.5	0.2
Clinical commissioning groups	3.8	0.6	0.2	0.0	4.7	0.9
Other local authorities	2.5	2.4	0.2	0.3	5.4	2.9
General debt	3.9	0.7	0.3	0.2	5.0	1.2
Total non-care debt	**11.5**	**3.9**	**0.7**	**0.5**	**16.6**	**5.1**
Total debt	**17.3**	**10.8**	**4.8**	**8.4**	**41.3**	**24.0**

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

App 9. Adjusting the overdue debt to take into account those balances not secured (on property) produces the overdue, unsecured debt figures shown in Table App 7.

App 10. Changes introduced under the Care Act mean it is no longer possible to place a charge on an individual's property resulting in a rise in the level of unsecured debt (as this debt would previously have been reported as secured). Over the quarter to 31 March 2018 overdue, unsecured debt fell by £2.1m.

Table App 7: Overdue, unsecured debt summary as at 31 March 2018

	2017/18 Q4 £m	2017/18 Q3 £m	2017/18 Q2 £m	2017/18 Q1 £m	2016/17 Q4 £m	2015/16 Q4 £m	2014/15 Q4 £m
Care related debt	9.9	12.0	7.6	8.0	8.9	10.8	8.9
Non care related debt	5.1	3.6	4.2	3.9	3.8	7.6	4.2
Total	**15.0**	**15.6**	**11.8**	**11.9**	**12.7**	**18.4**	**13.1**

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

App 11. The council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for March 2018 was 17 days (compared to 22 debtor days averaged over the whole of 2016/17).

App 12. The Director of Finance has delegated authority to write off irrecoverable debts in line with financial regulations. During the quarter to 31 March 2018, the Director of Finance wrote off 217 such debts with £235,796 total value, of which £201,340 (85%) is care related and £34,456 (15%) is non care related debt.

Treasury management

Borrowing

App 13. The council borrows money to finance the amount of its capital spending that exceeds receipts from grants, third party contributions, capital receipts and reserves. The council must demonstrate its costs of borrowing are affordable, prudent and sustainable under the Prudential Code. Table App 8 shows movements in the council's long term borrowing.

Table App 8: Long term borrowing as at 31 March 2018

	£m
Debt outstanding as at 1 April 2017	397.2
Loans raised	0.0
Loans repaid	0.0
Current balance as at 31 March 2018	**397.2**

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

App 14. The weighted average interest rate of the council's long term debt portfolio is 4.1% as at 31 March 2018.

App 15. The Treasury Strategy, approved by County Council in February 2018, continued the policy of internal borrowing and where necessary, to borrow short term to meet cash flow liquidity requirements. Table App 9 shows the council's short term borrowing activity in 2017/18.

Table App 9: Short term borrowing as at 31 March 2018

	£m
Debt outstanding as at 31 March 2017	115
Loans raised	473
Loans repaid	-395
Current balance as at 31 March 2018	**193**

Note: All numbers have been rounded - which might cause a casting difference
Figures are for Surrey County Council only and do not include Surrey Police Authority

App 16. The weighted average interest rate of the council's short term external debt is 0.5% as at 31 March 2018. The council also manages cash on behalf of Surrey Police (£18m as at 31 March 2018) which it accounts for as temporary borrowing.

Authorised limit and operational boundary

App 17. The prudential indicators control the council's overall level of borrowing. They comprise the authorised limit and the operational boundary as outlined below. Table App 10 shows the council's borrowing against its prudential indicators.

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

Table App 10: Borrowing against the authorised limit and operational boundary as at 31 March 2018

	Authorised limit £m	Operational boundary £m
Gross borrowing	608	608
Limit / boundary	1,274	872
Headroom	**666**	**264**

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

Capital Financing Requirement

App 18. The Capital Financing Requirement (CFR) represents the council's underlying need to borrow for a capital purpose. The council must ensure that, in any one year, net external borrowing does not, except in the short term, exceed its estimated CFR for the next three years. Table App 11 shows the council's position against the estimated CFR, as reported to the County Council in February 2017. As at 31 March 2018, the council shows a net borrowing position (total borrowing for any purpose) of £608m. The difference between net borrowing and the estimated CFR reflects the council's under borrowed position as a result of the strategy to maximise internal borrowing.

Table App 11: The council's position against the estimated CFR

Capital Financing Requirement			Net borrowing
2017/18	**2018/19**	**2019/20**	
£1,144m	£1,155m	£1,125m	£608m

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

Maturity profile

App 19. The council sets limits for the maturity structure of borrowing in accordance with the Prudential Code. Table App 12 shows the actual amounts as at 31 March 2018, excluding balances invested on behalf of Surrey Police.

Table App 12: Maturity structure of the council's borrowing as at 31 March 2018

	Upper limit	Lower limit	Actual
Repayable in 1 year*	50%	0%	34.7%
Repayable in 1-2 years	50%	0%	0%
Repayable in 2-5 years	50%	0%	1.6%
Repayable in 5-10 years	75%	0%	0%
Repayable in 10-15 years	100%	25%	0%
Repayable in 15-25 years	100%	25%	1.0%
Repayable in 25-50 years	100%	25%	62.7%

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

Early debt repayment and rescheduling

App 20. The council has not made early repayments or rescheduled debt in 2017/18.

Investments

App 21. The council has had an average daily level of investments of £68.7m over the whole of 2017/18 and had an average of £79.3m during 2016/17. This reflects the change in policy in the treasury strategy to reduce the amount of cash held during the year

App 22. The council invests its temporary cash surplus exclusively through the use of money market funds. Other investment facilities are available, including five brokers, directly with counterparties through the use of call accounts or direct deal facilities, or with the Debt Management Office (DMO). No new fixed term deposits have been agreed during 2017/18 due to the low cash balances held and the need to maintain high liquidity. Table App 13 shows activity for the financial year to 31 March 2018.

Table App 13: Deposit activity for the year up to 31 March 2018

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

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

App 23. The weighted average return on all investments the council received in the year to 31 March 2018 is 0.21%. This compares to the 0.21% average 7-day London Interbank Bid Rate (LIBID) for the same period. Taking quarter four in isolation the council achieved 0.30% compared to 0.36% LIBID. Returns are currently below the benchmark, mainly due to cash being held overnight for reasons of liquidity, against the “7 day” investment benchmark.

Table App 14: Weighted average return on investments compared to 7-day LIBID

	Average 7-day LIBID	Weighted return on investments
2017/18, quarter 4	0.36%	0.17%
2017/18, quarter 3	0.38%	0.17%
2017/18, quarter 2	0.11%	0.18%
2017/18, quarter 1	0.11%	0.21%
2016/17 total	0.20%	0.38%
2015/16 total	0.36%	0.54%

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