Budget Monitoring – September 2012

Summary

In February, the Council set a very tough 2012/13 budget and five year Medium Term Financial Plan (MTFP). It has always recognised these challenging savings would not be easy to achieve and the Council currently forecasts overspending on services totalling +£0.9m, or 0.05% of the total budget.

Emerging activity and volume pressures, particularly within Adult Social Care, Children's Services and Highways budgets have caused the forecast overspending. However, these pressures are not preventing the Council from meeting its financial plan and services continue to apply stringent management action plans to meet their budget targets.

As a part of its sound and robust budget planning process, the Council made a budget provision of £9.0m as a risk contingency against new pressures and not achieving savings. £4.6m of this contingency is earmarked as a precaution against the costs of increased demand for services. This is currently forecast to total £4.3m in Adults Social Care and Children's Services, and £0.3m on additional road maintenance. These services continue to make every effort to deliver a balanced budget. However, there is a clear risk of them not achieving this. As a part of the Council's multi-year approach to financial management, the remaining contingency of £4.4m would be used to support the 2013/14 budget. After allowing for this, the net forecast underspending is -£3.5m, or 0.2% of the total budget.

The council's MTFP set a target of £71.1m of savings and efficiencies for the 2012/13 financial year. The quarter 2 position includes a review of all efficiencies for consistency, achievability and to determine whether the savings are recurrent. This review identified a recurrent shortfall of £5.1m. Impact of this shortfall on next year's budget is being assessed and will be presented in December.

The capital programme for the next five years was set at £683m in the MTFP and the updated budget for 2012/13 is £146m. Such schemes include a number of uncertainties on timing and cost. However the current in-year budget forecast is to underspend by -£2.3m. This is caused by delivering schemes earlier than anticipated and can be funded by bringing forward future year's capital budgets.

Recommendations:

That Cabinet:

1. notes the projected revenue budget; (Annex 1 – Section A) and the Capital programme direction; (Section B)
2. notes and endorses work to agree business rates pooling with Surrey districts and boroughs; (para 68-75)
3. confirms that government grant changes are reflected in directorate budgets; (Section C)
4. notes further quarter 2 financial information -treasury, debts reserves and balances. (section 1 – Section D) and the Chief Financial Officer's delegated authority to write off £305,203 of debts this quarter (para 107)

Revenue Budget - Month End Financial Position – September 2012

1. Table A1 shows the current full year funding and net expenditure budgets for council services, and schools, along with the forecast outturn.

Table A1 – Updated income and expenditure budget and year-end forecast

	Year to Date Budget	Year to Date Actual	Full Year Budget	Remaining Forecast Income and Spend	Outturn Forecast	Forecast Variance
	£m	£m	£m	£m	£m	£m
Funding:						
Council Tax (ten instalments)	-290.0	-290.0	-580.0	-290.0	-580.0	0.0
Government Grants (incl Formula Grant)	-466.7	-441.1	-934.3	-492.2	-934.3	0.0
Total Income	-756.7	-731.1	-1,514.3	-782.2	-1,514.3	0.0
Net Revenue Expenditure:						
Service Income	-63.9	-69.5	-129.5	-65.0	-134.4	-4.9
Service staffing costs	152.0	146.5	304.6	155.0	301.5	-3.1
Service non-staffing costs	421.5	415.1	840.1	429.5	844.6	4.5
Schools - net expenditure	264.8	251.1	529.6	278.5	529.6	0.0
Total Net Revenue Expenditure	774.4	743.2	1,544.8	798.0	1,541.3	-3.5
Increase(-)/ decrease in reserves & balances	**17.7**	**12.1**	**30.4**	**24.9**	**28.0**	**-3.5**

2. In setting the MTFP and also in managing the council's finances on a multi-year basis, the council planned to use reserves of £31.4m to fund the 2012/13 financial year.

3. The updated revenue budget for the 2012/13 financial year is £1,544.8 million. Annex 1 Section C provides more details on this along with changes to government grants and inter-directorate virements. Table A2 shows the updated net revenue budget for each directorate and also schools. The net budget includes both the service income and expenditure identified in table A1.

Table A2 – Directorate net revenue budgets, expenditure and forecasts

	Year to Date Budget £m	Year to Date Actual £m	Full Year Budget £m	Remaining Forecast Spend £m	Outturn Forecast £m	Forecast Variance £m
Adult Social Care	167.9	166.3	335.8	172.7	339.0	3.2
Children, Schools & Families	146.7	141.8	295.6	153.4	295.2	-0.4
Schools	264.8	251.1	529.6	278.5	529.6	0.0
Customers & Communities	37.0	36.4	74.0	37.5	73.8	-0.2
Environment & Infrastructure	62.7	58.6	131.0	73.3	131.9	0.9
Change & Efficiency	42.7	39.8	87.5	46.4	86.2	-1.3
Chief Executive's Office	6.9	7.0	14.1	7.0	14.0	-0.1
Central Income & Expenditure	45.7	42.2	68.2	24.7	67.0	-1.3
Net Service Expenditure	**774.4**	**743.2**	**1535.8**	**793.5**	**1536.7**	**0.9**
Risk contingency	0.0	0.0	9.0	4.6	4.6	-4.4
Net Revenue Expenditure	**774.4**	**743.2**	**1544.8**	**798.0**	**1541.3**	**-3.5**

4. Currently Adult Social Care and Environment & Infrastructure are predicting overspends. Offsetting these overspends are Children, Schools and Families, Customers & Communities, Change & Efficiency and Central Income & Expenditure. This leads to a forecast service overspending of £0.9m.

5. The council set aside a Risk Contingency of £9.0m and this will be earmarked to offset additional pressures. In addition to the demand and volume pressures within the Adult Social Care services totalling £3.2m, and the increased number of child protection cases within the Children's Service totalling £1.6m (Children, Schools and Families directorate overall position is -£0.4m underspent) , there is a forecast overspending of £0.3m on road maintenance. Any remaining contingency would be used to support the 2013/14 budget, which based upon the current forecast would be £4.4m. This would lead to an overall net underspend of -£3.5m.

Adults Social Care: (Current Forecast: is an overspend of +£3.2m or +0.9%, an increase in overspend of £0.5m)

6. The directorate is predicting to be overspent by +£3.2m at year end. This represents an increase of £0.5m from the August position. The Older People Services forecast is +£3.0m overspend, People with Physical & Sensory Disabilities (PSD) predicts +£1.2m overspend, +£6.2m for People with Learning Disabilities (PLD) ; Mental Health +£0.1m overspend, offset by -£4.0m other expenditure and -£3.4m overachievement in income.

7. The Adults Social Care (ASC) budget is coming under considerable pressure, leading to the forecast that an overspend of around £3.2m is likely at year end. These pressures can be summarised as follows:

   - all of the £3.8m underspend carried forward from 2011/12 has now been used to fund new pressures
   - there are growing demographic pressures increasing within the main client groups, including in particular transition from children's services and PSD
   - staff recruitment difficulties and the need for complex partnership working have slowed delivery of some savings
   - there is in-year pressure, not budgeted for as yet, to revisit the 0.5% inflationary increase for standard prices of provision

8. A comprehensive review of savings plans has recently been conducted. This has led to the removal of some high risk savings from the previous month's projections and their replacement largely with temporary one-off measures which will help to contain this year's overspend, but will not solve the problem caused by needing to replace such one off savings in following years.

9. The Whole Systems funding programme is continuing, with an additional £10.2m allocation received in 2012/13, complementing the £7.5m slippage from 2011/12. Joint plans have been agreed with health to spend this money on new projects which should help to reduce pressures on care budgets in the longer term through preventative mechanisms such as telecare and telehealth. The funding will be retained on the balance sheet and drawn down to match expenditure as it is incurred.

10. In addition to the Whole Systems funding, £2.4m of Dept of Health funding allocated to the County Council via the Primary Care Trust (PCT) was received late in 2011/12 and so remained unspent at year-end. As a result of the reduction in this year's forecast savings, it is now proposed that £2m of this funding is drawn down as a contribution towards ASC's wider budget pressures. Every effort will be made to maximise savings in the remainder of the year, which may reduce the amount of Dept of Health (DoH) funding needed for this purpose.

<u>Summary of Management Actions (£7.0m) included in the September projections</u>

11. Forecast Efficiency Savings in the remainder of 2012-13:

- As a result of the reduction in this year's forecast savings it is now proposed that £2m of additional DoH funding is drawn down as a contribution towards ASC's wider budget pressures.

- £1.8m Maximising Income through partnership arrangements. Continued Health Care (CHC) savings of £1.1m have been validated as at the end of September 2012. Based on 2011/12 performance and the backlog of cases still awaiting assessment additional savings are expected, but full year savings have been reduced to £3m because of risks brought about by changes in the health economy and growing numbers of individuals losing CHC with associated backdated payments to health that reduce the net CHC savings the department secures.

- £0.8m Consistent application of the Resource Allocation System (RAS). It is anticipated that, as in past years, a proportion of service users, currently receiving a direct payment, will be identified as needing lower cost packages which will lead to reclaims of surplus balances.

- £0.8m Delays in recruitment of the specialist People with Learning Disabilities (PLD) review team mean that achievement of some Learning Disabilities (LD) Public Value Review (PVR) savings will be delayed. Total savings in 2012/13 are now forecast to be £1m, of which £0.2m of savings had been achieved by the end of September 2012, savings should now pick up as action has been reset to deal with the lack of capacity.

- £0.6m An adjustment has been applied to Older People Home Care projections to account for breaks in service and cessations of support not yet actioned in the computerised Adult Information System. This is in line with prior years' trends.

- £0.5m Further reductions in staffing costs. The current projections include ambitious recruitment plans. An adjustment has been made to account for some potential slippage of those plans.

- £0.3m S256 Attrition. £1.8m of savings were achieved in full as the end of September. A further £0.3m of savings are projected for the remainder of the financial year.

- £0.2m Home Based Care Tender. A retender exercise has been completed by Procurement for 2012-13. This is anticipated to deliver savings as existing packages cease and are replaced by lower cost new services.

12. Total Management Actions (£7.0m), a reduction of £1.6m from the Management Action plans included in the August projections.

Older People: + £3.0m overspend an increase of £0.7m from August

13. The key variances within Older People services are: Nursing and Residential placements (+£2.4m), Spot home based care (+£1.1m), Other Community Services (+£1.0m), In house residential home including day care (+£0.4m) offset by Direct Payments (-£0.9m), Reablement service (-£1.0m).
14. Nursing and Residential placements are predicting an overspend of +£2.4m, primarily due to increased demographic pressures that it has not been possible to absorb within the budget and underachievement against preventative, CHC and RAS savings against these policy lines.
15. Spot home based care pressures (+£1.1m) primarily because MTFP efficiencies in relation to preventative savings are not expected to be fully achieved within the current financial year.
16. Other Community Services (+£1.0m), including respite, day care and transport due to strategic shift as part of the personalisation agenda.
17. In-House residential homes including Day Care (+£0.4m) due to MTFP efficiencies which are being achieved within other areas in Service Delivery.
18. Direct Payments (-£0.9m) primarily due to a reduction in the actual start position of -£0.6m and an overachievement against the demography and inflation efficiencies.
19. Reablement service (-£1.0m) due to a high level of vacancies and delays in the appointment processes.

Physical Disabilities: +£1.2m overspend, an increase of £0.7m from August

20. The key variances within Physical Disabilities are: Direct Payments (+£1.0m), Supported Living (+£0.6m), Nursing spot care (+£0.2m) offset by Nursing and Residential (-£0.5m) and other community care (-£0.1m)
21. Direct Payments (+£1.0m) due to the start position in spot care being higher than budgeted for and a net increase of 79 DP services so far during 2012/13.
22. Supported Living (+£0.6m) due to the start position in spot care being higher than budgeted, together with the under-achievement against preventative and strategic shift efficiencies.
23. Nursing and Residential placements (-£0.5m) primarily due to lower than anticipated volumes of PSD transition clients.

Learning Disabilities: +£6.2m overspend, an increase of £2.2m from August

24. The key variances within Learning Disabilities services are: PLD transition clients (+£2.5m), Supported living spot care (+£1.8m), Residential spot care (+£1.7m), and former s256 clients (+£1.0m), offset by an underspend across other community services (-£0.8m).
25. The overspend of £2.5m for PLD transition clients is due to growing demographic pressures, with increased volumes above those previously anticipated and a number of new high cost packages, which it has not been possible to offset through efficiency measures.

26. Supported Living (+£1.8m) primarily because the start position was considerably higher than budgeted due to increased volumes (in line with the focus on community based provisions as part of personalisation), a net increase of 40 supported living services during 2012/13 and under-achievement against preventative savings.
27. Residential spot care (+£1.7m) mainly due to forecast under-achievement against strategic supplier review, preventative, LD PVR and strategic shift efficiencies.
28. Former S256 PLD clients (+£1.0m) largely due to anticipated under-achievement against MTFP efficiencies.
29. Other Community Services (-£0.8m), particularly on day services and respite care, due to a lower start of year position than originally forecast and a higher proportion of savings expected to be achieved against these service areas than was budgeted.

<u>Mental Health:-£0.1m overspend, an increase of £0.2 since August</u>

30. The £0.1m overspend on Mental Health is due to increased activity in community services, primarily Direct Payments and Supported Living. The increase of Direct Payments from last month is largely due to reclassification of carers' services offset by a decrease in Other Community Care.

<u>Other expenditure: -£4.0m underspend, an increased underspend of -£0.4m from August</u>

31. The key reasons for the underspends are:
    - underspend on core establishment including on-costs due to ongoing workforce reconfiguration and delays in recruitment (-£1.8m), and
    - funds brought forward from 2011/12 being used to offset pressures within the main client group budgets (-£1.7m),
    - underspend on supporting people due to achievement of the Supporting People efficiency through the renegotiation of contracts in respect of volume and unit costs ahead of the four year plan (-£0.5m).

<u>Income: -£3.4m surplus, an increased surplus of £3.0m from August</u>

32. The key variances within Income are: Other income (-£4.8m), offset by S256 fees and charges (+£0.3m) and joint funded care packages (+£1.1m).
33. Other Income (-£4.8m), partly due to (£2.7m) of Additional Dept of Health funding and other historic balance sheet funding to help offset wider pressures and unbudgeted refunds for clients who are determined as CHC with a backdated effective date.
34. Section 256 fees & charges (+£0.3m) caused by reductions in S256 user numbers and offset by reductions in expenditure as a result. Joint funded care package income (+£1.1m), mainly caused by a reduction in the number of joint funded clients due to ongoing reviews of historical joint funding arrangements which usually result in clients being determined as either 100% CHC or 100% social care.

Children, Schools & Families: (Current Forecast: Underspent by -£0.4m or -0.1%, -£1.4m decrease since the end of August).

35. The projected year end revenue position for Children Schools and Families is for an underspend of -£1.2m of which -£0.8m relates to Dedicated Schools Grant (DSG) grant funded expenditure and the remaining -£0.4m to council funded services.

36. The main reason for this reduction is additional full year grant funding for Early Years which is unlikely to be spent this financial year and the identification of one off staffing underspends due to vacancies in the service of -£1.4m overall. The position in children's services has improved slightly with the anticipated overspend falling by -£0.4m. This is however offset by an increase in the forecast for Services to Young people by +£0.3m to a small overspend position of +£0.1m compared to -£0.2m last month.

Children's Services

37. The projected overspend has reduced a little from last month - by £0.4m to £1.6m. As previously reported the main reason for the overspend is an increase in the number of children on child protection then requiring services. Despite this volume increase, the service is largely meeting their efficiency targets. The main variations giving rise to the overspend and changes from last month are:

    - Looked After Children and Children in Need, both staffing and care costs - these budgets are under pressure due to the impact of increased referral rates and the need to cover statutory work with agency staff in vacant positions. Although care projections have reduced slightly this month, there is still a significant pressure +£0.9m relating to the costs for Looked After Children in proceedings across all areas. Staffing projections have increased this month, and there continues to be a significant pressure +£0.3m in the Child Protection and Proceedings Teams across all areas.

    - Agency Placements - the projected overspend for both children with disabilities and care has decreased slightly this month by £0.2m to +£1.7m as a result of a net reduction of 14 places this month. This budget remains volatile with an overall increase of 17 placements so far this year despite management action to avoid high cost placements.

    - Fostering and Adoption Allowances - Although there is a small reduction in the projected overspend this month this remains at +£0.7m due to increased fostering allowances.

    - Safeguarding Services - the overspend remains broadly unchanged at +£0.4m representing an efficiency saving that is unlikely to be realised in full due to the increased number of child protection cases.

38. Overall service pressures are being offset by underspent staffing budgets across the service (-£0.5m) and by the yet to be allocated funding within central budgets (-£1.4m). This funding will be allocated in the next couple of months, but will not alter the overall forecast outturn position.

<u>Schools & Learning</u>

39. The anticipated underspend for Schools and Learning has increased significantly this month: from -£0.3m on DSG funded items to -£0.8m and previously balanced on county funded items to a -£1.3m underspend.

40. The main reason for this shift is the emergence of one off variances of -£1.4m in Early Years largely due to:

- An increase of £1.4m full year funding for the new entitlement for nursery provision for two year olds will not be fully utilised this financial year. Numbers will only increase from September, giving a part year spend in this first year of implementation, against full year funding. An underspend of -£0.6m is expected as a result.
- Unused Sure Start Grant from earlier years of -£0.2m will need to be utilised this year.
- Building a world class workforce bursaries will not be fully utilised leading to an underspend of -£0.2m
- Staffing vacancies due to the reorganisation have resulted in a one off underspend of-£0.3m.

<u>Services for Young People</u>

41. A very small overspend of +£0.1m is forecast for the service.

<u>Strategic Resources</u>

42. The main budget item under the Strategic Director's control is the residual balance of carried forward underspend from 2011/12. The Directorate needed to review their 2012/13 efficiencies to ascertain the level of transitional funding from the carry forward which may be required. However, overall the Directorate are doing well against achieving their efficiencies, so all of the carry forward may not be required this financial year. The total carry forward was £7.4m of which £3.6m was transferred to the Child Protection Reserve, the remainder has been allocated to areas such as school broadband, kitchen IT, transitional arrangements to implement the national programme of work around Troubled Families and joint commissioning with Health partners. However, a balance remains unallocated and it’s estimated that £0.7m will remain uncommitted and unspent. This is currently helping to balance the overall year end position

Customer & Communities (Current Forecast: -£0.2m underspend or -0.3%, a decrease in underspend of £0.2)

43. The directorate is currently projecting an underspend of -£0.2m against a budget of £74.0m. This is predominantly due to additional income expected in Registration as a result of volume and price increases and staffing savings across the directorate.

Environment & Infrastructure (Current forecast: +£0.9m overspend or +0.7%, an decrease in overspend of £0.3m

44. The directorate is forecasting a +£0.9m overspend. The Environment service is predicting an -£0.1m underspend, Highways are predicting an +£0.6m overspend and Economy, Planning and Transport are predicting an +£0.5m overspent. Offsetting these overspends is an -£0.1m underspend in other Directorate costs.

45. Economy, Planning and Transport are predicting an +£0.5m overspent. Local bus services are expected to overspend by +£0.3m, primarily due to the need to replace services previously operated by Countryliner The Concessionary Fares scheme, which reimburses travel costs for elderly and disabled passengers, is currently expected to overspend by +£0.2m against a budget of £7.7m. Costs have been estimated using the new 2012/13 reimbursement rate and 2011/12 patronage numbers. The actual cost this year will depend on patronage which could be influenced by a number of factors, and this will be kept under review.

46. The Local Sustainable Transport Fund (LSTF) staff costs are projected to overspend by +£0.1m. The costs of employees working on LSTF schemes (eg designing schemes) can be recharged to the grant. The MTFP assumes a recharge of £1.2m in 2012/13. Following a review of schemes expected to be progressed this year, the actual recharge is expected to be lower.

47. The Highways service budget is predicting an +£0.6m overspend at the end of the financial year. Within this there is a projected shortfall in income and recharges totalling +£0.4m, which is partly caused by lower than expected charges to utility companies undertaking streetworks. These shortfalls are expected to be offset by staffing underspends due to current vacancies following the Directorate restructure, although these are currently being recruited and are a one-off saving. An overspend on road maintenance of +£0.3m, due to additional minor repairs.

48. The Environment service is currently forecasting an overspend of +£0.1m at the end of the financial year. This is primarily due to the anticipated cost of specialist advisors working on the waste PFI contract variation. Waste disposal costs are dependent on a number of variables including waste volumes and treatments throughout the year. The planned contract variation may also have cost implications although these will not be known until later in the financial year.

49. The above pressures are offset by a number of underspends (-£0.2m) across the Directorate including staffing, where an underspend of £0.4m is expected following recruitment to vacant posts and temporary appointments being made to progress projects through the year.

Change & Efficiency (Current forecast: -£1.3m underspend or -1.5%, an increase in underspend of £0.7m from the previous month)

50. Overall, the Change and Efficiency revenue budget is projected to underspend by -£1.3m for the year consisting of underspends in Property (-£0.6m), Human Resources and Occupation development (HR and OD) (-£0.3m), Finance (-£0.2m) and other minor variations (-£0.2m). The main reason for this is a new saving of -£0.6m on the utilities budget within Property which is explained in more detail below.

51. There is expected to be a saving on the utilities budget (-£0.6m). This is based on the estimated energy prices (from October) through the Laser contract. This saving is due to two key factors - the procurement activity which expects to deliver a reduction in electricity prices and a lower increase in gas prices than originally expected. It is also due to the capital investment where new boilers and smart metering gives us greater control over our usage. The second half of the year sees the heaviest consumption and so the volumes are subject to weather conditions. The Energy Team are preparing three forecasts based

on a mild, medium and cold winter to identify the possible budget pressure and these will be reported next month.

52. Within Property, there is expected to be a significant saving on the Carbon Reduction Commitment budget (-£0.9m). Following a review of data, it is now felt that there is not much scope for the Commission to levy fines against the Council, and that the cost of allowances for the current year will not reach the levels previously expected. This underspend is offsetting overspends within the department (+£0.9m) due to a number of factors, including the loss of income following the liquidation of a tenant (-£0.1m) and an increase in responsive repairs & maintenance (+£0.7m) following the heavy rainfall during the summer.

53. An underspend of -£0.3m is expected within HR & OD and Finance primarily as a result of holding vacancies prior to department restructures, with a number of vacancies now being recruited to following implementation.

54. An underspend of -£0.2m within the Transformation team relates to a delay in recruitment of the Smarter Working Managers within the Transformation Team. As a part of the multi-year approach to managing finances a carry forward request will be proposed for the balance of this budget to cover the expenditure on these posts from April to October in 2013.

55. The budget for Change and Efficiency for 2012/13 includes £7.9m of efficiency savings. All of these savings are currently expected to be met, although there is a risk resulting from the Public Value Review savings in Property.

Chief Executives Office (Current Forecast: -£0.1m, no change since previous month)

56. The overall projection for the directorate is underspent by -£0.1m against a total revenue budget of £14.1m. The directorate is managing a large pressure within Legal through the careful management of staff vacancies and early achievement of efficiencies within Policy and Performance.

57. Legal and Democratic Services are forecasting an overspend of £0.3m due to the expected continuation of high levels of complex Child Protection cases in 2012/13. Management action is being taken to minimise the impact. Underspends in other departments, in particular within Policy, Performance & Audit due to current staff vacancies partially offset this pressure to result in the net predicted budget position.

Central Income & Expenditure (Current Forecast: -£1.3m underspend or -2%, an increase in underspend of £0.9m)

58. The full year forecast for the Central Income and Expenditure budget is an under spend of -£1.3m. This is an increase of £0.9m from the forecast in August. The most significant reason is a lower Minimum Revenue Provision (MRP) charge than estimated. This is because of the 2011/12 capital programme underspent resulting in less capital expenditure being funded from borrowing than anticipated.

59. The budget for interest on short term investments is based on assumptions around available cash balances and interest rates. Although interest rates have not risen, cash balances are higher than forecast and it is expected that the council will receive interest income of +£0.2m in excess of the budget. In addition, a provision is made in the budget for interest to be paid to schools on their balances. With continuing low interest rates this is unlikely to occur leading to an underspending of -£0.2m.

60. Expenditure on Redundancy and Compensation is currently on budget, and there have been 69 new cases approved this year against 138 assumed in the budget - an increase of 7 from August. Expenditure on this budget going forward depends on the decisions and outcomes of service restructures and also the possibility of some people being re-deployed. Therefore the number of cases may increase in future months so this budget will continue to be closely monitored.

Staffing Costs

61. Table A1 above shows the council's total full year budget for staffing is £300.9m, with expenditure to the end of September 2012 of £146.5m.

62. The council employ three categories of paid staff. Contracted staff are employed on a permanent or fixed term basis and are 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 are employed through an agency with which the council has a contract. The use of bank and agency staff enables managers to manage short term variations in demand for services or vacancies for contracted staff.

63. A degree of flexibility in the staffing budget is good, as is some staff turnover, which allows new ideas and thinking into the workforce from other organisations. The council aims to incur between 88% and 95% of its staffing costs from contracted staff, depending on the particular Directorate service needs. The current level of 92% has been stable for most of the current year.

64. Table A3 shows the staffing expenditure for the first six months of the year against budget. This is then analysed between the categories of staff.

Table A3 – Staffing costs to end of September 2012.

	Budget £m	Actual £m	%	Variance £m
Contracted		134.7	92%	
Agency		7.1	5%	
Bank		4.7	3%	
Total Staffing Cost	152.0	146.5		-5.5

65. The favourable current variance of £5.5m is due to a combination of vacancies in the process of being filled, vacancies being held unfilled prior to restructures and a more economical mix of staffing grades being employed than budgeted.

66. In setting the budget, the council based the staffing cost estimate on 7,700 full time equivalent (FTE) staff. Table A4 shows that there are 7,266 contracted FTEs in post at the end of September.

Table A4: Full Time Equivalent by directorate

Directorate	Sept FTE	Aug FTE
Adult Social Care	1,866	1,834
Children Schools & Families	2,491	2,464
Customer and Communities	1,474	1,476
Environment & Infrastructure	485	467
Change & Efficiency	774	782
Chief Executive Office	176	178
Total	**7,266**	**7,201**

67. There are 278 “live” vacancies, for which active recruitment is currently taking place. The remaining vacancies are either filled by agency and bank staff on a short term basis or not being actively recruited to at present.

Table A5- full time equivalents in post and vacancies

	Sept FTE	Aug FTE
Budget	7,700	7,700
Occupied contracted FTE	7,266	7,201
“Live” vacancies (ie: actively recruited)	278	263
Vacancies not occupied by contracted FTEs	221	236

Business rates pooling

68. The Coalition Government’s proposed business rates retention system will allow councils to form a pool to share their business rates income. In Surrey all of the district and borough councils will pay a tariff, while the county council (as with all other county councils) will receive a top-up. The system of tariffs and top ups aims to redistribute business rates funding within local government and provide some incentive for councils to grow their business rates base.

69. A component of the business rates retention system is a safety net, which supports councils (or pools) whose income falls by more than 7.5% - 10% (not yet specified) below their funding baseline. A levy on disproportionate growth in councils’ (or pools’) income from business rates will fund the safety net. The county council, as a top-up authority, would not be subject to the levy. Individually, district and borough councils in Surrey would be subject to a very high levy rate of around 85% - 90%. However, if the district and borough councils pool with the county council, then the overall shared levy rate drops to around 55%.

70. The members of a pool determine how its funds are distributed. Provided overall business rates income grows in real terms in Surrey, then pooling will retain more money from business rates within the county area. Calculations commissioned by Surrey Treasurers' Association from LG Futures indicate that at 0.5% real growth each year, the pool's income would be about £3m higher than it would have been if the councils had not pooled.

71. Officers are developing a pooling agreement for the first year (2013/14) only. The arrangement proposes that no member of the pool would be worse off than they would have been if they had acted individually (subject to affordability from the pool's income). We expect the councils involved to refine and develop the pooling agreement during 2013 to take a longer term perspective on maximising the funding available to Surrey authorities and enhancing economic development locally.

72. A complicating factor is the volatility of local business rates income. There is a risk that overall business rates income in some Surrey district and borough councils declines in real terms so they would have received money from the safety net, but the overall loss to the pool is insufficient to trigger a safety net payment to the pool. In this instance each council would share the pool's income in proportion to the amount they would have received had they not been a member of the pool.

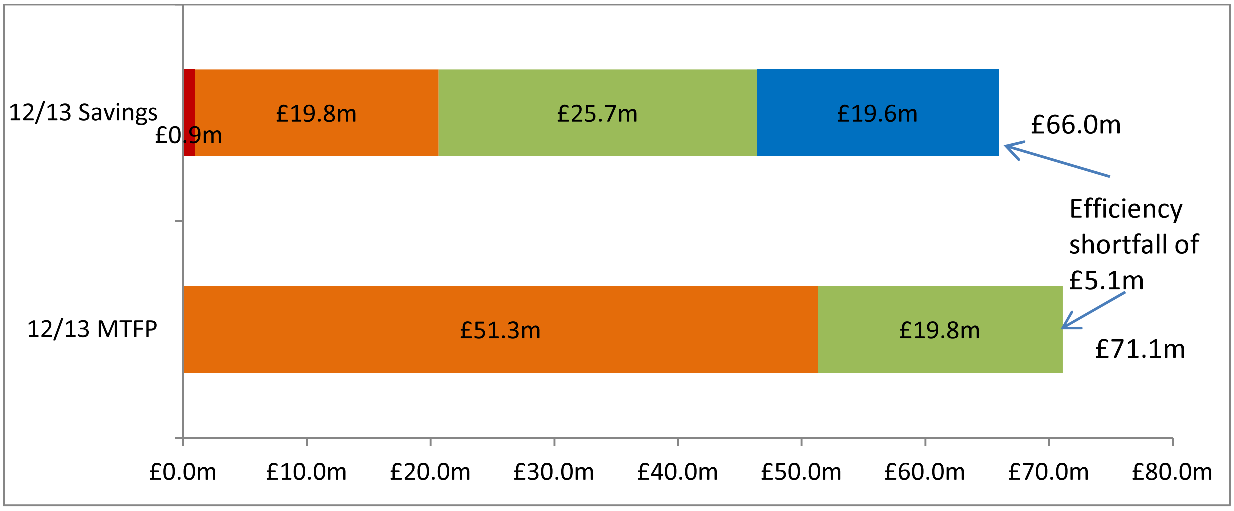
73. The chief executive and s151 officer from each council joining a pool needs to sign the pooling agreement and return it to the Department for Communities and Local Government (CLG) by 9 November 2012. CLG reserves the right to consider the affordability of the whole rates retention system in determining whether to approve a pool.

74. Councils will have 28 days from the date of the provisional local government settlement date to withdraw from the pool (in which case the pool dissolves) or to continue as a pool. On dissolution, pool members revert to their own individual tariff, top-up and levy status.

75. Cabinet is asked to consider and endorse the proposal to join a Surrey business rates pool.

Efficiencies

76. For the current year the council has a savings target of £71.1m, which was set **out in the M**TFP. The current forecast is for £66.0m of these to be achieved, although £0.9m of this is classed as a red risk and difficult to achieve.



77. Analysis of efficiencies shows that a gap is emerging. Strategic Directors have committed to closing the gap and will deliver all of their £19.8m amber savings to add to the £25.7m green savings and £19.6m already delivered. Also there is £0.9m of E&I efficiencies relating to contract reviews.

Adult Social Care

78. A comprehensive review of savings plans has recently been conducted. This has led to the removal of some high risk savings from the previous month's projections and their replacement largely with temporary one-off (£9.3m) measures which will help to contain this year's overspend, but will not solve the problem caused by needing to replace such one off savings in following years.

Children Schools & Families

79. A number of challenging savings targets in 2012/13 are no longer possible. Savings through restructuring of Schools & Learning of £0.5m have not proved possible due to the need to create a structure to meet increasing demand from demographic growth. The £0.8m saving by outsourcing some preventative services is not being pursued as planned in 2012/13. Savings by managing transport contracts of £0.4m will not be achieved. Schools and Learning had set aside a contingency of £2m in order to meet any demographic growth pressures in year £1.5m of which is effectively being used to meet these costs of managing demand.

Environment & Infrastructure

80. A comprehensive review of performance against efficiency targets is under way. At this stage a number of shortfalls are expected, primarily in respect of contract cost savings, recharge of staff costs to the Local Sustainable Transport Fund grant, and the cost of concessionary fares where increased patronage has impacted on costs. In future years planned savings from parking income are not now expected to be made.

Customer & Communities

81. Fire & Rescue Service is showing a shortfall against the call handling efficiency due to the estimated net saving from the Isle of Wight contract is less that the planned two year efficiency savings. However, estimated additional costs are likely to be lower than expected, increasing contribution once the operation is established. Furthermore, the contract price is set to increase by 4% each year, increasing the contribution in future years.

82. There are significant savings of £1.4m for 2013/14 which are forecast as red or amber of which £1m is within Fire linked to property rationalisations and changed working practices. The Fire& Rescue Service is reviewing its MTFP efficiencies and will be proposing alternatives.

Capital Budget - Month End Financial Position – September 2012

83. In agreeing significant capital investment as part of the MTFP for 2012-17 in February 2012, the Council demonstrated its firm long term commitment to stimulating economic recovery in Surrey. The total capital programme is £683m over the 5 year MTFP (2012/17) period, with £146m being planned in 2012/13. Whilst it is good to make long term plans, flexibility to changing circumstances is necessary to recognise that the current environment for all public services is complex and fast changing. This was recognised when the cabinet approved that £27.8m of the 2011/12 capital budget should be brought forward into the current capital programme (2012/17) to support this further capital investment.

84. On a scheme by scheme basis the budgets include the funding brought forward for projects continuing from 2011/12. With all large capital programmes there will inevitably be some in-year variation through changes to the timing of some spend and through successful delivery of efficiencies. Due to these risks, there is a corporate adjustment of £9.5m, leading to a forecast over-delivery this year on the capital budget.

85. Table B1 shows an overview of the current year's capital budget, spend and forecast by directorate.

Table B1- 2012/13 Capital budget

	Revised Full Year Budget £m	YTD Actual £m	Committed £m	Apr - Sept YTD & Committed £m	Sept - Mar Remaining Forecast £m	**Full Year Forecast £m**	**Full Year Variance £m**
Adult Social Care	**1.7**	0.1	0.8	0.9	0.8	**1.7**	**0.0**
Childrens, Schools & Families	**5.9**	5.8	0.2	6.0	-0.7	**5.3**	**-0.6**
Schools Basic Need	**32.0**	10.6	4.0	14.5	14.8	**29.3**	**-2.7**
Customers & Communities	**5.4**	1.4	0.1	1.5	1.4	**3.0**	**-2.5**
Environment & Infrastructure	**52.7**	20.4	13.6	34.0	16.6	**50.6**	**-2.1**
Change & Efficiency	**47.8**	14.9	6.1	21.0	30.8	**51.8**	**4.1**
Chief Executive's Office	**10.2**	0.0	0.0	0.0	2.2	**2.2**	**-8.0**
Corporate adjustment	**-9.5**	0.0	0.0	0.0	0.0	**0.0**	**9.5**
Total	**146.1**	53.1	24.8	77.9	66.0	**143.9**	**-2.3**

86. The School's Basic Need Programme is projecting to underspend by £2.7 million in the current financial year. This represents savings achieved through the tender process for the demountable programme, and from a reducing the programme where some elements are no longer required. In addition, there have been delays to two of the schemes due to OFSTED inspections resulting in the implementation of projects having to be put back. Of this saving, £2.0m has been achieved through the tendering process for the Demountables programme, both within the School's Basic Need and School's Projects budgets.

87. The Fire & Rescue Service vehicle and equipment replacement and mobilising control schemes are currently underspent by £2.5m. These schemes are multi-year and require to be rephased over the scheme life. The service will request a reprofiling of this underspend in due course.

88. An underspend on the council funded element of the Walton Bridge project of £1.1m is anticipated this financial year, due to the Department for Transport (DfT) making additional grant funding available this financial year. This means that the Council's contribution will now be required later in the life of the scheme. In addition, the capital budget for pay and display parking is expected to underspend by £0.3m. Only schemes in Farnham and Woking are expected to progress this financial year. There is also an expected underspend in Developer funded schemes of £1.0m. This includes schemes funded from S106 developer contributions which form part of the Local Sustainable Transport Fund project. Following the re-profiling of grant agreed with the Department for Transport, this will be spent in future years. Offsetting these underspends, there is an overspend of £0.3m in Highways maintenance due to work done over and above the current programme this year.

89. There is a projected overspend on the capital budget with Change & Efficiency of £4.1m for the year. There is a projected overspend on the capital maintenance programmes where a decision was taken to bring forward capital maintenance works from future years to enable a reduction in the burden on responsive maintenance in the future. There have been delays to some projects for various reasons which are resulting in further underspends in some areas, such as Portesbury School where the consultation process has resulted in a delay in agreeing the final project, the Cobham development which cannot be carried out until the private developer has completed their project and the Linton Lane Youth Service where a suitable site has to be found and agreed with the service before the project can be implemented.

90. Part of the Modern Worker revenue budget has been allocated to increasing the number of laptops that have been provided as part of the desktop refresh. This has enabled many more members of staff to work more flexibly and contributed to a more mobile workforce. The laptops are more expensive than the alternative equipment, and therefore an additional contribution of £1.5m has been made to the Equipment Renewal Reserve (ERR) to cover this cost. Normal revenue contributions have been increased slightly this year, to cover some other additional purchases that have been required around the existing network, but there will be sufficient money with the ERR at the end of the year to cover all of the projected expenditure.

91. The Adults Social Care Infrastructure Grant will not be spent this year. A review of system requirement for ASC is now being carried out to determine programme requirements and therefore capital spend in this area next year.

92. The award of a contract to replace the SWAN network with a Surrey-wide Public Sector network has now been approved by Cabinet. In order for the network to be up and running for next year, there will be a significant amount of investment required in building and equipping the network for this year. This will lead to savings in revenue expenditure in future years. The approach was recommended following review of options available in relation to the central equipment required. All other programmes and projects are currently on target and expected to be delivered in line with the current spend profile.

93. The Chief Executive Office has responsibility for delivering the superfast broadband initiative. The Cabinet has committed to ensuring that access to superfast broadband is available to all business and residential premises in Surrey. In addition to this the Surrey Public Sector Network project will focus on broadband access for Public Sector and third sector bodies.

94. Cabinet approved the preferred bidder in July and the contract was awarded in September. Detailed planning has commenced, but not completed, with the contractor clarifying the likely profile of expenditure from 2012 to 2014. Currently the estimate is that £2m of expenditure is anticipated in 2012/13, with the remaining £18m spent over 2013/14 & 2014/15. Cabinet have approved the establishment of a Joint Operation Centre (JOC), based at County Hall, to implement the contract. It is anticipated that the costs of the JOC (approx. £0.6m for 2 years) will be funded from the £1.3m provided by BDUK.

Government grants and budget revenue budget virements

Updated Budget

95. The Council's 2012/13 revenue expenditure budget was initially approved at £1,512.7 million. Subsequently the cabinet approved the use of reserves built up in 2011/12 to augment this. This approval increased the budget to £1,527.3m. In addition to grant changes in quarter 1 and July, DSG carry forwards and academy conversions and other minor movements in August, the budget has increased following receipt of the further grants in Children, Schools and Families. These changes are summarised in table C1.

Table C1: Movement of 2012/13 revenue expenditure budget

	Council Tax £m	Formula Grant £m	Government Grants £m	Reserves £m	Total £m
Original MTFP	580.0	148.6	767.3	16.8	**1,512.7**
Previous changes					
Q1 changes			0.9	14.6	**15.5**
July changes		1.0	1.8	-1.0	**1.8**
August changes			11.1		**11.1**
Previous changes		1.0	13.8	13.6	**28.4**
September changes:					
Troubled families			1.1		**1.1**
EIG –Early years education to disadvantaged			1.4		**1.4**
Minor changes			1.2		**1.2**
September changes:		**0.0**	**3.7**	**0.0**	**3.7**
Updated budget – Sept 2012	**580.0**	**149.6**	**784.8**	**30.4**	**1,544.8**

96. When the Council agreed the 2012-2017 MTFP in February 2012, government departments had not determined the final amount for a number of grants. Services therefore made an estimate of the likely level of grant. The general principle agreed by Cabinet was that any changes in the final amounts, whether higher or lower, would be represented in the service's expenditure budget.

97. The Government grants changes totalled £3,623,899.

- Increased early intervention grant (EIG) to provide early education for disadvantage (£1,441,000), Troubled families grant (£1,129,400),

- Fire pension grant further drawdown (£452,830)

- There had been a number of minor grants that depend upon volume and this has increased the schools budget by £160,580.

- Children, School & Families minor grant movements (£450,000 – +18 Asylum leaving care funding, and reduced for Academy conversions (-£7,611) and capital revenue school grants (-£2,300).

98. The Cabinet is asked to note these changes grant changes and approve that they are allocated to the relevant services.

99. In controlling the budget during the year, budget managers are occasionally required to transfer, or vire, budgets from one area to another. In most cases these are administrative or technical in nature, or of a value that is approved by the Chief Finance Officer. Virements above £250,000 require the approval of the Cabinet Member. There was no virements over this threshold this month.

100. Table C2 below shows the updated revenue budget that includes the changes in government grants and virements since the beginning of the year.

Table C2: 2012/13 updated revenue expenditure budget – September 2012

	Original MTFP Budget £m	2011/12 Carry Forwards £m	Gov't Grants £m	Virements £m	Full Year Updated Budget £m
Adult Social Care	331.5	3.8	0.0	0.5	335.8
Children, Schools and Families	289.3	3.9	3.4	-1.0	295.6
Schools	518.9	0.0	11.5	-0.7	529.7
Customers and Communities	70.6	1.8	0.7	0.9	74.0
Environment and Infrastructure	125.6	2.3	1.8	1.3	131.0
Change and Efficiency	84.7	2.3	0.0	0.5	87.5
Chief Executive's Office	13.7	0.0	0.0	0.3	14.0
Corporate Projects	1.5	0.0	0.0	-1.5	0.0
Central Income / Exp	68.1	0.4	0.0	-0.3	68.2
Service Revenue Expenditure	1,503.9	14.5	17.4	0.0	1,535.8
Risk Contingency	9.0	0.0	0.0	0.0	9.0
Total Revenue Expenditure	**1,512.9**	**14.5**	**17.4**	**0.0**	**1,544.8**

Quarter 2 Financial Information

101. The section compiles treasury summary, debt information and Updates the earmarked reserves and general balances.

Table D1: Usable reserves

	Balance 31 March 2012 £m	Movement £m	Balance 30 September 2012 £m
Schools' balances	-49.8	-3.5	-53.3
Earmarked reserves	-104.6	-13.7	-118.3
Revenue grants unapplied	-19.2	0.3	-18.9
Capital grants and contributions unapplied	-66.7	-45.7	-112.4
Total Usable Reserves	**-240.3**	**-62.6**	**-302.9**

Debt

102. At the end of the second quarter of 2012/13 the Accounts Receivable team had raised invoices totalling £94.0m for the financial year 2012/13.

103. Table D2 shows the age profile of the council's care, and non-care related debt.

Table D2: Further information on debts

Account Group	**<1 Month £m**	**2-12 Months £m**	**1-2 Years £m**	**+2 years £m**	**Total £m**	**Overdue Debt £m**
Care debt - unsecured	3.6	1.9	1.5	2.6	9.6	6.1
Care debt - secured	0.4	2.9	1.9	2.6	7.8	
Total Care	**4.0**	**4.8**	**3.4**	**5.2**	**17.4**	**6.1**
General debt	5.2	2.2	0.3	0.3	8.0	2.8
Property	0.2	0.1	0.1	0.1	0.5	0.2
Total Non-care Debt	**5.4**	**2.3**	**0.4**	**0.4**	**8.5**	**3.0**
Total Debt	**9.4**	**7.1**	**3.8**	**5.6**	**25.9**	**9.1**

104. The amount still outstanding of these invoices was £25.9m of gross debt at 30 September 2012, which is a reduction of £5.0m from the same point in 2011. The gross debt is adjusted to take into account those balances not immediately due (i.e. less than 30 days old), or collectable (i.e. secured on property). This produces the figures for net debt, which is shown in table D3.

Table D3 –Overdue debt summary as at 30 September 2012

	2012/13 Q2 £m	2012/13 Q1 £m	2011/12 Q4 £m	2010/11 Q4 £m	2009/10 Q4 £m
Care Related Debt	6.1	5.9	6.1	6.8	6.1
Non Care related debt	3.0	3.5	3.0	3.9	3.6
Total	**9.1**	**9.4**	**9.1**	**10.7**	**9.7**

105. The overall trend is for overdue debt to be falling from £9.4m at the end of September 2011 to £9.1m at the end of September 2012. An important aspect of this reduction in overdue debt is the amount of care related debt secured on property. The council has focused on increasing debt secured against property and this has risen from £5.9m in March 2010 to £7.8m in September 2012.

106. The council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for September was 25 days.

107. The Chief Finance Officer has delegated authority to write off irrecoverable debts in line with financial regulations. This quarter (Q2 2012/13), 311 such debts have been written off with a total value of £305,203, of which £266,737 is care related and £38,466 is non care debt related.

TREASURY MANAGEMENT

Borrowing

108. The Council borrows money to finance the amount of our capital spending that exceeds receipts from grants, third party contributions, capital receipts and reserves. The Council must also demonstrate that the costs of borrowing are affordable, prudent and sustainable under the Prudential Code.

Long-term Borrowing	**£m**
Total debt outstanding as at 1 April 2012	305.2
Loans raised	0.0
Loans repaid	0.0
Current balance as at 30 September 2012	**305.2**
Borrowing requirement for the year	**N/a**

109. Due to low interest rates earned on cash balances held until spent (referred to as the "cost of carry"), there has been no borrowing to meet the Capital Financing Requirement (CFR) during the 2012/13 financial year. Any capital expenditure has been met from cash reserves.

110. The Council is able to undertake temporary borrowing for cashflow purposes, but has not required any during this financial year. The Council also manages cash on behalf of Surrey Police Authority (£14.4m as at 30 September 2012) which is classed as temporary borrowing.

Authorised Limit / Operational Boundary

111. The following prudential indicators control the overall level of borrowing:

The **Authorised Limit** represents the limit beyond which borrowing is prohibited. The limit reflects the level of borrowing which, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing needed with headroom for unexpected cashflow. 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.

Borrowing against the authorised limit and operational boundary is shown below.

	Authorised Limit £m	**Operational Boundary £m**
Gross Borrowing	320	320
Limit / Boundary	662	602
Headroom	342	282

Capital Financing Requirement

112. 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 the estimated CFR for the next three years. The Council's position against the estimated CFR, as reported to the County Council in March 2012 is shown below. The current borrowing position shows a net position of £7.6m more in borrowing than we hold in short term deposits. This is due to a large amount of unspent grant received early in the year, and a high level of cash carried forward from 2011/12.

CFR £m			**Net Borrowing £m**
2012/13	**2013/14**	**2014/15**	
572.0	629.4	653.2	7.6

Maturity Profile

113. The Council has reduced its exposure to large fixed rate loans falling due for refinancing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code, as shown in the table below:

	Upper Limit	Lower Limit	Actual
Repayable in 2012/13 (1year)	50%	0%	4.5%
Repayable in 2013/14 (1-2 years)	50%	0%	21.3%
Repayable from 2014/15 to 2016/17 (2-5 years)	50%	0%	0.0%
Repayable from 2017/18 to 2021/22 (5-10 years)	75%	0%	3.0%
Repayable from 2022/23 to 2026/27 (10-15 years)	75%	0%	0.0%
Repayable from 2027/28 to 2036/37 (15-25 years)	75%	0%	2.2%
Repayable from 2037/38 onwards (25-50 years)	100%	25%	69.0%

Early Debt Repayment and Rescheduling

114. There has been no early repayment or rescheduling in 2012/13.

Investments

115. The Council had an average daily level of investments of £281m throughout 2011/12, with a projection of £300m for 2012/13. The balance of funds managed on behalf of schools within this figure stood at £60m at the end of September.

116. Cash is invested on the money markets through one of the Council's four brokers, or directly with counterparties through the use of call accounts, money market funds or direct deal facilities. A breakdown of activity during the year to 30 September 2012 is given below:

Timed Deposits	**Number**	**Average Value £m**
Deals using a Broker	24	7.1
Direct deal facilities	0	0
Deals with DMO	96	51.8
Call		**Limits £m**
- Active call accounts	2	80.0
- Active money market funds	5	100.0

117. The weighted average return on all investments received to the end of the second quarter in 2012/13 is 0.6%. This compares favourably to the average 7-day London Interbank Bid rate (LIBID) of 0.42% for the equivalent period. The comparison is shown in the following table:

	Average 7-day LIBID	Weighted Return on Investments
Quarter 1	0.45%	0.68%
Quarter 2	0.40%	0.53%
2012/13 total	**0.42%**	**0.60%**
2011/12 total	0.48%	0.73%

Iceland

118. The key local issue of concern in relation to the treasury strategy is the Council’s £20m deposits with two failed Icelandic banks, Glitnir and Landsbanki. Of this £20m, the Council’s exposure is £18.5m with the balance attributable to Surrey Police Authority. The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.

119. To be prudent, the Council had earmarked balances of £9.5m on the assumption that a proportion of the deposits will not be recovered, although this may be revised based upon latest estimates in the guidance from CIPFA.

120. On 28 October 2011, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. These decisions are now final and there is no further right of appeal.

121. The current position is that 50% of Landsbanki and over 84% of Glitnir deposits have been repaid, with expected recover rates now at approximately 100% for both banks (subject to exchange rate fluctuations). The balance owed on each deposit is shown in the table below.

Counterparty	**Period**	**Principal £m**	**Rate**	**Principal Repaid £m**	**Principal Outstanding £m**
Glitnir	364	5.0	6.25%	4,192	0.8
Glitnir	366	5.0	6.20%	4,193	0.8
Landsbanki	732	10.0	5.90%	4,992	5.0