ITEM 5

SURREY COUNTY COUNCIL

CABINET

DATE: **31 JANUARY 2012**

REPORT OF: **DAVID HODGE, LEADER**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR CHANGE & EFFICIENCY**

SUBJECT: **REVENUE AND CAPITAL BUDGET 2012/13 TO 2016/17**

KEY ISSUE/DECISION:

For Cabinet to make recommendations to the County Council on the revenue and capital budget for 2012/13 to 2016/17 and on the level of the council tax precept for 2012/13.

DETAILS:

INTRODUCTION

1. This report proposes the Medium Term Financial Plan (MTFP) 2012-2017 that Cabinet has developed at its workshops between September 2011 and January 2012. The MTFP period (2012-2017) covers five years, matched to the corporate strategy and builds directly upon the current MTFP (2011-2015) approved by Full County Council on 8 February 2011.
2. This report:
   - presents integrated revenue and capital strategies for the five-year period 2012/13 to 2016/17;
   - presents the Chief Finance Officer's report to the full County Council on the robustness and sustainability of the estimates and the adequacy of the reserves the budget provides; and
   - proposes a council tax requirement for 2012/13 and a 2.99% rise in the level of council tax precept to fund this.
3. Following the agreement of a budget by the Full County Council on 7 February 2012, detailed service budgets will be prepared and submitted to the Cabinet on 27 March 2012 for approval. These will link to individual directorate's strategic plans that will also be approved at the 27 March 2012 Cabinet meeting.
4. The Provisional Local Government Finance Settlement of 8 December 2011 covered the second year of the two-year settlement announced in December 2010. The Government proposes to introduce a new system of local government finance from 2013/14. While some aspects of the proposals have emerged, several important factors are still unknown. This makes the uncertainty in the figures proposed in the four years covering 2013/14 to 2016/17 relatively high and subject to change as the financial environment becomes clearer.

The Corporate Strategy

5. The ‘Leading the Way’ Cabinet report of July 2009 set out the framework for developing the County Council’s budget strategy. This proposed the movement from a one-year budget cycle to a four-year budget. The Cabinet recommended developing Directorate Strategies that covered the same period and set out strategy, priorities and resources for the four-year period. In February 2011 the County Council approved the MTFP 2011-2015.

6. In 2011 the Council developed the *One County, One Team* Corporate Strategy over the five years 2012 – 2017. It has developed its budget and financial strategy alongside this. It will complete the detailed five year MTFP 2012 - 2017 for Cabinet to consider on 27 March 2012.

7. *One County, One Team* provides a clear vision and sense of direction for the Council’s staff as well as a signpost for residents, businesses and partner organisations over the next five years.

8. *One County, One Team* has six areas the Council must focus on and get right to achieve the vision:

    - **Residents:**
      Individuals, families and communities will have more influence, control and responsibility;
    - **Value:**
      We will create public value by improving outcomes for residents;
    - **Partnerships:**
      We will work with our partners in the interest of Surrey;
    - **Quality:**
      We will ensure the highest quality and encourage innovation;
    - **People:**
      We will develop and equip our Officers and Members to provide excellent service; and
    - **Stewardship:**
      We will look after Surrey’s resource responsibly.

9. The Council will know it has achieved these objectives, if at the end of the five years:

    - Surrey residents consider that the Council provides good value for money;
    - the Council is in the top 25% of performance for every service area;
    - unit costs are within the lowest 25% of all county councils, and
    - a significant majority of staff report they are proud to work for Surrey County Council.

10. The Council’s budget and financial strategy and MTFP fully support the Council’s aims to improve outcomes for residents and businesses as it moves towards its vision of being among the most effective councils in England by 2017.

11. In preparing its budget proposals for 2012/13 and future years, the Council considered how the budget supports its objectives and other key strategies, either through appropriate targeted investment or other measures.

Financial Strategy

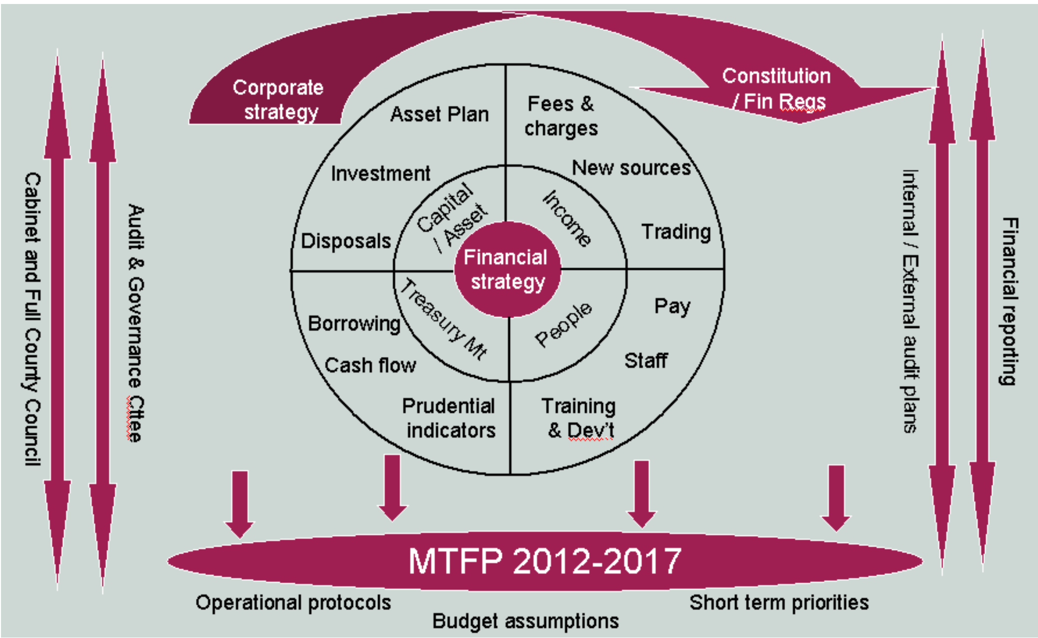
12. The financial strategy provides the strategic framework and overarching corporate financial policy document within which the Council's finances are constructed and managed, ensuring sound governance and best practice.

13. The specific long term drivers of the financial strategy pertinent to the current MTFP (2012-17) proposals are:

- to keep to a minimum any additional call on the council taxpayer through continuous driving of the efficiency agenda;
- the need to develop an income strategy that reduces the Council's reliance on council tax and government grant income. These sources of funding are under threat of gradual erosion yet Council is currently heavily dependent upon them;
- preserve the Council's financial resilience through holding a minimum of £30m in general fund unallocated reserves. This is an increase on previous strategies reflecting the increasing volatility and uncertainty of funding sources and spending pressures - a situation expected to continue for several years and;
- continue to maximise our investment in Surrey to:
    - improve direct services for vulnerable adults and children;
    - maintain and improve transport infrastructure to support business;
    - develop the workforce and Members and;
    - wherever possible, strive to invest in assets to generate annual income streams.

14. The financial strategy links a number of other strategies and essential governance arrangements as illustrated below.

Figure1: Financial Strategy in Context



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15. It also links directly to the six components of *One County, One Team* Corporate Strategy 2012 – 2017 as summarised below:

1. **Residents:**
   Over the medium term, the Council's strategy is to minimise the tax levels on both residents and businesses, encouraging individual philanthropy and social responsibility. The Council strives to enable informed and effective engagement in its financial planning through conversations with residents, businesses and other interested stakeholders in a timely manner.

2. **Public value:**
   The Council will ensure it understands activity levels as well as the cost base, cost drivers and income potential, to inform cost reduction and charging policies. The Council will share its understanding transparently with operational managers and key stakeholders. Being familiar with benchmarking and trend performance and opportunities to improve, the Council will focus on cost reduction and good, long term forecasting. The Council will invest in the future and promote economic growth through innovation and constant challenge in how services are delivered.

3. **Partnerships:**
   The Council will ensure co-operative and effective working with other public bodies, including the voluntary sector, through clear objectives, responsibilities and accountabilities that are agreed, understood and recorded by all parties. The Council will implement community budgets where appropriate.

4. **Quality:**
   The Council will maintain best practice financial governance, in terms of both policy and practice. The Council will maintain an unqualified audit opinion and value for money conclusion on its accounts each year.

5. **People:**
   The Council will determine clear objectives for employees and Members underpinned by investment in appropriate financial training. This will help employees and Members achieve the financial objectives. The Council will ensure that employees' skills and equipment are equal to keep pace with the financial challenges faced.

6. **Stewardship:**
   The Council will ensure the Council continues to produce a balanced and sustainable budget where income equals expenditure and an appropriate level of financial resilience is assured. The Council will make adequate provision to cover financial risks and ensure key assumptions are 'stress tested' (for public benefit, political acceptability and practical achievability).

16. The financial strategy will remain largely stable to 2017, whilst annual budget assumptions, operational protocols and financial drivers may alter in the short term and each will be reflected in the annual budget planning process through the MTFP as relevant. These actions will make the MTFP the practical means by which this strategy is translated into reality.

Scenario Planning 2012/13 to 2016/17

17. In setting the MTFP 2011–2015, the Council assessed the impact of the public expenditure constraints introduced by the Comprehensive Spending Review (CSR) covering 2010-2014, in October 2010 and 2010's local government

finance settlement and assumed a £75m annual reduction in government grants to the Council by the 2014/15 financial year. Annex 1 summarises the national economic outlook, which highlights how the economic outlook and future forecasts have changed in the last year.

18. After including estimated budget pressures over the four years 2011/12 to 2014/15, the Council set itself a target of reducing annual revenue expenditure by £173m in the same period. The Council is on target to meet its 2011/12 savings plan to reduce the budget by £59m annually.

19. Scenario planning for 2012/13 to 2016/17 built on the sound base of the MTFP 2011-2015. Planning work initially analysed a range of outcomes against different funding and service pressure assumptions. Cabinet members and senior officers rigorously reviewed, assessed and validated the assumptions to determine the predicted scenario for medium term financial planning purposes. These reviews and assessments confirmed the reliability of the assumptions made in the MTFP (2011-2015), but recognised the new circumstances, prospects and financial arrangements the Council will face over the remainder of the MTFP (2011-2015) period and the extension to 2016/17. Annex 1 provides a summary of the national economic outlook.

20. The predicted assessment of new spending and funding pressures gives rise to additional budget pressures of £92m over the MTFP period 2012 – 2017. Adding to this the relevant savings targets already included in the remaining three years of the current MTFP (£114m over the three years 2012/13 to 2014/15), the savings required by 2016/17 now total £206m.

21. As part of the budget development process, the Council has shared the stages of the budget construction more widely than in previous years. Cabinet members, senior officers and select committees have all been involved in confidential workshops and all members have received a number of financial planning update briefings.

22. The Council has also undertaken a robust, open, informal budget consultation process with stakeholders as outlined from paragraph 124.

FINANCIAL POSITION 2011/12

Revenue Position 2011/12

23. The revenue forecast outturn for 2011/12 at the end of December 2011 projects an underspend on services of £6m. Cabinet will receive details of this in a separate report on this agenda.

24. The 2011/12 underspend is largely due to services implementing efficiency programmes early and bringing forward savings scheduled for later years. The Council's anticipation of the need for a significant programme of savings began in 2010/11 and its successful implementation of the programme to date, puts the Council on a strong footing to respond to future years' demands for cost and performance improvements against rising demand.

25. The MTFP (2012-2017) is predicated on the current and each future year's budgets being balanced at the year-end. During the year services have identified those areas where budgets are to be carried forward to fund on-going budget pressures in the 2012/13 financial year. The cabinet has approved £15.2m of revenue budget carry forwards to be set aside in the Budget Equalisation Reserve and this will be used to support the 2012/13 budget. This includes the risk contingency of £8.0m that the council provided against the non-achievement of savings targets, which will not be required in 2011/12.

26. After allowing for the carry forward of budgets associated with specific schemes that have been approved but have been delayed, the Council's available general balance is forecast to be £30m at the end of 2011/12. Further consideration on use of balances and reserves will be necessary as the level of government grants receivable becomes clearer and also at the end of the financial year related to judgements on provisions needed for bad and doubtful debts, Icelandic banks and waste disposal.

Capital Position 2011/12

27. The forecast in-year variance on the 2011/12 capital budget is an underspend of £29.6m against the approved revised budget of £174.8m (£146.7m in the MTFP (2011-2015) increased for projects carried forward and spending supported by new grants). The principal reason for the underspend is the reprofiling of project spend. To complete these projects, the Council will need to carry forward the funding for these schemes to future years. This decision is proposed as part of the budget monitoring report (separate item on this agenda) and if approved, the amounts will be added to the capital budget for 2012 – 2017.

REVENUE BUDGET 2012-2017

Provisional Local Government Finance Settlement

Background

28. The Government announced the Provisional Local Government Financial Settlement on 8 December 2011, covering the second year of the two year settlement it announced in December 2010. The provisional settlement also included Early Intervention Grant, Learning Disability & Health Reform Grant, Dedicated Schools Grant (DSG) funding for 2012/13, private finance initiative (PFI) grants and capital funding for transport and schools for that year.

29. In October 2011, the Chancellor of the Exchequer announced the Government's offer of a further Council Tax Freeze Grant for 2012/13, again equivalent to a 2.5% increase, or £14m for the Council. However, this offer of grant is for a single year only. It would not support spending on continuing activities in 2013/14 or subsequent years. As such, if the Council accepts the single year grant, it should use it for one off expenditure only.

30. The Department for Communities and Local Government (CLG) hopes to lay the Local Government Finance Report before Parliament on 1 February 2012. The 2012/13 settlement is provisional until Parliament has debated the proposals. Annex 2 provides details of provisional government grant allocations for 2012/13 where known and estimated allocations for the remainder.

31. CLG has allocated a Formula Grant of £149m to the Council for 2012/13. This includes the on-going Council Tax Freeze Grant of £14m (payable for 2011/12 to the end of the CSR period in 2014/15). The Council estimates that it will lose around £4m from 2013/14 due to a further top slice from schools transferring to Academy status. The Department for Education (DfE) will recalculate each local authority's top-slice on a revised basis, which was subject to consultation until 12 January 2012. Authorities will not know DfE's revised calculations until January 2013.

Local Government Resource Review

32. The Government's October 2010 CSR included an announcement of a review of local government funding to apply to the second two years of the CSR period (2010-2014).

33. The Government launched the terms of reference for the local government resource review in March 2011. Its aim was to devise a new funding system for local authorities based on retention of local business rates income. CLG published its initial proposals in a consultation document in July 2011. The Council contributed actively to the resource review.

34. CLG published its response to the consultation feedback in December 2011, outlining more developed proposals. Full details of the proposals are not yet known and will not become clear until much later this year (some details in spring, full details in autumn). The Government plans to pass a Local Government Finance Bill by summer 2012, enabling it to implement changes from 2013/14.

35. In summary, key elements of the proposed new system are:

- the new arrangements will start from April 2013, for the 2013/14 financial year;
- 2012/13 formula grant (including continuation of damping levels) will form the basis for 2013/14 baseline funding figures under the new arrangements;
- in two tier areas, business rates income will split
  districts and boroughs 80%
  counties 20%;
- if an authority's proportion of local business rates is more than its baseline, then it pays the difference to the government (known as a 'tariff');
- if an authority's proportion of local business rates is less than its baseline, then it receives the difference from the government (known as a 'top up');
- all counties, including Surrey, will receive a 'top up';
- all Surrey district & borough councils will pay a 'tariff';
- 'tariffs' and 'top ups' will be indexed to retail price index (RPI), the same index applied nationally for the business rate multiplier;
- indexation gives 'top up' authorities some protection against inflation;
- indexation means the tariff will increase annually by RPI, which brings a financial risk to 'tariff' authorities if local business rates income fails to keep up with RPI;
- CLG intends to reset authorities' baselines no more frequently than every 10 years, this will fix tariffs and top ups for that period and increases authorities' incentives to grow their local business rates;
- as the Government expects total business rates to exceed its planned formula grant funding of local government, it plans to set a fixed proportion of total business rates income that will be retained by local government (the local share) however, the Government can change this proportion;
- local authorities will take their local share of business rates income, the Government will take the remainder and will use this to fund grants to local government; and
- businesses will see no difference in the determination, collection and valuations for business rates.

36. One of the aims of the policy is to strengthen councils' relationships with business and to give councils a greater incentive to support and encourage

local business growth. Under the new arrangements, councils will benefit from business growth expressed through expansion of business real estate. The Government's proposals are likely to result in radical changes in councils' funding. CLG has yet to announce its decisions about several key factors for the new arrangements, which increases the uncertainty inherent in forecasts for 2013/14 and beyond.

Localising Council Tax Benefit

37. The Government's proposals to localise council tax benefit are likely to have a much greater impact on district and borough councils than the County Council, but need consideration in setting out the budget strategy. Currently district and borough councils assess eligibility for council tax benefit and claim the full cost of both the administration and the impact on their Council Tax collection funds. In effect this means the full cost of council tax benefit is funded by HM Treasury.

38. Under the proposals, district and borough councils would receive a single grant equivalent to current spending on council tax benefit in their locality less 10%. The districts and boroughs would be responsible for determining their own criteria for claimants' eligibility for Council Tax benefit. The Government has proposed that the benefit for older people and other vulnerable adults would be protected.

39. The main benefits and risks will fall on district and borough councils, although in two tier areas the Government has suggested districts and boroughs may wish to work in partnership with their county council to develop joint schemes. The main risk to local authorities stems from the grant being capped but council tax benefit remaining demand led.

40. The Government is also considering allowing greater discretion on council tax discounts which could increase the tax base and go some way to addressing concerns. Any changes to localise council tax benefit would be implemented from April 2013.

Overall approach for 2012/13

41. The only change to the provisional grant settlement allocations made by the Government in February 2011 is to include the 2011/12 Council Tax Freeze Grant allocations within Formula Grant. The Government made no change to floor damping. The Government has set the total level of local government Formula Grant funding for 2012/13 at £27.8bn, which represents a 5.1% reduction on the adjusted figure for 2011/12 (£19.3bn and 5.2% excluding fire and police).

42. In 2011/12 Surrey County Council received Council Tax Freeze Grant equivalent to a 2.5% increase in council tax (£14m) as the Council did not increase council tax. As the Government had committed to continue to pay this grant at least until the end of the CSR period – (2014/15), the Council was able to treat this as sustainable funding that could support ongoing revenue spending.

43. In October 2011, the Chancellor of the Exchequer offered a second 2.5% Council Tax Freeze Grant for 2012/13. However, this offer is for 2012/13 only. If the Council accepts the single year grant, it should use it for one-off expenditure only. An immediate consequence of the Council accepting the grant is that it would need to find a further £14m of savings from its ongoing activities in 2012/13.

44. All councils that accept the grant will also be left with a funding shortfall in every year after 2012/13 equivalent to the grant. For Surrey County Council that would amount to £70m over five years.

45. Councils could make up this shortfall through higher increases in council tax or further savings and service reductions. Councils that rely on increases in Council Tax face two challenges:

- First, the Localism Act 2011 enables the Secretary of State to set an upper limit on how much a council can raise council tax by without subjecting the proposal to a local referendum. This facility effectively caps councils' ability to raise council tax in future and might prolong a council's attempts to recover a sustainable financial position. The current proposed rate of council tax increase at which councils must hold a referendum is 3.5%.
- Second, they would need to finance any continuing spending until council tax income returns to a level that can support ongoing activities. Not all councils will be able to draw on the balances needed to finance this transition and those that do might encounter some of the risks related to sound financial standing and resilience. Surrey County Council does not carry reserves to such levels to enable it to finance such a recovery.

46. In balancing its medium term financial plans, the Council made savings of £68m in 2010/11 and is on target to make revenue savings of £60m in 2011/12. By 1 April 2013, the Council will have taken £128m of costs out of its annual budget. Over the five years to 2016/17, the Council has tough but achievable plans to save a further £206m. These actions mean that the Council will have made its annual budget £334m lower than it would have been. Importantly, the Council will need to sustain at least that level of savings for every year thereafter.

47. After detailed scrutiny of options, the Council has planned a £681m capital programme of essential investments over the period 2012 - 2017. The programme includes £244m to fund the statutory obligation to provide new school places and nearly £150m to maintain the county's roads, bridges and other transport infrastructure. As the Council is a floor authority, it receives no Government support for its borrowing. Funding the proposed capital programme relies on nearly £200m of borrowing. All the costs of this fall on the Council's revenue budget. One option for closing the revenue budget gap if the Council accepts the 2012/13 Council Tax Freeze Grant is to forego that borrowing and to cut its capital programme by nearly £200m, or almost 30%.

48. While planning and achieving this unprecedented level of savings the Council is committed to securing and maintaining the quality of its services to Surrey's residents and businesses against a background of steeply rising demands, including those due to:

- increases in Surrey's population aged over 80;
- increases in Surrey's school age population;
- legislative changes affecting vulnerable adults' entitlement and eligibility for support from the Council and;
- the need to support business growth by investing in the county's transport and economic development infrastructure.

49. All of these actions to meet growing demand intensify the ongoing pressure on the Council's revenue and capital budgets.

50. The Council is firmly committed to localism. The Cabinet proposes to take tangible steps to increasing local discretion by increasing:

- Members' individual allocations by 50% to £12,600 (overall cost £350,000);
- local committees' (local highways schemes) revenue allocation to an average of £250,000 (overall cost £1.65m); and
- allocations to local committees for Youth Projects by approximately £63,000 (overall cost £700,000).

In addition, the Council proposes to add £2m to the local highway road maintenance schemes in 2012/13

51. The Leader and Cabinet recognise these are challenging times for council taxpayers but after careful consideration believe the best option is to decline the Government's offer and, instead, increase council tax by 2.99 per cent for 2012/2013. This means the Council can balance its budget every year for the next five years by making £206m of tough but achievable savings, increasing its commitment to localism and making essential investments through a capital programme of £681m.

52. The Council believes this proposal strikes the right balance between investing in the county, supporting Surrey's residents and businesses, delivering efficiencies and keeping council tax increases as low as it can.

Surrey County Council's overall position for 2012/13

53. As reported in last year's budget report, the two year post-CSR settlement built in floor reductions of 14.3% in 2011/12 and 10.4% for 2012/13 (before Council Tax Freeze Grant). As a result, in 2012/13, the Council loses a further £15.6m from its comparable Formula Grant for 2011/12. There have been no further reductions beyond those originally identified for 2012/13 in relation to transfer of schools to academies. DfE intends to recalculate the allocation of the top-slice on a revised basis. The results of the recalculation will not be available until January 2013. Surrey expects to lose funding of around £4m in 2013/14.

Individual grants

54. Last year the Government rationalised a number of grant streams by either rolling them into Formula Grant or DSG (schools), or ceasing the grant provision altogether. Roll-ins in 2011/12 were at a lower level than previous grant provision and in most cases, the provisional allocations for 2012/13 also show a decrease. The grants remaining are listed at Annex 2.

55. No grant figures are available for 2013/14 and beyond, which adds to the degree of uncertainty for most of the MTFP (2012-2017) period.

56. The Government's policy of reducing ring-fencing and other restrictions on grants continues. However, Government departments have not fully relinquished control and 'quasi conditions' remain in some cases.

57. The schools funding settlement for 2012/13 is another one-year only settlement, pending the introduction of major changes to schools funding (still in development) during 2013/14. The Council's 2012/13 DSG (schools) settlement, which is net of funding for academies, is estimated at £613m. This represents a cash freeze per pupil. DfE will not announce the actual DSG (schools) settlement until July 2012 as it will be based on pupil numbers, free school meals, special education needs (SEN) which are provided by the January 2012 pupil census and other data, collected in the coming months.

58. On average, schools will receive a per-pupil cash freeze, unless there are significant reductions in levels of SEN or deprivation amongst their pupils. The Government has set a minimum funding guarantee (MFG) per pupil, which ensures that no school has a cut in its budget of more than 1.5%. In addition to DSG (schools) funding, schools will receive the pupil premium, based on the number of pupils: on free school meals, in service families (HM Forces), or looked-after by the local authority. From 2012/13 the pupil premium will be paid for any child who has been in receipt of free school meals at any time in the previous six years.

Budget planning assumptions

59. The Council's MTFP (2011-15) assumes the Council Tax yield will increase by 2.5% annually through either a direct increase in the level of the tax or the compensating Council Tax Freeze Grant payment.

60. The annual detailed service budget setting started in September 2011. This involved re-visiting the assumptions, pressures and savings included in the MTFP (2011-2015) and projecting forward to 2016/17. Table 1 shows the key assumptions used to prepare the illustrative budgets.

Table 1 Budgetary assumptions 2012/13 – 2016/17

Descriptor	2012/13	2013/14	2014/15	2015/16	2016/17
Pay inflation	1.0%	1.5%	2.0%	2.0%	2.0%
General, non-pay inflation	2.5%	2.1%	2.1%	2.2%	2.2%
Remainder of MTFP 2011-2015 saving programme	-£49m	-£42m	-£23m		
Extra savings needed to meet new service funding and spending pressures	-£23m	-£9m	-£11m	-£23m	-£26m
Allowances for corporate pressures:					
• Revenue impact (borrowing) of the capital programme 2012-17	£1m	£2m	£6m	£8m	£9m
• Treasury management strategy assumed long term borrowing rates	4.4%	4.7%	5.1%	5.4%	5.6%
• One off injection of Invest to save funding	£6.0m				
• Risk contingency of £8m in each year	£8.0m	£8.0m	£8.0m	£8.0m	£8.0m

Note:

- differing percentages apply to contractual inflation
- new service funding and spending pressures includes statutory, contractual and demographic changes.

Update on MTFP pressures and changes

61. In preparing the MTFP (2011-15) the Council anticipated grant loss of £38m over the three years 2012/13 to 2014/15. The provisional settlement for 2012/13 allocates formula grant and specific grants for 2012/13 only. The Council expects the new funding system, following the Local Government Resource Review, will be effective from 2013/14. The Government's proposals

suggest the Council's level of funding in that year will equate to what would have been its Formula Grant allocation, less a small reduction, as we expect the local share to be less than 100%.

62. The Council's financial strategy is to balance its budget in 2012/13 and over the medium term of five years through a mixture of changing service delivery mechanisms, earlier implementation of planned budget reductions and efficiencies and use of reserves. Table 2 below outlines the revenue funding proposals.

Table 2 Revenue funding for 2012-2017 MTFP

Funding	**2012/13 £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**
Council Tax	574.9	591.6	608.8	626.5	645.4
Council Tax Collection Fund Balance	5.3	0.0	0.0	0.0	0.0
Formula Grant	148.6	---	---	---	---
Local Business Rates Income including Top Up	---	142.3	139.5	133.8	138.1
Dedicated Schools Grant	612.6	608.6	608.6	608.6	608.6
Other Government Grants	167.8	160.2	159.4	159.4	160.4
Budget Equalisation Reserves	15.2	0.0	0.0	0.0	0.0
Total	**1,524.3**	**1,502.7**	**1,516.3**	**1,528.3**	**1,552.5**

63. Estimating grant levels for 2013/14 and beyond is problematic, due to the levels of change and uncertainty. A key assumption is that from 2015/16, in spite of its inclusion within the Council's Formula Grant allocation for 2012/13, the Government will remove the council tax freeze grant funding paid in respect of 2011/12. How CLG in full might achieve this reduction is not known, but the Council prudently recognises this risk is in its funding assumptions.

64. There are also some specific risks associated with the proposed new funding system. The local share percentage has yet to be determined by the Government and can be changed by CLG at its discretion. As yet there are no limits placed on such changes. If changes do take place, they could have a material impact on the Council's funding. However, as a top up authority, the Council will receive some protection. CLG has reiterated that it will protect floor funding within authorities' baseline funding levels under the new system. This will offer some protection for the Council. Developments will have to be monitored closely to ensure that this does not change as the detailed system evolves later in 2012.

65. Revisions to budget setting assumptions and review of service spending pressures identified a further net budget pressure of £136m over the period 2012-2017 to add to the £111m identified in the MTFP (2011–15) totalling £246m. Further savings need to be found to meet the anticipated reductions in government funding. Table 3 shows how these occur over the five-year period 2012-2017. Services are continually developing responses to newly identified and ongoing pressures.

66. Strategic Directors have planned responses to scenarios covering a range of further reductions in the Council's funding. Table 3 also analyses the savings

required each year from the original £114m savings required in the last three years of the MTFP 2011-2015 to a revised total of £206m over five years. This includes estimated additional funding of £41m off-set by additional net pressures of £133m to absorb demographic, volume and inflationary changes; making a net increase of £92m.

Table 3 Budget pressures over the five years 2012-2017

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total 12-17
Prior Year MTFP	1,588.7	1524.3	1,502.7	1,516.3	1,528.3	
Changes	-77.1	-0.0	0.0	0.1	-0.0	
Pressures & Changes	84.2	29.5	47.9	34.6	50.9	247.1
Savings & Reductions	-71.5	-51.1	-34.3	-22.7	-26.7	206.30
MTFP Total	1,524.3	1,502.7	1,516.3	1,528.3	1,552.5	

Council tax and precept

67. The Council Tax Freeze grant offered to local authorities for 2011/12 and for the remainder of the CSR period, clearly and practically supported the Government's intention that local authorities keep council tax rises to a minimum for 2011/12 and helped authorities to sustain that for at least the remainder of the spending review period. In the MTFP (2011-2015) the Council had planned to raise council tax on average by 2.5% per year from 2012/13.

68. The Government's offer in October 2011 of Council Tax Freeze grant only to support the single year of 2012/13, means that while the Council could keep Council Tax at the same level of £1,116.36 for band D equivalent properties, it could not sustain its medium term financial plans without either:

- imposing significant Council Tax increases in 2013/14 and several subsequent years; and/or
- making additional, immediate and severe reductions to front line services.

69. The budget report to the Full County Council on 8 February 2012 will include an annex showing the full detail of the precept to each district and borough council and the Council's level of council tax for each valuation band.

70. The Cabinet proposes the Council applies a 2.99% increase in council tax for 2011/12 and 2.5% for the each of the succeeding four years. The anticipated revenue funding this will bring to the MTFP (2012-2017) is as shown in Table 2, above.

71. In 2012/13, funding includes use of earmarked budget equalisation reserves of:

- £8m risk contingency, carried forward from 2011/12; and
- £7.2m to meet pressures falling across 2011/12 and 2012/13.

72. The council tax requirement for 2012/13, totaling £574.9m the purposes of setting council tax is the sum of the Council's estimates of:

- expenditure for the year;
- allowances for contingencies;
- appropriate amounts to raise reserves to meet future expenditure; and

- appropriate amounts to raise reserves to meet previous years' revenue account deficits;

less

- the income it will accrue for the year, other than from precepts; and
- amounts it will draw from financial reserves and balances.

Net revenue expenditure budgets

73. Since September 2011 Cabinet and Strategic Directors have had indicative target budgets based on the funding expected to be available in each year of the MTFP (2012-2017). They have developed strategic directorate plans showing how they would meet those targets taking account of known service pressures and the potential to realise efficiency savings and reconfigure service provision.

74. Directorates have presented proposals to the relevant Select Committees, in October or November 2011 and again in January 2012 for scrutiny, in addition to ongoing consultation throughout the autumn to develop proposals. Directorates have updated the proposals they have presented as new information, either about government funding or service pressures that have emerged.

75. These proposals produce a budget cash limit control total of £1,524.3m for 2012/13 and for subsequent years matched to the MTFP (2012-2017) revenue funding expectations as set out in Table 4.

Table 4 Directorates' cash limit control totals 2012-2017

Directorate	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
Adult Social Care	331.5	326.6	329.2	341.0	357.7
Children Schools & Families	286.8	284.7	289.1	293.2	290.3
Schools	536.6	536.6	536.6	536.6	536.6
Customer & Communities	70.3	67.3	67.1	68.5	70.0
Environment & Infrastructure	124.2	123.2	126.1	125.0	128.5
Change & Efficiency	84.8	81.9	82.5	82.6	85.3
Chief Executive's Office	13.6	15.0	13.8	13.3	13.6
Corporate projects	1.5	1.5	1.5	1.5	1.5
Central Income & Expenditure	75.0	65.9	70.4	66.6	69.0
Total	**1,524.3**	**1,502.7**	**1,516.3**	**1,528.3**	**1,552.5**

76. The budget proposals include the inflation assumptions outlined in Table 1.

77. Services have identified a net total growth of £247m arising from legislative and statutory changes, service volume and cost changes, service improvements and changes to income assumptions. These growth plans are offset by efficiency savings and service reductions of £206m. The main implications are summarised below for each Directorate.

Directorate Budget commentaries

78. Directorates are continuing to develop and test a range of proposals that will enable the Council to meet its budget reduction targets for 2012/13 and beyond. A summary of the proposals, for each directorate, is set out below.

Adult Social Care

79. The Directorate plans to continue its programme of significant management action to transform services to deliver both service priorities and the savings requirements of £111m over the MTFP period. These plans are overseen by an Implementation Board jointly chaired by the Cabinet Member and Chair of Surrey Coalition. The major initiatives include further shifts away from residential care in favour of more imaginative solutions identified through personalisation; further cost prevention through the use of reablement, telehealth and telecare; ongoing procurement savings; a full review of in-house services; and exploration through the pilot already set up of the potential benefits of delivering services through social enterprise models. It is also critical to work jointly with health to attain best value from the new NHS structure as it emerges.

Children's, Schools & Families

80. The Directorate plans to build on its programmes for transforming and modernising services outlined in its public value reviews and the Directorate Strategy, which aims to improve the life outcomes for the most vulnerable young people in Surrey. The total savings required over the five-year period of the MTFP to 2016/17 is £40.7m. The Directorate has some significant changes to make to achieve this savings target. These include effectively managing the market around inflationary pressures; major reviews of all services, but in particular services for young people; decommissioning and recommissioning of services across the Directorate; building on effective partnerships through joint commissioning. The Directorate has been successful in achieving its savings targets over the past three years, with part of this success down to reviewing progress against target on a monthly basis at the Outcomes and Efficiency Board, which includes the Directorate Leadership Team, as well as other corporate colleagues and through weekly Cabinet member briefings.

Customer & Communities

81. The Directorate will deliver savings of £5.2m over the five year planning horizon. The implementation of the Fire Public Safety plan will achieve total savings of £2.3m with savings made from the reconfiguration of fire stations and changes to crewing arrangements. Other efficiency changes including management changes within the Fire service will deliver savings of £0.6m. The implementation of Public Value Review (PVR) recommendations deliver savings of £1.1m, Libraries £0.7m, and Trading Standards £0.4m. Further PVRs are underway for Registration and Heritage and planned for Surrey Arts and Adult Community Learning and therefore further savings may be achievable over the longer term. An increase in income within Cultural services of £0.5m is targeted and will be an ongoing challenge particularly in the current economic climate. The achievement of savings will be monitored throughout the year during regular Cabinet member briefings and quarterly accountability meetings.

Environment & Infrastructure

82. The Directorate plans to make savings rising to £19.3m by the end of 2016/17. Significant items include reviewing existing contracts (£5.2m) to reduce costs

and improve efficiency. Staff costs will be reduced through the One Team organisation review (£2.8m) and through recharging staff costs to the Local Sustainable Transport Fund grant and to expected developer monies (£2.2m). Savings will result from PVRs including highways contracts, road safety and countryside (£2.3m). Waste disposal savings will be made from reduced reliance on external advisors, new approaches to materials recycling and reduced waste minimisation expenditure (£2.3m). Transport savings include the ongoing bus review (£1.1m), concessionary fares (£1.1m) and further bus contract savings (£0.6m). Other efficiencies and budget changes, which have partly been achieved in the current year contribute further savings of £2m. A number of proposals have risks attached to them, for example recovery of staff costs anticipates that further grant funding will be made available through the Government's Local Sustainable Transport Fund. Savings will be monitored during the year by the Cabinet members during regular Cabinet member briefings and quarterly accountability meetings.

Change & Efficiency

83. Savings of £14.5 m will be delivered over the five years by delivering transformational change initiatives indicated by Public Value Reviews. Over the longer term, the Directorate will focus on delivering services and procuring services in partnership to drive efficiencies through economies of scale and securing improved commercial arrangements with suppliers. Partnership working is already helping to achieve savings. The Council's property partnership with Hampshire is expected to deliver procurement and efficiency savings in terms of capital projects, including the delivery of the Schools Basic Need programme, and in relation to maintenance spends. The directorate will continue to develop its business support offer to other organisations. The offer will incorporate transactional services such as payroll, professional consultancy services such as human resources and procurement through to specialised services including treasury and insurance services. Savings will be monitored throughout the year during regular cabinet member briefings and quarterly accountability meetings.

Chief Executive's Office

84. Savings of £1.6m are planned over the budget horizon. In 2012/13 savings of £0.3m will be delivered by the continued implementation of Public Value Review of the directorate, which completes the full planned saving of £2.9m identified by the review. Savings of £0.2m will be made by working in partnership with the Voluntary, Community and Faith Sector (VCFS) to develop an outcomes based commissioning framework for VCFS infrastructure organizations. A further reconfiguration of the directorate will be required in the medium term to deliver estimated savings of £0.8m by 2015/16. Savings will be monitored during regular Cabinet member briefings and as part of the quarterly accountability meetings.

Central Income & Expenditure

85. The Central Income & Expenditure budget provides for items of income and expenditure that are not directly related to service provision, or are as a result of past decisions. It supports the corporate strategy by providing the resources to ensure the council has a sound financial standing both now and in the future through the risk contingency budget and the long term stability of the pension fund. This budget also enables funding for investment in improved services for residents to provide value for money, such as 'Invest to Save' projects.

86. The Invest to Save Fund will enable the continued transformation of services and the release of service efficiencies. The Invest to Save fund will operate by making a loan to services, based upon a business case, to fund the service transformation and generate real cash savings in future. This loan would be repayable over an agreed term. Over the MTFP period, the creation of this fund, leads to a saving of £6.8m. Further savings on reorganization costs and capital financing will bring this total to £14.1m.

Further details

87. Annex 3 summarises directorate's revenue budget proposals to meet the Council's budget and MTFP requirements. Cabinet will receive the final detailed budget proposals for approval on 27 March 2012 after review by appropriate Select Committee.

CAPITAL PROGRAMME 2012-2017

Capital budget planning

88. The Council has received details of government support for capital expenditure in 2012/13. A much higher proportion of the grants received from central government are now without ring fencing compared to previous years. Government departments only announce grant levels for the following year and occasionally two years in advance. This requires the Council to make assumptions on future funding levels. At present Government departments have made no announcements on capital grant levels for 2013/14 onwards. The level of central government grant is assumed to be static throughout the 2012-17 period, with no inflation. This assumption is in line with grant levels announced for 2012/13 compared to the previous year, after taking into account a reduction due to schools switching to academy status. Any deviation in central government grants from current assumptions would impact on the level of borrowing required to fund the capital programme.

89. A key element of the capital programme is the provision of new school places, a statutory obligation on the Council. The estimated scale is that by 2020, Surrey will need an additional 39 forms of entry at primary schools, 4 forms of entry at junior schools and 39 forms of entry at secondary schools, plus a sports hall. The Council will meet this need within a budget of £244m through a managed programme. The programme mixes permanent build, modular build and demountable all with minimal increases to infrastructure, while taking advantage of procurement efficiencies and standardised buildings.

90. Recurring capital programmes includes almost £150m for highways and transportation. Surrey has some of the most heavily used roads in the UK. The current capital budget for roads maintenance is £16m per year. This is enough to keep the state of the roads stable. The current roads maintenance backlog is £400m. The current capital budget for other highways assets is £4m. The backlog for other highways assets is £230m. An additional £2m will be added to the local highway road maintenance schemes from 2012/13.

91. Surrey is leading on highways for a group of seven authorities in the South East and a national highways maintenance efficiency programme. One of the key learning points is Councils can make a procurement saving of about 15% by moving to longer term programming. By following this approach of longer programming from 2013 the Council intends to improve its highways infrastructure and reduce the maintenance backlog.

92. Annex 4 shows details of the capital programme over the MTFP (2012-2017) period, summarised in table 5. The table includes updated and refreshed spend

profiles for continuing schemes from previous years. Business cases for all new schemes have been subject to challenge by the Investment Panel before approval by Cabinet.

93. Table 5 summarises the capital expenditure assumptions up to 2016/17 by category.

Table 5 Capital programme 2012-2017

Scheme category	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2012-17 MTFP Total £m
School places	30	46	52	61	55	244
Recurring programmes	60	58	59	59	58	294
Strategic capital projects	51	46	20	17	9	143
Total	**141**	**150**	**131**	**137**	**122**	**681**

94. Funding for the 2012-17 capital programme includes forecast capital receipts of £69m, of which £47m do not have linked capital spending proposals. If the Council is to follow it's stated strategy of investing in assets to generate annual income streams, then it will not generate capital receipts on this scale in future years. This means that once the current programme of disposals of surplus assets has finished in 2017, borrowing would need to increase to keep spend at existing levels.

95. Table 6 shows the funding profile for the current capital programme.

Table 6 Capital funding for current 2012-2017 MTFP programme

Funding Source	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2012-17 MTFP Total £m
Borrowing	32	64	36	39	26	197
Government grants	75	74	75	73	74	371
Capital receipts	18	8	15	17	11	69
Revenue and capital reserves	14	2	1	0	0	17
Third party contributions	2	2	4	8	11	27
Total estimated funding	**141**	**150**	**131**	**137**	**122**	**681**

Transport

96. The level of transport grant has fallen slightly from £22.6m in 2011/12 to £22.0m in 2012/13. This excludes the ring-fenced grant for Walton Bridge of £10.7m.

Education

97. In education, the allocation of grant for capital maintenance, shown in table 7, has reduced. This reflects the reduction in the authority's maintained schools as the number of academies rises and the use of more recent school and weighted pupil numbers.

98. A further allocation from DfE is expected following the announcement of £600m of national funding for pupil places in the Chancellor's Autumn Statement.

Table 7 Schools capital grants comparisons

	2011/12 £m	**2012/13 £m**
Devolved Formula Capital (devolved to local authority schools)	2.7	2.2
Devolved Formula Capital (delivered to voluntary aided schools)	0.9	0.9
New School Places (local authority basic need)	16.4	15.0
Locally Coordinated Voluntary Aided Programme capital maintenance	5.7	5.0
Capital maintenance	18.1	13.7
Total capital grant from DfE	**43.8**	**36.8**

BORROWING AND TREASURY MANAGEMENT STRATEGY

99. The Council borrows money to finance the amount of capital spending that exceeds receipts from: grants, third party contributions, capital receipts and reserves. The Council must, in accordance with CIPFA's Prudential Code, ensure that the revenue budget makes provision for the cost of any borrowing. In broad terms this cost comprises two elements at the following rates:

- Interest charge – where borrowing is external an average long term interest rate of 5% is used. Where borrowing is internal (that is from cash balances), the interest charge is equivalent to the interest lost by forgoing the ability to invest in the short term, around 0.75% at current rates. This makes internal borrowing cheaper, although it leads to reduced cash levels.
- Minimum Revenue Provision (MRP) – this represents the charge for repayment of debt or the depreciation in the asset. The Council assumes assets have, on average a 20-year life and therefore the depreciation charge is 5% annually.

100. In the past three years the council has been able to borrow internally due to the level of cash balances held. These balances are held for a number of reasons including: holding reserves and balances (for the council, schools and Surrey Police Authority) receiving grant in advance of expenditure and unspent borrowing.

101. Borrowing levels are set out in the Council's Treasury Management Strategy at Annex 5. The proposed MTFP (2012-17) assumption shown in Table 8 is that the Council will borrow £197m in the period 2012-2017.

Table 8 Projected borrowing levels 2012/13 to 2016/17

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total 2012-2017 £m
Borrowing requirement	32	65	36	38	26	197

102. Before the credit crunch the Council was able to borrow money to fund the capital programme at long-term rates that were lower than the rates available for short-term investment. However, when investment rates fell it was financially attractive to repay debt. Debt repayment and rescheduling activity in the 2009 calendar year resulted in savings in interest charges of £8 million a year.

103. Since then the option of postponing external borrowing (at high cost) and running down investment balances by borrowing internally has been implemented over the last three years. Reducing the level of cash balances held by the Council has also eased pressure on the list of banks and other institutions (known as counterparties) that the Council can place deposits with. This enables the Council to maximise return on investments without added further counterparty risk.

104. However, the scope for ongoing internal borrowing is limited given the amounts of debt the Council has repaid (and is due to repay) and the consequent reduction in cash balances. The Council will have to borrow externally in the proposed MTFP period to finance part of the capital programme.

105. The Pension Fund and Treasury Team monitor the Council’s cash flow and prevailing and projected interest rates to determine the most prudent (and affordable) time to borrow. Sector, the Council’s external treasury management advisors, provide technical advice to enable officers to manage the Council’s borrowing and investment portfolios effectively. Sector’s latest interest rate forecasts are shown in Table 9.

Table 9 Sector’s interest rate forecasts (January 2012)

	Annual Average %					
	Bank Rate	Money Rates (lending)		PWLB Rates (borrowing)		
Date		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

106. In consultation with an Audit and Governance Committee treasury management working group, officers have determined appropriate trigger points for re-considering whether the time is right to amend the current borrowing strategy. These trigger points relate to interest rates available on new borrowing and actual and projected cash flows. These triggers can be found in Annex 5 and form part of the existing approved treasury management strategy. Assuming that interest rates remain as projected, the Council plans to resume external borrowing in 2013/14 as its cash balances will run to minimum operational levels because an existing loan (of £68 million) is due to be repaid. The costs of borrowing through a combination of internal cash and from external loans has been reflected in the revenue budget proposals detailed earlier in this report. Flexibility to borrow earlier if assessed as prudent in light of any of the risks set out in table 10 below, is proposed to be retained through creation of an interest rate risk reserve.

107. The Council can borrow from a number of different external sources: the Public Works Loans Board (PWLB), banks and other local authorities. Historically the council has borrowed from the PWLB (with one small bank loan in the portfolio). The PWLB remains the most attractive option for longer-term borrowing given the low cost and ease of access to funds. Borrowing from other local authorities over the short-term is an attractive option for funding day-to-day cash flow needs, for example if expected cash inflows (such as government grant) are not received as advised.

108. Table 10 sets out the key risks associated with the current strategy of funding capital expenditure through internal resources until it is necessary or prudent to borrow externally.

Table 10 Key risks of funding capital expenditure through internal resources.

Risk	**Action**
Interest rate movements	The Pension Fund and Treasury team monitors interest rates on a daily basis and receives external technical advice on the likelihood of borrowing rates rising
Cap on PWLB borrowing	Alternative sources of funding can be sought, e.g. bank loans or bond issuance
Cap on all borrowing	It is unlikely that government would penalise authorities that have prudently managed the borrowing portfolio over recent years, particularly given the impact of capital expenditure on the economy. The Council has 'under-borrowed' compared to the total capital-financing requirement by around £200 million in recent years. However, some flexibility to borrow ahead of need is retained in the budget through the interest rate risk reserve.
Investment risk	Borrowing ahead of cash flow need means that there is currently a high cost of carrying debt at a time when investment income is low. To ease the revenue implications of borrowing it would be necessary to increase the risk on the investment portfolio (for example by relaxing the council's minimum credit rating criteria or by extending the maximum period over which cash can be invested) at a time when there is so much uncertainty about the economic and banking background.

109. Annex 5 includes the Council's Treasury Management Strategy and counterparty credit rating criteria. The primary objectives of the Council's investment strategy, in order of priority, are:

- firstly, safeguarding the repayment of the principal and interest of its investments on time;
- secondly ensuring adequate liquidity and;
- thirdly, maximise the investment return.

110. Given the well-documented economic and banking background, the current investment climate has one over-riding risk consideration, being counterparty risk. As a result of these underlying concerns, the Council plans to implement an operational investment strategy that maintains the tight controls already in place from the previously approved investment strategy. It is planned that the Council's counterparty credit rating criteria and deposit terms and maximum period of time that cash can be placed on deposit are not changed. Given current investment rate projections the assumed average rate of interest earned on deposits will be 0.75%.

RISK MANAGEMENT

Risk Management Arrangements

111. In response to the significant challenges that the Council is facing and the associated emerging risks, it has brought together an integrated risk framework comprising the separate disciplines of risk management. This has brought several changes to the risk governance arrangements including the following:

- The Assistant Chief Executive now chairs a new Risk and Resilience Steering Group that brings together all elements of risk to provide a clear direction and approach to managing risk and strengthening resilience across the Council. The group consists of risk practitioners, directorate risk leads and specific service representatives.
- The Corporate Risk Group (comprising service risk representatives) has merged with the Council Resilience Forum (comprising service business continuity representatives) to create the Council Risk and Resilience Forum. The forum focuses on the operational side of risk and will develop the link between risk registers and business impact analyses and continuity plans.

112. The Leadership Risk Register contains the Council's strategic risks. It cross-references these strategic risks to strategic directors' risk registers and shows clear lines of accountability for each risk at both senior management and Cabinet Member levels. The Risk and Resilience Steering Group reviews the Leadership Risk Register monthly prior to review by the Corporate Board as part of performance, finance and risk monitoring.

113. Cabinet receives the Leadership Risk Register as part of the quarterly business report. Audit and Governance Committee also reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Select Committee.

114. Significant financial and reputational risks and opportunities facing the Council and recorded in the Leadership Risk Register include:

- delivery of the major change programmes;
- delivery of the waste infrastructure; and

- changes to health commissioning.

115. Senior management and Members constantly monitor and manage these risks through the specific project boards, steering groups and partnerships to ensure that opportunities are exploited and the resulting risks are controlled to a tolerable level.

116. From 2012, the Council will develop a new risk strategy to articulate the vision and direction of the new risk management approach and support the One County, One Team Corporate Strategy 2012-2017. The Leadership Risk Register will align with the new corporate strategy to ensure all key risks to achieving the Council's priorities are identified and assessed. This will enable a stronger link and reference between risks, objectives and performance through all levels of the organisation to provide information to support key decisions.

Budget Risks and Uncertainties

117. As a part of the Council's risk management strategy the risks associated with the setting of the five-year budget have been assessed so they can be managed. In considering a budget for five years with constraining resources, a number of uncertainties and risks relating to assumptions that underpin the budget proposals need to be assessed. Foremost among the uncertainties are:

    - the new arrangements for funding local government through local retention of business rates; and
    - government grant funding levels from 2013/14 onwards.
    - General economic conditions.

118. Additional uncertainties exist in relation to assumptions on demographic and volume pressures and the success of planned efficiencies and service reductions to deal with them. All planned efficiencies and service reductions require management and managers' confidence in realising them have been categorised as red, amber or green accordingly:

    - Red risks are those where managers have reservations about likely success due to the severe challenges and barriers (both internal and external) to be overcome to implement proposals;
    - Amber risks are those with significant barriers (often external) to be overcome to implement saving proposals;
    - Green risks are those efficiencies or service reductions where appropriate action should result in success.

119. Table 11 summarises the value of risks for the total demographic and volume pressures and the success of planned efficiencies and service reductions by category and year over the five year MTFP 2012-2017. Strategic Directors are each developing detailed ongoing plans to deliver these reductions.

Table 11 Summary risk analysis of pressures, efficiencies & service reductions

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	Total £m
Red Risks	3.1	6.4	3.5	0.0	0.6	13.6
Amber Risks	46.1	37.9	27.5	22.7	26.0	160.2
Green Risks	22.3	6.8	3.4	0.1	0.0	32.6
Total	**71.5**	**51.1**	**34.4**	**22.8**	**26.6**	**206.4**

120. These risks will be monitored throughout the year as part of the performance monitoring process and the schedule closely reflects the risk profile based on current budget levels. An updated risk schedule will be compiled with the detailed 2012/13 budgets during March 2012.

121. In addition there are a number of services where the Council faces significant change in the near future, which may have further financial implications for the Council, as summarised in below:

- The Adult Social Care and Children, Schools & Families budgets are predicated on major organisational and service delivery changes in order to make savings and avoid costs. These involve various risks, such as: delays due to complexity; the need to use innovative approaches which are as yet unproven; exceptional demand increases and reliance on partnership working; market conditions; funding changes; and other factors not fully in the Council's control. Assessment of the financial risk is bound to be approximate, but most of the £111m of recurring savings in the Adult Social Care MTFP and most of the £41m recurring savings in the Children, Schools & Families MTFP are of that nature. So far as possible, the Council mitigates these risks by actively monitoring the emerging position and taking action as necessary. However there are limits to the capacity to make such adjustments.
- The Council entered into a private finance initiative (PFI) contract for the disposal of waste in 1999. For 2012/13, £110m will have been received in PFI credits and the proposed budget assumes that £8m of credits continue to be received annually. The Council intends, through its contractor, to continue investing in waste disposal infrastructure. To date the investment has only been partially delivered, and if the remaining infrastructure is not delivered there is a risk that the payment of credits would be adjusted to take account of the lower level of investment. In the event of adjustment to the credits, the level of balances and reserves is sufficient to meet the annual impact in the short term, but adjustments to the Council's medium term financial plan would be needed to sustain the budget in future years.
- The Government is restructuring the NHS with new arrangements being phased in on a shadow basis and fully in place from 2013/14. That brings with it a reputational risk (if the whole system, incorporating the Council's role in it, is seen to be operating poorly) and a number of financial risks as follows:
    - The transfer of the public health function may carry some transitional costs, and there is a danger of underfunded services being transferred or grant distribution proving unfavourable.

- Some of the Adult Social Care savings are predicated on close working with health. The change and potential disruption to health's organisational arrangements could slow down or complicate those savings streams.
- It is in the nature of the close relationships within the whole system of social care and health that such a scale of change may well have knock-on effects on social care spend. That could affect demand in various ways, but in particular responsibility for funding Continuing Health Care will pass from NHS Surrey Primary Care Trust to a number of Clinical Commissioning Groups (CCGs). It is as yet unclear how that will operate in practice, which is a risk as dealing with backdated debts and progressing continuing care cases are important to the Adult Social Care budget.
- These factors are hard to quantify, but could amount to several million pounds each. The Adult Social Care service will monitor any impacts and seek to monitor savings as necessary.

BALANCES AND RESERVES

122. The Council's available general unallocated balances at 1 April 2011 were £24.6m. If the Council underspends against its 2011/12 budget as currently forecast, then this would increase available balances to £30.0m. Annex 6 sets out the policy on balances and reserves and recommends the maintenance of general balances of this level to meet unforeseen events and to mitigate the effects of not achieving the net spending reductions included in the MTFP (2012-2017).

123. Earmarked reserves are reserves set aside for specific purposes. The forecast total balance for all earmarked reserves at 1 April 2012 is £81.9m, down from £83.7m brought forward at 1 April 2011. The forecast balance includes the proposed creation of two further reserves as summarised below:

- The MTFP is based on the assumption that the council's tax base will increase by 0.4% per year. While this is consistent with the average increase over a number of years, the Government has recently changed the funding arrangements for council tax benefit. This leads to a risk that the base may not increase by this amount in future, and this would be compounded as a result of a downturn in the global and national economies. The council tax collection fund balances due to the county council is £5.3m and it is proposed that £4.4m of this is used to create an Economic Downturn Reserve to allay this risk and others associated with deterioration in the economy. In future it is proposed that any additional funding due to an increase in the tax base above 0.4% is placed in this reserve.
- The revenue budget includes provision for interest payments to support the borrowing in line with the capital programme. However, there is a risk that if interest rates or other borrowing conditions change, then it would be better value for money in the medium to long term of borrowing in advance. An Interest Rate Risk Reserve of £3.2m would allow the flexibility for the Council to borrow funds early if the circumstances changed. The balance of this reserve would be reviewed annually. Annex 7 summarises the level and purpose of each of the Council's earmarked reserves.

CONSULTATION AND ENGAGEMENT

External consultation

Public engagement on the Council's financial challenge

124. The Council conducted a public engagement campaign from throughout November and December 2011 to test public perceptions of the financial challenge facing Surrey and the need to transform the way public services are provided.

125. The campaign involved face-to-face meetings with key partners and stakeholders, including:

- the Leader of the Council's attendance at number of business events;
- a briefing by the Chief Executive to the voluntary, community and faith sector; and
- various discussions between county council finance officers and special interest groups and colleagues from partner organisations.

126. In addition, the Council reinstated the YouChoose online budget calculator, an awareness-raising tool that allows people to see the consequences of spending decisions across different service areas. This attracted about 200 responses.

127. At the same time an online residents' survey seeking responses on a range of key finance and public service issues was distributed to county council Members, districts and parishes, and through a number of networks and electronic newsletter distribution lists. These included Surrey Matters, Adult Social Care, Schools Bulletin, Surrey Community Action, Surrey Chambers of Commerce and the Libraries Service extensive newsletter database.

128. The survey drew nearly 500 responses. Headline findings show:

- general awareness (80%) of the need to make substantial savings;
- but a tendency to underestimate the scale of required savings (40% correctly identified more than £200m, while 20% thought £150m and 20% thought £100m);
- about 40% were aware that the council had made significant PVR and procurement savings, while 50% were aware of the Surrey First and SE7 activities to find savings and service improvements;
- respondents overwhelmingly agreed (more than 90%) with the need to protect vulnerable people, and a similar percentage said it was right for the council to discuss the future of public services with communities;
- six out of ten backed the idea of more volunteers in services and eight of ten supported more local control over youth services;
- only about a third were aware of funding through local Members' allocations and the Community Pride initiative (the survey was before the Leader's announcement of the Community Improvements fund); and
- more than 90% agreed it was very or quite important to support the local economy, while 70% said the same about securing superfast broadband across Surrey.

YouChoose

129. The Council reistated the budget consultation tool, YouChoose, for the 2012/13 financial year. YouChoose is an interactive, online tool through which members

of the public can simulate Surrey's budget to match their service and taxation priorities. http://youchoose.yougov.com/surrey.

130. YouChoose allows us to engage with residents and businesses to help them understand the tough choices facing Surrey County Council. Every choice made by the user is followed by what impact this change, either a budget increase or decrease, will have upon both service provision and the overall council tax requirement.

131. From the responses so far, the average council tax change modelled by users was a reduction of 1.9%, this is a considerably lower reduction than the average change for the previous year, which was 4.3%.

132. Respondents advocated significant budget reductions for: democratic services (22.3%); heritage (11%); and libraries (10.3%).

133. Respondents advocated the smallest budget reductions for: care for older people (3.1%); care for people with mental health and substance abuse issues (3.5%); and care for people with physical or sensory disability (3.8%).

IMPLICATIONS FOR SURREY COUNTY COUNCIL

Financial and Value for Money Implications

134. All the documented budget targets have been subject to a thorough value for money assessment.

Risk Management Implications

135. Risk implications are stated throughout the report.

Equalities Implications

136. There are no equalities implications for staff arising directly from this report. However, some management actions to meet the spending targets may have an equalities impact. Strategic Directors will consider these as they develop their detailed implementation plans, completing equality assessments as relevant and reporting their findings before the Cabinet sets detailed budgets on 27 March 2012.

Implications for the Council's priorities or Community Strategy/Local Area Agreement targets

137. The 2012/13 budget and MTFP (2012-2017) in this report propose a five-year balanced revenue and capital budget, aligned with the Corporate Strategy and Directorate plans. It develops the strong position built by the MTFP (2011-2015); supports the corporate objectives; and reflects assumptions about the current local and national financial economic and political environment.

Climate change/carbon emissions implications

138. The County Council attaches great importance to being environmentally aware and wishes to show leadership in cutting carbon emissions and tackling climate change.

Legal implications/legislative requirements

139. There are no legal implications or legislative requirements arising from the report.

Chief Finance Officer Commentary

140. The Chief Finance Officer has written a separate report as required under legislations setting out the robustness and sustainability of the proposed

budget, which is attached at Annex 8 and to which the Council must have due regard when making decisions on the budget and precept.

RECOMMENDATIONS:

It is recommended that the Cabinet recommends to the full County Council on 7 February 2012:

a. to set the council tax requirement for 2012/13 at £574.9m;

b. to set Council tax band D at £1,149.66, which represents a 2.99% increase;

c. to delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals to cover areas of the funding settlement if any late notification is made by the Government;

d. to retain a risk contingency to mitigate against non-delivery of reductions and efficiencies of £8m;

e. to create a new earmarked economic downturn reserve of £4.4m;

f. to create a new earmarked interest rate risk reserve of £3.2m;

g. to apply the approved carry forward revenue budgets from 2011/12 totalling £15.2m to 2012/13;

h. to apply sustainable revenue funding to the capital programme;

i. to agree capital programme proposals (specifically to fund essential schemes over five year period, schools and non-schools, to the value of £681m including ring-fenced grants);

j. to seek to secure capital receipts over the five year period to 2016/17 of £69m;

k. to request that the proposals for prudential indicators and the treasury management strategy in Annex 5, paragraph 3 are submitted to full County Council on 7 February 2012.

l. the Corporate Board maintains robust procedures so Cabinet can monitor achievement of efficiencies and service reductions through the monthly budget maintaining cabinet reports and the quarterly Cabinet Member accountability meetings;

m. that all revenue invest to save proposals and capital schemes have an approved business case before expenditure can be committed and;

n. to provide £6m as a one off amount for the Invest to Save fund, from which services can borrow funds and repay.

REASONS FOR RECOMMENDATIONS:

The County Council will meet to agree the summary budget and council tax on 7 February 2012.

WHAT HAPPENS NEXT:

The County Council will set its budget and council tax precept on 7 February 2012.

Contact Officer: Sheila Little, Chief Finance Officer and Deputy Director for Change and Efficiency
Tel 020 8541 9223

Consulted: Cabinet, Select Committees, all County Council Members, Strategic Directors, business and voluntary sector, residents and unions.

Informed: Cabinet, Select Committees, all County Council Members, Strategic Directors, business and voluntary sector, residents and unions.

Sources/Background papers: CLG revenue and capital settlement papers from CLG website. Budget working papers.

List of Annexes

Annex 1	National economic outlook
Annex 2	Details of provisional government grant allocations for 2012/13
Annex 3	Summary revenue budget proposals
Annex 4	Details of the capital programme over the 2012-2017 MTFP period
Annex 5	Treasury Management Strategy
Annex 6	Policy Statement on balances and reserves
Annex 7	List of proposed earmarked reserves
Annex 8	Chief Finance Officer commentary on budget proposals