Cabinet

SURREY COUNTY COUNCIL

Date & time	Place	Contact	Chief Executive
Tuesday, 20 September 2016 at 2.00 pm	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	Vicky Hibbert or Anne Gowing Room 122, County Hall Tel 020 8541 9229 or 020 8541 9938 vicky.hibbert@surreycc.gov.uk or anne.gowing@surreycc.gov.uk	David McNulty

We're on Twitter: @SCCdemocracy

Supplementary Agenda

Cabinet Members: Mr David Hodge, Mr Peter Martin, Mrs Helyn Clack, Mrs Clare Curran, Mr Mel Few, Mr John Furey, Mr Mike Goodman, Mrs Linda Kemeny, Ms Denise Le Gal and Mr Richard Walsh

Cabinet Associates: Mr Tony Samuels, Mr Tim Evans, Mrs Kay Hammond and Mrs Mary Lewis

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9 **FINANCE AND BUDGET MONITORING REPORT TO 31 AUGUST 2016** (Pages 1 - 18)

The Council takes a multiyear approach to its budget planning and monitoring, recognising the two are inextricably linked. This report presents the Council's financial position as at 31 August 2016 (month five).

The Annex to this report gives details of the Council's financial position.

Please note that the Annex to this report will be circulated separately prior to the Cabinet meeting.

[The decisions on this item can be called in by the Council Overview Board]

10 BUDGET AND BUSINESS PLANNING 2017 TO 2022 (Pages 19 - 72)

Since 2010 local authorities in England have been faced with year on year reduction in funding from central government as a part of the deficit reduction policy. This reduction has included Surrey County Council, which has traditionally been one of the lowest funded local authorities from government grants. At the same time, the demand for Surrey County Council's services has been increasing, especially in looking after an increasingly aged population, a high level of people with learning disabilities and providing school places for a record number of children. The county council has met this challenge through a financial strategy that includes: managing demand, efficiency savings and increases in the level of council tax.

In February 2016 the council's Section 151 Officer highlighted that the 2016/17 budget was balanced through the use of substantial one-off funding and the Medium Term Financial Plan for 2016/17 to 2020/21 (MTFP 2016-21) required significant actions to become sustainable. The council agreed to a Public Value Transformation programme to investigate whether sustainability could be achieved through further significant transformation. This report presents an update on the council's financial prospects and the key strategies to respond to the challenge presented in the next five year Medium Term Financial Plan (MTFP 2017-22) to ensure it is both balanced and sustainable.

Government decisions have a huge influence on the council's financial sustainability. These include:

- the level of grants and how they are allocated;
- the use of business rates;
- the imposition of new responsibilities;
- caps on the council's ability to raise its own income.

How the government implements these decisions will shape the financial prospects over the next five years.

Please note that the Annexes 2 and 3 to this report will be circulated separately prior to the Cabinet meeting.

[The decisions on this item can be called in by the Council Overview Board]

David McNulty
Chief Executive
Monday, 12 September 2016

QUESTIONS, PETITIONS AND PROCEDURAL MATTERS

The Cabinet will consider questions submitted by Members of the Council, members of the public who are electors of the Surrey County Council area and petitions containing 100 or more signatures relating to a matter within its terms of reference, in line with the procedures set out in Surrey County Council's Constitution.

Please note:

1. Members of the public can submit one written question to the meeting. Questions should relate to general policy and not to detail. Questions are asked and answered in public and so cannot relate to "confidential" or "exempt" matters (for example, personal or financial details of an individual – for further advice please contact the committee manager listed on the front page of this agenda).
2. The number of public questions which can be asked at a meeting may not exceed six. Questions which are received after the first six will be held over to the following meeting or dealt with in writing at the Chairman's discretion.
3. Questions will be taken in the order in which they are received.
4. Questions will be asked and answered without discussion. The Chairman or Cabinet Members may decline to answer a question, provide a written reply or nominate another Member to answer the question.
5. Following the initial reply, one supplementary question may be asked by the questioner. The Chairman or Cabinet Members may decline to answer a supplementary question.

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SURREY COUNTY COUNCIL

CABINET

DATE: **20 SEPTEMBER 2016**

REPORT OF: **MR DAVID HODGE, LEADER OF THE COUNCIL**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **FINANCE AND BUDGET MONITORING REPORT TO 31 AUGUST 2016**

SUMMARY OF ISSUE:

The Council takes a multiyear approach to its budget planning and monitoring, recognising the two are inextricably linked. This report presents the Council's financial position as at 31 August 2016 (month five).

The Annex to this report (to follow) gives details of the Council's financial position.

RECOMMENDATIONS:

Recommendations to follow.

REASON FOR RECOMMENDATIONS:

This report is presented to comply with the agreed policy of providing a monthly budget monitoring report to Cabinet for approval and action as necessary.

DETAILS:

Revenue budget overview

1. Surrey County Council sets its gross expenditure budget for the 2016/17 financial year at £1,686m. A key objective of the Medium Term Financial Plan (MTFP) 2016-21 is to increase the Council's overall financial resilience. As part of this, the Council plans to make efficiencies totalling £83.5m.

2. The Council aims to smooth resource fluctuations over its five year medium term planning period. To support the 2016/17 budget, Cabinet approved use of £24.8m from the Budget Equalisation Reserve and carry forward of £3.8m to fund continuing planned service commitments. The Council currently has £21.3m in general balances.

3. In February 2016, Cabinet approved the Council's Financial Strategy 2016-21. The Financial Strategy aims to:

   - secure the stewardship of public money;
   - ensure financial sustainability; and
   - enable the transformation of the council's services.

Capital budget overview

4. Creating public value by improving outcomes for Surrey's residents is a key element of the Council's corporate vision and is at the heart of MTFP 2016-21's £651m capital programme, which includes £207m spending planned for 2016/17.

Budget monitoring overview

5. The Council's 2016/17 financial year began on 1 April 2016. This budget monitoring report covering the financial position at the end of the fifth month of 2016/17 (31 August 2016). The report focuses on material and significant issues, especially monitoring MTFP efficiencies. The report emphasises proposed actions to resolve any issues.

6. The Council has implemented a risk based approach to budget monitoring across all services. The approach ensures we focus effort on monitoring those higher risk budgets due to their value, volatility or reputational impact.

7. A set of criteria categorise all budgets into high, medium and low risk. The criteria cover:

   - the size of a particular budget within the overall Council's budget hierarchy (the range is under £2m to over £10m);
   - budget complexity, which relates to the type of activities and data monitored (this includes the proportion of the budget spent on staffing or fixed contracts - the greater the proportion, the lower the complexity);
   - volatility, which is the relative rate that either actual spend or projected spend moves up and down (volatility risk is considered high if either the current year's projected variance exceeds the previous year's outturn variance, or the projected variance has been greater than 10% on four or more occasions during the current year); and
   - political sensitivity, which is about understanding how politically important the budget is and whether it has an impact on the Council's reputation locally or nationally (the greater the sensitivity the higher the risk).

8. Managers with high risk budgets monitor their budgets monthly, whereas managers with low risk budgets monitor their budgets quarterly, or more frequently on an exception basis (if the year to date budget and actual spend vary by more than 10%, or £50,000, whichever is lower).

9. Annex 1 to this report sets out the Council's revenue budget forecast year end outturn as at 31 August 2016. The forecast is based upon current year to date income and expenditure as well as projections using information available to the end of the month.

10. The report provides explanations for significant variations from the revenue budget, with a focus on efficiency targets. As a guide, a forecast year end variance of greater than £1m is material and requires a commentary. For some services £1m may be too large or not reflect the service's political significance, so variances over 2.5% may also be material.

11. Annex 1 to this report also updates Cabinet on the Council's capital budget. Appendix 1 provides details of the MTFP efficiencies, revenue and capital budget movements.

CONSULTATION:

12. All Cabinet Members will have consulted their relevant Director or Head of Service on the financial positions of their portfolios.

RISK MANAGEMENT AND IMPLICATIONS:

13. Risk implications are stated throughout the report and each relevant Director or Head of Service has updated their strategic and or service risk registers accordingly. In addition, the Leadership Risk Register continues to reflect the increasing uncertainty of future funding likely to be allocated to the council.

Financial and Value for Money Implications

14. The report considers financial and value for money implications throughout and future budget monitoring reports will continue this focus. The Council continues to maintain a strong focus on its key objective of providing excellent value for money.

Section 151 Officer Commentary

15. The Section 151 officer confirms that the financial information presented in this report is consistent with the Council's general accounting ledger and that forecasts have been based on reasonable assumptions, taking into account all material, financial and business issues and risks.

Legal Implications – Monitoring Officer

16. There are no legal issues and risks.

Equalities and Diversity

17. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary.

WHAT HAPPENS NEXT:

18. The relevant adjustments from the recommendations will be made to the Council's accounts.

Contact Officer:
Sheila Little, Director of Finance Tel: 020 8541 7012

Consulted:
Cabinet Team, Strategic Directors, Heads of Service.

Annexes:
- Annex 1 – Revenue budget, staffing costs, efficiencies, capital programme.
- Appendix 1 – Service financial information (revenue and efficiencies), revenue and capital budget movements.

Sources/background papers: None

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Budget monitoring period 5 2016/17 (August 2016)

Summary recommendations

Cabinet is asked to note the following.

1. Forecast revenue budget outturn for 2016/17 is a +£6.0m overspend (paragraph 1).
2. Forecast efficiencies and service reductions for 2016/17 is £75.8m (paragraph 30).
3. Revised budgeted full time equivalent staff numbers (paragraph 25).
4. Revised fees and charges for: cycle training (paragraphs 38 to 40) and traffic signal switch out (paragraphs 41 to 43)

Revenue summary

Surrey County Council set its gross expenditure budget for the 2016/17 financial year at £1,686m. A key objective of MTFP 2016-21 is to increase the council's overall financial resilience. This includes making efficiencies totalling £83.5m during 2016/17.

As at 31 August 2016, services forecast +£6.0m year end overspend (+£7.5m increase since 30 June 2016) and achieving £75.8m efficiencies (down from £83.5m as at 30 June 2016). The net overspend mainly relates to: +£7.4m net forecast overspend in Adult Social Care (paragraphs 8 to 13); +£3.3m overspend in Children's Services (paragraphs 14 and 15); offset by -£2.6m underspend from higher than budgeted retained business rates income and reduced interest charges (paragraph 16); -£0.9m underspend in Schools & SEND (paragraph17) and small underspends in other services.

In addition, the Schools & SEND (Special Educational Needs & Disabilities) service has highlighted risks to achieving a balanced outturn position.

All other services are on track to achieve their planned efficiencies. It is vital services achieve their savings to ensure the council maintains a balanced budget and achieves a sustainable financial position in future years.

The council aims to smooth resource fluctuations over its five year medium term planning period. To support 2016/17, Cabinet approved use of £24.8m from reserves and carry forward of £3.9m to fund continuing planned service commitments. The council continues to maintain £21.3m in general balances.

In February 2016, Cabinet approved the council's Financial Strategy 2016-21. The Financial Strategy aims to:

- secure the stewardship of public money;
- ensure financial sustainability and
- enable the transformation of the council's services.

Capital summary

Creating public value by improving outcomes for Surrey's residents is a key element of Surrey County Council's corporate vision and it is at the heart of its £638m capital programme in MTFP 2016-21. As at 31 August 2016, services forecast spending £151m against the £156m current 2016/17 budget and £236m in total, including long term investments.

As part of increasing the council's overall financial resilience, it plans to invest £86m in long term capital investment assets in 2016/17 to add to the £120m invested in the period to 31 March 2016 (paragraphs 36 and 37).

9

Revenue budget

1. As at 31 August 2016, the year to date budget variance is +£6.7m and services forecast a +£6.0m revenue budget variance at year end. The overall forecast overspend is mainly due to:

- +£7.4m forecast overspend in Adult Social Care (ASC), including +£2.8m demand pressures, +£3.0m Family, Friends and Community increasing price pressures in the market , +£1.3m change to health and social care integration savings, +£1.3m contractual commitments and +£1.1m other pressures, partially offset by -£2.2m forecast underspend due to lower than anticipated cost of assessments for Deprivation of Liberty Safeguards (DoLS);
- +£3.3m forecast overspend in Children's Services due to demand, including adding: +£2.2m pressure for more social work capacity from permanent staff and locums; and +£1.2m costs of additional placements.
- -£2.6m forecast underspend in Central Income & Expenditure from -£1.5m higher business rates receipts and -£1.1m reduced interest charges due to changes to the Treasury Management Strategy agreed by county council in July 2016.
- -£0.9m forecast underspend in Schools & SEND (Special Educational Needs and Disabilities) due to underspends on central budgets and overspends on transport.

2. Although ASC is undertaking further work to recover its financial position, at present there are not specific actions identified. The issues involved affect ASC's achievement of its continuing efficiencies. This means unless the council finds compensating continuing efficiencies, a significant efficiencies shortfall will continue into 2017/18 and subsequent years.

3. In March 2016, Cabinet approved the council's 2016/17 revenue expenditure budget at £1,686.0m. Changes in the first five months of 2016/17 to reflect agreed carry forwards and other budgetary adjustments reduced the expenditure budget as at 31 August 2016 to £1,682.7m. Table 2 shows the updated budget, including services' net expenditure budgets (gross expenditure less income from specific grants and fees, charges and reimbursements) and funding of £672.2m from local taxation and £24.8m from reserves.

Revenue budget monitoring position

4. Table 1 summarises the council's year to date and forecast year end gross income and expenditure positions compared to the full year revised budget. The full year revised net expenditure budget to be met from reserves is £24.8m. The actual year to date total net expenditure is -£66.4m. This compares to the profiled, budgeted year to date net expenditure of -£73.1m.The difference between the two is +£6.7m year to date overspend (increased from balanced as at 30 June 2016). This is summarised in Table 1 below and in more detail in Table App1 in the Appendix.

Table 1: 2016/17 revenue budget subjective summary as at 31 August 2016

Subjective summary	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Gross income	-1,657.9	-744.9	-1,666.8	-8.9
Gross expenditure	1,682.7	678.5	1,697.5	14.8
Total net expenditure	**24.8**	**-66.4**	**30.8**	**6.0**

Note: * Profiled year to date net budget is -£73.1m compared to actual net expenditure of -£66.4m
All numbers have been rounded - which might cause a casting difference

5. In the appendix, Table App1 outlines the updated revenue budget by service after in year budget virements and carry forward of budgets from the 2015/16 financial year.

6. Table 2 shows the revenue budget position analysed by services and the council's general funding sources. For each service, the table shows the net expenditure position (gross expenditure less income from specific grants and fees, charges and reimbursements). The council's general funding sources include general government grants, local taxation (council tax and business rates) and planned use of reserves.

7. Table 2 shows all services, other than Adult Social Care and Children's Services, are on track to achieve a balanced outturn or underspend in 2016/17. General funding shows a favourable forecast variance for business rates income.

Table 2: 2016/17 updated revenue budget forecast as at 31 August 2016

Service	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Economic Growth	1.7	0.3	1.7	0.0
Strategic Leadership	1.0	0.4	1.0	0.0
Adult Social Care	368.5	165.0	375.9	7.4
Children's and Safeguarding services	97.8	41.0	101.1	3.3
Commissioning & Prevention	37.8	14.3	37.5	-0.3
Schools & SEND (Special Educational Needs & Disabilities)	63.1	25.6	62.2	-0.9
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	3.7	1.0	3.7	0.0
Coroner	1.8	0.7	1.8	0.0
Cultural Services	9.6	4.2	9.4	-0.1
Customer Services	3.5	1.3	3.5	0.0
C&C Directorate Support	1.0	0.5	1.0	0.0
Emergency Management	0.5	0.1	0.4	-0.1
Surrey Fire & Rescue Service	33.2	14.0	33.3	0.1
Trading Standards	2.0	0.8	1.9	-0.1
Environment & Planning	79.7	34.2	79.6	-0.2
Highways & Transport	44.9	16.8	44.9	0.0
Public Health	0.3	0.1	0.3	0.0
Central Income & Expenditure	56.5	-1.3	55.4	-1.1
Communications	2.1	0.8	2.1	0.0
Finance	3.1	1.1	3.1	0.0
Human Resources & Organisational Development	4.3	1.4	4.3	0.0
Information Management & Technology	13.0	4.9	13.0	0.0
Legal & Democratic Services	8.5	3.3	8.2	-0.2
Strategy & Performance	1.7	0.8	1.6	-0.1
Procurement	0.9	0.3	0.9	0.0
Property	20.9	6.4	20.9	0.0
Orbis Joint Operating Budget	38.0	14.4	37.7	-0.3
Business Operations	0.2	0.1	0.2	0.0
Total services' net revenue expenditure	**899.3**	**352.5**	**906.8**	**7.5**
General funding sources				
General Government grants	-202.3	-85.6	-202.3	0.0
Local taxation (council tax and business rates)	-672.2	-333.4	-673.7	-1.5
Total general funding	**-874.5**	**-419.0**	**-876.0**	**-1.5**
Total movement in reserves	**24.8**	**-66.4**	**30.8**	**6.0**

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

Significant revenue budget variances

Adult Social Care - +£7.4m overspend (+£7.4m increase since 30 June 2016)

8. Adult Social Care is currently forecasting an adverse year end variance of +£7.4m, as many of the areas highlighted as risks in previous months are now becoming issues. The service will continue to explore options to reduce this overspending over the coming months. The principal reasons for this variance are described below.

9. The Family, Friends & Community programme continues to face challenges in reducing the cost of new care packages in the context of increasing price pressures in the market and (as in previous years) not fully achieving the 20% stretch target. This is causing a +£3.0m pressure on this budget.

10. Demand for care across all categories continues to rise, and now at a faster rate than anticipated in setting the budget (7% rather than 4%), which is making achievement of the full demand management savings plan challenging. This is leading to a forecast overspend of +£1.8m and +£1.0m additional year to date costs due to demand pressures continuing to increase above budgeted levels.

11. Considerable work is continuing on health and social care integration. The development of Sustainability and Transformation Plans is shifting the focus of this and changing the nature and timing of the planned savings. Savings on this in 2016/17 are expected to be +£1.3m less than originally envisaged.

12. In addition to these challenges with savings plans, contractual commitments for the provision of some Learning Disability services have increased leading to a forecast overspend of +£1.3m and other pressures, particularly on staffing budgets, total a further +£1.1m.

13. Partially off-setting these pressures is a forecast underspend of -£2.2m against the budget set for conducting Deprivation of Liberty Safeguard (DoLS) assessments. This is due to the cost of assessments being lower than previously anticipated.

Children's Services - +£3.3m overspend (+£3.3m increase since 30 June 2016)

14. Demand for Children's Services continues to increase. Improvements such as creating a Multi Agency Safeguarding Hub (MASH) are progressing with the intention of reducing longer term demand. However demand for services particularly care for looked after children (LAC) and unaccompanied asylum seekers exceeds that planned. This additional demand is leading to the following budget pressures.

    - +£1.3m need for 27 more posts increase in social work capacity than budget.
    - +£1.2m additional placement costs, as the demand for significantly more expensive residential placements is rising much more quickly (63) than those planned (46). Currently 221 children are in ongoing placements compared to a budgeted figure of 204.
    - +£0.6m care for a high level of asylum seeking children following the demand increases seen over the past 18 months. With world events, numbers are not expected to fall. Although the Home Office has increased the level of funding, this only applies to new cases from 1 July 2016.
    - +£0.9m cost pressure from 91 locums within the service (although this is projected to reduce). On average, locums cost £20,000 a year more than permanent staff.

15. These pressures are in part offset by -£0.7m savings elsewhere including from investment in the social work academy starting part way through the year and additional income from the adoption service.

Central Income & Expenditure - -£2.6m underspend (-£1.1m increase since 30 June 2016)

16. As at 31 August 2016, Central Income & Expenditure (CIE) forecasts -£2.6m year end underspend. This is due to:

- -£1.5m higher forecast business rates income than budgeted as a result of the final 2015/16 business rates receipts being greater than forecast; and
- -£1.1m forecast savings on the interest payable budget from lower interest rates and the use of short term borrowing enabled by changes to the Treasury Management Strategy approved by Full Council in July 2016.

Schools & SEND - -£0.9m underspend (-£0.9m increase since 30 June 2016)

17. Within the overall Schools & SEND (Special Educational Needs and Disabilities) forecast underspend position, there are some significant forecast variances.

- +£0.7m overspend on transport overall, including: +£0.8m SEND transport, which remains an area of concern following the £1.5m overspend in 2015/16; +£0.3m overspend on alternative provision; and -£0.4m underspend on mainstream transport.
- -£1.4m underspend on centrally held budgets, following reviews to identify non-essential spend. In particular, the service is unlikely to need the budget covering the risk of legislative reforms, demographic pressures and excess inflation.

Areas to be aware

18. At this point in the financial year, services may yet encounter delivery challenges, which present risks to their 2016/17 outturn positions.

Children, Schools & Families – Schools & SEND

19. Budget pressures of between £3m and £5m are emerging in the high needs block and early years in Schools &SEND. The service is working to confirm the forecasts reflecting placement decisions from September 2016.

Revolving Infrastructure & Investment Fund

20. Table 3 shows the council forecasts generating net income of -£1.5m in 2016/17 (after subtracting funding costs and other expenses) by the joint venture project to deliver regeneration in Woking town centre, from various property acquisitions made for future service delivery and from the Halsey Garton group. The council anticipates transferring the net income to the Revolving Infrastructure and Investment Fund at the year end.

21. Capital expenditure in 2016/17 includes equity investment and loans to the Halsey Garton group, development of the former Thales site in Crawley, further loans to the Woking Bandstand Joint Venture Company and other town centre development projects.

Table 3: Summary revenue and capital position as at 31 August 2016

Revenue	YTD actual £m	Full year forecast £m
Income	-3.2	-9.4
Expenditure	0.0	0.6
Net income before funding	-3.2	-8.8
Funding costs	2.8	7.3
Net revenue income after funding	**-0.4**	**-1.5**
Capital		
Expenditure	**64.4**	**85.6**

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

Staffing costs

22. The council employs three categories of staff.

    - Contracted staff employed on a permanent or fixed term basis and paid through the council's payroll. These staff are contracted to work full time, or part time.
    - Bank staff are contracted to the council and paid through the payroll but have no guaranteed hours.
    - Agency staff employed through an agency with which the council has a contract.

23. Bank and agency staff enable managers to manage short term variations in service demand, or contracted staff vacancies. This is particularly the case in social care. Some flexibility in the staffing budget is sensible, as it allows the council to vary a portion of staffing costs.

24. The council sets its staffing budget on the estimated labour needed to deliver its services. It expresses this as budgeted full time equivalent (FTEs) staff and converts it to a cost for the budget. The budget includes spending on all three categories of staff and is the key control in managing staffing expenditure.

25. While the council's overall staffing budget has not changed, there have been some changes to services' budgeted FTEs. Cultural Services' FTE staffing figure has changed from 507 shown in MTFP 2016-21 to 546. This is due to a change in the employment contracts of tutors from bank staff, to contracted staff working annualised hours. This increased the number of FTE staff posts in Cultural Services by 39. As part of restructuring of council wide communications, five FTE have moved from Children, Schools & Families to Communications. The revised budgeted FTE figures shown in Table 5 incorporate these changes. The council's total full year staffing budget for 2016/17 is currently £273.9m based on 7,123 budgeted FTEs.

26. The council has 586 live vacancies, where it is actively recruiting. 486 of these vacancies are in social care.

Table 4: Full time equivalents in post and vacancies as at 31 August 2016

	FTE
Budget	7,123
Occupied contracted FTEs	6,403
Live vacancies (i.e. actively recruiting)	586

27. Table 5 shows staffing cost as at 31 August 2016 against service budgets and analysed among the three staff categories of contracted, bank and agency staff. Table

5 also shows services' budgeted FTEs. Budget variances can arise for several reasons including: the budget for some FTEs is held in a different service from where the postholder works in the organisation (for example the HR&OD budget covers apprentices' costs, but the occupied FTEs appear in the service they work in); secondees' budgeted posts appear in the seconding service, but the occupied FTE appears in the service they are seconded to (or not at all if the secondment is to an external body). The income from recharges for secondments is within services' other income.

28. Agency or bank staff often cover vacancies on a temporary basis. The number of temporary staff does not translate easily into an FTE number as these may be for a few hours only, part time etc. The easiest measure for monitoring staffing is cost, using the total expenditure and variance shown in Table 5 and Table App3 in the appendix.

29. Table 5 shows the year to date budget as at 31 August 2016 is £112.9m and expenditure incurred is £113.5m. Table App 3 shows the +£0.6m year to date overspend on employment costs and services' forecast +£1.2m overspend at year end.

Table 5: Staffing costs and FTEs to 31 August 2016

		<------- Staffing spend by category -------->						
Service	**YTD staff budget £m**	**Contracted £m**	**Agency £m**	**Bank & casual £m**	**Total £m**	**Variance £m**	***Amended Budgeted FTE***	***Occupied contracted FTEs***
Strategic Leadership	0.4	0.4	0.0	0.0	0.4	0.0	*10*	*9*
Adult Social Care	23.8	22.4	1.1	0.8	24.4	0.6	*1,860*	*1,528*
Children, Schools & Families [1]	48.1	43.7	3.5	1.9	49.1	0.9	*2,956*	*2,729*
Community Partnership & Safety	0.5	0.4	0.0	0.0	0.4	-0.1	*25*	*26*
Coroner	0.2	0.1	0.1	0.0	0.2	0.1	*2*	*2*
Cultural Services	7.9	7.1	0.0	0.7	7.8	-0.1	*507*	*520*
C&C Directorate Support	0.4	0.5	0.0	0.0	0.5	0.1	*26*	*24*
Emergency Management	0.2	0.2	0.0	0.0	0.2	0.0	*12*	*11*
Surrey Fire & Rescue Service	11.5	11.2	0.0	0.6	11.9	0.4	*648*	*610*
Trading Standards	1.4	1.2	0.1	0.0	1.3	-0.1	*75*	*65*
Environment & Planning	4.1	4.0	0.0	0.1	4.1	0.0	*215*	*200*
Highways & Transport	6.4	5.5	0.1	0.1	5.6	-0.8	*370*	*307*
Public Health	1.2	1.0	0.0	0.0	1.0	-0.1	*48*	*41*
Central Income & Expenditure	0.0	0.0	0.0	0.0	0.0	0.0		*0*
Communications	0.5	0.5	0.0	0.0	0.6	0.0	*22*	*26*
Customer Services	1.5	1.3	0.1	0.0	1.4	-0.1	*107*	*93*
Legal & Democratic Services	2.3	2.0	0.0	0.0	2.1	-0.2	*129*	*108*
Strategy & Performance	0.8	0.8	0.0	0.0	0.8	0.0	*27*	*30*
Orbis and Business Services	1.8	1.6	0.2	0.0	1.8	0.0	*84*	*74*
Service net budget	**112.9**	**103.7**	**5.5**	**4.2**	**113.5**	**0.6**	***7,123***	***6,403***

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

1 - Children, Schools & Families' FTEs include: Children's & Safeguarding, Commissioning & Prevention, Schools & SEND and Delegated Schools

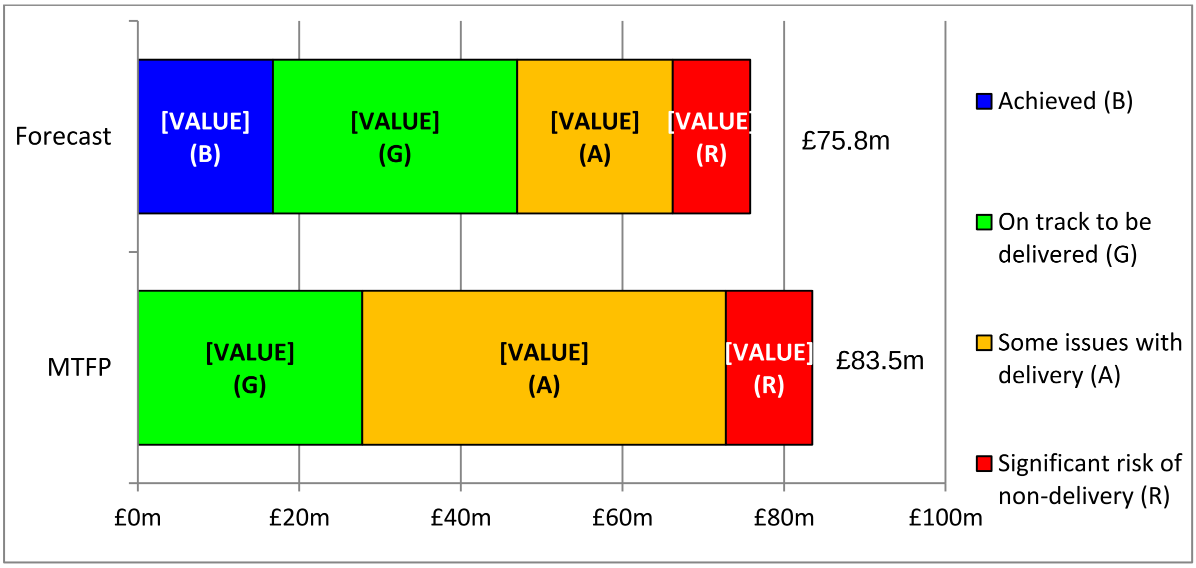
2 - The Orbis Joint Operating Budget is formally delegated to the Joint Operating Committee for management (including staffing), as such the council's monitoring only reports its contribution to the joint budget. The cost of staff that are managed by the partnership but sit outside of the Joint Operating Budget, for example staff delivering the Local Assistance Scheme, is reported in the table above

9

Efficiencies

30. MTFP 2016-21 incorporates £83.5m efficiencies in 2016/17. Council services currently forecast to achieve £75.8m of this target (down from £83.5 as at 30 June 2016) and recognise the level of risk involved in delivery. Figure 1 summarises services' overall efficiency targets, their forecasts for achieving the efficiencies and the risks to achieving them.

Figure 1: 2016/17 overall risk rated efficiencies as at 31 August 2016

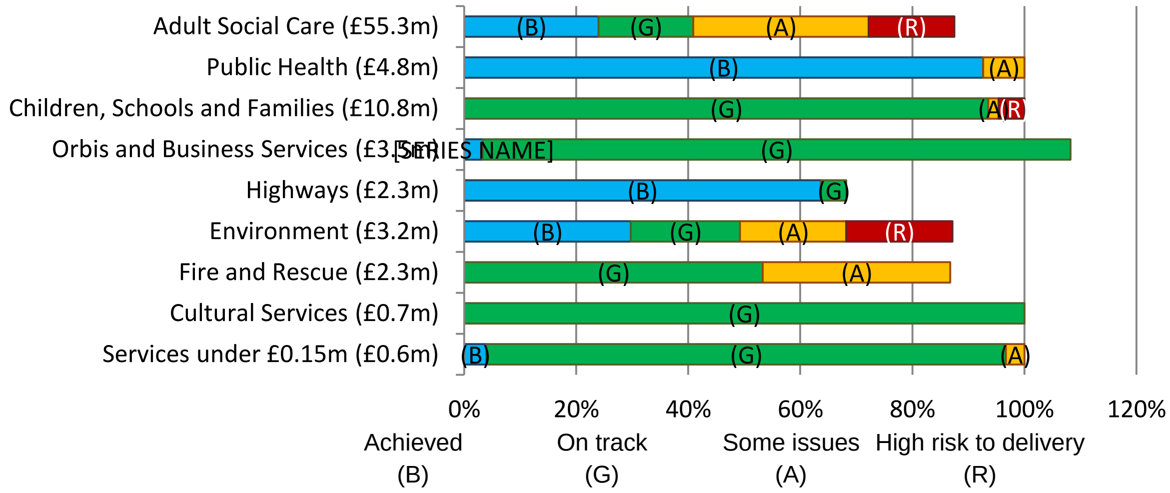


31. Each service's assessment of its progress on achieving efficiencies uses the following risk rating basis:

- RED – significant or high risk of saving not being achieved, as there are barriers preventing the necessary actions to achieve the saving taking place;
- AMBER - a risk of saving not being achieved as there are potential barriers preventing the necessary actions to achieve the saving taking place;
- GREEN – plans in place to take the actions to achieve the saving;
- BLUE – the action has been taken to achieve the saving;
- PURPLE – in year additional and one off savings to support the programme, which are not sustainable in subsequent years.

32. Figure 1 shows that overall there is a projected shortfall in the delivery of efficiencies of £7.7m. Figure 2 shows services' risk ratings for achieving their efficiencies.

Figure 2: 2016/17 efficiencies risk ratings by service as at 31 August 2016



9

Capital budget

33. The council demonstrated its firm long term commitment to supporting Surrey's economy by setting a £638m 2016-21 MTFP capital programme.

34. Cabinet approved the original capital expenditure budget for 2016/17 at £194.4m and carry forward of £13.0m scheme budgets requested in the 2015/16 Outturn report. In July 2016, Cabinet approved -£55.8m reprofiling from the 2016/17 capital budget into the remaining years of the capital programme. As at 31 August 2016, capital virements totalled £4.6m.

35. Table 6 shows the construction of the current year capital expenditure budget from the MTFP budget.

Table 6: Capital expenditure budget 2016/17 as at 31 August 2016

	MTFP budget	2015/16 budget c/fwd	Budget virement	Reprofile	Current full year budget
	£m	£m	£m	£m	£m
School basic need	75.6	-8.1		-34.2	**33.2**
Highways recurring programme	58.1	-0.2	-0.4		**57.6**
Property & IT recurring programme	25.7	4.5	-0.4	0.5	**31.2**
Other capital projects	35.0	16.8	5.3	-22.1	**34.2**
Service capital programme	**194.4**	**13.0**	**4.6**	**-55.8**	**156.2**
Long term investments					**0.0**
Overall capital programme	**194.4**	**13.0**	**4.6**	**-55.8**	**156.2**

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

36. Table 8 compares the current full year overall capital programme budget of £156.2m to the current forecast expenditure for the service capital programme of £150.5m and the current forecast expenditure for the overall capital programme, including long term investments of £236.1m.

Table 8: Forecast capital expenditure 2016/17

	Current full year budget £m	Apr - Aug actual £m	Sep - Mar projection £m	Full year forecast £m	Full year variance £m
Schools basic need	**33.2**	17.1	16.2	**33.2**	**0.0**
Highways recurring programme	**57.6**	15.0	42.6	**57.6**	**0.0**
Property & IT recurring programme	**31.2**	12.4	18.8	**31.2**	**0.0**
Other capital projects	**34.2**	7.2	21.4	**28.6**	**-5.6**
Service capital programme	**156.2**	**51.7**	**98.9**	**150.5**	**-5.6**
Long term investments	**0.0**	21.3	64.3	85.6	**85.6**
Overall capital programme	**156.2**	**73.0**	**163.1**	**236.1**	**80.0**

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

37. Approved Investment Strategy spending is expected to be £85.6m in 2016/17 and total capital expenditure £236.1m. There are no significant variances to the current service capital programme

Changes to fees and charges

Cycle training fees

38. In line with the policy on approving changes to fees and charges, the Director of Finance has approved fees to schools for cycle training for implementation from

1 September 2017. The early decision provides time to notify schools of the fee changes. Table 9 shows the current and revised fees.

Table 9 Current and revised cycle training fees

Academic year	**Level 2 fee**	**Level 2 free school meal eligible**	**Level 1 fee**	**Level 1 free school meal eligible**	**Pedals**	**Pedals free school meal eligible**
2015/16	£23.00	£11.50	£11.00	£5.50	£3.00	£3.00
2016/17*	£23.00	£11.50	£11.00	£5.50	£3.00	£3.00
2017/18	£30.00	£11.50	£15.00	£5.50	£5.00	£3.00

* The fee levels charged in 2015/16 were held at the same level for 2016/17

39. Cycle training is funded from the Department for Transport Bikeability Grant for Level 2 and fee income. The grant funding is reducing from the 2017/18 academic year, therefore it is necessary to increase fees to enable training to be delivered to a similar number of trainees in future. The fees for pupils eligible for free school meals will be held at the current rates.

40. The yield from these changes is estimated at £63,000 in a full academic year and £36,000 in the financial year 2017/18.

Traffic signal switch out fees

41. In line with the policy on approving changes to fees and charges, the Director of Finance has approved fees charged to external organisations such as utility or construction companies, for switching permanent traffic signals off and back on to accommodate temporary traffic signals, (known as traffic signal switch outs) for implementation from 1 November 2016. Table 10 shows the current and revised fees.

Table 10 Traffic signal switch out fees

Current fees by type	**Fee**
Switch Out Monday to Friday 08:00 to 18:00	£89.00
Switch Out during the weekday period between 18:00 and 06:00	£176.00
Switch Out during a weekend or Public Holiday period	£233.00

Revised fees by type	**Fee (£)**
Switch Out during normal working hours (Monday to Friday 08:00 to 18:00)	£198.00
Switch Out outside of normal working hours	£276.00

42. The cost to Surrey County Council of providing this service is a rechargeable cost. This activity should be cost neutral to the Council. These fees and charges have been reviewed in order to ensure that the council is recovering its costs.

43. The increased yield from updating these fees is estimated at £24,000 in a full financial year and £10,000 once implemented in the current financial year.

Appendix to Annex

Efficiencies & service reductions

App 1. The main significant variation in services' progress against their MTFP 2016-21 efficiencies & service reductions as at 31 August 2016 was for Adult Social Care of £6.9m. This is due to issues affecting: demand management savings, Friends, Family & Community programme and health and social care integration as outlined in paragraphs 8 to 13 of the main annex.

Updated budget - revenue

App 2. The council's 2016/17 revenue expenditure budget was initially approved at £1,686.0m. Adding virement changes in the first five months of 2016/17 reduced the expenditure budget as at 31 August 2016 to £1,682.7m. Table 1 shows the updated budget. Table App1 shows the original and updated income and expenditure budgets, including the overall net expenditure the council plans to meet from reserves.

Table App1: 2016/17 updated revenue budget as at 31 August 2016

	MTFP income £m	Carry fwds & Internal movements £m	**Approved income £m**	MTFP expenditure £m	Carry fwds & Internal movements £m	**Approved expenditure £m**	**Updated net expenditure budget £m**
Economic Growth	0.0	0.0	**0.0**	1.7	0.0	**1.7**	**1.7**
Strategic Leadership	0.0	0.0	**0.0**	1.0	0.0	**1.0**	**1.0**
Adult Social Care	-60.9	-3.6	**-64.5**	429.5	3.4	**433.0**	**368.5**
Children, Schools & Families*	-167.7	3.8	**-163.9**	365.3	-2.8	**362.5**	**198.7**
Delegated Schools	-457.7	-0.1	**-457.8**	457.7	0.2	**457.9**	**0.1**
Community Partnership & Safety	-0.2	0.0	**-0.2**	3.0	0.9	**3.9**	**3.7**
Coroner	0.0	0.0	**0.0**	1.8	0.0	**1.8**	**1.8**
Cultural Services	-13.1	0.1	**-13.1**	22.7	-0.1	**22.6**	**9.6**
Customer Services	-0.1	0.0	**-0.1**	3.6	0.0	**3.6**	**3.5**
Directorate Support	-0.1	0.0	**-0.1**	1.1	0.1	**1.1**	**1.0**
Emergency Management	0.0	0.0	**0.0**	0.5	0.0	**0.6**	**0.5**
Surrey Fire and Rescue Service	-13.6	-0.8	**-14.4**	46.8	0.8	**47.5**	**33.2**
Trading Standards	-1.7	0.0	**-1.7**	3.7	0.0	**3.7**	**2.0**
Environment & Planning	-6.5	-1.9	**-8.5**	86.3	1.9	**88.2**	**79.7**
Highways & Transport	-7.6	-0.1	**-7.6**	51.9	0.6	**52.5**	**44.9**
Public Health	-38.5	0.0	**-38.5**	38.8	0.0	**38.8**	**0.3**
Central Income & Expenditure	-0.5	-0.3	**-0.8**	60.0	-2.8	**57.3**	**56.4**
Communications	0.0	0.0	**0.0**	2.0	0.1	**2.2**	**2.1**
Orbis - Joint and Managed	-17.2	6.2	**-11.0**	97.7	-6.3	**91.4**	**80.4**
Legal & Democratic Services	-0.5	0.0	**-0.6**	9.0	0.0	**9.0**	**8.5**
Strategy & Performance	-0.8	0.0	**-0.8**	1.9	0.5	**2.5**	**1.7**
Service total	**-786.7**	**3.3**	-783.4	**1,686.0**	-3.3	**1,682.7**	899.3
Government grants	-202.3		**-202.3**			**0.0**	**-202.3**
Local taxation	-672.2	0.0	**-672.2**		0.0	**0.0**	**-672.2**
Grand total	**-1,661.2**	**3.3**	**-1,657.9**	**1,686.0**	**-3.3**	**1,682.7**	**24.8**

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

App 3. When Council agreed the MTFP in February 2016, some government departments had not determined the final amount for some grants. Cabinet agreed the principle that services would estimated their likely grant and services' revenue budgets would reflect any changes in the final amounts, whether higher or lower.

App 4. To control their budgets during the year, managers occasionally need to transfer, or vire budgets from one area to another. In most cases these are administrative or technical in nature, or of a value the Director of Finance can approve. Virements above £500,000 require the approval of the relevant Cabinet Member. There were two virements above £500,000 in the first five months of 2016/17.

App 5. Table App 2 summarises the movements to the revenue expenditure budget.

Table App 2: Movements in 2016/17 revenue expenditure budget

	Income £m	Expenditure £m	Earmarked reserves £m	General balances £m	Virement Count
MTFP	-1,661.2	1,686.0		24.8	
Carry forwards		3.9	-3.9	0.0	1
	-1,661.2	1,689.9	-3.9	24.8	1
Q1 movements	5.7	-5.7		0.0	75
July and August movements					
Internal service movements	-1.2	1.2	0.0	0.0	10
Cabinet approvals	-1.3	1.3	0.0	0.0	2
Funding changes	0.0	0.0	0.0	0.0	2
Total July and August movements	**-2.5**	**2.5**	**0.0**	**0.0**	**14**
August approved budget	-1,657.9	1,686.6	-3.9	24.8	85

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

App 6. Table App 3 shows the year to date and forecast year end gross revenue position supported by general balances.

Table App 3: 2016/17 Revenue budget forecast position as at 31 August 2016

	Year to date			← Full year →			
	Budget £m	Actual £m	Variance £m	Budget £m	Remaining forecast £m	Projection £m	Variance £m
Income:							
Local taxation	-333.3	-333.4	-0.1	-672.2	-340.3	-673.7	-1.5
Government grants	-352.0	-341.5	10.5	-837.6	-492.0	-833.5	4.1
Other income	-59.9	-70.0	-10.1	-148.1	-89.5	-159.5	-11.4
Income	-745.2	-744.9	0.3	-1,657.9	-921.8	-1,666.8	-8.8
Expenditure:							
Staffing	112.9	113.5	0.6	273.9	161.6	275.1	1.2
Service provision	363.5	369.3	5.8	951.0	595.1	964.5	13.5
Non schools sub-total	476.5	482.9	6.4	1,224.9	756.7	1,239.6	14.8
Schools expenditure	195.6	195.6	0.0	457.9	262.3	457.9	0.0
Total expenditure	672.1	678.5	6.4	1,682.7	1,019.0	1,697.5	14.8
Movement in balances	-73.1	-66.4	6.7	24.8	97.2	30.8	6.0

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

9

Updated budget – capital

App 7. Cabinet approved £13.0m carry forward of scheme budgets requested in 2015/16's Outturn report and approved -£55.8m reprofiling of expenditure from 2016/17 to the remaining years of the 2016-21 capital programme in July 2016. Capital virements in July and August 2016 amount to a net total £2.3m to add to £2.3m virements made in April to June. Table App 4 summarises the capital budget movements for the year.

Table App 4: 2016/17 Capital budget movements as at 31 August 2016

	1 Apr 2016 £m	**30 Jun 2016 £m**	**31 Aug 2016 £m**
MTFP (2016-21) (opening position)	194.4	194.4	194.4
In year changes			
Carry forwards from 2015/16		13.0	13.0
Property Services' reprofiling		-55.4	-55.4
Environment & Infrastructure reprofile		-0.5	-0.5
Reprofiling & carry forwards		-42.9	-42.9
Virements			
In year changes			
Limnerlease (Watts Gallery Trust)		1.0	1.0
Woodfuel & timber grant		0.3	0.3
Lindon Farm		-1.8	-1.8
Salt barns		0.2	0.2
Horley Library		2.1	2.1
IMT contributions to Equipment Replacement Reserve		0.5	0.5
Schools contributions			1.3
East Surrey Integrated Care unit - ASC			0.9
Local transport systems			0.2
In year budget changes		2.3	4.6
2016/17 updated capital budget		**153.8**	**156.2**

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

SURREY COUNTY COUNCIL

CABINET

DATE: **20 SEPTEMBER 2016**

REPORT OF: **MR DAVID HODGE, LEADER OF THE COUNCIL**

LEAD OFFICER: **SHEILA LITTLE, DIRECTOR OF FINANCE**

SUBJECT: **FINANCIAL SUSTAINABILITY AND BUDGET PLANNING 2017 TO 2022**

SUMMARY OF ISSUE:

Since 2010 local authorities in England have been faced with year on year reduction in funding from central government as a part of the deficit reduction policy. This reduction has included Surrey County Council, which has traditionally been one of the lowest funded local authorities from government grants. At the same time, the demand for Surrey County Council's services has been increasing, especially in looking after an increasingly aged population, a high level of people with learning disabilities and providing school places for a record number of children. The county council has met this challenge through a financial strategy that includes: managing demand, efficiency savings and increases in the level of council tax.

In February 2016 the council's Section 151 Officer highlighted that the 2016/17 budget was balanced through the use of substantial one-off funding and the Medium Term Financial Plan for 2016/17 to 2020/21 (MTFP 2016-21) required significant actions to become sustainable. The council agreed to a Public Value Transformation programme to investigate whether sustainability could be achieved through further significant transformation. This report presents an update on the council's financial prospects and the key strategies to respond to the challenge presented in the next five year Medium Term Financial Plan (MTFP 2017-22) to ensure it is both balanced and sustainable.

Government decisions have a huge influence on the council's financial sustainability. These include:

- the level of grants and how they are allocated;
- the use of business rates;
- the imposition of new responsibilities;
- caps on the council's ability to raise its own income.

How the government implements these decisions will shape the financial prospects over the next five years.

RECOMMENDATIONS:

Cabinet to note:

1. the context and background to the county council's financial prospects over the medium term (paragraphs 15 to 22);

2. the achievement of £329m efficiency savings over the last five years and the further planned savings of £361m over the next five years;

3. the impact of additional funding on the council's financial sustainability (paragraph 35).

Cabinet to approve:

4. revised cash limit budgets for each service in the absence of additional funding from government grants, council tax, or business rates; or further savings (paragraph 33 and annex 1);

5. Cabinet members and officers to develop proposals on delivering services within the revised cash limits for a future Cabinet meeting (paragraph 33);

6. development of proposals to the Government for additional funding through the adult social care precept, business rates retention and for school places (paragraph 35).

7. delegation to the Leader of the decision to accept or decline the Government's four year settlement offer (paragraph 41);

8. the council's own response to the 100% Business Rates Retention consultation, and to endorse the joint response from the 3SC local authorities (paragraph 48).

Cabinet requests;

9. scrutiny boards examine the key budget proposals and report back to Cabinet (paragraph 34)

REASON FOR RECOMMENDATIONS:

10. The council is required to produce a balanced budget each year. Surrey County Council also prepares a Medium Term Financial Plan (MTFP) that sets out its financial plans over a rolling five year period. The efficiency savings the council has had to achieve over the last five years and the efficiency plans it has had to make for the coming five years illustrate the unprecedented and continuing length of the Government's austerity programme, the simultaneous rise in service demand and the impact of additional spending pressures on the council's financial sustainability. Given the confluence of these challenges, Cabinet's decisions need to ensure the council plans and implements coherent and robust measures to achieve a

balanced financial plan in MTFP 2017-22.

11. A key step in achieving a balanced and sustainable MTFP 2017-22 is for Cabinet to approve a suitable framework for developing proposals to deliver the council's Corporate Strategy within the available budget envelope. A critical element of this is a set of revised cash limits for each service that officers will use to develop proposals for Cabinet to approve at a future meeting.

12. The Government has not announced detailed changes to its spending plans, austerity is set to continue and the council needs to maintain a prudent approach. However, the recent changes in the Government's policy developments and economic forecasts mean there is increased continuing uncertainty over the level of future fundraising.

13. In March 2016, the Secretary of State for Communities and Local Government wrote to all councils offering a four year settlement. The offer guarantees (subject to unforeseen significant economic events) each council its Revenue Support Grant (RSG), Rural Services Delivery Grant and Transitional Grant over the period 2016/17 to 2019/20 as set out in the Final Local Government Settlement. To accept the offer, a council must prepare and submit an efficiency plan to the Department for Communities and Local Government (DCLG) by 14 October 2016. A significant feature of the council's proposed four year settlement is that it is set to receive -£17.3m negative RSG in 2019/20 (the Government will deduct £17.3m from the council's other grants). To maximise the time available to consider this issue Cabinet is asked to delegate this decision to the Leader, which will be reported to Full County Council.

14. The Government is consulting on 100% Business Rates retention by local government and a fairer funding review. These will have a fundamental and strategic impact on the council's financial sustainability. The council's consultation responses, in conjunction with partner organisations', seeks to safeguard and advance Surrey residents' wellbeing and experience and Surrey businesses' prosperity.

DETAILS:

Context and background

15. The context and background for the council's financial planning has changed significantly due to the increased uncertainty in the UK's economic forecast, principally due to:

- EU referendum;
- new Prime Minister and Cabinet;
- possible changes to Government economic policy; and
- Bank of England reductions in interest rates and new quantitative easing.

16. The council's current MTFP 2016-21 includes the shock reduction in RSG funding over the period 2016/17 to 2019/20 following a change in grant allocation method to take account of a council's ability to raise council tax. The Government partially mitigated the effects of this change in funding allocation through Transition Grant in 2016/17 and 2017/18 only. However, the reductions in RSG last to 2019/20, when the council suffers a negative RSG grant of -£17.3m.

17. In addition to the reduced Government funding the council has experienced over recent years, it has also had to maintain one of the country's most heavily used road networks and faced intensifying demographic growth pressures from a record number of children requiring more school places and an ageing adult population requiring more social care. To balance and sustain its budget over this period, the council has achieved £329m efficiencies since 2011/12, coupled with regular modest uplifts in council tax.

18. In her statutory report in February 2016 on the robustness of the council's estimates and the adequacy of its reserves, the council's Section 151 Officer commented that though the 'level of risk remains significant and the position is very serious' the 2016/17 budget was balanced and the longer term budget was sustainable, provided:

    - the council delivered all of its existing savings plans in full; and
    - the Public Value Transformation (PVT) programme identified considerable base budget costs reductions as soon as practicable.

19. To help maintain and boost the UK economy following the EU Referendum, the Bank of England has cut interest rates to 0.25% and introduced a new package of quantitative easing.

20. On 25 November 2015, the then Chancellor of the Exchequer, George Osborne, presented his Autumn Statement and Spending Review. This planned a further four years of spending reductions so Government revenues would exceed its spending and would have balanced the budget by 2019/20. However, before leaving office on 13 July, George Osborne announced the Government's ambition to achieve fiscal balance would now have to extend beyond 2019/20.

21. The Prime Minister, Theresa May, has a new Cabinet (including Sajid Javid as the new Secretary of State for Communities and Local Government). Within this, the new Chancellor of the Exchequer, Philip Hammond, has a series of judgments to make on a much changed economic and political backdrop and has yet to announce his plans. These are expected in his Autumn Statement, for which no date is known yet.

22. All of these factors mean the outlook for financial planning is uncertain. While the uncertainty also holds several potential opportunities, the council has an obligation to balance its budget and achieve a sustainable financial position.

Public Value Transformation Programme

23. Public Value Transformation (PVT) was agreed in February 2016 as part of the Council's response to tackling an unsustainable budget beyond 2017. The approach is overseen by the PVT Board (comprising the Leader of the Council, Chief Executive and Director of Finance). The Board had two key objectives:

    - transformation work across the council is aligned within a programme approach to deliver optimum Public Value; and
    - Public Value is a key element of identifying additional savings or funding of £25m by 2017/18 and £50m by 2018/19.

24. The PVT Programme follows the Council's 5D approach to transformation and focuses on the key principles of Public Value:

    - there is evidence of a clear (measurable) benefit to those who are meant to benefit from our work;
    - we have stakeholder support for what we propose; and
    - we are able to deliver it.

25. The initial phase of the work (Discovery) aimed to: offer challenge and scrutiny to the transformation areas in their discovery process; sign off analysis and agree work areas for design/develop phase; develop a process for tracking current savings; identify MTFP savings.

26. The Public Value Transformation Board identified seven transformation priority areas amongst the transformation work taking place across the Council and has provided additional strategic support for transformation priority areas.

27. The Discovery phase has proven an effective way of getting focus on all of the priority area transformation programmes: Special Educational Needs and Disabilities; Early Help; Multi-Agency Safeguarding Hub (MASH); Health and Social Care Integration; Accommodation with Care and Support; Waste; Highways for the Future. As a consequence of this work, there has been a significant increase in confidence that we have credible approaches in place to deliver change on a large scale. This phase also identified a number of challenges and potential gaps in our approach to transformation, resulting in a renewed focus on the identification and analysis of need and demand to identify the pressures with clarity as to the cause, and accuracy. Using this more rigorous approach, assumptions being made within transformation programmes can be tested and challenged.

28. The PVT approach has created greater confidence in our current MTFP savings and helped to accelerate key transformation programmes where required as well as identifying and stopping those which are not critical to the

development of a sustainable budget so that resources can to redirected to actions that will create Public Value and contribute significant savings. The Discovery phase has clarified that the savings already identified are the upper limit of what can be achieved through the transformation programme. Further, we do not have transformational proposals that would meet the additional £50m required.

Revenue and capital budgets

29. The detailed MTFP 2016-21 Cabinet approved in March 2016 included £25m PVT savings to find in 2017/18, rising to £50m in 2018/19 and remaining at £50m to 2020/21. Work during the spring and early summer identified two scenarios as the basis for financial planning.

30. Scenario A incorporates the following known changes, which increase the budget challenge by £6m in 2017/18, rising to £23m in 2020/21.

- Savings increased by £7m in 2017/18, rising to £8m in 2020/21 due to: higher collection fund income, lower treasury management costs and staffing savings.
- Costs increased by £13m in 2017/18, rising to £31m in 2020/21 due to, in particular, high needs block funding and the National Living Wage.

31. Scenario B models the additional impact of a further £20m shock funding reduction. This is to reflect the level of uncertainty and the possibility of currently unknown factors leading to a further reduction in funding. This is considered prudent following the council's experience with the Local Government Settlement for 2016/17.

32. Table 1 shows how these factors provide the quantities of new savings for the council to identify in order to meet the two budget challenge scenarios.

Table 1 Summary of revised budget challenge scenarios (new savings to identify)

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
PVT savings to be identified in MTFP 2016-21	25	50	50	50
Increased new savings	-7	-8	-8	-8
Increased new costs	13	17	26	31
Scenario A budget challenge	**31**	**59**	**68**	**73**
Additional shock	20	20	20	20
Scenario B budget challenge	**51**	**79**	**88**	**93**

33. Based on these scenarios, revised cash limits have been set for each service (annex 1). Cabinet members and officers will work together to determine where services' spending is to reduce in order to balance the budget.

34. To explore the robustness of the proposals Cabinet Members and officers develop, Cabinet is recommended to request scrutiny boards to test the

assumptions within proposals during the period from October to Christmas 2016.

35. Assuming the council identifies and delivers the service reductions to meet the revised cash limits, the uncertain economic position means there is a strong likelihood of the budget challenge remaining. Therefore Cabinet is recommended to continue to work to influence Government policy, especially around the key areas of: adult social care precept, business rates retention and school funding. Any additional funding gained through the council's influencing work will have a positive impact on the council's financial sustainability.

Four year settlement

36. On 10 March 2016, the Secretary of State for Communities and Local Government wrote to all councils offering a four year funding settlement for councils that prepared and submitted an efficiency plan to DCLG by 14 October 2016.

37. The Secretary of State's letter outlines that efficiency plans should:

- be locally owned and locally driven;
- show how the greater certainty of the four year settlement can bring about opportunities for further savings;
- cover the full four year period (2016/17 to 2019/20);
- be open and transparent about the benefits to the council and the community; and
- show how the council will collaborate with local neighbours, partners and devolution deals where appropriate.

38. In return for completing an efficiency plan, the Government would guarantee (subject to unforeseen significant economic events) the council minimum funding over the period 2016/17 to 2019/20, as set out in the Final Settlement in February 2016 for:

- Revenue Support Grant,
- Rural Services Delivery Grant and
- Transitional Grant

39. Table 2 summarises the offer. As such, the Government's guarantee would mean the council will have negative Revenue Support Grant (RSG) to the value of -£17.3m in 2019/20.This is the equivalent of Surrey residents paying for a 3% increase in council tax to fund services elsewhere in the country.

Table 2 Summary of the Government's four year funding offer

Grant funding	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	67.1	28.0	4.5	-17.3
Transitional Grant	11.9	12.2	0.0	0.0

Rural Services Delivery Grant	0.0	0.0	0.0	0.0
Total four year offer	**79.0**	**40.2**	**4.5**	**-17.3**

40. Other factors to consider in determining whether to decline or accept the four-year offer are set out below.

The main risks to the council of declining include:

- increased vulnerability to further funding changes as DCLG has indicated it will look first to reduce the funding of authorities that have not accepted the offer of a four year settlement;
- Surrey County Council would appear to be unsupportive of DCLG's policy response to requests from local government for greater certainty over future years' funding; and
- uncertainty about the profile of RSG and Transitional Grant allocations, albeit that the grants protected form a very small proportion of the council's overall funding.

The main risks to the council of accepting include:

- the risks of reductions in other unprotected grants remain, in particular funding for SEN (special educational needs) is not assured (the council's assessment of potential reductions in SEN funding could be significant);
- the offer provides no assurances around the future level of funding through business rates retention;
- acceptance could imply acceptance of the financial position the Government has put the council in for future funding discussions and could weaken further funding arguments (through the key influencing areas around business rates retention and devolution);
- acceptance could imply the council agrees the offer enables it to make and deliver efficiency plans with appreciably more certainty than would otherwise be the case; and
- the obligation to produce an efficiency plan by 14 October 2016 (although the council has already published much of the material and this involves minimal additional effort).

41. In conclusion, to maximise the time available to consider this issue, it is recommended Cabinet delegates the decision to accept or decline the Government's four year settlement to the Leader, and report the decision to Full County Council.

Efficiency Plan

42. In outline, the council could prepare its efficiency plan to meet the requirements described in paragraph 37 as follows:

- Summarise the Corporate Strategy, setting out the council's intentions and challenges and how it plans to achieve the strategy's outcomes for Surrey residents and businesses.

- Summarise the Financial Strategy, including how this underpins the council's Corporate Strategy.
- Reference the council's service strategies, highlighting some particular challenges in them.
- Summarise MTFP 2016-21, highlighting:
  - the council's overall financial challenge and its profile;
  - how the council intends to make efficiencies to achieve financial sustainability; and
  - the impact of transformational efficiencies on the council's finances.
- Summarise evidence of the council's partnership and collaborative activities, including with: 3SC, ORBIS, SE7 and health & social care integration.

Business Rates Retention

43. In July 2016 the Government confirmed its intention to move to 100% business rate retention by local government with the publication of two consultation papers on 100% business rates retention and fair funding review of needs and redistribution. Responses to the consultation papers are due on 26 September 2016.

44. The Government states the purpose of this fiscal devolution is 'to provide communities with the financial independence, stability and incentives to push for local growth and pioneer new models of public service delivery.' This will mean local authorities as a whole retaining all of the business rates they collect, but taking on new responsibilities to match the increased resources this gives them. The Government's intention is that this change in local government funding is fiscally neutral, and as such is not a solution to the council's financial challenge.

45. The council is fully engaged in the consultations and discussions to develop the proposals, both as Surrey County Council and with a range of partners. As part of this, the council is contributing to responses by:

- Three Southern Counties (3SC) proposed combined authority group;
- South East Seven (SE7) group of authorities;
- South East Strategic Leaders (SESL) group of authorities; and
- Society of County Treasurers (SCT).

46. In summary, the key principles and areas of commonality agreed in the responses for Surrey County Council, boroughs and districts in Surrey and 3SC group of authorities include:

- business rates retained by local authorities should fully fund current responsibilities first;
- new responsibilities devolved to local authorities by the Government should link to economic growth and enable effective public service delivery;

and

- combined authority areas should be able to agree their own arrangements to suit local circumstances and ambitions.

47. Cabinet is recommended to approve the council's responses to the consultation papers, which are set out in full in annex 2 and to endorse the joint response from the 3SC group of authorities set out in annex 3.

CONSULTATION:

48. All Cabinet Members will have consulted their relevant director or head of service on the financial positions of their portfolios.

RISK MANAGEMENT AND IMPLICATIONS:

49. Risk implications are stated throughout the report and each relevant director or head of service has updated their strategic and/or service risk registers accordingly. In addition, the leadership risk register continues to reflect the increasing uncertainty of future funding likely to be allocated to the council.

Financial and Value for Money Implications

50. The financial and value for money implications are considered throughout this report.

Section 151 Officer Commentary

51. In February 2016 the council's Section 151 Officer highlighted that the financial position was serious, noting that:

- the 2016/17 budget was balanced through the use of substantial one-off funding, and;
- the Medium Term Financial Plan for 2016/17 to 2020/21 would only be sustainable through an effective programme of Public Transformation.

52. It is now clear that the PVT Programme has increased the level of confidence in delivery of the existing MTFP, although it will not produce the additional savings to close the budget gap. Therefore the requirement to set a balanced budget can only be met either through identifying further reductions in services' spending, or by securing a fairer funding settlement from Central Government.

53. Changes across Government, the on-going uncertain economic outlook and service demand changes since February 2016 mean the financial position remains serious. It is essential Members remain focused on shaping service delivery to fit within available resources as a matter of priority over the autumn, to enable a balanced budget to be set in February 2017 and a clear plan for moving towards sustainability to be identified.

Legal Implications – Monitoring Officer

54. The Council is under a duty to set a balanced and sustainable budget. This report describes the context to the Council's financial prospects in the medium term and highlights the challenges faced in planning future budgets. It also provides an update on the strategies recommended to respond to these challenges and delegates to the Leader the decision to accept or decline the Government's four year settlement.

Equalities and Diversity

55. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary.

WHAT HAPPENS NEXT:

56. Cabinet members and officers will work together in informal workshops to determine where services' spending is to reduce in order to balance the budget. Scrutiny boards will test the assumptions within proposals during the period from October to Christmas 2016.

Contact Officer:
Sheila Little, Director of Finance
020 8541 7012

Consulted:
Cabinet, strategic directors, heads of service.

Annexes:

Annex 1	Services' revised cash limits 2017/18 to 2020/21
Annex 2	Surrey County Council's responses to DCLG's consultation papers on: Self-sufficient local government: 100% Business Rates Retention and Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution – *to follow*
Annex 3	Three Southern Counties' response to DCLG's consultation papers on: Self-sufficient local government: 100% Business Rates Retention and Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution – *to follow*

Sources/background papers:
- Medium Term Financial Plan 2016-21

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Services' revised cash limits 2017/18 to 2020/21

Scenario A - revised cash limits	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Delegated Schools	457.5	457.5	457.5	457.5
Schools and Special Educational Needs & Disabilities (SEND)	166.7	165.2	165.9	166.2
Children's services	103.9	101.1	96.8	94.4
Commissioning and Prevention	82.9	79.7	79.3	79.1
Adult Social Care	409.0	401.8	398.6	398.9
Environment and Planning	84.7	85.1	88.8	90.4
Central Income and Expenditure	68.9	75.9	81.4	84.0
Highways and Transport	51.9	51.2	51.6	52.2
Fire and Rescue Service	44.3	45.4	43.4	43.3
ORBIS Joint & managed budgets	96.4	92.2	92.3	94.0
Public Health	36.5	34.2	32.8	32.5
Cultural Services	22.4	21.9	21.9	22.0
Legal and Democratic Services	10.0	8.5	8.4	8.4
Trading Standards	3.6	3.5	3.5	3.5
Customer Services	3.5	3.4	3.4	3.4
Strategy and Performance	3.5	3.4	3.4	3.3
Community Partnership and Safety	2.9	2.8	2.8	2.8
Communications	1.9	1.8	1.8	1.8
Coroner	1.7	1.7	1.7	1.8
Directorate support	1.0	1.0	1.0	1.0
Strategic Leadership	1.0	1.0	1.0	1.0
Emergency Management	0.5	0.5	0.5	0.5
Total expenditure	**1,654.8**	**1,638.8**	**1,637.8**	**1,641.9**

Scenario B - revised cash limits	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Delegated Schools	457.5	457.5	457.5	457.5
Schools and Special Educational Needs & Disabilities (SEND)	165.3	163.7	164.5	164.7
Children's services	101.7	98.8	94.6	92.1
Commissioning and Prevention	82.0	78.8	78.4	78.3
Adult Social Care	400.6	393.4	390.2	390.5
Environment and Planning	82.9	83.3	87.0	88.6
Central Income and Expenditure	68.9	75.9	81.4	84.0
Highways and Transport	50.9	50.2	50.5	51.2
Fire and Rescue Service	43.5	44.6	42.7	42.5
ORBIS Joint & managed budgets	94.6	90.4	90.5	92.2
Public Health	35.6	33.3	31.9	31.7
Cultural Services	22.2	21.7	21.7	21.8
Legal and Democratic Services	9.8	8.3	8.2	8.2
Trading Standards	3.5	3.5	3.5	3.5
Customer Services	3.4	3.3	3.3	3.3
Strategy and Performance	3.5	3.4	3.3	3.3
Community Partnership and Safety	2.8	2.8	2.7	2.7
Communications	1.9	1.7	1.7	1.7
Coroner	1.7	1.7	1.7	1.7
Directorate support	1.0	1.0	1.0	1.0
Strategic Leadership	1.0	1.0	1.0	1.0
Emergency Management	0.5	0.5	0.5	0.5
Total expenditure	**1,634.8**	**1,618.8**	**1,617.8**	**1,621.9**

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Matthew Style
Director, Local Government Finance & Settlement
Department for Communities and Local Government
2 Marsham Street
London
SW1P 4DF

XX September 2016

100% Retention of Business Rates

Dear Matthew

Thank you for the opportunity to respond to your consultation on the future of Business Rates and Fair Funding.

I attach a schedule setting out the council's responses to the individual questions within the consultations. Where the council felt there was some duplication in the consultation questions, it has clustered its responses to a group of questions.

I hope that you find our responses helpful in providing ministers with views that can assist in developing an effective outcome to these consultations and achieving the purpose of fiscal devolution. The council would be willing to take up any opportunities to work further with the Department to develop the ideas and comments in its response.

The council has also contributed actively to and endorses the responses by the Three Southern Counties (3SC) and the Society of County Treasurers. I would highlight 3SC's response as being particularly pertinent to questions concerning combined authorities.

In summary, the council would like to emphasise some important key principles (some of which are considered further within the specific consultation questions below).

- Unfunded pressures must be the first call on the quantum; this is particularly important given the pressure on social care budgets and the wider impact on the NHS. Similarly the quantum must also properly fund new burdens on a continuing basis.
- Local government must facilitate (and have the right responsibilities to facilitate) healthy local economies and drive business growth in order to reap the benefits of business rates retention.
- The new funding system must be focused on residents' needs; starting with a simple, fair and relevant per capita funding basis and taking all funding streams into account, including locally raised income.
- The local government sector must fully engage with the consultation and review process in order to create a system which can be tailored to local needs and opportunities.
- There must be transitional arrangements in place to enable a smooth shift to the new system and to assist planning.
- All areas should be enabled to maximise economic growth opportunities, this includes all having the ability to increase the business rates multiplier to fund essential infrastructure.

This specific letter sets out Surrey County Council's fuller response addressing the specifics of the consultation questions.

In several areas the council found it impossible to give a considered answer to the consultation question. This is mainly because, until devolution decisions are made and there is a firmer indication of what the new fair funding formula will look like, the council cannot yet assess the risk in the system nor say how other elements of the business rates retention model should be constructed. The council hopes the discussions started in the consultation continue and develop further at the steering and working groups and decisions made once the devolution and fair funding elements are fixed.

Yours sincerely

1. Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Surrey County Council welcomes the proposal for councils to retain 100% of business rates raised locally. The council is keen to ensure it and other local authorities are well placed to fulfil the stated purpose of fiscal devolution, that is: *'to provide communities with the financial independence, stability and incentives to push for local growth and pioneer new models of public service delivery'*.

Working within arrangements that give the right balance of incentives for growth and support for service responsibilities, Surrey County Council believes it can help grow Surrey's economy even more and by doing so, increase Surrey's contribution to the UK economy. For the council and other local authorities to take full advantage of the potential benefits of the shift to 100% business rate retention, the council believes it is essential there is a clear link between local authorities' new responsibilities funded from retained business rates and economic growth, as suggested by the House of Commons Communities and Local Government Committee in its interim report on business rates. For example, the council believes responsibilities such as skills, transport and other infrastructure provide such a link, fitting the purpose of fiscal devolution and supporting the national priority of increasing economic growth.

Where the Government transfers responsibilities and funding, the council believes local authorities should have genuine discretion over how they provide those services and the ability to shape the services on offer in local areas to suit residents, businesses and the local economy. The council does not believe a simple transfer of funding for some services from specific grant to being funded from business rates will enable this growth aspiration.

The list of grants on pages 18 and 19 of the consultation document are all grants that local authorities already, or will receive. Transferring the funding of these grants from central government to locally retained business rates will result in local authorities having no more or less control over the services; but will transfer the funding risk as the stability and predictability of the funding will depend on the buoyancy of the local economy.

Examples such as the transfer of the Independent Living Find or the Attendance Allowance suggest a poor fit, where local government would merely be a local administrator of central government rules and policy with little or no input to reflect local need and instances and a cost base unrelated to the local business rate revenue. Equally, transfers of responsibilities should also remove ring fenced spending requirement, such as for Public Health. This mismatch could exacerbate the funding risk by placing an unavoidable, unrelated strain on resources and diverting funds away from the national priority of economic growth.

The council believes public services work best where there is collaboration. Therefore, in deciding which services and funding responsibilities to transfer, the council believes local and central government should consider the best place to manage the shared funding risk for local services and allocate funding and responsibilities accordingly to achieve local growth and effective public service delivery.

In summary, as outlined above, the council wants new responsibilities and discretions that:

- link to the health of the local economy, its business rate base and the council's ability to facilitate their growth; and
- enable and facilitate effective delivery of public services, including through new models of delivery.

2. Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

As offered in the Three Southern Counties' devolution deal proposal, the council would like to gain responsibility and control of services in the areas of: skills, education, economic growth and transport and digital infrastructure. The council believes these are responsibilities that local authorities can tailor and apply to local initiatives and responses to local needs, issues and plans which will facilitate more effective local economic growth and transform service delivery. Given the extent of the prize at stake and the fundamental long term change 100% business rates retention will bring, the council urges the Government to consider the principles involved and to arrive at the detail through discussion focused on defining the specific transfers to match the core objectives of fiscal devolution. As the success of 100% business rates retention grows, opportunities to transfer further responsibilities will also follow and working within a framework of principles will enable a continuing and focused dialogue to agree future transfers.

The list of grants on pages 18 and 19 of the consultation document only includes one infrastructure grant and that benefits London only. Shire areas frequently miss out on support for investment in transport and infrastructure. If the country is to maximise the benefits of local economic opportunities, it is important all councils are able to access appropriate funding.

Local authorities are already investing, but need to see this commitment matched by government if areas are to reach their full potential. For example, infrastructure investment in Surrey repays handsomely in terms of GVA (Gross Value Added). If the Government wants to incentivise local authorities to invest to maximise economic growth and generate revenues which go beyond business rates income, it is important to enable appropriate funding.

Surrey County Council believes the responsibilities the Government is offering to areas piloting devolution deals include many of the services that can help to improve local growth and so maximise the country's economic wellbeing. The council strongly supports the offer to devolve a wider set of responsibilities to areas that do not have an elected mayor. The consultation paper implies governance may be a barrier to further devolution in some areas. The council would be keen to work with the Department to find ways to overcome this.

Surrey County Council believes whatever decisions the Government makes about which responsibilities to devolve, it is imperative that the first call on the business rates quantum is to ensure the new arrangement funds local authorities' current service responsibilities fully. Then, the transfer of funding from the remainder of the quantum for any existing or new responsibilities needs to be sufficient fully to recognise and accommodate known and foreseeable demand changes (e.g. population increases) and apply the new burdens doctrine to new responsibilities.,

The council recognises and supports the changing environments businesses operate in. Digital infrastructure and internet developments have seen a rise in the volume of small businesses that thrive without the need for a physical operations base and so do not contribute substantially to business rates revenue. Surrey County Council regards these businesses as a strong element of our future economy, both for the county of Surrey and the UK as a whole, and works to encourage and facilitate their growth and success. Given this position, the council urges the Government to develop a way to recognise this business trend and thereby to incentivise local authorities' role in its growth fairly and appropriately.

3. Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Surrey County Council believes individual combined authority areas will have their own views and should be left to agree their own arrangements about organising services and pooling budgets to make the best positive difference to their residents. In addition, the council firmly believes these new responsibilities must be truly new, appropriate to supporting fiscal devolution and not simply funding stream transfers.

The council endorses the collective view of the Three Southern Counties that decisions on pooling budgets should be left to the discretion of the individual areas developing their devolution proposals, as they are best placed to determine the most cost effective way of delivering local services, factoring in the different social and environment factors that impact of their area.

The council believes the responsibilities devolved through devolution deals should not affect the quantum available to the rest of local government, unless those responsibilities are devolved throughout local government and funded through the business rates retention distribution method. In other words, the appetite of combined authorities or those areas with an elected mayor should not result directly in less business rates funding for responsibilities devolved in other areas. An area's ability or suitability to adopt specific governance arrangements should not determine whether local authorities in an area have the opportunity to improve the services offered to their residents.

4. Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

Commitments in existing and future deals could be funded through retained business rates, provided those same responsibilities are devolved to all local authority areas. For example, some devolution deals include skills funding, Surrey County Council believes this should be devolved to all local authority areas to encourage and facilitate more local economic growth. In this scenario, that part of a devolution deal which includes responsibility and funding for skills could be funded from the quantum. Other features of specific devolution deals which are not available to all areas, should not be funded from business rates quantum.

5. Do you agree that we should continue with the new burdens doctrine post-2020?

Yes. Surrey County Council supports the continuation of the new burdens doctrine, which ensures newly transferred responsibilities between central and local government are fully funded and commends the increased transparency it brings. The council fully expects the move to 100% business rates retention to also include some element of grant funding. This could be an important element of flexibility in:

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- managing service delivery funding risks at the most appropriate level (as outlined in the response to Question 1); as
- enabling devolution of responsibilities at the most appropriate time, rather than delaying transfers until a reset; and
- preventing the transfers of responsibilities becoming unsustainable through insufficient funding.

Depending on the decision made about the length of time between resets, the council would like to see the new burdens doctrine not only assessing the costs in the year of transfer but also projecting costs until the next reset, using reasonable, foreseeable cost and volume changes. It is undeniable many local authority services are likely to follow a demand pattern which is different to the pattern of economic growth and business rates revenues. As such, when a new transfer takes place, reasonable funding projections must be in place for future years to ensure service viability.

6. Do you agree that we should fix reset periods for the system?

The critical considerations here involve incentives, risk and reward.

- what is the risk that future retained business rates will not properly fund services; and
- what are the prospects of retaining the future proceeds of growth given the impact of the reset on the extent to which they will be retained?

If the proceeds of growth will be lost fairly frequently due to relatively short reset periods, there is low incentive for local authorities to invest in local economic growth. If economic growth and business rates revenues fail to keep up with service expenditure, for example due to faster demographic growth, then local authorities could need more frequent resets. The key is finding a balance. Enabling local authorities to retain a proportion of previously earned business rates growth would mean shorter reset periods would have a stronger incentive for local authorities to invest in economic growth and so become more palatable.

Surrey County Council, like many other authorities, is keen to take on new responsibilities and work to improve our services and areas; it is also keenly aware that many of its statutory services enormously affect the quality of life for many of the most vulnerable residents. As mentioned above, the move to 100% business rates retention brings with it the potential for less stability in councils' funding streams. This will depend not only on the type and frequency of the reset, but also on the responsibilities devolved, confidence in the needs assessment, the expectation of demand and the protection provided by the new safety net arrangements.

The council suggests, as a viable alternative to fixed reset periods, using a trigger system based on reaching a critical disparity between funding and service demand. The council believes this option should be examined fully and is willing to support the Department to do so.

In summary, the answer to balancing this issue of incentives, risk and reward will depend not only on the type of reset, but also on the type of responsibilities devolved, confidence in the needs assessment, the expectation of demand and the protection provided by the safety net. As such the council believes a five yearly partial reset, with full resets if triggered by reaching a critical disparity between funding and service demand.

7. What is the right balance in the system between rewarding growth and redistributing to meet changing need?

As highlighted in the council's response to question 6, this will depend on many factors, none of which are known currently. Before being able to decide their position on this, local authorities will need to know the answer to several questions, including the following.

- What a reset looks like and how much, if any, previous growth can be retained?
- What new services will be devolved?
- What will the needs assessment and new burdens' assessment look like?
- What assurances do councils have about how funding and needs will be aligned in years two and onwards?
- Will the services that local authorities already provide and which are under increasing pressure be funded adequately in the future?
  (In other words, what confidence is there that the demand projections are manageable?)
- What protection will be offered by the safety net?
- How frequent will revaluations be after 2017?
- Will appeals continue to be a local issue, or can a national solution be found?

Once local authorities know all these, then it will be easier to come to a considered opinion on the frequency and nature of resets and the balance between rewarding growth and funding service demand.

8. Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

The council believes if an area works to secure business rates growth, it is right it should be able to keep some of the benefits from it.

In its responses above, the council has emphasised the need for full and proper funding through the business rates retention system of local authorities' current responsibilities and any transferring responsibilities both at the time of transfer and for the reasonably foreseeable future.

The council is aware demand for some types of services grows more quickly than others and in some areas more than in others. It believes a partial business rates reset should also incorporate an element of needs assessment, specifically for demand led services such as adult and children's social care. This would offer more reliable funding for authorities with responsibilities where the pressures and demands do not correlate to economic growth. It would also continue the government's current approach of protecting, to some degree, authorities with social care responsibilities.

The timing of a partial reset could use a trigger system based on a set of indicators for demographic growth factors. The council believes this option should be examined fully and is willing to support the Department to do so.

9. Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

The council believes the redistribution system should be relatively simple and transparent. In making the new needs assessment to determine the tariffs, top-ups and any redistribution mechanisms, it is important this should take account of not only demographic factors, but also include the effects of local differences in the costs of delivering services.

The council supports the Government's previous approach to protect authorities with social care responsibilities, in part achieved through the top-up / tariff system. That need for protection still exists and indeed, grows. The ability to raise funding through the adult social care precept is welcome and adds to the protection these services need. However, in Surrey it only covers about half of the annual growth in demand.

The council does not support the Government taking into account the ability of an authority to raise funds locally through council tax in determining the level of tariff or top-up (as has been done in the current four year offer).The council believes that this ability to raise council tax is already factored into a councils funding and to adjust for it a second time through top-up adjustment is unfairly detrimental to an area.

As the council's responses above state, the mix of responsibilities the Government devolves to local authorities and how they relate to the purposes of fiscal devolution will be important to the success of this significant change in local government finance. Providing the right opportunity for incentivisation of business rates growth and its risks and rewards, balanced against the reliability of other funding, specifically for demand led services such as adult and children's social care, should help mitigate service funding risks. Ideally the council would like to see local authorities exposed to risk (and therefore, reward) in proportion to the demand led pressure on their budgets as well as their potential influence over business rates growth.

Without knowing, even in broad principled terms, what new responsibilities different types of local authorities will take on, it would be futile to suggest a funding split between authorities in two tier areas. The council cautions against considering exact mechanics until there is more clarity over the new responsibilities, their distribution and the funding formula.

10. Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Since the introduction of the current business rates retention scheme, local government has still not had a revaluation nor has it had a detailed explanation of what will happen at a revaluation. It is unclear how a revaluation will protect growth attributable to a local authority's actions. The consultation document implies it is possible to adjust the system at a given date to cancel out the effect of future revaluations.

In principle it makes sense to adjust tariffs and top-ups following a revaluation but until we have further clarity, the council cannot provide a definitive answer to this question.

11. Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Surrey County Council believes for this national scheme of business rates retention, all areas should be treated equally and these powers and incentives should be available in all areas, irrespective of their framework for democratic accountability.

Any additional powers and incentives for Combined Authorities, with or without mayors, can be agreed when the devolution deal is made.

Given the issues facing the economy at this time, the council believes the scheme for fiscal devolution should maximise encouragement, enablement and incentivisation for all local authorities to do all they can to grow and sustain their local economies.

12. What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

Surrey County Council agrees the issue of tier splits will need to be considered once the services to be devolved are decided upon and the balance between risk and reward will be an important consideration.

In its responses to other questions, the council has highlighted the need to protect funding for social care for adults and children. These services are demand led and activity levels and costs do not correlate to economic growth. Failings in these services can have a devastating impact individually, locally and nationally, so funding must continue to be protected.

The council has positive experience of pooling arrangements under the current system. Pooling provided many benefits and the council believes the following features could also work well in tier split areas and combined authorities:

- Enable the area to determine its own distribution arrangement for the additional resources arising from moving to 100% business rates retention, linked to both needs and economic development.
- Use the economy of scale the larger area brings to manage the valuation and appeal risks better.
- Provide a single voice to work more effectively with the Valuation Office to manage business rates within the area.
- Provide a single voice for engagement with the business community over investment.

13. Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

With the recent initiative to improve links among blue light services, the council understands the rationale for a desire to move funding for fire from DCLG to the Home Office.

However, for fire authorities currently within a county structure, such as Surrey, any proposed transfer will be complicated, financially, administratively and organisationally challenging and it is difficult to see where the benefit would be, since the fire service is completely embedded within the operation of the council and subject to the same rigorous approach to continual efficiency imporvements.

The council would need assurance and a fuller explanation about how Surrey Fire and Rescue Service would be extricated before giving a full response about a transfer.

The consultation document proposes the Government would replicate published funding allocations for 2019/20 if it removed fire funding from the business rates retention scheme. Given Surrey County Council's proposed grant allocation for that year is -£17.3m, the council has concerns about how the Government would do this and what effect it could have on the fires service and the council's other services.

14. What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Surrey County Council firmly believes the business rates retention system needs fair and effective incentivisation arrangements to achieve the purpose of fiscal devolution. Please see the council's responses to other questions to attain wider points.

The council needs greater clarity on the *default* 100% business rates retention model before commenting conclusively on whether additional incentives are needed. However, as outlined in the council's response to question 2, given the changing nature of business and particularly the areas for strategic business growth in digital and high tech businesses that generate high GVA, but do not occupy a large business rates footprint, the council would like to see greater recognition of and incentivisation to encourage these enterprises through the new funding scheme for local government. Additionally, as one of the purposes of fiscal devolution is economic growth, the council would like the system to reward new business growth more favourably than transfers of essentially the same business between different areas, so the system rewards net new business growth to the country as a whole more strongly.

Shire areas tend to have a much greater share of their gross rates lost through mandatory reliefs. The council would like to sharpen the link between the income and the needs of the residents and allow local authorities more control over the eligibility criteria for mandatory reliefs.

15. Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

The council sees the merit of standardising and consolidating strategic national infrastructure assets such as power stations and airports for administration under a national list given their importance to the development of the whole nation's economy. However, in centralising the income, there should also be a centralisation of the associated risks, especially with the funding of any additional infrastructure that would arise from the expansion of those assets. For example, any strategic rail and road improvements arising from the expansion of either Heathrow or Gatwick airports should be funded by the Government, or through devolution deals by the relevant combined authority and not the individual surrounding local authorities.

Equally, there are also occasions where national government policy affects a business' viability, location or profitability. In such cases, the impact on business rates revenue should not be to the detriment of local residents.

Again, the council is not able to provide a comprehensive answer to this question until it has more information about the operation and protection of the safety net as well as greater clarity about the criteria for a hereditament to appear on the central list.

16. Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

The council would welcome the introduction of an area based list, as this would support the concept and management of an area based pooling arrangement. It believes the type of properties that feature on these lists is a decision for individual combined authority areas.

17. At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Under the current 50% rates retention scheme, individual local authorities make their own provisions for appeals. It is very likely under this arrangement, that the combined national amount set aside for appeals is greater than if provision was made centrally. This means less money is available for local services than there might otherwise have been and all the risks of appeals sits with local authorities. Under 100% business rates retention, the amount of these provisions could easily double.

In the near future, ahead of 100% business rates retention, local authorities may even need to increase their provisions as they receive increasing challenges from other public service bodies (e.g. NHS trusts).

Therefore the council believes that a national provision for business rates appeals would be preferable as this would ensure that overprovision is not made and funds are kept available for local services. It would also ensure that no authority is unfairly exposed to risk due to the composition of their local rating list. The provision would be funded from income from the central list and distributed to local authorities to reflect their actual losses on appeals.

18. What would help your local authority better manage risks associated with successful business rates appeals?

Greater information and intelligence sharing between the Valuation Office Agency (VOA) and local government would help assess the likelihood of successful appeals. An agreed mechanism of data sharing between VOA and local government would help to standardise the appeals provisions.

19. Would pooling risk, including a pool-area safety net, be attractive to local authorities?

The consultation paper does not give any detailed explanations of the relevant impacts of this proposal. As such the council cannot offer any specific observations, but in general it would support the establishment of an area based pooling arrangement. In saying this, the council also supports and recognises the importance of local discretion about whether a local authority wishes to join a pool or not.

20. What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Similar to previous answers, the council does not feel it can make any specific observations on this question until more details are available on the responsibilities to be transferred, the associated funding arrangements and how 100% business rates retention generally will look.

21. What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

In two tier areas where the decision will affect more than just the billing authority this decision **must** be made jointly, with the impact of it being borne collaboratively and proportionately.

Joint decision making is not the case for Council Tax Support Schemes, where the billing authority only needs to consult the precepting authorities. The council believes this is not equitable given the disproportionate impact on the upper tier authority.

22. What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Through the 3SC devolution deal the area is seeking to stimulate and increase economic activity and growth, with the growth in retained business rate income being a key element of gaining the funding needed to facilitate and deliver the economic growth. The council as part of the 3SC area would be interested, through this consultation exercise, to open discussion on securing additional freedoms and flexibilities over the following to help further facilitate growth.

- Control over setting the rate multiplier.
- Freedoms to set local levels of discounts for both mandatory and discretionary reliefs to improve their alignment with the actual needs of local businesses.
- Direct involvement in the timing and process for rate revaluations.

The council would prefer the freedom to change the eligibility for other reliefs and discounts and would argue that the application of discounts will be far easier and enable more specificity in targeting incentives and encouragement than a reduction in the multiplier.

23. What are your views on increasing the multiplier after a reduction?

Local authorities should be free to control it themselves without capping constraints.

24. Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

As with all other freedoms and responsibilities the council believes these should be granted to all local authorities, regardless of whether they are in a combined authority or have an elected mayor.

This also applies to the application of the power to increase the multiplier – this should be granted to all authorities, regardless of whether they are in a combined authority area or have an elected mayor. In addition as stated in the council's response to question 22, additional freedoms around setting reliefs and discounts could enable more targeted support to local businesses.

25. What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

The council believes this should be decided locally.

26. What are your views on how the infrastructure levy should interact with existing BRS powers?

The council has not used the existing business rates supplement and so does not have a seasoned opinion.

The business rates administration consultation hinted at a way to gather revenue from smaller, businesses that tend to trade on-line. The council would be interested in finding a way for these businesses to contribute fairly to their local area when their physical business rates footprint often means they are exempt from paying.

27. What are your views on the process for obtaining approval for a levy from the LEP?

The 3SC geographic area covers three different LEPs. Each LEP is a partner to the area's devolution deal and so would be involved directly in any discussion about implementing any levy. 3SC recognises the LEPs as the key channel to seeking the views of the business community so would be a seen as a key consultee in any proposal which impacted on the business community.

The council suggests the LEPs should be consultees to a local authority's budget decisions rather than approvers.

28. What are your views on arrangements for the duration and review of levies?

As the levy is a key financial element for delivering infrastructure improvements then the council and 3SC feel the duration of the levy should be left to the determination of the combined authority to match its financial requirement. As the improvement would be subject to development of an appropriate business case in accordance with the Treasury's Green Book, this would facilitate indication of the levy's duration in the initial prospectus as suggested by the Department.

29. What are your views on how infrastructure should be defined for the purposes of the levy?

The council welcomes the use of the CIL definition as a proxy for the definition of infrastructure and would also like to see digital related activity incorporated into the definition to reflect the current, growing and future strategic importance this has in the business community and UK economy in general.

30. What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

The council believes this should be left to local discretion as to how best to align it with local development needs. The discretion should not be limited to combined authority areas only with mayors.

31. Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

No.

32. Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

The consultation document hints at removing the legislation which requires government to make annual settlements to local authorities. The council is interested in local authorities gaining increased certainty through the use of multi-year settlements and would offer to join or assist full discussions with central government about how this might work and how many years a settlement would cover.

As mentioned earlier, the council still envisages some kind of grants arrangement remaining part of local government funding even after 100% business rates retention is achieved. The success of multi-year settlements will be determined by what local authorities do with the additional certainty and also by how well central government is at leaving the funding system untouched in the relevant years.

33. Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

The council believes this discussion should only take place in greater detail once the devolved responsibilities are decided. Local authorities' funding from other government departments frequently comes with its own rules and reporting requirements. If the Government is keen for local spending decisions to be scrutinised locally then local authorities need to be free to spend their funding in a way that suits their residents, who ultimately give their opinion through the ballot box.

As funding moves from central funding to local and possibly with different patterns across the country, it is important central government departments reflect on this within their own decision making processes. For example, a move to fund public health through retained business rates rather than specific grant will mean the Department of Health will not be able to state exactly what funds are to be spent in an area.

34. Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

The council believes the requirement to prepare a collection fund account should remain. The collection fund helps the transparency of assumptions around estimates and actuals as well as providing a consistent benchmarking figure.

The council also feels there is potential scope for some technical clarification, for example when business rates income funds capital expenditure.

35. Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Surrey County Council supports the principle for local authorities to balance their budgets on an annual basis and welcomes improvements to financial reporting that increase transparency and result in reports better aligned to how local authorities are financed.

The sum outlined in the consultation seems appropriate. However, the council would be interested to see an alternative format.

36. Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

The council would prefer to consider this question once the design of the business rates retention model is closer to completion.

SURREY
COUNTY COUNCIL

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XX September 2016

Fair Funding Review

Dear Matthew,

Thank you for this opportunity to contribute to this call for evidence. The council is keen to contribute to the Department for Communities and Local Government (DCLG) and Local Government Association's (LGA) work to implement 100% business rate retention. The council has contributed to and endorses the Society of County Treasurers' (SCT) response to this consultation.

Before responding in detail to the specific questions posed by the call for evidence, the council would like to highlight some of the stark differences between Surrey County Council's funding, shire areas' funding and the rest of the country.

SCT member areas have an average core spending power figure per head of population which is 9% below the national average and 27% below residents in London Boroughs. Surrey's average core spending power per head of population is 12% below the national average and 29% below London Boroughs'. This means London receives an additional £259 worth of services for each resident than in shire areas and £387 for each Surrey resident. Once we take council tax out of this, Surrey residents receive only £165 core funding support each, which is £203 less than the national average and £387 less than London residents.

Furthermore, these differences are before the inclusion of the dedicated schools grant funding, which is well-documented to be significantly higher in London than shire areas.

The differences outlined above are for 2016/17 data. The changes to the 2016 Local Government Settlement mean Surrey local authorities lose core funding support losses much more steeply than the rest of the country, principally because these authorities are among the ones that have to raise the highest proportion of their funding from council tax. The disparity exhibited by the funding system in 2016/17 will be much more extreme if the Government persists with these funding arrangements through to 2019/20. As such Surrey

County Council is pleased the Government is looking afresh at needs in local government and urges it to commit to beginning the new system from a position that is fair and equitable to residents, businesses and taxpayers.

Q1: What is your view on the balance between simple and complex funding formulae?

The Four-Block Model was complex, opaque and extremely difficult to explain to elected members and taxpayers. Since the four block model's introduction it has been widely discredited – both independently and from within the sector. The council, does not believe complexity, in itself is a problem; local authorities deliver a wide range of services to a broad spectrum of people. However, when a funding model results in unexplainable results, unfair treatment of resources and heavy handed levers of ministerial control, then that becomes unacceptable.

Different local services will face needs and demands driven by differences in demographics, economic activities, local costs of delivering services and geographical landscape. Furthermore, these drivers are dynamic and are each changing at different paces across the country. The current reliance on regression analysis encourages statisticians to look for increasingly complex formulas in attempts to replicate the historic pattern of spending or activity. Basing future allocation on past spend cements the line between past and future funding, locks old funding inequalities into the system and increasingly misrepresents local authorities' developing service demands and the varying costs of delivering those services in different parts of the country.

The council believes a sensible approach would be for simplicity and transparency first to achieve a materially fair distribution that is also seen to be fair. The Department and the Local Government Association should then only add layers of complexity to the funding formula provided:

- each case has evidence to justify its argument;
- each additional layer adds value by materially improving the fairness of the system; and,
- the system retains its transparency and continues to be seen to be fair.

For example, start by funding services on an appropriate unit driver basis (for example, each elderly person, each driver mile for use and wear of roads) before hearing evidence about demand and incorporating other measures into the formula to address significant variances. One of the advantages of simplicity and transparency in a funding system that is materially fair is that it is reasonably predictable, enabling local authorities to plan around its outputs.

The council is pleased the Government is consulting on the needs assessment. However, it would be extremely disappointed if the Government attempted to replicate the crude, inequitable and flawed addition to the funding allocation method adopted for the first time in 2016. This late addition to the established method unfairly and repeatedly penalises councils who have to raise a greater proportion of their income through council tax through its direct impact on both Revenue Support Grant and Improved Better Care Fund allocations. The fact that this addition to the allocation method led to the Government having quickly to find

£300m to partially mitigate its unbalanced impact attests to its unsuitability for determining funding allocations across the whole of local government.

Q2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

Excluding Education, the largest service area in terms of expenditure is Adult Social Care. It is therefore of paramount importance that the increasing demands of this service are captured now and for the period until the next reset. The consultation running alongside this call for evidence suggests partial resets may also incorporate some measure of need reset for demand led services such as social care for adults and children. Given the potential widespread impacts of failures in these services the council would be wholly supportive of demands and funding in these areas being reviewed more frequently than for other service groups.

A key element of this work will be through engagement with the Department of Health and its work since the last formula update on developing social care formulas. This includes the Advisory Committee on Resource Allocation's (ACRA) work to review and recommend changes to the public health formula to calculate the 2016/17 allocation. The council also understands that in anticipation of the Care Act the Department commissioned work from LG Futures on updating the adult social care relative need formula (RNF).

At the time of writing local authorities are also expecting the Improved Better Care Fund formula consultation. The council believes this developmental work will provide a strong platform for the work of the Formula Funding Review in getting the considerable adult social care needs element materially right. The council strongly opposes the current approach to allocating funding through the Improved Better Care Fund as it unfairly penalises councils who have to raise a greater proportion of their income through council tax. The fact that the Local Government Settlement allocates only £1.5m in total to Surrey County Council in 2019/20 (a mere 0.1% of the £1.5bn national total) makes a mockery of Surrey County Council's placing at eighth out of 152 social care authorities and 1.66% share of the national relative needs assessment (which would equate to £25m).

However, the council's earlier comments still remain: future funding allocations cannot be based upon past spend or activity. An area that fares relatively well from the funding system will be able to choose to do more and spend more than an area which is does not. The council strongly urges the Department to speak with directors of adult social care to understand the growing and developing patterns and location specific costs of demand pressures and ensure these are funded adequately rather than relying on regression analysis to lock in past funding.

Many other services provided by the council are coming under intensifying pressure. For example school transport costs are increasing with the rise in the number of maintained schools converting to academies (who are responsible for the qualifying criteria). Historical pressure on concessionary fares budgets has meant, in some areas, the difficult decision to offer reduced bus services is masking the true unfairness of the current funding. The council believes that an approach to funding local services based more on actual service demand drivers will address many of these current issues.

The council also urges the Department not to be constrained by the current allocations. If a new formula is constructed and consulted upon rigorously, but offers a different pattern of funding then, transitional arrangements aside, it should be implemented.

Q3: Should expenditure based regression continue to be used to assess councils' funding needs?

The council believes that a system whereby future funding allocations are calculated on the basis on past spending decisions is not one that supports future funding needs. Instead it simply embeds past funding decisions (whether these were by the local authority itself, or the government) in determining local authorities' funding needs and damping levels.

It is of paramount importance service needs are captured for services now and for the lifetime over which the formula is expected to apply. This is vital for a needs assessment that is expected to be frozen for a number of years under the business rates retention scheme, during which time population increases are expected to cause significant service pressures for demand led services such as Adult Social Care.

The council is excited by the possibility of designing a distribution system from a blank sheet of paper. At the July Needs and Redistribution Working Group the SCT highlighted research by Plymouth University, commissioned by the Police and Crime Commissioners Treasurers' Society in relation to the Home Office's review of the Police Funding Formula. This research proposed an approach which brings together representatives in each service area to agree the key cost drivers in providing each service, to derive a unit cost basis for each service. As you may be aware, the 2015 police formula review failed to agree a formula, primarily due to the way in which the Home Office engaged with the sector. The council believes this more normative approach is worth further investigation.

The council advocates using the same approach for local authority funding, adding a modification to reflect fairly different areas' material differences in service delivery costs. Housing, for example, is a significant element of the cost of living and indicates some of the differences. Average house prices in Surrey in 2016 are 90% higher than the England average, 5% higher than Outer London and 40% higher than the South East. Only the Inner London and all London averages are higher. London tends to receive a weighting to its funding for this, Surrey, to date, has not. The council believes this modified approach will also fairly provide the incentive effect the Government is keen to incorporate.

The July working group meeting agreed ALATS members would form a group to consider putting forward a funding proposal based on this concept whereby local need is driven by a common basket of place based indicators that give a fair reflection of local need, considering primary cost drivers for all local areas. This approach focuses on existing and emerging service need rather than historical spend. It provides a mechanism to establish a funding formula that is relevant today and has future proofing as well.

Q4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

See Q3. the council considers that a local authority's spending on a service is a very poor measure of need, as it will be dependent on whether it was funded adequately in the past. As stated above, the development of key cost drivers reflecting relative activity levels and

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different areas' differences in service delivery costs would seem a more fair and equitable measure to assess need. This should also be set against the reset period, so the system assesses need across the medium term, not just the present or recent past.

Q5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

See Q3. The council does not have an issue with the regression technique, in itself. However, for the reasons outlined above it cannot support a method based only on historic spending or activity.

Q6: What other considerations should we keep in mind when measuring the relative need of authorities?

See Q3. The new funding formula must be capable of reflecting future demands for services. For example, the introduction of the Care Act will change the pattern of demand for adult social care from being driven by derivation to being more associated with an ageing population.

Q7: What is your view on how we should take into account the growth in local taxes since 13-14?

The council recognises that local capacity to raise all income (including and not limited to council tax) will need to be considered as part of this review.

The proportion of a local authority's budget which is funded by council tax varies hugely across the country. There can, of course be many reasons for these differences. The council believes a significant one is that past local government settlements have frequently included an element of resource equalisation, whose impact has fallen heaviest in areas with large tax bases.

When council tax was introduced it was based on property values as a reasonable proxy for wealth. Since then the housing market has changed drastically and despite buoyant wage growth in Surrey, the resulting comparison between residents' income and council tax makes for interesting reading.

- Residents in Surrey earn, on average, 16% more than the national average. However, they tend to pay over 40% more in council tax.

- When compared to London boroughs, Surrey residents earn 5% more. However, Surrey residents pay over 40% more for their local authority services.

- Residents in Surrey earn, on average, 45% more than residents of metropolitan areas. However, Surrey residents pay around 75% more for their local authority services.

Clearly using 1991 house prices as a proxy for wealth in 2016 is no longer valid. In the interests of fairness and transparency the council firmly believes this issue needs to be discussed openly and addressed as part of the fair funding review. Leaving the current arrangements in place is unacceptable and risks undermining any work to create a fair funding formula.

On the subject of locally raised taxes the council would also like to see a review of the current council tax support scheme, specifically the protected demographics in shire areas. In a similar way that the SCT is calling for freedoms in relation to funding through business rates the council would also support having the freedom to vary the eligibility criteria for current discounts and support.

Q8: Should we allow step-changes in local authorities' funding following the new needs assessment?

The council believes local authorities need to manage service provision to their local populations as effectively as possible throughout the Formula Funding Review process. The council agrees transitional arrangements are important in ensuring this is maintained if any new needs assessment results in a significantly different distribution pattern by allowing local authorities the time to plan financially for them.

The council believes there is a balance between moving to the new distribution as quickly as possible and a safe transition period that takes account of the scale of funding changes local authorities can manage adequately. The council believes specifying where this balance should be set without knowing the magnitude of changes caused by any new needs assessment would be misinformation at this point in time, and so recommends revisiting it once implications of the new scheme design are clearer.

For the devolution of new responsibilities as part of 100% business rate retention the council agrees that, where possible, existing distributions should be continued for a transitional period and consistent with principles set out for future models.

Q9: If not, what are your views on how we should transition to the new distribution of funding?

See Q8

Q10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

The council expects the move to 100% business rate retention and the Fair Funding Review to lead to significant changes for local government funding. The council believes changes to the current local authority geography system will proceed dynamically at least over the remainder of this Parliament. Distributing funding to these developing and evolving groupings could add further complexity to the system. The council believes local authorities are best placed to consider and decide upon what is appropriate in their local area, be that combined authorities, pooling of budgets or a different form of collaboration determined locally. So, while the council believes the component parts of the needs assessment and funding distribution should remain at individual local authority level, it is for individual councils to decide and agree how they should combine and manage their funding.

Q11: How should we decide the composition of these areas if we were to introduce such a system?

See Q10. The council believes this is something that should be decided on an authority-by-authority or region-by-region basis. A truly fair and transparent funding formula where the assessment of need and distribution of funding are seen to be fair will help to facilitate this.

Q12: What other considerations would we need to keep in mind if we were to introduce such a system?

One of the advantages of collaboration and combination is better management of risk. Allowing and encouraging greater collaboration and combination, while dealing with needs at individual local authority level will provide an incentive for authorities to combine in ways that manage their different risks best.**Q13: What behaviours should the reformed local government finance system incentivise?**

Q14: How can we build these incentives in to the assessment of councils' funding needs?

The approach for reaching a fair funding formula the council outlines above would produce a weighted cost driver approach for each local authority area (or region). The council believes fair funding puts local authorities on a fair footing, should increase the relevance of current and foreseeable needs to funding of services and mean that service portfolio holders and directors can get on with running the best services they can knowing their funding allocation does not put them at a disadvantage. The council does not believe any further incentivisation is needed in the formula.

The council calls on the Government to publish a more detailed, practical implementation timetable, giving local authorities an achievable implementation date for central and local government to plan and work to. For example, providing illustrative distribution figures in July 2018 would be too late for local authorities to plan effectively as local authorities will by then be working on budgets for 2019/20. Furthermore, to deal with any funding shocks such as that experienced by Surrey County Council in the Local Government Settlement 2016, the Government would need to make sufficient transitional funding available.

It is also important decisions are made regarding devolution of services as soon as practicable to enable discussions in other areas to continue. Recent political developments such as the EU referendum, a new Prime Minister as well as new Secretaries of State mean local authorities are operating in a time of unprecedented uncertainty. The council strongly believes local government has shown enormous capacity and competence to change and deal with uncertainty. It is also in an excellent position to work locally with partners, businesses and other stakeholders to stimulate and sustain economic growth. It is important the sector as a whole is enabled and encouraged to deliver this agenda and the council makes a plea to ensure no unnecessary blockages are put in place of any part of the sector.

The council looks forward to continuing to engage in the development of the needs assessment and the implementation of 100% business rates retention and awaits the Government's response to this consultation and the 100% Retention of Business Rates' consultation.

Yours sincerely

Sheila Little
Director of Finance
Surrey County Council

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Matthew Style
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Xx September 2016

Dear Matthew

100% Retention of Business Rates and the Fair Funding Review

Thank you for the opportunity to respond to your consultation on the future of Business Rates and Fair Funding.

We collectively represent the 26 local authorities in Surrey, East and West Sussex that together with our three Local Enterprise Partnerships; one Combined Fire Authority and the South Downs National Park Authority, are supporting the proposal for a Three Southern Counties 3SC Devolution deal.

This response shows the degree to which we now embrace working collectively and the importance of the approach towards business rate retention for our future collective ability to deliver the ambitious plans that we have put forward to support increased investment in infrastructure in the area and the significance of the area for the national economy and for the generation of a fiscal dividend to the Exchequer.

The combined GVA of Sussex and Surrey is over £74 billion a year and the area currently generates over £1bn in business rates per annum. This reflects the importance of the area as a home for international business and the degree to which it exhibits many of the characteristics of the kind of knowledge driven, high skills growth that will be increasingly important for the future health of the economy. Though across the area there is a significant range of needs ranging from pockets of severe deprivation to areas of significant wealth.

A separate letter from the Leaders of all of the Local Authorities has been sent directly to the Secretary of State in response to the consultation.

Fairer Funding

<u>Funding the current pressures</u>

<u>There is also a general recognition that the current system is already underfunded and because the current methodology relies on regression based statistical analysis of historic cost data, does not reflect the current actual demand for services and the diverse needs of individual local authorities which across an area the size of 3SC is significant.</u>

<u>We would also like reassurance though the process that the government will be providing adequate funding to fully match the new repsonsiblities that will be transferred so that no additional future financial risks are transferred onto Local Authorities.</u>

It is also recognised that the current mechanism fails to take proper account of the significant regional differences in the costs of providing services. The South East is a high cost area and suffers disproportionately from the cost to serve imbalance. Proper recognition of the cost to serve must become a key criterion in determining the new Need Assessments; also before new areas of responsibility are devolved there must be some accommodation to meet unfunded current pressures which are considerable. These have arisen and will continue to arise from the reductions in central government funding, and the increase in demographic growth, placing significant pressures on social care and serious knock-on impacts on the NHS which is now becoming more and more visible. By 2030 the proportion of our population requiring multiple service support aged over 65 will have increased by 18.3% and by 42.4% for those aged over 85.

Given the proximity of our area to London and the significant proportion of our resident population who commute to London to help maintain its economic output, we feel that the level of overall government support should be reviewed in any rebasing of business rate redistribution. For example in 2016-17 residents in our area received £802.35 per head of Core Spending Power (CSP) funding this is 14.6% less than residents in London

Before any further services are devolved there must be assurance that these pressures will be adequately recognised by the new Fair Funding formula but also fully funded not only in the initial year of transferred but in all subsequent years as well. In many cases there is little or no correlation between demand for services and economic prosperity.

<u>Local Resources</u>

A significant proportion of a local authority's budget is financed by council tax. Over the last decade and a half the Government have continually carried out what is referred to as "resource equalisation", the result of which has always been to penalise those authorities with large tax bases, especially the south east.

According to the Annual Survey of Hours and Earnings (ASHE), produced by the ONS, wages for residents in our area is significantly lower when compared to London, yet the average adult living in a shire area will pay more towards the costs of services through their council tax.

In 2016/17 the average Band D property in the 3SC area is paying £1,632, this is 20% higher than London and higher than any other class of authority across the country. This is not because the 3SC area is less efficient, but because the proportion of central funding is less, and therefore a larger element of funding has to be met locally. This is unfair in terms of affordability for the 46% of the population who live in shire areas and contribute to the economy.

Although less easily quantifiable, it is an unfortunate fact of life that residents in shire, and often rural, areas will tend to receive less services (either through removal of service or reduced hours) as well as having to travel further to reach them.

In the interests of fairness and transparency, we believe that all elements of local resources need to be discussed openly and addressed as part of the business rate review. In our view the 100% retention of Business Rates cannot be viewed in isolation from the associated impact that it will have on council tax in future years.

Our full response to the consultation question is attached as Appendix A.

The 3SC Area and Business Rate retention

We know that with the right investment there is enormous potential to further increase the contribution that our area makes to the national economy. Our devolution proposals have shown that the implementation of the improvements to our infrastructure will yield the Government over £1bn per year in additional taxation. Being provided with the opportunity to have full control over the generation of Business Rates within the area is important to us as it will enhance our relationship with our business community and through the retention of new business rates generated from future growth provide the funding necessary to pay for the additional borrowing that will be required to deliver the infrastructure. Without business rates becoming a secure and sustainable revenue stream it will be impossible for us to secure the economic and fiscal benefits that have been identified.

Though we will be taking the opportunity to respond individually to the consultation questions we felt that it was important for you to be aware of our collective view. Attached (Appendix B) is a schedule which sets out our collective responses to the individual questions within the consultations. It was felt that there was both a degree of duplication in some of the consultation questions, so some responses have been clustered to a group of questions. There are also some to which no response has been provided, on the basis that we currently have insufficient information or understanding on which to determine an opinion.

We hope that you find our responses helpful in providing a summary to ministers on the views of local government to both of these consultations. As a group of would helpful the opportunity to work further with the department to develop on the ideas and comments we have made.

Yours collectively

Reigate & Banstead Borough Council	Arun District Council
Hastings Borough Council	Epsom & Ewell Borough Council
Horsham District Council	Chichester District Council
Tandridge District Council	Surrey Heath Borough Council
East Sussex County Council	West Sussex County Council
Spelthorne Borough Council	Surrey County Council
Worthing Borough Council	Woking Borough Council

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Crawley Borough Council	Rother District Council
Mole Valley District Council	Adur District Council
Waverley Borough Council	Elmbridge Borough Council
Lewes District Council	Guildford Borough Council
Wealden District Council	Eastbourne Borough Council
Runnymede Borough Council	Mid Sussex District Council

Appendix A

FAIRER FUNDING RESPONSES TO CONSULTATION QUESTIONS

Q1: What is your view on the balance between simple and complex funding formulae?

The Four-Block Model was complex, opaque and extremely difficult to explain to elected members and taxpayers. Since the four block model's introduction it has been widely discredited – both independently and from within the sector. The complexity is that as local authorities we deliver a wide range of services to a broad spectrum of the population. Therefore when a funding model results in unexplainable results and unfair allocations of resources, then that becomes unacceptable.

Different local services will face demand driven by different demographics or geographical landscape. The current reliance on regression encourages statisticians to look for increasingly complex formulae in an attempt to replicate the historic pattern of spending or activity. By basing future allocation on past spend the line between past and future funding is cemented and old funding inequalities are "locked in" to the system and move further away from reality in the demand and local cost of providing individual activities.

As a group we believe that a sensible approach would be for simplicity first with additional layers of complexity argued and evidenced on a service by service basis. For example, start by funding services on an appropriate per capita basis (per elderly person, per waste bin collected, per child in education, and per km of road for example) before hearing evidence about demand and incorporating other measures into the formula. But each layer of additionality should meet the following criteria:

- each case has evidence to justify its argument;
- each additional layer improves the fairness of the system; and,
- the system retains its transparency and continues to be seen to be fair.

Different local services will face needs and demands driven by differences in demographics, economic activities, local costs of delivering services and geographical landscape. Furthermore, these drivers are dynamic and are each changing at different speeds across the country and will need to be addressed within the formula.

One of the advantages of simplicity and transparency in a funding system that is materially fair is that it is reasonably predictable, enabling local authorities to plan around its outputs.

Q2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

Excluding Education the largest service area in term of expenditure across our area is Adult Social Care. It is therefore of paramount importance that the increasing demands of this service, as the population ages, are not just captured now but into the future until the next review of the Need Assessments. The consultation running alongside this call for evidence suggests that partial resets may also incorporate some measure of need reset for services which are "demand led", such as adult and children's social care. Given the potential impacts of failures in these services we would be wholly supportive of demands and funding in these areas being reviewed more frequently.

A key element of this work will be through engagement with the Department of Health and its work since the last formula update on developing social care formulae. This includes the Advisory Committee on Resource Allocation's (ACRA) work to review and recommend changes to the public health formula to calculate 2016-17 allocation. We also understand that in anticipation of the Care Act the Department commissioned work from LG Futures on updating the adult social care relative need formula (RNF), which we hope to see reflected in the Improved Better Care Fund formulae consultation when that takes place, as this work should provide a strong platform for the work of the Formula Funding Review in getting the considerable adult social care element right.

However, our earlier comments still remain future funding allocations cannot be based upon past spend or activity. An area that fares well from the funding system will be able to choose to do more and spend more than an area that does not. We strongly urge the Department to speak to directors of adult social care to understand the growing demand pressures and ensure that these are funded adequately rather than relying on regression analysis to lock in past funding patterns.

There are many other services that we collectively provided which are also coming under increasing pressure. For example school transport costs are increasing as the number of maintained schools converting to academies grows (who are responsible for the qualifying criteria). Historical pressure on concessionary fares budgets has meant that, in some areas, the difficult decision to offer reduced bus services is masking the true unfairness of the current funding. **{Need to add some B&D level examples}.** We believe that an approach to funding local services based more on actual service demand levers will address many of these current issues.

We also would want the Department to recognise that the way the current model work under allocated the required resources needed to match realistic demands for the services so we would urge the Department not to be constrained by the current allocations. If a new formula is rigorously constructed and consulted upon but offers a different pattern of funding then, transitional arrangements aside, it should be implemented.

Q3: Should expenditure based regression continue to be used to assess councils' funding needs?

It is general recognition that the current system if grant support is already significantly underfunded and because the current methodology relies on regression based statistical analysis of historic cost data, does not reflect the actual demand for services and the diverse needs of individual local authorities which across an area the size of 3SC is significant.

We believe that a system whereby future funding allocations are calculated on the basis on past spending decisions is not one that supports future funding need. Instead it simply embeds past funding decision (whether these were by the local authority itself or the government) in determining the funding need and damping levels of local authorities.

It is of paramount importance that service needs are not just captured for services now but for the lifetime of which the formula is expected to apply. This is vital for a needs assessment that is expected to be "frozen" for a numbers of years under the business rates retention scheme during which population increases are expected to cause significant service pressures for demand across the whole range of service we provide.

We are excited at the possibility of designing a distribution system from a "blank sheet of paper" and would welcome this as an opportunity to bring together representatives in each service area to agree the key cost drivers in providing each service, in order to determine an average cost for each service which then could be used as the standard around which regional variations could be established. We believe that an approach like this will provide the incentive effect that the Government are keen to incorporate.

As a group we would support that ALATS members should form a group to consider putting forward a funding proposal based on this concept whereby local need is driven by a common basket of place based indicators that give a fair reflection of local need, considering primary cost drivers for all local areas. This approach focusses on existing and emerging service need rather than historical need to spend. It therefore provides the mechanism to establish a funding formula that is not just relevant today but future proof as well.

Q4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

See Q3. We consider that councils' spending on service is a very poor measure of need as it will be dependent on whether they were adequately funded or not in the past. As stated above, the development of key cost drivers with a reflection of relative activity levels would seem a more fair and equitable measure to assess need. This should also be set against the determined period of time between Needs reassessments, so that need is assessed across the medium term, not just at current levels.

Q5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

See Q3. We do not have an issue with the regression technique, in itself. However for the reasons outlined we can support a method based on the use of historic data.

Q6: What other considerations should we keep in mind when measuring the relative need of authorities?

See Q3. The new funding formula must be capable of reflecting future demands for services. For example, the introduction of the Care Act will change the pattern of demand for adult social care from being driven by deprivation to being more associated with an aging population. **{is there an equivalent B&D example we could add}**

Q7: What is your view on how we should take into account the growth in local taxes since 13-14?

Given the current financial environment within which local government is current operating all increases in local taxes since 2013/14 have already been fully used to fund local service demands; but we recognise and welcome that local capacity to raise income (including but not limited to council tax) will need to be considered as part of this review.

The proportion of an authority's budget which is funded by council tax varies hugely across the country. There can, of course be many reasons for these differences; however, past local government settlements have frequently included an element of resource equalisation, whose impact of which falls heaviest in areas with large tax bases, such as the South East.

When council tax was introduced it was based on property values as a suitable proxy for wealth. Since then the housing market has changed drastically and the resulting comparison between wages and council tax makes for interesting reading:

- Residents within the 3SC area are paid, on average, XX% less than the national average. However, they tend to pay nearly xx% more in council tax.

- When compared to London 3SC residents on average earn xx% less. However they pay xx% more for their local authority services.

- .

Clearly since 1991 house prices as a proxy for wealth is no longer valid. In the interests of fairness and transparency we firmly believe this issue needs to be discussed openly and addressed as part of this review. Leaving the current assumptions in place risks undermining any work to create a fair funding formula and is unacceptable.

On the subject of locally raised taxes we would also like to see a review of the general mechanisms of allocation of discounts and exemptions that form the the basis of the current council tax reduction scheme, specifically the protected demographics in shire areas. Being given greater authomy over the operation of who would be eligible for these will enable us to better target them to the residents in most need and improve control on the overall costs of the scheme; in a similar way to our suggested approach for more local freedoms in relation to the discounts and reliefs operating within business rates.

Q8: Should we allow step-changes in local authorities' funding following the new needs assessment?

We believe that service provision to the local population should be managed as effectively as possible throughout the Formula Funding Review process. We agree that transitional arrangements are an important part in ensuring this is maintained if any new needs assessment results in a significantly different distribution pattern by allowing local authorities the time to financially plan for them.

We believes that there is a balance between moving to the new distribution as quickly as possible and a safe transition period that takes account of the scale of funding changes local authorities can cope with. We believe that specifying where this balance should be set without knowing the magnitude of changes caused by any new needs assessment would be misinformation at this point in time, and therefore recommend that this is revisited once implications of the new scheme design are clearer.

For the devolution of new responsibilities as part of 100% business rate retention our view is that the new responsibilities must be aligned to supporting economic activity and growth, but we agree that, where possible, existing distributions should be continued for a transitional period and consistent with principles set out for future models.

Q9: If not, what are your views on how we should transition to the new distribution of funding?

See Q8

Q10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

Though our 3SC initiative we are seeking to establish a separate geographical identity, which shows how we as a group of 26 sovereign local authorities can work effectively as a unit. We would therefore welcome the opportunity for further dialogue on a large geographical approach, but this would have to be on the

- recognition that there may be a significant diversification of individual needs across a larger area and that this would need to be fully reflected in any future approach,
- basis that increased local control and therefore increased local accountably would need to come with greater flexibilities over both policy and operational issues.

Q11: How should we decide the composition of these areas if we were to introduce such a system?

See Q10. We believe this is something that should be decided on an authority-by-authority basis locally. A truly fair funding formula where the assessment of need and distribution of funding are based on a fair and transparent unit cost basis would significantly help to facilitate this.

Q12: What other considerations would we need to keep in mind if we were to introduce such a system?

One of the advantages of collaboration and partnership working is better management of risk, but this needs to be aligned with appropriate incentives to help effectively manage and mitigate the risks.

Q13: What behaviours should the reformed local government finance system incentivise?
Q14: How can we build these incentives in to the assessment of councils' funding needs?

The approach for reaching a fair funding formula that we outline above would produce a weighted per capita approach for each local authority area (or region). We believe that fair funding puts local authorities on a fair footing, should increase the relevance of current and foreseeable needs to funding of services and mean that Councillors and directors of services can get on with running the best services they can knowing that their funding allocation does not put them at a disadvantage. We do not believe that any further incentification is needed in the formula.

We call on the Government to publish a more detailed timetable of implementation, giving local authorities an implementation date to work and plan towards. It is also important that decisions are made regarding devolved services as soon as practicable, to enable discussions in other areas to continue. Recent political developments such as the EU referendum, a new Prime Minister as well as new Secretaries of State means that local authorities are operating in a time of unprecedented uncertainty. We strongly believe that local government has shown enormous capacity and competence to change and deal with uncertainty. We are also in an excellent position to work locally with partners, businesses and other stakeholders to stimulate and sustain economic growth, which will generate additional long term resources at both a national and local level. It is important that the sector as a whole is enabled and encouraged to deliver this agenda and a plea is therefore made to ensure that unnecessary blockages are not put in place of prevent this from happening.

Appendix B

100% BUSINESS RATE RETENTION RESPONSES TO CONSULTATION QUESTIONS

1. **Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?**
2. **Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?**

Though the 3SC authorities would generally welcome having more local control we feel that any activities that were to be devolved to the Local Authorities needs to come with total freedom and a true transfer of responsibilities with the discretion to shape the services to suit our residents. This includes not wanting to simply become the new administrators of grants without the ability to alter the eligibility criteria, for example the Independent Living Fund and the Attendance Allowance, or without any restrictions on spendability such as with “ring fencing” of the Public Health grant.

In support of the 3SC evolving devolution deal it was felt that the focus should be on devolving responsibilities over activities that would support and facilitate the areas economic development, such as skills, education, transport and digital.

We feel that stimulating the future growth in the economy would provide the best opportunity to generate additional resources to help contribute to future demand pressures that would come from an increasing population. (by 2030 current population projection indicate that there will be a 42.4% growth in residents aged over 85, and 18.3% growth in those aged over 65 within the 3SC area).

The list on pages 18 and 19 of the consultation are all grants that already go (or will go) to local authorities. Transferring these grants will result in local authorities having no more or less control over services; instead the stability and predictability of the funding will be dependent on the health of the local economy, with the risks being fully place upon the Local Authorities.

We feel that the Government need to ensure that any responsibilities devolved under the Business Rate retention proposal need to be fully funded in the short term and future proofed against know changes in demand, i.e. population increase; and should prioritise only current responsibilities. New responsibilities should continue to be funded through the New Burdens Doctrine.

We were surprised that the list of grants being considered did not include reference to New Homes Bonus, as this directly support local authorities and incentivise them to drive for economic and housing growth and would be a funding stream that we would expect to see retained into the future.

Other grants that we believe meets the criteria set out on pages 16 and 17 of the consultation paper and directly supports economic growth, but is not included within the list are

- Regional Infrastructure Fund.
- Education Services Grant
- Adult & Community Learning (from SFA)
- Sixth Form funding (from EFA)

we would therefore urge the Government to reconsider whether these should be included.

The value of the £12.5 billion financial quantum available was felt to be insufficient to full meet the cost of the responsibilities proposed to be transferred. The 3SC local authorities would suggest that the Government may wish, as part of the transfer to provide the Local Authorities with the freedoms to re-align the current framework and levels of reliefs and exemptions to better match local business needs. This may provide more flexibility in the overall amount of business rates that could be generated.

Having more direct control over the operation of the application of reliefs and exemptions will enable the Local Authorities to develop a stronger working relationship with their business community and ensure that they are effectively applied to minimise unnecessary payments.

In formulating the consultation we would ask Government whether any consideration has been given to the changing environment within which business operates. The development of digital infrastructure and the internet has seen a rise in the volume of small micro businesses that operate without the need for a physical base of operations and therefore do not make any contributions to business rates. The recent OBR statistical report indicates that business rates will only grow by approx. 0.1% over the next 20 years with this being a factor in that trend. If this was the case then the Government would be transferring the financial risks associated with the lack of growth to Local Government. Has the Government factored this change into its deliberations?

When making the new assessment of the area's need to determine the new mechanisms for "Top-Ups and Tariffs" this should not be just done on only demographic factors but should also include local differences in cost bases and reflect the impact of the activities being transferred.

3. **Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?**
4. **Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?**

In terms of devolution of specific budgets to a Combined Authority the priority should be to budgets that directly support economic growth, such as education, skills, transport, infrastructure and digital development. Please see answer to questions 1 and 2.

We feel that pooling of budgets, is a decision that should be left to the discretion of the individual areas developing their devolution proposals to reflect the diversity in the different social and environment factors that impact of service delivery.

We feel that any specific mix of devolved service arrangements arranged within existing devolution deals should not impact on the quantum available to the rest of local government and should be funded separately to the what is being proposed through this consultation; unless there is uniformity to the responsibilities being transferred across the whole of local government areas. The opportunity to improve the services offered to your residents should not be determined by an authority's governance arrangements.

5. **Do you agree that we should continue with the new burdens doctrine post- 2020?**

Yes

6. Do you agree that we should fix reset periods for the system?

We recognise the objectives that using resets are trying to address, but and mechanism needs to acknowledge and balance out that Local Authorities are adequate incentivised to commit to the significant investment of resource and money into securing economics growth, whilst providing adequate protection to individual authorities that because of historic geographic and democratic factors have limited opportunity to growth their own financial resources.

A further incentive to Local Authority to make the commitment would be for them to be given more direct involvement in the frequency and process of periodic revaluations of rateable values.

It would also be prudent to link 'Resets' to future reviews of the Needs Assessments, has will be provide more stability for Local Authority's medium term financial planning.

Inevitably the answer to this question will depend not just on the type of reset but also the type of devolved services, confidence in the need assessment, the expectation of demand and the protection provided by the new safety net arrangements.

7. What is the right balance in the system between rewarding growth and redistributing to meet changing need?

There are a number of factors, none of which are known currently, which will impact on being able to respond to this question, these factors would include:

- Knowing what a reset looks like and how much, if any, previous growth can be retained
- What new services will be devolved
- What the needs assessment and new burdens' assessment will look like as well as assurances about how funding and needs will be aligned in years 2 and onwards
- Whether the services that local authorities already provide and which are under increasing pressure will be adequately funded in the future – in other words there is confidence that the demand projections are manageable
- What protection will be offered by the safety net
- How frequent revaluations will be after 2017; and
- Whether appeals will continue to be a local issue of whether a national solution can be found.

9. Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Under the current system authorities providing social care in two-tier areas are protected through the tariff and top-up system. That need for protection still exists, especially in areas like 3SC where there is a significant trend of migration of older people into the area.

Ideally the 3SC area would like to see authorities exposed to risk (and therefore, reward) in proportion to the demand led pressure on their budgets as well as their potential influence over business rates growth. The exact mechanics on how this would work will need more clarification over the responsibilities being devolved and the associated funding formulae.

Any new arrangements for the determination of tariffs and top-ups should be designed to be simple and transparent so that the businesses community understand where their money is going.

10. Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Yes

We recognises the risk that property valuation can go down as well as up, particularly in the short term, but over the long term, property valuation trends are upwards. Not recognising any change in the longer term economic value of the tax base does not incentivise authorities to drive economic growth. At present local authorities receive additional business rate revenue through changes in RPI, the multiplier or the tax base, but not form changes in the value of the taxbase.

The current policy of adjusting means that if a Council did drive economic growth and regeneration in their area and, as a result, general property values in that area increased, then that Council would not see any economic benefit in terms of business rates income, due to the general rise in property values being wiped out by reducing the multiplier as a result of a revaluation exercise. We believe that the policy of making a revaluation revenue neutral is a fundamental flaw in the system and seems to contradict the objective of incentivising and rewarding those Councils that pursue policies that drive economic growth in their areas.

We understand that Government may wish to protect businesses from significant increases in business rates due to revaluations and that the aim of a revaluation is to insert fairness between categories of property assets and across the country. We do not wish to see a system whereby one area experience increases in economic benefits at the expense of another. However, we do think that there is a case for local authorities sharing in the national uplift on property values (which is a reflective measure of economic growth), through the business rates system as part of a revaluation. We would therefore proposes a compromise approach whereby the benefits of general increases in economic value of the tax base is shared between the public and private sector by only partially changing the multiplier..

A secondary option, is that if Government view that business rates is not the tax whereby increases in the value of properties are recognised, then the recognition should be through the Stamp Duty Land Tax (SDLT). Then in order to incentivise local authorities to drive economic growth in their areas, it would make sense for a local authority to benefit in some way from a share in the additional SDLT generated.

11. Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Based on a principle of equality and that this is a national scheme then all areas should be treated equally irrespective of their framework for democratic accountability.

12. What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?
14. What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?
19. Would pooling risk, including a pool-area safety net, be attractive to local authorities?
22. What are your views on the interaction between the power to reduce the multiplier and the local discount powers?
23. What are your views on increasing the multiplier after a reduction?
24. Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?
25. What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?
26. What are your views on how the infrastructure levy should interact with existing BRS powers?

Our combined answer to all the above questions is:

The three separate county areas all have experience of operating a 'Pooling' arrangement within their area. Those experiences have been positive and therefore the three county areas under the 3SC area banner are happy to, subject to a better understanding of the technical implication, consider the establishment of a single area based arrangement to cover all the authorities.

It is felt that a single pool arrangement will provide the following benefits.

- Enable the area to determine its only distribution arrangement for the additional resources arising from moving to the 100% retention, linked to both 'Needs' and economic development.
- Use the economy of scale that the area will bring to better manage the valuation and appeal risks.
- Provide a single voice to work more effectively with the Valuation Office to more efficiently manage business rates within the area.
- Provide a single voice for engagement with the business community over investment issues.

Through the 3SC devolution deal the area is seeking to stimulate and increase economic activity and growth, with the growth in retained Business Rate income being a key element of the funding required delivering the growth. The area would be interested through this consultation exercise to open discussion on securing additional freedoms and flexibilities over the following to help further facilitate the growth.

- Control over setting the rate multiplier
- Freedoms to set local levels of discounts for both mandatory and discretionary reliefs to improve their alignment with the actual needs of local business.
- Direct involvement in the timing and process for rate revaluations.

Though there would be a number of issues and risks which would need to be worked through before any positive consideration should be given to establishing a potential area based pooling arrangement. These include:

- Property valuations changing, without prior consultation on impact.
- Appeals being determined at a national level without any consideration of impact on local finances.

- Lack of incentives to growth business rate yield and retain to finance local economic investment, via the “reset” mechanism.
- Increased local flexibility in currently nationally determined element of the business rate system to match increased local accountability. (i.e. application of discounts and reliefs, determination of equalisation at a local level).

15. Would it be helpful to move some of the ‘riskier’ hereditaments off local lists? If so, what type of hereditaments should be moved?
16. Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

The 3SC area would welcome the introduction of an area based list, as this would support the concept and management of an area based approach.

The area sees the merit of standardising and consolidation strategic national infrastructure assets such as Power Stations and Airports to be administration under a national list, given their importance to the development of the whole nation’s economy, but in centralising the income there should also be a centralising of the associated risks, especially with the funding of any additional infrastructure that would arise from the expansion of those assets, or compensation for loss of income through the consumption of assets on local lists into a expanded national asset. Specific example could include

- any strategic rail and road improvements arising from the expansion of Heathrow or Gatwick airports should be funded by the Government and not the surrounding Local Authorities.
- expansion of either airport will result in the potential loss of assets on ‘local’ list and therefore impact directly on the income due to those surrounding Authorities.

17. At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?
18. What would help your local authority better manage risks associated with successful business rates appeals?

The management of appeals should be at the appropriate level which is best situated to effectively manage both the cost of the appeal process and making the relevant financial provisions to cover the impacts of the Appeals.

Given that the Valuation Office determines all the key attributes that impact on the Appeal process, it would be logical to manage the appeals at a national level. Though the 3SC area would welcome further discussions with the Government as to whether that should be at a more local level, but this would need to be considered with the appropriate transfer of control over the processes to mitigate any financial risks that the area would be exposing itself to.

Generally greater information and intelligence sharing between the Valuation Office and local government would help manage the likelihood of successful appeals.

21. What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

In Unitary authority areas the decision is simple as the costs fall to the decision making authority. However, in two tier areas where the decision will affect more than the billing authority this decision must be made jointly. This joint decision making is already in operation with the Council Tax Support Schemes.

27. **What are your views on the process for obtaining approval for a levy from the LEP?**

The 3SC geographic area falls within the operation of 3 different LEP's. Each of the LEP's is partners to the area Devolution Deal and would therefore be directly involved in any discussion regarding the implementation of any Levy. The LEP's are recognised as the key channel to seeking the views of the business community so would be a seen as a key consultee in any proposal which impacted on the business community.

28. What are your views on arrangements for the duration and review of levies?

If the Levy is a key financial element to the delivery of infrastructure improvements then it is felt that the duration of the levy should be left to the determination of the Combined Authority to match their financial requirement. Especially as the improvement would be subject to the development of an appropriate business case that accord with the Treasury's Green Book.

29. What are your views on how infrastructure should be defined for the purposes of the levy?

The 3SC area welcome the use of the CIL definition as a proxy for the definition of infrastructure but would like to see "Digital" related activity incorporated into the definition to reflect the importance of this to both businesses and the general economy.

30. What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?
31. Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

This should be left to the discretion of the local area as to how best to align it with local development needs.

32. Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?
33. Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?
34. Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?
35. Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?
36. Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

We would welcomed any opportunity to look at simplifying financial reporting and data collection activities and making them more transparent, but felt that these are complex technical issues which are too detailed to cover at this point in the consultation purpose. Though, in principal, the need to balance the budget on an annual basis was supported.