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Additional Reports  
for the budget meeting of  
**THE COUNTY COUNCIL**  
to be held on  
**7 FEBRUARY 2017**

(i)

(ii)

County Hall  
Kingston upon Thames  
Surrey

Friday, 3 February 2017

**TO THE MEMBERS OF SURREY COUNTY COUNCIL**

**COUNTY COUNCIL BUDGET MEETING, 7 FEBRUARY 2017 – SUPPLEMENTARY PAPERS**

Please find attached the following supplementary papers for the budget meeting of the County Council on 7 February:

**ITEM 5 – REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20 AND TREASURY MANAGEMENT STRATEGY**

- (i) Revised recommendations to replace those on pages 19-21 of the Council agenda
- (ii) Revised Appendix 7 – Projected Earmarked Reserves and Balances
- (iii) Corrections sheet

**ITEM 8 - SUPPLEMENTARY REPORT OF THE CABINET**

This report sets out the recommendations to Council for:

- (i) Revenue and Capital Budget 2017/18 to 2019/20 and the Treasury Management Strategy.
- (ii) Admission Arrangements for Surrey's Community and Voluntary Controlled Schools and Coordinated Schemes for all schools for September 2018.

DAVID McNULTY  
Chief Executive

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Anne Gowing on 020 8541 9938

**5 REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20 AND  
TREASURY MANAGEMENT STRATEGY**

(Pages 1  
- 8)

Additional papers enclosed:

- Revised recommendations
- Revised Appendix 7
- Corrections sheet

**Annex 3, Council Tax requirement – To Follow**

**8 SUPPLEMENTARY REPORT OF THE CABINET**

(Pages 9  
- 14)

To receive a supplementary report from the meeting of the Cabinet held on 31 January 2017 and to agree recommendations in respect of the Admission Arrangements for Surrey's Community & Voluntary Controlled Primary and Secondary Schools and Co-ordinated Schemes for all schools for September 2018.

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*Thank you for your co-operation*

**County Council meeting – 7 February 2017**

**ITEM 05 – REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20 AND TREASURY MANAGEMENT STRATEGY**

**REVISED RECOMMENDATIONS – TO REPLACE THE RECOMMENDATIONS PRINTED IN THE COUNTY COUNCIL AGENDA (GREEN BOOK), PAGES 19 – 21**

[Note: these revised recommendations include the amendments made at Cabinet on 31 January and these changes are in bold italics and/or crossed through]

<b>RECOMMENDATIONS</b>
------------------------

Cabinet's recommendations to the Full County Council on 7 February 2017:

**Cabinet recommends Full County Council notes the following important features of the revenue and capital budget**

1. The Director of Finance has produced two statutory conclusions as follows (Annex 1).
  - a. For the proposed budget: that the council's budget is balanced and sustainable over the long term, although still requiring significant service transformation and efficiencies.
  - b. For the substitute budget: that the budget can only be balanced and become sustainable through the identification of substantial and permanent further service reductions for implementation in 2017/18 and subsequent years.
2. The requirement for the council to approve a substitute budget, with a council tax rise of 4.99% that will be implemented if the proposed budget is not supported in a referendum (paragraphs 95 to 99).
3. The findings of the Financial Resilience Review completed in November 2016 (paragraphs 14 and 15).

**Proposed budget: Cabinet recommends that Full County Council approves**

4. The council tax requirement for 2017/18 is set at £719,418,644.72 (Annex 3). *Please note this figure is still to be determined, due to still awaiting figures from some Boroughs and Districts and is expected on Monday 6 February.*
5. Increase the level of the general council tax by 1.99% and an additional 10% (35p per day) as a result mainly of social care pressures, making a total general council tax increase of 11.99% (paragraphs 92 to 94).
6. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services (paragraph 93).
7. Set the County Council precept for band D council tax at £1,458.45 which represents a 14.99% up-lift.
8. The council tax for each category of dwelling to be as in Annex 3.

9. That the payment for each billing authority, including any balances on the collection fund, will be as set out in Annex 3.
10. Agree to maintain the council tax rate set above after the Final Local Government Financial Settlement.
11. Delegate powers to the Leader and the Director of Finance to finalise budget proposals and recommendations to Full County Council updated to take into account new information ~~in the Final Local Government Financial Settlement.~~
12. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions (paragraph 92).
13. Approve the County Council's £1,696m gross revenue expenditure budget for 2017/18 for the proposed budget (Table 15).
14. Note that the existing revenue costs of funding past capital spending decisions is £30m for 2017/18.
15. Agree up to a total of £408m funding for capital schemes that funds essential schemes over the next three year period (schools and non-schools), including ring-fenced grants and a borrowing requirement of £94m over the three years (paragraphs 101 to 122)
16. Note that the detailed programme of schemes will be agreed at the March 2017 Cabinet as part of the Medium Term Financial Plan.
17. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:
  - all revenue 'invest to save' proposals, and
  - capital schemes (paragraph 109).

**Substitute budget: Cabinet recommends that Full County approves**

18. Increase the level of the general council tax by 1.99% (paragraphs 95 to 99).
19. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services (paragraph 96).
20. Set the County Council precept for band D council tax at £1,331.55 which represents a 4.99% up-lift.
21. Approve the County Council's £1,666m gross revenue expenditure budget for 2017/18 for the substitute budget (Table 17).
22. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions (paragraph 92).
- ~~23. Agree that there will be a requirement for a transparent Member-led process, in conjunction with officers, to find and implement an additional £30m of cuts to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this will require cuts greater than £30m to reflect that only a part year benefit will be achievable).~~

24. Agree to support only capital schemes which are funded without requiring borrowing, unless a sustainable basis for funding borrowing costs is identified and a compelling business case developed that demonstrates best value in progressing a particular scheme (paragraph 110).
25. Note that the detailed programme of schemes will be agreed ahead of implementation of the substitute budget (if necessary).
26. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:
  - all revenue 'invest to save' proposals, and
  - capital schemes (paragraph 109).

**Treasury management and borrowing: Cabinet recommends to Full County Council that they:**

27. Approve, with immediate effect, the Treasury Management Strategy for 2017/18 (Annex 2), which includes:
  - the investment strategy for short term cash balances;
  - the borrowing strategy for funding the capital programme;
  - the treasury management policy (Appendix 8);
  - the prudential indicators (Appendix 9);
  - the schedule of delegation (Appendix 11);
  - the minimum revenue provision policy (Appendix 12).

**That the following decisions have been approved by Cabinet:**

28. That services will develop detailed budgets and savings ahead of approval by Cabinet on 28 March 2017 when the final Medium Term Financial Plan (MTFP) 2017-20 will be presented.
29. That the draft MTFP for the financial years 2017-20 be approved, which includes:
  - the Total Schools Budget of £545.2m (paragraphs 66 to 71 in the Cabinet report);
  - overall cash limits for individual services for the proposed budget and the substitute budget.

**REPLACES RECOMMENDATION 23:**

30. (A) Agree to establish a Sustainability Review Board comprising three cross party Members, the Strategic Director for Adult Social Care and Public Health, the Deputy Chief Executive and the Director of Finance.  
  
(B) Require this board to bring back an initial report to the Cabinet meeting on 28 March 2017 on progress towards identifying £30m permanent service reductions and up to a further £22m one-off reductions required to achieve a balanced budget in 2017/18.

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## Projected earmarked reserves and balances

	Opening balance at 1 Apr 16 £m	Forecast balance at 31 Mar 17 £m	Proposed use to support 2017/18 budget £m	Forecast balance at 1 Apr 17 £m
Revolving Infrastructure & Investment Fund	21.1	11.1		11.1
Budget Equalisation Reserve	13.1	11.7	-5.8	5.9
Eco Park Sinking Fund	11.7	4.4		4.4
Insurance Reserve	11.9	7.7		7.7
Investment Renewals Reserve	8.8	2.1		2.1
General Capital Reserve	5.2	5.2		5.2
Street lighting PFI Reserve	5.1	4.4		4.4
Vehicle Replacement Reserve	3.9	3.0		3.0
Economic Downturn Reserve	9.2	9.2		9.2
Public Health Reserve	2.7	0.0		0.0
Economic Prosperity Reserve	2.5	2.5		2.5
Equipment Replacement Reserve	2.1	2.0		2.0
Child Protection Reserve	1.1	0.0		0.0
Business Rate Appeals Reserve	1.3	1.3		1.3
Pension Stabilisation Reserve	1.1	0.0		0.0
Interest Rate Reserve	1.0	1.0		1.0
<b>Earmarked Reserves</b>	<b>101.8</b>	<b>65.6</b>	<b>-5.8</b>	<b>59.8</b>
<b>General Fund Balance</b>	<b>21.3</b>	<b>21.3</b>	<b>0.0</b>	<b>21.3</b>

### Purpose of earmarked reserves

**Revolving Infrastructure & Investment Fund** is to provide the revenue costs of funding infrastructure and investment initiatives that will deliver savings and enhance income in the longer term. Currently, the council transfers net income generated by the portfolio to the reserve.

**Budget Equalisation Reserve** supports future years' revenue budgets from unapplied income and budget carry forwards.

**Eco Park Sinking Fund** is to fund the future of the council's waste disposal strategy from surpluses in initial years.

**Insurance Reserve** holds the balance resulting from a temporary surplus or deficit on the council's self insurance fund and is assessed by an actuary for the possible liabilities the council may face. It specifically holds £3.5m to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992 and also possible claims against the council. The company had limited funds to meet its liabilities, consequently, future claims against policy years covered by MMI may not be fully paid, so would be funded from this reserve. The balance on this reserve represents the latest assessed possible liability

**Investment Renewals Reserve** enables investments in service developments, to invest to make savings in the future. The reserve makes loans to services or invest to save projects, which may be repayable. The recovery of the loan is tailored to the requirements of each business case, which is subject to robust challenge before approval as part of the council's governance arrangements.

**General Capital Reserve** holds capital resources, other than capital receipts, available to fund future capital expenditure.

**Street Light Private Finance Initiative (PFI) Reserve** holds the balance of the street lighting PFI grant income over and above that used to finance the PFI to date. The balance will be used when future expenditure in year exceeds the grant income due in that same year.

**Vehicle Replacement Reserve** enables the future cost of vehicle replacement to be spread over the life of existing assets through annual revenue contributions.

**Economic Downturn Reserve** is to allay the risks of erosion in the council's tax base due to the impact of the localisation of council tax benefit and a down turn in the economy.

**Child Protection Reserve** provides funding for additional staffing costs as a result of the increase number of children subject to a child protection order. This reserve was set up to fund the costs until 2015/16, when the base budget will be increased to cover these costs. The balance has been fully utilised in 16/17.

**Public Health Reserve** held the carry forward of previous years' unspent Public Health Grant being used to fund activities in future years.

**Economic Prosperity Reserve** provides to fund projects that will increase economic development in the county.

**Equipment Replacement Reserve** enables services to set aside revenue budgets to meet future replacement costs of large items of equipment. Services make annual revenue contributions to the reserve and make withdrawals to fund purchases.

**Business Rate Appeals Reserve** mitigates against volatility in business rates income (driven by the volume and value of successful valuation appeals). The council bears 10% of any appeals losses (districts and boroughs 40% and central government 50%) and has set aside £1.25m against potential business rates valuation appeals in 2017/18.

**Pensions Stabilisation Reserve** enables the council to smooth its revenue contributions to the pension fund between years.

**Interest Rate Reserve** enables the council to fund its capital programme from borrowing in the event of an expected change in interest rates or other borrowing conditions.

## County Council – 7 February 2017

### REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20, AND TREASURY MANAGEMENT STRATEGY – update sheet

Changed text shown in **bold and underlined**

#### Page 36 of agenda (main report)

Table 9 Changes due to the Provisional Settlement 2017 18:

	2017/18	2018/19	2019/20	2017-20
	£m	£m	£m	£m
Adult Social Care precept (potential additional 1%) *	6.2	6.5	-12.7	0.0
2017-18 Adult Social Care Support Grant	4.0	0.0	0.0	4.0
New Homes Bonus	-1.2	-0.3	-0.3	-1.8
Total potential change to MTFP	9.0	6.2	<b><u>-13.0</u></b>	2.2

\* If the council uses the new flexibility around the Adult Social Care precept, it will attain the permitted 6% rise in 2017/18 and 2018/19 and would have to forgo the planned 2% rise in 2019/20 (as indicated by the -£12.7m)

#### Page 46 of agenda (main report)

108. Table 18 summarises the council's £408m capital programme for the three years of MTFP 2017 20. **Annex 5** sets out a more detailed version of the capital programme.

#### Page 59 of agenda (Annex 1)

1.17 In September 2016 the Council forecast an in year over spend on the revenue budget of £22m if no actions to contain expenditure were implemented. Since then the Chief Executive and Directors have put in place a series of measures and actions to stop or delay expenditure. As a result the current year's budget is moving closer to being balanced at the **year end** although as many actions are one-off or short term, there remains an underlying pressure moving into future years' budgets of £22m in 2017/18.

#### Page 60 of agenda (Annex 1)

1.22 The final accounts for 2015/16 show available general balances at 31 March 2016 of £21.3m. The latest budget monitoring position for 2016/17 forecasts that this level will be maintained at £21.3m by 31 March 2017. Appropriate levels of general balances are necessary to be maintained so that the Council can respond to unexpected emergencies. In recent years this balance has been set at between 2.0% and 2.5% of the sum of council tax and settlement funding, i.e. £16m to £20m. Although the current expected level is marginally in excess of this, the Director of Finance considers this prudent in view of the increasingly high level of service reductions and efficiencies required for the last 6 years (the average between 2010 and 2015 was around £66m, and this was consistently delivered), but this has increased to £83m for 2016/17.

**3. Actions**

**Our financial management arrangements will provide:**

- Strong financial leadership that communicates clearly and openly
- Transparent reporting, including publishing a **three**-year Medium Term Financial Plan
- A council tax that meets demand pressures
- Flexibility to respond to pressures and challenges

## County Council Meeting – 7 February 2017

**SUPPLEMENTARY REPORT OF THE CABINET**

The Cabinet met on 31 January 2017. Members marked \* were present.

* Mr David Hodge (Chairman)	* Mr John Furey
* Mr Peter Martin (Vice-Chairman)	* Mr Mike Goodman
* Mrs Helyn Clack	* Mrs Linda Kemeny
* Mrs Clare Curran	* Ms Denise Le Gal
* Mr Mel Few	* Mr Richard Walsh
<b>Cabinet Associates:</b>	
Mr Tim Evans	* Mrs Kay Hammond
* Mrs Mary Lewis	* Mr Tony Samuels

**A REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20 AND TREASURY MANAGEMENT STRATEGY**

1. The Cabinet considered a report on the Revenue and Capital Budget 2017/18 to 2019/20 and Treasury Management Strategy at its meeting on 31 January 2017.
2. **Following this meeting, the recommendations to County Council are:**

**To note the following important features of the revenue and capital budget:**

1. The Director of Finance has produced two statutory conclusions as follows.
  - a. For the proposed budget: that the council's budget is balanced and sustainable over the long term, although still requiring significant service transformation and efficiencies.
  - b. For the substitute budget: that the budget can only be balanced and become sustainable through the identification of substantial and permanent further service reductions for implementation in 2017/18 and subsequent years.
2. The requirement for the council to approve a substitute budget, with a council tax rise of 4.99% that will be implemented if the proposed budget is not supported in a referendum.
3. The findings of the Financial Resilience Review completed in November 2016.

## **Proposed budget: Cabinet recommendations to Full County Council on the revenue and capital**

4. Increase the level of the general council tax by 1.99% and an additional 10% (35p per day) as a result mainly of social care pressures, making a total general council tax increase of 11.99%.
5. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services.
6. Set the County Council precept for band D council tax at £1,458.45 which represents a 14.99% up-lift.
7. Agree to maintain the council tax rate set above after the Final Local Government Financial Settlement.
8. Delegate powers to the Leader and the Director of Finance to finalise budget proposals and recommendations to Full County Council updated to take into account new information.
9. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions.
10. Approve the County Council's £1,696m gross revenue expenditure budget for 2017/18 for the proposed budget.
11. Note that the existing revenue costs of funding past capital spending decisions is £30m for 2017/18.
12. Agree up to a total of £408m funding for capital schemes that funds essential schemes over the next three year period (schools and non-schools), including ring-fenced grants and a borrowing requirement of £94m over the three years.
13. Note that the detailed programme of schemes will be agreed at the March 2017 Cabinet as part of the Medium Term Financial Plan.
14. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:
  - all revenue 'invest to save' proposals, and
  - capital schemes.

### **Substitute budget: Cabinet recommendations to Full County Council on the revenue and capital**

15. Increase the level of the general council tax by 1.99%.
16. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services.
17. Set the County Council precept for band D council tax at £1,331.55 which represents a 4.99% up-lift.
18. Approve the County Council's £1,666m gross revenue expenditure budget for 2017/18 for the substitute budget.
19. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions.
20. Agree to support only capital schemes which are funded without requiring borrowing, unless a sustainable basis for funding borrowing costs is identified and a compelling business case developed that demonstrates best value in progressing a particular scheme.
21. Note that the detailed programme of schemes will be agreed ahead of implementation of the substitute budget (if necessary).
22. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:
  - all revenue 'invest to save' proposals, and
  - capital schemes.

### **Treasury management and borrowing: Cabinet recommendations to Full County Council**

23. Approve, with immediate effect, the Treasury Management Strategy for 2017/18, which includes:
  - the investment strategy for short term cash balances;
  - the borrowing strategy for funding the capital programme;
  - the treasury management policy (Appendix 8 to the Cabinet report);
  - the prudential indicators (Appendix 9 to the Cabinet report);
  - the schedule of delegation (Appendix 11 to the Cabinet report);
  - the minimum revenue provision policy (Appendix 12 to the Cabinet report).

**That the following decisions have been approved by Cabinet:**

24. That services will develop detailed budgets and savings ahead of approval by Cabinet on 28 March 2017 when the final Medium Term Financial Plan (MTFP) 2017-20 will be presented.
25. That the draft MTFP for the financial years 2017-20 be approved, which includes:
  - the Total Schools Budget of £545.2m (paragraphs 66 to 71 in the Cabinet report);
  - overall cash limits for individual services for the proposed budget and the substitute budget.
26. A) Agree to establish a Sustainability Review Board comprising three cross party Members, the Strategic Director for Adult Social Care and Public Health, the Deputy Chief Executive and the Director of Finance.  
  
B) Require this board to bring back an initial report to the Cabinet meeting on 28 March 2017 on progress towards identifying £30m permanent service reductions and up to a further £22m one-off reductions required to achieve a balanced budget in 2017/18.

**B ADMISSION ARRANGEMENTS FOR SURREY'S COMMUNITY AND VOLUNTARY CONTROLLED SCHOOLS AND CO-ORDINATED SCHEMES FOR ALL SCHOOLS FOR SEPTEMBER 2018**

1. The Cabinet were asked to agree the Admission Arrangements for Surrey's Community and Voluntary Controlled Schools and Co-ordinated Schemes for all schools for September 2018 at its meeting on 31 January 2017. The full report, Enclosures and Appendices are set out in the Cabinet agenda.
2. **The Cabinet RECOMMENDED that the County Council agrees the following Admission Arrangements for September 2018 for Surrey's Community and Voluntary Controlled Schools and Co-ordinated Schemes for all schools:**

**Recommendation 1**

That a sibling link is introduced for Stoughton Infant School with Northmead Junior School for September 2018.

**Recommendation 2**

That the published admissions number for St Andrew's CofE Infant School in Farnham is decreased from 40 to 30 for September 2018.

**Recommendation 3**

That the published admissions number for Walsh CofE Junior School is decreased from 75 to 64 in September 2018

**Recommendation 4**

That Surrey's Relevant Area is agreed as set out in Enclosure 3 of the Cabinet report.

**Recommendation 5**

That the aspects of Surrey's admission arrangements for community and voluntary controlled schools for September 2018, for which no change is proposed, are agreed as set out in Enclosure 1 and its Appendices within the Cabinet report.

**Recommendation 6**

That the primary and secondary coordinated admission schemes that will apply to all schools for 2018 are agreed as set out in Enclosure 2 to the Cabinet report.

**Mr David Hodge  
Leader of the Council  
3 February 2017**

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