Notice of Meeting

Overview and Budget Scrutiny Committee – Supplementary Agenda

Date & time	Place	Contact	Acting Chief Executive
Friday, 26 January 2018 at 10.00 am	Council Chamber, County Hall, Kingston upon Thames, Surrey KT1 2DN	Ross Pike or Sharmina Ullah Room 122, County Hall Tel 020 8541 7368 or 020 8213 2838 ross.pike@surreycc.gov.uk	Julie Fisher We're on Twitter @sccdemocracy

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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 Ross Pike or Sharmina Ullah on 020 8541 7368 or 020 8213 2838.

Elected Members

Mrs Kay Hammond (Chairman), Mr Nick Harrison (Vice-Chairman), Ms Ayesha Azad, Mr Jonathan Essex, Mr Robert Evans, Mr Tim Evans, Mr Tim Hall, Mr David Harmer, Ms Charlotte Morley and Mrs Hazel Watson

TERMS OF REFERENCE

The Committee is responsible for the following areas:

Co-ordinates the Council's policy development and scrutiny work by agreeing work programmes for Select Committees, ensuring that reviews are focused on the Council's priorities and value for money, that reviews are cross-cutting where appropriate, and that work is not duplicated.
Performance, finance and risk monitoring for all Council services.
Policy development and scrutiny for Cross-cutting/whole-Council issues, including:

- Budget Strategy/Financial Management
- Improvement Programme, Productivity and Efficiency
- Equalities and Diversity
- Corporate Performance Management
- Corporate and Community Planning
- Transformation
- New models of delivery
- Digital strategy

AGENDA

6 BUDGET SCRUTINY (Pages 1 - 138)

This report includes the January 2018 Cabinet Budget Monitoring papers which were marked 'to follow' on the original agenda.

Julie Fisher
Acting Chief Executive
Published: Monday, 22 January 2018

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Local Government Act 2003: Section 25 Report by the Director of Finance

Summary

1.1. The Local Government Act 2003 (Section 25), requires that when a local authority is agreeing its annual budget and precept, the Section 151 Officer must report to it on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

1.2. The Council is required to set a balanced budget and in considering the budget, the Council must have due regard to the advice the Director of Finance includes in this report. This is particularly important in view of the on-going serious financial challenges facing the council.

1.3. For Surrey County Council the Section 151 Officer is the Director of Finance, Sheila Little.

1.4. In the equivalent report in February 2016 and February 2017, the Director of Finance indicated that the although the level of risk remained significant and the position in each year was very serious, it was her view that the budget proposals recommended by the Cabinet for 2016/17 and 2017/18 would each produce a balanced budget that was deliverable, although extremely challenging. However, these reports also made it clear that the longer term sustainability of the council was dependent upon the development and implementation of robust transformation activities that deliver base budget reduction in costs. Whilst considerable changes have been made and efficiencies and cost reductions delivered (£542m since 2010, including an estimated £79m in the current financial year), the scale of transformation needed to deliver a sustainable longer term financial position remains to be developed.

1.5. Therefore, this report goes further. Although it is the view of the Director of Finance that the budget proposals recommended by the Cabinet for 2018/19 will produce a balanced budget, this has required an unprecedented level of one-off funding in the form of:

- use of capital receipts flexibility of up to £15m to fund transformation initiatives;
- estimated growth gain of £20m from participation in the Government's 100% Business Rate Retention pilot during 2018/19, and;
- use of up to £24m of council reserves.

1.6. Together the above one-off funding contributes to the short term financial stability of the council and are aimed at supporting the council to progress towards a sustainable position. However, this level of one-off funding (up to £59m) to balance the budget in 2018/19 is not repeatable in 2019/20.

1.7. In last year's equivalent report, the Director of Finance stated that the level of reserves at around £66m were at the minimum safe level. To enable a stable and balanced budget for 2018/19, the council will need to use a further £24m reserves, bringing the level to an estimated £42m. Although this is now below the minimum level the Director of Finance considers appropriate in the context of the risks and uncertainty facing the council in terms of funding beyond 2019/20 and service pressures, it will help ensure a balanced budget for 2018/19 while the council invests in becoming sustainable for the longer term. The need to replenish these reserves will be considered very closely during 2018/19 and ahead of setting the budget for 2019/20.

1.8. The continuing demand pressures and reducing grant funding from central government have required the council to make savings of over £540m since 2010. A further £66m will be required to be delivered in 2018/19 to ensure there is no further call upon reserves in year. Although this level is around the average level of savings the council has been achieving in most years, the Director of Finance recognises and is concerned that repeating this level of savings yet again is becoming even more challenging. The Director of Finance therefore requires that the action plans to achieve these savings are monitored regularly by leadership of the council throughout the year.

1.9. The experience of the forecast overspending in 2017/18 is due to a mix of savings not being achievable, and demand and cost pressures being greater than forecast in the budget. Managing these demand pressures within the budgets for 2018/19 is essential to sustain a balanced budget. Therefore the Director of Finance requires that the pressures assumed in the budget are closely monitored by the council's leadership along with the savings.

1.10. Looking ahead to 2019/20, the current estimated shortfall in funding compared to spending plans is £86m and at this stage the Director of Finance has no realistic expectation that funding levels assumed for 2019/20 will alter sufficiently to change her view that significant service transformation is needed by the council to set a balanced budget in that year. To illustrate this point, even if the council did secure acceptance into the 100% business rates retention pilot programme for a second year in 2019/20 (where the growth gain might be expected to be around £20m), and if the Government did not implement their current stated intent to apply negative RSG to the value of £17m for the county council in 2019/20, the funding shortfall would remain serious and would exceed £40m.

1.11. There is therefore an increasingly urgent need for the development and implementation of a robust wide ranging transformation programme if the council is to set a balanced budget in 2019/20. This programme must be established and underpinned by sound governance and caution against optimism bias well ahead of setting the 2019/20 budget.

Introduction

1.12. In expressing her opinion, the Director of Finance has considered the financial, governance and management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the County Council and its overall financial standing as set out in the following sections.

Economic and financial position

1.13. Strategically the financial and economic context facing the council remains similar to recent years, which is a continuation of austerity, significant reduction in central Government funding at the same time as increasing demographic pressures for core council services, adult and children's social care in particular.

1.14. The Government again announced the Provisional Financial Settlement relatively late, 19 December 2017. There was some improvement from the level of funding that was anticipated, specifically:

- the increased flexibility to raise core council tax by an additional 1% over assumptions without triggering a referendum (this is equivalent to around £7m in the base budget); and;
- the success of the county's application to be a 100% business rates retention pilot and thereby retain an estimated £20m business rate growth as a one off.

1.15. However, the council is still dependent upon significant other one-off funding to produce a balanced budget and another (eighth) year of significant service reductions and efficiencies (£66m).

1.16. The Provisional Settlement reflected the Government's assumed take up by councils of the increased core council tax flexibility which means that the Core Spending Power calculation now reflects an even greater reliance on locally raised funding from council tax and business rates, as distinct from Government grant. It is important to be aware that this increases the uncertainty of future funding as the council receives the actual levels of council tax and business rates collected, which can be variable. The impact is that there is less certainty over a significant proportion of the council's budget than in the past.

1.17. Other than the above, the immediate implications of the announcements in the Provisional Settlement were relatively minor in the short term, and do not impact materially on the council's financial positon for 2018/19. However, looking ahead the Provisional Settlement did indicate that several consultations will take place during 2018/19 that could have significant impact from 2020/21 and it is therefore important that the council actively contributes to these consultations, including:

- 'Fair and affordable' consultation on negative RSG;

- Green Paper on Adult Social Care, and;
- Fair Funding Review formal consultation and technical papers.

1.18. At the same time as funding levels reduce and become increasingly uncertain, the Council continues to face significant pressures from the care market as well as increasing year on year demographic demand for targeted services, in particular, but not exclusively, for social care. Public expectation about the level of service from universal service areas (e.g. Highways, Libraries) also continues to increase.

1.19. Since September 2017 the Council has been forecasting a significant in year over spend on the revenue budget, £19m as at the end of November if no actions to contain expenditure were implemented. Since then the Acting Chief Executive and Directors have reinforced a series of measures initially put in place last financial year to stop or delay expenditure. However, at this relatively late stage in the year the current year's budget remains forecasting a significant overspend. The underlying pressure in this year's budget has been reflected in the pressure assumptions in setting 2018/19 budget to ensure this is as robust and realistic as possible.

1.20. Although the Council has made over £540m of savings and service reductions since 2010, its ability to continue to achieve this level of savings in the context of growing demand for its services and reductions in Government funding is increasingly difficult without leading to potential service failures. The shortfall in delivery against savings target of £104m in the current year (estimated to deliver £79m in 2017/18) demonstrates the challenges and emphasises the need to caution against optimism bias.

Financial Resilience Review

1.21. The core conclusions of the Financial Resilience Review carried out the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2016 at the request of the Director of Finance, supported by the Chief Executive and Leader, were that:

- the budget planning assumptions and figures were sound;
- the Council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the full scale of savings required as soon as possible to match its currently allowed income profile going forward; and
- that the Council could not manage until 2019/20 through reliance wholly on reserves, which are already somewhat depleted.

1.22. These have been considered in setting the 2018/19 budget and will continue to be reflected upon in the development of the transformation programme in 2018.

Reserves and balances

1.23. The Council holds general balances that allow it to respond to unexpected emergencies and earmarked reserves set aside for specific purposes. Between 2009 and 2012 this council sensibly increased the level of reserves in anticipation of austerity impacting. Since 2013/14 the Council has applied £103m of reserves to support the Budget. As explained below, it is the view of the Director of Finance that the level of reserves are at a minimum safe level in light of the continuing and significant risks facing the council in terms of on-going increasing demands and limited local ability to manage the level of funding to keep pace with growing service demands.

1.24. The final accounts for 2016/17 show available general balances at 31 March 2017 of £21.3m. The latest budget monitoring position for 2017/18 forecasts that this level will be maintained at £21.3m by 31 March 2018. 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. £17m to £21m. Although the current expected level is at the high end 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 six years.

1.25. Details of all the Council's earmarked reserves are set out in Appendix 9. These are funds set aside for specific purposes and agreed by the Cabinet. The forecast total balance for all earmarked reserves at 1 April 2018 is £42m, down from £65m on 1 April 2017.

Risks and mitigating actions

1.26. In response to the significant challenges that the Council is facing and the associated emerging risks, an integrated risk framework is well established across the Council and will be maintained. The risk governance arrangements are well embedded and the close link between risk registers and business impact analyses and continuity plans has been sustained throughout 2017/18 and will continue into 2018/19. Similarly the Leadership Risk Register remains in place and will continue to be monitored monthly by the Chief Executive and senior officers, and reviewed by Cabinet and Audit and Governance Committee quarterly in 2018/19.

1.27. The specific risks relating to the financial environment and opportunities facing the Council and recorded in the Leadership Risk Register are listed below.

- Further reductions in funding, due to constraints in the ability to raise local funding and/or distribution of funding, results in significant adverse long term consequences for sustainability and service reductions leading to significant implications for residents.
- Failure to achieve the MTFP, which could be a result of:
  - not achieving savings

- additional service demand and/or
- over optimistic funding levels

and as a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.

1.28. After eight years the risk of non-delivery of efficiencies and service reductions has increased and to recognise the risks inherent in the budget assumptions set out above, a number of mechanisms continue to be in place to help manage these risks, including:

- monthly reporting to Cabinet on budget monitoring forecasts within three weeks of the period end and including remedial management action where required;
- the operation of a robust risk management approach;
- the presence of the council's key internal control framework, including the financial regulations and Scheme of Delegation for Financial Management which provides the framework for delegated budget management;
- the sustaining of good working relations with the external auditor (Grant Thornton);
- ongoing member development programme to ensure that all members have the skills and information they need to understand the challenges facing the council;
- significant focus on income generating activities through an enlarged property investment programme and optimising use of the council's existing property assets;
- the operation of the internal audit function and its role in assessing controls and processes to highlight any major weaknesses and advise on best practice, and;
- the continuation of robust arrangements to track and monitor demand growth, the delivery of new savings and determine any additional measures necessary.

Capital Strategy

1.29. The recently revised Prudential Code requires the Director of Finance to report explicitly on the affordability and risk associated with the capital strategy.

1.30. The Council continues to invest in its infrastructure and local economy and this is reflected in the continued high levels of capital expenditure plans. The Council has restricted the types of capital scheme that it is prepared to borrow to fund to those schemes that are focused on avoiding a future revenue cost or that will generate a revenue saving, as a means of minimizing the ongoing revenue impact of borrowing decisions.

1.31. However, borrowing levels and the cost of borrowing are planned to rise due to the Council's investment strategy. The purpose of the investment strategy is to increase the Council's longer term financial resilience by generating a reliable income stream to support the Council's budget. Therefore, the increase in borrowing and the costs associated with borrowing, are partly mitigated by revenue savings and additional income generation.

1.32. The Council has well established processes for the governance and approval of capital expenditure included in the capital programme. These have proved effective in recent years in ensuring the delivery of the Council's capital programme. The Investment Board and the Shareholder Board (both established in 2013/14 to ensure the effective management of the Council's investment strategy, ensuring all commercial investment activities are entered into in accordance with the Council's governance framework, having due regard to risk and proportionality.

1.33. Central government has recently consulted upon changes to the reporting and accounting arrangements for local authorities' investment in commercial properties and economic development. The Government has yet to announce its proposals following this consultation and the Director of Finance believes the council should not change or amend policies on the basis of a consultation. However, this may become necessary and will be monitored.

1.34. Linked to the Council's capital expenditure plans, is the Council's approach to treasury management activities; its borrowing and investment strategies. The treasury management strategy proposed for 2018/19 is consistent with that applied in previous years and ensures that the Council adheres to the statutory requirement to give priority to security and liquidity over yield for its treasury management investment activities.

1.35. These inter-related controls and policies demonstrate that the Council's capital expenditure and investment decisions properly take account of stewardship, value for money, prudence, sustainability and affordability, by setting out the long term context in which capital expenditure and investment decisions are made, and by giving due consideration to both risk and reward and impact on the achievement of priority outcomes.

Conclusion

1.36. It is the Director of Finance's view that the combination of the need to deliver, again, a significant level of in year savings and service reductions, manage down service demands whilst developing a robust, wide ranging and early transformation plan to change how services are delivered from 2019/20, represent a very serious capacity and financial challenge to the council in 2018/19. All of these are required for the council to be in a position to set a balanced budget in 2019/20 and move towards becoming sustainable in the longer term.

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Treasury Management Strategy Statement 2018/19

Introduction

1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

2. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

3. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

4. The Council borrows substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

5. **Revised strategy:** In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

6. **Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

7. Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports and subsequently rose to 3.1% in December. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

8. In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has

provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

9. **Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

10. Bail-in legislation, which ensures that large investors, including local authorities, will rescue failing banks instead of Central Government in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

11. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

12. **Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%**.** The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

13. Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingcose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

14. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

15. For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.25%, and that new short-term loans will be borrowed at an average rate of 0.55%.

Local Context

16. On 31st December 2017, the Authority held £649m of borrowing and £31m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Forecast £m	31.3.20 Forecast £m	31.3.21 Forecast £m
General Fund CFR	1,063	1,182	1,231	1,249	1,263
Less: Other debt liabilities *	-154	-185	-188	-180	-172
Borrowing CFR	**909**	**997**	**1,043**	**1,069**	**1,091**
Less: External borrowing (long term) **	-397	-397	-397	-397	-397
Internal borrowing – based on projected available levels of reserves, balances and working capital	-372	-398	-401	-459	-470
Projected additional borrowing requirement (short term)	**140**	**202**	**245**	**213**	**225**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

** shows only loans to which the Authority is committed and excludes optional refinancing

17. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Internal borrowing allows the Council to utilise its internal cash balances (ie working capital and usable reserves) which are not required in the short to medium term in order to reduce risk and keep interest costs low.

18. The Authority has an increasing CFR over the period to 31 March 2021, due to the proposed capital programme and approved investment strategy projects. The maximisation of internal borrowing leads to a borrowing requirement above the Council's ability to utilise its internal resources to fund this capital expenditure. It will therefore be required to raise additional external borrowing over the forecast period.

19. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2018/19.

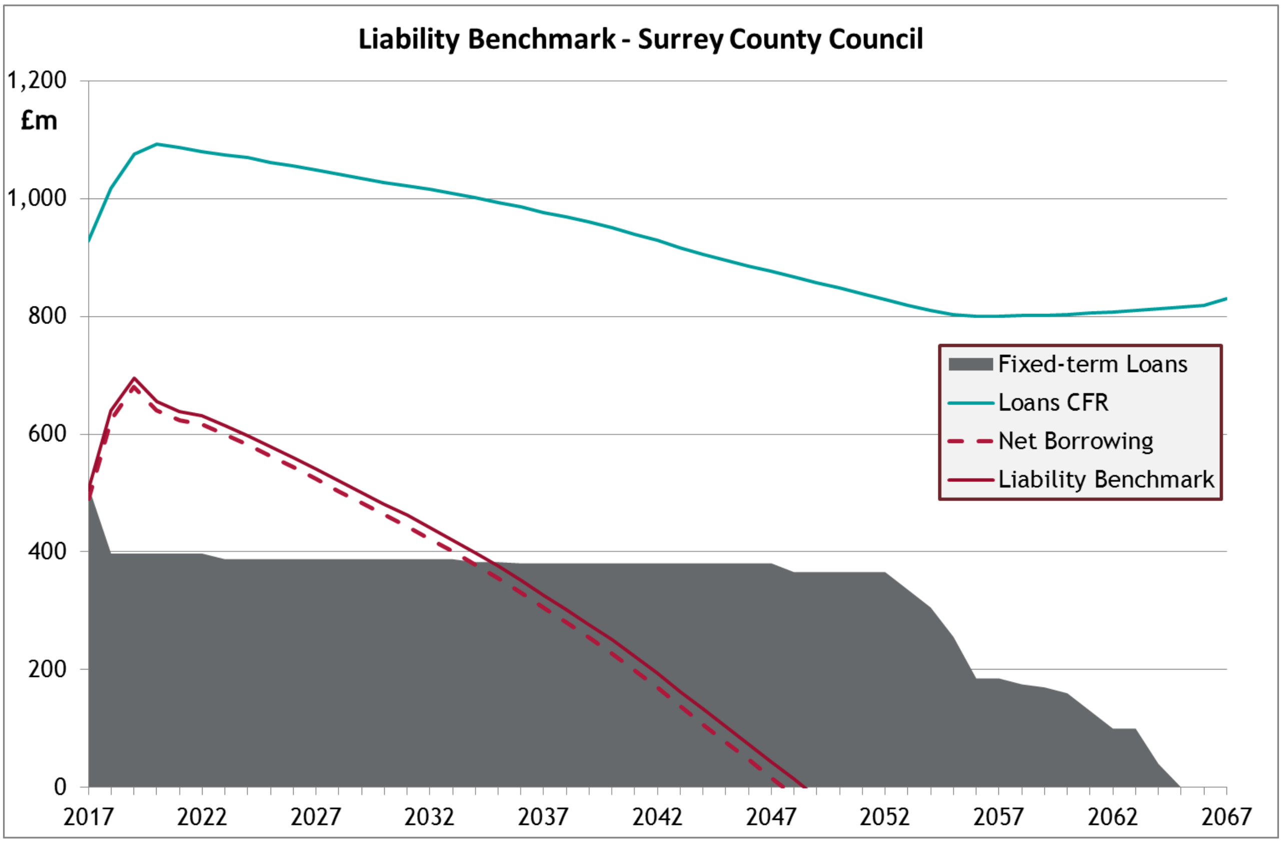
20. To assist with its long-term treasury management strategy, the Authority and its advisers have created a liability benchmark, which forecasts the Authority's need to borrow over a 50 year period. Following on from the medium-term forecasts in table 1 above, the benchmark assumes:

    - capital expenditure funded by borrowing as per the proposed capital programme and an ongoing recurring programme of £15m per annum funded by borrowing.
    - only approved projects under the investment strategy are currently included.
    - minimum revenue provision on new capital expenditure based on the existing MRP policy.
    - balances and reserves based on proposed/approved use over the MTFP period and based on 2.5% inflation thereafter.

21. Based on the assumptions above, the graph below shows that the net borrowing requirement of the Council is relatively short term. Although the borrowing required to

support the investment strategy is only based on currently approved schemes. The Council's projected levels of reserves, provisions, working capital and other available balances are shown as the gap between the CFR and net borrowing lines and these continue to support the Council's ability to internally borrow to reduce interest costs. The Council has a significant amount on long term debt which it is committed to and for which there are no significant repayments until the 2050's.

Graph 1: Liability Benchmark



also choose to borrow additional sums in response to changes in the economic climate in order to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,481 million.

23. **Objectives:** The Authority's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

24. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

25. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing

will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis to determine whether the Authority borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

26. Alternatively, the Authority may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

27. In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

28. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities and other public bodies.
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Surrey Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

29. The Authority has previously raised the majority of its long-term borrowing from the PWLB. For short term borrowing the Council has, and will continue to use other sources of finance, such as loans from other local authorities, pension funds and other public bodies as these are often available at more favourable rates. These short term loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

30. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

31. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate

payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

32. **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

33. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. The Authority's investment balance has ranged between £5m and £143m between April and December 2017, with an average balance of £72m. Due to the continuation of the strategy to maximise internal borrowing and use short term borrowing to manage cash flow shortfalls, low levels of cash and investments are expected to continue in the forthcoming year.

34. **Objectives:** Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

35. **Negative interest rates:** If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

36. **Strategy:** Due to the continuation of the strategy to maximise internal borrowing and use short term borrowing to manage cash flow shortfalls, investment levels are expected to remain low during 2018/19. The majority of the Authority's surplus cash continues to be invested in money market funds and short-term unsecured bank deposits. Money Market Funds offer same-day liquidity, very low or no volatility and also ensure diversification to reduce the security risk of holding the majority of cash deposits with a limited number of UK banks.

37. While the Council's investment balances remain low (less than £100m), Money Market Funds and short term bank deposits will be utilised, with a cash limit per counterparty/fund of £25m. Cash will always be split over at least 2 funds with different managers to ensure that liquid funds are always available and risk of default is minimised. If the economic situation changes, which results in a decision to undertake additional borrowing, resulting

in higher cash balances, other investment counterparties may be considered and the counterparty limits set out below would apply.

38. **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in Table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government*
UK Central Government	n/a	n/a	£ Unlimited and 50 years
AAA	£10m and 5 years	£20m and 20 years	£20m and 50 years
AA+	£10m and 5 years	£20m and 10 years	£20m and 25 years
AA	£10m and 4 years	£20m and 5 years	£20m and 15 years
AA-	£10m and 3 years	£20m and 4 years	£20m and 10 years
A+	£10m and 2 years	£20m and 3 years	£10m and 5 years
A	£10m and 13 months	£20m and 2 years	£10m and 5 years
A-	£10m and 6 months	£20m and 13 months	£10m and 5 years
None	£1m and 6 months	n/a	£20m and 25 years
Pooled funds	£25m per fund		

*UK Local Authorities

39. Table 2 must be read in conjunction with the notes below.

40. **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

41. **Banks unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

42. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be

used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

43. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

44. **Pooled funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

45. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

46. **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and therefore the aim is to keep balances below £1m. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

47. **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet any of the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

48. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

49. **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

50. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

51. **Specified investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

52. The Authority defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

53. **Non-specified investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. For treasury purposes, the Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares, or in bodies or schemes not of high credit quality. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement. The limit on long-term investments and on total non-specified investments is £40m.

54. **Investment limits**: The Authority's revenue reserves, available to cover investment losses, are forecast to be £65m on 31st March 2018. In order that no more than approximately 30% of this balance will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be

£20 million and limit for any one pooled fund will be £25 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	up to £20m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	up to £20m per group
Any group of pooled funds under the same management	up to £25m per manager
Money Market Funds	up to £100m in total
Unsecured investments with building societies	up to £10m in total

55. **Liquidity management**: The Authority uses cash flow forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Non-Treasury Investments

56. Although not classed as treasury management activities and therefore not currently covered by the CIPFA Code or the CLG Guidance, the Authority may purchase property and make loans for investment purposes and may also make loans and investments for service purposes, for example as equity investments and loans to the Authority's subsidiaries.

57. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

Treasury Management Indicators

58. The Authority measures and manages its exposures to treasury management risks using the following indicators.

59. **Security**: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average default rates of its investment portfolio. This is calculated by taking the historic risk of default rate, weighted by the size of each investment, and calculating a portfolio average. Unrated investments are assigned a score based on their perceived risk.

	Maximum exposure
Portfolio average historic risk of default rate	0.05%

60. **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice. The target for the total sum borrowed in the past 3 months without prior notice is £150m.

61. **Interest rate exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	£1,231m	£1,249m	£1,263m
Upper limit on variable interest rate exposure	£400m	£400m	£400m

62. Fixed rate borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

63. **Maturity structure of borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	25%

64. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

65. **Principal sums invested for periods longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£40m	£20m	£10m

Other Items

66. There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

67. **Policy on the use of financial derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate

risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

68. The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

69. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

70. **Investment training:** The needs of the Authority's treasury management staff for training in investment management are assessed regularly as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

71. Officers continue to keep abreast of developments via the CIPFA treasury management forum, local authority networks and regular newsletters and meetings with Arlingclose. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

72. **Investment advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

73. **Investment of money borrowed in advance of need**: The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

74. The total amount borrowed will not exceed the authorised borrowing limit of £1,481 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

75. The budget for investment income in 2018/19 is less than £100k, due to the expected low investment balances caused by the maximisation of internal borrowing and the Council needing to short term borrow for cash flow purposes almost continually throughout

2018/19. The budget is based on an average investment portfolio of £20 million at an interest rate of 0.25%. The budget for debt interest paid in 2018/19 is £17.6 million, based on actual interest due on the Council's long term borrowing portfolio of £16.4m and an average short term debt portfolio of £200 million at an average interest rate of 0.6%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

76. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain

Appendix A – Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the Monetary Policy Committee (MPC) increased Bank rate in line with market expectations to 0.5%. Accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes reemphasised that any prospective increases in Bank rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages, despite both savings rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's financial position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remain elevated and help to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectation they themselves created. Further expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- The Arlingclose central case for Bank Rate is 0.5% over the medium term. The risk to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government’s seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Appendix B – Existing Investment & Debt Portfolio Position

	31 Dec 17 Actual Portfolio £m	31 Dec 17 Weighted Average Rate %
External borrowing:		
Public Works Loan Board	387	4.00%
Long term commercial loan	10	5.00%
Local authorities loans	232	0.50%
Surrey Police & Crime Commissioner	20	0.17%
Total external borrowing	**649**	
Treasury investments:		
Money Market Funds	-31	-0.17%
Total treasury investments	**-31**	
Net debt	**618**	

Surrey County Council: Corporate Strategy 2018-21 *DRAFT*

SURREY

PURPOSE

Ensure Surrey residents remain **healthy**, **safe** and **confident** about their future

VISION

ONE team for Surrey by 2021

VALUES

- Listen
- Responsibility
- Trust
- Respect

Context

We are committed to protecting the vital services our residents rely upon but this is becoming increasingly challenging. Surrey County Council has faced unprecedented increases in demand whilst central government grants have reduced significantly (over £200m since 2010). We have worked hard to contain the costs and volume pressures, finding £533m worth of savings, but this is not enough. We still face a significant budget gap and are working hard as one team with our residents and partners to find a sustainable solution.

Surrey has high performing schools, but some children, such as young carers and children from disadvantaged backgrounds, tend to do less well at school compared to their peers. The Council also supports over 6,200 children at high risk and in need of social care intervention, and almost 900 looked after children, including 116 unaccompanied asylum seeking children.

Surrey's population is growing and their needs are becoming more complex, increasing demand on health and social care services. By 2021, there will be nearly 240,000 people aged over 65 in Surrey. The Council currently supports over 3,800 people with learning disabilities and over 6,800 children with special educational needs and disability on a statutory plan – these numbers are expected to continue to rise.

Surrey is a net contributor, paying more income tax to the Treasury than any area outside London. Surrey's economy expanded by 24% between 2010 and 2016, but there are critical challenges: roads are congested; employers struggle to attract staff with the right skills; and there is limited affordable housing. The council has also been given over 60 new responsibilities without proper funding to deliver.

Our strategic goals

1. Wellbeing

Everyone in Surrey has a great start to life and can live and age well

To support this goal in 2018/19 we will

- Deliver inclusive provision in Surrey that meets the education, health and care needs of children with special educational needs and disabilities
- Prevent problems escalating by ensuring children, young people and families needing extra help receive timely, preventative support
- Improve our safeguarding practice so that children are safe, seen and heard
- Support residents to live longer and live well by providing services that encourage healthier lifestyle choices and prioritises those with greater needs
- Work effectively with health and other partners to support residents to return home from hospital in a timely manner and provide the support needed to help people remain at home

2. Economic prosperity

Surrey's economy remains strong and sustainable

To support this goal in 2018/19 we will

- Champion the educational achievement, progress and engagement of vulnerable children and young people
- Resurface and treat priority roads to ensure the resilience of our highway network
- Improve and renew priority pavements, particularly to support vulnerable users
- Increase waste recycling and reduce the amount produced and sent to landfill
- Support an infrastructure investment programme, including investment in flood and maintenance schemes

3. Resident experience

Residents in Surrey experience public services that are easy to use, responsive and value for money

To support this goal in 2018/19 we will

- Enhance opportunities for residents to influence and shape council services in their local place
- Make better use of digital technology in achieving our strategic goals and delivering sustainable services
- Develop a positive experience of special educational needs and disabilities services and support for children, young people and families
- Deliver the savings and manage service pressures as set out in the Medium-Term Financial Plan to ensure a balanced budget is sustained

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Confident in Surrey's future: Financial Strategy 2018-21

SURREY

PURPOSE

Making the most of every £ to deliver improved outcomes for residents

VISION

ONE place
ONE budget
ONE team for Surrey

VALUES

- Listen
- Responsibility
- Trust
- Respect

Context

The Conservative government has confirmed it plans to continue the programme of deficit reduction over the lifetime of this Parliament. The themes in the Chancellor's 2017 Autumn Budget reflect downgraded economic forecasts, looser fiscal rules and investment to support the economy.
Within this, public services are expected to provide taxpayers and resident ever better value and work more in partnerships to improve outcomes. As the move to 75% business rates retention and more local financial independence nears, the devolution agenda increases, passing greater powers and responsibilities to local authority areas.
Meanwhile, demands for council services continue to grow. In particular social care services supporting vulnerable adults and children.

SECURING STEWARDSHIP:

Acting objectively in the public interest at all times through responsible, accountable and transparent decision making.

ENSURING SUSTAINABILITY:

Long term planning to envisage future needs and opportunities and enable effective, sustainable outcomes.

ENABLING TRANSFORMATION:

A proactive and practical outcome-focused approach to achieve future orientation.

BUILDING PARTNERSHIPS:

Openly build trust and common round to achieve productive relationships and better value outcomes.

Our strategic approach

1. Principles

We will better value outcomes through continual improvement by:

- Working with partners to improve value and outcomes throughout the whole system
- Continuing to manage activities to reduce and control costs
- Continuing to seek opportunities to generate income and reduce reliance on council tax increases and government grant
- Managing demand for services

2. Method

Our financial planning will support corporate strategic goals by:

- Developing outcome based budgeting that supports service strategies
- Continuing to plan for the long term to ensure services meet future demands within resources
- Proactively managing key risks and opportunities facing the council
- Providing strong financial governance and accountability

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

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Appendix 3

Transformation projects funded by flexible use of capital receipts

Service	Project	2018/19 £000	Ongoing saving[1] £000	Payback (years)
Orbis	Finance Transformation Team [assume 50%]	52	-1,640	<1 yr
Orbis	Business Ops Programme Team	298	-1,100	<1 yr
Orbis	Business Ops Commercial Team	155	-32	5 yrs
Orbis	Orbis investment	1,314	-5,628	<1 yr
Highways	Highways-business improvement, programme/project resource	241	-3,677	<1 yr
Waste	Waste-DMR/MRF/Joint Waste Authority - Project resource	230	-6,265	<1 yr
ASC	Programme management and support to deliver health and social care integration savings	464	-1000	<1 yr
ASC	Accommodation with care and support programme.	500	-820	<1 yr
CSF	Early Help investment - investing in early help teams - restructuring and recommissioning services	2,870	-3,472	<1 yr
CSF	SEN Transport - invest to meet current demand, with aim of longer term savings	5,500	-2,367	2 yrs
CSF	Signs of safety	200		<3 yrs
CIE	Redundancy budget to support transformational change. This will support the savings across all transformation projects	3,200		<3 yrs
	Total transformation funding projects	**15,024**		

1. *Note: in most instances the on-going savings are not solely dependent upon this additional investment. The focus of other existing resources will also be required to ensure delivery of savings.*

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Economic outlook and public spending

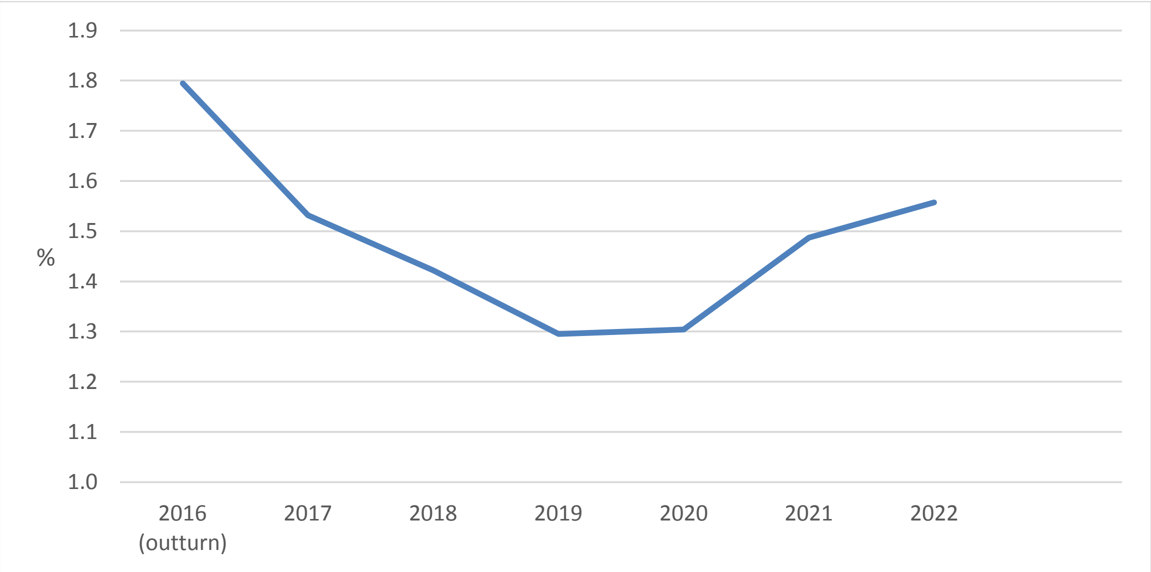
A.2.1. The Council's financial and service planning takes place within the context of the national economic and public expenditure plans and under global economic influences. This appendix explores that context and identifies the broad global and national assumptions within which the draft budget and MTFP have been framed.

The UK Economy

A.2.2. The strongest impact on the economic outlook has the process of the United Kingdom's withdrawal from European Union, in particular the progress in the Article 50 negotiations between the UK and the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff edge, but may also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

A.2.3. The UK economy has slowed this year, the Gross Domestic Product (GDP) growth forecast by the Office for Budget Responsibility (OBR) was revised downward by 0.5% to 1.5% in 2017, then growth is expected to slow down to 1.4% during 2018 and 2019, before rising to 1.6% during 2022. Services remain the strongest contributor to GDP growth. Graph A.2.1 shows the revised forecast in the Autumn budget (November 2017).

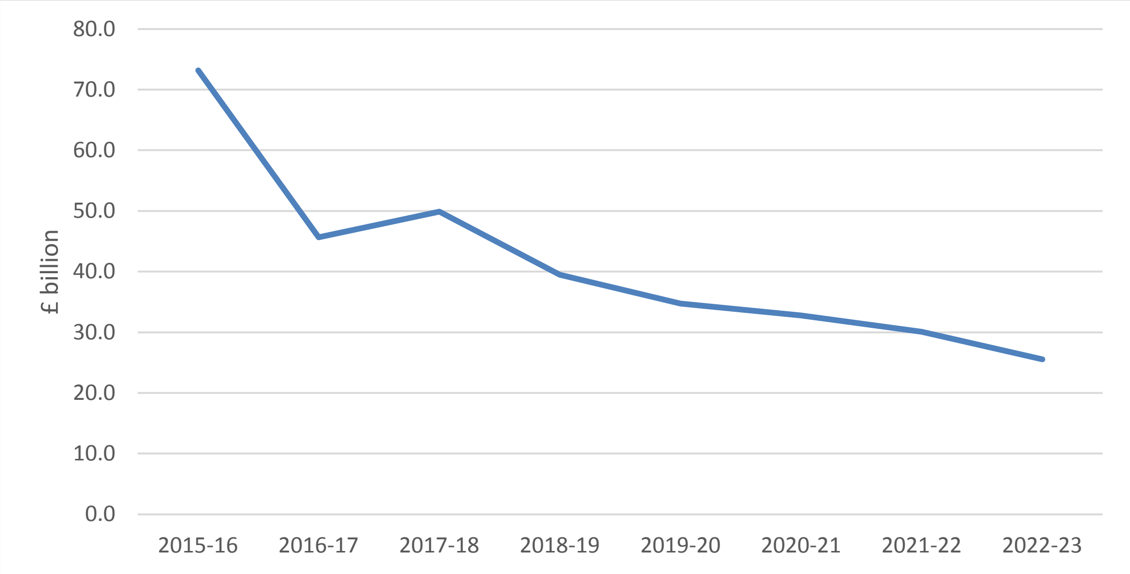
Graph A.2.1 The UK GDP growth forecast



Source: Office for Budget Responsibility

A.2.4. The amount of money the Government borrows each year, Public Sector Net Borrowing (PSNB) decreased by £3.1bn in comparison of the period April – November 2017 and the same period in 2016. The OBR forecasts PSNB (excluding public sector banks) will be £49.9bn during the financial year 2017/18. Graph A.2.2 shows the declining trend in the borrowing forecast. Public sector net debt (PSND) (excluding public sector banks) was £1,734.8bn in November 2017, which is equivalent to 84.6% of GDP, an increase of £72.2bn from November 2016.

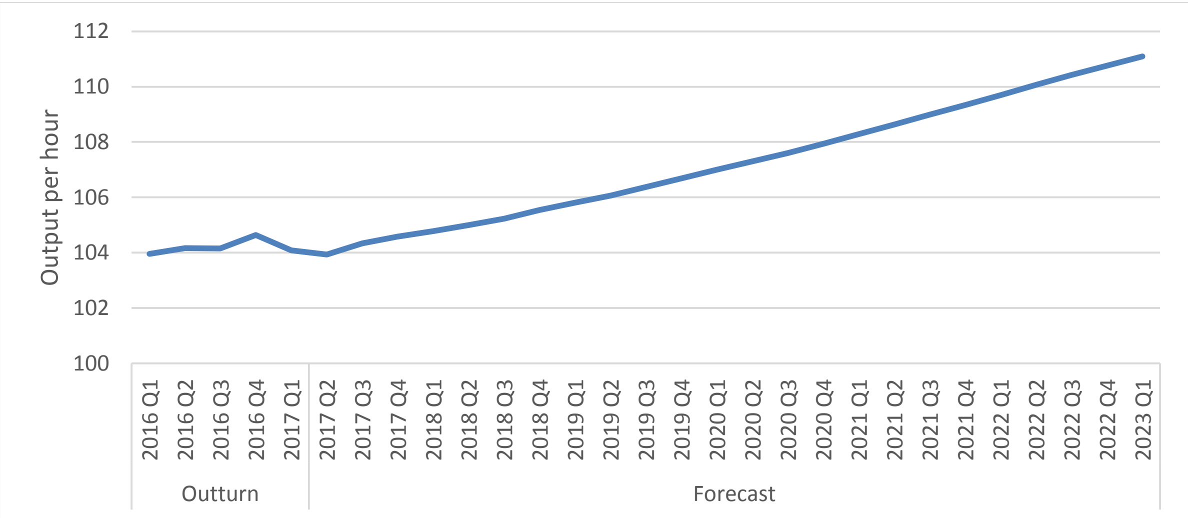
A 2.2 Public sector net borrowing forecast



Source: Office for Budget Responsibility

A.2.5. A persistent weakness of the UK economy is productivity growth. The OBR's November 2017 Economic and Fiscal Outlook statistics show 0.1% decrease in productivity (measured in units per hour) and over a longer time period, productivity growth has been lower on average than prior to the economic downturn. Consequently earnings and cost of labour growth outpaced the productivity growth. The OBR revised down the trend of potential productivity growth in November 2017 while reflecting the recent trends and admitting that huge uncertainty remains around the diagnosis of the recent weakness and the prognosis for the future. The revised trend is expected to rise from 0.9% this year to 1.22% in 2022. In January 2018 Office for National Statistics (ONS) released more optimistic statistics showing 0.9% of estimated productivity growth from Quarter 2 to Quarter 3 of 2017.

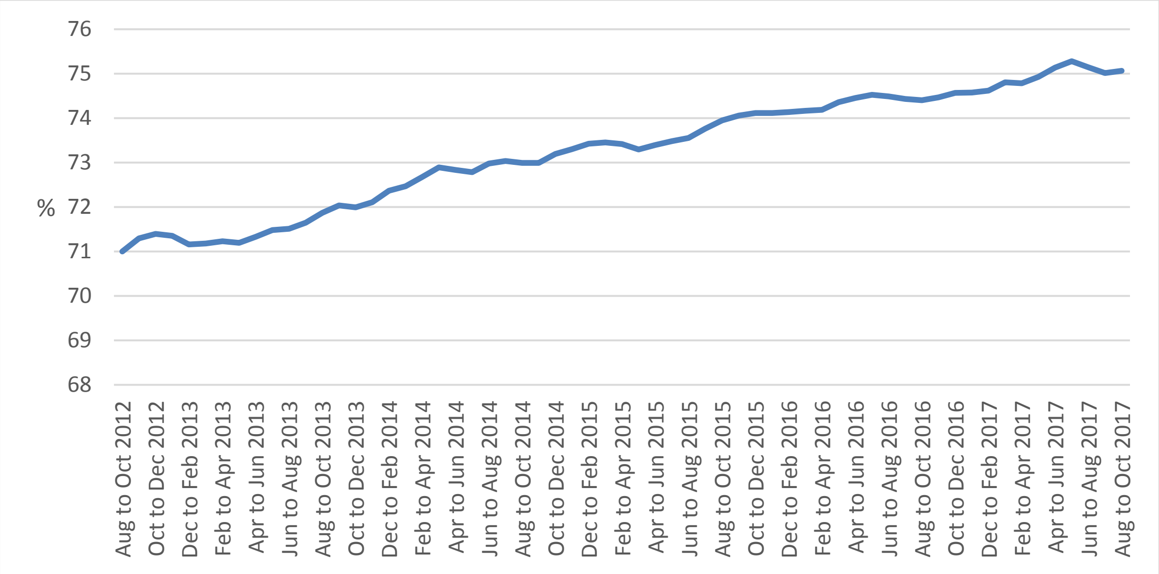
A 2.3 Productivity growth forecast (output per hour)



Source: Office for Budget Responsibility

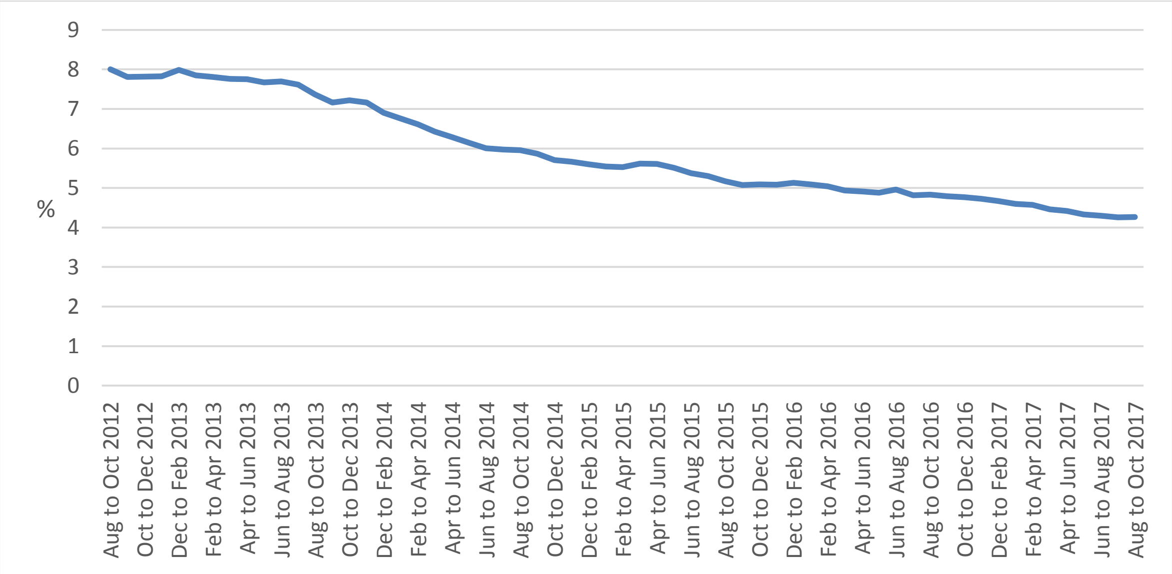
A.2.6. The UK labour market continues to perform well. The number of people in work has risen over the last year as shown in Graph A.2.4. Unemployment continued to fall, as shown in Graph A.2.5 and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. Graph A.2.6 shows the structure of the UK Labour Market.

Graph A.2.4 UK employment rate (people aged 16 to 64), seasonally adjusted



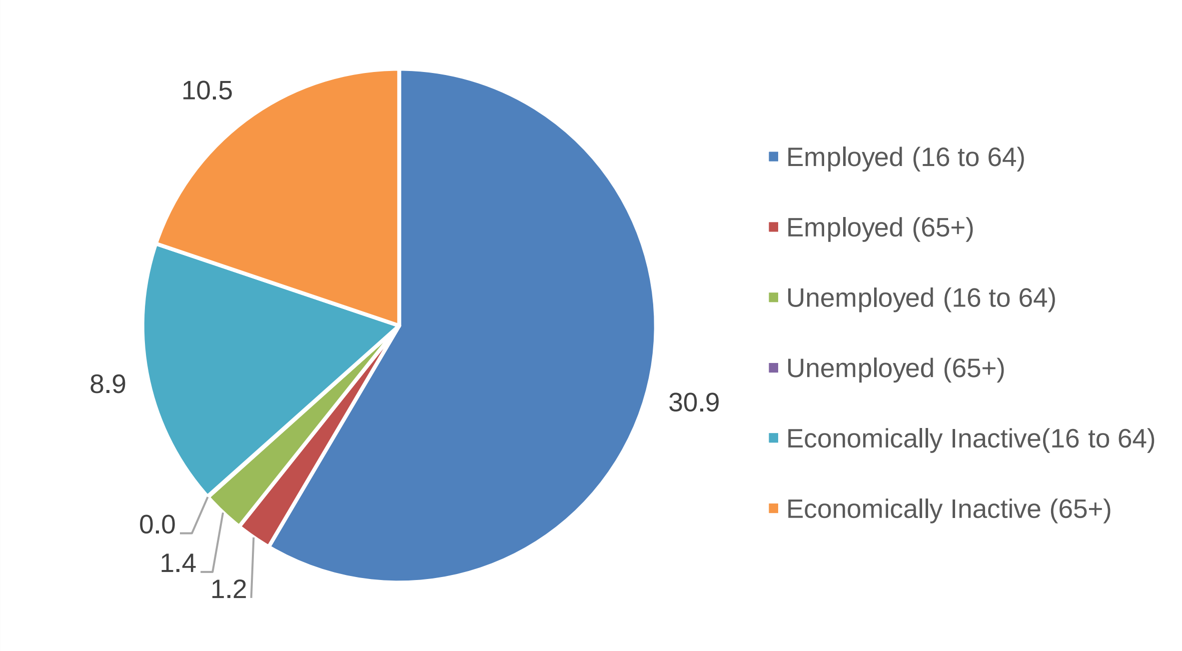
Source: Office for National Statistics

Graph A.2.5 UK Unemployment rate (people aged 16 to 64), seasonally adjusted



Source: Office for National Statistics

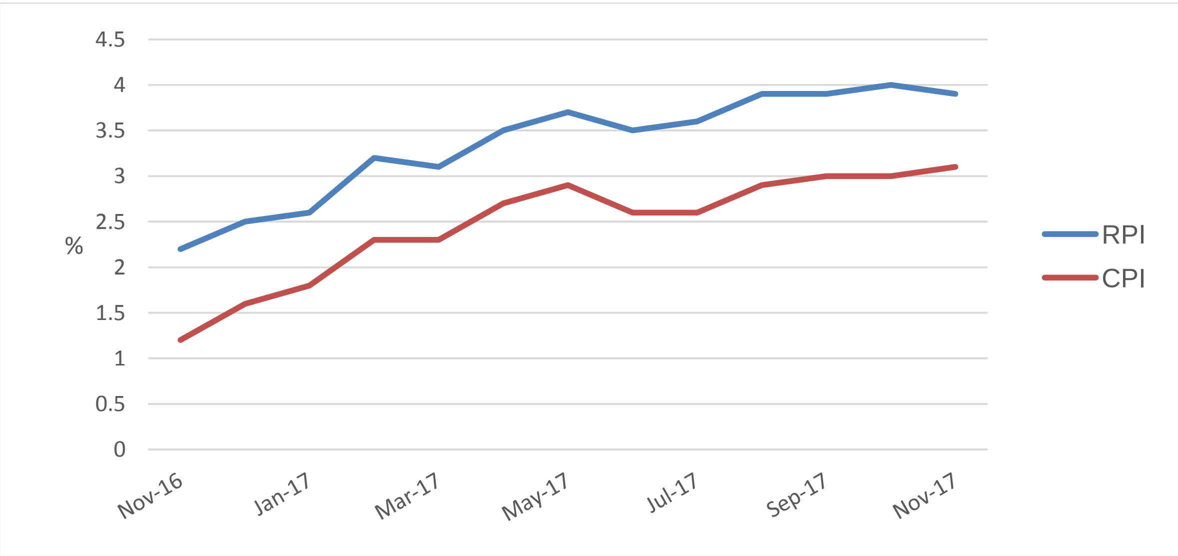
Graph A.2.6 Summary of UK Labour Market in millions as at October 2017



Source: Office for National Statistics

A.2.7. Graph A.2.7 shows UK Consumer Price Index (CPI) and Retail Price Index (RPI) inflation between November 2016 and November 2017. Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports and subsequently rose to 3.1% in December. The latest recent upwards contribution to change in CPI can be attributed to rise in air fares, recreational and cultural goods and services. The OBR expects CPI inflation to peak in in 2017 and then fall back to the Government's target of 2.0%, house price inflation is expected to average around 3.0% a year.

Graph A.2.7 UK Inflation



Source: Office for National Statistics

A.2.8. The Bank of England sets monetary policy to maintain 2% CPI inflation while sustaining growth and employment. It raised the Bank Rate from the historic low of

0.25% to 0.5% in November 2017. The Bank's Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

A.2.9. The council's treasury adviser, Arlingclose's central case is for the UK Bank Rate to remain at 0.50% during 2018/19. Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

A.2.10. On 22 November 2017, the Chancellor of the Exchequer, Phillip Hammond, presented his Autumn Budget 2017. The main headlines from this were the near record high employment and the fact that even though borrowing has fallen by three quarters since 2010, debt is still high. UK has £1,735bn debt, which is around £65,000 per household. Expecting a weaker outlook for the economy and the public finances, and growing pressures on public services following years of cuts, the Government added £2.7bn to borrowing in 2018/19 and £9.2bn (0.4% of GDP) in 2019/20. The Budget also includes tax cuts (fuel duty freeze and stamp duty decrease) easing in previously planned cuts to Government spending and further boost to capital spending. There is a prospect of further cuts to public spending as a share of GDP in 2022/23.

A.2.11. The Autumn Budget focuses on the following areas:

- *Brexit* - The government allocated £3bn further for Brexit over the next two years, which will include funding for the border preparation, the future immigration system and the new trade relationship.
- *NHS* - £6.3bn new funding will be used for upgrading NHS buildings, improving care, improving A&E, reducing waiting times and treating more people.
- *New Homes* - £5.3bn new financial support for house building over the next five years, with a view to reach the target of 300,000 new homes each year.
- *Increase of National Living Wage and National Minimum Wage* - The National Living Wage (25+) will increase from £7.50 per hour to £7.83 per hour from April 2018.
- *Business rates* - Business rates currently rise in line with RPI. This will change from April 2018 when business rates will rise by CPI, which tends to be lower than RPI. Business rates revaluation will also take place every three years rather than every five years, starting from 2022.
- *Transport in England* – The Government is allocating significant funds towards transport across England, including £1.7bn to improve transport in English cities

A.2.12. On 19 December 2017, Communities Secretary Sajid Javid announced plans to allow councils to retain 75% of business rates from 2020/21 and a 1% increase in council tax raising powers for 2018/19 and 2019/20. He also announced an overhaul of the formula for distributing funding in local authorities in England with a planned implementation in 2020/21.

The Global Economy

A.2.13. The slowdown in UK GDP growth so far this year contrasts with a pick-up in other advanced economies. Real GDP growth averaged 0.3% a quarter in the UK in the first three quarters of 2017, down from 0.5% in the second half of 2016. In the euro area, US, Canada and Japan, quarterly growth so far this year has been stronger than in the second half of 2016 and stronger than in the UK. Sterling's fall has seen inflation pick up more rapidly in the UK than in the other major economies, contributing to weaker real growth. In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Appendix 5

Provisional government grants for 2018/19 to 2020/21 by Director

Government grant estimates as at 31 December 2017

	Current		Estimates	
	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Mental Health Deprivation of Liberty	-80	-80	-80	-80
Improved Better Care Fund	-7,500	-7,895	-7,078	-7,078
Adult Social Care	**-7,580**	**-7,975**	**-7,158**	**-7,158**
Public Health	-37,504	-36,540	-35,575	-35,575
Public Health	**-37,504**	**-36,540**	**-35,575**	**-35,575**
Asylum Seekers	-4,200	-4,700	-4,700	-4,700
Asylum Migration Fund	0	-59	-59	0
Dedicated School Grant	-507,248	-490,171	-497,182	-497,182
Education Funding Agency	-11,086	-8,039	-8,039	-8,039
Extended Rights to Travel	-128	-124	-124	-124
PE & Sport	-2,185	-4,026	-4,026	-4,026
Preparation for Employment	-18	0	0	0
Pupil Premium	-17,730	-14,946	-14,946	-14,946
Remand Grant	0	-62	-62	-62
Troubled Families	-1,521	-959	-345	0
Universal Infant school Meals	-10,542	-9,853	-9,853	-9,853
Youth Justice Board	-628	-630	-630	-630
Children, School and Families	**-555,286**	**-533,569**	**-539,966**	**-539,562**
Surrey Area of Outstanding Natural Beauty	-144	-144	-144	-144
Bikeability	-246	-256	-285	-285
Bus service operator grant	-1,416	-1,125	-1,125	-1,125
Sustainable Travel Grant	-59	-59	-59	-59
Countryside - other grants	-71	-77	-77	-77
Flood water management	-92	-98	-104	-104
Environment & Infrastructure	**-2,028**	**-1,759**	**-1,794**	**-1,794**
Fire Pension	-8,245	-8,728	-8,815	-8,903
Fire Revenue	-394	-394	-394	-394
Fire and Rescue Service	**-8,639**	**-9,122**	**-9,209**	**-9,297**
Adult Community Learning	-2,406	-2,406	-2,406	-2,406
Music Grant, Surrey Arts	-1,388	-1,388	-1,388	-1,388
Registration deaths	-17	-17	-17	-17
Police & Crime Panel	-66	-66	-66	-66
Health Watch		-464	-464	-464
Legal, Democratic And Cultural	**-3,877**	**-4,341**	**-4,341**	**-4,341**
Health Watch	-464			
Organisational Leadership and Performance	**-464**	**0**	**0**	**0**

	Current	Estimates		
	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Adult Social Care support grant	-4,000			
Business Rate cap grant	-1,676	-1,667	-1,667	-1,667
Business Rate retention Scheme	-1,393	-1,393	-1,393	-1,393
Community Voices - Add Prison funding	-421	-421	-421	-421
Dedicated School Grant - Corporate Allocation	-5,744	-5,744	-5,744	-5,744
Education Services Grant	-4,530			
Independent Living Fund	-1,791	-1,791	-1,791	-1,791
New Homes Bonus	-5,055	-2,430	-1,970	
Private Financing Initiative	-19,022	-16,702	-16,702	-16,702
Staying put	-221	-166	-166	-166
Central Income and Expenditure	**-43,853**	**-30,314**	**-29,854**	**-27,884**
Total Grant Estimates	**-659,229**	**-623,619**	**-627,896**	**-625,610**

Appendix 6
Draft Revenue Budgets
2018 - 21

Includes:

Directors' revenue budgets summaries

Directors' revenue draft pressures programmes for 2018/19 and 2019/20

Directors' revenue draft savings programmes for 2018/19 and 2019/2020

Appendix 6

Draft revenue budget summaries

2018/19 - 2020/21

Overall Budget Summary

Movements	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Prior year budget	27,681	20,794	38,561	86,389
Local Taxation changes	-46,370	-366,276	292,651	-22,962
Major central Gov Support changes	39,683	333,000	-282,115	0
Changes to Government Grants	-11,553	11,019	2,149	1,882
Funding changes	-18,240	-22,257	12,685	-21,080
Income inflation	-571	-784	-805	-787
Pay inflation	6,756	4,473	4,832	4,828
Contract / market inflation	16,287	31,392	27,055	24,686
Service Delivery	43,748	16,831	14,125	-11,462
Demand	18,212	55,099	39,855	28,173
Legislation	27	-532	29	30
Expenditure Pressures	84,459	106,479	85,091	45,469
Pressures	66,219	84,222	97,776	24,389
Service Transformation / Efficiency	-70,144	-64,732	-49,928	-16,907
Service Reduction	-2,877	-1,686	-18	-60
Partner Contribution	-86	-37	-2	-1
Savings	-73,107	-66,455	-49,948	-16,968
Draft Net Budget	20,794	38,561	86,389	93,809
Subjective				
Council Tax	-634,867	-658,047	-685,876	-707,323
ASC precept	-31,034	-50,938	-51,447	-51,962
Retained Business Rates	-52,669	-375,861	-54,872	-55,872
Business Rates (+) Tariff / (-) Top-up	-58,552	234,273	-47,842	-47,842
RSG	-28,000	0	0	0
Trans Relief	-12,175	0	0	0
DSG	-507,248	-490,171	-497,182	-497,182
Gov Grants	-149,377	-130,844	-128,110	-125,824
Partner (non SCC) Funding	-4,553	-4,511	-4,502	-4,498
Fire Pension Employee Contributions	-2,604	-2,604	-2,604	-2,604
Other Income	-179,834	-188,074	-194,301	-197,573
Funding	**-1,660,913**	**-1,666,777**	**-1,666,736**	**-1,690,680**
Staffing	276,797	272,836	268,453	269,934
Pension Payments	15,221	15,221	15,221	15,221
Non staffing	1,059,896	1,130,264	1,175,523	1,205,701
School Expenditure	345,063	314,456	321,467	321,467
Partner (non SCC) Expenditure	-15,269	-27,439	-27,539	-27,834
Expenditure	**1,681,707**	**1,705,338**	**1,753,125**	**1,784,489**
Draft Net Budget	**20,794**	**38,561**	**86,389**	**93,809**

Budget by Director	Current 17/18 £'000	2018/19 £'000	Estimate 2019/20 £'000	2020/21 £'000
Adult Social Care	460,759	497,046	525,622	555,053
Public Health	37,904	36,999	36,375	36,377
Children, Schools and Families	454,738	480,115	481,173	488,713
CSF - Delegated Schools	345,063	314,456	321,467	321,467
Environment & Infrastructure	140,784	150,040	157,079	161,603
E&I - Fire	45,522	45,765	42,198	40,820
Legal, Democratic And Cultural	34,803	33,238	33,195	33,152
E&I - Communities	8,097	7,659	7,965	8,274
Business Services	89,814	85,729	86,122	88,146
Organisational Leadership and Performance	9,727	8,508	8,524	8,531
Central Income and Expenditure	54,496	45,783	53,403	42,352
Gross Expenditure	**1,681,707**	**1,705,338**	**1,753,125**	**1,784,489**
Adult Social Care	-106,637	-113,276	-114,431	-116,553
Public Health	-37,904	-36,540	-35,575	-35,575
Children, Schools and Families	-253,760	-262,650	-262,036	-261,632
CSF - Delegated Schools	-345,063	-314,456	-321,467	-321,467
Environment & Infrastructure	-14,869	-14,974	-15,371	-15,742
E&I - Fire	-13,725	-14,243	-14,367	-14,491
Legal, Democratic And Cultural	-13,961	-14,677	-14,936	-15,137
E&I - Communities	-2,214	-2,379	-2,480	-2,571
Business Services	-10,290	-8,322	-8,487	-8,657
Organisational Leadership and Performance	-926	-469	-477	-485
Central Income and Expenditure	-861,565	-884,791	-877,109	-898,371
Net income	**-1,660,913**	**-1,666,777**	**-1,666,736**	**-1,690,680**
Adult Social Care	354,122	383,770	411,190	438,500
Public Health	0	459	800	802
Children, Schools and Families	200,978	217,465	219,137	227,081
CSF - Delegated Schools	0	0	0	0
Environment & Infrastructure	125,915	135,066	141,708	145,861
E&I - Fire	31,797	31,522	27,831	26,329
Legal, Democratic And Cultural	20,842	18,561	18,259	18,015
E&I - Communities	5,883	5,280	5,485	5,703
Business Services	79,524	77,407	77,635	79,489
Organisational Leadership and Performance	8,801	8,039	8,047	8,046
Central Income and Expenditure	-807,069	-839,008	-823,706	-856,019
Net Budget	**20,794**	**38,561**	**86,389**	**93,809**

Adult Social Care

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Adult Social Care	354,122	383,770	411,190	438,500
Draft Net Budget	354,122	383,770	411,190	438,500

Movements	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Prior year budget	340,996	354,122	383,770	411,190
Changes to Government Grants	-7,500	-395	817	0
Pay inflation	5,280	1,037	1,384	1,413
Contract / market inflation	9,558	18,644	14,649	12,134
Virement	-393	93	0	0
Service Delivery	15,853	7,480	495	398
Demand	16,266	21,403	18,738	19,293
Pressures	39,064	48,262	36,083	33,237
Service Transformation / Efficiency	-25,938	-18,615	-8,662	-5,928
Savings	-25,938	-18,615	-8,662	-5,928
Draft Net Budget	354,122	383,770	411,190	438,500

Subjective	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Gov Grants	-7,580	-7,975	-7,158	-7,158
Other Income	-99,057	-105,301	-107,273	-109,395
Funding	**-106,637**	**-113,276**	**-114,431**	**-116,553**
Staffing	62,282	61,625	61,952	62,514
Non staffing	398,478	435,421	463,670	492,538
Expenditure	**460,759**	**497,046**	**525,622**	**555,053**
Draft Net Budget	**354,122**	**383,770**	**411,190**	**438,500**

Public Health

	Current	Estimate		
	17/18	2018/19	2019/20	2020/21
Movements	£'000	£'000	£'000	£'000
Prior year budget	0	0	459	800
Changes to Government Grants	948	964	965	0
Pay inflation	47	45	50	52
Contract / market inflation	7	0	0	0
Service Delivery	675	1,795	0	0
Pressures	1,677	2,804	1,015	52
Service Transformation / Efficiency	-1,677	-2,345	-674	-50
Savings	-1,677	-2,345	-674	-50
Draft Net Budget	**0**	**459**	**800**	**802**

Subjective				
Gov Grants	-37,504	-36,540	-35,575	-35,575
Other Income	-400	0	0	0
Funding	**-37,904**	**-36,540**	**-35,575**	**-35,575**
Staffing	2,470	2,515	2,565	2,617
Non staffing	35,434	34,484	33,810	33,760
Expenditure	**37,904**	**36,999**	**36,375**	**36,377**
Draft Net Budget	**0**	**459**	**800**	**802**

Note:

Funding from the Public Health Grant means the Public Health service has £38m income and expenditure. Therefore net nil budget.

Children, Schools and Families

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
CSF - Children's services	102,122	124,543	127,422	129,702
CSF - Commissioning and Prevention	34,685	33,261	29,367	30,210
CSF - Schools and SEND	64,171	59,661	62,348	67,169
CSF - Delegated Schools	0	0	0	0
Draft Net Budget	200,978	217,465	219,137	227,081

Note: Delegated schools has £345m income and expenditure. Therefore net nil budget.

Movements		2018/19	2019/20	2020/21
Prior year budget		200,978	217,465	219,137
Changes to Government Grants		21,717	-6,397	404
Pay inflation		2,000	2,001	2,001
Contract / market inflation		5,000	5,000	5,000
Virement		154	0	0
Service Delivery		-19,161	6,397	-404
Demand		32,873	21,116	8,880
Legislation		-560	0	0
Pressures		42,023	28,117	15,881
Service Transformation / Efficiency		-25,536	-26,445	-7,937
Savings		-25,536	-26,445	-7,937
Draft Net Budget		217,465	219,137	227,081

Subjective	Current 17/18	2018/19	2019/20	2020/21
DSG	-507,248	-490,171	-497,182	-497,182
Gov Grants	-48,037	-43,397	-42,783	-42,379
Partner (non SCC) Funding	-3,584	-3,584	-3,584	-3,584
Other Income	-39,954	-39,954	-39,954	-39,954
Funding	**-598,823**	**-577,106**	**-583,503**	**-583,099**
Staffing	118,868	116,472	114,805	116,587
Non staffing	335,870	363,643	366,368	372,126
School Expenditure	345,063	314,456	321,467	321,467
Expenditure	**799,801**	**794,571**	**802,640**	**810,180**
Draft Net Budget	**200,978**	**217,465**	**219,137**	**227,081**

Environment & Infrastructure

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Highways and Transport	44,651	47,075	49,216	51,526
Place Development & Waste	81,264	87,991	92,492	94,335
Draft Net Budget	125,915	135,066	141,708	145,861

Movements	Current 17/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Prior year budget	124,096	125,915	135,066	141,708
Changes to Government Grants	-503	269	-35	0
Income inflation	-239	-334	-362	-371
Pay inflation	448	444	450	456
Contract / market inflation	4,356	5,289	4,776	4,834
Virement	238	0	0	0
Service Delivery	6,816	4,801	3,666	1,149
Pressures	11,116	10,469	8,495	6,068
Service Transformation / Efficiency	-7,597	-118	-1,853	-1,915
Service Reduction	-1,700	-1,200	0	0
Savings	-9,297	-1,318	-1,853	-1,915
Draft Net Budget	125,915	135,066	141,708	145,861

Subjective	Current 17/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Gov Grants	-2,028	-1,759	-1,794	-1,794
Other Income	-12,841	-13,215	-13,577	-13,948
Funding	**-14,869**	**-14,974**	**-15,371**	**-15,742**
Staffing	24,566	24,710	25,110	25,516
Non staffing	116,218	125,330	131,969	136,087
Expenditure	**140,784**	**150,040**	**157,079**	**161,603**
Draft Net Budget	**125,915**	**135,066**	**141,708**	**145,861**

E&I - Fire

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Fire and Rescue Service	31,797	31,522	27,831	26,329
Draft Net Budget	31,797	31,522	27,831	26,329

Movements	Current 17/18	2018/19	2019/20	2020/21
Prior year budget	33,197	31,797	31,522	27,831
Income inflation	-129	-35	-37	-36
Pay inflation	292	285	285	247
Contract / market inflation	223	219	223	226
Virement	-24	0	0	0
Service Delivery	1,653	0	0	0
Demand	173	0	0	0
Pressures	2,188	386	384	349
Service Transformation / Efficiency	-2,870	-661	-4,075	-1,851
Service Reduction	-718	0	0	0
Savings	-3,588	-661	-4,075	-1,851
Draft Net Budget	**31,797**	**31,522**	**27,831**	**26,329**

Subjective	Current 17/18	2018/19	2019/20	2020/21
Gov Grants	-8,639	-9,122	-9,209	-9,297
Other Income	-5,086	-5,121	-5,158	-5,194
Funding	**-13,725**	**-14,243**	**-14,367**	**-14,491**
Staffing	41,748	41,772	37,982	36,378
Non staffing	3,774	3,993	4,216	4,442
Expenditure	**45,522**	**45,765**	**42,198**	**40,820**
Draft Net Budget	**31,797**	**31,522**	**27,831**	**26,329**

E&I - Communities

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Communities support function	779	715	727	739
Community Partnership and Safety	2,734	2,289	2,513	2,737
Trading Standards	1,881	1,799	1,781	1,774
Emergency Management	489	477	465	453
Draft Net Budget	5,883	5,280	5,485	5,703

Movements	Current 17/18	2018/19	2019/20	2020/21
Prior year budget	6,260	5,883	5,280	5,485
Income inflation	-11	-12	-15	-15
Pay inflation	97	95	94	95
Contract / market inflation	8	13	12	13
Virement	0	-132	0	0
Service Delivery	579	-39	212	207
Pressures	673	-75	303	300
Service Transformation / Efficiency	-438	-292	-97	-82
Service Reduction	-612	-236	0	0
Savings	-1,050	-528	-97	-82
Draft Net Budget	5,883	5,280	5,485	5,703

Subjective	Current 17/18	2018/19	2019/20	2020/21
Partner (non SCC) Funding	-969	-927	-918	-914
Other Income	-1,245	-1,452	-1,562	-1,657
Funding	**-2,214**	**-2,379**	**-2,480**	**-2,571**
Staffing	6,013	5,940	6,034	6,129
Non staffing	2,084	1,719	1,932	2,145
Expenditure	**8,097**	**7,659**	**7,965**	**8,274**
Draft Net Budget	**5,883**	**5,280**	**5,485**	**5,703**

Legal, Democratic and Cultural

	Current		Estimate	
	17/18	2018/19	2019/20	2020/21
Services	£'000	£'000	£'000	£'000
Cultural Services	9,288	8,627	8,139	7,676
Legal Services	3,975	3,900	3,927	3,972
Democratic Services	5,840	4,312	4,333	4,355
Coroner	1,739	1,722	1,860	2,012
Draft Net Budget	**20,842**	**18,561**	**18,259**	**18,015**
Movements				
Prior year budget	19,750	20,842	18,561	18,259
Income inflation	-184	-202	-218	-187
Pay inflation	391	391	389	384
Contract / market inflation	157	210	194	200
Virement	15	176	0	0
Service Delivery	1,327	-1,233	125	128
Demand	100	0	0	0
Pressures	1,806	-658	490	525
Service Transformation / Efficiency	-650	-1,567	-774	-759
Service Reduction	-64	-56	-18	-10
All Savings	-714	-1,623	-792	-769
Draft Net Budget	**20,842**	**18,561**	**18,259**	**18,015**
Subjective				
Gov Grants	-3,877	-4,341	-4,341	-4,341
Other Income	-10,084	-10,336	-10,595	-10,796
Funding	**-13,961**	**-14,677**	**-14,936**	**-15,137**
Staffing	24,561	24,237	24,347	24,489
Non staffing	10,242	9,001	8,848	8,663
Expenditure	**34,803**	**33,238**	**33,195**	**33,152**
Draft Net Budget	**20,842**	**18,561**	**18,259**	**18,015**

Organisational Leadership and Performance

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Communications	2,079	1,811	1,801	1,834
Customer Services	3,369	3,279	3,253	3,232
Strategic Leadership	915	793	805	819
Strategy and Performance	2,438	2,156	2,188	2,161
Draft Net Budget	**8,801**	**8,039**	**8,047**	**8,046**

Movements	Current 17/18	2018/19	2019/20	2020/21
Prior year budget	9,390	8,801	8,039	8,047
Income inflation	-8	-7	-8	-8
Pay inflation	126	117	116	115
Contract / market inflation	27	29	23	27
Virement	0	-396	0	0
Service Delivery	234	0	0	0
Pressures	379	-257	131	134
Service Transformation / Efficiency	-823	-376	-123	-85
Service Reduction	-145	-130	0	-50
Savings	-968	-506	-123	-135
Draft Net Budget	**8,801**	**8,039**	**8,047**	**8,046**

Subjective	Current 17/18	2018/19	2019/20	2020/21
Gov Grants	-464	0	0	0
Other Income	-462	-469	-477	-485
Funding	**-926**	**-469**	**-477**	**-485**
Staffing	7,407	7,041	7,071	7,051
Non staffing	2,320	1,467	1,453	1,480
Expenditure	**9,727**	**8,508**	**8,524**	**8,531**
Draft Net Budget	**8,801**	**8,039**	**8,047**	**8,046**

Orbis & Business Services
Budgets Managed by Orbis [1]

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Business Operations	-63	197	207	219
Finance	2,795	2,761	2,829	2,898
HR & OD	4,240	4,320	4,417	4,517
IT & Digital	12,513	12,560	12,873	13,193
Procurement [2]	868	0	0	0
Property	21,586	21,956	22,887	23,872
Draft Net Budget	41,939	41,795	43,214	44,700
Movements				
Prior year budget	42,493	41,939	41,795	43,214
Income inflation	0	-194	-165	-170
Pay inflation	75	59	62	65
Contract / market inflation	1,133	1,298	1,522	1,591
Virements [3]	372	-861	0	0
Service Delivery	100	50	0	0
Pressures	1,680	352	1,419	1,486
Contribution to Insurance Reserve	-750	0	0	0
Building Running Costs	-440	-200	0	0
Contribution to Furniture Reserve	0	-160	0	0
IT Infrastructure & orbis business plan	-346	-106	0	0
Audit Fee	0	-30	0	0
Training	-207	0	0	0
Apprentices	-216	0	0	0
Utilities	-200	0	0	0
Property fees	-100	0	0	0
Reversal of one-off income	25	0	0	0
Service Transformation / Efficiency	-2,234	-496	0	0
Draft Net Budget	41,939	41,795	43,214	44,700
Subjective				
Other Income	-10,290	-8,322	-8,487	-8,657
Funding	**-10,290**	**-8,322**	**-8,487**	**-8,657**
Staffing	4,103	3,520	3,582	3,647
Non staffing	48,126	46,597	48,119	49,710
Expenditure	**52,229**	**50,117**	**51,701**	**53,357**
Draft Net Budget	**41,939**	**41,795**	**43,214**	**44,700**

Notes

1. The SCC budgets managed by orbis are mainly for costs of SCC assets, such as utilities, building maintenance, insurance premiums and IT infrastructure.
2. From 2018/19 the ASC procurement service transfers into orbis, as per orbis Inter Authority Agreement principles.
3. The majority of the 2018/19 virement is the transfer of services to the orbis operating budget, and mainly ASC procurement.

Orbis & Business Services
Orbis Operating Budget

	Current		Estimate	
	17/18	2018/19	2019/20	2020/21
Services	**£'000**	**£'000**	**£'000**	**£'000**
Business Operations	7,209	6,936	6,919	6,975
Finance	11,360	10,490	10,514	10,620
Human Resources	6,610	5,791	5,739	5,803
Information Technology & Digital	20,591	19,490	19,571	19,777
Management [2]	2,478	2,520	2,574	2,630
Procurement	3,977	5,133	5,156	5,207
Property	11,912	11,198	11,309	11,431
Draft Net Budget [1]	**64,138**	**61,557**	**61,782**	**62,443**
Movements				
Open	53,105	64,138	61,557	61,782
Inflation	818	690	656	661
Virements [3]	387	828	0	0
Service Delivery [4]	13,703	513	0	0
Pressures	14,908	2,030	656	661
Business Operations	-500	-197	-73	0
Finance	-525	-1,131	-81	0
Human Resources	-400	-774	-117	0
Information Technology & Digital	-1,099	-1,552	-123	0
Management 1	-100	0	0	0
Procurement	-345	-56	-27	0
Property	-906	-901	-10	0
Service Transformation / Efficiency [5]	-3,875	-4,611	-431	0
Draft Net Budget [1]	**64,138**	**61,557**	**61,782**	**62,443**
Subjective				
Funding	**-13,334**	**-14,180**	**-14,406**	**-14,637**
Staffing	70,683	67,364	67,606	68,282
Non staffing	6,789	8,373	8,583	8,797
Expenditure	77,472	75,737	76,189	77,080
Draft Net Budget [1]	**64,138**	**61,557**	**61,782**	**62,443**
	0			
Contributions [6]				
Brighton & Hove CC Contribution	13,483	12,703	12,749	12,885
East Sussex CC Contribution	15,269	14,736	14,790	14,948
Surrey CC Contribution	35,386	34,118	34,243	34,609
	64,138	**61,557**	**61,782**	**62,443**
Surrey County Council Budget				
SCC contribution to orbis	35,386	34,118	34,243	34,609
Investment [7]	2,199	1,493	177	179
Draft Net Budget	**37,585**	**35,611**	**34,420**	**34,788**

Notes

1. This is the total orbis operating budget, managed by the Joint Committee. The 2017-18 budget has been re-stated to include BHCC budget however full integration of this budget is not until 1 April 2018.

2. The management costs include an adjustment to ensure that the methodology for the cost of pension contributions is similar in all authorities.

3. Virements from SCC services managed by orbis due to SCC service requirement changes, as per IAA principles

4. BHCC & ESCC service delivery changes: mainly BHCC joining the partnership.

5. The savings are as per the orbis business plan and planned BHCC savings

6. Based on historical budget levels and subject to revision

7. SCC share of orbis investment as per the orbis business plan

Central Income and Expenditure

Services	Current 17/18 £'000	Estimate 2018/19 £'000	2019/20 £'000	2020/21 £'000
Central Income and Expenditure	-807,069	-839,008	-823,706	-856,019
Draft Net Budget	-807,069	-839,008	-823,706	-856,019
Movements				
Open	-787,433	-807,069	-839,008	-823,706
Local Taxation changes	-46,370	-366,276	289,651	-22,962
Major central Gov Support changes	39,683	333,000	-279,115	0
Changes to Government Grants	-4,499	10,539	460	1,970
Virement	0	140	0	0
Service Delivery	16,457	2,761	11,503	-13,050
Legislation	27	28	29	30
Pressures	5,298	-19,808	22,528	-34,012
Service Transformation / Efficiency	-24,684	-12,131	-7,226	1,699
Service Reduction	-250	0	0	0
Savings	-24,934	-12,131	-7,226	1,699
Draft Net Budget	**-807,069**	**-839,008**	**-823,706**	**-856,019**
Subjective				
Council Tax	-634,867	-658,047	-685,876	-707,323
ASC precept	-31,034	-50,938	-51,447	-51,962
Bus Rates	-52,669	-375,861	-57,872	-58,872
Top up	-58,552	234,273	-44,842	-44,842
RSG	-28,000	0	0	0
Trans Relief	-12,175	0	0	0
Gov Grants	-43,853	-30,314	-29,854	-27,884
Other Income	-415	-3,904	-7,218	-7,488
Funding	**-861,565**	**-884,791**	**-877,109**	**-898,371**
Staffing	0	0	0	0
Non staffing	54,496	45,783	53,403	42,352
Expenditure	**54,496**	**45,783**	**53,403**	**42,352**
Draft Net Budget	**-807,069**	**-839,008**	**-823,706**	**-856,019**

Appendix 6

Draft Revenue Pressures 2018/19 & 2019/20

Adult Social Care

Service	Change description	2018/19 £000	2019/20 £000
Adult Social Care	Care Inflation relating to market pressures	18,644	14,649
Adult Social Care	Pay inflation	1,037	1,384
Adult Social Care	Changes to significant block contracts	200	752
Adult Social Care	Ongoing impact of underachievement against 2017/18 MTFP savings target - all other savings	6,514	0
Adult Social Care	Ongoing impact of underachievement against 2017/18 MTFP savings target - demand management	4,021	0
Adult Social Care	Replacement of planned one off savings	1,000	0
Adult Social Care	Sourcing Review Invest to Save funding changes	0	-250
Adult Social Care	Full year effect of existing care packages - Non-Transition	9,409	4,577
Adult Social Care	Future year demand pressures - Non-Transition	5,490	6,353
Adult Social Care	Full year effect of existing care packages - Transition	4,143	4,423
Adult Social Care	Future year Transition cases	5,305	5,358
Adult Social Care	ASC other changes	-234	-7
Total Expenditure pressures		**55,529**	**37,238**
Adult Social Care	Changes to Joint Funded Care Package Income	-822	0
Adult Social Care	Changes to Fees and Charges Income	-6,142	-1,972
Adult Social Care	Changes to Improved Better Care Fund allocations	-395	817
Total Funding changes		**-7,359**	**-1,155**
Total Pressures		**48,170**	**36,083**
Adult Social Care	Virements	93	0
Total Pressues & Changes including virements		**48,262**	**36,083**

Public Health

Service	Change description	2018/19 £000	2019/20 £000
Public Health	Pay inflation	45	50
Public Health	PH initiatives delivered through other Council services	1,173	0
Public Health	Replacement of external funding from PCC	400	0
Public Health	Adjustment to phasing of 0-19 services	172	0
Public Health	Children's Dental Health Epidemiology Survey (new responsibility)	50	0
Total Expenditure pressures		**1,840**	**50**
Public Health	Reduction in core government PH grant	964	965
Total Funding changes		**964**	**965**
Total Pressures & changes including virements		**2,804**	**1,015**

Children, Schools and Families

Service	Change description	2018/19 £000	2019/20 £000
CSF - Children's services	Pay Inflation	982	982
CSF - Children's services	Unaccompanied asylum seeking children grant increase	500	0
CSF - Children's services	Asylum Migration Expenditure	59	0
CSF - Children's services	Social care market inflation	857	857
CSF - Children's services	General demographic growth	441	441
CSF - Children's services	Children with disabilities demand	400	400
CSF - Children's services	Looked after children demand - external placements and care leavers	16,000	3,200
CSF - Children's services	Permanency allowances	300	300
CSF - Children's services	Support functions review	280	0
CSF - Schools and SEND	Pay inflation	559	559
CSF - Schools and SEND	Schools and SEN market inflation	1,260	1,260
CSF - Schools and SEND	Changes to DSG funded services	990	0
CSF - Schools and SEND	Changes to school support services	-570	0
CSF - Schools and SEND	General demographic growth	1,460	1,460
CSF - Schools and SEND	Temporary investment in education health and care plan to meet one off conversion demand	-560	0
CSF - Schools and SEND	SEND Transport	2,201	1,985
CSF - Schools and SEND (High Needs DSG)	Schools and SEN market inflation (High Needs DSG)	2,599	2,599
CSF - Schools and SEND (High Needs DSG)	General SEND demand pressures (High Needs DSG)	11,972	13,231
CSF - Commissioning and Prevention	Pay inflation	459	460
CSF - Commissioning and Prevention	Market inflation	284	284
CSF - Commissioning and Prevention	General demographic growth	99	99
CSF - Commissioning and Prevention	Improvement team - one off investment ceases	-450	0
CSF - Commissioning and Prevention	Reprofile of Early Help savings from 2017/18	2,726	0
CSF - Commissioning and Prevention	Additional cost of 30 hours childcare, full year effects - (Early Years DSG)	8,468	0
CSF - Commissioning and Prevention	Changes to staffing funded from grant	-85	-103
CSF - Commissioning and Prevention	Changes to grant funded expenditure	-472	-511
CSF - Delegated Schools	Changes to DSG - expenditure	-26,535	7,011
CSF - Delegated Schools	Changes to Government Grants to Schools - expenditure	-4,072	0
Total Expenditure pressures		**20,152**	**34,514**
CSF - Commissioning and Prevention	Strategic leadership cost transfer	154	0
Total Expenditure pressures (including virements)		**20,306**	**34,514**
CSF - Children's services	Increasing Government Grants	-559	0
CSF - Schools and SEND	Changes to DSG - grants	-990	0
CSF - Schools and SEND	Changes to Government Grants to Schools - grants	570	0
CSF - Commissioning and Prevention	Additional cost of 30 hours childcare, full year effect - Early Years DSG	-8,468	0
CSF - Commissioning and Prevention	Changes to Government Grants - grants	557	614
CSF - Delegated Schools	Changes to DSG	26,535	-7,011
CSF - Delegated Schools	Changes to Government Grants to Schools	4,072	0
Total Funding changes		**21,717**	**-6,397**
Total Pressures & changes including virements		**42,023**	**28,117**

Environment & Infrastructure

Service	Change description	2018/19 £000	2019/20 £000
Place Development & Waste	Pay inflation	182	183
Place Development & Waste	Contract / market inflation	3,442	3,340
Place Development & Waste	Income inflation	-158	-176
Place Development & Waste	Change to match level of grant income	-275	29
Place Development & Waste	Waste Volumes & Cost	5,954	-502
Place Development & Waste	Transfer To/From Waste Sinking Fund	-2,892	3,331
Highways and Transport	Pay inflation	262	267
Highways and Transport	Contract / market inflation	1,847	1,436
Highways and Transport	Income inflation	-176	-186
Highways and Transport	Service delivery (inc. grants)	6	6
Highways and Transport	Member local highway fund	608	202
Highways and Transport	Local committee Highway fund	1,400	600
Total Expenditure pressures		**10,200**	**8,530**
Place Development & Waste	Changes to Government Grants	275	-29
Highways and Transport	Changes to Government Grants	-6	-6
Total Funding changes		**269**	**-35**
Total Pressures & changes including virements		**10,469**	**8,495**

Member Local Highway Fund and Member Allocations

A new Member Local Highways Fund will be established from 2018/19 with £7,500 per member (£608k), rising to £10,000 per member for 2019/20 (£810k);

Each Local Committee will share a Revenue Highways Fund totalling £1.4m, rising to £2.0m by 2019/20.

E&I - Fire & Rescue

Service	Change description	2018/19	2019/20
		£000	£000
	Inflation Pay	285	285
	Inflation non Pay	136	136
	Income Inflation	-35	-37
Total Expenditure pressures		**386**	**384**
Total Funding changes		**0**	**0**
Total Pressures & changes including virements		**386**	**384**

E&I - Communities

Service	Change description	2018/19 £000	2019/20 £000
Communities support function	Income Inflation	-2	-2
Communities support function	Inflation Pay	13	13
Communities support function	Inflation non Pay	1	1
Community Partnership and Safety	Inflation Pay	20	19
Community Partnership and Safety	Inflation non Pay	3	3
Community Partnership and Safety	Member community fund	-81	202
Emergency Management	Inflation Pay	8	8
Emergency Management	Inflation Non Pay	1	2
Emergency Management	Income Inflation	-1	-2
Trading Standards	Inflation Pay	54	55
Trading Standards	Inflation non Pay	8	6
Trading Standards	Income Inflation	-9	-11
Total Expenditure pressures		15	294
Community Partnership and Safety	Virement	-59	0
Communities support function	Virement	-73	0
Total virements		-132	0
Total Expenditure pressures (including virements)		**-117**	**294**
Trading Standards	Reduction in partner funding (to reflect reducing costs)	42	9
Total Funding changes		**42**	**9**
Total Pressures & changes including virements		**-75**	**303**

Member Allocations - Community Fund

For 2018/19, the Members Community Allocation will be £5,000 per member (Initially was £486k , now will be £405k), rising to £7,500 in 2019/20 (£608k from £405k).

Legal, Democratic and Cultural

Service	Change description	2018/19 £000	2019/20 £000
Legal Services	Inflation Pay	57	56
Legal Services	Inflation Non pay	20	20
Legal Services	Inflation Income	-10	-10
Democratic Services	Inflation Pay	30	28
Democratic Services	Inflation Non pay	69	62
Democratic Services	Inflation Income	-4	-3
Democratic Services	Local Elections	-1,333	0
Cultural Services	Inflation Pay	300	295
Cultural Services	Inflation Non pay	86	76
Cultural Services	Inflation Income	-188	-190
Cultural Services	Watts Gallery Grant (4 years)	100	0
Coroner	Inflation Pay	4	10
Coroner	Inflation Non pay	35	36
Coroner	Inflation Income	0	-15
Coroner	Transfer of Police Coroner officers	0	125
Total Expenditure pressures		**-834**	**490**
Democratic Services	Transfer of Health watch from Strategy & Performance - expenditure	640	0
Democratic Services	Transfer of Health watch from Strategy & Performance - grants	-464	0
Total virement changes		**176**	**0**
Total Pressures & changes including virements		**-658**	**490**

Organisational Leadership and Performance

Service	Change description	2018/19 £000	2019/20 £000
Strategic Leadership	Inflation Pay	12	12
Strategic Leadership	Inflation non Pay	1	0
Communications	Inflation Pay	22	22
Communications	Inflation non Pay	16	12
Communications	Income Inflation	-1	-1
Strategy and Performance	Inflation Pay	29	29
Strategy and Performance	Inflation Non Pay	10	9
Strategy and Performance	Income Inflation	-5	-6
Customer Services	Pay inflation	54	53
Customer Services	Income inflation	-1	-1
Customer Services	Inflation Non Pay	2	2
Total Expenditure pressures		**139**	**131**
Customer Services	Virement	20	0
Strategic Leadership	Virement	-135	0
Communications	Virement	-104	0
Strategy and Performance	Transfer of Health watch to Democratic services - expenditure	-640	0
Strategy and Performance	Transfer of Health watch to Democratic services - grants	464	0
Total virement changes		**-396**	**0**
Total Pressures & changes including virements		**-257**	**131**

Business Services

Service	Change description	2018/19	2019/20
		£000	£000
Budgets Managed by Orbis	Inflation pay	59	62
Budgets Managed by Orbis	Inflation non pay	1,298	1,522
Budgets Managed by Orbis	Inflation income	-194	-165
Budgets Managed by Orbis	Pressures (reduced school income)	50	0
Total expenditure pressures		1,213	
Budgets Managed by Orbis	2017/18 new Virement	-861	0
Total expenditure pressures (including virements)		**352**	**1,419**
ORBIS - Joint operating budget [1]	Inflation	690	656
ORBIS - Joint operating budget [1]	IT running costs (connectivity between partners)	140	0
ORBIS - Joint operating budget [1]	ESCC Virement	373	0
ORBIS - Joint operating budget [1]	BHCC contribution	13,483	0
Total expenditure pressures		14,686	656
ORBIS - Joint operating budget [1]	2017/18 new Virement	828	0
Total expenditure pressures (including virements)		**15,513**	**656**
ORBIS - Investment (SCC Share)	Reduced orbis investment (third year of plan)	-706	-1,316
Total expenditure pressures (including virements)		**-706**	**-1,316**

Note:

1: This is the total orbis operating budget, managed by the joint committee, estimated SCC contribution is 55% from 1 April 2018

Central Income & Expenditure

Service	Change description	2018/19 £000	2019/20 £000
	Redundancy	1,000	0
	Minimum Revenue Provision	1,030	4,875
	Contribution to reserves	731	6,628
	Land Drainage Precept	28	29
Total Expenditure pressures		2,789	11,532
	Virement	140	0
Total Expenditure pressures (including virements)		**2,929**	**11,532**
	Local Taxation changes	-366,276	289,651
	Major Central Gov Support changes	333,000	-279,115
	Changes to Government Grants	10,539	460
Total Funding changes		**-22,735**	**10,996**
Total Pressures & changes including virements		**-19,808**	**22,528**

Appendix 6

Draft Revenue

Savings programmes

2018/19 & 2019/20

Savings programmes from 2010/11 to 2017/18, and future draft programme 2018/19 -2019/20

By directors:	2010-18 Achieved £'000	2018/19 Draft £'000	2019/20 Draft £'000
Adult Social Care	-258,944	-18,615	-8,662
Public Health	-5,315	-2,345	-674
Children, Schools and Families	-92,800	-25,536	-26,445
Environment & Infrastructure	-49,512	-1,318	-1,853
E&I - Fire	-11,619	-661	-4,075
E&I - Communities	-5,783	-528	-97
Legal, Democratic And Cultural	-6,219	-1,623	-792
Organisational Leadership and Performance	-8,222	-506	-123
Business Services	-47,462	-3,192	0
Central Income and Expenditure	-63,316	-12,131	-7,226
Total	**-549,192**	**-66,455**	**-49,948**

Adult Social Care

Service	Savings Title	2018/19 £000	2019/20 £000
Adult Social Care	Family, Friends and Community support - core	-1,500	0
Adult Social Care	Family, Friends and Community support - stretch	-1,000	0
Sub total Family, Friends and Community support		**-2,500**	**0**
Adult Social Care	Demand Management	-1,000	-1,000
Adult Social Care	Section 256 client group savings	-1,750	-1,750
Sub total Demand		**-2,750**	**-2,750**
Adult Social Care	Personalised strategic shift from residential care to community based provision for people with disabilities	-1,000	-1,000
Adult Social Care	Commissioning for Older People with learning disabilities	-250	-250
Adult Social Care	Optimisation of Transition pathways	-1,500	-1,500
Adult Social Care	Surrey Choices efficiency programme	-300	-300
Adult Social Care	Transport care packages review	-250	0
Sub total Learning Disabilities		**-3,300**	**-3,050**
Adult Social Care	Ensure correct application of National Continuing Health Care framework	-2,500	-750
Adult Social Care	Resolution of significant outstanding CHC disputes / assessments	-1,500	-750
Sub total Continuing Health Care		**-4,000**	**-1,500**
Adult Social Care	Contracts and Grants Review	-500	0
Adult Social Care	Housing Related Support decommissioning / retendering of social exclusion services	-3,619	-117
Adult Social Care	Closure of Surrey Information Hubs	-335	-77
Adult Social Care	Optimisation of main block contract rates	0	-80
Adult Social Care	Optimisation of other contract & grant rates	-289	-289
Sub total Contracts and Grants		**-4,743**	**-562**
Adult Social Care	Workforce synergies	-500	-800
Sub total Workforce		**-500**	**-800**
Adult Social Care	Strategic review of Older People In-house services	-822	0
Sub total Accommodation with Care and Support		**-822**	**0**
Total Savings		**-18,615**	**-8,662**

Public Health

Service	Savings Title	2018/19 £000	2019/20 £000
Public Health	Savings in SCC recharge	-196	-5
Public Health	Sexual health (non-contract eg. out of area spend)	-628	-428
Public Health	Healthy life style services	-18	0
Public Health	Substance misuse integrated service	-1,492	0
Public Health	Mental health	-11	0
Public Health	Adjustment to Healthy lifestyle service budget	0	-227
Public Health	Service reconfiguration	0	-14
Total Savings		**-2,345**	**-674**

Children, Schools and Families		2018/19	2019/20
Service	Savings Title		
		£000	£000
CSF - Children's services	Managing market inflation	-559	-559
CSF - Children's services	Support functions review	-280	-280
CSF - Children's services	Early Help - reduction in demand	0	-800
CSF - Children's services	Productivity efficiencies	0	-1,662
CSF - Commissioning and Prevention	Managing market inflation	-224	-224
CSF - Commissioning and Prevention	Early Help reconfiguration - reprofiled	-3,285	-3,285
CSF - Commissioning and Prevention	Early Help contract savings/asset related savings	-187	-700
CSF - Commissioning and Prevention	Productivity efficiencies	0	-528
CSF - Schools and SEND	Managing market inflation	-789	-789
CSF - Schools and SEND	Home to school transport - SEND	-1,174	-678
CSF - Schools and SEND	Productivity efficiencies	-2,392	-1,110
CSF - Schools and SEND	Support functions review	-75	0
CSF - Schools and SEND	Adjustment to grant funding	-2,000	0
Total Savings		**-10,965**	**-10,615**
CSF - Schools and SEND	Managing market inflation	-1,628	-1,628
CSF - Schools and SEND	Alternative DSG savings required - yet to be determined	-10,704	-14,147
CSF - Schools and SEND	School redesignations and occupancy	-1,395	-884
CSF - Schools and SEND	SEN inclusion in mainstream	-844	-339
CSF - Schools and SEND	Service shift of 300 NMI's to inhouse (Free Schools)	0	1,167
Total Savings (High Needs DSG)		**-14,571**	**-15,831**
Total Savings		**-25,536**	**-26,445**

Environment & Infrastructure

Service	Savings Title	2018/19 £000	2019/20 £000
Place Development & Waste	Countryside Review	-350	-200
Place Development & Waste	Planning & Development Review	-150	0
Place Development & Waste	E&I Support Function Review	-100	0
Place Development & Waste	Place & Sustainability Review	-50	-50
Place Development & Waste	Waste - Kerbside Recycling Performance (2018/19 includes removal of prior year savings)	1,077	-155
Place Development & Waste	Waste - Recycling Management (2018/19 includes removal of prior year savings)	942	-57
Place Development & Waste	Waste - Single Waste Approach	-1,000	-1,000
Place Development & Waste	Waste - CRCs & Transfer Stations (2018/19 includes removal of prior year savings)	80	0
Place Development & Waste	Waste - Materials Management	-149	-13
Place Development & Waste	Savings to be identified	-200	-200
Highways and Transport	Highway information income	-40	0
Highways and Transport	Reactive Maintenance	-1,200	0
Highways and Transport	Savings to be identified	-178	-178
Total Savings		**-1,318**	**-1,853**

Fire and Rescue Service

Service	Savings Title	2018/19 £000	2019/20 £000
Fire and Rescue Service	Fire cover reconfiguration Spelthorne - delayed	225	-225
Fire and Rescue Service	Maintain two appliances at Fordbridge for one year	675	-450
Fire and Rescue Service	Further Fire cover reconfiguration	0	-2,500
Fire and Rescue Service	Blue light Collaboration Mobilising	200	0
Fire and Rescue Service	Mobilising restructure	-61	0
Fire and Rescue Service	Implementation of Immediate Response Vehicles	-800	-800
Fire and Rescue Service	back office & support functions	0	-100
Fire and Rescue Service	Flexible demand lead Crewing, shift patterns middle management	-500	0
Fire and Rescue Service	Fire pension reduced employer contribution rates	-400	0
Total Savings		**-661**	**-4,075**

E&I - Communities

Service	Savings Title	2018/19 £000	2019/20 £000
Community Partnership and Safety	Community Improvement Fund	-236	0
Emergency Management	Income Generation	-20	-20
Trading Standards	Income Generation	-96	-31
Trading Standards	Buckinghamshire Partnership	-37	-2
Trading Standards	Further Savings	-44	-44
Community Partnership and Safety	Restructure	-92	0
Community support function	Support function review	--3	
Total Savings		**-528**	**-97**

Legal, Democratic and Cultural

Service	Savings Title	2018/19 £000	2019/20 £000
Democratic Services	Members allowances pension scheme withdrawal	-300	0
Democratic Services	Restructuring	-122	-22
Democratic Services	Modern Council	-22	-22
Democratic Services	Voluntary Sector reduction	-22	-22
Cultural Services	Libraries redesign service delivery	-180	0
Cultural Services	Surrey Arts	-250	0
Cultural Services	Libraries -reduction to resources budget	-100	0
Cultural Services	Libraries - reclassification	-220	-110
Cultural Services	Libraries -team staffing reductions	-46	-208
Cultural Services	Libraries - Community Supported Libraries	0	-250
Cultural Services	Surrey Arts additional Music Income	-25	-25
Cultural Services	Adult community learning - improve marketing	-23	-28
Cultural Services	Registration - increase income	-25	-16
Cultural Services	Heritage restructure	-85	-25
Cultural Services	Other savings	-5	-7
Legal Services	Rationalisation of posts	-142	39
Coroner	Seek efficiencies and streamline processes	-56	-18
Total Savings		**-1,623**	**-792**

Organisational Leadership and Performance

Service	Savings Title	2018/19 £000	2019/20 £000
Communications	Restructuring and external spend	-158	-37
Communications	Further savings (incl marginal gains) Service	-43	-6
Strategy and Performance	restructure/ priorisation	-140	0
Customer Services	Stop appointment bookings (redirect online)	-105	0
Customer Services	Reduction in management team costs	-25	0
Customer Services	Channel sshift	-25	-25
Customer Services	Reduce web and digital	-10	-55
Total Savings		**-506**	**-123**

Business Services

Service	Savings title	2018/19 £000	2019/20 £000
Budgets Managed by Orbis	Audit fee	-30	0
Budgets Managed by Orbis	IT Infrastructure and orbis business plan	-106	0
Budgets Managed by Orbis	Building running costs	-200	0
Budgets Managed by Orbis	Contribution to furniture reserve	-160	0
Total savings		**-496**	**0**
ORBIS - Joint operating budget [1]	Orbis business plan [1]	-4,611	-431
Total savings		**-4,611**	**-431**

Note:

1: This is the total orbis savings to the orbis operating budget, managed by the joint committee, estimated SCC contribution is 55% from 1 April 2018

Central Income and Expenditure		2018/19	2019/20
Service	Savings Title		
		£000	£000
Central Income and Expenditure	Public Health	-1,173	14
Central Income and Expenditure	Treasury management (interest payable)	-1,550	-642
Central Income and Expenditure	Minimum Revenue Provision	-6,799	-3,698
Central Income and Expenditure	Education Services Grant	591	0
Central Income and Expenditure	Investment Income	-3,200	-2,900
Total Savings		-12,131	-7,226

Capital programme 2018-21

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
Adult Social Care					
Major adaptations	300	300	300	300	**900**
Adults equipment	1,500	1,500	1,500	1,500	**4,500**
In-house capital improvement schemes	100	100	100	100	**300**
Adult Social Care	**1,900**	**1,900**	**1,900**	**1,900**	**5,700**
Children's Services					
Schools devolved formula capital	4,005	1,606	1,606	1,606	**4,818**
Schools expenditure funded by income	2,322	0	0	0	**0**
Free Early Education 30 hours	883	0	0	0	**0**
Foster carer grants	300	300	300	300	**900**
Adaptations for children with disabilities	299	299	299	299	**897**
Children's Services	**7,809**	**2,205**	**2,205**	**2,205**	**6,615**
Surrey Fire & Rescue Service					
Fire-vehicle & equipment replacement	1,887	2,032	962	1,623	**4,617**
Fire joint transport project	4,800	0	0	0	**0**
Surrey Fire & Rescue Service	**6,687**	**2,032**	**962**	**1,623**	**4,617**
Highways & Transport					
Highway maintenance	15,040	15,943	12,889	14,515	**43,347**
Bridge strengthening	2,300	1,706	3,151	3,637	**8,494**
Flooding & drainage	1,409	1,393	1,261	1,457	**4,111**
Local transport schemes	40	400	400	400	**1,200**
Safety barriers	968	957	867	1,010	**2,834**
Traffic signal replacement	750	1,515	945	1,015	**3,475**
Highways vehicle replacement	350	120	0	0	**120**
National Productivity Investment Fund	3,451	0	0	0	**0**
Highways Maintenance Challenge Fund	500	0	0	0	**0**
Flood resilience schemes	1,150	500	500	500	**1,500**
River Thames scheme	500	500	500	500	**1,500**
Developer funded schemes	1,200	1,200	1,200	1,200	**3,600**
Highways & Transport	**27,658**	**24,234**	**21,713**	**24,234**	**70,181**
Environment & Planning					
Maintenance at closed landfill sites	77	50	50	50	**150**
Rights of way (incl structures)	175	175	175	175	**525**
Road safety schemes	200	200	200	200	**600**
Basingstoke canal	150	150	150	150	**450**
Strategic Economic Plan schemes	20,582	14,053	5,323	0	**19,376**
Developer funded schemes	400	400	400	400	**1,200**
Cross directorate CIL schemes	465	909	1,488	1,488	**3,885**
Environment & Planning	**22,049**	**15,937**	**7,786**	**2,463**	**26,186**

Capital programme 2018-21

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
Property Services: Recurring programmes					
Schools capital maintenance, including children's centres & DDA	14,089	11,357	11,357	11,357	**34,071**
Other early years projects	6	0	0	0	**0**
Fire risk assessments, minor works, DDA	500	487	400	400	**1,287**
Non schools structural maintenance	7,690	7,000	7,023	7,023	**21,046**
Property Services: Recurring programmes	**22,285**	**18,844**	**18,780**	**18,780**	**56,404**
Property Services: Projects:					
Fire Station reconfiguration	2,016	3,637	0	0	**3,637**
Spelthorne Fire Station Modifications	0	70	0	0	**70**
Replace aged demountables	532	0	0	0	**0**
SEN strategy	3,855	1,100	495	0	**1,595**
Land acquisition for waste	0	3,667	0	0	**3,667**
Projects to enhance income	531	1,500	0	0	**1,500**
Regeneration projects	1,678	0	0	0	**0**
Projects to reprovision and deliver capital receipts	1,816	0	0	0	**0**
Gypsy sites	1,203	0	0	0	**0**
Reigate Priory School	868	0	0	0	**0**
Cranleigh schools	1,600	7,200	737	300	**8,237**
Lindon Farm Autism Unit - ASC	2,000	3,470	0	0	**3,470**
Winter maintenance depots (salt barns)	2,066	1,392	0	0	**1,392**
Horley Library	2,052	0	0	0	**0**
Guildford Fire Station	46	0	0	0	**0**
Sluice rooms	231	0	0	0	**0**
Short stay schools	0	100	0	0	**100**
Property Services: Projects	**20,494**	**22,136**	**1,232**	**300**	**23,668**
Property Services	**42,779**	**40,980**	**20,012**	**19,080**	**80,072**
Schools Basic Need	31,770	47,623	46,845	13,860	**108,328**
IMT Recurring programmes					
IT Equipment Replacement Reserve	1,403	1,306	840	2,900	**5,046**
IT project investment	2,500	2,500	2,500	2,500	**7,500**
IMT Recurring programmes	**3,903**	**3,806**	**3,340**	**5,400**	**12,546**
IMT Projects					
Adults Social Care infrastructure	566	0	0	0	**0**
Other IMT projects	478	479	607	523	**1,609**
IMT Projects	**1,044**	**479**	**607**	**523**	**2,653**
Information Management & Technology (IMT)	**4,947**	**4,285**	**3,947**	**5,923**	**14,155**
Chief Executive's Office					
Economic development (broadband)	134	140	145	71	**356**
Legal & Democratic services: community buildings grant scheme	173	0	0	0	**0**
Chief Executive's Office	**307**	**140**	**145**	**71**	**356**
Total Capital Programme	**145,906**	**139,336**	**105,515**	**71,359**	**316,210**

Reserves & balances policy statement

Introduction

1. This paper sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves within the council's accounts.

Statutory position

2. A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of balances and reserves needed for meeting estimated future expenditure when calculating the budget requirement.

3. Balances and reserves can be held for three main purposes:

   - a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, this forms part of general reserves;
   - a contingency to cushion the impact of unexpected events or emergencies, this also forms part of general balances;
   - a means of building up funds often referred to as earmarked reserves, to meet known or predicted liabilities.

4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of balances and reserves

5. The council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event.

6. Although there is no generally recognised official guidance on the level of general balances to be maintained, the key factor is that the level should be justifiable in the context of local circumstances, and council taxpayers' money should not be tied up unnecessarily. The council's external auditor comments on the level of balances and reserves as part of the annual audit of the council's financial position.

7. While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future known or predicted liabilities.

Level of balances and reserves

8. In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. between £17m to £21m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council brought forward £21.3 m general balances at 1 April 2017. The council has applied none of this to support the 2017/18 budget. Going into 2018/19 the Director of Finance recommends the level of general balances remains the same. This reflects the on-going high level of uncertainty and risk the council faces.

9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty and are therefore reviewed regularly and adjustments reported to and supported through Cabinet decisions.

10. In this context the Director of Finance’s report on the budget for 2018/19 recommends holding general balances of £21.3m.

Proposed policy for 2018/19

11. General balances should only be held for the purposes of:

    - helping to cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
    - a contingency to cushion the impact of unexpected events or emergencies.

12. Given the reduction in funding that the Council has experienced over recent years, and continuation of the reduction, retention of the Council’s general balances and reserves will be essential to order to mitigate the risk of future uncertainties and non-delivery of savings programmes designed to meet the funding reduction

13. The application of general balances and reserves can, by definition only be used once and should therefore only be applied for one-off or non-recurring spending or investment or to smooth the effect of government funding reductions that have a disproportionate impact in any one year. If reserves are depleted disproportionately in a financial year, the council should plan to replenish these in future years to be confident of being in a position to manage future risks safely.

Projected earmarked reserves and balances

	Opening balance at 1 Apr 17 £m	Forecast balance at 31 Mar 18 £m	Proposed use to support 2018/19 budget £m	Forecast balance at 1 Apr 18 £m
Revolving Infrastructure & Investment Fund	11.1	11.1		11.1
Budget Equalisation Reserve	12.5	11.1	-7.3	3.8
Eco Park Sinking Fund	4.4	4.4		4.4
Insurance Reserve	7.7	7.7		7.7
Investment Renewals Reserve	5.0	4.8		4.8
General Capital Reserve	5.3	4.4		4.4
Street lighting PFI Reserve	4.4	3.7		3.7
Economic Downturn Reserve	9.2	9.2	-9.2	0.0
Economic Prosperity Reserve	2.5	2.5	-2.5	0.0
Equipment Replacement Reserve	0.7	2.0		2.0
Business Rate Appeals Reserve	1.3	3.6	-3.6	0.0
Interest Rate Reserve	1.0	1.0	-1.0	0.0
Earmarked Reserves	**65.1**	**65.5**	**-23.6**	**41.9**
General Fund Balance	**21.3**	**21.3**	**0.0**	**21.3**

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. Historically, the council has transfers net income generated by the portfolio to the reserve. From 2018/19, assumptions about the levels of income available to support the council's budget have been included within the MTFP.

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.

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.

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).

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.

Treasury Management Policy

1. The County Council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

2. The following statements define the policy and objectives of the Council's treasury management activities:

Definition

3. Surrey County Council defines its treasury management activities as:

   - the management of the organisation's cash flows, its banking, money market and capital market transactions;
   - the effective control of the risks associated with those activities; and
   - the pursuit of optimum performance consistent with those risks."

Risk appetite

4. The Council's appetite for risk in terms of its treasury management activities is low/medium. A premium is placed on the security of capital in terms of investment and on the maintenance of financial stability in terms of the costs of borrowing.

Risk management

5. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

Value for money

6. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

7. The Council's policies for borrowing and investments will be set out within the annual Treasury Management Strategy, high level policies are summarised below.

Borrowing policy

8. The Council values revenue budget stability and, therefore, when borrowing long term will aim to secure long term fixed rates of interest. However, short term rate loans will be utilised where the yield curve provides opportunity. The Council will also constantly evaluate debt restructuring opportunities within the portfolio.

9. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit.

Investment policy

10. The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local authority services is a further important objective.

11. The Council will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

Prudential indicators 2018-19

1. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice.

Estimates of capital expenditure

3. The Authority's planned capital expenditure and financing is summarised in table 1. This prudential indicator is a summary of the Council's annual capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Table 1: Actual and estimated capital expenditure

	2016/17 Actual £m	2017/18 Projected £m	2018/19 ← - - - £m	2019/20 Estimated £m	2020/21 - - - - → £m
Capital expenditure	126	146	139	105	71
Investment strategy spend	144	105	34	14	14
Financed by:					
Government grants	87	97	89	63	35
Revenue, reserves and third party contributions	16	18	20	11	7
Net financing need for the year*	**167**	**136**	**64**	**45**	**43**

* Capital expenditure to be met by borrowing

The Council's borrowing need (the capital financing requirement)

4. Table 2 sets out the Council's estimated capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP).

5. The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage.

6. The CFR includes any other long term liabilities, e.g., PFI schemes, finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to

separately borrow for these schemes and they therefore do not form part of the Council's underlying need to borrow.

Table 2: Estimated capital financing requirement (CFR)

	2016/17 Actual £m	2017/18 Projected £m	2018/19 ← - - - £m	2019/20 Estimated £m	2020/21 - - - - → £m
Opening CFR	904	1,063	1,182	1,231	1,249
Add new borrowing:					
MRP	-24	-26	-27	-27	-28
PFI* and finance leases	17	36	12	0	-1
Application of capital receipts		-27			
Net financing need	167	136	64	45	43
Closing CFR	**1,063**	**1,182**	**1,231**	**1,249**	**1,263**

*includes the addition to fixed assets on the balance sheet under PFI

7. The CFR is forecast to rise over the next 3 years, as capital expenditure plan financed by borrowing outweighs the resources planned to be set aside for debt repayment (MRP).

Gross borrowing and the capital financing requirement

8. In order to ensure that over the medium term borrowing will only be for a capital purpose, the Council should ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next 2 financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes. This is a key indicator of prudence.

Table 3: Gross borrowing requirement

	2016/17 Actual £m	2017/18 Projected £m	2018/19 ← - - - - £m	2019/20 Estimated £m	2020/21 - - - → £m
Gross borrowing	512	602	646	613	625
CFR	1,063	1,182	1,231	1,249	1,263

9. Total debt is expected to remain below the CFR during the forecast period.

The Council's operational boundary for external debt

10. Table 4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. It is based on the Authority's estimate of the most likely (ie prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the CFR and cash flow requirements and is a key management to for in-year monitoring.

11. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. Other long-term liabilities comprise finance lease, PFIs and other liabilities that are not borrowing but form part of the Authority's debt position.

12. The operational boundary is not a limit and actual borrowing could vary around this boundary for short periods during the year. It should act as an indicator to ensure the authorised limit is not breached.

Table 4: Operational boundary

	2017/18 Revised £m	2018/19 ← - - - - £m	2019/20 Estimated £m	2020/21 - - - - → £m
Borrowing	702	896	863	875
Other long term liabilities	170	162	144	125
Total	**872**	**1,059**	**1,007**	**1,000**
External debt	602	646	613	625

The Council's authorised limit for external debt

13. Table 5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It is the maximum amount of debt that the Authority can legally owe.

14. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code.

15. The Authorised limit provides headroom over and above the operational boundary for unusual cash movements and potential additional borrowing to meet the ambitions of the Council in respect of its investment strategy.

16. As with the operational boundary, the limit separately identifies borrowing from other long term liabilities such as finance leases and PFIs.

Table 5: Authorised limit for external debt

	2017/18 Limit £m	**2018/19 Limit £m**	**2019/20 Limit £m**	**2020/21 Limit £m**
Borrowing	1,092	1,481	1,499	1,484
Other long term liabilities	182	162	144	125
Total	**1,274**	**1,643**	**1,643**	**1,609**
External debt	602	646	613	625

Estimated ratio of financing costs to net revenue stream

17. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 6: Ratio of financing costs to net revenue stream

	2017/18 Revised	2018/19	2019/20	2020/21
		← - - - - Estimated - - - - - →		
Ratio of financing costs to net revenue stream	3.78%	2.53%	2.28%	2.23%

18. The revenue implications of potential, yet to be identified, investment opportunities that meet the Council's long term capital strategy criteria, will be funded from the investment returns of such investments. If there is a delay in the realisation of sufficient returns then costs will be funded from the Council's Revolving Infrastructure & Investment Fund.

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Treasury management scheme of delegation

Full Council

1. Approval of annual strategy.

Audit & Governance Committee

2. Receiving and reviewing monitoring report and outturn report.

Director of Finance

3. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4. Raising borrowing or funding finance from the most appropriate of these sources:

   - Government's Public Works Loans Board
   - Municipal Bond Agency
   - lenders' option borrowers' option (LOBO) loans
   - local bond issues
   - European Investment Bank
   - overdraft
   - banks and building societies
   - local authorities
   - lease finance providers
   - internal borrowing.

5. Debt management:

   - managing the cost of debt;
   - delegate authority to treasury management staff to undertake borrowing and debt rescheduling activities.

6. CIPFA Prudential Code for Capital Finance in Local Authorities:

   - ensuring that this requirement is not breached, taking into account current commitments, existing plans, and the proposals in the budget report.

7. Investing:

   - setting more restrictive investment criteria in response to changing circumstances;
   - arranging investments using these instruments:
     - fixed term deposits with banks and building societies
     - money market funds
     - local authorities
     - Government's Debt Management Agency deposits
     - pooled funds
     - corporate bonds

    - covered bonds
    - pooled property funds
  - compiling and updating the lending list, utilising the criteria for counterparties, in consultation with the treasury management consultants;
  - managing surplus funds and revenue from investments;
  - appointment and performance management of external cash managers (if considered necessary);
  - delegate authority to invest to designated treasury management staff.

8. Loan rescheduling:

   - any debt rescheduling will be done in consultation with the treasury management consultants.

9. Policy documentation:

   - formulation and review of the treasury management strategy statement;
   - formulation and review of the treasury management practices (TMPs).

10. Strategy implementation:

    - implementing the strategy, ensuring no breaches of regulations;
    - reporting to Cabinet any material divergence from the strategy and making requests to Council to approve amendments to the strategy as required;
    - ensuring that treasury management activities are carried out in accordance with CIPFA Codes of Practice.

Annual Minimum Revenue Provision (MRP) Policy Statement 2018-19

The Council is required by statute to make a prudent provision for the repayment of its debt. It is also required to ‘have regard’ to guidance on how to calculate this provision, issued by the Department for Communities and Local Government. The Council has assessed the Minimum Revenue Provision and are satisfied that the guidelines for their annual amount of MRP, set out within this policy statement, will result in their making a prudent provision.

Where capital expenditure was incurred before 1 April 2008, the guidance suggests writing down the remaining Capital Financing Requirement by providing MRP of 4% per annum. The Council agreed in 2016/17 to write this amount off over the next 50 years, resulting in the whole balance being provided for sooner than under the 4% method.

As suggested in the guidance, for capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP by charging expenditure over the expected useful life of the relevant assets using an annuity method. MRP will be first charged in the year following the date that an asset becomes operational. This methodology will not be followed for the following items of capital expenditure where the Council feels an alternative methodology is more appropriate:

- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability, or over the life of the asset.

- Where loans are made to other bodies for their capital expenditure, and are to be repaid under separate arrangements, no MRP will be charged. The capital receipts generated by the repayment of those loans will be set aside to repay the debt.

- In order to better match MRP to the period of time that the assets are expected to generate a benefit to the Council, MRP will be made at 1% for investment properties. This is in recognition that these assets are held for income generation purposes and that the Council holds a saleable asset, the capital receipt from which will be used to repay any outstanding debt when sold.

- The council will make a MRP on investments in service delivery companies based on a 100 year life, while any equity investment in non-service delivery companies will be provided for over 20 years. This approach acknowledges the ongoing benefits to the authority that service delivery companies are expected to generate.

The Council reserves the right to determine alternative MRP approaches in particular cases, in the interests of making prudent provision, where this is material, taking account of local circumstances, including specific project timetables and revenue-earning profiles.

Each year a new MRP statement will be presented.

The DCLG issued a consultation on proposed changes to their MRP guidance in November 2017. The consultation closed on 22 December but the results of the consultation are yet to be published. If changes to the guidance are published which would require a change to this MRP policy for 2018/19, a revised policy will be presented to council for approval.

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SURREY COUNTY COUNCIL

CABINET

DATE: **30 JANUARY 2018**

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

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

SUBJECT: **REVENUE AND CAPITAL BUDGET 2018/19 TO 2020/21, CORPORATE STRATEGY AND KEY FINANCIAL STRATEGIES**

SUMMARY OF ISSUE

This report is to enable Cabinet to make recommendations to the Full County Council on:

- council tax precept for 2018/19
- revenue budget for 2018/19 and medium term financial plan to 2020/21
- capital programme quantum and principles
- key corporate and financial strategies.

Looking forward, the council aims to continue to work more closely with: Surrey's district and borough councils, the police and health service, the local voluntary & community sector and our residents as a single community to look again at place with fresh eyes. The council will work with all of these partners to determine what can be done to make everything easier and better for local residents.

The council's goal is to provide seamless, affordable, high quality services in our places. To achieve that goal the council needs to focus on four questions:

1 How do we work with our residents in new ways to achieve these ambitions?

2 How do we deliver better services in a place?

3 How do we join up services to focus better on the needs of a particular place?

4 How do we make better use of all our collective assets and resources?

Since 2010, Surrey County Council has faced unprecedented increases in demand, particularly in social care for adults and children. At the same time the Government's core funding for the council has reduced significantly, especially over the last three years and will continue until at least 2019/20. For instance over the period from 2010/11:

- the number of people supported for their learning disabilities has increased by 1,187 to a total of 3,760 (a 46% increase) the highest for any council;
- the population of children (who require school places) has increased by 9% to 142,208;
- the number of children with a Statement of Special Educational Needs or an Education, Health and Care Plan has risen by 2,342 to 7,700 (a 44% increase);

- the council supports 116 unaccompanied asylum seeking children and 228 care leaver asylum seeking children, which are among the highest numbers in the country;
- the number of older people supported has risen by 841 to 9,822 (a 9% increase);
- the county's roads experience significantly higher use than for England and the South East, which places significant demands for the Highways Service to respond to; and
- the Government's core funding for the council has reduced by over £200m.

The recent sharp decline in the council's grant funding is due to the Government reducing its funding to local government and changing its main method to distribute funding nationally. The method focuses on a local authority's 'core spending power' (CSP). CSP aggregates the Government's main core grants to local authorities, such as Revenue Support Grant (RSG) and sources of funding raised locally through council tax and business rates. This methodology effectively offsets reductions in central Government grant with assumed increases in locally generated income, in particular Council Tax, and means the Government can demonstrate that there has been an overall increase in CSP.

The overall increase in CSP masks the significant shift in local authority core funding from central Government grant support to locally raised Council Tax funding over the period 2016/17 to 2019/20. Accordingly, the equation for determining CSP means those areas that have to rely on a higher proportion of their funding from council tax see the sharpest reductions in Government grant. There are four main disproportionate impacts on Surrey County Council of the Government using CSP to allocate grant funding:

i. Firstly, the Government's current funding baseline calculation for local authorities' core grants (the four block model) already takes account of ability to raise council tax. Using CSP to allocate core grants therefore counts council tax twice in the formula. Then, the Government's initial and supplementary allocations of the Improved Better Care Fund also make assumptions about local authorities' ability and willingness to raise council tax through the Adult Social Care precept and thereby counts council tax a third time. This flawed methodology continues to militate against residents in areas like Surrey, where grant support has been historically low and council tax has had to fund a higher proportion of local services' costs.

ii. Over the years, the Government has 'rolled in' grants it had allocated separately in previous years to local authorities' core funding. As the Government has made significant cuts to its core funding, it has concomitantly reduced the funding of those grants rolled in. For Surrey County Council, the largest example is the Learning Disabilities and Health Reform Grant (LDHRG) which was rolled in from 2014/15 at £69m, representing the council's need to spend on this responsibility. For 2018/19, the Government's assessment of LDHRG spending need for the council is £73m, but the rolled in grant, reduced in proportion to Government core funding is around £33m. This leaves a £40m funding gap this year.

iii. The CSP methodology relates to the resourcing available to an authority and does not reflect the demands for services nor any variation in the relative costs to deliver services in an area. For example the average house prices in Surrey are second only to London and are over 40% higher than the South East and 90% higher than the average for England. This makes it much more expensive for service providers to sustain their businesses in Surrey and is reflected in the prices the council has to pay.

iv. The methodology results in a continuing significant shift for all authorities from central Government funding to locally raised funding (specifically council tax) from 50% of core funding coming from council tax in 2015/16 to 62% in 2019/20 at a national level. However, as Surrey starts with a relatively high proportion of funding coming from council tax (due to historic lack of Government support), the rate of shift from Government funding to council tax is disproportionately greater for Surrey (72% in 2015/16 to 87% in 2019/20).

In previous years, Surrey County Council has contained the cost and volumes pressures of rising demand by making efficiency savings through wide reaching transformation programmes and service unit cost reductions, totalling over £540m since 2010/11. At the same time this council has been forced to continue increasing its level of council tax to offset the impact of severely reduced Government funding, while maintaining services to residents despite growing demand and increasing needs. The council is planning to make significant additional savings of £66m in 2018/19, **this will still leave a funding shortfall of £39m in 2018/19, rising to over £93m by 2020/21**.

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. To maintain essential services, the council requires a budget that balances these shortfalls with additional funding from either further Government support or locally raised sources and efficiencies and service reductions.

The Provisional Local Government Financial Settlement, announced on 19 December 2017, permits an increase in general council tax limited to below 3% before requiring a referendum and the flexibility to raise the Adult Social Care precept by 3% in 2018/19. This follows a 3% increase in 2017/18 and initial 2% in 2016/17.

The Provisional Settlement also announced the next round of 100% business rates pilots that will operate for 2018/19 only. Surrey County Council and the Surrey district and borough councils were successful in their application to form a business rates pilot in 2018/19. The next steps are for the Surrey Business Rates Pilot to agree a Memorandum of Understanding (MoU) with the Ministry of Housing, Communities and Local Government (MHCLG) setting out details of how the pilot will operate before the start of the 2018/19 financial year.

RECOMMENDATIONS

It is recommended that Cabinet makes the following recommendations to the Full County Council on 6 February 2018:

Cabinet recommendations to Full County Council to note the following important features of the revenue and capital budget

1. The Director of Finance’s statutory conclusions that the council’s budget is balanced for 2018/19 and is developing a major transformation programme to be able to set a balanced budget for 2019/20 and become sustainable over the medium to long term (Annex 1).

Proposed budget: Cabinet recommendations to Full County Council for the revenue and capital budgets

2. Increase the level of the general council tax by 2.99% (paragraphs 101 and 102).

3. Increase council tax by a further 3% for the adult social care precept, which will provide a further £20m to support the growth in demand for services (paragraph 102).

4. Set the County Council precept for band D council tax at £1,411.29 which represents a 5.99% up-lift. This is a rise of £1.53 a week from 2017/18's precept of £1,331.55.

5. Approve the County Council's £1,705m gross revenue expenditure budget for 2018/19 (Table 9).

6. Approve the application of up to £15m capital receipts to fund the revenue costs associated with transformation projects (paragraphs 34 to 37 and Appendix 3)

7. Approve use of up to £24m of earmarked reserves to support the revenue budget (paragraph 109).

8. Approve £316m three year capital programme, with £139m capital investment in 2018/19 (paragraph 124 and Appendix 7).

9. Agree to support only capital schemes that do not require borrowing, unless the scheme has a compelling business case developed that demonstrates best value and a sustainable basis for funding borrowing costs (paragraph 135).

10. Note that the detailed programme of schemes will be agreed ahead of implementation of the detailed budget (if necessary).

11. 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 120).

12. To help ensure the council achieves its savings programme, require the Chief Executive and the Director of Finance to:

    - continue to ensure delivery of existing MTFP efficiencies and service reductions for the remaining years of the MTFP 2018-21; and
    - continue to ensure services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures (paragraph 95).

13. Require the Chief Executive and the Director of Finance to lead the development of a transformation programme to move the council to a sustainable position in 2019/20.

Corporate and key financial strategies: Cabinet recommendations to Full County Council on the revenue and capital budgets

14. Approve the refreshed Corporate Strategy for 2018/19 that Cabinet has endorsed (paragraphs 18 to 24 and Appendix 1).

15. Approve the refreshed Financial Strategy for 2018/19 (paragraphs 30 to 32 and Appendix 2).

16. Approve the Capital Strategy for 2018-22 (paragraphs 117 and 118)

17. Approve the Flexible Use of Capital Receipts Strategy for 2018/19 (paragraphs 34 to 37).

Treasury management and borrowing: Cabinet recommendations to Full County Council

18. Approve, with immediate effect, the Treasury Management Strategy for 2018/19 (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 10);
    - the prudential indicators (Appendix 11);
    - the treasury management scheme of delegation (Appendix 12);
    - the minimum revenue provision policy (Appendix 13).

It is further recommended that Cabinet makes the following decisions

19. Note that services will develop final detailed budgets and savings within budget ahead for review by the council's Scrutiny function, ahead of approval by Cabinet on 27 March 2018 when the final MTFP 2018-21 will be presented.

20. Approve the draft MTFP for the financial years 2018-21, which includes:

    - to approve the Total Schools Budget of £505.8m (paragraphs 110 to 115);
    - to approve overall cash limits for individual services for the 2018/19 budget (Table 9).

REASON FOR RECOMMENDATIONS

Full County Council will meet on 6 February 2018 to agree a budget and set the council tax precept for 2018/19. Cabinet will recommend a budget to Full County Council to consider at its meeting on 6 February 2018.

FINANCIAL PLANNING

The council's financial position

Overview

1. Since 2010, pressures on Surrey County Council's budget have intensified. The council has faced unprecedented increases in demand, particularly in social care services for adults and children. At the same time the Government's core funding for the council has reduced significantly, especially over the last three years and this downward trajectory will continue until at least 2019/20. The continuing reductions in Government funding mean the council has to rely ever more increasingly on council tax payers to support the budget.

2. The council has responded to these budget pressures by making more and more savings and efficiencies. The council is on track to achieve over £540m savings since 2010 and plans to achieve a further £133m over the next three years, bringing the total by 2020/21 to £675m.

3. From 2020/21 the Government will implement a new funding system for local government based on 75% local business rates retention. The council will engage actively with the Government over the development of the new system to seek a fairer funding outcome for Surrey residents. This engagement includes through its role as a business rates pilot for 2018/19.

Public value

4. Since 2009 the council has focused relentlessly on achieving ever better public value for Surrey residents set within an ongoing multi year budgeting framework. Two very good examples of this work are council's Public Value Review Programme and its stringent restriction on the use of consultants. Despite huge service demand pressures, the council has also been at the forefront of partnership working and striving to improve public services significantly by working together as one team for the people of Surrey. The council has received recognition across the country for its approach to innovation.

5. The investment strategy, Orbis partnership that has begun with East Sussex County Council and Brighton & Hove City Council, Trading Standards' partnership with Buckinghamshire County Council and income raised through filming at County Hall are examples of how the council has responded to the financial pressures it faces. There is no question the council is a more effective organisation, offering far better public value for residents than in 2009.

Funding reductions

6. Surrey as an area has had some of the lowest government funding in the country. This has its roots in the Government's continued use of the four block funding model, which has its origins in the mid 2000s and gives a high weighting to relative deprivation. Deprivation does not necessarily reflect need for spending on services (such as dementia care, or learning disabilities) nor the cost to serve of providing those activities locally (which often varies with local markets). Furthermore, the deprivation

indices do not reflect the cost drivers the council faces, such as the aging population, the overspill of school children from London and the wear and tear on Surrey's roads from their heavy use.

7. The four block funding model's weighting for resources exacerbates the Council's funding position as it assumes a higher ability of Surrey residents to contribute to the cost of local services through council tax. Together, these features of the Government's funding model have led to Surrey's residents having to contribute among the very highest proportions of council tax to support local services.

8. For 2016/17, the Government changed how it distributes core grant funding to local authorities by making locally determined council tax revenue a factor in how it allocates Government grant among local authorities. The basis of the allocation is to maintain similar percentage changes to authorities' core spending power (CSP). CSP aggregates funding from central and local sources, which are mainly:

- Revenue Support Grant (RSG);
- business rates retention system; and
- council tax.

9. As the council already has to raise one of the highest proportions of its funding from council tax this meant the Government's decision to allocate RSG based on core spending power resulted in an abrupt loss of grant funding for the council and increased the proportion of core funding it has to raise from residents yet further. Council tax will form around 87% of CSP by 2019/20 (up from 72% in 2015/16) compared to a national average council tax contribution of around 62% in 2019/20 (up from 50% in 2015/16).

10. The Government's sudden change in how it allocated grant support resulted in a severe reduction in funding for the council, which put it in a very difficult position. The Government acknowledged the impact of the change in funding through its provision of Transition Grant for 2016/17 and 2017/18. This grant and one-off measures helped the council balance its budget in those years, but no Transition Grant is available for 2018/19. To build a sustainable financial position over the medium term, the council would need significant service transformation. The reasons for reaching this difficult financial position are straightforward:

- an unprecedented six year period of funding cuts by the Government, including rolling in nearly £70m Learning Disability Grant to the core grant funding which the Government has subsequently continued to cut;
- an unrelenting increase in the numbers of people requiring services across adults and children's services in particular (Surrey has by far the greatest number of people with learning disabilities in the country for historical reasons);
- an increase in the complexity of needs of Surrey residents and therefore increases in the cost of serving these needs; and
- an increase in responsibilities (over 60 new responsibilities since 2010) from central government to the council year after year without adequate funding, such as care of unaccompanied asylum seeker children.

Financial resilience through transformation

11. In view of the seriousness of the financial challenges facing the Council the Director of Finance, supported by the Chief Executive and Leader, asked the Chartered Institute of Public Finance and Accountancy (CIPFA) to conduct a financial resilience review in November 2016. The review focused on the council's budget planning assumptions and its long term financial resilience, as well as comparative spending and costs. The key conclusions were:

    - the budget planning assumptions and figures were sound;
    - the council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the full scale of savings required as soon as possible to match its currently allowed income profile going forward.

12. CIPFA's financial resilience review confirmed the council could not rely on its reserves to balance its budgets through to 2019/20. In response, in 2017/18 the council is set to deliver the highest in-year level of savings (£79m) although this is still short of the original target of £104m. This shortfall, together with growing demand pressures during 2017/18 adds to the pressure on the 2018/19 budget, and the importance of a robust transformation programme.

13. Medium to long term financial sustainability requires the council to transform fundamentally how people access local public services in Surrey. Alongside the sustained reductions in funding over the last 7 years, the scale and nature of residents' needs has also changed, becoming both greater and more complex, adding further financial pressures.

14. Public services in Surrey have responded through making efficiencies; developing shared operations and joint-working; new models of delivery, working closer with the voluntary community and faith sector; greater collaboration with partners on a preventative approaches; and taking advantages of devolution, for example through Surrey Heartlands.

15. With funding pressures set to continue and demand increasing, the scale of the challenge for public services in Surrey will become ever greater. To address these challenges will require a step change in collaboration with partner organisations and a much greater focus on thinking about changes to whole systems (involving many organisations) involved in delivering services. These changes are likely to be significant and very noticeable for residents so it is essential that residents and service users are much more fully involved in service design.

16. The council has had some success in this area already and will build on this, taking a much more place-based rather than individual service-focused approach. Working closely with partners, in particular the district and borough authorities, the people and places approach will look to understand local needs and consider how best to deliver within future budgets, looking at sustainable approaches which make best use of our combined resources – protecting those services which residents value most and looking at new ways to deliver preventative services more effectively. There will also be a focus on understanding residents' views and the role they see public services playing in the future, including any ideas they have on how councils could deliver

differently. This approach will also help the council to look at its own assets and the best use of them, looking at how we bring services together in one place for communities wherever possible.

17. In addition to the place-based approach, the council will continue to develop its digital strategy as well as pursue commercial opportunities as they arise. To drive forward at pace, both areas will potentially need additional capacity and external expertise such as project management, change expertise to ensure a more agile approach, research and data analysts. The work will also need to look at what is happening in the broader sector in terms of innovation, and across the market to understand the potential of digital to transform both service delivery and resident contact with the council. Where a need for additional capacity is identified and cannot be met within existing budgets and resources, a business case will be presented as appropriate to Cabinet on an invest-to-save basis, with a clear focus on delivering a balanced budget in 2019/20 and a sustainable long-term budget.

Key strategies

Corporate Strategy

18. The Cabinet is asked to endorse a refreshed version of the Council's Corporate Strategy (Appendix 1). The Strategy will then be presented to the County Council meeting on 6 February 2018 for approval.

19. By reconfirming a vision for the county to the end of the Council term and setting goals and key actions for the next financial year, the refreshed Corporate Strategy provides a sense of direction for Council staff, residents, businesses and partner organisations. As part of the Council's Policy Framework (as set out in the Constitution) the Corporate Strategy must be approved by the County Council.

Background

20. On 16 July 2013 the County Council approved a long term Corporate Strategy for the Council. The Corporate Strategy provides the strategic framework for the Council's revenue and capital budget and MTFP. It has been refreshed in parallel with the development of the Council's revenue and capital budget. It was agreed the Strategy would undergo a refresh annually. This report presents a refresh of the version that was previously approved by the Council on 23 May 2017.

21. The Council faces significant, persistent strategic challenges. The refreshed Strategy for 2018-2021 reconfirms the Council's strategic direction and reflects the challenging environment in which the Council is operating – that of growing demand and reducing resources.

22. The strategic goals for Wellbeing, Economic Prosperity and Resident Experience have been updated for the 2018/19 financial year to reflect the Council's key strategic priorities. Further information about individual Service priorities in 2018/19 will be included in the MTFP to be considered by Cabinet at its meeting on 27 March 2018.

23. The Council's long term strategy has been discussed with Members, officers and partners.

24. The Corporate Strategy sets out goals and commitments that have positive implications for all residents, including protected groups. There are specific positive commitments in relation to children and young people, older people, and people with disabilities. The equalities implications of the goals will continue to be considered in relation to the more detailed and specific policies that stem from the Strategy.

What happens next?

25. Surrey County Council's Corporate Strategy 2018-2021 will be presented to the County Council at its meeting on 6 February 2018 for approval.

26. The Strategy will be published on the Council's website in readiness for the start of the 2018/19 financial year.

27. An internal communications campaign will be run to raise awareness of the Strategy.

28. The measures and targets for the Council's priorities for 2018/19 will be finalised with progress reported throughout the year on the Council's website.

29. Select Committees will continue to scrutinise work programmes and performance.

Financial Strategy

30. The council's refreshed Financial Strategy 2018-21 (Appendix 2) clearly sets out the council's approach to financial management. It provides the basis for sound financial governance and to return towards a position of long term sustainability.

31. The key fundamentals of the financial strategy 2018-21 are:

- acting in the public interest at all times through building and nurturing partnerships to improve value and outcomes;
- long term planning to enable effective and sustainable outcomes that meet future needs and opportunities; and
- a proactive and practical outcome-focused approach to managing key risks and opportunities and supporting service strategies.

32. The Financial Strategy will remain largely stable to 2021. Within this, budget assumptions, operational protocols and financial drivers may alter in the short term and each will be reflected in the annual budget planning process through the MTFP.

Capital strategy

33. The council takes capital expenditure and investment decisions in accordance with its overall organisational strategy, consideration of available resources and with regard to their long term financial implications and potential risks. A range of policies and programmes exist to ensure capital decisions take account of stewardship, value for money, prudence, sustainability and affordability. The council applies robust financial planning, option appraisal and governance arrangements to schemes included in the council's capital programme and its investment strategy. Paragraphs 117 and 118 provide more details.

Flexible Use of Capital Receipts Strategy

34. In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their capital receipts on the revenue costs of reform projects. Initially this flexibility on the use of capital receipts was limited to those receipts received between 1 April 2016 and 31 March 2019. However the Government is now consulting on extending this period by another three years.

35. In the 2016/17 and 2017/18 financial years, Surrey County Council has not sought to use the flexibility. From the 2018/19 financial year, the council will use capital receipts to fund the revenue costs of transforming services to become more efficient and sustainable, which will lead to future revenue savings for either the council or other public sector bodies.

36. Since 1 April 2016, the council has received £32m capital receipts, which it could use to fund this strategy. In 2018/19 the council will initially use up to £15m capital receipts in accordance with this strategy. The council can vary this amount during the year with the approval of Full County Council. Appendix 3 provides a schedule of projects to transform services and associated revenue savings that will be funded through flexible use of capital receipts.

37. The regulations on the flexible use of capital receipts require local authorities to disclose the impact of the strategy on Prudential Indicators. The council's current capital programme has not sought the use of capital receipts received since 1 April 2016 as a source of funding for schemes. Therefore, there will be no change to the council's Prudential Indicators that are shown in Appendix 11.

Risk Management Strategy

38. The council maintains an integrated risk framework to manage the significant challenges it faces and the associated emerging risks. The council's Risk Management Strategy ensures an integrated and coordinated approach to risk across the organisation. Risks are continually considered alongside financial and performance management to support the achievement of the council's corporate priorities.

Treasury Management Strategy

39. Before the beginning of each financial year, Full County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect current market conditions, changes in regulation and the council's financial position. Annex 2 sets out updated versions of the council's Treasury Management Strategy statement and Appendix 10 sets out the council's treasury management policy statement.

Financial planning environment

40. The council sets its budget within the context of the condition of the UK and world economies and the UK Government's policy towards this. Appendix 4 summarises the national economic outlook, which highlights how the relevant economic environment

and future forecasts have changed in the last year and how these affect financial prospects.

41. In his Autumn Budget in November 2017, the Chancellor of the Exchequer confirmed his commitment to his fiscal rules, but made use of headroom to invest. Due to UK's persistent low productivity, forecasts of GDP growth are 1.5% in 2017, falling to 1.4% in 2018 and 1.3% in 2019, before rising back to 2.0% in 2021. Forecast Government borrowing in 2017/18 is £8.4bn lower than expected in March 2017 due to stronger receipts, lower spending and some classification changes. By 2020/21, forecast borrowing is £12.2bn higher primarily due to lower receipts from the lower economic growth. Over this period: forecast net Government debt as a proportion of GDP (about £2 trillion a year) peaks at 86.5% in 2017/18 then falls to reach 79.3% in 2021/22, while public spending as a proportion of GDP will fall steadily from 38.9% to 37.9%.

Provisional Local Government Financial Settlement 2018/19

42. Following on from the Chancellor's Autumn Budget 2017, the Ministry of Housing, Communities and Local Government (MHCLG - the Department of Communities and Local Government) published its Provisional Settlement 2018/19 consultation on 19 December 2017. This consultation ran until 16 January 2018 and MHCLG is expected to announce the Final Settlement 2018/19 in February 2018.

43. The Provisional Settlement 2018/19 set out local authorities' funding allocations for the period up to 2019/20. The main changes affecting this council were as follows.

- The Surrey Business Rates Pilot application was successful. The projected impact of this is an estimated extra £20m for the council in 2018/19 only from its share of retained business rates growth.
- The core council tax referendum threshold rose by 1% for 2018/19 with a proposal that this continues for 2019/20. The projected impact of this is an extra £7m in the council's base budget in 2018/19 and a further £7m in 2019/20.

44. Other changes announced by MHCLG in the Provisional Settlement include:

- an intention to consult in spring 2018 on fair and affordable options for negative RSG;
- councils will be able to keep 75% of business rates in 2020/21, MHCLG will reallocate its 25% central share to local government;
- in 2020/21, the business rates retention system will reset to reflect actual growth in business rates and locally retained business rates funding will incorporate existing grants, including RSG and Public Health grant;
- a continuation of the business rates pilot period into 2019/20, to allow more areas to apply to be involved and existing pilots to reapply;
- extension of the capital receipts flexibility for three more years;
- an intention to publish a consultation paper on the fair funding review, seeking responses by 12 March 2018;
- an intention for the NHS to publish a Green Paper on adults' and children's social care in the summer 2018.

45. The Final Settlement 2016/17 introduced the CSP basis for reducing core grant that resulted in the abrupt funding reduction, which has so severely affected the council during the last two financial years and through to 2019/20. The Government's four year offer did not provide this council with a fair or sustainable financial position and ultimately would have meant accepting the -£17m negative RSG imposition in 2019/20. This would be equivalent to asking every Surrey council tax payer to pay an extra 2.5% to fund other areas in 2019/20 and as the new business rates retention system will incorporate RSG, such a tariff could be due, albeit less visibly, every subsequent year.

46. The timing of the Provisional Settlement was later than expected and the response period was very short. The Government announced other main funding sources for local authorities (Public Health Grant, Dedicated Schools Grant) alongside or shortly after the Provisional Settlement. The late announcement of the Provisional Settlement does not help local authorities in their financial planning.

Business rates pilots

47. In addition to Surrey, MHCLG has agreed ten new business rates pilots for 2018/19: Berkshire, Derbyshire, Devon, Gloucestershire, Kent & Medway, Leeds, Lincolnshire, London, Solent and Suffolk. The existing business rates pilots from 2017/18 will continue to operate in 2018/19. These are: Greater Manchester, Liverpool City Region, West Midlands, West of England and Cornwall. Of the 16 business rates pilots, seven are in predominantly two tier areas.

48. The pilot authorities forego RSG and Rural Services Delivery Grant in return for higher business rates retention adjusted through their share of the overall tariff or top up. This amount is equivalent to the Settlement Funding Assessment (SFA) MHCLG has used to determine core grant and business rates shares since 2014/15.

49. The Surrey business rates pilot application proposal comprised this council and all of the district and borough councils in Surrey. The application enjoyed the full agreement of each of the leaders of the twelve councils and the support of the two Local Enterprise Partnerships (LEPs) that operate in Surrey. The application includes the proposal to share business rates growth among the councils so this council receives 70% and the districts and boroughs receive 30% to help improve financial sustainability and promote economic growth. The council's significantly increased share of locally retained business rates, coupled with its shift from receiving a top up grant to paying a substantial tariff significantly increases its expose to risks and opportunities of changes in that income. The next steps are for the Surrey Business Rates Pilot to agree a Memorandum of Understanding with MHCLG setting out details of how the pilot will operate before the start of the 2018/19 financial year.

50. Under the business rates pilots arrangements, MHCLG treats the whole pilot primarily as a single pooled entity and derives individual councils' shares of the business rates, tariffs and top ups from within that. The Surrey Business Rates Pilot has an overall business rates baseline of £500m (the total business rates revenue the Government expects for the Surrey county area) and the pilot's overall tariff is -£364m, leaving £136m baseline funding level to cover all twelve councils in the Surrey Business Rates

Pilot. In other words, £136m is the total aggregate funding the Government believes the twelve Surrey councils need to retain from local business rates to fund their core services. Of this £136m, this council's share is £115m and the district and borough councils' share is £21m.

51. MHCLG calculates individual business rates pilot councils' shares of local business rates and their tariffs and top ups as follows.

- Calculate the business rates baseline for the whole pilot (for the Surrey Business Rates pilot = £500m).
- Calculate each individual council's business rates baseline from the proposals in their pilot application (for Surrey County Council this is 70% x £500m = £350m).
- Calculate the tariff or top up by subtracting the council's business rates baseline from its baseline funding level (Surrey County Council's tariff is £115m less £350m = -£235m).

52. Surrey County Council's baseline funding level is equivalent to its SFA had the pilot application not succeeded. It comprises RSG (£4m) plus retained business rates (£50m) plus business rates top up (£61m).

53. Table 1 shows the council's SFA as set out in the Provisional Settlement. This position does not include the effect of any business rates growth achieved in Surrey.

Table 1 Provisional Settlement Funding Assessment

	2017/18	**2018/19**	**2019/20**
	£m	**£m**	**£m**
Business rates retention	49.0	349.9	51.1
Tariff (-)/Top-Up (+)	58.6	-234.7	62.1
Baseline Funding Level	107.6	115.2	113.2
Revenue Support Grant	28.0		
Tariff/Top-Up adjustment			-17.3
Settlement Funding Assessment	**135.6**	**115.2**	**95.9**

54. Over the four year period (2016/17 to 2019/20) following the introduction of CSP to determine core grant reductions, the council's loss of SFA is -£75m (-43%) and between 2017/18 and 2018/19 is -£20m (-15%).

55. During the same four year period, the reduction in the council's RSG including the -£17.3m top up adjustment, is -£84m (-126%) between 2017/18 and 2018/19 it is -£24m (-84%).

Business rates retention and revaluation

56. MHCLG made adjustments to business rates tariffs and top ups in the Provisional 2017/18 Settlement to neutralise the impact of the national business rates revaluation which took effect from 1 April 2017. The business rates revaluation increased rateable values in Surrey by around 15%, which is above the national average of 10%. This means businesses in Surrey generally pay higher business rates from April 2017.

However, MHCLG adjusts tariffs and top ups so local authorities' retained business rates income remains unchanged for the revaluation impacts.

57. Following completion of data returns by billing authorities, MHCLG has made further adjustments to reconcile tariffs and top ups based on the updated data and plans a final technical adjustment for 2019/20. The impact on the council is a one-off £0.4m reduction in the council's tariff as an adjustment in respect of the 2017/18 settlement.

Core Spending Power

58. MHCLG continues to present the financial amounts in the Provisional Settlement in terms of an authority's Core Spending Power (CSP). CSP comprises core grant funding, some grants with conditions attached and total council tax, including adult social care precept.

59. MHCLG has revised CSP for 2018/19 to exclude the Transition Grant and 2017-18 Adult Social Care Support Grant, which have expired and to include the new additional Better Care Fund Grant (announced by the Chancellor in the Spring Budget 2017) and the grant compensating for under indexing the business rates multiplier at CPI (consumer price index) rather than RPI (retail price index).

60. In calculating CSP, MHCLG now assumes each council's council tax base grows at the average rate it has experienced for 2013/14 to 2016/17 and the council tax rate increases at up to the maximum 3% permitted, plus 3% for the Adult Social Care precept (as outlined in paragraphs 65 and 66).

61. For 2018/19 CSP comprises:

- Revenue Support Grant,
- business rates baseline funding,
- New Homes Bonus,
- Rural Services Delivery Grant,
- improved Better Care Fund Grant
- additional Better Care Fund Grant,
- grant compensating for under indexing business rates, and
- council tax including adult social care precept.

62. MHCLG's original aims for using CSP to allocate core grant reductions was to achieve roughly equal percentage changes in authorities' CSP totals while keeping its own expenditure within HM Treasury limits. Because the council has a high council tax base and has had to raise council tax to compensate for historically low levels of grant funding, council tax forms a much higher proportion of CSP than for other authorities. Consequently as the balancing figure in the equation is the core grant MHCLG allocates, the council has suffered much higher than average losses of government funding and Surrey council tax payers continue to have to contribute a higher proportion towards funding local services than almost all of the rest of the country.

63. Table 2 gives the council's CSP and the changes between 2017/18 and 2019/20. The Provisional Settlement shows £22m CSP increase for the council over the period 2017/18 to 2019/20. However, the council's increase relies on £78m council tax growth

over the period offsetting -£40m SFA reduction and -£16m reduction in other settlement specific grants.

64. This marks a shift in proportionate contributions of council tax to core Government grants for local authorities' funding for England, on average, from 50%:50% in 2015/16 to 62%:38% in 2019/20. For Surrey County Council, the same period the proportionate contributions for are 72%:28% in 2015/16 and 87%:13% in 2019/20.

Table 2 Core Spending Power as set out in the Provisional Settlement

	2017/18 £m	**2018/19 £m**	**2019/20 £m**
Business rates baseline funding	107.6	115.2	113.2
Revenue Support Grant (including adjustment)	28.0		-17.3
Settlement Funding Assessment	135.6	115.2	95.9
Settlement specific grants			
Compensation for under indexing	1.4	2.3	3.5
Improved and Additional Better Care Fund	7.5	7.9	7.1
New Homes Bonus	5.0	3.1	2.8
Rural Services Delivery Grant	0.0	0.0	0.0
Transition Grant	12.2	0.0	0.0
2017-18 Adult Social Care Support Grant	4.0	0.0	0.0
Total Settlement specific grants	30.1	13.3	13.4
Council tax (core element)	625.8	652.6	680.6
Adult Social Care precept	31.0	52.3	54.5
Council tax	656.8	704.9	735.1
Core spending power	**822.5**	**833.4**	**844.4**

The main components of the provisional settlement and related announcements

Council tax and Adult Social Care precept

65. The Provisional Settlement permitted an additional 1% flexibility to the council tax referendum limit so increases must be below 3%.

66. The Provisional Settlement confirmed local authorities can raise the Adult Social Care precept by a maximum of 3% in 2018/19 and limits the total rise over the three years 2017/18 to 2019/20 to 6%. Local authorities using the adult social care precept have to provide assurances that they use the funding for adult social care services.

New Homes Bonus

67. Following consultation in 2016, from 2018/19, MHCLG will base New Homes Bonus (NHB) grant on a four year period rather than the original six year period. The impact of this reduction in NHB is -£1.9m reduction in 2018/19 and £0.3m in 2019/20, following -£1.2m in 2017/18. Surrey districts and boroughs suffer aggregate NHB losses of -£6.7m and -£1.3m in 2018/19 and 2019/20 respectively, following -£4.8m loss in 2017/18.

Improved Better Care Fund

68. In the Spring Budget 2017, the Chancellor announced £2bn additional grant funding for adult social care spread over the three years 2017-20 to add to the £2.4bn grant funding included in the 2017/18 Settlement for the same period.

69. MHCLG allocates this funding by aggregating amounts it expects local authorities to raise locally from the Adult Social Care precept with the total Improved Better Care Fund (iBCF) resources and then calculating an authority's share based on its relative need. This disadvantages those local authorities that have had to rely on council tax for a high proportion of their funding due to historic low levels of Government grant support.

70. Despite having the eighth highest ranked relative need in England, the Provisional Settlement shows this council's share is £7.9m in 2018/19 and £7.1m in 2019/20. These grant allocations place the council 78th and 101st out of 152 social care authorities for receipt of grant. The council's relative needs based share of those years' iBCF grant funding are: £24.9m and £30.6m respectively. This means the council has the biggest difference between its actual grant and its relative need share of the grant and a difference that is almost twice that suffered by the next ranked authority.

Public Health Grant

71. The council's Public Health Grant reduces from £37.5m in 2017/18 to £36.5m in 2018/19 and £35.6m in 2019/20. Responsibility for public health transferred to local authorities in 2013/14. To maintain funding stability, the Government based grant allocations on spending by the extant primary care trusts (PCTs). The PCT in Surrey had low public health spending, so the council received a low grant on transfer. The Government intended to adjust Public Health Grant distributions to target funding allocations to match population and need indicators more closely and move away from the superseded PCTs' spending patterns. However, the Government only adjusted grant allocations to move towards the target allocations in 2014/15 and 2015/16. Since then it has reduced every authority's Public Health Grant by the same proportion each year. Throughout this period, Surrey County Council has had the lowest grant allocation per head of population of any local authority in England and for 2018/19, it again has the lowest grant per head of population at £30.39 and is substantially below the average rate for England of £57.42. If the council was funded at the average rate, it would receive £32.5m extra Public Health Grant in 2018/19. If it was funded at its target funding level, it would receive £17.7m extra Public Health Grant in 2018/19.

Dedicated Schools Grant and Education Services Grant

72. The Government is phasing in a national funding formula for schools, starting in 2018/19. The formula increases the Dedicated Schools Grant (DSG) allocation for Surrey primary and secondary schools by £14m in 2018/19, with a further increase of £14.5m when fully implemented, probably in 2020/21. Although the total DSG funding of Surrey schools will increase, the total DSG received by the council will fall because of the increased number of schools converting to academies. The Government deducts funding for academies in Surrey from Surrey's DSG and allocates it directly to

schools. When fully implemented, the national funding formula will specify how much must be allocated to individual schools and local authorities are expected to move their own local funding formula to converge on the national funding formula by 2020/21. Furthermore, from 2018/19 the council may no longer transfer "schools'" Dedicated Schools Grant to support high cost special educational needs, except with the annual approval of the Schools Forum (or Secretary of State) and even then only up to 0.5% of the total national funding formula allocation. Following discussions with the Schools Forum, the council is not to make such a transfer in 2018/19.

73. In 2018/19 the council will no longer receive general Education Services Grant or related transitional funding. The Schools Forum has agreed a levy of £37.96 per pupil on maintained schools, which will raise an estimated £2.7m to part fund statutory services to schools which were previously funded from general Education Services Grant. In 2017/18 the levy covered only part year costs (£25.65 per pupil) because transitional grant funding was available. The Schools Forum also agreed a contribution of £1.2m to part fund the travellers' education service and to provide additional school improvement funding to schools identified with standards difficulties or needing interim leadership support.

74. In 2018/19 the government will continue to provide the school improvement monitoring and brokering grant to support local authorities' residual school improvement responsibilities for maintained schools. The allocation has yet to be confirmed but is estimated at £0.8m.

Scenario planning 2018/19 to 2020/21

75. The council has made significant efficiencies totalling £463m over the seven years from 2010/11 to 2016/17. In 2017/18 the council set a £104m savings target, which has been challenging and the council forecasts to achieve £79m savings. The budget setting process has focused on developing a balanced budget for 2018/19, moving to a sustainable budget from 2019/20 through transforming services.

76. As with last year, with the continuing uncertainty over Government funding levels and arrangements beyond 2019/20 and the overall financial climate affecting public services means projecting figures much beyond 2019/20 could be spurious and misleading. However, as 2020/21 is the first year of the new business rates retention arrangements, it is important to project a baseline position for the council on commencement. The council is therefore only considering the next three financial years (2018/19 to 2020/21) in this budget paper.

REVENUE BUDGET 2018-21

Budget planning assumptions

77. The council began building its annual budget in June 2017. This involved reviewing the council's financial position and outlook at the end of the first quarter of 2017/18, revisiting the assumptions, pressures and savings included in the MTFP 2017-20, plus an outlook for the years to 2020/21. Table 3 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 3 Budgetary assumptions 2018-21

Descriptor	2018/19	2019/20	2020/21
Pay inflation – Surrey pay	up to 1.6%	up to 1.6%	up to 1.6%
Pay inflation – National pay	1.0%	1.0%	1.0%
General, non-pay inflation	2.5%	2.5%	2.5%

Notes:
- Surrey pay is negotiated locally and applies to most of the council's employees
- National pay applies to specific groups of staff, such as firefighters, who negotiate pay nationally
- Within non-pay inflation, differing contractual inflation rates apply depending on the contract's terms

Forecast revenue budget outturn 2017/18

78. The council's overall revenue forecast outturn for 2017/18 as 30 November 2017 was £19m overspend. A separate report on this agenda updates the position as at 31 December 2017 and provides more detail (Finance and budget monitoring report for December 2017).

79. Despite the £5m improvement from the £24m overspend forecast at 30 June 2017, at 30 November 2017, the council still forecasts to overspend by £19m in a year when it had also planned an unprecedentedly large level of savings (£104m) to support the revenue budget. The underlying cause of the service overspend is due to: some new savings proving unachievable within the 2017/18 financial year, some savings remaining unidentified and social care services for adults and children continuing to experience increasingly intense demand pressures.

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

81. Within the council's financial outturn, as part of longer term financial planning and subject to resource availability, services may request to carry forward underspends to smooth funding across financial years. Further consideration on use of reserves and balances will be necessary as the council's provisional estimates of the government grants it will receive (Appendix 5) become clearer when the Government publishes the Final Settlement 2018-19 and when Government departments confirm their grants ahead of or sometimes during the financial year.

Service pressures

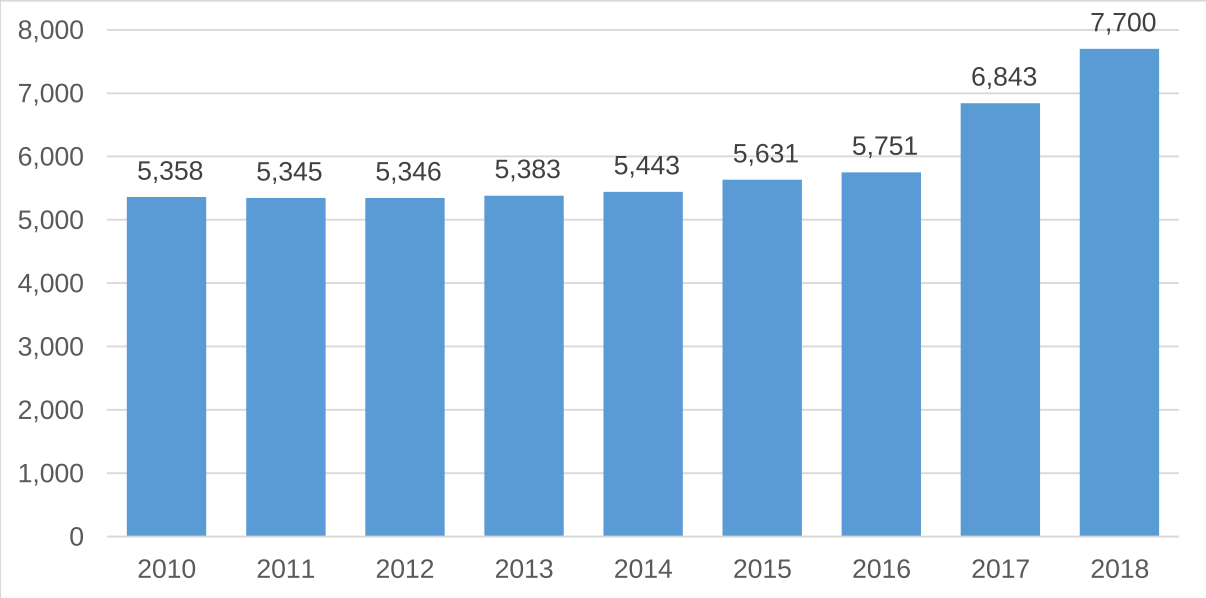
82. The council faces growing service pressures for reasons of: cost, volume and complexity. Service pressures do not include the effects of changes in funding.

83. The council's service pressures largely arise from demand and price pressures within adult social care and children's services. The following paragraphs provide examples illustrating some of the continuing demand pressures on the council's budget.

Children with Special Educational Needs or an Education, Health and Care Plan

84. Figure 1 shows the number of children with a Statement of Special Educational Needs or an Education, Health and Care Plan increased by 44% over the period from 2010 to 2018, with rises of 19% and 13% in the most recent two years (which coincided with a reduction in funding per pupil of 7%).

Figure 1 Increase in children with a Statement of Special Educational Needs or an Education, Health and Care Plan.



Unaccompanied Asylum Seeking Children

85. As at January 2018, the council supports 116 Unaccompanied Asylum Seeking Children (UASC) and 228 Care Leaver Asylum Seeking Children (children who arrived in the country as UASC who are now over the age of 18). The number of UASC has remained relatively constant over the last two years after a sharp increase in 2015/16, whereas the number of UASC care leavers has increased considerably. This is as a result of the high number of UASC who arrived in 2015/16 now being over 18.

86. There is currently a two tier funding arrangement whereby the council receives different funding for young people depending on their age and whether they arrived in the country before or after 1 July 2016. The funding levels range from £25,915 to £41,610 a year for UASC and from £7,821 to £10,428 a year for Care Leaver UASC. The average cost to the council of supporting UASC in 2016/17 was £51,413 each and £17,570 each for Care Leaver UASC. This is a significant shortfall against all funding rates. In 2016/17 the total shortfall against the funding was £4.5m. The forecast shortfall for 2017/18 is similar.

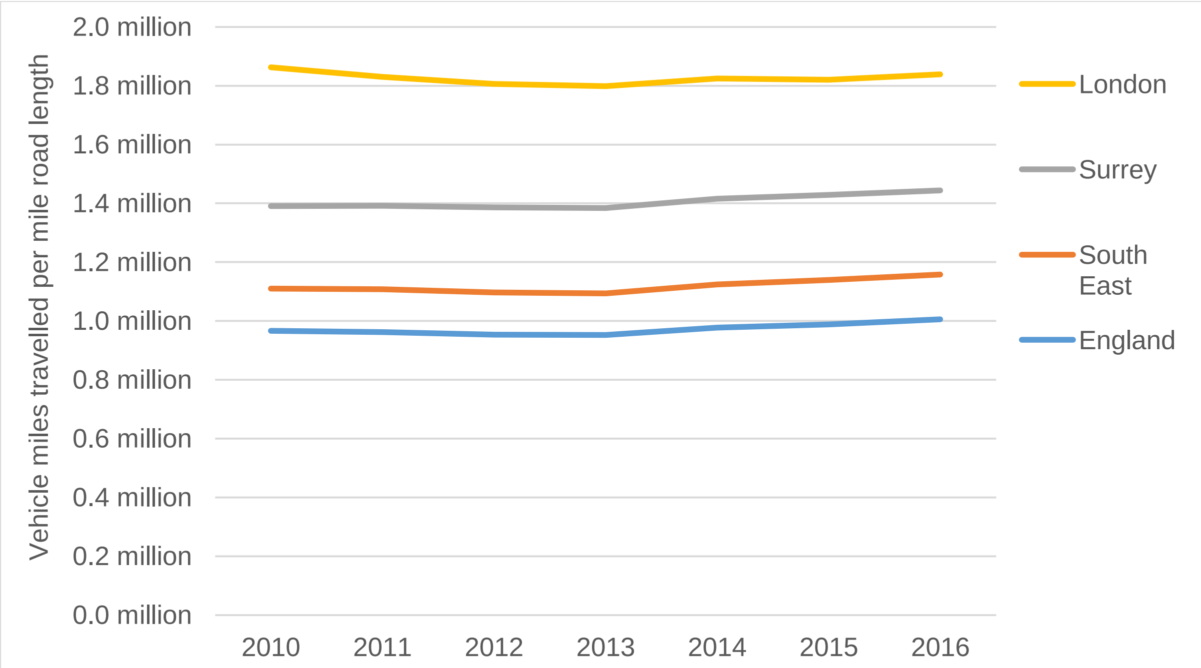
87. The Home Office is reviewing the current funding arrangements as it recognises the rates are not sufficient to meet the costs of supporting these young people. The council expects changes to be in place for 2018/19. As part of the Provisional Settlement the Government announced £29m funding for local authorities facing significant pressures in relation to supporting UASC. The council was awarded £118,000 to support work to reduce the need for independent foster provision for UASC and £231,000 additional funding to build capacity to support UASC.

Traffic density

88. Surrey has among the highest used roads in the country outside London. Figure 2 shows traffic density (measured as vehicle miles travelled per mile of road length) in the county is 44% higher than that for England and 25% higher than that for the South

East. Over the period from 2010 Surrey's roads suffered a similar increase in traffic density to the South East and England (all around 4%) and higher than London (where traffic density decreased by 1%). As such the county's roads suffer much more intense use, which is still increasing. This intensifies demand pressures on the county's highways management and maintenance budgets.

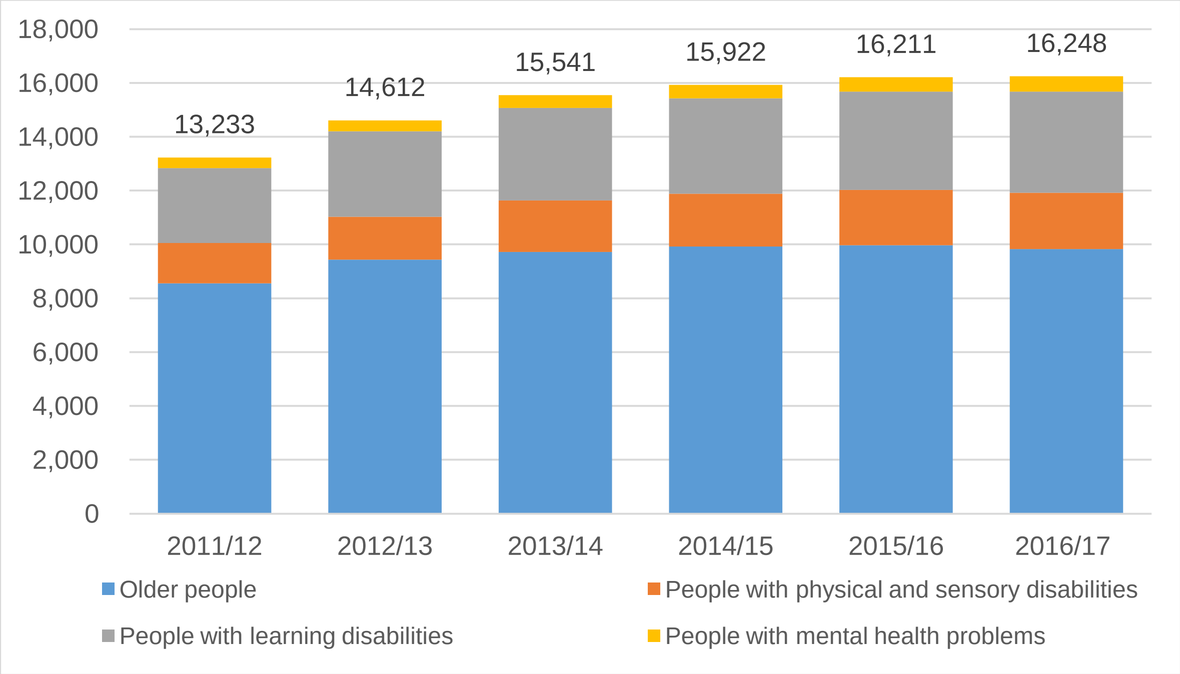
Figure 2 Traffic density: million vehicle miles travelled per mile road length



Adult social care – total care packages

89. Figure 3 shows the increase in total number of people who received a funded care package for the years 2011/12 to 2016/17. This is a significant driver of adult social care costs. The total comprises: older people, people with physical and sensory disabilities, people with learning disabilities and people with mental health problems. The overall total grows by 23% over the period, including increases of around 40% each in the numbers of: people with physical and sensory disabilities, people with learning disabilities and people with mental health problems. Measured over the total period 2011/12 to 2016/17, the council achieved a small reduction in the average cost of a care package per person. Although prices have begun to increase again, this means the cost pressure felt by the council is overwhelmingly due to the increase in demand for care.

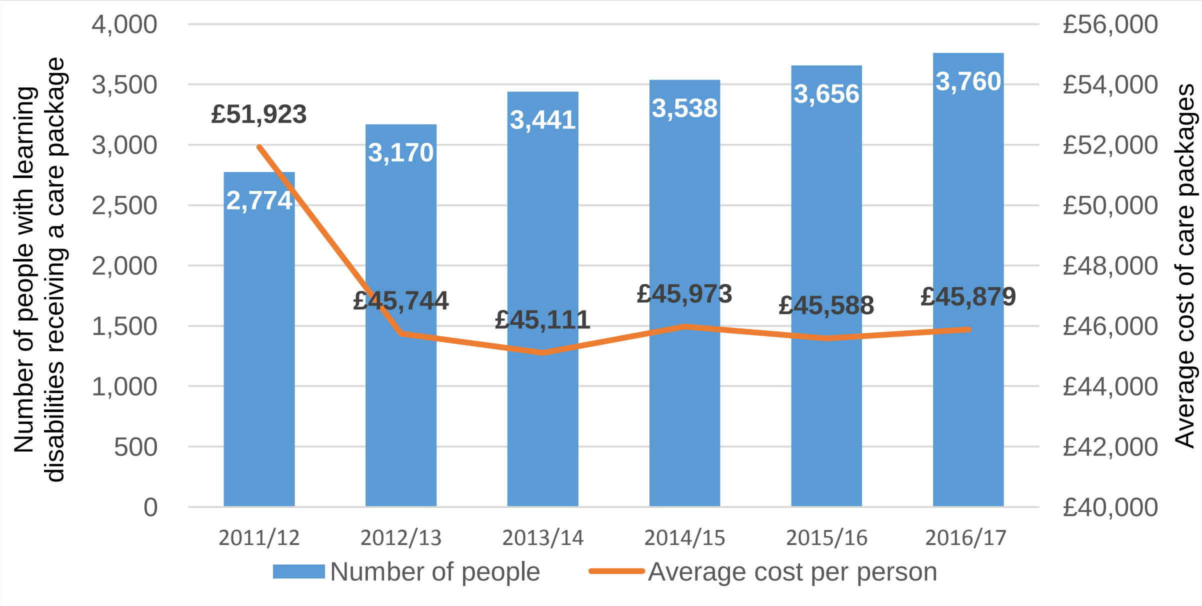
Figure 3 Increase in total number of people who received a funded care package



Adult social care – people with learning disabilities

90. Although by 2016/17, the number of people with learning disabilities formed around 23% of the total number of people who received a funded care package, the high average cost of care means they account for 44% of the total cost of care. Figure 4 shows level of demand for care packages for people with learning disabilities has risen by 36% and continues to rise steadily. Over the period, the council has reduced the average cost of care packages by around 12%, which has limited the overall cost pressure to 20%. Nevertheless, steadily rising demand remains the main driver of this significant cost element for the council.

Figure 4 Increase in number of people who received a funded care package for people with learning disabilities and the average cost of those care packages



Overall budget pressures

91. For 2018/19 gross service pressures on the budget amount to £107m and £131m further pressures on the budget for 2019/20 and 2020/21 as shown in Table 4.

Table 4 Surrey County Council budget pressures 2018/19 to 2020/21

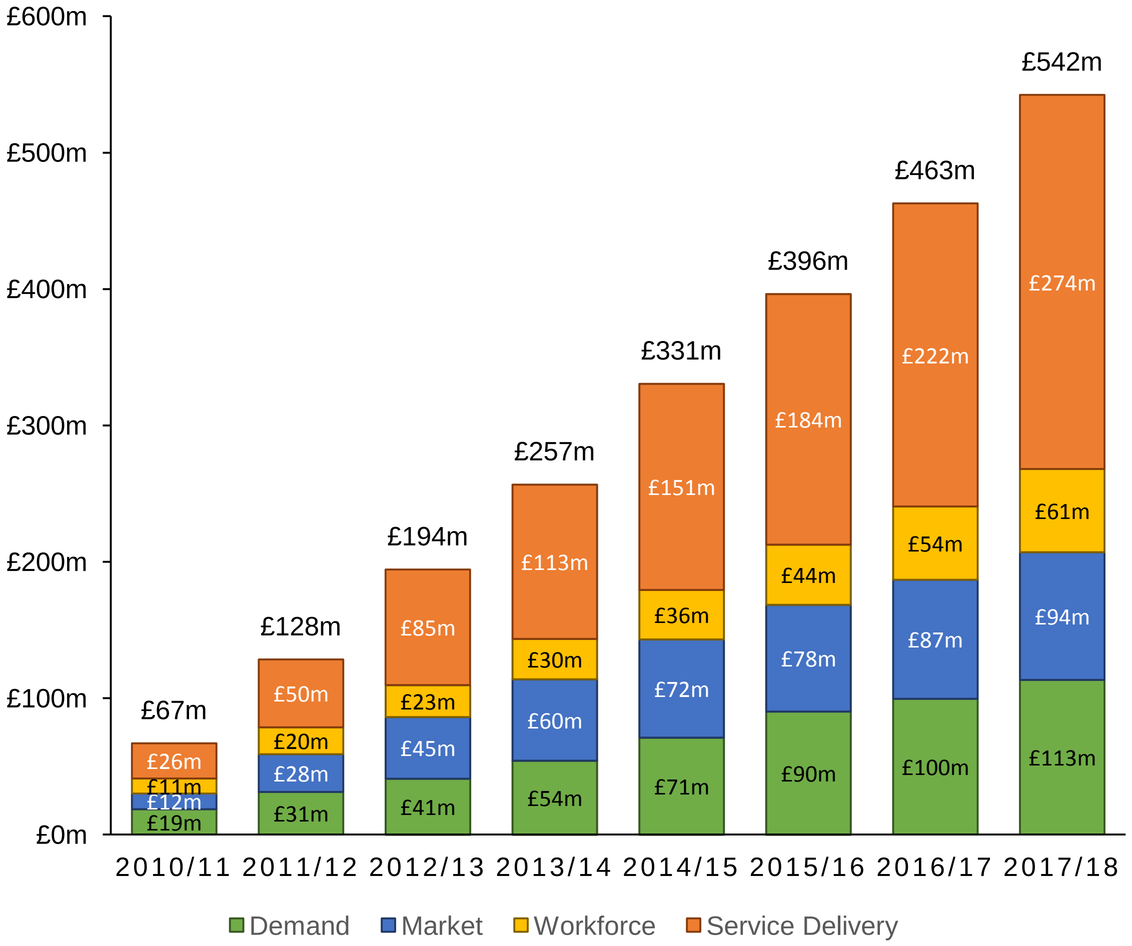
	2018/19 £m	**2019/20 £m**	**2020/21 £m**
Pay Inflation	4.5	4.8	4.8
Non pay inflation	30.6	26.3	23.9
Total inflation	35.1	31.1	28.7
Demand	55.1	39.9	28.2
Market and service delivery	16.3	14.2	-11.4
Total gross service pressures	**106.5**	**85.2**	**45.5**

Savings and service reductions

Savings and service reductions achieved 2010/11 to 2017/18

92. Figure 5 shows the council achieved £463m savings and service reductions over the seven years 2010/11 to 2016/17 and forecasts achieving a further £79m in 2017/18.

Figure 5 Surrey County Council savings achieved 2010/11 to 2016/17 and forecast 2017/18



Savings and service reductions planned for 2018/19 and 2019/20 onwards

93. MTFP 2017-20 included £104m savings target for 2017/18. Difficulties encountered during 2017/18 include the continued rise in demand pressures in social care for children and adults. These and other factors have led to the inability to achieve some of 2017/18's planned savings within the year and the growth of the savings gap for 2018/19.

94. As shown in Table 5, services have identified £66m savings for 2018/19, of which £65m are through efficiencies and service transformation. For 2019/20 and 2020/21, the council plans to achieve a further £67m savings. This brings the total for the three years for the MTFP 2018-21 period to £133m and £675m for the period since 2010/11. Table 5 shows the spread of savings over the MTFP 2018-21 and between efficiencies and service transformation measures and service reductions. Table 6 shows the planned 2018/19 savings by the council's directorates.

Table 5 Planned savings 2018-21

	2018/19 £m	2019/20 £m	2020/21 £m	2018-21 £m
Efficiency / service transformation	-64.7	-49.9	-16.9	-131.5
Service reduction	-1.8	0.0	-0.1	-1.9
Total planned savings	**-66.5**	**-49.9**	**-17.0**	**-133.4**

Table 6 Total planned 2018/19 savings by directorate

Directorate	2018/19 £m
Adult Social Care	-18.7
Public Health	-2.3
Children, Schools & Families	-25.6
Environment & Infrastructure	-1.3
Fire and Rescue Service	-0.7
Customer & Communities	-0.5
Legal, Democratic & Cultural Services	-1.6
Business Services	-3.2
Organisational Leadership & Performance	-0.5
Central Income & Expenditure	-12.1
Total savings	**-66.5**

95. The council faces significant service pressures and substantial loss of Government grants over the MTFP period. Its £133m MTFP savings programme is stretching and ambitious on top of what the council has achieved already. To help ensure the council achieves its savings programme, the Chief Executive and the Director of Finance are required to:

- continue to ensure delivery of existing MTFP efficiencies for the remaining years of the MTFP 2018-21; and
- continue to ensure services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures.

Overall impact of the Provisional Settlement (2018-19) announcements

96. As outlined in paragraphs 42 to 74, the overall impact of the Provisional Settlement 2018-19 changes for the council is a potential net £30m increase in funding. This includes an extra £23m one off funding from early estimates of the additional retention of business rates growth as a business rates pilot in 2018/19 only. In addition there will be £7m additional council tax in 2018/19 if the council opts to take up the additional flexibility to increase core council tax by an extra 1% in 2018/19 and a further £7m if the council uses the additional 1% flexibility as proposed for 2019/20. Table 7 summarises the changes.

Table 7 Changes to MTFP due to the Provisional Settlement 2018-19 and 2019/20

	2018/19 £m	2019/20 £m
Additional retained business rates growth	-23.0	-0.2
Council tax flexibility (potential additional 1%)	-7.4	-14.6
Total potential change to MTFP	-30.4	-14.8

97. The Provisional Settlement did not provide any information on funding for 2020/21, other than to say the business rates retention scheme will expand the locally retained share to 75% from the current 50%.

Business rates

75% Business rates retention

98. After 2019/20, MHCLG intends to operate a 75% business rates retention system. The Government asserts this will give local authorities around £6bn additional business rates receipts to spend on local services. Central and local government are currently discussing the scope and nature of these changes. To maintain fiscal neutrality across government, some Whitehall grants will be phased out, with the continuing responsibility funded from the additional retained business rates (this is expected to include Public Health Grant). Under the proposed 75% business rates retention system, local authorities are unlikely to gain new responsibilities and the change will mainly shift the source of funding from Government grants to retained business rates.

99. As the new system is expected to be fiscally neutral and to use damping to mitigate initial changes, the council does not, at this stage, anticipate significant, immediate changes to its funding. This is disappointing as the council's current funding is increasingly insufficient to meet its responsibilities. This pattern is prevalent across the whole of local government and the Local Government Association estimates total current underfunding at £5.8bn.

100. The limitations of the Provisional Settlement 2018-19 and the potential for change in 2020/21 from an already inadequate funding position all add to the uncertainty about the council's future responsibilities and funding sources over the longer term, including the sufficiency and sustainability of funding. The council has and continues to engage actively with the development of the new business rates retention proposals. A key new element to this is the council's involvement as a business rates pilot for 2018/19. To enable the new 75% business rates retention system to succeed, the council believes the Government must:

- ensure full and fair funding of existing local responsibilities, such as for people with learning disabilities and public health before adding new ones;
- on implementation of the new system, provide robust, sustainable funding built from a realistic starting point; and
- ensure two-tier areas get the right balance of reward, risk and resourcing to make the system work effectively.

Council tax

Council tax precept

101. Council tax, through the precept, is the council's main source of funding for its budget, excluding schools' budgets. The current council tax strategy is to:

- assume a 1% increase in the number of properties subject to council tax (often referred to as the council tax taxbase);
- increase general council tax sufficient to cover inflation within the referendum threshold; and
- given the intense and immediate pressure on adult social care, take full use of the flexibility applied to the adult social care (ASC) precept.

102. The Provisional Settlement 2018-19 indicated the general council tax referendum limit as up to 3% and the additional flexibility to raise the ASC precept at 3% in 2018/19, provided the total ASC precept increase for 2017-20 is no more than 6%. Given the intense and immediate pressure on the council's overall and particularly its adult social care budgets, this report recommends increasing the ASC precept by 3% and core council tax by 2.99% in 2018/19, to give an overall council tax increase of 5.99%.

Council tax taxbase 2018/19

103. In January 2018, the Surrey districts' and boroughs' annual returns showed an overall increase in the council tax taxbase in Surrey of 0.86%. In addition, the council's share of the districts' and boroughs' aggregate council tax collection fund surplus for 2017/18 is £6.85m, which the council will receive as a one-off sum. These returns confirmed the council's estimates of future council tax growth as 1% annually and annual collection fund surpluses of £7m as reasonable.

Member Local Highway Fund and Member Allocations

104. As elected representatives, each local councillor needs to have a relentless focus on the county's residents. This involves listening and taking effective action to address local concerns and issues, and through this to become game-changers in the local community. To support local members in doing this, a part of the additional funding from the additional 1% increase in the council tax, and a change to the funding for the Member Allocations will be allocated to new local funds. If the additional council tax threshold is maintained:

- a new Member Local Highways Fund will be established from 2018/19 with £7,500 per member, rising to £10,000 per member by 2019/20 and £15,000 per member by 2020/21;
- in addition, each Local Committee will share a Revenue Highways Fund totalling £1.4m in 2018/19, rising to £2.0m in 2019/20 and £2.5m by 2020/21; and
- for 2018/19, the Members Community Allocation will be £5,000 per member, rising to £7,500 in 2019/20 and £10,000 in 2020/21,

105. Subject to Council agreeing the budget on 6 February 2018, the Cabinet member for Highways and Assistant Director of Highways will set out the guidelines for the

distribution of the Local Committee funding pot. These will include guidelines on the spend direction that will best support local communities and on working with the relevant borough and district councils.

Balancing the revenue budget 2018/19 and MTFP 2018-22

Gross funding and expenditure

106. The council's gross estimated funding for 2018/19 from: Government grants, business rates, fees, charges and other income, plus council tax amounts to -£1,667m. Table 8 shows the council's funding, with 2017/18 funding provided for comparison.

Table 8 Surrey County Council gross funding 2017-21

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Council tax	-634.8	-658.0	-685.9	-707.3
ASC precept	-31.0	-50.9	-51.4	-52.0
Business rates	-52.7	-375.9	-54.9	-55.9
Top up (-) / Tariff (+)	-58.6	234.3	-47.8	-47.8
RSG	-28.0	0.0	0.0	0.0
Transition Grant	-12.2	0.0	0.0	0.0
Dedicated Schools Grant	-507.2	-490.2	-497.2	-497.2
Other Government grants	-152.0	-133.4	-130.7	-128.4
Partner funding	-4.6	-4.5	-4.5	-4.5
Other income	-179.8	-188.1	-194.3	-197.6
Gross funding	**-1,660.9**	**-1,666.7**	**-1,666.7**	**-1,690.7**

107. The council's gross estimated expenditure for 2018/19 is £1,705m. Table 9 shows the council's gross expenditure budgets by service for 2017/18 to 2020/21. Table 10 summarises the council's overall net funding position

Table 9 Surrey County Council gross expenditure budgets 2017-21

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Adult Social Care	460.8	497.0	525.6	555.0
Public Health	37.9	37.0	36.4	36.4
Children, Schools & Families	454.7	480.1	481.2	488.7
CSF – Delegated Schools	345.1	314.5	321.5	321.5
Environment & Infrastructure	140.8	150.0	157.0	161.6
Fire and Rescue Service	45.5	45.8	42.2	40.8
Customer & Communities	34.8	33.2	33.2	33.2
Legal, Democratic & Cultural Services	8.1	7.7	8.0	8.3
Business Services	89.8	85.7	86.1	88.1
Organisational Leadership & Performance	9.7	8.5	8.5	8.5
Central Income & Expenditure	54.5	45.8	53.4	42.4
Gross expenditure budget	**1,681.7**	**1,705.3**	**1,753.1**	**1,784.5**

Table 10 Surrey County Council overall funding position 2017-21

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Gross funding	-1,660.9	-1,666.7	-1,666.7	-1,690.7
Gross expenditure	1,681.7	1,705.3	1,753.1	1,784.5
Shortfall / surplus (-) of gross funding to gross expenditure	**20.8**	**38.6**	**86.4**	**93.8**

108. Despite a £133m savings programme, including £66m in 2018/19, the intensity of the council's pressures and the loss of grant mean it cannot balance its 2018/19 budget without making substantial use of reserves and the capital receipts flexibility.

109. To meet the overall shortfall of funding, the council proposes to apply:

- £15.0m capital receipts under the flexible use of capital receipts strategy to revenue transformation projects as detailed in Appendix 3; and
- £23.6m from available earmarked reserves (paragraphs 159 to 164 and Appendix 9) comprising
  - £9.2m from the Economic Downturn Reserve,
  - £3.6m from the Business Rate Appeals Reserve;
  - £2.5m from the Economic Prosperity Reserve;
  - £1.0m from the Interest Rate Reserve; and
  - £7.3m from the Budget Equalisation Reserve.

Total Schools Budget - as defined in legislation

110. The council is required by law formally to approve the Total Schools Budget. The technical legal definition of the Total Schools Budget comprises: Dedicated Schools Grant funding, post 16 grant funding and any legally relevant council tax related funding. The Total Schools Budget covers schools' delegated and devolved expenditure and other maintained schools expenditure, plus expenditure on a range of school support services specified in legislation. The Total Schools Budget (and the total county council budget) excludes estimated funding of £337m allocated to individual academies.

111. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 11 outlines the proposed Total Schools Budget for 2018/19 of £505.8m. This comprises:

- £495.9m Dedicated Schools Grant (DSG);
- £8.1m Education and Skills Funding Agency (ESFA) sixth form grants; and
- £1.8m additional funding for high cost SEN pupils, which the council is funding.

Table 11 Analysis of Total Schools Budget for 2018/19

	Schools' delegated budgets £m	Centrally managed services £m	Total £m
DSG 2018/19	339.7	156.2	495.9
DSG brought forward from previous years	0.0	0.0	0.0
Total DSG	**339.7**	**156.2**	**495.9**
ESFA sixth form grant	8.1		8.1
Surrey County Council contribution to the cost of placements and services for high cost SEN pupils		1.8	1.8
Total Schools Budget	**347.8**	**158.0**	**505.8**

Note: Total Schools Budget does not include the pupil premium grant, provisionally £14.9m, the primary PE and sports grant, provisionally £4.0m, or universal free meals grant, provisionally £9.9m. These grants, although not part of the legal definition, are also delegated to schools and are included in the total Children, Schools & Families grants of £43.397m in Appendix 6.

112. Total Schools Budget comprises schools' delegated and devolved budgets and centrally managed services. Centrally managed services include the costs of:

- placements for pupils with special educational needs in non maintained special schools and independent schools;
- two and three year olds taking up the free entitlement to early education and childcare in private nurseries;
- part of the cost of alternative education (including part of the cost of pupil referral units);
- additional support to pupils with special educational needs; and
- a range of other support services including school admissions.

113. The council's contribution is to fund part of the increased cost of placements and services for pupils with high cost special educational needs, due to increases in the number and cost of placements over and above the additional funding provided by the Department for Education for this purpose, particularly for post 16 learners where demand has increased due to legislative changes.

114. Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. Cabinet considered and agreed a detailed report on the 2018/19 funding formula on 14 December 2017. In 2017/18 the formula limits any school level gains and losses to a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee). To pay for the guarantee, the formula limits the per pupil increase (or ceiling) to a maximum of around 4%.

115. Schools will also receive pupil premium funding, based on the number of:

- pupils on free school meals at some time in the past six years;
- looked after children;
- children adopted from care;
- pupils from service families (or who qualified as service children at sometime within the last six years, or are in receipt of a war pension).

RISKS AND UNCERTAINTIES

116. In balancing the 2018/19 revenue budget and looking ahead for the remaining two years of the MTFP (2019-21), the council has taken account of the key risks and uncertainties it faces. The main areas of risk include:

- is it possible for directors to identify and deliver sufficient service reductions to achieve a balanced budget and one that moves towards a sustainable budget;
- the on-going effectiveness of the council's existing efficiencies, savings and service reductions programme included in the proposed budget;
- the on-going growth in demographic demands on services;
- confirmation of outstanding grant allocations; and
- increased exposure to risks of volatility in retained business rates income.

CAPITAL STRATEGY

117. Capital expenditure and investment decisions are taken in accordance with the council's overall organisational strategy, consideration of available resources and with regard to the long term financial implications and potential risks to the authority. The council has in place robust financial planning, option appraisal and governance arrangements for both schemes included in the capital programme and those approved as part of the council's investment strategy.

118. The Council ensures that capital decisions take account of stewardship, value for money, prudence, sustainability and affordability. To ensure this a number of inter-related policies and programmes exist.

Capital budget planning 2018-21

119. The overall capital programme for the MTFP period is proposed to full Council for approval. This is supported by capital financing proposals and prudential indicators as required by the Prudential Code.

120. The approved capital programme gives 'in principle' approval for capital projects, and schemes. Expenditure on new capital projects or schemes or revenue 'invest to save' proposals can commence only following review of the business case by Investment Panel.

121. Schemes will usually only be added to, or removed from, the Capital Programme as part of the annual budget setting process. Cabinet requires a detailed and robust business case before considering additional projects for approval.

122. Senior Managers must ensure any planned capital spend included within the MTFP does not exceed the capital resources allocated to that programme or scheme. In particular, they must ensure:

- capital programme proposals are consistent with the council's corporate strategy, capital strategy, asset management plan and directorate strategies;
- each capital scheme or project is assessed for both financial and service risk;
- the proposed timetable for the programme is realistic;

- the available revenue resources (or planned revenue resources likely to be made available) can contain all consequential revenue costs in current and future years; and
- Investment Panel has reviewed the business case for each scheme or project for robustness

123. Capital expenditure is regularly monitored and reported to Cabinet monthly.

Capital Programme

124. The Council proposes a £316m three year capital programme. This amounts to £139m capital investment in 2018/19, with an indicative programme for the subsequent two years totalling £177m. This represents a continued major investment in the infrastructure and economy of Surrey. The focus remains on the continuing forecast growth in school pupil numbers (£108m) and the importance residents place on good roads (£70m).

125. In addition, the council plans to invest £14m in information technology over the three years to 2020/21. This includes £7.5m for new equipment and infrastructure and a £5m replacement and renewal programme. By making this investment, the council enables and supports further service efficiencies.

126. Table 12 summarises the council's £316m capital programme for the three years of MTFP 2018-21. Appendix 7 sets out a more detailed version of the capital programme.

Table 12 Summary capital expenditure programme 2018-21

	2018/19	**2019/20**	**2020/21**	**2018-21**
	£m	**£m**	**£m**	**£m**
Schools Basic Need	47	47	14	108
Highways recurring programme	24	22	24	70
Property recurring programme	19	19	19	57
Property projects	22	1	1	24
Other capital projects	27	17	13	57
Total	**139**	**106**	**71**	**316**

Capital funding

127. The council funds its capital programme from the following sources:

Government capital grants

128. Government departments have announced some, but not all, capital grants for 2018/19 and even fewer for future years. The grant funding for capital from central government therefore remains unclear. Government departments commonly announce additional grants during the financial year, so the council includes an estimate for these.

129. Central government provides capital grants to local authorities in two categories: ring fenced grants paid to local authorities for specific projects or to achieve an agreed outcome; and non-ring fenced grants, which although awarded for a general purpose,

can be used to fund local priorities. This is often referred to as the single capital pot. Table 13 shows the grants expected for 2018/19.

Table 13 Government capital grants 2018/19

Expected Government capital grants	2018/19 £m
School places	41
Schools condition allocation	11
Integrated transport block	5
Highways maintenance	16
Local Growth Fund	12
Other capital grants	3
Total expected grants	**88**

130. Capital grants for years beyond 2018/19 are less certain and the MTFP 2018-21 includes an estimate for each year. The council reviews this estimate each year and makes appropriate adjustments to the capital programme.

Third party contributions

131. The council also uses contributions from third parties to fund its capital programme. These are amounts awarded to the council in return for past or future compliance with certain stipulations. Third party contributions come largely from developers as community infrastructure levies (CIL) and planning gain agreements under Section 106. The MTFP 2018-21 capital programme relies on £5m third party funding in 2018/19.

Reserves and capital receipts

132. The council uses reserves to fund some items of capital expenditure. These are amounts set aside from the revenue budget into a reserve for future capital expenditure. The main service revenue reserve is the IT Equipment Reserve. The MTFP 2018-21 capital programme relies on £5m funding from service revenue reserves in 2018/19.

133. In addition, amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance, known as capital receipts, can be used to fund capital expenditure. The Council plans to use £10m of capital receipts to support the 2018/19 capital programme.

Borrowing

134. The council borrows to fund the part of the capital programme remaining after applying the other funding sources. Over the three years of MTFP 2018-21, the council expects to borrow £91m to balance the proposed capital programme.

135. The council restricts borrowing to the funding of those schemes that:

- generate revenue savings or prevent revenue pressures; and
- are already committed and where work has already begun

136. The implications of financing capital expenditure from borrowing is that the expenditure is not funded immediately from cash resources but instead charged to the revenue budget over a number of years in the form of interest payments and the Minimum Revenue Provision (discussed further in paragraph 145).

137. Table 14 summarises the council's estimated capital funding for the period 2018-21.

Table 14 Capital funding 2018/19 to 2020/21

	2018/19 £m	2019/20 £m	2020/21 £m	2018-21 £m
Grants	89	63	35	187
Reserves & capital receipts	15	2	3	21
Third party contributions	5	9	4	18
Borrowing	30	32	29	91
Total	**139**	**105**	**71**	**316**

Note – some numbers may not cast due to roundings.

Investment Strategy

138. In recent years the council has taken a strategic approach to investment. The Investment Strategy was agreed by Cabinet in July 2013 and was developed in response to the requirement for the Council to enhance its financial resilience in the longer term. The investment strategy is separate from the general capital programme and also the treasury management investment strategy.

139. The main principles of the Investment Strategy are as follows.

- The creation of a diversified and balances portfolio of investments to facilitate future service provision, manage risk and secure an ongoing annual overall return to the Council.
- Use of the established Revolving Investment & Infrastructure Fund to meet the initial revenue costs of funding initiatives that deliver savings and enhance income in the longer term
- The Revolving Investment & Infrastructure Fund is to be used to support investments that generate additional income to support the delivery of the Council's functions and services
- Investments that have the potential to support economic growth in the county of Surrey;
- retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

140. Cabinet approved the business case for the creation of the Property Company and its associated subsidiaries in May 2014. The investment portfolio of the Council is therefore a combination of assets acquired or developed by the Council for future service need or economic development and those acquired or developed by the Halsey Garton Property Group.

141. The governance arrangements for the investment strategy consist of an Investment Board and a Shareholder Board.

142. The Investment Board is responsible for ensuring that investment opportunities are thoroughly evaluated, there is an appropriate balance between risk and reward and that the acquisitions contribute to the achievement of the aims of the strategy.

143. Shareholder Board provides oversight for the council's shareholdings. It safeguards the council's interests and takes decisions in matters that require the approval of the council as owner or as a shareholder of a company.

144. Both the Shareholder Board and the Investment Board produce an annual report which provide information about the council's subsidiary companies and an overview of the progress we have made in developing a property investment portfolio and enhancing the financial resilience of the council.

Capital financing requirement, borrowing and prudential indicators

145. When the council finances capital expenditure from borrowing, it does not need to fund the expenditure immediately from cash resources, but is instead able to charge the expenditure to the revenue budget over a number of years into the future. This statutory requirement to set aside an amount for the future repayment of debt is known as the Minimum Revenue Provision (MRP) and the council is required to set a policy each year setting out how it will calculate this provision. The council's MRP policy for 2018/19 is set out in Appendix 13 and continues to ensure the council makes a prudent provision for the repayment of its external debt but does not put unnecessary pressure on the council's revenue budget

146. The council's underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). It represents historic capital expenditure not funded by capital receipts, revenue contributions, capital grants or third party contributions.

147. The council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. Fundamental to the prudential framework is a requirement to set a series of prudential indicators to demonstrate the affordability, prudence and sustainability of its capital investment plans. The prudential indicators include an estimate of the council's future capital financing requirement.

148. A summary of the actual prudential indicators for 2017/18, and the estimates for 2018/19 through to 2020/21, are provided in Appendix 11.

TREASURY MANAGEMENT STRATEGY

149. The council's capital investment decisions have a large impact on both the borrowing requirements and the levels of cash held by the authority.

150. The council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice which requires the authority to update and approve its policy framework and ongoing strategy for treasury management in order to reflect current market conditions, changes in regulation and the council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year.

151. The treasury strategy sets out the council's approach to:

- treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure funds are available when needed, before seeking the highest rate of return of yield; and
- borrowing, setting out the borrowing strategy which aims to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

152. The Treasury Management Strategy statement was approved by the Audit & Governance Committee on 22 January and is attached at Annex 2 for approval of the Council.

153. The treasury strategy recommends a continuation of the internal borrowing focus approved in July 2016. As a result of changes in the economic and regulatory environment, specifically the combination of increased counterparty risk (less security arising from new bail in regulations) and the continued low interest rate environment, Full County Council approved a revised treasury management strategy. This resulted in the adoption of a more focused strategy of internal borrowing over the short term and a move away from long term borrowing towards short term borrowing in order to minimise borrowing costs and unnecessary cash balances.

154. Outstanding long term debt has stayed constant during 2017/18. Financial and geopolitical concerns (including the pending UK exit from the EU and the monetary policy response from the Bank of England) have resulted in a continued low interest rate environment, despite the Bank of England's Base Rate rise in November 2017.

155. The proposed borrowing position can be summarised as follows. In order to capitalise on sustained low interest rates and the ability to fund capital expenditure through the use of internal reserves to limit the need for external borrowing, the council approach to borrowing will continue to rely on internal funding for capital expenditure while it remains viable.

156. The Director of Finance reviews interest rates and the need to borrow on a daily basis, and has the delegated power to authorise additional borrowing if she considers the interest rates on offer and the timing of any potential borrowing appropriate within the overall strategy. Future borrowing decisions will continue to be managed in this way.

157. The council also invests cash on a daily basis, reflecting the fluctuating cash balance due to the timing of receipts and payments. The principles for this short term cash investment are as follows:

- focus on security, liquidity and yield - in that order;
- the use of a permissible counterparty list;
- the setting of maximum deposit limits according to counterparty risk and security.

158. Appendix 10 sets out the council's treasury management policy statement, for approval, and Appendix 12 the treasury management scheme of delegation. These

set out the Council's policies, objectives and approach to risk management of its treasury management activities.

RESERVES & BALANCES

159. The council sets its minimum level of available general balances at between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. £17.0m to £21.3m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council is forecasting £21.3m general balances brought forward as at 1 April 2018.

160. Going into 2018/19 the Director of Finance recommends the level of general balances remains the same. Although the current expected level of £21.3m is at the upper end of the normal minimum level, the Director of Finance considers this is prudent to mitigate the increasing risk of non-delivery of service reductions and efficiencies in 2018/19 and to take account that it is usual for the council to receive notification of many revenue and capital grants after it has set its budget.

161. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. Table 15 shows the forecast total balance for all earmarked reserves brought forward at 1 April 2018 is £66m, down from £79m brought forward on 1 April 2017. The main reason for this is the £12m planned use of reserves to support the 2017/18 budget. The £65.5m total the council forecasts to carry forward on 31 March 2018 relies on it achieving a balanced budget outturn for 2017/18.

Table 15 Forecast earmarked reserves to be carried forward as at 31 March 2018

	£m
Revolving Infrastructure & Investment Fund	11.1
Budget Equalisation Reserve	11.1
Eco Park Sinking Fund	4.4
Insurance Reserve	7.7
Investment Renewals Reserve	4.8
General Capital Reserve	4.4
Street lighting PFI Reserve	3.7
Economic Downturn Reserve	9.2
Economic Prosperity Reserve	2.5
Equipment Replacement Reserve	2.0
Business Rate Appeals Reserve	3.6
Interest Rate Reserve	1.0
Total earmarked reserves	**65.5**

162. As stated in paragraph 109, the council is planning to use £24m of reserves to support the 2018/19 revenue budget. This will reduce the Council's level of reserves to £42m as at 1 April 2018. This is the minimum safe level the Director of Finance and the Leader of the Council regard as appropriate given the risks and uncertainties the council faces and is clear that if reserve levels drop below this level, they will have to be replenished in future years.

163. Since 2013/14, the council has drawn £103m from reserves to support the revenue budget. In addition, during the 2017/18 financial year, the council plans to use £1.5m reserves to fund its capital programme and forecasts to use another £5.1m in 2018/19.

164. Appendix 8 sets out the council's policy on reserves and balances. Appendix 9 summarises the level and purpose of each of the council's earmarked reserves and the proposed use of reserves to balance 2018/19's budget.

CONSULTATION

165. During November 2017 and January 2017, the Leader and Deputy Chief Finance Officer held a series of face-to-face briefing with key partners and stakeholder groups, including representatives of Surrey's business community, voluntary sector and trade unions. The feedback from these workshops and meetings was incorporated into the council's budget scenario planning workshops and member briefing sessions.

RISK MANAGEMENT IMPLICATIONS

166. The Strategic Risk Forum, chaired by the Director of Finance, provides a clear direction for managing risk and strengthening resilience to support the council in achieving its priorities and delivering services. The group consists of strategic risk leads and representatives from the Emergency Management team and Internal Audit. The Council Risk and Resilience Forum, comprising service risk and business continuity representatives, focuses on operational risk and shares learning and best practice through formal meetings and workshops.

167. The Leadership Risk Register is owned by the Chief Executive and shows the council's strategic risks. Currently, it is reviewed every month by the Strategic Risk Forum and the Statutory Responsibilities Network. Each strategic risk is cross referenced to risks on other strategic and operational risk registers and shows clear lines of accountability for each risk. Audit and Governance Committee reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate scrutiny function or Cabinet Member. The Leadership risk register is also presented to Cabinet on a quarterly basis.

168. The specific risks relating to the financial environment and opportunities facing the Council and recorded in the Leadership Risk Register are listed below.

- Further reductions in funding, due to constraints in the ability to raise local funding and/or distribution of funding, results in significant adverse long term consequences for sustainability and service reductions leading to significant implications for residents.
- Failure to achieve the MTFP, which could be a result of:
  - not achieving savings
  - additional service demand and/or
  - over optimistic funding levels

  and as a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.

169. After eight years generating significant savings, the risk of non-delivery of efficiencies and service reductions is increasing and a number of mechanisms are in place to help manage the risks inherent in the council's budget assumptions, including:

- reporting monthly to Cabinet on budget monitoring forecasts within three weeks of the period end and including remedial management action where required;
- operating a robust risk management approach;
- the presence of the council's key internal control framework, including the financial regulations and Scheme of Delegation for Financial Management which provides the framework for delegated budget management;
- sustaining good working relations with the external auditor (Grant Thornton);
- ongoing member development programme to ensure that all members have the skills and information they need to understand the challenges facing the council;
- significant focus on income generating activities through an enlarged property investment programme and optimising use of the council's existing property assets;
- the operation of the internal audit function and its role in assessing controls and processes to highlight any major weaknesses and advise on best practice, and;
- continuing robust arrangements to track and monitor demand growth, the delivery of new savings and determine any additional measures necessary.

170. Senior management and members regularly monitor and manage risk through boards, groups, networks and partnerships to ensure that opportunities are exploited and the resulting risks are controlled to a tolerable level.

171. The Director of Finance's statutory report (Annex 1) considers the level of risks in the proposed budget more fully and states her opinion as to the robustness of the proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

173. As required by legislation, the Director of Finance has written a report, attached at Annex 1. In summary, the Director of Finance indicates that the risks have remained very serious since setting the 2017/18 budget. The council has significant service savings to deliver in 2018/19 (£66m) and must focus on effective delivery. Despite this high level of savings, the council has had to rely on extensive use of one off measures to balance the 2018/19 budget, including use of reserves, capital receipts and additional business rate growth estimated to be retained as a part of the 100% Business Rate Pilot.

174. The council has insufficient one off resources to balance the 2019/20 budget. At this stage the Director of Finance has no realistic expectation that funding levels will alter the significant scale of transformation needed by the council to set a balanced budget in 2019/20. This view holds regardless of whether the council is successful in becoming a business rates pilot into 2019/20 and MHCLG's review of negative RSG providing extra funding.

175. The Director of Finance cautions against optimism bias in future proposals. As such, an urgent and wide ranging transformation programme is essential for the council to achieve a balanced budget in 2019/20.

176. Finally, in accordance with the recently revised Prudential Code, the Director of Finance supports the proposed capital strategy. The various elements of the capital strategy and associated inter-related controls and policies demonstrate that the Council's capital expenditure and investment decisions properly take account of stewardship, value for money, prudence, sustainability and affordability, by setting out the long term context in which capital expenditure and investment decisions are made, and by giving due consideration to both risk and reward and impact on the achievement of priority outcomes.

LEGAL IMPLICATIONS – MONITORING OFFICER

177. This report sets out recommendations to Council for the adoption of a budget and the basis for the level of the council tax for 2018/19. The Council is under a duty to set a balanced and sustainable budget, and in doing so must give due regard to the report of the s151 officer set out at Annex 1 to this report. Members will note that the Director of Finance points out that the situation beyond 2018/19 is very serious, and that an urgent and wide ranging transformation programme will be required to progress to a sustainable position and to balance the budget in 2019/20.

178. To achieve this progress, significant service transformation and efficiencies will be required that will impact on public facing services. The details are not yet available, but officers have been working to identify and develop options for implementation. This report sets out in the paragraph below the public sector equality duty by which Members are bound and follows this with a methodology for ensuring that any future decisions about services flowing from the recommended budget will comply with that duty. This does not prevent difficult financial decisions being made, but members will need to be sufficiently informed about the equalities implications of any proposals and take these into account in their decision making.

EQUALITIES AND DIVERSITY

179. In approving the budget and the council tax precept, the Cabinet and Full County Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to:

- "eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it."

180. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP 2018-21 on Surrey's residents with one or more of the protected characteristics identified by the Equality Act 2010 will be made available at the meeting of the council's Cabinet on 27 March 2018. This analysis will also set out the actions

that the council is taking, or will undertake, to mitigate any negative impacts that could arise.

181. The equality impact analysis undertaken for the proposed MTFP 2018-21 will build on the analysis of savings in the MTFP 2017-20. It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.

182. The analysis will include an overall council wide analysis and a summary of the implications of the proposals for each service. Detailed analysis, undertaken through Equality Impact Assessments, will be made available on the council's website.

183. Where Cabinet is required to take specific decisions about the implementation of savings proposals, additional equalities analysis will be presented at the point where a decision is made. This will be submitted alongside relevant Cabinet reports. Services will continue to monitor the impact of these changes and will take appropriate action to mitigate additional negative impacts that may emerge as part of this ongoing analysis.

184. In approving the overall budget and precept at this stage, the Cabinet and Full County Council will be mindful of the impact on people with protected characteristics under the Equality Act 2010.

WHAT HAPPENS NEXT

185. The Full County Council will set its budget and council tax precept on 6 February 2018.

186. The detailed budget will be presented to Cabinet on 27 March 2018.

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Annexes

Annex 1	Director of Finance Statutory Report (Section 25 report)
Annex 2	Treasury management strategy report

Appendices:

Appendix 1	Surrey County Council: Corporate Strategy 2018-21
Appendix 2	Surrey County Council: Financial Strategy 2018-21
Appendix 3	Transformation projects funded by Flexible Use of Capital Receipts Strategy 2018/19
Appendix 4	Economic outlook and public spending
Appendix 5	Provisional government grants for 2018/19 to 2020/21

Appendix 6	Revenue budget proposals
Appendix 7	Capital programme proposals 2018/19 to 2020/21
Appendix 8	Reserves & balances policy statement
Appendix 9	Projected earmarked reserves and general balances 2017/18 and 2018/19
Appendix 10	Treasury Management Policy
Appendix 11	Prudential indicators – summary
Appendix 12	Treasury management scheme of delegation
Appendix 13	Annual minimum revenue provision (MRP) policy statement