Cabinet

Tuesday, 5 February 2013 at 2.00 pm

Ashcombe Suite, County Hall,
Kingston upon Thames, Surrey KT1 2DN

Item 6

REVENUE AND CAPITAL BUDGET 2013/14 TO 2017/18

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SURREY COUNTY COUNCIL

CABINET

DATE: **5 FEBRUARY 2013**

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

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

SUBJECT: **REVENUE AND CAPITAL BUDGET 2013/14 TO 2017/18, TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

To propose and recommend to the Full County Council:

- the draft revenue and capital budget for the five years 2013-18 and the level of the council tax precept for 2013/14; and
- the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2013-18, the policy for the provision of the repayment of debt (minimum revenue provision (MRP)), and the treasury management policy.

RECOMMENDATIONS

It is recommended that the Cabinet makes the following recommendations to the Full County Council on 12 February 2013:

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

1. Note the Chief Finance Officer's statutory report on the robustness and sustainability of the estimates and the adequacy of the proposed financial reserves (Annex 2).
2. Note that dispensation has been sought for all county councillors to ensure their eligibility to vote on the recommendations in this report without any risk of non-compliance with the Localism Act 2011.
3. Set the County Council precept for band D council tax at £1,172.52, which represents a 1.99% increase.
4. Agree to maintain the Council Tax rate set above and delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals following receipt of the Final Financial Settlement.
5. Approve the County Council budget for 2013/14.
6. Agree the capital programme proposals specifically to:
   - fund essential schemes over the five year period, schools and non-schools, to the value of £695m including ring-fenced grants;
   - seek to secure capital receipts over the five year period to 2017/18 of £50m; and

- make adequate provision in the revenue budget to fund the capital programme.

7. Require Strategic Directors and Senior Officers to maintain robust budget monitoring procedures that enable Cabinet to monitor the achievement of efficiencies & service reductions through the monthly budget monitoring Cabinet reports, the quarterly Cabinet Member accountability meetings and the monthly scrutiny at the Council's Overview & Scrutiny Committee.
8. Require an approved business case for all revenue invest to save proposals and capital schemes before committing expenditure.

Cabinet recommendations to Full County Council on treasury management and borrowing:

9. Approve the Treasury Management Strategy for 2013/14 and approve that their provisions have immediate effect. This strategy includes:
   a. the investment strategy for short term cash balances;
   b. the prudential indicators (Annex 1, section B, Appendix B1);
   c. the treasury management policy (Annex 1, section B, Appendix B8);
   d. the minimum revenue provision policy (Annex 1, section B, Appendix B7).

It is further recommended that Cabinet makes the following decisions:

10. Approve the medium term financial plan (MTFP) for the financial years 2013-18, which includes:
    - approve the total Schools Budget of £621.5m (Annex 1, section A, paragraphs A32 to A34).
    - set the revenue risk contingency at £13m to mitigate against the risk of non-delivery of service reductions & efficiencies.
    - amend earmarked reserves (as in Annex 1, section A, Appendix A7) and apply £12m of general balances to support the 2013/14 budget.
    - apply £11m of the approved carry forward revenue budget from 2012/13 to support the 2013/14 revenue budget.
11. Agree to begin the process of reviewing the revenue budget and capital programme set out in the MTFP (2013-18) immediately after the first quarter of 2013/14.
12. Note the final detailed MTFP (2013-18) will come to Cabinet on 27 March 2013 for approval following scrutiny by Select Committees.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 12 February 2013 to agree the summary budget and set the council tax increase for 2013/14. Cabinet advises the Full County Council how best to meet the challenges the Council faces. The reasons underpinning the recommendations Cabinet is asked to make include:

- to ensure the Council maintains its financial resilience and protects its long term financial position;
- to enable the Council to meet the expectations of Surrey's residents as confirmed in their responses to the in depth consultation exercise;
- to provide adequate finances for key services such as school places, highways, adults social care and protecting vulnerable people.

DETAILS

Introduction

1. This report brings together information to support Cabinet's decisions about Surrey County Council's overall financial planning. Among these is to set the rate of council tax for 2013/14.

2. It also summarises for the five financial years 2013-18 the Council's:

   - revenue and capital budgets;
   - financial and funding strategies; and
   - treasury management and borrowing proposals.

Revenue and capital budget

Revenue budget

3. The Local Government Finance Act 2012 brings significant changes to the system of local government finance operating from financial year 2013/14, in particular:

   - local retention of business rates; and
   - localisation of council tax support.

4. These changes bring a welcome shift to link local funding more closely to local economic growth and prosperity. However, the changes are complex and implementation brings increased volatility and uncertainty about actual levels of funding that will be generated locally. The ongoing challenging national economic outlook exacerbates these features.

5. The above makes prudent financial planning more critical, and complex. After allowing the changes to settle, Cabinet propose to review the MTFP 2013-18 at the end of the first quarter of 2013/14.

6. The Council's current medium term financial plan (MTFP 2012-17) set out a sustainable budget based on a council tax rise limited to 2.5% each year and delivery of £206m service reductions & efficiencies. Surrey is the most dependent of all shire counties on council tax for its funding (i.e. it receives the lowest proportion of grant) as illustrated in Figures 1 and 2 below. This makes the level of council tax particularly important in determining the long term financial stability of the Council.

Figure 1 Spending power – Surrey County Council

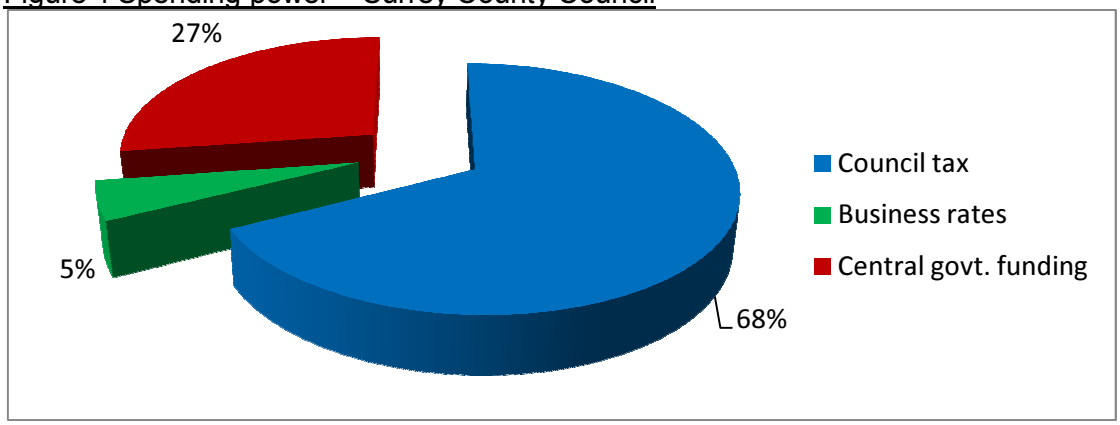
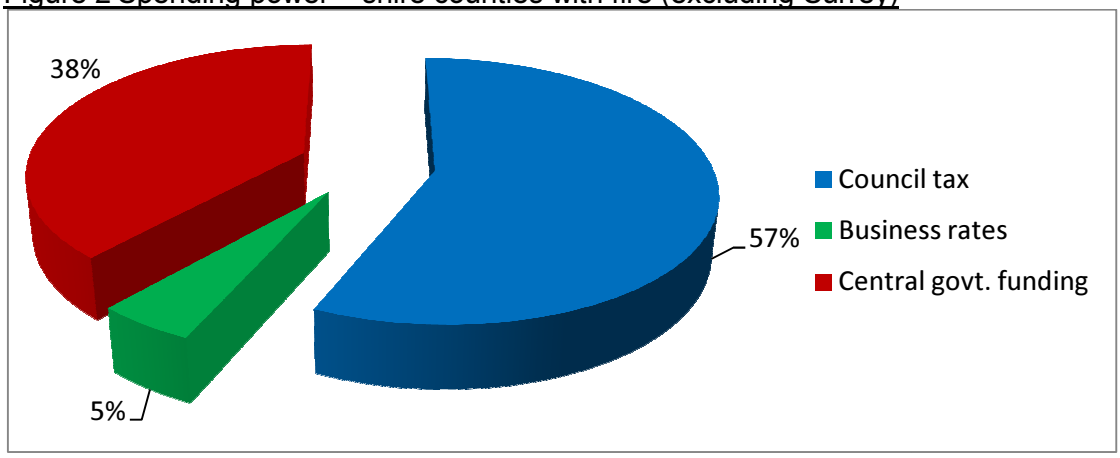


Figure 2 Spending power – shire counties with fire (excluding Surrey)



7. The decision as to what council tax rate to set for 2013/14, should be made in the context of the following parameters:

   - **Council tax freeze grant 2013/14**
     Offered by Government at the rate equivalent to a 1% rise, payable for two years to councils that freeze or reduce their council tax in 2013/14.
   - **Excessive council tax rise threshold 2013/14**
     Set by Secretary of State, Eric Pickles at 2% (in the Provisional Financial Settlement), above which a council must hold a referendum using a prescribed format to determine whether it has local residents' support for the rise proposed.

8. After due challenge, scrutiny and deliberation, Cabinet proposes a below inflation council tax rise of 1.99% in 2013/14, reverting to the current MTFP strategy of a council tax rise limited to 2.5% each year after that up to 2017/18.

9. Figures 3 and 4 overleaf show over the four years (2010 to 2014) the demand for services within the Council are up £204m. Over the same period the Council has seen government grant reduce by £48m, adding £252m pressure to the budget. During the same period, the Council has responded by delivering £194m of on-going service reductions & efficiencies and secured £37m additional funding through council tax rises. Having achieved these substantial savings, the shortfall in 2013/14 is proposed to be funded through use of the Council's balances, specifically set aside in recent years in anticipation of needing to smooth achievement of efficiencies over financial years.

Figure 3 Change in pressures and savings 2010 to 2014

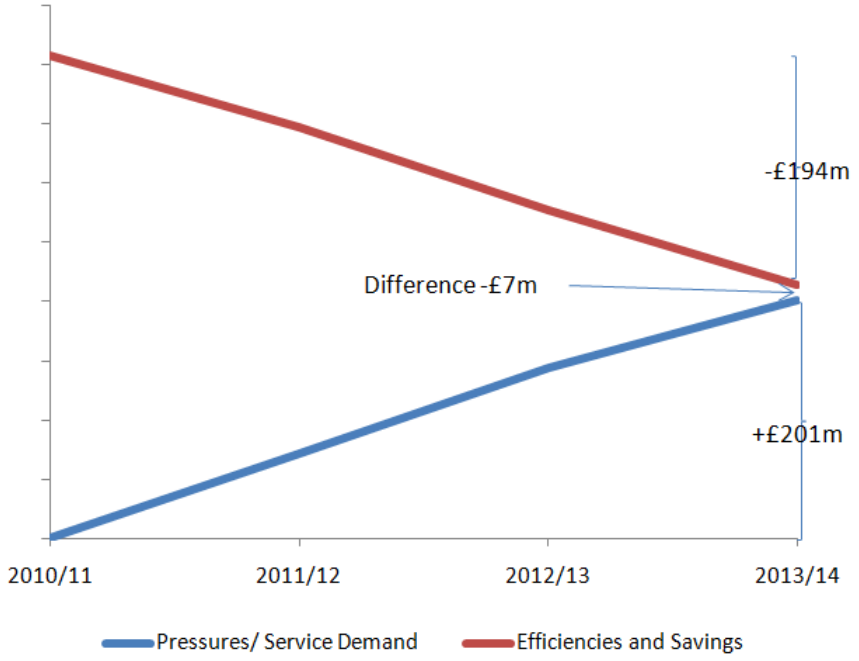
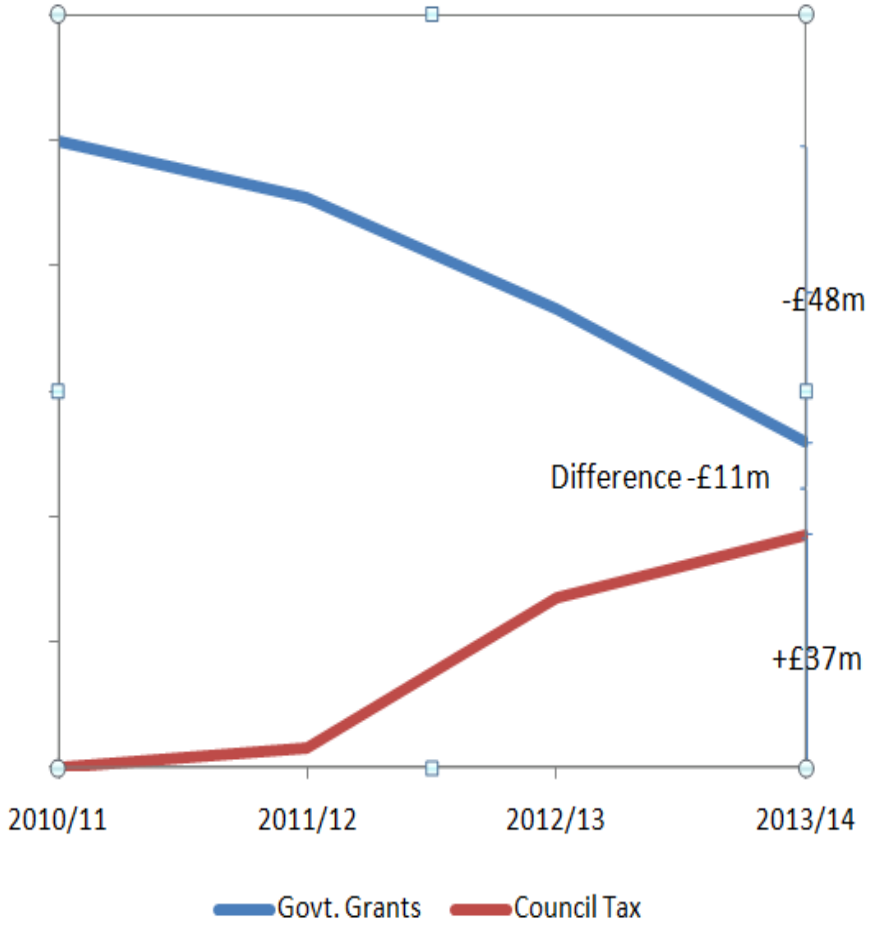


Figure 4 Change in funding 2010 to 2014



10. The forecast for service demands is expected to continue, meaning the Council's financial position is expected to remain challenging and could worsen. Spending

pressures arise mainly from increases in demand volumes for adult social care, school places and children's services.

11. In addition, the Council will start to address a £400m maintenance backlog on a highways network that is among the most heavily used in the country and other work to enable Surrey businesses to sustain, grow and thrive. Surrey's business base is a major contributor to the UK economy[1], second only to London and bigger than Birmingham, or Leeds and Liverpool combined, meaning that the Council's action to support Surrey's economy significantly benefits not just the local population, but the whole UK.

Capital programme

12. The Council has a substantial capital programme, approved as part of the MTFP 2012-17, and proposes to increase this programme to reflect the following changes:

    - recognise the additional demand for school places (from 8,000 to 12,000) by adding £45m to the programme;
    - add £25m over five years to partially address the backlog of highways repairs;
    - roll the annual recurring programme of property and highways maintenance forward into 2017/18.

13. This programme is funded from a combination of: Government capital grants, capital receipts, third party contributions, revenue reserves, and borrowing.

14. During 2012/13, the Council has reviewed the funding of this capital programme as follows.

    - In view of generally depressed property prices in the economy, asset disposals will only be completed where the Council cannot redevelop or reuse property to deliver value for money.
    - Third party contributions are expected to grow over the next five years following the introduction of the community infrastructure levy (CIL).
    - The level of funding through revenue contributions and borrowing is constrained by affordability of borrowing costs within revenue resources. This report sets out an up-dated minimum revenue provision policy and borrowing strategy aimed at most effectively linking the assets' useful lives with funding.

15. Finally, the level of government grant available to fund this capital programme remains unclear; over half of the anticipated government grants for 2013/14 have, at the date of this report, yet to be announced by Government and will not be known for future years until the next financial settlement. In view of this uncertainty the Cabinet proposes to review the capital programme once more details of government funding are known.

16. Annex 1A, from paragraph A67 and Appendix A4 provide further details of the Council's capital programme.

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[1] Surrey contributed £5.8bn in income tax and £28.3bn gross value added (GVA) to the UK economy in 2009. More GVA than Birmingham (£20.1bn) or Liverpool (£8.6bn) and Leeds (£17.8bn)

Treasury management and borrowing strategy

17. Each year the Full County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changed market conditions, changes in regulation, and other changes in 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. Annex B sets out updated versions of the County Council's treasury management policy statement and treasury management strategy.

18. The treasury management strategy since 2009/10 has followed an extremely cautious approach as a direct result of the Council's Icelandic bank experience. Moving forward into 2013/14, several changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite.

19. The changes are detailed in Annex 1B, and are summarised below.

    i. To maximise the benefit of current unprecedented low interest rates and high cash balances and set a minimum cash balance of £49m.
    ii. To expand the current counterparty list of institutions to which the Council will place short term investments to reflect market opinion and formal rating criteria. This means that Barclays Bank, whose rating change in 2012 reduced and effectively removed them from the eligible list, are now eligible again.
    iii. To increase the monetary limit for the two instant access accounts (Lloyds and RBS) from £40m to £60m since both have nationalised status and therefore minimum risk.
    iv. To adjust the Council's Minimum Revenue Provision policy.

CONSULTATION:

20. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a statistically significant sample.

21. The key findings are as follows:

    - the Council's current spending closely reflects the spending priorities of Surrey's residents;
    - the Council understands its residents;
    - a majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made;
    - residents attach value to the Council's services and reductions will cause dissatisfaction.

22. In addition, the Leader and Chief Finance Officer have held face to face meetings with representatives of Surrey's business community, voluntary sector and trade unions in October 2012 and January 2013.

RISK MANAGEMENT AND IMPLICATIONS:

23. The Council maintains an integrated risk framework to manage the significant challenges it faces and the associated emerging risks. The specific risks and opportunities facing the Council and recorded in the Leadership Risk Register are:

    - erosion of the Council's main sources of funding (council tax and government grant)
    - delivery of the major change programmes and associated efficiencies;
    - delivery of the waste infrastructure; and
    - changes to health commissioning.

24. The Chief Finance Officer is satisfied the proposed budget, including increased risk contingency, general balances & reserves are sensible to address these risks.

Financial and Value for Money Implications

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

Section 151 Officer Commentary

26. As required by legislation, the Chief Finance Officer has written a separate report, which is attached at Annex 2.

Legal Implications – Monitoring Officer

27. A dispensation has been sought for all county councillors to avoid any risk that they have a disclosable pecuniary interest which could affect their eligibility to vote on the recommendations in this report.

28. In view of the uncertainty highlighted in paragraph 15 of this report the Council has been asked to delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals to maintain the council tax rate it sets, should the Final Financial Settlement result in any late changes. If any such proposals cannot be accommodated without changes to the capital or borrowing strategies approved by Council a further report will need to be presented to Full Council in due course.

Equalities and Diversity

29. 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. Some management actions to meet the spending targets may have an equalities impact. Strategic Directors will consider these as they develop their detailed implementation plans, completing equality assessments as relevant and reporting their findings before the Cabinet sets detailed budgets on 27 March 2013.

30. In approving the overall budget and precept at this stage, the Cabinet and Full County Council will be mindful of the specific references in this report to the impact on people with protected characteristics under the Equality Act 2010 -

particularly the intention to improve services for vulnerable adults and children, supporting children and young people not in education, training or employment, and enabling elderly people to live independently.

WHAT HAPPENS NEXT:

31. The Full County Council will set its budget and council tax precept on 12 February 2013.

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

Consulted:
Cabinet, Select Committees, all County Council Members, Chief Executive, Strategic Directors, Surrey's business community, voluntary sector, residents and trade unions.

Annexes:

Annex 1 – Section A	Revenue & capital budget report
Annex 1 – Section B	Treasury management strategy report
Annex 2	Chief Finance Officer Statutory Report (Section 25 report)

Appendices:

Appendix A.1	National economic outlook and public spending
Appendix A.2	Spending Review 2013 including details of provisional government grants for 2013/14
Appendix A.3	Revenue budget proposals
Appendix A.4	Capital programme proposals
Appendix A.5	Reserves & balances policy
Appendix A.6	SIMALTO results
Appendix A.7	Earmarked reserves
Appendix B.1	Prudential indicators - summary
Appendix B.2	Prudential indicators – details
Appendix B.3	Global economic outlook and the UK economy
Appendix B.4	Treasury management scheme of delegation
Appendix B.5	Institutions
Appendix B.6	Approved countries for investments
Appendix B.7	Annual minimum revenue provision (MRP) policy statement
Appendix B.8	Treasury management policy

Sources and background papers:

- DCLG revenue and capital provisional financial settlement papers from the DCLG web-site
- Budget working papers
- Various government web sites detailing provisional financial settlement details
- CIPFA Prudential Code for Capital Finance
- CIPFA Treasury Management in the Public Services: Code of Practice

- Investment guidelines under section 15(1)(a) of the Local Government Act 2003
- Audit Commission: Risk & Return: English Local Authorities and the Icelandic Banks

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Revenue and capital budget

Introduction

A.1. This report proposes the medium term financial plan (MTFP) 2013-18 that Cabinet has developed at its workshops beginning in July 2012 and concluding in January 2013. Throughout this period, Members have had opportunities to influence the MTPF's development through all Member seminars and select committee scrutiny. The proposed MTFP period (2013-18) rolls forward 1 year the current MTFP (2012-17) approved by Full County Council on 7 February 2012. It covers five years, matched to the corporate strategy.

A.2. This report:

- presents integrated revenue and capital strategies for the five-year period 2013/14 to 2017/18;
- presents the Chief Finance Officer's report to the Full County Council on the robustness and sustainability of the estimates and the adequacy of the reserves the budget provides; and
- proposes a Band D council tax requirement of £1,172.52 for 2013/14 and a 1.99% rise (44p a week for band D) in the level of council tax precept to fund this.

A.3. Following the agreement of a budget by the Full County Council on 12 February 2013, detailed service budgets will be prepared and submitted to the Cabinet on 27 March 2013 for approval. These will link to directorates' strategic plans that will also be approved at the 27 March 2013 Cabinet meeting.

A.4. The Provisional Local Government Finance Settlement announced from 19 December 2012 outlined the key grants and financial factors for the first two years of the new system of local government finance that will apply from April 2013. While most elements of the settlement have now been announced, some important factors are still unknown and several new factors are inherently more volatile. All of this makes the uncertainty in the figures proposed in the medium term financial plan relatively high and subject to change as the financial environment becomes clearer. Also, at the time of writing this report the Final Financial Settlement has not been announced, adding yet further uncertainty around the proposals.

A.5. In view this high level of uncertainty Cabinet proposes to review the Council's financial position and the MTFP 2013-18 at the end of the first quarter of 2013/14.

Summarised relevant strategies influencing the revenue and capital budget

Corporate strategy

A.6. The Council's ***One County One Team Corporate Strategy*** sets out a vision to be the most effective council in England by 2017. It includes the priorities and key areas the Council is focusing on to achieve this: investing smartly to support future economic growth, protecting those residents who need most help, and transforming the way the council works with residents, businesses and partners. A robust medium

term financial plan is critical to delivering these ambitions and goals and ensuring excellent value for money for residents.

Financial and funding strategy update

Financial strategy

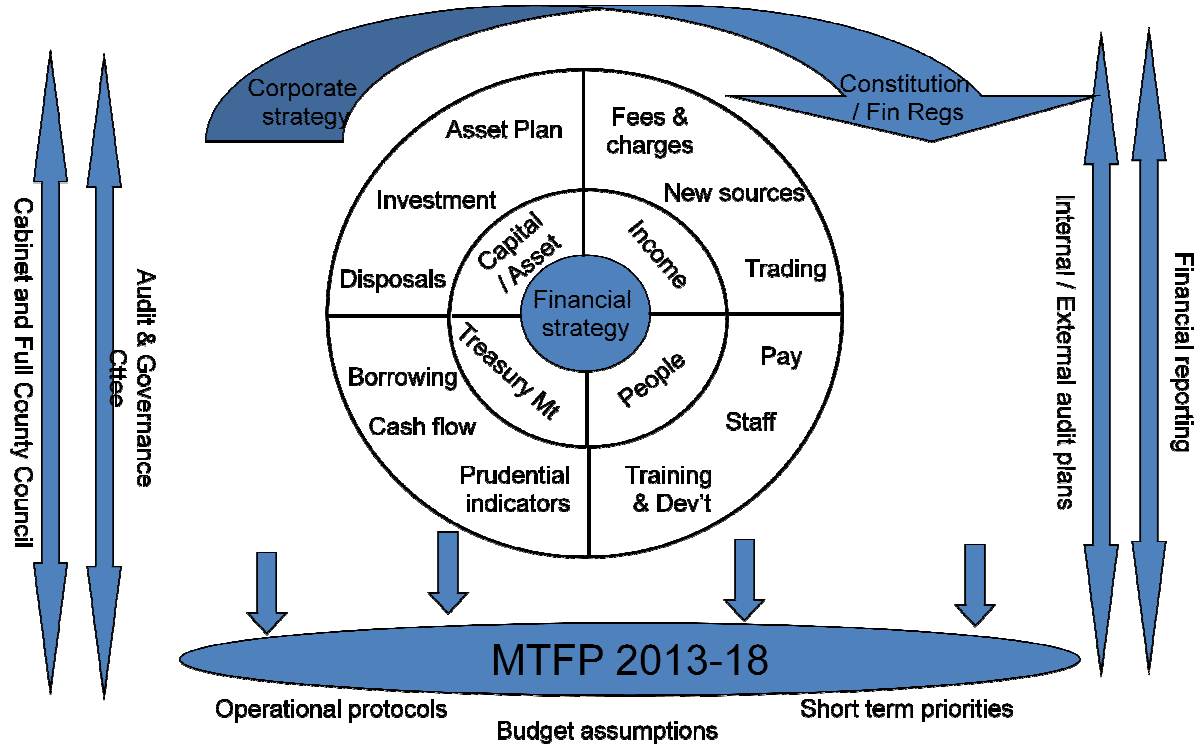
A.7. The Council's financial strategy originally set out in the 2012-17 MTFP, remains applicable and provides the strategic framework and overarching corporate financial policy document for managing the Council's finances and ensuring sound governance and compliance best practice.

A.8. The specific long term drivers of the financial strategy pertinent to the MTFP 2013-18 proposals are as follows.

- Keep any additional call on the council taxpayer to a minimum through continuously driving the efficiency agenda.
- Develop a funding strategy to reduce the Council's reliance on council tax and government grant income. The Council is heavily dependent on these sources of funding, which are under threat of erosion.
- Balance the Council's 2013/14 budget by reducing general balances to £16m and provide an increased risk contingency of £13m in the revenue budget. This reflects the present uncertainty and volatility of funding sources and spending pressures.
- Continue to maximise our investment in Surrey to:
  - improve direct services for vulnerable adults and children;
  - maintain and improve transport infrastructure to support business;
  - develop the workforce and Members and;
  - wherever possible, aim to invest in assets to generate annual income streams.

A.9. The financial strategy links a number of other strategies and essential governance arrangements as illustrated overleaf in Figure 1.

Figure1: Financial strategy in context



A.10. The financial strategy also links directly to the six components of One County, One Team Corporate Strategy established in 2012 and still relevant, as summarised below.

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

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

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

4. **Quality:**
   The Council will maintain the highest standards of financial governance, in terms of both policy and practice. The Council will maintain its financial reporting and financial management practices to ensure an unqualified audit opinion and value for money conclusion on its accounts each year.

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

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

A.11. The financial strategy will remain largely stable to 2018. 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 as relevant. These actions will make the MTFP the practical means to translate this strategy into reality.

Funding strategy

A.12. During 2012 the Council has developed a funding strategy further to position the Council to deliver diversified sources of funding that reduce the Council's reliance on council tax revenue and increase its resilience against future financial challenges.

A.13. Several drivers have created a pressing need to deliver this vision:

- the need to mitigate the effect of erosion of core sources of funding (council tax and government grant), jeopardising the Council's future financial resilience and prohibiting it from pursuing its long term financial strategy;
- the desire to develop a culture that focuses equally on funding sources as on spending pressures;
- the aim to address the mis-match between the size of the Council's budget and the relatively low level of income from fees and charges; and
- the need to provide a direct link to the financial strategy objectives, in particular:
  - to keep to a minimum any additional call on the council taxpayer through continuously driving the efficiency agenda; and
  - to continue to maximise our investment in Surrey to support business and wherever possible, aim to invest in assets to generate annual income streams.

A.14. The funding strategy is being delivered using a robust programme management framework to scope and plan a series of work streams, which will be delivered over a number of years.

A.15. The main work streams can be grouped into three themes.

- **Protecting the existing funding base**
  - localisation of business rates
  - localisation of council tax support;
  - schools funding.

- **Developing alternative sources of funding;**
  - economic stream (including Community Infrastructure Levy, New Homes Bonus and Local Enterprise Partnerships);
  - grants;
  - return on investments (treasury management);
  - fees and charges;
  - partnership opportunities;
  - assets (property).

- **Improving financial awareness, training and reporting;**
  - staff awareness, communications and engagement;
  - funding reporting in the medium term financial plan (MTFP);
  - financial reporting.

A.16. A number of dependencies are associated with the funding strategy, as outlined below:

- strong political appetite to lead the focus on funding and income actively;
- increased collaboration with district and borough colleagues and Surrey Leaders;
- embedding the drive for a commercial focus into individuals' roles to achieve the required ownership; and
- achieving buy-in and engagement throughout the whole organisation.

A.17. Progress against the strategy will be reported through quarterly performance reporting for the Change & Efficiency Directorate.

<u>Revenue budget</u>

Forecast Revenue Budget Outturn 2012/13

A.18. The revenue forecast outturn for 2012/13 at the end of December 2012 projects an underspend of £8.9m. The Cabinet will receive details of this in a separate report on this agenda.

A.19. It is proposed that this forecast underspend be carried forward to smooth spending across financial years, as part of the long term financial planning, and further consideration on use of balances and reserves will be necessary as the level of government grants receivable for future years becomes clearer (when the Final Financial Settlement is known).

Scenario planning 2013/14 to 2017/18

A.20. In setting the MTFP 2012–17, the Council assessed the remaining impact of the public expenditure constraints of 2010's Comprehensive Spending Review (CSR 2010) covering the period 2010-14 and details released in the annual local government finance settlement. The Council also made financial projections related to the changes proposed to the system of local government funding to localise retention of business rates and council tax support due to be implemented from April 2013. After including estimated budget pressures over the five years 2012/13 to 2016/17, the Council set itself a target of reducing annual revenue expenditure by £206m over the same period.

A.21. Appendix A1 summarises the national economic outlook, which highlights how the relevant economic outlook and future forecasts have changed in the last year.

A.22. The basic assumptions reflected in the MTFP (2012-17) have been assumed as remaining valid in moving this MTFP forward one year to cover 2013-18, except where emerging changes to the new funding arrangements and assumptions about growth in service pressures have changed. Cabinet members and senior officers rigorously reviewed, probed, assessed and validated the assumptions to determine the predicted scenario for medium term financial planning purposes. 80mIn developing the MTFP 2013-18, the Council has shared the stages of its medium term financial planning process more widely than previously. Cabinet members, senior officers and select committees participated in workshops and several financial planning update briefings have been provided for all members and other interested stakeholders.

A.23. The Council also conducted a robust, open, consultation and engagement process with stakeholders as outlined below from paragraph A.92 and detailed in Appendix A.6.

Budget planning assumptions

A.24. The Council's annual detailed service budget setting started in July 2012. This involved revisiting the assumptions, pressures and savings included in the MTFP 2012-17 and projecting forward a further year to 2017/18. Table 1 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 1 Budgetary assumptions 2013-18

Descriptor	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Pay inflation	1.5%	2.0%	2.0%	2.0%	2.0%
General, non-pay inflation	2.1%	2.1%	2.2%	2.2%	2.2%
Remainder of MTFP 2012-2017 saving programme	-£50m	-£33m	-£25m	-£27m	
Extra savings to meet new service funding and spending pressures	-£18m	-£39m	-£7m	-£8m	-£33m
Allowances for central pressures:					
• Revenue impact (borrowing) of the capital programme 2013-18	£1m	£2m	£6m	£8m	£9m
• Risk contingency	£13.0m	£8.0m	£8.0m	£8.0m	£8.0m

Note:

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

Service expenditure 2013-18

A.25. Table 2 summarises the Council's revenue expenditure budget for the five years 2013-18 and compares it to 2012/13's budget by main services.

Table 2 Revenue Expenditure Budget 2013-18

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Adults Social Care	332	341	352	369	387	411
Children, Schools & Families	289	288	296	301	298	307
Schools Delegated Budgets	519	522	516	514	514	514
Customer & Communities	71	70	72	75	73	75
Environment & Infrastructure	126	129	134	131	134	138
Public Health	0	23	29	32	35	39
Change & Efficiency	85	84	84	85	87	90
Chief Executive Office	14	15	14	14	14	14
Central Income & Expenditure	77	68	73	70	74	67
Additional savings to be found			-46	-55	-62	-79
Total expenditure	**1,513**	**1,540**	**1,524**	**1,536**	**1,554**	**1,576**

Service budget commentaries

A.26. Services are continuing to develop and test a range of proposals that will enable the Council to meet its budget reduction targets for 2013/14 and beyond. Appendix A3 contains a summary of the proposals for each budget category, with a brief commentary by services on the proposal evidenced by a summarised income and expenditure statement and expenditure by service.

A.27. Cabinet will receive the final detailed budget proposals for approval on 27 March 2013 after review by the appropriate Select Committees of detailed budget changes.

Funding 2013-18

Central Government Funding

A.28. From 2013/14, The Local Government Finance Act 2012 has fundamentally changed the local government funding system: to one based on partial retention of local business rates and localisation of council tax benefit support.

A.29. The Provisional Local Government Settlement for 2013/14 set out local authorities' "start up" funding related to the new local government financing system. Start up funding is equivalent to funding from the following sources:

- formula grant
- council tax freeze funding
- council tax support funding
- early intervention funding
- lead local flood authority funding
- learning disability & health reform funding

A.30. Table 3 shows actual level of funding included in the Provisional Financial Settlement compared to the assumptions made, illustrating that the total start up funding is close to that predicted, although there are variations within the individual areas. This demonstrates the increased uncertainty, and therefore risk, in forecasting long term planning going forwards.

Table 3 Provisional start up funding compared to expectations

	Expected funding £m	**Provisional settlement £m**
Council tax freeze grant 1	14	14
Council tax support	38	38
Early intervention grant	27	25
Local lead flood authorities' grant	0	0
Learning disabilities & health reform grant	60	68
Total grants rolled in	139	145
Formula funding	114	107
Share of returned topslice (safety net) etc.	0	2
Total start-up funding	253	254

A.31. The Council's plan is to balance its budget in 2013/14 and over the medium term of five years through a combination of service transformation mechanisms, earlier implementation of planned budget reductions & efficiencies and use of reserves. Table 4 outlines the revenue funding proposals.

Table 4 Revenue funding for 2013-18 MTFP

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
Council tax	-580	-550	-572	-586	-603	-622
Retained business rates	0	-44	-45	-47	-48	-49
UK Government grants	-916	-923	-907	-903	-903	-905
Use of reserves and balances	-17	-23				
Total funding	**-1,513**	**-1,540**	**-1,524**	**-1,536**	**-1,554**	**-1,576**

Schools' funding

A.32. The Council is required by legislation formally to approve the total Schools Budget. The Schools Budget includes schools' delegated budgets and other funding allocated to maintained schools, plus expenditure on a range of school support services specified by legislation, irrespective of the source of funding.

A.33. The Schools Budget (and the total County Council budget) excludes funding for academies.

A.34. Table 5 analyses the proposed total Schools Budget for 2013/14 is £621.5m, of which £600.7m is funded by Dedicated Schools Grant (DSG), £19.3m by Education Funding Agency (EFA) sixth form grants and £1.5m by County Council funding. The Schools Budget is a significant element of the Children, Schools and Families proposed total budget of £810m.

Table 5 Analysis of total Schools Budget for 2013/14

	Schools Delegated Budgets £m	Centrally Managed Services £m	Total £m
DSG 2013/14	482.2	111.6	593.8
DSG brought forward from previous years	5.8	1.1	6.9
	488.0	112.7	600.7
EFA sixth form grant	19.3		19.3
County Council contribution		1.5	1.5
Total Schools Budget	507.3	114.2	621.5

A.35. Centrally managed services include the cost of placements for pupils with special educational needs in non maintained special schools and independent schools, 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

A.36. The County Council contribution is to fund part of the anticipated increase in new responsibilities for post 16s with lifelong learning difficulties and disabilities (LLDD).

A.37. DfE has required local authorities to simplify and standardise their formulas for funding schools in 2013/14, as a first step towards the aspiration of a national funding formula. Thus, major changes have been needed to Surrey's formula, which mean significant long term gains and losses to individual schools. In 2013/14 these gains and losses have been limited by a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee) and a 1% maximum per pupil increase (or ceiling) which is required to pay for the guarantee.

A.38. 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, the number of looked after children and the number of pupils from service families (or who qualified as service children at some time within the last three years, or are in receipt of a war pension).

A.39. Funding for some support services for schools has now been transferred from general grant to a new education services grant. This grant is divided between the Council and individual Surrey academies in proportion to pupil numbers in each.

Other grants

A.40. There are a number of government grants that are newly included in plans. These reflect new areas of responsibility, meaning the funding will be matched by an increase in the council's need to spend. The most material of these are:

- Public health £23m
- Education Services Grant (estimate) £17m
- Bid funding from the Local Sustainable Transport Fund £2m
- Social Fund £1m
- Troubled families grant £1m
- Business rates retention system top slice refund (estimate) £1m

A.41. More minor sums totalling £1m will be received for responsibilities connected with the community right to challenge, the local reform & community voices funding, the Special Education Needs pathfinder project and the south-east protected landscape funding.

A.42. The Health and Social Care Act 2012 transfers substantial public health improvement duties to local authorities from 2013/14, funded by a ring-fenced specific grant based on estimates of historic spending from NHS Surrey. The budget is drafted in accordance with the £23.2m grant allocation.

A.43. This ring-fenced specific grant is designed to cover all the services transferring from the Primary Care Trust and allow for some growth. However, the Department of Health has recognised that £3.3m of genito-urinary medicine (GUM) services have been excluded incorrectly from the grant and allocated to the NHS. Discussions are on-going with the Council's health partners for this funding and a final budget position will be set within the resources available when the outcome is known.

A.44. Historic public health funding in Surrey has been below the level of our assessed need. Government stated policy is to rectify this underfunding. In the medium term the Council expects its public health grant to increase by 10% each year, which will assist the service to deal with the growing need for public health services.

Localisation of council tax support

A.45. From 2013/14, the Department for Work & Pensions will no longer have a national scheme of council tax benefit. At the same time, central government has imposed funding reductions requiring councils to make choices about changes to eligibility and levels of support. District & borough councils must implement their own local support schemes from 1 April 2013. The County Council has worked alongside Surrey districts & boroughs as they developed their schemes, with a view to:

- preserving the current high council tax collection rate,
- avoiding unintended cost consequences for council services, and
- avoiding detrimental impacts on frontline policing.

A.46. With these objectives in mind, the Council has made available up to £1m to fund the first year deficits that the Police, districts & boroughs would otherwise incur.

A.47. At the same time and to allow councils to mitigate some of the above funding reductions, the Government has localised some council tax exemptions and discounts. District & borough councils have been able to make local decisions about the level of these or whether to withdraw them altogether.

A.48. There are several direct impacts of the new arrangements:

- A reduction in council tax income. The central government subsidy previously paid into districts' & boroughs' collection funds will no longer exist. The County Council will bear its share of this loss (approximately 75%) estimated at approximately £45m.
- A new grant for council tax support (to partially compensate for the cessation of subsidy). The County Council's grant is confirmed as £38m and will be received as part of its baseline funding allocation.
- An increase in council tax yield from changes to discounts and exemptions. The approximate impact on the Council is an increase of £5m.
- A reduction in the council tax base (reflecting eligibility to council tax support).

A.49. These impacts are on-going and imply a number of newly assumed risks, namely the future levels of central government grant funding is uncertain and the cost of local support schemes will be subject to price (council tax rises) and volume (numbers of claimants) changes.

A.50. Although the Department for Communities & Local Government (DCLG) has identified the discrete council tax support scheme funding that has been included in the 2013/14 settlement, this will not be identifiable from 2014/15: making it more difficult to demonstrate how this has changed from year to year.

A.51. Changes in the volume and make-up of the claimant population will need to be monitored given different funding implications. Pensioner claimants are fully protected from localisation changes (in effect remaining on the 'old' national scheme) so any increase in their volume or proportion of caseload could have material implications.

A.52. The changes to the council tax base arising from localisation will also need to be closely monitored. This reduction has an on-going impact since it reduces authorities' ability to raise council tax and increases central dependency.

Local retention of business rates

A.53. The new business rates retention system (BRRS) will replace formula grant as the core funding for local authorities from 2013/14. This represents a major change and is the culmination of nearly two years' development. Under the current funding system, the proceeds from business rates are collected locally and paid into a national pool. Central government then distributes the pool together with revenue support grant (RSG) via the 'four block' model for formula grant. RSG is supplementary central funding to make the total available to local government up to the planned total spend on local government. RSG is received by individual local authorities as a non ring fenced grant.

A.54. The new funding system will see district & borough councils holding back half of the business rates income collected, to share locally with their county councils (80:20 in the districts' & boroughs' favour).

A.55. The remaining half represents central government's share of the amount collected, which it redistributes back to local authorities. The central share is combined with a number of existing specific grants which have been rolled into the business rates retention system.

A.56. These are allocated to each authority as a baseline funding allocation and an RSG allocation. Table 6 shows the Council's allocations as part of the national totals.

Table 6 Surrey County Council's start up funding

	2013/14	2014/15	SCC change	National change
RSG	£151.171m	£135.024m	-10.7%	-16.9%
Baseline funding	£100.570m	£103.654m	3.1%	3.1%
Start-up funding	£251.741m	£238.678m	-5.2%	-8.5%

A.57. Under the new system, central government establishes a baseline funding level for each local authority. In effect this is the local authority's portion of the "local share"

(i.e. 50% of the estimated net business rates collected). This is the key figure that determines whether an authority will pay a tariff to central government or receive a top-up.

A.58. If an authority has a business rates baseline (government estimate of its business rates income) that is higher than its baseline funding level, the difference is paid to central government as a 'tariff'. All the Surrey districts are tariff authorities. Where the business rates baseline is less than its baseline funding level (as is the case for this council), an authority receives a 'top-up'. All county councils receive a top-up. Tariffs and top-ups are inflated annually by RPI to maintain their value in real terms.

A.59. Table 7 shows the calculation of the County Council's top-up funding.

Table 7 Surrey County Council's top up funding 2013/14 and 2014/15

	2013/14	**2014/15**
Funding baseline	£100.570m	£103.654m
less Business rates baseline	£43.863m	£45.208m
Top-up	£56.707m	£58.446m

A.60. The new funding system will alter the nature of the funding risks borne by the Council. Under the existing funding system, formula grant allocations are confirmed annually by the local government finance settlement. These are fixed allocations that do not vary in-year.

A.61. The Council's medium term financial planning makes the following assumptions for the new funding system:

- **Revenue support grant**
  Allocations will not change in-year, although there is a risk that the government may adjust annual control totals between years.

- **Business rates top-up grant**
  This will be fixed and predictable, being up rated by RPI annually.

- **Business rates income**
  This is uncertain and potentially volatile:
  - Budget figures reflect estimated rather than actual sums, since the latter are not known. Under the existing system, the forecasting risk was borne centrally, but under the BRRS this will be born locally as well.
  - The key drivers of volatility are the volume and value of successful valuation appeals, as these will reduce expected business rates income. At the start of the new system, the full billable sum for any outstanding appeals will have been charged to rate-payers and paid into the central pool. Any appeals that succeed after the start of the new system will have to be refunded at the expense of the local authorities concerned (i.e. the district & borough councils

and counties) and central government, in proportion to their shares of business rates income.

- In view of this, billing authorities will have had to make assumptions about the value of successful appeals in their estimates of business rates income. The County Council will bear 10% of any appeals losses across the county (districts & boroughs 40% and central government 50%).
- There are also vulnerabilities associated with the loss of large site business ratepayers from the county area.
- It is an anomaly of the system that there is no incentive upon the Valuation Office Agency (which undertakes business rates valuations) to reduce the number and value of successful appeals against their valuations, since any adverse financial consequences rest only with local and central government.

Council tax funding

A.62. The MTFP 2012-17 assumes council tax yield will increase by 2.5% annually through either an increase in the level of the tax or a compensating Council Tax Freeze Grant payment.

A.63. The Chancellor of the Exchequer announced the availability of a third Council Tax Freeze Grant to those authorities that freeze or reduced their band D council tax in 2013/14. The grant offered is equivalent to 1% of an authority's council tax, payable in 2013/14 and 2014/15.

A.64. In introducing the Provisional Local Government Settlement, the Secretary of State for Communities & Local Government set the council tax excessiveness principles (i.e. the maximum increase a council can set without a referendum) at 2.0%.

A.65. Members have received several financial planning update briefings outlining the impact on the 2013/14 budget and 2013-18 MTFP of accepting or declining Council Tax Freeze Grant and of increasing council tax at different rates. Cabinet has explored the options in depth in workshops.

A.66. The MTFP includes proposals to increase council tax by 1.99% in 2013/14 and to revert to council tax increases of 2.5% for the remaining years of the MTFP 2013-18.

Capital budget

Capital budget planning

A.67. The Council set a five year capital programme totalling £679m in the MTFP 2012-17. A significant element of this related to the supply of new school places, which totalled £244m and the recurring programme of transportation and highways maintenance totalling £150m.

A.68. For the MTFP 2013-18, the capital programme is reviewed and the new year of 2017/18 is included. The review has focused on the continuing forecast growth in school pupil numbers and the importance residents place on good roads.

A.69. In 2012/13 the council approved funding of £244m for the first five years of a ten year capital programme to provide an additional 16,000 school places by 2022. In compiling the 2013-18 capital programme it was recognised that the number of

school places required was nearer 20,000 over the ten year period. This 4,000 increase in school places is largely due to the increasing birth rate and inward migration to the County. In order to address this issue effectively a formal review of the revised capital programme will be undertaken in the next six months.

A.70. For 2013/14 the capital funding for school places has increased from £42m to £72m. Overall an additional £45m has been added to the existing school place capital budget for new schemes starting in 2013/14. The existing and revised budget for the capital programme includes target procurement efficiency savings on capital schemes of 40% for primary schools and 20% for secondary schools on average.

A.71. Surrey has some of the most heavily used roads in the country and their up keep and maintenance play an important part of the county's economic success and prosperity. With a back log of £400m of repairs, the council is allocating a further £5m per year, or £25m, over the next five years.

Capital position 2012/13

A.72. The forecast in-year variance on the 2012/13 capital budget is an underspend of £7.3m against the approved revised budget of £147.9m. The principal reason for the underspend is the reprofiling of project spend.

A.73. To complete these projects, the Council will need to carry forward the funding for these schemes to future years. This decision is proposed as part of the budget outturn report and if approved, the amounts will be added to the capital budget for 2013–18.

Capital funding

A.74. Government departments have announced some, but not all, capital grants for 2013/14 and even fewer for 2014/15 in the provisional financial settlement. It is common for government departments to announce additional government grants during the financial year, so the Council includes a forecast for these. Table 8 shows the grants that have been announced for 2013/14 and those the Council still expects.

A.75. Central government provides capital grants to local authorities in two categories: 'ring-fenced' grants that are 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 8 Government capital grants 2013/14

Capital grants confirmed	**Provisional settlement**
Ring-fenced grants	
Walton bridge 2013/14	£4m
Local Sustainable Transport Fund (large)	£4m
Broadband Delivery UK (BDUK) broadband grant	£1m
Non ring-fenced grants	
Integrated transport block	£7m
Highways maintenance	£14m
Highways maintenance Autumn Statement	£3m
Local Sustainable Transport Fund	£1m
Community capacity capital grant	£2m
Fire capital grant	£1m
Total confirmed grants	**£37m**
Capital grants yet to be confirmed	**Estimate**
Ring-fenced grants	
Devolved formula capital (devolved to LA schools)	£2m
Safe cycling grant	£1m
Non ring-fenced grants	
Schools places	£15m
Schools capital maintenance	£14m
Total grants yet to be confirmed	**£32m**

A.76. In the 2012 Autumn Statement, the Chancellor of the Exchequer announced funding to all highways authorities for road maintenance. For Surrey County Council, this amounted to £2.6m and is a non ring-fenced grant. The Council will use this to fund its highways maintenance programme.

A.77. Capital grants are not known for future years and an estimate is made for each year. This estimate is reviewed annually and equivalent adjustments will be made to the capital programme.

A.78. Capital receipts, or income from the sale of assets, are an important part of funding the capital programme. In 2012 the Council set a target of £69m over the five year term of the financial plan from asset sales. During the year, the Council has reviewed its strategy towards asset sales in the light of generally lower property prices in the economy. Sales will only occur when property cannot be redeveloped or reused by

the Council. While this will reduce the amount of asset sales over the next five years, those that are continuing have generated higher receipts.

A.79. The Council also funds its capital programme from contributions from third parties, such as developers and its own revenue budget. The part of the programme that cannot be funded by the above four sources is done so through borrowing. Table 9 shows the estimated capital funding for the period 2013-18.

Table 9 Capital funding 2013/14 to 2017/18

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Government grants	69	77	71	72	55
Capital receipts	14	26	5	5	0
Revenue reserves	1	4	3	2	4
Third party contributions	2	4	11	13	14
Borrowing	102	61	52	28	0
Total	188	172	142	120	73

Capital expenditure

A.80. Table 10 summarises the Council's capital programme for the five years of this medium term financial plan. This is shown in more detail in Appendix A4. Inclusion of a project in the approved capital programme is not authority for the scheme to commence. A detailed and robust business case is required before the project is approved.

Table 10 Summary of capital programme

Scheme Category	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
School places	72	80	61	48	0
Recurring programmes	63	66	65	63	65
Strategic capital projects	53	26	16	9	8
Total	188	172	142	120	73

Risk management arrangements

A.81. The Council's integrated risk framework enables identification and escalation of key risks. The Risk and Resilience Steering Group, chaired by the Assistant Chief Executive, brings together all elements of risk to provide a clear approach to managing risk and strengthening resilience across the council. The group consists of

risk practitioners, directorate risk leads and specific service representatives. The Council's Risk and Resilience Forum, comprising of service risk and resilience representatives, focuses on the operational side of risk and develops risk registers, business impact analyses and continuity plans.

A.82. The Leadership Risk Register contains the Council's strategic risks. It cross-references these strategic risks to strategic directors' risk registers and shows clear lines of accountability for each risk at both senior management and Cabinet Member levels. The Risk and Resilience Steering Group reviews the Leadership Risk Register monthly prior to review by the Corporate Board as part of performance, finance and risk monitoring.

A.83. Cabinet receives the Leadership Risk Register as part of the quarterly business report. Audit & Governance Committee also reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Select Committee.

A.84. Significant financial and reputational risks and opportunities facing the Council and recorded in the Leadership Risk Register include:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies
- delivery of waste infrastructure
- changes to health commissioning.

A.85. Senior management and Members regularly monitor and manage these risks through the specific project boards, steering groups and partnerships to ensure that opportunities are exploited and the resulting risks are controlled to a tolerable level.

Reserves & balances

A.86. 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 net budget requirement, i.e. between £15m to £19m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. Going into 2012/13 the Chief Finance Officer recommended that the level of general balance was increased, to a maximum of £30m, in recognition of the unprecedented austerity agenda and anticipated future high level of service reductions & efficiencies likely to be required in future years.

A.87. In fact the Council's available general unallocated balances at 1 April 2012 were £28.8m. Going into 2013/14 the Chief Finance Officer recommends that the level of general balances is reduced to £16.8m by using £12m to support the 2013/14 revenue budget on a one-off basis. While significant service reductions & efficiencies remain to be delivered, this approach is considered to be prudent when combined with the proposal to increase the risk contingency within the revenue budget from £8m to £13m to mitigate in the base budget against the risk of non-delivery of service reductions & efficiencies in 2013/14.

A.88. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. The forecast total balance for all earmarked reserves at 31 March 2013 is £99.7m, down from £112.1m on 31 March 2012.

A.89. The MTFP (2013-18) includes the creation of a new reserve. To plan for future reductions in government grants and to help minimise council tax increases in future, the Council is creating a Revolving Investment & Infrastructure Fund to provide the revenue costs of funding initiatives that will deliver savings and enhance income in the longer term. This reserve will be set up with £20m, which is funded from combining the former Financial Investment Reserve of £9.5m and the Investment Fund of £5.0m. The balance will be made up from the surplus on the council tax collection fund.

A.90. The budget also includes planned contributions to and from the earmarked reserves. The Budget Equalisation Reserve holds the carried forward underspending from the previous year. This is currently forecast to be £11m and is planned to support the 2013/14 revenue budget.

A.91. In line with the MTFP (2012-17), there is a planned contribution of £2.1m to the Economic Downturn Reserve; created to allay the risks of erosion in the council's tax base due to the impact of the localisation of council tax benefit, business rate retention and any further downturn in the economy. The revenue budget also includes provision for interest payments to support the borrowing in line with the capital programme. However, there is a risk that if interest rates or other borrowing conditions change, then it would be better value for money in the medium to long term of borrowing in advance. An Interest Rate Risk Reserve of £3.7m would allow the flexibility for the council to borrow funds early if the circumstances changed. The balance of this reserve would be reviewed annually. Appendix A7 summarises the level and purpose of each of the Council's earmarked reserves, while Appendix A5 sets out the Council's policy on reserves and balances.

Engagement and consultation

A.92. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a good sample. There are further details on the methodology and results in Appendix A6. The summary headlines were as follows:

- **The Council's current spending closely reflects the spending priorities of Surrey's residents:**
  A majority of residents would leave the allocation of current spend as it is now, altering the existing budget only slightly through increased investment in highways services, with corresponding reductions to the opening hours of libraries and recycling centres.

- **The Council understands its residents:**
  The research company who ran the exercise reported that the similarity

between the council's current spending and residents' preferences was notable and not typical for councils.

- **A majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made in the following areas:**
  Highways maintenance, supporting young people into education, employment or training (including more apprenticeships), and supporting more older people to live independently

- **Residents attach value to the Council's services and reductions will cause dissatisfaction:**
  If service levels were scaled back to the most basic level that was presented in the budget survey, 96% of respondents indicated they would complain to the council.

A.93. The Leader and Chief Finance Officer have also held a series of face-to-face meetings with key partners and stakeholder groups, including local businesses, the voluntary, community and faith sector, and trade unions. The feedback from engagement and consultation activities was incorporated into the Council's budget scenario planning workshops and briefing sessions.

This Annex is supported by seven appendices:

Appendix A1	National economic outlook and public spending
Appendix A2	Settlement 2013 including details of provisional government grants for 2013/14
Appendix A3	Revenue budget proposals
Appendix A4	Capital programme proposals
Appendix A5	Policy statement on reserves and balances
Appendix A6	SIMALTO results
Appendix A7	List of earmarked reserves

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National economic outlook and public spending

A.1.1. The Council's financial and service planning takes place within the context of the national economic and public expenditure plans. This appendix explores that context and identifies the broad national assumptions within which the draft budget and MTFP have been framed.

The economy

A.1.2. One of the Government's self imposed targets is to tackle the national budget deficit. After taking into account cyclical or temporary effects it seeks to balance the current budget at the end of a rolling five year period, currently up to 2017/18. The Office for Budget Responsibly (OBR) recently assessed this target in their December 2012 report and forecast that in 2017/18 the cyclically adjusted current budget (CACB) will be in surplus by 0.9%. Table A1:1 summarises OBR's forecast.

A.1.3. The amount of money the Government borrows each year, Public Sector Net Borrowing (PSNB), is also due to fall to 1.6% of Gross Domestic Product (GDP) by 2017/18 compared with 7.9% in 2011/12. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 79.9% of GDP in 2015/16 before falling in the years thereafter.

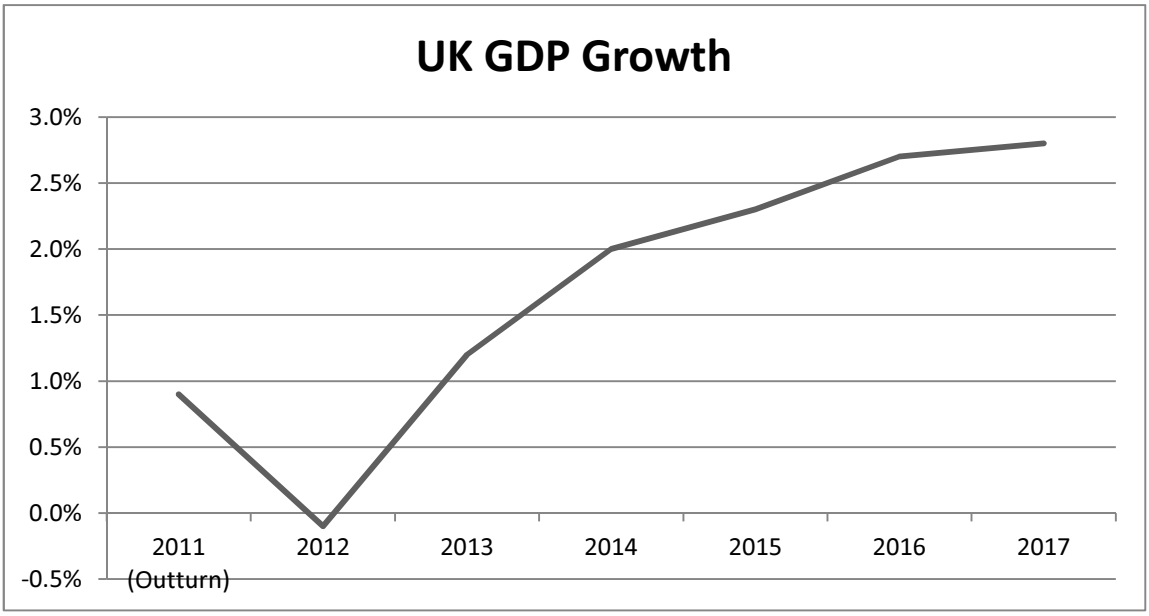
Table A1:1: UK borrowing levels as a per cent of GDP between 2011/12 and 2017/18.

	Per cent of GDP						
	Outturn	**Forecast**					
	11/12	**12/13**	**13/14**	**14/15**	**15/16**	**16/17**	**17/18**
Cyclically adjusted surplus on current budget	**-4.3**	-3.6	-2.2	-1.4	-0.8	0.4	0.9
Public Sector Net Borrowing	**7.9**	5.1	6.1	5.2	4.2	2.6	1.6
Public Sector Net Debt	**66.4**	74.7	76.8	79.0	79.9	79.2	77.3

Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2012

A.1.4. The economy has performed less strongly in 2012 than OBR forecast in March 2012. This is a result of: weakness in net trade with other countries, weaker productivity and concerns over the Euro-area crisis depressing investment confidence. As such, OBR has lowered its economic growth forecasts for the UK to a 0.1% contraction in 2012 and 1.2% growth in 2013. The preliminary estimate from the Office for National Statistics is that the economy shrank by 0.3% in quarter four of 2012. Graph A1:1 shows OBR's growth figures for the next five years.

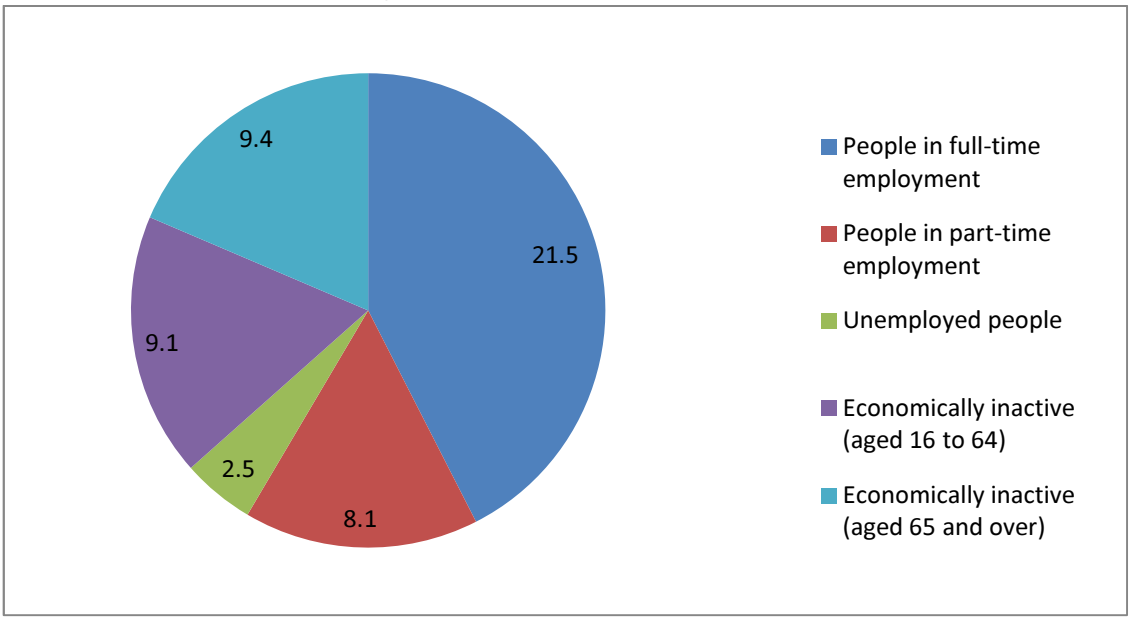
Graph A1: UK GDP growth:



Source: Office for Budget Responsibility, *Economic and Fiscal Outlook December 2012*

A.1.5. National unemployment is declining and the number of unemployed people fell by 82,000 between the two periods of May to July 2012 and August to October 2012. Figures for the three months up to October 2012 are 29.6 million people employed and 2.5 million people unemployed actively seeking work. The South East has the joint highest level of employment at 74.7% along with the East of England and the South West.

Graph A1:2 UK Labour Market August to October 2012 (millions)

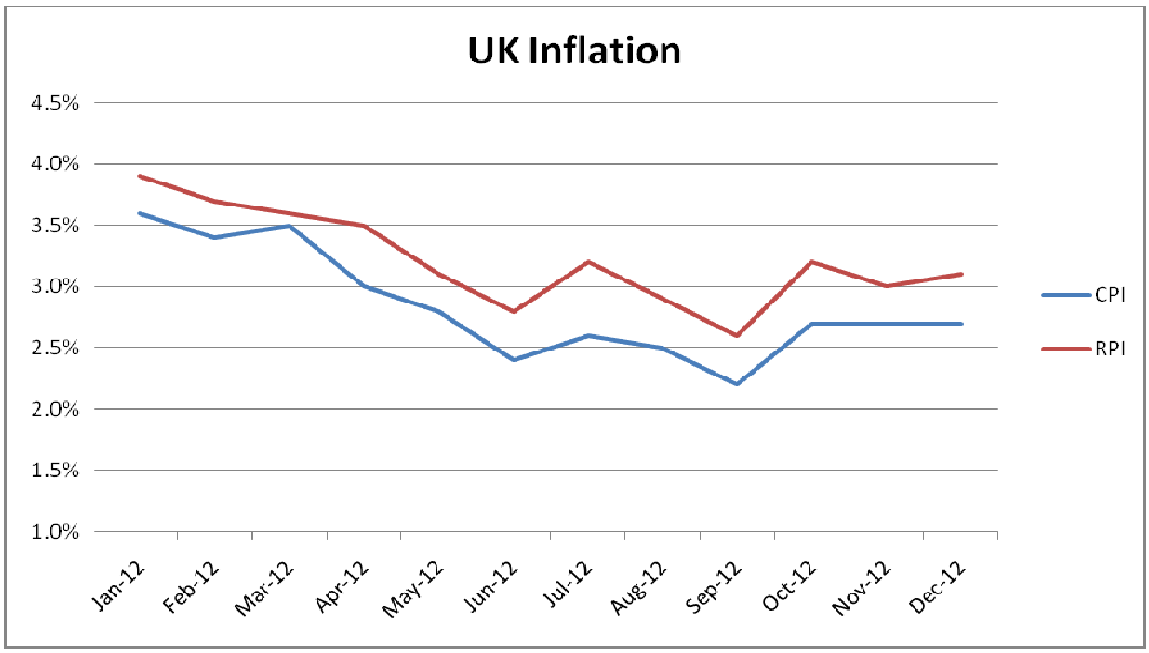


Source: Office for National Statistics, *Summary of Labour Market Statistics December 2012*

A.1.6. CPI in the year to December 2012 showed an increase of 2.7% (a rate unchanged since October 2012). The largest price increase was in bills for gas and electricity but

all increases were offset by downward pressures such as air fares rising at a slower rate than last year. The Retail Price Index (RPI) annual inflation stood at 3.1% (up 0.1 percentage points on November 2012). The main contributors to the rise were utility bills going up.

Graph A1:3: UK annual inflationary measures of CPI and RPI between January 2012 and December 2012.



Source: Office for National Statistics, *Consumer Price Indices October 2012.*

A.1.7. The Bank of England (BoE) is responsible for monetary and financial stability in the UK. The main tool at its disposal is to control the price of money through setting interest rates via the BoE base rate. The BoE responded to the recession with successive interest rate cuts in 2008 and 2009 and by March 2009 it was down to 0.5% where it has remained ever since. Many economic analysts are predicting that the rate will have to stay at this historic low for some time until the recovery is well established and growth levels are sustainable, with many independent forecasts not predicting an increase in the BoE base rate until 2014.

Public spending

A.1.8. On 5th December 2012 the Chancellor George Osborne presented the Autumn Statement to Parliament and in response to the economic environment the Government will continue to pursue its deficit reduction. The planned austerity programme will be extended by an additional year to 2017/18 and is an eighth year of cuts. A £6.6bn package of savings will be delivered from welfare, international development and departmental current spending. This will include a 1% reduction for the majority of departmental budgets in 2013/14, increasing to 2% in 2014/15. £5.5bn of the revenue savings will be re-invested in infrastructure as capital expenditure and provide support for long-term private investment, including science infrastructure and schools.

A.1.9. The Institute for Fiscal Studies (IFS) states that given the protection status of the NHS, schools and the aid budgets, spending on other public services will have to fall by around 3% in 2015/16. Local government will be exempt from a 1% budget reduction in 2013/14, but will be required to find 2% savings in 2014/15. For Surrey County Council (SCC) this is estimated to be a further savings requirement of between £6m and £10m.

A.1.10. Welfare spending is a significant call on central government spending, so the Government is implementing a package of welfare reforms aiming to reduce overall expenditure. These include:

- the introduction of universal credit
- the introduction of a benefits cap
- changes to housing benefit
- changes to the social fund
- the abolition of the Disability Living Allowance
- localisation of council tax support
- changes to child maintenance

A.1.11. The Government aims to make £3.7bn savings through cuts to benefits by 2015/16. Most working age benefits and tax credits will be up-rated by 1% for three years from April 2013 (below the rate of inflation). Disability and carers benefits will be up-rated by price inflation. The above changes will have both direct and indirect impacts on the council, some of which are outlined in other parts of this report. In consequence, through a cross service group, the county council is looking to anticipate and identify these and manage any service impacts arising.

A.1.12. The Government has set a target of 2% for the underlying rate of inflation as measured by the Consumer Price Index (CPI). The annual rate of inflation has been running higher than this for the entirety of 2012 but is on a downward trend and significantly below the 5.2% peak in September 2011. This has been ascribed to lower energy prices and a fall in the price of imports in quarter two of 2012. The Bank of England (BoE) predicts inflation will stay above target in the first half of 2013 but move closer to 2% in the latter half as increased productivity and the easing of external prices such as commodities lower the pressure on companies' costs.

Budget assumptions					
	2013/14 **£000s**	2014/15 **£000s**	2015/16 **£000s**	2016/17 **£000s**	2017/18 **£000s**
Business rates retention grants					
Revenue support grant and business rates top-up	**210,276**	**196,206**	**189,798**	**183,487**	**177,856**
Dedicated schools grant	**600,732**	**592,405**	**590,405**	**590,405**	**590,405**
Other government grants					
ACL, Skills Funding Agency	2,446	2,446	2,446	2,446	2,446
Area of ONB grant	137	137	137	137	137
Asylum Seekers	1,640	1,640	1,640	1,640	1,640
Bikeability	240	240	240	240	240
Community right to challenge	9	9	9	9	9
Education Funding Agency (ex YPLA)	19,331	19,331	19,331	19,331	19,331
Education services grant (ESG)	16,600	16,600	16,600	16,600	16,600
Extended rights to free travel & sustainable travel	835	835	835	835	835
Fire pensions	6,769	8,341	10,967	9,351	10,579
Fire revenue grant	379	405	405	405	405
GUM services	0	3,630	3,993	4,392	4,832
Lead local flood authorities	375	375	375	375	375
Local Sustainable Transport Fund	750	630	0	0	0
Local Sustainable Transp. Fund (large bid)	1,725	2,009	0.000	0.000	0
Local Reform and Community Voices DH revenue grant	700	700	700	700	700
Music Grant	1,043	1,061	1,061	1,061	1,061
New Homes Bonus	2,825	3,825	5,825	7,825	9,825
NHB-returned topslice	855	855	855	855	855
Private Finance Initiative	11,900	11,900	11,900	14,900	14,900
Public health	23,237	25,561	28,117	30,928	34,021
Pupil Premium	15,049	15,049	15,049	15,049	15,049
Registration service	21	21	21	21	21
Right to Control Trailblazers	165	0	0	0	0
SEN pathfinder	165	165	165	165	165
Social care reform grant	1,865				
Social fund (incl. administration)	1,162	1,145	1,145	1,145	1,145
South-east protected landscape	33	33	33	33	33
Troubled families	879	644	0	0	0
Youth Justice Board	896	896	896	896	896
Total other government grants	**112,030**	**118,482**	**122,744**	**129,338**	**136,099**
Total government grants	**923,038**	**907,093**	**902,947**	**903,230**	**904,360**

note: any minor casting anomalies are due to roundings.

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2013 – 18 Revenue budgets

A.3.1. This appendix contains the overall budget position for the council, then by category. Each budget is prefaced by a commentary outlining the 13/14 budget position, future issues affecting the directorate over the subsequent four years and how the directorate is going to manage the situation

A.3.2. The categories are in order:

- Adults Social Care
- Children, Schools & Families with Delegated Schools
- Customer & Communities
- Environment & Infrastructure
- Public Health (New for 13/14)
- Change and Efficiency
- Chief Executive Office
- Central Income & Expenditure

A.3.3. The revenue budgets have been rebased on the funding reporting strategy workstream recommendation from a Net Revenue expenditure position to a gross revenue expenditure position. All expenditure is gross rather than netted off for non government grant and council tax income (fees & charge). Funding is now inclusive of all government grants and local taxation (business rates surplus and council tax). However, to allow comparison with past years, both presentations of the budget are shown.

A.3.4. This appendix outlines the draft 2013/18 revenue budget by:

- income and expenditure type ; and
- total income and service expenditure

Surrey County Council

Chief Executive Officer: David McNulty

Chief Finance Officer and Deputy Strategic Director for Change & Efficiency: Sheila Little

Draft Income & Expenditure category

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
Local taxation - Council Tax	(580,026)	(550,429)	(571,843)	(585,944)	(603,546)	(621,656)
Local taxation - Business rates surplus	0	(43,863)	(45,208)	(46,655)	(47,821)	(49,303)
Local taxation	(580,026)	(594,292)	(617,051)	(632,599)	(651,367)	(670,959)
UK Government grants	(915,935)	(923,039)	(907,094)	(902,948)	(903,232)	(904,361)
Other bodies grants	(13,170)	(17,219)	(17,274)	(17,330)	(17,388)	(17,446)
Fees & charges	(74,671)	(79,355)	(80,083)	(81,089)	(82,117)	(82,342)
Property income	(3,880)	(4,125)	(4,387)	(4,483)	(4,582)	(4,683)
Income from investment	(992)	(594)	(222)	(97)	(44)	(5,166)
Joint working income	(12,232)	(15,739)	(15,940)	(16,107)	(16,254)	(16,401)
Reimbursements and recovery of costs	(27,340)	(25,905)	(20,917)	(22,003)	(22,491)	(22,872)
Total funding	(1,628,246)	(1,660,268)	(1,662,968)	(1,676,656)	(1,697,475)	(1,724,230)
Expenditure						
Service staffing	297,569	302,531	306,476	307,003	310,566	314,330
Service non-staffing	828,660	858,838	840,464	855,625	872,881	895,872
Schools - net expenditure	518,856	521,855	516,028	514,028	514,028	514,028
Total expenditure	**1,645,085**	**1,683,224**	**1,662,968**	**1,676,656**	**1,697,475**	**1,724,230**
less non government grant income	(132,285)	(142,937)	(138,823)	(141,109)	(142,876)	(148,910)
Revenue budget	1,512,800	1,540,287	1,524,145	1,535,547	1,554,599	1,575,320
less specific grant and local taxation income	(1,495,961)	(1,517,331)	(1,524,145)	(1,535,547)	(1,554,599)	(1,575,320)
Funded by reserves	**16,839**	**22,956**	**0**	**0**	**0**	**0**

Income & Expenditure by Category

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(1,628,246)	(1,660,268)	(1,662,968)	(1,676,656)	(1,697,475)	(1,724,230)
Budgets						
Adults Social Care	390,632	403,061	414,110	431,292	449,262	473,389
Children, Schools & Families	325,529	324,761	333,871	339,057	336,990	345,790
Schools Delegated Budgets	518,856	521,855	516,028	514,028	514,028	514,028
Customer & Communities	83,976	82,876	85,218	88,008	87,310	89,674
Environment & Infrastructure	135,526	142,804	145,643	143,298	146,751	150,776
Public Health		26,537	29,191	32,110	35,321	38,853
Change & Efficiency	96,704	96,219	97,491	98,039	101,030	104,305
Chief Executive Office	14,311	16,054	14,852	14,350	14,661	14,980
Policy Initiatives	1,508					
Central Income & Expenditure	78,044	69,057	73,152	70,419	74,451	72,297
Additional savings			-46,588	-53,945	-62,329	-79,862
Total	1,645,086	1,683,224	1,662,968	1,676,656	1,697,475	1,724,230
Funded by reserves savings	16,840	22,956	0	0	0	0

Government Grants

13/14 Grants	ASC £'000s	CSF £'000s	Schools £'000s	C&C £'000s	E&I £'000s	PH £'000s	CAE £'000s	CIE £'000s	13/14 £'000s
Core funding									
Business Rates Retention								**210,276**	**210,276**
Dedicated School Grant		107,618	482,177					3,991	**593,786**
Dedicated School Grant - 12/13 c/f		1,119	5,827						**6,946**
Total Dedicated schools grant	**0**	**108,737**	**488,004**	**0**	**0**	**0**	**0**	**3,991**	**600,732**
ACL, Skills Funding Agency				2,446					**2,446**
Area of ONB					137				**137**
Asylum Seekers		1,640							**1,640**
Education Funding Agency (YPLA)			19,331						**19,331**
Pupil Premium		529	14,520						**15,049**
Bikeability					240				**240**
Community right to challenge (£9,000)								9	**9**
Education Support Grant								16,600	**16,600**
Extended rights to travel		567			268				**835**
Fire pensions				6,769					**6,769**
Fire revenue grant				379					**379**
GUM services									**0**
Lead local flood authority					375				**375**
Local Reform and Community Voices Dept Health revenue grant	700								**700**
Local Sustainable Transp. Fund (large bid)					1,725				**1,725**
Local Sustainable Transp. Fund (std)					750				**750**
Music Grant				1,043					**1,043**
New Homes Bonus								2,825	**2,825**
New Homes Bonus - top slice								855	**855**
PFI								11,900	**11,900**
Public health						23,237			**23,237**
Registration Deaths				21					**21**
Right to Control	165								**165**
SEN Pathfinder		165							**165**
Social fund (incl. Administration)							1,162		**1,162**
South East Protected Landscape grant					33				**33**
Troubled Families		879							**879**
Youth Justice Board		896							**896**
Total other grants	**865**	**4,676**	**33,851**	**10,658**	**3,528**	**23,237**	**1,162**	**32,189**	**110,166**
13/14 UK Government grants	**865**	**113,413**	**521,855**	**10,658**	**3,528**	**23,237**	**1,162**	**246,456**	**921,174**
From the Balance Sheet:									
Social Care Reform grant	1,865								**1,865**
Total UK Government grants	**2,730**	**113,413**	**521,855**	**10,658**	**3,528**	**23,237**	**1,162**	**246,456**	**923,039**

Adults Social Care

Strategic Director: Sarah Mitchell
Strategic Finance Manager: Paul Carey-Kent

A.3.5. The Directorate faces pressures of £182m (£186m of movements, some of which are covered by new external funding) over the five year planning period, due mainly to the expected impact of increased numbers of people receiving services (£97m), inflation (£47m), the need to replace one-off savings (£15m) and a prudent view being taken of the possibility of a funding shortfall arising from the Government's planned implementation of reforms following on from the Dilnot Report (£20m). In that context, ASC is grateful for the additional corporate support proposed in 2013-14, which would reduce the savings requirement from £57m (were savings required to match all the pressures identified) to £44.5m in the first year of the strategy. The position remains extremely challenging, as the savings needed in 2013/14 are significantly greater than those required by the previous three years' budgets (£32m + £28m + £28m). However, the Directorate's success in 2010-13 does indicate that substantial savings can be made while the Directorate's performance continues to improve.

A.3.6. In practice, the main impact of the savings actions planned should be to reduce the effect of those pressures. A whole suite of measures is in place designed to prevent the cost and intensity of care needs from rising: to re-able those who do require help so that long term care is not needed; to review existing packages to ensure that the most cost-effective and personalised care is in place; to minimise the cost of new packages by applying personalisation in a more creative way; and to make the best of partnership working to reduce the Council's costs. Given the scale of the challenge, sharp monitoring mechanisms are being developed at locality and county levels to help see these actions through. It is hoped that inflation can be minimised (as it has been in 2010-13) by developing joint commissioning approaches with our contracting partners. It is also critical to work closely with the NHS to obtain best value from the new structures which come into place from 1 April 2013.

A.3.7. Overall then, it is expected that spending will be considerably less than it would have been had no such actions been in place. Plans will continue to be overseen by an Implementation Board including a wide range of partner organisations and jointly chaired by the Cabinet Member for Adult Social Care and the Chairman of the Surrey Coalition, a consultative approach which has worked well to date.

Adults Social Care

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	0	(2,730)	(700)	(700)	(700)	(700)
Other bodies grants	(10,161)	(14,297)	(14,297)	(14,297)	(14,297)	(14,297)
Fees & charges	(37,800)	(37,800)	(37,800)	(37,800)	(37,800)	(37,800)
Property income:	0	0	0	0	0	0
Income from investment	0	0	0	0	0	0
Joint working income	(9,361)	(8,439)	(8,439)	(8,439)	(8,439)	(8,439)
Reimbursements and recovery of costs	(1,806)	(1,806)	(1,806)	(1,806)	(1,806)	(1,806)
Total funding	**(59,128)**	**(65,072)**	**(63,042)**	**(63,042)**	**(63,042)**	**(63,042)**
Expenditure						
Service staffing	71,943	73,765	74,072	73,695	73,301	73,167
Service non-staffing	318,689	329,296	340,038	357,597	375,961	400,222
Schools - net expenditure	0	0	0	0	0	0
Total expenditure	**390,632**	**403,061**	**414,110**	**431,292**	**449,262**	**473,389**
Less non government grant income	(59,128)	(62,342)	(62,342)	(62,342)	(62,342)	(62,342)
Revenue budget	**331,504**	**340,719**	**351,768**	**368,950**	**386,920**	**411,047**
Less specific grant income	0	(2,730)	(700)	(700)	(700)	(700)
Net Budget supported by Council Tax and general government grants	**331,504**	**337,989**	**351,068**	**368,250**	**386,220**	**410,347**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(59,128)	(65,072)	(63,042)	(63,042)	(63,042)	(63,042)
Expenditure by service:						
Personal Care & Support	291,294	297,980	308,221	325,315	343,196	366,724
Service Delivery	20,256	20,499	20,996	20,598	20,194	19,794
Transformation	2,167	3,135	3,034	3,099	3,162	3,227
Commissioning	75,258	78,753	79,113	79,482	79,860	80,742
Strategic Director	1,657	2,694	2,746	2,798	2,850	2,902
	390,632	403,061	414,110	431,292	449,262	473,389
Adults Social Care	**331,504**	**337,989**	**351,068**	**368,250**	**386,220**	**410,347**

Children, Schools & Families and Delegated Schools

Strategic Director: Nick Wilson
Strategic Finance Manager: Paula Chowdhury

Budget 2013/14

A.3.8. The base revenue expenditure budget for the Children, Schools and Families Directorate in 2012/13 is £289m and in 2013/14 the proposed budget is £288m, giving an overall net reduction of £1m.

A.3.9. This overall budget for 2013/14 includes increased funding of £19.1m for service pressures:

- £10.4m newly defined service requirements for the Directorate eg nursery provision for two year olds; Lifelong Learners with Disabilities and Difficulties (LLDD) transfer and a more defined role for local authorities around school improvement responsibilities.
- £4.1m around specific demand led service pressures, particularly the increase in numbers of children subject to a child protection plan and requiring services. These numbers have increased by 47% since the start of 2011 and have been a significant budget pressure throughout 2012/13, despite the unit costs reducing. The other demand led budgets affected by increasing demographics is around Special Educational Needs.
- £4.6m for general inflation, pay inflation, adjustment of carry forward funding and general demographic growth.

A.3.10. The Directorate also has included in their budget a savings target for 2013/14 of £9.7m. This has been allocated to each of the individual services – Schools and Learning £7m; Children's Services £2.2m and Services for Young People £0.5m.

A.3.11. The 2013/14 Directorate budget of £288m also includes funding reductions of £10.9m, which are mainly as a result of Dedicated Schools Grant delegation of budgets from being centrally managed to schools, plus other grant changes.

A.3.12. The schools delegated base revenue budget in 2012/13 is £519m and in 2013/14 is proposed at £522m. The total Children, Schools and Families budget for 2013/14 is £810m, compared to £808m in 2012/13.

Medium Term Financial Plan 2013-18

A.3.13. Over the five year period of the MTFP, the Directorate is anticipating budget pressures to continue around increasing child protection numbers, increasing pressure on demand led budgets and general demographic increases. Service pressures will be exacerbated as the welfare reforms are introduced and potentially more vulnerable families go into crisis.

A.3.14. School improvement is becoming an increasing issue for local authorities despite the overall funding reducing. In the new framework the old category of "satisfactory" has been replaced by a new designation of "requires improvement". The implication of this is that Surrey now needs to support around 100 schools in making urgent improvements rather than the current 15-20. This is a very significant increase in work and funding of £1.9m has been requested as part of the budget proposals.

A.3.15. The Directorate has made savings of over £41m over the last three years whilst facing the challenge of a further £29m savings over the next five years. It is expected that this target will increase over the period, due to further funding and policy changes from central government. The Directorate has recognised these challenges and has established a Public Value Programme to research and identify efficiency savings and reductions across the Directorate. The focus of this work will be around reviewing - Early Help strategies and strengthening the preventative services; disability services and support for families with complex needs. Part of this work will be about strengthening partnership working with Health, Boroughs and Districts, the Police and the voluntary sector, maximising local resources through joint commissioning, joint working practices and community budgets.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
Dedicated Schools Grant	(108,721)	(108,737)	(106,237)	(106,237)	(106,237)	(106,237)
Other UK Government grants	(6,498)	(4,676)	(4,441)	(3,797)	(3,797)	(3,797)
Fees & charges	(27,241)	(27,692)	(28,191)	(28,981)	(29,787)	(29,787)
Property income						
Income from investment						
Joint working income						
Reimbursements and recovery of costs	(8,939)	(9,165)	(9,415)	(9,415)	(9,415)	(9,415)
Total funding	**(151,399)**	**(150,270)**	**(148,284)**	**(148,430)**	**(149,236)**	**(149,236)**
Expenditure						
Service staffing	100,561	102,451	104,495	104,404	106,530	108,730
Service non-staffing	224,968	222,310	229,376	234,653	230,460	237,060
Schools - net expenditure						
Total expenditure	**325,529**	**324,761**	**333,871**	**339,057**	**336,990**	**345,790**
Less non government grant income	(36,180)	(36,857)	(37,606)	(38,396)	(39,202)	(39,202)
Revenue budget	**289,349**	**287,904**	**296,265**	**300,661**	**297,788**	**306,588**
Less specific grant income	(115,219)	(113,413)	(110,678)	(110,034)	(110,034)	(110,034)
Net Budget supported by Council Tax and general government grants	**174,130**	**174,491**	**185,587**	**190,627**	**187,754**	**196,554**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(151,399)	(150,270)	(148,284)	(148,430)	(149,236)	(149,236)
Expenditure by service:						
Children's Service	83,217	86,338	91,089	93,971	95,881	98,373
Schools & Learning	219,640	214,579	219,237	223,722	227,774	233,615
Services for Young People	17,797	20,652	20,547	18,969	15,397	15,815
Strategy & Central Resources	4,875	3,192	2,998	2,395	-2,062	-2,013
	325,529	324,761	333,871	339,057	336,990	345,790
Children, Schools & Families	**174,130**	**174,491**	**185,587**	**190,627**	**187,754**	**196,554**

Delegated Schools

Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	(518,856)	(521,855)	(516,028)	(514,028)	(514,028)	(514,028)
Total funding	**(518,856)**	**(521,855)**	**(516,028)**	**(514,028)**	**(514,028)**	**(514,028)**
Expenditure						
Schools - net expenditure	518,856	**521,855**	**516,028**	**514,028**	**514,028**	**514,028**
Total expenditure	518,856	**521,855**	**516,028**	**514,028**	**514,028**	**514,028**
Net Budget supported by Council Tax and general government grants	0	**0**	**0**	**0**	**0**	**0**

Customer & Communities

Strategic Director: Yvonne Rees
Strategic Finance Manager: Susan Smyth

A.3.16. The Directorate faces pressures of £8.5m over the five year planning period, predominately due to expected inflation of £7.5m which need to be covered by efficiency actions. There are no significant volume changes expected. In addition there are expected increases in grant funded Fire pension expenditure of £3.5m. Savings of £4.1m are planned over the five year period.

A.3.17. The Fire Service is continuing to implement the Public Safety Plan on a phased basis and the budget has been rebased upon an improved understanding of service pressures and changes to the timing at which savings are assessed as achievable, and to also reflect expected grant funded Fire pension increases. In response to the West Sussex withdrawal from Horley Fire Station, £0.13m has been included to allow for a temporary solution pending the results of the consultation on fire cover within the area. A one off allocation of £0.4m for the innovative contingency crewing pilot and funding of £0.4m over two years for interim arrangements to facilitate property rationalisations have also been added. There are planned savings of £2.4m resulting from property rationalisations linked to capital investment, £0.5m from implementing staff agency arrangements and additional income generation of £0.7m. Contributions to the Fire Vehicle and Equipment Replacement Reserve reduce by £2.0m over a four year period, as a result of expenditure being funded by government grant, which has helped to fund overall pressures.

A.3.18. Across the rest of Customers and Communities, planned savings and increased income of £1.3m from the previous MTFP remain on track as planned. Additional budget of £0.4m has been added to fund a team to aid economic growth building upon the Olympic Legacy. The Community Infrastructure Fund, used to award grants to community groups has been increased by £0.3m in 2013/14.

Customer & Communities

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	(10,727)	(10,658)	(12,274)	(14,900)	(13,284)	(14,512)
Other bodies grants	(3,009)	(2,922)	(2,977)	(3,033)	(3,091)	(3,149)
Fees & charges:	(9,273)	(9,135)	(9,230)	(9,325)	(9,422)	(9,519)
Property income:						
Income from investment						
Joint working income		(280)	(283)	(286)	(289)	(292)
Reimbursements and recovery of costs	(1,114)	(531)	(554)	(791)	(1,063)	(1,223)
Total funding	**(24,123)**	**(23,526)**	**(25,318)**	**(28,335)**	**(27,149)**	**(28,695)**
Expenditure						
Service staffing	57,043	57,323	58,350	58,310	58,943	59,358
Service non-staffing	26,933	25,553	26,868	29,698	28,367	30,316
Schools - net expenditure						
Total expenditure	**83,976**	**82,876**	**85,218**	**88,008**	**87,310**	**89,674**
Less non government grant income	(13,396)	(12,868)	(13,044)	(13,435)	(13,865)	(14,183)
Revenue budget	**70,580**	**70,008**	**72,174**	**74,573**	**73,445**	**75,491**
Less specific grant income	**(10,727)**	**(10,658)**	**(12,274)**	**(14,900)**	**(13,284)**	**(14,512)**
Net Budget supported by Council Tax and general government grants	**59,853**	**59,350**	**59,900**	**59,673**	**60,161**	**60,979**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(24,123)	(23,526)	(25,318)	(28,335)	(27,149)	(28,695)
Expenditure by service:						
Fire Service	45,428	45,751	47,716	49,780	48,332	49,932
Cultural Services	24,932	24,992	25,502	25,999	26,515	27,042
Customer Services	4,159	4,010	4,088	4,172	4,257	4,341
Trading Standards	2,540	2,480	2,531	2,581	2,633	2,687
Community Partnership & Safety	2,758	3,476	3,277	3,330	3,384	3,440
Directorate Support	4,159	2,167	2,104	2,146	2,189	2,232
	83,976	82,876	85,218	88,008	87,310	89,674
Customer & Communities	**59,853**	**59,350**	**59,900**	**59,673**	**60,161**	**60,979**

Environment & Infrastructure

Strategic Director: Trevor Pugh
Strategic Finance Manager: Tony Orzieri

2013/14 budget

A.3.19. Environment & Infrastructure faces pressures and growth of £5.7m in 2013/14 (net of funding changes), primarily inflation of £4.8m across all budgets including waste disposal, highways and local bus contracts. Two additional pressures are anticipated – the cost of replacing bus services previously operated by Countryliner (£0.3m) and costs of operating the concessionary fares travel scheme for the elderly and disabled (£0.3m) due to increased patronage and fares.

A.3.20. These pressures are offset by planned savings of £6.2m in 2013/14 (in addition to £10.6m expected to be made in 2012/13). These include savings from the ongoing "one team" organisational review (£1m), contract reviews (£0.8m), waste disposal (£0.6m) and savings from PVRs and the bus review (£0.4m). In addition a number of one-off savings will be made in 2013/14 while medium term strategies for delivering further sustainable savings are developed. These one off savings include use of accumulated parking income of £2.6m and other one off reductions to spend of £0.6m which includes ensuring that one-off grants are fully utilised against planned expenditure and that the Surrey Growth Fund budget remains at the level budgeted in the current year (2012/13). Where possible the impacts of these reductions will be mitigated through the use of income or developer money.

2013-18 budget

A.3.21. Over the 5 year period to 2017/18 Environment & Infrastructure faces pressures and growth of £19m, primarily inflation of £24m across the Directorate, offset by the reversal of one-off or time-limited grant expenditure and prior year funding. Work is ongoing to finalise the waste disposal contract variation and to take account of waste volume changes, and at this stage financial impacts are unclear and are therefore not reflected in this budget.

A.3.22. Over the same period savings of £7.6m are planned, plus one-off savings of £3.2m during 2013/14 explained above. Savings in Highways will rise to £3.5m by 2017/18 through efficiencies and additional income (including collaboration with SE7 partners, reducing insurance risks, improved management and recycling of waste materials, moving from reactive to planned maintenance). Environment will make savings of £1.7m by 2017/18 including by extracting value from recycled materials, reducing reliance on specialist advisors, reducing spend on waste minimisation and reviewing and reducing countryside expenditure. Savings will also be made through the one team organisational review (£1.8m) and review of bus services (£0.3m) and contract costs (£0.4m).

A.3.23. Further waste disposal efficiencies are planned in the medium term, in collaboration with partners across the Surrey Waste Partnership and SE7, by adopting a more consistent and efficient approach to disposal and recycling and taking advantage of new technologies and business models.

Environment & Infrastructure

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants	(1,033)	(3,528)	(3,692)	(1,053)	(1,053)	(1,053)
Other bodies grants						
Fees & charges		(4,396)	(4,522)	(4,636)	(4,753)	(4,874)
Property income						
Income from investment						
Joint working income		(4,037)	(4,122)	(4,213)	(4,306)	(4,400)
Reimbursements and recovery of costs	(9,944)	(5,448)	(3,245)	(3,819)	(3,906)	(3,994)
Total funding	**(10,977)**	**(17,409)**	**(15,581)**	**(13,721)**	**(14,018)**	**(14,321)**
Expenditure						
Service staffing	22,355	21,203	21,132	21,181	21,487	21,917
Service non-staffing	113,171	121,601	124,511	122,117	125,264	128,859
Schools - net expenditure						
Total expenditure	**135,526**	**142,804**	**145,643**	**143,298**	**146,751**	**150,776**
Less non government grant income	(9,944)	(13,881)	(11,889)	(12,668)	(12,965)	(13,268)
Revenue budget	**125,582**	**128,923**	**133,754**	**130,630**	**133,786**	**137,508**
Less specific grant income	**(1,033)**	**(3,528)**	**(3,692)**	**(1,053)**	**(1,053)**	**(1,053)**
Net Budget supported by Council Tax and general government grants	**124,549**	**125,395**	**130,062**	**129,577**	**132,733**	**136,455**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(10,977)	(17,409)	(15,581)	(13,721)	(14,018)	(14,321)
Expenditure by service:						
Environment	61,024	64,301	64,834	62,231	62,479	64,336
Highways	47,892	49,303	50,747	53,159	55,353	56,628
Economy, Transport & Planning	26,264	29,855	30,313	28,537	29,418	30,319
Directorate costs & savings (to be allocated)	346	-655	-251	-629	-499	-507
	135,526	142,804	145,643	143,298	146,751	150,776
Environment & Infrastructure	124,549	125,395	130,062	129,577	132,733	136,455

Public Health

Director of Public Health: Akeem Ali
Strategic Finance Manager: Paul Carey-Kent

A.3.24. The Health and Social Care Act 2012 transfers substantial health improvement duties to local authorities from 2013/14, funded by a ring-fenced specific grant based on estimates of historic spending from NHS Surrey. The budget is drafted in accordance with the £23.2m grant allocation. This is designed to cover all the services transferring from the PCT, however the Department of Health have recognised that £3.3m of Genito-Urinary Medicine (GUM) Services have been incorrectly excluded from the grant and we are therefore approaching our local Clinical Commissioning Group (CCG) partners for this funding. Discussions will proceed on this basis, and a balanced budget position will be finalised within the resources available when the outcome is known.

A.3.25. In the medium term the expected 10% growth in funding each year should enable us to deal with volume and price issues, whilst recognising that there is a growing demand for Public health services and that there has been historic underfunding of Public health services in Surrey which needs to be rectified.

A.3.26. For 2013/14 and 2014/15 the budget will fund the council's new public health responsibilities including:

- The transfer of specialist public health staff from the NHS to local authorities
- The six mandatory service areas as outlined Health Lives Healthy People (DH,2011):

    1. Commissioning appropriate access to sexual health services
    2. Commissioning the NHS Health Check programme
    3. Commissioning the health child programme 5-19 years
    4. Commissioning the national child measurement programme
    5. Ensuring that plans are in place to protect the population's health
    6. Ensuring NHS commissioners receive the public health advice they need

- Commissioning of 15 discretionary services guided by local needs such as tobacco control, substance misuse services, obesity initiatives and accidental injury prevention as outlined in Health Lives Healthy People (DH, 2011).

A.3.27. In 2015 responsibility for services for children under the age of 5 will transfer to Local Authorities including health visiting, the healthy child programme and family nurse partnership. The expectation is that the budget currently allocated to these services will come to Local Authorities.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants [1]		(23,237)	(29,191)	(32,110)	(35,321)	(38,853)
Reimbursements and recovery of costs [2]		(3,300)				
Total funding		**(26,537)**	**(29,191)**	**(32,110)**	**(35,321)**	**(38,853)**
Expenditure						
Service staffing		**2,727**	**2,782**	**2,838**	**2,895**	**2,953**
Service non-staffing		**23,810**	**26,409**	**29,272**	**32,426**	**35,900**
Total expenditure	0	**26,537**	**29,191**	**32,110**	**35,321**	**38,853**
Less non government grant income	0	**(3,300)**	**0**	**0**	**0**	**0**
Revenue budget	0	**23,237**	**29,191**	**32,110**	**35,321**	**38,853**
Less specific grant income	0	**(23,237)**	**(29,191)**	**(32,110)**	**(35,321)**	**(38,853)**
Net Budget supported by Council Tax and general government grants	0	**0**	**0**	**0**	**0**	**0**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	0	(26,537)	(29,191)	(32,110)	(35,321)	(38,853)
Expenditure by service:						
Public Health		26,537	29,191	32,110	35,321	38,853
Public Health	0	0	0	0	0	0

Notes:

1. The grant for Public Health has been announced for 2013/14 and 014/15. It is assumed that following current government policy the funding will increase by 10% each year after this.
2. In 2013/14 £3.3m of GUM funding has been allocated to CCG's by the DoH. Public Health will work with local partners in 2013/14 to access this funding and work to adjust the funding for 2014/15

Change and Efficiency

Strategic Director: Julie Fisher
Strategic Finance Manager: Susan Smyth

A.3.28. Savings of £6.6 m will be delivered over the five years by delivering transformational change. Over the longer term, the Directorate will focus on delivering services and procuring services in partnership to drive efficiencies through economies of scale and securing improved commercial arrangements with suppliers. Partnership working is already helping to achieve savings. The Directorate will continue to develop its business support offer to other organisations, examples include the recent agreement to provide transactional and IT services to East Sussex. The Directorate will also seek to provide professional consultancy services such as human resources and procurement, through to specialised services including treasury and insurance services. Savings will be monitored throughout the year during regular cabinet member briefings and quarterly accountability meetings.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants		(1,162)	(1,145)	(1,145)	(1,145)	(1,145)
Fees & charges	(195)	(197)	(202)	(206)	(211)	(215)
Property income	(3,880)	(4,125)	(4,387)	(4,483)	(4,582)	(4,683)
Joint working income	(2,850)	(2,962)	(3,074)	(3,147)	(3,197)	(3,247)
Reimbursements and recovery of costs	(5,074)	(5,184)	(5,417)	(5,682)	(5,800)	(5,923)
Total funding	**(11,999)**	**(13,630)**	**(14,225)**	**(14,663)**	**(14,935)**	**(15,213)**
Expenditure						
Service staffing	35,817	35,453	35,970	36,687	37,355	38,116
Service non-staffing	60,887	60,766	61,521	61,352	63,675	66,189
Total expenditure	**96,704**	**96,219**	**97,491**	**98,039**	**101,030**	**104,305**
Less non government grant income	(11,999)	(12,468)	(13,080)	(13,518)	(13,790)	(14,068)
Revenue budget	**84,705**	**83,751**	**84,411**	**84,521**	**87,240**	**90,237**
Less specific grant income	0	(1,162)	(1,145)	(1,145)	(1,145)	(1,145)
Net Budget supported by Council Tax and general government grants	**84,705**	**82,589**	**83,266**	**83,376**	**86,095**	**89,092**

Change & Efficiency

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(11,999)	(13,630)	(14,225)	(14,663)	(14,935)	(15,213)
Expenditure by service:						
Property Services	39,997	40,121	40,732	40,483	42,077	43,810
Information Management & Technology	24,415	23,211	23,732	24,216	24,733	25,261
Finance	10,237	10,346	10,782	11,185	11,696	12,250
HR & Organisational Development	11,374	10,905	10,978	11,056	11,286	11,521
Shared Services	5,546	6,654	6,764	6,895	7,032	7,174
Procurement	3,135	3,184	3,246	3,310	3,377	3,444
Transformational Change	2,000	1,798	1,257	894	829	845
	96,704	96,219	97,491	98,039	101,030	104,305
Change & Efficiency	**84,705**	**82,589**	**83,266**	**83,376**	**86,095**	**89,092**

Chief Executive Office

Asst Chief Executive: Susie Kemp
Strategic Finance Manager: Susan Smyth

A.3.29. The Directorate faces ongoing pressures of £1.7m over the 5 year planning period. This is predominately due to expected inflation of £1.5m, but also £0.4m has been added to the Legal budget to reflect the increased costs due to both the number and complexity of child protection cases. These pressures are offset slightly by the removal of one off budgets in relation to the Superfast broadband project and Jubilee celebrations. A one off increase of £1.5m has been added to the 2013/14 budget to fund the estimated cost of holding County Council elections.

A.3.30. Savings of £1.0m are planned over the five year period. Of this £0.2m was achieved early during 2012/13 and is reflected within the 2013/14 budget. £0.8m is planned for 2015/16 through a reconfiguration of the directorate. This will require a significant change to the operation and design of the directorate.

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
UK Government grants						
Other bodies grants						
Fees & charges	(162)	(135)	(138)	(141)	(144)	(147)
Property income:						
Income from investment						
Joint working income	(21)	(21)	(22)	(22)	(23)	(23)
Reimbursements and recovery of costs	(463)	(471)	(480)	(490)	(501)	(511)
Total funding	**(646)**	**(627)**	**(640)**	**(653)**	**(668)**	**(681)**
Expenditure						
Service staffing	8,897	9,183	9,363	9,546	9,737	9,931
Service non-staffing	5,414	6,871	5,489	4,804	4,924	5,049
Schools - net expenditure						
Total expenditure	**14,311**	**16,054**	**14,852**	**14,350**	**14,661**	**14,980**
Less non government grant income	(646)	(627)	(640)	(653)	(668)	(681)
Revenue budget	**13,665**	**15,427**	**14,212**	**13,697**	**13,993**	**14,299**
Less specific grant income	0	0	0	0	0	0
Net budget supported by Council Tax and general government grants	**13,665**	**15,427**	**14,212**	**13,697**	**13,993**	**14,299**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(646)	(627)	(640)	(653)	(668)	(681)
Expenditure by service:						
Chief Executive Office	494	472	481	491	501	511
Re-configuration of CEO Directorate	0	0	0	-800	-800	-800
Emergency Management	521	499	511	519	530	540
Communications	1,883	1,882	1,918	1,961	2,011	2,043
Legal & Democratic	7,836	9,899	8,572	8,740	8,919	9,104
Policy & Performance	3,577	3,302	3,370	3,439	3,500	3,582
	14,311	**16,054**	**14,852**	**14,350**	**14,661**	**14,980**
Chief Executive Office	13,665	15,427	14,212	13,697	13,993	14,299

Central Income & Expenditure

Strategic Director: Julie Fisher
Deputy Chief Finance Officer: Kevin Kilburn

A.3.31. The Central Income and Expenditure budget provides for items of income and expenditure that are not directly related to service provision, or are as a result of past decisions. This budget supports the council's corporate priorities by providing the resources to ensure the provision of the council's capital programme and has a sound financial standing both now and in the future. This is achieved through the use of the Risk Contingency budget and the long term stability of the pension fund.

A.3.32. The gross expenditure under this budget has reduced by £9m to £69m for the 2013/14 financial year. A significant part of this reduction - £11.8m – is due to the planned reversal of one-off budget items included in the 2012/13 budget. These include revenue contribution to the Invest to Save budget, which is now a standalone fund; a one contribution to the capital programme, and contributions to the council's earmarked reserves. In reviewing its treasury management policy, the council has reduced the minimum amount of cash it must hold and the estimated life of its new assets. Overall this has led to a saving of £3.4m.

A.3.33. On 1 April 2013 council is required by the Pensions Act 2008 to ensure that all its employees are enrolled into one of its pension schemes. Individuals will then be able to voluntarily leave the scheme. Although the number of employees remaining in the scheme cannot be forecast accurately, the council estimates that the cost of this will be around £1m.

A.3.34. The council holds a risk contingency budget to cover for savings and reductions not being made in full. The 2012-17 MTFP included £8m for the 2013/14 financial year, but with the increased level of savings and greater uncertainty around funding, this is being increased to £13m. This increase will be funded from the Budget Equalisation Reserve.

A.3.35. For the remainder of the five year plan the central income and expenditure budgets increases to £72m. This increase reflects two significant pressures. The first is the revenue financing of the council's capital programme, and the second is the impact of the triennial actuarial review of the pension fund. This is estimated to increase the employer contributions by £5m from 2014/15.

Central Income & Expenditure

Draft Income & Expenditure category summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding						
Local taxation - Council Tax	(580,026)	(550,429)	(571,843)	(585,944)	(603,546)	(621,656)
Local taxation - Business Rates		(43,863)	(45,208)	(46,655)	(47,821)	(49,303)
UK Government grants	(270,100)	(246,456)	(233,386)	(228,978)	(227,667)	(224,036)
Other bodies grants						
Fees & Charges:						
Property income:						
Income from investment	(992)	(594)	(222)	(97)	(44)	(5,166)
Joint working income						
Reimbursements and recovery of costs						
Total funding	**(851,118)**	**(841,342)**	**(850,659)**	**(861,674)**	**(879,078)**	**(900,161)**
Expenditure						
Service staffing	953	426	312	342	318	158
Service non-staffing	77,090	68,631	72,840	70,077	74,133	72,138
Schools - net expenditure						
Total expenditure	**78,043**	**69,057**	**73,152**	**70,419**	**74,451**	**72,296**
Less non government grant income	(992)	(594)	(222)	(97)	(44)	(5,166)
Revenue budget	**77,051**	**68,463**	**72,930**	**70,322**	**74,407**	**67,130**
Less specific grant income	(850,126)	(840,748)	(850,437)	(861,577)	(879,034)	(894,995)
Net budget supported by Council Tax and general government grants	**(773,075)**	**(772,285)**	**(777,507)**	**(791,255)**	**(804,627)**	**(827,865)**

Draft service summary

	2012/13 £000s	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s
Funding	(851,118)	(841,342)	(850,659)	(861,674)	(879,078)	(900,161)
Expenditure by service						
Protected salaries & relocation	953	426	312	342	318	158
Pensions back funding	8,606	8,606	8,787	8,980	9,178	9,380
Redundancy & compensation	4,781	4,360	3,652	3,831	3,679	2,716
Invest to save	3,800	0	0	0	0	0
Risk contingencies	9,000	13,000	8,000	8,000	8,000	8,000
Changes to pension fund contributions	0	1,000	6,000	6,000	6,000	6,000
Land drainage precept	973	1,047	1,149	1,256	1,369	1,488
Contribution to/from reserves	9,229	3,597	4,183	-668	1,124	-656
Revenue Contribution to Capital Expenditure	2,000	0	0	0	0	0
Interest payable	16,073	15,983	16,944	17,700	19,347	19,386
Minimum Revenue Provision (MRP)	22,628	21,038	24,125	24,978	25,436	25,824
	78,043	69,057	73,152	70,419	74,451	72,296
Central Income and Expenditure	**(773,075)**	**(772,285)**	**(777,507)**	**(791,255)**	**(804,627)**	**(827,865)**

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		2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	MTFP 2013-18 Total £000s
Schools basic need							
CAE / Schools	Schools basic need	72,387	79,584	61,498	47,849		261,318
Recurring programmes							
ASC	Major adaptations	700	700	700	700	700	3,500
C&C	Fire vehicles & equipment reserve	1,652	2,284	1,190	1,368	2,018	8,512
C&C	Local Committee allocation	385	385	385	385	385	1,925
CEO	Community Building Grant scheme	150	150	150	150	150	750
CSF	Adaptations for children with disabilities	299	299	299	299	299	1,495
CSF	Foster carer grants	300	300	300	300	300	1,500
CSF	Schools devolved formula capital (ring-fenced grant) [1]	2,231	2,231	2,231	2,231	2,231	11,155
E&I	Highway maintenance	26,018	26,018	26,018	26,018	26,018	130,090
E&I	Bridge strengthening	2,076	1,956	1,956	1,956	1,956	9,900
E&I	Flooding & drainage	776	776	776	776	776	3,880
E&I	Local transport schemes	4,000	4,000	4,000	4,000	4,000	20,000
E&I	Maintenance at closed landfill sites	100	100	100	100	100	500
E&I	Rights of Way and byways	85	85	85	85	85	425
E&I	Road safety schemes	200	200	200	200	200	1,000
E&I	Safety barriers	256	256	256	256	256	1,280
E&I	Traffic signal replacement	550	550	550	550	550	2,750
E&I	Economic regeneration projects	1,000	1,000	1,000	1,000	1,000	5,000
CAE / Schools	Carbon reduction - Schools [1]	3,332	3,332	3,332	3,332	3,332	16,660
CAE / Schools	Schools - Disability Discrimination Act	447	456	466	477	487	2,333
CAE / Schools	Schools capital maintenance, inc.childrens centres [1]	10,328	10,328	10,328	10,328	10,328	51,640
CAE	Carbon reduction - Corporate	1,162	1,186	1,212	1,239	1,264	6,063
CAE	Fire risk assessments	358	365	373	382	390	1,868
CAE	Minor works/disability access	175	178	182	186	190	911
CAE	Non schools structural maintenance	5,454	5,526	5,604	5,683	5,797	28,064
CAE	IT Equipment Replacement Reserve	500	3,285	2,980	992	2,725	10,482
Total recurring programmes		**62,534**	**65,946**	**64,673**	**62,993**	**65,537**	**321,683**

		2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	MTFP 2013-18 Total £000s
Projects							
CAE / E&I	Basingstoke Canal Improvements	500	500	500	500		2,000
CAE / C&C	Cultural Services	150		1,250			1,400
CAE / C&C	Fire Station reconfiguration	2,000	4,500	3,500			10,000
CAE / C&C	Fire Stations minor works	200	200	200			600
CAE / C&C	Guildford Fire Station	2,530					2,530
CAE / C&C	Merstham Library	1,200					1,200
CAE / C&C	Fire training tower replacement		500				500
CAE / CSF	Portesbury SEN School	4,273	6,841	2,756	210		14,080
CAE / CSF	Portesbury SEN School-ring fenched grant	1,735					1,735
CAE / Schools	Replace aged demountables	3,265	1,585	985			5,835
CAE / CSF	SEN strategy	8,407	1,524				9,931
CAE / CSF	Short-Stay Schools	250					250
CAE / CSF	Youth Transformation	575	200				775
CAE	Joint Public Sector Property Projects	1,250	750				2,000
CAE	Projects to enhance income	350					350
CAE	Projects to reprovision and deliver capital receipts	2,000	2,400	200			4,600
ASC	Wellbeing centres	200	200	200	200		800
ASC	In-house capital improvement scheme	250	250	250	250	250	1,250
ASC	User led organisation hubs	150	150	150	150		600
E&I	Walton Bridge-ring fenced grant	4,004	444				4,448
E&I	Local sustainable transport fund grant	500	50				550
E&I	Local sustainable transport fund grant (large bid)	3,844	3,335				7,179
E&I	Safe cycling initiatives [1]	2,202					2,202
E&I	CIL funded schemes [2]	150	1,230	4,420	5,780	5,940	17,520
E&I	S.106 funded schemes [2]	1,700	1,700	1,700	1,700	1,700	8,500
CEO	Economic Development-Broadband	11,300					11,300
Total projects		**52,985**	**26,359**	**16,111**	**8,790**	**7,890**	**112,135**
Total Capital Schemes		**187,906**	**171,889**	**142,282**	**119,632**	**73,427**	**695,136**

Notes to Schemes

1. Spend will be linked to relevant capital grants which have not yet been announced
2. The CIL and S.106 scheme values are estimated amounts that reflect indicative funding levels for these schemes

Policy statement on reserves & balances

Introduction

A.5.1. 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

A.5.2. 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.

A.5.3. 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.

A.5.4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of Balances and Reserves

A.5.5. The Council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event.

A.5.6. 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.

A.5.7. While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future liabilities.

Level of Balances and Reserves

A.5.8. 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 net budget requirement, i.e. between £15m to £19m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. Going into 2012/13 the Chief Finance Officer recommended that the level of general balance was increased, to a maximum of £30m, in recognition of the unprecedented austerity agenda and anticipated future high level of service reductions & efficiencies likely to be required in future years.

A.5.9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty.

A.5.10. In this context the Chief Finance Officer report on the budget for 2013/14 recommends:

- holding general balances to £16.8m, combined with;
- providing a risk contingency within the revenue budget of £13m (increased from £8m in 2012/13) to mitigate against the risk of non-delivery of the service reductions & efficiencies included in budget proposals;
- the creation of an earmarked Revolving Investment & Infrastructure Fund to cover the capital financing costs of long-term investment in initiatives that will deliver savings and enhance income in the longer term, thus increasing the Council's long term financial resilience.

Proposed Policy for 2013/14

A.5.11. 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.

A.5.12. 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.

2012-13 Budget Public survey using SIMALTO modeling – Headline findings

A.6.1. The results of the survey are a **robust and reliable guide** to the views of Surrey residents. There were **701 responses**. The method used means the results reported are **representative of the whole county** - they include a balance of views from people of different ages, gender, socio-economic groups etc.

A.6.2. There are four key headline findings:

1. **The council's current spending closely reflects the spending priorities of Surrey's residents**
   A majority of residents would leave the allocation of current spend as it is now, altering the existing budget only slightly through increased investment in highways services, with corresponding reductions to the opening hours of libraries and recycling centres.

2. **The council understands its residents**
   The research company who ran the exercise reported that the similarity between the council's current spending and residents' preferences was notable and not typical for councils.

3. **A majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made in:**
   - Highways maintenance
   - Supporting young people into education, employment or training, including more apprenticeships
   - Supporting more older people to live independently

4. **Residents attach value to the council's services and reductions will cause dissatisfaction**
   If service levels were scaled back to the most basic level that was presented in the budget survey, 96% of respondents indicated they would complain to the council. They identified four areas that should be protected even if savings have to be made:

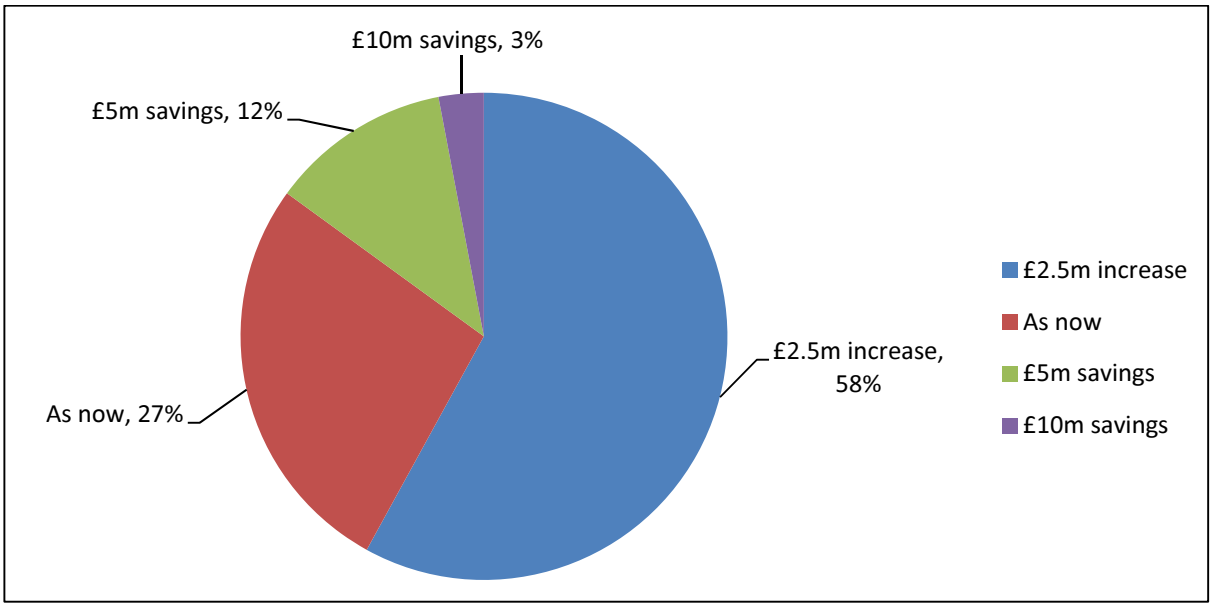
   - Fire and Rescue services
   - Highways maintenance
   - Residential care for dementia sufferers
   - Independent living for older people

A.6.3. The full set of data results from the survey can be found online at http://www.surreycc.gov.uk/your-council/consultations

Detailed results

A.6.4. Figure A6:1 shows that once informed about the impact of their service preferences on the council's spending (and their council tax) the consensus view from residents was slight increases to the current level of spend on the services they were surveyed on. 58% of respondents to the survey were willing to accept a £2.5m increase in council spend on the services (equating to a £6 annual council tax rise for the average home) to pay for their preferred service options.

Figure A6:1: Residents' budget scenario choice once informed of impact of their spending decisions (face-to-face sample)



A.6.5. Table A6.1 shows residents' consensus optimum service configurations for different spending scenarios. The column on the far right hand side illustrates the mix of services that residents expressed a preference for in a scenario where an additional £2.5m is invested in the services. The column of the far left hand side illustrates the mix of services that residents expressed a preference for in a scenario where spending on the services is reduced by £10m. The columns in-between illustrate the preferred mix of services in scenarios where spending on the services is reduced by £7.5m, £5m, £2.5m or remains as it is currently.

A.6.6. The yellow shaded options (in bold) indicate where the current service level has been 'improved', and the grey shading (italics) indicates reduction in service level.

Table A6.1: Optimum service configurations for different spending scenarios (face to face survey results)

Investment Scenario SIMALTO Points	**-£10m** **31**	**-£7.5m** **41**	**-£5m** **51**	**-£2.5m** **61**	**As now** **71**	**+£2.5m** **81**
Council Tax change	-	-	-	-	-	**+£6**
1 NEET support centres	*5 fewer*	*5 fewer*	As now	As now	As now	**More apprenticeships**
2 Children's centres	*6 fewer*	*6 fewer*	*6 fewer*	As now	As now	As now
3 Dementia care	*100 fewer*	As now	As now	As now	As now	As now
4 Elderly live at home	As now	As now	As now	As now	As now	**100 more**
5 Day centres	*Close 1*	*Close 1*	As now	As now	As now	As now
6 Learning difficulties	*20 fewer*	*20 fewer*	As now	As now	As now	As now
7 Fire and rescue	As now	As now	As now	As now	As now	As now
8 Library service	*Large reduction*	*Large reduction*	*Large reduction*	*Small reduction*	*Small reduction*	As now
9 Trading standards	*Halve protection*	*Halve protection*	*Halve protection*	As now	As now	As now
10 Arts & heritage	*No support*	*No support*	*No support*	*No support*	As now	As now
11 Road maintenance	As now	As now	As now	As now	**Increase**	**Increase**
12 Recycling centres	*Less hours*	*Less hours*	*Less hours*	*Less hours*	*Less hours*	As now
13 Bus routes	*Many fewer*	*Many fewer*	*Many fewer*	*Fewer*	As now	As now
14 Countryside estate	*Close all*	*Close all*	*Close all*	*Deteriorate*	As now	As now

A.6.7. Table A6:2 shows the complete hierarchy of preferred choices for the options on the SIMALTO grid. The options at the top of the list are those which the most number of residents selected as a priority. So, from a starting point where all services have reduced spending and provision the most popular thing to do when given a chance to allocate funds was to spend it on highways maintenance. The second most popular choice was to spend a further amount on highways maintenance. The third most popular choice was then to bring the number of fire engines back up. And so on.

Table A6:2: Complete hierarchy of preferred choices

Service	Change	% Preference Face-to-face	% Preference Web residents	Cost
11 Road maintenance	Big reduction → Reduction	91	93	£1m
11 Road maintenance	Reduction → as now	88	82	£1m
7 Fire and rescue	2 fewer → 1 fewer engine	86	89	£1m
1 NEET support	Close 10 centres → close 5	85	85	£1m
4 Elderly independent living	100 fewer → as now	84	89	£1m
7 Fire and rescue	1 fewer engine → as now	83	68	£1m
5 Disabled day centres	Close 2 → close 1	81	88	£500k
9 Trading standards	No support → Reduced	79	88	£250k
9 Trading standards	Reduce → as now	79	75	£250k
1 NEET support	Close 5 centres → as now	79	71	£1m
2 Children's centres	12 fewer → 6 fewer	78	83	£500k
2 Children's centres	6 fewer → as now	74	68	£500k
5 Disabled day centres	Close 1 → as now	73	75	£500k
6 Learning independence	20 fewer → as now	72	86	£1m
3 Dementia residential care	100 fewer → as now	72	71	£2.5m
12 Recycling centres	Fewer centres → fewer hours	70	84	£500k
13 Bus routes	12 fewer → 7 fewer	69	80	£1m
14 Countryside estate	Close sites → deterioration	67	81	£250k
14 Countryside estate	Deterioration → as now	67	71	£250k
13 Bus routes	7 fewer → as now	66	56	£1m
1 NEET support	As now → more apprenticeships	62	41	£500k
11 Road maintenance	As now → increase	62	44	£1m
8 Library services	Big reduction → Reduction	61	75	£500k
12 Recycling centres	Fewer hours → as now	58	64	£500k
8 Library services	Reduction → as now	53	57	£500k
2 Children's centres	As now → +1500 children	51	27	£500k
10 Arts & heritage	No support → as now	50	72	£250k
4 Elderly independent living	As now → 100 more	49	57	£1m
9 Trading standards	As now → Enhanced	47	37	£250k
7 Fire and rescue	As now → investment	35	13	£1m
6 Learning independence	As now → 20 more	30	55	£1m

continued ..

14 Countryside estate	As now → improved	30	24	£500k
13 Bus routes	As now → 7 more	27	13	£1m
11 Road maintenance	Increase → significant increase	27	15	£1m
1 NEET support	more apprenticeships → much more	24	14	£500k
10 Arts & heritage	As now → enhanced	24	26	£250k
2 Children's centres	+1500 children → +3000 children	22	9	£250k
8 Library services	As now → increase	22	12	£250k
9 Trading standards	Enhanced → + advice	21	12	£250k
3 Dementia residential care	As now → 100 more	19	23	£2.5m
12 Recycling centres	As now → some new	18	15	£500k
7 Fire and rescue	investment → more investment	15	4	£1m
14 Countryside estate	improved → much more	11	6	£500k
12 Recycling centres	some new → more new	9	3	£500k
8 Library services	Increase → + Sunday opening	8	5	£250k
13 Bus routes	7 more → 11 more	7	4	£1m

A.6.8. The results show that of the numerous individual changes to service levels from which residents could choose to prioritise, some key messages emerged regarding service enhancements that would cause them to be **most satisfied**, service levels that they most **wished to protect** from reductions, and others they would be relatively **less concerned** about if they were reduced:

Enhancement options that residents would be most satisfied with:

- More investment in Highways maintenance
- Investment in NEET support, including an increase in apprenticeships.
- Further investment in more older people being supported to live independently.

Services where provision should be protected even if savings have to be made:

- Fire and Rescue services.
- Highways maintenance.
- Residential care for dementia sufferers.
- Independent living for older people.

Service reduction options that would cause relatively least concern for residents (But which would still cause many people dissatisfaction)

- Reducing Libraries opening hours and fewer new books.
- Reducing opening hours for recycling facilities.
- Six to eight bus services removed.
- No support for Arts and Heritage services

RESEARCH METHODOLOGY

Background

A.6.9. The Council desired resident input into the 2013 Budget planning process that was as relevant and accurate as possible. Following a procurement process the SIMALTO Modelling approach was adopted. The Council has used this approach for budget consultations previously in 2005 and 2009. It has also been used by over 90 local authorities in the UK and worldwide.

A.6.10. This method asks respondents to make their priorities from a choice of defined alternative levels of each service. Respondents' choices are 'realistic' since the relative savings/extra costs of each different service level are shown to residents, and they only have fixed, constrained budgets to allocate across the competing service levels. This recognises some changes save/cost more than others, and residents (councils) cannot spend the same money twice

Method

A.6.11. The council prepared a matrix grid of 14 different services on which the level of service provision might be changed from 2012 to 20131. Individual alternative levels of service are described, each with the relative cost of their change from other levels of the same attribute, e.g. increased investment in road and footway maintenance (4 units, (12 - 8) on attribute 11) costs the same as 6-8 enhanced weekday bus services (4 units, (12 - 8) on attribute 13).

A.6.12. Very approximately, 1 point on the grid represents £250,000 of council budget, and the current service 'costs' 71 points (approximately £18million) on the grid. Respondents were invited to carefully read the whole sheet, and then carry out the following tasks.

Task 1 Cross out any options they thought were unacceptable, i.e. would cause them to complain or seriously consider doing so if this level of service was provided.

Task 2 Indicate the 5 or 6 services they thought were most important.

Task 3 Read the options in the first option box on each row, and indicate how 'pleased' they would be if that level of service were to be provided by the council.

Task 4 Allocate between 29 and 31 points on improving the overall service from this basic first option box position (first priorities)

Task 5 Allocate a further 20 points – second priority improvements

Task 6 Allocate a further 20 points – third priority improvements

Task 7 Allocate a final 15 points of improvements – fourth priority improvements

After each of Tasks 4 to 7, respondents indicated how 'pleased' they would be if this improved level of service were to be provided (with no associated change in council tax being implied).

[1] Note that the survey did not model the entire council budget. It focussed on 14 service areas with discretion to adjust spending levels

Task 8 Finally respondents were told the net effect that each of their scenarios would have on the county budget. The last scenario would require an approximate £6 annual increase in council tax for the average home.

First points allocation round	+30 point priorities	£10 million saving
Second points allocation round	+50 point priorities	£5 million saving
Third points allocation round	+70 point priorities	No change
Fourth points allocation round	+85 point priorities	£2.5 million increase (equates to approx £6 council tax increase for a Band D property)

Residents were then asked to select the scenario which they felt was most worth the cost.

Sample

A.6.13. A total of 701 people participated in the survey. The sample for the Simalto exercise was sourced using two different methods:

- 155 face-to-face interviews were completed to capture views that were representative of Surrey's residents across different ages and genders
- A web-based version of the Simalto exercise was run via the council's website. A total of 546 people participated in the web survey – 445 residents, 89 council officers and 12 Members.

A.6.14. When comparing the results between both samples, there are only very slight differences between their preferences.

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List of earmarked reserves

A.7.1 Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. Table A7.1 shows the Council's earmarked reserves. A description of each reserve follows below the table.

Table A7.1 Forecast year end balances for earmarked reserves

	Balance	Projected balance	
	31 March 2012 £m	**31 March 2013 £m**	**1 April 2013 £m**
Investment Renewals Reserve	11.1	12.2	12.2
Equipment Replacement Reserve	1.1	1.4	1.4
Vehicle Replacement Reserve	4.4	5.3	5.3
Waste Sites Contingency Reserve	0.3	0.3	0.3
Budget Equalisation Reserve	32.0	11.0	0.0
Financial Investments Reserve	9.5	9.5	0.0
Investment Reserve	5.0	5.0	0.0
Revolving Investment & Infrastructure Fund	0.0	0.0	20.0
Street Lighting Private Finance Initiative (PFI) Reserve	4.6	5.8	6.2
Insurance Reserve	7.2	7.4	7.4
Severe Weather Reserve	5.0	5.0	5.0
Eco Park Sinking Fund	3.0	8.0	8.0
Child Protection	1.3	2.7	2.7
Service Specific Government Grants	19.2	11.0	11.0
Interest Rate Risk Reserve	0.0	3.2	3.7
Economic Downturn Reserve	0.0	4.4	6.5
General Capital Reserve	8.4	7.5	7.5
Total earmarked reserves	**112.1**	**99.7**	**97.2**

Purpose of earmarked reserves

Investment Renewals Reserve enables services to invest to make savings in the future. The reserve makes loans to services, which are 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.

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

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

Waste Sites Contingency Reserve is held to meet as yet unquantifiable liabilities on closed landfill sites arising from the Environmental Protection Act 1990.

Budget Equalisation Reserve supports the following year's budget from previous years' income and carried forward revenue budget underspends. From 2011/12 £32m was brought forward and this was applied to support the 2012/13 revenue budget. The current forecast for the 2012/13 financial year is an underspending of £10m, which will be carried forward to support the 2013/14 budget.

Financial Investments Reserve was set up in 2008/09 to mitigate potential future losses due to the failure of banks and financial institutions the Council had deposits with (specifically Icelandic banks). During 2012/13 it has been determined that all of the outstanding money will be returned to the Council, albeit over a number of years, and it is therefore proposed that this reserve be converted to the Revolving Investment & Infrastructure Fund.

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. For 2013/14 this reserve will increase by £0.4m.

Insurance Reserve is to cover potential losses from the financial failure of Municipal Mutual Insurance (MMI) in 1992 and also possible claims against the council. The MMI 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 council's actuary has advised that the council holds £3.5m for the MMI liability and a further £3.9m for other possible insurance claims.

Severe Weather/Civil Emergency Reserve enables the Council to act decisively and with real urgency in the event of a serious incident.

Eco Park Sinking Fund is to set aside the surpluses in the early years of the waste contract would smooth out the budget variations in later years. An initial contribution of £3m was made in 2010/11 and a further £5m was contributed during 2012/13.

Investment Reserve was established to provide funds for the council to acquire properties and respond quickly and to take advantage of changes in the property market to fund its

capital programme. In 2013/14 it is proposed that this reserve be converted to the Revolving Investment & Infrastructure Fund.

Child Protection Reserve was set up in 2012/13 for the additional staffing costs as a result of the increase number of children subject to a child protection order. This reserve is to fund the costs until 2015/16, when the base budget will be increased to cover these costs.

Service Specific Government Grants Reserve holds government grants received in previous financial years which will be used to fund expenditure in the future.

Interest Rate Risk Reserve is to enable the Council to fund its capital programme from borrowing in the event of an expected change in interest rates or other borrowing conditions. The 2013/14 budget includes a £0.5m contribution to this reserve.

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.

Revolving Investment & Infrastructure Fund is to provide funding for initiatives that will deliver savings and enhance income in the longer term. This reserve will be set up with £20m: a combination of deleting the Financial Investment Reserve and the Investment Fund, with the balance to be made up from the surplus on the council tax collection fund (which will be determined before the end of the financial year 2012/13).

General capital Reserve holds unapplied capital grants largely arising due to late notification by government leaving it too late for the Council to be able to apply. The reserve is available to fund future capital expenditure.

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Treasury management strategy statement and prudential indicators 2013/18

Key issues and decisions

To set the Council's prudential indicators for 2013/14 to 2017/18, approve the minimum revenue provision (MRP) policy for 2013/14 and agree the treasury management strategy for 2013/14.

Introduction

B.1. Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changed market conditions, changes in regulation, and other changes in 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. This annex sets out updated versions of the Council's treasury management policy statement and Appendix B.8 sets out the Council's treasury management strategy.

B.2. Since 2009/10 the Council's treasury management strategy has followed an extremely cautious approach as a direct result of the Council's experience with Icelandic banks. Moving forward into 2013/14, several changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite. The changes are detailed below but can be summarised as follows.

- Maximise the benefit of current unprecedented low interest rates and our high cash balances by reducing the minimum cash balance from £135m to £49m. (paragraph B.26)
- Slightly expand the current counterparty list of institutions with which the Council will place short term investments to reflect market opinion as well as formal rating criteria. This means that Barclays Bank, whose rating change in 2012 reduced and effectively removed them from the eligible list is now eligible again. (paragraph B.45 to B.48 and Appendix B5)
- Increase the monetary limit for the two instant access accounts from £40m to £60m since both have nationalised status and therefore minimum risk. (paragraph B.43)
- Adjust the Council's minimum revenue provision policy to match the useful lives of the assets created or acquired.
  (paragraph B.77 and Appendix B7)

Background

B.3. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk

counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

B.4. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

B.5. CIPFA defines treasury management as:
"The management of the local authority's investments and 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."

Reporting requirements

B.6. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actual:

- treasury management policy, strategy statement and prudential indicators report
  - the capital plans (including prudential indicators);
  - a minimum revenue provision (MRP) policy, stating how residual capital expenditure is charged to revenue over time;
  - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments are to be managed).
- mid year treasury management update reports
  - update of progress on treasury and capital position
  - amendment of prudential indicators where necessary
  - view on whether the treasury strategy is on target or whether any policies require revision.
- an annual treasury management outturn report
  - details of the actual prudential and treasury indicators and actual treasury operations compared with the estimates within the strategy.

Treasury management strategy for 2013/14

B.7. The strategy for 2013/14 covers two main areas:

- capital issues:
  - the capital plans and the prudential indicators;
  - the minimum revenue provision (MRP) strategy.
- treasury management issues:
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - prospects for interest rates;
  - the borrowing strategy;

- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

B.8. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Treasury management consultant

B.9. The Council uses Sector as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

B.10. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Training

B.11. Officers and members involved in the governance of the Council's treasury management function are required to participate in training. Officers are also expected to keep up to date with matters of relevance to the operation of the Council's treasury function. Officers continue to keep abreast of developments via the CIPFA Treasury Management Forum as well as through local authority networks. Sector provides daily, weekly and quarterly newsletters and update meetings are held with Sector twice a year.

B.12. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Capital prudential indicators 2013/14 to 2017/18

B.13. The Prudential Code plays a key role in capital finance in local authorities. The Prudential Code was developed as a professional code of practice to support local authorities in their decision making processes for capital expenditure and its financing. Local authorities are required by statutory regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

B.14. The Council's capital expenditure plans are the key driver of treasury management activity. The framework of prudential indicators aims to ensure that an authority's capital investment plans are affordable, prudent and sustainable. As part of the

strategic planning process, authorities are required, on a rolling basis, to calculate a range of indicators for the forthcoming budget year and two subsequent years. Authorities are also required to monitor performance against indicators within the year as well as preparing indicators based on the statement of accounts at each year end. Indicators relate to capital expenditure, external debt and treasury management.

B.15. Members are asked to approve the prudential indicators set out in Appendix B1. Details and explanations of all prudential terms are set out in Appendix B2.

Borrowing

B.16. The capital expenditure plans set out in Appendix A4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

B.17. Table B1 summarises the Council's treasury portfolio position at 31 March 2012, with forward projections. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the capital financing requirement or CFR), highlighting any over or under borrowing. The authority has adopted a treasury management strategy that favours fixed rate borrowing to provide certainty over borrowing costs and rates of interest.

Table B1: Current portfolio position

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Actual	**Projected**	← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
External debt	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt at 1 April	320	315	320	328	362	385	383
Expected change in debt	3	14	21	44	33	8	-17
Other long-term liabilities (OLTL)							
Expected change in OLTL	-8	-9	-13	-10	-10	-10	-13
Actual gross debt at 31 March	315	320	328	362	385	383	353
Capital financing requirement	**541**	**555**	**644**	**688**	**721**	**730**	**713**
Under/(over) borrowing	**-226**	**-235**	**-316**	**-326**	**-336**	**-347**	**-360**

B.18. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the capital finance requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2013/14 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

B.19. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Prospects for interest rates

B.20. The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table B2 provides the Sector central view on interest rates. Appendix B3 sets out a summarised report on global economic outlook and the UK economy.

Table B2: Prospects for interest rates

Annual average	**Bank rate**	**PWLB borrowing rates (including certainty rate adjustment)**		
	%	**5 year %**	**25 year %**	**50 year %**
December 2012	0.50	1.50	3.70	3.90
March 2013	0.50	1.50	3.80	4.00
June 2013	0.50	1.50	3.80	4.00
September 2013	0.50	1.60	3.80	4.00
December 2013	0.50	1.60	3.80	4.00
March 2014	0.50	1.70	3.90	4.10
June 2014	0.50	1.70	3.90	4.10
September 2014	0.50	1.80	4.00	4.20
December 2014	0.50	2.00	4.10	4.30
March 2015	0.75	2.20	4.30	4.50
June 2015	1.00	2.30	4.40	4.60
September 2015	1.25	2.50	4.60	4.80
December 2015	1.50	2.70	4.80	5.00
March 2016	1.75	2.90	5.00	5.20

B.21. The economic recovery in the UK since 2008 has been the worst and slowest recovery in recent history, although the economy returned to positive growth in the third quarter of 2012. Growth prospects are weak and consumer spending, the usual driving force of recovery, is likely to remain under pressure due to consumers focusing on the repayment of personal debt, inflation levels eroding disposable income, the general malaise about the economy and employment fears.

B.22. The primary drivers of the UK economy are likely to remain external. Some 40% of UK exports go to the Eurozone, so the difficulties in this area are likely to continue to hinder UK growth. The US, the main world economy, faces similar debt problems to the UK and has appeared to resolve the difficulties of the fiscal cliff now that the the Presidential elections are out of the way. US fiscal tightening and continuing Eurozone problems will continue to depress UK growth and we are likely to see the UK deficit reduction plans slip.

B.23. This challenging and uncertain economic outlook has several key treasury management implications.

- The Eurozone sovereign debt difficulties provide a clear indication of high counterparty (a counterparty is the opposite party participating in a financial transaction) risk. This continues to require the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2013/14 and beyond.
- Borrowing interest rates continue to be attractive and may remain relatively low for some time. The timings of future borrowing will need to be monitored carefully.
- There will remain a cost of carry: any borrowing undertaken that results in an increase in the investment portfolio will incur a revenue loss between the borrowing cost and the investment return.

Borrowing strategy

B.24. The Council is currently maintaining a significantly under-borrowed position. This means that the capital borrowing need (the capital financing requirement) has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. At 31 March 2012, the level of under-borrowing amounted to £175.4m. This strategy is prudent and has proved to be extremely effective as investment returns are at a historic low and counterparty risk remains relatively high.

B.25. The question remains as to how much longer this under-borrowing strategy will be appropriate and relevant. The Council's current policy of funding external borrowing from internal reserves, thus saving the difference between the cost of capital and the investment return available in the money markets will not hold permanently. At some point in the medium term, the Council will be required to reverse this policy and fund its position from external sources as long term gilt yields and interest rates will eventually rise, thus impacting on the Public Work Loans Board (PWLB) rates.

B.26. The Council is faced with a loan repayment of £68m in September 2013. How this loan will be replaced and how the current internal borrowing gap will be eventually bridged will depend on market projections over 2013/14 and officers will take advice from the Council's treasury consultant (Sector) as to the future directions of the market over the next year. In the current low interest rate and low gilt yield environment, which is not expected to change in the short term, the Council is well placed to take advantage of this repayment in terms of funding it from reserves, and then refinancing it at the optimum time over the medium term future. To facilitate this, it is therefore recommended that the full County Council agree to reduce the minimum cash level from £135m to £49m.

B.27. There will be an optimal opportunity to take advantage of financing for the long term at historically low rates, just prior to those long term rates rising upwards. The Council must be strategically poised to take advantage of this opportunity and will assess the timing carefully in order to take full advantage. It is expected that the return to external borrowing will take place on a gradual basis in order to reduce the impact of reverse movements in the market to those anticipated. This underlines the Council's need to maintain a cautious and low risk approach and monitor on a daily basis the economic position against the Council's existing treasury position.

B.28. Against this background and the risks within the economic forecast, a level of continued caution will be adopted with the 2013/14 treasury management operations. The Chief Finance Officer's staff will continually monitor interest rates in financial markets and adopt a pragmatic approach to future changing circumstances.

B.29. There are two possible risks in 2013/14:

- The risk of an additional fall in long and short term rates (e.g. due to a marked increase of risks around a further relapse into recession or of risks of deflation). In this case, long term borrowings will be postponed, and potential debt rescheduling from fixed rate funding into short term borrowing will be considered.
- The risk of a rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case, the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap.

B.30. With regard to the latter risk, the UK is currently benefitting from a "safe haven" status outside the Eurozone, which has supported UK gilt prices and maintained historically low gilt yields (which underpin PWLB borrowing rates). Whilst the UK inflation position has improved significantly, and is expected to return to the Bank of England's Monetary Policy Committee's (MPC's) target of 2%, any deterioration of the UK inflation outlook may have a negative impact on the financial markets view of gilt prices, with a consequent rise in gilt (and therefore PWLB) interest rates. Whilst this outcome is not expected, it remains an outside possibility and highlights the higher risks in the longer term fixed interest rate economic forecasts.

B.31. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury management limits on activity

B.32. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, then they will impair the opportunities to reduce costs and improve performance. The indicators are as follows:

- **Upper limits on variable interest rate exposure**
  This identifies a maximum limit for the level of debt (net of investments) taken out at variable rates of interest.

- **Upper limits on fixed interest rate exposure**
  This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

- **Maturity structure of borrowing**
  These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

B.33. Cabinet is asked to recommend the Council approves the treasury indicators and limits in Table B3.

Table B3: Treasury indicators and limits

	2013/14 to 2017/18		**2012/13 year end projection**	
Upper limits on fixed interest rates	100%			
Upper limits on variable interest rates	25%			
Maturity structure of external borrowing	Lower	Upper	£m	
Under 12 months	0%	50%	84	26%
12 months to 2 years	0%	50%	0	0%
2 years to 5 years	0%	50%	0	0%
5 years to 10 years	0%	75%	10	3%
10 years and above	25%	100%	228	71%
Total external borrowing			**322**	**100%**

Policy on borrowing in advance of need

B.34. The Council will not borrow more than or in advance of its needs purely in order to benefit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved capital finance requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Debt rescheduling

B.35. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (significant premiums can be incurred).

B.36. The reasons for any rescheduling to take place will include:

- the generation of cash savings or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile or the balance of volatility).

B.37. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

B.38. All rescheduling will be reported to the Audit & Governance Committee at the earliest meeting following its action

Annual investment strategy

Investment policy

B.39. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities will be security first, liquidity second, then return as the third priority.

B.40. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on its lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three rating agencies (Fitch, Moody's and Standard & Poor's (S&P)). Using the Sector ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

B.41. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. Other information sources used will include the financial press (Financial Times), share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

B.42. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

B.43. Current investment counterparties identified for use in the financial year using currently approved rating criteria are listed in Appendix B5 under the 'specified' and 'non-specified' investments categories. Counterparty monetary limits are also set out in this appendix. There is only one proposed change with regard to the monetary limits and that is to increase the maximum amount to the Council's two instant access accounts from £40m to £60m. This will increase revenue by £200,000 per annum at current interest rate levels. Both of these counterparties are partly nationalised and this increase should only apply whilst each counterparty has nationalised status. A new category included within the schedule is pooled corporate bonds, a relatively new treasury investment category which will be further explored by the Chief Finance Officer. No further changes to limits and criteria are recommended, given the Council's desired prudent risk level.

B.44. The Chief Finance Officer, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing risks and associated interest rates at the time. All investments will be made in accordance with the Council's treasury management policy and strategy, and prevailing legislation and regulations. If the list of counterparties and their time or value limits need to be revised, amendments will be recommended to the Audit & Governance Committee.

Creditworthiness policy

B.45. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure it:

- maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security (this is set out in the specified and non-specified investment sections below); and

- has sufficient liquidity in its investments, for this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed (these procedures also apply to the Council's prudential indicators covering the maximum principal sums invested).

B.46. The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria determine an overall pool of counterparties considered to be high quality. It does not define the types of investment instruments to be used.

B.47. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies with one meeting the Council's criteria and the other not, the institution will fall outside the lending criteria. Credit rating information is supplied by Sector, our treasury consultants, on all active

counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notifications of likely changes), rating outlooks (notification of possible longer term changes) are provided to officers almost immediately after they occur and this information is considered before dealing.

B.48. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is summarised in Appendix B5.

- Banks (1): good credit quality. The Council will only use banks which:
  - are UK banks; or
  - are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA.

  and have, as a minimum, the following Fitch, Moody's and S&P's credit ratings (where rated):
  - Short term: F1/P1/A1
  - Long term: A-/A3/A-
  - Viability/financial strength: BB+/C (Fitch and Moody's only)
  - Support: 3 (Fitch only)

- Banks (2): part nationalised UK banks, Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.

- Banks (3): The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.

- Bank subsidiaries: The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies: The Council will use all societies which meet the ratings for banks outlined above.

- Money market funds: AAA rated via all three rating agencies. Up to total £100m. £20m per fund.

- UK Government (including gilts and the DMADF)

- Local authorities, parish councils etc

- Supranational institutions

- Corporate bonds pooled funds

Country and Sector Considerations

B.49. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition,

- no more than £50m will be placed with any non-UK country at any time;

- AAA countries only apply as set out in Appendix B6;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

Use of additional information other than credit ratings

B.50. Additional requirements under the Prudential Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example credit default swaps, negative rating watches or outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments

B.51. All investments will be limited to 364 days years. Further internal restrictions may be applied on recommendations from Sector.

B.52. The proposed criteria for specified and non-specified investments are shown in Appendix B5 for approval.

Country limits

B.53. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from all three rating agencies. This restriction does not apply to the UK, should it lose its AAA status.

In-house funds

B.54. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Instant access funds

B.55. The Council will seek to maximise its return on investments by retaining call account deposits in part nationalised banks (Lloyds and RBS) which pay a premium due to their weakened financial strength but remain supported by the UK Government. In addition, the council will utilise money market funds (up to the value of £100m).

Local authorities

B.56. Loans will be offered to local authorities that seek to borrow cash from alternative sources to the PWLB.

Investment returns expectations

B.57. The Bank Rate is forecast by Sector to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Sector's Bank Rate forecasts for financial year ends (March) are:

2012/13	2013/14	2014/15	2015/16
0.50%	0.50%	0.75%	1.75%

B.58. There are downside risks to these forecasts (i.e., the start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if the Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate. It should be noted that some city predicitons put the Bank Rate at 0.5% until the year 2020.

B.59. The suggested budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next three years are as follows:

2013/14 0.50%

2014/15 0.60%

2015/16 1.50%

Investment treasury indicator and limit

B.60. This indicator concerns the total principal funds invested for greater than 364 days. This limit is set with regard to the Council's liquidity requirements and to reduce the need for early liquidation of an investment, and based on the availability of funds after each year end.

B.61. The Council is asked to approve the treasury indicator and limit:

Table B4: Maximum principal sum invested >364 Days

	2013/14 % of portfolio	**2014/15 % of portfolio**	**2015/16 % of portfolio**
Principal sums invested > 364 days	0	0	0

B.62. This means that no investments should be for longer than 364 days. This keeps the strategy within the Council's desired level of prudent risk.

B.63. For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated overnight deposits.

Icelandic bank investments

B.64. The Council placed £20m of deposits with two failed Icelandic banks: Glitnir and Landsbanki. Of this £20m, the Council's exposure is £18.5m with the balance attributable to the Police and Crime Commissioner for Surrey. The Audit & Governance Committee receives regular reports on the prospects for recovery of the deposits that are at risk and the efforts being made by the Local Government Association (LGA) and its legal advisors in this regard.

B.65. In order to be prudent, the Council has previously earmarked a balance of £9.5m on the assumption that a proportion of the deposits will not be recovered with the proviso that this write off may be revised based upon latest estimates and the guidance from CIPFA.

B.66. On 28 October 2011, the Supreme Court of Iceland upheld the District Court judgment in favour of local authority depositors, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. These decisions are now final and there is no further right of appeal.

B.67. The current position is that 50% of the Landsbanki deposit and 84% of the Glitnir deposits have been repaid, with expected recovery rates now at 100% in respect of both banks (subject to exchange rate fluctuations). The balance owed on each deposit is shown in the Table B5.

Table B5: Balances owed on Icelandic bank deposits

Counterparty	Period (days)	Principal £000	Rate %	Principal repaid £000	Principal outstanding £000
Glitnir	364	5,000	6.25%	4,192	808
Glitnir	366	5,000	6.20%	4,193	807
Landsbanki	732	10,000	5.90%	4,992	5,008
		20,000		13,377	6,623

B.68. Previous provision has been made within the Council's accounts for an irrecoverable amount regarding the Icelandic bank debt. Given the Supreme Court of Iceland decision, it is now felt prudent to cut the provision in its entirety in order to reflect the confidence in recovering the full outstanding deposit, albeit paid back in instalments over a yet unknown period of time.

Investment risk benchmarking

B.69. A development in the revised Code on Treasury Management and the CLG consultation paper, as part of the improvements to reporting, is the consideration and approval of security and liquidity benchmarks. Whereas yield benchmarks are currently widely used to assess investment performance, security and liquidity benchmarks are new reporting requirements. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or annual report.

Security

B.70. The Council's maximum security risk benchmark for the current portfolio, when compared with these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio

Liquidity

B.71. The Council currently restricts deposits with each counterparty to term deposits only, the length of which is based upon individual assessment of each counterparty. The amount of available cash each day should never fall below £15m. A minimum core cash has recently been set at £49m by Cabinet. This provides a safety margin, to help ensure the Council need not borrow to fund daily expenditure. In respect of its liquidity, the Council seeks to maintain the following.

- Bank overdraft: £100,000.
- Liquid short term deposits of at least £15m available with a day's notice.
- Weighted average life benchmark is expected to be three months, with a maximum of one year.

Yield

B.72. The Council benchmarks the return on deposits against the 7-Day LIBID (London Interbank Bid Rate), and reports on this as part of the treasury monitoring reports.

Performance indicators

B.73. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy and effectiveness of the treasury management function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. The performance indicators to be used for the treasury management function are:

- borrowing: actual rate of borrowing for the year less than the year's average rate relevant to the loan period taken; and
- investments: internal returns above the 7-day LIBID rate.

B.74. These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2012, and the Treasury Management Annual Report for 2013/14.

End of year investment report

B.75. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Report.

External fund managers

B.76. The Council does not currently employ an external fund manager.

Minimum revenue provision

B.77. The Council's policy on minimum revenue provision (MRP) is shown in Appendix B7.

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Appendices:

Appendix B.1	Prudential indicators - summary
Appendix B.2	Prudential indicators – details
Appendix B.3	Global economic outlook and the UK economy
Appendix B.4	Treasury management scheme of delegation
Appendix B.5	Institutions
Appendix B.6	Approved countries for investments
Appendix B.7	Annual minimum revenue provision (MRP) policy statement

Sources and background papers:

CIPFA Prudential Code for Capital Finance

CIPFA Treasury Management in the Public Services: Code of Practice

Investment guidelines under section 15(1)(a) of the Local Government Act 2003

Audit Commission: 'Risk & Return: English Local Authorities and the Icelandic Banks

PRUDENTIAL INDICATOR (1). AFFORDABILITY PRUDENTIAL INDICATORS	2011/12 Outturn	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	123,900	140,586	187,906	171,889	142,282	119,632	73,427
	%	%	%	%	%	%	%
Ratio of financing costs to net revenue stream	5.30	4.85	5.01	5.25	5.33	5.48	4.87
Net borrowing requirement	£'000	£'000	£'000	£'000	£'000	£'000	£'000
brought forward 1 April	537,949	540,950	555,036	644,027	688,039	721,500	729,688
carried forward 31 March	540,950	555,036	644,027	688,039	721,500	729,688	712,938
in year borrowing requirement	3,001	14,086	88,991	44,012	33,461	8,188	- 16,750
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	3,001	14,086	88,991	44,012	33,461	8,188	- 16,750
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	540,950	555,036	644,027	688,039	721,500	729,688	712,938
Affordable Borrowing Limit			£	£	£	£	£
Updated position of Current Capital Programme Increase per council tax payer			4.03	13.65	17.77	20.66	22.94

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2011/12 approved	2012/13 approved	2013/14 estimate	2014/15 estimate	2015/16 estimate	2016/17 estimate	2017/18 estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	567,347	582,371	593,847	634,002	656,801	656,930	624,642
Other long term liabilities	56,869	69,088	81,768	92,037	88,009	83,742	79,391
TOTAL	**624,216**	**651,459**	**675,616**	**726,039**	**744,810**	**740,672**	**704,033**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing	510,474	523,308	530,516	566,785	586,446	584,434	553,684
other long term liabilities	56,869	69,088	81,768	92,037	88,009	83,742	79,391
TOTAL	**567,343**	**592,396**	**612,284**	**658,822**	**674,455**	**668,176**	**633,075**
Upper limit for fixed interest rate exposure							
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%	150%	150%	150%
Upper limit for variable rate exposure							
Net principal re variable rate borrowing / investments	-50%	-50%	-50%	-50%	-50%	-50%	-50%
Upper limit for total principal sums invested for over 364 days	£	£	£	£	£	£	£
(per maturity date)	nil	nil	nil	nil	nil	nil	nil

Maturity structure of new fixed rate borrowing during 2011/12	upper limit	lower limit
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%	0%

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Prudential indicators

Capital expenditure

B.2.1. 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. Actual and estimates of capital expenditure are set out for the previous, current and future years.

B.2.2. Table B2.1 sets out actual and estimated capital expenditure and its funding for 2011/12 to 2017/18. 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. Actual and estimates of capital expenditure are set out for the previous, current and future years.

Table B2.1: Actual and estimated capital expenditure 2011/12 - 2017/18

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Actual	**Projected**	← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Capital expenditure	124	141	188	172	142	120	73
Financed by:							
Government grants	81	96	69	77	71	72	55
Capital receipts	15	10	14	26	5	5	0
Revenue, reserves and third party contributions	14	5	3	8	14	15	18
Net financing need for the year*	**14**	**30**	**102**	**61**	**52**	**28**	**0**

*Capital expenditure to be met by borrowing

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

B.2.3. The capital financing requirement (CFR) represents capital expenditure financed 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 the locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP). The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. 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 borrowing requirement.

B.2.4. Table B2.2 sets out the Council's capital financing requirement (CFR). The capital financing requirement (CFR) represents capital expenditure financed 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 the locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP). The MRP is a statutory annual revenue charge which reduces the borrowing need in a similar way to paying principal off a household mortgage. 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 borrowing requirement.

Table B2.2: Capital financing requirement (CFR) 2011/12 to 2017/18

	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Actual	**Projected**	← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Opening CFR	538	541	555	644	688	721	730
Add new borrowing:							
MRP and other financing movements*	-11	-15	-13	-17	-19	-19	-17
Net Financing Need**	14	29	102	61	52	28	0
Closing CFR	541	555	644	688	721	730	713
Total CFR movement	3	14	89	44	33	9	-17

*Other financing movements include the addition to fixed assets on the balance sheet under PFI

The Council's gross borrowing requirement

B.2.5. Gross borrowing refers to an authority's total external borrowing requirement. CIPFA has issued an amendment to the Prudential Code 2011 to replace the net debt indicator (which offset investments) with a gross debt indicator. CIPFA requires this amendment to be implemented from 2013/14. The reason for this change is to highlight instances of local authorities borrowing ahead of requirement.

B.2.6. Table B2.3 sets out the Council's and net gross debt. Gross borrowing refers to an authority's total external borrowing requirement. CIPFA has issued an amendment to the Prudential Code 2011 to replace the net debt indicator (which offset investments) with a gross debt indicator. CIPFA requires this amendment to be implemented from 2013/14. The reason for this change is to highlight instances of local authorities borrowing ahead of requirement.

Table B2.3: Gross borrowing requirement 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
			← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
Gross borrowing	315	319	327	362	385	383	353
Investments	-229	-200	-130	-130	-130	-130	-130
Net borrowing	86	119	197	232	255	253	223
CFR	**541**	**555**	**644**	**688**	**721**	**730**	**713**

The Council's operational boundary

B.2.7. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it 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. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

B.2.8. Table B2.4 sets out the Council's operational boundary. The operational boundary is an indicator against which to monitor its external debt position. This indicator is based on the expected maximum external debt during the course of the year; it 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. The operational boundary for external debt is based on an authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accords with the approved treasury management policy statement and practices. It reflects the Chief Finance Officer's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Table B2.4: Operational boundary 2011/12 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
			← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
Borrowing	510	523	530	567	586	584	554
Other long term liabilities	57	69	82	92	88	84	79
Total	**567**	**592**	**612**	**659**	**674**	**668**	**633**
Actual external debt	86	119	197	232	255	253	223

The Council's authorised limit

B.2.9. 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 reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. 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. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

B.2.10. Table B2.5 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 reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. 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. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limits is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements.

Table B2.5: Authorised limit for external debt 2012/13 to 2017/18

	2011/12 Actual £m	**2012/13 Projected £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
			← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
Borrowing	567	582	594	634	657	657	625
Other long term liabilities	57	69	82	92	88	84	79
Total	**624**	**651**	**676**	**726**	**745**	**741**	**704**
Actual external debt	86	119	197	232	255	253	223

Ratio of financing costs to net revenue stream

B.2.11. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme. A prudent level not to exceed would be 6%.

B.2.12. Table B2.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme. A prudent level not to exceed would be 6%.

Table B2.6: Ratio of financing costs to net revenue stream

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Projected	← - - - - - - - - - -		**Estimated**	- - - - - - - - - - →	
Ratio of financing costs to net revenue stream	4.85%	5.01%	5.25%	5.33%	5.48%	4.87%

Incremental impact of capital investment decisions on Council Tax 2013/14 to 2017/18

B.2.13. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for future years.

B.2.14. Table B2.7 sets out the incremental impact of capital investment decisions on Council Tax. This indicator sets out the impact on council tax of the capital schemes introduced in the five-year capital programme recommended in this budget report and compares the costs with the Council's existing approved commitments and current plans. The forward assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which is not currently known for future years.

Table B2.7: Estimated incremental impact of capital investment decisions on council tax 2013/14 to 2017/18

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Band D Council Tax	£4.03	£13.65	£17.77	£20.66	£22.94

Global economic outlook and the UK economy

The global economy

B.3.1. The Eurozone debt crisis has continued to cast a pall over the world economy and has depressed growth in most countries. This has impacted the UK economy which is unlikely to have grown significantly in 2012 and is creating a major headwind for recovery in 2013. Quarter 2 of 2012 was the third quarter of contraction in the economy; this recession is the worst and slowest recovery of any of the five recessions since 1930. A return to growth at 1% in quarter 3 is unlikely to prove anything more than a washing out of the dip in the previous quarter and the preliminary estimate from the Office for National Statistics (ONS) is that the economy shrank by 0.3% in quarter 4.

B.3.2. The Eurozone sovereign debt crisis has abated somewhat following the European Central Bank's (ECB) pledge to buy unlimited amounts of bonds of countries which ask for a bailout. The immediate target for this statement was Spain which continues to prevaricate on making such a request and so surrendering its national sovereignty to International Monetary Fund (IMF) supervision. However, the situation in Greece is heading towards a crunch point as the Eurozone imminently faces up to having to relax the timeframe for Greece reducing its total debt level below 120% of GDP and providing yet more financial support to enable it to do that. Many commentators still view a Greek exit from the Euro as inevitable as total debt now looks likely to reach 190% of GDP, i.e. unsustainably high. The question remains as to how much damage a Greek exit will cause and whether contagion would spread to cause Portugal and Ireland to also leave the Euro, though the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on European Union (EU) banks.

B.3.3. Sentiment in financial markets has improved considerably since the ECB action plus the Eurozone's recent renewed commitment to support Greece and to keep the Eurozone intact. However, the foundations to this "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse.

B.3.4. The United States (US) economy has only been able to manage weak growth in 2012 despite huge efforts by the Federal Reserve to stimulate the economy by liberal amounts of quantitative easing (QE) combined with a commitment to a continuation of ultra low interest rates into 2015. Unemployment levels have been slowly reducing but against a background of a fall in the numbers of those available for work. The fiscal cliff facing the US President at the start of his re-election seems to have resolved itself but it has proved a major dampener, discouraging businesses from spending on investment and increasing employment more significantly in case there is a sharp contraction in the economy in the pipeline. However, the housing market does look as if it has, at long last, reached the bottom and house prices are now on the up.

B.3.5. Hopes for a broad based recovery have, therefore, focused on the emerging markets. However, there are increasing concerns over flashing warning signs in various parts

of the Chinese economy that indicate it may be heading for a hard landing rather than a gradual slow down.

The UK economy

B.3.6. The Government's austerity measures, aimed at getting the public sector deficit into order with a balanced budget over the next four years, now look as if they will fail to achieve their objectives within the original planned timeframe. Achieving this target is dependent on the UK economy growing at a reasonable pace but recession in the Eurozone, our biggest trading partner, has depressed growth whilst tax receipts have not kept pace with additional welfare benefit payments. It will be important for the Government to retain investor confidence in UK gilts so there is little room for it to change course other than to move back the timeframe.

B.3.7. Currently, the UK is enjoying a major financial benefit from some of the lowest sovereign borrowing costs in the world as the UK is seen as a safe haven from Eurozone debt. There is though little evidence that consumer confidence levels are recovering, nor that the manufacturing sector is picking up. On the positive side, growth in the services sector has rebounded in Q3 and banks have made huge progress since 2008 in shrinking their balance sheets to more manageable levels and also in reducing their dependency on wholesale funding. However, the availability of credit remains tight in the economy and the Funding for Lending scheme, which started in August 2012, has not yet had the time to make a significant impact. Finally, the housing market remains tepid and the outlook is for house prices to be little changed for a prolonged period.

Economic growth

B.3.8. Economic growth has basically flat lined since the election of 2010 and, worryingly, the economic forecasts for 2012 and beyond were revised substantially lower in the Bank of England Inflation quarterly report for August 2012 and were then further lowered in the November Report. QE was increased again by £50bn in July 2012 to a total of £375bn. Many forecasters are expecting the Bank of England Monetary Policy Committee (MPC) to vote for a further round of QE to stimulate economic activity regardless of any near term optimism. The announcement in November 2012 that £35bn will be transferred from the Bank of England's Asset Purchase Facility to the Treasury (representing coupon payments to the Bank by the Treasury on gilts held by the Bank) is also effectively a further addition of QE.

Unemployment

B.3.9. The Government's austerity strategy has resulted in a substantial reduction in employment in the public sector. Despite this, total employment has increased to the highest level for four years as over one million jobs have been created in the private sector in the last two years.

Inflation and the Bank Rate

B.3.10. Inflation has fallen sharply during 2012 from a peak of 5.2% in September 2011 to 2.2% in September 2012. However, inflation increased back to 2.7% in October

though it is expected to fall back to reach the 2% target level within the two year horizon.

AAA Rating

B.3.11. The UK continues to enjoy an AAA sovereign rating. However, the credit rating agencies will be carefully monitoring the rate of growth in the economy as a disappointing performance in that area could lead to a major derailment of the plans to contain the growth in the total amount of Government debt over the next few years.

Sector's forward view

B.3.12. Economic forecasting remains difficult with so many external influences weighing on the UK. There does, however, appear to be consensus amongst analysts that the economy remains relatively fragile and, whilst there is still a broad range of views as to potential performance, expectations have all been downgraded during 2012. Key areas of uncertainty include:

- the potential for the Eurozone to withdraw support for Greece at some point if the costs of such support escalate and become prohibitive, so causing a worsening of the Eurozone debt crisis and heightened risk of the breakdown of the bloc or even of the currency itself;
- inter government agreement on how to deal with the overall Eurozone debt crisis could fragment;
- the impact of the Eurozone crisis on financial markets and the banking sector;
- the impact of the Government's austerity plan on confidence and growth and the need to rebalance the economy from services to manufactured goods;
- the under-performance of the UK economy which could undermine the Government's policies that have been based upon levels of growth that are unlikely to be achieved;
- the risk of the UK's main trading partners, in particular the EU and US, falling into recession;
- stimulus packages failing to stimulate growth;
- elections due in Germany in 2013;
- the potential for protectionism, i.e., an escalation of the currency conflict/trade dispute between the US and China;
- the potential for action to curtail the Iranian nuclear programme;
- the situation in Syria deteriorating and impacting other countries in the Middle East

B.3.13. The focus of so many consumers, corporates and banks on reducing their borrowings, rather than spending, will continue to act as a major headwind to a return to robust growth in western economies.

B.3.14. Given the weak outlook for economic growth, Sector sees the prospects for any changes in Bank Rate before 2015 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

B.3.15. Sector believes that the longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. The interest rate forecast in this report represents a balance of downside and upside risks. The downside risks have already been commented on. However, there are specific identifiable upside risks as follows to PWLB rates and gilt yields, and especially to longer term rates and yields:

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium in gilt yields;
- the reversal of QE; this could initially be allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;
- the reversal of Sterling's safe haven status on an improvement in financial stresses in the Eurozone;
- Investors reverse de-risking by moving money from government bonds into shares in anticipation of a return to worldwide economic growth;
- the possibility of a UK credit rating downgrade (Moody's has stated that it will review the UK's AAA rating at the start of 2013).

Treasury management scheme of delegation

Full Council

B.4.1 Approval of annual strategy.

Audit & Governance Committee

B.4.2. Receiving and reviewing regular monitoring reports.

Chief Finance Officer

B.4.3. Reviewing the treasury management policy and procedures and making recommendations to the responsible body.

- Raising borrowing or funding finance from the most appropriate of these sources:
  - Government's Public Works Loans Board
  - lenders' option borrowers' option (LOBO) loans
  - local bond issues
  - European Investment Bank
  - overdraft
  - banks and building societies
  - local authorities
  - lease finance providers
  - internal borrowing.

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

- 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.

- 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: gilts and corporate 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.

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

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

- Strategy implementation:
  - implementing the strategy, ensuring no breaches of regulations;
  - reporting to Cabinet any material divergence from the strategy 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.

Institutions

B.5.1. The Council will use specific credit ratings to determine which institutions can be used for investments. For specified investments, an institution will require the highest short-term credit rating from at least one of the three main credit rating agencies. For non-specified investments, the criteria base will be increased to include the other main rating categories to ensure that any institutions used for lending in excess of 364 days are of the highest overall credit quality.

Banks and building societies

B.5.2. For banks and building societies, the following minimum requirements will permit only high quality institutions to be on the Council's lending list but will also allow a wide spread of institutions to choose from:

Rating	Fitch or equivalent from Moody's and Standard & Poor
Short-term	F1
Long-term	A
Individual / financial strength	bb+/C-
Support	3

B.5.3. Equivalent ratings are used as not all institutions are rated by all three rating agencies. Where an institution is rated by more than one agency, the lowest ratings will be used to determine whether it qualifies for inclusion on the list. This practice is known as the Lowest Common Denominator approach.

Money market funds

B.5.4. The County Council currently uses five money market funds on a regular basis, with qualifying requiring a AAA rating from either Fitch, Moody's or Standard & Poor.

Enhanced Cash / Bond Funds

B.5.5. The Council will consider using enhanced cash funds as part of its investments in 2013-14. Criteria for suitable funds is a fund credit quality (FCQ) rating of AAA and a fund volatility rating (FVR) of s1 (or equivalent) from the three main rating agencies (Fitch, Moody's or Standard & Poor's). The criteria would only allow the Council to use funds with the highest FCQ and those funds where performance has a low sensitivity to changing market conditions.

Other institution types

B.5.6. The following institutions are mentioned explicitly in the new guidance and associated legislation. Councils are not expected to lay down specific criteria for including these types of institution as they are either UK Government institutions or have a UK Government guarantee.

- UK Government including gilts and the Debt Management Office
- Local authorities as defined by the Local Government Act 2003
- Supranational institutions, e.g., the European Investment Bank

Specified investments

B.5.7. All such investments will be sterling denominated, with maturities up to maximum of one year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' credit criteria
DMA deposit facility	-
Term deposits: local authorities	-
Term deposits: fully nationalised banks	Short-term F1, Support 1
Term deposits: UK banks and building societies	Short-term F1, Long-term A-, Viability bb+, Financial Strength C-, Support 3
Term deposits: overseas banks	Short-term F1, Long-term A-, Viability bb+, Financial Strength C-, Support 3 (AAA rated countries)
Money market funds	AAA
Enhanced Cash / Bond Funds	AAAf / s1 or equivalent

Effective counterparty limits

	Fitch				Moody's			S&P			
Type	ST	LT	VIA*	Sup	ST	LT	FSR	ST	LT	Maximum Value	Maximum Term
Bank/Building Society	F1	A-	bb+	3	P-1	A3	C	A1	A-	£20m	3 months
Bank/Building Society	F1+	AA-	a-	2	P-1	Aa3	B	A1 +	AA-	£25m	1 year
Bank/Building Society	F1+	AA	a-	1	P-1	Aa2	B	A1 +	AA	£35m	1 year
Money Market Funds	AAA				AAA			AAA		£20m	1 year
Enhanced Cash / Bond Funds	AAA / v1				Aaa-bf			AAAf / s1		£20m	1 year
Debt Management Office	-				-			-		Unlimited	1 year
Supranational	-				-			-		£10m	1 year
Local Authority	-				-			-		£20m	1 year

* Fitch Viability rating replaced the Individual Strength rating in December 2011

i) Deposits are permitted with UK banks that do not comply with the Council's credit rating criteria subject to the following:
   a. they have been nationalised or part nationalised by the UK government; and /or
   b. they have signed up to the UK government financial support package.

ii) The use of Money Market Funds is restricted to funds with three AAA ratings (from each of the agencies) up to a maximum of £100m (with a maximum of £20m per Money Market Fund).

iii) An additional £20m (per call account) is made available to invest in overnight high interest call accounts with both RBS and Lloyds TSB (making a total of £60m limit with each). This will be maintained while they remain part nationalised.

B.5.8. Deposits with foreign banks are permitted, on the condition that they meet our minimum criteria, and that the country in which the bank is domiciled is AAA-rated with any of the three ratings agencies (Fitch, Moody's and Standard and Poor's).

- MMF = Money Market Fund

- DMADF = Debt Management Account Deposit Facility at the Bank of England
- ST = Short-Term
- LT = Long-Term
- Via = Viability rating
- Sup = Support rating
- FSR = Financial Strength Rating

F1 Indicates the strongest capacity for timely payment of financial commitments; an added "+" denotes any exceptionally strong credit feature.

P-1 Indicates superior credit quality and a very strong capacity for timely payment of short-term deposit obligations. No enhanced rating available.

A-1 Indicates a strong capacity to meet financial commitments; an added "+" denotes a capacity to meet financial commitments as extremely strong.

Illustrative counterparty list as at 28 January 2013

	Fitch Ratings				Moody's Ratings			S&P Ratings	
	S/T	L/T	Viab.	Supp	S/T	L/T	Str.	S/T	L/T
UK		AAA				AAA			AAA
HSBC	F1+	AA-	A+	1	P1	AA3	C	A1+	AA-
Lloyds	F1	A	BBB	1	P1	A2	C-	A1	A
Royal Bank of Scotland	F1	A	BBB	1	P2	A3	D+	A1	A
Nationwide Building Society	F1	A+	A+	1	P1	A2	C	A1	A+
Barclays	F1	A	A2	1	P1	A2	C-	A1	A+
Santander (UK)	F1	A	A2	1	P1	A2	C-	A1	A
Australia		AAA				AAA			AAA
Australia & NZ Banking Group	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Commonwealth Bank of Australia	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Macquarie Bank	F1	A	A	3	P1	A2	C-	A1	A
National Australia Bank	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Westpac Banking Corporation	F1+	AA-	AA-	1	P1	AA2	B-	A1+	AA-
Canada		AAA				AAA			AAA
Canadian Imperial Bank	F1+	AA-	AA-	1	P1	AA2	B-	A1	A+
Bank of Montreal	F1+	AA-	AA-	1	P1	AA2	B-	A1	A+
Bank of Nova Scotia	F1+	AA-	AA-	1	P1	AA1	B	A1	A+
Royal Bank of Canada	F1+	AA	AA	1	P1	AA3	C+	A1+	AA-
Toronto-Dominion Bank	F1+	AA-	AA-	1	P1	AAA	B+	A1+	AA-
Finland		AAA				AAA			AAA
Nordea Bank	F1+	AA-	AA-	1	P1	AA3	C	A1+	AA-
Germany		AAA				AAA		A+	AAA
DZ Bank	F1+	A+		1	P1	A1	C-	A1+	AA-
Deutsche Bank	F1+	A+	A	1	P1	A2	C-	A1	A+
KfW	F1+	AAA		1	P1	AAA		A1+	AAA
Landswirtschaftliche Rentenbank	F1+	AAA		1	P1	AAA		A1+	AAA
Netherlands		AAA				AAA			AAA
ING Bank	F1+	A+	A	1	P1	A2	C-	A1	A+
Rabobank	F1+	AA	AA	1	P1	AA2	B-	A1+	AA
Bank Nederlandse Gemeemten	F1+	AAA			P1	AAA	A	A1+	AAA
Norway									
DnB NOR Bank	F1	A+	A+	1	P1	A1	C-	A1	A+
Singapore		AAA				AAA			AAA
Development Bank of Singapore	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
Oversea Chinese Banking Corp	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
United Overseas Bank	F1+	AA-	AA-	1	P1	AA1	B	A1+	AA-
Sweden		AAA				AAA			AAA
Skandinaviska Enskilda Banken	F1	A+	A+	1	P1	A1	C-	A1	A+
Svenska Handelsbanken	F1+	AA-	AA-	1	P1	AA3	C	A1+	AA-
Swedbank AB	F1	A+	A+	1	P1	A2	C-	A1	A+
Switzerland		AAA				AAA			AAA
UBS AG	F1	A	A-	1	P1	A2	C-	A1	A

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Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- UK

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Annual minimum revenue provision (MRP) statement

B.7.1. Best practice guidance recommends that authorities prepare a statement of policy on making MRP in respect of the forthcoming financial year. Going forwards this policy will be submitted to Full County Council before the start of the financial year. The statement is required to indicate how the authority intends to fulfil its duty to make prudent provision. Whenever these proposals are subsequently reviewed, a revised statement will be put to Full County Council for approval.

Proposed minimum revenue provision policy statement

B.7.2. Prior to 2008/09, the Council, in accordance with legislation, made a contribution from revenue to cover 4% of the unfinanced borrowing that has been undertaken to support the capital programme.

B.7.3. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008 with 2008/09 being the first year of operation. The Council has assessed its method of MRP and is satisfied that the guidelines for its annual amount of MRP set out within this policy statement will result in its making the prudent provision that is required by the guidance.

B.7.4. Where capital expenditure was incurred before 1 April 2008, MRP will continue to be charged at the rate of 4% of the outstanding capital financing requirement, in accordance with the guidance. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life method, as summarised in Table B7.1 below. MRP will be based on the estimated life of the assets purchased from unsupported borrowing.

Table B7.1 Estimated economic lives of assets

Asset class	**Estimated economic life**
Land and heritage assets	50 years
Buildings	40 years (unless value indicates otherwise)
Vehicles, equipment & plant	10-15 years
IT Equipment (Hardware)	3-10 years
Infrastructure: - bridge strengthening - lighting - structural maintenance - minor works	 40 years 20 years 12 years 7 years
Intangible Assets (such as computer software)	5 years
Properties held for economic regeneration	1% or 0% MRP charged.

B.7.5. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

B.7.6. MRP will be made at 1% for properties held that are not currently needed for service operational purposes, but may be in future or are being held to facilitate future economic growth or re-generation.

B.7.7. In the case of long-term debtors arising from loans made to third parties, or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments), there will be no minimum revenue provision made. The Council will make a MRP on investments in service delivery companies based on a 100-year life.

B.7.8. 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 into account local circumstances, including specific project timetables and revenue earning profiles.

Treasury Management Policy

B.8.1. 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.

Definition

B.8.2. 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

B.8.3. The Council's appetite for risk in terms of its treasury management activities is low. 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

B.8.4. 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 organisation, and any financial instruments entered into to manage these risks.

Value for money

B.8.5. 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 best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

B.8.6. The Council greatly values revenue budget stability and, therefore, will aim to borrow the majority of its long term funding needs at long term fixed rates of interest. However, short-term rate loans may be utilised where the yield curve provides opportunity. The Council will also constantly evaluate debt restructuring opportunities within the portfolio.

B.8.7. 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

B.8.8. 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.

B.8.9. 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.

Local Government Act 2003: Section 25 Report by the Chief Finance Officer

Introduction

2.1. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and precept, the Chief Finance Officer must report to it on the following matters:

- the robustness of the estimates made for the purposes of the calculations
- the adequacy of the proposed financial reserves.

2.2. The authority must have due regard to the report when making decisions on the budget and precept.

2.3. The Chief Finance Officer for the County Council is Sheila Little (in the post of Chief Finance Officer and Deputy Director for Change & Efficiency Directorate).

2.4. In expressing her opinion, the Chief Finance Officer has considered the financial 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.

2.5. Preserving the Council's financial resilience is a key long-term driver in the council's financial strategy that has been reflected in the current Medium Term Financial Plan (MTFP) (2012-17) and which continues as a core principle as the council moves forward to the next 5 year MTFP (2013-18).

2.6. Although the Council has successfully delivered significant efficiency savings & service reductions in each of the last two financial years (2010/11 £68m, 2011/12 £61m, and is forecast to deliver further savings for 2012/13 of £66m, the budget assumptions for the next MTFP (2013-18), includes significant further savings of £240m, making a total of around £435m over the eight year period. The level of savings delivered so far retain a balance of approximately an 80:20 split between meeting the austerity agenda through a combination of service efficiencies and tax increases, similar to central government's strategy for addressing the national fiscal deficit. However, continuing this level of further savings year on year is becoming harder for services to deliver, therefore increasing the risk in the MTFP (2013-18).

2.7. Further significant risk exists due to the following.

- The continuing unprecedented level of economic uncertainty: austerity seems likely to continue for at least the next 5 years.
- The introduction of the revised basis of local government funding. The changes to council tax benefit localisation support and the local retention of business rates increases the uncertainty around the level of actual funding the Council will receive in the future.

2.8. The Council is correctly focused on long term financial resilience and is proactively planning to apply one-off general reserves & balances totaling £18m to achieve a balanced budget in 2013/14 (as set out in paragraphs A86 to A91) plus a further £5m from balances to increase the risk contingency for 2013/14. The Council recognises that existing long term strategies are required to address this additional shortfall from 2014/15 and the plans to review the revenue and capital programme after the first quarter of 2013/14 will cover this.

2.9. Taken together, all of these risks will require careful consideration as to the prudent level of balances to be maintained and a review of the level of the risk contingency within the revenue budget. In recent years the Council has had a risk contingency within the revenue budget of £8m, principally to mitigate against non-delivery of service reductions & efficiencies and to facilitate smoothing of spend across financial years. For the first time, it is expected that around £5m of the £8m risk contingency will be required in 2012/13 indicating, as anticipated, that it is getting harder to deliver and sustain this year on year high level of new efficiencies. To mitigate against these risks, the Council proposes to increase the risk contingency to £13m for 2013/14 using balances.

2.10. The above risks apply where the Council continues with its long term MTFP strategy of annual council tax increases of 2.5% annually (except for 2011/12 where the Council accepted the first council tax freeze grant offer and 2012/13 where the Council increased council tax by 2.99%). However, accepting the Government's offer of a grant to compensate councils for not increasing council tax in 2013/14 with a grant equal to 1% council tax increase for each of two years (making a total grant over two years of £11.6m) for this Council, would mean it would be unable to sustain its MTFP plans without either:

- imposing significant council tax increases in 2014/15 and subsequent years; and/or
- developing alternative long term strategies to address reducing government grant funding and limited increases in council tax; and/or
- making additional reductions to front line services.

2.11. The forward assumption of increasing council tax by 2.5% for each of the subsequent MTFP years beyond 2013/14, is potentially optimistic in view of government's stated strategy to maintain zero council tax increases for the remainder of the current parliament and the prescriptive guidance set out in the Localism Act 2011 on how an authority must conduct a referendum if triggered. Together with the high level of service reductions & efficiencies required in the remaining four years of the MTFP beyond 2013/14, the Chief Finance Officer recommends that the Cabinet review the plans to deliver these efficiencies early in 2013/14 to be assured that these plans are sustainable and will not lead to the erosion of the Council's financial resilience.

Financial management arrangements

2.12. In 2012 the Council was an award winner in the transparency category for its quarterly close process: a rarity within the public sector. This positions the Council well to achieve a smooth annual audit. An unqualified opinion on the 2011/12 financial statements and an unqualified conclusion on the council's arrangements for securing value for money was achieved in 2011/12. The 2012/13 external audit will be the first under the newly appointed auditor, Grant Thornton. The Chief Finance Officer is working closely with the new auditors to ensure a smooth transition.

2.13. The Council has maintained a robust system of budget monitoring and control evidenced by the continuation of timely monthly reports to Cabinet. Where over-spends or under-spends have arisen, prompt management actions have been identified to minimise effect and to enable early corrective action to be put in place where relevant.

2.14. The system for monitoring the progress on the implementation of efficiency savings has been enhanced during 2012/13 in recognition of the increased risk due to the continued high efficiency targets year on year: increased focus on efficiencies by the chief executive and senior officers before onward reporting and scrutiny by the Leader and Cabinet as well as Overview Scrutiny Committee. This will continue during 2013/14 alongside the on-going monitoring of the delivery of the efficiencies identified as part of the Public Value Review (PVR) programme, completed during 2012.

2.15. Throughout 2012/13 the Council Overview Scrutiny Committee, comprising the Chairmen of all other Select Committees, continued to scrutinise all Cabinet budget monitoring reports following presentation to Cabinet. The capital monitoring was enhanced during 2012/13, with more focused review by the chief executive and senior officers each month, in advance of formal reporting to Cabinet.

2.16. The above approaches will be continued into 2013/14 and progress on the actions needed to achieve the required savings will be tracked. The Chief Finance Officer considers that the financial control arrangements remain sufficiently robust to maintain adequate and effective control of the budget in 2013/14.

Budget process

2.17. The budget planning process, established in 2011, following a 'lean' process review, was developed further for this MTFP (2013-18) process. The main enhancements were:

- introduction of an earlier 'scene setting' phase ahead of scenario planning
- additional face to face engagement with the business & voluntary sector communities, and trade unions
- additional all Member briefings at each phase

- enhancement of resident engagement - through Simalto survey
- further embedding of procurement efficiencies into the process.

2.18. The budget has been constructed by looking at expected activity for the future years rather than the incremental approach. This applies a consistent approach to preparing budget proposals across all services. The assumptions, calculations and proposals in this budget are the result of challenge and scrutiny by the Leader of the Council, Members of the Cabinet and Select Committees throughout the summer and autumn of 2012 and into January 2013, guided by advice from the Chief Executive, Strategic Directors and Chief Finance Officer

MTFP (2013-18) Budget assumptions

2.19. Table 2.1 below shows the main budget assumptions together with an assessment of their robustness and the risk they pose to the Council's financial position and strategy.

Table 2.1 Main budget assumptions 2013/14 to 2017/18

	Assumption	**Comments**
Pay inflation	2013/14 *1.5%* 2014-18 *2.0%*	These proposals follow a three year pay freeze.
General price inflation	2013-15 2.1% 2015-18 2.2%	General inflation relates to non service specific budgets only. Specific inflation allowances have been included in individual services budgets reflecting the assessment of Strategic Directors and the Head of Procurement of the likely cost increases.
Council tax benefit support localisation and business rate retention	N/A	The impact of the local government funding review has been central to developing the MTFP 2013-18. Consultation with government has been extensive throughout 2012 and a range of likely outcomes modeled in the Council's scenario planning.
Interest rates	Minimal changes in base rates during 2012/13	All existing debt is fixed interest and so not subject to interest rate variation. MTFP allows for new borrowing at on average 5%, but rates between 4.4% and 5.6% over the 5 year MTFP period. Interest on cash balances is assumed as 0.7% Sector, our treasury management advisers, forecast minimal changes in rates until at least mid 2014 and then gradual, low increases.

	Assumption	Comments
Capital receipts	£50m (to fund programme over 5 years 2013-18)	The list of proposed disposals includes only assets that do not fit with the capital strategy of investing in the Council's estate either to meet service needs or develop an income stream. Any shortfall on receipts would be funded from other available capital reserves.
Demand led pressures	Demand pressures in Children, Schools & Families and Adults Social Care	Both Children, Schools & Families and Adults Social Care are experiencing increasing demand on services over the MTFP period reflecting: • increases in Surrey's population aged +80, dementia care in particular; • increases in Surrey's school age population; • legislative changes affecting vulnerable adults' entitlement and eligibility for support from the council; • increases in the number of looked after children and in particular those with a care protection plan. There is an increasing risk that these demand pressures may be understated, leading directly to the need to sustain an increased risk contingency of £13m in 2013/14.
Efficiency and other service savings	£240m	Efficiency & service reductions identified by Strategic Directors who confirm that actions have been identified to deliver savings and the targets included in budget proposals are realistic and achievable, albeit these are going to be very challenging to implement. In addition there is a further £79m in savings and reductions to be identified and implemented by 2017/18.

2.20. It is the Chief Finance Officer's opinion that the general assumptions are realistic but that the proposed efficiency and other service savings are ambitious and there is substantial risk that they will not all be achieved within the required timescale. To mitigate this risk, the contingency sum built into the revenue budget has been increased from £8m to £13m for 2013/14.

2.21. In recognition of the need to invest to deliver some of the efficiencies & service reductions required, the invest to save fund created in 2010/11 against which services will be required to produce full business cases before any resources are actually released, will continue in 2013/14. As in 2012/13, this reserve will require services to 'repay' the investment released to them over an agreed period – thereby ensuring that this fund is replenished over time and available for future investment initiatives.

Level of Reserves and Balances

2.22. The final accounts for 2011/12 show available general balances at 31 March 2012 of £28.8m: a deliberate increase from previous years in anticipation of smoothing spending over the MTFP period. The latest budget monitoring position for 2012/13, as at the December 2012, forecasts that this level will remain at this level at 31 March 2013 and as detailed above, £12m of these general balances and £11m of carry forward reserves will be applied to the budget as one-off funding for 2013/14. Other adjustments to earmarked reserves, as set out in Annex 1A – Appendix A7, are recommended to preserve the Council's future long term financial resilience. This is particularly critical as government grants are expected to continue to reduce at the same time as local government funding becomes increasingly uncertain and service demand levels become increasingly volatile.

Financial Standing

2.23. The Council has complied fully with the requirements of the *Prudential Code for Capital Finance in Local Authorities*. The formal recommendation to the Council sets out the prudential indicators, which the Council must adhere to. The Chief Finance Officer is satisfied that the level of borrowing assumed in the indicators is affordable and sustainable. The MTFP (2013-18) makes provision for the financing of all proposed borrowing and assumes an extension of the strategy to borrow internally unless external factors (i.e. interest rates and or capping limits) alter and make early borrowing appropriate.

2.24. The Council had £18.6m placed on deposit with two Icelandic banks, which has been at risk following the administration of these banks in October 2008. The Audit & Governance Committee has received regular updates on the progress in, and prospects of, recovery of the deposits that are at risk. The Council has now received repayment of £13.4m (84% for Glitnir and 50% for Landsbanki bank) and legal rulings have concluded that the remaining funds will be received in due course. The Chief Finance Officer therefore advises that it is acceptable to close the Financial Investments Reserve of £9.5m set up to mitigate against possible losses.

2.25. The County Council maintains a number of other earmarked reserves. This includes existing funds to smooth the cost of replacing vehicles and IT equipment, to provide a source of funds for internal investment, to protect against interest rate changes and the impact of an economic downturn, together with a new reserve to facilitate long term investment aimed at maximising long term financial resilience. There are sufficient funds in these reserves to meet expenditure likely to fall on them during 2013/14 and are available for other uses in case of emergency.

Risk Assessment

2.26. The Council has recently been shortlisted for a national award for its corporate governance arrangements, which recognises improvements made.

In response to the significant challenges that the Council is facing and the associated emerging risks, an integrated risk framework comprising the separate disciplines of risk management is well established in the Council and will be maintained. This has seen several changes to the risk governance arrangements embedded in the Council and the close link between risk registers and business impact analyses and continuity plans has been sustained throughout 2012/13 and will continue into 2013/14. 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 quarterly in 2013/14.

2.27. The specific risks and opportunities facing the council and recorded in the Leadership Risk Register are:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies;
- delivery of the waste infrastructure; and
- changes to health commissioning.

2.28. The Chief Finance Officer is satisfied that the proposed budget, including increased risk contingency, general balances and reserves sufficiently address these risks Additional resilience has been assured over the long term through the creation of new earmarked reserve for long term investment and infrastructure initiatives.

Future years

2.29. The proposed budget addresses the estimated reduction in funding over the next five years and sets out a plan to ensure that the Council can deliver budgets within estimated available resources. The plan will require close monitoring and, in view of the increased uncertainty around government funding, council tax and business rates, as well as volatile service demands, it is likely that adjustments will be required during 2013/14 to take account of unforeseen events and changes in the underlying assumptions. However, it sets a clear direction for the future and places the Council in a sensible position to meet the challenges ahead.

2.30. Given the scale of the financial challenges facing the public sector, the Chief Finance Officer must emphasise the high likelihood that the next comprehensive spending round will introduce further government grant cuts, meaning any changes to services over the MTFP (2013-18) period must be sustainable in the long term.

Conclusion

2.31. The Chief Finance Officer considers that the budget proposals recommended by the Cabinet are robust and sustainable. However, there are considerable risks associated with the increased uncertainty in a number of areas:

- the achievement of efficiencies & service reductions year on year;
- the transfer of uncertainty regarding the level of funding to local authority as result of the local government funding changes introduced from April 2013;
- the volatility implicit in the level of service demands; and
- the current economic situation and expected long term austerity faced by the country.

2.32. The above means a review of the MTFP (2013-18) is recommended after quarter one 2013/14 to validate assumptions and timescales.