Notice of Meeting

Council Overview & Scrutiny Committee

Date & time	Place	Contact	Chief Executive
Thursday, 30 January 2014 at **10.30 am**	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	Bryan Searle, Jisa Prasannan or Andrew Spragg Room 122, County Hall Tel 020 8541 9019 or 020 8213 2673 bryans@surreycc.gov.uk or jisa.prasannan@surreycc.gov.uk or andrew.spragg@surreycc.gov.uk	David McNulty

If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9068, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email bryans@surreycc.gov.uk or jisa.prasannan@surreycc.gov.uk or andrew.spragg@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Bryan Searle, Jisa Prasannan or Andrew Spragg on 020 8541 9019 or 020 8213 2673.

Members

Mr Nick Skellett CBE (Chairman), Mr Eber A Kington (Vice-Chairman), Mr Mark Brett-Warburton, Mr Bill Chapman, Mr Stephen Cooksey, Mr Bob Gardner, Dr Zully Grant-Duff, Mr David Harmer, Mr David Ivison, Mr Adrian Page, Mrs Denise Saliagopoulos, Mr Chris Townsend, Mrs Hazel Watson, Mr Keith Witham and Mrs Victoria Young

Ex Officio Members:

Mr David Munro (Chairman of the County Council) and Mrs Sally Ann B Marks (Vice Chairman of the County Council)

TERMS OF REFERENCE

The Committee is responsible for the following areas:

Performance, finance and risk monitoring for all Council services	HR and Organisational Development
Budget strategy/Financial Management	IMT
Improvement Programme, Productivity and Efficiency	Procurement
Equalities and Diversity	Other support functions
Corporate Performance Management	Risk Management
Corporate and Community Planning	Europe
Property	Communications
Contingency Planning	Public Value Review programme and process

PART 1
IN PUBLIC

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 4 DECEMBER 2013 (Pages 1 - 8)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (Friday 24 January 2014).
2. The deadline for public questions is seven days before the meeting (Thursday 23 January 2014).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SELECT COMMITTEE

The Committee did not refer any items to Cabinet at the last meeting, so there are no responses to report.

6 WELFARE REFORM TASK GROUP - INTERIM REPORT (Pages 9 - 48)

Purpose of the report: Policy Development and Review

This is a report of the interim findings of the Welfare Reform Task Group, which was commissioned by the Council Overview and Scrutiny Committee (COSC) to investigate the impacts of welfare reform and key issues for Surrey County Council and its partners.

7	**CORPORATE STRATEGY AND BUDGET REPORT 2014-2019** **Purpose of the report:** This report presents the revised Corporate Strategy for 2014 to 2019 and the proposed revenue and capital budgets for the Council for the period 2014/2015 to 2018/19.	(Pages 49 - 196)
8	**BUDGET MONITORING - QUARTER 3 - 2013/14** **Purpose of the report:** This report presents the revenue and capital budget monitoring up-date for December 2013 with projected year-end outturn.	(Pages 197 - 232)
9	**REVIEW OF THE INVESTMENT PANEL** **Purpose of the report:** Scrutiny of Services and Budgets To report the Audit & Governance Committee findings, following a review of the Investment Panel.	(Pages 233 - 250)
10	**RECOMMENDATION TRACKER AND FORWARD WORK PROGRAMME** The Committee is asked to monitor progress on the implementation of recommendations from previous meetings, and to review its Forward Work Programme.	(Pages 251 - 260)
11	**DATE OF NEXT MEETING** The next meeting of the Committee will be held at 10.30am on 5 March 2014.	

David McNulty
Chief Executive
Published: Wednesday, 22 January 2014

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Thank you for your co-operation

MINUTES of the meeting of the **COUNCIL OVERVIEW & SCRUTINY COMMITTEE** held at 10.30 am on 4 December 2013 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its meeting on Thursday, 30 January 2014.

Members:

* Mr Nick Skellett CBE (Chairman)
* Mr Eber A Kington (Vice-Chairman)
* Mr Mark Brett-Warburton
* Mr Bill Chapman
* Mr Stephen Cooksey
* Mr Bob Gardner
* Dr Zully Grant-Duff
* Mr David Harmer
* Mr David Ivison
* Mr Adrian Page
* Mrs Denise Saliagopoulos
* Mr Chris Townsend
* Mrs Hazel Watson
* Mr Keith Witham
* Mrs Victoria Young

Ex-officio Members:

Mr David Munro, Chairman of the County Council
Mrs Sally Ann B Marks, Vice Chairman of the County Council

Present:

Mr Mel Few, Cabinet Member for Adult Social Care (present for Item 7)

* = present

85/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

No apologies were received.

86/13 MINUTES OF THE PREVIOUS MEETING: 7 NOVEMBER 2013 [Item 2]

These were agreed as an accurate record of the meeting.

87/13 DECLARATIONS OF INTEREST [Item 3]

There were no declarations of interest.

88/13 QUESTIONS AND PETITIONS [Item 4]

There were no questions or petitions to report.

89/13 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SELECT COMMITTEE [Item 5]

The Committee made no referrals to Cabinet at its last meeting, so there were no responses to report.

90/13 BUDGET MONITORING & QUARTERLY BUSINESS REPORT [Item 6]

Declarations of interest: None.

Witnesses: Kevin Kilburn, Deputy Chief Finance Officer

Key points raised during the discussion:

1. The Committee was informed that at its meeting on Monday 2 December 2013, the Performance & Finance Sub-Group considered the October 2013 budget monitoring report and reviewed the quarter two Business Report.

2. The Performance & Finance Sub-Group had requested the following additional information in relation to the budget monitoring report:

    - Reconciliation in tabular form of changes to the overall financial position of each Directorate on a month-by-month basis, including progress against target savings. It was suggested that this information could also be included as an annexe to each future monitoring report.

    - The reasons behind the expected increase in training activity in the latter part of the financial year, and the process for agreeing the consequent £400,000 over-spend.

    It was agreed that the Sub-Group would discuss the operation of the Council's Reserves at its next meeting.

3. The Chairman informed the Committee that he had requested that officers present information on unit costs at the Sub-Group meeting. The Committee noted that although expenditure per head in Surrey was slightly higher than its statistical neighbours it was not significantly so.The sub group believed the benchmarking information would be useful in considering the budget and Medium Term Financial Plan.

4. In relation to the training budget overspend, officers commented that the increase in expenditure in relation to training was as result of a Cabinet decision to continue a scheme to fund the training of social workers. This reduced the reliance on locum and temporary staff and ensured greater savings in the Adult Social Care budget. The Committee challenged why this expenditure was showing in the HR budget, given that the savings were being made elsewhere. Officers recognised that coding the expenditure to the Adult Social Care budget would be considered as part of the budget setting process for 2014-15.

5. The Committee asked if the waste PFI grant was considered an area of risk, and it was confirmed that delays in implementing the Eco Park

could lead to the grant being suspended, cancelled or claimed back. The DEFRA had now informed the council that the grant would be reduced from January 2014 until the eco-park was operational.

6. The Committee was informed that as part of its consideration of the Quarterly Business Report, the Sub-Group had received a demonstration of the Performance Dashboard. The Dashboard allowed officers with responsibility for performance to look at the detailed information which feeds into the summary report presented to the Committee. Performance against individual indicators was tracked on a monthly basis, and details were provided about the action taken to address areas where performance was below target.

7. It was noted that officers completed a forecast about whether the year-end targets would be achieved as part of their quarterly updates, and that this information could be tracked over the course of a year and against the final out-turn result to understand how accurate the forecasts had been.

8. In order to ensure that the information available through the Dashboard was used effectively, the Sub-Group would continue to review the detailed information at future meetings and report any areas of concern for discussion by the Committee. Where additional issues were identified by the Committee, these would be referred to the Sub-Group for more detailed investigation at the next meeting and reported back (as appropriate) or referred to the relevant Select Committee.

9. The Committee was informed that the more detailed narrative for the Quarterly Business report was published online, and that the link to this information would be circulated to the Committee outside of the meeting.

Recommendations:

None.

Actions/further information to be provided:

The Committee to receive the link to the Quarterly Business report and the detailed narrative in order to identify areas for future scrutiny by the Performance & Finance Sub-Group.

Committee Next Steps:

None.

91/13 FAMILY, FRIENDS & COMMUNITY SUPPORT - SOCIAL CAPITAL IN SURREY [Item 7]

Declarations of interest: None.

Witnesses:

Anne Butler, Assistant Director for Commissioning, Adult Social Care
Paul Carey-Kent, Strategic Finance Manager – Adult Social Care, Public Health & Fire

Mel Few, Cabinet Member for Adult Social Care

Key points raised during the discussion:

1. The Cabinet Member outlined the savings required of Adult Social Care in the Medium Term Financial Plan (MTFP). He informed the Committee that £15.5 million of savings had been allocated to Family, Friends & Community Support in 2013-14, and expressed the view that he believed £.5.5 million of these would not be achievable within the financial year. However, he stressed his confidence in the initiative, highlighting the role of 3 recent Rapid Improvement Events and the development of a model office in increasing efficiencies.

2. The Committee commented that the report was encouraging, though it was recognised that there were significant difficulties in measuring to what extent the principles could be scaled up. Members asked whether a greater upfront investment would accelerate the speed and scale of the benefits that could be realised. The Cabinet Member acknowledged it was an interesting challenge and agreed to explore it with officers.

3. The Committee asked what provision was in place to ensure that community resources were identified and fully utilised. The Cabinet Member highlighted the Surrey Information Point as a resource for practitioners and encouraged Members of the Committee to make use of it and share their own local knowledge.

4. Officers commented that the principle behind Family, Friends and Community Support was around re-framing the assessment process and improving engagement with the Voluntary, Faith and Community Sector (VCFS). The Committee queried how the Directorate would ensure a consistency of quality in the local voluntary offer, and what measures were in place if voluntary partners failed. Officers commented that the Directorate was supporting VCFS partners through safeguarding training and similar efforts. There would also be a setting of general standards through service level agreements and the grant-awarding process that would ensure that the quality of local offers met with the appropriate quality standards. It was also recognised by officers that VCFS organisations could be considered vulnerable to market failure, but that safeguards were in place to ensure continuity of service in such instances.

5. Members queried what efforts had been made to identify whether there were potential capacity issues within the VCFS, and how the Directorate would ensure an equality of service. Officers explained that the Directorate would work with all partners to ensure that the needs of the individual were being met through an asset-based approach.

6. The Committee had a discussion about the impact of the Care Bill. It was highlighted that this would increase statutory responsibilities to provide advice and guidance, alter eligibility criteria for support, and most likely increase service demand. The Committee was informed that the Surrey model for assessing the financial impact of the Care Bill was now being used for a national survey.

7. The Committee asked what role the Public Health agenda and Health & Wellbeing Board played in supporting a Family, Friends & Community Support. The Cabinet Member for Adult Social Care recognised that there was still work to be done both locally and nationally to improve integration around health and social care functions, and that the Health & Wellbeing Board would be a key factor in improving this. The Cabinet Member informed the Committee that work was currently being done to identify how Integration Transformation Fund monies could be utilised to ensure the best outcomes for Surrey residents.

8. The Chairman summarised the Committee's discussions, commenting that there seemed to be a lack of clarity as to whether the Family, Friends & Community Support approach was relying on untapped capacity within the community, or whether it required investment to build further capacity. It was also highlighted that the Committee recognised the value of the approach, and that it reflected the changing service requirements as result of the Care Bill. The Committee also commented that it would be asking officers to identify where these reductions in expenditure were being made, both within Surrey and if there were examples elsewhere nationally.

Recommendations:

- That the Committee receive an update report regarding the implementation of Family, Friends & Community Support.

Actions/further information to be provided:

None.

Committee Next Steps:

The Committee will receive a further report on the implementation of Family, Friends & Community Support in 6 months time.

92/13 DIGITAL UPDATE REPORT - MAXIMISING THE BENEFIT OF DIGITAL TECHNOLOGY [Item 8]

Declarations of interest: None.

Witnesses: Mark Irons, Head of Customer Services
Paul Brocklehurst, Head of Information Management and Technology
Julie Fisher, Strategic Director for Business Services

Key points raised during the discussion:

1. The Committee discussed the role of the Chief Digital Officer and were informed that, once appointed, the Officer would be putting a Digital Strategy in place that would reflect the work already undertaken by the Council. Officers commented that the infrastructure was in place to support the Council's digital approach. However, it was highlighted that many of these digital processes did not link in to one another. The Committee was informed that a Customer Relationship Management tool was being considered as a potential solution to these process issues. The Committee requested details of the salary range of the Chief Digital Officer.

2. The Committee commented that residents would lose faith in digital services if they found their experience unsatisfactory. Several Members highlighted that residents had encountered particular difficulties when reporting highways issues. Officers outlined that the highways reporting system was held by a supplier who was in the process of reviewing their IT provision, following a merger. This had led to difficulties in ensuring the Council's services integrated with the data in question.

3. The Committee discussed the role of the community in designing digital services. Officers confirmed that they believed this was vital, and that conversations would be around what services residents would like to see online. It was stated that the Chief Digital Officer would have a key role to play in the community engagement aspect of designing digital services. Officers informed the Committee that the customer was the central consideration in any transaction design, and that any new digital processes developed would need to be user-friendly. It was highlighted that the Council was working with FutureGov to develop a number of applications for future use.

4. The Committee raised concerns about digital exclusion. It was highlighted that a number of the processes listed in the report were linked to groups that were at risk of being digitally excluded. Officers commented that the Council also offered paper-based options, as well as support for those who did not wish to use the digital route. It was highlighted that the contact centre would remain an integral part of customer services. The Committee was also informed that IMT had worked to ensure that free wi-fi was available in every Surrey library, as well as a number of initiatives with Adult Social Care to identify the best way of supporting vulnerable residents.

Recommendations:

None.

Actions/further information to be provided:

Details of the advertised post for Chief Digital Officer to be supplied to the Committee.

Committee Next Steps:

The Committee to receive a report six months after the appointment of the Council's Chief Digital Officer.

93/13 IMPROVING STAFF MORALE & WELLBEING [Item 9]

Declarations of interest: None.

Witnesses:
Paul Brocklehurst, Head of Information Management and Technology
Julie Fisher, Strategic Director for Business Services

Key points raised during the discussion:

1. The Chairman commented that the exercise of talking with staff in informal group sessions had been interesting, and asked the Committee how they would want to proceed with scrutiny in this area. Members commented that they would like to consider repeating the exercise once or twice a year in different areas of the Council. It was highlighted that the Committee had valued the HR training in appreciative inquiry, and that the experience had been very positive. The Committee indicated that they would want to consider offices around Surrey as possible places to hold these informal workshops in the future.

2. Members raised concerns that some staff had reported delays in the provision of IT equipment. Officers explained that this had been a result of a significant rise in the number of users requiring laptops. It was explained that the manufacturer's delivery cycles caused delay on occasion, and that there had been a number of issues with the supplier failing to deliver equipment of the correct specification. It was stated that these backlogs were in the process of being addressed.

3. Members commented that it was encouraging that staff had recognition of the challenges facing the Council, but still maintained a positive attitude. The Committee was informed that there had been some concerns about how periods of long-term sickness were covered, as often this increased work-load for other members of staff.

4. The Chairman summarised that the Committee would continue to repeat the exercise of holding informal group discussions with staff over the year, in order to gather a more comprehensive picture. The report produced from the first session would be sent to the Corporate Leadership Team and Cabinet with a request that they take note. However, it was stated that the Committee did not feel in a position to make a formal recommendation until more information had been gathered and considered. It was agreed that the staff who had attended the discussion would be provided with a copy of the report and the minutes from this item. The Committee thanked staff for their contributions.

Recommendations:

None.

Actions/further information to be provided:

2

The Chairman to send the report to the Cabinet and Corporate Leadership Team, asking that they note its contents.

Action by: Chairman/Democratic Services

The Chairman, Vice-Chairman and Democratic Services to explore future opportunities to run similar informal group discussions with staff.

Action by: Democratic Services

The report and minutes to be shared with staff who attended the informal group discussions, as well as a note of thanks for their contribution.

Action by: Democratic Services

94/13 RECOMMENDATION TRACKER AND FORWARD WORK PROGRAMME [Item 10]

Declarations of interest: None.

Witnesses: None.

Key points raised during the discussion:

1. The Committee was asked to note both its own Forward Work Programme, and those of the Council's Scrutiny Committees. One Member expressed frustration that the Children & Education Select Committee's workshop on School Place Planning, held on 25 November 2013, had been poorly attended.

Recommendations:

None.

Actions/further information to be provided: None.

Committee next steps: The Committee will continue to review its Forward Work Programme and Recommendations Tracker at every meeting. It will review the Forward Work Programmes of the Council's Scrutiny Committees on a six-monthly basis.

95/13 DATE OF NEXT MEETING [Item 11]

The Committee noted the next meeting of the Council Overview & Scrutiny Committee would be held at 10.30am on 30 January 2014.

Meeting ended at: 1.00 pm

Chairman

Council Overview and Scrutiny Committee
30 January 2014

Executive Summary to the Interim Report of the Welfare Reform Task Group

This is an executive summary of the key concerns of the Welfare Reform Task Group, which they have identified so far in their investigation of the impacts of welfare reform in Surrey. Further information about these and other concerns is contained in the attached interim report and annexes.

1. Low income working families and the disabled: Evidence gathered by the Task Group has highlighted a number of different groups in Surrey who are being significantly affected by the reforms. Of these groups, the Task Group is particularly concerned about low-income working families who are harder to reach because they tend not to have any/regular contact with support services. They are also particularly concerned about disabled people and those with mental health issues, a vulnerable group who are having to understand and respond to a major shake-up of their support system.

2. **Employment and Support Allowance (ESA):** Following the introduction of a work capability assessment for ESA, there has been a high number of decisions overturned at appeal. Under the new system, DWP must re-consider disputed decisions before an appeal can be lodged. During this indeterminate re-consideration stage claimants do not receive ESA. The Task Group are concerned about the ESA process and intend to investigate this issue further.

3. The Local Assistance Scheme (LAS): The Task Group is concerned about the differential take-up across Surrey of the County Council's emergency support (the LAS) and the low take up of this fund to date. The Task Group intend to meet with Shared Services who are responsible for this scheme, to discuss their concerns.

Budget recommendation: Any LAS funding left unallocated at the end of 2013/14 is rolled over into 2014/15 and continues to be committed to supporting severely affected residents to manage the impact of welfare reform changes. The Task Group will present proposals for allocating this funding in their final report in April 2014, but would recommend that a proportion of it is targeted towards early intervention support, particularly aimed at improving money management skills and general financial awareness.

4. Universal Credit (UC) money management support and digital inclusion: Surrey is unlikely to see the direct impacts of Universal Credit for some time as the implementation for new claims has been delayed until at least April 2016. Councils are being encouraged to use this intervening period to work with partners to establish what support services will be required and how they can be delivered. The Task Group is concerned about the level of support which will be required to ensure digital inclusion and assist claimants with their new money management responsibilities.

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SURREY COUNTY COUNCIL

Council Overview and Scrutiny Committee
30 January 2014

Interim report of the Welfare Reform Task Group: The impacts of Welfare Reform in Surrey

Purpose of the report: Policy Development and Review

This is a report of the interim findings of the Welfare Reform Task Group, which was commissioned by the Council Overview and Scrutiny Committee (COSC) to investigate the impacts of welfare reform and key issues for Surrey County Council and its partners.

Introduction

1. The Welfare Reform Task Group was established in September 2013 to investigate and gather evidence from a range of stakeholders on the impacts of welfare reform and key issues for Surrey County Council and its partners. The Task Group is chaired by David Harmer and its Members are Fiona White, Stephen Cooksey and Bob Gardener.
2. This interim report aims to update and inform COSC of the work of the Task Group and highlight some key issues identified so far in respect of the impacts of the reforms on residents, the Council and its partners. Recommendations that seek to address these issues will be put forward in the Task Group's final report in April 2014.

Task Group activities so far

3. The Task Group scoping document (updated version attached at **Annex 1**) was circulated to COSC on 10 October 2013 and approved.
4. Since then, the Task Group has received evidence from key partners as well as County Council services. A list of the witnesses the Task Group has met with is attached at **Annex 2**.
5. The Task Group has also requested and reviewed documentary evidence from witnesses and considered relevant reports including: quarter 2 data overview of the impacts of welfare reform in Surrey (attached at **Annex 3**), and the Universal Credit Local Support Services Update and Trialling Plan.
6. A verbal update on the Task Group's findings was informally presented to COSC by the Chairman of the Task Group on 4 December 2013.
7. A summary of the key welfare reform changes and timeline are provided at **Annex 4**.

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How are residents being affected by the reforms?

8. The report to COSC in September 2013 highlighted that the following three groups were likely to be significantly affected by the reforms. The testimony from witnesses supports this.

    8.1 **Low-income working families** have lost a significant proportion of their income from reductions in working and child tax credits, the removal of the Spare Room Subsidy and reductions in Council Tax Support among other changes. These families tend not to have regular/any contact with support services.

    8.2 **Large families not in employment** are at risk of losing a large proportion of their income under the benefits cap and will face challenges to employment due to the high cost of childcare.

    8.3 **Disabled people and those with mental health issues** are being affected by the new work capability assessment as part of Employment Support and Allowance (ESA), and loss of benefits if the Department for Work and Pensions (DWP) undertake mandatory reconsideration of their ESA decision.

9. The Task Group have also heard from witnesses that **young single unemployed** people are being affected by changes to housing benefit, new stricter conditions of the Job Seekers Allowance (JSA), and finding a job with lack of work experience. **People in their 50s** may be affected by the pension credit age for women being increased and ‘bedroom tax’ if children have moved out of home. They are also struggling to re-enter employment if they have been out of work for a significant period of time.

What impact has there been on the Council and partners, and what action are they taking to address them?

10. The Surrey County Council directorates and services of **Children Schools and Families, Adult Social Care, Libraries and Public Health** are the council services most likely to be directly helping residents to deal with the effects of the reforms and be affected themselves. County Council officers have advised that although it is currently very difficult to measure the direct financial and service impacts of welfare reform on council services, they expect these to become more apparent over the next year as the impacts accumulate and embed.

11. These directorates and services have been working closely together and with partners through the **Surrey Welfare Reform Co-ordination Group (WRCG) since July 2012** to ensure a co-ordinated response across the County. The group comprises officers from across the County, District and Borough councils, as well as representatives from Surrey Citizens Advice Bureaux, the Department of Work and Pensions and the voluntary sector amongst others. The WRCG has been collectively monitoring the impact of the changes on residents, which is crucial to understanding the cumulative impacts of the reforms on residents.

12. County Council officers have been receiving training on the reforms, but witnesses have highlighted the need for more comprehensive and joint training across County Council services and partners, to improve joint working and ensure that information cascades down effectively within these organisations. Some witnesses have suggested that a referral map of local advice and support services would enable more effective and consistent signposting.

13. The County Council commissioned a new service, **GetWiS£,** to help all residents significantly affected by the reforms to receive the advice and support they need to cope with the reforms. The Task Group has heard evidence about GetWiS£'s work to support residents through appeals and tribunals related to disability benefit changes, particularly ESA claimants. The Task Group intends to speak with GetWiS£ again to seek further clarity about their role assisting claimants to tribunal (hopefully in conjunction with a claimant they have helped). The Task Group also wishes to find out how GetWis£'s plans to extend its support to other groups, particularly those residents referred to in paragraphs 8 and 9. The Task Group expressed concern over the low level of awareness among residents and County Council Members about GetWiS£ and the services they offer. 6

14. SCC established the Surrey **Local Assistance Scheme (LAS)** to provide emergency support to people in crises, particularly as a result of benefit changes. Many of the witnesses expressed concern about the significant under spend of this fund[1], lack of publicity, and difficulties faced by residents in some areas of Surrey accessing support given the limited geographical spread of CAB offices that process the scheme. The Task Group intend to meet with Shared Services, who are administering the scheme, to discuss these issues.

15. Council Tax Benefit has been replaced by localised **Council Tax Support Schemes**. The schemes adopted vary considerably, so residents in some areas are having to pay a significant portion of their council tax for the first time. The County Council provided £500,000 to Districts and Boroughs to help minimise the amount of Council Tax they collect from their most financially vulnerable residents. The money also part-funded the establishment of new hardship schemes in every District and Borough to provide additional discretionary support to people struggling to pay their Council Tax. However, so far very little of this 'hardship' money has been distributed. Witnesses highlighted the fact that the Council Tax recovery rates are remaining higher than expected, but very little is known about the impact of the different schemes on newly affected groups.

16. Witnesses have suggested that many families adversely affected by the welfare reforms need holistic support such as that provided by **Surrey's Family Support Programme (FSP).** However, the criteria for receiving help from the FSP is too restrictive for many of these families and a number of witnesses suggested exploring if it was possible to expand the criteria.

17. **District and Borough (D&B) Councils Housing & Benefits:** The Task Group heard how D&B Benefits teams that previously focused on processing benefit claims are now taking on a far more proactive and holistic role in supporting residents, including providing a 'triage service' by signposting residents to appropriate services if they require additional support. The D&B Housing teams have already seen an increase in homelessness and use in temporary accommodation due to the lack of appropriate housing (for both those D&Bs with and without their own housing stock). It is still too early to tell whether this is directly attributable to the impact of welfare reform. However, witnesses expected this trend to continue due to:

    17.1 the opportunities for families to downsize to mitigate the impacts of the 'bedroom tax' diminishing because of the lack of availability of smaller accommodation. Where the shortfall is not covered by Discretionary Housing Payments (DHP)[2], this will lead to a loss in income;

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[1] By the end of Quarter 2, £103,752 (12% of the annual funding) has been awarded to clients.
[2] DHP funding from central government to district and boroughs in Surrey has increased from £684,723 in 2012/13 to £1,671,873 in 2013/14 (Quarter 2 data from WRCG).

6

17.2 the lack of availability of appropriately sized and affordable social housing (e.g. one bedroom flats for care leavers). There is a growing disparity between average rental market rates[3] and the average housing allowance which now has to also fall within the benefits cap;

17.3 tougher conditions for receiving Job Seekers Allowance (JSA). If JSA is lost due to sanctions being applied, this will often also result in a loss of housing benefits; and

17.4 the accumulation of household debts over time due to loss of household income, affecting residents' ability to pay their rent and which could lead to summons and evictions.

18. D&B Councils have been working proactively to help residents affected by the reforms find suitable and affordable accommodation. The Task Group have also heard about the proactive work of some Registered Social Landlords (RSLs) in mitigating the impacts of the reforms through providing advice to their residents.

19. **Department of Work and Pensions (DWP) and Jobcentre Plus** informed the Task Group that they are working closely with the County Council and Districts and Boroughs to prepare for the roll out of Universal Credit. Jobcentre Plus in Surrey are beginning to roll out a new approach to working with claimants, with jobseekers now having to account more clearly for their efforts to find work in order to receive their benefit, which includes up to 35 hours a week of positive job-seeking activity.

20. **Citizens Advice Bureaux (CAB)** have seen a 17% rise in welfare related enquiries since the same period last year. Around half of this rise is due to the CAB contract to administer the new Local Assistance Scheme. CAB highlighted that the type of debt advice people were seeking had changed from secondary (i.e. consumer debt) to priority debts (i.e. rent and council tax arrears). CAB had also seen an increase in queries relating to ESA and housing benefits.

21. The Task Group heard from the Surrey CAB that they are keen to grow their financial capability advice offer (to help with money management and budgeting) and focus their delivery in Surrey's Children's Centres for families affected by the reforms. CAB have already delivered financial capability workshops in Woking, Dorking and Waverley and developed a 'Managing Money' resource tool for families.

22. A map of the key advice and support services in Surrey (including an overview of what they do) is attached at **Annex 5**.

Further issues and future demands identified

Universal Credit

23. Surrey is unlikely to see the direct impacts of Universal Credit (UC) for a couple of years given DWPs recent announcement that implementation for new claims will be delayed until at least April 2016. However, councils and partners are being encouraged by the DWP to use the intervening period to prepare for the introduction of UC in their local area by:

[3] There has been a recent categorisation of "affordable rent" for new social housing as 80% of market rent. This is likely to increase social housing rents further.

- creating effective working partnerships with DWP and agencies who will be providing support and/or signposting claimants;
- establishing the type and level of support claimants may require and mapping existing support available; and
- piloting support to residents to help identify how these services can be delivered most efficiently and effectively.[4]

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Financial inclusion

24. Universal Credit will mean the overwhelming majority of claimants will move from weekly benefit payments and direct payment of housing benefit to housing providers, to one monthly payment made directly to the claimant which will include housing benefit. Witnesses have highlighted a number of issues around these changes including many claimants needing support to manage their finances and the risks associated with not paying housing benefit directly to social housing providers and private landlords.

Digital inclusion

25. Universal Credit will be digital by default. At the moment, forms must be completed online in one sitting as they cannot be saved and it is estimated that the application currently takes on average over two hours to complete. Personal details must also be kept updated. Claimants will require access to computers and may require literacy training, IT training and/or advice on and support with completing the UC forms.

26. A particular concern is that central government funding under the UC local support services framework may not be enough to pay for the support required. A study carried out by three London Councils using DWP data found they would each need to spend £6m over a two-year period to support vulnerable claimants get online, help open bank accounts and manage monthly budgets[5].

27. Other issues brought to the Task Group's attention include increased pressure on already frequently used public IT systems in libraries, and the ability to, and costs of, protecting the confidentiality of personal information in UC forms that are submitted on public computers.

Employment and Support Allowance

28. The Task Group has noted a number of fundamental issues concerning the process of claiming ESA. ESA forms have to be completed by claimants online. DWP's contractor, ATOS, then carry out a work capability assessment. DWP makes their decision on whether to award ESA based on the form and assessment. If a claimant disputes a DWP decision, they must ask DWP to reconsider the decision before they are allowed to lodge an appeal with the Tribunal (called 'mandatory reconsideration'). During this mandatory re-consideration stage, claimants will not receive ESA[6]. The Task Group is concerned about this process because of the high number of ESA decisions overturned at appeal,[7] and the absence of ESA payments for claimants during the indeterminate mandatory re-consideration period.

29. Given these concerns, the Task Group will be meeting with DWP again in order to seek further clarification regarding the decision making process for ESA.

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[4] Pg 6 Universal Credit Local Support Services Update and Trialling Plan.
[5] The Guardian, Thursday 21 November 2013 14.40: 'Training people to use universal credit 'could cost hundreds of millions.'
[6] DWP letter to MPs on changes to the disputes and appeals process dated 9 October 2013.
[7] County Council commissioned GetWiS£ have had an approximate 92% success rate with appeals.

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Conclusions:

30. This report has outlined some of the key issues and concerns facing the County Council and its partners in relation to welfare reform. The Task Group will continue with its evidence gathering and will make final recommendations which aim to provide solutions to these issues in April 2014.

Recommendations:

31. That the Council Overview and Scrutiny Committee:

a) note the findings in this interim report,

b) ask the Welfare Reform Task Group to return to the Committee in April 2014 with their final findings and recommendations on the impacts of welfare reform and key issues for Surrey County Council and partners,

c) provide comments on the Task Group's interim findings and make initial suggestions on how the County Council could deal with these issues.

d) recommend that any LAS funding left unallocated at the end of 2013/14 is rolled over into 2014/15 and continues to be committed to supporting severely affected residents to manage the impact of welfare reform changes. The Task Group will present proposals for allocating this funding in their final report in April 2014, but would recommend that a proportion of it is targeted towards early intervention support, particularly aimed at improving money management skills and general financial awareness.

Next steps:

The Welfare Reform Task Group intend to re-visit some witnesses and meet with a number of new witnesses to clarify their understanding of issues identified so far and gather further evidence where required (see **Annex 2** for list of additional witness sessions).

The Welfare Reform Task Group will provide a final report at the meeting of the Council Overview and Scrutiny Committee on 2 April 2014.

Report contact and details:

- Jisa Prasannan, Scrutiny Officer
  (020 8213 2694, jisa.prasannan@surreycc.gov.uk)
- Thomas Pooley, Scrutiny Officer
  (020 8541 9902, thomas.pooley@surreycc.gov.uk)
- Ben Robinson, Strategic Partnerships Manager
  (020 8541 9955, ben.robinson@surreycc.gov.uk)

Sources/background papers:

- Universal Credit Local Support Services Update and Trialling Plan

ANNEX 1 - Interim Report of the Welfare Reform Task Group

Select Committee Task and Finish Group Scoping Document

SURREY
COUNTY COUNCIL

6

The process for establishing a task and finish group is:

1. The Select Committee identifies a potential topic for a task and finish group
2. The Select Committee Chairman and the Scrutiny Officer complete the scoping template.
3. The Council Overview and Scrutiny Committee reviews the scoping document
4. The Select Committee agrees membership of the task and finish group.

Review Topic: The impacts of welfare reform and key issues for Surrey County Council and partners.
Select Committee(s) Commissioned by the Council Overview and Scrutiny Committee.
Relevant background At its meeting of 12 September 2013, the Council Overview and Scrutiny Committee resolved to set up a member Task Group to gather evidence from a range of stakeholders on the impacts of welfare reform and key issues for Surrey County Council and partners. The Coalition Government's ongoing welfare reforms are a fundamental change to the welfare benefits system. The Government's aims are to incentivise work, simplify the current system of benefits and tax credits, and promote personal responsibility among claimants. The reforms intend to deliver substantial savings. The changes have been introduced in Surrey from April 2013 and some will come into effect up to 2017 (or later depending on central government implementation timetables) so the effects on residents will be felt over time. The related service pressures (e.g. housing, financial, employment and training support, advice and information support) are likely to affect Surrey County Council and its partners. Please see report to COSC 12 September 2013 "The Impacts of Welfare Reform in Surrey" for further background information.
Why this is a scrutiny item Surrey County Council services are likely to be directly affected due to additional service pressures caused by the emerging impacts of welfare reform. Work is underway across partners to monitor impacts to anticipate pressures on services and respond effectively to minimise the financial consequences. At its meeting of 12 September 2013, Council Overview and Scrutiny Committee highlighted that it was not clear what action plans were being developed in relation to welfare reform. It also commented that further consideration would need to be given to how services were responding to the changes, and whether there would be alterations in individual service priorities in order to take the effect of welfare reform into account.
What question is the task group aiming to answer? What are the impacts of welfare reform and key issues for Surrey County Council and partners?

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Aim

1. Understand from partners:
   a. what the impacts of welfare reform in Surrey have been so far;
   b. what future impacts do they expect; and
   c. what more would they like Surrey County Council to do, to help mitigate the impacts.

2. Understand from Surrey County Council services:
   a. what the impacts of welfare reform in Surrey have been so far;
   b. what future impacts do they expect;
   c. what more would they like partners to do, to help mitigate the impacts; and
   d. their response to partner suggestions from part 1 of evidence gathering.

Use these findings to make recommendations to services within Surrey County Council or Cabinet as appropriate.

Lines of Enquiry

Gather evidence from Surrey County Council and partners on the following questions.

1. What are the current impacts of welfare reform in Surrey?

2. What future impacts of welfare reform do you anticipate?

3. What positive impacts of welfare reform would you like to see in Surrey?

4. Do you have any particular concerns about any current/anticipated impacts?

5. Which aspects of the reforms will have the most significant impact in Surrey?

6. Which groups of residents have been/are likely to be the most affected?

7. Do you anticipate hard to reach groups having problems as a result of these reforms?

8. What (if any changes) would you like to see from Surrey County Council/partners to better mitigate the impacts of welfare reform?

9. What are the impact of barriers to accessing information on welfare reform and how can access be improved?

10. What is the impact on users of the requirement for Universal Credit applications to be made online?

Scope (within / out of): -

Outcomes for Surrey / Benefits
• To assist the Council and its partners in delivering services in the context of welfare reform. This review will support the following corporate priorities: • Residents: work with adults and children who need support to shape the sort of services they receive so they can lead more independent and fulfilled lives. • Value: generating increased value for residents by finding innovative solutions which can achieve more for less. • Partnerships: working with partners in the interests of Surrey.

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Proposed work plan

It is important to allocate clearly who is responsible for the work, to ensure that Members and officers can plan the resources needed to support the task group.

Timescale	Task	Responsible
2 October 2013	Agree objectives for task group.	Task group members
By 14 October 2013	Complete scoping document recording agreed objectives and circulate to COSC.	Chairman of task group and scrutiny officers.
October – mid November 2013	Gather evidence from Part 1 witnesses	Task group members and scrutiny officers
Mid – November 2013	Review and planning meeting	Task group members
Mid November – December 2013	Gather evidence from Part 2 witnesses and review all evidence gathered to date. Suggest key points for inclusion in interim report.	Task group members and scrutiny officers
30 January 2014	Interim report to the Council Overview and Scrutiny on findings to date.	Chairman of task group and scrutiny officers.
January – February 2014	Gather evidence from Part 3 witnesses	Task group members and scrutiny officers
March 2014	Review and produce recommendations	Task group members
2 April 2014	Produce final report recording recommendations to Council Overview and Scrutiny Committee (and Cabinet if appropriate).	Chairman of task group and scrutiny officers.

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Proposed Witnesses

Part 1

- DWP (Kim Goodall, regional office contact for Surrey & Sussex and Julia Curties – Grant Funding Manager)
- District/Borough housing managers, one with own housing stock and one without (Kim Rippett (Guildford) and Deborah Ashman (Spelthorne) (seen together)
- District/Borough benefits managers (Simon Rosser (Reigate and Banstead) and Grant Langford (Elmbridge)).
- Getwis£ (Clive Wood, CEO of Surrey Disabled Peoples Partnership (SDPP) (the lead provider of GetWise) and Vicki Atherton, SDPP's Deputy Chief Executive who manages the GetWise welfare benefits advice service)
- Surrey's Citizens Advice Bureau (Helen Drake, Citizens Advice Surrey) and CAB manager Tara Hastings (Camberley)).
- Surrey Welfare Rights Unit (Maria Zealey, CEO)

Part 2

- Adult Social Care (Toni Carney, Benefits and Charging Consultancy Manager and Norah Lewis, ASC Commissioning Assistant Senior Manager)
- Children Schools and Families (Ginni Smedley, Strategy and Policy Development Manager)
- Finance (Daphne Fraser, Senior Principals Accountant)
- Surrey Libraries (Janet Thomas (Programme Manager) and Rose Wilson (Head of Libraries))

Part 3

- GetwiS£ (Clive Wood, CEO of Surrey Disabled Peoples Partnership (SDPP), lead provider of GetwiS£) and claimant who has been successfully supported through the Employment Support Allowance appeals process by GetwiS£.
- DWP (Kim Goodall, regional office contact for Surrey & Sussex, and manager of local DWP ESA decision making team)
- SCC Director of Public Health (Helen Atkinson) and SCC Cabinet Member for Public Health and the Health and Wellbeing Board (Michael Gosling).
- SCC Shared Services (Simon Pollock, Head of Shared Services and Stewart Taylor, Customer Interaction Lead).

Useful Documents

- Council Overview and Scrutiny Committee (12 September 2013): The impacts of welfare reform in Surrey.
- Local Government Association (August 2013): The local impacts of welfare reform: an assessment of cumulative impacts and mitigations. (http://www.local.gov.uk/publications/-/journal_content/56/10180/4098780/PUBLICATION) (08.10.13)
- Centre for Public Scrutiny (August 2013): The local impacts of the introduction of Universal Credit and the wider welfare reforms. (http://www.cfps.org.uk/cfps-publications?item=7914&offset=0) (09.10.13)

Potential barriers to success (Risks / Dependencies) • The task group will need to work alongside a developing landscape as welfare reform continues to be implemented. The Corporate Policy team will keep the task group alert to the developing programme nationally and locally. • Mitigating the impacts of welfare reform in Surrey requires joint working between Surrey County Council and many external stakeholders. There will be some limitations on Members influencing external stakeholders. • The timescales are tight. Members will need to be flexible with regard to meetings and witness sessions. Not all Members will be expected to attend every witness session but notes will be circulated after each session.
Equalities implications The welfare reforms will impact upon some of Surrey's more vulnerable residents including looked-after children, care leavers, children/families with disabilities, and families in poverty. The support in place for all those affected, including these vulnerable groups, needs to remain effective by working with partners.

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Task Group Members	Stephen Cooksey, David Harmer, Bob Gardner, and Fiona White.
Co-opted Members	N/A
Spokesman for the Group	David Harmer (Chairman of Task Group)
Scrutiny Officer/s	Jisa Prasannan and Thomas Pooley

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ANNEX 2 – Interim Report of the Welfare Reform Task Group

Witnesses the Task Group have already met with:

Part 1 – Partners

- Helen Drake – Development Manager for Citizens Advice Surrey and Tara Hastings - Camberley Citizens Advice Bureau Manager.
- Maria Zealey – CEO of Surrey Welfare Rights Unit.
- Department for Work and Pensions: Kim Goodall - Regional Office Contact for Surrey & Sussex and Julia Curties - Grant Funding Manager.
- District and Borough Council housing managers: Kim Rippett – Head of Housing for Guildford BC (with own housing stocking) and Deborah Ashman – Head of Housing for Spelthorne BC (without own housing stock).
- Clive Wood - CEO of Surrey Disabled Peoples Partnership (SDPP) (the lead provider of GetwiS£ - commissioned by Surrey's County Council's Adult Social Care) and Vicki Atherton - SDPP's Deputy Chief Executive and Manager of the GetwiS£ welfare benefits advice service.
- District and Borough Council benefits managers: Simon Rosser – Revenues and Benefits Manager for Reigate and Banstead BC and Grant Langford – Benefits Manager for Elmbridge BC.

Part 2 – Surrey County Council

- Adult Social Care: Toni Carney - Benefits and Charging Consultancy Manager and Norah Lewis – Assistant Senior Manager, ASC Commissioning.
- Children, Schools and Families: Ginni Smedley – Strategy and Policy Development Manager.
- Finance: Daphne Fraser - Senior Principal Accountant, Funding.
- Surrey Libraries: Rose Wilson – Library Operations Manager and Janet Thomas – Libraries Programme Manager.

Witnesses the Task Group wishes to meet with or revisit:

Part 3 – Partners and Surrey County Council

- Clive Wood - CEO of Surrey Disabled Peoples Partnership (SDPP) (the lead provider of GetwiS£) and claimant who has been successfully supported through the Employment Support Allowance appeals process by GetwiS£.
- Department for Work and Pensions: Kim Goodall - Regional Office Contact for Surrey & Sussex and manager from the local decision making team for Employment and Support Allowance at the Department of Work and Pensions. Meeting to take place at a Job Centre in Surrey.
- Helen Atkinson - Director of Public Health and Michael Gosling - Cabinet Member for Public Health and the Health and Wellbeing Board.
- Shared Services (who are responsible for the Local Assistance Scheme): Simon Pollock – Head of Shared Services and Stewart Taylor - Customer Interaction Lead.

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Annex 3

Surrey Data Overview

2013/14 Quarter Two:
Data overview of the impacts of welfare reform in Surrey

Prepared by the Surrey Welfare Reform Co-ordination Group
for Surrey Chief Executives

13 December 2013

Benefit Cap

Summary

The number of households affected by the cap on overall benefits is just over half that originally predicted before its introduction in July 2013. This is primarily due to families being assessed by DWP as exempt before the cap was introduced. The number has continued to fall slowly since July, as families find work, are exempted after a benefits assessment or move to cheaper housing.

The most severely affected families will lose over £13,000 annually in benefits. A higher than expected number of affected families are in social housing with relatively low rents compared to private alternatives locally, but those rent levels are still high enough to put their benefit income above the cap threshold. The recent categorisation of 'affordable rent' for new social housing as 80% of market rents is likely to exacerbate this situation.

Local authority	# losing £1-50 p/w	# losing £51-100 p/w	# losing £101-150 p/w	# losing >£150 p/w	Overall number of households affected		
					Q2 total	April 2013 estimate	% change
Elmbridge	17	8	3	3	**31**	50	-38%
Epsom & Ewell	9	8	1	1	**19**	61	-69%
Guildford	16	12	2	3	**33**	80	-59%
Mole Valley	12	2	1	2	**17**	22	-23%
Reigate & Ban.	18	7	9	3	**37**	45	-18%
Runnymede	10	9	0	1	**20**	27	-26%
Spelthorne	22	18	11	5	**56**	106	-47%
Surrey Heath	4	3	2	1	**10**	28	-64%
Tandridge	10	5	2	3	**20**	32	-37%
Waverley	5	6	6	10	**27**	35	-23%
Woking	15	9	0	3	**27**	70	-61%
Surrey total	138	87	37	35	**297**	556	-47%

Data provided by Surrey Benefit Managers Group

Removal of Spare Room Subsidy ('bedroom tax')

Summary

Since the removal of the spare room subsidy in April 2013, the number of affected households has decreased steadily. District and borough councils have successfully encouraged residents to downsize where appropriate, but these opportunities are decreasing – leaving a group of residents who are unable to move due to the lack of smaller accommodation, or are unwilling to do so. The shortfall is partially covered by the application of a significant proportion of Discretionary Housing Payment (see slides 6 & 7) to affected families. Because the loss per household is relatively small (around £17 and £25 per week depending on the number of extra rooms), it is anticipated that the full impact will be felt later in the year as cumulative debts begin to mount.

Local authority	Households with +1 bedrooms			Households with +2 bedrooms			Overall number of households affected			
	April	Q1	Q2	April	Q1	Q2	April	Q1	Q2	% change April to Q2
Elmbridge	379	298	287	109	83	79	488	381	366	-25%
Epsom & E.	108	117	110	24	19	19	132	136	129	-2%
Guildford	388	-	349	98	-	60	486	430	409	-16%
Mole Valley	134	121	119	29	19	19	163	146	140	-14%
Reigate & B.	349	349	319	105	105	70	454	454	389	-14%
Runnymede	196	185	180	48	40	34	244	225	214	-12%
Spelthorne	312	257	250	71	62	66	383	319	316	-17%
Surrey Heath	186	-	149	48	-	25	234	206*	174	-26%
Tandridge	-	142	132	-	45	47	200	187	179	-10%
Waverley	330	331	253	75	75	54	405	406	307	-24%
Woking	259	205	195	134	61	75	393	266	270	-31%
Surrey total			**2343**			**478**	**3582**	**3156**	**2893**	-19%

'-' denotes that data has not yet been provided
'*' estimated in line with overall Surrey-wide trend

Data provided by Surrey Benefit Managers Group

Temporary accommodation

Summary
The number of households in temporary accommodation has risen by 34% over the past year to 479. It is still too early to tell whether welfare reforms are having an impact on the long-term upward trend, as so far, the rise over the past year is broadly in line with the change over the past three years, when Surrey has seen a cumulative rise of 156%.

Households in Temporary Accommodation at the end of Quarter 1

Local authority	Q1 2010	Q1 2011	Q1 2012	Q1 2013	Annual change 2012-13	Change from 2010 –2013
Elmbridge	18	22	23	36	+57%	+100%
Epsom & Ewell	16	32	37	91	+146%	+469%
Guildford	7	9	27	29	+7%	+314%
Mole Valley	12	18	18	26	+44%	+117%
Reigate & Bans.	16	24	65	101	+55%	+531%
Runnymede	23	23	68	42	-38%	+83%
Spelthorne	2	7	24	33	+38%	+1550%
Surrey Heath	47	50	48	67	+40%	+43%
Tandridge	16	16	15	22	+47%	+38%
Waverley	7	2	2	-	-	-
Woking	23	28	30	32	+7%	+39%
Surrey total	**187**	**231**	**357**	**479**	**+34%**	**+156%**

'-' denotes that data has not yet been provided

Data provided by Surrey Chief Housing Officers Group

Rent arrears

Summary

Building a picture of the impact of welfare reforms on rent arrears is difficult as local authorities and registered social landlords record their data differently. However, the data below, as well as anecdotal reports from Housing Officers and Social Landlords, suggest that though the number of households in arrears and the amount owed has fluctuated since April, this is not yet directly attributable to welfare changes. However, there is emerging evidence that people affected by the removal of the spare room subsidy are falling into arrears in increasing numbers as their debts accumulate.

Stock retaining local authorities	# of households in rent arrears Q2 2012/13	# of households in rent arrears Q2 2013/14	Annual change	Average arrears Q2 2012/13	Average arrears Q2 2013/14	Annual change
Tandridge	740	808	+9%	£293	£293	0
Waverley	2,244	1,870	-17%	£211	£276	+31%
Woking	941	977	+4%	£260	£269	+3%

Data provided by Surrey Chief Housing Officers Group

Registered social landlords	# of households in rent arrears Q2 2012/13	# of households in rent arrears Q2 2013/14	Annual change	Average arrears Q1 2012/13	Average arrears Q1 2013/14	Annual change
Accent	1,829	2,013	+10%	£423	£444	+5%
Paragon	2,745	2,321	-16%	*	*	+3%*
A2 Dominion	1,876	1,854	-1%	£460	£439	-5%

'*' Calculated using total arrears figure, as figure not broken down per household

Data provided by Registered Social Landlords

Council Tax Support Scheme

Summary

The localised Council Tax Support Schemes were introduced in April 2013. There is limited analysis of the impacts of the different schemes on low income groups with increased or new liabilities. The transitional hardship funds introduced to help mitigate the initial impact of reducing Council Tax Support have had low take up. This is due in part to local strategies to ensure those who can pay do so. There is no data available on Council Tax arrears for residents affected by the new schemes.

Projected impact of Council Tax Support Schemes

Local authority	# of working age households receiving CTB that may be affected	Average loss p/w	Average loss p/a
Tandridge	1,900 will definitely see no change	£0	£0
Mole Valley	2,300 will definitely see no change	£0	£0
Woking	2,800	£0.70	£36
Guildford	3,900	£0.80	£42
Waverley	2,900	£0.90	£47
Elmbridge	3,500	£1.10	£57
Epsom & E	2,000	£1.20	£62
Spelthorne	3,200	£1.90	£99
Reigate & B.	4,000	£2.50	£130
Runnymede	2,100	£4.70	£244
Surrey Heath	1,900	£7.30	£380
Total in affected areas	26,300	£2.04	£106
Total	30,500	£1.76	£92

Source: New Policy Institute, April 2013

LCTSS Hardship Fund cumulative allocations for Q1 and Q2

Local Authority	# of applications	# of awards	Average total award	% of annual hardship fund allocated
Elmbridge	0	0	0	0
Epsom & E.	27	14	£289	25%
Guildford	15	6	£286	5%
Mole Valley	5	4	£360	8%
Reigate & B	25	11	£177	6%
Runnymede	-	3	£267	4%
Spelthorne	0	0	0	0
Surrey Heath	-	14*	-	-
Tandridge	3	1	£918	4%
Waverley	20	10	£229	8%
Woking	11	7	£172	5%

‘*’ Quarter 1 data
‘-’ Data was not provided

Source: Surrey Benefit Managers Group

Discretionary Housing Payments

Summary

The Government's allocation of Discretionary Housing Payments (DHP) funding to district and borough councils in Surrey increased significantly from £684,723 in 2012/13 to £1,671,873 in 2013/14. Demand since April 2013 has also increased sharply, with up to four times as many applications as last year in some areas. The amount of DHP allocated so far is running under Quarter 2 projections, however the figures do not include some payments already committed for later in the year.

Discretionary Housing Payments cumulative awards for Q1 and Q2

Local authority	# of applications	# of awards	Average total award	Total awarded in Q1 and Q2	% of annual DHP funding awarded in Q1 & Q2
Elmbridge	398	252	£438	£110,451	39%
Epsom & Ewell	88	62	£959	£59,451	45%
Guildford	253	164	£513	£82,236	40%
Mole Valley	98	65	£489	£31,783	32%
Reigate & Banstead	216	122	£569	£69,409	46%
Runnymede	-	94	£394	£37,082	36%
Spelthorne	164	146	£520	£75,870	38%
Surrey Heath	-	-	-	-	-
Tandridge	59	89	£287	£25,584	25%
Waverley	173	119	£733	£87,211	60%
Woking	159	151	£346	£52,278	32%
Surrey total		**1,264**	**£499**	**£631,355**	**39%**

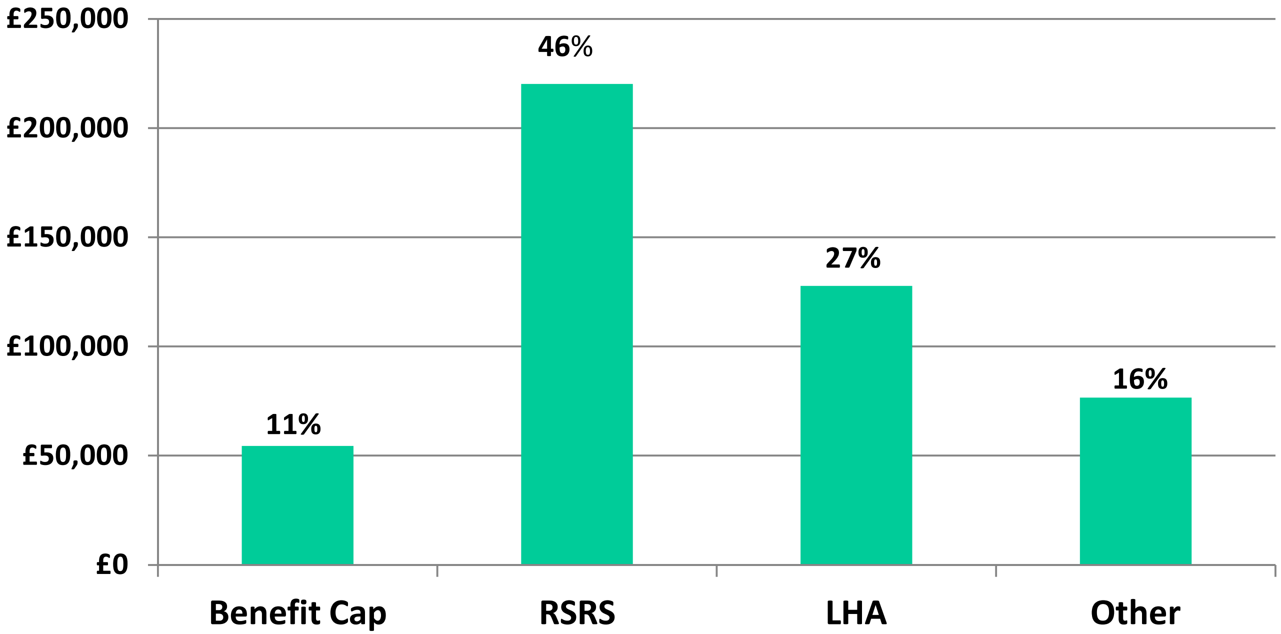
'-' Data not provided

Data provided by Surrey Benefit Managers Group

What is DHP being spent on?

Summary

Discretionary Housing Payments have previously been used primarily to cover shortfalls in Local Housing Allowance, but this has now fallen to a quarter of total awards. Just under half (46%) of awards are now being used to address shortfalls caused by the removal of the spare room subsidy (RSRS). As would be expected, these payments tend to be for smaller amounts awarded to a larger number of people. In contrast, the awards to cover losses from the benefit cap tend to be larger amounts to a smaller number of families. Other awards are also being made to cover issues such as providing rent in advance to residents moving into private properties, which seems to have encouraged landlords to continue to rent to benefit claimants, which is likely to be a growing use of DHP in the future.



Data from 8 of 11 district and borough councils and provided by Surrey Benefit Managers Group

Local Assistance scheme (LAS)

	Total claims	Claims approved	% claims approved	Total card value	Average card value	Total Reuse Network value	Average Reuse Network Value
Q1	479	396	83%	£12,660	£41.40	£34,395	£308
Q2	641	551	86%	£17,092	£40.68	£37,329	£235
Total	**1120**	**947**	**85%**	**£29,752**	**£40.65**	**£71,724**	**£261**

Summary

The total amount allocated to the Local Assistance Scheme in 2013/14 was £900,000. By the end of Quarter 2, £103,752 (12% of the annual funding) has been awarded to clients

This under spend is broadly in line with other similar schemes nationally. Work is now underway to raise awareness and make it easier for residents to apply for support.

Local Authority	Total awards	LAS	% of DWP Social Fund allocated 2010-12
Elmbridge	120	10%	10%
Epsom & Ewell	223	19%	6%
Guildford	164	14%	14%
Mole Valley	139	12%	5%
Reigate & Ban.	98	8%	15%
Runnymede	93	8%	7%
Spelthorne	52	4%	13%
Surrey Heath	45	4%	7%
Tandridge	50	4%	5%
Waverley	104	9%	6%
Woking	73	6%	13%

Data provided by Surrey Local Assistance Scheme

getWiS£ advice service

Summary

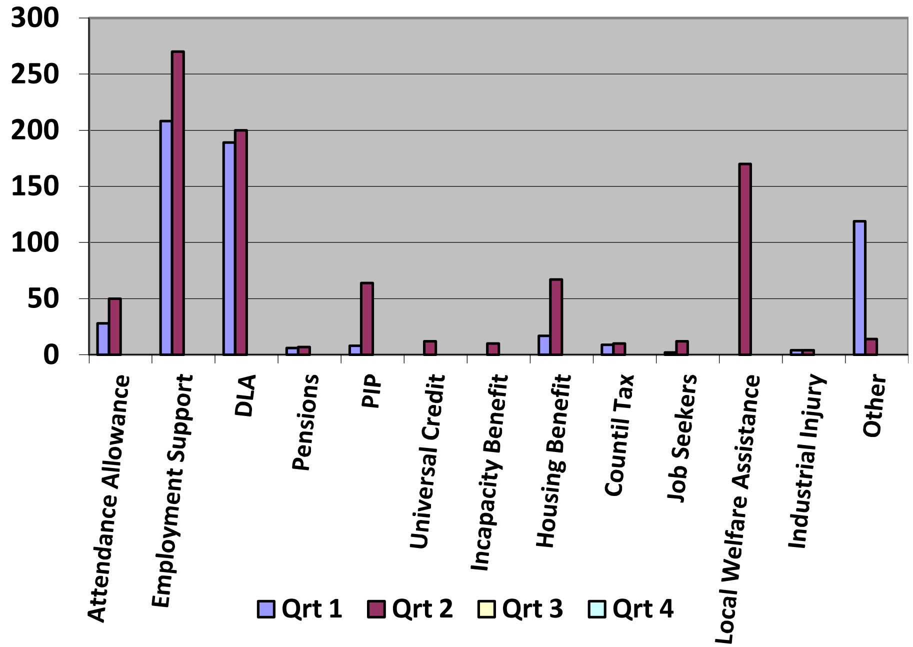
Half of getWiS£'s caseload (415 out of 814 cases) has been supporting people with appeals and tribunals, mainly contesting Disability Living Allowance or Employment Support Allowance assessments – with a success rate of approximately 90%. Around 80% of residents supported so far have been disabled working aged adults, with older people over the pension age making up the other 20%. getWiS£ are on course to secure over £1 million of benefits for clients by the end of the year (calculated from the time the benefit was agreed for one calendar year). Four areas (Elmbridge, Guildford, Reigate & Banstead, and Woking) have significantly higher referrals , with a strong correlation to where Volunteer Hubs have been long established.

Q1 and Q2 getWiS£ monitoring information

	Q1	Q2	Total
New referrals (people)	277	587	814
People supported to secure benefits	277	585	812
Value of benefits secured	£383k	£178k	£561k
Average value of annual benefits secured	£650	£200	£379
Unit cost to support clients	£551	£213	£307
Funding from Surrey County Council	£125k	£125k	£250k

Data provided by getWiS£

Type of benefit issues supported by getWiS£



Citizens Advice Surrey

Summary

The overall number of enquiries related to welfare benefits has risen by 17% since the same period last year. Nearly half the increase is due to the CAB's contract to administer the new Local Assistance Scheme. Housing benefit enquiries rose by 22% and Jobseeker's Allowance by 27%, despite the significant fall in JSA claimants over the period. Employment Support Allowance cases also rose significantly, as the ongoing changes to disability benefit continue to generate advice needs and appeals. Total debt cases fell 7% over the past year, but within that figure, rent and council tax arrears queries rose by 35% and 13% respectively.

Theme	Q1 2012	Q1 2013	Annual change
Welfare Benefits (Total)	**12,122**	**14,212**	**+17%**
Housing Benefit	1549	1884	+22%
Jobseeker's Allowance	870	1102	+27%
Working and Child Tax Credits	1294	1186	-8%
Council Tax Benefit Support	1124	799	-29%
Local Assistance Scheme (formerly the Social Fund)	172	1038	+503%
Disability related benefits	2776	2778	+0%
Employment Support Allowance	1,710	2508	+47%
Housing (Total)	**3,979**	**4,123**	**+4%**
Actual homelessness	257	233	-9%
Threatened homelessness	558	643	+15%
Debt (Total)	**7,566**	**7,030**	**-7%**
Rent arrears (social housing; private housing)	517 (407; 110)	697 (572; 125)	+ 35%
Council tax arrears	486	551	+13%
Unsecured personal lending	2460	2038	-17%
Payday loan debts	-	141	-
Utilities debts (fuel and water)	524	588	+12%

Data provided by Citizens Advice Surrey

Food banks

Summary
The rise in the use of food banks in Surrey broadly reflects what is happening nationally; with increased demand being created by a combination of welfare reform changes and a general rise in the cost of living. However, according to the Trussell Trust, the largest operator of food banks nationally and in Surrey, a slightly higher proportion of demand in Surrey is being driven by the high cost of living rather than welfare changes. Surrey has thus far seen a slower growth of food banks than other areas in the country. The Trussell Trust currently operates five food banks in Surrey and plan to open two more by the end of 2013.

Number of people fed by Trussell Trust food banks

	Quarter 2 2012	Quarter 1 2013	Quarter 2 2013	Change on quarter (Q1-Q2 2013)	Change on year (Q1 2012-Q1 2013)
Adults	184	784	**724**	-8%	+393%
Dependent children	109	508	**566**	+11%	+519%
Total	293	1292	**1290**	-1%	+440%

Data provided by the Trussell Trust

Unemployment in Surrey

Summary

The overall number of residents claiming Jobseeker's Allowance (JSA) has declined by 10.7% over the past quarter and 23.3% since the same period last year, broadly in line with national trends. At the start of the year there was an expectation that many people would stop claiming JSA due to additional requirements, particularly for those previously receiving disability benefits. However, the number of claimants counted as 'economically inactive' has also fallen recently, including those actively looking for work. There is limited data about the nature of employment, particularly whether there has been a shift to more part-time or zero-hour based work.

Unemployed category	Q1 2013	Q2 2013	% change on previous quarter	Q2 2012	% change
Jobseeker's Allowance claimants	10,043	**8,969**	-10.7%	11, 682	-23.3%
Economic inactivity (Total)	141,800~	**135,700***	-4.3%	139,600**	-2.8%
Economic inactivity (Those that want a job)	34,900~	**31,700***	-9.2%	29,800**	+6.4%
Young People aged 16-19 not in employment, education or training (NEET)	936	**841**	-10.2%	449	-8%

'*' July 2012 – June 2013
'~' April 2012 – March 2013
'**' July 2011 – June 2012

Data provided by the Office of National Statistics

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Welfare Reform Overview and Timeline

Reform	When?	What are the changes?	Who does this impact? Who is exempt?	How will this happen?	Legislation
Incapacity Benefit, Severe Disablement Allowance, Income Support	October 2010	Assessment for Employment and Support Allowance.	Residents of working age who are claiming sickness benefits.	Between now and March 2014 the Department for Work and Pensions (DWP) will invite affected residents for a Work Capability Assessment. After this assessment the DWP will decide if they are to be paid Employment and Support Allowance, or Job Seekers Allowance.	Welfare Reform Act 2012
Tax Credits	April 2011 - April 2012	The whole tax credit system is being reformed with a number of elements being abolished.	All tax credit recipients including families, low income workers including disabled workers and older people.	Various changes including changing income thresholds and removing a number of elements e.g. 50+ element	Welfare Reform Act 2012
Housing Benefit (1) **Local Housing Allowance**	April 2011	Local Housing Allowance: The introduction of a cap regulating the maximum amount of housing benefit available for private housing tenants depending on how many bedrooms the tenants qualify for.	Tenants of private landlords. **Exemptions** - Where the landlord is a not for profit company/voluntary organisation/a Registered Social Landlord/Local Council that provides care support or supervision, They will be exempt from the Local Housing Allowance cap.	The maximum amount of housing benefit is capped depending on how many bedrooms the tenants qualify for: • £250 a week for a 1 bedroom property • £290 a week for a 2 bedroom property • £340 a week for a 3 bedroom property • £400 a week for 4 or more bedroom property	The Housing Benefit (Amendment) Regulations 2010

Housing Benefit (2) **Single Room Rate**	January 2012	Single room rate: For tenants who live alone in a one bedroom flat the age for when they are expected to live in shared accommodation has risen from 25 to 35.	For tenants of private landlords who are under 35 and live alone. **Exemptions** - Care leavers aged up to 22 People receiving the severe disability premium Former residents of homeless hostels will not be affected by this change.	The government is capping housing benefit to the shared accommodation rate.	Welfare Reform Act 2012
Income Support	May 2012	Lone parents required to be available and looking for work when their youngest child reaches age 5 rather than age 7.	Lone parents whose youngest child is aged five. **Exemptions** - Lone parents on Income Support who have a child for whom the middle or highest rate care component of DLA/PIP is payable will continue to be eligible to claim Income Support when their youngest child reaches five.	Lone parents will be transferred to Job Seekers Allowance and expected to look for and be available to work.	Welfare Reform Act 2012
Child Benefit	Jan 2013	A reduction in CB for families where at least one person earns over £50,000.	For families where one parent earns more than £50,000 the benefit will be reduced. For families where a parent earns over £60,000, the benefit will be cut entirely.	People earning between £50,000 and £60,000 will have to pay the benefits back – on a sliding scale – by filling out self-assessment tax return forms. The Government is writing to all those high earners that it thinks are affected.	Finance Bill 2012
Total Household Benefit Cap	From April 2013 (pilot areas) From Summer 2013 (other areas)	A cap on the total household benefits of £350 a week for single people living alone and £500 a week for couples or families.	People of working age on out of work benefits. The cap will not apply if they qualify for working tax credit, or receive any of the following: • Disability living allowance • Attendance allowance	The cap includes housing benefit, and remains the same regardless of how many children they have. If a household's total benefits do come to more than £350 or £500 a week, then any benefits received over the cap will be taken out of their housing benefit.	Welfare Reform Act 2012

			• The support component of ESA • Industrial injuries benefit • War widows and war widowers pension **Exemptions** - The cap will not include one-off payments; non-cash benefits e.g. free school meals; nor will it include Council Tax Reduction Schemes; and those clients living in supported accommodation.		
Housing Benefit (3) **Social Sector Size Criteria** 'Bedroom Tax'	April 2013	A reduction in Housing Benefit for social housing tenants who are deemed to be under-occupying in their property e.g. spare bedrooms.	Social housing tenants of working-age with one or more 'spare' rooms. **Exemptions** - Foster carers if they have fostered a child or been approved to do so in the last 12 months; residents of state pension age; parents whose children are away with armed forces; clients living in supported accommodation; and parents with severely disabled children.	If they have one spare bedroom the reduction will be equal to 14% of the 'eligible rent' for their property. If they have two spare bedrooms or more, the reduction will be equal to 25% of the 'eligible rent' for the property.	Welfare Reform Act 2012
Local Assistance Scheme (Previously the Social Fund)	April 2013 – April 2015	Crisis Loans and Community Care Grants previously administered by JCP and DWP, have become the responsibility of local authorities (counties in two tier areas)	Anyone who has previously contacted DWP or Job Centre Plus to receive a Crisis Loan or Community Care Grant.	Parts of the Social Fund are being abolished; and the funding for Crisis Loans and Community Care Grants is being devolved to local authorities; where they can design and develop their own schemes. The funding is not ring-fenced. Surrey County Council has used the funding to develop a Local Assistance Scheme to provide emergency support. There will be no DWP funding for Local Assistance Schemes after 2014/15. From April 2015, Local Assistance	Welfare Reform Act 2012

				Schemes must be funded from local authority general funds.	
Local Council Tax Support Schemes **(Previously Council Tax Benefit)**	April 2013	It is being abolished and being replaced with localised Council Tax Support schemes	All working age council tax benefit claimants. **Exemptions** – Pensioners will not be affected by changes to council tax benefit.	District and Boroughs have designed and developed their own individual Council Tax Support Schemes. Surrey County Council has offered support funding for local council tax support schemes and hardship funds. For April 2014/15, some District and Borough Councils have decided not to change their Local Council Tax Scheme from the previous year, while other District and Borough Councils are proposing to introduce a number of new changes which are projected to have a significant impact on residents.	Local Government Finance Act 2012
Benefit Up-rating	April 2013 – April 2016	The imposition of a cap for working-age benefit claimants which limits annual rises to 1%	Existing and new claimants of: • Jobseeker's allowance • Employment and Support Allowance • Income Support • Elements of Housing Benefit • Maternity Allowance • Sick Pay, Maternity Pay, Paternity pay, Adoption Pay • Couple and lone parent elements of working tax credits • The child element of the child tax credit	Most working-age benefits and tax credits would be up-rated by just 1% - which is a below inflation cap for three years from 2013-14. Benefits have historically risen in line with inflation, and in April 2013 would have risen by 2.2% without the cap.	The Welfare Benefits Up-rating Act 2013

			Exemptions – Pensioners will not be affected and will see their basic state pension rise by 2.5% to £110.15 in April 2013. Additionally, clients in receipt of Disability Living Allowance also are exempt from the cap and will see their benefits rise in line with (CPI) inflation.		
Disability Living Allowance	July/ October 2013	DLA is slowly being phased out and will be replaced by the Personal Independence Payment.	DLA claimants aged 16 to 64 **Exemptions** – Those under 16 can continue to claim DLA until their sixteenth birthday. Those already getting Attendance Allowance will not be affected by PIP. Other disability benefits will not be affected by PIP.	Claimants will be required to claim the new Personal Independence Payment (PIP) through a reassessment process. The details for PIP are still to be finalised. Implemented in July 2013 for new DLA claimants. From October 2013-2016 existing DLA claimants will be assessed for PIP.	Welfare Reform Act 2012
Universal Credit	October 2013 - 2017**	A number of benefits for working-age claimants will be replaced with a single streamlined benefit called Universal Credit (UC) and will aim to be digital by default. UC is payable on a monthly basis, in arrears, directly to people both in and out of work. It will be paid to just	Existing and new claimants of: • Income Support • Income Related Jobseeker's • Allowance • Income Related Employment • Support Allowance • Housing Benefit • Working Tax Credit • Child Tax Credit **Exemptions** – Pension credit will remain for those over the qualifying age, and those claimants will not transfer to Universal Credit. Universal Credit will not include Disability	All of these benefits will form the new Universal Credit payment. This benefit will be paid directly to claimants monthly in arrears. April 2013 – Pathfinder areas are used to test UC. These are Tameside, Oldham, Wigan and Warrington. Ashton under Lyne will be the first Jobcentre to accept claims for UC from 29 April. July 2013 – Wigan, Warrington, Oldham jobcentres will first trail the new claimant commitment and will take claims for UC beginning in July - informed by the early testing in Ashton-	Welfare Reform Act 2012

		one person in a household with HB now being paid directly to the recipients.	Living Allowance (DLA), Council Tax Reduction, Personal Independence Payment (PIP) or Carers Allowance	under-Lyne. Spring 2014 – UC will extend to Hammersmith, Rugby, Inverness, Harrogate, Bath and Shotton. April 2014 – Roll out of UC in Northern Ireland. Summer 2014 – Claims for couples start to be taken. Autumn 2014 – Claims for families start to be taken. April 2015 – UC is fully implemented across the North West of England **2016 – UC is implemented across the UK, including Surrey.** **After 2017 – The last claimants to be transferred will be those in the Employment and Support Allowance support group (700,000 claimants)	

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Annex 5 – Overview of key advice and support services in Surrey

Surrey County Council services including Childrens, Schools and Families, Adult Social Care, and Surrey Libraries are most likely to be directly working with residents affected.

District and Borough Councils benefits and housing teams are a key source of support and advice for residents affected by the reforms.

Department for Work and Pensions (DWP) is the ministerial department responsible for employment and welfare in the UK. Jobcentre Plus is part of DWP, servicing those looking for employment or issuing benefits to those who cannot work.

Citizens Advice Bureau (CAB) deliver free, independent and confidential advice services to people on a wide range of issues including debt, employment, welfare benefits, housing and immigration issues.

Surrey Welfare Rights Unit (SWRU) is a member of Citizens Advice based in Woking. They do not directly advise the public, but instead provide support and training to Surrey organisations to enable them to give better benefits advice to the public.

GetWiS£ is a consortium of local voluntary sector organisations, funded by Surrey County Council to provide holistic information, advice and support on welfare benefits to Surrey residents in light of the reforms. They were instituted on 1 April 2012 and are made up of Surrey Disabled Peoples Partnerships (lead provider), Age UK Surrey, Surrey Association of Visual Impairment, Surrey Youth Consortium, and Deaf Positives.

Registered Social Landlords (RSLs) have been identified by a number of witnesses as a key partner in accessing and supporting those affected by the reforms.

Foodbanks: Care professionals such as doctors, health visitors, social workers, CAB and police identify people in crisis and issue them with a foodbank voucher. Foodbank clients bring their voucher to a foodbank centre where it can be redeemed for emergency food.

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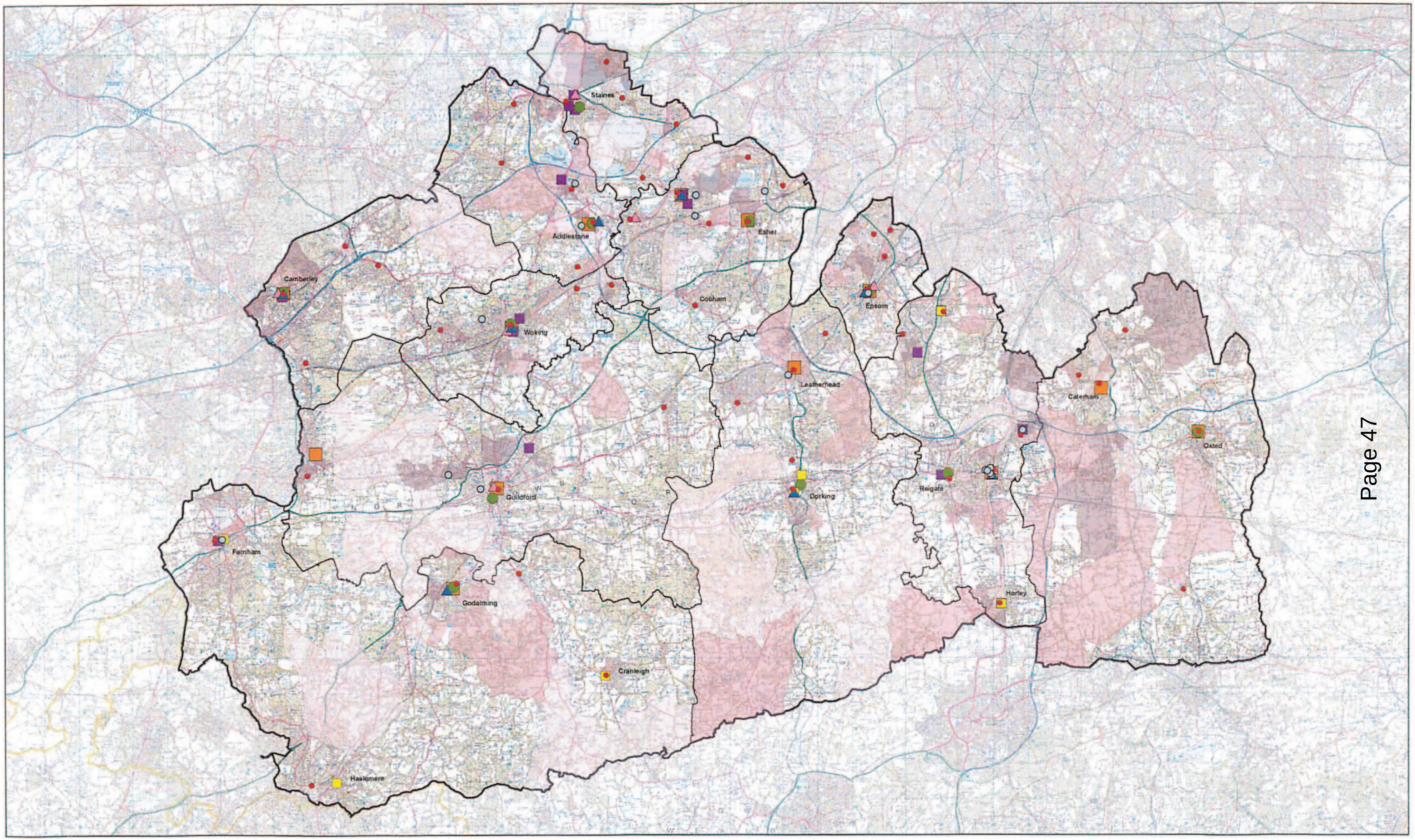

Advice and Support Services in Surrey

- Library
- Foodbank
- Housing Options Team
- Surrey Hub
- JobCentre Plus
- Registered Housing Provider
- CAB Outreach Office
- Citizens Advice Bureau
- Districts and Boroughs
- Surrey

Top 30% most deprived areas in Surrey

- Top 10% most deprived areas
- Top 20% most deprived areas
- Top 30% most deprived areas

(Source: IMD 2010)

SURREY COUNTY COUNCIL

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SURREY
COUNTY COUNCIL

7

Council Overview and Scrutiny Committee
30 January 2014

CORPORATE STRATEGY 2014-2019 AND REVENUE AND CAPITAL BUDGETS 2014/2015 TO 2018/19

Purpose of the report: This report presents the revised Corporate Strategy for 2014 to 2019 and the proposed revenue and capital budgets for the Council for the period 2014/2015 to 2018/19.

Introduction:

1 This report brings together information in relation to the County Council's strategic priorities and overall financial planning. The Committee is asked to review the revised Corporate Strategy for 2014-2019 (Item 7A) and the proposed revenue and capital budgets for the period 2014/2015 to 2018/19 (Item 7B) and make any comments or recommendations for consideration by the Cabinet at its meeting on 4 February 2014.

Recommendation:

The Committee is asked to consider the revised Corporate Strategy and proposed revenue and capital budgets for the period 2014/2015 to 2018/2019 and make recommendations to the Cabinet as appropriate.

Report contact: Kevin Kilburn, Deputy Chief Finance Officer

Contact details: kevin.kilburn@surreycc.gov.uk
020 8541 9207

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SURREY COUNTY COUNCIL

CABINET

DATE: 4 FEBRUARY 2014

REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL

LEAD OFFICER: DAVID MCNULTY, CHIEF EXECUTIVE

SUBJECT: ***CONFIDENT IN OUR FUTURE,*** **CORPORATE STRATEGY 2014-2019**

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SUMMARY OF ISSUE:

The Cabinet are asked to endorse a refreshed version of *Confident in our future*, the Council's Corporate Strategy. The Strategy will then be presented to the County Council meeting on 11 February 2014 for approval alongside the Revenue and Capital Budget. Continued delivery of the Strategy will ensure that Surrey residents remain healthy, safe and confident about their future.

RECOMMENDATIONS:

It is recommended that the Cabinet endorses the refreshed version of *Confident in our future*, Corporate Strategy 2014-2019 and recommend that it be presented to the County Council meeting on 11 February 2014 for approval alongside the Revenue and Capital Budget 2014-2019.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Background

1. On 16 July 2013 the County Council approved a long term strategy for the Council: *Confident in our future,* Corporate Strategy 2013-2018. It was agreed that the Strategy would undergo a light touch refresh on an annual basis.

Confident in our future, Corporate Strategy 2014-2019

2. The key challenges outlined in the introduction to the Strategy remain. Namely meeting increasing demands for services while resources in real terms are reducing. By putting the Strategy into action the Council has already made good progress in meeting these challenges. The recently published document "More than 50 ways Surrey adds value" illustrates this, and a short description of progress made so far has been added to the refreshed Strategy document.

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3. The strong progress made confirms the value of sticking to the long term Strategy the Council agreed in July 2013. The Council's vision, purpose, areas of focus, and values therefore remain unchanged:

- **The Council's purpose:**
  - To ensure that Surrey residents remain healthy, safe and confident about their future.
- **The Council's vision for 2019:**
  - To be delivering great value for Surrey's residents.
- **Six areas of focus** for the Council to achieve the vision:
  - **Residents:** Individuals, families and communities will have more influence, control and responsibility;
  - **Value:** We will create public value by improving outcomes for residents;
  - **Partnerships:** We will work with our partners in the interests of Surrey;
  - **Quality:** We will ensure high quality and encourage innovation;
  - **People:** We will develop and equip our officers and Members to provide excellent service; and
  - **Stewardship:** We will look after Surrey's resources responsibly.
- **The Council's Values**
  - **Listen:** We actively listen to others;
  - **Responsibility:** We take responsibility in all that we do;
  - **Trust:** We work to inspire trust and we trust others; and
  - **Respect:** We treat people with respect and are committed to learning from others.

4. Elsewhere there are two key amendments to the Strategy. Firstly, the wording used to explain "what difference the Council makes" has been updated so that it matches that already being used in the Council's communications campaigns with residents and staff. The statements are being used to raise awareness of the important ways the Council adds value. Secondly, the specific list of outcome focussed priorities for the next financial year has been updated.

5. Circulated with this report is a plain text version of the refreshed Strategy: *Confident in our future*, Corporate Strategy 2014-2019 (**Annex 1** circulated separately).

CONSULTATION:

6. The Council's long term strategy has been discussed at a range of events over recent months involving Members and officers from across the Council. These include the all Member seminar on the Chief Executive's 6 month progress report and budget workshops.

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RISK MANAGEMENT AND IMPLICATIONS:

7. There are no direct risk management implications arising from this report.

8. The Council's Risk Strategy will be reviewed and updated to reflect the refreshed version of the Corporate Strategy.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9. The Corporate Strategy is developed in line with budget planning. It sets the strategic direction reflected in the Revenue and Capital Budget 2014/15 to 2018/19 which is presented separately to Cabinet at this meeting.

SECTION 151 OFFICER COMMENTARY

10. The Corporate Strategy has been refreshed alongside the development of Council's future budget. The Revenue and Capital Budget 2014/15 to 2018/19 is presented separately to Cabinet at this meeting.

LEGAL IMPLICATIONS – MONITORING OFFICER

11. There are no legal implications/legislative requirements arising directly from this report.

EQUALITIES AND DIVERSITY

12. There are no direct equalities implications arising from this report. Equalities implications will continue to be considered in relation to the more detailed policies that stem from the overall Strategy.

OTHER IMPLICATIONS:

13. The potential implications for the following council priorities and policy areas have been considered. There are no direct implications arising from this report but the priorities in the Corporate Strategy, Directorate Strategies and the Communications and Engagement Strategy ensure that the Council maintains a focus on each of these policy areas.

Corporate Parenting/Looked After Children
The Council has a duty to act as an effective corporate parent. The Corporate Strategy contains a priority to "protect vulnerable children".

Safeguarding responsibilities for vulnerable children and adults
The Corporate Strategy contains priorities to "protect vulnerable children" and "support vulnerable adults".

Public Health
The Corporate Strategy contains a priority on "keeping families healthy".

Climate change/carbon emissions
The Corporate Strategy contains a priority on "caring for our environment".

WHAT HAPPENS NEXT:

- *Confident in our future,* Corporate Strategy 2014-2019 is presented to the County Council meeting on 11 February 2014 for approval.

7

- The set of key supporting strategies (e.g. Directorate Strategies) will be refreshed and presented to Cabinet alongside the Medium Term Financial Plan on 25 March 2014.
- In readiness for the start of the 2014/15 financial year the refreshed suite of strategies will be published on the Council's website – this will include the fully designed version of the Corporate Strategy document and the accompanying video.
- The full set of measures and targets for the Council's 2014/15 priorities will be finalised and progress will be reported quarterly on the Council's website.
- The Chief Executive will submit six-monthly progress reports to the Council meetings in July and December 2014.
- Select Committees continue to scrutinise work programmes and performance.

Lead Officer:
David McNulty, Chief Executive

Consulted:
Cabinet Members
Council Overview and Scrutiny Committee (30 January 2014)
Council Leadership Team (CLT)

Annexes:
Annex 1: *Confident in our future*, Corporate Strategy 2014-2019 (circulated separately)

Sources/background papers:
- *Confident in our future*, Corporate Strategy 2013-2018, report to Council 16 July 2013
- Chief Executive's six-monthly progress report, report to Council 10 December 2013

What difference will this make?

The changes and improvements we will make over the next five years are all designed to achieve better outcomes for Surrey and its residents.

Our priorities for 2014/15

There are some specific things we need to focus on in the next year to help us towards our long term goals. These reflect residents' priorities, current challenges, and areas where investment is needed now to realise future ambitions. The detailed measures and targets for the priorities below will be reported on through the year:

- Renew 100km of the county's roads
- Provide over 6,500 additional school places by September 2015
- Support young people and the local economy by creating an additional 500 apprenticeships
- Work with a further 500 families through a Family Support Programme, taking the total number supported to over 1,000
- Support more vulnerable people to live independent lives in Surrey
- Work with health partners to ensure Surrey residents benefit from health and social care integration through the Better Care Fund
- Invest up to £10m to support the response to flooding
- Deliver savings of over £65m in the 2014/15 financial year

How will we make this happen?

There are a series of more detailed Strategies and plans that link this high level Corporate Strategy to the specific actions that teams and individuals will take to make it happen.

We will continue to engage with residents as we implement our Strategy. We will regularly review our progress and will publish updates against the goals we have set.

Please see our online Strategy Bookcase for more details.

If you would like this information in large print, on tape, in easy-read, or in another language, please contact us on:
Tel: 03456 009 009 Minicom: 020 8541 9698
Fax: 020 8541 9575 Email: contact.centre@surreycc.gov.uk

Confident in our future

Surrey County Council is performing strongly. We are working as "one team" with our partners to ensure Surrey residents receive high quality and value for money services. We are making a positive difference to people's lives every day. <u>Yet there is no complacency</u>. Our job continues to get tougher as demand increases while resources reduce.

We are confident about Surrey's future. By continuing to build on our strengths and working together with residents and partners, we will find solutions to meet the challenge we face.

The challenge ahead

The challenge facing us is stark. We cannot afford to continue delivering the services needed in the way we deliver them today. There are ever growing demands for our existing services, in particular for school places and services for older people. There are new responsibilities that we have to meet. At the same time our resources in real terms will continue to reduce.

We must find sustainable answers so we can continue to support those residents who need us most and play our part in working with others to secure strong economic growth in Surrey.

Key actions

Over the next five years we will invest:
- £200m in improving roads and easing congestion
- £198m additional funds to ensure vulnerable children and adults are supported
- £327m in providing over 13,000 additional school places

We will reduce our costs by more than £200m over the next five years

We will continue to involve service users in designing and delivering innovative and effective services

We will continue to develop effective partnerships to reduce costs and improve services

Staying strong: developing innovative solutions

Many councils will respond to the challenge ahead by reducing their capacity and capability. We will not. We will continue to build on our strengths so we can achieve our priorities and long term goals for Surrey. There are more than 50 examples from the last year of how we have improved the value we provide for residents and businesses. We will continue to do this by working together as one team with residents and partners, and investing in our staff so they can provide excellent service.

Staying strong won't mean standing still. We will continue to focus on developing innovative solutions, adapting the way we work and seizing opportunities that will improve services and value for residents.

Everything we do will be focussed on ensuring all Surrey's residents remain healthy, safe and confident about their future.

This short document sets out our vision for 2019 and the steps we will take over the next five years to achieve it. We hope you understand our approach. If you have any comments please contact us at david.hodge@surreycc.gov.uk or david.mcnulty@surreycc.gov.uk

Annex 1

Our purpose – To ensure that Surrey residents remain healthy, safe and confident about their future

Our vision for 2019 - To be delivering great value for Surrey residents

What we will focus on - This vision is ambitious. To achieve it there are six things we have to focus on and get right. These explain how we will transform the way we work with residents, businesses, partners and staff to tackle the issues facing Surrey and how we will navigate our way through the most difficult financial environment local government has faced for the last 80 years.

Residents

Individuals, families and communities will have more influence, control and responsibility

Individuals, families and communities across Surrey have different needs and aspirations. To meet these it is crucial we develop new approaches that increase their control over how services are designed and delivered. This move to greater localism will develop in different ways. We will stimulate changes by engaging with and listening to residents, moving some decision-making powers and funding to local levels, and being transparent about what we do and how much it costs. We will work with adults and children who need support to shape the sort of services they receive so they can lead more independent and fulfilled lives. In everything we do we will treat all residents fairly and with respect.

Value

We will create public value by improving outcomes for residents

In the way that a company seeks to maximise shareholder value, we will focus on generating increased value for residents. We have to reduce our spending by more than £200m over five years to 2019. This is a huge challenge. We will focus relentlessly on reducing our costs. We will deliver the things that are important for Surrey residents, maintain a rigorous focus on value for money, and find innovative solutions that can achieve more for less. This will include looking at different ways of delivering services such as joining up with partners and establishing arrangements to trade services.

Partnerships

We will work with our partners in the interests of Surrey

Putting residents' interests first means setting aside organisational boundaries and traditional roles.
We will work with whoever is best placed to help improve outcomes for Surrey residents. This could range from co-designing specific services with residents to formal arrangements with social enterprises or partners such as other councils, the private sector and the voluntary, community and faith sector. Only by remaining a strong organisation will we have the strength to support others in the voluntary, community and faith sector to make their contribution to Surrey's wellbeing. And we will be able to play our part in working with business partners to improve Surrey's competitiveness as the world economy recovers.

Quality

We will ensure high quality and encourage innovation

However services change and whoever delivers them, we will pride ourselves on ensuring high quality at all times. This means working relentlessly with residents, businesses, partners and staff to find improvements and develop fresh approaches. We will focus on prevention; anticipating and avoiding problems before they arise. We will respond quickly to the changing demands - and seize the opportunities - that new technology can bring.

People

We will develop and equip our officers and Members to provide excellent service

One of our key assets is the quality and commitment of the people who work for Surrey. We will invest in the people who work for Surrey. We will make sure that they have the right equipment training and development to support their work. This investment will improve our productivity and the quality of the work we do for residents. It will also support a one team culture where all officers and Members take responsibility for providing excellent service and work together in creative ways for the benefit of residents.

Stewardship

We will look after Surrey's resources responsibly

When striving to fulfil our most pressing duties it is critical we use resources responsibly and safeguard them for future generations. We will continue to maintain rigorous financial and risk management so we have a sound basis for achieving current priorities and investing for future needs. We will focus on conserving Surrey's environment and will reduce our dependency on carbon and other scarce resources.

Our values

Making these changes will not be easy and we will face some tough choices. To succeed we will need to live up to our values. These are at the heart of our goal to make a difference for Surrey residents.

Listen
We actively listen to others

Responsibility
We take responsibility in all that we do

Trust
We work to inspire trust and we trust in others

Respect
We treat people with respect and are committed to learning from others

Cabinet

SURREY COUNTY COUNCIL

7

Date & time	Place	Contact	Chief Executive
Tuesday, 4 February 2014 at 2.00 pm	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	James Stanton Room 122, County Hall Tel 020 8541 9068 james.stanton@surreycc.gov.uk	David McNulty

Agenda Item 7 - Revenue and Capital Budget 2014/15 to 2018/19, Treasury Management Strategy

To propose and recommend to the Full County Council:

1. the draft revenue and capital budget for the five years 2014-19 and the level of the council tax precept for 2014/15; and

2. the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2014-19, the policy for the provision of the repayment of debt (minimum revenue provision (MRP)), and the treasury management policy.

Annexes and Appendicies

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SURREY COUNTY COUNCIL

CABINET

DATE: **4 FEBRUARY 2014**

7

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

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR BUSINESS SERVICES**

SUBJECT: **REVENUE AND CAPITAL BUDGET 2014/15 TO 2018/19, TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

To propose and recommend to the Full County Council:

1. the draft revenue and capital budget for the five years 2014-19 and the level of the council tax precept for 2014/15; and

2. the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2014-19, 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 11 February 2014:

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 budget and the adequacy of the proposed financial reserves (Annex 1).
2. Set the County Council precept for band D council tax at £1,195.83, which represents a 1.99% up-lift.
3. 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 Local Government Financial Settlement.
4. Approve the County Council budget for 2014/15.
5. Agree the capital programme proposals specifically to:
   - fund essential schemes over the five year period (schools and non-schools) to the value of £760m including ring-fenced grants; and
   - make adequate provision in the revenue budget to fund the revenue costs of the capital programme.
6. Require the Chief Executive and Chief Finance Officer to establish a mechanism to regularly track and monitor progress on the further development and implementation of robust plans for achieving the efficiencies

7 across the whole MTFP period.

7. Require Strategic Directors and Senior Officers to maintain robust in year (i.e. 2014/15) budget monitoring procedures that enable Cabinet to monitor the achievement of efficiencies and service reductions through the monthly budget monitoring Cabinet reports, the quarterly Cabinet Member
7 accountability meetings and the monthly scrutiny at the Council's Overview & Scrutiny Committee.
8. Require a robust business case to be prepared 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 2014/15 and approve that their provisions have immediate effect. This strategy includes:
    - the investment strategy for short term cash balances;
    - the treasury management policy (Appendix B1);
    - the prudential indicators (Appendix B2)
    - the schedule of delegation (Appendix B4);
    - the minimum revenue provision policy (Appendix B7).

It is further recommended that Cabinet makes the following decisions:

10. Approve the medium term financial plan (MTFP) for the financial years 2014-19, which includes to:
    - approve the Total Schools Budget of £563.1m (paragraphs 0 to 53);
    - reduce the revenue budget risk contingency for 2014/15 to £5m to mitigate against the risk of non-delivery of service reductions & efficiencies;
    - support the 2014/15 budget by applying £20.1m from the Budget Equalisation Reserve (including £13.0m contributed by the unused risk contingency from 2013/14) and £5.8m from other reserves;
    - provide £0.75m to support the apprenticeship programme;
    - set aside £1.25m in a reserve for Business Rates Appeals as mitigation against potential business rates valuation appeals (paragraph 78).
11. Note Cabinet will receive the final detailed MTFP (2014-19) on 25 March 2014 for approval following scrutiny by Select Committees.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 11 February 2014 to agree the summary budget and set the council tax precept for 2014/15. 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 continues to maintain its financial resilience and protect 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 undertaken in 2012;
- to provide adequate finances for key services such as school places, highways,

adults social care and protecting vulnerable people.

DETAILS

Revenue and capital budget

Introduction

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1. This report proposes the medium term financial plan (MTFP) 2014-19 that Cabinet has developed at a series of workshops beginning in June 2013 and concluding in January 2014. Throughout this period, other Members have had opportunity to influence development of the MTFP through monthly all Member seminars and Select Committee scrutiny.

2. The proposed MTFP period (2014-19) rolls forward by one year the current MTFP (2013-18) approved by Full County Council on 12 February 2013. It covers five years, matched to the corporate strategy.

3. The Council plans to balance its five year MTFP through a combination of:

- service transformation mechanisms
- earlier and deeper implementation of planned productivity & efficiency savings
- continuing to make the case to Central Government to secure a fairer distribution of national funding for the Council to help meet the disproportionately high and uncontrollable demand pressures it faces, such as for more school places resulting from a very high birth rate over the last 12 years and the needs of an increasingly ageing population.

4. The Council's current medium term financial plan (2013-18) set out a sustainable budget based on a council tax up-lift limited to 2.5% each year and delivery of £166m service reductions & efficiencies. Surrey is one of the most dependent of all councils on council tax for its funding and the most dependent of all shire counties (i.e. it receives among the very lowest proportion of its spending power as grant). Because of its low level of Government support, Surrey has to raise over 60% of its spending power from council tax. Conversely, on average English local authorities receive 60% of their spending power as grant, as illustrated in Figure 1 below. This funding position makes the level of council tax particularly important in determining the long term financial stability of the Council.

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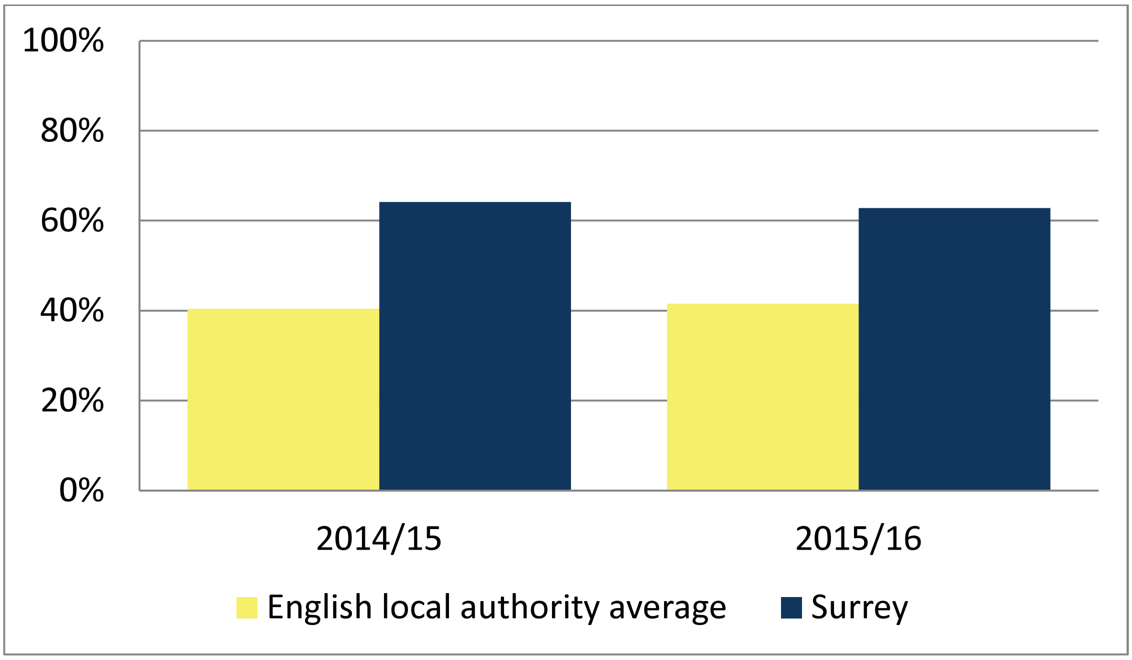
Figure 1: Council tax as a proportion of spending power



5. The strategy of increasing council tax at a relatively modest rate is working and protecting the long term future of services for Surrey residents. However, if the Council’s ability to do this is reduced, it would need to make significant reductions to the services residents receive.

6. Following approval of the budget by Full County Council on 11 February 2014, officers will prepare detailed service budgets and submit them to Cabinet for approval on 25 March 2014. The detailed budgets will link to directorates’ strategic plans that Cabinet will also consider at its 25 March 2014 meeting.

7. The Provisional Local Government Finance Settlement announced on 18 December 2013 outlined the key grants and financial factors for 2014/15 and 2015/16. Since that date, the Government has published settlement details for most grants, though some important factors are still unknown. All of this makes the uncertainty in the figures proposed in the MTFP relatively high and subject to change as the financial environment becomes clearer. Also, at the time of writing this report the Government had not announced the Final Local Government Finance Settlement, or the council tax referendum threshold, adding further uncertainty to the proposals.

Strategies influencing the revenue and capital budgets

Corporate strategy

8. Presented separately at this Cabinet meeting is a refreshed version of the Council's Corporate Strategy. The refreshed *Confident in our Future, Corporate Strategy 2014-19* re-confirms the Council's vision to be delivering great value for Surrey residents. It includes the priorities for 2014/15 and key areas the Council is focusing on to achieve this. In summary this includes 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 MTFP is critical to

delivering these ambitions and goals and ensuring excellent value for money for residents.

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Financial strategy

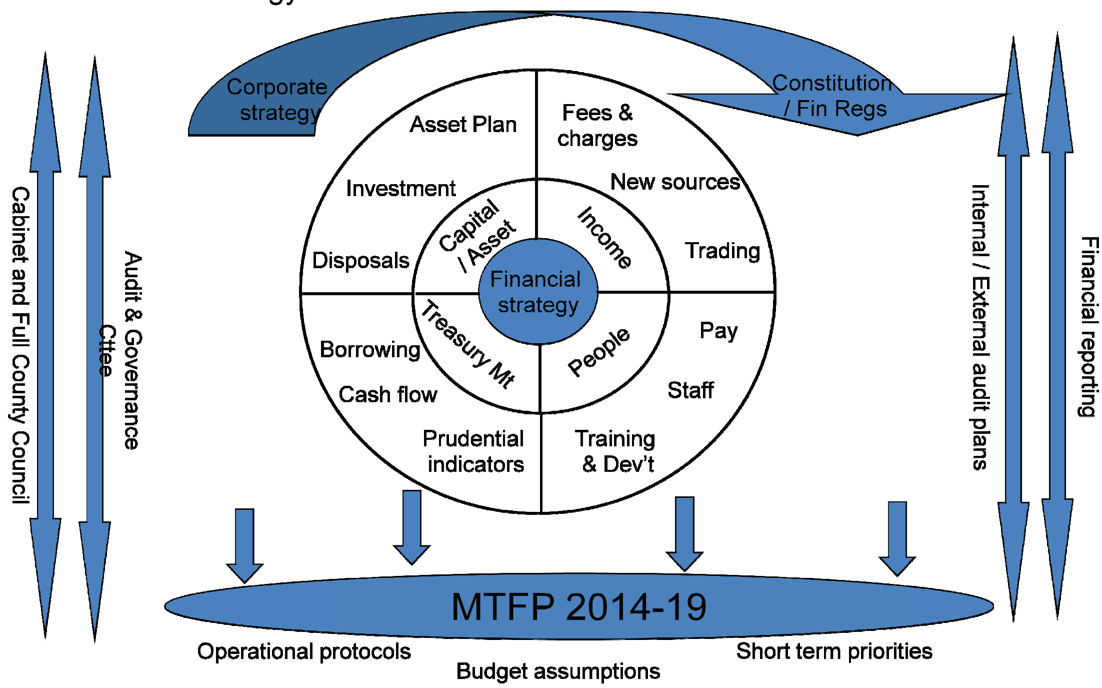
9. The Council's financial strategy provides the strategic framework and overarching corporate financial policy document for managing the Council's finances and ensuring sound governance and compliance with best practices.

10. The specific long term drivers of the financial strategy pertinent to the MTFP (2014-19) proposals are as follows.

- Keep any additional call on the council taxpayer to a minimum through continuously driving the productivity and 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 2014/15 budget by maintaining a prudent level of general balances (£19.9m in 2014/15) and applying £25.9m reserves as appropriate (£20.1m from the Budget Equalisation Reserve (including £13m contribution from 2013/14's unused budget risk contingency) plus £5.8m from other reserves).
- Continue to maximise our investment in Surrey to:
    - improve 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 that will generate income streams.

11. The financial strategy links a number of other strategies and essential governance arrangements as illustrated in Figure 2.

Figure2: Financial strategy in context



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12. The financial strategy links directly to the six components of the *Confident in our Future, Corporate Strategy* 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
    7
    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 public sector transformation networks 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 its external auditor gives an unqualified audit opinion and conclusion on value for money arrangements 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).

13. The financial strategy will remain largely stable to 2019. 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. The MTFP is the practical means to translate this strategy into reality. 7

Funding strategy

14. During 2013 the Council has developed its funding strategy further to position the Council to secure diversified sources of funding to reduce its reliance on council tax revenue and increase its resilience against future financial challenges. 7

15. 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 and comparatively 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 productivity and 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.

16. The Council is delivering its funding strategy going forward through a robust programme management framework for a series of workstreams, which it will complete over a number of years.

17. The main workstreams fall under three themes.

- Protecting the existing funding base:
    - localisation of business rates;
    - localisation of council tax support;
    - schools' funding
    - securing a fairer share of central Government support.
- Developing alternative sources of funding:
    - economic stream (including Community Infrastructure Levy, New Homes Bonus and Local Enterprise Partnerships);
    - identifying and bidding for relevant grants;
    - return on investments (treasury management);
    - fees and charges;
    - partnership opportunities;
    - Revolving Infrastructure & Investment Fund (to generate surpluses).
- Improving financial awareness, training and reporting:
    - staff and Member awareness, communications and engagement;

7 o funding reporting in the medium term financial plan (MTFP);
o financial reporting.

18. The funding strategy has a number of associated dependencies, as outlined below:

- strong political appetite to lead the focus on funding and income actively;
7 • 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.

19. Business Services directorate monitors progress of the strategy.

Revenue budget

Forecast revenue budget outturn 2013/14

20. The Council's overall revenue forecast outturn for 2013/14 at the end of December 2013 projects an underspend of £13.9m. This comprises a £0.9m forecast underspend for services and zero use of the £13m risk contingency. A separate report on this agenda presents this in more detail.

21. Directorates' hard work in managing their budgets in 2013/14 continues their good record of meeting their spending targets. Therefore, the Council has not needed to use the risk contingency it has provided. Providing a risk contingency means setting money aside, which adds to the level of efficiencies required. It is proposed to reduce the risk contingency to £5m in 2014/15 and remove it from 2015/16 and use the funding this releases to provide support to the budget from 2014/15 onwards. The proposed new tracking mechanism will add further rigour to the monitoring of efficiency plans.

22. Within the Council's financial outturn, as part of longer term financial planning, directorates are likely to request to carry forward underspends to smooth funding across financial years. Further consideration on use of reserves and balances will be necessary as the level of Government grants receivable becomes clearer when the Government publishes the Final Local Government Financial Settlement.

Savings, pressures and funding 2010/11 to 2014/15

23. Over the four years from 2010/11 to 2014/15 the Council's programme of efficiencies and savings has and will reduce the annual value of expenditure by £258m: an average savings of almost £65m every year. The Council sets out how it has increased value, reduced unit costs and provided better quality services to residents in its *"More than 50 Ways Surrey County Council adds value"* booklet, attached as Appendix A1.

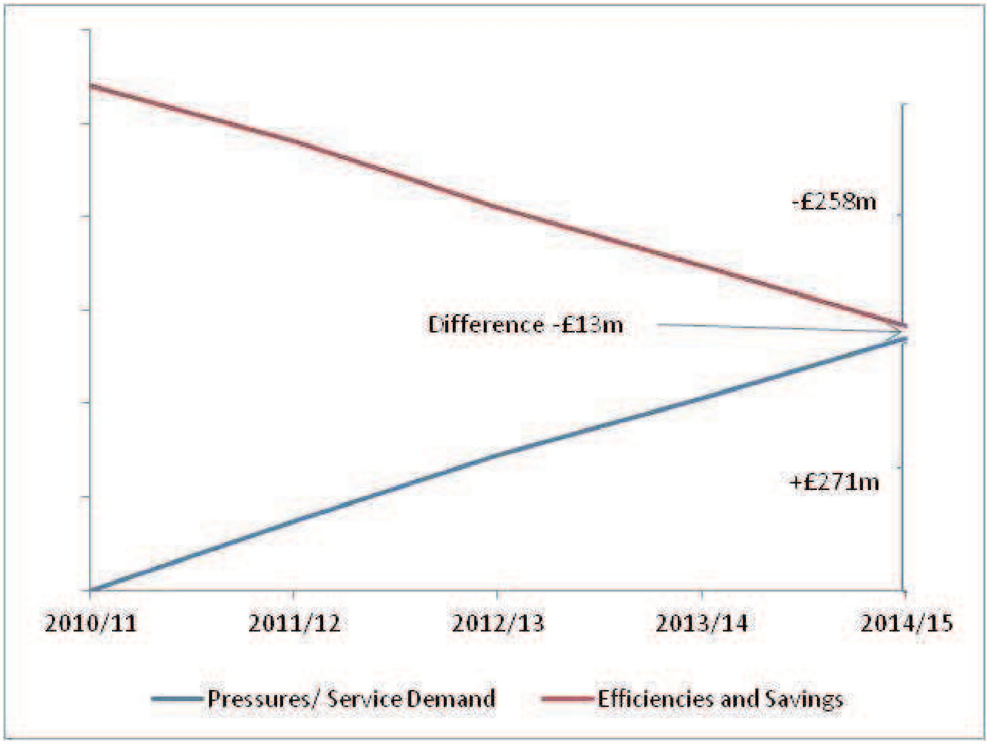
24. Over the same period, the spending demands and budget pressures the Council has faced have increased at a faster rate: taking 2010/11 as the baseline, the Council's spending pressures have increased by £271m over the four years to 2014/15. This unrelenting rise in pressures includes the need to:

- care for increasing numbers of vulnerable adults as Surrey's population ages;
- provide school places for Surrey's growing number of young children; and

- maintain and repair Surrey's highways network, one of the most heavily used in the UK. 7

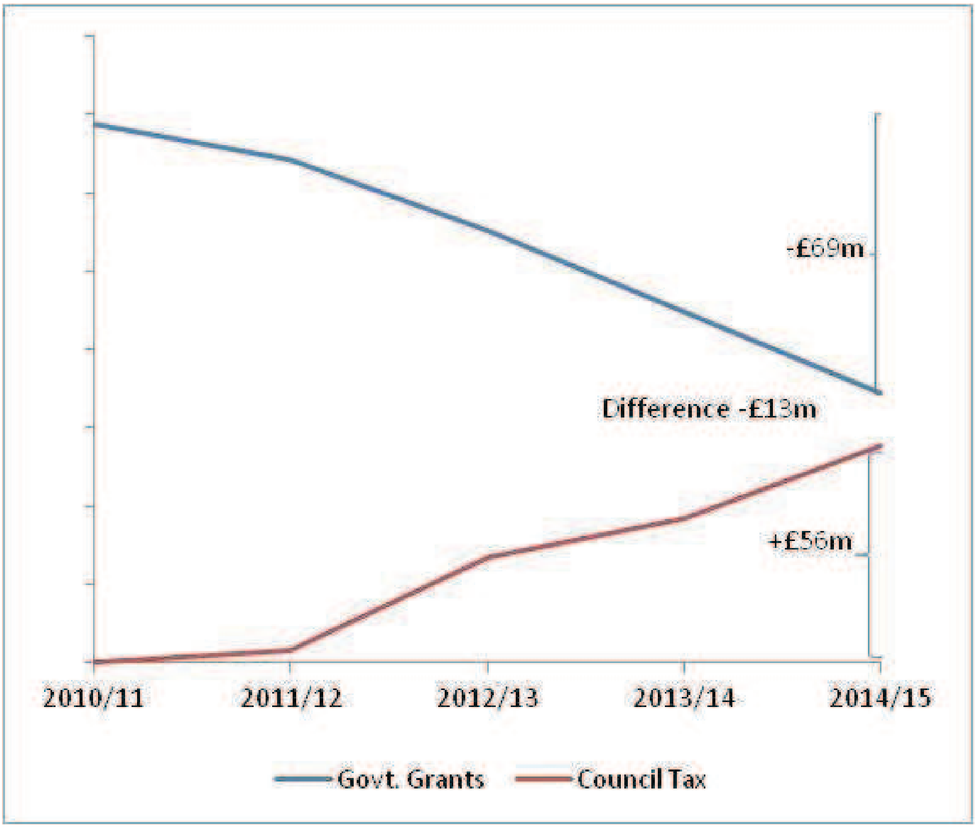
25. Despite managing to reduce its expenditure by an average £65m each year, the Council's programme of efficiencies and savings has not offset the demand pressures. Even after making £258m savings in four years, pressures exceed savings and efficiencies by £13m. Figure 3 shows how the profile of pressures and savings has 7
changed.

Figure 3: Profile of pressures and savings, 2010/11 to 2014/15



26. Also since 2010/11 the Council has faced ever reducing funding from Government grants, despite the unrelenting expansion in service demands and pressures over the same period. Taking 2010/11 as the baseline, the reduction in Government grants to 2014/15 totals £69m (the average rate equates to 6% of the current grant funding, excluding Dedicated Schools Grant). Over the same period, the uplift in council tax has increased funding by only £56m. A shortfall of £13m. Figure 4 shows how the profile of funding from Government grants and council tax has changed.

Figure 4: Profile of funding from Government grants and council tax, 2010/11 to 2014/15



Scenario planning 2014/15 to 2018/19

Overall Government funding

27. Appendix A2 summarises the national economic outlook, which highlights how the relevant economic environment and future forecasts have changed in the last year.

28. In setting the MTFP (2013-18), the Council assessed the remaining impact of the public expenditure constraints of 2010's Comprehensive Spending Review (CSR) covering the period 2010/11-2014/15 and details released in the annual Local Government Financial 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 implemented from April 2013. After including estimated budget pressures over the five years 2013/14 to 2017/18, the Council set itself a revenue savings target of £166m over the period.

29. In June 2013, the Chancellor of the Exchequer published Spending Round 2013 (SR2013). SR2013 principally covers 2015/16. It covered local government as a whole, with no specifics for any sector or tier. The main implications included:

- funding from Government to the sector faces a real terms reduction of -10%;
- extension of the first and third council tax freeze grants into 2014/15 and 2015/16 announcing the Government was intending to fund further council tax freeze grants at 1% and planning to set referendum thresholds at 2% in each of those years;
- £665m to transform local services and prepare for reforms to social care funding;

- £3.8bn pooled budget for local health and care systems (subsequently termed the Better Care Fund); 7
- 20% reduction in Education Support Grant for 2015/16; and
- £13.5bn local authority capital for six years from 2015/16.

30. In July 2013, The Department for Communities and Local Government issued a technical consultation document that included a proposal to pool local authorities' New Homes Bonus (NHB) to provide funding to support Local Enterprise Partnerships (LEPs). This proposal included an option to pool all NHB due to county councils; 7

31. The Chancellor's Autumn Statement, made on 5 December 2013, included:

- the reversal of the proposal to pool NHB to LEPs outside London;
- a 2% cap on business rates indexation in 2014/15 and other measures to support businesses (the Government will refund local authorities' reduction in business rates income);
- measures to address business rates appeals and reduce the volatility of that income stream;
- new national council tax discount of 50% for property annexes from April 2014;
- £2.1bn further Government department budget reductions in 2014/15 and 2015/16 to exclude local government; and
- extension of free school meals to reception, year one and year two pupils.

32. The MTFP (2014-19) spans two CSR periods (2010/11 to 2015/16 and 2016/17 onwards). As the review objectives and parameters of the second CSR are unknown, this adds to the uncertainty the Council needs to manage within its MTFP. Throughout development of the proposed MTFP, Members have therefore considered the budget proposals in three parts:

- year 1 – where council tax precept will be set and certainty is quite clear;
- year 2 – where details of government grants have been announced in the Provisional Financial Settlement, and;
- years 3 to 5 - which will be covered by the new CSR to be determined by the next Parliament and for which there is much uncertainty.

33. The basic assumptions reflected in the MTFP (2013-18) remain valid in moving the MTFP forward to cover 2014-19, except for the 2% council tax referendum threshold and where emerging changes to the new funding arrangements and assumptions about growth in service pressures have changed. Cabinet members and senior officers have rigorously reviewed, probed, assessed and validated the assumptions to determine the predicted scenario for medium term financial planning purposes.

34. In developing the MTFP (2014-19) the Council has again shared the stages of its medium term financial planning process widely. 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. The Council also conducted a robust, open, consultation and engagement process with key stakeholders as outlined below (paragraphs 127 and 128).

7 Budget planning assumptions

35. The Council began building its annual budget in June 2013. This involved reviewing the Council's financial position and outlook at the end of the first quarter of 2013/14, revisiting the assumptions, pressures and savings included in the MTFP (2013-18) and projecting forward a further year to 2018/19. Table 1 shows the key cost, pressure and
7 savings assumptions used to prepare the illustrative budgets.

Table 1: Budgetary cost, pressure and savings assumptions 2014-19

Descriptor	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Pay inflation – Surrey pay	up to 1.6%	up to 1.6%	up to 1.6%	up to 1.6%	up to 1.6%
Pay inflation – National pay	1.0%	1.0%	1.0%	1.0%	1.0%
General, non-pay inflation	2.1%	2.2%	2.2%	2.2%	2.2%
Remainder of MTFP (2013-18) (refreshed in July 2013) savings programme brought forward	£0m	-£22m	-£28m	-£44m	
Additional savings required to meet new service funding and spending pressures	£0m	£0m	-£7m	-£20m	-£41m
Allowances for central pressures:					
• Revenue impact (borrowing) of the capital programme 2014-19	£1m	£3m	£4m	£5m	£5m
• Risk contingency	£5m	£0m	£0m	£0m	£0m

Note:

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

Service expenditure 2014-19

36. Table 2 summarises the Council's gross revenue expenditure budget for the five years 2014-19 and compares it to 2013/14's budget by main services.

Table 2: Gross revenue expenditure budget 2014-19

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Adult Social Care	406.6	412.8	416.2	431.1	452.0	483.3
Children, Schools & Families	324.7	330.4	336.1	339.9	347.9	347.9
Schools Delegated Budgets	521.9	468.2	461.1	460.1	460.1	460.1
Customer & Communities	82.9	82.2	83.2	82.8	82.8	87.1
Environment & Infrastructure	142.8	145.5	142.0	144.1	147.2	152.1
Business Services	97.2	99.9	97.9	100.1	103.2	106.2
Chief Executive's Office (including Public Health)	43.0	43.9	45.8	47.8	51.7	53.9
Central Income & Expenditure	69.1	61.1	56.5	64.1	63.9	64.2
Public Services Transformation Network	0.0	0.0	-10.0	-10.0	-10.0	-10.0
Additional savings				-6.7	-19.5	-40.7
Total expenditure	**1,688.2**	**1,644.2**	**1,628.7**	**1,653.3**	**1,679.4**	**1,703.9**

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Service budget commentaries

37. Services continue to develop and test a range of proposals to enable the Council to meet its budget reduction targets for 2014/15 and beyond. Appendix A4 contains a summary of the proposals for each budget category, with a brief commentary by services on the proposals supported by a summarised income and expenditure statement and expenditure by service.

38. Cabinet will receive final detailed budget proposals for approval on 25 March 2014, after the appropriate Select Committees have reviewed the detailed budget changes.

39. The Chief Executive and Chief Finance Officer will establish a mechanism to track and monitor progress on the implementation of robust plans for achieving all the MTFP efficiencies.

Central Government funding

Provisional Local Government Finance Settlement

40. From 2013/14, the Local Government Finance Act 2012 fundamentally changed the local government funding system to one including partial retention of local business rates and localisation of council tax support.

41. The Provisional Local Government Finance Settlement for 2013/14 set out local authorities' start up funding assessment related to the new local government financing

7 system. This is now termed the Settlement Funding Assessment (SFA). For the Council this is equivalent to funding previously received from the following sources:

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

42. The main change from 2013/14 is the Secretary of State for the Department for Communities and Local Government (DCLG) has decided to move £38m council tax support funding from separately identified grants and roll it into formula funding. While grants rolled in broadly maintain their value, DCLG will scale formula funding in proportion to its own control total. Formula funding reduces by -11% from 2013/14 to 2014/15 and by another -17% to 2015/16 and accounts for 90% of the Council's settlement funding reductions.

43. Table 3 shows the Council's 2013/14 SFA compared to the provisional settlement for 2014/15 and illustrative figures for 2015/16.

Table 3: Settlement Funding Assessment (SFA)

	Adjusted 2013/14 £m	**Provisional settlement 2014/15 £m**	**Illustrative settlement 2015/16 £m**
Council tax freeze grant 2011/12	13.8	13.8	13.8
Early intervention grant	24.6	22.7	20.8
Local lead flood authorities' grant	0.2	0.2	0.2
Learning disabilities & health reform grant	68.2	68.8	68.8
Total grants rolled in	106.8	105.5	103.6
Formula funding	144.9	130.2	110.8
Share of returned topslice (safety net) etc.	0.0	0.3	0.0
Total Settlement Funding Assessment	251.7	236.0	214.4

Better Care Fund

44. The Better Care Fund (BCF) has two primary purposes: first, to seek transformation in health and social care system in order to achieve a shift from acute to community services; second, to 'protect' (the Government's word) adult social care, recognising that the financial pressures on it might otherwise undermine the achievement of those whole system goals. It carries forward the purposes of the current Whole Systems funding programme that runs from 2011 to 2015 (£14.3m in 2013/14 and £18.3m in

2014/15) but with greater ambition and on a broader scale (£65.5m, obtained by pulling together existing funding streams from health and social care). 7

45. The Government's timetable requires a plan to be submitted to the Department of Health by 14 February 2014, setting out how the BCF is to be used. That involves close joint working with the six Clinical Commissioning Groups (CCGs). An initial draft must be agreed by Health and Well-Being Board (relevant meeting 6 February 2014) 7 and then approved by the Department of Health. Complying with that timetable is part of the performance framework which potentially attracts around 30% of the £65.5m revenue funding available to Surrey in 2015/16. Given the very tight timetable and the complexity of the task, the Government has agreed that plans can be amended subsequent to that submission, leading to a final version in early April 2014. However, the main content is required now, and discussions have been held accordingly with the CCGs.

46. Those discussions have established a preference for allocations, including those to protect social care, being made at Local Joint Commissioning Group level. The detail of those plans is not required by the February submission and will take some time to finalise. However, it has been agreed with the CCGs that those plans will be drawn up on the basis that 'in 2015/16 we expect the benefit to social care to be £25m'. Consequently, it is reasonable for the Council to set its budget plans accordingly for 2015/16, with reasonable prospects of that adjustment being built into the base: that depends on Government confirmation through future settlements that the BCF will be ongoing, as appears to be the intention; and on future joint planning then continuing to generate the same scale of benefit to social care.

Total Schools Budget - as defined in legislation

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

48. Table 4 outlines the proposed Total Schools Budget for 2014/15 of £563.1m, which includes Dedicated Schools Grant (DSG) funds £546.5m, Education Funding Agency (EFA) sixth form grants fund £15.1m and the Council funds £1.5m for post-16 learning disabilities. The Total Schools Budget is a significant element of the Children, Schools & Families’ proposed total budget of £798.6m.

7 Table 4: Analysis of Total Schools Budget for 2014/15

		Schools' delegated budgets £m	Centrally managed services £m	Total £m
	DSG 2014/15	428.6	110.3	538.9
7	DSG brought forward from previous years	5.6	2.0	7.6
	Total DSG	**434.2**	**112.3**	**546.5**
	EFA sixth form grant	15.1		15.1
	County Council contribution (post-16 learning disabilities)		1.5	1.5
	Total Schools Budget	**449.3**	**113.8**	**563.1**

Note: *Total Schools Budget does not include the pupil premium grant (provisional) £16.4m and the PE sports release grant £2.5m. These grants, although not part of the legal definition, are also delegated to schools and are included in the schools funding of £468.2m as in Appendix A4.*

49. Centrally managed services include the costs of:

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

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

51. Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. In 2014/15 the formula limits any school level gains and losses to a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee). A maximum per pupil increase (or ceiling) of approximately 1.5% will be required to pay for the guarantee.

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

- pupils on free school meals at some time in the past six years;
- looked after children; and
- 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).

53. 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 7

54. There are a number of other 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 is £3.5m over the two years 2014/15 and 2015/16 for PE & sport release.

7

55. More minor sums totalling £265,000 will be received for responsibilities connected with: sustainable transport for town centres and high streets, Police and Crime Panel, remand and restorative justice.

Funding commitments the Government has reduced or withdrawn

56. The Health and Social Care Act 2012 transferred substantial public health improvement duties to local authorities from 2013/14 as a new burden, funded by a ring-fenced specific grant based on estimates of historic spending from NHS Surrey Primary Care Trust.

57. This ring-fenced specific grant is designed to cover all the services transferred from NHS Surrey and allow for some growth. The Department of Health (DH) recognised it excluded £3.3m of genito-urinary medicine (GUM) services incorrectly from the grant and allocated it to the CCGs that succeeded NHS Surrey.

58. Historically public health funding in Surrey has been below the level of assessed need. Government stated policy is to rectify this underfunding. However, DH's commitment to increase funding by 10% each year (to return funding to the level of assessed need) is not included in illustrative 2015/16 allocations in the Provisional Local Government Finance Settlement.

59. Local welfare provision (Social Fund) was also a new responsibility transferred to the Council from 1 April 2013. The Social Fund provides emergency loans to vulnerable people. Less than eight months after transferring this responsibility, in December 2013, the Provisional Local Government Finance Settlement was the first indication to local authorities that the £1.1m funding is likely to cease from 1 April 2015. There is concern that the need for the Social Fund support is likely to continue, or even rise as the Government implements its welfare reform programme.

60. The Government will remove £0.9m carbon reduction commitment funding from 1 April 2014 to compensate HM Treasury for revenue lost as a result of schools being taken out of the carbon reduction scheme.

61. Extended rights to free travel faces a material reduction in funding of £0.4m from 1 April 2014. This reduction comes despite the Minister concerned reminding local authorities that their statutory home to school transport duties remain in force.

62. Community Right to Challenge became a new burden on the Council from 1 April 2013. December 2013's Provisional Local Government Finance Settlement first gave local authorities warning that funding will cease from 1 April 2015. The requirement for councils to provide the service to the community continues. Funding in 2014/15 is £9,000.

7

63. Other significant reductions and uncertainties include funding for localised council tax support and council tax freeze grant as discussed in the sections below.

Localisation of council tax support

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64. From 2013/14, the Department for Work & Pensions (DWP) ceased to provide a national council tax benefit scheme. At the same time, central government imposed funding reductions requiring councils to make choices about changes to eligibility and levels of support. District & Borough councils implemented their own local support schemes from 1 April 2013. The County Council 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.

65. At the same time and to allow councils to mitigate some of the above funding reductions, the Government localised some council tax exemptions and discounts. District & Borough councils made local decisions about the level of these or whether to withdraw them altogether.

66. There were several direct impacts of the changed arrangements:

- A reduction in council tax income. The central government subsidy previously paid into districts' & boroughs' collection funds ceased. The County Council bears its share of this loss (approximately 75%) estimated at approximately £45m in 2013/14.
- A new grant for council tax support (to compensate councils partially for the cessation of subsidy). The Council's grant in 2013/14 was identified as £38m, received as part of baseline funding. However, the Government has rolled it into formula funding from 1 April 2014, where it is subject to the scale reductions that apply to that funding.
- An increase in council tax yield from changes to discounts and exemptions. The approximate impact on the Council was an increase of £5m.
- A reduction in the council tax base (reflecting eligibility to council tax support). The approximate impact on the Council was a decrease of £7m.

67. These impacts are continuing and imply a number of newly assumed risks. Firstly, the future level of central government formula funding will fall by more than -10% in 2014/15 and likely by more thereafter, though the rate for scaling the reduction is uncertain. Secondly, the cost of local support schemes will be subject to changes in price (council tax rises) and volume (numbers of claimants).

68. The changes to the council tax base arising from localisation need close monitoring. For example, changes in the volume and make-up of the claimant population will have different implications. Also, pensioner claimants are fully protected from localisation changes (in effect remaining on the old national scheme) so any change in their volume or composition of caseload could have material implications. The Council is working with the Surrey districts and boroughs to share and collate monitoring information.

Local retention of business rates 7

69. The business rates retention system (BRRS) replaced formula grant as the core funding for local authorities from 1 April 2013. This is a major change arising from nearly two years' development. Under BRRS, district and borough councils continue to collect local business rates. They retain half of this income to share with the county council in their area (80:20 in the districts' & boroughs' favour). The remaining half is 7 central government's share, which it redistributes back to local authorities.

70. This central share is combined with several existing specific grants that are rolled into SFA. DCLG allocates SFA to each authority as a baseline funding component and a Revenue Support Grant (RSG) component. Table 5 shows the Council's SFA allocations and comparison to national totals.

Table 5: Surrey County Council's Settlement Funding Allocation

	2013/14	**2014/15**	**SCC change**	**National change**	**2015/16**	**SCC change**	**National change**
RSG	£151.1m	£132.3m	-12.4%		£107.5m	-18.7%	
Baseline funding	£100.6m	£103.7m	3.1%		£106.8m	3.0%	
Settlement Funding Allocation	£251.7m	£236.0m	-6.2%	-9.4%	£214.3m	-9.2%	-13.2%

71. Under BRRS, the Government established a baseline funding level for each local authority. In effect this is the authority's portion of the local share (i.e. 50% of the estimated net business rates collected). This figure determined whether the authority pays a tariff to central government or receives a top-up.

72. If an authority has a business rates baseline (government estimate of its business rates income) 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 lower than its baseline funding level (as is the case for this council), the authority receives a top-up. All county councils receive a top-up.

73. In previous years, the Government has increased business rates multiplier annually by Retail Price Index (RPI). Under BRRS, the Government indicated it would continue this practice to increase tariffs and top-ups annually by RPI to maintain their value in real terms.

74. In his 2013 Autumn Statement, the Chancellor of the Exchequer announced the Government would support business by limiting the increase in the business rates multiplier to 2% for 2014/15. Recognising that this represents money taken from local government's funding base equivalent to the difference between RPI and 2%, the Provisional Local Government Finance Settlement indicates a compensating grant (£1.1m for the Council) in 2014/15 and 2015/16. Uncertainty about the continuation of this funding beyond 2015/16 creates a funding risk.

7 75. The MTFP assumes that after 2014/15 the Council's income from local business rates and top-up grant from the Government will rise annually by RPI. However, there is a risk the Government may again choose to limit the increase in the business rates multiplier to a lower figure. The Council will review these assumptions in the next budget planning cycle when more information may be available.

7 76. Table 6 shows the calculation of the Council's top-up funding.

Table 6: Surrey County Council's top up funding 2013/14 and 2015/16

	2013/14	**2014/15**	**2015/16**
Funding baseline	£100.568m	£102.528m	£105.357m
less Business rates baseline	£43.862m	£44.718m	£45.951m
Top-up	£56.706m	£57.810m	£59.406m

77. BRRS alters the nature of the Council's funding risks. Under the previous funding system, the Government confirmed formula grant allocations annually in the local government finance settlement. These allocations did not vary during the year.

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

- **Revenue support grant**
  Allocations will reduce, but will not change in-year. There is a risk that the government may adjust annual control totals between years.
- **Business rates top-up grant**
  MTFP 2013-18 assumed this would receive an annual uplift equivalent to RPI. For 2014/15, the Government has limited the increase in the business rates multiplier to 2%, but has provided compensation for the difference by way of grant. MTFP 2014-19 assumes indexation for this grant will return to RPI after 2014/15.
- **Business rates income**
  This is still relatively new and as such is uncertain and potentially volatile:

  - Under the previous funding system, central government bore the whole of the forecasting risk on business rates. BRRS shares this risk in Surrey: 50% by central government, 40% by the districts and boroughs, 10% by the County Council.
  - MTFP (2013-18) used the Government's baseline funding estimates for 2013/14's budget, assumed no real annual growth and inflationary business rate multiplier increases at forecast RPI.
  - MTFP (2014-19) uses the districts' & boroughs' mid-year estimates of 2013/14 business rates income as a baseline and adds 0.5% real growth annually and business rate multiplier increases limited to 2% for 2014/15 (as announced in the Chancellor's Autumn Statement) with subsequent years' indexation at forecast RPI using HM Treasury's average of independent forecasters as at November 2013.

- Funding from 2015/16 onwards includes a government grant compensating for 7
  the difference between the capped business rates multiplier and RPI for 2014/15.
- The main drivers of volatility are the volume and value of successful valuation appeals, as these reduce expected business rates income. In April 2013, at the start of the new system, the districts & boroughs charged the full billable sum for any outstanding appeals to rate payers and paid it into the central pool. Any
  successful appeals after the start of the new system are refunded at the expense 7
  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, Districts & Boroughs made assumptions about the value of successful appeals in their estimates of business rates income. The County Council bears 10% of any appeals losses (districts & boroughs 40% and central government 50%) and has a recommendation to set aside £1.25m in a reserve as mitigation against potential business rates valuation appeals.
- An anomaly of the business rates system is a lack of incentive for 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. The Autumn Statement 2013 announced a commitment to resolve 95% of outstanding valuation appeals cases by July 2015 and to consult in 2014 on changes to increase transparency over rateable value assessments, improve confidence and allow faster resolution of well-founded challenges, preventing future backlogs.
- The Council also faces vulnerabilities associated with the loss of large site business ratepayers from the county area.

Council tax funding

79. MTFP (2013-18) assumes council tax yield will increase by 2.5% annually through either an up-lift in the level of the tax or a compensating council tax freeze grant payment.

Council tax freeze grant

80. In June 2013 the Chancellor of the Exchequer announced in the Executive Summary of his Spending Round 2013 report that the Government was *'...making funding available for local authorities that choose to freeze their council tax in 2014-15 and 2015, and planning to set a council tax referendum threshold in each of those years that gives local people a say if their council tax rises by more than 2 per cent.'*. The report reiterated this point in its Overview chapter under the heading 'Fairness'. In the section on the departmental settlement for local government the report stated *'The Government ... plans to set the council tax referendum threshold at 2 per cent for 2014-15 and 2015-16.'*

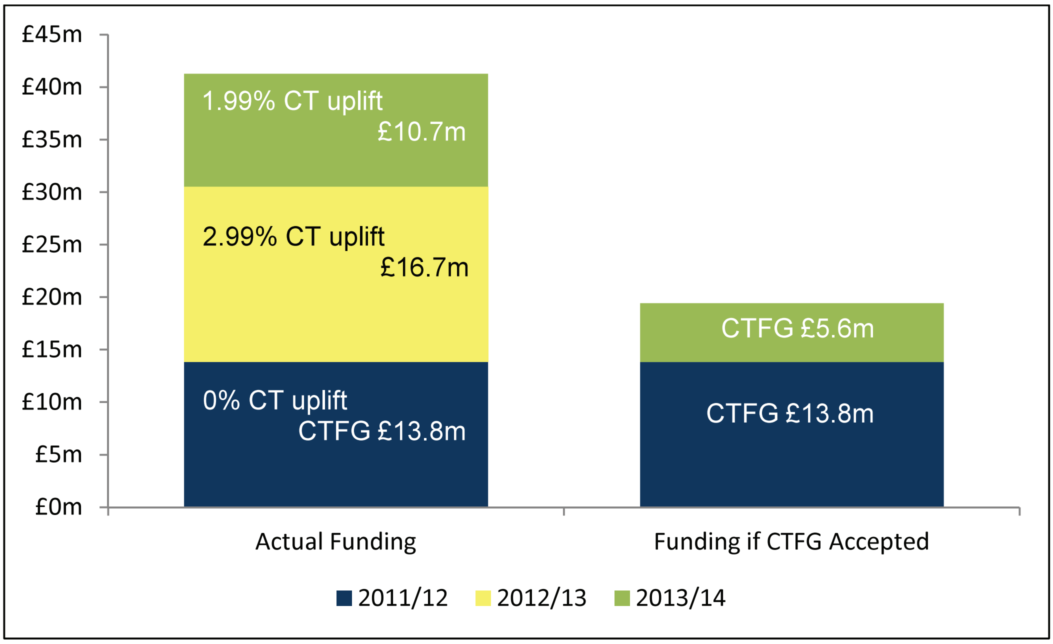
81. The Provisional Local Government Finance Settlement confirmed the council tax freeze grant offered for 2014/15 as equivalent to 1% of an authority's council tax, payable for 2014/15 and 2015/16. It also confirmed the council tax freeze grant offered for 2015/16 as equivalent to 1% of an authority's council tax, payable for 2015/16.

7 82. Ministerial statements accompanying the provisional settlement added that *'Funding for the next two freeze years will also be built into the spending review baseline'*. While the current Comprehensive Spending Review is as far as Ministers can commit, it represents a fresh start in terms of Government financial planning and does not remove uncertainty about the continuation of council tax freeze grant funding beyond
7 2015/16. Extending the provision of council tax freeze grant increases the funding risk facing local government, particularly for authorities that depend on these grants for significant sums.

83. The Provisonal Finance Settlement also stated the Secretary of State would decide the council tax referendum threshold in January 2014. At the time of writing (24 January 2014) the Secretary of State has not announced the threshold.

84. The Council declined the Government's offers of council tax freeze grant for 2012/13 and 2013/14, choosing to uplift council tax within the limits of what the Secretary of State declared as reasonable. By making these decisions, the Council has an additional £41.3m every year in its council tax base to sustain services to Surrey residents. This continuing funding for services is nearly £22m higher than if the Council had accepted the council tax freeze grants for 2012/13 and 2013/14. Figure 5 shows the impact of past council tax decisions on funding.

Figure 5: Impact of past council tax decisions on funding



85. Members have received several financial planning update briefings outlining the impact on the 2014/15 budget and MTFP (2014-19) of accepting or declining council tax freeze grant and of up-lifting council tax at different rates. Cabinet has explored the options in depth in workshops.

86. The MTFP (2014-19) includes proposals to increase council tax by 1.99% in 2014/15, giving a band D equivalent precept rate of £1,195.83, which raises £564m funding.

Balancing the 2014/15 revenue budget and MTFP (2014-19) 7

87. The Council plans to balance its budget in 2014/15 through a combination of budget reductions and efficiencies, additional income, council tax up-lift of 1.99% and use of £26m from reserves to smooth the flow of funds between years.

88. As illustrated in Figures 2 and 3, above, the £26m comprises a £13m excess of 7
funding lost through Government grants partially offset by council tax uplifts, plus a £13m excess of service pressures and demands totaling £271m over the four years to 2014/15, less savings and efficiencies over the same period of £258m.

89. The Council plans to balance its five year MTFP through a combination of service transformation mechanisms, earlier and deeper implementation of planned productivity and efficiency savings, and making the case to central government to secure a fairer distribution of national funding to the Council to help meet the disproportionately high and uncontrollable demand pressures the Council faces e.g. School places and the needs of an increasingly ageing population. Table 7 outlines the revenue funding proposals.

90. This strategy is working and protecting the long term future of services for Surrey residents. However, if its effectiveness falls, the Council would need to make significant reductions to the services residents receive.

91. To help ensure success, the Chief Executive and Chief Finance Officer will establish a mechanism to track and monitor progress on the implementation of robust plans for achieving all the MTFP efficiencies systematically.

Table 7: Revenue funding for 2014-19 MTFP

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Total spending	**1,688**	**1,644**	**1,629**	**1,660**	**1,699**	**1,745**
Council tax	-550	-569	-578	-592	-607	-622
Retained business rates	-44	-45	-47	-49	-51	-53
UK Government grants	-923	-853	-849	-854	-854	-858
Other income (incl fees, charges, investments and reimbursements)	-148	-151	-155	-158	-167	-171
Use of reserves and balances	-23	-26	0	0	0	0
Total funding	**-1688**	**-1644**	**-1629**	**-1653**	**-1679**	**-1704**
Additional savings required				-7	-20	-41

Risks and uncertainties

92. Before balancing the 2014/15 revenue budget and MTFP (2014-19) in detail, the Council will need to confirm or substantiate its position on the following risks and uncertainties:

7

- the agreement with CCGs to allocate £25m from Surrey's pooled BCF budget to protect adult social care services;
- the Secretary of State's referendum limit for uplifts to council tax;
- the council tax base for Surrey and the balance due to the Council from each District's & Borough's collection fund;

7

- the growth in the business rates base for Surrey;
- the Government's Final Local Government Financial Settlement;
- formal notification of £9.0m revenue grants assumed for 2014/15, including waste private finance initiative (PFI) grant of £1.9m;
- details of directorates' and services' budgets.

Capital programme 2014-19

Capital budget planning

93. The Council set a five year capital programme totalling £699m in the MTFP (2013-18). A significant element of this relates to the supply of new school places (£261m) and the recurring programme of transportation and highways maintenance (£179m).

94. For the MTFP (2014-19), Cabinet has reviewed the capital programme including extending it to 2018/19. The updated capital programme amounts to £760m investment in Surrey. The review focused on the continuing forecast growth in school pupil numbers and the importance residents place on good roads.

Capital position 2013/14

95. The forecast in-year variance on the 2013/14 capital budget as at 31 December 2013 is an overspend of +£7.0m against the approved revised budget of £224.6m. The main reasons for the overspend are +£29.3m invested in long term capital investment assets through the Revolving Infrastructure & Investment Fund, offset by material spend profile changes:

    - acquiring land for waste schemes (-£5.9m);
    - school basic need (-£5.4m)
    - archaeological finds at Guildford Fire Station (-£3.0m);
    - schools changing to replacement boiler specification (-£2.0m);
    - deliveries of fire vehicle and equipment replacement programme (-£1.6m);
    - Safe cycle bid delayed due to the weather - grant extended until May 2014 (-£1.5m);
    - rephasing refurbishments of some short stay schools (-£1.2m); and
    - obtaining planning permission to improve a travellers' site (-£1.1m).

96. To complete these projects, the Council will need to carry forward the related funding to future years. This decision is proposed as part of the budget outturn flash report, published towards the end of April 2014 and if approved, the amounts will be added to the capital programme for 2014-19.

Capital expenditure 7

97. 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. The capital programme in MTFP (2013-18) and MTFP (2014-19) recognise the number of school places required as 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 Surrey. 7

98. For 2014/15 the capital investment in school places has increased from £81m to £105m. Overall, for the period 2014-19, the Council will invest an additional £135m on top of the existing school place capital programme. The existing and revised budget for the capital programme includes average savings targets for procurement efficiency on capital schemes of 40% for primary schools and 20% for secondary schools.

99. The Council will review demand for school places beyond 2017/18 annually and reflect it in the capital programme. During 2013 the Council successfully bid for a grant to contribute to the cost of providing new school places. MTFP (2014-19) incorporates this £16m targeted basic need capital grant.

100. In 2012 independent benchmarking confirmed that Surrey had one of the road networks in the country most in need of repair, with 17% of roads classed as needing urgent repair compared to national average of 10%.

101. In 2010 a Department for Transport review advised that the best approach to managing this problem would be long term planned repairs, as opposed to short term pot hole repairs. For example, planned repairs have a ten year guarantee compared to a two year guarantee for reactive repairs. The Council fully adopted this principle into its road maintenance strategy and in 2012 approved a £100m investment programme to resurface 312 miles of road over five years (known as Project Horizon).

102. This single investment programme will not only help Surrey reach the UK average for road condition but has also enabled contractor negotiations and design innovations which have secured an additional 15% saving, which the Council is reinvesting in the wider programme.

103. The original Project Horizon programme was planned using 2010 data. Since then four severe weather events have accelerated the deterioration of the network. In response to this, works planned for later in the programme have been brought forward. This avoids further deterioration and prevents additional pressure on the revenue repairs budget, which is already under considerable strain due to a doubling of pothole volumes from 2010 to 2012 as a result of severe weather. A one off release of £5m from the severe weather reserve has alleviated this pressure in 2013.

104. Table 8 shows the original Project Horizon budget profile, £20m per year for 5 years, and the proposed revised profile. Budget totalling £11m has already been reprofiled into 2013/14. Table 8 also shows the additional revenue impact of bringing forward this expenditure, should it be necessary to borrow to fund this expenditure.

7

Table 8: Proposed reprofiling of Project Horizon

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	Total £m
Original profile	20	20	20	20	20	100
Revised profile	31	24	15	15	15	100
Change	**+11**	**+4**	**-5**	**-5**	**-5**	**0**
Additional revenue cost	0.2	1.5	1.9	1.9	0.9	6.4

7

105. The Council plans to invest £20.7m in IT over the five years to 2018/19. This includes £12m for new equipment and infrastructure, a £7.5m replacement and renewal programme, plus £1.2m of projects to improve infrastructure for adult social care and the telecommunications network. By making this investment, the Council is enabling and supporting further service efficiencies.

106. Table 9 summarises the Council's £760m capital programme for the five years of MTFP (2014-19). Appendix A5 shows it in more detail. Inclusion of a project in the capital programme does not give authorisation for work to start on the scheme. Cabinet requires a detailed and robust business case before considering a project for approval.

Table 9: Summary capital expenditure programme

Scheme category	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2014-19 £m
School places	105	69	72	49	32	**327**
Recurring programme	74	63	60	62	67	**326**
Strategic capital projects	38	32	18	11	8	**107**
Total	**217**	**164**	**150**	**122**	**107**	**760**

Capital funding

107. The Council funds its capital programme from: government grants, third party contributions, revenue reserves and borrowing.

Government grants

108. Government departments have announced some, but not all, capital grants for 2014/15 and even fewer for 2015/16 in the Provisional Financial Settlement. The Provisional Financial Settlement is for consultation and the Final Financial Settlement may change. Government departments commonly announce additional grants during the financial year, so the Council includes a forecast for these. £19.5m of the £82.5m capital grants funding the programme remain to be announced.

109. Central government provides capital grants to local authorities in two categories: ring fenced grants paid to local authorities for specific projects or to achieve an agreed

outcome; and non ring fenced grants, which although awarded for a general purpose, can be used to fund local priorities. This is often referred to as the single capital pot.

110. Table 10 shows those grants for 2014/15 announced in the provisional settlement, those the Council still expects and whether they are ring fenced or not.

Table 10: Government capital grants 2014/15

Capital grants announced	Provisional settlement 2014/15 £m
Ring fenced grants	
Targeted school places	16.3
Walton bridge 2014/15	0.4
Local sustainable transport fund	3.4
Superfast broadband	1.3
Non ring fenced grants	
School places	12.0
Schools kitchens	1.0
Integrated transport block	9.4
Highways maintenance	15.3
Fire capital grant	1.1
Department of Health capital grant	2.2
IMT adults infrastructure grant	0.6
Total capital grants announced	**63.0**
Capital grants yet to be announced	
Ring fenced grants	
Schools devolved formula capital	2.2
Non ring fenced grants	
Carbon reduction - schools	3.3
Schools capital maintenance	10.3
Unspecified government grants	3.7
Total capital grants yet to be announced	**19.5**
Total grants	**82.5**

111. Capital grants for years beyond 2015/16 are not known and MTFP (2014-19) includes an estimate for each year. The Council reviews this estimate each year and makes equivalent adjustments to the capital programme.

Third party contributions

112. The Council also uses contributions from third parties to fund its capital programme. Third party contributions come largely from developers as community infrastructure levies and planning gain agreements under Section 106. MTFP (2014-19) capital programme relies on £35m third party funding.

Revenue reserves

113. The Council uses reserves to fund capital items. It replenishes these reserves from revenue. The main two revenue reserves are: Fire Vehicle & Equipment Reserve and

7 IT Equipment Reserve. MTFP (2014-19) capital programme relies on £15m funding from revenue reserves.

Borrowing

7 114. The Council borrows to fund the part of the programme remaining after applying the above three funding sources. Over the five years of MTFP (2014-19), the Council expects to borrow £295m to balance the capital programme.

115. Table 11 summarises the Council's estimated capital funding for the period 2014-19.

Table 11: Capital funding 2014/15 to 2018/19

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2014-19 £m
Government grants	83	90	91	77	74	**415**
Third party contributions	3	5	8	9	10	**35**
Revenue reserves	5	4	1	2	3	**15**
Borrowing	126	65	50	34	20	**295**
Total	**217**	**164**	**150**	**122**	**107**	**760**

Capital receipts

116. Capital receipts have previously formed an element of the funding for the Council's capital programme. Because the Council can apply capital receipts more flexibly to fund its investments, the Chief Finance Officer supports the proposal for the Council to use these resources to fund its additional portfolio of investments.

Additional portfolio of investments

117. On 23 July 2013, Cabinet approved a portfolio of investments, covering investment in property and assets and in new models for service delivery. This supports the Council's stated intentions of enhancing financial resilience in the longer term. These arrangements will allow for investment in schemes that will support economic growth in Surrey provided that these schemes are consistent with the Investment Strategy outlined in the Cabinet report of 23 July 2013.

118. The strategic approach to investment is based upon the following:

- prioritising use of the Council's cash reserves and balances to support income generating investment through a Revolving Investment & Infrastructure Fund to meet the initial revenue costs of funding initiatives that will deliver savings and enhance income in the longer term (some of which may be used to replenish the Revolving Investment & Infrastructure Fund);
- using the Revolving Investment & Infrastructure Fund to support investments in order to generate additional income for the Council that can be used to provide additional financial support for the delivery of functions and services

- investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council;
- investing in schemes that have the potential to support economic growth in the county;
- retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

Reserves & balances

119. In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. between £16m to £20m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The Council brought forward £31.8m general balances at 1 April 2013. The Council has applied £11.9m to support the 2013/14 budget, leaving £19.9m. Going into 2014/15 the Chief Finance Officer recommends the level of general balances remains the same. This approach is considered prudent when combined with the proposal to remove the risk contingency from within the revenue budget, leaving general balances to provide some mitigation against the risk of non-delivery of service reductions & efficiencies in 2014/15.

120. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. The forecast total balance for all earmarked reserves carried forward at 31 March 2014 is £104.2m, up from £94.0m brought forward on 31 March 2013.

121. The Chief Finance Officer supports that the Council applies £20.1m from the Budget Equalisation Reserve (including £13.0m contributed by the unused risk contingency from 2013/14), plus £5.8m of other reserves to smooth funding between years and provide £25.9m support to the 2014/15 budget. Contributions from reserves comprise the following.

Budget Equalisation Reserve – unused 2013/14 risk contingency	£13.0m
Budget Equalisation Reserve – unapplied revenue grants	£1.5m
Budget Equalisation Reserve – other	£5.6m
Budget Equalisation Reserve – total contribution	£20.1m
Waste Site Contingency Reserve	£0.3m
Equipment Renewal Reserve	£1.8m
Interest Rate Reserve	£3.7m
Other reserves – total contribution	£5.8m
Total contributions from reserves	£25.9m

122. To help mitigate future reductions in government grants and to help minimise council tax up-lifts in future, the Council created a Revolving Investment & Infrastructure Fund to provide the revenue costs of funding initiatives that will deliver savings and enhance income in the longer term.

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123. Appendix A6 sets out the Council’s policy on reserves and balances. Appendix A7 summarises the level and purpose of each of the Council’s earmarked reserves.

TREASURY MANAGEMENT AND BORROWING STRATEGY

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124. 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 2 sets out updated versions of the County Council's treasury management policy statement and treasury management strategy.

125. The treasury management strategy since 2009/10 has followed a cautious approach as a direct result of the Council’s Icelandic bank experience. Moving forward into 2014/15, changes are proposed to the treasury management strategy reflecting the current economic climate and Council’s risk appetite.

126. The changes are detailed in Annex 2, and are summarised below.

- To maximise the benefit of current unprecedented low interest rates and high cash balances and set a minimum cash balance of £47m.
- To maintain the current counterparty list of institutions to which the Council will place short term investments to reflect market opinion and formal rating criteria.
- To maintain the monetary limit for the two instant access accounts (Lloyds and RBS) at £60m whilst they have nationalised status and therefore minimum risk, and to reassess when the nationalised status ceases.
- To maintain the Council’s Minimum Revenue Provision policy.

CONSULTATION:

127. During October 2013 and January 2014, the Leader Deputy Leader, Chief Executive and Chief Finance Officer held a series of workshops and face-to-face meetings with key partners and stakeholder groups, including representatives of Surrey’s business community, voluntary sector and trade unions. The feedback from these workshops and meetings was incorporated into the Council’s budget scenario planning workshops and briefing sessions.

128. 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 and gives the results reasonable longevity. There are further details on the methodology and results in Appendix A8. The summary headlines were 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.

RISK MANAGEMENT AND IMPLICATIONS:

129. The Council maintains an integrated risk framework to manage the significant challenges it faces and the associated emerging risks. The Council's risk management strategy and framework ensure an integrated and coordinated approach to risk across the organisation. The Strategic Risk Forum, chaired by the Chief Finance Officer, provides a clear direction for managing risk and strengthening resilience to support the achievement of priorities and delivery of services. The group consists of directorate risk leads and representatives from emergency management, health and safety and internal audit. The Council's Risk and Resilience Forum, comprising service risk and business continuity representatives, focuses on operational risk and shares learning and best practice through formal meetings and quarterly workshops

130. The Leadership Risk Register contains the Council's strategic risks and is reviewed by the Strategic Risk Forum prior to monthly review by the Continual Improvement Board ahead of review by the Chief Executive and Strategic Directors. Each strategic risk is cross referenced to risks on directorate risk registers and shows clear lines of accountability for each risk at both senior management and Cabinet Member levels. Audit & Governance Committee reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Select Committee or Cabinet Member.

131. The specific risks and opportunities facing the Council that are particularly relevant to the budget and recorded in the Leadership Risk Register are:

    - erosion of the Council's main sources of funding (council tax and government grant)
    - management of service demand, delivery of the major change programmes and associated efficiencies;
    - development and maintenance of significant partnerships.

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

133. The Chief Finance Officer is satisfied the proposed budget, including increased rigour to monitoring progress towards delivery of efficiencies, general balances and reserves are sensible to address these risks.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

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SECTION 151 OFFICER COMMENTARY

135. As required by legislation, the Chief Finance Officer has written a separate report, which is attached at Annex 1.

LEGAL IMPLICATIONS – MONITORING OFFICER

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136. In view of the uncertainty highlighted in paragraph 7 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 County Council in due course.

EQUALITIES AND DIVERSITY

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

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

138. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP (2014-19) on Surrey’s residents with one or more of the protected characteristics identified by the Equality Act 2010 will be made available at the meeting of the Council’s Cabinet on 25 March 2014. This analysis will also set out the actions that the Council is taking, or will undertake, to mitigate any negative impacts that could arise.

139. The equality impact analysis undertaken for the proposed MTFP (2014-19) will build on the analysis of savings in the MTFP (2013-18). It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.

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

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

142. In approving the overall budget and precept at this stage, the Cabinet and 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 following proposals referenced in this report which have been identified as requiring new Equality Impact Assessments: 7

- Family, Friends and Community programme (Adult Social Care) 7
- Planned savings and income generation relating to the Fire and Rescue Service (Customers and Communities)
- Members' Allocation Funding and Community Improvement Fund (Customers and Communities)
- Disbanding the Legacy Team (Chief Executive's Office)
- Public Value Programme (Children, Schools and Families)
- Review of transport provision (Environment and Infrastructure)
- Planning review (Environment and Infrastructure)
- Countryside programme (Environment and Infrastructure).

143. As part of the Government's welfare reform programme, council tax benefit has been replaced by localised council tax support schemes. In Surrey, these schemes are the responsibility of the Borough and District Councils and were put in place from April 2013. Surrey County Council responded in its role as a consultee on each of the proposed schemes. During 2013/14, Surrey County Council responded to consultations from four of the Borough and District Councils that consulted on changes to their schemes for 2014/15. The Districts and Boroughs need to take account of relevant impacts in their decisions on the schemes. Surrey County Council identified a number of specific equality impacts that may require monitoring. These remain a consideration as decisions are taken relating to the support available under each scheme in the future.

WHAT HAPPENS NEXT

144. The Full County Council will set its budget and council tax precept on 11 February 2014.

145. The detailed budget will be presented to the Cabinet on 25 March 2014.

Contact Officer
Sheila Little, Chief Finance Officer and Deputy Director for Business Services
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 and Appendicies

Annex 1 Chief Finance Officer Statutory Report (Section 25 report)

Appendix A1 More than 50 Ways Surrey County Council adds value
Appendix A2 National economic outlook and public spending

7 Appendix A3	Provisional government grants for 2014/15 to 2018/19
Appendix A4	Revenue budget proposals
Appendix A5	Capital programme proposals 2014/15 to 2018/19
Appendix A6	Reserves & balances policy statement
Appendix A7	Projected earmarked reserves and general balances 2013/14 and 2014/15
7 Appendix A8	SIMALTO results

Annex 2 Treasury management strategy report

Appendix B.1	Treasury Management Policy
Appendix B.2	Prudential indicators – summary
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:

- DCLG revenue and capital Provisional Local Government Financial Settlement papers from the Government web-site
- Budget working 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
- Financial resilience report, Grant Thornton, 2013
- Spending Round 2013 (26 June 2013)
- 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

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

Introduction

1.1. 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.

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

1.3. The Chief Finance Officer for the County Council is Sheila Little (in the post of Chief Finance Officer and Deputy Director for Business Services Directorate).

1.4. 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.

1.5. 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 (2013-18) and which continues as a core principle as the council moves forward to the next 5 year MTFP (2014-19).

1.6. Although the Council has successfully delivered significant efficiency savings & service reductions in each of the last three financial years (2010/11 £68m, 2011/12 £61m, 2012/13 £66m, and is forecast to deliver further savings for 2013/14 of £60m, including the budget assumptions for the next MTFP (2014-19) making a total of around £492m over the nine year period.

1.7. The Council sets out how it has increased value, reduced unit costs and provided better quality services to residents in its "More than 50 Ways Surrey County Council adds value" booklet, attached as Appendix 1 to the main report.

1.8. The level of savings delivered so far continue to 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 (2014-19).

1.9. Further significant risk exists due to:

a. the continuing unprecedented level of economic uncertainty: austerity seems likely to continue for at least a decade.

b. the on-going revisions to the basis of local government funding. This current financial year, 2013/14, saw the start of council tax benefit localisation support and the local retention of business rates; looking ahead the expansion of the health and social care integration transformation, involving re-alignment of social care funding, the implications of the upcoming Care Bill, and on-going changes to local authorities responsibilities and funding for these, all increase the uncertainty around the level of actual funding the council will receive in the future.

c. The increasing tendency for late Government announcements of Financial Settlement details makes the challenge of effective financial planning more difficult, reducing the opportunity to consult effectively with stakeholders.

d. Funding issues related to top slicing of grants and allocations.

1.10. The Council remains correctly focused on long term financial resilience and is proactively planning to apply one-off general reserves & balances totaling £26m to achieve a balanced budget in 2014/15 (as set out in paragraphs 1.29 to 1.32). This will enable the Council to further pursue the medium term strategy focused on securing a fair share of Government funding for this Council for the services where demand is uncontrollable by the Council: adult social care and school places in particular.

1.11. 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 2013/14 this contingency was increased to £13m as a one off reflecting that efficiencies are getting harder to deliver and sustain. However, the risk contingency has not been used in any past year and the expectation is not to have to use it again for 2013/14. Although there remains a high level of efficiencies to deliver in the up-dated MTFP(2014-19), the proposal to reduce (in 2014/15) and then remove (from 2015/16) the risk contingency is sensible; since including it only increases the efficiencies required to be delivered in any one year.

1.12. However, to recognise the risk of non-delivery of efficiencies going forwards the proposal to establish a mechanism to regularly track and monitor progress on the implementation of robust plans for achieving the efficiencies across the whole MTFP period, will ensure early action can be taken if it emerges that any plans are non-deliverable.

1.13. The above risks apply where the Council continues with its long term financial strategy of below inflation annual council tax up-lifts to secure the long term funding required to sustain service delivery. For the new MTFP (2014-19) the proposal to amend the council tax strategy from 2.5% annual up-lift, to be marginally below the level of intended council tax referendum threshold indicated in the Spending Round 2013, of 2% (for 2014/15 and 2015/16), represents a continuation of this long term strategy. Council tax up-lifts of 1.99% are used throughout this proposed MTFP period. 7

1.14. For the last two years this has meant declining the Governments council tax freeze grant offers and instead put in place sensible council tax up-lifts. For 2014/15 and 2015/16 the Provisional Financial Settlement has indicated further council tax freeze grants at 1% (for two years for 2014/15 and for 1% year for 7
2015/16). Although the Government have indicated that these grants will be added to the 'review' base for that period, there is no certainty beyond 2015/16, whereas the council tax up-lift is in the Councils long term base budget.

1.15. Accepting these grants would be inconsistent with the Council's long term strategy and would erode the Council's funding base: particularly important to this Council because of the high dependence upon council tax funding as a result of low central Government grant support and high service demand pressures.

1.16. It must be recognised that, at the date of writing this paper, the Government have yet to confirm the referendum threshold level for 2014/15 or 2015/16, although this Council has been consulting on budget proposals based on the Governments clearly stated intent to set the level at 2% for each year. This intent was stated several times in the Spending Round 2013 announcements published on 26 June 2013; deliberately issued in the summer to assist councils with their financial planning. If the Council has to amend its proposed council tax strategy (and lower the level of council tax up-lifts) once confirmation of the referendum threshold is known, then the council will have to:

- impose a more significant Council Tax up-lift in 2015/16 and subsequent years; and/or
- make significant cuts to front line services.

1.17. In the event that the referendum limit is announced after the Full Council agrees the budget, including council tax precept, for 2014/15, the Council will separately consider any appropriate action.

Financial management arrangements

1.18. For 2012/13 the Council received another unqualified opinion on the Council's financial statements and an unqualified conclusion on the Council's arrangements for securing value for money. Indeed, the Council was rated as 'good or better' in terms of its financial resilience, when the top rating achievable is usually good. Further, the Council is recognised in Grant Thornton's national report on all of its local authority clients (which present 40% of local authorities) for its high quality and robust long term financial planning.

1.19. This was the first year under the newly appointed auditor, Grant Thornton. The Chief Finance Officer worked closely with the new auditors to ensure a smooth transition and will continue this positive working in future years.

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1.20. 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.

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1.21. The system for monitoring the progress on the implementation of efficiency savings has been sustained during 2013/14: regular review of efficiencies by the Chief Executive and senior officers before onward reporting and scrutiny by the Leader and Cabinet as well as Council Overview Scrutiny Committee. This will continue during 2014/15 alongside the additional mechanism whereby the Chief Executive and Chief Finance Officer will regularly review the progress of plans to deliver efficiencies across the whole MTFP period (not just 2014/15) highlighting any significant issues to the Leader and Cabinet as appropriate.

1.22. Throughout 2013/14 the Council Overview Scrutiny Committee, comprising of the Chairmen of all other Select Committees, continued to scrutinise all Cabinet budget monitoring reports following presentation to Cabinet. The capital programme was monitored closely by the Chief Executive and senior officers each month, in advance of formal reporting to Cabinet.

1.23. The above approaches will be continued into 2014/15 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 2014/15.

Budget process

1.24. The budget planning process, established in 2011, following a 'lean' process review, was developed further for this MTFP (2014-19) process. The main enhancements were:

- broader representation and more discursive workshop style to the face to face engagement with the business & voluntary sector communities, and trade unions
- regular all Member briefings at each phase
- specific induction training programme to support in particular the newly elected Councilors following the May 2013 elections.

1.25. 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 2013 and into January 2014, guided by advice from the Chief Executive, Strategic Directors and Chief Finance Officer.

MTFP (2014-19) budget assumptions

1.26. The table 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.

	Assumption	**Comments**
Pay inflation: Surrey Pay	Up to 1.6% each year	These proposals follow a three year pay freeze for senior officers and increases as follows for other staff on Surrey pay: 2010/11 Pay freeze, but up to £300 if headroom allowed 2011/12 Flat rate £250, plus up to £250 if headroom allowed 2012/13 Flat rate £350, plus up to £250 if headroom allowed
Pay inflation: National pay	1% each year	
General price inflation	2014/15 2.1% 2015-19 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 was central to developing the MTFP (2013-18). Consultation with the Government and Surrey borough & district councils was extensive throughout 2012 and 2013. The Council modeled a range of likely outcomes in its scenario planning.
Interest rates	Minimal changes in base rates during 2014/15	All existing long term debt is fixed interest and so not subject to interest rate variation. MTFP allows for new borrowing at on average 5%, but rates may vary 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.
Demand led pressures	Demand pressures in: Children, Schools & Families and Adult Social Care directorates	Both directorates are experiencing increasing demand on services over the MTFP period reflecting: • increases in Surrey's population aged +80, dementia care; • increases in Surrey's school age population; • legislative changes affecting vulnerable adults' entitlement and eligibility for support from the council. There is an increasing risk that these demand pressures may be understated, leading directly to revenue budget overspends in 2014/15.
Efficiency and other service savings	£219m over 2014-19	Efficiency & service reductions identified by Strategic Directors and their proposed budget targets will be very challenging to implement, so the Chief Executive and Chief Finance Officer will add a mechanism to track delivery of these savings. Some degree of risk is recognised (see paragraphs 1.8 to 1.13)

1.27. The Chief Finance Officer's opinion is the general assumptions are realistic but the proposed efficiency and other service savings are ambitious and there is substantial risk they will not all be achieved within the required timescale. To mitigate this risk, the Chief Executive and Chief Finance Officer will establish a more robust mechanism regularly to monitor and report progress in planning delivery of savings.

1.28. 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 2014/15. As in 2013/14, 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

1.29. The final accounts for 2012/13 show available general balances at 31 March 2013 of £19.9m. The latest budget monitoring position for 2013/14, as at 31 December 2013, forecasts that this level will remain at £19.9m by 31 March 2014. Appropriate levels of general balances are necessary to be maintained so that the Council can respond to unexpected emergencies. The recent adverse weather and flooding may require use of some of these balances in the coming months.

1.30. Details of earmarked balances are set out in Appendix A7. To enable the Council's financial strategy to secure a fair share of Government support for uncontrollable service demands to be met, the budget proposal is to apply £26m of these earmarked reserves to the 2014/15 budget: importantly, £20.1m of this is from the Budget Equalisation Reserve which is the carry forward reserve set up to smooth spending across financial years. The remainder is sensible to use after reviewing the reasons for holding each balance, an annual process.

1.31. During the current financial year, the Cabinet has agreed to use the Severe Weather Reserve, £5m, to improve the condition of roads, reducing the longer term deterioration of road conditions and reducing future maintenance liability. At the end of this financial year, it is proposed to create a new reserve to mitigate against the potential liability for business rate appeals, £1.25m.

1.32. The Chief Finance Officer confirms that the level of reserves and balances represents a prudent and sensible level for the Council: ensuring funds are set aside for likely future commitments, particularly necessary in the current uncertain financial climate, whilst not holding excessive balances when services are facing increasing demands.

Financial standing

1.33. 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. During the current financial year, 2013/14, the Council has repaid a loan of £68m using cash balances as part of an active strategy of reducing cash balances while interest rates are low. However, the MTFP (2014-19) 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.

Risk assessment

1.34. 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 2013/14 and will continue into 2014/15. 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 2014/15.

1.35. The specific risks relating to the financial environment 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;
- increased reliance on partnership working to manage service delivery and maximise efficient service delivery, in particular integration of health and social care, and,
- the increasing uncertainty over future local government funding, exacerbated by late announcements.

1.36. The Chief Finance Officer is satisfied that the proposed budget, including risk contingency, general balances & reserves sufficiently addresses these risks, Additional resilience has been assured over the long term through sustaining the earmarked reserve for long term investment & infrastructure initiatives and creation of a reserve to mitigate against potential business rate appeal successes.

Future years

1.37. 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 2014/15 to take account of

7 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.

1.38. Given the scale of the financial challenges facing the public sector, the Chief Finance Officer must emphasise the high likelihood that the next
7 Comprehensive Spending Review (CSR) will introduce further government grant cuts, meaning any changes to services over the MTFP (2014-19) period must be sustainable in the long term. It ought to be recognized that the content of the next CSR will be particularly hard to forecast in view of it being a new Parliament.

Conclusion

1.39. 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:

a. the achievement of efficiencies & service reductions year on year;

b. the transfer of uncertainty regarding the level of funding to local authority as a result of the local government funding changes introduced from April 2013;

c. the volatility implicit in the level of service demands;

d. the current economic situation and long term austerity faced by the country.

1.40. The above means monitoring of the whole MTFP (2014-19) period is recommended throughout 2014/15 to validate assumptions and timescales.

7

Appendix A1 7

More than 50 ways Surrey County Council adds value

DELIVERING GREAT VALUE FOR SURREY RESIDENTS

£ working for a better Surrey

www.surreycc.gov.uk

SURREY

Surrey County Council is constantly looking to improve the value it provides for its residents, businesses and service users. By being brave, innovative and actively seeking to work with partners the county council has provided this. Here are more than 50 examples of what we have done over the last few years or are on schedule to deliver.

1

PUBLIC VALUE REVIEW PROGRAMME 2009-2012

Nearly **£300m** saved over five years thanks to thorough review of 29 services.

2

OPERATION HORIZON PROGRAMME

Capital investment of **£100m** over five years to bring roads up to the highest standard, reduce operating costs and provide wider economic benefits. Cost saving of £16 million with extended 10 year warranties and investment in employment and skills.

3

MANAGEMENT OF SUPPLIERS AND JOINING UP PROCUREMENT

Improved management of suppliers and collaborative South East region procurement on track to deliver **£100m** savings over four years.

4

CONTRACTS TO LOCAL SUPPLIERS

Increased proportion of contracts awarded to local businesses to 52%, spending more than **£364m** with 4,500 local suppliers.

Created by the Communications Design Team. 11.13.RN.CS2724.

5

2012 OLYMPICS

Hosting the Olympic cycling events boosted economic, business and volunteering opportunities across Surrey – worth collectively over **£800m**.

6

BETTER PROCUREMENT

New highways contract has led to **£28m** savings over four years and improved maintenance of roads.

7

HIGH-SPEED BROADBAND

Delivery of **99.7%** high-speed broadband across the county by the end of 2014 set to boost the local economy by £28m.

8

SCHOOL PLACES

Reduced costs for providing school places by **40%** through working jointly with Hampshire County Council.

9

CONSTRUCTION WASTE RECYCLING PROJECT

Working with other councils to provide savings of **£8.5m** a year, as well as promoting economic growth, apprenticeships, and reducing the negative environmental impact.

10

ROADWORKS PERMIT SCHEME

Introduction of road permit scheme for utility firms reducing traffic and saving the economy around **£6.5m** per year.

11

USE OF OFFICES

Reducing office space has cut the cost per employee by nearly **20%** to £3,700 over two years.

12

YOUTH SERVICE TRANSFORMATION

Transformation of the youth service has reduced total budget by **£4.5m** over three years and increased activities for young people and performance.

7

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13 BUILDSURREY WEBSITE

Introduction of BuildSurrey – **£4m** of contracts have already been awarded to local businesses through the website.

14 SCHOOL IMPROVEMENT

Additional investment in school improvement of **£2m** per year already seeing better Ofsted results.

15 WINTER PREPARATIONS

£5m set aside to repair damaged roads after winter and 16,000 tonnes of salt stockpiled to help keep the county moving.

16 YOUTH JUSTICE

Due to new focus on youth justice services, the number of young people not in employment, education or training (NEET) has fallen from 840 to **450** over 12 months.

17 INCOME GENERATION

Dividends of **£2m** for council from its joint venture on school improvement – for re-investment in services.

18 PROPERTY INVESTMENT

On track to generate over **£5m** per year net income from property by 2017/18.

19 PRODUCTIVITY

Working more productively using the 'lean process re-engineering' concept developed by Toyota has saved **£5m** per year.

20 ENERGY USE

Surrey County Council has reduced its energy costs by **£1m**.

21

SURREY AND EAST SUSSEX COUNTY COUNCIL SHARED SERVICES

Partnership working with East Sussex County Council on shared transactional services has delivered **£0.5m** saving a year.

22

CONTROLLING STREETLIGHTS

12%, or nearly £0.4m, reduction in annual energy costs.

23

UNICORN SINGLE PUBLIC SECTOR NETWORK

Innovative partnership working with public services in Berkshire has delivered a higher capacity, more resilient electronic network and led to annual savings of £0.5m.

24

IMPROVED SOFTWARE SYSTEM COSTS

Better deals on software has reduced costs by **50%** from £3m per year to £1.5m.

25

SURREY SWITCH AND SAVE

Encouraging people to switch energy suppliers has saved Surrey residents **£123,000** over the last 12 months.

26

WASTE DISPOSAL AND RECYCLING

Increased recycling rate to **52%** by supporting district and borough waste collection through investment in improved sorting and handling facilities.

27

SCHOOL IMPROVEMENT

Negotiated **better** deals with providers of school support services, saving money for taxpayers.

28

MODERN LIBRARIES

Unit cost of each library visit reduced by nearly **7%** in two years due to increased online visits.

7

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29

HELPING PEOPLE WITH LEARNING DIFFICULTIES

Unit cost of helping people with learning difficulties has reduced by nearly **9%** over two years despite a 4.5% increase in numbers of people.

30

ACCESS TO SOCIAL CARE SERVICES

Introduced 8am-8pm working hours in the five acute hospitals on weekdays and 9am-5pm at weekends, **increasing** evening and weekend discharges.

31

REDUCTION IN BUS SUBSIDY

Re-negotiated bus subsidies have saved nearly **£5m** over three years, limiting loss of services through redesign of the network and re-procurement.

32

TRADING STANDARDS

The rapid action team has stopped more than **£1.2m** being handed over to conmen by unsuspecting victims since forming in 2003.

33

SERVICES AT THE HEART OF THE COMMUNITY

Citizen **hubs** established in the heart of communities run by volunteers to improve access to key services and provide information and advice about care and support.

34

PROCUREMENT

Surrey County Council named as one of the country's **top** 10 councils to do business with and recognised in an award from Prime Minister for supporting small businesses through our procurement process.

35

DEMENTIA FRIENDLY SURREY

Working together with clinical commissioning groups to help communities to become more **supportive** and inclusive places for people with dementia and their families.

36

SURREY FAMILY SUPPORT PROGRAMME

Helping families most in need of support by **coordinating** work with other agencies and focusing more on prevention.

37

HOME FIRE SAFETY VISITS

Review of the home fire **safety** visits has led to savings and improved the speed and efficiency of the service.

DELIVERING GREAT VALUE FOR SURREY RESIDENTS

38

COMMUNITY PARTNERED LIBRARIES INITIATIVE

Radical new approach to running libraries service with six libraries staffed by **volunteers** and a further four planned.

DELIVERING GREAT VALUE FOR SURREY RESIDENTS

39

SERVICES FOR YOUNG PEOPLE

Developing income generation from outdoor education centres for our young people to make them **self-funding**.

CREATING OPPORTUNITIES FOR OUR YOUNG PEOPLE

40

PUBLIC SERVICE TRANSFORMATION

Transforming services through **collaboration** on emergency services, family support, health and social care, assets, skills and employment and justice services by working better with other organisations.

DELIVERING GREAT VALUE FOR SURREY RESIDENTS

41

SERVICES FOR YOUNG PEOPLE

A secure online **app** has helped youth workers do tasks on the move and saved thousands annually on paperwork, freeing up more time for them to spend with young people.

CREATING OPPORTUNITIES FOR OUR YOUNG PEOPLE

42

WASTE DISPOSAL

An online app developed in-house for a van and trailer permit scheme has stopped residents forking out around **£1m** a year on trade waste being disposed of for free.

CARING FOR OUR ENVIRONMENT

43

SKILLS

The UK's first Masters **degree** in highway engineering introduced in collaboration with Brighton University to train the next generation of public sector road managers.

IMPROVING OUR ROADS

44

SOCIAL ENTERPRISES

Surrey Deaf Services established as a community interest company to enable users to **shape** the service.

SUPPORTING OUR VULNERABLE ADULTS

7

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45

RECRUITMENT AND TRAINING

Establishment of Surrey Academy to nurture, mentor and **invest** in newly qualified social workers, reducing reliance on expensive locums.

46

SUBSTANCE MISUSE AND HOUSING SUPPORT

Contracts for drug misuse work set to save over **20%** (£0.3m) and improve services.

47

WASTE DISPOSAL AND RECYCLING

Waste campaign has reduced Surrey waste by **2%** in two years, reducing landfill tax.

48

REDUCING FRAUD

Joint working with all 11 districts and boroughs set to eliminate fraudulent claims for single person discount on council tax and save **£300k** a year.

49

CHILDREN'S SOCIAL CARE

Despite a 16% increase in the numbers of children in **care**, spending has reduced by £1.5m over two years.

50

ADVERTISING TRAFFIC REGULATION ORDERS

Changes to the way we advertise traffic regulation orders will result in a saving of **£105,000** per year.

51

TRANSFERRING RISK AND REDUCING INSURANCE LIABILITY

Driving tougher deals with contractors has led to insurance savings of up to **£100,000** per year.

52

REIGATE AND BANSTEAD – SURREY BOARD

Collaboration with Reigate & Banstead Borough Council set to boost area's economy and infrastructure.

National economic outlook and public spending

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

The economy

A.2.2. 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 2018/19. The Office for Budget Responsibly (OBR) recently assessed this target in their December 2013 report and forecast that in 2018/19 the cyclically adjusted current budget (CACB) will be in surplus by 1.6%. Table A2:1 summarises OBR's forecast.

A.2.3. The amount of money the Government borrows each year, Public Sector Net Borrowing (PSNB), is due to fall to -0.1% (net surplus) of Gross Domestic Product (GDP) by 2018/19 compared with 7.3% in 2012/13. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 80% of GDP in 2015/16 before falling in the years thereafter.

Table A2:1: UK borrowing levels as a percentage of GDP between 2012/13 and 2018/19

	Per cent of GDP						
	Outturn	**Forecast**					
	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Cyclically adjusted surplus on current budget	**-3.6**	-2.9	-2.0	-1.4	-0.2	0.7	1.6
Public Sector Net Borrowing[1]	**7.3**	6.8	5.6	4.4	2.7	1.2	-0.1
Public Sector Net Debt	**73.9**	75.5	78.3	80.0	79.9	78.4	75.9

1 Excluding Royal Mail and APF Transfers

Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2013

A.2.4. The OBR forecast for growth in 2013 has been revised upwards from 0.6% to 1.4% as the economy has performed more strongly in 2013 than forecast in March as a result of stronger than expected growth in private consumption and growth in residential investment. However, expansion seen in 2013 is not expected to be sustained as productivity and real earnings growth in the economy have remained relatively weak. It is therefore expected that quarterly GDP growth will slow into 2014 and then strengthen gradually as productivity and real growth earnings pick up and provide a foundation for a more sustained upswing. Graph A2:1 shows the OBR's growth figures for the next five years.

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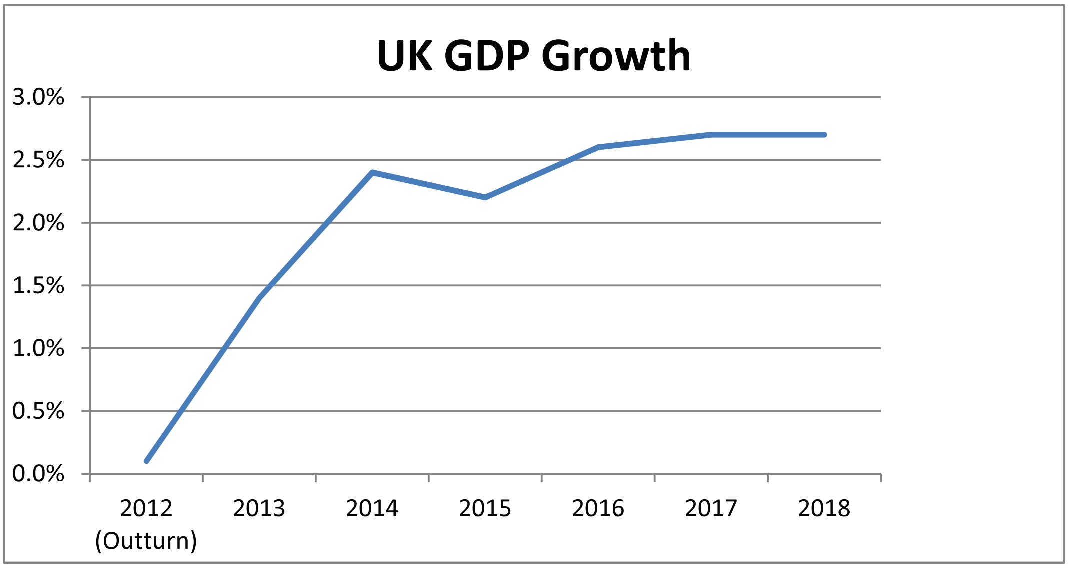
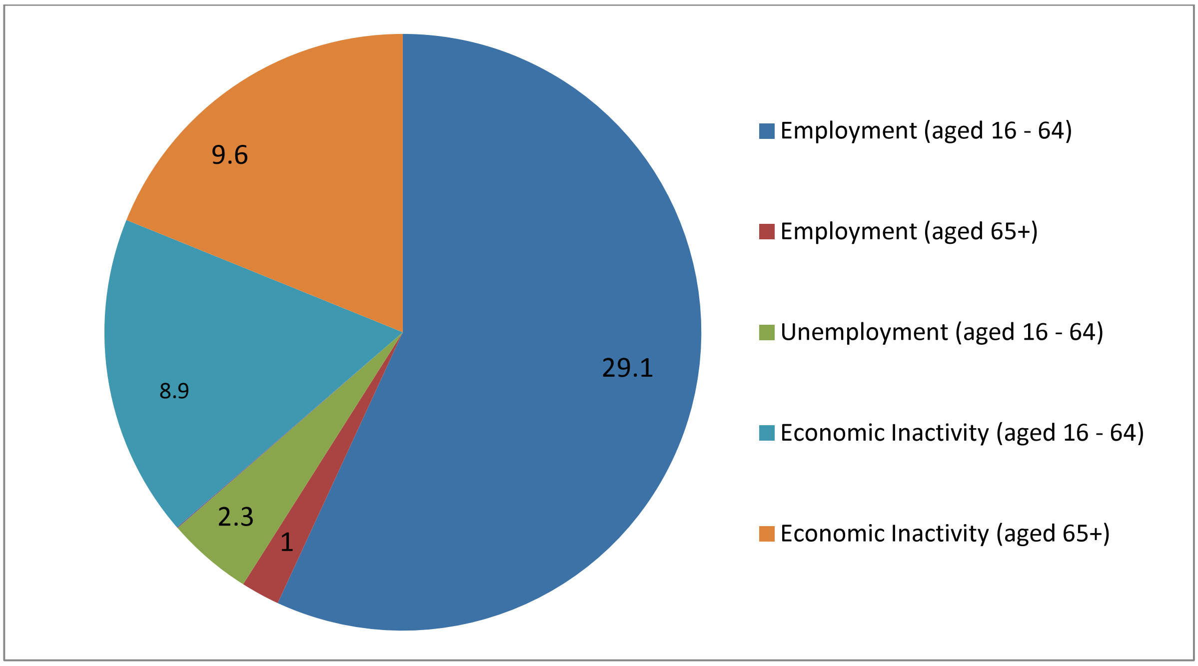
Graph A2:1 UK GDP growth:



Source: Office for Budget Responsibility, Economic and Fiscal Outlook December 2013

A.2.5. National unemployment is continuing to decline. For the period between September to November 2013, compared with the period between June to August 2013, the number of people in employment increased by 280,000 to reach 30 million. Meanwhile, the number of unemployed people fell by 167,000 to reach 2.3 million and the number of economically inactive people aged from 16 to 64 fell by 22,000 to reach 8.9 million. Notably, for people aged 65 and over, 1 person in 10 was in work, the highest employment rate for this age group since comparable records began in 1992 and up from 9.2% compared with a year earlier.

Graph A2:2: UK Labour Market September to November 2013 (millions)



Source: Office for National Statistics, Summary of Labour Market Statistics January 2014

A.2.6. The Consumer Price Index (CPI) in the year to December 2013 grew by 2.0%, down from 2.1% in November. It is the first time since November 2009 that inflation has

7

been at or below the 2% target set by the government.The largest contributions to the fall in the CPI rate came from prices for food & non-alcoholic beverages and recreational goods & services. These were partially offset by an upward contribution from motor fuels. The overall price increase for gas and electricity in December 2013 was slightly larger than the rises a year earlier resulting in a small upward contribution to inflation.

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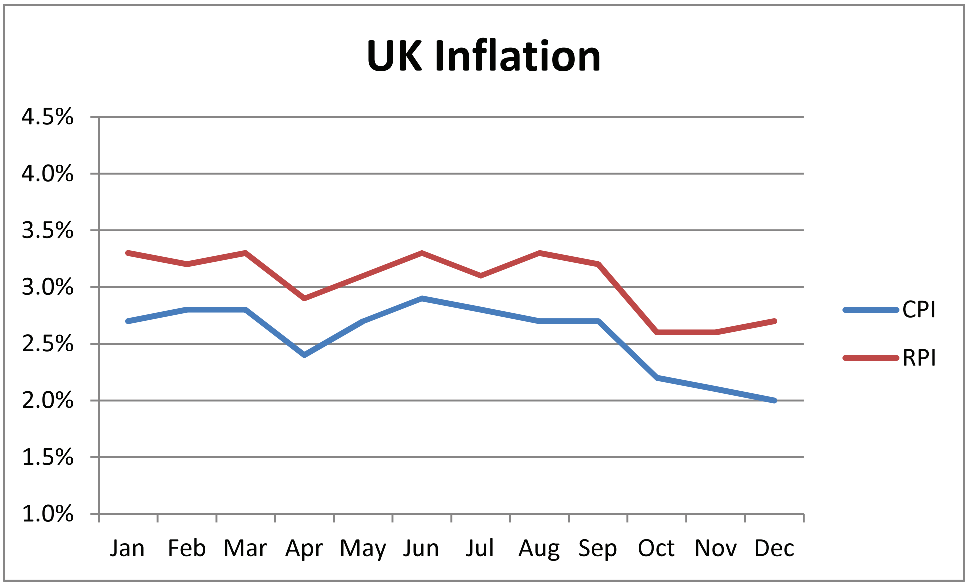
Graph A2:3: UK annual inflationary measures of CPI and RPI between January 2013 and December 2013.



Source: Office for National Statistics, Consumer Price Inflation December 2013.

A.2.7. 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. In the three months to November unemployment fell to 7.1%, a fraction above the 7% level where the BoE said it would begin considering raising interest rates. However, despite the sharp fall in unemployment, the BoE has stressed that it will not rush to raise interest rates even if the 7% threshold were to be hit in the near future. UK inflation fell to its target level of 2% in December and the BoE has stated that there is currently no immediate pressure to raise interest rates to reduce cost pressures in the economy. The BoE has also stated that it will not raise interest rates until it has seen a pickup in wages growth and a more established recovery and that when the time does come to raise interest rates it will only do so gradually.

A.2.8. On 5 December 2013 the Chancellor George Osborne presented the Autumn Statement to Parliament which reinforced the continuing need to reduce spending in order to tackle the deficit and reduce public debt. There will be an extra £1bn of cuts from the budgets of government departments for each of the next three years, a cap on total welfare spending will be introduced next year and the state pension age is to increase to 68 in the mid-2030s and to 69 in the late 2040s. The UK public finances are expected to be in surplus by 2018/19. Underlying public sector net borrowing – which excludes the impact of the Royal Mail pension scheme and the Asset

Purchase Facility transfer – is set to fall to 6.8% of gross domestic product this year, down from the 7.3% forecast by the OBR in March. It is then predicted to fall to 5.6% next year and go on declining; reaching 1.2% in 2017/18 and by 2018/19 a small surplus is expected. While the Chancellor has announced new, further departmental savings for government departments, local government has been protected from further cuts.

A.2.9. The Government's economic plan focuses on the following areas:

- *Cutting the deficit* - the deficit is down by a third but more than £60bn more of cuts are still required over the next five years.
- *Reducing income tax* – the personal allowance will be increased to £10,000 from April, fuel duty will be frozen and tax free childcare will be available for working families.
- *Creating more jobs* - by backing small businesses and enterprises with better infrastructure and lower job taxes.
- *Cutting immigration and welfare* - immigration needs to be controlled and the welfare bill managed in order to relieve pressure on public services and prevent abuse of the welfare system. A welfare cap will be introduced next year although state pensions will not be included in the cap.
- *Delivering the best schools and skills* – an additional 20,000 apprenticeships will be created and there will be continued focus on raising standards in education.

A.2.10. The Institute for Fiscal Studies (IFS) states that the Government will in future have little scope for spending beyond core functions such as health, pensions, social security and education. The IFS has also reiterated its long-standing prediction that the next Government would need to consider raising taxation or delay further fiscal tightening because the squeeze on the public sector was so severe. Even though the Government plans to run a budget surplus in 2018-19, health and school spending is protected, pensioner numbers are growing and spending on debt interest is likely to keep rising because interest rates will be on their way up. It is calculated that only a third of the spending cuts have yet been implemented and, after 2016, the projected rate of annual real reductions will need to increase from the current average of 2.3% to 3.7%.

Provisional government grants for 2014/15 to 2018/19

UK government grants	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Business rates retention grants						
Revenue support grant and business rates top-up	**210,276**	**191,245**	**168,382**	**160,998**	**154,066**	**154,066**
Dedicated schools grant	**600,732**	**546,541**	**542,923**	**544,923**	**546,923**	**546,923**
Other government grants						
ACL, Skills Funding Agency	2,446	2,446	2,446	2,446	2,446	2,446
Adoption reform	-	-	-	-	-	-
Area of ONB grant	137	137	137	137	137	137
Asylum Seekers	1,640	2,000	2,000	2,000	2,000	2,000
Better Care Fund	-	-	25,000	25,000	25,000	25,000
Bikeability	240	240	240	240	240	240
Business rates cap (Sec 31 grant)	-	1,088	1,088	1,088	1,088	1,088
Community right to challenge	9	9	-	-	-	-
Council tax localisation transition grant	-	-	-	-	-	-
Education Funding Agency	19,331	15,063	15,063	15,063	15,063	15,063
Education services grant (ESG)	16,600	14,387	11,510	11,510	11,510	11,510
Extended rights to free travel	835	318	318	318	318	318
Fire pensions	6,769	7,532	9,867	10,080	8,949	11,992
Fire (revenue)	379	395	404	404	404	404
GUM services (Public Health)	0	3,300	3,300	3,300	3,300	3,300
LACSEG (local authority central spend equivalent grant) refund	-	-	-	-	-	-
Lead local flood authorities	375	375	250	250	250	250
Local Sustainable Transport Fund	750	630	-	-	-	-
Local Sustainable Transp. Fund (large bid)	1,725	2,009	-	-	-	-
Local Sustainable Transp. Fund (Town Centres & High Streets)	-	75	230	-	-	-
Local Reform and Community Voices DH	700	721	721	721	721	721
Music Grant	1,043	1,064	1,064	1,064	1,064	1,064
New Homes Bonus	2,825	3,897	4,941	6,825	8,117	8,117
New Homes Bonus-returned topslice	855	350	891	891	891	891
PE and sport release		2,523	981	-	-	-
Police and Crime Panel		68	68	68	68	68
Private Finance Initiative	11,900	10,949	10,949	16,949	18,949	15,903
Public health	23,237	25,561	28,117	30,928	34,021	37,423
Pupil Premium	15,049	17,579	17,579	17,579	17,579	17,579
Registration service	21	18	18	18	18	18
Remand	-	104	104	104	104	104
Restorative justice development	-	18	18	18	18	18
Right to Control Trailblazers	165	-	-	-	-	
SEN pathfinder	165	-	-	-	-	-
SEN reform grant	-	150	-	-	-	-
Social care reform	1,865	-	-	-	-	-
Social fund (incl. administration)	1,162	1,145	-	-	-	-
South-east protected landscape	33	33	33	33	33	33
Troubled families (Family Support Prog.)	879	352	-	-	-	-
Youth Justice Board	896	839	839	839	839	839
Total other government grants	**112,030**	**115,374**	**138,175**	**147,872**	**153,126**	**156,525**
Total government grants	**923,038**	**853,161**	**849,481**	**853,795**	**854,117**	**857,516**

note: any minor casting anomalies are due to roundings.

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Revenue budget proposals

A.4.1. This appendix contains the overall budget position for the council, then by directorate. Each budget is prefaced by a commentary outlining the 14/15 budget position, future issues affecting the directorate over the subsequent four years and how the directorate is going to manage the situation

A.4.2. The categories are in order:

- Adults Social Care
- Children, Schools & Families with Delegated Schools
- Customer & Communities
- Environment & Infrastructure
- Business Services
- Chief Executive Office (including Public Health)
- Central Income & Expenditure

A.4.3. 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).

A.4.4. This appendix outlines the draft 2014/19 revenue budget by:

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

A.4.5. In approving the budget and the Council tax precept, the Cabinet and full Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to:

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

A.4.6. In approving the overall budget and precept at this stage, the Cabinet and 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 following proposals referenced in this report which have been identified as requiring new Equality Impact Assessments:

- Family, Friends and Community programme (Adult Social Care)
- Planned savings and income generation relating to the Fire and Rescue Service (Customers and Communities)
- Members’ Allocation Funding and Community Improvement Fund (Customers and Communities)
- Disbanding the Legacy Team (Chief Executive’s Office)
- Public Value Programme (Children, Schools and Families)
- Review of transport provision (Environment and Infrastructure)

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- Planning review (Environment and Infrastructure)
- Countryside programme (Environment and Infrastructure)

Overall

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Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
Local taxation - Council Tax	(550,420)	(568,849)	(578,083)	(592,517)	(607,297)	(622,469)
Local taxation - Business rates surplus	(43,863)	(45,525)	(47,165)	(48,917)	(50,834)	(52,876)
UK Government grants	(923,038)	(853,161)	(849,481)	(853,795)	(854,117)	(857,516)
Other bodies grants	(18,302)	(22,626)	(22,663)	(22,701)	(22,739)	(22,778)
Fees & charges	(80,676)	(81,907)	(84,417)	(87,665)	(91,448)	(95,061)
Property income	(3,681)	(3,899)	(3,984)	(4,071)	(4,160)	(4,251)
Income from investment	(578)	(522)	(450)	(344)	(5,295)	(5,191)
Joint working income	(24,149)	(23,166)	(23,121)	(23,081)	(23,045)	(23,015)
Reimbursements and recovery of costs	(20,554)	(18,587)	(19,309)	(20,160)	(20,530)	(20,762)
Total funding	**(1,665,261)**	**(1,618,242)**	**(1,628,673)**	**(1,653,251)**	**(1,679,406)**	**(1,703,920)**
Expenditure						
Service staffing	313,262	306,829	307,354	307,386	308,827	311,589
Service non-staffing	853,109	869,084	860,233	892,429	929,929	972,944
Schools - net expenditure	521,855	468,246	461,086	460,105	460,105	460,105
Additional savings				(6,669)	(19,455)	(40,718)
Total expenditure	**1,688,226**	**1,644,159**	**1,628,673**	**1,653,251**	**1,679,406**	**1,703,920**
Funded by reserves	**22,965**	**25,916**	**0**	**0**	**0**	**0**

Proposed gross expenditure revenue budget 2014/19

Revenue summary	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Personal Care & Support	302,142	306,147	309,643	324,639	345,730	376,131
Service Delivery	20,524	20,685	19,980	19,270	18,540	18,70[illegible]
Policy & Strategy	3,509	3,029	3,051	3,073	3,092	3,11[illegible]
Commissioning	80,038	82,492	83,070	83,656	84,244	84,90[illegible]
Strategic Director	412	416	420	425	428	432
Adults Social Care	**406,625**	**412,768**	**416,165**	**431,063**	**452,034**	**483,275**
Strategic Services	3,207	2,841	2,516	2,537	2,560	2,560
Children's Service	86,408	89,686	92,001	92,260	94,156	94,156
Schools and Learning	214,040	211,519	214,953	218,289	224,010	224,010
Services for Young People	21,094	26,329	26,654	26,805	27,181	27,181
Children, Schools & Families	**324,749**	**330,375**	**336,124**	**339,891**	**347,907**	**347,907**
Schools Delegated Budgets	**521,855**	**468,246**	**461,086**	**460,105**	**460,105**	**460,105**
Fire Service	45,752	46,724	46,944	45,809	45,090	48,565
Cultural Services	23,917	23,213	23,709	24,218	24,741	25,274
Customer Services	4,010	3,906	3,964	4,045	4,125	4,208
Trading Standards	2,480	2,521	2,566	2,614	2,663	2,711
Community Partnership & Safety	3,476	2,992	3,039	3,087	3,136	3,186
County Coroner	1,075	1,243	1,266	1,289	1,313	1,337
Directorate Support	2,167	1,648	1,686	1,725	1,765	1,806
Customer & Communities	**82,877**	**82,247**	**83,174**	**82,787**	**82,833**	**87,087**
Environment	87,344	89,621	85,397	86,036	88,534	91,917
Highways	52,689	53,406	54,418	55,927	56,509	58,132
Directorate-wide services (including savings to be allocated)	2,771	2,509	2,183	2,107	2,148	2,015
Environment & Infrastructure	**142,804**	**145,536**	**141,998**	**144,070**	**147,190**	**152,064**
Property Services	39,889	40,009	38,755	40,171	41,803	43,587
Information Management & Technology	23,244	25,546	24,920	25,073	25,584	26,105
Finance & strategic support	10,563	10,787	11,433	11,861	12,406	12,655
HR & Organisational Development	11,447	11,411	11,070	11,207	11,427	11,651
Shared Services	8,640	8,708	8,152	8,230	8,382	8,538
Procurement	3,444	3,481	3,544	3,508	3,571	3,635
Business Services	**97,227**	**99,942**	**97,874**	**100,050**	**103,173**	**106,171**
Strategic Leadership	472	444	445	447	447	449
Emergency Management	499	531	541	549	560	570
Communications	1,892	1,820	1,851	1,883	1,917	1,950
Legal & Democratic Services	9,899	8,543	8,513	8,677	10,353	9,022
Policy & Performance	3,292	3,931	3,988	4,045	4,102	4,161
Magna Carta	0	300	0	0	0	0
Public Health	26,994	28,361	30,417	32,228	34,321	37,723
Chief Executive Office	**43,048**	**43,930**	**45,755**	**47,829**	**51,700**	**53,875**
Central Income & Exp	**69,041**	**61,115**	**56,496**	**64,125**	**63,919**	**64,154**
Public service transformation network	**0**	**0**	**(10,000)**	**(10,000)**	**(10,000)**	**(10,000)**
Additional savings				**(6,669)**	**(19,455)**	**(40,718)**
Total expenditure	**1,688,226**	**1,644,159**	**1,628,673**	**1,653,251**	**1,679,406**	**1,703,920**

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Adult Social Care

Acting Strategic Director: Dave Sargeant
Strategic Finance Manager: Paul Carey-Kent

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Financial commentary

A.4.7. The base revenue expenditure budget for the Adult Social Care Directorate in 2013/14 is £338m and the proposed budget is £339m, giving an overall increase of £1m.

A.4.8. This overall budget for 2014/15 includes £59m to deal with service pressures, a combination of demographic and inflationary pressures and the need to replace savings covered by one-off means in 2013/14.

A.4.9. The pressures emerging from 2013/14 and updating of demographic projections for 2014/15 total £59m, offset by the £1m increase in the budget and £5m of other funding changes. The Directorate has, therefore, included in its budget savings of £53m.

A.4.10. This makes 2014/15 a particularly challenging year and it is thus the dominant year in considering the Directorate's MTFP. Monitoring for 2013/14 shows that expenditure, particularly for individually commissioned 'spot' care services, is significantly above budgeted levels. A number of one-off measures and funding sources are being utilised to mitigate these pressures year, but few of these are expected to be available next year; and in spite of those measures a £5.8m overspend is forecast for 2013/14 (as at the end of December 2013).

A.4.11. Details of the savings programme to achieve that are being finalised, and joint work will be carried out with the Chief Executive and Chief Finance Officer to confirm the programme and gain assurance that the 2014/15 budget can be delivered.

A.4.12. Future years of the MTFP are also challenging with ambitious savings targets for the Friends, Family and Community programme (a further £20m in 2015-18 on top of the £10m planned for 2014/15) and £4.9m of as-yet-unallocated savings in 2015/16. Although the priority is therefore to address the 2014/15 budget, future years still require careful consideration especially in light of the risks associated with the Care Bill and potential market pressures. This will make it important to work successfully with the Clinical Commissioning Groups (CCGs) in order to make best use of the Better Care Funding from 2015/16.

Adults Social Care

Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
UK Government grants	(2,030)	(222)	(222)	(222)	(222)	(222)
Other bodies grants	(14,297)	(18,309)	(18,309)	(18,309)	(18,309)	(18,309)
Fees & charges	(38,173)	(41,911)	(43,377)	(45,555)	(48,149)	(51,489)
Joint working income	(11,971)	(11,080)	(10,830)	(10,580)	(10,330)	(10,080)
Reimbursements and recovery of costs	(2,222)	(2,222)	(2,222)	(2,222)	(2,222)	(2,222)
Total funding	**(68,693)**	**(73,744)**	**(74,960)**	**(76,888)**	**(79,232)**	**(82,322)**
Expenditure						
Service staffing	73,632	70,853	70,633	70,394	70,085	70,643
Service non-staffing	332,993	341,915	345,532	360,669	381,950	412,632
Total expenditure	**406,625**	**412,768**	**416,165**	**431,063**	**452,034**	**483,275**
Net budget supported by Council Tax and general government grants	**337,932**	**339,024**	**341,205**	**354,175**	**372,802**	**400,952**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(68,693)	(73,744)	(74,960)	(76,888)	(79,232)	(82,322)
Expenditure by service:						
Personal Care & Support	302,142	306,147	309,643	324,639	345,730	376,131
Service Delivery	20,524	20,685	19,980	19,270	18,540	18,701
Policy & Strategy	3,509	3,029	3,051	3,073	3,092	3,110
Commissioning	80,038	82,492	83,070	83,656	84,244	84,900
Strategic Director	412	416	420	425	428	432
	406,625	412,768	416,165	431,063	452,034	483,275
Adults Social Care	**337,932**	**339,024**	**341,205**	**354,175**	**372,802**	**400,952**

7

Children, Schools & Families.

Strategic Director: Nick Wilson
Strategic Finance Manager: Paula Chowdhury

Budget 2014/15

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A.4.13. The base revenue expenditure budget for the Children, Schools and Families Directorate in 2013/14 is £325m and in 2014/15 the proposed budget is £330m, giving an overall net increase of £5m.

A.4.14. This overall budget for 2014/15 includes increased funding of £12.2m for service pressures:

- £4.2m for specific demand led pressures around child protection and Special Education Needs (SEN); and
- £8.0m for general inflation, pay inflation and general demographic growth.

A.4.15. The Directorate also has included in its budget planned savings for 2014/15 to the value of £9.1m. This has been allocated to each of the individual services:

- Schools and Learning £4.3m;
- Children's Services £3m; and
- Services for Young People £1.8m.

A.4.16. The schools delegated base revenue budget in 2013/14 is £522m and in 2014/15 is proposed at £468m. The year on year reduction is as a result of the Dedicated Schools Grant reducing by -£63.1m, the post 16 funding reducing by -£4.3 and the pupil premium funding reducing by -£2.5m, for schools converting to academies. These reductions are then off-set by some small increases and transfers of responsibilities from centrally managed services to schools totaling £15.7m.

A.4.17. The provisional DSG settlement in December for children with learning disabilities in schools post 16 is £2.5m less than is required given that the full cost of placements is now expected to be funded from the allocation. This was unexpected and was therefore not planned for. Schools Forum has been informed and we will need to manage the funding risk together.

A.4.18. The total Children, Schools and Families budget, including schools, for 2014/15 is £798m, compared to £847m in 2013/14.

Medium Term Financial Plan 2014/19

A.4.19. Over the five year period of the MTFP, the Directorate is anticipating budget pressures as a result of funding reductions, demand led budgets and general demographic increases. The pressure on the schools funding will increase as more schools convert to become academy taking significant funding with them and reduced growth funding and the potential ring-fencing of Early Years. The Special Education Need high needs block continues to have significant demand growth pressures as the school population increases.

A.4.20. School improvement continues to be a major priority for the County Council, with key performance targets being set around the funding allocation of £1.9m.

A.4.21. The Directorate has made savings of over £56m over the last five years while facing the further challenge of £24m 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. 7

A.4.22. One of the key areas of funding risk for the Directorate is around the Dedicated Schools Grant (DSG). The high needs block within the DSG, which funds the special education needs services, has not received growth funding, yet this is an area where demand is increasing as the overall school population increases. This growth issue coupled with the 2014/15 funding shortfall on post 16 learning disabilities, means that from 2015/16 there could be an approx £7m shortfall within DSG. 7

A.4.23. Another major funding risk for the Directorate and the wider County Council is the continual reduction of the Education Services Grant (ESG). This grant is part of the general County Council funding for school improvement and contributes towards Directorate and Corporate overheads. As schools convert to academy status the ESG reduces and for 2014/15 the financial impact is estimated at £2m. In addition to this continual academy conversion reduction, the government has announced the possibility of a 20% reduction on this grant from 2015/16. This grant reduction has been built into the 2014/19 planning.

A.4.24. 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 is 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.

A.4.25. The County Council has been successful in its bid to be part of the governments Public Services Transformation Network (PSTN). The Directorate is building on the national work around Troubled Families and one of the PSTN projects is to expand this work further and develop an integrated Family Support Programme with partner agencies sharing the costs and the fiscal and non-fiscal benefits. The second PSTN partnership project is about skilling up 14-19 year olds so that they are marketable in the future labour market.

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Children, Schools & Families

Draft Income & Expenditure category summary

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	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
Dedicated Schools Grant	(109,211)	(108,826)	(110,826)	(112,826)	(114,826)	(114,826)
Other UK Government grants	(4,676)	(4,796)	(4,294)	(4,294)	(4,294)	(4,294)
Other bodies grants	(1,084)	(1,084)	(1,084)	(1,084)	(1,084)	(1,084)
Fees & charges	(25,974)	(24,569)	(25,359)	(26,165)	(27,086)	(27,086)
Property income	(27)	(27)	(27)	(27)	(27)	(27)
Joint working income	(2,774)	(2,774)	(2,774)	(2,774)	(2,774)	(2,774)
Reimbursements and recovery of costs	(6,511)	(6,511)	(6,511)	(6,511)	(6,511)	(6,511)
Total funding	**(150,257)**	**(148,587)**	**(150,875)**	**(153,681)**	**(156,602)**	**(156,602)**
Expenditure						
Service staffing	106,975	105,326	107,221	107,516	108,211	108,211
Service non-staffing	217,774	225,049	228,903	232,375	239,696	239,696
Total expenditure	**324,749**	**330,375**	**336,124**	**339,891**	**347,907**	**347,907**
Net budget supported by Council Tax and general government grants	**174,492**	**181,788**	**185,249**	**186,210**	**191,305**	**191,305**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(150,257)	(148,587)	(150,875)	(153,681)	(156,602)	(156,602)
Expenditure by service:						
Strategic Services	3,207	2,841	2,516	2,537	2,560	2,560
Children's Service	86,408	89,686	92,001	92,260	94,156	94,156
Schools and Learning	214,040	211,519	214,953	218,289	224,010	224,010
Services for Young People	21,094	26,329	26,654	26,805	27,181	27,181
	324,749	330,375	336,124	339,891	347,907	347,907
Children, Schools & Families	**174,492**	**181,788**	**185,249**	**186,210**	**191,305**	**191,305**

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Schools

Income & Expenditure category summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
UK Government grants	(521,855)	(468,246)	(461,086)	(460,105)	(460,105)	(460,105)
Total funding	**(521,855)**	**(468,246)**	**(461,086)**	**(460,105)**	**(460,105)**	**(460,105)**
Expenditure						
Schools - net expenditure	521,855	468,246	461,086	460,105	460,105	460,105
Total expenditure	**521,855**	**468,246**	**461,086**	**460,105**	**460,105**	**460,105**
Net Budget supported by Council Tax and general government grants	**0**	**0**	**0**	**0**	**0**	**0**

7

Customers and Communities.

Strategic Director: Yvonne Rees & Susie Kemp
Strategic Finance Manager: Susan Smyth

Financial commentary

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A.4.26. The Directorate faces pressures of £6.0m over the five year planning period, predominately due to expected inflation of £5.9m, which need to be covered by efficiency actions. In addition there are expected increases in grant funded Fire pension expenditure of £5.2m. Savings of £6.1m and generation of £2.5m additional income are planned over the five year period. These actions, together with £0.7m of budget virements to other directorates, result in a net reduction to the Directorate budget of £3.3m over the 5 year period. There are no significant volume changes expected.

A.4.27. The Fire service is continuing to implement the Public Safety Plan on a phased basis and the budget is based upon an improved understanding of service pressures and changes to the timing at which savings are assessed as achievable. The Fire Service has planned savings and income generation of £6.3m over the 5 year period. This includes £2.2m of efficiency improvements from property reconfigurations linked to capital investment, and a further £3.3m through planned operational efficiencies and the implementation of staff agency arrangements. £0.9m of the savings from the reconfigurations is being used to fund the relocation of an appliance to a new station at Salfords. The innovative contingency crewing pilot has been extended, with a review during 2014/15.

A.4.28. The reduced value of contributions to the Fire Vehicle and Equipment Replacement Reserve, as a result of expenditure being funded by government grant, continues for three years saving £1.5m and helping to fund overall pressures. Current plans, which will be kept under review in light of changing vehicle needs and future grant settlements, reinstate the full contribution in 2017/18.

A.4.29. Across the rest of Customers and Communities there are planned savings and increased income of £2.3m. These include reductions to Members' Allocation Funding and the Community Improvements Fund totalling £0.5m, together with reductions as a result of staffing efficiencies across a number of services.

Customer & Communities
Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
UK Government grants	(10,658)	(11,455)	(13,799)	(14,012)	(12,881)	(15,924)
Other bodies grants	(2,921)	(3,233)	(3,270)	(3,308)	(3,346)	(3,385)
Fees & charges	(9,137)	(8,705)	(8,807)	(8,914)	(9,023)	(9,131)
Property income		(145)	(148)	(151)	(154)	(157)
Joint working income	(280)	0	0	0	0	0
Reimbursements and recovery of costs	(531)	(1,300)	(1,645)	(2,229)	(2,401)	(2,428)
Total funding	**(23,527)**	**(24,838)**	**(27,669)**	**(28,614)**	**(27,805)**	**(31,025)**
Expenditure						
Service staffing	57,323	56,184	54,642	53,818	54,303	55,183
Service non-staffing	25,554	26,063	28,532	28,969	28,530	31,904
Total expenditure	**82,877**	**82,247**	**83,174**	**82,787**	**82,833**	**87,087**
Net Budget supported by Council Tax and general government grants	**59,350**	**57,409**	**55,505**	**54,173**	**55,028**	**56,062**

Draft service summary

	2012/13 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(23,527)	(24,838)	(27,669)	(28,614)	(27,805)	(31,025)
Expenditure by service:						
Fire Service	45,752	46,724	46,944	45,809	45,090	48,565
Cultural Services	23,917	23,213	23,709	24,218	24,741	25,274
Customer Services	4,010	3,906	3,964	4,045	4,125	4,208
Trading Standards	2,480	2,521	2,566	2,614	2,663	2,711
Community Partnership & Safety	3,476	2,992	3,039	3,087	3,136	3,186
County Coroner	1,075	1,243	1,266	1,289	1,313	1,337
Directorate Support	2,167	1,648	1,686	1,725	1,765	1,806
	82,877	82,247	83,174	82,787	82,833	87,087
Customer & Communities	**59,350**	**57,409**	**55,505**	**54,173**	**55,028**	**56,062**

7 **<u>Environment & Infrastructure</u>**

Strategic Director: Trevor Pugh

Strategic Finance Manager: Susan Smyth

Financial commentary

7 A.4.30. Environment & Infrastructure faces pressures and growth of £18m (including funding changes) over the five year planning period. This primarily relates to inflation of £24.4m across all budgets including waste disposal, highways and local bus contracts. Two additional pressures are anticipated. Local bus contract savings planned for 2013/14 have not been delivered in anticipation of a wider review of transport provision (see below). Together with increased costs of bus services this results in a pressure of £0.5m. Secondly, changes to the highway repairs regime and associated lump sum payments are expected to result in an additional cost of £0.4m. Other changes include the reversal of prior year one-off savings, and annual changes to expected waste disposal spend resulting from volume and costs. Further uncertainties remain, including implications of the transfer of Bus Service Operators Grant and the possible transfer of maintenance responsibility for Highway Agency assets to local authorities.

A.4.31. Pressures and growth are offset by planned savings of £6.6m over the five year planning period. These include highway maintenance efficiencies and reductions (£2.1m) including reducing costs through collaboration and reduced overheads, expected savings through a review of transport provision (£2m), savings from the ongoing “one team” organisational review (£0.8m) and from ongoing reviews of support and other services (£0.9m, including directorate support services, planning & development, network management, sustainability and road safety), countryside (£0.4m) and waste disposal (£0.3m).

A.4.32. In the longer term waste management efficiencies are planned, 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. Highway maintenance efficiencies from a more effective investment strategy and improved supply chain are also being investigated.

Environment & Infrastructure
Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
UK Government grants	(3,528)	(3,601)	(992)	(762)	(762)	(762)
Fees & charges	(7,096)	(6,411)	(6,557)	(6,707)	(6,860)	(7,018)
Joint working income	(4,037)	(4,123)	(4,214)	(4,307)	(4,402)	(4,500)
Reimbursements and recovery of costs	(2,748)	(2,352)	(2,405)	(2,459)	(2,515)	(2,572)
Total funding	**(17,409)**	**(16,487)**	**(14,168)**	**(14,235)**	**(14,539)**	**(14,851)**
Expenditure						
Service staffing	21,667	20,926	20,906	21,140	20,746	21,096
Service non-staffing	121,137	124,610	121,093	122,930	126,444	130,968
Total expenditure	**142,804**	**145,536**	**141,998**	**144,070**	**147,190**	**152,064**
Net Budget supported by Council Tax and general government grants	**125,395**	**129,049**	**127,830**	**129,835**	**132,651**	**137,213**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(17,409)	(16,487)	(14,168)	(14,235)	(14,539)	(14,851)
Expenditure by service:						
Environment	87,344	89,621	85,397	86,036	88,534	91,917
Highways	52,689	53,406	54,418	55,927	56,509	58,132
Directorate-wide services (including savings to be allocated)	2,771	2,509	2,183	2,107	2,148	2,015
	142,804	145,536	141,998	144,070	147,190	152,064
Environment & Infrastructure	**125,395**	**129,049**	**127,830**	**129,835**	**132,651**	**137,213**

7

Business Services

Strategic Director: Julie Fisher
Strategic Finance Manager: Susan Smyth

Financial commentary

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A.4.33. Savings of £6.2 m will be delivered over the five years through continued efficiency improvements, increased income and enhanced partnership working across Business Services. Self service capability will be significantly improved for services creating efficiency improvements in Business Services and improved quality of delivery for customers. Working in partnership will drive benefits from economies of scale, and the directorate will continue to strengthen and enhance partnership arrangements that we have across our IT infrastructure, procurement and transactional services exemplified by our partnership with East Sussex. Securing improved commercial arrangements with suppliers for the council and for partners will deliver savings in Business Services and the council as a whole. The Directorate will continue to develop its business support offer and deliver income from the provision of transactional and professional consultancy services to partners and other external organisations.

A.4.34. The directorate budget includes additional strategic investment in IMT of £2m in 2014/15 and £1m per annum thereafter. This investment will deliver enhanced functionality to drive efficiency and productivity improvements across the council, particularly in relation to the modern worker programme which equips staff and members with appropriate technology to carry out their roles. The directorate budget includes inflationary costs of £11.8m over the planning period, which include updated assumptions regarding energy inflation however there remain uncertainties regarding this in the medium to longer term. The budget has been adjusted for recent announcements regarding the grant funding for the Local Assistance scheme which will discontinue after 2014 / 15. Assuming that support to vulnerable people will continue to be provided by the council at the current levels of expenditure creates a cost pressure of £0.5m.

Business Services

Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
UK Government grants	(1,162)	(1,145)				
Fees & charges	(100)	(102)	(104)	(106)	(108)	(110)
Property income	(3,654)	(3,727)	(3,809)	(3,893)	(3,979)	(4,067)
Joint working income	(5,066)	(5,167)	(5,281)	(5,397)	(5,516)	(5,637)
Reimbursements and recovery of costs	(5,073)	(5,789)	(6,106)	(6,312)	(6,447)	(6,586)
Total funding	**(15,055)**	**(15,930)**	**(15,300)**	**(15,708)**	**(16,050)**	**(16,400)**
Expenditure						
Service staffing	40,305	40,329	40,450	40,822	41,556	42,303
Service non-staffing	56,922	59,613	57,424	59,228	61,617	63,868
Total expenditure	**97,227**	**99,942**	**97,874**	**100,050**	**103,173**	**106,171**
Net Budget supported by Council Tax and general government grants	**82,172**	**84,012**	**82,574**	**84,342**	**87,123**	**89,771**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(15,055)	(15,930)	(15,300)	(15,708)	(16,050)	(16,400)
Expenditure by service:						
Property Services	39,889	40,009	38,755	40,171	41,803	43,587
Information Management & Technology	23,244	25,546	24,920	25,073	25,584	26,105
Finance & strategic support	10,563	10,787	11,433	11,861	12,406	12,655
HR & Organisational Development	11,447	11,411	11,070	11,207	11,427	11,651
Shared Services	8,640	8,708	8,152	8,230	8,382	8,538
Procurement	3,444	3,481	3,544	3,508	3,571	3,635
	97,227	99,942	97,874	100,050	103,173	106,171
Business Services	**82,172**	**84,012**	**82,574**	**84,342**	**87,123**	**89,771**

7 **<u>Chief Executive's Office</u>**

Asst Chief Executive Officer: Susie Kemp

Strategic Finance Manager: Susan Smyth

Financial commentary

7 A.4.35. The Chief Executive's Office faces ongoing pressures of £1.5m over the 5 year planning period. This is predominately due to expected inflation of £1.3m, but also £0.2m has been added to the Legal budget to reflect the increased costs due to both the number and complexity of child protection cases. The budget has also been adjusted across this period for the £1.5m cost of holding 4-yearly County Council elections in 2017/18.

A.4.36. Savings of £1.1m are planned over the 5 year period. Of this £0.3m was achieved early during 2013/14. The remaining £0.8m is planned through the creation of an in-house advocacy team (£0.4m) within Legal and through disbanding the Legacy team (£0.4m) that transferred into the directorate during 2013/14.

A.4.37. There is a one-off £1m budget to mark the 800th celebration of the Magna Carta allocated to revenue (£0.3m) and capital (£0.7m).

A.4.38. Health and wellbeing with a gross budget of £0.7m transferred into the Chief Executive's Office from Adult Social Care during 2013/14 along with associated government grant funding of £0.5m.

A.4.39. The roll out of superfast broadband continues across the county with a capital budget of £9.8m within 2014/15 to finish installing within those areas not covered by a commercial installation.

A.4.40. The Assistant Chief Executive, Susie Kemp, took on responsibility for Public Health during 2013/14 and this is now being reported as part of the Chief Executive's Office.

Public Health 7

A.4.41. The Health and Social Care Act 2012 transferred substantial public health 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 2014/ 15 £25.6m grant allocation. This is designed to cover all the services that transferred from the PCT, however there remains £3.3m of funding 7
relating to Genito-Urinary Medicine (GUM) Services that were incorrectly excluded from the grant and we are therefore looking to recover this separately. Discussions will proceed on this basis, and a balanced budget position will be finalised within the resources available.

A.4.42. The budget plan assumes that savings will be made to the benefit of the council as a whole, by funding services which meet the Public Health Outcomes Framework in other directorates.

A.4.43. A further national risk also needs to be noted. It has emerged during the first year of public health responsibility that there is some ambiguity over whether local authorities have been appropriately funded for their responsibilities to pay prescription charges relating to public health services. This risk is estimated to be around £2m. The budget has been prepared assuming appropriate funding will be granted by the government, should charges for this be made to the council.

A.4.44. 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.4.45. For 2014/15 the budget will fund the council's in undertaking the five mandatory requirements from the Health and Social Care Act 2012:

- commissioning appropriate access to sexual health services
- commissioning the NHS Health Check programme
- commissioning the national child measurement programme
- ensuring that plans are in place to protect the population's health
- ensuring NHS commissioners receive the public health advice they need

A.4.46. In addition 15 non-mandatory services continue to be commissioned guided by local needs such as stop smoking, drug and alcohol misuse services, obesity initiatives and accidental injury prevention as outlined in the Health and Social Care Act 2012.

A.4.47. In 2015 responsibility for some health 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 NHS budget currently allocated to these services will come to Local Authorities. A newly formed transition group is progressing this transfer.

7

Chief Executive's Office (incorporating Public Health)

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Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
UK Government grants	(23,936)	(28,929)	(30,985)	(32,796)	(34,889)	(38,291)
Fees & charges	(196)	(209)	(213)	(218)	(222)	(227)
Joint working income	(21)	(22)	(22)	(23)	(23)	(24)
Reimbursements and recovery of costs	(3,469)	(413)	(420)	(427)	(435)	(444)
Total funding	**(27,622)**	**(29,573)**	**(31,640)**	**(33,464)**	**(35,569)**	**(38,986)**
Expenditure						
Service staffing	12,934	12,764	13,179	13,398	13,629	13,856
Service non-staffing	30,114	31,166	32,576	34,431	38,071	40,020
Total expenditure	**43,048**	**43,930**	**45,755**	**47,829**	**51,700**	**53,875**
Net budget supported by Council Tax and general government grants	**15,426**	**14,357**	**14,115**	**14,365**	**16,131**	**14,889**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(27,622)	(29,573)	(31,640)	(33,464)	(35,569)	(38,986)
Expenditure by service:						
Strategic Leadership	472	444	445	447	447	449
Emergency Management	499	531	541	549	560	570
Communications	1,892	1,820	1,851	1,883	1,917	1,950
Legal & Democratic Services	9,899	8,543	8,513	8,677	10,353	9,022
Policy & Performance	3,292	3,931	3,988	4,045	4,102	4,161
Magna Carta	0	300	0	0	0	0
Public Health	26,994	28,361	30,417	32,228	34,321	37,723
	43,048	**43,930**	**45,755**	**47,829**	**51,700**	**53,875**
Chief Executive's Office (incorporating Public health)	**15,426**	**14,357**	**14,115**	**14,365**	**16,131**	**14,889**

Undistributed to directorate

Income & Expenditure category summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
Total funding	0	**0**	**0**	**0**	**0**	**0**
Expenditure						
Service non-staffing			(10,000)	(16,669)	(29,455)	(50,718)
Total expenditure	0	**0**	**(10,000)**	**(16,669)**	**(29,455)**	**(50,718)**
Net Budget supported by Council Tax and general government grants	0	**0**	**(10,000)**	**(16,669)**	**(29,455)**	**(50,718)**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Public Service Transformation Network			(10,000)	(10,000)	(10,000)	(10,000)
Additional Savings				(6,669)	(19,455)	(40,718)
			(10,000)	**(16,669)**	**(29,455)**	**(50,718)**

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<u>Central Income & Expenditure</u>

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

Financial commentary

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A.4.48. 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 a sound financial standing both now and in the future.

A.4.49. The gross expenditure under this budget has reduced by £9.2m to £59.8m for the 2014/15 financial year. A significant part of this reduction, £8m, is in relation to the risk contingency budget. Over recent years the council has held a risk contingency budget to cover for savings and reductions not being made in full. The risk contingency budget has not had to be used despite the Council achieving nearly £200m of savings since 2010. As a result of a review of the appropriate level of contingency, this budget has been reduced in 2014-15 to £5m and has been removed thereafter completely. Any failure to make savings in future years will have to be met by reductions elsewhere.

A.4.50. In 2013/14 the budget included £1m in relation to the estimated cost of auto-enrolment of employees to the Pension Fund. The costs materialising from this have been less than originally estimated and so this £1m has been removed from the 2014/15 budget. The service revenue budgets reflect the cost to the Council of employees participating in the pension fund.

A.4.51. These reductions are partially offset by increases in relation to two 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 review was completed during 2013/14 and will increase the employer contributions by £2.5m from 2014/15.

A.4.52. For the remainder of the five year plan the central income and expenditure budgets increases to -£800m due mainly to the revenue financing of the council's capital programme alongside reductions in the anticipated levels of Government Funding.

Central Income and Expenditure

Draft Income & Expenditure category summary

	MTFP 2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding						
Local taxation - Council Tax	(550,420)	(568,849)	(578,083)	(592,517)	(607,297)	(622,469)
Local taxation - Business Rates	(43,863)	(45,525)	(47,165)	(48,917)	(50,834)	(52,876)
UK Government grants	(245,982)	(225,942)	(227,278)	(228,778)	(226,138)	(223,092)
Income from investment	(578)	(522)	(450)	(344)	(5,235)	(5,191)
Total funding	**(840,843)**	**(840,838)**	**(852,976)**	**(870,556)**	**(889,504)**	**(903,628)**
Expenditure						
Service staffing	426	447	324	298	298	298
Service non-staffing	68,615	60,668	56,173	63,827	63,621	63,856
Total expenditure	**69,041**	**61,115**	**56,497**	**64,125**	**63,919**	**64,154**
Net budget supported by reserves	**(771,802)**	**(779,723)**	**(796,479)**	**(806,431)**	**(825,585)**	**(839,474)**

Draft service summary

	2013/14 £000s	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Funding	(840,843)	(840,838)	(852,976)	(870,556)	(889,504)	(903,628)
Expenditure by service						
Protected Salaries & Relocation	426	447	324	298	298	298
Pensions Back-funding	8,606	11,139	11,332	11,529	11,731	11,938
Redundancy & Compensation	4,360	5,749	3,919	3,739	2,738	2,731
Impact of NI Changes				6,000	6,000	6,000
Corporate initiatives		250	-500	-1,000	-1,000	-1,000
Risk Contingency	13,000	5,000				
Changes to Pension Fund Contributions	1,000					
Land Drainage Precept	1,071	1,098	1,125	1,153	1,182	1,212
Contributions to/from reserves	3,597	843	-279	-1,083	-656	-637
Interest Payable	15,942	14,762	15,895	17,782	17,739	17,701
Minimum Revenue Provision	21,039	21,827	24,680	25,707	25,887	25,911
	69,041	61,115	56,497	64,125	63,919	64,154
Central Income and Expenditure	**(771,802)**	**(779,723)**	**(796,479)**	**(806,431)**	**(825,585)**	**(839,474)**

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Capital programme proposals 2014/15 to 2018/19

	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	TOTAL £000s
Overall Summary						
School basic need	105,011	69,012	71,963	49,106	32,187	327,279
Total recurring programmes	73,520	63,431	59,967	61,732	67,231	325,881
Total projects	38,241	32,013	17,680	10,989	7,429	106,351
Total Capital Schemes	**216,772**	**164,456**	**147,610**	**121,827**	**106,847**	**759,511**
Adult Social Care						
Recurring programmes						
Major adaptations	800	800	800	800	800	**4,000**
Total recurring programmes	**800**	**800**	**800**	**800**	**800**	**4,000**
Projects						
Wellbeing centres	105					**105**
In-house capital improvement scheme	250	250	250	250	250	**1,250**
User led organisation hubs	100	100	100			**300**
Total projects	**455**	**350**	**350**	**250**	**250**	**1,655**
Total Capital Schemes	**1,255**	**1,150**	**1,150**	**1,050**	**1,050**	**5,655**
Children, Schools & Families						
Recurring programmes						
Adaptations for children with disabilities	299	299	299	299	299	**1,495**
Foster carer grants	300	300	300	300	300	**1,500**
Schools devolved formula capital (ring-fenced grant)	2,231	2,231	2,231	2,231	2,231	**11,155**
Total recurring programmes	**2,830**	**2,830**	**2,830**	**2,830**	**2,830**	**14,150**
Total Capital Schemes	**2,830**	**2,830**	**2,830**	**2,830**	**2,830**	**14,150**
Customer & Communities						
Recurring programmes						
Fire vehicles & equipment reserve	2,695	3,698	1,104	1,408	1,820	**10,725**
Local committee allocations	385	385	385	385	385	**1,925**
Total recurring programmes	**3,080**	**4,083**	**1,489**	**1,793**	**2,205**	**12,650**
Total Capital Schemes	**3,080**	**4,083**	**1,489**	**1,793**	**2,205**	**12,650**

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	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	TOTAL £000s
Environment & Infrastructure						
Recurring programmes						
Highway maintenance	31,592	21,018	21,018	21,018	26,018	**120,664**
Bridge strengthening	1,956	1,956	1,956	1,956	1,956	**9,780**
Flooding & drainage	776	776	776	776	776	**3,880**
Local transport schemes	4,000	4,000	4,000	4,000	4,000	**20,000**
Maintenance at closed landfill sites	416	100	100	100	100	**816**
Rights of Way and byways	85	85	85	85	85	**425**
Road safety schemes	200	200	200	200	200	**1,000**
Safety barriers	256	256	256	256	256	**1,280**
Traffic signal replacement	550	550	550	550	550	**2,750**
Economic regeneration projects	1,000	1,000	1,000	1,000	1,000	**5,000**
Highways Vehicle Replacement	200	200	200	200	200	**1,000**
Total recurring programmes	**41,031**	**30,141**	**30,141**	**30,141**	**35,141**	**166,595**
Projects						
Walton Bridge-ring fenced grant	444					**444**
Basingstoke Canal Improvements	500	500	500			**1,500**
Local sustainable transport fund grant	50					**50**
Local sustainable transport fund grant (large bid)	3,335					**3,335**
CIL funded schemes	378	2,002	4,576	5,354	5,479	**17,789**
S.106 funded schemes	2,500	1,700	1,700	1,700	1,700	**9,300**
Total projects	**7,207**	**4,202**	**6,776**	**7,054**	**7,179**	**32,418**
Total Capital Schemes	**48,238**	**34,343**	**36,917**	**37,195**	**42,320**	**199,013**
Chief Executive Office						
Recurring programmes						
Community building grant scheme	150	150	150	150	150	750
Total recurring programmes	**150**	**150**	**150**	**150**	**150**	**750**
Projects						
Magna Carta	700					700
Economic Development-Broadband	9,792					9,792
Total projects	**10,492**	**0**	**0**	**0**	**0**	**10,492**
Total capital schemes	**10,642**	**150**	**150**	**150**	**150**	**11,242**

	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	TOTAL £000s
Business Services						
School basic need	105,011	69,012	71,963	49,106	32,187	**327,279**
Recurring programmes						
Carbon reduction - Schools [1]	3,332	3,332	3,332	3,332	3,332	**16,660**
Schools - Disability Discrimination Act	456	466	477	487	497	**2,383**
Schools capital maintenance, including children's centres	10,328	10,328	10,328	10,328	10,328	**51,640**
Carbon reduction - Corporate	1,186	1,212	1,239	1,264	1,289	**6,190**
Fire risk assessments	365	373	382	390	398	**1,908**
Minor works/disability access	178	182	186	190	194	**930**
Non schools structural maintenance	5,526	5,604	5,683	5,797	5,913	**28,523**
IMT Equipment	2,000	2,500	2,500	2,500	2,500	**12,000**
IT Equipment Replacement Reserve	2,258	1,430	430	1,730	1,654	**7,502**
Total recurring programmes	**25,629**	**25,427**	**24,557**	**26,018**	**26,105**	**127,736**
Projects						
Portesbury SEN School	10,589	2,756	210			**13,555**
Cultural Services		1,250				**1,250**
Fire Station reconfiguration	600	4,500	900	3,500		**9,500**
Fire Stations minor works	200	200				**400**
Guildford Fire Station	560					**560**
Merstham Library		200	1,000			**1,200**
Fire training tower replacement	500					**500**
SEN strategy	750	2,250	7,044			**10,044**
Short Stay Schools		2,000				**2,000**
Youth Transformation	200					**200**
Projects to enhance income	250	1,455				**1,705**
Projects to re-provision and deliver capital receipts	1,510	1,540				**3,050**
Telephones Unicorn Network (BT)	150	150	140	185		**625**
School Kitchens	983	982				**1,964**
Trumps Farm Solar Panels		3,800				**3,800**
Land Acquisition for Waste	850					**850**
Merstham Youth		1,100				**1,100**
Expansion of Coroners Court	152					**152**
Gypsy Sites		2,653				**2,653**
Reigate Priory School	500	500	500			**1,500**
Replace aged demountables	1,685	985				**2,670**
Joint Public Sector Property Projects		1,140	760			**1,900**
Adults Social Care Infrastructure Grant	608					**608**
Total projects	**20,087**	**27,461**	**10,554**	**3,685**	**0**	**61,786**
Total capital schemes	**150,727**	**121,900**	**107,074**	**78,809**	**58,292**	**516,801**

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Reserves & balances policy statement

Introduction

A.6.1. 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.

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Statutory position

A.6.2. 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.6.3. 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.6.4. This policy statement is concerned with general balances and earmarked reserves as defined above.

Purpose of balances and reserves

A.6.5. The Council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event.

A.6.6. 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.6.7. While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future known or predicted liabilities.

Level of balances and reserves

A.6.8. In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. between £16m to £20m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The Council brought forward £31.8m general balances at 1 April 2013. The Council has applied £11.9m to support the 2013/14 budget, leaving £19.9m. Going into 2014/15 the Chief Finance Officer recommends the level of general balances remains the same. This approach is considered prudent when combined with the proposal to remove the risk

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contingency from within the revenue budget, leaving general balances to provide mitigation against the risk of non-delivery of service reductions & efficiencies in 2014/15.

A.6.9. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty.

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A.6.10. In this context the Chief Finance Officer report on the budget for 2014/15 recommends:

- holding general balances to £19.9m, combined with;
- reducing the risk contingency within the revenue budget to £5m (from £13m in 2013/14) to mitigate against the risk of non-delivery of the service reductions & efficiencies included in budget proposals.

Proposed policy for 2014/15

A.6.11. 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.6.12. 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.

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Projected earmarked reserves and general balances 2013/14 and 2014/15

	Brought forward 1 Apr 2013 £m	Forecast 31 Mar 2014 £m	Proposal to balance 2014/15 budget £m	Forecast 1 Apr 2014 £m
Earmarked revenue reserves				
Investment Renewals Reserve	13.3	10.6		10.6
Equipment Replacement Reserve	3.1	2.8	-1.8	1.0
Vehicle Replacement Reserve	5.1	5.2		5.2
Waste Site Contingency Reserve	0.3	0.3	-0.3	0.0
Budget Equalisation Reserve	6.1	23.5	-20.1	3.4
Financial Investment Reserve	1.6	1.6		1.6
Street Lighting PFI Reserve	5.8	6.2		6.2
Insurance Reserve	7.4	8.2		8.2
Severe Weather Reserve	5.0	0.0		0.0
Eco Park Sinking Fund	8.0	11.6		11.6
Investment Reserve	0.0	0.0		0.0
Revolving Infrastructure & Investment Fund	19.5	20.3		20.3
Child Protection Reserve	3.6	2.2		2.2
Interest Rate Reserve	3.2	4.7	-3.7	1.0
Economic Downturn Reserve	4.4	6.0		6.0
Business Rates Appeals Reserve	0.0	0.0		1.3
General Capital Reserve	7.6	4.6		4.6
Total earmarked revenue reserves	**94.0**	**107.8**	**-25.9**	**83.2**
General balances	**31.8**	**19.9**	**0**	**19.9**

Note: Council approved use of £11.9m general balances to support the 2013/14 budget

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Public budget survey 2012/13 using SIMALTO modeling

Headline findings

A.8.1. 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.8.2. 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.8.3. The full set of data results from the survey can be found online at http://www.surreycc.gov.uk/your-council/consultations

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Detailed results

A.8.4. Figure A.8:1 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.

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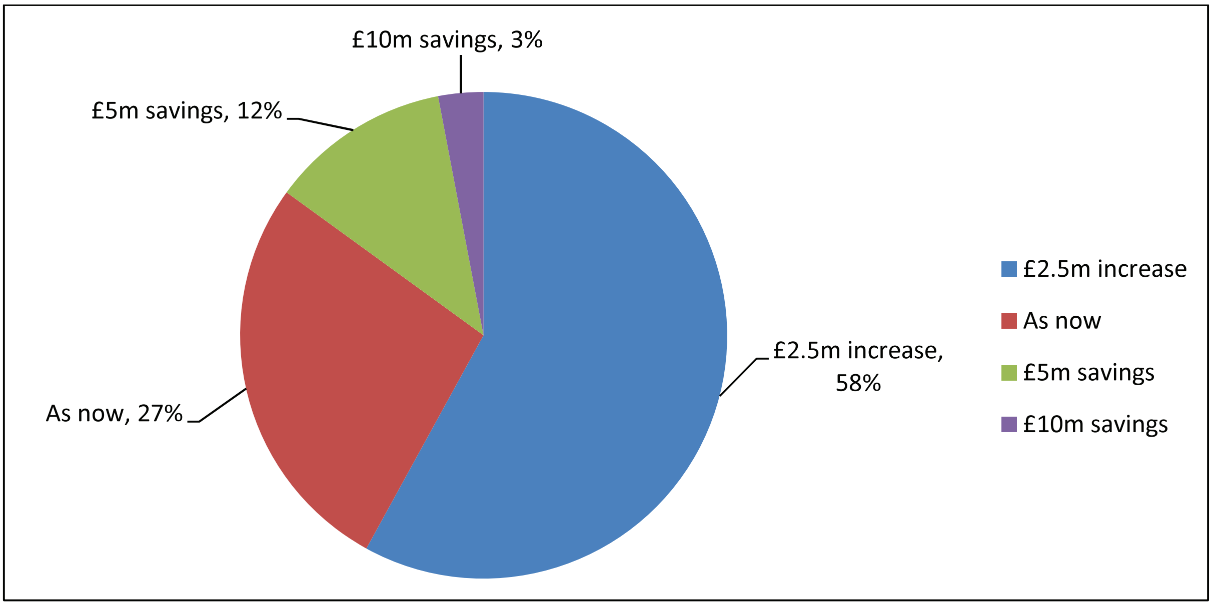
Figure A.8:1: Residents' budget scenario choice once informed of impact of their spending decisions (face-to-face sample)



A.8.5. Table A.8.1 shows residents' consensus optimum service configurations for different 7
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 7
it is currently.

A.8.6. 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 A.8.1: 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

7 A.8.7. Table A.8.2 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
7 bring the number of fire engines back up. And so on.

Table A8.2: 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.8.8. 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

7 **RESEARCH METHODOLOGY**

Background

A.8.9. 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
7 consultations previously in 2005 and 2009. It has also been used by over 90 local authorities in the UK and worldwide.

A.8.10. 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 or cost more than others, and residents (councils) cannot spend the same money twice.

Method

A.8.11. The council prepared a matrix grid of 14 different services on which the level of service provision might be changed from 2012 to 2013[1.] 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.8.12. 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

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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.

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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.8.13. 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.8.14. When comparing the results between both samples, there are only very slight differences between their preferences.

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Treasury management strategy statement and prudential indicators 2014/19

Key issues and decisions

To set the Council’s prudential indicators for 2014/15 to 2018/19, approve the minimum revenue provision (MRP) policy for 2014/15 and agree the treasury management strategy for 2014/15.

Introduction

2.1. Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changes in market conditions, regulation, and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. This annex sets out updated versions of the Council's treasury management strategy statement and Appendix B.1 sets out the Council's treasury management policy statement.

2.2. 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 2014/15, no significant changes are proposed to the treasury management strategy reflecting the current economic climate and Council’s risk appetite. The proposed position can be summarised as follows.

- As a result of unprecedented low investment interest rates, and in order to help reduce counterparty risk, reduce the minimum cash balance further to £47m. However, officers will keep a watching brief on the financial markets with a view to reversing the current internal borrowing policy, if the market conditions change.
- Maintain the current counterparty list of institutions with which the Council will place short term investments, with the approved lending list reflecting market opinion as well as formal rating criteria.
- Maintain the monetary limit for the two instant access accounts at £60m since both have nationalised status and therefore minimum risk. That will be reassessed in the event that either institution has been fully refloated on the market, thus falling out of the Government’s protection umbrella.
- Approve the Prudential Indicators in Appendix B.2.
- Maintain the Schedule of Delegation as set out in Appendix B.4.
- Maintain the Council’s minimum revenue provision policy as set out in Appendix B.7.

Background

2.3. 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, 7 providing adequate security and liquidity initially before considering investment return.

2.4. 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
7 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.

2.5. The Chartered Institute Public Finance and Accountancy (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

2.6. 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 outturn:

- treasury management policy, strategy statement and Prudential indicators report (this report), consisting of:
    - the capital plans (including prudential indicators);
    - a minimum revenue provision (MRP) policy, indicating how the Council intends to fulfil its duty to make a prudent provision towards the reduction in the overall borrowing requirement,
    - 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, consisting of:
    - 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.

2.7. The treasury management policy, strategy statement and prudential indicators report is required to be adequately scrutinised before being recommended to the Full County Council. This role is undertaken by the Audit and Governance Committee.

Treasury management strategy for 2014/15

2.8. The strategy for 2014/15 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.

2.9. 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

2.10. The Council uses Capita Asset Services as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the Councilat all times and will ensure that undue reliance is not placed upon our external service providers.

2.11. 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

2.12. 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. Capita Asset Services provides daily, weekly and quarterly newsletters and update meetings are held with Capita Asset Services twice a year.

2.13. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training.

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This especially applies to members responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

Capital prudential indicators 2014/15 to 2018/19

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2.14. 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.

2.15. 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. The prudential indicators in this report are calculated for the whole medium term financial plan (MTFP) period. 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.

2.16. The prudential indicators are set out in Appendix B2.

Borrowing

2.17. The capital expenditure plans set out in Appendix A5 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 appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

2.18. Table 2.1 summarises the Council’s treasury portfolio position at 31 March 2013, with forward projections. The table shows the actual external debt 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 2.1: Current portfolio position

External debt	2012/13 Actual £m	2013/14 Projected £m	2014/15 ← Estimated £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 → £m
Capital Finance Requirement	**560**	**659**	**770**	**808**	**831**	**841**	**837**
Less Other Long Term Liabilities	-57	-70	-80	-77	-72	-67	-63
Borrowing Requirement	503	589	690	731	759	774	774
Actual External Debt at 31 March	314	246	301	334	346	354	354
Under/(over) borrowing	**189**	**343**	**389**	**397**	**413**	**420**	**420**

2.19. 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 2014/15 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.

2.20. 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

2.21. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Table 2.2 provides Capita's central view on interest rates. For clarification, the Public Works Loans Board (PWLB) certainty rate is a 0.20% reduction to local authorities who provide the required information on their plans for long-term borrowing and associated capital spending. Appendix B3 sets out a summarised report on global economic outlook and the UK economy.

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Table 2.2: Prospects for interest rates

Annual average	Bank rate %	PWLB borrowing rates (including certainty rate adjustment) 5 year %	25 year %	50 year %
December 2013	0.50	2.50	4.40	4.40
March 2014	0.50	2.50	4.40	4.40
June 2014	0.50	2.60	4.50	4.50
September 2014	0.50	2.70	4.50	4.50
December 2014	0.50	2.70	4.60	4.60
March 2015	0.50	2.80	4.60	4.70
June 2015	0.50	2.80	4.70	4.80
September 2015	0.50	2.90	4.80	4.90
December 2015	0.50	3.00	4.90	5.00
March 2016	0.50	3.10	5.00	5.10
June 2016	0.75	3.20	5.10	5.20
September 2016	1.00	3.30	5.10	5.20
December 2016	1.00	3.40	5.10	5.20
March 2017	1.25	3.40	5.10	5.20

2.22. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors: services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below Consumer Price Index (CPI) inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent.

2.23. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

2.24. The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are major concerns as to how these will be managed over the next few years as levels of government debt to GDP ratios, in some countries, continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to indicate the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2014/15 and beyond.
- Borrowing interest rates have risen during 2013 and are on a rising trend, albeit slow. The policy of avoiding new borrowing by running down spare cash balances has served the Councilwell over the last few years. Looking forward, this will be carefully monitored to avoid incurring unnecessarily high borrowing costs, as the council does reach the point of needing to borrow to finance new capital expenditure and/or to refinance maturing debt, in the near future.
- 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.

Treasury Management Delegation

2.25. The Treasury Management Scheme of Delegation is set out in Appendix B.4.

Borrowing strategy

2.26. 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 December 2013, the level of under-borrowing amounted to around £250m. 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.

2.27. Against this background and the risks within the economic forecast, caution will be adopted with the 2014/15 treasury operations. The Chief Finance Officer will monitor interest rates and gilt yields in financial markets, and adopt a pragmatic approach to changing circumstances.

2.28. The crucial question is 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 returns 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 cost of borrowing.

2.29. How the current internal borrowing gap will eventually be bridged will depend on market projections over 2014/15 and beyond and officers will take advice from the

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Council's treasury consultant as to the future directions of the market over the next year. In the current low interest rate environment, which is not expected to change in the immediate short term, the Council remains well placed to take advantage of its internal borrowing strategy in terms of funding capital expenditure from reserves, and then refinancing at the optimum time over the medium term future. In order to facilitate this, the Full County Council agreed to reduce the minimum cash level from £135m to £49m at its meeting on 12 February 2013.

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2.30. There remains 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.

2.31. There are two possible risks in 2014/15:

- The risk of a 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 instance, long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- The risk of a sharper rise in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate of US tapering of asset purchases, or in world economic activity, or in inflation expectations. In this instance, the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

2.32. The UK is still 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 has recently returned to the Bank of England's Monetary Policy Committee's (MPC's) target of 2%, any deterioration, i.e., a rise in 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) 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.

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

Treasury management limits on activity

2.34. 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.

2.35. Cabinet is asked to recommend the Council approves the treasury indicators and limits in Table 2.3.

Table 2.3: Treasury indicators and limits

	2014/15 to 2018/19		**2013/14 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%	0	0%
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	4%
10 years and above	25%	100%	237	96%
Total external borrowing			**237**	**100%**

Policy on borrowing in advance of need

2.36. 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

2.37. 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).

2.38. 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).

2.39. 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. Such a decision will be dependent on the level of the premium levied on the redemption.

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

Annual investment strategy

Investment policy

2.41. 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, in line with this guidance.

2.42. 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 Capita Asset Services ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

2.43. 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.

2.44. 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, e.g. Financial Times, share prices and other information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. 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.

2.45. 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. No changes to limits and criteria are recommended, given the Council’s desired prudent risk level. 7

2.46. 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. 7

Creditworthiness policy

2.47. 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).

2.48. 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.

2.49. 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 Capita Asset Services on all active counterparties that comply with the criteria below.

2.50. 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. 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 Debt Management Account Deposit Facility (DMADF)
- Local authorities, parish councils etc
- Supranational institutions
- Enhanced Cash/Corporate bonds pooled funds: AAAs1 (or equivalent)

Country and Sector Considerations

2.51. 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

2.52. 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. 7

Time and monetary limits applying to investments

2.53. All investments will be limited to 364 days. Further internal restrictions may be applied on recommendations from Capita Asset Services. 7

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

Country limits

2.55. 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, which has seen its AAA rating reduced.

In-house funds

2.56. 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

2.57. The Council will seek to maximise its return on investments by retaining its 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

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

Investment returns expectations

2.59. The Bank Rate is forecast by Capita Asset Services to remain unchanged at 0.5% before starting to rise from quarter 4 of 2014. Capita Asset Services forecasts the financial year ends (March) as:

2013/14	2014/15	2015/16	2016/17
0.50%	0.50%	0.50%	1.25%

2.60. 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.

7

2.61. 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:

7

2014/15	0.50%
2015/16	0.50%
2016/17	1.00%
2017/18	1.25%

Investment treasury indicator and limit

2.62. 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.

2.63. The Council is asked to approve the treasury indicator and limit.

Table 2.4: Maximum principal sum invested >364 Days

	2014/15 % of portfolio	2015/16 % of portfolio	2016/17 % of portfolio
Principal sums invested > 364 days	0	0	0

2.64. 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.

2.65. 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

2.66. 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.

2.67. 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.

2.68. The current position is that 55% 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 2.5.

Table 2.5: 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%	5,520	4,480
		20,000		13,905	6,095

2.69. Previous provision has been made within the Council's accounts for an irrecoverable amount regarding the Icelandic bank debt. It is anticipated that the position could be finally ascertained and closed at some juncture in 2014 with a final irrecoverable amount decided and included in the Council's accounts.

Investment risk benchmarking

2.70. 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

2.71. 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

2.72. 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 is recommended to be set at £47m 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

2.73. 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.

Additional Portfolio of Investments

2.74. On 23 July 2013, Cabinet approved a portfolio of investments, covering investment in property and assets and in new models for service delivery. This supports the Council's stated intentions of enhancing financial resilience in the longer term. These arrangements will allow for investment in schemes that will support economic growth in Surrey provided that these schemes are consistent with the Investment Strategy outlined in the Cabinet report of 23 July 2013.

2.75. The strategic approach to investment is based upon the following:

- prioritising use of the Council's cash reserves and balances to support income generating investment through a Revolving Investment and Infrastructure Fund (the Investment Fund) to meet the initial revenue costs of funding initiatives that will deliver savings and enhance income in the longer term (some of which may be used to replenish the Investment Fund);
- using the Investment Fund to support investments in order to generate additional income for the council that can be used to provide additional financial support for the delivery of functions and services;
- investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council;
- investing in schemes that have the potential to support economic growth in the county;
- retaining assets where appropriate and undertaking effective property and asset management, and if necessary associated investment, to enhance income generation.

Performance indicators

2.76. 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.

2.77. These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2014, and the Treasury Management Annual Report for 2014/15.

End of year investment report

2.78. 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

2.79. The Council does not currently employ an external fund manager.

Minimum revenue provision

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

Lead/contact officer:

Treasury	Phil Triggs, Strategic Manager, Pension Fund & Treasury 020 8541 9894
Capital	Wai Lok, Senior Accountant 020 8541 7756

Appendices:

Appendix B.1	Treasury Management Policy
Appendix B.2	Prudential indicators – summary
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

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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

7 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
7 such investments and limits on the amount of cash that may be invested with any one organisation.

Prudential indicators

Capital expenditure

B.2.1. Table B2.1 sets out actual and estimated capital expenditure and its funding for 2012/13 to 2018/19. 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 2012/13 - 2018/19

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Actual	**Projected**	**← - - - - - - - - - - Estimated - - - - - - - - - - →**				
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Capital expenditure	143	219	217	164	149	122	106
Financed by:							
Government grants	107	105	82	90	91	77	74
Capital receipts	1	0	0	0	0	0	0
Revenue, reserves and third party contributions	7	4	8	9	9	12	12
Net financing need for the year*	**28**	**110**	**127**	**65**	**49**	**33**	**20**

*Capital expenditure to be met by borrowing

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

B.2.2.Table B2.2 sets out the Council's capital financing requirement (CFR). The CFR represents capital expenditure funded by external debt and internal borrowing and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR thus measures an authority's underlying need to borrow for a capital purpose. Any capital expenditure which has not been funded from locally determined resources will increase the CFR. The CFR will reduce by the minimum revenue provision (MRP).

B.2.3 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 underlying need to borrow.

Table B2.2: Capital financing requirement (CFR) 2012/13 to 2018/19

	2012/13 Actual £m	**2013/14 Projected £m**	**2014/15 ← £m**	**2015/16 - - - £m**	**2016/17 Estimated £m**	**2017/18 - - - £m**	**2018/19 → £m**
Opening CFR	541	560	659	770	808	831	841
Add new borrowing:							
MRP and other financing movements*	-9	-11	-16	-27	-26	-23	-24
Net Financing Need**	28	110	127	65	49	33	20
Closing CFR	560	659	770	808	831	841	837
Total CFR movement	19	99	111	38	23	10	-4

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

The Council's gross borrowing requirement

B.2.4. Table B2.3 sets out the Council's gross debt compared to the CFR. Gross borrowing refers to an authority's total external borrowing. The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the proceeding year plus the estimates for the following two financial years. This allows some flexibility for early borrowing in advance of need, but ensures that borrowing is not undertaken for revenue purposes.

Table B2.3: Gross borrowing requirement 2012/13 to 2018/19

	2012/13 Actual £m	**2013/14 Projected £m**	**2014/15 ← £m**	**2015/16 - - - £m**	**2016/17 Estimated £m**	**2017/18 - - - £m**	**2018/19 → £m**
Gross borrowing	314	246	301	334	346	354	354
CFR	**560**	**659**	**770**	**808**	**831**	**841**	**837**

The Council's operational boundary

B.2.5. 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.

The operational boundary has been set to ensure there is sufficient headroom to borrow up to the Authority's CFR if the cost of carry or interest rate environment are expected to change during the next 12 months to the extent that makes this an appropriate action.

Table B2.4: Operational boundary 2012/13 to 2018/19

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Actual	**Projected**	**← - - - - - - - - - -**		**Estimated**		**- - - - - - - - - - →**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	523	530	719	753	768	758	751
Other long term liabilities	69	82	92	88	84	79	75
Total	**592**	**612**	**811**	**841**	**852**	**838**	**826**
Actual external debt	314	246	301	334	346	354	354

<u>The Council's authorised limit</u> 7

B.2.6. 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 7 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.

<u>Table B2.5: Authorised limit for external debt 2012/13 to 2018/19</u>

	2012/13	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Actual	**Projected**	**← - - - - - - - - - -**		**Estimated**		**- - - - - - - - - - →**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Borrowing	582	594	797	833	850	842	835
Other long term liabilities	69	82	92	88	84	79	75
Total	**651**	**676**	**889**	**921**	**934**	**921**	**910**
Actual external debt	314	246	301	334	346	354	354

7 **Ratio of financing costs to net revenue stream**

B.2.7. 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
7 include current and future commitments based on the capital programme.

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

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	Projected	**← - - - - - - - - - -**		**Estimated**		**- - - - - - - - - - →**
Ratio of financing costs to net revenue stream	4.46%	4.63%	5.19%	5.50%	4.48%	4.85%

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

B.2.8. 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 all future years.

Table B2.7: Estimated incremental impact of capital investment decisions on council tax 2014/15 to 20187/19

	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Band D Council Tax	£15.37	£28.23	£33.25	£35.05	£34.70

These prudential indicators show the full revenue costs of the proposed capital programme and do not reflect the impact of the current internal borrowing strategy which has the effect of reducing the actual finance costs as the external borrowing entered into is reduced.[1]

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

[1] The revenue budgets for interest paid, received and the minimum revenue provision do reflect the internal borrowing and reduced cash balances strategies.

Global economic outlook and the UK economy 7

The global economy

B.3.1. The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The Eurozone (EZ) finally escaped from seven quarters of recession in Q2 of 2013 but growth is 7 likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) in Greece of 176%, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth, i.e., these debt ratios are continuing to deteriorate.

B.3.2. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet Eurozone targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also result in an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks. It looks increasingly likely that Slovenia will be the next country to need a bailout.

B.3.3. Sentiment in financial markets has improved considerably during 2013 as a result of a firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under Eurozone imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition to implement a Eurozone imposed austerity programme and undertake overdue reforms to government and the economy.

The USA

B.3.4. The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y and 2.8% in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March 2013, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its $85bn per month asset purchases programme of quantitative easing (QE). However, it is expected that this level of support will start to be tapered down early in 2014. It has also pledged

7 not to increase the central interest rate until unemployment falls to 6.5%; this is unlikely to happen until early 2015.

B.3.5. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore,
7 been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China

B.3.6. Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan

B.3.7. The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from the bog of stagnation and deflation, and so help to support world growth. The fiscal challenges though are huge: the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

The United Kingdom

B.3.8. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth stongly rebounded in 2013, Q1 (+0.3%), Q2 (+0.7%) and Q3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has therefore upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8% with 2015 unchanged at 2.3%. The November Report stated that:

B.3.9 *In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent up demand. But significant headwinds, both at home and abroad, remain and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC’s intention to maintain the* *exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth.*

B.3.10. Growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

Forward guidance

B.3.11. The Bank of England issued forward guidance in August 2013 which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey/ILO, i.e., not the claimant count measure) has fallen to 7.0% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly Q4 2014 in November 2013. The UK unemployment rate currently stands at 2.5 million, i.e., 7.6 % on the LFS/ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels.

B.3.12. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three-year plus horizon. The recession since 2007 was notable for how unemployment did not rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

Credit conditions

B.3.13. While the Bank Rate has remained unchanged at 0.5% and QE has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases although levels are still far below the pre-crisis level. The FLS is also due to be bolstered by the second phase of Help to Buy aimed at supporting the purchase of second hand properties, which is now due to start in earnest in January 2014. While there have been concerns that these schemes are creating a bubble in the housing market, the house price increases outside of London and the south east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

7 **Inflation**

B.3.14. Inflation has fallen from a peak of 3.1% in June 2013 to 2.0% in December 2013.

<u>AAA rating</u>

B.3.15. The UK has lost its AAA rating from Fitch and Moody's but that has caused little
7 market reaction.

<u>Capita Asset Services forward view</u>

B.3.16. Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets, i.e., equities or safer bonds.

B.3.17. There could well be volatility in gilt yields over the next year as financial markets await the long expected start of tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, at the time of writing, the political deadlock and infighting between Democrats and Republicans over the budget, and the raising of the debt limit, has only been kicked further down the road, rather than fully resolved. Solving these issues could have a significant effect on gilt yields during 2014.

B.3.18. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities. The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last as it remains exposed to vulnerabilities in a number of key areas.

B.3.19. The interest rate forecasts in this strategy are based on an initial assumption that there will not be a major resurgence of the Eurozone debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where Eurozone institutions and governments eventually do what is necessary, but only when all else has been tried and failed. Under this assumed scenario, growth within the Eurozone will be tepid for the next couple of years and some Eurozone countries experiencing low or negative growth will, over that time period, see a significant increase in total government debt to GDP ratios.

B.3.20. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one or more countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the Eurozone debt crisis. While the ECB has adequate resources to manage a debt crisis in a small Eurozone country, if one or more of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to Eurozone politicians.

B.3.21.Downside risks currently include: 7

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are up to maximum on borrowing and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014. 7
- Weak growth or recession in the UK's main trading partners, the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the US Federal Budget and raising of the debt ceiling.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates, e.g., Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable; this will cause major difficulties in implementing austerity measures and a programme of overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries, e.g., Cyprus and Portugal, which could also generate safe haven flows into UK gilts, especially if it looks likely that one or more countries will need to leave the Eurozone.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks, e.g., Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

B.3.22.The potential for upside risks to UK gilt yields and PWLB rates include:

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term, an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

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Treasury management scheme of delegation

<u>Full Council</u>

B.4.1 Approval of annual strategy.

<u>Audit & Governance Committee</u>

B.4.2. Receiving and reviewing regular monitoring reports.

<u>Chief Finance Officer</u>

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.

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

- Policy documentation:

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  - 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's
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's.

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 one of 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.

- 7 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

7 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: part 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 them being nationalised or part nationalised by the UK government.

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) £60m (per call account) is made available to invest in overnight high interest call accounts with RBS and Lloyds TSB. This will be maintained while they remain part nationalised.

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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).

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- 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 1 January 2014

	Fitch Ratings				Moody's Ratings			S&P Ratings	
	S/T	L/T	Viab.	Supp	S/T	L/T	Str.	S/T	L/T
UK		AA+				AA1			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+	A2	A-
Nationwide Building Society	F1	A	A	1	P1	A2	C	A1	A
Barclays	F1	A	A	1	P1	A2	C-	A1	A
Santander (UK)	F1	A	A	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	AA1	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
Norway		AAA				AAA			AAA
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	A1	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

<u>AAA</u>

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

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Minimum revenue provision (MRP) policy statement

B.7.1. 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.7.2. 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 valuer 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
Economic regeneration	1% or 0% MRP charged.

B.7.3. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

B.7.4. 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.7.5. 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.

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B.7.6. 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.

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SURREY
COUNTY COUNCIL

Council Overview and Scrutiny Committee
30 January 2014

BUDGET MONITORING REPORT FOR DECEMBER 2013 (PERIOD 9)

Purpose of the report: This report presents the revenue and capital budget monitoring up-date for December 2013 with projected year-end outturn.

Introduction:

1. The December 2013 month end budget report will be presented to the cabinet meeting on Tuesday 4 February 2014.
2. Annex 1 to this report sets out the council's revenue and capital forecast of the year-end outturn at the end of December.
3. The forecast is based upon current year to date income and expenditure and projections using information available at the end of the month. The report provides explanations for significant variations from the budget.

Recommendation:

That the Committee considers the budget monitoring report and makes recommendations to the Cabinet as appropriate.

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Budget monitoring period 9 2013/14 (December 2013)

Summary recommendations

Cabinet is asked to note the following.

1. Forecast revenue budget for 2013/14 is underspend (£0.9m) on services, adding the unused £13m risk contingency brings this to £13.9m overall underspend (paragraph 1).
2. Forecast ongoing efficiencies and service reductions achieved by year end is £60.3m (paragraph 74).
3. Forecast capital budget position for 2013/14 is -£22.3m on services and +£7.0m overall (paragraphs 79 to 84).
4. Management actions to mitigate overspends appear throughout this report.
5. Quarter three balance sheet, reserves, debt and treasury report (paragraphs 85-93)
6. debt written off during quarter three totals £583,828 (paragraph 92)

Revenue summary

The Council set its budget for the 2013/14 financial year in the context of the Government's continuing austerity programme, with reducing public spending and rising demand for services. In setting a balanced 2013/14 budget, the Council developed plans for efficiencies and service reductions totalling £68m and approved the use of £11m earmarked reserves and £12m general balances. In developing its five year Medium Term Financial Plan (MTFP) for 2013-18, the Council approved plans to achieve efficiencies and service reductions totalling £167m, following achievement of £225m efficiencies from 2009 to 2012. Cabinet carried out a review of the MTFP after the first quarter of 2013/14. The review identified additional savings services could realistically deliver for 2014-18 of £56.0m (£19.5m in 2014/15).

The Local Government Peer Review of March 2013 recognised the council's longer term view and multi-year approach to financial management. As part of this approach, Cabinet approved carry forward of £7.9m underspend from 2012/13 to fund projects and commitments in 2013/14.

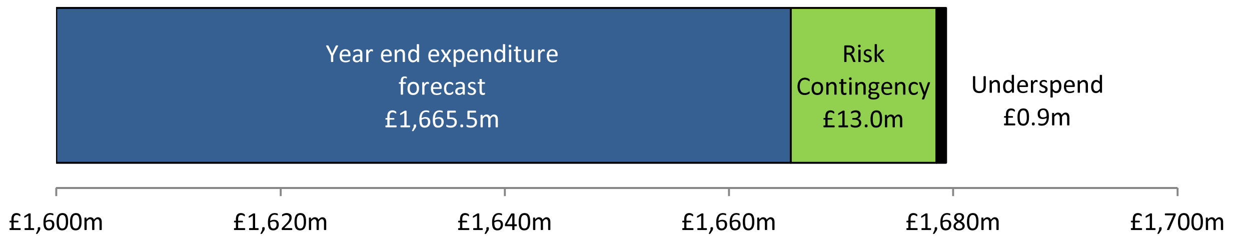
The financial strategy has a number of long term drivers to ensure sound governance, managing the Council's finances and compliance with best practice.

- 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 2014/15 budget by maintaining a prudent level of general balances (£19.9m in 2014/15) and applying reserves as appropriate (£13.0m of the unused budget risk contingency from 2013/14 plus £12.9m of other reserves).
- Continue to maximise our investment in Surrey

Keeping the call on the council tax payer to a minimum

At the end of December 2013, services forecast an underspend of £0.9m year end position (balanced at the end of November). In addition, the £13m risk contingency is not expected to be used and will increase reserves and balances. The council will continue to seek further savings this year in line with the corporate strategy of using our resources responsibly to plan for future years of financial uncertainty.

Figure 1: Year end forecast revenue position



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The small underspend forecast position on services is a net result of: Adult Social Care (ASC) slippage implementing its innovative Family, Friends & Community Support strategy, offset by draw down of contingent funding (+£5.8), Children's Services' volume pressures offset by School & Learning (+£0.4m); plus flood repairs, waste management pressure and support for local bus routes (+£2.5m); offset by underspends within Business Services (-£4.6m), Customer & Communities (-£0.7m), Chief Executive's Office (-£0.5m) and Central Income & Expenditure (-£3.7m).

Continuously driving the efficiency agenda

A key objective of MTFP 2013-18 is to increase the council's overall financial resilience, including reducing reliance on government grants in the long term. MTFP 2013-18 includes savings and reductions totalling £68.3m in 2013/14 (£167m for 2013-18). At the end of December 2013, services forecast to achieve £60.3m efficiencies by year end. This under-achievement is due to slippage in ASC's innovative Family, Friends and Community Support (FF&C) strategy.

The total savings from efficiencies includes £10.1m ASC savings re-categorised as one-off measures. These savings, budgeted for 2013/14, will need to be made in 2014/15.

Capital summary

Maximising our investment in Surrey

A key element of Surrey County Council's corporate vision is to create public value by improving outcomes for Surrey's residents. This vision is at the heart of the capital programme and the MTFP 2013-18 set a £699m five year capital programme. Following cabinet approved of re-profiling the 2012/13 carry forward budgets and virements, the revised 2013/14 capital budget is £193.4m.

At the end of December 2013, services forecast overall capital spending against budget will be -£22.3m underspent by year end (-£2.7m at the end of November). This is mainly due to delays in acquiring land for waste schemes (-£5.9m); from archaeological finds at Guildford Fire Station (-£3.0m); replacement of boiler specifications (-£2.0m), deliveries for the fire vehicle and equipment replacement programme (-£1.6m); safe cycle bid (-£1.5m), rephasing some short stay schools (-£1.2m); the school basic need programme (-£5.4m), and obtaining planning permission to improve a travellers' site (-£1.1m). There are other smaller underspends in the capital programme within Adult Social Care (-£0.2m), Children Schools and Families (-£0.2m), Customer & Communities (-£0.5m), Environment & Infrastructure (+£0.6m) and Business Services (-£1.5m).

In addition, the council is investing £29.3m in long term capital investment assets.

Reserves & balances summary

Prudent level of general balances

As explained in report on the budget and medium term financial plan 2014-19 also on this agenda the Council has considered prudent a minimum level of available general balances of between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. between £16m to £20m. The Council brought forward £19.9m balances at 1 April 2013 and expects to carry the same amount forward on 31 March 2014.

The Council's balance sheet shows a £16m increase in net liabilities largely due to a fall in long-term assets as 24 schools converted to academy status and have moved off the balance sheet.

Revenue budget

1. The updated revenue budget for the 2013/14 financial year, including schools, is supported by £23.0m of earmarked and general reserves, plus £7.9m revenue carried forward from 2012/13 to fund committed 2013/14 expenditure. The current projection for services' net revenue budget is -£0.9m underspent. This excludes the £13m risk contingency in the 2013/14 budget. Overall the year end revenue budget forecast is -£13.9m underspend. (-£13.0m at the end of November).

2. The year to date budget variance at the end of December is -£19.5m underspend. This is predominately due to:
   - Dedicated Schools Grant – nursery provision underspends (-£3.2m),
   - the income ahead of budget for business rate and government grants and reduced capital financing costs(-£7.9m),
   - delayed maintenance work for both Highways and Property (-£3.3m and -£2.3m),
   - brought forward saving plans for Business Services and better contracts combined with rent and rates rebates (-£2.8m),
   - timing of expenditure and income on third party grants, member allocations and cultural service income and trading standards income (-£1.9m),
   - scheduling of Business Services projects (-£1.6m)
   - Revolving Investment & Infrastructure Fund (-£0.6m), offset by
   - government grants for schools budgets (+£1.7m) and timing of Whole System funding and cost of transition clients (+£1.9m).

3. Schools funding is determined by an agreed formula under statute and expenditure decisions are the responsibility of each school's governing body.

4. Table 1 shows the year to date and forecast year end net revenue position for services and the Council overall. Net revenue position for services is gross expenditure less income from specific grants plus fees, charges and reimbursements.

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Table 1: 2013/14 Revenue budget - net positions by directorate

Nov's forecast variance £m	Directorate	YTD budget £m	YTD actual £m	**YTD variance £m**	Full year (revised) budget £m	Jan – Mar remaining forecast £m	Full year forecast £m	**Full year variance £m**
5.2	Adult Social Care	252.1	254.0	1.9	336.3	88.0	342.1	5.8
1.2	Children, Schools & Families	133.9	129.7	-4.2	181.0	51.7	181.4	0.4
0.0	Schools (gross exp £503.0m)	0.1	1.8	1.7	0.1	-1.7	0.1	0.0
-0.4	Customer & Communities	45.0	43.2	-1.9	60.0	16.1	59.3	-0.7
1.1	Environment & Infrastructure	94.0	92.9	-1.1	131.6	41.2	134.1	2.5
-3.2	Business Services	61.4	54.7	-6.7	83.2	23.9	78.6	-4.6
-0.3	Chief Executive's Office	12.8	12.2	-0.6	16.4	3.7	15.9	-0.5
-3.6	Central Income & Expenditure	-204.6	-210.5	-5.9	-210.4	-3.6	-214.1	-3.7
0.0	**Service net budget**	**394.9**	**378.0**	**-16.8**	**598.2**	**219.2**	**597.3**	**-0.9**
0.0	Local taxation	-428.3	-430.3	-2.0	-599.3	-169.0	-599.3	0.0
0.0	Revolving Infrastructure & Investment Fund		-0.6	-0.6		0.6		0.0
-13.0	Risk contingency			0.0	13.0	0.0	0.0	-13.0
-13.0	**Overall net budget**	**-33.4**	**-52.9**	**-19.5**	**11.9**	**50.9**	**-2.0**	**-13.9**

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

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5. Both the year to date and forecast revenue budget positions are shown by directorate in the graphs below. Table App 3 in the appendix to this annex shows the overall income and expenditure for the year to date and year end forecast positions.

6. The small forecast year end underspend on services is a result of: Adult Social Care slippage implementing its innovative FF&C strategy (+£5.8m), Children's Services' volume pressures offset by Schools & Learning (+£0.4m); plus flood repairs, waste management pressure and support for local bus routes (+£2.5m); offset by underspends in Business Services (-£4.6m) and Central Income & Expenditure (-£3.7m).

7. Table 2 below summarises the main movements in forecast year end variances over the last month. The Directorate commentaries provide further information on the forecasts.

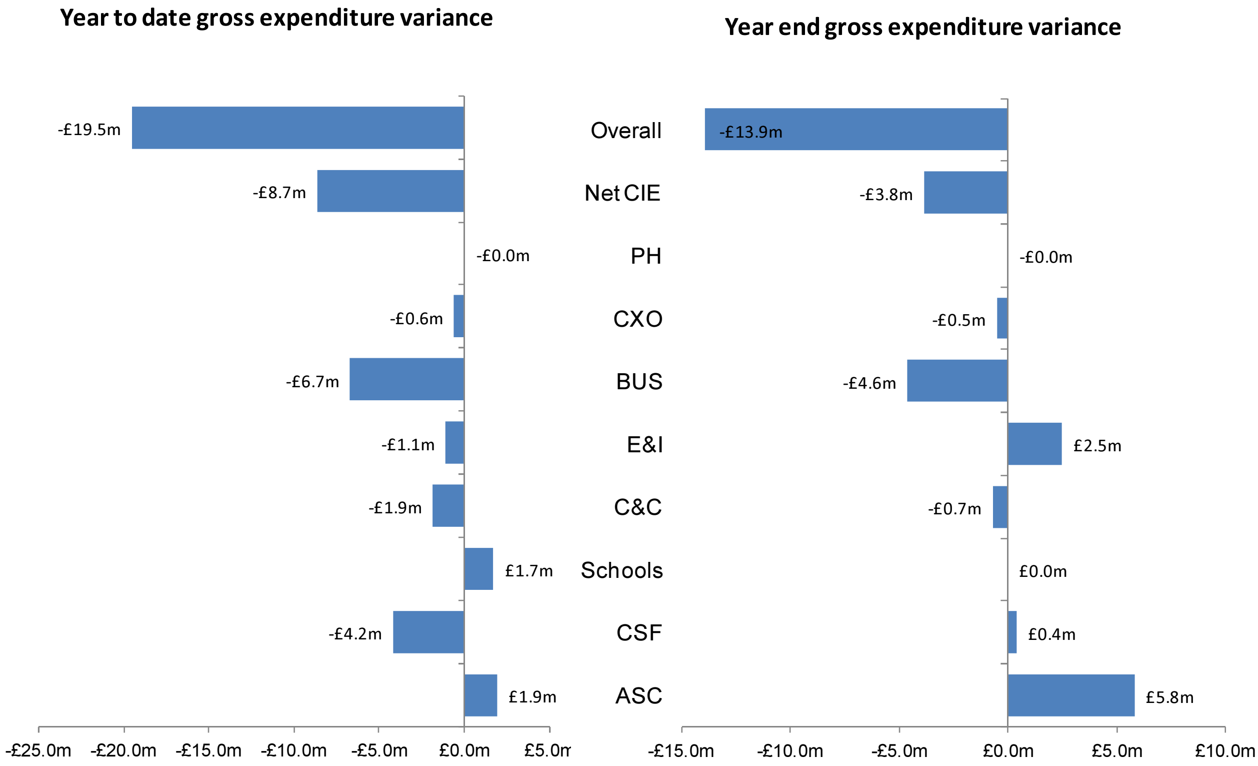
Table 2: 2013/14 Revenue budget year end variance monthly movement by directorate

Directorate	**Nov YE Variance £m**	**Movement £m**	**Dec YE Variance £m**
Adult Social Care	**5.2**	0.6	**5.8**
Children, Schools & Families	**1.2**	-0.8	**0.4**
Schools	**0.0**	0.0	**0.0**
Customer & Communities	**-0.4**	-0.3	**-0.7**
Environment & Infrastructure	**1.1**	1.4	**2.5**
Business Services	**-3.2**	-1.4	**-4.6**
Chief Executive's Office	**-0.3**	-0.2	**-0.5**
Central Income & Expenditure	**-3.6**	-0.1	**-3.7**
Service net budget	**0.0**	**-0.9**	**-0.9**

Summarised movements:	**Movement £m**	**Directorate**
Increased demand pressure	0.6	ASC
Tight financial management	-0.8	CSF
Community Improvement Fund	-0.3	C&C
Additional cost associated with recent flooding	1.4	E&I
2014/15 efficiencies achieved early	-1.4	BUS
Local elections saving	-0.2	CXO
Protected salaries estimate	-0.1	CIE
Overall movement	**-0.9**	

8. Figure 2 shows services' gross expenditure variances for year to date and forecast year end positions.

Figure 2: Year to date and forecast year end expenditure variance



9. Below, each directorate summarises its year to date and forecast year end income and expenditure position and service and policy financial information. These explain the variances, their impact and services' actions to mitigate adverse variances. The appendix gives the updated budget with explanations of budget movements.

Adult Social Care

Table 3: Summary of the revenue position for the directorate

Adult Social Care	YTD Budget £m	YTD Actual £m	YTD Variance £m	Full Year (Revised) Budget £m	Jan – Mar Forecast £m	Full Year Projection £m	Dec Full Year Variance £m
Summary by subjective							
Income	-50.4	-60.1	-9.8	-69.1	-14.7	-74.8	-5.7
Expenditure	302.5	314.2	11.7	405.4	102.7	416.9	11.5
Net position	**252.1**	**254.0**	**1.9**	**336.3**	**88.0**	**342.1**	**5.8**
Summary by service							
Income	-50.4	-60.1	-9.8	-69.1	-14.7	-74.8	-5.7
Older People	122.0	131.7	9.7	164.7	39.7	171.4	6.7
Physical Disabilities	35.6	37.4	1.8	47.4	12.0	49.4	2.0
Learning Disabilities	94.2	97.1	2.9	125.6	34.9	132.0	6.4
Mental Health	6.8	7.2	0.4	9.2	2.5	9.7	0.5
Other Expenditure	43.9	40.8	-3.1	58.5	13.6	54.4	-4.1
Total by service	**252.1**	**254.0**	**1.9**	**336.3**	**88.0**	**342.1**	**5.8**

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

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10. The December projected outturn for Adult Social Care is +£5.8m (1.73%) overspend. This represents an increase of £0.6m from last month. The year to date position is showing an overspend of £1.9m, although year to date expenditure is currently understated due to timing issues associated with the drawdown of Whole Systems funding, costs for new Transition clients anticipated in the last quarter but not incorporated in the year to date position and other major elements of income weighted towards the first half of the year.

11. A projected overspend was highlighted as a risk during the 2013/14 budget planning process and needs to be set in context of ASC's very challenging savings target of £45.9m. The Directorate has made good progress in many of the savings actions and judges that £27.9m of savings have either been achieved or will be achieved without needing further management action. While there is considerable work ongoing to generate savings, the Directorate is unlikely to be able to bring the budget completely back in line by year end.

12. The most significant element of the Directorate's savings plans is the social capital agenda, now formally re-launched as Family, Friends and Community Support (FFC). It is a new and innovative strategy designed to provide more personalised community support options to individuals requiring care, while at the same time reducing direct costs to the Council. ASC is implementing the new strategy and it has been a key driver in the recent Rapid Improvement Events (RIEs) on the social care and financial assessment processes.

13. The FFC savings target for 2013/14 is £15.5m. Although the Directorate continues to prioritise work on implementation of the key policy changes required to deliver the benefits expected by FFC, these actions are anticipated to now mainly impact on next year's budget rather than achieve significant levels of savings this year. As a result, only £1.0m of ongoing savings will be achieved, meaning slippage of £14.5m is currently projected against the original target. The slippage in the FFC programme reflects the amount of cultural and systems change and community development required to implement the strategy in full.

14. ASC is looking at all possible opportunities to cover the slippage on FF&C and smaller shortfalls on some other savings plans. At present, ASC has identified two main counter-measures:

   i. draw down £7.5m of unused 2011/12 whole system funding, approved by Cabinet in September and actioned in October, and

   ii. £1.7m draw down of previous years' winter pressures funding approved by Cabinet in October and actioned in November.

15. Although these measures are helping to improve this year's budget position they do not prevent a pressure arising for next year's budget as they need to be replaced by new on-going savings next year. The latest budget planning indicates that when combined with this year's projected overspend, other non-recurring one-off savings used this year, additional demand pressures forecast next year and a review of savings plans, ASC needs to identify additional savings of £19m. Work will be carried out with the Chief Executive and Chief Finance Officer to consider options available to gain assurance that the service can deliver the budget.

16. The current year end projection relies on the Directorate implementing £3.5m of management action savings plans in the remainder of the financial year. Table 4 summarises the management actions included in the December projections.

17. The key driver of the underlying pressures the service faces is individually commissioned care services (also known as "spot" care). The gross spend to date on spot care, excluding Transition, has on average been £21.6m per month for April to December. That compares with £21.3m in the last quarter of 2012/13, indicating that while ASC is largely containing new in year demand pressures, expenditure has not yet decreased as planned by delivery of the FFC savings programme. Assuming all savings occur as currently forecast or are replaced by other means, then the Directorate can afford to spend only £20.9m per month in the remainder of the financial year. Therefore, it needs to reduce expenditure on

individually commissioned care services by 3% in the last quarter. That is half of the 6% reduction projected last month. The forecast reduction has been scaled back following a review of care spending conducted as planned at the end of quarter three, which factored in the growth in service volumes witnessed this year in order to formulate a more realistic assessment of the potential for reducing expenditure in the remainder of the year.

Table 4: Summary of Adult Social Care forecast

	£m	£m
ASC MTFP efficiency target		**(45.9)**
Additional demand pressure above those anticipated in 2013-18 MTFP		(0.5)
Revised efficiency target		(46.4)
Total savings achieved (or not needing further management action) to date		(27.9)
Savings forecast in remainder of the year through use of FF&C	(1.0)	
Other savings forecast in the remainder of the year and included as Management actions	(2.5)	
Total savings forecast in remainder of the year		(3.5)
Total forecast savings before draw downs		(31.4)
Whole systems funding 2011/12 draw down		(7.5)
Proposed winter pressure funding 2011/12 draw down		(1.7)
Total forecast savings		(40.6)
Under / (over) performance against MTFP target		**5.8**

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Children, Schools & Families

Table 5: Summary of the revenue position for the directorate

Children, Schools & Families	YTD Budget £m	YTD Actual £m	YTD Variance £m	Full Year (Revised) Budget £m	Jan - Mar Forecast £m	Full Year Projection £m	Dec Full Year Variance £m
Summary by subjective							
Income	-109.4	-109.1	0.3	-150.2	-42.0	-151.1	-0.9
Expenditure	243.3	238.8	-4.5	331.2	93.7	332.5	1.3
Net position	**133.9**	**129.7**	**-4.2**	**181.0**	**51.7**	**181.4**	**0.4**
Summary by Service:							
Income	-109.4	-109.1	0.3	-150.2	-42.0	-151.1	-0.9
Strategic Services	4.8	4.3	-0.5	5.7	1.0	5.3	-0.4
Children's Services	66.5	68.6	2.1	89.0	23.8	92.4	3.4
Schools and Learning	154.4	147.7	-6.7	211.5	61.9	209.6	-1.9
Services for Young People	17.6	18.2	0.6	25.0	7.0	25.2	0.2
Total by service	**133.9**	**129.7**	**-4.2**	**181.0**	**51.7**	**181.4**	**0.4**

18. The forecast outturn for the Children Schools and Families directorate (CSF) at December 2013 is an overspend of +£0.4m. This is a reduction of -£0.8m compared to the position reported at November 2013 and represents 0.2% of the county funded CSF budget. A continuation of tight financial management for the remainder of the financial year may bring the overspend down further.

19. The main reasons for the overspend continue to be pressures in Children's Services and increasing demand for transport in relation to children with special education needs (SEN). This is partly offset by an improved trading position for Commercial Services and underspends elsewhere within Schools and Learning.

20. The year to date underspend of -£4.2m is mainly due to DSG underspend on nursery provision (-£3.2m), staffing across the directorate (-£1.2m) and other underspends in Schools and Learning (-£0.2m). These are partly offset by non-staffing overspends in Children's Services (+£2.1m).

Children's Services

21. In Children's Services the projected overspend is +£3.4m although this is partly offset by additional income of -£0.4m. This has changed little compared to the end of November position. The main reasons for this overspend are a combination of rising demand, increased complexity of need and some increases in prices.

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22. Increasing demand has led to overspends in the following areas.

- Higher numbers of agency placements earlier in the year have given rise to an overspend of £0.75m. Numbers have now returned to the level seen in April although the position remains volatile – for example, remand placements have relative low volumes but for the first time this year there are currently three remand placements required at a cost of £4,000 per week until the end of the financial year.
- There continue to be pressures on fostering allowances and in the cost of adoption allowances (+£0.5m). The number of foster placements is currently 33 higher than the average of 474 budgeted for. In addition the number of Special Guardianship Orders has increased; an additional 65 SGOs will be made this year compared to 45 in 2012/13.
- The budgets for leaving care and asylum seekers are expected to overspend by +£0.5m as the number of care leavers and asylum seekers with no recourse to public funds continues at a similar level to that experienced in 2012/13 when a similar overspend occurred.
- Area care services forecast a +£0.5m overspend. This is mainly due to an increase in the instances and cost of court proceedings (there are currently 200 cases compared to 169 for the whole of 2012/13) and increasing costs for supervises contact and SGO's compared to 2012/13.

23. The budgets for children with disabilities are overspending by +£1.8m due to a combination of rising demand, greater complexity of need and the service being unable to achieve the planned savings in these circumstances. Of the overspend, +£1.5m relates to the budget reduction for the MTFP efficiency in this service area which has not been achieved. However, alternative underspends elsewhere across the directorate have offset the impact of this overspend. In addition the service are seeing more complex and costly cases and rising demand with an extra 40 cases (5%) since April 2013.

24. There continue to be difficulties recruiting permanent social workers and a resulting reliance on more expensive agency staff. A +£0.6m overspend is anticipated. This is an ongoing problem and CSF has plans to improve recruitment and retention of social workers through the career progression framework and the recruitment programme in the North East Area to grow our own skilled workforce. The results of these initiatives will take time to be realised.

25. Offsetting these overspends are net underspends of -£1.4m across Children's Services. These are planned to continue in order to help alleviate the cost pressures.

Schools & Learning

26. Schools & Learning forecast a -£1.9m underspend on council funded services.

27. The main pressure on the Schools and Learning budget is a +£2.1m overspend on transport, mainly in relation to SEN. The school transport service already faced a budget pressure of £0.7m, reported as an overspend in the 2012/13 outturn report. In addition to this, pupil numbers and costs have continued to rise, particularly around SEN. The total number of pupils transported reached 2,587 in November, 76 higher than at the same point last year and leading to additional costs of +£0.6m.

28. Offsetting the transport overspend is an underspend on centrally held budgets of -£2.2m. This is mainly against the budget for demographics and inflation. Given its £7m savings requirement, CSF prudently decided to hold this budget centrally to cover pressures arising from demand led budgets where the impact of funding changes would not become clear until the start of the new academic year.

29. In addition the current number and cost of out county placements has been reviewed. This covers both pre and post 16 including the county's new responsibilities for learners with learning difficulties and disabilities (LLDD). The review suggests that, although uncertainties remain, the Council's £1.5m contribution will not be required in full and an underspend of -£0.5m is likely.

30. Commercial Services projects a higher than budgeted contribution to corporate overheads of -£1.0m. This projection takes into account the reduced contribution due to the loss of cleaning and catering contracts which is more than offset by improved contract prices and contracted income.

31. Although not included in the Council's reported position services funded by Dedicated Schools Grant (DSG) are forecast to underspend by -£3.8m. The main reason being less demand for two, three and four year old nursery provision than the grant funding level which underpins the budget. There are other small underspends on DSG services, though overall these are partly offset by increasing demand for support to children with SEN, particularly paediatric therapy services (£0.8m).

Services for Young People and Strategic Services

32. Services for Young People forecast a small +£0.2m overspend. Strategic Services anticipates an underspend of -£0.4m mainly due to recognition that resources set aside for one off service initiatives are now unlikely to be required this financial year.

Schools (delegated budget)

Table 6: Summary of the revenue position for the delegated schools budget

Summary	**YTD Budget £m**	**YTD Actual £m**	**YTD Variance £m**	**Full Year (Revised) Budget £m**	**Jan - Mar Forecast £m**	**Full Year Projection £m**	**Full Year Variance £m**
Income	-396.5	-396.4	0.1	-503.2	-106.8	-503.2	0.0
Expenditure	396.6	398.2	1.6	503.3	105.1	503.3	0.0
Net position	**0.1**	**1.8**	**1.7**	**0.1**	**-1.7**	**0.1**	**0.0**

33. The forecast is unchanged since the beginning of the year. The budget has been updated for the recent transfers of Surrey schools to academy status (-£2.9m) There also were volume related grant changes of +£2.9m. The schools delegated budget is reviewed each month.

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Customer & Communities

Table 7: Summary of the revenue position for the directorate

Summary	YTD Budget £m	YTD Actual £m	YTD Variance £m	Full Year (Revised) Budget £m	Jan - Mar Forecast £m	Full Year Projection £m	Dec Full Year Variance £m
Income	-18.1	-19.0	-0.9	-24.2	-5.8	-24.8	-0.6
Expenditure	63.1	62.2	-0.9	84.1	21.9	84.1	-0.1
Net position	**45.0**	**43.2**	**-1.9**	**60.0**	**16.1**	**59.3**	**-0.7**
Summary by service							
Cultural Services	8.1	7.7	-0.4	10.7	2.9	10.6	-0.1
Fire & Rescue	26.9	26.7	-0.2	35.6	8.9	35.6	0.0
Customer Services	3.0	2.9	-0.1	4.0	1.0	3.9	-0.1
Trading Standards	1.6	1.5	-0.1	2.2	0.7	2.2	0.0
Community Partner & Safety	2.9	2.1	-0.8	4.2	1.8	3.9	-0.3
C&C Directorate Supp	1.7	1.4	-0.3	2.2	0.5	1.9	-0.3
County Coroner ort	0.8	0.8	0.0	1.1	0.4	1.2	0.1
Total by service	**45.0**	**43.2**	**-1.9**	**60.0**	**16.1**	**59.3**	**-0.7**

34. The year to date underspend is -£1.9m, partly due to the timing of expenditure (-£0.8m) on third party grants and member allocations within Community Partnership and Safety. The remainder is due to managed savings within Fire to cover the cost of extending the contingency crewing contract plus the timing of Cultural Services and Trading Standards income already earned, along with the year to date impact of the full year underspend.

35. The directorate currently projects a -£0.7m underspend (-£0.3m at the end of November). This is within Directorate Support (-£0.3m) due to cost sharing and holding posts for the early achievement of the 2014/15 MTFP efficiency and an expected underspend on the Community Improvement Fund (-£0.2m) due to waiting for grant conditions to be met before funds are released. A further underspend is expected from the continued increase in income generated by Registration (-£0.2m) due in part to the three yearly cycle of venue licensing income. Legislative changes are creating a +£0.1m pressure for the Coroner's service. The full year effect is expected to be in the region of £0.2m from 2014/15 onwards. Member allocations are expected to underspend (-£0.1m) however the Leader had asked members to note that any funds not delivered to the recipients by the end of the financial year will become unavailable.

36. There will be a carry forward request to enable payments to be made within the new financial year on the Community Improvement Fund, currently predicted as £0.2m.

Environment & Infrastructure

Table 8: Summary of the revenue position for the directorate

Summary	YTD Budget £m	YTD Actual £m	YTD Variance £m	Full Year (Revised) Budget £m	Jan - Mar Forecast £m	Full Year Projection £m	Dec Full Year Variance £m
Income	-14.0	-14.0	0.0	-18.7	-6.30	-20.0	-1.3
Expenditure	108.0	106.9	-1.1	150.3	47.2	154.1	3.8
Net position	**94.0**	**92.9**	**-1.1**	**131.6**	**41.2**	**134.1**	**2.5**
Summary by service							
Environment	42.0	44.4	2.4	61.0	17.3	61.7	0.7
Highways	32.0	29.2	-2.8	44.3	17.3	46.5	2.2
Economy, Transport & Planning	19.8	19.1	-0.7	26.1	6.6	25.7	-0.4
Other Directorate Costs	0.2	0.2	0.0	0.2	0.0	0.2	0.0
Total by service	**94.0**	**92.9**	**-1.1**	**131.6**	**41.2**	**134.1**	**2.5**

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

37. The year to date position for Environment & Infrastructure (E&I) is a -£1.1m underspend. This primarily relates to highway maintenance works including local schemes, road maintenance (where some payments have been delayed) and also to economic development projects funded through New Homes Bonus grant, which is not now expected to be fully utilised this financial year.

38. The forecast outturn for E&I is an overspend of +£2.5m, an increase in overspend of £1.4m from last month. The most significant variance, and the reason for the movement this month, is the additional cost associated with recent flooding. Initial expenditure relates to immediate response and making safe, damage assessments to structures (including bridges and embankments), emergency generators to power water pumps, and the expected cost of repairing roads and potholes. Longer term costs will include drainage works and permanent repairs to damaged roads and structures, some of which will be capital works. Although further work is required to assess likely costs, the total cost has initially been estimated at £4.5m. The revenue impact in the current financial year could be £2.1m.

39. Other significant variations include:

- waste management expects to overspend by + £0.8m primarily due to the need for external specialist advice required to successfully complete the contract variation;
- local bus support expects to overspend by + £0.5m as a result of difficulty achieving planned contract savings this year and also a number of instances where bus routes are no longer commercially viable and need financial support from the Council;
- economic development projects funded through New Homes Bonus grant are expected to underspend by - £0.6m.
- additional employee costs of + £0.2m are expected to be largely offset by additional income and recharges; and
- the balance is comprised of a number of variations including additional parking income and planning fees.

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Business Services

Table 9: Summary of the revenue position for the directorate

Summary	YTD Budget £m	YTD Actual £m	YTD Variance £m	Full Year (Revised) Budget £m	Jan - Mar Forecast £m	Full Year Projection £m	Dec Full Year Variance £m
Income	-11.1	-12.4	-1.3	-14.9	-3.5	-15.9	-1.0
Expenditure	72.5	67.1	-5.4	98.1	27.4	94.5	-3.6
Net	**61.4**	**54.7**	**-6.7**	**83.2**	**23.9**	**78.6**	**-4.6**
Summary by service							
Property	23.7	19.9	-3.8	32.4	9.8	29.7	-2.7
Information Management & Technology	17.2	16.2	-1.0	23.3	7.1	23.3	0.0
Human Resources & OD	6.2	5.8	-0.4	8.3	2.4	8.2	-0.1
Finance	6.5	6.2	-0.3	8.8	2.1	8.3	-0.5
Shared Services	3.2	2.7	-0.5	4.2	1.2	3.9	-0.3
Procurement & Commissioning	2.5	2.5	0.0	3.3	0.8	3.3	0.0
Business Improvement	2.1	1.4	-0.7	2.9	0.5	1.9	-1.0
Total by service	**61.4**	**54.7**	**-6.7**	**83.2**	**23.9**	**78.6**	**-4.6**

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

40. Business Services estimates a revenue underspend of -£4.6m. Business Services has challenging revenue savings targets for this year and next. The service will deliver this year's efficiency savings and aims to bring forward some of next year's. It is also achieving one-off revenue savings. The estimated revenue underspend has increased by -£1.3m compared to last month. The savings targeted in the maintenance budget, as a result of more informed maintenance planning regimes, have been delivered earlier than originally planned, increasing efficiencies by £0.5m. The rest of the directorate underspend has been achieved in other areas of Property and HR mainly through delivering efficiencies early.

41. The year to date underspend is -£6.7m. The largest variance is -£3.8m in Property which is mainly as a result of timing of maintenance work (-£1.9m). The full year maintenance underspend is likely to be -£1m, -£0.8m of this is due to efficiencies from the new property management system. The estimated cost of remedial work due to the recent flooding is £0.1m, this will be delivered within existing budgets. The other year to date variances in Property are reflected in the full year underspend of -£2.7m. These are a result of forecast underspends on utilities (-£0.6m), rents (-£0.7m), and rates (-£0.2m).

42. The Making a Difference programme is on track to deliver savings of £6.6m each year from the office portfolio and has supported staff to work more flexibly with the benefits of new technology and a change in the way we work. The programme started in 2010 and includes implementing Electronic Data & Record Management (EDRM) across the council. EDRM solutions have been implemented for social care activity and will be implemented for the rest of the organisation by IMT alongside a Lotus Notes upgrade, resulting in a Making a Difference saving of -£1.0m.

43. IMT's £1m year to date underspend mainly relates to a -£0.6m underspend on the Modern Worker project. Increased activity is expected in the final quarter, particularly on the Citrix and Active Directory projects, and the estimated full year forecast variance is zero.

44. HR and Organisational Development year end forecast is an underspend of -£0.1m, a variance of -£0.3m compared to last month. This is mainly due to delivering staffing efficiencies early.

45. There are other variances on Finance (-£0.4m) and Shared Services (-£0.3m), which are delivering 2014/15 efficiency savings early.

Chief Executive's Office

Table 10: Summary of the revenue position for the directorate

Summary	**YTD Budget £m**	**YTD Actual £m**	**YTD Variance £m**	**Full Year (Revised) Budget £m**	**Jan - Mar Forecast £m**	**Full Year Projection £m**	**Dec Full Year Variance £m**
Income	-18.7	-16.0	2.7	-27.8	-8.7	-24.7	3.1
Expenditure	31.5	28.2	-3.3	44.2	12.4	40.6	-3.6
Net	**12.8**	**12.2**	**-0.6**	**16.4**	**3.7**	**15.9**	**-0.5**
Summary by service							
Strategic Leadership	0.4	0.3	-0.1	0.5	0.2	0.5	0.0
Legacy	0.4	0.4	0.0	0.5	0.1	0.5	0.0
Emergency Management	0.4	0.4	0.0	0.5	0.1	0.5	0.0
Communications	1.5	1.4	-0.1	2.0	0.5	1.9	-0.1
Legal & Democratic Services	7.6	7.4	-0.2	9.7	2.1	9.5	-0.2
Policy & Performance	2.5	2.3	-0.2	3.2	0.7	3.0	-0.2
Public Health	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total by service	**12.8**	**12.2**	**-0.6**	**16.4**	**3.7**	**15.9**	**-0.5**
Public Health - income	-17.8	-15.0	2.8	-26.5	-8.4	-23.4	3.1
Public Health - expenditure	17.8	15.0	-2.8	26.5	8.4	23.4	-3.1
Public Health - net expenditure	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

46. The Chief Executive's Office (CXO) is currently projecting a -£0.5m underspend against a total revenue budget of £16.4m. The projected underspend had increased from last month's position of -£0.3m mainly due to increased staff savings and lower projected legal pressures. The underspend is predominantly due to the one-off savings (-£0.2m) against the local elections budget following receipt of final invoices from district and borough councils. The remaining underspend is mainly due to staff vacancies across the directorate, which are offset by pressures within Legal due to the cost and volume of child protection cases.

47. The directorate budget had increased by £0.2m from last month following a transfer from Adult Social Care to Policy & Performance to fund the Health & Wellbeing contracts.

48. CXO has taken on the council's new responsibility for Public Health (PH) this year. Some uncertainties remain in this first year of Public Health budgets.

49. In determining the Public Health grant allocation to SCC, the Department of Health (DH) misallocated £3.3m of the sexual health funds, which instead were transferred to the CCGs. The DH requested that this error was resolved locally and to date efforts have been made to undertake this. However, given that the majority of the year has passed without any progress, it is prudent now to plan on the assumption that the money will not be received. Therefore the budget is now being monitored against the lower cash limit, and every effort will be made, by avoiding further commitments, to contain spend within that. Inevitably, that will in turn limit the service's ability to take forward developments designed to meet the Government's performance targets.

50. Initially, the Police and Crime Commissioner (PCC) allocated £0.5m funding to PH. However the PCC's priorities have changed and it has confirmed PH will not receive this funding in 2013/14 (+£0.5m). As part of the forward budget process, PH will review this

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service and decide how it will continue in the future. In the current year PH will offset this reduction in funding against the staffing underspend explained below.

51. The other ongoing budget issue under investigation is the cost of prescribing drugs related to the Public Health Agreements. It has come to light nationally that local authorities may be recharged for such costs by the NHS Business Services Authority and this amount had not been included in the council's baseline allocation. Initial estimates show Surrey's liability could be in the region of £1.9m. As this is a country wide issue the Director of Public Health (DPH) is linking with other DPHs to progress this matter nationally with DH.

52. Due to the fact that a number of staff did not transfer to the council from NHS Surrey as part of the changes to the NHS from 1 April 2013, PH has had vacancies throughout its team, including many at a senior level. Recruitment to all vacancies has now been completed and all staff will be in post by January.

53. Public Health is continuing to ensure a strong service is delivered across Surrey. Delivery is happening through previous NHS contracts which are being novated to Surrey and also through tenders for new contractors. The full range of Public Health services are now being delivered across sexual health, substance misuse, school nursing, obesity, physical activity, smoking and health checks.

54. PH is carefully reviewing its expenditure plans to ensure that these fit within their budget, which has been reduced this month to account for the increasing possibility that the £3.3m of funding misallocated to the CCGs will not be received.

Central Income & Expenditure

Table 11: Summary of the revenue position for the directorate

Summary	YTD Budget £m	YTD Actual £m	YTD Variance £m	Full Year (Revised) Budget £m	Jan - Mar Forecast £m	Full Year Projection £m	Dec Full Year Variance £m
Income	-234.7	-238.2	-3.5	-253.2	-15.3	-253.5	-0.3
Expenditure	30.1	27.7	-2.4	42.8	11.7	39.4	-3.4
Net position	**-204.6**	**-210.5**	**-5.9**	**-210.4**	**-3.6**	**-214.1**	**-3.7**
Local taxation	-428.3	-430.3	-2.0	-599.3	-169.0	-599.3	0.0
Risk contingency			0.0	13.0	0.0		-13.0
Net position	**-632.9**	**-640.8**	**-7.9**	**-796.7**	**-172.6**	**-813.4**	**-16.7**

55. The year to date variance of -£7.9m is caused by below budget costs for capital financing and redundancy & compensation. In addition, income from retained business rates and government grants is £4.7m above budget. This is due to timing of receipts and is expected to be in line with the budget at the year end.

56. Capital financing costs are -£0.8m underspent due to the Council not borrowing to fund its capital programme so far this year. The Minimum Revenue Provision (MRP) is money set aside to repay debt and is calculated on the audited balance sheet at 31 March 2013. Following the unqualified audit of the statement of accounts in September, this budget is -£0.5m underspent, and will be at the year end.

57. The Council's year to date redundancy and compensation budget is underspent by -£0.2m. The number and timing of redundancies is not easy to forecast in advance, although more voluntary redundancies are expected in the remainder the year. The cost of auto-enrolment of staff into the pension schemes is less than originally budgeted, currently by -£0.75m, this will result in a year-end underspend of £1m.

58. The medium term financial plan included a business rates safety net top slice return of £2.4m. The Council will not now receive this grant due to national call on the safety net (this

will also be a pressure in 2014/15). The Education Support Grant has also been reduced by £1m, due to schools gaining academy status. However, these reductions are partially offset in 2013/14 by additional grant income not included in the MTFP, including Local Authority Central Spend Efficiency Grant (£1.4m), Adoption Reform (£1.5m), Council Tax Transition Grant (£0.3m), and HM Courts Service (£0.1m).

59. Interest receivable is projected to over-recover by around -£0.4m due to higher cash balances held at the beginning of the year as a result of the up-front payment of a number of Government grants.

60. As described above: the MRP charge will underspend this year by -£0.5m and the cost of auto-enrolment of staff into the pension schemes is projected to be -£1m underspent.

61. In setting the budget, the Council assumed it would use its cash balances to fund capital expenditure in place of borrowing externally. However, it made a budgetary provision against undertaking any external borrowing. The Council has been able to maintain its internal borrowing strategy throughout 2013/14 and the possibility of requiring this provision is now very small. Therefore the budget is forecast to underspend by -£0.9m. In addition, there is a further -£0.9m of unspent New Homes Bonus in the interest payable budget.

62. The redundancy and compensation budget is currently underspending, year to date, as explained above. The number and timing of redundancies is not easy to forecast in advance, although more voluntary redundancies are expected in the remainder of the year and so expenditure is expected to remain on budget at this time.

Revolving Infrastructure & Investment Fund

Table 12: Summary position

Summary	YTD Actual £m	Full Year Forecast £m
Income	-1.6	-2.2
Expenditure	1.0	1.4
Net Revenue Position	**-0.6**	**-0.8**

63. The Revolving Infrastructure & Investment Fund was established in the 2013-18 MTFP in order to provide the revenue costs of funding initiatives that will deliver savings and enhance income in the longer term. Net income, after the deduction of funding costs, is being delivered this financial year by the Joint Venture project to deliver regeneration in Woking town centre (Bandstand Square) and from property acquisitions that have been made for future service delivery.

64. Capital expenditure to date includes Ranger House, Egham High Street and Parkside House. The remainder of the forecast capital spend includes an estimate of loans to be made during the rest of the year to the Woking Bandstand Joint Venture company and the purchase of Bridgehead House. The acquisition of Bridgehead House was approved by Cabinet on 26 November and completed, following some delays by the vendor, on 9 January 2014.

65. Funding costs are being charged to the Revolving Infrastructure & Investment Fund to reflect the opportunity cost of using internal capital resources. As further borrowing has not yet been required, the projects noted above will deliver gross income of £2.1m for the year.

Staffing costs

66. The Council employs three categories of staff.

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

67. Bank and agency staff enable managers to manage short term variations in demand for services or vacancies for contracted staff. This is particularly the case in social care.

68. A sensible degree of flexibility in the staffing budget is good, as it allows the council to keep a portion of establishment costs variable. The current level is approximately 92% of costs are due to contracted staff.

69. The council sets its staffing budget based upon the estimated labour required to deliver its services. This is expressed as budgeted full time equivalent staff (FTEs) and converted to a monetary amount for the budget. This budget includes spending on all three categories of staff and is the key control in managing staffing expenditure.

70. The council's total full year budget for staffing is £313.0m based on 8,025 budgeted FTEs. The year to date budget for the end of December 2013 is £233.2m and the expenditure incurred is £229.3m. At the end of December 2013, the council employed 7,347 FTE contracted staff.

71. Table 13 shows the staffing expenditure and FTEs for the period to December against budget, analysed among the three staff categories for each directorate. The table includes staff costs and FTEs that are recharged to other public services for example: other councils, NHS Trusts, outsourced to South East of England Councils or capital funded (super fast broadband). The funding for the recharges is within other income.

Table 13: Staffing costs and FTEs to end of November 2013

	Staffing budget to Dec 2013	Staffing spend by category						Dec 2013 occupied contracted
	£m	Contracted £m	Agency £m	Bank & casual £m	Total £m	Variance £m	Budget FTE	FTE
Adult Social Care	53.9	47.3	2.7	1.5	51.5	-2.4	2,187	1,870
Children Schools & Families	78.5	70.8	3.5	3.0	77.4	-1.2	2,690	2,466
Customer and Communities	42.9	38.5	0.7	3.5	42.7	-0.2	1,507	1,437
Environment & Infrastructure	17.3	16.4	0.7	0.3	17.4	0.1	524	511
Business Services and Central Income & Expenditure	31.6	29.0	2.1	0.1	31.2	-0.4	892	826
Chief Executive's Office	9.0	8.7	0.2	0.2	9.1	0.1	225	237
Total	233.2	210.7	10.0	8.6	229.3	-3.9	8,025	**7,347**

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

72. The most material variance is a -£2.4m underspend in ASC due to recruitment delays, mainly in reablement and front line teams. However, such staffing savings are counterproductive as they reduce the directorate's ability to implement key strategic savings plans such as FF&C and in most cases are outweighed by additional spend on care ASC might otherwise have avoided.

73. Table 14 shows there are 472 "live" vacancies, for which active recruitment is currently taking place, with 206 of these in social care. The remaining vacancies are either filled by agency and bank staff on a short term basis or not being actively recruited to at present.

Table 14: full time equivalents in post and vacancies

	Dec FTE
Budget	8,025
Occupied contracted FTE	7,347
“Live” vacancies (i.e. actively recruiting)	472
Vacancies not occupied by contracted FTEs	206

Efficiencies

74. The MTFP incorporates £68.3m of expenditure efficiencies. Overall, the Council forecasts achieving £60.3m by year end, an under achievement of -£8.0m. This is an increase from the -£7.3m forecast at the end of November.

75. The appendix to this annex includes each directorate's efficiencies and a brief commentary on progress. Directorates have evaluated efficiencies on the following risk rating basis:

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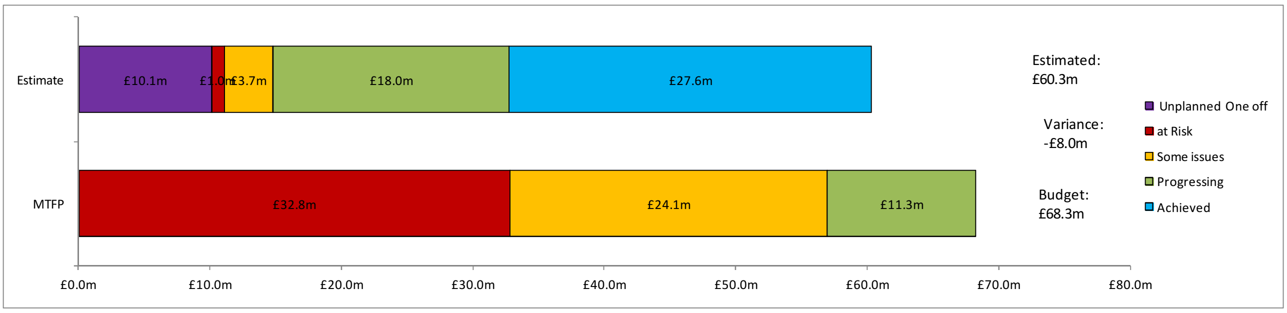
- RED – significant or high risk of saving not being achieved, as there are barriers preventing the necessary actions to achieve the saving taking place.
- AMBER - a risk of saving not being achieved as there are potential barriers preventing the necessary actions to achieve the saving taking place
- GREEN – Plans in place to take the actions to achieve the saving
- BLUE – the action has been taken to achieve the saving.

<u>Figure 2: 2013/14 ragged overall efficiencies</u>



76. The -£0.7m increase in under achievements on efficiencies is from ASC, largely due to slippage in the innovative FF&C strategy as outlined above in the directorate's revenue budget commentary.

77. Under achievements in CSF (-£1.8m) and E&I (-£0.4m) remain as reported for November. CSF is experiencing delays in achieving the efficiencies planned in services for children with disabilities together with increasing demand for care packages. This means the planned saving in that area of £1.5m is unlikely to be achieved in 2013/14. Given the pressure on the transport budget, it is also unlikely that the planned efficiency of £0.3m will be achieved. E&I forecasts -£0.4m underachievement on the bus service contract savings. The appendix to this annex includes each directorate's efficiencies as at the end of December 2013.

Capital

78. By planning significant capital investment as part of MTFP 2013-18, the council demonstrated its firm long term commitment to stimulating economic recovery in Surrey.

79. Table 15 shows current forecast for the service capital programme is a underspend of -£22.3m (-£2.7m at the end of November) due predominately to delays:

- acquiring land for waste schemes (-£5.9m);
- school basic need (-£5.4m);
- archaeological finds at Guildford Fire Station (-£3.0m);
- schools changes to replacement boiler specification (-£2.0m);
- deliveries of fire vehicle and equipment replacement programme (-£1.6m);
- safe cycle bid delayed due to the weather - grant extended until May 2014 (-£1.5m);
- rephasing refurbishments some short stay schools (-£1.2m); and
- obtaining planning permission to improve a travellers' site (-£1.1m).

80. Other smaller directorate project underspends add -£1.5m. These are offset by: higher IT equipment spending (+£0.9m) funded from the Equipment Replacement Reserve..

81. The underspend relates to project duration rather than spending savings. Therefore the overall capital programme will spend the same and funding is unaltered.

Table 15: 2013/14 Capital expenditure position

2013/14 Monitoring	Revised Full Year Budget £m	Apr -Dec actual £m	Jan - Mar projection £m	Full year forecast £m	Full year variance £m
Adult Social Care	2.0	1.2	0.6	1.8	-0.2
Children, Schools & Families	8.0	7.9	-0.2	7.7	-0.2
Customer & Communities	4.8	2.1	0.6	2.7	-2.1
Environment & Infrastructure	69.2	45.4	22.9	68.3	-0.9
School Basic Need	54.3	33.8	15.1	48.9	-5.4
Business Services	74.8	46.1	15.2	61.3	-13.5
Chief Executive Office	11.5	6.3	5.2	11.5	0
Service programme	**224.6**	**142.9**	**59.4**	**202.2**	**-22.3**
Long term investments	0	27.1	2.2	29.3	29.3
Overall programme	**224.6**	**170.0**	**61.6**	**231.5**	**7.0**

82. The Council initially approved the 2013/14 capital expenditure budget at £187.3m. Cabinet subsequently reprofiled the capital budget for 2013/14 by -£2.5m, which reduced it to £184.8m. Up to 30 November 2013 the capital budget was updated for: new approved schemes; re-profiling requests and new grant funded schemes (+£2.7m); drawing down capital grants for Walton Bridge (£0.6m); wellbeing centres (£0.1m); purchasing Woking Magistrates Court (£0.9m); and external funding from sources such as schools' parent teacher associations of £2.8m.

83. In December, the Council updated the capital budget for: further funding of £0.4m from parent teacher associations, purchasing Quadrant court (£21.3m); and reprofiling highway maintenance (£11.0m). The revised capital budget for 2013/14 is £224.6m.

84. Table App 4 in the appendix to this annex summarises the budget changes.

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Balance sheet

85. The Council's balance sheet as at 31 December 2013 shows an increase in net liabilities of £16m. This is due to a decrease in the value of the Council's long-term assets. Despite the capital expenditure incurred to date, 24 school assets have been removed from the balance sheet due to them converting to academy status (amounting to approximately £100m). In addition there is a decrease in long term liabilities due to the repayment of loans from the PWLB, which is offset by a corresponding increase in cash & cash equivalents and short term investments.

86. Table App 6 shows details of the balance sheet at 31 December 2013.

Reserves

87. The Council's earmarked reserves had reduced by £8.1m in the period up to 31 December 2013. This was mainly due to drawing £18.9m from the Budget Equalisation Reserve as planned in the MTFP. In addition, £5m was approved to be drawn down from the Severe Weather Reserve in July. This is partly offset by appropriations to the Economic Downturn Reserve and the Revolving Infrastructure & Investment Fund and capital receipts received in year.

88. Table App 7 shows details of the Council's earmarked reserves as at 31 December 2013.

Debt

89. During the third quarter of 2013/14 the Accounts Payable team raised invoices totalling £45.2m (in total £128.8m).

90. The Council's total debt outstanding at 31 December 2013 is £26.2m, comprising £16.9m care related debt and £9.3m non-care related debt. Table App 8 shows details. The average number of debtor days for the period 1 April to 30 September 2013 was 26 days.

91. Of the £26.2m total debt outstanding, £10.6m is overdue. Table App 9 shows details. Systems, restructuring and overall economic factors may have played a part in this and more specifically during the last quarter of 2012/13 the Council identified new income that was previously uncharged. This generated high value retrospective bills that clients have been reluctant to pay. The Council is using a Rapid Improvement Event to address this.

92. Between 1 April and 31 December 2013 the Chief Finance Officer, under delegated authority, has written off 357 debts with a total value of £583,828. Of these £493,586 is care related and £90,261 is non care related debt.

Treasury summary

93. The treasury management position as at 31 December against a number of prudential and performance indicators is shown in the Appendix. The Council repaid £68m of long term borrowing on 30 September 2013 which, when combined with the policy of internal borrowing, leaves it well within the borrowing limits for the financial year. The debt profile of the remaining borrowing is weighted towards the very long term, with only 4% maturing within the next 10 years. The weighted investment return for the balances held for treasury purposes for the year to date is 0.43% above the benchmark, average 7 day LIBID of 0.36% based upon average balances for 2013/14 of £276m.

Appendix to Annex

Contents

Corporate performance scorecard – finance

App. 1. Figure 3 shows the gross funding and expenditure for the council for the year to date (as included in the quarterly corporate performance scorecard). Gross funding for a service is its receivable income plus its budgeted share of funding from the council's overall resources. The difference between gross funding and gross expenditure is the net budgetary variance. The amounts are by directorate and relate to the December month end position. Net CIE includes Central Income & Expenditure, local taxation and the Revolving Infrastructure & Investment Fund.

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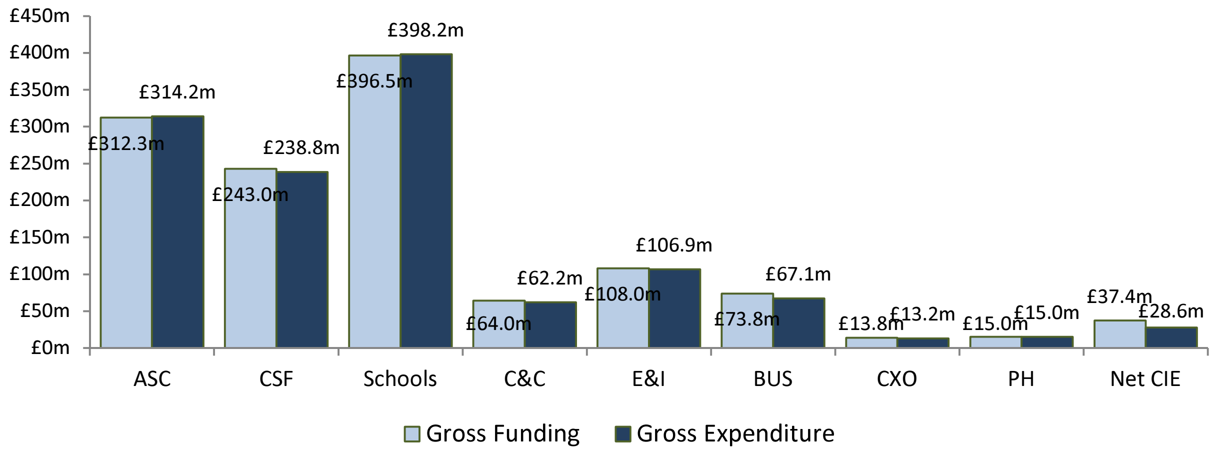
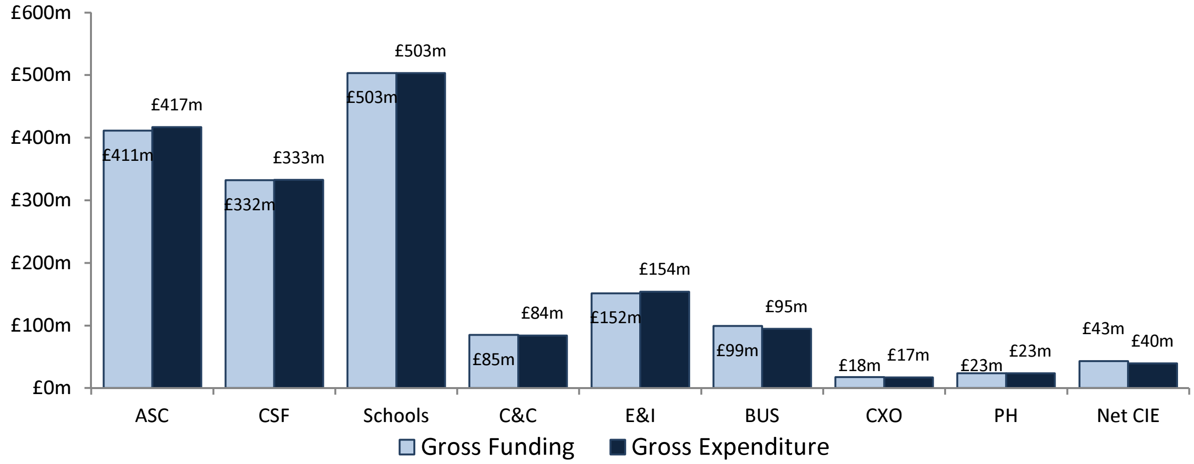
App. 2. The corporate performance scorecard also includes the year end forecast revenue position shown above in Figure 1.

Figure 3: Year to date revenue position



App. 3. Figure 4 shows services forecast a balanced year end position (balanced at the end of November). This excludes use of the 2013/14 budget's £13m risk contingency and -£0.8m net income on the Revolving Infrastructure & Investment Fund. Including the £13m risk contingency makes the overall forecast -£13.9m underspend.

Figure 4: Year end forecast revenue position



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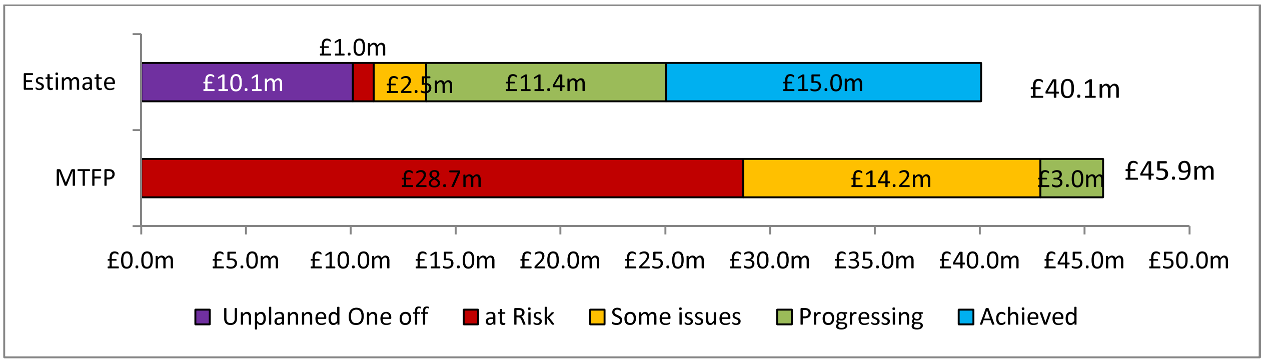
Efficiencies & service reductions

App. 4. The graphs below track progress against directorates' MTFP 2013-18 ragged expenditure efficiencies & service reductions.

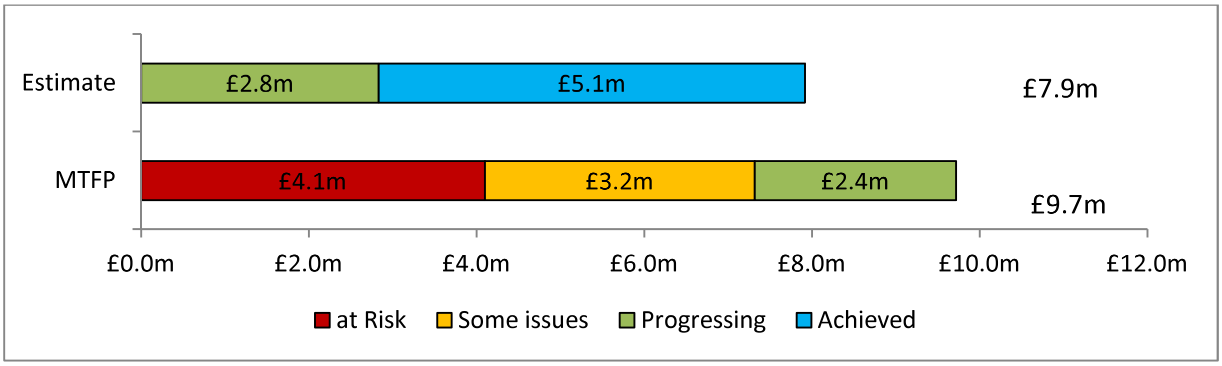
App. 5. All the graphs use the same legend:
Red – At risk, Amber – Some issues, Green – Progressing and Blue – Achieved.
Each graph is based on the appropriate scale and so they are not directly comparable one against another.

Adult Social Care



App. 6. The Directorate has already achieved savings of £15m this year, including £5.5m of savings to constrain inflation for individually commissioned care services. A further £13.9m is on target to be achieved, although there is an element of risk for £2.1m of these savings. The most significant element of ASC's savings plans in 2013/14 is the Family, Friends & Community (FFC) support strategy, which originally had a £15.5m savings target. Given the scale of the challenge and that this is the first year of these ambitious plans, it was flagged as a significant risk during the budget planning process and although considerable work is ongoing to fully embed this new approach, this will mainly impact on next year's budget. The December position indicates that the approach is not yet reducing spend but £1m of savings are anticipated to be achieved in the remainder of the year. The projected FFC slippage combined with minor slippage against other savings plans is being partially offset by £9.7m of unplanned one-off savings, which will need to be replaced by new savings plans in 2014/15. The main one-off savings measures are draw downs of £7.5m of unused Whole Systems 2011/12 funds and £1.7m of previous years' Winter Pressures funding. The Whole Systems funding was set aside by the Directorate as a contingency for this year's budget and the draw down has now been actioned following approval by Cabinet. The Winter Pressures money was carried forward to offset anticipated increased demand over the winter period.

Children, Schools & Families



App. 7. The forecast budget position for CSF means it is unlikely to achieve two of the planned efficiencies. Delays in achieving the efficiencies planned in services for

children with disabilities together with increasing demand for care packages, as described above, mean that the planned saving of £1.5m is unlikely to be fully achieved in 2013/14. Also, given the pressure on the transport budget the planned efficiency of £0.3m will not be achieved.

Customer & Communities

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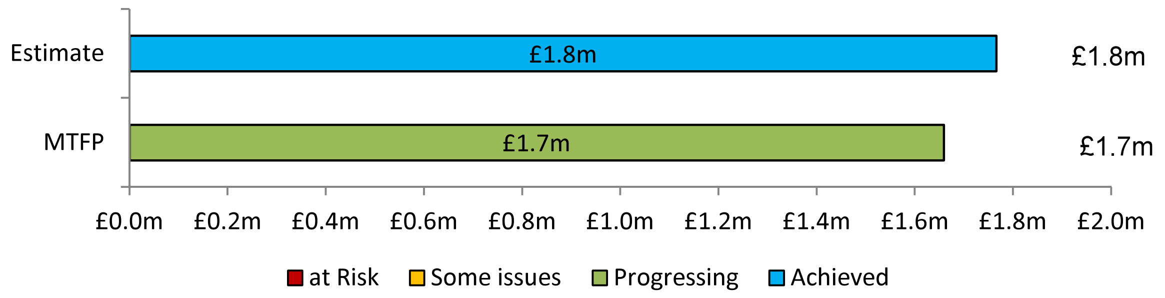
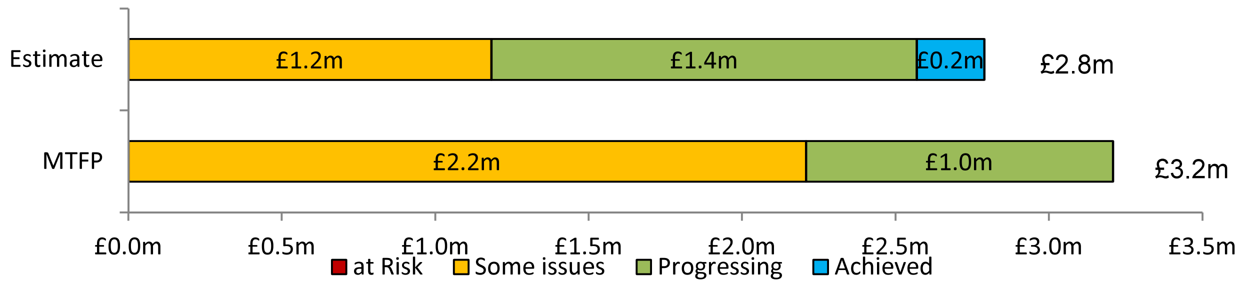


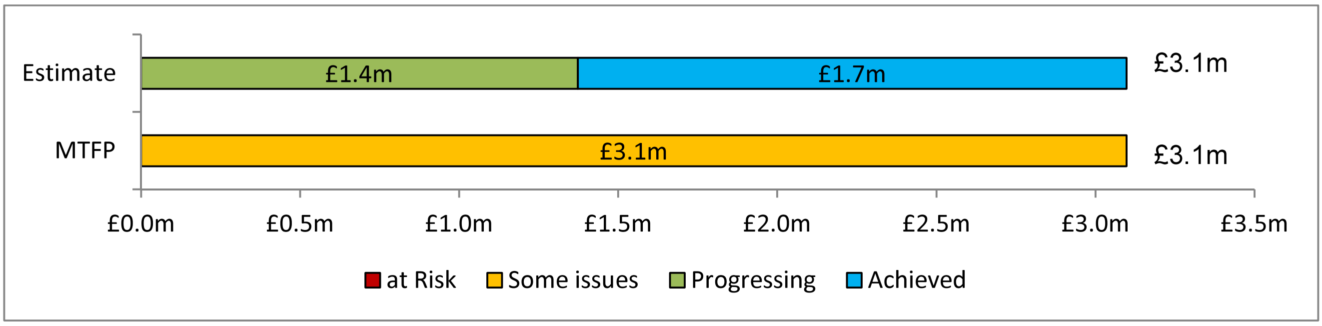
App. 8. The efficiencies summary shows an over-achievement of +£0.1m against the 2013/14 target of £1.7m. This is due to the early achievement of the 2014/15 Directorate Support staff saving. Actions to achieve the 2013/14 efficiencies have already been completed.

Environment & Infrastructure



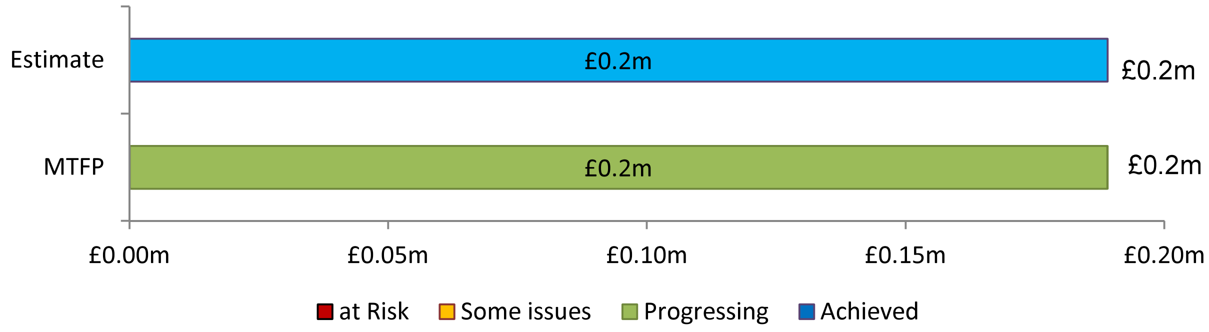
App. 9. The directorate currently expects to deliver all efficiency savings, except bus service contract savings (£0.4m). A number of risks remain and in some cases detailed plans are still in development. Some savings, including one off savings from parking income, have already been achieved.

Business Services



App. 10. The efficiencies identified in the MTFP are on track to be realised, all savings have been reviewed and plans are in place to achieve them and the risk of achievement has been appropriately adjusted.

Chief Executive's Office



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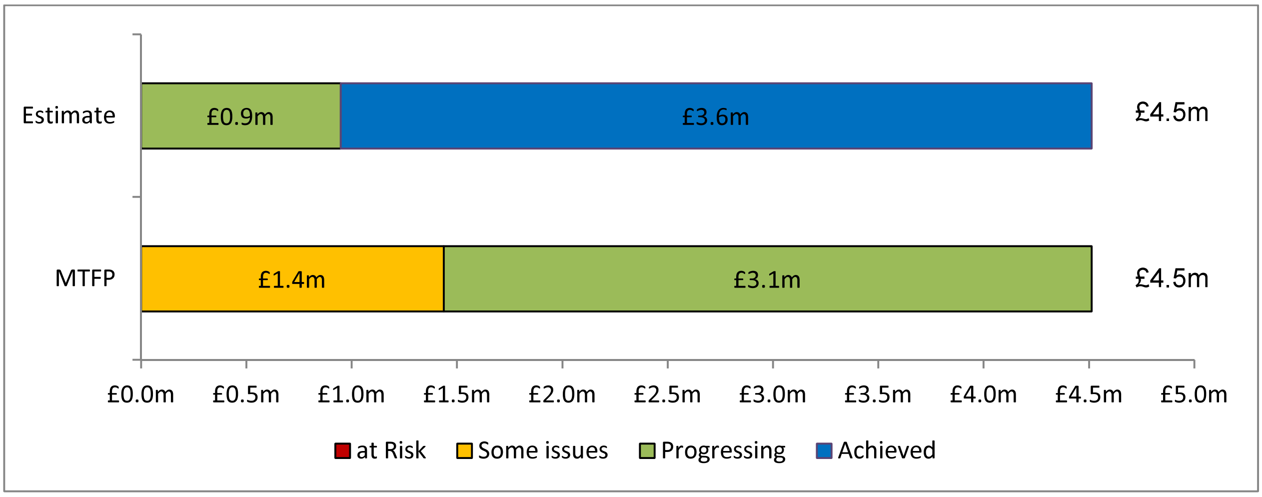
App. 11. The planned 2013/14 efficiencies have been achieved. The Directorate is currently holding vacancies within Policy & Performance in preparation for achieving efficiency savings for 2014/15 and will review these during the year to establish the on-going effect.

Central Income & Expenditure



App. 12. The efficiencies identified in MTFP 2013-18 from changes to the Council's treasury management strategy have been achieved. Those in relation to redundancy are on track to be realised.

Updated budget - revenue

App. 13. The Council's 2013/14 revenue expenditure budget was initially approved at £1,685.3m. Subsequently Cabinet approved the use of reserves built up in 2012/13 to augment this. Adding virement changes in May to November increased the expenditure budget at the end of November to £1,691.4m. In December, there was a transfer back to the Department for Education for academy status conversions (£1.9m) and a number of virements reprofiled the income & expenditure budgets, decreasing the overall expenditure budget by £1.6m. Table App 1 summarises these changes.

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Table App 1: Movement of 2013/14 revenue expenditure budget

	Income £m	Expenditure £m	Earmarked reserves	General balances £m	Total £m	Number of Virements
Original MTFP	-1,662.3	1,685.2	-11.0	-11.9	**0.0**	
Q1 changes	-2.3	11.1	-8.8		**0.0**	72
Q2 changes	7.7	-2.7	-5		**0.0**	114
October & November changes	-5.2	-2.2	7.4			76
Previous changes	**-1,662.1**	**1,691.4**	**-17.4**	**-11.9**	**0.0**	**262**
<u>December changes</u>						
Academy conversion Dec 13 - budget and grant reduction	1.9	-1.9			**0.0**	1
Local reform and Community Voices Grant	-0.2	0.2			**0.0**	1
Transfer of income and expenditure	-0.1	0.1			**0.0**	12
December changes	**1.6**	**-1.6**	**0.0**	**0.0**	**0.0**	**14**
Updated budget - Dec 2013	**-1,660.5**	**1,689.8**	**-17.4**	**-11.9**	**0.0**	**276**

App. 14. When Council agreed the MTFP in February 2013, some government departments had not determined the final amount for some grants. Services therefore estimated their likely grant. The general principle agreed by Cabinet was that any changes in the final amounts, whether higher or lower, would be represented in the service's income and expenditure budget. For example, there were a number of changes in September for the notification of schools transferring to Academy status.

App. 15. In controlling the budget during the year, budget managers occasionally need to transfer, or vire, budgets from one area to another. In most cases these are administrative or technical in nature, or of a value that is approved by the Chief Finance Officer.

App. 16. Virements above £250,000 require the approval of the relevant Cabinet Member. There was one virements above £250,000 in December:

a) transfer of £1.9m back to the Department for Education for academy status conversions for November;

App. 17. Table App 2 shows the updated revenue budget that includes the changes in government grants and virements since the beginning of the year.

Table App 2: 2013/14 updated revenue budget – December 2013

	Income £m	Expenditure £m	Net budget £m
Adult Social Care	-69.1	405.4	336.2
Children, Schools & Families	-150.2	331.2	181.1
Schools	-503.2	503.3	0.1
Customers and Communities	-24.2	84.1	60.0
Environment & Infrastructure	-18.7	150.3	131.6
Business Services	-14.9	98.1	83.2
Chief Executive's Office	-27.8	44.2	16.4
Central Income & Expenditure	-852.5	42.8	-809.7
Service total	**-1,660.5**	**1,659.4**	**-1.1**
Risk Contingency		13.0	13.0
Total	**-1,660.5**	**1,672.4**	**11.9**

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

App. 18. Table App 3 shows the year to date and forecast year end gross revenue position supported by general balances.

Table App 3: 2013/14 Revenue budget forecast position as at end of December 2013

	YTD Budget £m	Year to date Actual £m	**YTD Variance £m**	Full Year Budget £m	Remaining Forecast Spend £m	Outturn Forecast £m	**Forecast Variance £m**
Income:							
Local taxation	-428.3	-430.3	**-2.0**	-599.3	-169.0	-599.3	**0.0**
Government grants	-743.2	-723.3	**19.9**	-909.7	-186.6	-909.9	**-0.2**
Other income	-109.6	-143.6	**-34.0**	-151.5	-14.7	-158.3	**-6.8**
Income	-1,281.1	-1,297.2	**-16.1**	-1,660.5	-370.3	-1,667.5	**-7.0**
Expenditure:							
Staffing	233.2	229.3	**-3.9**	312.5	77.5	306.8	**-5.7**
Service provision	617.9	616.7	**-1.2**	856.6	238.8	855.5	**-1.1**
Non schools sub-total	851.1	846.0	**-5.1**	1,169.1	316.2	1,162.3	**-6.9**
Schools expenditure	396.6	398.2	**1.6**	503.3	105.1	503.3	**0.0**
Total expenditure	1247.7	1244.0	**-3.5**	1,672.4	421.3	1,665.6	**-6.9**
Movement in balances	**-33.4**	**-52.9**	**-19.5**	**11.9**	**50.9**	**-1.9**	**-13.9**

App. 19. Note: All numbers have been rounded - which might cause a casting error

8

Updated budget - capital

App. 20. The Council initially approved the 2013/14 capital expenditure budget at £187.3m. Subsequently, Cabinet amended the budget by approving reprofiling and carry forwards (-£32.6m in total, -£2.5m for 2013/14) from 2012/13. This decreased 2013/14's capital budget to £184.8m.

App. 21. New virements and reprofiling in May to November added £7.8m to the capital budget. There are changes to the capital budget totalling £32.7m, increasing the capital budget to £224.6m. There were three changes over £0.25m: £0.4m external funding for schools (i.e. parent teacher associations), purchasing Quadrant Court (£21.3m) and reprofiling highway maintenance (£11.0m).

App. 22. Table App 4 summarises these changes.

Table App 4: Movement of 2013/14 capital expenditure budget

2013/14 Monitoring	MTFP Budget £m	C/fwd and reprofiled budget £m	Budget virement £m	Revised full year budget £m
Adult Social Care	1.3	0.4	0.3	2.0
Children, Schools & Families	2.8	1.6	3.6	8.0
Customer & Communities	2.0	3.1	-0.3	4.8
Environment & Infrastructure	50.1	15.3	3.8	69.2
Business Services	50.4	0.6	23.8	74.8
Schools Basic Need	69.2	-14.9	0.1	54.3
Chief Executive's Office	11.5	0.0	0.0	11.5
Total overall	**187.4**	**6.1**	**31.3**	**224.6**

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

8

Balance sheet

Table App 5: Balance sheet

As at 31.03.2012 £m	**As at 31.03.2013 £m**		**As at 31.12.2013 £m**
1,257.8	1,280.0	Property, Plant & Equipment	1,234.3
0.7	0.7	Heritage Assets	0.7
		Investment Property	27.3
7.1	5.9	Intangible Assets	4.1
0.2	0.2	Long Term Investments	0.2
0.5	8.8	Long Term Debtors	9.8
1,266.3	**1,295.6**	**LONG TERM ASSETS**	1,276.4
		Short Term:	
100.0	104.1	Investments	128.6
0.1	0.1	Intangible Assets	0.1
4.6	15.3	Assets Held for Sale	15.3
1.4	1.3	Inventories	0.8
100.8	141.5	Short Term Debtors	143.3
109.8	114.1	Cash & Cash Equivalents	21.6
316.7	**376.4**	**CURRENT ASSETS**	309.7
		Short Term:	
-15.1	-82.1	Borrowing	-26.1
-195.0	-234.3	Creditors	-221.3
-2.6	-3.3	Provisions	-2.1
-0.2	-0.2	Revenue Grants Receipts in Advance	-0.2
-1.2	-0.6	Capital Grants Receipts in Advance	-0.6
-214.1	**-320.5**	**CURRENT LIABILITIES**	-250.3
-7.9	-7.2	Provisions	-7.2
-306.2	-238.1	Long Term Borrowing	-238.1
-984.5	-1,145.4	Other Long Term Liabilities	-1,145.1
-1298.6	**-1,390.7**	**LONG TERM LIABILITIES**	-1,390.4
70.3	**-39.2**	**NET ASSETS / (-) LIABILITIES**	-54.6
-269.1	-288.4	Usable Reserves	-333.2
198.9	327.6	Unusable Reserves	387.8
-70.2	**39.2**		54.6

8

Earmarked reserves

Table App 6: Earmarked reserves

	Actual Opening Balance	Actual balance at	**Forecast**	**Forecast**
	01-Apr-13	31-Dec-13	**31-Mar-14**	**01-Apr-14**
	£m	£m	**£m**	**£m**
Earmarked revenue reserves				
Investment Renewals Reserve	**13.3**	13.0	**10.6**	**10.6**
Equipment Replacement Reserve	**3.1**	3.3	**2.8**	**1.0**
Vehicle Replacement Reserve	**5.1**	5.5	**5.2**	**5.2**
Waste Site Contingency Reserve	**0.3**	0.3	**0.3**	**0.0**
Budget Equalisation Reserve	**6.1**	8.9	**23.5**	**3.4**
Financial Investment Reserve	**1.6**	1.6	**1.6**	**1.6**
Street lighting PFI Reserve	**5.8**	6.2	**6.2**	**6.2**
Insurance Reserve	**7.4**	8.5	**8.2**	**8.2**
Severe Weather Reserve	**5.0**	0.0	**0.0**	**0.0**
Eco Park Sinking Fund	**8.0**	11.6	**11.6**	**11.6**
Revolving Infrastructure & Investment Fund	**19.5**	19.5	**20.3**	**20.3**
Child Protection Reserve	**3.6**	3.1	**2.2**	**2.2**
Interest Rate Reserve	**3.2**	4.7	**4.7**	**1.0**
Economic Downturn Reserve	**4.4**	6.0	**6.0**	**6.0**
General Capital Reserve	**7.6**	7.6	**4.6**	**4.6**
Total earmarked revenue reserves	**94.0**	**99.8**	**107.8**	**81.9**

8

Debt

App. 23. During the third quarter of 2013/14 the Accounts Payable team raised invoices totalling £45.2m, making a total of £128.8m for the year to date.

App. 24. Table App 7 shows the age profile of the Council's care, and non-care related debt.

Table App 7: Further information on debts

Account group	<1 Month £m	2-12 Months £m	1-2 Years £m	>2 years £m	Total £m	Overdue debt £m
Care debt - unsecured	3.8	2.2	1.4	3.0	10.4	6.6
Care debt - secured	0.2	2.2	1.5	2.7	6.5	
Total Care	**4.0**	**4.4**	**2.9**	**5.7**	**16.9**	**6.6**
General debt	5.1	3.0	0.4	0.5	9.0	3.9
Property	0.2	0.1	0.0	0.0	0.3	0.1
Total non-care debt	**5.3**	**3.1**	**0.4**	**0.5**	**9.3**	**4.0**
Total debt	**9.4**	**7.5**	**3.3**	**6.2**	**26.2**	**10.6**

App. 25. The amount still outstanding of these invoices was £26.2m of gross debt at 31 December 2013. The gross debt is adjusted to take into account those balances not immediately due (i.e. less than 30 days old), or collectable (i.e. secured on property). This produces the figures for net debt, which is shown in Table App 8.

Table App 8 –Overdue debt summary as at 31 December 2013

	2013/14 Q3 £m	2012/13 Q3 £m	2012/13 Q4 £m	2011/12 Q4 £m	2010/11 Q4 £m	2009/10 Q4 £m
Care related debt	6.6	6.1	7.6	6.1	6.8	6.1
Non care related debt	4.0	3.1	3.8	3.0	3.9	3.6
Total	**10.6**	**9.2**	**11.4**	**9.1**	**10.7**	**9.7**

App. 26. The increase in care debt outstanding was a concern and is being addressed by a Rapid Improvement Event (RIE). Systems, restructuring and overall economic factors may have played a part in this, and more specifically during the last quarter of the 2012/13 financial year the SWIFT reconciliation process identified new income for the Council that was previously uncharged. From a debt recovery perspective clients were reluctant to pay high value retrospective bills resulting in an increase in the value of outstanding debt.

App. 27. Non care debt that is within the two and six months old category has risen sharply over the last three months. This is due to the Clinical Commissioning Groups (CCGs) that were formed on 1 April this year and it is currently taking longer to reach agreement with the new management. Senior officers from the council are working closely with their colleagues in the CCGs to resolve these issues.

App. 28. The Council's debt policy includes a target of 30 days to collect non-care debt. The average number of debtor days for the period 1 April to 31 December 2013 was 26 days.

App. 29. The Chief Finance Officer has delegated authority to write off irrecoverable debts in line with financial regulations. This quarter (Q3 2013/14), 133 such debts have been written off with a total value of £142,562, of which £30,772 is care related and £11,791 is non care related debt. Together with the first quarter, 357 such debts have been written off with a total value of £583,828, of which £493,568 is care related and £90,261 is non care related debt.

8

Treasury management

Borrowing

App. 30. The Council borrows money to finance the amount of our capital spending that exceeds receipts from grants, third party contributions, capital receipts and reserves. The Council must also demonstrate that the costs of borrowing are affordable, prudent and sustainable under the Prudential Code.

Table App 9 – Long term borrowing as at 31 December 2013

	£m
Debt outstanding as at 1 April 2013	305.2
Loans raised	0.0
Loans repaid	67.9
Current balance as at 31 December 2013	237.2
Borrowing requirement for the year	N/a

App. 31. Due to low interest rates earned on cash balances held until spent (referred to as the "cost of carry"), there has been no borrowing to meet the Capital Financing Requirement (CFR) during the 2013/14 financial year. Any unsupported capital expenditure has been met from cash reserves.

App. 32. The Council is able to undertake temporary borrowing for cash flow purposes. The Council also manages cash on behalf of Surrey Police Authority (£18m as at 31 December 2013) which is classed as temporary borrowing.

Authorised limit / operational boundary

App. 33. The following prudential indicators control the overall level of borrowing:

App. 34. The **authorised limit** represents the limit beyond which borrowing is prohibited. The limit reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing needed with headroom for unexpected cash flow. This is a statutory limit determined under section 3(1) of the Local Government Act 2003.

App. 35. The **operational boundary** is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an indicator to ensure the authorised limit is not breached.

Table App 10: Borrowing against the authorised limit and operational boundary

	Authorised limit £m	Operational boundary £m
Gross Borrowing	310	310
Limit / Boundary	662	602
Headroom	352	292

Capital Financing Requirement

App. 36. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for a capital purpose. The Council must ensure that, in any one year, net external borrowing does not, except in the short-term exceed the estimated CFR for the next three years. The Council's position against the estimated CFR, as reported to the County Council in March 2013 is shown below. The current borrowing position shows a net position of £151.5m more in borrowing than we hold in short term deposits. This is due to low cash balances held at the end of December, with no precept collection during that month.

	CFR £m		Net borrowing
2013/14	2014/15	2015/16	£m
560	659	770	151.4

Maturity profile

App. 37. The Council has reduced its exposure to large fixed rate loans falling due for refinancing in any one year by setting gross limits for its maturity structure of borrowing in accordance with the Prudential Code, as shown in the table below:

	Upper limit	Lower limit	Actual
Repayable in 2013/14 (1 year)	50%	0%	0%
Repayable from 2014/15 (1 - 2 years)	50%	0%	0%
Repayable from 2015/16 to 2017/18 (2 - 5 years)	75%	0%	4%
Repayable from 2018/19 to 2022/23 (5 - 10 years)	75%	0%	0%
Repayable from 2023/24 to 2027/28 (10 - 15 years)			
Repayable from 2028/29 to 2037/38 (15 - 25 years)	75%	0%	3%
Repayable from 2038/39 onwards (25 - 50 years)	100%	25%	93%

8

Early debt repayment and rescheduling

App. 38. There has been no early repayment or rescheduling in 2013/14.

Investments

App. 39. The Council had an average daily level of investments of £307.1m throughout 2012/13, with a projection of £276m expected for 2013/14. The balance of funds managed on behalf of schools within this figure stood at £44m at 31 December 2013.

App. 40. Cash is invested on the money markets through one of the Council's four brokers, or directly with counterparties through the use of call accounts, money market funds or direct deal facilities. A breakdown of activity during the year to 31 December 2013 is given below:

Timed deposits	Number	Average value £m
Deals using a broker	74	5.9
Direct deal facilities	5	8.5
Deals with DMO	70	30.3
Instant access		**Limits £m**
- Active call accounts	2	120.0
- Active money market funds	5	100.0

App. 41. The weighted average return on all investments received to the end of the third quarter in 2013/14 is 0.43%. This compares favourably to the average 7-day London Interbank Bid rate (LIBID) of 0.36% for the equivalent period. The comparison is shown in the following table:

	Average 7-day LIBID	Weighted return on investments
Quarter 1	0.36%	0.41%
Quarter 2	0.36%	0.41%
Quarter 3	0.35%	0.48%
2013/14 total	**0.36%**	**0.43%**
2012/13 total	0.39%	0.55%

Iceland

App. 42. The key local issue of concern in relation to the treasury strategy is the Council's £20m deposits with two failed Icelandic banks, Glitnir and Landsbanki. Of this £20m, the Council's exposure was £18.5m with the balance attributable to Surrey Police Authority. 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.

App. 43. On 28 October, 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 with no further right of appeal.

App. 44. The current position is that 55% of Landsbanki and over 84% of Glitnir deposits have been repaid, with high expected recovery rates for both banks. The balance owed on each deposit is shown in the table below.

Counterparty	Period	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%	5,520	4,480

SURREY
COUNTY COUNCIL

Council Overview and Scrutiny Committee
30 January 2014

Review of the Investment Panel: Report from Audit & Governance Committee

9

Purpose of the report: Scrutiny of Services and Budgets

To report the Audit & Governance Committee findings, following a review of the Investment Panel.

Background:

1. At the meeting of Adults Social Care Select Committee on 20 September 2013, the Audit & Governance Committee was asked to review the new structure, membership and procedures of the Investment Panel, and report to Council Overview & Scrutiny Committee on its findings.

2. On 2 December 2013, the Audit & Governance Committee considered an officer report and met with Nick Carroll, the Finance Manager – Funding & Planning to discuss the recent changes to arrangements for the Investment Panel. The draft Minute of the item is attached as Annex 1.

3. The Committee was reassured by the following changes:

   - The Terms of Reference for the Investment Panel addresses issues such as low attendance at meetings by introducing a quorum for meetings.
   - Substitute members are now limited to appropriate members of the Council Performance Team.
   - There is a clearer distinction between the decision-making role of Cabinet Members and the scrutiny role of the Investment Panel. Cabinet Members do not sit on the Investment Panel.

4. The Committee requested that when the officer report on the Review of the Investment Panel is taken to Council Overview and Scrutiny Committee that it includes a process flow chart and the remits of all groups mentioned eg the Productivity & Efficiency Panel and the Models of Delivery Board. These flow charts are included as Annex 2 and 3. The remits of the groups are included as footnotes in the amended report.

Conclusions:

The Committee concluded that it was satisfied with the developing structure, membership and procedures for the Investment Panel.

Recommendations:

9

That Council Overview and Scrutiny Committee note the Audit & Governance Committee's findings while considering the officer report on the Review of the Investment Panel.

Next steps:

Council Overview and Scrutiny Committee to consider the officer review of the Investment Panel.

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Sources/background papers: Officer Report to Audit & Governance Committee (2 December 2013) Review of the Investment Panel

70/13 REVIEW OF THE INVESTMENT PANEL [Item 12]

Declarations of Interest:
None.

Witnesses:
Nick Carroll, Finance Manager – Funding & Planning

Key Points Raised During the Discussion

1. The Finance Manager – Funding & Planning introduced the report.
2. In response to a question about Cabinet membership of the Panel, the Finance Manager – Funding & Planning explained that, due to the changing scope of the Investment Panel, it was no longer particularly relevant to the Cabinet Member for Assets and Regeneration. There was also a clearer distinction between the decision-making role of Cabinet Members and the scrutiny role of the Investment Panel. The process is that the Cabinet approves the main capital programme, officers then produce business plans which the investment Panel reviews to ensure that the business case is sound, providing assurance to Cabinet. 9
3. A Member queried the overlapping membership of the Investment Panel and the Investment Advisory Board. The Chairman agreed the use of 'Investment' in both the groups' names was confusing but while the Investment Panel is internally focussed, the Investment Advisory Board is externally focussed, and concerned with revenue raising.
4. The Chairman suggested that it would be helpful for the report to include a flow chart showing how the process works when it goes to Council Overview and Scrutiny Committee. He also asked that the remits of all groups mentioned be set out eg the Productivity & Efficiency Panel and the Models of Delivery Board (**Recommendations Tracker ref: A47/13**).
5. The Chairman was satisfied that the Terms of Reference for the Investment Panel does address issues such as low attendance at meetings and the use of email chains for decision making by introducing a quorum for meetings. The Chief Internal Auditor also confirmed that she was encouraged by developments, citing the importance of a quorum and substitute members being limited to the Council Performance Team.

Actions/Further Information to be Provided:
The officer report to Council Overview and Scrutiny Committee to include a process flow chart and the remits of all groups mentioned eg the Productivity & Efficiency Panel and the Models of Delivery Board.

Resolved:

a) To NOTE the recent changes to arrangements for the Panel; and
b) To REPORT its findings to Council Overview and Scrutiny Committee (**Recommendations Tracker ref: A48/13**).

Next Steps:
None.

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Audit & Governance Committee
2 December 2013

Review of the Investment Panel

Purpose of the report: To review the new structure, membership and procedures of the Investment Panel and report to Council Overview & Scrutiny Committee on findings.

9

Introduction:

1. This report reviews the new terms of reference and operating arrangements for the Investment Panel (the Panel). It considers the effects of changes to the Panel's scope and position in the council's governance framework on its structure, membership and procedures.

Recommendations:

2. It is recommended that Audit & Governance Committee:

   a) notes the recent changes to arrangements for the Panel; and

   b) reports its findings to Council Overview & Scrutiny Committee.

Investment Panel

Background

3. Surrey County Council established Investment Panel in 2010 in response to a serious governance failure in relation to a major investment. The Panel's remit was to review the robustness of the business cases supporting proposals for capital investment and invest to save projects prior to decision by Cabinet or Cabinet Member in conjunction with the Leader.

4. In the summer of 2013, the council strengthened its governance arrangements, including the role and scope of the Continual Improvement Board[1] (CIB), which is chaired by the Strategic Director for Environment & Efficiency. Investment Panel is now a sub-group of CIB.

[1] Continuous Improvement Board comprises: Strategic Director for Environment & Infrastructure (Chair), Chief Finance Officer, Head of HR and OD, Head of Policy and Performance, directorate representatives

5. The Panel has not and does not approve business cases. It assures Cabinet, or Cabinet Member and the Leader that the business case supporting a proposal is sound.

Investment Panel's terms of reference and operating arrangements

6. Annex 1 sets out the Panel's terms of reference. In summary, these cover to:

   - review and challenge business cases for schemes relating to approved capital programme items, revenue invest to save proposals and major revenue IT projects to ensure proposals for decision by Cabinet or Cabinet Member in conjunction with the Leader are sufficiently robust and

   - provide oversight of the council's whole capital programme and major revenue investments.

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7. The Investment Panel does not consider the council's commercial investments. Item 13 on this agenda, the Governance Update Report, outlines the governance arrangements for the council's new trading strategy, which includes input from the Investment Advisory Board.

8. A member of CIB chairs the Panel. Its membership also includes the Chief Finance Officer and Deputy Director of Business Services and the heads of service for property, internal audit and IMT, plus two front line service heads. This expanded membership reflects the Panel's increased scope and strengthens overall governance by incorporating a wider perspective. Panel members apply their professional knowledge, expertise and judgement to review and challenge business cases to ensure each proposal for decision by Cabinet or Cabinet Member in conjunction with the Leader has a sound basis.

9. To help ensure consistency, currency and relevance the Panel agrees its evaluation criteria and exemption policy at the start of each financial year.

10. Key elements of the evaluation criteria include the following:

    - Has the project had the necessary sign off before submission?
    - Are the project's aims and intended outcomes clear?
    - Has there been sufficient option appraisal?
    - Is the preferred option affordable?
    - Does the preferred option demonstrate value for money to the council?
    - Does the business case fully set out the implications and risks of the preferred option?
    - Does the business case set out milestones against which the preferred option can be monitored?

11. Exemptions from business case review apply to:

- schemes funded by and for a third party such as a Diocese run school
- schemes determined by local committees
- grant funded schemes awarded on a bid basis where the council has already set out its business case in its funding bid
- highways and property maintenance programmes and
- Low value IT Change projects.

12. Business case review exemptions apply to highways and property maintenance programmes and smaller scale IT change projects because prioritisation criteria exist within the relevant services to manage the budgets for this work. To allow the exemption, Capital Working Group[2] (CWG) considers and approves the prioritisation criteria before the start of each financial year and agrees a schedule to report to the Panel on how it has applied the criteria. This gives the Panel oversight of these programmes without bringing numerous smaller scale jobs for its consideration. 9

13. The Panel only considers business cases where there is evidence of prior review by the appropriate Strategic Finance Manager or Senior Principal Accountant. Only business cases the Panel considers to be sufficiently sound proceed to Cabinet (schemes above £1 million) or Cabinet Member in conjunction with the Leader (schemes between £100,000 and £1 million) for decision whether to release money to enable work on the schemes to start. The Chief Finance Officer can approve capital schemes of less than £100,000 value.

14. The next stage is procurement, including decisions about route to market and contract award.

Capital programme schemes

15. The panel considers business cases that form a part of the council's main capital programme that has been approved in principle by the cabinet.

16. CWG conducts the initial review of proposals to determine whether they should be presented to Cabinet for decision to identify schemes in the Medium Term Financial Plan (MTFP) capital programme.

17. The Panel reviews the robustness of the scheme's business case before Cabinet or Cabinet member in conjunction with the Leader decide whether the council should begin work on a scheme identified in the overall capital programme. Finance provides support to the service preparing the business case to ensure the option appraisal is appropriate and the payback period for savings or income generation business cases is acceptable.

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[2] Capital Working Group comprises: Chief Executive (Chair), Strategic Director for Children, Schools and Families, Strategic Director for Environment and Infrastructure, Strategic Director for Business Services, Chief Finance Officer, Head of Property Services, two directorate representatives

18. Following cabinet or cabinet member approval, the panel will monitor the progress of projects against agreed milestones, which will include budget.

Revenue invest to save items

19. The council has an Invest to Save fund from which services can borrow funds to enable investment in more efficient working practices, processes and systems that produce cashable savings. The savings produced are used to meet service efficiency targets and repay the Invest to Save Fund. Before a scheme receives the appropriate approval from the Cabinet, Cabinet Member for Business Services in conjunction with the Leader or the Chief Finance Officer, the Investment Panel reviews the robustness of each scheme's business case to ensure it is sound.

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20. In a similar way to capital schemes, Finance provide support to the service preparing the business case and ensure the option appraisal and the payback period are appropriate.

21. The Panel will review the balance and commitments against the council's Invest to Save fund on a quarterly basis.

Revenue IT change projects

22. The Investment Panel will also review the robustness of business cases for major revenue IT change projects prior to decision to proceed by Cabinet, Cabinet Member in conjunction with the Leader or the Chief Finance Officer.

23. The Head of IMT uses criteria agreed annually with CWG to decide priority for revenue change projects falling below the £50,000 threshold.

Conclusions:

24. The changes to the Panel's terms of reference and operating arrangements strengthen overall governance by:

    - ensuring capital, revenue investment and major revenue IT change project proposals put forward for decision by Cabinet or Cabinet Member in conjunction with the Leader have a sound business case
    - bringing a wider professional perspective to the Panel and its consideration of proposals and
    - placing more reliance on evidenced review and input by relevant finance officers.

Financial and value for money implications

25. The revised terms of reference and operating arrangements for the Panel aim to improve financial management and value for money by ensuring business cases for all proposals the Panel considers has input by relevant finance officers and evidence of review by senior finance officers.

Equalities implications

26. None.

Risk management implications

27. The revised terms of reference and operating arrangements for the Panel aim to improve risk management by ensuring investment proposals for decision by Cabinet or Cabinet Member in conjunction with the Leader have a sound business case.

Implications for the council's priorities or community strategy

28. None.

9

Next steps:

29. The Panel has begun to operate under the new arrangements. Pending comments from the Committee or the Council Overview and Scrutiny Committee, the Panel will continue to establish the procedures described in this report.

Report contacts:

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Sources/background papers:

Annex 1 – Investment Panel terms of reference, November 2013

Investment Panel Terms of Reference
November 2013

Overview of purpose of Investment Panel:

A1.1 To help ensure value for money by providing assurance by reporting to Continual Improvement Board (CIB), Corporate Board and Members that robust strategic and full business cases (SBC and FBC) support proposals for:

- new capital projects;
- invest to save bids;
- major revenue projects, including IT change projects and;

A1.2 To strengthen governance arrangements and embed consistent standards.

A1.3 To provide objective, professional review and challenge of business cases.

A1.4 To review progress of capital schemes against agreed milestones

General role:

A1.5 The Panel uses its collective professional knowledge and judgement to review and challenge business cases to ensure proposals for Cabinet or Cabinet Member decisions are sufficiently robust.

A1.6 The Panel takes an overview of the whole capital programme and major revenue investments and considers the impact of the scale and scheduling of proposed schemes on the Council's capacity to deliver its highest priority schemes.

A1.7 The Panel liaises with the Capital Working Group, Investment Advisors' Board, Models of Delivery Board[3] and Productivity & Efficiency Panel[4] to share intelligence about the robustness, performance and progress of schemes, projects and programmes.

A1.8 The Panel reports significant issues to CIB.

Role of Investment Panel members

A1.9 Panel members use their individual professional knowledge, expertise and judgement to review and challenge business cases to ensure the Council achieves value for money from its capital investments and major revenue projects.

[3] Models of Delivery Board provides CLT and directorates with facilitation, challenge and quality assurance on proposals for new ways of delivering services, such as: trading, partnerships and other models. It assesses proposals against criteria including: efficiencies, net income and significantly improving outcomes at nil cost.

[4] Productivity and Efficiency Panel coordinates and monitors the council's programmes for increasing productivity and efficiency. It objectively and professionally reviews proposed productivity and efficiency projects and assesses progress on projects to give assurance to Continual Improvement Board and Corporate Leadership Team on achievement.

A1.10 Panel members use their individual professional knowledge, expertise and judgement to monitor and review performance of the capital programme.

Specific roles and responsibilities of Investment Panel

A1.11 The Panel primarily assesses the robustness of business cases using its agreed evaluation criteria to help ensure the Council achieves value for money.

A1.12 The Panel monitors and reviews the overall progress of the Council's capital and major revenue projects. This includes monitoring progress against milestones and post completion reviews to show how far projects realised their intended benefits.

A1.13 The Panel identifies process or practice improvements in business case development, capital scheme management, project implementation and post completion reviews. 9

A1.14 The Panel provides guidance, feedback and training on business case development.

Membership

A1.15 The Panel's core members are:

- Member of CIB (Chair)
- Chief Finance Officer and Deputy Director of Business Services
- Chief Property Officer
- Chief Internal Auditor
- Head of IMT
- Two front line service directorate representatives drawn from Council Performance Team (CPT)

A1.16 The Principal Accountant - Capital Programme acts as Technical Secretary to the Panel. Finance provides business support and Minutes Secretary.

A1.17 Panel quorum is four members.

A1.18 Panel members must arrange appropriate substitutes when they are unable to attend. Substitutes must be a member of CPT.

A1.19 The broader proposed remit of the Panel means less of its business would be relevant to the Cabinet Member for Assets and Regeneration Programmes. In the interests of expediency, the Chief Property Officer would discuss capital programme and innovative capital investment matters with the Cabinet Member for Assets and Regeneration Programmes before Panel meetings and debrief following the meeting.

Meetings

A1.20 The Panel meets monthly in advance of regular budget monitoring reports to Corporate Board to ensure timely consideration of business cases in advance of Cabinet meetings.

A1.21 The Chair approves the agenda. The Secretary circulates the agenda and papers at least five working days before the meeting.

A1.22 The Secretary invites relevant project sponsors and Finance, Property, IMT and other relevant professional support to meetings to present business cases.

A1.23 The Chair will ensure the Technical Secretary arranges the reporting of project progress against agreed milestones.

A1.24 The Technical Secretary will report the balance and commitments against the council's Invest to Save fund on a quarterly basis.

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A1.25 After each meeting, the Chair approves meeting notes and actions. The Secretary circulates notes and actions the next working day.

Evaluation criteria and exemptions

A1.26 The Panel agrees at the start of each financial year its evaluation criteria and exemption policy.

A1.27 The Panel will apply the following agreed evaluation criteria to ensure consistency in reviewing business cases.

- Has the project had the necessary sign off before submission?
- Are the project's aims and intended outcomes clear?
- Does the proposal comply with the Council's agreed corporate and financial strategies?
- Does the project deliver the corporate and service policy aims?
- Does the business case consider all relevant options?
- Is the preferred option affordable?
- Does the preferred option demonstrate value for money to the council?
- Does the business case set out fully the implications and risks of the preferred option?
- Does the business case set out milestones against which the preferred option can be monitored?

A1.28 The Panel will apply the following policy to exempt any schemes from business case review.

- Capital schemes where Surrey County Council carries out work funded by, and on behalf of a third party e.g. extending a Diocese run school.
- Capital schemes determined by local committees.
- Grant funded schemes awarded on a bid basis where the council has already set out the business case in its funding bid. Finance will have agreed the bid and

- Highways and property maintenance programmes and smaller scale IT change projects where prioritisation criteria exist within the relevant services to manage the budgets for this work.

A1.29 To allow exemption from business case review based on prioritisation criteria, the Panel considers and approves the prioritisation criteria for the service before the start of each financial year and agrees a schedule for the service to report on how it has applied the criteria for that year. This will give the Panel oversight of these programmes without bringing numerous smaller scale jobs under its consideration.

Procedure

A1.30 For capital spending, Capital Working Group (CWG) reviews the robustness of all high level business cases. The business cases include support from Finance in preparing the options appraisal and high level costings. A service will present its business case to CWG explaining: 9

- the need for capital investment
- options for resolving the issue
- high level costings and
- funding available such as revenue, developers' contributions (Section 106, Community Infrastructure Levy) or grants, including whether the grant requires competitive bidding and if so, the awarding body's success criteria.

A1.31 Business cases considered sufficiently sound by CWG will progress to Cabinet for decision whether to include it in the capital programme.

A1.32 The Panel receives business cases for review. This includes evidence that the relevant Strategic Finance Manager (or Senior Principal Accountant) has reviewed the business case and supports its progression to the Panel for review.

Where a business case is not robust, the Panel rejects it and provides feedback, so the service might resubmit an amended proposal. Business cases rejected by the Panel as being insufficiently sound do not proceed to Cabinet or Cabinet Member for decision.

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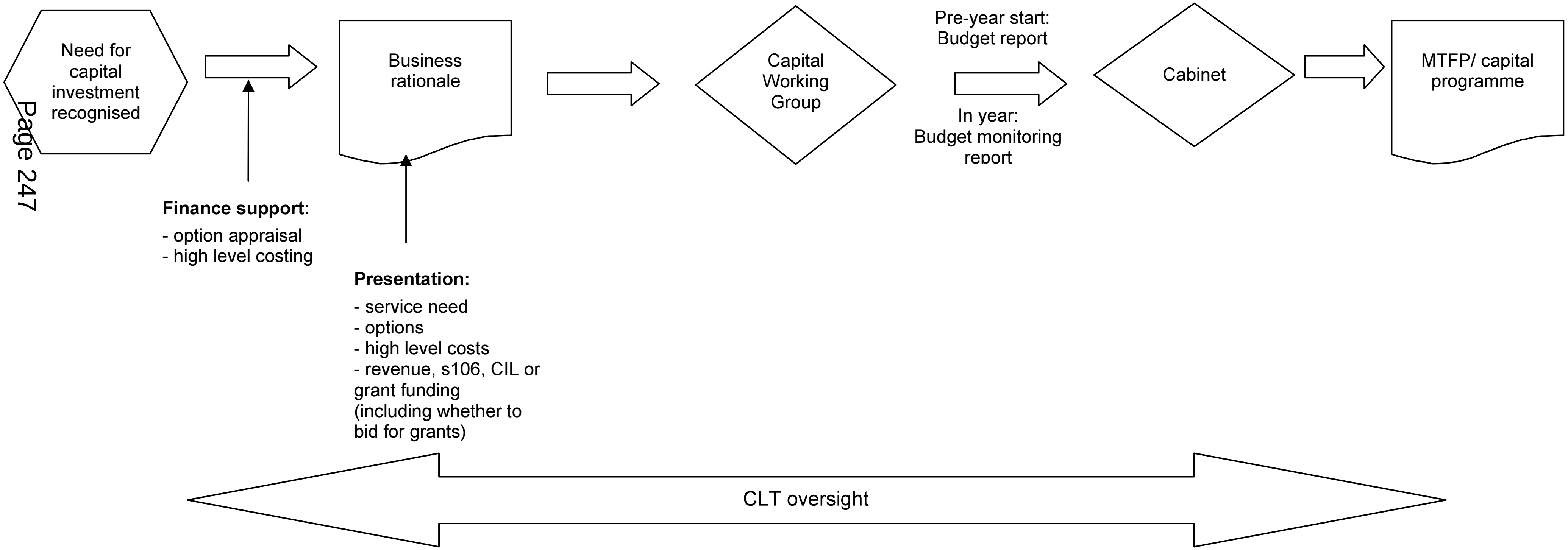
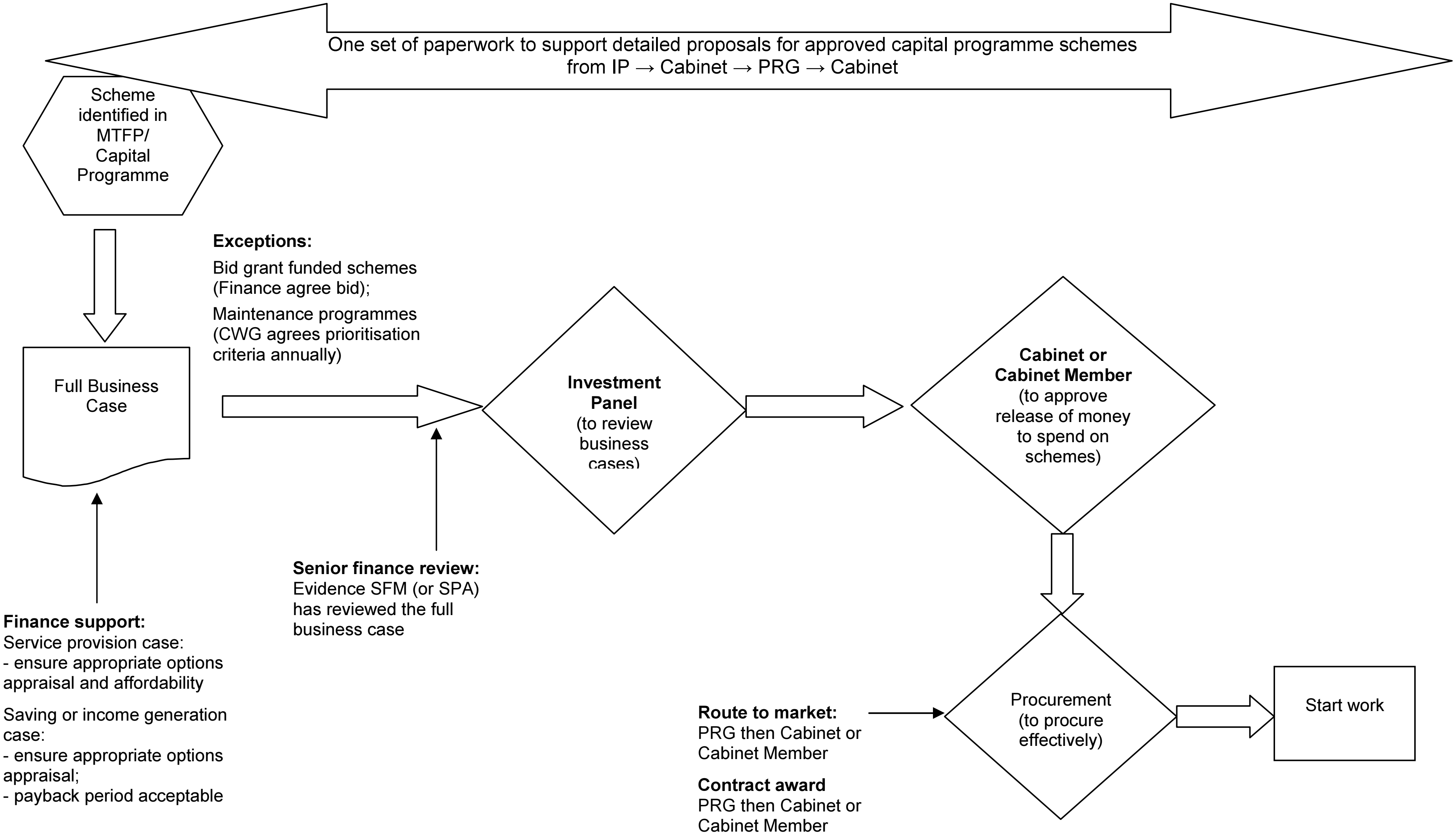
Annex 2 Capital programme

Stage 1 – Need for capital investment to capital programme (MTFP)



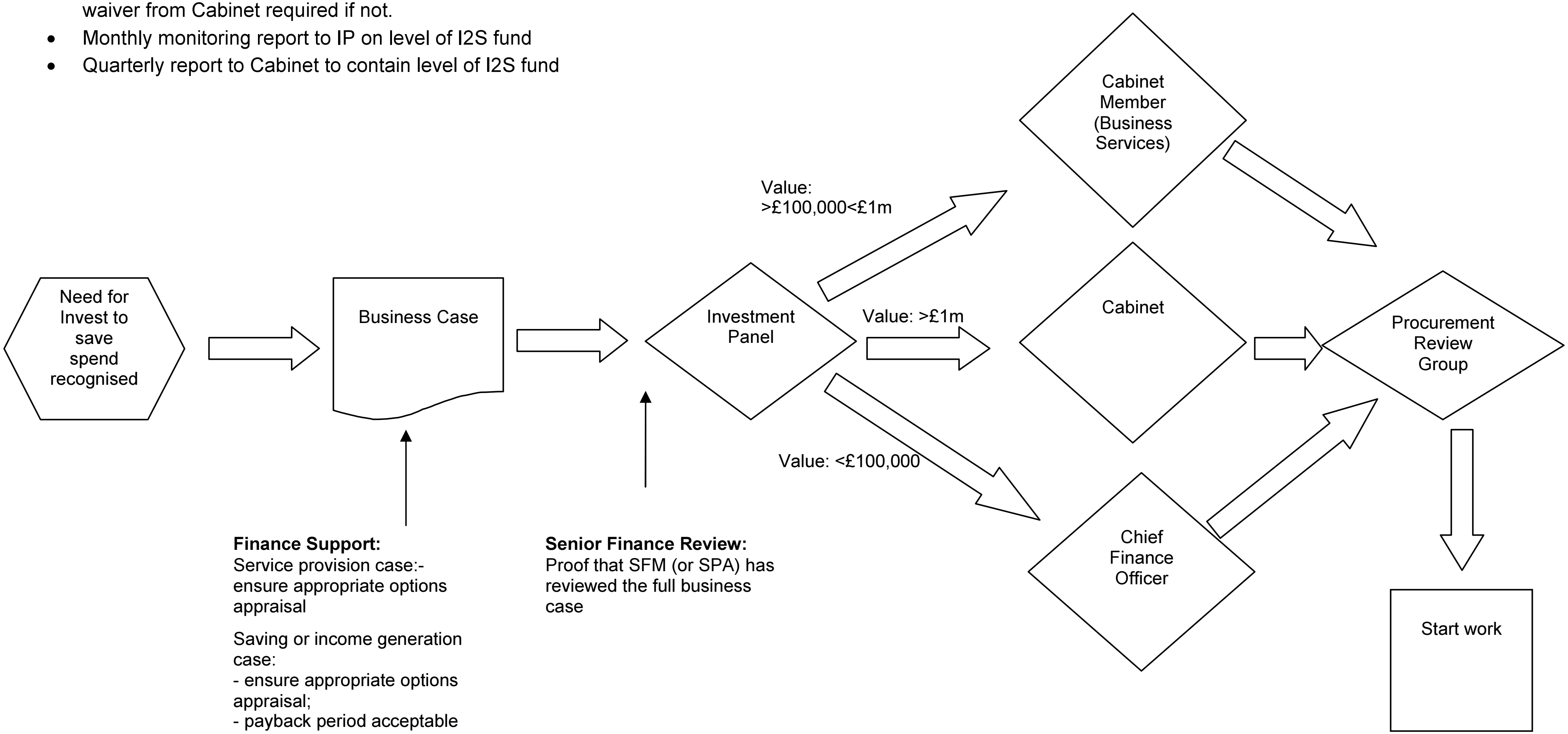
Stage 2 – Capital programme (MTFP) to starting work



Annex 3

Investment Panel – revenue Invest to Save process

- Approval value follows virement rules
- Assumption that Invest to Save (I2S) scheme achieves saving and pays back fund within 3 years. Specific waiver from Cabinet required if not.
- Monthly monitoring report to IP on level of I2S fund
- Quarterly report to Cabinet to contain level of I2S fund



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SURREY
COUNTY COUNCIL

Council Overview & Scrutiny Committee
30 January 2014

FORWARD WORK PROGRAMME & RECOMMENDATIONS TRACKER

10

1. The Committee is asked to review its Forward Work Programme and Recommendations Tracker which are attached.

Recommendations:

That the Committee reviews its work programme and recommendations tracker makes suggestions for additions or amendments as appropriate

Next Steps:

The Committee will review its work programme and recommendations tracker at each of its meetings.

Report contact: Bryan Searle, Senior Manager, Scrutiny and Appeals.

Contact details: 020 8541 9019, bryans@surreycc.gov.uk

Sources/background papers: None.

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COUNCIL OVERVIEW & SELECT COMMITTEE
ACTIONS AND RECOMMENDATIONS TRACKER – UPDATED January 2014

The recommendations tracker allows Committee Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated following each Select Committee. Once an action has been completed, it will be shaded out to indicate that it will be removed from the tracker at the next meeting. The next progress check will highlight to members where actions have not been dealt with.

Recommendations made to Cabinet

Date of meeting and reference	Item	Recommendations	To	Response	Progress Check On
3 October 2013 COSC 003	DIGITAL BY DEFAULT [Item 6]	That the Cabinet considers developing a high-level strategy document to help guide its approach to the digital delivery of both back-office and front-line services.	Cabinet	This was considered at the Cabinet meeting on 22 October 2013. A response was included in the Committee papers on 7 November 2013. It was agreed on 4 December 2013 that this matter would be reviewed 6 months after the appointment of a Chief Digital Design Officer.	June 2014

Date of meeting and reference	Item	Recommendations	To	Response	Progress Check On
3 October 2013 COSC 004	DIGITAL BY DEFAULT [Item 6]	That consideration be given to identifying a Cabinet Member to take lead responsibility for the Council's overall approach to the digital delivery of services.	Cabinet	This was considered at the Cabinet meeting on 22 October 2013. A response was included in the Committee papers on 7 November 2013. It was agreed on 4 December 2013 that this matter would be reviewed 6 months after the appointment of a Chief Digital Design Officer.	June 2014
7 November 2013 COSC 008	RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SELECT COMMITTEE [ITEM 5]	The Cabinet Member for Business Services is requested to consider the Committee's recommendation, from its October meeting, regarding the development of a high-level strategy document to help guide its approach to the digital delivery of both back-office and front-line services.	Cabinet Member for Business Services	A Digital Update report was prepared for the Committee. It was agreed on 4 December 2013 that this matter would be reviewed 6 months after the appointment of a Chief Digital	June 2014

Date of meeting and reference	Item	Recommendations	To	Response	Progress Check On
				Design Officer.	

Select Committee and Officer Actions

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
12 September 2013 COSC 002	PERFORMANCE MONITORING 2013-14 - QUARTER 1 [Item 9]	Future reports to include comparisons with other councils.	Senior Performance and Research Manager/ Cabinet Member for Business Services	This will be implemented for the publication of the next Performance Monitoring quarterly report.	January 2014
7 November 2013 COSC 012	IMPROVING STAFF MORALE AND WELLBEING [Item 8]	The Committee receive a report on Surrey's People Strategy at a future meeting.	Head of Human Resources and Organisational Development	The Committee considered the next steps as part of its scrutiny of this topic on 4 December 2013. It was agreed that further scrutiny options would be explored (See COSC 017)	February 2014

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
4 December 2013 COSC 014	FAMILY, FRIENDS & COMMUNITY SUPPORT - SOCIAL CAPITAL IN SURREY [Item 7]	That the Committee receives an update report regarding the implementation of Family, Friends & Community Support.	Strategic Director for Adult Social Care	The Committee will receive this report in July 2014.	July 2014
4 December 2013 COSC 017	IMPROVING STAFF MORALE & WELLBEING [Item 9]	The Chairman, Vice-Chairman and Democratic Services to explore future opportunities to run similar informal group discussions with staff.	Chairman/Democratic Services	Options are currently being explored and a proposal will be brought to the Committee meeting in February.	February 2014
COMPLETED ITEMS					
12 September 2013 COSC 001	THE IMPACTS OF WELFARE REFORM IN SURREY [Item 7]	That the Committee set up a Member Task Group to gather evidence from a range of stakeholders on the impacts of welfare reform and key issues for Surrey County Council and partners.	Chairman/ Democratic Services	This Member Task Group has been set up and will give a progress update on 5 February 2014	Complete
3 October 2013 COSC 005	DIGITAL BY DEFAULT [Item 6]	That the Welfare Reform Task Group investigates the impact on users of the requirement for Universal Credit applications to be made online.	Welfare Reform Task Group	This has been included in the Task Group's lines of enquiry.	Complete

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
3 October 2013 COSC 006	DIGITAL BY DEFAULT [Item 6]	That the Committee receives a further report at its meeting in December 2013, summarising services already delivered digitally by the Council, and outlining initiatives in place or proposed to ensure a co-ordinated approach.	Head of IMT/Head of Customer Services	This report was prepared and considered on 4 December 2013.	Complete
7 November 2013 COSC 010	BUDGET MONITORING - SEPTEMBER 2013 [Item 7]	That a report be provided on the Social Capital initiatives in Surrey, including how the expected outcomes would be achieved and details of other councils adopting a similar approach.	Strategic Director for Adult Social Care	This report was considered at the Committee meeting on 4 December 2013	Complete
4 December 2013 COSC 013	BUDGET MONITORING & QUARTERLY BUSINESS REPORT [Item 6]	The Committee to receive the link to the Quarterly Business report and the detailed narrative in order to identify areas for future scrutiny by the Performance & Finance Sub-Group.	Democratic Services	This link was circulated to the Committee following the meeting in December.	Complete
4 December 2013 COSC 015	DIGITAL UPDATE REPORT - MAXIMISING THE BENEFIT OF DIGITAL TECHNOLOGY [Item 8]	Details of the advertised post for Chief Digital Officer to be supplied to the Committee	Democratic Services	The link to these details was circulated to the Committee following the meeting in December.	Complete
4 December 2013 COSC 016	IMPROVING STAFF MORALE & WELLBEING [Item 9]	The Chairman to send the report to the Cabinet and Corporate Leadership Team, asking that they note its contents.	Chairman/Democratic Services	This was done following the meeting in December.	Complete

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
4 December 2013 COSC 018	IMPROVING STAFF MORALE & WELLBEING [Item 9]	The report and minutes to be shared with staff who attended the informal group discussions, as well as a note of thanks for their contribution.	Chairman/Democratic Services	This was done following the meeting in December.	Complete
7 November 2013 COSC 011	BUDGET MONITORING - SEPTEMBER 2013 [Item 7]	The Committee requests officers consider benchmarking expenditure per head against other local authorities.	Deputy Chief Finance Officer	Officers investigated this and presented the information to the Performance & Finance sub group in December.	Complete

SURREY COUNTY COUNCIL

Council Overview & Scrutiny Committee – Forward Work Programme 2013/14

10

Work commenced September 2013 - Welfare Reform: Welfare reform will result in pressure on many Council services as the government changes take effect. What will be the impact on Surrey residents? What could the Council be doing now to minimise the impact?

To be linked to consideration of Surrey's present Medium Term Financial Plan (MTFP)

This work is being undertaken by a Member Task Group throughout autumn 2013. There is an interim report back to Committee in January 2014, with a final report coming in April 2014.

Work commenced October 2013 – Digital by Default: Like many Councils, Surrey is exploring the benefits and limitations of bringing or delivering services online. How do Surrey residents want to engage with the Council? To what extent should this be reflected in the Council's Digital Strategy? What can we learn from other organisations approach to digital by default?

The Committee is due to receive a further update, following appointment of the Chief Digital Design Officer, in June 2014.

Work Commencing November 2013 - Staff: Given ongoing austerity, what do employees really feel about working for Surrey? Do employees have the appropriate tools and resources to do their job? What is the impact of employee satisfaction and morale on service delivery? How can Surrey best support and value their employees?

The Committee used their November meeting to discuss how the Council supports its staff with respect to wellbeing and morale. Options for a further series of workshops are being explored.

Work commencing December 2013 – Budget Savings: Surrey is having to think differently about how it delivers services in light of public sector spending cuts. What is the impact of these cuts and changes on the everyday life of people in Surrey?

It is intended that the work on welfare reform will help inform the Committee's scrutiny of the 2014/15 budget proposals (due to be finalised in February 2014).

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Adult Social Care Committee looked at this topic in autumn 2013. Following this, Council Overview & Scrutiny Committee considered the topic in December 2013 and agreed to review progress in July 2014.

Work Commencing December 2013 -- Social Capital: When resources are scarce, will residents acting collectively to tackle issues within the community plug the gap?

Communication (Internal & External): As a Council, are we communicating the right things, in the right way, to the right people?

The Cabinet agreed a Communications and Engagement Strategy at its meeting on 25 June 2013. The Committee will review its progress in 2014.

Trading & Investment: What trading and investment models is Surrey currently utilising and what are the future options for the Council (looking at experiences outside of the County)? What will the governance arrangements be?

The Committee had an update regarding Trading and Investment at its meeting on 12 September 2013. Further updates will be presented as business cases are developed.