Notice of Meeting

Council Overview Board

Date & time	Place	Contact	Chief Executive
Thursday, 28 January 2016 at 10.00 am	Ashcombe Suite County Hall Penrhyn Road Kingston upon Thames KT1 2DN	Bryan Searle or Lucy Collier Room 122, County Hall Tel 020 8541 7368 ross.pike@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 9122, 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 ross.pike@surreycc.gov.uk.

This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Helen Rankin or Lucy Collier on 020 8541 7368.

Members

Mr Steve Cosser (Chairman), Mr Eber Kington (Vice-Chairman), Mr Mark Brett-Warburton, Mr Bill Chapman, Mr Stephen Cooksey, Mr Bob Gardner Mr Michael Gosling,, Dr Zully Grant-Duff, Mr David Harmer, Mr David Ivison, Mr Nick Harrison, Mr Colin Kemp, Mrs Denise Saliagopoulos, Mrs Hazel Watson and Mr Keith Witham

Ex Officio Members:

Mrs Sally Ann B Marks (Chairman of the County Council) and Mr Nick Skellett CBE (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

1/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2/16 MINUTES OF THE PREVIOUS MEETING: (Pages 1 - 6)

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

3/16 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.

4/16 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 (state actual deadline).
2. The deadline for public questions is seven days before the meeting (state actual deadline).
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5/16 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SCRUTINY BOARD

Response from Cabinet on recommendations relating to Agency Workers is included at Item 5A.

ANNEX A

6/16 RECOMMENDATIONS TRACKER AND FORWARD WORK PROGRAMME (Pages 9 - 18)

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings, and to review its Forward Work Programme.

7/16 BUDGET MONITORING (Pages 19 - 46)

To consider the latest budget monitoring and financial outturn report.

Report to follow.

8/16 REVENUE & CAPITAL BUDGET 2016/17 TO 2020/21 (Pages 47 - 166)

To present the Revenue and Capital Budget to the Council Overview Board, ahead of a decision being made by Cabinet on 2 February 2016.

9/16 ORBIS PUBLIC LAW (Pages 167 - 202)

To scrutinise the business case for a shared legal service between Brighton & Hove City Council, East Sussex County Council, Surrey County Council and West Sussex County Council.

10/16 DATE OF NEXT MEETING

The next meeting of the Committee will be held at 10am on 2 March 2016.

David McNulty
Chief Executive
Published: Date Not Specified

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

Those attending for the purpose of reporting on the meeting may use social media or mobile devices in silent mode to send electronic messages about the progress of the public parts of the meeting. To support this, County Hall has wifi available for visitors – please ask at reception for details.

Anyone is permitted to film, record or take photographs at council meetings with the Chairman's consent. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that the Chairman can grant permission and those attending the meeting can be made aware of any filming taking place.

Use of mobile devices, including for the purpose of recording or filming a meeting, is subject to no interruptions, distractions or interference being caused to the PA or Induction Loop systems, or any general disturbance to proceedings. The Chairman may ask for mobile devices to be switched off in these circumstances.

It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **COUNCIL OVERVIEW BOARD** held at 10.00 am on 2 December 2015 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, 28 January 2016.

Elected Members:

Mr David Munro (Chairman)
Mr Eber A Kington (Vice-Chairman)
Mr Mark Brett-Warburton
Mr Bill Chapman
Mr Stephen Cooksey
Mr Bob Gardner
Mr Michael Gosling
Dr Zully Grant-Duff
Mr David Harmer
Mr Nick Harrison
Mr David Ivison
Mr Colin Kemp
Mrs Denise Saliagopoulos
Mrs Hazel Watson
Mr Keith Witham

Ex officio Members:

Mrs Sally Ann B Marks, Chairman of the County Council
Mr Nick Skellett CBE, Vice-Chairman of the County Council

61/15 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from David Harmer and Bill Chapman

62/15 MINUTES OF THE PREVIOUS MEETING: [Item 2]

The minutes of the previous meeting were a true record of the meeting.

63/15 DECLARATIONS OF INTEREST [Item 3]

There were none.

64/15 QUESTIONS AND PETITIONS [Item 4]

There were no questions or petitions.

65/15 RESPONSES FROM THE CABINET TO ISSUES REFERRED BY THE SELECT COMMITTEE [Item 5]

There are no responses to report.

The recommendation regarding agency staff made at the last meeting of Council Overview Board would be presented to the December meeting of Cabinet.

66/15 FORWARD WORK PROGRAMME AND RECOMMENDATIONS TRACKER [Item 6]

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Forward Work Programme:

1. The Vice Chairman drew attention to the forward work programme for January and stressed the importance of ensuring that importance of not over-crowding agendas. It was agreed that budget monitoring and budget recommendations would be the focus for January, along with an item on Trust Funds that had been deferred from December time permitting.
2. It was agreed that the Leadership Risk Register would be considered at the March meeting. As the focus of the January meeting would be budgets and finance, the risk register would be circulated to Members to help set the context.
3. Members agreed that the Board needed to focus on those strategic matters that needed significant scrutiny.
4. The Board agreed that there should be an email update regarding the Welfare Task Group, as and when there were matters to report, rather than waiting for a formal meeting.
5. It was noted that the recommendation response from the Resident Experience Board would be circulated following the meeting.

Denise Saliagopoulos arrived 10.10am.

67/15 CHAIRMAN'S ORAL REPORT [Item 7]

The Vice Chairman welcomed Steve Cosser a new Member of the Council Overview Board.

68/15 FINANCIAL PROSPECTS FOR THE MEDIUM TERM FINANCIAL PLAN [Item 8]

Declarations of interest:
None

Witnesses:

Kevin Kilburn, Deputy Chief Finance Officer

Service representative attending at 11am:
John Stebbings, representing Orbis
Ann Charlton, representing legal and Democratic Services
Louise Footner, representing Communications
Andy Tink, Finance representative for Policy and Performance and Chief Executive's Office

Key points raised in the discussion:

1. The Deputy Chief Finance Officer introduced the report. He explained that the Chancellor's Autumn Statement had been produced the day previous. The Autumn Statement looked at the Public Sector as a whole, and more specific information relating to services was expected before Christmas 2015. One Member questioned if there was any indication of Surrey County Council's share of the £300million future infrastructure pot hole fund announced in the Autumn Statement. It was noted that it had usually been 1% for the Highways Service in previous years; however, High Speed Rail and Cross Rail were factors this year.
2. Board Members stressed the importance of scrutinising budgets and savings within the Council. One way this could be achieved would be for Members to give officers a steer on views and ideas about spending, by closely looking at first drafts of the budgets. It was noted that individual Scrutiny Boards would begin to speak with services to find out what they were currently doing to achieve savings and plan for future savings.

Denise Saliagopoulos out 10.25am.

3. It was noted that Council Tax could be raised by an additional i 2% to deal with the growing increase demand in Adult Social Care services. It was noted that the Leader of the Council had lobbied the government regarding increased demand for services, against the backdrop of reducing funding from government. An increase in Council Tax was considered by many Members to be the only feasible way to fund the increasing demand in order to keep running statutory services.
4. Clarification was sought over revenue savings still to be identified, that totalled £28.5million. Some Members agreed that funding should be shared to help deal with the continued pressure on Adult Social Care, as well as Public Health. The Board understood and stressed the continued pressure for integration between health services and social care.
5. There was a discussion regarding Surrey Roads and what has already been done to illustrate to Central Government the deterioration of Surrey

roads. It was stated that Surrey had some of the highest volume of traffic on roads, however the Board were informed that Central Government base their funding on the length of roads rather than volume of traffic. The funding by road length in Surrey was higher than the national average. A Member requested a briefing paper that showed the estimation of the funding from government, against the actual funding granted.

Keith Witham left the meeting at 10.56am and returned 11.06

6. The Chairman of the Board asked specific questions to the Deputy Chief Finance Officer on behalf of the Member Cllr Bill Chapman who had sent his apologies. It was stated that Surrey County Council would always try to get best value when searching for favourable terms for block purchases from operators of Care and Nursing Homes, however sustainability was a priority.
7. Members noted that small business rates would continue to be compensated to local government for another year. Another issue stated was the longer term, 100% retention of business rates by local government. Central government were looking for ideas from Local Government about how this could work.
8. Services had been instructed to find 1.5% reduction in the next financial year and Members were concerned aboutthe enormous pressure on services. A Member questioned whether it was possible to reduce reserves to help reach those 1.5% targets to avoid impact on statutory or front line services. The Board were informed by that Surrey County Council was currently below the normal amount for reserves. Reserves were said to be held for a range of different reasons such as street lighting (PFI) and the Eco Park. Members questioned the need for reserves and the specific risks of them. It was stated that Surrey County Council has a very low premium for insurance policies. It was explained that Cabinet had put money aside to support future year's budgets (known as the "budget equalisation reserve"). It was highlighted to the Board that reserves could only be used once.
9. Before moving into the Part 2 section of the meeting, Members discussed the importance of not only maintaining statutory requirements, but also meeting the expectations of residents.

69/15 EXCLUSION OF THE PUBLIC [Item]

The following items of business were considered by the Board in private, however the information below is not confidential.

Actions/Further information to be provided:

Please see recommendations below.

Recommendations

The Board recommended to officers, that:

1. Ensure Scrutiny Boards have sufficient details of current savings plans and possible additional savings when they analyse budgets within their remit

2. A briefing note following the Local Government Settlement that shows how much funding was expected to be lost against how much was lost in reality

That the Board recommended to Social Care Services Scrutiny Board, that:

3. Consideration is given to the 2% Council Tax increase to fund Social Care, and to look at how the funding is distributed with the Districts & Boroughs

That the Board recommended to Scrutiny Boards, that they:

4. Prove income generation targets and report back to the Council Overview Board.
5. Scrutinise the effect that staffing reductions will have on the wider delivery of services.

That the Board recommend, that:

6. Central Government is lobbied to enable Districts & Boroughs to raise an additional 2% in Council Tax for Social Care.

The Board remained in Part 2, but adjourned for 5 minutes.

Keith Witham left the meeting at 12.15pm

PART 2-IN PRIVATE

The following items of business were considered by the Board.
Set out below is a public summary of the decisions taken.

70/15 PAY AND REWARD CONSULTATION [Item 9]

Declarations of interest:
Nick Harrison explained that he was a Member of the People, Performance & Development Committee, and this item would be taken to that Committee for consideration and decision at a later date. This also applied to Hazel Watson.

Witnesses:
Ken Akers, Strategic HR ManagerJulie Smyth, Pay & Reward Team Manager
Holly Hood, OD & Skills Consultant

Hazel Watson returned to the meeting at 12.20pm.

Part 1 summary:

1. Members received a presentation on the latest stages of the Pay & Reward review. Topics that were considered were the transitional costs of moving towards a new pay system and performance related pay.

Further actions/information to be provided:

An additional workshop would be scheduled for May 2016, ahead of the decision being made by People, Performance & Development Committee.

Recommendations:

That Cabinet Member is informally notified of the following comments:

The transitional costs currently anticipated should be reviewed to ensure best value for money.

The new Pay & Reward policy should ensure more flexibility and speed when reacting to market changes.

The Council Overview Board recommended to officers, that:

A briefing note is provided on how Members will be engaged in the reward process.

71/15 PUBLICITY FOR PART TWO ITEMS [Item]

It was agreed that there would be no publicity for the discussions that took place in Part 2.

72/15 DATE OF NEXT MEETING [Item 10]

28 January 2016.

Meeting ended at 13.04pm

Chairman

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CABINET RESPONSE TO COUNCIL OVERVIEW BOARD

AGENCY WORKERS
(considered by Council Overview Board on 5 November 2015)

COMMITTEE RECOMMENDATIONS:

The frequency of reorganisation within the Environment & Infrastructure Directorate be considered and managed to avoid an impact on:

- The morale and wellbeing of Highways staff
- The ability of the service to carry out priority highway maintenance

RESPONSE:

We agree that it is important to monitor carefully the morale and wellbeing of staff and our capability to deliver our priorities. That is why this has been a consistent focus for us. It is equally important that the service is configured to ensure that residents get the best value for money in terms of local highways services and more strategic transport infrastructure provision.

We have an excellent 'People Strategy' for Highways and Transport that is involving and engaging staff in a programme to develop skills and capability, for example, and will review this work in the light of the recent staff survey results when they are available early in 2016.

The Cabinet and I congratulate the service for the continued delivery, during this period, of excellent service to our residents.

John Furey
Cabinet Member for Highways, Transport and Flooding
15 December 2015

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SURREY
COUNTY COUNCIL

Council Overview Board
28 January 2016

RECOMMENDATIONS TRACKER and FORWARD WORK PROGRAMME

1. The Board is asked to review its Recommendations Tracker and Forward Work Programme, which are attached.

Recommendations:

That the Board reviews its work programme and recommendations tracker and makes suggestions for additions or amendments as appropriate

Next Steps:

The Scrutiny Board will review its work programme and recommendations tracker at each of its meetings.

Report contact:
Helen Rankin, Scrutiny Manager

Contact details: 020 8541 9126, Helen.rankin@surreycc.gov.uk

Sources/background papers: None.

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Council Overview Board
ACTIONS AND RECOMMENDATIONS TRACKER – UPDATED 20 January 2016.

The recommendations tracker allows Members to monitor responses, actions and outcomes against their recommendations or requests for further actions. The tracker is updated following each meeting. 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. Please note that this tracker includes recommendations from the former Council Overview & Scrutiny Committee.

Recommendations made to Cabinet

Date of meeting and reference	Item	Recommendations	To	Response	Progress Check On
5 November 2015	AGENCY STAFF	The frequency of reorganisation within the Environment & Infrastructure Directorate be considered and managed to avoid an impact on: • The morale and wellbeing of Highways staff • The ability of the service to carry out priority highway maintenance	Cabinet	A response is included at Item 5.	January 2016

Scrutiny Board and Officer Actions

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
3 June 2015	**REPORT OF THE WELFARE REFORM TASK GROUP**	A number of recommendations were made to Cabinet by the Welfare Reform Task Group. These recommendations were accepted and are being monitored by the Welfare Reform Task Group		The Welfare Reform Task Group will present updates to Council Overview Board in due course	January 2016
1 October 2015	**ANNUAL REPORT OF THE SHAREHOLDER BOARD**	An update on the Shareholder Board review of the Council's involvement in the joint venture company (Babcock 4S) to be included in the next scheduled report to Council Overview Board in April 2016.	Shareholder Board	This has been scheduled for June 2016	June 2016
1 October 2015	**ANNUAL REPORT OF THE SHAREHOLDER BOARD**	Receive progress update on Surrey Choices governance mechanisms and report to the Council Overview Board if necessary	Social Care Scrutiny Board/Shareholder Board	The Social Care Services Board have scheduled a review of Surrey Choices in late spring 2016. The Chairman has met with relevant officers and more information will be presented to the Board alongside the Shareholder Board report in June 2016.	June 2016.
1 October 2015	**CARBON & ENERGY POLICY**	Provide the Council Overview Board with an update on review of business mileage, lump sum payments and any related incentives for staff	Head of Property/Director of People and Development	It has been agreed that a briefing will be circulated to Members outside of the Board.	February 2016

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
1 October 2015	**CARBON & ENERGY POLICY**	An update to be provided on the savings achieved from the light dimming initiative.	Energy Manager	As above.	February 2016
1 October 2015	**CARBON & ENERGY POLICY**	Report back to the Board following the SE7 Energy Managers Group meeting, to highlight any best practice.	Energy Manager	As above.	February 2016
1 October 2015	**CARBON & ENERGY POLICY**	Include aspirational and step change measures in a future report to the Board	Energy Manager	As above.	February 2016.
1 October 2015	**BUDGET MONITORING**	Receive further information about the breakdown within Central Income & Expenditure in future reports	Deputy Chief Finance Officer	This will be included as part of the next budget monitoring paper	January 2016
1 October 2015	**BUDGET MONITORING**	Resident Experience Board to scrutinise Local Committee budgets and report back to the Council Overview	Chairman of Resident Experience Board	A response was tabled at the meeting in December and is at Annex B to this tracker. Local Committee spend will be included in the budget report to the Council Overview Board in January 2016.	January 2016.
5 November 2015	**HR&OD SERVICE**	A briefing note to be circulated on major changes made to HR policies, following the current period of review and refresh	Director of People & Development	A briefing note will be included with the HR&OD papers in March 2016.	March 2016
5 November 2015	**AGENCY STAFF**	More information to be made available regarding the difficulty of recruiting Educational Psychologists	HR Relationship Manager	Action outstanding.	January 2016

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
2 December 2015	**FINANCIAL PROSPECTS FOR THE MEDIUM TERM FINANCIAL PLAN**	Ensure Scrutiny Boards have sufficient details of current savings plans and possible additional savings when they analyse budgets within their remit	Deputy Chief Finance Officer	This item is on the agenda on 28 January 2016.	January 2016
2 December 2015	**FINANCIAL PROSPECTS FOR THE MEDIUM TERM FINANCIAL PLAN**	A briefing note following the Local Government Settlement that shows how much funding was expected to be lost against how much was lost in reality	Deputy Chief Finance Officer	Due in February.	March 2016.
2 December 2015	**FINANCIAL PROSPECTS FOR THE MEDIUM TERM FINANCIAL PLAN**	Consideration is given to the 2% Council Tax increase to fund Social Care, and to look at how the funding is distributed with the Districts & Boroughs	Social Care Services Scrutiny Board	A recommendation from the Social Care Services Board has been included in the papers for 28 January 2016.	January 2016
2 December 2015	**FINANCIAL PROSPECTS FOR THE MEDIUM TERM FINANCIAL PLAN**	That scrutiny boards provide income generation targets and scrutinise the effect that staffing reductions will have on the wider delivery of services.	Scrutiny Officers/Scrutiny Boards	An update will be provided at the 28 January 2016 meeting.	January 2016

Date of meeting and reference	Item	Recommendations/ Actions	To	Response	Progress Check On
2 December 2015	**FINANCIAL PROSPECTS FOR THE MEDIUM TERM FINANCIAL PLAN**	Central Government is lobbied to enable Districts & Boroughs to raise an additional 2% in Council Tax for Social Care.		This will be discussed as part of the budget recommendations item on January 2016.	January 2016.

The following actions are completed and will be removed from the tracker after today's meeting:

4 June 2014	**REWARD STRATEGY REVIEW 2014-18**	Historic data about trends in staff costs and benchmarking data for staff above level S8 to be circulated to Members of the Committee.	Head of HR and Organisational Development	At the Performance & Finance Sub Group meeting in September 2014, the HR Relationship Manager (Adults) advised that the Council were currently looking to appoint a partner to undertake benchmarking. At present, benchmarking was completed on an ad-hoc basis, but there were no systematic checks. It was agreed that data would be shared as and when it became available and that the decision regarding the partner chosen for benchmarking would be announced to the Committee as part of their Pay & Reward updates scheduled. The next scheduled update is in December 2015.	December 2015.

1 October 2015	**PROPERTY STRATEGY**	An item on Member engagement with the Strategic Asset Management Plan to be scheduled for local committee chairmen's group	Local Committee Chairmen's Group/Chief Property Officer	This has been scheduled	February 2016.
1 October 2015	**PROPERTY STRATEGY**	Confirmation sought on whether land purchases carried out by Hasley Garton Properties LTD (set up as a wholly owned SCC LATC) need to satisfy the well-being requirement introduced by the Local Government Act 2000.	Chief Property Officer	A response was circulated to the Board ahead of the December 2015 meeting.	January 2016
5 November 2015	**HR&OD SERVICE**	Officers to provide statistics about the number of cases that are resolved through restorative approaches	Head of HR Operations	The following response has been provided: Of 303 cases within HR, 87 have been or are being resolved via restorative method.	December 2015
5 November 2015	**AGENCY STAFF**	Further figures to be provided showing comparable costs across the Council, to provide an estimate of the "true cost" of an agency worker (including the implications if that member of agency staff was not in post).	HR Relationship Manager	A briefing was circulated on 4 January 2016.	January 2016.
5 November 2015	**AGENCY STAFF**	A breakdown of roles recruited as agency staff in Business Services to be circulated to Members	HR Relationship Manager	This information has been shared with the Chairman and Vice Chairman for consideration.	January 2016

SURREY
COUNTY COUNCIL

Council Overview Board – Forward Work Programme 2016

28 January 2016

- Budget Monitoring/Financial Outturn
- Budget
- Orbis Public Law

2 March 2016

- Staff Survey
- Cyber Security & IMT
- Trust Funds

13 April 2016

- Property Strategy (with a focus on Investment Strategy)

1 June 2016

- Shareholder Board Annual Report

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Council Overview Board
28 January 2016

BUDGET MONITORING REPORT

Purpose of the report: This report presents Council's financial position at the end of December 2015.

Introduction:

1. The Finance and Budget Monitoring Report for December 2015 is due to be presented to Cabinet on 2 February 2016 (Report to follow)

Recommendations

The Board is asked to consider whether it wishes to make any recommendations regarding the Finance and Budget Monitoring Report for December 2015.

Report contact: Kevin Kilburn, Deputy Chief Finance Officer

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

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Section 151 Finance cleared on:	xx/xx/15
Legal cleared on	xx/xx/15
Strategic Director cleared on:	xx/xx/15
Cabinet Member cleared on:	xx/xx/15

SURREY COUNTY COUNCIL

CABINET

DATE: **2 FEBRUARY 2016**

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

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

SUBJECT: **FINANCE AND BUDGET MONITORING REPORT FOR DECEMBER 2015**

SUMMARY OF ISSUE:

The council takes a multiyear approach to its budget planning and monitoring, recognising the two are inextricably linked. This report presents the council's financial position as at 31 December 2015 (month nine).

The annex to this report gives details of the council's financial position.

RECOMMENDATIONS:

Cabinet is asked to note:

1. the council forecasts a -£5.0m overall revenue budget underspend at year end, which includes use of -£6.9m central government grant plus temporary use of -£0.8m unplanned underspend against Deprivation of Liberty Safeguards budget to offset pressures in Adult Social Care (Annex, paragraph **Error! Reference source not found.**1);

2. services forecast to achieve £64.4m efficiencies and service reductions by year end (Annex, paragraph **Error! Reference source not found.**31);

3. total forecast capital expenditure for 2015/16, including long term investments, is £225.5m (Annex, paragraph 39);

4. the quarter end positions for: balance sheet, earmarked reserves, debt and treasury management (Annex 1, paragraphs **Error! Reference source not found.**App 7 to 20);

5. services' management actions to mitigate overspends (throughout this report).

REASON FOR RECOMMENDATIONS:

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

DETAILS:

Revenue budget overview

6. Surrey County Council set its gross expenditure budget for the 2015/16 financial year at £1,671m. A key objective of MTFP 2015-20 is to increase the council’s overall financial resilience. As part of this, the council plans to make efficiencies totalling £67.4m.

7. The council aims to smooth resource fluctuations over its five year medium term planning period. To support the 2015/16 budget, Cabinet approved use of £3.7m from the Budget Equalisation Reserve and carry forward of £8.0m to fund continuing planned service commitments. The council currently has £21.3m in general balances.

8. The financial strategy has the following long term drivers to ensure sound governance, management of the council’s finances and compliance with best practice.

   - Keep any additional call on the council taxpayer to a minimum, consistent with delivery of key services through continuously driving the efficiency agenda.
   - Develop a funding strategy to reduce the council’s reliance on council tax and government grant income.
   - Balance the council’s 2015/16 budget by maintaining a prudent level of general balances and applying reserves as appropriate.
   - Continue to maximise our investment in Surrey.

Capital budget overview

9. Creating public value by improving outcomes for Surrey’s residents is a key element of the council’s corporate vision and is at the heart of MTFP 2015-20’s £696m capital programme, which includes £176m spending planned for 2015/16.

Budget monitoring overview

10. The council’s 2015/16 financial year began on 1 April 2015. This budget monitoring report covering the financial position at the end of the second quarter of 2015/16. The report focuses on material and significant issues, especially monitoring MTFP efficiencies. The report emphasises proposed actions to resolve any issues.

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

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

    - the size of a particular budget within the overall council’s budget hierarchy (the range is under £2m to over £10m);
    - budget complexity, which relates to the type of activities and data monitored (this includes the proportion of the budget spent on staffing or fixed contracts - the greater the proportion, the lower the complexity);

- volatility, which is the relative rate that either actual spend or projected spend moves up and down (volatility risk is considered high if either the current year's projected variance exceeds the previous year's outturn variance, or the projected variance has been greater than 10% on four or more occasions during the current year); and
- political sensitivity, which is about understanding how politically important the budget is and whether it has an impact on the council's reputation locally or nationally (the greater the sensitivity the higher the risk).

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

14. Annex 1 to this report sets out the council's revenue budget forecast year end outturn as at 31 December 2015. The forecast is based upon current year to date income and expenditure as well as projections using information available to the end of the month.

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

16. Annex 1 to this report also updates Cabinet on the council's capital budget and a summary of the second quarter's: balance sheet, reserves, debt and treasury management positions.

17. Appendix 1 provides details of the MTFP efficiencies, revenue and capital budget movements, plus the second quarter's: balance sheet, reserves, debt and treasury management positions.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

Financial and Value for Money Implications

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

Section 151 Officer Commentary

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

Legal Implications – Monitoring Officer

22. There are no legal issues and risks.

Equalities and Diversity

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

Other Implications:

24. The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	No significant implications arising from this report.
Safeguarding responsibilities for vulnerable children and adults	No significant implications arising from this report.
Public Health	No significant implications arising from this report.
Climate change	No significant implications arising from this report.
Carbon emissions	No significant implications arising from this report.

WHAT HAPPENS NEXT:

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

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

Consulted:
Cabinet, strategic directors, heads of service.

Annexes:
- Annex 1 – Revenue budget, staffing costs, efficiencies, capital programme, summary of: balance sheet, reserves, debt and treasury management positions.
- Appendix 1 – Service financial information (revenue and efficiencies), revenue and capital budget movements, balance sheet, reserves, debt and treasury management positions.

Sources/background papers:

- None

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Budget monitoring period 9 2015/16 (December 2015)

Summary recommendations

Cabinet is asked to note:

1. services forecast a -£5.0m revenue budget variance at year end which includes use of -£6.9m central government grant plus -£0.8m unplanned underspend to offset pressures in Adult Social Care (paragraph 1);
2. services forecast to achieve £64.4m efficiencies and service reductions by year end (paragraph 31);
3. total forecast capital expenditure for 2015/16, including long term investments, is £225.5m (paragraph 39**Error! Reference source not found.**);
4. the quarter end positions for: balance sheet, earmarked reserves, debt and treasury management (paragraphs App 7 to App 20).
5. services' management actions to mitigate overspends (throughout this report).

Revenue summary

Surrey County Council set its gross expenditure budget for the 2015/16 financial year at £1,671m. A key objective of MTFP 2015-20 is to increase the council's overall financial resilience. As part of this, the council plans to make efficiencies totalling £67.4m.

As at 31 December 2015, services forecast to underspend by -£5.0m and achieve £64.4m efficiencies by year end. The underspend is due to several offsetting variances among services, the most significant of which are:

- -£7.7m use of 2015/16 central government grant and unplanned underspend in Adult Social Care services to offset +£6.6m additional demand, +£2.6m forecast unachieved savings and -£1.5m additional fees and charges;
- +£2.6m children's services' costs due to higher volumes of children in need; and
- -£3.1m more income from business rates collection than expected.

The council aims to smooth resource fluctuations over its five year medium term planning period. To support 2015/16, Cabinet approved use of £3.7m from the Budget Equalisation Reserve and carry forward of £8.0m to fund continuing planned service commitments. The financial strategy has a number of long term drivers to ensure sound governance, management of the council's finances and compliance with best practice.

- Keep any additional call on the council taxpayer to a minimum, consistent with delivery of key services through continuously driving the efficiency agenda.
- Develop a funding strategy to reduce the council's reliance on council tax and government grant income.
- Balance the council's 2015/16 budget by maintaining a prudent level of general balances and applying reserves as appropriate.
- Continue to maximise our investment in Surrey.

Capital summary

Creating public value by improving outcomes for Surrey's residents is a key element of Surrey County Council's corporate vision and it is at the heart of its £696m capital programme in MTFP 2015-20. As at 31 December 2015, services forecast £159.7m capital spending against the current 2015/16 budget of £176.2m and total forecast capital expenditure including long term investments is £225.2m (paragraphs 38 to 42)

As part of increasing the council's overall financial resilience, it plans to invest £66m in long term capital investment assets in 2015/16 to add to the £48m invested up to March 2015.

Revenue budget

1. As at 31 December 2015, the council's overall forecast is -£5.0m underspend at year end including using -£6.9m support from central government new burdens Care Act funding plus -£0.8m temporary use of an unplanned underspend against Deprivation of Liberty Safeguards to offset pressures in Adult Social Care.

2. In March 2015, Cabinet approved the council's 2015/16 gross expenditure budget at £1,671.3m, financed by -£1,667.6m gross income and -£3.7m from reserves. Changes in 2015/16 reflecting agreed carry forwards and small budgetary adjustments to 31 December 2015, increased the gross expenditure budget to £1,679.4m and gross income to -£1,675.7m. The council's plan to use reserves to balance 2015/16 remains at -£3.7m.

Revenue budget monitoring position

3. Table 1 summarises the council's year to date and forecast year end gross income and expenditure positions compared to the full year revised budget. The full year revised net expenditure budget to be met from reserves is £3.7m. The year to date net expenditure of -£9.1m is derived from the actual net expenditure of £16.7m and the budget profile of £25.8m (shown in Table App3). The impact of the -£5.0m overall forecast budget variance is the council could appropriate £1.3m to reserves, rather than draw £3.7m from reserves at year end.

Table 1: 2015/16 revenue budget subjective summary as at 30 November 2015

Subjective summary	**Full year revised budget £m**	**YTD actual £m**	**Full year projection £m**	**Full year variance £m**
Gross income	-1,675.7	-1,256.0	-1,692.5	-16.8
Gross expenditure	1,679.4	1,272.6	1,691.2	11.8
Total net expenditure	**3.7**	*** -9.1**	**-1.3**	**-5.0**

Note: * Profiled year to date budget is £25.6m compared to actual net expenditure of £16.6m
All numbers have been rounded - which might cause a casting error

4. In the appendix: Table App1 outlines the updated revenue budget by service; Table App2 summarises movements in the budget; and Table App 3 gives details of the overall income and expenditure for the year to date and year end forecast position.

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

6. Table 2 shows the majority of services' budgets are on track to achieve a balanced outturn or underspend in 2015/16. General funding sources show favourable forecast variances for business rates income and for government grants to compensate the council for business rates reliefs.

Table 2: 2015/16 updated revenue budget – 31 December 2015

Service	Full year revised budget £m	YTD actual £m	Full year projection £m	Full year variance £m
Economic Growth	1.7	0.9	1.7	0.0
Strategic Leadership	0.4	0.4	0.4	0.0
Adult Social Care	372.2	280.6	372.2	0.0
Children's Services	91.4	69.7	94.0	2.6
Services for Young People	15.4	9.7	15.2	-0.2
Schools & Learning	74.2	54.1	73.9	-0.3
Strategic Services (CSF)	2.2	1.8	2.3	0.1
Delegated Schools	0.0	0.0	0.0	0.0
Community Partnership & Safety	3.5	2.0	3.0	-0.5
Coroner	1.3	1.0	1.6	0.3
Cultural Services	9.8	7.3	9.4	-0.4
Customer Services & Directorate Support	4.4	3.1	4.3	-0.1
Emergency Management	0.6	0.4	0.5	-0.1
Magna Carta	0.8	0.6	0.6	-0.2
Surrey Fire & Rescue Service	34.6	26.1	34.5	-0.1
Trading Standards	2.0	1.3	2.0	0.0
Environment & Planning	80.4	60.9	80.5	0.1
Highways & Transport	45.3	28.8	45.3	0.0
Public Health	0.3	0.6	0.3	0.0
Central Income & Expenditure	50.5	35.5	52.5	1.9
Communications	2.1	1.4	2.0	-0.1
Finance	8.4	5.6	7.7	-0.7
Human Resources & Organisational Development	8.5	5.7	8.0	-0.5
Information Management & Technology	25.5	18.4	25.4	-0.1
Legal & Democratic Services	8.5	6.2	8.5	0.0
Policy & Performance	2.5	1.7	2.3	-0.2
Procurement	3.3	2.3	3.2	-0.1
Property	28.9	20.1	27.3	-1.6
Shared Service Centre	4.3	2.9	4.1	-0.2
Total services' net revenue expenditure	**883.0**	**649.1**	**882.7**	**-0.4**
General funding sources				
General Government grants	-237.2	-182.8	-238.8	-1.6
Local taxation (council tax and business rates)	-642.1	-449.6	-645.2	-3.1
Total general funding	**-879.3**	**-632.5**	**-884.0**	**-4.7**
Total movement in reserves	**3.7**	**N/A**	**-1.3**	**-5.0**

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

Significant budget variances

7. The following section sets out for services with significant budget variances:

- changes since 30 November 2015,
- the variances' impact on the council's overall financial position and
- services' actions to mitigate adverse variances.

Adult Social Care - balanced (no change since November)

8. As at 31 December 2015 Adult Social Care (ASC) services project an overall balanced budget (no change from November 2015) after taking into account -£6.9m use of central government Care Act implementation funding plus -£0.8m use of ASC's existing Deprivation of Liberty Safeguards (DoLS) budget to balance an underlying +£7.7m forecast overspend.

9. ASC's 2015/16 central government grant funding, includes £7.2m for service reform new burdens. Following postponement of the reforms, the Government announced it will not claw back the funding this year and ASC is using £6.9m of these funds to offset increased demand pressures in 2015/16. This is likely to be a one-off measure as future years' funding allocations are unclear, but likely to be adjusted downwards.

10. ASC's 2015/16 DoLS budget increased by £1m in response to considerable growth in demand for assessments following a 2014 Supreme Court ruling. ASC will need additional ongoing resources to meet the demand. Difficulties recruiting specialist Best Interest Assessors mean ASC will not spend all the extra budget by year end, consequently the balance of £0.8m has been used to cover the underlying forecast overspend.

11. The main drivers of the underlying projected overspend of +£7.7m are as follows.

    - +£6.6m additional pressures from increased demand for care services (+£1.2m from November 2015). Over the first nine months of 2015/16, volumes have increased by 4.6%. A key priority for ASC is to manage demand effectively through: prevention, information and advice, plus greater collaboration and integration with the NHS. These strategies help limit demand increases, but are not yet successful in reducing the rate of demand to budgeted levels. In addition to the increased volume pressure, the cost of placements for those in care is also rising.
    - Ongoing local health pressures systems also place significant pressure on social care. Local clinical commissioning groups' demand for hospital admissions is not falling as planned. Metrics for the first quarter of 2015/16 show unplanned admissions to hospitals up 4.1% on last year's baseline (5.1% higher than the planned 1% reduction). This highlights why work to develop a whole systems approach to health and social care across Surrey is crucial to increasing health and wellbeing and reducing demand pressures on the care system.
    - +£2.6m underachievement of ASC's savings targets (-£0.3m change from November 2015). This is mainly due to non-achievement of the 20% FFC (Family, Friends & Community) stretch savings target of £3.5m. Current performance suggests 17% is achievable for FFC re-assessments, but 20% savings on new care packages is difficult, particularly for Older People.
    - -£1.5m surplus on fees & charges and other income streams not directly related to individual packages of care or block contracts (-£0.9m from November 2015).

Children's Services +£2.6m (+£0.9m change since November)

12. As at 31 December 2015, Children's Services anticipates +£2.6m overspend (up from +£1.7m as at November 2015). The overall pattern of spending and the overspend remains as previously reported. The main reasons for the increase in the overspend are an increase in area staffing costs and agency placements.

- Staffing pressures in the area teams have increased. North West area has needed additional capacity to manage caseloads safely; North East and South West areas are slightly above establishment; plus all areas rely more on locum social workers, with each costing an additional £25,000 on average.
- Increasing numbers of looked after children. This mainly affects the budget for external placements that anticipates an overspend of +£2.4m (+£1.9m as at November 2015) plus a +£0.9m overspend for Asylum (+£0.8m as at October 2015). As at December 2015 there were 884 looked after children, an increase of 102 since March 2015 and the highest level for the last five years. This includes 55 more unaccompanied asylum seeker children, an increase of 50% this year.
- In-house fostering forecasts to overspend by +£0.5m. Current placements are slightly less than budgeted. However, there are more high cost placements, with three new high cost placements in December and five placements cost over £5,000 a week
- Offsetting these pressures is £0.4m centrally held emerging pressures budget and -£0.5m underspend against the Adoption Reform grant in 2015/16, though this is planned to support the requirements of the Family Justice Review into 2016/17.

Property Services -£1.6m (-£1.4m change since November 2015)

13. As at 31 December 2015, Property Services forecasts -£1.6m underspend (-£1.4m since November 2015). This is primarily because it will only carry out essential building maintenance until April 2016. This means Property Services will only undertake works: required for health and safety reasons; to complete schemes already underway; or to deliver efficiency savings. The reduction in works also means -£0.2m lower fees. The mild winter to date adds another -£0.1m forecast underspend on utilities.

Central Income & Expenditure +£1.9m (no change since November 2015)

14. As at 31 December 2015, Central Income & Expenditure forecasts +£1.9m overspend (no change from October 2015). This is mainly due to increased capital financing costs due to the council's strategy of retaining capital receipts for investment and a small pressure due to borrowing early to fund the capital programme at lower interest rates.

General Government Grants and Local Taxation -£4.7m (no change since November 2015)

15. As at 31 December 2015, General Government Grants and Local Taxation, forecasts -£4.7m underspend (no change from November 2015). As reported previously: -£1.6m is for additional forecast business rates income due to the district and borough councils' final schedules being higher than the earlier estimates used to produce the budget; -£1.6m is due to further government grant compensating councils for the loss of business rate relief scheme being higher than expected; and -£1.5m is from business rates pooling arrangements with four Surrey district and

borough councils. This arrangement increases business rates retained by each authority in the pool by reducing the levy paid centrally.

Areas to be aware - Waste Management

16. Waste Management is experiencing cost pressures due to: an increase in waste volumes linked to population growth and increased economic activity; stalled recycling rates; delayed implementation of savings; and increases in contract prices.

17. As a result of these factors, expenditure is expected to be higher than budget and, subject to necessary approvals Waste Management plans to meet this additional cost by drawing £4.4m from the Waste Sinking Fund.

Areas to be aware - Public Health

18. In June 2015 the Chancellor announced a £200m in year cut to the Public Health ring-fenced grant, of which Surrey's 2015/16 share is £2.2m. To meet this cut, Public Health (PH) identified: £0.75m efficiency or one off reductions, £1.0m of in year front line service reductions and £0.45m transfer from the Public Health Reserve (created from delayed funding to PH's 2014/15 ring fenced grant in anticipation of supporting activities in later years).

19. To meet its MTFP savings target, PH will reduce spend through a mixture of process or contract efficiencies and service reductions. Efficiencies are on track in 2015/16 to meet the £0.75m target and lower priority areas where expenditure can be reduced in year have already or are currently being cancelled. If the grant cut continues, future years will involve further front line service reductions as the service uses up the Public Health Reserve.

Areas to be aware - Coroner

20. Changes around Deprivation of Liberty legislation may significantly increase the number of coroner inquests. The inquest into the death of Private Cheryl James has begun and includes a cost pressure. In 2014/15 a shortage of mortuary provision meant the Coroner used temporary mortuary facilities, creating a cost pressure that is likely to continue. Taking these three pressures together, the Coroner Service projects a pressure of £0.3m, though there is a risk it could be higher.

Revolving Infrastructure & Investment Fund

Table 4: Summary revenue and capital position as at 31 December 2015

Summary Revenue expenditure	YTD actual £m	Full year forecast £m
Income	-2.6	-4.1
Expenditure	0.3	0.5
Net income before funding	-2.3	-3.6
Funding costs	1.9	3.1
Net income after funding	-0.4	-0.5
Capital expenditure	23.0	62.5

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

21. Net income of £0.5m is being generated this financial year by the Joint Venture project to deliver regeneration in Woking town centre and from various property acquisitions that have been made for future service delivery or regeneration. It is

anticipated that the net income will be transferred to the Revolving Infrastructure and Investment Fund at the year-end.

22. Capital expenditure this year includes development of the former Thales site in Crawley, further loans to the Woking Bandstand Joint Venture Company and equity investment and loan to Halsey Garton Property Ltd. Additionally, £36.5m expenditure is forecast on an investment acquisition as approved by Cabinet in November. Further details will be shared after the completion of contracts.

Staffing costs

23. The council employs three categories of staff.

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

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

25. The council sets its staffing budget on the estimated labour it needs to deliver its services. It expresses this estimated labour as budgeted full time equivalent (FTEs) staff required on average over the full year and converts it to a budget cost. The budget comprises spending on all three categories of staff and is the key control in managing staffing costs.

26. In practice, throughout the year, the composition of occupied posts and FTEs will vary. However managers are still able to control total cost within budget. For example, there are several reasons a service might recruit new staff at lower cost than the current budget and use of fixed term contracts may temporarily result in higher than budgeted FTEs, but remain within the overall budget.

27. The council's total full year staffing budget for 2015/16 is £279.2m based on 7,935 budgeted FTEs. Table 5 shows the composition of the council's workforce as at 31 December 2015. Of the 633 live vacancies, where the council is actively recruiting, 499 are in social care.

Table 5: Full time equivalents in post and vacancies as at 31 December 2015

	FTE
Budget	7,935
Occupied contracted FTE	7,322
"Live" vacancies (i.e. actively recruiting)	633

28. Table 6 shows staffing cost as at 31 December 2015 against service budgets and analysed among the three staff categories of contracted, bank and agency staff. Table 6 also shows services' budgeted FTEs and occupied contracted FTEs. Variances between these two figures can arise for several reasons including: the budget for some FTEs is held in a different service from where the postholder works in the organisation (for example the HR&OD budget covers apprentices' costs, but

the occupied FTEs appear in the service they work in); secondees' budgeted posts appear in the seconding service, but the occupied FTE appears in the service they are seconded to (or not at all if the secondment is to an external body). The income from recharges for secondments is within services' other income.

29. Agency or bank staff often cover vacancies on a temporary basis. The number of temporary staff does not translate easily into an FTE number as these may be for a few hours only, part time etc. The easiest measure for monitoring staffing costs is the total expenditure and the variance shown in Table 6.

30. The easiest measure for monitoring staffing is cost, using the total expenditure and variance shown in Table 6 and Table App3 in the appendix. Table 6 shows the year to date staffing budget as at 31 December 2015 is £229.0m and actual expenditure is £224.7m. Table App 3 reiterates the -£4.3m year to date underspend on employment costs and shows services forecast -£5.7m underspend by year end.

Table 6: Staffing costs and FTEs to 31 December 2015

Service	YTD staffing budget £m	<------- Staffing spend by category --------> Contracted £m	Agency £m	Bank & casual £m	Total £m	Variance £m	*Budgeted FTE*	*Occupied contracted FTEs*
Economic Growth							*1*	*0*
Strategic Leadership	0.3	0.3	0.0	0.0	0.3	0.0	*2*	*0*
Adult Social Care	44.3	39.0	2.2	1.6	42.8	-1.5	*1,925*	*0*
Children's Services	35.1	29.4	4.6	2.0	36.0	0.9	*1,108*	*1,633*
Services for Young People	10.6	10.0	0.0	0.4	10.4	-0.2	*395*	*1,015*
Strategic Services	2.0	2.2	0.0	0.0	2.2	0.2	*52*	*363*
Schools & Learning	35.0	33.3	0.3	0.7	34.3	-0.7	*1,332*	*63*
Delegated Schools							*0*	*1,272*
Community Partnership & Safety	0.9	1.0	0.0	0.0	1.0	0.1	*24*	*0*
Coroner	0.3	0.2	0.1	0.0	0.3	0.0	*1*	*28*
Cultural Services	14.0	12.4	0.0	1.2	13.6	-0.4	*520*	*3*
Customer Services	2.6	2.3	0.2	0.0	2.5	-0.1	*112*	*528*
C&C Directorate Support	0.8	0.7	0.0	0.0	0.7	-0.1		*97*
Emergency Management	0.4	0.4	0.0	0.0	0.4	0.0	*12*	*16*
Magna Carta	0.0	0.0	0.0	0.0	0.0	0.0	*0*	*0*
Surrey Fire & Rescue Service	20.8	19.4	0.1	1.3	20.8	0.0	*675*	*634*
Trading Standards	2.4	2.3	0.0	0.0	2.3	-0.1	*100*	*92*
Environment & Planning	7.8	7.4	0.2	0.2	7.8	0.0	*215*	*199*
Highways & Transport	10.2	8.6	0.3	0.1	9.0	-1.2	*313*	*283*
Public Health	2.1	1.9	0.0	0.1	2.0	-0.1	*51*	*46*
Central Income & Expenditure	0.0	0.2	0.0	0.0	0.2	0.2	*0*	*0*
Communications	0.8	0.8	0.0	0.0	0.8	0.0	*23*	*25*
Finance	4.3	4.1	0.0	0.0	4.1	-0.2	*101*	*101*
Human Resources & Organisational Development	4.1	3.7	0.1	0.1	3.9	-0.2	*104*	*98*
Information Management & Technology	9.1	7.7	1.4	0.0	9.1	0.0	*221*	*199*
Legal & Democratic Services	4.1	3.5	0.3	0.0	3.8	-0.3	*130*	*109*
Policy & Performance	2.0	1.8	0.1	0.0	1.9	-0.1	*42*	*40*
Procurement	2.3	2.2	0.1	0.0	2.3	0.0	*57*	*52*
Property	6.4	6.1	0.4	0.0	6.5	0.1	*177*	*184*
Shared Service Centre	6.1	5.7	0.0	0.0	5.7	-0.4	*242*	*237*
Total	**229.0**	**206.6**	**10.4**	**7.7**	**224.7**	**-4.3**	***7,935***	***7,318***

Note: All numbers have been rounded - which might cause a casting error.
Trading Standards' FTEs include C&C Directorate support

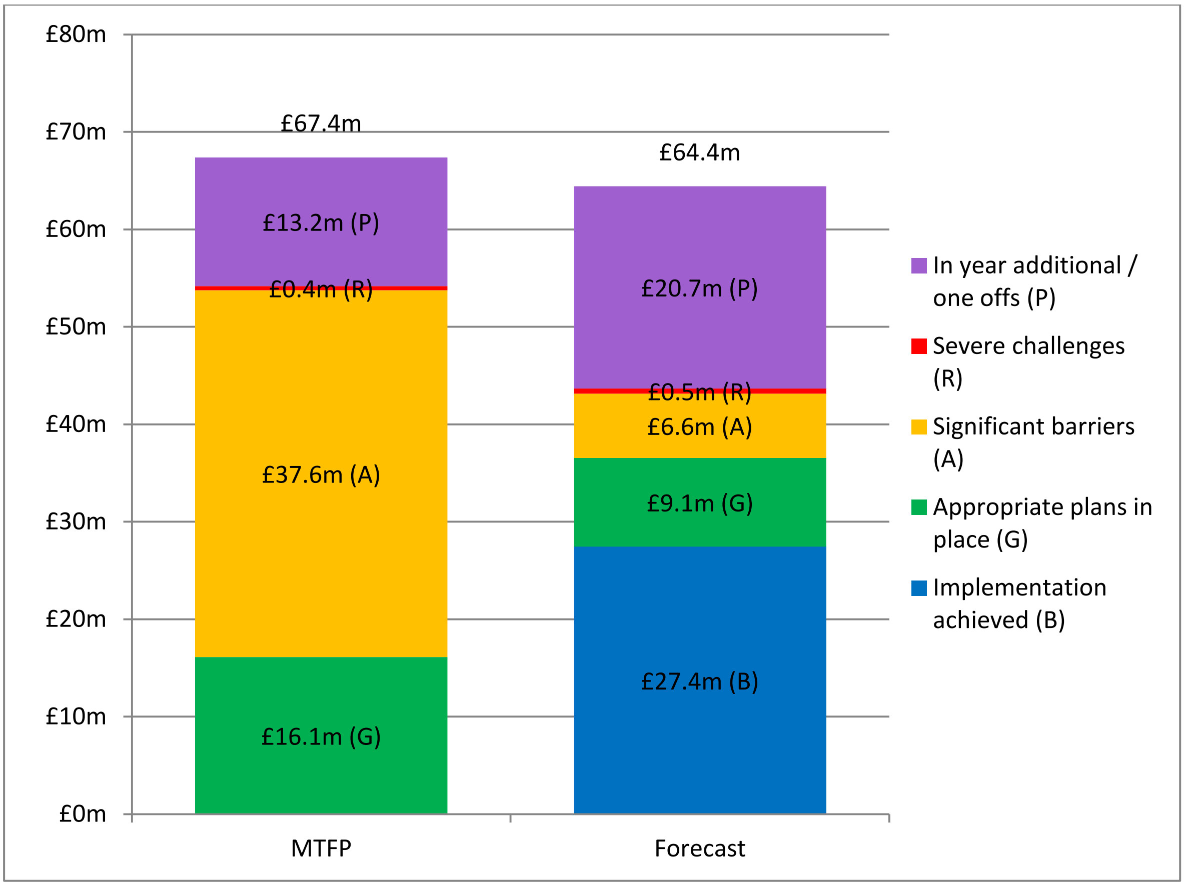
Efficiencies

31. MTFP 2015-20 incorporates £67.4m of efficiencies in 2015/16. Against this, the council forecasts to achieve £64.4m by year end (£63.8m as at 30 November 2015), an underachievement of £3.0m. Figure 1 summarises services' efficiency targets, their forecasts for achieving the efficiencies and the risks to achieving them.

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

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

Figure 1: 2015/16 overall risk rated efficiencies as at 31 December 2015



33. Table 7 summarises forecast progress on efficiencies by service. It shows most services are on track to achieve their planned efficiencies. Adult Social Care, Environment & Planning, Property and Surrey Fire & Rescue are supporting their programmes with additional in year and one off efficiencies.

34. The next section sets out significant variances in efficiencies forecasts, their impact on the council's overall position and services' actions to mitigate adverse variances.

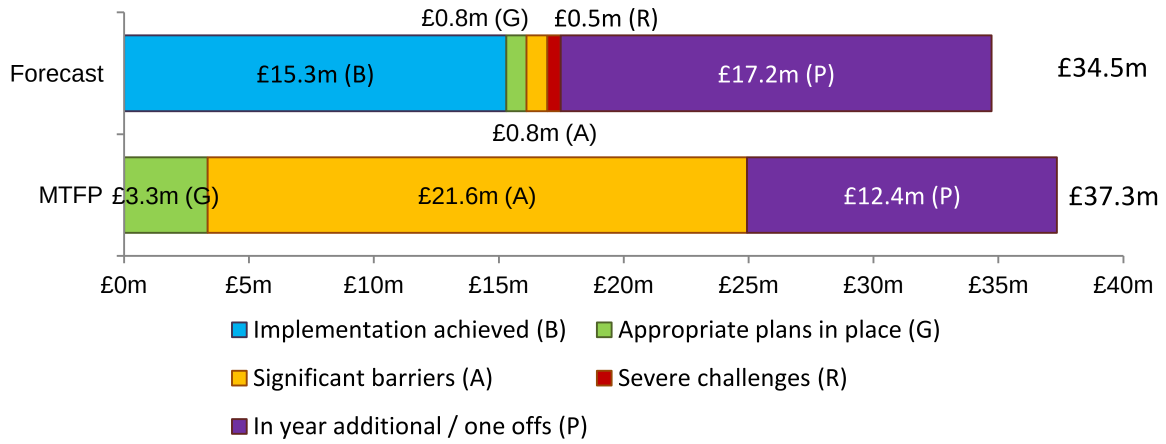
Table 7: 2015/16 Efficiency programme as at 31 December 2015

Service	MTFP £m	Forecast sustainable £m	Forecast one offs £m	Overall variance £m
Adult Social Care	37.3	17.5	17.2	-2.6
Children's Services	0.3	0.3		0.0
Services for Young People	1.9	1.9		0.0
Schools & Learning	9.8	8.8		-1.0
Cultural Services	0.6	0.6		0.0
Customer Services & Directorate Support	0.2	0.2		0.0
Surrey Fire & Rescue Service	1.6	1.4	0.2	0.0
Environment & Planning	6.4	3.3	2.6	-0.4
Highways & Transport	1.7	1.7		0.0
Central Income & Expenditure	0.9	0.8		-0.1
Communications	0.1	0.1		0.0
Finance	0.7	1.0		0.3
Human Resources & Organisational Development	0.8	1.1		0.3
Information Management and Technology	0.6	0.7		0.1
Legal & Democratic Services	0.5	0.5		0.0
Policy & Performance	0.1	0.1		0.0
Procurement	0.1	0.5		0.3
Property	3.4	2.9	0.7	0.1
Shared Service Centre	0.1	0.1		0.0
Total	**67.4**	**43.6**	**20.7**	**-3.0**

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

Significant variances in services' efficiencies & service reductions

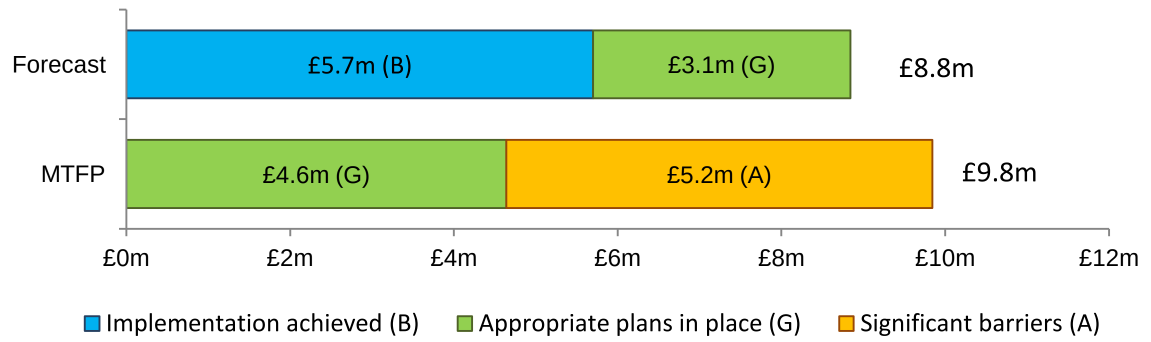
Adult Social Care



35. As at 31 December 2015, ASC forecasts a £2.6m shortfall against its efficiencies target (a decrease of 0.3m from November 2015). There is a high degree of risk associated with £0.5m of savings related to two efficiencies:

- £0.2m FFC stretch target of 20% savings for FFC re-assessments and new packages, ASC is making progress on these savings, but costs are not yet reducing by the full 20% so it remains challenging to achieve; and
- £0.3m optimisation of block contracts, which is still subject to negotiations with ASC's biggest block contract provider.

Schools & Learning



36. As at 31 December 2015, S&L forecasts a £1.0m shortfall against its efficiencies target (no change from November 2015). Decision to not progress some early years projects means S&L is unlikely to achieve £1.0m efficiencies in 2015/16.

Capital budget

37. The council demonstrated its firm long term commitment to supporting Surrey's economy through its £696m 2015-20 MTFP capital programme, including £176m capital expenditure budget for 2015/16.

38. As at 31 December 2015, the revised full year capital budget is £176.2m. Early in 2015, Cabinet approved £17.4m carry forwards from 2014/15 and £22.5m reprofiling from 2015/16 into future years. Table App 4 summarises movements in the capital budget to 31 December 2015.

39. Table 8 compares the current forecast expenditure for the service capital programme and long term investments of £225.5m to the revised full year budget of £176.2m.

Table 8: Forecast capital expenditure 2015/16 as at 31 December 2015

	Current full year budget £m	Apr - Dec actual £m	Jan- Mar projection £m	Full year forecast £m	Full year variance £m
Schools basic need	**57.8**	55.7	2.1	57.8	**0.0**
Highways recurring programme	**33.9**	40.7	-6.8	33.9	**0.0**
Property & IT recurring programme	**25.6**	16.1	5.3	21.4	**-4.2**
Other capital projects	**58.9**	29.6	17.0	46.6	**-12.2**
Service capital programme	**176.2**	**142.1**	**17.6**	**159.7**	**-16.4**
Long term investments	**0.0**	5.9	59.6	65.5	**65.5**
Overall capital programme	**176.2**	**147.9**	**77.2**	**225.2**	**49.0**

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

40. The forecast in-year variance on the 2015/16 capital programme as at 31 December 2015 is an underspend of £16m against the approved revised service budget of £176m. The main reasons for the underspend include;

- £2.3m year to date underspend across a range of projects including CIL, LSTF, Basingstoke canal and closed landfill site maintenance;
- £4.8m on schools capital maintenance due to only carrying out essential maintenance.
- £1.6m on Superfast broadband scheme life;and
- £2.3m on other school schemes due to scheme delays.

41. The Joint transport and Immediate Emergency Care Response projects are fully grant funded so do not affect the YTD position. The projects are behind the expected expenditure for December by £463,704 mainly due to delays in the early project planning stage. They are expected to regain some of this delay going forward.

42. Approved Investment Strategy spending is expected to be £65.5m in 2015/16 (no change from November 2015) and total capital expenditure £225.2m (£231.2m as at November 2015). Table 9 shows significant variances to the service capital programme.

Table 9: Significant variances to the service capital programme

	to 30 November £m	**to 31 December £m**
Schools capital maintenance, including children's centres	-3.7	-£3.7m
Merstham Library & Youth	-1.3	-£1.3m
Fire reconfiguration and training investment	-1.2	-£1.2m
School projects	-1.4	-£0.4m
SEN Strategy	-0.7	-£0.5m
Corporate capital projects	-0.4	-£1.2m
Land acquisition for waste	-0.5	-£1.3m
Closed landfill sites	-0.4	-£0.2m
IT Investment	-0.2	-£3.7m
Other variances	-0.2	-£2.5m
Capital variance	**-10.0**	**-£16.0m**

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

Appendix to Annex

Updated budget - revenue

App 1. The council's 2015/16 revenue expenditure budget was initially approved at £1,671.3m. Adding virement changes since April increased the budget as at 31 December 2015 to £1,679.4m. Table App1 shows the original and updated income and expenditure budget, including the overall net expenditure the council plans to meet from reserves of £3.7m.

Table App1: 2015/16 updated revenue budget as at 31 December 2015

Service	MTFP Income £m	Carry fwds & internal movements £m	**Approved income £m**	MTFP expenditure £m	Carry fwds & internal movements £m	**Approved expenditure £m**	**Updated net expenditure budget £m**
Economic Growth	0.0	0.2	**0.2**	0.9	0.6	**1.5**	**1.7**
Strategic Leadership	0.0	0.0	**0.0**	0.4	0.0	**0.4**	**0.4**
Adult Social Care	-56.8	0.0	**-56.8**	428.6	0.4	**429.0**	**372.2**
Children's Services	-7.0	0.0	**-7.0**	96.0	2.4	**98.5**	**91.4**
Services for Young People	-10.6	0.0	**-10.6**	25.9	0.1	**26.0**	**15.4**
Schools & Learning	-145.3	0.1	**-145.3**	217.3	2.1	**219.5**	**74.2**
Strategic Services (CSF)	-1.5	-0.9	**-2.4**	3.6	1.1	**4.6**	**2.2**
Delegated Schools	-469.0	-7.3	**-476.3**	469.0	7.3	**476.3**	**0.0**
Community Partnership & Safety	-0.2	0.0	**-0.2**	3.0	0.7	**3.7**	**3.5**
Coroner	0.0	0.0	**0.0**	1.3	0.0	**1.3**	**1.3**
Cultural Services	-12.9	-0.1	**-13.0**	22.9	-0.1	**22.8**	**9.8**
Customer Services	-0.3	0.0	**-0.3**	4.6	0.1	**4.7**	**4.5**
Directorate Support							
Emergency Management	0.0	0.0	**0.0**	0.6	0.0	**0.6**	**0.6**
Magna Carta	0.0	0.0	**0.0**	0.0	0.8	**0.8**	**0.8**
Surrey Fire & Rescue Service	-13.1	0.0	**-13.1**	47.9	-0.3	**47.7**	**34.6**
Trading Standards	-1.6	0.0	**-1.6**	3.7	0.0	**3.6**	**2.0**
Environment & Planning	-8.5	-0.5	**-9.0**	88.2	1.1	**89.4**	**80.4**
Highways & Transport	-7.5	-0.6	**-8.1**	51.8	1.5	**53.4**	**45.3**
Public Health	-35.5	2.2	**-33.3**	35.8	-2.2	**33.6**	**0.3**
Central Income & Expenditure	-0.5	-0.3	**-0.7**	61.0	-9.7	**51.3**	**50.5**
Communications	0.0	0.0	**0.0**	2.0	0.1	**2.1**	**2.1**
Finance	-1.8	-0.1	**-1.9**	10.2	0.1	**10.2**	**8.3**
Human Resources & Organisational Development	-0.2	0.1	**-0.1**	9.3	-0.7	**8.6**	**8.5**
Information Management & Technology	-0.7	0.0	**-0.7**	25.2	1.0	**26.2**	**25.5**
Legal & Democratic Services	-0.5	0.0	**-0.5**	8.9	0.1	**9.0**	**8.5**
Policy & Performance	-1.1	0.0	**-1.1**	3.7	-0.2	**3.6**	**2.5**
Procurement	-0.2	0.2	**0.0**	3.4	-0.2	**3.3**	**3.3**
Property	-8.9	-0.7	**-9.7**	37.2	1.4	**38.6**	**28.9**
Shared Service Centre	-4.6	-0.3	**-4.9**	8.8	0.4	**9.2**	**4.3**
Services total	**-788.3**	**-7.9**	**-796.2**	**1,671.3**	8.0	**1,679.3**	**883.0**
General funding sources							
General Government grants	-237.2		**-237.2**			**0.0**	**-237.2**
Local taxation (council tax and business rates)	-642.1	0.0	**-642.1**		0.0	**0.0**	**-642.1**
Total	**-1,667.6**	**-7.9**	**-1,675.5**	**1,671.3**	**8.0**	**1,679.3**	**3.7**

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

App 2. When Council agreed the MTFP in February 2015, some government departments had not determined the final amount for some grants. Cabinet agreed the principle that services would estimated their likely grant and services' revenue budgets would reflect any changes in the final amounts, whether higher or lower.

App 3. To control their budgets during the year, managers occasionally need to transfer, or vire budgets from one area to another. In most cases these are administrative or technical in nature, or of a value the Director of Finance can approve. Virements above £500,000 require the approval of the relevant Cabinet Member. There were no virements above £500,000 in December 2015.

App 4. Table App 2 summarises the movements to the revenue expenditure budget.

Table App 2: Movements in 2015/16 revenue expenditure budget

	Income £m	Expenditure £m	Earmarked reserves £m	General balances £m	Virement count
MTFP	-1,667.6	1,671.3		3.7	
Carry forwards	0.2	7.8	-8.0	0.0	1
	-1,667.4	1,679.1	-8.0	3.7	1
Quarter 1 movements	-2.4	2.7	-0.3	0.0	99
Quarter 2 movements	-1.1	2.1	-1.0	0.0	64
October movements	-6.8	6.8	0.0	0.0	19
November movements	2.1	-2.1		0.0	19
December movements					
Internal service movements	-0.1	0.1	0	0.0	16
Council and Cabinet approvals	0	0	0	0.0	0
Total quarter 3 movements	**-0.1**	**0.1**			
December approved budget	**-1,675.7**	**1,679.4**	**-9.3**	**3.7**	

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

App 5. Table App 3 shows the year to date and forecast year end gross revenue position supported by general balances.

Table App 3: 2015/16 Revenue budget year to date and year end forecast positions as at 31 December 2015

	Year to date			←-------------------- Full year --------------------→			
	Budget £m	Actual £m	Variance £m	Budget £m	Remaining forecast £m	Projection £m	Variance £m
Income:							
Local taxation	-447.9	-449.6	**-1.7**	-642.1	-195.6	-645.2	**-3.1**
Government grants	-682.7	-668.9	**13.8**	-891.0	-206.2	-875.1	**15.9**
Other income	-105.9	-137.5	**-31.6**	-142.5	-34.6	-172.1	**-29.6**
Total income	-1,236.5	-1,256.0	**-19.5**	-1,675.6	-436.4	-1,692.4	**-16.8**
Expenditure:							
Staffing	229.0	224.7	**-4.3**	311.6	81.3	305.9	**-5.7**
Service provision	662.2	676.8	**14.7**	891.4	232.1	908.9	**17.5**
Non schools sub-total	891.2	901.5	**10.4**	1,203.0	313.4	1,214.8	**11.8**
Schools expenditure	371.1	371.1	**0.0**	476.2	105.1	476.2	**0.0**
Total expenditure	1,262.3	1,272.7	**10.4**	1,679.3	418.4	1,691.0	**11.8**
Movement in balances	**25.8**	**16.7**	**-9.1**	**3.7**	**-18.0**	**-1.4**	**-5.0**

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

Updated budget – capital

App 6. Cabinet approved £17.4m carry forward of scheme budgets requested in 2014/15's Outturn report and £22.3m reprofiling of 2015/16 capital spending by Property and Information Management & Technology into future years in May 2015's budget monitoring report. Table App 4 summarises the capital budget movements for the year. There were no significant virements in December.

Table App 4: 2015/16 Capital budget movements as at 31 December 2015

	to 30 June £m	**to 30 November £m**	**to 31 December £m**
MTFP (2015-20) (opening position)	**176.2**	**176.2**	**176.2**
Approved budget movements:			
Carry forwards from 2014/15	17.4	17.4	17.4
Business Services - reprofile to future years	-22.5	-22.5	-22.5
Weybridge Library - reprofile to future years	-0.1	-0.1	-£0.1
Schools projects	0.3	0.6	£0.6
Lindon Farm, Alford, Cranleigh		1.5	£1.5
Third party delegated school contributions		0.8	£0.8
Highways	0.1	0.1	£0.1
Newlands Corner		0.1	£0.1
In year budget changes	**-4.7**	**-2.2**	**-2.2**
2015/16 updated capital budget	**171.5**	**174.1**	**174.1**
In year budget changes funded by:			
Third party contributions		0.8	0.8
Borrowing and reprofiling to future years	-4.7	-3.0	-3.0

Balance sheet

App 7. Table App 5 shows the council's balance sheet as at 31 December 2015. The council's net assets have increased by £52m since 31 March 2015. This is mainly due to: increases of £42m extra cash due to grants received at the start of the year, £101m capital expenditure and £12m higher cash investments; less £48m depreciation, £47m academy school transfers and £5m other disposals.

Table App 5: Balance sheet

As at 31 Mar 2015 £m		**As at 31 Dec 2015 £m**
1,725.6	Property, plant & equipment	1,737.8
0.7	Heritage assets	0.7
30.9	Investment property	30.9
4.5	Intangible assets	4
0.0	Assets held for sale	0.0
0.4	Long term investments	3.3
15.2	Long term debtors	27.2
1,777.2	**LONG TERM ASSETS**	**1,803.9**
107	Short term investments	65.5
0.9	Intangible assets	0.9
34	Assets held for sale	34
1.1	Inventories	0.9
119.2	Short term debtors	123.5
16.6	Cash & cash equivalents	47.3
279.8	**CURRENT ASSETS**	**272.1**
-32.6	Short term borrowing	-38.7
-187.3	Creditors	-199.4
-4.7	Provisions	-4.3
-0.2	Revenue grants receipts in advance	-0.2
-0.2	Capital grants receipts in advance	-0.3
-7.0	Other short term liabilities	-7.0
-232	**CURRENT LIABILITIES**	**-249.8**
-20.8	Provisions	-21.5
-397.8	Long term borrowing	-397.8
-1,605.7	Other long term liabilities	-1,606.0
-2,024.3	**LONG TERM LIABILITIES**	**-2,025.3**
-199.3	**NET ASSETS**	**-199.3**
-268.0	Usable reserves	-306.5
467.3	Unusable reserves	505.7
199.3		**199.2**

Earmarked reserves

Table App 6: Earmarked revenue reserves as at 31 December 2015

	Opening balance 1 Apr 2015 £m	Balance at 31 Dec 2015 £m	Forecast 31 Mar 2016 £m
Revolving Infrastructure & Investment Fund	20.6	20.6	20.6
Budget Equalisation Reserve	16.6	5.0	5.0
Eco Park Sinking Fund	16.0	16.0	11.8
Insurance Reserve	10.6	10.9	10.9
Investment Renewals Reserve	10.0	9.5	8.6
General Capital Reserve	7.9	7.9	4.6
Street lighting PFI Reserve	5.8	5.1	5.1
Vehicle Replacement Reserve	5.6	6.5	2.8
Economic Downturn Reserve	4.2	9.2	9.2
Public Health Reserve	2.5	3.3	2.1
Economic Prosperity Reserve	2.5	2.5	2.5
Equipment Replacement Reserve	1.9	3.1	1.5
Child Protection Reserve	1.9	1.1	1.1
Business Rate Appeals Reserve	1.3	1.3	1.3
Pension Stabilisation Reserve	1.1	1.1	1.1
Interest Rate Reserve	1.0	1.0	1.0
Total earmarked revenue reserves	**109.5**	**104.1**	**89.2**
General Fund Balance	**21.3**	**95.9**	**21.3**

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

Debt

App 8. During the nine months to 31 December 2015, the Accounts Payable team raised invoices totalling £208.8m. The amount outstanding on these invoices was £40.4m of gross debt as at 31 December 2015.

Table App 7: Age profile of the council's debts as at 31 December 2015

Account group	<1 month £m	2-12 months £m	1-2 years £m	+2 years £m	Total £m	Overdue debt £m
Care debt – unsecured	2.6	5.3	2.0	3.0	12.9	10.4
Care debt – secured	0.1	2.0	1.0	3.1	6.1	6.1
Total care debt	**2.6**	**7.3**	**3.0**	**6.2**	**19.0**	**16.4**
Schools, colleges and nurseries	0.5	0.3	0.0	0.0	0.7	0.3
Clinical commissioning groups	6.3	1.5	0.3	0.2	8.3	2.1
Other local authorities	0.5	2.6	0.3	0.0	3.3	2.8
General debt	3.4	2.1	0.1	0.0	5.5	2.2
Total non-care debt	**10.6**	**6.5**	**0.7**	**0.2**	**17.9**	**7.3**
Total debt	**13.2**	**13.7**	**3.6**	**6.4**	**37.0**	**23.8**

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

App 9. Adjusting the gross debt to take into account those balances not immediately due (i.e. less than 30 days old) or collectable (i.e. secured on property) produces the overdue debt figures shown in Table App 8.

Table App 8: Overdue debt summary as at 31 December 2015

	2015/16 Q3 £m	2015/16 Q2 £m	2015/16 Q1 £m	2014/15 Q4 £m	2013/14 Q4 £m	2012/13 Q4 £m
Care related debt	10.4	10.1	4.1	8.9	6.5	7.6
Non care related debt	7.3	7.7	8.2	4.2	3.1	3.8
Total	**17.7**	**17.8**	**12.3**	**13.1**	**9.6**	**11.4**

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

App 10. 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 2015 to 31 December 2015 was 28 days.

App 11. The Director of Finance has delegated authority to write off irrecoverable debts in line with financial regulations. This quarter (Q3 2015/16) the Director of Finance has written off 105 such debts with a total value of £217,479, of which £204,701 is care related and £12,778 is non care related debt.

Treasury management

Borrowing

App 12. 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 the costs of borrowing are affordable, prudent and sustainable under the Prudential Code.

Table App 9: Long-term borrowing as at 31 December 2015

	£m
Debt outstanding as at 1 April 2015	397.2
Loans raised	0.0
Loans repaid	0.0
Current balance as at 31 December 2015	**397.2**

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

App 13. The weighted average interest rate of the council's entire long term debt portfolio is 4.1% as at 31 December 2015.

App 14. The council also manages cash on behalf of Surrey Police Authority (£33.5m as at 31 December 2015) which is classed as temporary borrowing.

Authorised limit and operational boundary

App 15. The following prudential indicators control the overall level of borrowing:

- 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.
- 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 as at 31 December 2015

	Authorised limit £m	Operational boundary £m
Gross borrowing	397.2	397.2
Limit / boundary	688.0	618.0
Headroom	**290.8**	**220.8**

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

Maturity profile

App 16. The council sets limits for the maturity structure of borrowing in accordance with the Prudential Code, as shown in Table App 11. This excludes balances invested on behalf of Surrey Police Authority.

Table App 11: Maturity structure of the council's borrowing as at 31 December 2015

	Upper limit	Lower limit	Actual
Repayable in 1 year*	50%	0%	0%
Repayable in 1-2 years	50%	0%	0%
Repayable in 2-5 years	50%	0%	0%
Repayable in 5-10 years	75%	0%	2%
Repayable in 10-15 years	75%	0%	0%
Repayable in 15-25 years	75%	0%	2%
Repayable in 25-50 years	100%	25%	96%

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

Early debt repayment and rescheduling

App 17. There has been no early repayment or rescheduling in 2015/16.

Investments

App 18. The council had an average daily level of investments of £142m throughout 2014/15, with an average of £186m for 2015/16. The balance of funds managed on behalf of schools was £45.0m at 31 December 2015.

App 19. Cash is invested on the money markets through one of the council's five brokers, or directly with counterparties through the use of call accounts, money market funds or direct deal facilities

App 20. The weighted average return on all investments received to the end of the third quarter in 2015/16 is 0.58%. This compares to the average 7-day London Interbank Bid Rate (LIBID) of 0.36% for the equivalent period. Table App 12 shows the comparison.

Table App 12: Weighted average return on investments compared to 7-day LIBID

	Average 7-day LIBID	Weighted return on investments
Quarter 3	0.36%	0.58%
2015/16 total	**0.36%**	**0.53%**
2014/15 total	0.35%	0.42%

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

SURREY
COUNTY COUNCIL

Council Overview Board
28 January 2016

Revenue and Capital Budget 2016/17 to 2020/21

Purpose of the report: To present the Revenue and Capital Budget to the Council Overview Board, ahead of a decision being made by Cabinet on 2 February 2016.

Introduction:

1. The Revenue and Capital Budget 2016/17 to 2020/21 will be presented to Cabinet on 2 February 2016. The papers will be made available to the Council Overview Board when they are published with the Cabinet agenda.

2. Within this item, the following papers have been provided as background information:

    a. A summary of key comments from Scrutiny Boards from the period November 2015 – January 2016.

    b. The Leadership Risk Register (to follow).

    c. Detail of funding available to local committees for local application, for example through highways budgets or member allocations (to follow with budget papers)

Recommendations

The Committee is asked to consider whether it wishes to make any recommendations regarding the Revenue and Capital Budget 2016/17 to 2020/21

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Council Overview Board
28 January 2016

Scrutiny Board Budget Review

Background

In May 2015, full Council approved amendments to the Council's Scrutiny Function. Each Scrutiny Board set up a Performance & Finance Sub Group to undertake scrutiny of budgets and corporate performance measures.

During the period November 2015 – January 2016, the Scrutiny Boards have met with finance officers, Cabinet Members and senior officers with a view to understanding the financial prospects for the Council for the next Medium Term Financial Plan (2016-21). One of the key elements discussed at the Sub Group meetings, was the challenge all services had to analyse their systems and processes in order to find 1.5% savings per year.

Particular areas of focus for Scrutiny included:

- Challenging savings proposals
- The impact of budget proposals on front line services
- Investigating income generation targets

The budget is due to be reported to Cabinet on 2 February 2016. A summary of the comments and recommendations made by Scrutiny Boards to date is outlined in this report. However, it should be noted that this piece of work is ongoing and the Boards will continue to have a role in scrutinising budgets as and when more specific detail regarding the Local Government Settlement is released in the Spring of this year.

Summary of Scrutiny Board findings

Economic Prosperity, Environment & Highways (EPEH) Scrutiny Board:
The Performance & Finance Sub Group of EPEH met with Assistant Directors and the Finance Manager responsible for the Environment & Infrastructure Directorate over a number of meetings. Members scrutinised the service strategies and discussed the expected pressures and potential savings for future years. The Sub Group would continue to meet quarterly and would report back to the Council Overview Board, via EPEH, with any specific recommendations once further information regarding the Council's budget situation was available.

Education & Skills and Social Care Services Scrutiny Board:
The budget for Children, Schools & Families has been considered by the Education & Skills Scrutiny Board, with input from Members of the Social Care Services Board. There was a particular focus on SEND (special educational needs and disabilities) transport review due to the forecast overspends. In addition, Members were keen to understand how social investment was being explored as an option within the directorate to help achieve savings. The Board therefore agreed to commission its Performance & Finance Sub Group to work with Cabinet Members and Senior Officers to scrutinise the development of social investment opportunities and other sources of income generation.

Resident Experience Scrutiny Board:
The Board met with services including Surrey Fire & Rescue, Trading Standards and Cultural Services (including Libraries). The following comments were agreed at their meeting on 13 January 2016, regarding the Surrey Fire & Rescue Service (SFRS) Budget:

The Resident Experience Board are:

- Satisfied that SFRS are able to maintain the level of performance and achieve their budget for 2016/17 and;
- will continue to scrutinise proposals for future savings in the SFRS, with an understanding that the service must rationalise the way that it works to meet future efficiency targets.
    - The Board would schedule items on emergency services collaboration, additional work of the SFRS (outside of the traditional remit of a fire service) and income generation.

The Board will be focussing their March 2016 meeting on the future of the Library Service, and therefore will continue to scrutinise savings once further information is available following the Local Government Settlement and the Cabinet’s decision regarding the buget on 2 February.

Social Care Services Scrutiny Board:
In December, the Social Care Services Performance & Finance Sub Group considered comments from the Council Overview Board regarding the Comprehensive Spending Review. The following recommendations were agreed on 3 December 2015:

The Social Care Service Board’s Performance & Finance sub-group recommends that:

- Surrey County Council accepts the option of raising council tax by 2%, as outlined by the Comprehensive Spending Review, and that this additional funding should be ring-fenced for the use of the Adult Social Care Directorate, and not used to reduce the current ASC budget.
- The Leader of the Council lobby’s government for the option of raising council tax being extended to our partners in District and Borough Councils as these authorities provide non-statutory adult social care services.

Further comments were made by the Sub-Group, whereby they recognised the potential impact of these options on Surrey residents in terms of the increased tax burden, and also on the forthcoming Local Government Settlement in terms of proportionately reduced grant. The Sub-Group also noted the need for the Council to maintain a sustainable market, at a time where there are considerable financial pressures across the system.

The Sub Group are due to meet again on 25 January 2016, and any further comments will be reported to the Council Overview Board on 28 January.

Wellbeing & Health Scrutiny Board
The Performance & Finance Sub Group are due to meet on 28 January 2016, and will report any recommendations to the Council Overview Board for inclusion in the recommendations to Cabinet.

Recommendations

That the Council Overview Board consider the report and any further information provided by Scrutiny Board Chairmen, and agree whether they wish to make any formal recommendations or comments to the Cabinet.

Next steps

Any findings or comments will be reported to Cabinet on 2 February 2016. Following the Local Government Settlement, the Scrutiny Boards will continue to scrutinise the implications on their service areas and make recommendations where appropriate.

Report contact: *Helen Rankin, Scrutiny Manager*
Contact details: *020 8541 9126*

Leadership risk register as at 31 December 2015 *(covers rolling 12 months)*   Owner: David McNulty

Ref	Risk ref.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
L1	ASC1 C&C2 CSF4, EAI1,3, 15 FR72, 85 ORB01	**Medium Term Financial Plan (MTFP) 2015-20** Failure to achieve the MTFP, which could be as a result of: • not achieving savings • additional service demand and/or • over optimistic funding levels. As a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.	**High**	• Monthly reporting to Continuous Improvement and Productivity Network and Cabinet on the forecast outturn position is clear about the impacts on future years and enables prompt management action (that will be discussed informally with Cabinet) • Budget Support meetings (Chief Executive and Director of Finance) continue to review and challenge the robustness of MTFP delivery plans and report back to Cabinet as necessary • Clear management action reported promptly detailing alternative savings / income if original plans become non deliverable or funding levels alter in year • Monthly formal budget reports focus on funding levels comparing actual spend to forecasts • Budget planning discussions with Cabinet and Select Committees • Updated MTFP 2015-20 reported to Cabinet in July 2015. The ongoing budget planning process will continue to develop the MTFP 2016-21. • Clear pricing structures in place for services delivered. • Early conversations are undertaken with all relevant stakeholders to ensure consultations are effective and completed in a timely manner. • Cross service networking and timely escalation of issues to ensure lawfulness and good governance.	- Prompt management action taken by Strategic Directors / Leadership Teams to identify correcting actions. (Evidenced by robust action plans) - Members (Council, Cabinet, Select Committee) make the necessary decisions to implement action plans in a timely manner - Members have all the relevant information to make necessary decisions	Director of Finance	**High**

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L6	CSF1,2, 3	**Safeguarding – Children's Services** Avoidable failure in Children's Services, through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on well being.	**High**	• Working within the frameworks established by the Children's Safeguarding Board ensures the council's policies and procedures are up to date and based on good practice. • Adult Social Care and Children, Schools and Families are working as key stakeholders in the further development of the Multi-Agency Safeguarding Hub. • Children's Services Improvement Plan is being delivered to address areas of improvement from the Ofsted inspection and strengthen service and whole system capability and capacity.	- Timely interventions by well recruited, trained, supervised and managed professionals ensures appropriate actions are taken to safeguard and promote the well being of children in Surrey. - Actively respond to feedback from regulators. - Robust quality assurance and management systems in place to identify and implement any key areas of learning so safeguarding practice can be improved. - The Children's Safeguarding board (chaired by an independent person) comprises senior managers from the County Council and other agencies facilitating prompt decision making and ensuring best practice. - An Improvement Board (chaired by the Deputy Leader) oversees progress on the Improvement Plan and agrees areas of action as required.	Strategic Director for Children's Schools and Families	**High**
L13	ASC6,7 ,12	**Safeguarding – Adult Social Care** Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a	**High**	• Working within the framework established by the Surrey Safeguarding Adults Board ensures that the council's policies and procedures are up to date and based on good practice.	- Continue to work with the Independent Chair of the Surrey Safeguarding Adults Board to ensure feedback and recommendations from case	Strategic Director for Adult Social Care	**High**

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		major impact on wellbeing.		• Care Act Implementation Board provides strategic direction and focus. • Adult Social Care and Children, Schools and Families are working as key stakeholders in the further development of the Multi Agency Safeguarding Hub. • Established a locality safeguarding advisor to assure quality control. • Close involvement by Associate Cabinet Member for Adult Social Care in safeguarding functions.	reviews are used to inform learning and social work practice. - Agree and embed agreed changes resulting from Care Act 2014 consultation. - Actively respond to feedback from regulators.		
L2	ASC2,9	**National policy development** Continuing national policy changes may put additional pressure on demand for all public services leading to an erosion of financial resilience and ability to deliver statutory and essential services.	**High**	• Effective horizon scanning to ensure thorough understanding of new policy changes Implementation of a welfare reform programme including districts and boroughs covering: - Advice and information - Financial resilience - Emergency assistance - Localisation of council tax support - Housing and homelessness - Employment training and support • Taking opportunities to influence central Government policy development e.g. via the Local Government Association. • The Welfare Reform Task Group is monitoring the implementation of its recommendations, which are intended to manage the implementation of reforms on Surrey Residents. The Task Group reports to the Council Overview Board and the Resident Experience Board.	- Working in partnership with other statutory partners (e.g. Clinical Commissioning Groups CCG's) to maximise opportunities for communities - Members proactively take the opportunities to influence central Government Care Act Implementation Board in place and project programme set up to support ongoing discussion with partners.	Strategic Director for Adult Social Care	**High**

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L4	ASC2 CEO2	**Integration of health and social care** Failure in partnership working reduces our ability to: - co-ordinate/integrate health and social care services; - improve health outcomes; and - develop a financially sustainable model.	**High**	Governance arrangements: • Robust partnership governance arrangements are in place through the Better Care Board, Public Sector Transformation programme and Surrey's Health and Wellbeing Board • Regular monitoring of progress and risks against key Health & Social Care integration work streams and agreed financial governance framework (including the Better Care Fund) • Prioritisation of resources and clear senior leadership across Council directorates to support the development of Health & Social Care work streams. • Continued focus on building and maintaining strong relationship with partners through regular formal and informal dialogue • Surrey's Better Care Fund plan (which includes agreed financial plans, metrics to measure progress and risk sharing arrangements) has been approved by Surrey's Health & Well-Being Board and the national Better Care Fund team. • Formal pooling agreements (section 75 agreements) being developed for the operation of the Better Care Fund.	- Progress discussions with Clinical Commissioning Groups in Surrey about plans for integration beyond the Better Care Fund. - Inclusion of key partners in local whole systems planning. - Members continue to endorse approaches to integration across the County. - Increase focus on tracking implementation and realisation of benefits through the Local Joint Commissioning Groups.	Strategic Director for Adult Social Care	**High**
L5	FN04	**Comprehensive Spending Review (CSR) 2015** Risk that CSR 2015: • reduces further the total public sector funding available, and	**High**	• Having contributed to the Spending Review submissions in the late summer, the council will continue to be active in involvement with Government departments to develop revised proposals as they emerge (eg business rate retention, devolution). Officers (Finance and	- Cabinet fully consider the implications of CSR in budget planning and agree an MTFP that reflects likely impacts.	Director of Finance	**High**

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		• introduces a revised distribution mechanism which lowers the councils financial resilience.		Policy in particular) to review and interpret the implications of the Spending Review due to be announced on 25 November 2015 and the subsequent Local Government Financial Settlement.			
L14	ASC4	**Senior Leadership Succession Planning** A significant number of senior leaders leave the organisation within a short space of time and cannot be replaced effectively resulting in a reduction in the ability to deliver services to the level required.	**High**	• Workforce planning linked to business continuity plans • High Performance Development Programme to increase skills, resilience and effectiveness of leaders • Career conversations built into appraisal process looking forward five years • Shaping leaders exercise	- Transparent and effective succession plans	Chief Executive	**Medium**
L3	EAI2	**Waste** Failure to deliver the key elements of the waste strategy leads to negative financial and reputational impact.	**High**	• Implementation monitored by the Waste Programme Delivery Board with strategic overview provided by the Strategic Waste Board • Operational Delivery Board created to specifically manage the delivery of the Eco Park development. • All major decisions are reported to Cabinet on a regular basis • Reporting through Surrey Chief Executives detailed proposals on options for improved collaborative working to achieve the strategy outcomes. • Joint strategic partnership reinforces collaboration and will, if successful, strengthen the ability to deliver the key elements of the waste strategy • Support from external strategic advisors assists senior officers in management and	- Strong resourcing and project management regime in place to ensure prompt resolution of any issues that may hinder progress. - Collaborative work with Districts and Boroughs is delivered through the Surrey Waste Partnership with close involvement of all Surrey Chief Executives - The Waste Programme Delivery Board comprises senior managers from the service together with Procurement and Finance and is chaired by the Assistant Director Environment facilitating prompt decision	Strategic Director of Environment and Infrastructure	**Medium**

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				mitigation of key technical, financial and legal risks. • Senior officers working closely with Government departments.	making.		
L7	CSF4 EAI1 FN01	**Future Funding** The council is highly dependent on Council Tax for funding, and the ability to increase that in real terms is constrained (by current Government policy). This could lead to a reduction in the council's financial resilience with the consequence that funding for key services will be seriously eroded.	**High**	• Structured approach to ensuring Government understands the council's Council Tax strategy and high dependence • Targeted focus with Government to secure a greater share of funding for specific demand led pressures (in particular School Basic Need) • Continued horizon scanning of the financial implications of existing and future Government policy changes • Development of alternative / new sources of funding (e.g. bidding for grants) • Review how systems and processes can lead to greater efficiencies. Notwithstanding actions above, there is a significant risk of Central Government policy changes /austerity measures impacting on the council's long term financial resilience.	- Members make decisions to reduce spending and or generate alternative sources of funding, where necessary, in a timely manner. - Officers unable to recommend MTFP unless a credible sustainable budget is proposed.	Director of Finance	**Medium**
L8	ASC8 CSF3,4 CEO1 EAI2,14 ORB02	**Reputation** A significant failure to deliver within the organisation (caused by an event or individual), could lead to a loss of trust and confidence in the organisation by external stakeholders (e.g. residents, Government, Partners) or internal staff, affecting our ability to deliver	**High**	• Processes in place that minimise the likelihood of organisational failure include: - Active learning by senior leaders from experiences / incidents outside the council inform continual improvement within the council - Strong corporate values - Robust Governance framework (including codes of conduct, health & safety policies, complaints tracking).	- Regular monitoring of effectiveness of processes is in place and improvements continually made and communicated as a result of learning.	Chief Executive Officer	**Medium**

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Ref	Risk ref.	Description of the risk	Inherent risk level (no controls)	Processes in place *(ie the 'how' risks are being mitigated)*	Controls *(i.e. decisions needed)*	Lead risk owner	Residual risk level (after existing controls)
		services effectively and harming our freedoms and flexibilities from Government controls.					
L9	CEO7 ORB05	**Staff resilience** Scale of public service transformation and budget challenge leads to loss in productivity, increased sickness and staff turnover, impacting on the ability to deliver services to residents.	**High**	• Communication, consultation and engagement is a priority for the council with an emphasis placed on thoroughly addressing the concerns of staff and their representatives • Eight training courses available that address various aspects of change and trained coaches are available in all services to support staff. • High Performance Development Programme being offered across the organisation to support leaders to develop their own and the organisations behaviours. • Comprehensive range of surveys and focus groups provide a measure of the staff satisfaction with the council and its management of change. • Smarter working framework and flexible working policy in place to support managers and their teams to work differently. • Promotion of support mechanisms for staff (eg. employee assistance). • Staff are encouraged to get involved in finding innovative solutions to redesign services.	- Decision by members on pay and reward system taken in timely manner and combine with staff and union consultation. - Communications engagement plan to promote the benefits of working for Surrey and help to support engagement across the organisation to be delivered.	Strategic Director Business Services	**Medium**
L10	CEO5 EAI4,5 FR06	**Business Continuity, Emergency Planning** Failure to respond effectively to a known event or major incident results in an inability to deliver	**High**	• The Council Risk and Resilience Forum reviews, moderates, implements and tests operational plans. • Close working between key services and the Emergency Management Team to	- Business Continuity Plans are in place and signed off (by heads of service) in timely manner	Strategic Director of Environment and Infrastructure	**Medium**

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		key services.		update plans and share learning • Continued consultation with Unions and regular communication to staff. • External risks are assessed through the Local Resilience Forum. • Regular updates reported to Statutory Responsibilities Network.			
L12	ASC8	**Supply chain / contractor resilience** Supply chain failure, lack of business continuity arrangements in place leading to increased costs, time delays or reputational damage and failure to promote service delivery.	**High**	• Supply chain business continuity plans for strategic/critical contracts to meet required standards. Levels of compliance reported to Statutory Responsibilities Network. • Consistent management of supply chain risks across all key suppliers through common reporting. • Regular supplier intelligence reporting in place to track industry and supplier news. • Risk management training provided to contract managers to enable a consistent approach. • Mitigating actions are less effective for small/medium suppliers due to reduced business continuity.	- Supplier selection policy decision made to include financial resilience and business continuity arrangements - Needs strong support from ELT (Extended Leadership Team) to ensure contract resilience and business continuity is in place and regularly up-dated	Strategic Director Business Services	**Medium**
L11	ASC5 CEO1 CSF5 IT51	**Information Governance** Loss of protected data by the council leads to financial penalties, safeguarding issues and erosion of public trust.	**Medium**	• Encrypted laptops, secure email environment and strong password policies • Best practice working standards including PSN accreditation and move towards ISO2700 • Focus on educating users through communications campaigns (linked to known peaks for breaches) and a refreshed and re-launched information security e-learning package. • Information Governance and Caldicott	- Cabinet review of IT security policy has resulted in the security policy, Code of conduct and social media policies being updated to reflect changes agreed	Strategic Director Business Services	**Medium**

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				Boards in place to oversee processes and controls • Implementation of learning from feedback where breaches occur. • Directorates and Digital Delivery Team engaging with partners to deliver a platform that will enable appropriate sharing of information between agencies. • Increased use of mobile technology to minimise the need for paper records. Despite the actions above, there is a continued risk of human error that is out of the council's control.			
L15	ORB04	**Integrated working** A significant change in integrated working leads to significant service disruption and reputational damage.	**Medium**	• Shared strategy to ensure no unintended consequences. • Strong governance arrangements (eg. clear responsibilities, IAA) in place with early warning mechanisms. • Effective transition arrangements with continuous stakeholder engagement. • Close liaison and communication with customers.	- Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter.	Chief Executive	**Low**
L16	CEO2 EAI3,15	**Partnership working** A significant change in partnership working leads to significant service disruption and reputational damage.	**Medium**	• Public Service Transformation Network (PSTN) leadership work stream in place. • Partnership governance arrangements in place with early warning mechanisms. • Intelligence on partners is shared and areas of risk identified as a consequence. • Aligned partnership strategies • High Performance Development Programme in place to increase skills, resilience and effectiveness of leaders.	- Leadership and managers recognise the importance of building and sustaining good working relationships with key stakeholders and having early discussions if these falter.	Chief Executive	**Low**

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Movement of risks

Ref	Risk	Date added	Inherent risk level when added	Movement in residual risk level		Current residual risk level
L1	Medium Term Financial Plan	Aug 12	High	-	-	High
L2	National policy development	Feb 13	High	-	-	High
L3	Waste	May 10	High	Jan 15	⇩	Medium
L4	Integration of health & social care	June 13	High	-	-	High
L5	Comprehensive Spending Review 2015	Sep 14	High	-	-	High
L6	Safeguarding – Children's Services	May 10	High	Jan 15	⇧	High
L7	Future funding	Aug 12	High	-	-	Medium
L8	Reputation	Oct 14	High	-	-	Medium
L9	Staff resilience	May 10	High	Jan 12	⇩	Medium
L10	Business Continuity, Emergency Planning	May 10	High	Aug 12	⇩	Medium
L11	Information governance	Dec 10	Medium	Oct 14	⇩	Medium
L12	Supply chain / contractor resilience	Jan 14	High	-	-	Medium
L13	Safeguarding – Adult Social Care	May 10	High	Jan 15	⇧	High
L14	Senior leadership succession planning	Mar 15	High	-	-	Medium
L15	Integrated working	Sept 15	Medium	-	-	Low
L16	Partnership working	Sept 15	Medium	-	-	Low

Risks removed from the register in the last 12 months

Risk	Date added	Date removed
IT risk	*May 10*	*Oct 14*

Leadership level risk assessment criteria

Due to their significance, the risks on the Leadership risk register are assessed on their inherent risk level (no controls) and their residual risk level (after existing controls have been taken into account) by high, medium or low.

Risk level	Financial impact	Reputational impact	Performance impact	Likelihood
	(% of council budget)	*(Stakeholder interest)*	*(Impact on priorities)*	
Low	< 1%	Loss of confidence and trust in the council felt by a small group or within a small geographical area	Minor impact or disruption to the achievement of one or more strategic / directorate priorities	Remote / low probability
Medium	1 – 10%	A sustained general loss of confidence and trust in the council within the local community	Moderate impact or disruption to the achievement of one or more strategic / directorate priorities	Possible / medium probability
High	10 – 20%	A major loss of confidence and trust in the council within the local community and wider with national interest	Major impact or disruption to the achievement of one or more strategic / directorate priorities	Almost certain / highly probable

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SURREY COUNTY COUNCIL

CABINET

DATE: **2 FEBRUARY 2016**

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

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

SUBJECT: **REVENUE AND CAPITAL BUDGET 2016/17 TO 2020/21, AND TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

The purpose of this report is to present information to enable Cabinet to propose and recommend to the Full County Council:

1. the draft revenue and capital budgets for the five year period 2016-21, which is collectively known as the council's Medium Term Financial Plan (MTFP);

2. the level of the council tax precept for 2016/17; and

3. the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2016/21; the policy for the provision of the repayment of debt (minimum revenue provision (MRP)) and the treasury management policy.

The information in the report is based on the Provisional Local Government Finance Settlement (Provisional Settlement) with final figures not expected till early February 2016. There has been considerable 'shock' in the Provisional Settlement figures over those that were reasonably expected. This is due to late Government changes, which means that while the Council is able to present a balanced budget for 2016/17, this does assume full delivery of significant savings, use of a significant level of reserves, use of capital receipts and provision of transitional relief from Government to compensate for the degree of 'shock' in the Provisional Settlement. The same applies for 2017/18. Without the assumed transitional relief, the Council is not able to present a sustainable budget and even with this, requires an unprecedented programme of transformation to balance future years.

Additionally, the best available information on service price rises and demographic demand have been reflected in the service cash limits, but there is inherent uncertainty in these, given the changes in national and local circumstances.

RECOMMENDATIONS

It is recommended that Cabinet makes the following recommendations to the Full County Council on 9 February 2016:

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

1. The Director of Finance's statutory report says the budget for 2016/17 is only sustainable and robust if the council uses substantial reserves and capital receipts from the sale of assets, and crucially, receives significant transitional relief while an unprecedented scale of service transformation is developed and delivered going forward. (Annex 1).
2. The Council will require transitional funding from Government of £20m to balance the 2016/17 budget in respect of the late announcement of a change to the distribution of the Revenue Support Grant, and a further £37m in 2017/18.
3. If the Council receives no transitional relief in the final settlement, the Leader will arrange an emergency Cabinet meeting to determine how to balance the 2016/17 budget. This is not expected to affect the council tax precept for 2016/17.
4. It is expected that the Final Settlement will set out requirements for reporting use of the adult social care precept.
5. At a date yet to be determined by Government, there will be an opportunity for the Council to accept the Government's offer of a four year funding settlement as set out in paragraphs 15 to 19 of this report.

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

6. Increases the level of the general council tax by 1.99%.
7. Increases council tax by a further 2% for the adult social care precept.
8. Sets the County Council precept for band D council tax at £1,268.28 which represents a 3.99% up-lift.
9. Agrees to maintain the council tax rate set above after the Final Settlement.
10. Supports the 2016/17 budget by using £17.2m from reserves as set out in paragraph 72.
11. Delegates powers to the Leader and the Director of Finance to finalise budget proposals and recommendations to full County Council updated to take into account new information in the Final Settlement.
12. Requires the Chief Executive and the Director of Finance to continue their work to track and monitor existing MTFP efficiencies and to lead and oversee a Public Value Transformation programme of all service delivery to ensure the county council's revenue budget becomes sustainable and to develop robust plans for further savings for the remaining years of this MTFP.
13. Approves the set up of a Public Value Transformation (PVT) Fund of £30m to meet the revenue costs of a transformation programme, to be funded by capital

receipts from asset sales.

14. Approves the County Council's £1,694m gross revenue expenditure budget for 2016/17.

15. Agrees the capital programme specifically to:

- fund essential schemes over the five year period (schools and non-schools) to the value of £633m including ring-fenced grants;
- make adequate provision in the revenue budget to fund the revenue costs of the capital programme, including a borrowing requirement of £187m over the five years.

16. Requires a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:

- the Public Value Transformation Fund,
- all revenue 'invest to save' proposals, and
- capital schemes.

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

17. Approves, with immediate effect, the Treasury Management Strategy for 2016-21, which includes:

- the investment strategy for short term cash balances;
- introducing three new investment categories: corporate bonds, covered bonds and pool investment property funds which will generate additional returns within controlled credit risk (paragraph 108);
- increasing the maximum term for high quality longer dated investments to two years for supranational institutions, local authorities, UK Government, corporate bonds and five years for covered bonds, earning additional interest income without compromising liquidity risk (paragraph 108);
- setting the maximum amount in respect of any one counterparty to £20m with the exception of money market funds which should remain at £25m (paragraph 108);
- the treasury management policy (Appendix 8);
- the prudential indicators (Appendix 9);
- the schedule of delegation (Appendix 11);
- the minimum revenue provision policy (Appendix 14).

It is further recommended that Cabinet makes the following decisions:

18. Notes that services will develop budgets and savings proposed ahead of approval by Cabinet on 22 March 2016 when the final MTFP (2016-21) will be presented.

19. Approves the draft MTFP for the financial years 2016-21, which includes:

- to approve the Total Schools Budget of £551.5m (paragraphs 37 to 43);
- to support the 2016/17 budget by using £17.2m from reserves as set out in paragraph 72;

- to approve overall cash limits for individual services.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 9 February 2016 to agree the summary budget and set the council tax precept for 2016/17. Cabinet will advise the full County Council how to balance the budget for 2016/17, subject to the receipt of transitional relief from Government and use of reserves and capital receipts as well as the set up of an unprecedented Public Value Transformation programme required to protect the Council's long term financial position.

DETAILS

Revenue and capital budget

Introduction

1. This report proposes the draft MTFP (2016-21), which Cabinet Members have developed through a series of budget workshops. In view of the late and unexpected announcement in the Provisional Settlement, there has not been sufficient time to develop full efficiency proposals for this report. Rather, service cash limits are proposed and detailed savings and efficiency plans will be completed following proper consultation.

2. The proposed MTFP period (2016-21) rolls forward by one year the current MTFP (2015-20) approved by Full County Council on 10 February 2015. It covers five years and is directly linked to the Corporate Strategy.

3. The Council can only balance its five year MTFP through a combination of all of the following:

   - significant transitional relief funding from Government in 2016/17 and 2017/18 to manage the immediate impact of a significant, unexpected funding loss which has arisen from the late changes to external funding announced by Government in the Provisional Settlement;
   - the significant use of capital receipts from asset sales to fund major transformation of service delivery through a programme of transformation;
   - significant use of reserves in 2016/17 and 2017/18;
   - earlier and deeper implementation of service efficiencies and reductions.

4. Following approval of the high level budget by full County Council on 9 February 2016, service budgets will be prepared for Cabinet approval on 22 March 2016. The service budgets will link to services' strategic plans that Cabinet will also consider in March.

Autumn Statement, Spending Review 2015 and Provisional Finance Settlement

5. On 25 November 2015, the Chancellor of the Exchequer announced the Autumn Statement and the Spending Review 2015 indicating reductions in central government spending for the next four years from 2016/17 to 2019/20. This included the planned reductions in the Departmental Expenditure Limits (DEL) for Local Government of which a significant component is the Revenue Support Grant (RSG) funding to local

government nationally (£9.5bn in 2015/16). Table 1 shows that by 2019/20, DCLG's overall funding will have reduced by more than half (£6.1bn) from the funding level in 2015/16 and RSG will reduce substantially. The pattern in previous years had been for DCLG to implement the RSG reductions equally across the next four years. The Government had given no indication that they might distribute the grant differently between authorities. The Council, therefore, had planned for this reduction over the next four years.

Table 1: National Departmental Expenditure Limit reductions

Year	LG DEL	Annual DEL reduction	Cumulative DEL reduction
2015/16	£11.5bn		
2016/17	£9.6bn	16.5%	16.5%
2017/18	£7.4bn	22.9%	35.6%
2018/19	£6.1bn	17.6%	47.0%
2019/20	£5.4bn	11.5%	53.0%

6. The DCLG announced the Provisional Settlement on 17 December 2015. This notified councils of their proposed core grants and funding framework, known as Settlement Funding Assessment (SFA) for 2016/17 and the following three years. SFA comprises Revenue Support Grant (RSG) (plus grants the Government proposes to include or 'roll in' to RSG) and baseline funding which comes from the business rates retention system. For Surrey County Council baseline funding comprises:

- the county's 10% share of business rates collected locally
- a business rate top-up grant paid.

7. Table 2 shows the main components of the council's SFA and the proposed funding reduction in RSG of £48.7m (42%) between 2015/16 and 2016/17:

Table 2: Changes in Surrey's Settlement Funding Assessment 2015/16 to 2016/17

	2015/16 adjusted £m	2016/17 provisional settlement £m	Change 2015/16 to 2016/17 £m	%
Revenue Support Grant	109.8	* 67.1		
Grants rolled in (Care Act £5.8m and Flood Prevention £0.2m)	6.0			
Adjusted Revenue Support Grant	**115.8**	**67.1**	**-48.7**	**-42.1%**
Top Up Grant	58.9	59.4	0.5	
Business Rates Baseline	45.6	45.9	0.3	
Baseline Funding Assessment	**104.5**	**105.3**	**0.8**	**0.8%**
Settlement Funding Assessment	**220.3**	**172.4**	**-47.9**	**-21.7%**

***** Includes £6.0m grants rolled in, i.e. including £5.8m Care Act funding

Revenue grants rolled into Revenue Support Grant

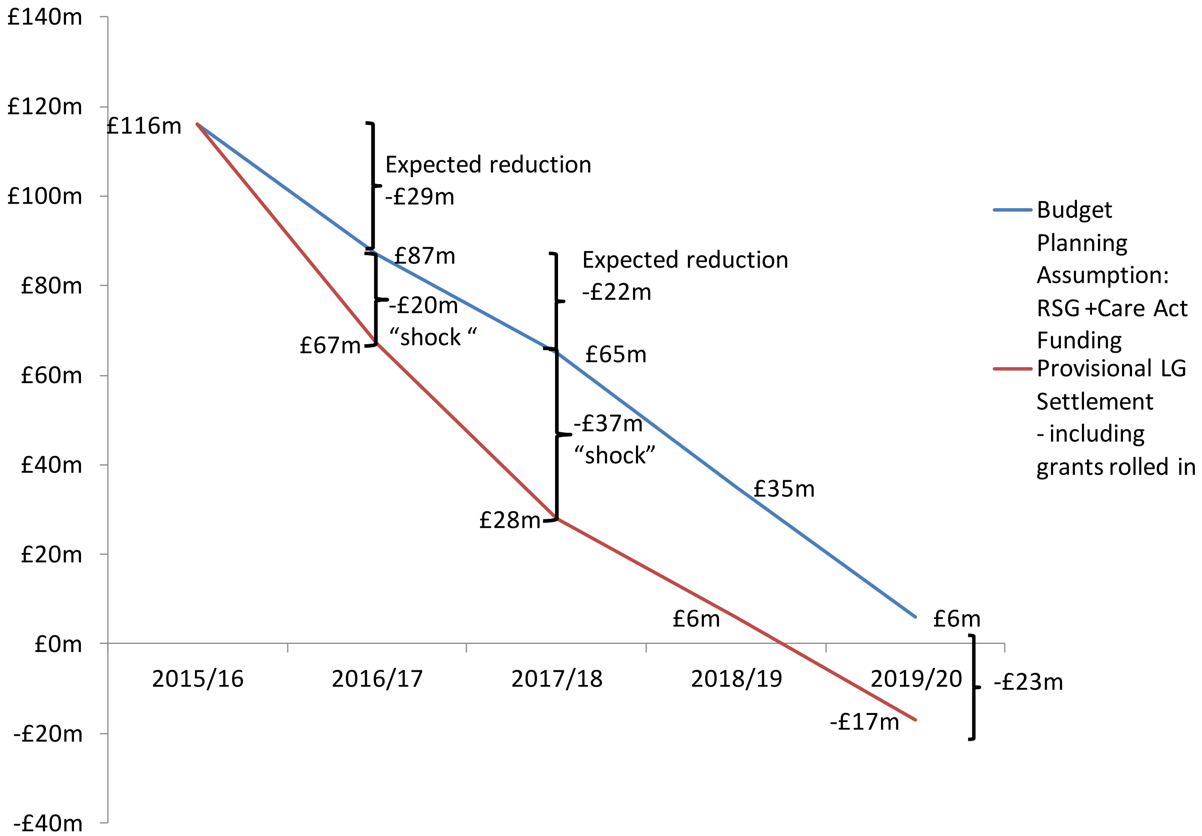
8. DCLG proposes to transfer some Government grants the Council receives in 2015/16 into the Settlement Funding Assessment for 2016/17 through RSG: Care Act Grant £5.8m and Flood Prevention Grant £0.2m. Given that RSG is then substantially reduced (42% in 2016/17) and disappears completely after 2018/19, this effectively

means the council is not funded for these two areas in the near future, although the duties to deliver services remain with the council.

'Shock' rate of reduction in RSG

9. One of the most significant impacts on the Council of the Provisional Settlement was the unexpected rate at which RSG is now planned to be reduced. The Council's existing MTFP assumptions prudently and reasonably anticipated the loss of this grant over the next four years, based on previous Government indications. Without any prior consultation, the Government's announcement means RSG effectively reduces to nil (after adjusting for the £5.8m Care Act roll-in) after two years. Figure 1 shows the extent of this 'shock' element:

Figure 1: RSG 2013/14 to 2019/20, showing shock rate of reduction in 2016/17 and 2017/18



10. The late notification of this increased rate of loss of RSG leaves the Council insufficient time to effectively plan and then consult, as required to comply with Equality legislation, for this scale of further reductions with effect from April 2016. The Council is therefore taking significant steps to produce a balanced budget in 2016/17 and to be assured that efficiency and transformation plans are robust. More details follow later in this report.

Change in funding distribution methodology & core spending power

11. The reason for the 'shock' reduction in RSG for Surrey County Council is that the DCLG introduced, without prior indication or consultation, a new method for calculating councils' funding distribution to achieve the overall reduction in Local Government DEL

required by the Spending Review. Previously DCLG had achieved the overall reduction in Local Government DEL by applying straight line reductions evenly to all councils' Settlement Funding Assessments (comprising RSG and funding from the business rates retention system).

12. The new distribution alters this straight line reduction by specifically also taking account of an authority's ability to raise funding locally. This means councils that have to rely on a higher proportion of council tax to fund their services suffer a quicker loss of RSG than could have reasonably been foreseen in view of Government's previous indications.

13. There have been a significant number of winners and losers as illustrated in Table 3. The biggest losers are county councils. Among counties, Surrey County Council is particularly adversely affected losing more Settlement Funding Assessment than could reasonably have been anticipated, to the extent of £20.4m in 2016/17 and £36.9m in 2017/18. In the past when Government have changed local government funding methodologies, they have given prior indications and usually consulted ahead of funding proposals. Also Government have previously applied a system of damping through limiting gains for the winners and losses for the losers to give councils time to adjust to new levels of funding. They have not done this now. Without some form of damping or transitional relief, Surrey County Council will not be able to set a sustainable budget for 2016/17 and 2017/18. The County Council's response to the Government's Provisional Settlement consultation made this point strongly.

Table 3: Impact of the change in funding methodology by local authority type

Type of authority	Flat rate allocation £m	2016/17 Provisional Settlement £m	Redistribution effect £m	Flat rate allocation £m	2017/18 Provisional Settlement £m	Redistribution effect £m
Shire counties	4,302.6	4,085.3	-217.2	3,844.6	3,469.0	-375.6
Shire districts	832.5	789.8	-42.8	743.9	668.2	-75.8
Unitaries	3,824.6	3,784.2	-40.4	3,417.6	3,351.5	-66.1
Metropolitan districts	4,670.3	4,751.6	81.3	4,173.2	4,321.2	148.0
London (inc GLA & City)	4,374.1	4,555.1	181.0	3,908.6	4,233.2	324.7
Combined fire	367.6	387.7	20.2	328.4	348.6	20.2
Metropolitan fire	229.7	247.7	18.0	205.3	229.9	24.6
England	18,601.5	18,601.5	0.0	16,621.6	16,621.6	0.0
Surrey County Council	192.8	172.4	-20.4	172.3	135.4	-36.9

Core Spending Power

14. The Government introduced the concept of Core Spending Power (CSP) in the Provisional Settlement and have distributed RSG to ensure that the impact, over four years, on an outline CSP is broadly 'flat'. However, given the main element of CSP includes council tax and SFA, with assumptions around council tax increase made by Government, for Surrey County Council, the broadly 'flat' position is only achieved through substantially higher core funding (i.e. RSG) loss than planned ahead of Provisional Settlement. Table 4 shows the Government's assessment of how the reduction in Settlement Funding Allocation will affect the Council's Core Funding and Core Spending Power in the period to 2019/20. It shows that over the four years, the

Council's SFA falls significantly while the amount it has to raise from Council Tax to mitigate this rises significantly. Core Spending Power also includes Core Funding plus: improved Better Care Fund, New Homes Bonus and the Adult Social Care precept, which the Government assumes will rise by 2% in each year. The Government forecasts by 2019/20, the Council's Core Spending Power will be £4.3m higher than in 2015/16, principally due to the Adult Social Care precept covering the deficit on Core Funding. When announcing the Provisional Settlement this is what the Secretary of State referred to as a 'flat cash settlement'.

Table 4: Core spending power reductions for Surrey 2015/16 to 2019/20

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment	220.3	172.4	135.4	115.3	96.9
Council Tax Requirement	586.9	601.9	620.4	640	660.9
Core Funding	**807.2**	**774.3**	**755.8**	**755.3**	**757.8**
Additional Better Care Fund	0	0	0	0	1.5
New Homes Bonus	5.2	6.2	6.3	3.9	3.8
2% Adult Social Care precept	0	11.9	24.6	38.5	53.5
Core Spending Power	**812.4**	**792.4**	**786.7**	**797.7**	**816.6**

Four year settlement offer

15. The Provisional Settlement included indicative figures about funding for the next four years, offering for councils to accept the four year funding figures in their Core Spending Power. If the Council takes up this offer, DCLG have indicated they will provide future funding on this basis, with some caveats as set out below.

16. It is not yet clear when the Council will have the opportunity to accept the offer, nor the implications. Although acceptance would provide some certainty about funding included in the Settlement Funding Assessment figures, these would nonetheless remain subject to changes to allow for future events:

- transfers of functions to local government,
- transfers of responsibility between local authorities,
- mergers,
- any other unforeseen event,
- the impact of the Retail Price Index on business rates,
- the National Living Wage implications, plus
- current relief to businesses provided by Government.

17. It should be noted that the Council separately receives funding from a number of Government departments other than DCLG, which fall outside of the four year offer in the Provisional Settlement. For 2016/17 these amount to an estimated £731m, or 85% of the Council's grant funding. As at the date of the report, the Government is yet to announce a significant number of these grants and it is not known whether these will be for multiple years or just 2016/17. Although the Council follows the principle that services' spend matches the level of these grants, the late notifications make this impossible to adjust for by 1 April 2016, if settlement figures vary from the planning

assumptions. This adds uncertainty and risk to budget planning and means the council may have to make interim adjustments through reserves.

18. The Government's figures in Table 5 give indicative allocations for the three years beyond the Provisional Settlement for 2016/17.

19. In 2019/20, the Council will effectively receive negative RSG after the Government proposes to achieve this by deducting the negative RSG amount (-£17.2m) from the Council's Business Rate top-up grant. The Council is the most severely affected of all local authorities and by more than £6m more than the next most badly affected authority.

Table 5: Changes in value and composition of Surrey's SFA 2015/16 to 2019/20

	2015/61 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	**115.8**	**67.1**	**28.0**	**4.7**	**0.0**
Top up Grant	58.9	59.4	60.5	62.4	47.1
Business Rates Baseline	45.6	45.9	46.9	48.2	49.8
Baseline Funding Assessment	**104.5**	**105.3**	**107.4**	**110.6**	**96.9**
Settlement Funding Assessment	**220.3**	**172.4**	**135.4**	**115.3**	**96.9**

Council tax funding

20. Council tax, through the precept, is the Council's main source of funding for the council's budget, excluding schools. The current council tax strategy is to increase general council tax by 2% and assume a 0.6% increase in the number of properties subject to the tax. The latter is often referred to as the council tax taxbase.

21. The Provisional Settlement indicated a number of factors relating to council tax:

- general council tax referendum limit at 2% (as expected);
- the ending of the grant to compensate councils choosing to freeze council tax, known at the council tax freeze grant (minimal impact on Surrey County Council since the council has not accepted most of the previous freeze grants);
- introduced an ability to raise council tax by a further 2%, each year, specifically for adult social care (ASC) services, and set out guidance on requirements for councils to evidence their use of the money raised on adult social care services (the Council had actively sought this flexibility from Government).

22. The annual returns from districts and boroughs showed an overall increase in the council tax taxbase in Surrey of 1.24%. Based on the Provisional Settlement and the districts' and boroughs' returns, it is proposed to adjust the council tax strategy to the following:

- Continue with the general council tax increase of 1.99%;
- assume annual 1% council tax base increase;
- assume 2% ASC council tax increase.

23. The MTFP (2016-21) therefore, includes proposals to increase council tax by 3.99% in 2016/17 and each year up to 2020/21. This provides a Band D equivalent precept rate of £1,268.28 for 2016/17. On the 2016/17 base, this would raise £618m funding.

24. As stated above, the Council's council tax base has risen by 1.24%. In addition, the Council's share of the districts' and boroughs' council tax collection funds is a surplus of £9.3m, which will be paid to the Council as a one-off sum. These changes led to a reappraisal of the Council's estimates of future council tax growth to 1% annually and annual collection fund surpluses of £6m.

Business rates

25. The Provisional Settlement confirmed the continuation of the business rates cap funding for 2015/16 and prior years. This is funding paid to compensate councils for funding lost when the Government limits the increase in the business rates multiplier affecting amounts payable by businesses. The Government will reimburse individual local authorities for this through a supplementary grant. There is no funding required in 2016/17 because the inflationary increase in the business rates multiplier is below the 2% capping level.

26. The Provisional Settlement also set the increase in business rates retention scheme top ups and tariffs at 0.8%, consistent with the MTFP planning assumptions.

Business rates pooling

27. DCLG permits geographically linked authorities to apply to pool their business rates. By combining tariffs and top ups among pooled authorities this can reduce the composite levy rate paid by the pool. This further incentivises business rates growth through collaborative effort and smoothes the impact of volatility in business rates income across a wider economic area.

28. Surrey as an area has operated a business rates pool in 2015/16 in partnership with: Elmbridge Borough Council, Mole Valley District Council, Spelthorne Borough Council and Woking Borough Council. Following review, the optimum pool to maximise projected business rates income in the Surrey area for 2016/17 involves joining Surrey County Council with the London Borough of Croydon, Guildford Borough Council, Runnymede Borough Council, Spelthorne Borough Council, Waverley Borough Council and Woking Borough Council. These six authorities submitted a bid to form a business rates pool for the financial year 2016/17 and succeeded in receiving the relevant designation by DCLG. The pool's financial modelling projects retaining up to £4m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for the county council to receive a third of this additional income.

Business rate retention

29. The Government has confirmed that they will be moving forward 100% local retention of business rates by local government by 2020. Although there are some indications about the likely change to powers that will go with this delegation, the Government are planning a period of detailed design and consultation during (it is anticipated) 2016.

The council will monitor closely the development of the proposals and seek to influence where appropriate.

30. What is clear now is that the Government intends for any changes to be fiscally neutral and that additional responsibilities or services will be devolved to local government to achieve this objective.

New Homes Bonus

31. The Provisional Settlement included a consultation, running until 10 March 2016, on reforms to the New Homes Bonus, including focusing the incentive on those councils that deliver additional homes and reducing the period for which councils receive the New Homes Bonus.

32. Ahead of the outcome of this consultation, Government has identified indicative amounts the Council will receive for New Homes Bonus (NHB) as shown in Table 4 (following paragraph 14). These amounts, which reduce from 2017/18 onwards, are linked to the changes DCLG is consulting upon specifically:

- reduce the sum set aside for the payment of NHB to provide additional funding for social care; and
- to introduce changes which exclude councils from receiving NHB where they do not have a current approved Local Plan and to reduce NHB where properties are built on appeal.

Better Care Fund

33. The Better Care Fund (BCF) that was introduced in 2015/16 has two primary purposes:

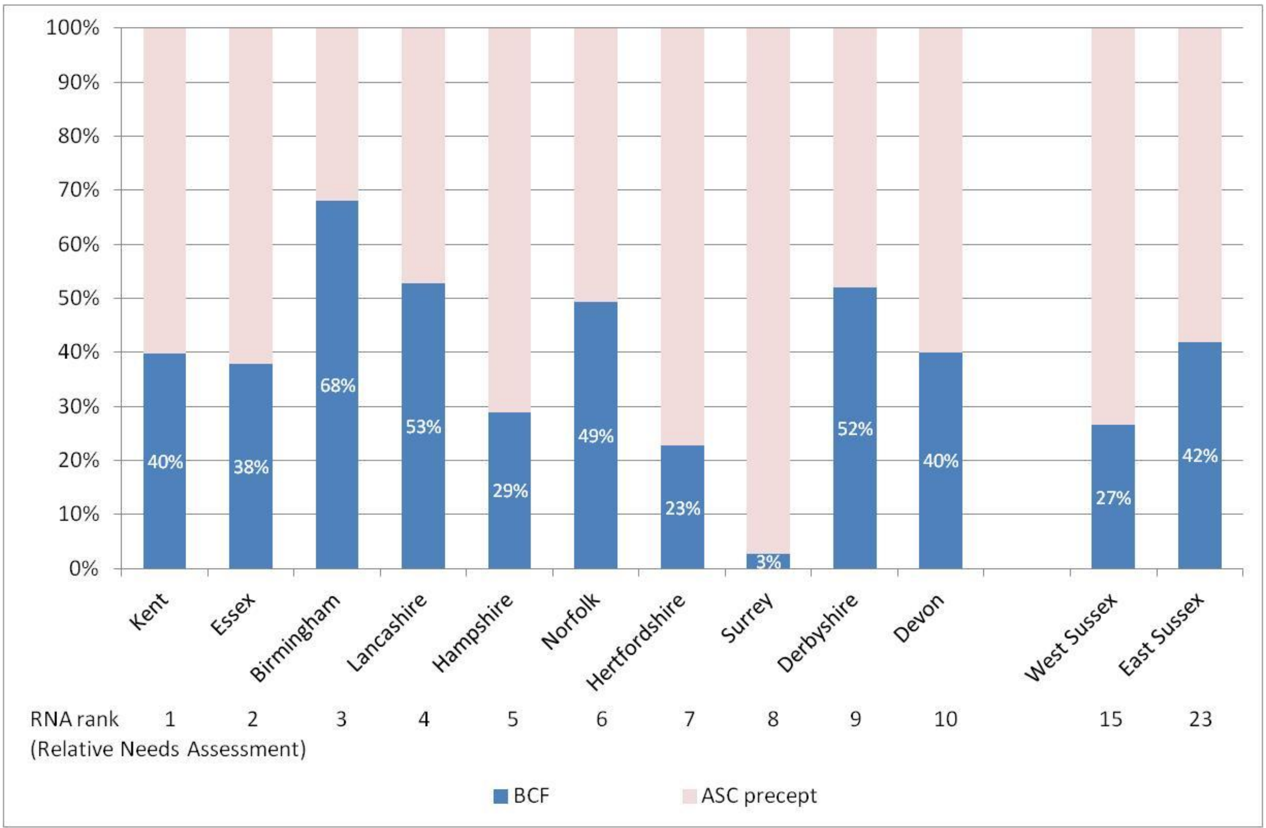
- to transform the health and social care system to achieve a shift from acute to community services;
- to 'protect' (the Government's word) adult social care, recognising the financial pressures on it.

34. The BCF allocation for the Surrey area for 2015/16 was £65.5m revenue and £5.9m capital funding. The Council works with Surrey's seven Clinical Commissioning Groups (CCGs) to determine use of these shared resources and current MTFP (2015-20) includes £25m allocated to protecting existing ASC services. Although the Government have yet to announce the grant for 2016/17, they have indicated it will continue and the budget planning assumes this, to ensure ASC services remain protected in 2016/17.

35. From 2017/18, the Government will provide additional improved Better Care Funding for local authorities to spend on adult social care. The amount rises from zero to £1,500m nationally over the three years to 2019/20. The Provisional Settlement introduced a different basis for allocation of the improved BCF that takes account of relative needs and resources in the form of how much each social care authority could raise from the 2% Adult Social Care precept. Table 4 (following paragraph 14) shows the Council will receive £1.5m in 2019/20. Had the Government used their usual method of distribution of ASC funding, the Council could have expected additional funding of approximately £28m.

36. Only seven out of 152 social care authorities have a higher need ranking than Surrey County Council. However because the Council has to rely on raising such a high proportion of council tax to fund its services, the resources it could raise from the 2% Adult Social Care precept mean only 12 social care authorities have a lower allocation of BCF. Again, this new funding distribution model adopted by the Government means councils that have to rely on a higher proportion of council tax to fund their services suffer the lowest funding and being an outlier in this regard, the Council suffers heavily. Figure 2 shows of the social care authorities with highest ranked relative needs assessment, Surrey County Council receives by far the lowest proportion of BCF through the new funding distribution model.

Figure 2: Proportion of Better Care Fund allocation for the authorities with highest ranked social care need



Total Schools Budget - as defined in legislation

37. The Council is required by law formally to approve the Total Schools Budget. The technical legal definition of the Total Schools Budget comprises: Dedicated Schools Grant funding, post 16 grant funding and any legally relevant council tax related funding. The Total Schools Budget covers schools' delegated 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 allocated to individual academies.

38. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 6 outlines the proposed Total Schools Budget for 2016/17 of £551.5m. This comprises:

- £536.0m Dedicated Schools Grant (DSG);
- £13.9m Education Funding Agency (EFA) sixth form grants; and
- £1.6m additional funding for high cost SEN pupils, which the Council is funding.

Table 6: Analysis of Total Schools Budget for 2016/17

	Schools' delegated budgets £m	Centrally managed services £m	Total £m
DSG 2016/17	411.9	121.2	533.1
DSG brought forward from previous years	1.5	1.4	2.9
Total DSG	**413.4**	**122.6**	**536.0**
EFA sixth form grant	13.9		13.9
County Council contribution to the cost of placements and services for high cost SEN pupils		1.6	1.6
Total Schools Budget	**427.3**	**124.2**	**551.5**

Note:
Total Schools Budget does not include the pupil premium grant, provisionally £16.4m, the primary PE and sports grant, provisionally £2.3m, or universal free meals grant, provisionally £11.5m. These grants, although not part of the legal definition, are also delegated to schools and are included in the total schools funding of £457.6m as in Appendix 4.

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

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

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

41. Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. Cabinet considered and agreed a detailed report on the 2016/17 funding formula in October 2015. In 2016/17 the formula limits any school level losses to a 1.5% maximum per pupil (the Government's Minimum Funding Guarantee). To pay for the guarantee, the formula limits the per pupil increase to a maximum of under 1%.

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

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

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

43. Funding for some support services for schools is provided through Education Services Grant. This grant is divided between the Council and individual Surrey academies in proportion to pupil numbers in each. This grant is not part of the statutory Schools Budget.

Revenue Grants

44. At the time of writing, the Council has only received notification from Government departments of Dedicated Schools Grant and Education Services Grant. Details of these are set out in the report at paragraphs 37 to 43. However, the current MTFP (2016-21) assumes a total of £844m will be allocated as outlined in Appendix 3. This amounts to a reduction of £42m (5%) over the amount allocated in 2015/16. While it is to be expected that minor details remain outstanding at this stage every year, the high level of uncertainty remaining in the Council's funding for 2016/17 is unprecedented and adds to the risk in setting the budget for 2016/17.

Capital receipts flexibility

45. As part of the Provisional Settlement, the Government is introducing flexibility in the use of capital receipts. This will enable councils to use asset sales to help pay for upfront investment in service transformation.

46. The Provisional Settlement sets out the requirements a council must comply with to use this flexibility. Specifically local authorities will need to prepare an efficiency strategy which has to be approved by Full Council. The Provisional Settlement indicates councils can use Capital Receipts which are received after the 1 April 2016 to be invested in transformation projects, which would normally be regarded as revenue costs, to deliver future revenue savings. This flexibility is offered for 2016/17-2018/19.

47. To manage the considerable 'shock' impact in the Provisional Settlement the Council proposes to use the flexibility offered by using £30m of capital receipts from asset sales to support a significant transformation programme that will generate future revenue savings. A mechanism to manage this programme is being developed and will be led by the Chief Executive and the Director of Finance in consultation with the Leader.

Strategies influencing the revenue and capital budgets

Corporate strategy

48. Presented separately at this Cabinet meeting is a refreshed version of the Council's Corporate Strategy. The *Confident in Surrey's Future: Corporate Strategy 2016-21* reconfirms the Council's strategic purpose and vision of 'one place, one budget, one team for Surrey'. It includes three strategic goals, each with a set of key actions to support their achievement:

1. **Wellbeing:**
   Everyone in Surrey has a great start to life and can live and age well.

2. **Economic prosperity:**
   Surrey's economy remains strong and sustainable.

3. **Resident experience:**
   Residents in Surrey experience public services that are easy to use, responsive and value for money.

49. A robust MTFP is critical to delivering these ambitions and goals and ensuring value for money for residents.

Financial strategy

50. The Council's refreshed Financial Strategy 2016-21 (Appendix 1) clearly sets out the council's approach to financial management, in alignment with the Corporate Strategy. It provides the basis for sound financial governance and long term sustainability, and supports the delivery of the Corporate Strategy.

51. The key fundamentals of the financial strategy 2016-21 are:

- acting in the public interest at all times through continuously driving the transformation agenda;
- long term planning that continues to seek opportunities and ensure services are fit for the future; and
- a balanced approach that proactively manages key risks and supports service strategies.

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

Risk management strategy

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

Scenario planning 2016/17 to 2020/21

54. The Council sets its MTFP within the context of the condition of the UK and world economies and the UK Government's policy towards this. Appendix 2 summarises the national economic outlook, which highlights how the relevant economic environment and future forecasts have changed in the last year.

55. In his Autumn Statement and Spending Review in November 2015, the Chancellor of the Exchequer confirmed his vision to eliminate the UK's public spending deficit in the lifetime of this Parliament – that is by 2020. Following on from the Autumn Statement

and Spending Review, DCLG published its Provisional Settlement on 17 December 2015. This is open to consultation and the Final Settlement is expected to be announced in early February 2016. The timing of both the Provisional and Final Settlements is late. Neither of these helps local authorities in budget planning.

56. The late notification of the shock to the Council's funding set out in the Provisional Settlement has meant work has focused on developing a robust budget for 2016/17. As the Government has provided indicative funding allocations through to 2019/20, work will commence on developing detailed budgets and savings for the remaining years of the MTFP (2017 to 2021) Therefore the budget proposals within the MTFP should be considered in two parts:

- year 1 (2016/17) for which the Council needs to set a council tax precept; and
- years 2 to 5 (2017/18 to 2020/21 - for which provisional funding levels are available and the Council will need to make a long term plan to address the challenges ahead) which will be addressed through a longer term and detailed review.

57. For the Director of Finance to continue to be able to state her statutory opinion that the budget is balanced and sustainable, a Public Value Transformation programme covering all service budgets will commence from 1 April 2016 to cover the period up to 2020/21 and the Council assumes transitional relief will be provided by the Government for 2016/17 and 2017/18.

58. The basic assumptions reflected in the MTFP (2016-21) remain valid in moving the MTFP forward from 2015-20, except where the 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 MTFP purposes.

59. In developing the MTFP (2016-21) the Council has again shared the stages of its medium term financial planning process widely. Cabinet members, senior officers and Scrutiny Boards participated in workshops and several financial planning update briefings have been provided for all members and other interested stakeholders.

Revenue budget

Forecast revenue budget outturn 2015/16

60. The Council's overall revenue forecast outturn for 2015/16 at the end of December 2015 projects an underspend of -£5.0m. A separate report on this agenda presents this in more detail - Item 8 (Finance and budget monitoring report for December 2015).

61. Services' hard work in managing spending within budgets in 2015/16 continues the Council's good record of achieving efficiencies and savings. The Council has used and plans to use the funding this releases to provide support to the budget in 2016/17 and subsequent years. The Chief Executive's and Director of Finance's work tracking efficiencies will maintain rigour in services' plans for achieving their efficiencies.

62. Within the Council's financial outturn, as part of longer term financial planning, services may request to carry forward underspends to smooth funding across financial years.

Further consideration on use of reserves and balances will be necessary as the level of government grants receivable becomes clearer when the government publishes the Final Settlement.

Savings, pressures and funding 2011/12 to 2016/17

63. Since 2011 the spending demands and budget pressures the Council has faced have increased at a faster rate: taking 2011/12 as the baseline, the Council's spending pressures increased by £404m over the five years to 2015/16. This is forecast to continue in 2016/17 with a further £102m rise. While there remains a risk that demand pressures could intensify, the increase next year reflects the need to:

- care for an estimated extra 300 vulnerable adults in 2016/17 as Surrey's population ages;
- provide 11,500 school places during the 2016-21 MTFP period (5,400 in primary schools and 6,100 in secondary schools) 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.

64. Over the same four year period, the Council has mitigated these demand pressures through a programme of efficiencies and savings that has reduced the unit cost of many services. Since 2010 the Council has reduced the annual value of expenditure by £396m: an average savings of over £65m every year. For 2016/17 further savings have been identified that total £84m.

Budget planning assumptions

65. The Council began building its annual budget in June 2015. This involved reviewing the Council's financial position and outlook at the end of the first quarter of 2015/16, revisiting the assumptions, pressures and savings included in the MTFP (2015-20) and projecting forward a further year to 2020/21. Table 7 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 7: Budgetary assumptions 2016-21

Descriptor	2016/17	2017/18	2018/19	2019/20	2020/21
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	1.8%	2.0%	2.0%	2.0%	2.0%

Note: - differing percentages apply to contractual inflation

Service expenditure 2016-21

66. Services have estimated pressures for the five years up to 2020/21 that total £405m and identified savings to deliver of £384m. Table 8 summarises the Council's gross revenue expenditure budget for the five years 2016-21 and compares it to 2015/16 budget by main services.

Table 8: Gross revenue expenditure budget 2016-21

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Adult Social Care	428.6	429.5	422.3	426.6	427.2	429.6
Central Income & Expenditure	60.6	59.5	68.7	75.8	80.8	83.4
Children, Schools & Families	342.9	363.9	359.3	357.5	355.3	352.7
Communications	2.0	2.0	2.0	1.9	1.9	1.9
Community Partnership & Safety	3.0	3.0	3.0	3.0	3.0	3.0
Coroner	1.3	1.8	1.8	1.8	1.9	1.9
Cultural Services	22.9	22.3	22.1	22.1	22.2	22.3
C&C Directorate Support	1.1	1.1	1.1	1.1	1.1	1.1
Delegated Schools	469.0	454.8	457.5	457.5	457.5	457.5
Emergency Management	0.6	0.5	0.6	0.6	0.6	0.6
Environment & Planning	88.2	86.4	87.7	90.6	95.1	97.2
Fire & Rescue Service	47.9	46.8	45.5	47.6	46.0	46.0
Highways & Transport	51.9	51.9	53.4	54.2	55.0	55.8
Legal and Democratic Services	8.9	9.0	10.3	9.0	9.0	9.1
ORBIS / Business Services	98.2	101.4	102.9	101.3	102.1	104.4
Public Health	33.6	38.8	37.8	36.8	35.8	35.8
Strategic Leadership	0.4	1.0	1.0	1.0	1.1	1.1
Strategy & Performance	4.6	3.6	3.6	3.6	3.6	3.6
Trading Standards	3.7	3.7	3.7	3.7	3.7	3.7
Gross expenditure	**1,669.4**	**1,680.9**	**1,684.1**	**1,695.7**	**1,702.8**	**1,710.6**

67. Due to the late notice of the Provisional Settlement, the significant change in the distribution of funding and the impact that this has on the council's finances, services are still developing plans for further savings. Appendix 4 contains a summarised income and expenditure statement and expenditure by service, which shows the budget movements for each year.

68. Cabinet will receive final service budget proposals for approval on 22 March 2016, after the appropriate Scrutiny Boards have reviewed progress in developing service budgets.

Balancing the 2016/17 revenue budget and MTFP (2016-20)

69. The unexpected and large reduction in funding means that the Council has not been able to identify the details of savings it requires to balance the 2016/17 budget and MTFP 2016-21 in the short time since it was notified. Table 9 summarises the gross funding and expenditure for each year of the MTFP 2016-21, and the additional savings or funding required for a sustainable budget. This includes the assumed funding for transitional relief in respect of the late notification of changes to the RSG distribution.

Table 9: Summary of gross funding and expenditure (assuming transitional relief)

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Funding:						
Business Rates	-44.1	-45.5	-48.3	-49.4	-50.5	-50.5
Council tax	-598.0	-615.4	-630.5	-649.5	-669.2	-673.5
Council tax - ASC support	0.0	-11.8	-24.5	-38.1	-52.6	-67.2
Revenue Support Grant	-109.8	-67.1	-28.0	-4.7	0.0	0.0
Revenue Support Grant - Transitional relief	0.0	-20.0	-37.0	0.0	0.0	0.0
Business Rates Retention scheme - top up grant	-58.9	-59.4	-60.6	-62.4	-47.1	-47.7
UK Government grants	-713.8	-697.3	-699.8	-696.2	-692.8	-691.9
Other income	-141.1	-147.3	-149.4	-150.6	-152.6	-155.2
Total funding	-1,665.7	-1,663.8	-1,678.0	-1,650.9	-1,664.8	-1,686.0
Expenditure:						
Expenditure	1,669.4	1,680.9	1,684.2	1,695.7	1,702.8	1,710.6
Funding shortfall	3.7	17.2	6.2	44.8	37.9	24.7

70. The Council plans to balance its five year MTFP through the Public Value Transformation programme. This will robustly consider alternative methods of service delivery. The Transformation programme will be funded from capital receipts from asset sales in accordance with the Government's increased flexibilities set out in the Provisional Settlement (paragraphs 45 to 47). The Council recognises that service transformation on this scale will take time and will not be delivered in full for the 2016/17 financial year. The Public Value Transformation programme will follow the principle of the Council's Public Value Review (PVR) programme introduced in 2010. PVR was the start of a long term process over the last five years for ensuring efficiencies and the gains the programme made are already built in for the next five years. The new funding settlement will require the Council to find even greater efficiencies while ensuring availability of front line services to residents.

71. Other than increasing the level of savings required, making use of capital receipts from asset sales as set out above, and significant transitional relief provided by Central Government (£20m in 2016/17 and £37m in 2017/18) the Council plans to balance its budget in 2016/17 and in 2017/18 through the use of reserves. However, these reserves have been set aside for specific purposes - either future expenditure or to meet possible liabilities - meaning that their use to balance the revenue budget can only be short term and will lead to the council needing to identify other ways of meeting the expenditure for which they were intended.

72. The Council plans to use £17.2m reserves in 2016/17 and £6.2m in 2017/18.

Risks and uncertainties

73. In balancing the 2016/17 revenue budget and looking ahead for the remaining four years of the MTFP (2017-21), the Council has taken account of the key risks and uncertainties facing the Council and proposes to refresh the budget later in 2016 when it is anticipated the level of uncertainty may have reduced. The main areas of risk include:

- the receipt of transitional funding of £20m in 2016/17 and £37m in 2017/18
- the on-going effectiveness of the efficiencies and savings programme;
- the effectiveness of the Public Value Transformation programme;
- the on-going growth in demographic demands on services; and
- confirmation of outstanding grant allocations.

Capital programme 2016-21

Capital budget planning

74. The Council set a five year capital programme totalling £696m in the MTFP (2015-20), which it refreshed in July 2015 to accommodate underspends carried forward, bringing the total for five years to £744m. A significant element of this relates to the supply of new school places (£285m) and the recurring programme of transportation and highways maintenance (£153m).

75. For the MTFP (2016-21) the capital programme is rolled forward one year to include 2020/21. The focus remains on the continuing forecast growth in school pupil numbers and the importance residents place on good roads.

Capital position 2015/16

76. The forecast in-year variance on the 2015/16 capital programme as at 31 December 2015 is an underspend of £16m against the approved revised service budget of £176m. The main reasons for the underspend include: £2.3m across a range of environment projects; £1.6m on superfast broadband scheme; £4.8m on schools capital maintenance and £2.3m on other school schemes. These are explained in another report on this agenda, Item 8 (Finance and budget monitoring report for December 2015).

77. 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 report, published towards the end of April 2016 and if approved, the amounts will be added to the capital programme for 2016-21.

Capital expenditure

78. For 2016/17 the capital investment in school places continues with an increase from £58m to £76m. Overall, for the period 2016-21, the Council will invest an additional £208m to create a further 11,500 school places. Of these 5,400 will be primary school places and 6,100 will be secondary school places.

79. Given the pressures on the Council's finances, and the impact of the Council borrowing to fund the schools places programme and incur additional capital financing costs, the Council is seeking further support from Central Government to meet the increased demand for school places.

80. 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%.

81. The best approach to managing road maintenance is through longer term planned repairs, as opposed to short term pothole 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 roads over five years to 2017 (known as Project Horizon).

82. 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 to secure an additional 15% saving. The council is reinvesting this saving in the wider programme. Investment in roads and transport will be £31m in 2016/17 and totalling £147m by 2020/21.

83. The Council plans to invest £20m in Information Technology over the five years to 2020/21. This includes £12.5m for new equipment and infrastructure, a £7.4m replacement and renewal programme. By making this investment, the Council is enabling and supporting further service efficiencies.

84. Table 10 summarises the Council's £635m capital programme for the five years of MTFP (2016-21). The grant funding for capital from Central Government remains unclear, pending Government departments announcing the level of grant.

Table 10: Summary capital expenditure programme

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Schools Basic Need	76	70	43	14	5	208
Highways recurring programme	31	31	29	28	28	147
Property & IT recurring programme	27	26	25	26	26	130
Other capital projects	41	41	29	25	14	150
Total	**175**	**168**	**126**	**93**	**73**	**635**

85. Cabinet requires a detailed and robust business case before considering a project for approval.

Capital funding

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

Government grants

87. Government departments have announced some, but not all, capital grants for 2016/17 and even fewer for 2017/18 in the Provisional Settlement. Government departments commonly announce additional grants during the financial year, so the Council includes a forecast for these. £34m of the £114m capital grants funding the 2016/17 programme remain to be announced.

88. 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.

89. Table 11 shows those grants for 2016/17 announced in the Provisional Settlement and those the Council still expects.

Table 11: Government capital grants 2016/17

	Provisional Settlement 2016/17 £m
Capital grants announced	
School places	58
Integrated transport block	5
Highways maintenance	17
Total capital grants announced	**80**
Total capital grants yet to be announced	**34**
Total grants	**114**

90. Capital grants for years beyond 2016/17 are largely unknown and MTFP (2016-21) includes an estimate for each year. The Council reviews this estimate each year and makes equivalent adjustments to the capital programme.

Third party contributions

91. 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. The MTFP (2016-21) capital programme relies on £6m third party funding in 2016/17.

Revenue reserves

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 IT Equipment Reserve. MTFP (2016-21) capital programme relies on £8m funding from revenue reserves in 2016/17.

Borrowing

92. The Council borrows to fund the part of the programme remaining after applying the above three funding sources. Over the five years of MTFP (2016-21), the Council expects to borrow £187m to balance the capital programme.

93. Table 12 summarises the Council's estimated capital funding for the period 2016-21.

Table 12: Capital funding 2016/17 to 2020/21

Summary capital funding	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**Total £m**
Grants	114	85	70	68	50	387
Reserves	8	11	2	3	3	27
Third party contributions	6	7	7	7	7	34
Borrowing	47	65	47	15	13	187
Total	**175**	**168**	**126**	**93**	**73**	**635**

Capital receipts

94. The Council can apply capital receipts more flexibly to fund its investments, and the Council can use these resources to fund its additional portfolio of investments. The Council currently has £46m in unapplied capital receipts.

95. As part of the Provisional Settlement, the Government proposes to allow councils the flexibility to use capital receipts to meet the revenue costs of transformation programmes, within conditions that are yet to be published. The current proposal is for councils only to use such capital receipts that are received in year. However, in its consultation response, the Council has argued that this discriminates against those local authorities that have already rationalised their assets, such as Surrey County Council. If this flexibility is extended, a report will be prepared for Cabinet or Full Council (as required by Government) to decide about using capital receipts for these purposes.

Additional portfolio of investments

96. In recent years the Council has taken a strategic approach to investment. This allows the Council to invest in schemes that support economic growth in Surrey and 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, which meets the initial revenue costs of funding initiatives to deliver savings and enhance longer term income;
- using the Revolving Investment & Infrastructure Fund to support investments to generate additional income that the Council can use to support service delivery;
- investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the Council;
- investing in schemes with potential to support economic growth in the county;
- retaining assets where appropriate and managing them effectively including associated investment if necessary, to enhance income generation.

Reserves & balances

97. The Council's minimum level of available general balances is between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. £16m to £20m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council is forecasting general balances brought forward of £21.3m at 1 April 2016.

98. Going into 2016/17 the Director of Finance recommends the level of general balances remains in the same range. This approach is considered prudent to mitigate against the risk of non-delivery of service reductions and efficiencies in 2016/17 and to take account of the late notification of many revenue and capital grants.

99. 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 2016 is £92m, down from £110m brought forward on 1 April 2015. The main

reason for this is the carry forward of £8m of previous year expenditure; the use of £4m of reserves to support the 2015/16 budget, and a further £3m supporting the capital programme.

100. As stated in paragraph 72 the Council is planning to use £17m of reserves to support the 2016/17 budget.

101. Appendix 6 sets out the Council's policy on reserves and balances. Appendix 7 summarises the level and purpose of each of the Council's earmarked reserves.

TREASURY MANAGEMENT AND BORROWING STRATEGY

102. 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 current market conditions, changes in regulation and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. Annex 2 sets out updated versions of the Council's treasury management policy statement and treasury management strategy.

103. Since 2009/10 the treasury management strategy has followed a cautious approach as a direct result of the Council's Icelandic bank experience. With the Icelandic bank deposits now fully resolved, officers have consulted with their advisors in order to present to Full County Council a slightly less risk averse strategy with the intention of generating additional return within a managed risk environment.

104. In order to capitalise on sustained low interest rates and the ability to fund capital expenditure through the use of internal reserves to limit the need for external borrowing, the council has set itself a minimum working cash investment balance of £47m. The council's approach to borrowing will continue to rely on internal funding for capital expenditure whilst it remains viable.

105. In the period September 2014 to March 2015, the Council borrowed an additional £160m during a period of unprecedented low interest rates. The Director of Finance reviews interest rates and the need to borrow on a daily basis, and has the delegated power to authorise additional borrowing if she considers the interest rates on offer and the timing of any potential borrowing appropriate within the overall strategy. Future borrowing decisions will continue to be managed in this way.

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

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

107. For 2016/17 it is recommended that the Council continues with the internal funding policy while the current low interest rate environment continues, and that the current counterparty criteria are varied as set out in the strategy, as advised by the Council's treasury advisors.

108. It is recommended that the Council:

- introduces three new investment categories: corporate bonds, covered bonds and pooled investment property funds which will generate additional returns within a controlled credit risk environment;
- increases the maximum term for high quality longer dated investments to two years for supranational institutions, local authorities, UK government, corporate bonds and five years for covered bonds, earning additional interest income without compromising liquidity risk;
- sets the maximum amount in respect of any one counterparty to £20m with the exception of money market funds (£25m).

CONSULTATION:

109. During July 2015 and January 2016, the Leader, Deputy Leader, Chief Executive and Director of Finance 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.

110. The Council conducted a robust and statistically sound public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. The summary headlines were as follows:

- the Council's current spending reflects the spending priorities of Surrey's residents closely;
- 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; and
- residents attach value to the Council's services and reductions will cause dissatisfaction.

RISK MANAGEMENT IMPLICATIONS:

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

112. The Leadership Risk Register is owned by the Chief Executive and shows the council's strategic risks. It is regularly reviewed by the Strategic Risk Forum and the Statutory Responsibilities Network on a monthly basis. Each strategic risk is cross referenced to risks on other strategic and operational risk registers and shows clear lines of accountability for each risk. Audit and Governance Committee reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Scrutiny Board

or Cabinet Member. The Leadership risk register is also presented to Cabinet on a quarterly basis.

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

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

116. As required by legislation, the Director of Finance has written a report, attached at Annex 1. In summary, the Director of Finance indicates that the risks remain significant and the position is very serious. However, taking all of the above into account, it is the view of the Director of Finance that the budget proposals recommended by the Cabinet will produce a balanced budget for 2016/17 that is deliverable, and develop a longer term budget that is sustainable so long as:

- Government provides transitional relief in the Final Settlement,
- all existing savings plans are delivered in full, and;

117. that the Public Value Transformation programme is adopted, managed and monitored rigorously by the Chief Executive and Director of Finance to ensure it identifies considerable base budget reductions in costs as soon as is manageable.

LEGAL IMPLICATIONS – MONITORING OFFICER

118. This report sets out information upon which recommendations will be made to Council for the adoption of a lawful budget and the basis for the level of the council tax for 2016/17. Council is under duty to deliver a balanced budget and this report highlights the difficulties of this task for Members, faced with a Provisional Settlement reduction which could not have been reasonably foreseen, which only became apparent in late December and which has still to be finalised by Government at the time of this report.

119. In view of this, should the Final Settlement result in any late changes, Full County Council will be asked to delegate powers to the Leader and the Director of Finance to finalise the details of the budget to deliver a balanced budget, which maintains the council tax rate Full County Council sets. If these 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

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

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

121. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP (2016-21) on Surrey's residents with one or more of the protected characteristics identified by the Equality Act 2010 will be made available at the meeting of the Council's Cabinet on 22 March 2016. This analysis will also set out the actions that the Council is taking, or will undertake, to mitigate any negative impacts that could arise.

122. The equality impact analysis undertaken for the proposed MTFP (2016-21) will build on the analysis of savings in the MTFP (2015-20). It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.

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

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

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

Other Implications

126. The potential implications for the following Council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct implications:
Corporate parenting / looked after children	No significant implications arising from this report.
Safeguarding responsibilities for vulnerable children and adults	No significant implications arising from this report.
Public health	No significant implications arising from this report.
Climate change	No significant implications arising from this report.
Carbon emissions	No significant implications arising from this report.

WHAT HAPPENS NEXT

127. The Full County Council will set its budget and council tax precept on 9 February 2016.

128. The detailed budget will be presented to the Cabinet on 22 March 2016.

Contact Officer

129. Sheila Little, Director of Finance.
Tel 020 8541 9223

Consulted

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

Annexes

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

Appendices:

Appendix 1 Surrey County Council: Financial Strategy 2016-21
Appendix 2 National economic outlook and public spending
Appendix 3 Provisional government grants for 2016/17 to 2020/21
Appendix 4 Revenue budget proposals
Appendix 5 Capital programme proposals 2016/17 to 2020/21
Appendix 6 Reserves & balances policy statement
Appendix 7 Projected earmarked reserves and general balances 2015/16 and 2016/17

Appendix 8 Treasury Management Policy
Appendix 9 Prudential indicators – summary
Appendix 10 Global economic outlook and the UK economy
Appendix 11 Treasury management scheme of delegation
Appendix 12 Institutions
Appendix 13 Approved countries for investments
Appendix 14 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

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

Introduction

1.1. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and precept, the Section 151 Officer must report to it on the following matters:

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

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

1.3. The Council is required to set a balanced budget and in considering the budget, the Council must have due regard to the advice the Director of Finance includes in this report. The following paragraphs therefore provide a commentary on the robustness of the budget and the reserves in place to support the Council.

1.4. In expressing her opinion, the Director of Finance 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. Strategically the financial and economic context facing the Council remains similar to recent years, which is a continuation of austerity and significant, and very unexpected, reduction in central Government funding. The Government made their Provisional Settlement on 17 December 2015 and the Council learnt that it faces a 42% reduction of core central Government funding when compared to the current year. The Council had, in accordance with what could be reasonably assumed from previous Government indications, been planning for a reduction of 28% into 2016/17. The difference in the figures compared to those that could reasonably be expected, reflect that the Government made changes to the basis of distribution of their core funding (Revenue Support Grant) for which that had been no previous indications and or consultation.

1.6. At the same time, the Council faces significant pressures from the care market as well as increasing year on year demographic demand for services, in particular, but not exclusively, for social care. Public expectation about, for example, the Highways service is also increasing. The Government has announced a four year settlement for core funding, which provides some certainty over Government funding in future years. However, at the time of writing this report, the council has not received notification of the level of government grants for £128m (15%) of its services. This increases the level of uncertainty and the council may need to draw on reserves if the allocated amounts vary from those planned for.

1.7. As well as confirming the general Council Tax precept limit, without referendum at 2%, as expected, the Government has recognised the increasing social care pressures, and are allowing authorities with adult social care responsibilities the ability to increase Council Tax by an additional 2% without a referendum requirement. Authorities must provide assurance that this funding will be used for adult social care services. This additional precept would raise £11.8m for the Council, although this is less than the demographic demand for adult services which increases by over £20m each year. In addition to these demographic demands, there are further significant inflation and price pressures facing the service from the care market, not least of all due to the recently introduced National Living Wage. These total £11m for 2016/17 alone.

1.8. To help the Council manage these demand pressures, the Cabinet is proposing that the Council continue with its existing Council tax strategy of raising Council Tax by a general 1.99%, as currently planned in the MTFP (2015-20) and the additional 2% for adult social care. This means an increase in Council Tax of 3.99% for 2016/17 (raising £31m) and for each of the following four years of the new MTFP period (2016-21).

1.9. Even with the planned increases in Council Tax and the existing efficiencies and savings plan, the Council cannot continue services as they currently are and produce a long term sustainable budget. Although the additional adult social care precept is a late and largely unexpected help (£11.8m), other significant unexpected and late funding reductions announced in the Provisional Settlement more than off-set the gain from the adult social care precept. To explain, amended distribution methodology for allocation of RSG will mean £47m less funding from 1 April 2016, £20m of which the Council could not reasonably have forecast. Also, total service pressures of £71m and inflation pressure of £26m add further to the challenge.

1.10. The position for future years worsens as continual efficiencies become harder to sustain and realise and yet demographic pressures continue to escalate and government funding reduces further and faster than could reasonably have been expected. Unlike previous changes to local government funding, the government has not proposed any damping mechanism.

1.11. Together this means the Council must continue to explore different ways of delivering services and proposes to establish a significant transformation programme early in 2016 to identify service changes that reduce costs.

1.12. However, the late notification means the Council is only able to balance the budget for 2016/17 and 2017/18 by a combination of the following:

- limiting spending in the current financial year, 2015/16, to ‘essential’ spend only;
- requiring deeper and earlier efficiencies from services (£18m making a total for 2016/17 of £84m);

- amending it's council tax strategy to a general council tax increase of 1.99% and to implement the additional precept introduced to help fund adult social care services of 2%; making a total Council tax increase of 3.99% in 2016/17 and each of the subsequent four years of the MTFP period;
- utilising a significant proportion of its reserves (£17.2m, 19% in 2016/17);
- making use of up to £30m of capital receipts from asset sales to fund a significant transformation programme, and;
- assuming that the Government will allocate transitional relief to compensate the Council for the 'shock' element of the redistribution mechanism through damping in the Final Settlement.

1.13. It is important to recognise that the Council has successfully delivered significant efficiency savings & service reductions in each of the last five financial years (£331m), and is forecast to deliver further savings for 2015/16 of £67m. A further £384m savings are planned for the next five year MTFP period although it is recognized that this is increasingly challenging to deliver year on year.

1.14. To recognise the risk of non-delivery of efficiencies going forwards and the risks inherent in the budget assumptions set out above, a number of mechanisms are in place to help manage these risks, including:

- monthly reporting to Cabinet on budget monitoring forecasts within 3 weeks of the period end and including remedial management action where required;
- the operation of a robust risk management approach;
- the presence of the council's key internal control framework, including the financial regulations and Scheme of Delegation for Financial Management which provides the framework for delegated budget management;
- the sustaining of good working relations with the external auditor (Grant Thornton);
- the operation of the internal audit function and its role in assessing controls and processes to highlight any major weaknesses and advise on best practice, and;
- the continuation of the of supportive budget challenge sessions led by the Chief Executive and the Director of Finance with the key Heads of Service and Strategic Directors

1.15. However, the situation is very serious. The above measures will not eliminate the risks entirely and will not on their own ensure the Council can deliver a balanced budget in future. Therefore, it is proposed to introduce a significant

Public Value Transformation programme led by the Chief Executive and the Director of Finance to ensure that significant service delivery changes are planned and delivered to ensure that the budget the Council sets is sustainable. The inevitable time needed to plan these changes thoroughly and to consult properly makes the provision of transitional relief by Government essential for the Council to set a sustainable budget.

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Level of reserves and balances

1.16. The final accounts for 2014/15 show available general balances at 31 March 2015 of £21.3m. The latest budget monitoring position for 2015/16, as at 31 December 2015, forecasts that this level will be maintained at £21.3m by 31 March 2016. Appropriate levels of general balances are necessary to be maintained so that the Council can respond to unexpected emergencies. In recent years this balance has been set at between 2.0% and 2.5% of the sum of council tax plus settlement funding, i.e. £16m to £20m. Although the current expected level is marginally in excess of this, the Director of Finance considers this prudent in view of the recent significant unexpected variations in the level of Government funding as well as the on-going uncertainty in the level of specific grants (revenue and capital); and, the absence of a specific reserve to manage severe weather liabilities.

1.17. Details of earmarked reserves are set out in Appendix A7. The extra reduction in RSG funding announced in the Provisional Settlement will require the use of significant reserves to support the budget over the next two years. The Council will need to consider the extent to which these reserves need replacing in the medium term, whilst not seeking to holding excessive balances when services are facing increasing demands.

Financial standing

1.18. 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, to which the council must adhere. In accordance with the planned capital programme, and the provision made in the current MTFP (2015-20), during the previous financial year (2014/15), the Council forward borrowed £90m in respect of the 2015/16 year in three £30m tranches (16 February 2015, 27 February 2015 and 19 March 2015), at record low interest rates, thereby minimising the long term costs of repayment by the Council. Looking ahead into 2016/17, it may be that further borrowing will be undertaken ahead of forecast rises in interest rates later in the year, paying due regard to ensuring that the revenue costs of proposed borrowing are affordable and sustainable in the long term.

Risk assessment

1.19. In response to the significant challenges that the Council is facing and the associated emerging risks, an integrated risk framework is well established across the Council and will be maintained. The risk governance arrangements are well embedded and the close link between risk registers and business impact analyses and continuity plans has been sustained throughout 2015/16 and will continue into 2016/17. Similarly the Leadership Risk Register remains in place and will continue to be monitored monthly by the Chief Executive and senior officers, and reviewed by Cabinet and Audit and Governance Committee quarterly in 2016/17.

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

- constraints in the ability to raise local funding and/or distribution of funding;
- increased reliance on integrated working and implementing new models of delivery to manage service delivery and optimise efficient service delivery;
- the on-going uncontrollable growth in demographic demands on services.

Conclusion

1.21. Although the level of risk remains significant and the position is very serious, taking all of the above into account, it is the view of the Director of Finance that the budget proposals recommended by the Cabinet will produce a balanced budget for 2016/17 that is deliverable, and develop a longer term budget that is sustainable so long as:

- Government provides transitional relief in the Final Settlement,
- All existing savings plans are delivered in full, and;
- that the Public Value Transformation programme is adopted, managed and monitored rigorously by the Chief Executive and Director of Finance to ensure it identifies considerable base budget reductions in costs as soon as is manageable.

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Treasury Management Strategy Statement and Prudential Indicators 2016/21

Key issues and decisions

To set the Council's prudential indicators for 2016/17 to 2020/21, approve the minimum revenue provision (MRP) policy for 2016/17 and agree the treasury management strategy for 2016/17.

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 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 8 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 and the period of continuing low interest rates for investments. With the Icelandic deposits now fully resolved, moving forward into 2016/17, a degree of change is proposed to the treasury management strategy with regard to the Council's managed increase in risk appetite. Officers have consulted with their advisors in order to present to full council a slightly less risk averse strategy with the intention of generating additional return within a managed risk environment.

2.3. The proposed position can be summarised as follows.

- As a result of the continuation of unprecedented low investment interest rates, and in order to help reduce counterparty risk, maintain the minimum deposit balance at £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.
- Set the maximum amount in respect of any one counterparty to £20m with the exception of money market funds (£25m).
- Introduce three new investment categories: corporate bonds, covered bonds and pool investment property funds which could generate additional returns if utilised, while maintaining controlled credit risk.
- Increase the maximum term for high quality longer dated investments to two years for supranational institutions, local authorities, UK government, corporate bonds and five years for covered bonds, earning additional interest income without compromising liquidity risk.

Background

2.4. 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 counterparties or instruments commensurate with the Council's low/medium risk appetite, providing adequate security and liquidity initially before considering investment yield.

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

2.6. 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

2.7. 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 to set aside resources over time to repay the borrowing incurred to finance capital expenditure;
  - 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.

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

Treasury management strategy for 2016/17

2.9. The strategy for 2016/17 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.

2.10. 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

2.11. The Council has recently appointed Arlingclose as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

2.12. 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

2.13. 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. Arlingclose provides daily, weekly and quarterly newsletters and regular update calls/meetings will be held with Arlingclose.

2.14. The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. 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 2016/17 to 2020/21

2.15. 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.

2.16. 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.

2.17. The prudential indicators are set out in Appendix 9.

Borrowing

2.18. The capital expenditure plans set out in Appendix 5 of the budget report 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.

2.19. Capital expenditure can be financed from one or more of the following sources:

i. Cash from existing and/or new capital resources, e.g., capital grants, capital receipts from asset sales, revenue contributions or earmarked reserves;

ii. Cash raised by borrowing externally;

2.20. Cash being held for other purposes, e.g., earmarked reserves or working capital but used in the short term for capital investment. This is known as ‘internal borrowing’ as there will be a future need to borrow externally once the cash is required for the other purposes.

2.21. Under the CIPFA Prudential Code, an authority is responsible for deciding its own level of affordable borrowing within set prudential indicator limits. Borrowing does not have to take place immediately to finance its related capital expenditure and may be deferred or borrowed in advance of need within policy. The Council’s primary objective when borrowing is to manage the balance between securing low interest rates, achieving cost certainty over the period for which funds are required, while ensuring that any ‘cost of carry’ does not place unnecessary pressure on the revenue budget. Cost of carry occurs when cash is borrowed in advance of need and then held in short term investments earning less interest than is being paid to borrow it initially.

2.22. The amount that notionally should have been borrowed is known as the capital financing requirement (CFR). The CFR and actual borrowing may be different at a point in time and the difference is either an under or over borrowing amount. Table 2.1 summarises the Council’s position at 31 March 2015, with forward projections:

Table 2.1: Current portfolio position

External debt	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← Estimated £m	2017/18 Estimated £m	2018/19 Estimated £m	2019/20 Estimated £m	2020/21 Estimated → £m
Capital Finance Requirement at 31 March	**781.6**	**870.9**	**916.4**	**950.3**	**943.9**	**903.2**	**857.8**
Less Other Long Term Liabilities	-102.8	-148.0	-174.5	-172.9	-153.6	-134.3	-114.9
Borrowing Requirement	678.8	722.9	741.9	777.4	790.3	768.9	742.9
Actual External Debt at 31 March	428.7	429.3	448.5	484.2	497.0	511.2	523.2
Under/(over) borrowing	**250.1**	**293.6**	**293.4**	**293.2**	**293.3**	**257.7**	**219.7**

2.23. The table shows the actual external debt (PWLB, LOBO and temporary loans) against the underlying capital borrowing need, the majority of which is held with the Public Works Loans Board (PWLB), with a single Lender Option Borrower Option (LOBO) loan. The authority has adopted a treasury management strategy that favours fixed rate borrowing to provide certainty over borrowing costs and rates of interest.

2.24. The Council is currently maintaining a significantly under-borrowed position. This means that the capital financing requirement has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. At 31 March 2016, the projected level of under-borrowing amounts to £293.6. 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.

2.25. It is likely that the Local Capital Finance Company Limited (also known as the Municipal Bond Agency) will be offering direct loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the PWLB. It is recommended that the Council utilise this new source of borrowing when appropriate.

2.26. The Local Capital Finance Company Limited was set up during 2015 with the aim of reducing borrowing rates by up to a prudent 0.20% to 0.25% compared with the certainty rate provided by the PWLB. The Company will offer direct competition to the PWLB but, as a result, the PWLB could react by reducing its own margins, thereby making the Local Capital Finance Company Limited rate not compelling for local authority borrowers. Whilst it is difficult to predict the reaction to the establishment of the Local Capital Finance Company Limited, either way, it has the potential for local authorities to access lower borrowing rates.

2.27. 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 2016/17 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.

2.28. The Director of Finance 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

2.29. The Council has appointed Arlingclose 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 Arlingclose'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. The Council complies with this requirement. Appendix 10 sets out a summarised report on global economic outlook and the UK economy.

Table 2.2: Prospects for interest rates

	Bank rate %	PWLB borrowing rates (including certainty rate adjustment) 5 year %	20 year %	50 year %
December 2015	0.50	2.30	3.25	3.25
March 2016	0.50	2.35	3.30	3.30
June 2016	0.50	2.40	3.35	3.35
September 2016	0.75	2.50	3.35	3.40
December 2016	0.75	2.60	3.40	3.45
March 2017	1.00	2.70	3.45	3.50
June 2017	1.00	2.80	3.50	3.55
September 2017	1.25	2.90	3.55	3.60
December 2017	1.25	3.00	3.60	3.65
March 2018	1.50	3.05	3.65	3.70
June 2018	1.50	3.10	3.70	3.75
September 2018	1.75	3.15	3.75	3.80
December 2018	1.75	3.15	3.75	3.80

2.30. Investment returns are still likely to remain relatively low during 2016/17 and beyond. Borrowing rates have been volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism in financial markets as a result of geo-political events and the slowing Chinese economy. The closing weeks of 2015 and early into 2016 have seen gilt yields dip to historically low levels after inflation plunged, and a flight to quality from equities (especially in the oil sector), from the debt and equities of oil producing emerging market countries.

2.31. The policy of internal borrowing by utilising cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to fund new capital expenditure and/or to refinance maturing debt.

2.32. Officers continue to review the need to borrow, taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. Markets will continue to be monitored carefully and the Council will adopt a pragmatic approach to changing circumstances in relation to its debt strategy.

2.33. A commentary on the global economic outlook is shown as Appendix 10.

UK Treasury Management Delegation

2.34. The Treasury Management Scheme of Delegation is set out in Appendix 11.

Borrowing strategy

2.35. 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 is not intended to hold permanently. The Council will give consideration to reversing this policy and fund its position from external sources prior to long term gilt yields and interest rates eventually rising, thus impacting on the cost of borrowing.

2.36. How the current internal borrowing gap will eventually be bridged will depend on market projections over 2016/17 and beyond, and officers will take advice from the 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 until late 2016/early 2017, the Council still 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 when suitable opportunities arise.

2.37. 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 unanticipated market movements. 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.

2.38. There are two possible risks in 2016/17:

- 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 further 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 an increase in world economic activity, or an increase in inflationary 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.

2.39. The UK is still benefitting from a "safe haven" status outside the global markets and the Eurozone, which has supported UK gilt prices and reduced further historically low gilt yields (which underpin PWLB borrowing rates). Moreover, the UK inflation position has reduced to significantly (and into deflation territory) below the Bank of England's Monetary Policy Committee's (MPC's) target of 2%. Any further reduction may have an impact on the financial markets view of gilt prices, with a further reduction in gilt (and therefore PWLB) rates. This highlights the importance of the longer term fixed interest rate economic forecasts.

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

Treasury management limits on activity

2.41. 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.

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

Table 2.3: Treasury indicators and limits

	2016/17 to 2020/21		**2015/16 year end projection**	
Upper limits on fixed interest rates	100%		100%	
Upper limits on variable interest rates	25%		0%	
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	2%
10 years and above	25%	100%	387	98%
Total external borrowing			**397**	**100%**

Policy on borrowing in advance of need

2.43. 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

2.44. 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).

2.45. 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).

2.46. 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.

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

Annual investment strategy

Investment policy

2.48. The three major credit rating agencies made substantial revisions to their bank credit rating methodologies in 2015, reflecting the banking reform agenda in the UK and other advanced economies. Until last year, the rating agencies assessed the standalone credit strength of banks, and then added up to three “notches” to account for the likelihood that the relevant national government would bail-out a failed bank in order to protect investors.

2.49. Following the passing of UK domestic legislation in 2013 and an EU-wide directive in 2014 banning government bail-outs until there have been investor bail-ins, in 2015 the rating agencies removed most or all of these notches for government support. Moody’s retains one notch for the very largest banks reflecting a small chance that governments may ignore or rewrite the law if or when such an eventuality occurred; Fitch and Standard & Poor’s do not believe the chance of this is large enough to make any meaningful difference to banks’ credit strengths.

2.50. On its own, this would have seen many banks’ credit ratings fall. However, this effect was fully or partly offset by the introduction of notches for loss absorbency. This reflects the chance that, although a bank has failed and been bailed-in, there may be sufficient loss absorbing instruments ranking below the Council’s investment to protect the latter from any loss. Under the pre-reform framework, banks were likely to default on all their debts at the point of failure, even if the higher ranking ones were eventually repaid in full. Post-reform, bail-in is designed to enable failed banks to continue running without defaulting on all their debts. In many cases, the resulting credit ratings are therefore broadly unchanged.

2.51. As a result of these rating agency changes, the credit element of the future Arlingclose assessment methodology will focus solely on the Short and Long Term ratings of an institution. Furthermore, Arlingclose will utilise credit default swap (CDS) prices as an overlay to credit ratings.

2.52. 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.

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

2.54. 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.

2.55. 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.

2.56. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

2.57. Current investment counterparties identified for use in the financial year using currently approved rating criteria are listed in Appendix 12. Counterparty monetary limits are also set out in this appendix. Recommended changes to criteria and monetary limits have already been set out in paragraph 2.3.

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

Creditworthiness policy

2.59. 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).

2.60. The Director of Finance 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 are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

2.61. 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 Arlingclose on all active counterparties that comply with the criteria below.

2.62. 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. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is summarised in Appendix 12.

- 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-

- Banks (2): The Council's own banker (HSBC) 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 and 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 two out three rating agencies. The upper limit of MMFs stands at £175m with a maximum £25m 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)
- Corporate bonds A- (or equivalent)
- Covered bonds (fully collaterised)
- Pooled investment property funds

Country and Sector Considerations

2.63. 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 13;
- 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

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

Time and monetary limits applying to investments

2.65. It is recommended that the specific terms applicable to investment types will be limited as follows:

Overnight:	AAA rated money market funds, Call accounts, Enhanced cash/corporate bonds pooled funds
100 days	Unsecured Banks Building Societies A-
6 months	Unsecured Banks Building Societies A
13 months	Unsecured Banks Building Societies AA-
2 years	Corporate Bonds, Debt Management Office, Supranational Institutions, Local Authority
5 years	Bank/Building Society (Secured) Covered Bonds

2.66. Further internal restrictions may be applied on recommendations from Arlingclose.

2.67. The proposed criteria for specified and non-specified investments are shown in Appendix 12 for approval.

Country limits

2.68. 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

2.69. 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 two years).

Instant access funds

2.70. The council will utilise Money Market Funds (up to the value of £175m).

Local authorities

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

Investment returns expectations

2.72. The Bank Rate is forecast by Arlingclose to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Arlingclose forecasts the financial year ends (March) as:

2015/16	2016/17	2017/18	2018/19
0.50%	1.00%	1.50%	1.75%

2.73. 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.

2.74. 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:

2015/16	0.50%
2016/17	0.65%
2017/18	1.25%
2018/19	1.60%

2.75. In terms of how these estimate yields differ from last year's strategy, the date of the first rise in the Bank Rate to 0.75% is pushed out to December 2016.

Investment treasury indicator and limit

2.76. 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.

2.77. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

2.78. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills, for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

2.79. The CLG Guidance defines specified investments as those:

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

2.80. The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AAA. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of AAA.

Non-specified Investments

2.81. Any investment not meeting the definition of a specified investment is classed as non-specified. For treasury purposes, the Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

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

Table 2.4: Non Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total investments without credit ratings or rated below A-	£0m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AAA	£0m
Total non-specified investments	£40m

2.83. This keeps the strategy within the Council’s desired level of prudent risk.

2.84. 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.

Investment risk benchmarking

2.85. 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

2.86. 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

2.87. 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. In order to provide a safety margin, a minimum core of £47m is currently in place. 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 four months.

Yield

2.88. 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.

Policy on Use of Financial Derivatives

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

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

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

Additional Portfolio of Investments

2.92. 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.

2.93. 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

2.94. 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.

2.95. These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2016, and the treasury management outturn report for 2015/16.

End of year investment report

2.96. At the end of the financial year, the Council will report on its investment activity as part of its treasury management outturn report.

External fund managers

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

Minimum revenue provision

2.98. The Council is required to repay an element of the capital financing requirement each year through a revenue charge. This is known as the minimum revenue provision (MRP). The Council's policy on (MRP) is shown in Appendix 14.

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Appendices:

Appendix 8	Treasury Management Policy
Appendix 9	Prudential indicators – summary
Appendix 10	Global economic outlook and the UK economy
Appendix 11	Treasury management scheme of delegation
Appendix 12	Institutions
Appendix 13	Approved countries for investments
Appendix 14	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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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 2019/20. The Office for Budget Responsibly (OBR) assessed this target in its November 2015 report and forecast that the cyclically adjusted current budget (CACB) will move from a deficit of 1.6% of GDP in 2015/16 to a surplus in 2017-18. The surplus will then rise to 2.4% of GDP in 2020/21. 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 -0.5% (net surplus) of Gross Domestic Product (GDP) by 2019/20 compared with 5.2% in 2014/15. Furthermore, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to peak at 83% of GDP in 2014/15 before falling in the years thereafter.

Table A2:1: UK borrowing levels as a percentage of GDP between 2014/15 and 2020/21

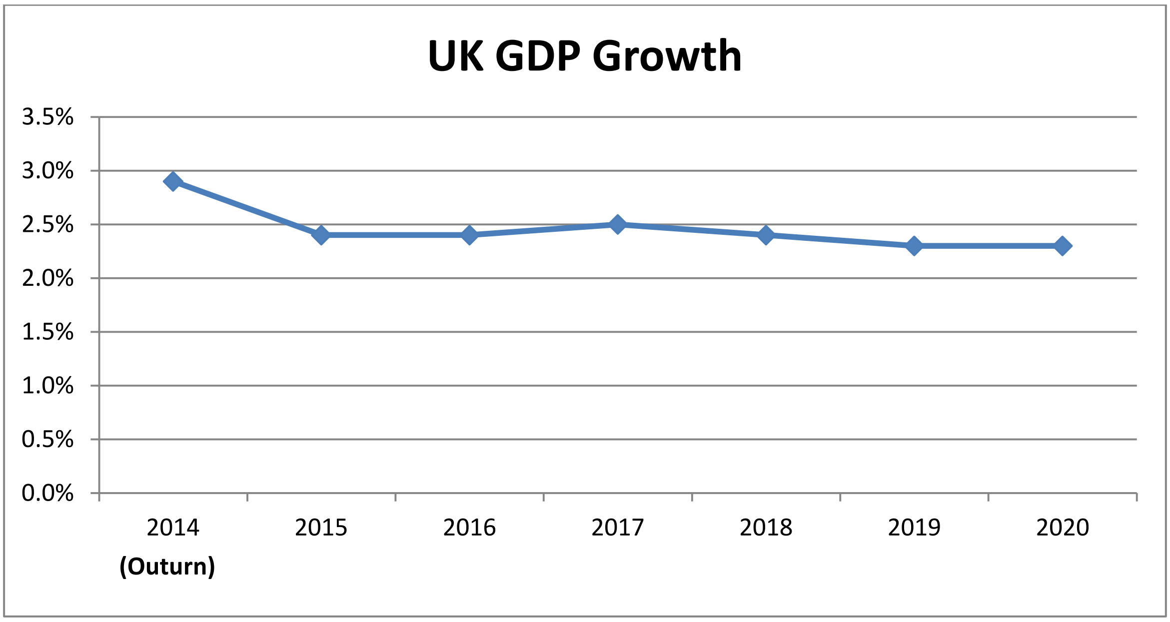
	←---- Percentage of GDP ----→						
	Outturn	←---- **Forecast** ----→					
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Cyclically adjusted surplus on current budget	**2.4**	1.6	0.5	-0.5	-1.2	-1.9	-2.4
Public Sector Net Borrowing[1]	**5.2**	3.9	2.5	1.2	0.2	-0.5	-0.6
Public Sector Net Debt	**83.1**	82.5	81.7	79.9	77.3	74.3	71.3

1 Excluding Royal Mail and APF Transfers

Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2015

A.2.4. Graph A2:1 shows the OBR's growth figures for the next five years. OBR's forecast for growth in 2015 remains at 2.4% and growth has been revised by 0.1 percentage points higher each year in 2016 and 2017. The increased growth in 2016 reflects the Government's decision to ease the pace of fiscal tightening. In 2017, the revisions to underlying potential output growth are more important. The effect of population ageing on employment has caused GDP growth forecast to be revised down in 2020.

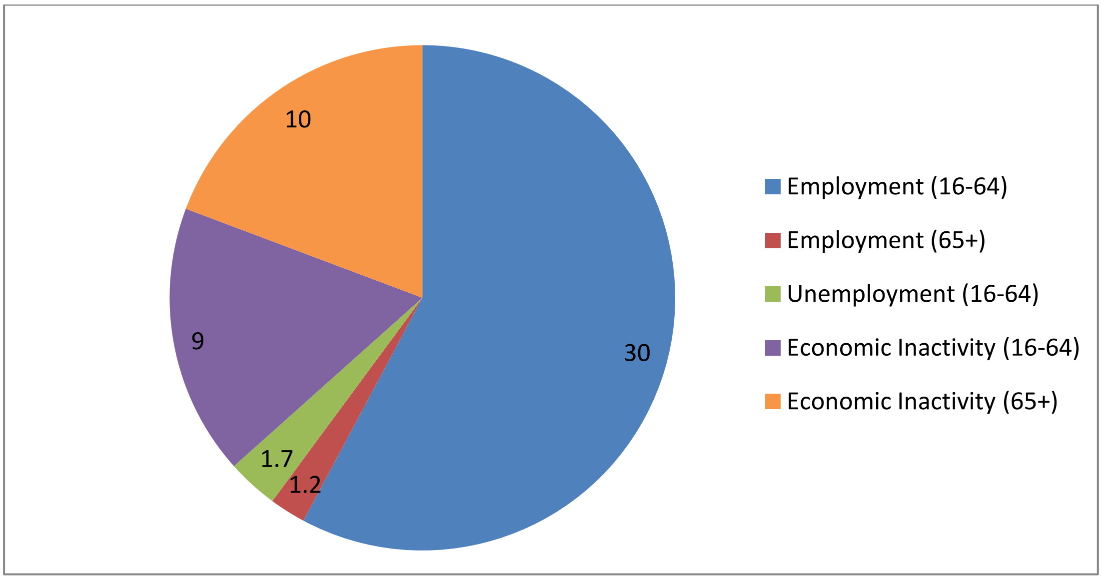
Graph A2:1 UK GDP growth:



Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2015

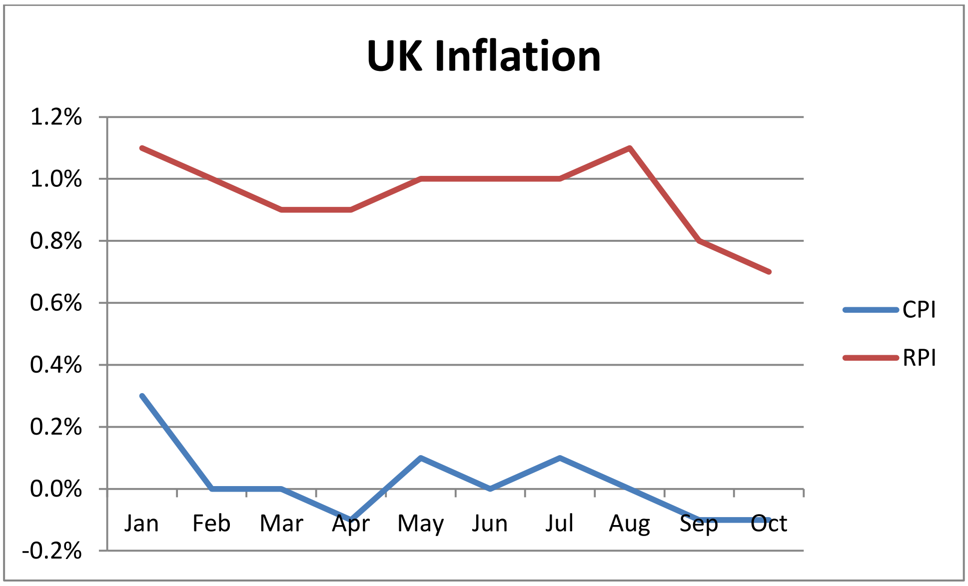
A.2.5. National unemployment is continuing to decline. For the period between July and September 2015, compared with the period between April and June 2015, the number of people in employment increased by 177,000 to reach 31 million. Meanwhile, the number of unemployed people fell by 103,000 to reach 1.75 million and the number of people aged from 16 to 64 not in the labour force fell by 22,000 to reach 9 million.

Graph A2:2: UK Labour Market July to September 2015 (millions)



A.2.6. Graph A2:3 shows UK Consumer Price Index (CPI) and Retail Price Index (RPI) inflation between January 2015 and October 2015. In the year to October 2015, CPI fell by 0.1%, the same as reported in the year to September 2015. CPI was -0.1% in October 2015, remaining more than 1% below the Bank of England's target of 2% for the eleventh consecutive month. The consistent CPI rate was largely due to upward price pressures for clothing and footwear and a range of recreational goods being offset by downward price pressures for university tuition fees, food, alcohol and tobacco.

Graph A2:3: UK annual inflationary measures of CPI and RPI between January 2015 and October 2015.



Source: Office for National Statistics, Consumer Price Inflation October 2015.

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 September 2015 unemployment fell to 5.3%, lower than the 7% level where the BoE said it would begin considering raising interest rates. However, despite the sharp fall in unemployment, the BoE stressed that it will not rush to raise interest rates even when the threshold is reached. OBR forecast the unemployment rate to decline slowly to 5.1% by the end of 2016, as productivity growth picks up, allowing firms to expand output more through their existing workforce rather than through recruitment. UK inflation fell to -0.1% in September and remained at -0.1% in October. Following the latest inflation report from the BoE, economists forecast that interest rates may not move until mid-2016 and may not rise for the whole of next year.

A.2.8. On 25 November 2015, the Chancellor of the Exchequer, George Osborne presented his Autumn Statement and Spending Review 2015. The Spending Review included how spending would be cut by £20bn in the next four years (2016/17 to 2019/20). The UK public finances are now expected to be in surplus by 2019/20 rather than the original target of 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 3.9% of GDP this year, down from the 4.0% forecast by OBR in March 2015. OBR then predict it to fall to 2.5% next year and go on declining; reaching 0.2% in 2018/19 and by 2019/20 a small surplus is expected.

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

- *Develop an integrated health and care system*
  An integrated health and social care system is to be created by 2020 with every area to have a plan in place by 2017;
- *Spread economic growth through a devolution revolution*
  New powers to be given to local authorities including the possibility of 100% business rates retention;
- *Address social failures in order to extend opportunity*
  The Government will protect schools' funding in line with inflation. It will invest £23bn in school buildings to create 600,000 extra school places and 500 free schools;
- *Protect national security*
  The MOD will deliver £9.2bn of savings while maintaining the current number of Armed Forces personnel. All of these savings will be directly reinvested into the defence budget to enable investment in new capability to protect the UK's national security.

A.2.10. The Conservative Government set out fiscal plans to deliver a surplus of £10.1bn in 2019/20 and to maintain a surplus there after. Local government's contributions to the deficit reduction will include:

- a reduction to local government grant of £6.1bn by 2019/20 as revenue support grant is phased out;
- support to help local government become more efficient through new flexibility for local authorities to spend receipts from asset sales on reform projects;
- full devolution of business rates to local government and new responsibilities so local areas have the tools to drive local growth; and
- introduction of a social care precept, allowing local authorities to raise the council tax in their area by up to 2% above the existing threshold for use exclusively on adult social care.

A.2.11. The Institute for Fiscal Studies (IFS) states that the Government has set a completely inflexible fiscal target – to have a surplus in 2019/20. The fiscal target of the last Parliament allowed a bigger deficit to be accepted when growth and tax revenues disappointed. The Chancellor's current target is fixed for four years and when forecasts change, it is likely these spending decisions will need to be revised, taxes raised or the target abandoned.

Capital Programme 2016 to 2021

Scheme	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	**Total £'000**
Adult Social care						
Major Adaptations	800	800	800	800	800	**4,000**
In-house capital improvement schemes	250	250	250	250	250	**1,250**
User led organisational hubs	100	0	0	0	0	**100**
Adult Social care	**1,150**	**1,050**	**1,050**	**1,050**	**1,050**	**5,350**
Children, Schools & Families						
Schools devolved formula capital	2,612	2,612	2,612	2,612	2,612	**13,060**
Foster carer grants	300	300	300	300	300	**1,500**
Adaptations for children with disabilities	299	299	299	299	299	**1,495**
Children, Schools & Families	**3,211**	**3,211**	**3,211**	**3,211**	**3,211**	**16,055**
Community Partnership & Safety: Local Committee Allocations	0	385	385	385	385	**1,540**
Surrey Fire & Rescue Service						
Fire-Vehicle & Equipment Replacement	1,836	1,986	2,141	1,526	1,163	**8,652**
Surrey Fire & Rescue Service	**1,836**	**1,986**	**2,141**	**1,526**	**1,163**	**8,652**
Highways & Transport						
Highway maintenance	21,018	21,518	21,018	21,018	21,018	105,590
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	3,500	3,000	2,500	2,000	2,000	13,000
Safety barriers	256	256	256	256	256	1,280
Traffic signal replacement	550	550	550	550	550	2,750
Highways Vehicle Replacement	200	200	200	0	0	600
Local Growth Deal (tranches 1-3)	1,693	1,210	383	0	0	3,286
Flood resilience schemes	500	500	500	500	500	2,500
River Thames scheme	500	500	500	500	500	2,500
Economic development - shopping areas	1,000	1,000	1,000	1,000	1,000	5,000
Developer funded schemes	1,700	1,700	1,700	1,700	1,700	8,500
Highways & Transport	**33,649**	**33,166**	**31,339**	**30,256**	**30,256**	**158,666**
Environment & Planning						
Maintenance at closed landfill sites	100	100	100	0	0	300
Rights of way and byways	85	85	85	85	85	425
Road safety schemes	200	200	200	200	200	1,000
Basingstoke Canal Remedial Works	500	0	0	0	0	500
Newlands Corner Visitor Improvements	300	0	0	0	0	300
Cross Directorate CIL schemes	4,576	5,354	5,479	5,479	5,479	26,367
Environment & Planning	**5,761**	**5,739**	**5,864**	**5,764**	**5,764**	**28,892**

Appendix 5

Capital Programme 2016 to 2021

Scheme	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
Business Services						
Recurring programmes:						
Schools - Disability Discrimination Act	737	487	497	497	497	2,715
Schools capital maintenance, inc.childrens centres	13,402	13,402	13,402	13,402	13,402	67,010
Carbon reduction - Corporate	1,393	1,300	1,300	1,300	1,289	6,582
Fire risk assessments/minor works/DDA	600	700	687	600	592	3,179
Non schools structural maintenance	6,300	6,300	6,300	6,295	5,911	31,106
Recurring programmes	**22,432**	**21,889**	**21,886**	**21,794**	**21,391**	**110,582**
Projects:						
Portesbury SEN School	150	0	0	0	0	150
Gypsy Sites	1,045	0	0	0	0	1,045
Fire Station reconfiguration	3,460	0	1,989	991	0	6,440
Woking Fire Station	1,000	0	0	0	0	1,000
Fire training tower replacement	200	0	0	0	0	200
Replace aged demountables	850	750	0	0	0	1,600
SEN strategy	4,850	1,700	693	0	0	7,243
SEND and LAC Provision	2,400	13,000	10,300	8,750	0	34,450
Land acquisition for waste	0	3,122	0	0	0	3,122
Projects to enhance income	1,650	0	0	0	0	1,650
Regeneration projects	1,346	0	0	0	0	1,346
Projects to reprovision and deliver capital receipts	1,475	0	0	0	0	1,475
Reigate Priory School	500	0	0	0	0	500
ASC Sluice Rooms	200	0	0	0	0	200
Cranleigh Schools	4,316	4,316	0	0	0	8,632
Lindon Farm Autism Unit - ASC	2,000	2,000	0	0	0	4,000
Short Stay Schools	610	1,141	0	0	0	1,751
Projects	**26,052**	**26,029**	**12,982**	**9,741**	**0**	**74,804**
IT Equipment Replacement Reserve	2,074	1,342	207	1,898	1,898	7,419
IT Project Investment	2,500	2,500	2,500	2,500	2,500	12,500
Other IMT projects	142	90	469	683	0	1,384
Information Management & Technology	**4,716**	**3,932**	**3,176**	**5,081**	**4,398**	**21,303**
Business Services	**52,900**	**51,850**	**38,044**	**36,616**	**25,789**	**205,199**
Schools Basic Need	75,574	70,410	42,968	13,975	4,968	**207,895**
Legal & Democratic services: Community Buildings Grant scheme	150	150	150	150	150	**750**
Chief Executive's Office	**150**	**150**	**150**	**150**	**150**	**750**
Total Capital Programme	**174,532**	**168,247**	**125,452**	**93,233**	**73,036**	**634,500**

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.

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 £21.3 m general balances at 1 April 2015. The council has applied none of this to support the 2015/16 budget. Going into 2016/17 the Director of Finance recommends the level of general balances remains the same. This approach is considered prudent leaving general balances to provide mitigation against the risk of non-delivery of service reductions and efficiencies from 2016/17.

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

A.6.10. In this context the Director of Finance’s report on the budget for 2016/17 recommends holding general balances of £21.3m.

Proposed policy for 2016/17

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. Given the reduction in funding that the Council faces over the next four years retention of the Council’s general balances will be essential to order to safeguard service provision and cushion the impact of future savings programmes designed to meet the funding reduction.

A.6.13. The application of general balances and reserves can, by definition only be used once and should therefore only be applied for one-off or non-recurring spending or investment or to smooth the effect of government funding reductions that have a disproportionate impact in any one year.

Projected Earmarked Reserves and Balances

	Opening Balance at 01-Apr-15	Actual Balance 31-Dec-15	Forecast balance 31-Mar-16	Proposed use to support 2015/16 budget	Forecast 01-Apr-16
	£m	£m	£m	£m	£m
Revolving Infrastructure & Investment Fund	20.6	20.6	20.6	-10.0	10.6
Budget Equalisation Reserve	16.6	5.0	7.8	-1.3	6.5
Eco Park Sinking Fund	16.0	16.0	11.8	-5.9	5.9
Insurance Reserve	10.6	10.9	10.9		10.9
Investment Renewals Reserve	10.0	9.5	8.6		8.6
General Capital Reserve	7.9	7.9	4.6		4.6
Street lighting PFI Reserve	5.8	5.1	5.1		5.1
Vehicle Replacement Reserve	5.6	6.5	2.8		2.8
Economic Downturn Reserve	4.2	9.2	9.2		9.2
Public Health Reserve	2.5	3.3	2.1		2.1
Economic Prosperity Reserve	2.5	2.5	2.5		2.5
Equipment Replacement Reserve	1.9	3.1	1.5		1.5
Child Protection Reserve	1.9	1.1	1.1		1.1
Business Rate Appeals Reserve	1.3	1.3	1.3		1.3
Pension Stabilisation Reserve	1.1	1.1	1.1		1.1
Interest Rate Reserve	1.0	1.0	1.0		1.0
Earmarked Reserves	**109.5**	**104.1**	**92.0**	**-17.2**	**74.8**
General Fund Balance	**21.3**	**21.3**	**21.3**	**0.0**	**21.3**

Purpose of earmarked reserves

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

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

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

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

Projected Earmarked Reserves and Balances

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

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

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

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

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

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

Public Health Reserve holds the carry forward of the unspent Public Health Grant from 2014/15 being used to fund activities in future years.

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

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

Business Rate Appeals Reserve mitigates against volatility in business rates income (driven by the volume and value of successful valuation appeals). The council bears 10% of any appeals losses (districts and boroughs 40% and central government 50%) and has set aside £1.25m against potential business rates valuation appeals in 2016/17.

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

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

Treasury Management Policy

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

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

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

Risk management

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 in order to manage these risks.

Value for money

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

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.

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

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

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

Prudential indicators

The Council has adopted the Prudential Code.

Capital expenditure

9.1. Table 9.1 sets out actual and estimated capital expenditure and its funding for 2014/15 to 2020/21. 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 9.1: Actual and estimated capital expenditure 2014/15 - 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 £m	2017/18 £m	2018/19 ← - - - Estimated - - - → £m	2019/20 £m	2020/21 £m
Capital expenditure	196.3	176.0	174.2	167.9	125.2	92.9	72.4
Financed by:							
Government grants	86.6	91.0	114.0	85.1	70.1	68.2	50.2
Revenue, reserves and third party contributions	8.4	15.8	14.5	17.8	9.5	10.6	10.2
Net financing need for the year*	**101.3**	**69.2**	**45.7**	**65.0**	**45.6**	**14.1**	**12.0**

*Capital expenditure to be met by borrowing

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

9.2. Table 9.2 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).

9.3. 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 9.2: Capital financing requirement (CFR) 2014/15 to 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← - - - - £m	2017/18 - - - - £m	2018/19 Estimated £m	2019/20 - - - - £m	2020/21 - - - - → £m
Opening CFR	681.7	781.6	870.9	916.4	950.3	943.9	903.2
Add new borrowing:							
MRP	-26.7	-24.9	-26.5	-29.4	-32.7	-35.4	-37.9
PFI* and Finance Leases	25.3	45	26.3	-1.7	-19.3	-19.4	-19.5
Net Financing Need	101.3	69.2	45.7	65	45.6	14.1	12.0
Closing CFR	781.6	870.9	916.4	950.3	943.9	903.2	857.8
Total CFR Movement	**99.9**	**89.3**	**45.5**	**33.9**	**-6.4**	**-40.7**	-45.4

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

The Council's gross borrowing requirement

9.4. Table 9.3 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 preceding 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 9.3: Gross borrowing requirement 2014/15 to 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← - - - - £m	2017/18 - - - - £m	2018/19 Estimated £m	2019/20 - - - - £m	2020/21 - - - - → £m
External Debt	428.7	429.3	448.5	484.2	497.0	511.2	523.2
CFR	781.6	870.9	916.4	950.3	943.9	903.2	857.8

The Council's operational boundary

9.5. Table 9.4 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 Director of Finance's estimate of the most likely, prudent but not worst case scenario. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Table 9.4: Operational boundary 2014/15 to 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← - - - £m	2017/18 - - - £m	2018/19 Estimated £m	2019/20 - - - £m	2020/21 - - - → £m
Borrowing	428.7	448.4	490.2	503.3	510.3	521.7	523.2
Other long term liabilities	92.0	160.5	186.7	185.0	165.7	146.3	126.9
Total	**520.7**	**608.9**	**676.9**	**688.3**	**676.0**	**668.0**	**650.1**
External debt	428.7	429.3	448.5	484.2	497.0	511.2	523.2

The Council's authorised limit

9.6. Table 9.5 sets out the Council's authorised limit for external debt. This key prudential indicator represents a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. The limit needs to be set or revised by the full Council. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised since the introduction of the Prudential Code. The limit separately identifies borrowing from other long term liabilities such as finance leases. The authorised limit is based on the operational boundary and incorporates additional headroom to allow for unusual cash movements and ensures that the Council has the ability to borrow up to its CFR if the market changes to the extent that this is considered an appropriate action.

Table 9.5: Authorised limit for external debt 2014/15 to 2020/21

	2014/15 Actual £m	2015/16 Projected £m	2016/17 ← - - - £m	2017/18 - - - £m	2018/19 Estimated £m	2019/20 - - - £m	2020/21 - - - → £m
Borrowing	598.1	722.4	741.4	777.0	789.9	768.6	742.7
Other long term liabilities	92.0	160.5	186.7	185.0	165.7	146.3	126.9
Total	**690.1**	**882.9**	**928.1**	**962.0**	**955.6**	**914.9**	**869.6**
External debt	428.7	429.3	448.5	484.2	497.0	511.2	523.2

Ratio of financing costs to net revenue stream

9.7. Table 9.6 sets out the Council's ratio of financing costs to net revenue stream. The ratio shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, as a proportion of annual income from council taxpayers and central government (net revenue stream). The estimates of financing costs include current and future commitments based on the capital programme.

Table 9.6: Ratio of financing costs to net revenue stream

	2015/16 Projected	2016/17 ← - - -	2017/18 - - -	2018/19 Estimated	2019/20 - - -	2020/21 - - - →
Ratio of financing costs to net revenue stream	2.52%	2.85%	3.21%	3.49%	3.64%	3.78%

Incremental impact of capital investment decisions on Council Tax 2016/17 to 2020/21

9.8. Table 9.7 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 9.7: Estimated incremental impact of capital investment decisions on council tax 2016/17 to 2020/21

	2016/17	2017/18	2018/19	2019/20	2020/21
Band D Council Tax	£1.64	£9.64	£18.60	£24.84	£28.09

9.9. 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]

9.10. 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

The UK

10.1 Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.2% in December 2015. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015.

10.2 Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 83rd consecutive month at its meeting in January 2016. Quantitative easing (QE) has been maintained at £375bn since July 2012.

10.3 The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

Overseas

10.4 China's growth has slowed dramatically and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course.

10.5 The Federal Reserve did not raise policy rates at its meetings in October and November, but the committed to an interest rate hike in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit Outlook

10.6 The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

10.7 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union followed suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans.

10.8 Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority. Returns from cash deposits remain stubbornly low.

Interest Rate Forecast

10.9 The Authority's treasury advisor Arling Close projects the first 0.25% increase in the UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, and finally settling between 2% and 3% in several years time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

10.10 A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arling Close projects the 10-year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

Treasury management scheme of delegation

Full Council

11.1. Approval of annual strategy.

Audit & Governance Committee

11.2. Receiving and reviewing monitoring report and outturn report.

Director of Finance

11.3. 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
  - Municipal Bond Agency
  - lenders' option borrowers' option (LOBO) loans
  - local bond issues
  - European Investment Bank
  - overdraft
  - banks and building societies
  - local authorities
  - lease finance providers
  - internal borrowing.

- 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;
    - corporate bonds
    - covered bonds
    - pooled property funds

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

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

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

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

Institutions

12.1. The Council will use specific credit ratings to determine which institutions can be used for investments.

12.2. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

12.3. 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. This practice is known as the lowest common denominator approach.

Other institution types

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

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

Foreign Investments

12.5. 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).

Effective counterparty limits

Type	Fitch		Moody's		S&P			
	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Maximum Value	Maximum Term
Bank/Building Society (Unsecured)	F1	A-	P-1	A3	A1	A-	£20m	100 days
Bank/Building Society (Unsecured)	F1	A	P-1	A	A1	A	£20m	6 months
Bank/Building Society (Unsecured)	F1+	AA-	P-1	Aa3	A1+	AA-	£20m	13 months
Corporate Bonds	A-		A3		A-		£20m	2 years
Bank/Building Society (Secured) Covered Bonds	AAA		Aaa		AAA		£20m	5 years
Money Market Funds	AAA		Aaa		AAA		£25m	n/a
Enhanced Cash / Bond Funds	AAA / v1		Aaa-bf		AAAf / s1		£20m	n/a
Debt Management Office							Unlimited	2 years
Supranational Institutions							£20m	2 years
Local Authority							£20m	2 years
Pooled Investment Property Funds							£20m	n/a

Counterparty Criteria

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

12.7. **Bank/Building Society Secured (Covered Bonds):** These investments are secured on the bank's assets, which limit the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed £20m. A minimum rating of AAA (or equivalent) from two of the three rating agencies.

12.8. **Corporates:** Corporate bonds issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. A minimum rating of A- (or equivalent) from two of the three rating agencies.

12.9. **Government:** Loans, bonds and bills issued or guaranteed by UK government, local authorities and supranational banks. These investments are not subject to bail-in, and there is a minimal risk of insolvency.

12.10. **Money Market Funds:** An open ended fund that invests in short term debt securities, offers same-day liquidity and very low volatility. The use of Money Market Funds is restricted to funds with three AAA ratings (from two of the three rating agencies) up to a maximum of £175m (with a maximum of £25m per Money Market Fund).

12.11. **Enhanced Cash/Bond Funds:** 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).

12.12. **Pooled Property Funds:** Shares in diversified property investment vehicles. Property funds offer enhanced returns over the longer term, but are more volatile in the short term. The funds have no defined maturity date, but are available for withdrawal after a notice period.

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Approved countries for investments

AAA

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

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Minimum revenue provision (MRP) policy statement

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

14.2 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 the first year of operation. The Council has assessed the Minimum Revenue Provision 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.

14.3 Where capital expenditure was incurred before 1 April 2008, MRP will continue to be charged as a set percentage of the outstanding Capital Financing Requirement, adjusted for the A-Factor (an amount calculated for each authority to ensure neutrality between old and new MRP systems), in accordance with the guidance. This percentage will be determined, in line with government guidance, based on the level of funding for supported borrowing implicit in the revenue support grant issued by central government. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life method. MRP will be based on the estimated life of the assets purchased from unsupported borrowing.

Table B14.1 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.

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

14.5 MRP will be made at 1% for investment properties held for income generation purposes. For investment properties held solely for asset appreciation purposes with an intention to sell, no MRP will be charged.

14.6 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.

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

14.8 In addition, the Council intends to consider the option to make an adjustment to this calculation to better reflect the debt maturity profile of the Council. The total of the two methods outlined above will provide the annual MRP charge. However, this calculation does not align the MRP with the repayment of debt. Given the challenges the Council is facing over the next few years, a more prudent approach is being considered. For current and subsequent years, the Council will continue with the existing calculation methodology but may consider making an adjustment to reflect the timing of the external debt repayments. This adjustment will reflect a deferment of MRP against the calculation, resulting in short to medium term benefits to the General Fund and assist with easing current budgetary pressures, whilst ensuring that the provision remains prudent and compliant with the statutory guidance for MRP, and that adequate provision is made to ensure debt is repaid.

14.9 Each year, a new MRP statement will be presented.

Confident in Surrey's future: Financial Strategy 2016-21

SURREY

PURPOSE

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

VISION

ONE place
ONE budget
ONE team for Surrey

VALUES

Listen

Responsibility

Trust

Respect

Context

The Conservative government, elected for the five years up to 2020, has indicated it plans to continue the programme of deficit reduction for the lifetime of this Parliament. The themes that underpinned the Spending Review in November 2015 were: reform, devolution and efficiency. There is an increasing expectation for public bodies to work together in partnerships to improve the service to the public and provide better value for taxpayers and residents. The devolution agenda is increasing, passing greater powers and responsibilities to local authority areas. Meanwhile, the demand for council services, in particular in relation to support for vulnerable adults and children, continues to grow.

SECURING STEWARDSHIP:

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

ENSURING SUSTAINABILITY:

Long term planning that enables future needs and outcomes to be met.

ENABLING TRANSFORMATION:

A balanced approach that is future orientated, proactive and outcome focused.

Our strategic approach

1. Principles

We will achieve transformational change through continual improvement by:

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

2. Method

Our financial planning will support corporate strategic goals by:

- Developing outcome based budgeting that supports service strategies
- Continuing to plan for the long term to ensure services are fit for the future
- Proactively managing key risks facing the council
- Providing strong financial governance

3. Actions

Our financial management arrangements will provide:

- Strong financial leadership that ensures clear communication and engagement
- Transparent reporting, including the publication of a five-year Medium Term Financial Plan
- A council tax that meets demand pressures
- Flexibility to respond to pressures and challenges

Appendix 1

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Analysis of Provisional Government Grants 2016/17

Appendix 3

2016/17 Government Grants	2015/16 Budget £000s	2016/17 Provisional Settlement Confirmed Grant £000s	2016/17 Grant included in Budget £000's	2016/17 Anticipated Change from 2015/16 £000s	2016/17 Anticipated Change %
General (Non Targeted) Grants					
Revenue Support Grant	-109,800	-67,078	-67,078	42,722	-39%
Business Rates Top Up Grant	-58,915	-59,406	-59,406	-491	1%
Transitional Relief	0	0	-20,000	-20,000	0%
General (Non Targeted) Grants Total	**-168,715**	**-126,484**	**-146,484**	**22,231**	
Specific Grants					
S31 Grant Business Rates 2% Cap to 2015/16	-1,523	0	-1,523	0	0%
S31 Grant Business Rates Relief	-1,546	0	-1,728	-182	12%
Care Act Grant	-9,387	-2,563	-2,563	6,824	-73%
Care Act-Social Care in Prisons	-421	-421	-421	0	0%
Independent Living Fund Grant	-1,345	0	-1,791	-446	33%
New Homes Bonus	-5,194	-5,981	-5,981	-787	15%
Private Finance Initiative Grant	-11,044	0	-11,044	0	0%
Dedicated Schools Grant	-544,688	-533,097	-533,097	11,591	-2%
ACL, Skills Funding Agency	-2,407	0	-2,287	120	-5%
Area of ONB grant	-103	0	-103	0	0%
Asylum Seekers	-2,300	-3,300	-3,300	-1,000	43%
Better Care Fund (Care Act)	-25,000	-25,000	-25,000	0	0%
Bikeability	-233	0	-221	12	-5%
Bus operators' grant	-1,126	0	-1,069	57	-5%
Counter Fraud Fund	-360	0	0	360	-100%
16-19 Funding, Education Funding Agency	-14,700	0	-13,891	809	-6%
Education Services Grant	-11,110	-9,319	-9,319	1,791	-16%
Extended Rights to free travel	-135	0	-128	7	-5%
Sustainable Travel Grant	-64	0	-61	3	-5%

Analysis of Provisional Government Grants 2016/17

Appendix 3

Fire Pensions	-8,305	-9,396	-9,396	-1,091	13%
Fire Revenue Grant	-403	0	-382	21	-5%

2016/17 Government Grants	**2015/16 Budget £000s**	**2016/17 Confirmed Grant £000s**	**2016/17 Budget £000's**	**2016/17 Anticipated Grant Reduction £000s**	**2016/17 Anticipated Grant Reduction %**
Fire Transformation-Emergency Care Response	-262	0	0	262	-100%
Fire Transformation-Joint Transport	-756	0	0	756	-100%
Flood Water Management	-250	0	0	250	-100%
Local Reform and Community Voices DH	-458	0	-435	23	-5%
Local Sustainable Transport Fund-Sci Tech	-1,684	0	0	1,684	-100%
LSTF - Encouraging town centres/high streets	-230	0	0	230	-100%
Mental Health Deprivation of Liberty	-80	0	-80	0	0%
Music Grant, Surrey Arts	-1,073	0	-1,007	66	-6%
PE and Sport Premium	-2,396	0	-2,334	62	-3%
Police and Crime Panel	-64	0	-61	3	-5%
Public Health Grant inc 0 to 5	-35,505	0	-38,472	-2,967	8%
Pupil Premium	-18,382	0	-17,572	810	-4%
Registration service	-18	0	-17	1	-6%
Remand	-32	0	-32	0	0%
SEND implementation	-638	0	0	638	-100%
Transformation Challenge-Mental Health	-1,017	0	-500	517	-51%
Staying Put	-276	0	-276	0	0%
Woodland Officer	-5	0	-5	0	0%
Sustainable Development Fund	-30	0	-30	0	0%
SE Protected Landscape Grants	-36	0	-36	0	0%
Troubled Families	-350	0	-972	-622	178%
Universal infant free meals grant	-11,560	0	-11,470	90	-1%
Youth Justice Board	-797	0	-656	141	-18%
Specific Grants (Total)	**-717,293**	**-589,077**	**-697,260**	**20,033**	**-3%**
Grants Total	**-886,008**	**-715,561**	**-843,744**	**42,264**	**-5%**

Analysis of Provisional Government Grants 2016/17

Appendix 3

Analysis of Provisional Government Grants 2016/17

Appendix 3

Overall

Chief Executive: David McNulty

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
Business Rates	(44,100)	(45,468)	(48,300)	(49,389)	(50,503)	(50,503)
Council tax	(598,000)	(615,381)	(630,485)	(649,490)	(669,220)	(673,520)
Council tax - ASC support	0	(11,829)	(24,512)	(38,097)	(52,634)	(67,171)
Revenue Support Grant	(109,800)	(67,078)	(28,000)	(4,730)	0	0
Revenue Support Grant - Transitional relief	0	(20,000)	(37,000)	0	0	0
Business Rates Retention scheme - top up grant	(58,915)	(59,406)	(60,567)	(62,362)	(47,093)	(47,687)
UK Government grants	(713,826)	(697,260)	(699,756)	(696,199)	(692,776)	(691,863)
Other income [1]	(141,091)	(147,348)	(149,373)	(150,625)	(152,597)	(155,219)
Total funding	**(1,665,732)**	**(1,663,770)**	**(1,677,993)**	**(1,650,892)**	**(1,664,823)**	**(1,685,963)**
Expenditure:						
Expenditure	1,669,432	1,680,939	1,684,138	1,695,657	1,702,758	1,710,616
Total expenditure	**1,669,432**	**1,680,939**	**1,684,138**	**1,695,657**	**1,702,758**	**1,710,616**
Net budget [2]	**3,700**	**17,169**	**6,145**	**44,765**	**37,935**	**24,653**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Adult Social Care

Strategic Director: Helen Atkinson

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(1,097)	(580)	(80)	(80)	(80)	(80)
Other income [1]	(55,695)	(60,351)	(61,403)	(61,574)	(62,465)	(63,998)
Total funding	**(56,792)**	**(60,931)**	**(61,483)**	**(61,654)**	**(62,545)**	**(64,079)**
Expenditure:						
Expenditure	428,592	429,541	422,262	426,616	427,210	429,613
Total expenditure	**428,592**	**429,541**	**422,262**	**426,616**	**427,210**	**429,613**
Net budget[2]	**371,800**	**368,609**	**360,779**	**364,962**	**364,665**	**365,534**

Central Income & Expenditure

Director of Finance: Sheila Little

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
Business Rates	(44,100)	(45,468)	(48,300)	(49,389)	(50,503)	(50,503)
Council tax	(598,000)	(615,381)	(630,485)	(649,490)	(669,220)	(673,520)
Council tax - ASC support	0	(11,829)	(24,512)	(38,097)	(52,634)	(67,171)
Revenue Support Grant	(109,800)	(67,078)	(28,000)	(4,730)	0	0
Revenue Support Grant - Tra	0	(20,000)	(37,000)	0	0	0
Business Rates Retention scl	(58,915)	(59,406)	(60,567)	(62,362)	(47,093)	(47,687)
UK Government grants	(68,533)	(62,981)	(65,685)	(59,910)	(58,529)	(58,529)
Other income [1]						
Total funding	**(879,348)**	**(882,143)**	**(894,549)**	**(863,978)**	**(877,979)**	**(897,410)**
Expenditure:						
Expenditure	60,595	59,480	68,678	75,788	80,796	83,362
Total expenditure	**60,595**	**59,480**	**68,678**	**75,788**	**80,796**	**83,362**
Net budget[2]	**(818,753)**	**(822,663)**	**(825,871)**	**(788,190)**	**(797,183)**	**(814,048)**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Children, Schools and Families

Deputy Chief Executive: Julie Fisher

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
Dedicated Schools Grant	(117,812)	(119,101)	(119,101)	(119,101)	(119,101)	(119,101)
UK Government grants	(6,175)	(6,253)	(6,222)	(6,191)	(6,165)	(5,167)
Other income [1]	(40,464)	(40,922)	(41,135)	(41,366)	(41,598)	(41,829)
Total funding	**(164,451)**	**(166,276)**	**(166,458)**	**(166,658)**	**(166,864)**	**(166,097)**
Expenditure:						
Expenditure	342,862	363,934	359,292	357,522	355,308	352,721
Total expenditure	**342,862**	**363,934**	**359,292**	**357,522**	**355,308**	**352,721**
Net budget [2]	**178,411**	**197,658**	**192,834**	**190,864**	**188,444**	**186,624**

Communications

Head of Service : Louise Footner

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	(15)	(25)	(26)	(26)	(27)	(28)
Total funding	**(15)**	**(25)**	**(26)**	**(26)**	**(27)**	**(28)**
Expenditure:						
Expenditure	2,021	2,022	1,968	1,918	1,925	1,931
Total expenditure	**2,021**	**2,022**	**1,968**	**1,918**	**1,925**	**1,931**
Net budget [2]	**2,006**	**1,997**	**1,942**	**1,892**	**1,898**	**1,903**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Community Partnership & Safety

Head of Service : Jane Last

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	(160)	(162)	(163)	(165)	(166)	(168)
Total funding	**(160)**	**(162)**	**(163)**	**(165)**	**(166)**	**(168)**
Expenditure:						
Expenditure	2,968	2,995	2,999	3,006	3,011	3,016
Total expenditure	**2,968**	**2,995**	**2,999**	**3,006**	**3,011**	**3,016**
Net budget [2]	**2,808**	**2,833**	**2,836**	**2,841**	**2,845**	**2,848**

Coroner

Head of Service: Richard Travers

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
Other income [1]	0	0	0	0	0	0
Total funding	**0**	**0**	**0**	**0**	**0**	**0**
Expenditure:						
Expenditure	1,258	1,775	1,804	1,836	1,868	1,902
Total expenditure	**1,258**	**1,775**	**1,804**	**1,836**	**1,868**	**1,902**
Net budget [2]	**1,258**	**1,775**	**1,804**	**1,836**	**1,868**	**1,902**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Cultural Services

Head of Service :Peter Milton

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(3,498)	(3,311)	(3,185)	(3,157)	(3,049)	(3,049)
Other income [1]	(9,410)	(9,441)	(9,589)	(9,739)	(9,893)	(10,043)
Total funding	**(12,908)**	**(12,752)**	**(12,774)**	**(12,896)**	**(12,942)**	**(13,092)**
Expenditure:						
Expenditure	22,905	22,308	22,105	22,083	22,159	22,341
Total expenditure	**22,905**	**22,308**	**22,105**	**22,083**	**22,159**	**22,341**
Net budget [2]	**9,997**	**9,556**	**9,331**	**9,187**	**9,217**	**9,249**

C&C Directorate Support

Head of Service: Mark Irons

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	(133)	(134)	(135)	(137)	(138)	(139)
Total funding	**(133)**	**(134)**	**(135)**	**(137)**	**(138)**	**(139)**
Expenditure:						
Expenditure	1,120	1,053	1,054	1,057	1,057	1,059
Total expenditure	**1,120**	**1,053**	**1,054**	**1,057**	**1,057**	**1,059**
Net budget [2]	**987**	**919**	**919**	**920**	**919**	**920**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Delegated Schools

Deputy Chief Executive: Julie Fisher

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
Dedicated Schools grant	(423,359)	(410,479)	(413,379)	(413,379)	(413,379)	(413,379)
UK Government grants	(45,679)	(44,283)	(44,102)	(44,102)	(44,102)	(44,102)
Other income [1]	0	0	0	0	0	0
Total funding	**(469,038)**	**(454,762)**	**(457,481)**	**(457,481)**	**(457,481)**	**(457,481)**
Expenditure:						
School expenditure	469,038	454,762	457,481	457,481	457,481	457,481
Total expenditure	**469,038**	**454,762**	**457,481**	**457,481**	**457,481**	**457,481**
Net budget [2]	**0**	**0**	**0**	**0**	**0**	**0**

Emergency Management

Head of Service :Ian Good

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	(22)	(42)	(63)	(84)	(106)	(128)
Total funding	**(22)**	**(42)**	**(63)**	**(84)**	**(106)**	**(128)**
Expenditure:						
Expenditure	575	544	553	562	571	581
Total expenditure	**575**	**544**	**553**	**562**	**571**	**581**
Net budget [2]	**553**	**502**	**490**	**478**	**465**	**453**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Environment & Planning

Asst Director: Ian Boast

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(3,510)	(1,525)	(1,515)	(1,514)	(1,506)	(1,498)
Other income [1]	(5,002)	(5,117)	(5,236)	(5,358)	(5,483)	(5,612)
Total funding	**(8,512)**	**(6,642)**	**(6,751)**	**(6,872)**	**(6,989)**	**(7,110)**
Expenditure:						
Expenditure	88,176	86,363	87,708	90,614	95,136	97,197
Total expenditure	**88,176**	**86,363**	**87,708**	**90,614**	**95,136**	**97,197**
Net budget [2]	**79,664**	**79,721**	**80,957**	**83,742**	**88,147**	**90,087**

Fire & Rescue Service

Chief Fire Officer: Russell Pearson

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(9,726)	(9,778)	(8,520)	(11,823)	(10,959)	(11,065)
Fire Pension Employee Contribu	(2,321)	(2,604)	(2,630)	(2,657)	(2,683)	(2,710)
Other income [1]	(1,015)	(1,189)	(1,184)	(1,182)	(1,195)	(1,206)
Total funding	**(13,062)**	**(13,571)**	**(12,334)**	**(15,662)**	**(14,837)**	**(14,981)**
Expenditure:						
Expenditure	47,945	46,782	45,466	47,616	46,011	46,049
Total expenditure	**47,945**	**46,782**	**45,466**	**47,616**	**46,011**	**46,049**
Net budget [2]	**34,883**	**33,211**	**33,132**	**31,954**	**31,174**	**31,068**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Highways & Transport

Asst Director: Ian Boast

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(250)	0	0	0	0	0
Other income [1]	(7,241)	(7,495)	(7,679)	(7,866)	(8,017)	(8,171)
Total funding	**(7,491)**	**(7,495)**	**(7,679)**	**(7,866)**	**(8,017)**	**(8,171)**
Expenditure:						
Expenditure	51,874	51,870	53,406	54,151	54,953	55,810
Total expenditure	**51,874**	**51,870**	**53,406**	**54,151**	**54,953**	**55,810**
Net budget [2]	**44,383**	**44,375**	**45,727**	**46,285**	**46,936**	**47,639**

Legal and Democratic Services

Director of Legal & Democratic Services: Ann Charlton

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(64)	(61)	(59)	(58)	(57)	(56)
Other income [1]	(479)	(488)	(498)	(508)	(518)	(528)
Total funding	**(543)**	**(549)**	**(557)**	**(566)**	**(575)**	**(584)**
Expenditure:						
Expenditure	8,908	8,964	10,325	9,019	9,046	9,073
Total expenditure	**8,908**	**8,964**	**10,325**	**9,019**	**9,046**	**9,073**
Net budget [2]	**8,365**	**8,415**	**9,768**	**8,453**	**8,471**	**8,489**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

ORBIS / Business Services

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	(17,258)	(17,392)	(17,605)	(17,907)	(18,237)	(18,572)
Total funding	**(17,258)**	**(17,392)**	**(17,605)**	**(17,907)**	**(18,237)**	**(18,572)**
Expenditure:						
Expenditure	98,244	101,423	102,920	101,278	102,123	104,361
Total expenditure	**98,244**	**101,423**	**102,920**	**101,278**	**102,123**	**104,361**
Net budget [2]	**80,986**	**84,031**	**85,315**	**83,371**	**83,886**	**85,789**

Public Health

Asst Director: Ruth Hutchinson

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(33,305)	(38,472)	(37,489)	(36,466)	(35,443)	(35,443)
Other income [1]	0	0	0	0	0	0
Total funding	**(33,305)**	**(38,472)**	**(37,489)**	**(36,466)**	**(35,443)**	**(35,443)**
Expenditure:						
Expenditure	33,629	38,796	37,813	36,790	35,767	35,767
Total expenditure	**33,629**	**38,796**	**37,813**	**36,790**	**35,767**	**35,767**
Net budget [2]	**324**	**324**	**324**	**324**	**324**	**324**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Strategic Leadership

Chief Executive: David McNulty

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	0	0	0	0	0	0
Total funding	**0**	**0**	**0**	**0**	**0**	**0**
Expenditure:						
Expenditure	446	1,009	1,025	1,041	1,058	1,075
Total expenditure	**446**	**1,009**	**1,025**	**1,041**	**1,058**	**1,075**
Net budget [2]	**446**	**1,009**	**1,025**	**1,041**	**1,058**	**1,075**

Strategy & Performance

Head of Service :Liz Lawrence

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	(818)	(435)	(419)	(417)	(405)	(393)
Other income [1]	(282)	(317)	(322)	(328)	(333)	(338)
Total funding	**(1,100)**	**(752)**	**(741)**	**(745)**	**(738)**	**(731)**
Expenditure:						
Expenditure	4,618	3,643	3,622	3,617	3,601	3,586
Total expenditure	**4,618**	**3,643**	**3,622**	**3,617**	**3,601**	**3,586**
Net budget [2]	**3,518**	**2,891**	**2,881**	**2,872**	**2,863**	**2,855**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

Trading Standards

Head of Service:Steve Ruddy

Draft Income & Expenditure revenue budget

	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Funding:						
UK Government grants	0	0	0	0	0	0
Other income [1]	(1,594)	(1,669)	(1,705)	(1,728)	(1,739)	(1,749)
Total funding	**(1,594)**	**(1,669)**	**(1,705)**	**(1,728)**	**(1,739)**	**(1,749)**
Expenditure:						
Expenditure	3,657	3,675	3,657	3,661	3,677	3,691
Total expenditure	**3,657**	**3,675**	**3,657**	**3,661**	**3,677**	**3,691**
Net budget [2]	**2,063**	**2,006**	**1,952**	**1,933**	**1,938**	**1,942**

1 Other income includes grants & contracts with other organisations, fees & charges, income from property & investments, contracts and reimbursement and recovery of costs

2 Net budget supported by Council Tax, general government grants and reserves

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SURREY
COUNTY COUNCIL

Council Overview Board
28 January 2016

ORBIS PUBLIC LAW

Purpose of the report: To scrutinise the business case for a shared legal service between Brighton & Hove City Council, East Sussex County Council, Surrey County Council and West Sussex County Council.

Introduction:

On 2 February 2016, the Cabinet will make a decision on whether to approve the creation of a shared legal service between Brighton & Hove City Council, East Sussex County Council, Surrey County Council and West Sussex County Council.

Within this item, the following papers are provided:

- Cabinet report of Denise Le Gal, Cabinet Member for Business Services and Resident Experience: **Orbis Public Law: Establishment of Shared Legal Service**
- Orbis Public Law draft business case
- Orbis Public Law Joint Committee terms of reference

Ahead of a decision by Cabinet, the Council Overview Board are asked to review and scrutinize the attached papers.

Recommendations

The Committee is asked to consider whether it wishes to make any recommendations regarding the Orbis Public Law to the Cabinet.

Report contact: Ann Charlton, Director of Legal, Democratic & Cultural Services

Contact details:
Ann.Charlton@surreycc.gov.uk, 020 8541 9088

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Section 151 Finance cleared on:	**xx/xx/15**
Legal cleared on	**xx/xx/15**
Strategic Director cleared on:	**xx/xx/15**
Cabinet Member cleared on:	**xx/xx/15**

SURREY COUNTY COUNCIL

CABINET

DATE: **2 FEBRUARY 2016**

REPORT OF: **MS DENISE LE GAL, CABINET MEMBER FOR BUSINESS SERVICES AND RESIDENT EXPERIENCE**

LEAD OFFICER: **ANN CHARLTON DIRECTOR OF LEGAL DEMOCRATIC AND CULTURAL SERVICE**

SUBJECT: **ORBIS PUBLIC LAW: ESTABLISHMENT OF SHARED LEGAL SERVICE**

SUMMARY OF ISSUE:

To seek approval for the creation of a shared legal service between Brighton & Hove City Council, East Sussex County Council, Surrey County Council and West Sussex County Council.

RECOMMENDATIONS:

1. It is recommended that Cabinet:

   1) Approves the creation of a Legal Services partnership arrangement with Brighton & Hove City Council and East and West Sussex County Councils to be known as Orbis Public Law, with effect from 1 April 2016.

   2) Agrees to the establishment of a Joint Committee as the governing body for Orbis Public Law to oversee the discharge of the Council's Legal Services function.

   3) Approves the attached Terms of Reference for the Joint Committee and the appointment of the Cabinet Member for Business Services and Resident Experience to that Committee.

   4) Agrees that officers develop a Business Case for a Limited Company (which would be jointly owned by the four authorities) as the vehicle for an Alternative Business Structure (ABS), in a form approved by the Solicitors' Regulation Authority and if appropriate present this to Cabinet for approval in due course

   5) Delegates authority to the Director of Legal, Democratic and Cultural Services, in consultation with the Leader and the Cabinet Member for Business Services and Resident Experience to take any action necessary or incidental to the implementation of the above including an Inter Authority Agreement between the partner authorities.

REASON FOR RECOMMENDATIONS:

2. Developing a single shared service will benefit residents and contribute to corporate priorities by enabling a reduction in the overall cost of legal services through economies of scale and reducing duplication. At the same time it will increase resilience and flexibility, allowing the partners to reduce reliance on external suppliers and to develop areas of excellence and expertise.

3. The creation of an ABS would widen opportunities to generate more external income to further reduce the costs of services to partner councils.

DETAILS:

4. SCC has a long-standing strategy which recognises that developing partnerships is key to delivering benefits to residents, ensuring resilience and achieving efficiencies. In March 2015 Cabinet agreed to the creation of a business services partnership with East Sussex County Council (ESCC), bringing together a number of business functions under the governance of a Joint Committee. Pursuant to that decision a proposal for a legal services partnership under the umbrella of the wider Orbis partnership was developed between the two councils.

5. In the autumn of 2015 Brighton & Hove City Council (BHCC), and West Sussex County Council (WSCC) joined the discussions and the respective legal teams have worked together to develop a proposal for a single legal service shared by this wider group of authorities and available to the wider public sector. The business case which sets out the an options analysis and further detail of the proposal is attached as Appendix 1 to this report

6. SCC's Legal Services has an annual budget of £3.5 million and generates income of about £0.3million. The net budget for the four constituent authorities is £9.4m; with an additional spend of £2 million on advocacy and specialist advice**.** Together the legal services bring in around £1.5million of external income each year. The combined workforce across the prospective partnership is an estimated 230 staff including 130 solicitors.

7. All four authorities are facing increasing demand and financial challenges which frequently require specialist legal support to address. Fewer resources mean that it is harder to recruit and retain lawyers and specialist staff. Individually each authority has limited resilience. Each of the legal teams carries out some external work for other public bodies. This brings in extra revenue and helps to keep the cost of the service down for Councils. However, opportunities are hard to maximise when resources are stretched.

8. By working in partnership as part of Orbis Public Law and delivering its vision of "a single, resilient, sustainable cost effective legal service with a public service ethos with an ability and ambition to grow", the Council would have access to a sustainable service, providing support to public facing services and to the wider Orbis business services partnership, together contributing to the Council's strategic goals of wellbeing, economic prosperity and resident experience.

9. By working in partnership the four Councils will be able to realise savings in excess of those achievable in isolation, whilst still delivering a good service to each authority. Savings would be delivered through economies of scale, sharing of resources (such as a Law library), reducing external spend on advocacy and specialist advice, streamlining management and right-sizing the team. Set up costs for the shared service will be met from existing budgets.

10. Orbis Public Law aims to achieve a saving of 10% of net operating costs of each of the constituent councils by 2019/20. The business case details how this might be achieved through increased income and streamlining senior management across the four councils. Detailed figures will be examined as part of a due diligence exercise and the financial arrangements agreed before entering into the partnership. Decisions required in relation to investment, cost apportionment and savings, will build on the principles established by the wider Orbis partnership and will be set out in an Inter Authority Agreement which will underpin the arrangement between the Councils.

11. Orbis Public Law would mirror the governance arrangements of the wider Orbis partnership and operate a shared service under a Joint Committee. Members would still have control over arrangements and staff would remain employed by their existing Council. Some changes would be necessary to accommodate those additional partners which are not part of the business service partnership. Proposed terms of reference are attached as Appendix 2

12. A key part of the proposal is the ability to trade and generate external income. All the councils in the partnership currently generate some income from legal work, but there are limitations on this because, unlike other services within the wider Orbis partnership, the provision of legal services is restricted and regulated by law. Some legal services may only be provided by solicitors, and solicitors employed outside of a legal practice are subject to restrictions relating to the people and organisations to which they may offer those services . Since the introduction of the Legal Services Act 2007 it has been possible for law firms to be owned by non-lawyers and non-legal businesses; these are known as 'Alternative Business Structures' or 'ABS'. An ABS is a limited company subject to normal company regulations with an additional requirement that they are licensed and regulated by the Solicitors' Regulation Authority to conduct legal business. It is proposed to develop a business case for an ABS to work alongside Orbis Public Law through which legal services could be provided for public bodies beyond the core service provided to the councils.

CONSULTATION:

13. Consultation has taken place with the relevant members, chief executives and leadership teams of each council. An SCC staff forum has met on a regular basis throughout the process and has been able to question senior legal services managers about the proposal. A number of joint sessions with ESCC and BCCC staff have been held and specialist joint change management sessions have been attended by a range of staff. UNISON representatives have been informed and consulted.

RISK MANAGEMENT AND IMPLICATIONS:

14. Creating a partnership by simultaneously bringing together four Legal Services of this size is unprecedented. Establishing the partnership and implementing the organisational, process and technology changes required to deliver the Vision and achieve target savings may impact on the provision of services to each Council – both in terms of supporting ‘Business as Usual’ activities and providing strategic advisory support for wider transformational change within each Council. The partnership will work with each Council to develop a high-level timetable of change to minimise any adverse impact. The partners have appointed a project manager to ensure that initial changes are made in a coordinated and timely way.

15. To fully deliver the benefits (including financial benefits) of a single integrated service, each partner legal services must be on the same IT operating platform. Any delay in integrating IT will result in consequent delay to the integration of the operational management of the shared service and may put the achievement of saving targets at risk. In preparation for the partnership ESCC legal services have already adopted the Norwel case management and time recording system used by SCC legal. During 2016 SCC legal services needs to migrate to a Microsoft product for email and calendar so that the case management system (which relies on email) can be used in the same way by all partners. BHCC and WSCC will need to migrate to the same systems. The project has an IT work stream to manage this transition

16. The organisational, process and technology changes required, together with concerns about job security as changes to management are made, may have an adverse impact on staff morale and increase turnover. The partners will ensure that communication, consultation and engagement remain a priority for the programme. Staff will be involved in developing the organisational design which will help to emphasise that the single service will lead to enhanced opportunities for staff and a strengthening of internal skills

17. There is a risk that demand will increase as other service transform and other unforeseen significant changes may impacts upon the services that are required to be delivered by the single legal service. Governance and funding arrangements will need to recognise that this may the case.

Financial and Value for Money Implications

18. The Business Case appended to this report is built upon the proposed partnership arrangement delivering cost savings to the councils in excess of the savings achievable in isolation. It anticipated that these will deliver nearly £1m million per annum by the end of the first three years of partnership working. The details of the financial and practical arrangements will be addressed as part of the due diligence exercise before entering into an the inter-authority agreement

19. It is anticipated that any set up costs for the initial partnership can be met within existing budgets. A further costed business case will be developed in connection with the ABS proposal.

Section 151 Officer Commentary

20. The Section 151 Officer confirms that the proposed partnership will be based upon the financial and governance principles established by the Orbis partnership for business services. The Business Case demonstrates that the proposed partnership relationship will deliver cost savings to the partners by reducing reliance on external providers, reducing management and developing sources of income. These savings will rely upon investment in technology in order for the partners to work together in a seamless manner. For SCC this will mean reliance upon planned changes to the underlying email system, and as such this is already provided in existing budgets.

21. The activities of the partnership will be responsive to each council's strategies and priorities, and to structural changes including those driven by legislative requirements. The financial arrangements will ensure that the methodology adopted to determine the appropriate apportionment of costs will need to be fair and transparent; take into account changes in demand and will require the development of management information to support the mechanism

Legal Implications – Monitoring Officer

22. The proposals in the report are within the legal powers of the Council and the joint committee model builds upon the existing governance arrangements of the wider Orbis partnership. The Council is also empowered to set up and jointly own a company and an ABS may be necessary in order to comply with legal requirements and to enable Orbis Public Law to continue to provide legal advice and representation to public bodies across the larger geographical area.

Equalities and Diversity

23. There are no identified equalities implications from the creation of the proposed partnership and extended Joint Committee. There may however, be equality implications of decisions that the Joint Committee as more detailed organisational changes are proposed and implemented.

24. The potential implications for the following council priorities and policy areas have been considered:

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	A strengthened legal services will be able to provide sustainable support to Children Schools and Families and Corporate Parenting Board.
Safeguarding responsibilities for vulnerable children and adults	A strengthened legal services will be able to provide sustainable support both to Children Schools and Families and to Adult Social Care and to Safeguarding Boards.
Public Health	No significant implications arising from this report
Climate change	No significant implications arising from this report*)*
Carbon emissions	No significant implications arising from this report

WHAT HAPPENS NEXT:

25. Subject to approval from the Cabinet detailed governance arrangements will be agreed. The partnership will start to operate with effect from 1 April 2016 and a joint management structure will be developed

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Contact Officer:
Ann Charlton: Director of Legal, Democratic and Cultural Services
Tel: 02085419001

Consulted:
The Leader and Cabinet portfolio holder, the leadership teams, senior managers and staff at the partner authorities

Annexes:

Appendix 1 – Orbis Public Law Business Case
Appendix 2 – Joint Committee terms of reference

Sources/background papers:
24 February 2015 report to Cabinet: Surrey County Council and East Sussex County Council partnership

Business case for the formation of a single Legal Service for Brighton & Hove City Council, East Sussex County Council, Surrey County Council and West Sussex County Council

1. Executive summary

1.1 Brighton & Hove City Council (BHCC), East Sussex County Council (ESCC), Surrey County Council (SCC), and West Sussex County Council (WSCC) are working together to establish a single Legal Service to provide legal services to the four constituent authorities and the wider public sector. The proposed single Legal Service builds on the good work of the Orbis business partnership between ESCC and SCC, which was formalised in April 2015. Plans have also been shaped by preliminary work between ESCC and SCC Legal Service teams to share knowledge and expertise.

1.2 It is proposed to establish a separate Legal Service under the Orbis umbrella which will be known and branded as 'Orbis Public Law' with a Vision to be:

A single, resilient, sustainable cost effective legal service with a public service ethos with an ability and ambition to grow

1.3 The objectives of the proposed single service will be to:

- enhance the quality of service to our current customers;
- increase resilience and flexibility;
- reduce the overall cost of the service through economies of scale;
- create a sustainable model with the ability to grow and develop;
- increase efficiency and reduce duplication;
- establish areas of excellence;
- increase staff development opportunities;
- recruit and retain staff more easily; and
- provide opportunities to generate more external income.

1.4 The single Legal Service will be created by combining the resources of all four Legal Service teams. This would give a set-up operational budget of £10.7m[1] and a total workforce of 232 staff including 130 solicitors. A practice on this scale would become a public service market leader and create a critical mass of expertise. Importantly, the single practice would be underpinned by a public service ethos with the ability to provide efficiencies to the constituent Councils and the wider public sector, thereby playing its part to help protect front line services.

1.5 This report considers the advantages and disadvantages of four different operating models and concludes that a Joint Committee for the single shared legal service is the preferred option. This will ensure all partners have equal control and participation. It also mirrors the wider Orbis proposals which some Members and officers are familiar with.

1.6 Alongside this, we propose developing and processing an application for Orbis Public law Ltd as an Alternative Business Structure (ABS). The ABS would be a separate legal entity regulated by the Solicitors' Regulation Authority (SRA) which would provide a vehicle to trade more widely than existing regulatory powers allow and generate income to enable the single service to reduce reliance on budgets from the constituent Councils, ultimately reducing the cost of legal services they require.

1.7 This paper sets out the business case for a single Legal Service and includes:

- the reasons for proposing a single service;
- background information;
- the benefits for each partner authority;
- options for operating models;
- governance arrangements;
- design principles; and
- programme management.

1.8 This business case needs to be considered and approved by the Cabinets or relevant committees of each of the four constituent Councils. If approval is given to the broad principles, it is recommended that:

- a Joint Committee is set up for Orbis Public Law; and

a) a business case is developed for Orbis Public Law Ltd as an ABS to work alongside the Joint Committee model.

[1] Excluding spend on external advocacy and specialist advice

2. Why are we doing this?

2.1 There is a compelling need for Councils to explore more radical options for delivering services. Options may include greater partnership working (with both the private and public sector), shared services and alternative business structures. Each of the four Council's legal teams face similar issues. Increasing financial challenges and fewer resources means that it is harder to provide a quality, and often specialised, legal service that Councils rely upon. Individually, each Council struggles to recruit and retain legal staff. This is a particular issue in key specialist areas, such as commercial areas of property and contracts.

2.2 There has been an increase in demand for legal support to enable our Councils to be more creative in facilitating procurement and contractual arrangements on the terms that are the most advantageous to each Council. This requires specialist knowledge and experience which is not always readily available in house, and has to be procured externally. This has cost implications for each Council and is frequently a budget pressure.

2.3 Legal Services have considerable experience of always generating income, however income strategies have not always been well developed. Income arises from a range of sources including s106 agreements, legal fees, third party charges for agreements, ad hoc advice arrangements to other public sector organisations and more formal arrangements. With greater pressures on budgets authorities legal services are looking at ways of maximising income to ease budget pressures. However, for a sole Council to generate income, on a material scale, without detriment to its in-house provision, would require significant investment in new capacity to be able to sell in the market.

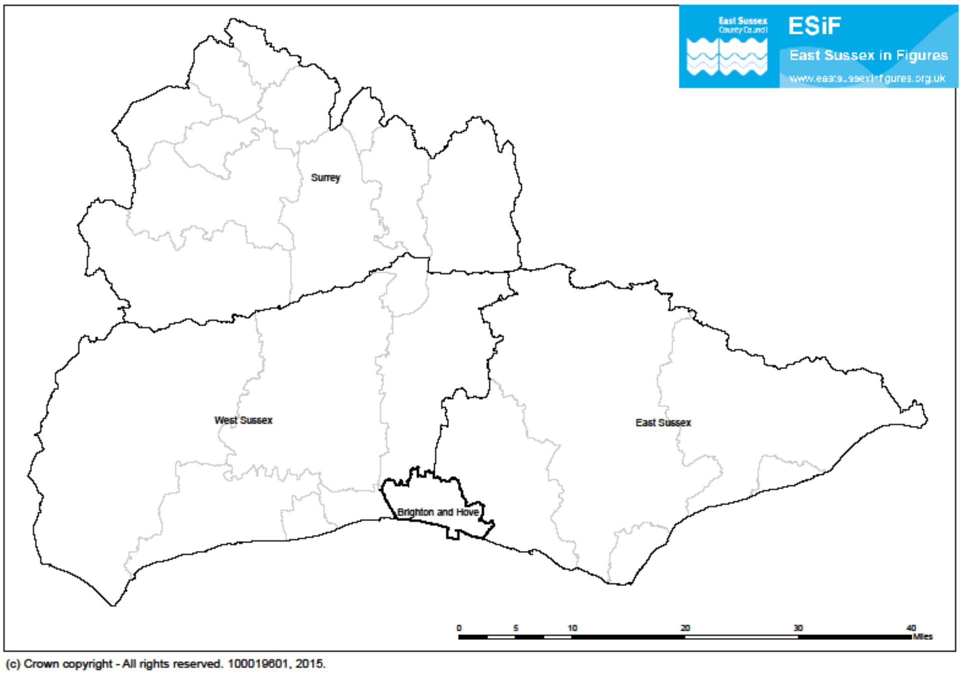
3. Background information

3.1 BHCC, ESCC, SCC and WSCC are all forward thinking and innovative Councils with a clear ambition to improve efficiency and deliver good quality, affordable services for all our residents. Each authority has a strong track record of delivering through partnership with others. The Orbis partnership between ESCC and SCC has already established an effective working relationship across transactional and professional business services. Orbis was formalised April 2015 and incorporates Human Resources and organisational development, Property Services, Technology and Information, Procurement, Finance and business operations. The partnership is governed by a Joint Committee. In December 2015, BHCC decided to become the third Orbis partner for all these services, subject to due diligence.

3.2 The Orbis partnership, and its expansion to include BHCC, provides a strong framework from which Orbis Public Law can benefit. There has always been a good relationship between the four legal teams. Closer working between ESCC and SCC over the last three years has led to a strengthening of the link between the two legal teams. Relationships have always been good with the BHCC legal team and its inclusion in the wider Orbis makes it a natural partner for Orbis Public law.

3.3 The addition of WSCC, as a fourth partner, is a further reasoned progression. ESCC, SCC and WSCC are three major partners in 'the Three Southern Counties' (3SC) devolution bid which was submitted to the Local Government Secretary in September 2015. The bid includes a strong commitment to build and develop opportunities for service transformation and this proposal contributes to the delivery of that ambition. This clear commitment to work together supports the inclusion of WSCC into a wider shared legal service model. Bringing WSCC in Orbis Public Law also makes sense geographically providing a significant area within South East England in which Orbis Public Law can serve the public through its Councils and potentially reach out for additional work (Figure 1). The range of public service partners that already work with the four local authorities will provide a core group of potential beneficiaries of a dedicated public sector legal service.

Figure 1 Extent of Orbis Public Law



3.4 Legal Services currently form part of each organisation's corporate governance structure. They have a key role in terms of service delivery: keeping vulnerable people safe, providing support to ensure the delivery of efficient and effective front line services and ensuring robust and appropriate corporate governance at a time of change and great challenge. The teams also deliver services to other public service organisations, including schools, the police and fire and rescue services.

3.5 Legal services manage a significant operational budget on behalf of each Council with a total operational budget of £10.7m per annum (excluding spend on external advocacy and specialist advice). As with all service areas within the four Councils, each Legal Services team has been challenged to reduce the costs of delivery; savings have already been taken by each Council from their 2015/16 budgets. The net budget to deliver core services has yet to be confirmed through a due diligence process; more work will be required in this area and to identify what the core service will look like.

Table 1 Legal Services indicative budgets 2016/17

For consistency, each authority's spend on advocacy and specialist advice has been excluded. The net revenue budget is net of external income only.

	Gross Revenue budget £	Net revenue budget £
BHCC	2,480,000	2,127,000
ESCC	1,983,000	1,602,000
SCC	3,558,000	3,231,000
WSCC	2,647,000	2,276,000
Total	**10,668,000**	**9,236,000**

Notes:

BHCC data is 2015/16 forecast outturn.

SCC – excludes Information Governance team

WSCC data based on 2016/17 staffing and 2015/16 June forecast report for non-staffing. The budget does not include year end adjustments such as for law library, case management systems etc. Staffing costs may be understated because some support is provided from a central Capital contract and the income figure of £370k may include income which does not relate to Legal Services.

3.6 In addition, the four authorities spend around £2m per annum on external legal advice. Legal Services hold the budget for this specialist support at thee of the Councils.

3.7 Each Legal Services team has a broadly comparable structure of different practice areas including social care, litigation, property, employment, highways and planning. The teams are led by a Head of Service, Director or Chief Officer who fulfils the authority's Monitoring Officer role. The range of work carried out by each Legal Service team is similar although BHCC is also responsible for the full range of District and Borough functions. A full list is shown at Appendix 1.

3.8 In April 2016 the combined service will employ an estimated 232 staff at a total budgeted cost for 2016/17 of £9.9m (Table 2).

Table 2 Estimated staff numbers 1 April 2016 (fte) and 2016/17 full year cost

	Solicitors fte	Paralegals fte	Support staff fte	Total staff fte	Total estimated staff cost 2016/17 £
BHCC	30.9	8.9	5.0	44.8	2,178,000
ESCC	17.2	16.8	12.0	46.0	1,773,000
SCC	44.8	12.0	15.4	72.2	3,371,000
WSCC	37.6	24.6	8.0	69.2	2,561,000
Total	**130.5**	**62.3**	**40.4**	**232.2**	**9,883,000**

Notes:

Excludes Head of Service/Directors/Chief Officer

Paralegals: Legal Officers and Assistants: Support Staff: Practice Manager, admin assts and secretarial support

ESCC - budget includes £170k for agency staff

WSCC – additional support staff are supplied through the Council's Capita contract (these are not included in the Table)

3.9 The four Legal Services teams currently generate around £1.5m in external income by providing services to other public sector organisations. The main areas are:

- Schools and academies[2]
- S106 agreement work
- Other local authorities and public bodies
- Trusts and minor authorities
- Grant lease and license fees
- Recovery of court costs
- Commercial projects

4. Benefits of a Single Service

4.1 Each of the four Councils recognises that a single service solution would provide an opportunity to address the main challenges they face. Establishing a single service across three County Councils and one unitary authority provides an opportunity to create a legal service collaboration on a significant scale with an ability to influence the public sector legal services market. Importantly the service will have a public sector ethos with the ability to provide efficiencies to the constituent councils and the wider public sector, thereby playing its part to help protect front line services.

4.2 The benefits of the proposed single service will be to:

a) Increase resilience and flexibility

A larger pool of staff will provide capacity to meet workflow demands across the four authorities. The shared service will benefit from a greater combined knowledge and an increased pool of specialists and will be better placed to respond to peaks and troughs in workload. Resources would be deployed in the optimal way, reducing the need to buy in more expensive external options whilst not compromising the quality and level of service currently enjoyed by the respective authorities.

b) Reduce the overall cost of legal support

The single service would aim to achieve a 10% reduction in costs over three years from 2016/17. This would be achieved by:

i. generating more external income

Increased capacity and expertise would provide opportunities to market and sell services to other public bodies. This would generate additional income and reduce the net cost of the single service.

[2] Not all external

ii. reducing external spend on advocacy and specialist advice

The development of practice areas, greater capacity and increased flexibility, will reduce dependency on external providers. A number of the partners have the same court catchment areas; increased cooperation will enable more in house coverage and a consequential reduction in spend on external counsel.

iii. Streamlining management and right-sizing the team

The larger single service will provide opportunities to restructure management roles and responsibilities, reduce staff through natural wastage and recruit new legal staff at a level appropriate to the skills required.

iv. Increasing efficiency and reducing duplication.

Costs will be further reduced through economies of scale. For example:

- the service will only require one law library and one case management system.
- training costs per head could be reduced through greater volume.
- the service would benefit from increased purchasing power.
- time would be saved by providing single advice on issues common to all the Councils.

c) Establish areas of excellence

Consistent demand across the Councils in specialist areas of practice, where demand from individual councils previously has been sporadic, will justify investment in training lawyers in those practice areas. This will:

i. create centres of excellence;
ii. broaden capacity;
iii. reduce the need for external spend;
iv. enhance the ability to provide a service to other public sector organisations; and
v. provide opportunities for staff development.

d) Increase staff development opportunities

A bigger service will enable staff to gain expertise in a greater range of practice areas and with a larger range of customers. This will enable staff to develop and progress, ensuring better retention of ambitious and able people.

e) Recruit and retain staff more easily

A larger and more diverse client base, and the ability to undertake a greater range of work for a leading market player, will be attractive to candidates. The scale of the service mean there will be more opportunities for staff to develop and progress in their careers. Jointly, ESCC and SCC have already recruited four new trainees.

f) Create a sustainable model with the ability to grow and develop

Greater resilience, the creation of centres of excellence, the ability to invest and market presence will enable the provision of a comprehensive service to a range of public service organisations. Over time, the single service has potential to be a public service market leader.

5. Vision and ambition

5.1 Our vision is for:

A single, resilient, sustainable cost effective legal service with a public service ethos with an ability and ambition to grow

5.2 Our ambition is to:

- deliver a 10% saving over three years for each of the four constituent authorities;
- create a resilient, flexible single Legal Services with a critical mass of expertise; and
- provide a quality, cost effective service for our customers.

5.3 It is a fundamental premise that we will maintain the high standard of service that is currently provided to our own Councils. A shared service, on the scale proposed, will be well placed to provide a comprehensive, specialist and cost effective service to other public and third sector partners. This will give them greater resilience, provide them with additional expertise and reduce their cost of legal services while generating income for the shared service and reducing the net cost to the constituent Councils.

5.4 Our vision and ambition for the Service is underpinned by eight design principles:

- deliver against savings targets for constituent authorities
- integrate the service – one legal practice, multiple locations
- focus on enabling and adding value to the customer
- share knowledge and reduce duplication
- future proof the Partnership
- maximise organisational self-sufficiency and resilience
- develop and operate with a commercial mind-set
- exploit technology to improve performance and manage caseloads

6. The future for Legal Services

6.1 In order to create the way forward described in this plan, we have considered a range of potential options. These are described below.

a) Maintain current arrangement

This would mean retaining the current approach to the delivery of legal services in each of the four Councils. Some co-operation and sharing is already happening between ESCC and SCC and this would continue and grow across all partners. However, there are risks to resilience in each of the services and additional pressures already mean that locums or agency staff are being used, or work is being put out to external providers with consequent cost implications.

Each Legal Service has delivered its own savings and efficiency improvements over a period of years and it is increasingly difficult to find additional savings without potentially weakening the service. The ability to make efficiencies through economies of scale are limited. Services do not have spare capacity. To enable them to generate income, and with increasing pressure on budgets it is unlikely that the status quo can be maintained. Based on what has been achieved to date between ESCC and SCC, this option would not fully exploit the greater potential that four Councils have working together.

b) Outsource the service

Each Council could outsource its legal support to a commercial provider or (more likely) to a number of providers, possibly though a managed service contract. This would mean that Councils only pay for the service they need and there would be no built in staff costs. Additional benefits, and a better overall price, may be possible if all four Councils outsourced their legal services.

However, there is not a developed market of providers for the full range of services local authorities require and it is likely that multiple contracts would be needed. An EU procurement process would be required to demonstrate value for money and a reduced cost. Procurement would involve a substantial piece of work over a period of months, delaying any potential benefits and would be likely to involve a TUPE transfer of staff to a new provider(s). It is unlikely that external providers would agree a fixed price or fees because Legal Services are primarily demand led and both volumes and complexity are notoriously difficult to predict. Hourly rates are the preferred charging model for most legal service providers

Councils would need to retain a Monitoring Officer who would be the first call for advice and support, and the influence and support that in-house legal team provides to each authority should not under-estimated. This often extends well beyond purely legal advice, for example in terms of policy and softer decision making.

Previous tendering exercises across all participating Councils that have consistently demonstrated that the cost of external providers is greater than in-house provision. Outsourcing the service would not generate income which would help reduce costs further.

7. Options for a shared legal service

7.1 Local Authorities working together is a well established approach and will enable us to achieve efficiency gains whilst continuing to provide the high level of service that we currently deliver to our Councils and other partners. A shared service will achieve the Vision and objectives that have been set out earlier, and will result in an overall reduction in the cost of the service. This is the preferred model.

7.2 A number of structures could be used to deliver a shared legal service. Local authorities are able to discharge their functions through a committee, a sub-committee, an officer or by any other local authority (Part VI, Local Government Act 1972). A shared legal service could therefore be managed in the following ways:

Option 1 – Joint Committee model

7.3 Ss101 and 102 LGA 1972 set out the power for local authorities to delegate a function to a joint committee. S102 LGA 1972 allows two or more local authorities to appoint a joint committee:

- To discharge any function of the appointing authorities (s102(1)); and
- To advise on the discharge of any function of the appointing authorities (s102(4)).

7.4 The appointing authorities are free to determine the number of members of a joint committee, their term of office and the area within which the committee are to exercise their authority. The authorities can also include persons who are not members of the appointing authorities as co-opted members of the joint committee. The authorities can agree how the expenses of the joint committee will be accounted for.

Advantages of a Joint Committee model

- Joint Committees permit the authorities to retain member-level control over the arrangements, which may be attractive politically.

- Joint Committees are scheduled employers to the Local Government Pension Scheme, enabling staff to be ring fenced for pension purposes. This allows the partners to determine the actual cost of the arrangements and their respective contributions more accurately.

- The committee model of governance is familiar for local authorities.

- It is a relatively straightforward model to establish and non-threatening to staff as it does not involve a transfer of employment.

Disadvantages of Joint Committee model

- This model is potentially less scalable than other models as the constitution of the Joint Committee would potentially need to be reviewed with each new Partner.

- A Joint Committee has no corporate status and cannot hold property or enter into contracts. Any contracts will have to be entered into by one or more of the Partner authorities directly. The Joint Committee would need to make provision for sharing the benefit and burden of such contracts.

- As the Joint Committee cannot employ staff directly it can mean cultural change is slower to achieve.

Staffing issues in a Joint Committee model

7.5 Staff remain employed by their current employer in this model. New employees are employed by one of the Councils. Under s113 LGA 1972 the partner authorities can agree to make their staff available to the other authorities. Consultation with staff would be required prior to entering a s113 agreement. The due diligence exercise will determine the process for deciding which Council becomes the employer for new posts and posts shared with the partners.

7.6 In order to achieve integration, and to ensure that the benefits of being a shared service are realised, secondments could be considered, for example at manager level or for specific teams, to develop an integrated team and/or centres of excellence.

7.7 In this model there is no new employer or corporate structure to define the new service. This means the launch as a new service would require other strategies to achieve a cultural change and to practically run the services as a genuinely single shared service.

Current Solicitors' Regulation Authority (SRA) issues with a Joint Committee Model

7.8 Under a Joint Committee model, the authorities would be able to provide legal services to each other and to other public bodies. In respect of work undertaken for each other, procurement rules would not apply. 'Public bodies' are defined in the Local Authority Goods and Services Act 1970 and include many of the organisations the Councils would be interested in providing services to, such as Clinical Commissioning Groups (CCGs) and academies. Trading with these bodies under the Act can generate a profit.

7.9 Solicitors' Regulation Authority (SRA) Practice Rule 4.15 currently supports local authorities providing advice to such public bodies – it sets out that *'If you are employed in local government, you may act (a) for another organisation…to whom the employer is statutorily empowered to provide legal services*.' This is subject to a number of conditions set out at Rule 4.15 (b)-(g)). For example, in relation to charities, a requirement that the objects of the charity relate wholly or partly to the employers area.

7.10 However, in relation to other types of external work, the Legal Services Act 2007 and the SRA Practice Framework Rules prohibit in-house local authority solicitors from providing 'reserved legal activities' (broadly advocacy, litigation and conveyancing) to 'the public or a section of the public'. To the extent that the shared legal service wishes to provide 'reserved legal activities' to 'the public or a section of the public', (there is currently a lack of clarity about what constitutes 'public') it must be authorised and regulated as a solicitors' practice. This can be achieved by providing the service through an Alternative Business Structure (see Option 4).

Alternatively, a waiver could be sought to act for bodies that are currently excluded. This has been an uncertain and lengthy process to date. This would particularly effect our legal services' ability to provide legal support to Council services should they be outsourced.

7.11 The situation looks set to become yet more complex and more restrictive for in-house local authority legal teams. Recent changes may have the effect of limiting the work that can be undertaken by local authority legal teams for other public bodies to 'unreserved' legal work, which would exclude us from providing core services such as litigation, conveyancing and court advocacy.

Option 2 - Lead Authority Model

7.12 S101 (1) LGA 1972 allows a local authority to delegate the delivery of a function to another local authority. This would therefore enable the authorities to appoint a 'lead' to take responsibility for delivering the function on behalf of the other authorities. Each authority then commissions the service from the lead authority. An inter authority agreement/delegation agreement is required to govern the shared service.

Advantages of a Lead Authority Model

- This model provides clarity of direction for the new legal practice. One authority is responsible for the structure and establishment of the new service. The service is delivered and managed within the decision making framework of the lead authority. A clear, visible, change with clear leadership.

Disadvantages of a Lead Authority Model

- Procurement rules will apply if the model creates a commercial arrangement between the lead authority and the Councils to which it provides legal services.

- This model could be viewed as one authority taking control, or as a loss of control by other authorities which both staff and Members may be uncomfortable with.

- In this arrangement the balance of risk between the lead authority and its partner Councils would need to be evenly distributed and would require managing through a robust agreement, which itself would increase the risk of the arrangement being perceived as a commercial one.

Staffing issues in a Lead Authority Model

7.13 Staff would either TUPE to the lead authority or could be seconded. A formal consultation process would be required. Staff from the lead authority would then be made available to the other authorities under Section 113 LGA 1972, enabling all partner authorities to delegate decisions to them as if they were their own staff.

Current and future SRA issues with the Lead authority Model

7.14 The same SRA restrictions apply to this shared services model as to the Joint Committee Model.

Option 3 - Putting officers at the disposal of another authority

7.15 S113 of the Local Government Act 1972 enables the placing of staff of local authorities at the disposal of other local authorities. In order to utilise this option, an authority needs to enter into an agreement with another authority for the purpose of placing one or more of their staff at the disposal of the other for the purpose of carrying out their functions on such terms as the authorities may agree.

Advantages of a s113 only arrangement

- Such an arrangement would be simple and quick to implement.
- There would be minimum upheaval for staff.
- There would not be a need to delegate functions, which may be attractive to Members and reduces the risk carried by any one authority.

Disadvantages of a s113 only arrangement

- A risk arising from using this legal power is that it might damage the commitment on all sides to the shared service and restrict the opportunity for change and development that will be needed going forward. It would be challenging to achieve more than a very informal collaboration with this approach - for example passing work to each other when over-stretched, sharing training and office space.
- The SRA limitations would be the same as for the Joint Committee and Lead Authority Models – ie not able to pursue external work for the public or a section of the public and, possibly if the SRA rules change, not able to work for other public bodies.

Option 4 - Alternative Business Structures

7.16 Since the introduction of the Legal Services Act 2007 it has been possible for law firms to be owned by non-lawyers and non-legal businesses. These are known as 'Alternative Business Structures' or 'ABS' and must be licensed by the SRA.

7.17 An ABS is a limited company subject to normal company regulations. There is an additional requirement that they are regulated by the SRA to conduct legal business. The licensing procedure is designed to ensure that the owners of the ABS are fit and proper persons to own a legal business and that the procedures in place to fund the company mirror those of a conventional legal practice, with the object of protecting clients and money. A local authority shared service ABS could be jointly owned by each of the constituent Councils but would need to comply with propriety controls set out by the SRA. The practice would have to be managed by fit and proper persons as defined and approved by the SRA.

7.18 One important feature of an ABS is the requirement to put in place full regulatory requirements which do not currently apply to in-house legal services. These regulatory requirements are likely to incur extra costs through the additional resourcing for compliance requirements and include:-

- Anti-money laundering rules and procedures;
- Holding client money - full compliance with the Solicitors' Accounts Rules including separate banking arrangements;
- Stricter conflict requirements;
- Broader insurance and indemnity;
- Requirement to appoint Compliance Officer for Legal Practice (COLP) and Compliance Officer for Finance and Administration (COFA); and
- Strict reporting and accountability arrangements to the regulator.

7.19 Prior to setting up an ABS the Councils would need to approve a business case and meet SRA requirements.

Staffing implications of an ABS model

7.20 An ABS can directly employ staff and, depending on how legal work is performed, may also include staff transferring under TUPE from the Councils. Another option is for some staff to transfer to the ABS whilst others remain employed by the Councils, but provide services to the ABS for which the ABS is charged. It is not proposed that the ABS will directly employ any staff but that the Councils make available professional and support staff to enable the ABS to perform the legal work it has been given.

Advantages of an ABS

- Although it is a form of outsourcing, the Councils would retain some control over the ABS.

- An ABS can provide a full range of legal services to an unlimited range of people and organisations – ie avoiding both the current and potential future SRA complications of the other shared service models. This may mean increased revenue income.

- An ABS would create a brand/identity in the market. This could attract business and make the ABS an attractive proposition for staff, assisting with recruitment and retention issues.

- A company structure limits risk away from the Council.

Disadvantages of an ABS

- The regulation requirements and need for marketing would result in additional costs, increasing process and reducing the viability of the service.

- There are increased set up costs and time required would be longer than other models, creating the potential for loss of momentum.

- A robust business case would need to demonstrate that the start-up, setup and running costs would be outweighed by increased income from a wider market.

- If the main rationale is to target public service third party work, the ABS would need to tender for that work and may need to tender for parent authority work where Teckal[3] exemption does not apply. For this reason one option is to form an ABS only for the work undertaken on behalf of third parties, rather than for the Councils' work – retaining the rest in-house. This is the model that Essex CC has recently adopted.

- There is a tax/VAT liability which would not be incurred with other models. An ABS would pay corporation tax and be required to recover VAT in the way that other commercial organisations do.

- Time, financial investment and resources would be required for the set up with no guarantee that the SRA will grant a licence.

8. Preferred option

8.1 After considering advantages and disadvantages, the preferred option is:

b) a Joint Committee model for the shared legal service; and

c) development of the business case for Orbis Public Law Ltd as an ABS to work alongside the Joint Committee model.

8.2 The ABS will enable the shared service to work for anyone and appears to fit with the current thinking of the SRA.

9. Delivery principles

9.1 The development of Orbis Public Law will mean an ambitious programme of change to bring together four legal services in one single integrated service with a common culture, based on public service values underpinned by efficient, agile and modern business practices and thinking. Achieving this will not be without its challenges. This section sets out some key principles about how the single service will develop over time.

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[3] 'Teckal exemption' An exemption whereby an authority does not need to run a procurement procedure to give a contract to a legally separate but substantively 'in-house' provider.

a) Leadership

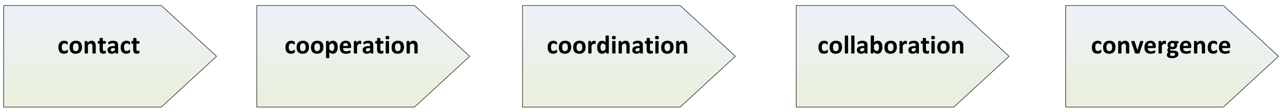
Strong and clear leadership is key to the successful delivery of the single service. Given the involvement of four partners, a common sense of direction and purpose is vital. This can best be achieved through clearly defined project objectives and clarity of roles and responsibilities.

b) Culture

Each Council recognises the need for a change of culture in the way that services are delivered, how we work together and how we respond to the demands of our customers. Ongoing engagement with staff and customers will be required across the practice to develop a shared culture. We need to recognise the different systems and practices in place, learn from what works well and manage our clients' expectations.

c) An organic process

Bringing together four different practices into one will not be achieved overnight. We need to recognise that this is a journey which will involve good liaison and communication both with staff and customers. Different aspects of the service are likely to develop through incremental steps and at a different pace. This model is well illustrated in a 5Cs model. As an example, ESCC and SCC practice areas are already working at the cooperation stage, largely achieved through goodwill and the understanding that develops from getting to know each other.



d) Valuing our staff

A change programme on this scale can be unsettling and challenging for staff. We will keep staff informed through regular communication, value their input and support them through the process. A number of externally led Change Management sessions have already been held which many officers have attended. They have been well received, providing staff with an opportunity to think differently and meet colleagues from other partner authorities.

e) Monitoring Officers

Each of the four partner authorities currently has a lawyer as Monitoring Officer at Head of Service, Director or Chief Officer level. It is appropriate that these officers and the statutory Monitoring Officer role remain outside the partnership and play a key role in directing, commissioning and overseeing work from the single service.

f) Structure of the single service

A revised management and practice structure will be necessary to achieve efficiencies and economies of scale. Various models will be considered. It is proposed that a new management team will be appointed to oversee a service-wide restructuring; this will take place within the first year. It is likely that there will be salary pressures on key senior roles which may be operating across a larger single practice.

g) Practice leadership

The single service will demand a high standard of leadership. The senior management team will need to share the Vision and possess the right range of managerial, commercial, innovation, change management and people skills necessary to deliver the new service.

h) Conflicts of interest

Arrangements will need to be made to ensure that any conflict of interest between the partner authorities is identified and addressed appropriately. The nomination of a locality manager at each site may be appropriate to facilitate this. This may not be a dedicated post but a role attached to a manager.

i) Client demand management

There will need to be a cultural shift in how our customers (primarily Council services) target and access legal advice. This may require standardising instruction pro-formas and enabling our customers to undertake more work themselves and be less reliant on legal support.

j) Workflow

A workflow portal or system will be necessary to ensure that all requests for work from our customers are prioritised, allocated to the most appropriate officer and dealt with efficiently and in a timely manner.

k) Case Management platform

In order for workflow to be efficient, seamless and co-ordinated, it is vital that one case management system is in place and used in the same way by staff working at all locations. Norwel is being used by SCC, has just been introduced at ESCC and is to be procured by BHCC. This will be the default case management system.

l) Simplify, standardise, harmonise

In order to maximise efficiencies and work well as a new team, it is important to learn from each other, make best use of what works well to create a simple, standardised operating environment.

10. Financial benefits and implementation costs

10.1 Orbis Public Law will deliver benefits to the constituent Councils by combining resources to deliver economies of scale and build resilience. Spending on external resources can be reduced and additional capacity created, by removing duplication, streamlining management structures, making new appointments at an appropriate level for the work and from improving processes. The new single service will make financial savings whilst at the same time:

- investing in modern systems and working practices;
- building on our developing relationships and creating greater strength through partnering ; and
- retaining and developing our talented people.

10.2 The single service will be the mechanism to deliver and potentially exceed the existing target savings included within the Medium Term Financial Plan Savings of all four Councils. We estimate that the savings achievable from the proposed single service (through reducing costs and generating income) will be 10% of the combined net operational budget of the service. This means savings of around £920,000 per annum by year four (2019/20).

10.3 Achieving savings will require investment. Common technology and processes, such as Norwel (already in place at ESCC and SCC), will be needed to ensure seamless delivery of service. Some additional resource will be required to manage delivery of the programme, support organisational change and develop new ways of working; this will be met from existing budgets. Subject to the establishment of an ABS trading arm, investment will also be required to develop a service offering, market the service and spend time on networking.

11. Financial arrangements

11.1 The financial arrangements of the single service, such as decisions required in relation to the sharing of investment, cost apportionment and savings, will be based on the proportionate size of each founding partner. The 'operational budget' of the single service will be the combined gross revenue budget for the in-house legal service of each of the four constituent authorities at 1 April 2016.

11.2 The amount that each authority contributes at 1 April 2016 must be sufficient that, at the start of the single service, each constituent authority could reasonably deliver a Legal Service at the standard previously supplied to their Council. This means that any savings each authority can reasonably make prior to 1 April 2016, can be taken by that authority alone. Thereafter, any savings become savings of the single service and will be managed accordingly.

11.3 The activities of the single service will be responsive to each Council's strategies and priorities, and to structural changes, including those driven by legislative change. Therefore, the financial arrangements will recognise that the sharing of costs will be subject to similar considerations. The single service will prepare and update the Operational Budget requirement on an annual basis, and seek approval from each council as part of the medium term planning process of each Council. The proportionate contribution from each partner may change over time in accordance with changes in priorities or in light of structural changes within each Council

11.4 The methodology used to determine the appropriate apportionment of costs between the four partners will be developed using the same principles as those used in the Orbis partnership. All parties recognise that this methodology will need to be fair and transparent, take into account changes in demand and will be underpinned by a proportionate level of management information to support the mechanism.

11.5 From 1 April 2016, the cost of investment and implementation will be shared in accordance with the cost-sharing methodology. We recognise that there may be exceptions to this principle, particularly if one party has already invested in technology which has delivered benefits and therefore savings have been recognised already in appropriate budgets.

11.6 The broad principles underpinning the financial arrangement have been agreed by the four partners; a proportionate balance between risk and reward and a transparent approach to the sharing of costs and investment required. The broad principles will be further developed in a more detailed business plan report which will also include practical arrangements and implications of the partnership, including the frequency of financial monitoring reporting to each Council and treatment of in-year variances.

12. Programme management

12.1 Over the coming months more work needs to be done to deliver our Vision. This work is being led by an Orbis Public Law Programme Board comprising the four Legal Services Head of Service/Directors/Chief officer with representatives from each authority. The Programme Board meets once a month and is responsible for:

- delivering the Vision and objectives of the shared service;
- ensuring that the programme is adequately resourced and managed; and
- that regular reports are made to each Council's Chief Executive.

12.2 A Programme Manager will report progress to the Board and highlight any concerns in terms of progress or resources against the timeline.

12.3 Six work streams have been set up to drive the necessary change.

Work stream	Focus on:
Governance and organisational structure	Developing a single service operating model Working with the Solicitors Regulatory Authority (SRA) framework Operational and management structure Constitution, terms of reference of the operating model Procurement issues - standardising Standing Orders HR/Employment issues
Staff	Communications Change Management Staff consultation Staff welfare
Work flow and customer perspective. Practice Management	Developing standardised working practices Communication and liaison with customers Aligning office manuals and practice procedures Case Management system (Norwel)
IT	System infrastructure and long term alignment of all systems
Finance	Budget alignment Principles of cost sharing and savings
Alternative Business Structure	Assessing the market for potential customers Preparation of ABS business case

13. Equality implications

13.1 At this point there are no identified equality implications in terms of establishing a single Legal Service. There may, however, be equality implications around whatever model is adopted for the service. We recognise that there may need to be a Pay and Workforce Strategy to underpin a proposed operating model. Equality and Diversity principles will be fed into the design of Orbis Public Law.

14. Risk Assessment

14.1 The Councils anticipate that the arrangements will remain in place on an indefinite basis. There is a risk therefore that there may be significant changes to each Council which impacts upon the services that are required to be delivered by a single service. Governance arrangements will need to recognise that this may be the case.

14.2 Establishing the partnership and implementing the organisational, process and technology changes required to deliver the Vision and achieve target savings may impact on the provision of services to each Council – both in terms of supporting ‘Business as Usual’ activities and providing strategic advisory support for wider transformational change within each Council. The partnership will work with each Council to develop a high-level timetable of change to minimise any adverse impact.

14.3 It is important for all the partners to be on the same IT operating platform. There is a risk to the operational management of the shared service if this does not happen on a timely basis. In particular, SCC currently uses Lotus Notes for email and other functions but needs to be on a Microsoft product so that the case management system (which relies on email) can be used in the same way by all partners. We are working closely with the Orbis IT team to ensure this is prioritised.

14.4 Creating a partnership by simultaneously bringing together four Legal Services of this size is unprecedented. Working together on the scale proposed in the single service could mean there are conflicts of interest, or the practice could become unwieldy to manage. There need to be clarity about the finite size of the shared service and how practical it is to bring in additional partners, particularly in the short-term.

14.5 There is a risk that the partnership does not deliver the full extent of the savings set out in this business case. The four partner Councils recognise that the first year of operation will be a 'start-up' phase and that careful consideration will need to be given to growth.

14.6 The organisational, process and technology changes required, together with concerns about job security as changes to management are made, may have an adverse impact on staff morale and increase turnover. The single service partners will ensure that communication, consultation and engagement remain a priority for the programme. Staff will be involved in developing the organisational design which will help to emphasise that the single service will lead to enhanced opportunities for staff and a strengthening of internal skills.

Appendix 1 **Orbis Public Law – Common work areas**

Work Area	ESCC	SCC	BHCC	WSCC
Litigation				
Civil Claims against the Council and others (excluding Highways Claims)	☒	☒	☒	☒
Civil Claims (Highways)	☐	☐	☐	☒
Debt Collection	☒	☒	☒	☒
Prosecutions	☒	☒	☒	☒
Miscellaneous Civil Litigation	☒	☒	☒	☒
Judicial Review Claims	☒	☒	☒	☒
Employment				
Employment Advice and Tribunals	☒	☒	☒	☒
Employment Advice to Members Appeals Panels	☒	☒	☒	☒
TUPE and Pensions transfers for outsourced services	☒	☒	☒	☒
Education				
SEND Tribunals and pre-tribunal advice	☒	☒	☒	☒
Miscellaneous Education Advice e.g. Exclusions, Transport, Admissions	☒	☒	☒	☒
Academy Conversions (Commercial Transfer Agreements)	☒	☒	☒	☒
Information				
Information Governance Advice and representation at Information Tribunals	☒	☒	☒	☒
LGO Advice	☒	☒	☒	☒
Freedom of Information and Data Protection Advice and FOI decision reviews	☒	☒	☒	☒

Planning				
Planning Agreements	☒	☒	☒	☒
Miscellaneous County Planning Advice	☒	☒	☐	☒
Determination of Village Green Claims	☒	☒	☒	☒
Registration of Common Land	☒	☒	☒	☒
Enforcement Notices	☒	☐	☒	☒
Listed Buildings & Conservation Area Advice	☐	☐	☒	☐
Assets of Community Value Advice	☒	☒	☒	☒
Advice on Building Control	☐	☐	☒	☐
Attendance at Planning Committee	☒	☒	☒	☒
Highways and Environment				
Highway Agreements	☒	☒	☒	☒
Highways Advice	☒	☒	☒	☒
Flood and Drainage Advice	☒	☒	☒	☒
Rights of Way and Village Green Advice (but not determination of claims)	☒	☒	☒	☒
General Environmental Advice	☒	☒	☒	☒
Traffic Orders	☐	☐	☒	☐
Property				
Commercial Leases / Licences	☒	☒	☒	☒
Other leases including agricultural	☒	☒	☒	☒
Freehold acquisitions and disposals	☒	☒	☒	☒
Compulsory Purchase	☒	☒	☒	☒
Registration of Property Charges for Adult Social Care	☒	☒	☒	☒
Property Transfer for Pension Fund	☐	☐	☐	☒

<u>Contracts and Procurement</u>				
Contracts	☒	☒	☒	☒
Procurement	☒	☒	☒	☒
Advise Member Advisory Procurement Board	☐	☐	☒	☐
Advise to LEP as Accountable body	☐	☐	☐	☒
<u>Children</u>				
Care Proceedings including pre-proceedings and advice	☒	☒	☒	☒
EPOs	☒	☒	☒	☒
Adoption Advice and Opposing Applications for Leave	☒	☒	☒	☒
Miscellaneous advice e.g. care leavers, no recourse to public funds, disclosure and LA involvement in private law cases	☒	☒	☒	☒
<u>Adults</u>				
Adult Protection Advice	☒	☒	☒	☒
Court of Protection Proceedings	☒	☒	☒	☒
Mental Health Advice	☒	☒	☒	☒
Ordinary Residence Claims	☒	☒	☒	☒
Major Commercial Projects				
Development Agreements	☐	☐	☒	☐
Academy Conversions (Development Agreements, Design & Build Contracts, Land Assembly Issues)	☒	☒	☒	☒
Site Assemblies	☐	☐	☒	☐
Licencing				
Licencing Advice /Appeals/Enforcement	☐	☐	☒	☐

(To include: Alcohol, gambling, Taxis, Sex Establishments)				
Highway Licencing Advice /Appeals/Enforcement (To include: A Boards, Tables & Chairs, hoardings, Skips, Scaffolding)	☒	☒	☒	☒
Other				
Local Government Law e.g. Powers, Committees etc.	☒	☒	☒	☐
Local Government Advice to include: Advice on Elections and support to the Returning Officer Constitution and Support to the Constitution Working Group	☐	☐	☒	☐
Standards-To include conduct of Investigations & Advice to Member Panels	☒	☒	☒	☐
Governance Advice (e.g. Whistle Blowing/Conflict of Interests)	☒	☒	☒	☐
HMO Advice /Appeals/Enforcement	☐	☐	☒	☐
Environmental Health Advice /Appeals/Enforcement (To include: Noise, Nuisance, smoking)	☐	☐	☒	☐
Leasehold Enforcement (Managed Properties)	☐	☐	☒	☐
Advice on Pension Schemes	☒	☒	☒	☒
Management of Council’s insurance and insurance broker services	☐	☐	☐	☒
Housing	☐	☐	☒	☐

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Orbis Public Law Joint Committee Terms of Reference

Membership:

1. The Committee shall comprise of Members appointed by the constituent authorities. Currently Brighton & Hove City Council, East Sussex County Council, Surrey County Council and West Sussex County Council ("the Councils".) Each authority shall appoint one Member to the Committee in accordance with its constitution.

2. Each Councils Leader (or in the case of Brighton & Hove City Council, the Council)may appoint one substitute Member to attend meetings of the Joint Committee, should an appointed member of the Committee be unavailable or unable to attend a meeting of the Joint Committee. A substitute Member attending in the absence of an appointed member will have full voting rights.

Terms of Reference:

The Orbis Public Law Joint Committee will:

1. Oversee the delivery of the services delivered jointly through the Orbis Public Law partnership of the Councils ('OPL').

2. Recommend proposals to meet the annual budget for OPL, set by each of the Councils.

3. Approve the OPL Business Plan and performance measures

4. Monitor the OPL Business Plan and performance of OPL

5. Make recommendations to the constituent authorities regarding revisions to the Terms of Reference of the Orbis Public Law Joint Committee

Meetings of the Committee:

The Orbis Public Law Joint Committee will meet on four occasions a year, unless a different number of meetings is determined by the Committee

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