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Agenda and Reports
for the meeting of
THE COUNTY COUNCIL BUDGET MEETING
to be held on
7 FEBRUARY 2017

(i)

County Hall
Kingston upon Thames
Surrey

Monday, 30 January 2017

TO THE MEMBERS OF SURREY COUNTY COUNCIL

SUMMONS TO MEETING

You are hereby summoned to attend the meeting of the County Council Budget meeting to be held in the Council Chamber, County Hall, Kingston upon Thames, Surrey KT1 2DN, on Tuesday, 7 February 2017, beginning at 10.00 am, for the purpose of transacting the business specified in the Agenda set out overleaf.

DAVID McNULTY
Chief Executive

Note 1: *For those Members wishing to participate, Prayers will be said at 9.50am. Father Benny O'Shea from the church of the Holy Name in Esher has kindly consented to officiate. If any Members wish to take time for reflection, meditation, alternative worship or other such practice prior to the start of the meeting, alternative space can be arranged on request by contacting Democratic Services.*

There will be a very short interval between the conclusion of Prayers and the start of the meeting to enable those Members and Officers who do not wish to take part in Prayers to enter the Council Chamber and join the meeting.

Note 2: *This meeting may be filmed for live or subsequent broadcast via the Council's internet site - at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed. The images and sound recording may be used for training purposes within the Council.*

Generally the public seating areas are not filmed. However by entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes.

If you have any queries regarding this, please contact the representative of Legal and Democratic Services at the meeting.

If you would like a copy of this agenda or the attached papers in another format, e.g. large print or braille, or another language please either call Democratic Services on 020 8541 9122, or write to Democratic Services, Surrey County Council at Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 9698, fax 020 8541 9009, or email anne.gowing@surreycc.gov.uk

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

1 APOLOGIES FOR ABSENCE

The Chairman to report apologies for absence.

2 MINUTES

(Pages 1
- 14)

To confirm the minutes of the meeting of the Council held on 6 December 2016.

(Note: the Minutes, including the appendices, will be laid on the table half an hour before the start of the meeting).

3 CHAIRMAN'S ANNOUNCEMENTS

(Pages
15 - 16)

The Chairman to report.

A list of Her Majesty the Queen's New Year Honour's List 2017 is included within the agenda papers. The Chairman has written letters of congratulations to those who have received awards for services to Surrey communities.

4 DECLARATIONS OF INTEREST

All Members present are required to declare at this point in the meeting or as soon as possible thereafter

- (i) Any disclosable pecuniary interests and / or
- (ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

5 REVENUE AND CAPITAL BUDGET 2017/18 TO 2021/22 AND TREASURY MANAGEMENT STRATEGY

(Pages
17 - 124)

This report is for the Full County Council to approve:

- the council tax precept for 2017/18;
- the revenue budget for 2017/18 to 2019/20;
- the capital programme quantum and principles; and
- the treasury management strategy.

For the last six years Surrey County Council has faced unprecedented increases in demand, particularly for adult social care and children's

services. At the same time central government funding for the council has reduced significantly, especially over the last two years, and this will continue until at least 2019/20. Furthermore the main methodology used to distribute Government funding nationally has changed.

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. To maintain essential services, the council requires a budget that funds these shortfalls and the funding for this can either come from further Government support or locally raised sources.

Annex 3, Council Tax requirement – To Follow

6 MEMBERS' QUESTION TIME

The Leader of the Council or the appropriate Member of the Cabinet or the Chairman of a Committee to answer any questions on any matter relating to the powers and duties of the County Council, or which affects the county.

(Note: Notice of questions in respect of the above item on the agenda must be given in writing, preferably by e-mail, to Anne Gowing in Democratic Services by 12 noon on Wednesday 1 February 2017).

7 STATEMENTS BY MEMBERS

Any Member may make a statement at the meeting on a local issue of current or future concern.

(Note: Notice of statements must be given in writing, preferably by e-mail, to Anne Gowing in Democratic Services by 12 noon on Monday 6 February 2017).

8 REPORT OF THE CABINET

To receive the report of the meetings of the Cabinet held on 13 December 2016 and 31 January 2017 and to agree one recommendation in respect of the Admission Arrangements for Surrey's Community & Voluntary Controlled Primary and Secondary Schools and Co-ordinated Schemes for all schools for September 2018.

(Pages
125 -
132)

9 REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE

To approve the Counter Fraud Strategy and Framework for inclusion in the Constitution (Annex A to the report).

(Pages
133 -
158)

10 MINUTES OF THE MEETINGS OF THE CABINET

Any matters within the minutes of the Cabinet's meetings, and not otherwise brought to the Council's attention in the Cabinet's report, may be the subject of questions and statements by Members upon notice being given to Anne Gowing in Democratic Services by 12 noon on Monday 6 February 2017.

(Pages
159 -
184)

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. Please liaise with the council officer listed in the agenda prior to the start of the meeting so that 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 COUNTY COUNCIL HELD AT THE COUNCIL CHAMBER, COUNTY HALL, KINGSTON UPON THAMES, KT1 2DN ON 6 DECEMBER 2016 COMMENCING AT 10.00 AM, THE COUNCIL BEING CONSTITUTED AS FOLLOWS:

Sally Marks (Chairman)
Nick Skellett CBE (Vice-Chairman)

	Mary Angell		David Hodge
	W D Barker OBE		Saj Hussain
	Mrs N Barton		David Ivison
	Ian Beardsmore		George Johnson
	John Beckett		Linda Kemeny
	Mike Bennison		Colin Kemp
	Liz Bowes		Eber Kington
	Natalie Bramhall		Rachael I Lake
*	Mark Brett-Warburton		Yvonna Lay
*	Ben Carasco		Ms D Le Gal
	Bill Chapman		Mary Lewis
	Helyn Clack		Ernest Mallett MBE
	Carol Coleman		Mr P J Martin
	Stephen Cooksey		Jan Mason
	Mr S Cosser	*	Marsha Moseley
	Clare Curran		Tina Mountain
	Graham Ellwood		Christopher Norman
	Jonathan Essex	*	John Orrick
	Robert Evans		Adrian Page
	Tim Evans		Karan Persand
	Mel Few		Chris Pitt
	Will Forster		Wyatt Ramsdale
	Mrs P Frost		Dorothy Ross-Tomlin
*	Denis Fuller	*	Denise Saliagopoulos
	John Furey		Tony Samuels
	Bob Gardner		Pauline Searle
	Mike Goodman		Stuart Selleck
	David Goodwin		Michael Sydney
	Michael Gosling		Keith Taylor
	Zully Grant-Duff		Barbara Thomson
	Ramon Gray		Chris Townsend
	Ken Gulati		Denise Turner-Stewart
	Tim Hall		Richard Walsh
	Kay Hammond		Hazel Watson
	Mr D Harmer		Fiona White
	Nick Harrison		Richard Wilson
	Marisa Heath		Helena Windsor
	Peter Hickman		Keith Witham
	Margaret Hicks		Mr A Young
			Mrs V Young

*absent

70/16 APOLOGIES FOR ABSENCE [Item 1]

Apologies for absence were received from Mr Mark Brett-Warburton, Mr Ben Carasco, Mr Denis Fuller, Ms Marsha Moseley, Mr John Orrick and Mrs Denise Saliagopoulos.

71/16 MINUTES [Item 2]

The minutes of the meeting of the County Council held on 11 October 2016 were submitted, confirmed and signed.

72/16 CHAIRMAN'S ANNOUNCEMENTS [Item 3]

The Chairman made the following announcements:

She reminded Members to complete the Members' Allowances IRP questionnaire.

Recent events that were mentioned:

- She had attended the Buckingham Palace for the presentation of the Gold award in the Military Employer Recognition Scheme, in national recognition of Surrey County Council's commitment to the Armed Forces. It was available to view.
- An Orbis Award had been awarded to the Programme Team for Culture and was presented to the Deputy Chief Executive. The award was in recognition for outstanding organisation culture.
- A fascinating visit to Surrey Satellite Tech Ltd with Princess Anne & Lord-Lieutenant on 22 November. They make 40% of all satellites in the world.
- The official opening of Salfords Fire Station on 18 November.
- The official openings of two youth centres – Redhill Youth Centre on 14 November and Phoenix Youth Club at Tadworth on 24 November.
- She had attended a fundraising dinner at Loseley for hospices which had raised £23k to be divided between the five hospices in Surrey.
- Congratulations were given to the successful Cow Parade and thanks given to Mr Goodman for taking the idea forward.

73/16 DECLARATIONS OF INTEREST [Item 4]

Mr Mike Bennison declared a non-pecuniary interest in that his son worked at Heathrow.

Mrs Dorothy Ross-Tomlin declared a non-prejudicial interest in that she received a pension from BAA Heathrow.

74/16 LEADER'S STATEMENT [Item 5]

The Leader made a detailed statement. A copy of the statement is attached as Appendix A.

Members raised the following topics:

- There was much support for the sentiments and recognition that it was down to all Members to write MPs.
- The London Borough of Sutton was to become Oxfam's landlord following investment and the question was asked why Surrey could not invest outside of the County.

- A question was put as to how much development was unsustainable due to roads and traffic being beyond capacity.

75/16 MEMBERS' QUESTION TIME [Item 6]

Declarations of interest:

None

Questions:

Notice of 22 questions had been received. The questions and replies are attached as Appendix B.

A number of supplementary questions were asked and a summary of the main points is set out below:

(Q1) Mr Robert Evans stated that residents were horrified that the busiest fire station in Surrey was to be closed, that the number of incidents had risen and in the last consultation 92% of residents were opposed to the closure. Mr Ian Beardsmore asked what would happen if the bridge was gridlocked? The Cabinet Member stated that there were very difficult decisions to be made, that the fire service was changing year on year, and that only 20% of the total number of calls to the service related to fires. He also pointed out that North West Surrey had four stations in close proximity with another four nearby.

(Q3) Mrs Carol Coleman requested that the Cabinet Member look into staffing at the centre for dementia, stating that staff/client ratio was 2/10 and this was a safeguarding issue. The Cabinet Member for Adult Social Care, Wellbeing and Independence replied that he would meet with Mrs Coleman to discuss her concerns.

(Q5) Mr Stephen Cooksey stated that the definition of DIY waste was not included in the response and that residents needed to know precisely what was meant by DIY waste. The Cabinet Member replied that extensive messages had been sent out regarding DIY waste. He also stated that the Council actions were within the law and other local authorities were following suit.

(Q6) Mrs Hazel Watson asked if actions could be taken sooner to which the Cabinet Member response was that it was not possible.

(Q8) Mr Ian Beardsmore stated that the response to his question gave no thought on forms of government and that the more liability the Council takes on, the less the budget the Council received. The Leader directed Mr Beardsmore to the section of his response which stated that decisions on governance could only be made when the details of any deal was known.

(Q10) Mrs Fiona White stated that pharmacies in less advantaged areas may be at risk of closure and residents needed good access. Mr Keith Witham requested to be kept informed of any updates and asked the Director for Public Health to report to the Social Care Services Board. The Cabinet Member stated that she would ensure information was circulated when she received it and that the issue would be raised at the Wellbeing Board.

(Q12) Mr Jonathan Evans stated that, whilst money for community support had increased, the money for individuals had reduced and he was of the belief that community support funding was to boost that for the individual. The Cabinet Member stated that the Council now had to rely more on voluntary organisations to perform some functions.

(Q14) Mr Stephen Cooksey asked if Skanska were interested in making replacements of the street lights. The Cabinet Member stated that safety was paramount for the Council, that consultation did take place and if something new came up he would respond. He also pointed out that to replace current lighting with LED lights would be very expensive and time consuming as each light column would need work.

(Q17) Mr Bill Barker asked about the Council approving planning applications and allowing HGV's to ruin the County's roads. The Cabinet Member had spoken with parish council about further work that they could take on and fund from their precept but they had been silent on this.

(Q18) Mr Will Forster asked for details on the number of refugee families being supported, to which the Cabinet Member responded that the Council were working with districts to support over 130 families.

(Q19) Mr Will Forster stated that he was very unhappy with the Cabinet Member's response to his question. The Cabinet Member stated that he thought the Liberal Democrats did not support censorship.

Cabinet Member Briefings on their portfolios are attached as Appendix C.

Members made the following comments:

Cabinet Member for Children and Families Wellbeing: A statement was made that children and families services were dependent on early help and a request was made for an update on the Multi Agency Safeguarding Hub (MASH). The Cabinet Member reported that the MASH went live on 6 October 2016 and that delivery of the new operation had been challenging but much work had been done to bed in the new work and overcome teething problems. IT issues were overcome and the backlog and delay was now reduced. At present the daily work was being accomplished and the backlog being reduced.

Cabinet Member for Environment and Planning was asked if the work with buses was just a sticking plaster with further cuts coming in the next year, and that flytipping seemed to be increasing on the ground, which made a mockery of the statement that it was decreasing. The Cabinet Member reported that he was happy with the progress made with Abellio and explained that the county needed fair funding in the future. He also reported that flytipping tonnage was down, that the number of flytipping incidents would be available one month after tonnage figures, and that if they had indeed risen that he would work with enforcement on this.

Cabinet Member for Adult Social Care, Wellbeing and Independence was asked if he would consider funding from the Investment Strategy being used to pay for accommodation for extra care facilities. The Cabinet Member responded that site research was being undertaken and that funding would be provided if a site is found.

Cabinet Member for Highways, Transport and Flooding: Concern was expressed about the policy on road safety in small communities. The Cabinet

Member explained that Drive Smart keep a close eye on the number of fatalities and where they occur. They would also look at the causation of fatalities. He would also request that the Cabinet Member for Environment and Planning look at this.

76/16 STATEMENTS BY MEMBERS [Item 7]

There was one local Member statement, from Mr Michael Sydney, concerning future housing development on green belt land.

77/16 ORIGINAL MOTIONS [Item 8]

Item 8(i):

Under Standing Order 12.3 the Council agreed to debate this motion.

Under Standing Order 12.1, Mr Mike Goodman moved the motion, which was:

‘Given the decision by the Government to support a new runway at Heathrow, this Council reaffirms its position on airport expansion set out in the resolution agreed in July 2013.

The Council recognises the crucial role of the airports at Heathrow and Gatwick in supporting employment for Surrey residents, generating investment in the Surrey economy and in attracting and retaining major businesses to locate in the county.

This Council remains strongly of the view that expansion requires the environmental and surface access issues involved to be satisfactorily addressed.

This Council wishes to work constructively with the Government, the airport, relevant national agencies, other local authorities and Local Enterprise Partnerships on the expansion plans in order to protect and promote the interests of Surrey residents and businesses.

However, this Council considers that the proposals and commitments, including on surface access, that have so far been made by the airport and by the Government associated with the preferred approach to expansion at Heathrow are inadequate. In particular they give neither confidence that the necessary measures will be prioritised nor that adequate funding will be committed.

This Council considers that any expansion will only be a success for Surrey residents and businesses and for the wider South East if there is a clear and agreed framework for the necessary infrastructure, including southern rail access, and other measures to be in place before any new runway comes into operation.

This Council calls on the Government to take the lead in developing such a framework.’

The motion was formally seconded by Mr Martin.

Mr Goodman said that:

- The future expansion of airports would benefit Surrey's economy.
- Service access to Heathrow was not good from Surrey. Only 4% travelled by rail and the majority by road, which was unsustainable.

- The Leader had written to and awaited a meeting with Chris Grayling MP.
- There was a need to ensure good connectivity with Surrey and reduce emissions around the airport site.
- He had spoken with Lord Ahmad about night flights and residents' need for respite.

Mr Essex moved an amendment, which was tabled at the meeting.

This was formally seconded by Mr Robert Evans.

The amendment was as follows **(with additional words underlined and deletions crossed through)**:

~~'Given the decision by the Government to support a new runway at Heathrow, this Council reaffirms its position on airport expansion set out in the resolution agreed in July 2013.~~

The Council recognises the crucial role of the airports at Heathrow and Gatwick in supporting employment for Surrey residents, generating investment in the Surrey economy and in attracting and retaining major businesses to locate in the county.

This Council remains strongly of the view that expansion requires the climate change, noise, air pollution and environmental and surface access issues, as well as housing needs to all involved to be satisfactorily addressed.

This Council wishes to work constructively with the Government, the airport, relevant national agencies, other local authorities and Local Enterprise Partnerships ~~on the expansion plans~~ in order to protect and promote the interests of Surrey residents and businesses.

~~However, this~~ This Council considers that the current proposals and commitments, including on climate change, noise, air pollution and surface access aspects that have so far been made by the airport and by the Government associated with the preferred approach to expansion at Heathrow are inadequate. In particular they give neither confidence that the necessary measures will be fully addressed ~~prioritised~~ nor that adequate funding will be committed.

This Council considers that ~~any expansion will only be a success for Surrey residents and businesses and for the wider South East if~~ the proposed southern rail access and other surface access schemes should be progressed now, there is a clear and agreed framework for the necessary infrastructure, including southern rail access, and other measures to be in place before any new runway comes into operation.

This Council calls on the Government to take the lead in progressing the improved Southern Access to the airport, and ensuring that the climate, environment, air pollution and surface access issues remain as preconditions which must be met before any expansion is considered.~~developing such a framework.'~~

This amendment was not accepted by Mr Goodman and therefore Mr Essex spoke to his amendment, making the following points:

- Whilst he sympathised with the original motion, the amendment aimed to match the aspiration of surface access issues.

- The amendment sets out what is meant by improvements.
- That the air pollution limits were already being breached and 40,000 people were being killed slowly each year by pollution. The only answer being to fly less.
- The issue of freight by road was not dealt with.

Mr Evans reserved his right to speak later.

Four Members spoke on the amendment and made the following comments:

- That the speech given by the mover of the motion reflected the amendment more than the original motion.
- It was reported that the Heathrow expansion would create another 20,000 jobs but there was no mention of where those additional workers were going to live. Therefore it was a threat to the Green Belt.
- The economic benefits were overstated.
- Nitrous oxide limits were already exceeded around the airport.
- Station improvements were needed at Woking before it could have access to Heathrow.
- That 10,000 Surrey residents were employed at Heathrow and Surrey was home to many international businesses. Therefore the economic benefits were real and the importance of expansion should not be diminished.

Mr Evans, as seconder, made the following points:

- The amendment strengthened the original motion.
- The 10,000 jobs already provided to Surrey residents would not be lost – they would continue to be there.
- Surrey's surface access was the worst in Europe.
- This was a missed opportunity to sort out the transport issues.
- That pollution at Stanwell could be tasted at times and the noise was terrible.
- Surrey had a housing problem which would be exacerbated by the expansion due to the properties that would be demolished to make way for it.
- The bus link 555 to the airport was to be reduced.

The amendment was put to the vote with 12 voting and 48 voting against. The amendment was lost and the original motion then discussed.

Eight Members spoke to the motion and made the following points:

- At the Heathrow seminar members had called upon airlines to adhere to regulations.
- The Surrey case for adequate funding had been well made.
- Expansion was needed at both airports.
- There maybe people working at airports wishing to live in Surrey and current residents may wish to move out due to the noise.
- Support was voiced for a rail link from Guildford.
- East Surrey were having a rail consultation. Connections were needed from east as well as west Surrey.
- It was important for Surrey to have input into the redesign of Heathrow.
- There was a disconnect between the motion and the speech given.
- Imbalance would increase if expansion went ahead. Additional housing was needed.

- Although Spelthorne and Guildford were geographically close to Heathrow, it could take a long time to travel from there to the airport due to the 8mph average road speed in those areas.

Mr Goodman stated that he was championing rail access and informed Council that there was to be a flight path consultation and members and residents would hear from the districts when the consultation started.

The substantive motion was put to the vote with 55 voting for, 9 voting against and 3 abstentions.

Therefore, it was:

Resolved:

Given the decision by the Government to support a new runway at Heathrow, this Council reaffirms its position on airport expansion set out in the resolution agreed in July 2013.

The Council recognises the crucial role of the airports at Heathrow and Gatwick in supporting employment for Surrey residents, generating investment in the Surrey economy and in attracting and retaining major businesses to locate in the county.

This Council remains strongly of the view that expansion requires the environmental and surface access issues involved to be satisfactorily addressed.

This Council wishes to work constructively with the Government, the airport, relevant national agencies, other local authorities and Local Enterprise Partnerships on the expansion plans in order to protect and promote the interests of Surrey residents and businesses.

However, this Council considers that the proposals and commitments, including on surface access, that have so far been made by the airport and by the Government associated with the preferred approach to expansion at Heathrow are inadequate. In particular they give neither confidence that the necessary measures will be prioritised nor that adequate funding will be committed.

This Council considers that any expansion will only be a success for Surrey residents and businesses and for the wider South East if there is a clear and agreed framework for the necessary infrastructure, including southern rail access, and other measures to be in place before any new runway comes into operation.

This Council calls on the Government to take the lead in developing such a framework.

Item 8(ii)

Under Standing Order 12.3 the Council agreed to debate this motion.

Under Standing Order 12.1, Mr Ian Beardsmore moved the motion, which was:

'The Council notes the difficulties in recruiting and retaining skilled staff to work for the County Council, the high cost of agency staff and that the situation is becoming critical as the council's financial position worsens.

This Council has previously agreed that more emphasis should be given to key worker housing as one approach to dealing with this problem.

The Council now agrees to support a new investment strategy that sees increased emphasis on acquiring key worker housing for Surrey, to help recruit and retain more skilled staff whilst reducing agency spend.'

The motion was formally seconded by Mrs Hazel Watson.

Mr Beardsmore said that:

- Newly qualified staff would not move to Surrey due to the costs and wanted a change of emphasis on human infrastructure.

Ms Denise Le Gal moved an amendment, which was tabled at the meeting.

This was formally seconded by Mrs Mary Lewis.

The amendment was as follows **(with additional words underlined and deletions crossed through)**:

'The Council notes the difficulties in recruiting and retaining skilled staff to work for the County Council, the high cost of agency staff and that the situation is becoming critical as the council's financial position worsens.

This Council has previously agreed that more emphasis should be given to key worker housing as one approach to dealing with this problem.

The Council now agrees to explore the options available to enhance the provision of key worker housing in Surrey in order to ~~to support a new investment strategy that sees increased emphasis on acquiring key worker housing for Surrey,~~ to help recruit and retain more skilled staff whilst reducing agency spend.'

Ms Le Gal stated that the amendment allowed the Council to explore the various options in dealing with this issue.

This amendment was accepted by Mr Beardsmore and thus became the substantive motion.

Mrs Lewis made the following points:

- Other government agencies appeared able to pay more for skilled staff than Surrey were.
- Young professionals wanted to be able to buy their home so there was a need for a range of schemes such as part ownership. There was also a need for a variety of housing.
- Social workers were asking for reduced caseloads and more reflective supervision. The Council was making progress in this regard with its Safer Surrey approach.

Three Members spoke on the motion and made the following comments:

- Welcomed Ms Le Gal's statement that the public estate would be used for key worker staff.
- Increased agency costs were being paid for social workers, planners and highway engineers.
- There was an increase in cost of living in Surrey.
- The Investment Strategy needs changing rather than paying for investment properties outside of Surrey.

The motion was put to the vote with the majority voting for.

Therefore, it was:

Resolved:

The Council notes the difficulties in recruiting and retaining skilled staff to work for the County Council, the high cost of agency staff and that the situation is becoming critical as the council's financial position worsens.

This Council has previously agreed that more emphasis should be given to key worker housing as one approach to dealing with this problem.

The Council now agrees to explore the options available to enhance the provision of key worker housing in Surrey in order to help recruit and retain more skilled staff whilst reducing agency spend.

The Council adjourned for lunch at 12.53~~pm~~ and reconvened at 14.00~~pm~~.

Item 8(iii)

Under Standing Order 12.3 the Council agreed to debate this motion.

Under Standing Order 12.1, Mr Robert Evans moved the motion, which was:

'This Council congratulates the many teachers, support staff, parents, governors and children who have enabled the vast majority of Surrey's schools to be judged, by Ofsted, as 'good' or 'outstanding'. Council is very proud that Surrey has so many excellent schools at every phase of education.

Surrey County Council takes great pride that as an education authority, it has for many years, been at the forefront of innovative, progressive education and setting high standards in schools.

There have been many changes in the format of schools in recent years, with for example, academies and free schools being created. Council therefore believes that a period of stability would be beneficial and is concerned that the Government is considering yet further changes.

Council expresses confidence in its teachers and headteachers to continue to deliver a high quality education under the current system.'

The motion was formally seconded by Mr Essex who reserved his right to speak later.

Mr Evans said that:

- That there were good schools in Surrey with good results and good teaching.
- Pupils receiving free school meals were underrepresented at grammar schools.
- Surrey provided a good mix of specialist schools.
- He was opposed to the 11+ exam and any further major changes to schools.

Mrs White moved an amendment, which was tabled at the meeting.

This was formally seconded by Mr Forster.

The amendment was as follows **(with additional words underlined and deletions crossed through)**:

'This Council congratulates the many teachers, support staff, parents, governors and children who have enabled the vast majority of Surrey's schools to be judged, by Ofsted, as 'good' or 'outstanding'. Council is very proud that Surrey has so many excellent schools at every phase of education.

Surrey County Council takes great pride that as an education authority, it has for many years, been at the forefront of innovative, progressive education and setting high standards in schools.

There have been many changes in the format of schools in recent years, with for example, academies and free schools being created. Council therefore believes that a period of stability would be beneficial and is concerned that the Government is considering yet further changes.

Council expresses confidence in its teachers and headteachers to continue to deliver a high quality education ~~under the current system~~ without introducing grammar schools or any further major reorganisations.'

This amendment was not accepted by Mr Evans and therefore Mrs White spoke to her amendment, making the following points:

- That grammar schools were divisive.
- Another organisation was setting up grammars.

The Cabinet Member for Schools, Skills and Educational Achievement made the following points:

- Selection was already taking place in secondary schools e.g. with post codes.
- Agreed there should be a period of stability
- Surrey received £450 less per pupil than London boroughs across the border.
- There was a need to work with schools without setting conditions.

At this point Mrs White withdrew her amendment.

Four Members spoke to the substantive motion and made the following points:

- Opposes the motion especially as it was shutting down the means to modernise. There was a need to modernise the selection process to allow a better mix of pupils.
- Congratulations to the schools in Surrey which were good schools providing good education.
- There was agreement with the Cabinet Member's speech regarding selection.
- It was down to schools to challenge.
- There was a need for technical colleges.
- There was a need for some stability for the next few years.

The substantive motion was put to the vote with 48 voting for, 5 voting against and 6 abstentions.

Therefore, it was:

Resolved:

This Council congratulates the many teachers, support staff, parents, governors and children who have enabled the vast majority of Surrey's schools to be judged, by Ofsted, as 'good' or 'outstanding'. Council is very proud that Surrey has so many excellent schools at every phase of education.

Surrey County Council takes great pride that as an education authority, it has for many years, been at the forefront of innovative, progressive education and setting high standards in schools.

There have been many changes in the format of schools in recent years, with for example, academies and free schools being created. Council therefore believes that a period of stability would be beneficial and is concerned that the Government is considering yet further changes.

Council expresses confidence in its teachers and headteachers to continue to deliver a high quality education under the current system.

78/16 REPORT OF THE CABINET [Item 9]

The Leader presented the report of the Cabinet meetings held on 18 October and 22 November 2016.

Recommendations on Policy Framework Documents

A School Organisation Plan

One Member stated that the 1% margin of error in Surrey goes against what was said at the previous meeting.

RESOLVED:

1. That the School Organisation Plan 2016/17 – 2025/26 be approved.
2. To note that at present the funding for the increased number of school places within this Plan has not been fully identified.

Reports for Information/ Discussion

One Member stated that the action plan should have measurable and bigger targets to which the Cabinet Member for Environment and Planning responded that the plan sets out what the intentions are.

B Smarter Working for the Environment: Policy Statement and Action Plan

RESOLVED:

That the Smarter Working for the Environment: Policy Statement and Action Plan be noted.

RESOLVED:

That the report of the meetings of the Cabinet held on 18 October and 22 November 2016 be adopted.

79/16 PAY POLICY STATEMENT [Item 10]

The Leader presented this report and stated that members, officers and trade unions had worked closely together to get this Statement more focussed on awarding high performance and gave more flexibility for staff and modernised work practices.

RESOLVED:

That the Pay Policy Statement for 2016 – 2017 be agreed.

80/16 RECRUITMENT OF INDEPENDENT PERSON [Item 11]

The chairman of the selection panel presented this report.

RESOLVED:

1. That the Council agrees the recommendation of the selection panel and appoints Mr Bernard Quoroll as the Independent Person for Surrey for a four year term ending on 5 December 2020.
2. That the Council authorises the Monitoring Officer to identify an appropriate alternative Independent Person appointed by a Surrey District or Borough Council to fulfil the role should Mr Quoroll be unavailable or unable to act.

81/16 CONSTITUTION UPDATE REPORT [Item 12]

The Leader submitted this report and its appendices to the Council.

RESOLVED:

That the Council approves the following recommendations with immediate effect:

1. The non-executive changes to the Scheme of Delegation within the Constitution.
2. Notes the executive changes to the Scheme of Delegation that were approved by the Leader on 9 November.
3. Notes that Part 6 of the Constitution (Codes and Protocols) has been updated following administrative changes and will be published on the Council's website.

82/16 MINUTES OF CABINET MEETINGS [Item 13]

Mr Alan Young referred to the Cabinet Member's response to a public question regarding roads in Tandridge. He asked to see mileage percentage figures for the road network in each area and the percentage of total road funding to each area.

The Cabinet Member for Highways, Transport and Flooding would ensure Mr Young received the figures but also pointed out that the important data would be the condition of the roads and not the mileage.

[Meeting ended at: 2.40 pm]

Chairman

Her Majesty the Queen's New Year Honours 2017

Knight Bachelor

Andrew Murray OBE

**Knight Commander of the
Order of the Bath**

Mark Andrew Lowcock CB

CB

Ms Sarah Church

CBE

Ms Sue-Anne Hilbre Biggs

Michael Neil Murray Boyd

Councillor David Hodge

OBE

Jonathan Mark England

Grant David Hearn

Mrs Roma Cecilia Anne Hooper

Miss Alison Cristine Kervin

Ms Amanda Jane Nobbs

MBE

Ms Sally Ann Barker TD

Miss Sophie Charlotte Bray

Mark Michael Terance Casali

Ms Anne Dickins

Richard George Dunning

Mrs Pauline Mary Hedges

Michael John Evans Herring

Mrs Janet Enid Maines

Miss Joanna Manning-Cooper

Ms Nicola Lucienne Molnar

Ms Rachel Morris

Ms Hannah Russell

Mrs Katherine Elizabeth Smyth

Ms Olwen Patricia Tomlinson

BEM

Miss Tanya Catherine Ann Brookfield

Ms Linda Ann Charles

Lionel James Cecil Faulkner

Mrs Gwyneth Margaret Fookes

William John Gerlach

Mrs Joan Dorothy Hattersley

James Quick

David Villa-Clarke

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SURREY COUNTY COUNCIL

COUNTY COUNCIL

DATE: 7 FEBRUARY 2017



REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20, AND TREASURY MANAGEMENT STRATEGY

SUMMARY OF ISSUE

This report is for the Full County Council to approve:

- the council tax precept for 2017/18;
- the revenue budget for 2017/18 to 2019/20;
- the capital programme quantum and principles; and
- the treasury management strategy.

For the last six years Surrey County Council has faced unprecedented increases in demand, particularly for adult social care and children's services. For instance: over the last five years the number of people supported for their learning disabilities has increased by 990 to a total of 3,765 (a 36% increase); similarly the population of children (who require school places) has increased by 11% to 150,428; the number of children with a statutory plan for special educational needs has risen by 8% (405) over five years and, the number of older people supported has risen to 9,418 (a 12% increase in five years). Further, the county's roads are becoming increasingly congested and the demand on many other services resulting in significant challenges for services to respond accordingly.

At the same time central government funding for the council has reduced significantly, especially over the last two years, and this will continue until at least 2019/20. Since 2010 the Government's core funding for the council (from the Settlement Funding Assessment (SFA)) has reduced by £170m and is part of a total loss of government grant since 2010 of £228m.

Furthermore the main methodology used to distribute Government funding nationally has changed. The Government now focuses on the concept of a local authority's 'core spending power' (CSP). CSP brings together the Government's main core grants to local authorities (such as Revenue Support Grant) with sources of funding that the Government is not responsible for raising, as these are raised locally, through council tax and business rates. This combination enables Government to make assumptions about the levels of Council Tax to be raised and includes a significant shift from central Government grant support to Council Tax for the period 2016/17 to 2019/20. In this way, areas that have to rely on a higher proportion of their funding from council tax see the sharpest reductions in grant. There are four main disproportionate impacts of this methodology on Surrey County Council:

- i. Firstly, the calculation of the Government's original funding baseline for local authorities' core grants (the four block model) already included ability to raise council tax within the resources block. The decision to use CSP in allocating core grants therefore counts council tax twice (a significant disadvantage to Surrey residents). Then, the Government's allocations of the Improved Better Care Fund also make assumptions about local authorities' ability and willingness to raise council tax through the Adult Social Care precept thereby counts council tax a third time (again a significant disadvantage to Surrey residents). This increasingly flawed methodology militates against residents in areas like Surrey County Council who have to provide a higher proportion of funding for local services from council tax.
- ii. Over the years, the Government has 'rolled in' to its core funding to local authorities grants it had allocated separately in previous years. As the Government has made significant cuts to its core funding, it has also through those cuts, reduced the funding of those grants rolled in. For Surrey County Council, the largest example is the Learning Disabilities and Health Reform Grant (LDHRG) which was rolled in from 2014/15 at the value of £69m. For 2017/18, the Government's assessment of LDHRG spending for the council is £71m, but the rolled in grant, reduced in proportion to Government funding is less than £40m. **This leaves a £31m funding gap.**
- iii. The CSP methodology relates to the resourcing available to an authority and does not reflect the demands for services nor any variation in the relative costs to deliver services in an area. For example the average house prices in Surrey are second only to London and are 41% higher than the South East and 90% higher than the average for England. This makes it especially more expensive for service providers to sustain their businesses in Surrey.
- iv. The methodology results in a continuing significant shift for all authorities from central Government funding to locally raised funding (specifically council tax) from 53% of core funding coming from council tax in 2016/17 to 62% in 2019/20. However, as Surrey starts with a relatively high proportion of funding coming from council tax (due to historic lack of Government support), the rate of shift from Government funding to council tax is disproportionately greater for Surrey (72% in 2015/16 to 88% in 2019/20).

In previous years, Surrey County Council has contained the cost and volumes pressures of rising demand by making efficiency savings through wide reaching transformation programmes and service unit cost reductions, totalling over £450m since 2010/11. At the same time this council has been forced to continue increasing its level of council tax to offset the impact of severely reduced Government funding, whilst maintaining services to residents despite growing demand and needs. The council is planning to make significant additional savings of £93m in 2017/18, **this will still leave a funding shortfall of £30m in 2017/18, rising to £73m by 2019/20.**

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. To maintain essential services, the council requires a budget that funds these shortfalls and the funding for this can either come from further Government support or locally raised sources.

The Provisional Local Government Financial Settlement, announced on 15 December 2016, permits an increase in general council tax limited to 2% before a referendum is required under legislation, and the flexibility to raise an Adult Social Care precept of 3% per year in

2017/18 and 2018/19. However, to fund the required budget for the next three years from locally generated sources the council would be forced to increase council tax in total by 15% in 2017/18 to 'reset' its funding base and achieve a sustainable position for the next decade, followed by modest increases in future years in line with government guidance.

RECOMMENDATIONS

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

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

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

Proposed budget: Cabinet recommends that Full County Council approves

4. The council tax requirement for 2017/18 is set at £719,418,644.72 (Annex 3). *Please note this figure and Annex 3 is subject to confirmation after the council has information from all of the districts and boroughs, for which the statutory deadline is 31 January 2017.*
5. Increase the level of the general council tax by 1.99% and an additional 10% (35p per day) as a result mainly of social care pressures, making a total general council tax increase of 11.99% (paragraphs 92 to 94).
6. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services (paragraph 93).
7. Set the County Council precept for band D council tax at £1,458.45 which represents a 14.99% up-lift.
8. The council tax for each category of dwelling to be as in Annex 3.
9. That the payment for each billing authority, including any balances on the collection fund, will be as set out in Annex 3.

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

Substitute budget: Cabinet recommends that Full County approves

18. Increase the level of the general council tax by 1.99% (paragraphs 95 to 99).
19. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services (paragraph 96).
20. Set the County Council precept for band D council tax at £1,331.55 which represents a 4.99% up-lift.
21. Approve the County Council's £1,666m gross revenue expenditure budget for 2017/18 for the substitute budget (Table 17).
22. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions (paragraph 92).
23. Agree that there will be a requirement for a transparent Member-led process, in conjunction with officers, to find and implement an additional £30m of cuts to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this will require cuts greater than £30m to reflect that only a part year benefit will be achievable) (paragraph 98).
24. Agree to support only capital schemes which are funded without requiring borrowing, unless a sustainable basis for funding borrowing costs is identified and a compelling

business case developed that demonstrates best value in progressing a particular scheme (paragraph 110).

25. Note that the detailed programme of schemes will be agreed ahead of implementation of the substitute budget (if necessary).
26. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:
 - all revenue 'invest to save' proposals, and
 - capital schemes (paragraph 109).

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

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

REASON FOR RECOMMENDATIONS

This meeting of the Full County Council is to agree a budget and set the council tax precept for 2017/18. Council must also agree substitute calculations in the event that its proposed budget would result in a council tax increase above that set out in principles laid down by the Secretary of State. The published draft principles for 2017/2018 indicate that the council tax increase proposed by Cabinet would exceed that set by Government and substitute calculations are therefore also put forward to Full County Council.

DETAIL

The council's financial position

Public value

1. Since 2009 the council has focussed relentlessly on achieving ever better public value for Surrey residents set within an ongoing five year budgeting framework. Two of many very good examples of this work are the first Public Value Programme and the council's stringent restriction on the use of consultants. The council has also been at the leading edge of partnership working and viewing public services as a system it could improve significantly through working together as one team for Surrey. The council has received recognition across the country for its approach to innovation.
2. The investment strategy, Orbis partnership that has begun with East Sussex County Council, Trading Standards' partnership with Buckinghamshire County Council and income raised through filming at County Hall are examples of how the council has

responded to the pressures it faces. There is no question the council is a more effective organisation, offering far better public value for residents than in 2009.

Funding reductions

3. Surrey as an area has had some of the lowest government funding in the country. This has been because of the high weighting of relative deprivation in the continued use by the current Government of the four block funding model, which the Coalition Government inherited from the previous Labour Government. Deprivation does not necessarily reflect need for spending on services (such as dementia care, or learning disabilities) nor the cost to serve of providing those activities locally (which often varies in accordance with local markets). For example, the deprivation weightings do not reflect the cost drivers the council faces, such as the aging population, the overspill of school children from London and the wear and tear on Surrey's roads arising from their heavy use.
4. The four block funding model's weighting for resources exacerbates the Council's position as it also militates against Government funding for Surrey councils by assuming a higher ability of Surrey residents to contribute to the cost of local services through council tax. Together these features of the Government's funding model have led to Surrey's residents being forced to pay some of the highest council tax in the country.
5. For 2016/17, the Government revised its method for distributing its general grant funding to local authorities (Revenue Support Grant) by introducing locally determined council tax as a new factor in how it allocates Government grant among local authorities. The basis of the allocation is to maintain similar percentage changes to an authority's core spending power, which aggregates funding from central and local sources:
 - Revenue Support Grant (RSG);
 - business rates retention system; and
 - council tax.
6. As the council already has to raise one of the highest proportions of its funding from council tax (and the model extrapolated this by assuming all authorities would raise council tax at the referendum threshold 2% plus the additional 2% adult social care precept) this meant the Government's decision to allocate RSG based on core spending power exacerbated this position disproportionately for Surrey residents. This has greatly accelerated the council's loss of grant funding and increased the proportion of funding it has to raise from residents yet further. Under core spending power, the divergence is set to be even greater, with Surrey County Council residents set to contribute proportionately more: around 88% of the funding in CSP by 2019/20 (up from 72% in 2015/16) compared to a national average local tax payer contribution of around 62% in 2019/20 (up from 50% in 2015/16).

2016/17 budget

7. In February 2016 the shock reduction in Government grant support meant the council found itself in a very difficult position. It could see how through one-off measures the

council could balance its 2016/17 budget. However, it couldn't see how it could build a sustainable financial position over its five year medium term financial plan (MTFP) period 2016-21 without significant further service transformation.

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

Transformation and savings programmes

9. Since February 2016, the council has undertaken significant work to test whether it was squeezing every bit of value possible from its transformation programmes. The council's second Public Value Transformation programme thoroughly tested all the key programmes. As a result the council has assurances that it has credible and improved plans to deliver the significant level of savings required in the 2015-20 MTFP. However the testing also identified that the programme will not contribute anything further to the funding gap the council faces in 2017/18.
10. In response, the council:
 - began to identify further potential savings through service reductions; and
 - continued to seek to reduce costs wherever possible on its day to day spending.
11. This work continued and made progress until September 2016 when the council confirmed a significant forecast overspend against the 2016/17 budget. Again the reasons are straightforward:
 - planned levels of new savings for 2016/17 proved unachievable;
 - numbers of applicants for social care grew even faster than the council's pessimistic assumptions; and
 - costs of individuals' care packages increased as their needs became more complex.
12. In response the council has taken key steps to bring the 2016/17 spending back under control. These include:
 - stopping any spend that was not demonstrably essential and cannot be delayed;
 - accelerating changes in treatment of capital financing costs;
 - accelerating savings planned for 2017/18 where possible; and
 - deferring any planned investment until the financial situation is clearer.

13. Alongside these measures, all services are reinforcing an approach to reviewing all planned spending in year, the Chief Executive and Director of Finance have agreed a series of actions with service directors and meet regularly to review progress.

Financial resilience review

14. In recognition of the seriousness of the financial challenges facing the Council the Director of Finance, supported by the Chief Executive and Leader, requested the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a financial resilience review in November 2016. As well as looking at comparative spending and costs, the review focused on the accuracy of the council's budget planning assumptions and figures and the council's long term financial resilience. The key conclusions were:
 - the budget planning assumptions and figures were sound;
 - the council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the full scale of savings required as soon as possible to match its currently allowed income profile going forward.
15. CIPFA confirmed that the council could not manage until 2019/20 through reliance wholly on reserves, which are already somewhat depleted. Furthermore, CIPFA advised that any service reductions not yet planned would only have a part year impact in 2017/18 due to the need for public consultation and equality impact assessment ahead of implementation. They estimated only a quarter year effect of savings not already planned.

Key strategies

Financial strategy

16. The council's refreshed Financial Strategy 2017-20 (Appendix 1) clearly sets out the council's approach to financial management. It provides the basis for sound financial governance and to return towards a position of long term sustainability.
17. The key fundamentals of the financial strategy 2017-20 are:
 - acting in the public interest at all times through building partnerships to improve value and outcomes;
 - long term planning to enable effective and sustainable outcomes that meet future needs and opportunities; and
 - a proactive and practical outcome-focused approach to managing key risks and opportunities and supporting service strategies.
18. The Financial Strategy will remain largely stable to 2020. 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

19. The council maintains an integrated risk framework to manage the significant challenges it faces and the associated emerging risks. The council's Risk Management

Strategy ensures an integrated and coordinated approach to risk across the organisation. Risks are continually considered alongside financial and performance management to support the achievement of the council's corporate priorities.

Financial planning environment

20. The council sets its budget within the context of the condition of the UK and world economies and the UK Government's policy towards this. Appendix 2 summarises the national economic outlook, which highlights how the relevant economic environment and future forecasts have changed in the last year and how these affect financial prospects.
21. In his Autumn Statement in November 2016, the Chancellor of the Exchequer loosened the Government's objective little on eliminating the UK's public spending deficit in the lifetime of this Parliament – that is by 2020. The Chancellor broadly kept to his predecessor's departmental reductions targets, but allowed extra investment spending.

Provisional Local Government Financial Settlement 2017/18

22. Following on from the Autumn Statement, DCLG published its Provisional Settlement 2017/18 consultation on 15 December 2016. This consultation ran until 13 January 2017 and DCLG is expected to announce the Final Settlement 2017/18 in early February 2017. The timing of both the Provisional and Final Settlements is later than expected and the response period is short. Neither of these helps local authorities in their financial planning.
23. The Provisional Settlement 2017/18 set out funding allocations to local authorities for the period up to 2019/20. The allocations follow the pattern set out in the Final Settlement 2016/17 that introduced the shock funding reduction that has so severely affected the council during this financial year.
24. The Final Settlement 2016/17 included a four year offer to broadly set authorities' funding for the period 2016/17 to 2019/20. The Government's four year offer to the council did not provide an equitable or sustainable financial position. Surrey's Full County Council debated the issue of whether to accept the four year offer at some length. After due consideration and weighing up the risks involved, Full County Council declined the offer as ultimately it would mean the council accepting figures that they fundamentally disagreed with, including that the council would lose over £17m in 2019/20. Equally, the council would not prepare an efficiency plan that accepted and enabled such damage to its finances. For the council to accept the -£17m negative RSG imposition would be equivalent to asking every Surrey council tax payer to pay 3% to fund other areas every year.
25. Having declined the four year offer, the council has to rely on annual settlements and can only take the figures published for 2018/19 onwards as indicative.

Settlement Funding Assessment and Revenue Support Grant

26. Settlement Funding Assessment (SFA) is Revenue Support Grant plus business rates baseline funding (which comprises business rates top up grant and business rates income). Table 1 shows the council's SFA as set out in the Provisional Settlement.

Table 1 Provisional Settlement Funding Assessment

	2016/17		2017/18		2018/19		2019/20	
	£m	£m	£m	£m	£m	£m	£m	£m
Business rates retention	46.0		49.0		50.5		52.3	
Tariff/Top-Up*	59.4		58.6		60.4		62.6	
Baseline Funding Level		105.4		107.6		110.9		114.9
Revenue Support Grant		67.0		28.0		4.5		
Tariff/Top-Up adjustment								-17.3
Settlement Funding Assessment		172.4		135.6		115.4		97.6

* DCLG has recalculated tariffs and top-ups for 2017/18 to reflect the adjustment for the 2017/18 business rates revaluation

27. The reduction in SFA for the council between 2016/17 and 2017/18 is -£37m (-21%) and over the four years from 2016/17 to 2019/20 is -£75m or -43%.
28. The reduction in Revenue Support Grant (RSG) for the council between 2016/17 and 2017/18 is -£39m (-58%) and over the four years from 2016/17 to 2019/20 (including the -£17.3m top up adjustment) is -£84m (-126%). This closely follows the reductions expected from the final Settlement 2016-17 for the four year period to 2019/20.

Core Spending Power

29. The Department for Communities and Local Government (DCLG) continues to present the financial amounts in the Provisional Settlement using Core Spending Power (CSP). For 2017/18 CSP combines:
- Revenue Support Grant,
 - Retained Business Rates,
 - New Homes Bonus,
 - Rural Services Delivery Grant,
 - improved Better Care Fund,
 - 2017/18 Adult Social Care Support Grant,
 - Transition Grant and
 - council tax (including adult social care precept at 2%).
30. The Government has revised CSP this year to include the new 2017-18 Adult Social Care Support Grant. The inclusion of council tax in CSP again masks the withdrawal of core Government grant (RSG). Table 2 shows the council's CSP set out in the Provisional Settlement.

Table 2 Provisional Core Spending Power

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment	172.4	135.5	115.4	97.7
Settlement specific grants				
Improved Better Care Fund	0.0	0.0	0.0	1.5
New Homes Bonus	6.2	5.0	3.6	3.5
Rural Services Delivery Grant	0.0	0.0	0.0	0.0
Transition Grant	11.9	12.2	0.0	0.0
2017-18 Adult Social Care Support Grant	0.0	4.0	0.0	0.0
Total Settlement specific grants	18.1	21.2	3.6	5.0
Council tax (core element)	606.0	625.8	646.3	667.4
Adult Social Care precept	11.9	24.8	38.8	53.9
Council tax	617.9	650.6	685.1	721.3
Core spending power	808.4	807.3	804.1	824.0

31. The Provisional Settlement indicates an increase in CSP of £15m (2%) over the period 2016/17 to 2019/20. This modest increase is founded on DCLG expecting the council to raise council tax by £103m over the period. This marks a shift in proportionate contributions of council tax to core Government grants for local authorities' funding for England, on average, from 50%:50% in 2015/16 to 62%:38% in 2019/20. For Surrey County Council, the same period the proportionate contributions for are 72%:28% in 2015/16 and 88%:12% in 2019/20.

The main components of the provisional settlement and related announcements

Council tax and Adult Social Care precept

32. The Provisional Settlement confirmed the council tax referendum limit remains at 2% and local authorities can raise an additional 1% under the Adult Social Care precept flexibility. This means a maximum of 3% in in 2017/18 and 2018/19 and limited to a total rise of 6% over the three years 2017/18 to 2019/20. In other words, instead of 2%, 2%, 2% rises, a local authority can opt for 3%, 3%, 0%. It is expected the Government will require local authorities opting to do this to provide assurance that this funding will be used for adult social care services. If the council decided to raise the Adult Social Care precept to 3% in 2017/18 this would generate an additional £6.2m.

New 2017/18 Adult Social Care Support Grant

33. In 2017/18, local authorities will share in a new £241m 2017/18 Adult Social Care Support Grant. The Provisional Settlement shows the grant is available for one year only. DCLG will distribute the grant using the social care relative needs formula and on that basis, Surrey County Council is ranked eighth highest in England and will receive a 1.66% share of the total, equivalent to an additional £4.0m. This is clear recognition that Surrey has a high need for spend on adult social care.

New Homes Bonus

34. To generate the savings to fund the 2017-18 Adult Social Care Support Grant, the period for paying New Homes Bonus for 2017/18 reduces from six years to five coupled with a 0.4% growth threshold below which local authorities will not receive the grant. The impact of this is to reduce the council's funding by £1.2m (and by £5.0m for Surrey districts and boroughs in aggregate). It is noted this announcement has seen £2.2m funding lost to Surrey residents to support services elsewhere.
35. Following consultation earlier in 2016, from 2018/19, DCLG will base the grant on a four year period rather than the existing six year period.

Improved Better Care Fund

36. The distribution for this funding is unchanged and continues to include amounts raised locally from the Adult Social Care precept within the Improved Better Care Fund (iBCF) resources making up an authority's share of the fund. This disadvantages those local authorities that have had to rely on council tax for a high proportion of their funding due to historic low levels of Government grant support. Because the Government's allocation mechanism for iBCF factors in funds it assumes local authorities will raise through the ASC precept at 2% a year, the Provisional Settlement shows Surrey County Council's share is zero in 2017/18 and 2018/19 and £1.5m (0.1% of the total £1,500m fund) in 2019/20, when the council's relative needs based share of those years' Government funding are: £2m, £14m and £25m respectively. The lack of allocation of this funding to Surrey contradicts the Government's recognition of the need to spend on adult social care services in the area.

Business rates retention and revaluation

37. DCLG announced the adjustments to business rates tariffs and top ups in the Provisional 2017/18 Settlement. These adjustments are to neutralise the impact of the revaluation which takes effect from 1 April 2017. First of all, DCLG adjusts the national business rates multipliers so that the revaluation exercise does not increase total revenue raised nationally by business rates. Because this is a national adjustment, areas where rateable values increase more than the national average will have higher collectable retained business rates incomes. So that local authorities' baseline funding from business rates remains the same and to maintain relative funding levels between local authorities, DCLG adjusts individual authorities' tariffs or top ups. For Surrey County Council, the Provisional Settlement shows a £2m increase in retained business rates and a corresponding £2m decrease in top up grant.
38. In the business rates revaluation exercise, rateable values in Surrey increased by around 15%, which is above the national average of 10%. This means that after applying the reduced multiplier to their increased rateable values, businesses in Surrey will pay higher business rates from April 2017. However, because the tariff and top up system neutralises income changes between local authorities for the effects of the revaluation, the councils in Surrey will not gain funding.

39. The full impact on the council's business rate retention revenues following the revaluation will not be known until the 2017/18 forecasts (known as NNDR1) are completed by the districts and boroughs at the end of January 2017.

Transition Grant

40. The 2017/18 Transition Grant remains at £12.2m as published in the Final Settlement 2016-17.

Revenue Support Grant (RSG)

41. The council's 2017/18 RSG remains at £28.0m as published in Final Settlement 2016-17. This is a reduction of £39m from the 2016/17 allocation.

Public Health Grant

42. The council's Public Health Grant reduces to £37.5m. Responsibility for public health transferred to local authorities in 2013/14. To maintain stability in the system, the Government based grant allocations on the existing spending by the extant primary care trusts (PCTs). PCTs in Surrey had low public health spending and the council received a low grant on transfer. The Government intended to adjust Public Health Grant distributions to more closely match population and need indicators and move away from the distributions inherited from the PCTs. The Government has not revised the distribution of Public Health Grant and for 2017/18, Surrey has the lowest grant allocation per head of population (£31.46) of any local authority and is substantially below the average rate for England of £59.38. If the council was funded at the average rate, it would receive an additional £33m Public Health Grant.

Dedicated Schools Grant and Education Services Grant

43. The Government confirmed on 14 December 2016, through the launch of Phase 2 of the National Funding Formula for schools consultation, that the new national funding formula will be introduced from 2018/19, with full implementation by 2019/20.
44. The consultation illustrations show that had the Department for Education (DfE) fully implemented the proposed formula for 2016/17, Surrey schools would have received £18.0m more overall than they did.
45. The former general Education Services Grant no longer exists in 2017/18 but the council is receiving partial replacement funding from the following three main sources in 2017/18. All of these three figures are estimates and the funding shown will reduce as more schools convert to academies.
- A transitional grant for April to August 2017. The provisional allocation is £2.6m.
 - A new school improvement monitoring and brokering grant to support local authorities' residual school improvement responsibilities from September 2017. The provisional amount is £0.6m.
 - On 9 January 2017, Schools Forum agreed a levy of £25.65 per pupil from maintained schools. The estimated amount raised from this is £1.6m.

Scenario planning 2017/18 to 2019/20

46. The shock to the council's funding set out in the Final Settlement 2016-17, coupled with higher than anticipated cost and demand pressures have meant the council's planned levels of savings for 2016/17 have proved unachievable. This has delayed and disrupted work on the savings programme in MTFP 2016-21 and the council has focused effort firstly on developing a robust budget for 2017/18. The Government has provided indications of the council's funding through to 2019/20, when it expects to move to 100% business rates retention. Beyond 2019/20 the financial planning environment is potentially open to considerable change. For this latter period of the 2017-20 MTFP, the council has worked on the basis of a continuation of the position in 2019/20. Therefore the budget proposals within the MTFP should be considered in two parts:
- year 1 (2017/18) for which the council needs to set a council tax precept; and
 - years 2 and 3 (2018/19 and 2019/20) the remaining period for which indicative funding levels are available.
47. Usually the Council produces a 5 year Medium Term Financial Plan. However, in view of the long term uncertainty over Government funding levels and the financial climate, figures beyond 2019/20 would be potentially spurious and misleading. The Council is therefore only considering the next three financial years in this budget paper.

REVENUE BUDGET

Budget planning assumptions

48. The council began building its annual budget in June 2016. This involved reviewing the council's financial position and outlook at the end of the first quarter of 2016/17, revisiting the assumptions, pressures and savings included in the MTFP 2016-21. Table 3 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 3 Budgetary assumptions 2017-20

Descriptor	2017/18	2018/19	2019/20
Pay inflation – Surrey pay	up to 1.6%	up to 1.6%	up to 1.6%
Pay inflation – National pay	1.0%	1.0%	1.0%
General, non-pay inflation	2.0%	2.0%	2.0%

Note: - differing percentages apply to contractual inflation

Forecast revenue budget outturn 2016/17

49. The council's overall revenue forecast outturn for 2016/17 as 31 December 2016 was a relatively small overspend. This is a significant improvement in the 2016/17 financial position from the +£22.0m overspend reported as at 30 September 2016. The improvement is largely due to spending delays and one-off savings measures. These do not remove the continuing pressure on the 2016/17 budget, illustrated by the £18m shortfall of forecast against planned 2016/17 efficiencies and means the underlying overspend will continue into 2017/18.
50. The council has taken action to bring the 2016/17 budget back into balance including:

- the Chief Executive and Director of Finance have agreed a series of actions with service directors and meet regularly to review progress;
- all services have reinforced and reviewed all planned spending in year;
- all services have reviewed options for managing service demands more effectively; and
- Cabinet will, wherever sensible, not agree further spend commitments until a balanced budget is assured and progress towards a sustainable Medium Term Financial Plan (MTFP) is made.

51. Within the council's financial outturn, as part of longer term financial planning and subject to resource availability, services may request to carry forward underspends to smooth funding across financial years. Further consideration on use of reserves and balances will be necessary as the level of government grants receivable becomes clearer when the Government publishes the Final Settlement 2017-18.

Service pressures

52. The council faces growing service pressures for reasons of: cost, volume and complexity. The council's service pressures do not include the effects of changes in funding.
53. Many of the actions to help bring the 2016/17 budget back into balance are short term measures and primarily do not tackle the overspends on an ongoing basis or compensate fully for savings the council planned, but found to be unachievable.
54. The forecast 2016/17 overspend and planned savings found to be unachievable add an ongoing pressure on the 2017/18 budget of £20m each year. These pressures largely arise from demand and price pressures preventing Adult Social Care from achieving its demanding £55m savings target for 2016/17.
55. For 2017/18 gross service pressures on the budget amount to £119m as shown in Table 4.

Table 4 Surrey County Council budget pressures 2017/18

	2017/18	2017/18
	£m	£m
Pay Inflation	4.8	
Non pay inflation	19.0	
Total inflation		23.8
Demand		61.5
Market and service delivery		33.6
Total gross service pressures		118.9

56. Legislative changes resulting in expenditure reductions reduce the gross pressures in 2017/18 by £20m. Of these changes, £19m is due to schools' academy conversions, which take away the responsibility for spending on services. The impact in 2017/18 is net pressures of £99m.
57. Table 5 shows the further pressures on the budget for 2018/19 onwards.

Table 5 Surrey County Council budget pressures 2018/19 and 2019/20

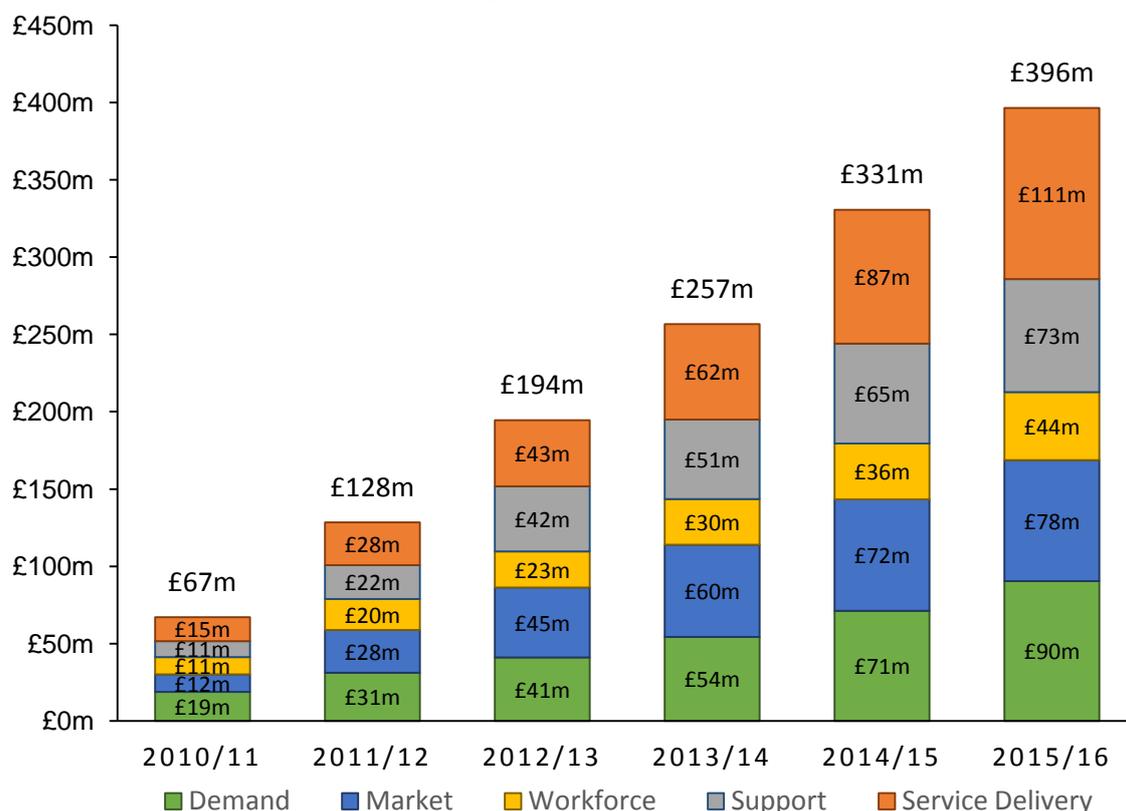
	2018/19	2019/20
	£m	£m
Pay Inflation	3.6	3.6
Non pay inflation	19.4	19.5
Total inflation	23.0	23.1
Demand	30.9	21.5
Market and service delivery	8.0	15.3
Total gross pressures	61.9	59.9

Savings and service reductions

Savings and service reductions achieved 2010/11 to 2016/17

58. Over the six years 2010/11 to 2015/16, the council achieved £396m savings and service reductions as shown in Figure 1.

Figure 1 Surrey County Council savings achieved 2010/11 to 2015/16



59. In 2016/17, the council forecasts to achieve a further £63m savings.

Savings and service reductions planned for 2017/18 and 2018/19 onwards

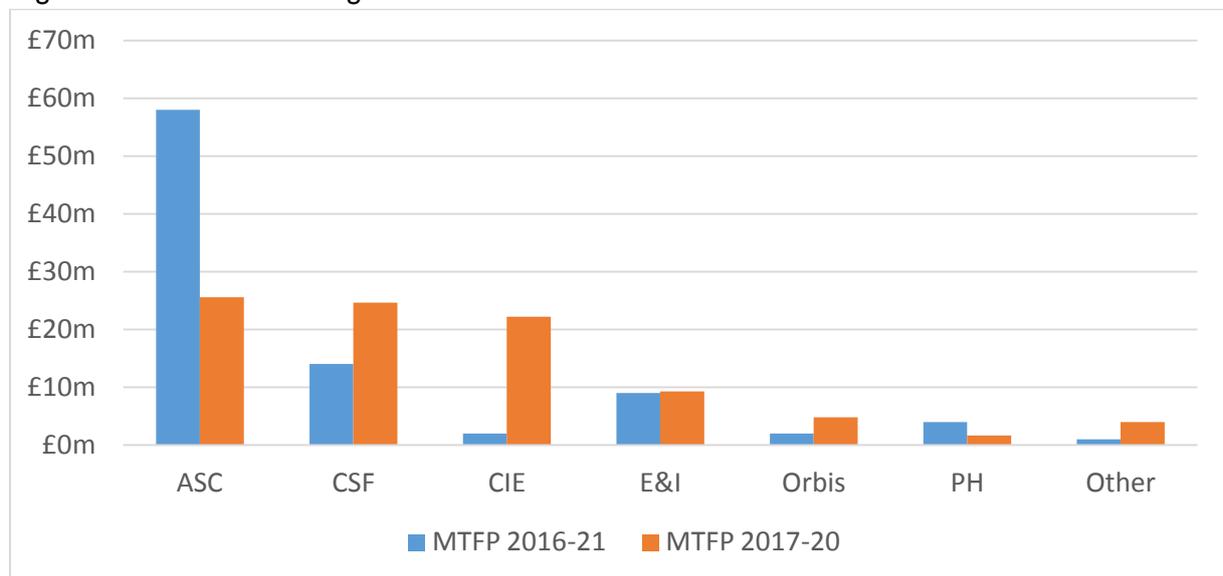
60. MTFP 2016-21 included £90m savings for 2017/18. The difficulties encountered in 2016/17 including the rise in demand pressures in adult social care, leading to the inability to achieve some of the year's planned savings and the growth of the savings gap during the year has led to a reconsideration and review of savings. Figure 2

compares savings identified by directorate for 2017/18 in the MTFPs for 2016/17 and 2017/18.

61. The impact of the reconsideration and review by senior directors is an increase in efficiency savings and reductions for 2017/18 to £93m. Importantly, this includes a shift in the distribution of savings from Adult Social Care (ASC) and Public Health (PH) to: Children, Schools & Families (CSF), Central Income & Expenditure (CIE) and Orbis. Savings for Environment & infrastructure (E&I) remain the same. Within these figures:

- ASC savings figures are now more realistic and achievable than originally planned for 2017/18;
- ASC figures also include identified savings and actions to reduce budget pressures;
- CIE savings now include £8m for the revised MRP (minimum revenue provision) policy and further savings due to changes in interest rate assumptions and the treasury management policy.

Figure 2 2017/18 savings identified in MTFPs for 2016-21 and for 2017-20

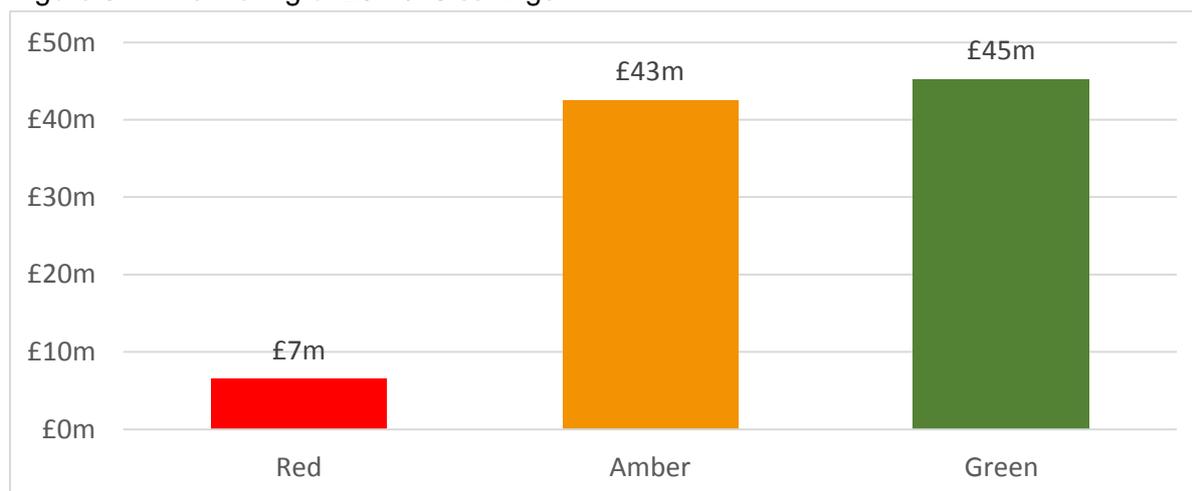


62. Despite the assurances given by the reconsideration and review of savings, significant challenges to delivery remain. The directors' review assessed the risks to achieving the savings on the following basis:

- Red – there is no plan to deliver the saving;
- Amber – there is a plan to deliver the saving, although it is not currently on track;
- Green – there is a plan to deliver the saving and it is on track.

63. Figure 3 shows the distribution of risk by value of 2017/18's savings. The amount of combined Red and Amber rated savings fits with advice from the council's financial resilience review and 2016/17's experience that delivering savings is ever harder. To ensure the council increases the rigour in its savings delivery, the Director of Finance is devising a process to track and monitor services' progress in achieving their planned savings to operate from 1 April 2017.

Figure 3 Risk rating of 2017/18 savings



64. For the remainder for the MTFP 2017-20 period (2018/19 and 2019/20), the council plans to achieve just over £76m savings, bringing the total for the three years to £170m. Table 6 shows the spread of savings over the MTFP 2017-20 and between efficiencies, service transformation and service reductions.

Table 6 Planned savings 2017-20

	2017/18 £m	2018/19 £m	2019/20 £m	2017-20 £m
Efficiency/ Service Transformation	-87.2	-48.0	-25.2	-160.4
Service reduction	-6.2	-2.1	-1.0	-9.3
Total planned savings	-93.4	-50.1	-26.2	-169.7

Total Schools Budget - as defined in legislation

65. 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.

66. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 7 outlines the proposed Total Schools Budget for 2017/18 of £545.2m. This comprises:

- £532.1m Dedicated Schools Grant (DSG);
- £11.0m Education Funding Agency (EFA) sixth form grants; and
- £2.1m additional funding for high cost SEN pupils, which the council is funding.

Table 7 Analysis of Total Schools Budget for 2017/18

	Schools' delegated budgets	Centrally managed services	Total
	£m	£m	£m
DSG 2017/18	390.5	140.6	531.1
DSG brought forward from previous years	1.0	0	1.0
Total DSG	391.5	140.6	532.1
EFA sixth form grant	11.0		11.0
Surrey County Council contribution to the cost of placements and services for high cost SEN pupils		2.1	2.1
Total Schools Budget	402.5	142.7	545.2

Note: Total Schools Budget does not include the pupil premium grant, provisionally £16.3m, the primary PE and sports grant, provisionally £2.3m, or universal free meals grant, provisionally £10.5m. These grants, although not part of the legal definition, are also delegated to schools and are included in the total schools funding of £430.6m as in Appendix 4.

67. 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.

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

69. 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 2017/18 funding formula in November 2016. In 2017/18 the formula limits any school level gains and losses to a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee). To pay for the guarantee, the formula limits the per pupil increase (or ceiling) to a maximum of under 1%.

70. 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).

Pension fund actuarial valuation

71. The Surrey Local Government Pension Fund underwent its triennial valuation as at 31 March 2016, with results received in December 2016. In summary, the fund deficit has reduced significantly from £980m to £680m and the funding level for Surrey County Council has risen from 71.0% to 81.0%. Although the stabilisation policy means there will be no change to employer contribution rates, the actuary's advice is the council's contributions towards eliminating past deficits can reduce from that planned in the MTFP 2016-21 as shown in Table 8. The changes will take effect from 1 April 2017.

Table 8 Past deficit contributions

	2017/18	2018/19	2019/20
	£m	£m	£m
MTFP 2016-21 assumption	13	15	17
Actuarial advice December 2016	11	11	11
Contribution reduction	-2	-4	-6

Overall impact of the Provisional Settlement (2017-18) announcements

72. As outlined in paragraphs 22 to 45, the overall impact of the Provisional Settlement 2017-18 changes for the council is a net £9m increase in funding if the council opts to take up the additional flexibility to bring forward the Adult Social Care precept and increase by 3% in 2017/18 and 2018/19, rather than the current planned 2% in each year, as summarised in Table 9.

Table 9 Changes due to the Provisional Settlement 2017-18

	2017/18	2018/19	2019/20	2017-20
	£m	£m	£m	£m
Adult Social Care precept (potential additional 1%) *	6.2	6.5	-12.7	0.0
2017-18 Adult Social Care Support Grant	4.0	0.0	0.0	4.0
New Homes Bonus	-1.2	-0.3	-0.3	-1.8
Total potential change to MTFP	9.0	6.2	-130.0	2.2

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

73. The council's net £9m resource increase breaks down as follows.

- Flexibility for local authorities to raise up to 3% Adult Social Care precept (instead of 2%) in 2017/18 and 2018/19, provided the total increase over the three years to 2019/20 is no more than 6%. The impact of this is the council can gain an extra £6.2m income in 2017/18 and a further £6.5m in 2018/19, but no more in 2019/20.
- A new Adult Social Care Support Grant (ASCSG) of £241m in total for 2017/18 only. The new grant is available to adult social care authorities only and is allocated on the basis of the social care relative needs formula (RNF). The council supports the move to allocate funding on the basis of need, but is disappointed there is no new money and by the lowly scale of the funding as initial analysis by the Local Government Association suggests at least £1.3bn could be needed immediately to

stabilise the provider market and put it on a sustainable footing. The impact of the ASCSG is the council gains an extra £4.0m income in 2017/18 only, compared to annually increasing pressures of £12m.

- DCLG has funded ASCSG from reductions in New Homes Bonus (NHB) payments in 2017/18 by reducing the period of NHB payments from six years to five. The impact of this is the council loses £1.2m in NHB payments in 2017/18 and Surrey districts and boroughs together lose £5.0m, factoring in the council's £4.0m ASCSG grant gives a net loss to the Surrey area of £2.2m.

74. For the council, nearly 70% of the £9m increase comes from council tax. For other counties 55% of the net increase comes from council tax.

Business rates

100% Business rates retention

75. After 2019/20 the 100% business rates retention system is scheduled to be in operation. The Government asserts this will give local authorities around £12.5bn additional business rates receipts to spend on local services. Central and local government are currently discussing the scope and nature of these changes. To maintain fiscal neutrality across government, local authorities will gain new responsibilities, and some Whitehall grants will be phased out.

76. The limitations of the Provisional Settlement 2017-18 for the council and the potential for change with the introduction of 100% business rates retention add to the uncertainty about the council's future responsibilities and funding sources, including the adequacy and sustainability of funding at the start of the new system. A key element of the council's engagement with and responses to the development of and consultation on the 100% business rates retention proposals is to enable the new 100% business rates retention system to succeed, the council believes the Government must:

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

Business rates pilot areas

77. DCLG has reached agreement with authorities in the following areas to pilot 100% rates retention, starting in 2017/18: Greater London Authority, Greater Manchester, Liverpool City Region, Cornwall Council and the councils in the combined authority areas of West of England and West Midlands. The pilot authorities will each retain 100% of locally-raised business rates. In return they will forego RSG and a number of other funding streams. The pilot authorities' tariffs and top-ups will be adjusted to ensure cost neutrality. DCLG will test several elements of the 100% rates retention scheme through the pilots, including revised safety net arrangements. These arrangements will not affect non-pilot authorities.

78. Notwithstanding the protections for non-pilot authorities, the council is disappointed the pilots do not include two tier areas.

Business rates revaluation

79. The business rates revaluation takes effect from 1 April 2017. Revaluation is a revenue neutral exercise across England, so the total rates bill stays the same in real terms, after allowing for appeals. At individual local authority level, overall rates bills will rise or fall depending upon whether rateable values in the area have increased by more or less than the average for England, after allowing for appeals. This creates change in the system outside local authorities' control.
80. To compensate individual local authorities, DCLG calculates an adjustment to tariffs and top ups based on the relative change in rateable values, before adjusting for inflation.

Business rates pooling

81. DCLG permits geographically adjacent authorities to apply to pool their business rates. Combining tariffs and top ups among pooled authorities can reduce the composite levy rate paid by the pool. This further incentivises business rates growth through collaborative effort and smooths the impact of volatility in business rates income across a wider economic area.
82. For 2017/18, Surrey County Council, London Borough of Croydon, Elmbridge Borough Council, Guildford Borough Council, Mole Valley District Council, Spelthorne Borough Council and Surrey Heath Borough Council submitted a bid to DCLG in October 2016 to form a business rates pool for the financial year 2017/18. The bid was successful. The pool's financial model, projects up to £4m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for Surrey County Council to receive roughly a third of this additional income

Council tax

Council tax

83. Council tax, through the precept, is the council's main source of funding for its budget, excluding schools' budgets. The current council tax strategy is to increase general council tax by 2% and assume a 1% increase in the number of properties subject to the tax. The latter is often referred to as the council tax taxbase.
84. The Provisional Settlement 2017-18 indicated the general council tax referendum limit at 2% and introduced the additional flexibility to raise the adult social care (ASC) precept to 3% in 2017/18 and 2018/19 provided the total increase for 2017-20 is no more than 6%. This essentially achieves a cash flow advantage by enabling local authorities to bring an element of funding forward without increasing the total funding raised by the end of the full period. Given the intense and immediate pressure on adult social care, the MTFP assumes full use of the ASC precept flexibility at 3% in 2017/18 and 2018/19.

85. Districts' and boroughs' annual returns showed an overall increase in the council tax taxbase in Surrey of 1.32%. In addition, the council's share of the districts' and boroughs' aggregate council tax collection fund surplus is £9m, which will be paid to the council as a one-off sum. These confirmed the council's estimates of future council tax growth as 1% annually and annual collection fund surpluses of £7m.

Balancing the revenue budget 2017/18 and MTFP 2017-20

Gross funding and expenditure

86. The council's gross estimated funding for 2017/18 from: Government grants, business rates, fees, charges and other income, plus council tax limited to the referendum threshold determined by the Secretary of State amounts to -£1,661m. Table 10 shows the council's funding limited to the referendum threshold increase determined by the Secretary of State, with 2016/17 funding provided for comparison.

Table 10 Surrey County Council funding at council tax referendum threshold 2017-20

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Council tax	-615	-635	-652	-671
ASC precept	-12	-31	-51	-53
Business rates	-46	-48	-49	-51
Top up	-59	-61	-62	-47
RSG	-67	-28	-5	0
Transition Grant	-12	-12	0	0
Dedicated Schools Grant	-533	-532	-532	-532
Other Government grants	-168	-163	-155	-152
Partner funding	-1	-1	-1	-1
Other income	-148	-155	-160	-163
Total funding	-1,661	-1,666	-1,668	-1,670

87. The council's gross estimated expenditure for 2017/18 is £1,696m. The shortfall in income is £30m. Table 11 shows the council's gross expenditure budgets by service for 2017/18 to 2020/21.

Table 11 Surrey County Council gross expenditure budgets 2016-20

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Adult Social Care	430	453	466	488
Public Health	39	38	37	36
Children, Schools & Families	365	387	382	381
Delegated Schools Budget	458	432	432	432
Environment & Infrastructure	139	141	144	149
Fire & Rescue Service	47	44	46	43
Customer & Communities	10	9	9	9
Legal, Democratic & Cultural services	32	33	31	31
Business Services & Orbis (70% SCC contribution)	45	44	42	41
Managed budgets	53	53	54	55
Organisational Leadership & Performance	10	10	10	10
Central Income & Expenditure	58	52	51	56
Additional pressures	0	0	5	12
Gross expenditure budget	1,686	1,696	1,709	1,743

88. Table 12 summarises the Council's overall net funding position at council tax referendum threshold.

Table 12 Surrey County Council overall funding position 2016-20

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Gross funding	-1,661	-1,666	-1,668	-1,670
Gross expenditure	1,686	1,696	1,709	1,743
Net expenditure	25	30	41	73

89. The council's general reserves stand at £21.3m. This is the minimum safe level the Director of Finance regards as appropriate given the risks and uncertainties the council faces. Table 13 shows the earmarked reserves the council forecasts to bring forward as at 1 April 2017. The £59.8m total the council forecasts to bring forward on 1 April 2017 relies on it achieving a balanced budget outturn for 2016/17.

Table 13 Forecast earmarked reserves brought forward as at 1 April 2017

	£m
Revolving Infrastructure & Investment Fund	11.1
Budget Equalisation Reserve	5.9
Eco Park Sinking Fund	4.4
Insurance Reserve	7.7
Investment Renewals Reserve	2.1
General Capital Reserve	5.2
Street lighting PFI Reserve	4.4
Vehicle Replacement Reserve	3.0
Economic Downturn Reserve	9.2
Public Health Reserve	0.0
Economic Prosperity Reserve	2.5
Equipment Replacement Reserve	2.0
Child Protection Reserve	0.0
Business Rate Appeals Reserve	1.3
Pension Stabilisation Reserve	0.0
Interest Rate Reserve	1.0
Total earmarked reserves	59.8

Council tax referendum

Legislation

90. The Local Government Finance Act 1992 (as amended by the Localism Act 2011) requires a council proposing an increase in council tax in excess of a limit set annually by the Government to hold a referendum. In the Provisional Settlement 2017-18, the Secretary of State for Communities and Local Government confirmed the limit on an increase in core council tax to be 2% or more.

A local authority proposing a council tax increase above the limit set by government must also prepare substitute calculations for a budget below the amount which the Secretary of State considers excessive. The substitute budget will take effect if the local authority loses the referendum. If the Full County Council agrees the budget and council tax increase recommended to it by Cabinet a referendum will be held on 4 May 2017.

Costs of a referendum

91. DCLG estimates the costs of a referendum at between £85,000 and £300,000 depending on the size of the authority and whether it is combined with a local election. In addition to this, there are the potential costs of re-issuing council tax bills in the event of a referendum loss. Based on other referendums held in recent years, re-billing is estimated at approximately £630,000.

Proposed budget

92. The council faces significant service pressures and substantial loss of Government grants over the MTFP period. Its £170m MTFP savings programme is stretching and ambitious on top of what the council has achieved already. To help ensure the council achieves its savings programme, the Chief Executive and the Director of Finance are required to:
- continue to ensure delivery of existing MTFP efficiencies for the remaining years of the MTFP 2017-20; and
 - continue to ensure demand and cost pressures are monitored and plans to mitigate their impact developed.
93. Despite determining a £170m MTFP savings programme including £93m in 2017/18, the intensity of its pressures and its loss of grant mean the council does not balance its budget in 2017/18 or the subsequent years of the MTFP. In setting council tax strategy, the council aims to balance its 2017/18 budget and to achieve a long term sustainable financial position for up to the next decade through a council tax rise of 15% (including 3% ASC precept). Tables 14 and 15 show the council's proposed gross funding and expenditure budgets for 2017/18 and over the MTFP 2017-20 period. Table 14 highlights the line of council tax revenue, as this is the main differentiator between the proposed and the substitute budgets.

Table 14 Surrey County Council proposed gross funding budget 2017-20

	2017/18	2018/19	2019/20
	£m	£m	£m
<i>Council Tax</i>	-696	-715	-736
ASC precept	-32	-55	-57
Bus Rates	-48	-49	-51
Top up	-61	-62	-47
RSG	-28	-5	0
Trans Relief	-12	0	0
DSG	-532	-532	-532
Gov Grants	-164	-156	-152
Partner Funding	-1	-1	-1
Other Income	-155	-160	-163
Proposed gross funding budget	-1,729	-1,735	-1,739

Table 15 Surrey County Council proposed gross expenditure budget and MTFP 2017-20

	2017/18	2018/19	2019/20
	£m	£m	£m
Adult Social Care	453	466	488
Public Health	38	37	36
Children, Schools & Families	387	382	381
Delegated Schools Budget	432	432	432
Environment & Infrastructure	141	144	149
Fire & Rescue Service	44	46	43
Customer & Communities	9	9	9
Legal, Democratic & Cultural services	33	31	31
Business Services & Orbis (70% SCC contribution)	44	42	41
Business Services managed budgets	53	54	55
Organisational Leadership & Performance	10	10	10
Central Income & Expenditure	52	51	56
Additional pressures	0	5	12
Proposed gross expenditure budget	1,696	1,709	1,743
Shortfall / Surplus (-) of gross funding to gross expenditure	-33	-26	4

94. By proposing a budget that exceeds the Secretary of State's view of an excessive rise, the council must put its proposal to a referendum and prepare a substitute budget that does not breach the Secretary of State's limit.

Substitute budget

95. In the event the council does not win the referendum, it must implement its substitute budget. Tables 16 and 17 show the council's substitute gross funding and gross expenditure budgets for 2017/18 and MTFP 2017-20. Rather than be in a position to sustain services as under the proposed budget, **the substitute budget requires further significant service reductions to be found of £30m in 2017/18, rising to £73m by 2019/20.**
96. Table 16 highlights the line of council tax revenues as this is the main differentiator between the proposed and substitute budgets. Table 14 shows the proposed budget raises £696m council tax in 2017/18, rising to £736m in 2019/20 compared to the substitute budget raising £635m council tax in 2017/18, rising to £671m in 2019/20. The substitute budget council tax rise in 2017/18 is 4.99% in line with the Secretary of State's determination of excessiveness. The council tax rises in 2018/19 and 2019/20 are in line with government guidance i.e. 5% and 2% respectively.

Table 16 Surrey County Council substitute gross funding budget 2017-20

	2017/18	2018/19	2019/20
	£m	£m	£m
<i>Council tax</i>	-635	-652	-671
ASC precept	-31	-51	-53
Business rates	-48	-49	-51
Top up	-61	-62	-47
RSG	-28	-5	0
Transition Grant	-12	0	0
Dedicated Schools Grant	-532	-532	-532
Other Government grants	-163	-156	-152
Partner funding	-1	-1	-1
Other income	-155	-160	-163
Substitute gross funding budget	-1,666	-1,668	-1,670

97. Table 17 has a line of unidentified service reductions which shows how much lower the council's expenditure would need to be to balance the substitute budget and that the actions to identify and implement those reductions have yet to be identified. This line does not appear in the proposed budget, because there are no further savings to find as the budget balances from the beginning of the year.

Table 17 Surrey County Council substitute gross expenditure budget and MTFP 2017-20

	2017/18	2018/19	2019/20
	£m	£m	£m
<i>Unidentified service reductions</i>	-30	-41	-73
Adult Social Care	453	466	488
Public Health	38	37	36
Children, Schools & Families	387	382	381
Delegated Schools Budget	432	432	432
Environment & Infrastructure	141	144	149
Fire & Rescue Service	44	46	43
Customer & Communities	9	9	9
Legal, Democratic & Cultural services	33	31	31
Business Services & Orbis (70% SCC contribution)	44	42	41
Business services managed budgets	52	51	56
Organisational Leadership & Performance	10	10	10
Central Income & Expenditure	53	53	56
Additional pressures	0	5	12
Substitute gross expenditure budget	1,666	1,668	1,670

Shortfall / Surplus (-) of gross funding to gross expenditure	0	0	0
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98. In addition to the actions required to manage the delivery of the proposed budget (see paragraph 92) there is a further requirement for a transparent Member-led process, in conjunction with officers, to find and implement an additional £30m of cuts to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this

may require cuts greater than £30m to reflect that only a part year benefit will be achievable).

99. Because a referendum on the proposed council tax would not happen until 4 May 2017, the council would lose time beginning the extra work to achieve the additional £30m service reductions it would need to find within 2017/18. Given the late start, the requirement for consultation and equalities assessments, and time to agree plan and implement the service reduction measures, the time available to put actions in place and see the effects of the additional service reductions could be less than six months. Indeed during a review of the council's financial resilience carried out by the Chartered Institute for Public Finance and Accountancy (CIPFA) commented that it would only be realistic to achieve a quarter year reductions from actions not already planned. On average, the savings gap due to the late start will accrue at £2.5m each month. To achieve 2017/18's ongoing efficiency savings amounting to £30m within what is realistically a much shorter timescale, the council could:
- bring forward and implement all of 2018/19's savings on an annual ongoing basis during 2017/18 to make up for the shorter timescale to accrue the savings;
 - fill the ongoing efficiency gap with one-off reductions; or
 - a mixture of the two.

RISKS AND UNCERTAINTIES

100. In balancing the 2017/18 revenue budget and looking ahead for the remaining two years of the MTFP (2018-20), the council has taken account of the key risks and uncertainties it faces. The main areas of risk include:
- the outcome of the referendum on the proposed 2017/18 budget council tax increase;
 - is it possible for directors to identify and deliver sufficient service reductions to achieve a balanced budget and one that moves towards a sustainable budget;
 - the on-going effectiveness of the council's existing efficiencies, savings and service reductions programme included in the proposed budget;
 - the on-going growth in demographic demands on services; and
 - confirmation of outstanding grant allocations.

CAPITAL PROGRAMME 2017-20

Capital budget planning

101. The council set a five year capital programme totalling £638m in MTFP 2016-21. In April 2016, it approved a range of underspends to be carried forward, bringing the total for five years to £651.3m.
102. In year changes to the capital programme include additional approved schemes, additional grant notifications and reductions in planned expenditure for some schemes, specifically SEND (special educational needs and disabilities) and looked after children as well as some reductions and reprofiling in relation to new school places. In addition to these changes, the capital programme in MTFP 2017-20 takes account of the council's new financial environment. The revised proposed four year capital programme totals £408m. The focus remains on the continuing forecast growth in

school pupil numbers (£141m) and the importance residents place on good roads (£112m).

Capital position 2016/17

103. The forecast in-year variance on the 2016/17 capital programme as at 30 November 2016 is an underspend of £14m against the approved revised service budget of £153m. The main area of underspend relates to highways and transport.
104. 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 2017 and if approved, the amounts will be added to the capital programme for 2017-20.

Capital expenditure

105. For 2017/18 the capital investment in school places continues with a capital budget of £72m. Overall, for the period 2017-20, the council will invest an additional £141m to create a further 11,000 school places over the five years 2016-21.
106. Given the current pressures on the council's finances, and the impact of borrowing to fund the capital programme by incurring additional capital financing costs, the council has reduced the planned capital spend on highways which would need to be funded from borrowing from 2018/19 onwards. Investment in roads and transport continues to total £53m in 2017/18 and £112m across the three years to 2020/21.
107. The council plans to invest £13m in information technology over the three years to 2020/21. This includes £7.5m for new equipment and infrastructure and a £3.8m replacement and renewal programme. By making this investment, the council enables and supports further service efficiencies.
108. Table 18 summarises the council's £408m capital programme for the three years of MTFP 2017-20. Annex 5a sets out a more detailed version of the capital programme.

Table 18 Summary capital expenditure programme 2017-20

	2017/18	2018/19	2019/20	2017-20
	£m	£m	£m	£m
Schools Basic Need	72	55	13	140
Highways recurring programme	30	26	24	80
Property & IT recurring programme	24	24	24	72
Property projects	33	11	9	53
Other capital projects	37	16	10	63
Total	196	132	80	408

109. Cabinet requires a detailed and robust business case before considering additional projects for approval.
110. If the referendum does not support the proposed budget, then the MTFP 2017-20 capital programme would require revisions to reduce the impact of borrowing on the

revenue budget. This would require removal of all the capital schemes funded by borrowing, with the exception of those schemes:

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

Capital funding

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

Government grants

112. Government departments have announced some, but not all, capital grants for 2017/18 and even fewer for future years. The grant funding for capital from central government therefore remains unclear. Government departments commonly announce additional grants during the financial year, so the council includes a forecast for these.

113. 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.

114. Table 19 shows the grants expected for 2017/18.

Table 19 Government capital grants 2017/18

Expected Government capital grants	2017/18 £m
School places	59
Schools condition allocation	12
Integrated transport block	5
Highways maintenance	15
Local Growth Fund	18
Other capital grants	12
Total expected grants	121

115. Capital grants for years beyond 2017/18 are less certain and MTFP 2017-20 includes an estimate for each year. The council reviews this estimate each year and makes equivalent adjustments to the capital programme.

Third party contributions

116. The council also uses contributions from third parties to fund its capital programme. Third party contributions come largely from developers as community infrastructure levies (CIL) and planning gain agreements under Section 106. The MTFP 2017-20 capital programme relies on £6m third party funding in 2017/18.

Revenue reserves

117. The council uses reserves to fund some items of capital expenditure. It replenishes these reserves from service revenue budgets. The main service revenue reserve is the

IT Equipment Reserve. The MTFP 2017-20 capital programme relies on £19m funding from service revenue reserves in 2017/18.

Borrowing

118. The council borrows to fund the part of the programme remaining after applying the above three funding sources. Over the three years of MTFP 2017-20, the council expects to borrow £94m to balance the proposed capital programme.

119. Table 20 summarises the council's estimated capital funding for the period 2017-20.

Table 20 Capital funding 2017/18 to 2020/21

	2017/18	2018/19	2019/20	2017-20
	£m	£m	£m	£m
Grants	121	85	67	273
Reserves	19	6	2	27
Third party contributions	6	4	4	14
Borrowing	50	37	7	94
Total	196	132	80	408

Capital receipts

120. The council can apply capital receipts more flexibly to fund its investments and it can use these resources to fund its additional portfolio of investments. The council currently has £46m in unapplied capital receipts.

121. During 2016 the Government announced an additional flexibility to allow councils to use capital receipts received between 2016 and 2019 to meet the revenue costs of transformation programmes, within certain conditions. The council is considering its options in relation to this new flexibility and if it chooses to use it, 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

122. In recent years the council has taken a strategic approach to investment. This allows it 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

123. The council sets its minimum level of available general balances at between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. £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 as at 1 April 2017.
124. Going into 2017/18 the Director of Finance recommends the level of general balances remains the same. Although the current expected level of £21.3m is marginally in excess of this, the Director of Finance considers this is prudent to mitigate the increasing risk of non-delivery of service reductions and efficiencies in 2017/18 and to take account that it is usual for the council to receive notification of many revenue and capital grants after it has set its budget.
125. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. Table 13 shows the forecast total balance for all earmarked reserves brought forward at 1 April 2017 is £60m, down from £102m brought forward on 1 April 2016. The main reason for this is the use of £25m of reserves to support the 2016/17 budget. In the previous three years (since 2012/13) the council has drawn £110m from reserves to support the revenue budget.
126. As stated in paragraph 117 the council is planning to use £19m of reserves to support the 2017/18 capital programme budget. During the period 2012/13 to 2015/16, the council used £17m reserves to fund capital and forecasts to use another £6m in 2016/17.
127. 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

128. 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 strategy statement and Appendix 8 sets out the council's treasury management policy statement.
129. On 12 July 2016, as a result of changes in the economic and regulatory environment, specifically the combination of increased counterparty risk (less security arising from new bail in regulations) and further downward pressure on the interest rate environment, Full County Council approved a revised treasury management strategy. This resulted in the adoption of a more focused strategy of internal borrowing over the short term and a move away from long term borrowing towards short term borrowing in order to minimise borrowing costs and unnecessary cash balances.
130. Outstanding long term debt has stayed constant during 2016/17. Financial and geopolitical concerns (including the pending UK exit from the EU and the monetary policy response from the Bank of England) have led to a sharp dip in gilts yields and

therefore the cost of long term and short term debt, and has validated the revised strategy.

131. The proposed position can be summarised as follows.

- A continuation of the existing strategy to take advantage of the unprecedented low interest rates to borrow externally only when required for liquidity purposes and for the short term, while minimising surplus cash balances.
- Maintain the existing counterparty, duration and investment instrument criteria for the management of any surplus cash balances.
- In addition, a review of the calculation of the annual Minimum Revenue Provision (MRP) has been undertaken during 2016/17. Changes to the method of calculation are proposed in the minimum revenue provision policy (Annex 12). The revised calculation continues to ensure the council makes a prudent provision for the repayment of its external debt but does not put unnecessary pressure on the council's revenue budget

132. In order to capitalise on sustained low interest rates and the ability to fund capital expenditure through the use of internal reserves to limit the need for external borrowing, the council approach to borrowing will continue to rely on internal funding for capital expenditure while it remains viable.

133. 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.

134. 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.

135. For 2017/18 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.

CONSULTATION

136. During July 2016 and January 2017, the Leader, Deputy Leader, Chief Executive and Director of Finance held a series of face-to-face briefing with key partners and stakeholder groups, including representatives of Surrey's business community, voluntary sector and trade unions. The feedback from these workshops and meetings was incorporated into the council's budget scenario planning workshops and member briefing sessions.

RISK MANAGEMENT IMPLICATIONS

137. The Strategic Risk Forum, chaired by the Director of Finance, provides a clear direction for managing risk and strengthening resilience to support the council in achieving its priorities and delivering services. The group consists of strategic risk leads and representatives from the Emergency Management team and Internal Audit. The Council Risk and Resilience Forum, comprising service risk and business continuity representatives, focuses on operational risk and shares learning and best practice through formal meetings and workshops.
138. 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.
139. 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, partnership working and implementing new models of delivery to manage service delivery, optimise efficient service delivery and respond to the strategic infrastructure challenges facing the county;
 - the on-going uncontrollable growth in demographic demands on services.
140. After seven years the risk of non-delivery of efficiencies and service reductions is increasing and a number of mechanisms are in place to help manage the risks inherent in the council's budget assumptions, including:
- monthly reporting to Cabinet on budget monitoring forecasts within three weeks of the period end and including remedial management action where required;
 - the operation of a robust risk management approach;
 - the presence of the council's key internal control framework, including the financial regulations and Scheme of Delegation for Financial Management which provides the framework for delegated budget management;
 - the sustaining of good working relations with the external auditor (Grant Thornton);
 - the operation of the internal audit function and its role in assessing controls and processes to highlight any major weaknesses and advise on best practice, and;
 - the continuation of robust arrangements to track and monitor demand growth, the delivery of new savings and determine any additional measures necessary.
141. 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.

142. 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

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

SECTION 151 OFFICER COMMENTARY

144. As required by legislation, the Director of Finance has written a report, attached at Annex 1. In summary, the Director of Finance indicates that the risks have become even more serious since setting last year's budget. Whilst the council's recommended budget, which requires an increase in council tax of 15% and therefore a referendum, will move the council to a long term balanced and sustainable financial position, assuming planned service changes are delivered, it does include risk. The key risk is that the planned service changes may not be straightforward to implement and must comply with equality duties.
145. If the referendum is unsuccessful, the substitute budget requires early and intense work led by Members to confirm an additional £30m of service reductions to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this will require the council to reduce its spending by £30m to achieve a balanced budget in less than a whole year). In recognition of the complexities in delivering this, there is a significant risk that there is likely to be an unplanned need to use reserves on a temporary basis to ensure a balanced budget in 2017/18. Any use of reserves would need to be replenished in 2018/19 to ensure safe levels are held as the council faces further financial uncertainty going into 2019/20 when the Government are planning to change the methodology for funding significant elements of local government (through changes to business rate retention as well as schools funding). It is therefore the view of the Director of Finance that the council should hold the current level of reserves going into 2017/18.

LEGAL IMPLICATIONS – MONITORING OFFICER

146. The Council is under a legal duty to set a balanced budget. This report sets out recommendations to Council for the adoption of a budget and the basis for the level of the council tax for 2017/18. The recommended budget would result in a council tax increase above that laid down in draft principles which have been published by the Secretary of State for 2017-18 and, assuming these become law, would trigger the requirement for a referendum of the Surrey electorate, which would be held on the same day as County elections. In accordance with the requirement of the Local Government Finance Act 1992 the report also set out substitute calculations, which would deliver a balanced budget below the 5% cap set out in the Secretary of State's principles. If Council adopt the recommended budget it would stand in the event that a referendum was successful. If, in a referendum the majority voted against the recommended budget the substitute calculations would take effect, without the requirement for any further Council decision.

147. Members will note that the Director of Finance points out that the recommended budget still requires significant service transformation and efficiencies. Delivering these will impact on public facing services. This budget report does not detail these reductions, but officers have been working to identify and develop options for implementation. This report sets out in paragraph 148 below the public sector equality duty by which Members are bound and follows this with a methodology for ensuring that any future decisions about services flowing from the recommended budget will comply with that duty. The Director of Finance also reminds Members that balancing a substitute budget would require the identification of further substantial and permanent service reductions for implementation in 2017/18 and subsequent years. Any such service reductions and their subsequent impacts have as yet to be identified. In choosing which services to reduce decision makers would have to comply with the public sector equality duty. This of course does not prevent difficult financial decisions, but the possible Member led process described in paragraph 98 of this report (which would be designed to find an additional £30m of cuts to achieve a balanced budget in 2017/18) would need to be conducted in a fair and transparent way and to be sufficiently informed and supported to take those difficult decisions in full consideration of the needs of the different individuals and communities the Council serves, in particular people in those groups defined by reference to protected characteristics.

EQUALITIES AND DIVERSITY

148. 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."
149. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP 2017-20 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 28 March 2017. This analysis will also set out the actions that the council is taking, or will undertake, to mitigate any negative impacts that could arise.
150. The equality impact analysis undertaken for the proposed MTFP 2017-20 will build on the analysis of savings in the MTFP 2016-21. It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.
151. 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.

152. 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.
153. 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

154. 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

155. The detailed budget will be presented to Cabinet on 28 March 2017.

Annexes

- Annex 1 Director of Finance Statutory Report (Section 25 report)
- Annex 2 Treasury management strategy report
- Annex 3 Council tax requirement

Appendices:

- Appendix 1 Surrey County Council: Financial Strategy 2017-20
- Appendix 2 National economic outlook and public spending
- Appendix 3 Provisional government grants for 2017/18 to 2019/20
- Appendix 4 Revenue budget proposals
- Appendix 5 Capital programme proposals 2017/18 to 2019/20
- Appendix 6 Reserves & balances policy statement
- Appendix 7 Projected earmarked reserves and general balances 2016/17 and 2017/18

- 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 Annual minimum revenue provision (MRP) policy statement

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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 robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 1.2. The Council is required to set a balanced budget and in considering the budget, the Council must have due regard to the advice the Director of Finance includes in this report. This is particularly important this year in view of the serious financial challenges facing the council.
- 1.3. For Surrey County Council the Section 151 Officer is the Director of Finance, Sheila Little.
- 1.4. In the equivalent report in February 2016, the Director of Finance indicated that although the level of risk remained significant and the position was very serious, it was her view that the budget proposals recommended by the Cabinet for 2016/17 would produce a balanced budget that was deliverable, and develop a longer term budget that was sustainable so long as several things happened, specifically:
 - Government provided transitional relief in the Final Settlement 2016/17;
 - all existing savings plans were delivered in full, and;
 - that the Public Value Transformation (PVT) programme was adopted, managed and monitored to ensure it identified considerable base budget reductions in costs as soon as is manageable.
- 1.5. Since then although the Government did allocate transitional relief grant over two years to the council this fell short of covering the full extent of the 'shock' reduction in Government grant announced without consultation in the 2016/17 Financial Settlement; of the planned savings for 2016/17 of £83m, the current end of year forecast is for delivery of these planned savings is £63m, a shortfall of £20m. Within this £17m is covered through one-off actions showing even further just how difficult it is to sustain and increase year on year efficiencies in a climate of continuing rises in service demands and reducing Government grant. The Discovery phase of the PVT clarified that the savings already identified are the upper limit of what can be achieved through the transformation programme. Further, the council do not have transformational proposals in place that would meet the additional £50m required.

- 1.6. Although there has been progress in each of these areas none have been to the level needed meaning that **the financial challenges facing Surrey County Council as it sets the budget for 2017/18 are now even more serious.**
- 1.7. In expressing her opinion, the Director of Finance has considered the financial, governance and management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the County Council and its overall financial standing.
- 1.8. The council's proposed budget, which includes a council tax increase of 15%, is subject to a referendum, which means the council is required to also agree a substitute budget with a council tax increase of 5%, that would be put in place if the proposed budget is not supported.
- 1.9. In this context the remainder of this report provides a commentary on the robustness of the two budget proposals and the level of reserves in place to support the Council.

Economic and financial position

- 1.10. Strategically the financial and economic context facing the council remains similar to recent years, which is a continuation of austerity, significant reduction in central Government funding at the same time as increasing demographic pressures for core council services, adult and children's social care in particular.
- 1.11. The Government again announced the Provisional Financial Settlement in December, 15 December 2016. There was little change from the level of funding that was anticipated on the basis of the four year settlement announced the previous year. Although the overall core spending power (CSP) only very marginally changes over the four year period, the Provisional Settlement does confirm the very significant reduction of core central Government funding (-£88m over the period from 2016/17 to 2019/20), met by the very significant increase assumed in locally raised funding from council tax (£103m).
- 1.12. Although there was no new funding announced in the Provisional Settlement, there was some re-distribution of funding: allocating £241m from New Homes Bonus (NHB) to a new grant for one year only to support Adult Social Care, and permitting adult social care authorities to bring forward a 1% ASC precept for each of the next two years. The latter would allow councils to raise the social care precept by 6% over 2 years, i.e. 3% in 2017/18 and 2018/19 rather than the originally announced flexibility of 6% over three years i.e. 2% each year to 2019/20.
- 1.13. It is important to note that the net effect in the Surrey area of the other Provisional Settlement changes is a net outflow of resources from Surrey to elsewhere in the country of £2.2m (the County and Districts & Boroughs

receiving £6.2m less NHB and the County receiving £4m for the adult social care support grant).

- 1.14. Although the four year settlement offer made in the Final Settlement last year (covering 2016/17 to 2019/20) was intended to add certainty, it is worth noting that this covered only around half of the total gross funding of the council. Further, in October 2016 this council decided not to accept the Government's four year offer, one implication of which was to expose the council to the risk of further grant loss if Government needed to find more fiscal reductions in future years. Although Government haven't been required to do this for 2017/18, there remains a risk that this could occur in the remaining two years of the four year offer (2018/19 and 2019/20). This increases the level of uncertainty and the council may need to draw on reserves if the allocated amounts vary from those planned for.
- 1.15. The Government has confirmed the general council tax precept limit, i.e. ignoring the adult social care precept, at 2% without referendum as expected. As mentioned this can be augmented by the addition of the adult social care precept if adopted at up to 3% per year for the next two years or at up to 2% per year for the next three years. It is clear that this does not change the underlying base income after three years in either scenario. It is only a total of 6% either way and therefore adds no capacity over and above the pre-existing capacity announced last year and already assumed in the councils budget plans approved by the Council last year.
- 1.16. At the same time, the Council continues to face significant pressures from the care market as well as increasing year on year demographic demand for targeted services, in particular, but not exclusively, for social care. Public expectation about the level of service from universal service areas (e.g. Highways, Libraries) also continues to increase.
- 1.17. In September 2016 the Council forecast an in year over spend on the revenue budget of £22m if no actions to contain expenditure were implemented. Since then the Chief Executive and Directors have put in place a series of measures and actions to stop or delay expenditure. As a result the current year's budget is moving closer to being balanced at the yearend although as many actions are one-off or short term, there remains an underlying pressure moving into future years' budgets of £22m in 2017/18.
- 1.18. The Council has made over £450m of savings and service reductions since 2010 but its ability to continue to achieve this level of savings in the context of growing demand for its services and reductions in Government funding is increasingly difficult without leading to potential service failures. The Public Value Transformation review conducted this year to find additional changes confirmed this view.

- 1.19. In recognition of the seriousness of the financial challenges facing the Council the Director of Finance, supported by the Chief Executive and Leader, requested the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a financial resilience review in November 2016. As well as looking at comparative spending and costs, the review focused on the accuracy of the council's budget planning assumptions and figures and the long term financial resilience of the Council. The key conclusions were:
- The budget planning assumptions and figures were sound
 - The Council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the Full scale of savings required as soon as possible to match its currently allowed income profile going forward.
- 1.20. CIPFA confirmed that the Council could not manage until 2019/20 through reliance wholly on reserves, which are already somewhat depleted. Furthermore they advised that any service reductions not yet planned would only have a part year impact in 2017/18 due to the need for public consultation and equality impact assessment ahead of implementation. They estimated only a quarter year effect of savings not already planned.

Reserves and balances

- 1.21. The Council holds general balances that allow the council to respond to unexpected emergencies and earmarked reserves set aside for specific purposes. Between 2009-12 this council sensibly increased the level of reserves in anticipation of austerity impacting. Since 2012/13 the Council has applied £110m of reserves to support the Budget. As explained below, it is the view of the Director of Finance that the level of reserves are now at a minimum safe level in light of the continuing and significant risks facing the council in terms of on-going increasing demands and limited local ability to manage the level of funding to keep pace with growing service demands.
- 1.22. The final accounts for 2015/16 show available general balances at 31 March 2016 of £21.3m. The latest budget monitoring position for 2016/17 forecasts that this level will be maintained at £21.3m by 31 March 2017. Appropriate levels of general balances are necessary to be maintained so that the Council can respond to unexpected emergencies. In recent years this balance has been set at between 2.0% and 2.5% of the sum of council tax and settlement funding, i.e. £16m to £20m. Although the current expected level is marginally in excess of this, the Director of Finance considers this prudent in view of the increasingly high level of service reductions and efficiencies required for the last 6 years (the average between 2010 and 2015 was around £66m, and this was consistently delivered), but this has increased to £83m for 2016/17 and as at 30 November 2016 only £63m of that is forecast to be delivered
- 1.23. Details of all the Council's earmarked reserves are set out in Appendix 7. These are funds set aside for specific purposes and agreed by the Cabinet.

The forecast total balance for all earmarked reserves carried forward at 1 April 2017 is £60m, down from £102m brought forward on 1 April 2016.

Risks and mitigating actions

- 1.24. 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 2016/17 and will continue into 2017/18. 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 2017/18.
- 1.25. 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, partnership working and implementing new models of delivery to manage service delivery, optimise efficient service delivery and respond to the strategic infrastructure challenges facing the county;
 - the on-going uncontrollable growth in demographic demands on services.
- 1.26. After seven years the risk of non-delivery of efficiencies and service reductions is increasing and to recognise 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 three weeks of the period end and including remedial management action where required;
 - the operation of a robust risk management approach;
 - the presence of the council's key internal control framework, including the financial regulations and Scheme of Delegation for Financial Management which provides the framework for delegated budget management;
 - the sustaining of good working relations with the external auditor (Grant Thornton);
 - the operation of the internal audit function and its role in assessing controls and processes to highlight any major weaknesses and advise on best practice, and;
 - the continuation of robust arrangements to track and monitor demand growth, the delivery of new savings and determine any additional measures necessary.

Proposed and substitute budget

- 1.27. Despite determining a £170m savings programme for the next three years including £93m in 2017/18, the intensity of its pressures, desire to minimise service cuts and its loss of Government grant mean the Council does not balance its budget in 2017/18 or the subsequent years of the MTFP (£30m 2017/18, rising to £41m in 2018/19 and rising further to £73m by 2019/20). In setting council tax strategy, the council proposes to balance its 2017/18 budget and to achieve a long term sustainable financial position (up to the next decade), through a council tax rise of 14.99% (including 3% ASC precept), followed by a total of 4.99% in 2018/19 and 1.99% in 2019/20 in line with existing flexibilities.
- 1.28. This level of council tax increase proposed for 2017/18 breaches the limit set by the Secretary of State for the Department of Communities and Local Government (DCLG) (and will require a referendum on 4 May 2017. If not supported, the council tax increase will be 4.99%. Since the referendum must take place after the financial year has started, the substitute budget would have less than a full year in which to achieve the service reductions required to produce a balanced budget for 2017/18.

Prudential Indicators

- 1.29. 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 current Treasury Strategy, which was updated and approved in July 2016, the Council has not entered into any additional long-term borrowing during 2016/17. Short-term borrowing from other local authorities has been used to manage cash-flow requirements.
- 1.30. Looking ahead in to 2017/18, it is planned to continue the strategy of maximising internal borrowing in order to minimise cash balances and borrowing costs.

Conclusion: Proposed budget

- 1.31. In agreeing the proposed budget the Council would effectively 're-set' the level of baseline funding and **it is the Director of Finance view that this would mean the council's finances become sustainable for the long term future so long as the substantial planned on-going service efficiencies and transformations totaling £93m are delivered.** This years' experience of difficulty in delivering year on year service reductions requires that the current, already minimum safe level of reserves and balances are retained going into 2017/18.

Conclusion: Substitute budget

- 1.32. The substitute budget that the Council will be required to implement if the proposed budget is not supported through the referendum represents a very serious threat to the council's financial sustainability. As well as **requiring significant additional savings** to be identified in detail (a further £30m for 2017/18 rising to £41m for 2018/19 and £73m for 2019/20), **the need to implement this budget part way through the year exacerbates the seriousness and means that the £30m would need to be found over only 10 months.** In reality probably even less time due to the inevitable consultation and other processes that would be required for actual implementation in the event of a failure to carry the proposed council tax increase.
- 1.33. **It is the view of the Director of Finance that the substitute budget includes significant risk of not balancing as additional and material service reductions, in addition to already stretching service reduction plans, are required to be delivered and have not at this stage been identified.** Although the Cabinet plan to require members to lead a process to confirm the additional service cuts to identify a balanced budget and make progress towards a sustainable budget in the event of the substitute budget being required, in reality some of these savings are likely to be one off or only capable of delivering part year savings in 2017/18, clearly one off savings in 2017/18 are of limited help in moving the Council towards a sustainable position. It is the view of the Director of Finance that the Council will be required to make a **significant unplanned use of earmarked reserves** in particular in 2017/18 in the possible range of £20m to £30m. This will take reserves **below the safe minimum levels advised by the Director of Finance unless they are replenished in the following year**, especially those earmarked for other purposes. To achieve that and the more underlying challenge of sustainable service spending and finances will require a fundamental review of the delivery of all council services.

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Treasury Management Strategy Statement and Prudential Indicators 2017/18 to 2020/21

Key issues and decisions

To set the Council's prudential indicators for 2017/18 to 2020/21, approve the minimum revenue provision (MRP) policy for 2017/18 and agree the treasury management strategy for 2017/18.

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. On 12 July 2016, as a result of changes in the economic and regulatory environment, specifically the combination of increased counterparty risk (less security arising from new bail in regulations) and further downward pressure on the interest rate environment, a revised treasury management strategy was approved by full council. This resulted in the adoption of a more focused strategy of internal borrowing over the short term and a move away from long term borrowing towards short term borrowing in order to minimise borrowing costs and unnecessary cash balances. A revised strategy may be brought to full council for approval should circumstances demand.
- 2.3. Outstanding long term debt has stayed constant during 2016/17. Financial and geopolitical concerns (including the pending UK exit from the EU and the monetary policy response from the Bank of England) have led to a sharp dip in gilts yields and therefore the cost of long term and short term debt, and has thus validated the revised strategy.
- 2.4. The proposed position can be summarised as follows.
 - A continuation of the existing strategy to take advantage of the unprecedented low interest rates to borrow externally only when required for liquidity purposes and for the short term, whilst minimising surplus cash balances;
 - Maintain the existing counterparty, duration and investment instrument criteria for the management of any surplus cash balances;
 - In addition, a review of the calculation of the annual Minimum Revenue Provision (MRP) has been undertaken during 2016/17. Changes to the method of calculation are proposed in the policy (Appendix 12). The revised calculation continues to ensure that the Council makes a prudent provision for the repayment of its external debt but does not put unnecessary pressure on the Council's revenue budget.

Reporting requirements

- 2.5. 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;
 - a 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.
- 2.6. 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.
- 2.7. The Council employs Arlingclose as its advisor on all treasury aspects. The monitoring reports will update the Audit and Governance Committee on Arlingclose's progress and performance in advising council officers.

Treasury management strategy for 2017/18

- 2.8. The strategy for 2017/18 covers two main areas:
- Capital:
 - the capital plans and the prudential indicators;
 - the minimum revenue provision (MRP) strategy.

- Treasury Management:
 - the current economic position;
 - the borrowing strategy;
 - treasury indicators which limit the treasury risk and activities of the Council;
 - the investment strategy; and
 - creditworthiness policy.

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

Capital

2.10. 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 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.

2.11. 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.

2.12. Cash being held for other purposes, e.g., earmarked reserves or working capital, can be utilised 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.

2.13. 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 related capital expenditure and may be deferred or borrowed in advance of need. 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.

2.14. 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 2016, with forward projections:

Table 2.1: Current and projected portfolio position

	2015/16 Actual £m	2016/17 Projected £m	2017/18 £m	2018/19 £m	2019/20 £m
External debt					
Capital Finance Requirement at 31 March	903.8	1,084.0	1,143.7	1,154.7	1,124.8
Less Other Long Term Liabilities	160.5	186.7	182.5	162.7	144.1
Borrowing Requirement	743.3	897.3	961.2	992.0	980.7
Actual External Debt at 31 March	429.3	429.3	429.3	429.3	429.3
Under/(over) borrowing	314.0	468.0	531.9	562.7	551.4
Net Financing Need	-	37.6	50.3	37.6	7.4

- 2.15. The table shows the actual external debt (PWLB, the £10m Barclays loan and balances held on behalf of the Police) against the underlying capital borrowing need, the majority of which is held with the Public Works Loans Board (PWLB). The external debt does not include any short term liquidity loans. The authority has adopted a treasury management strategy that favours fixed rate borrowing to provide certainty over borrowing costs and rates of interest. Net financing need will be met by short term liquidity borrowing.
- 2.16. The Council is currently operating 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 2017, the projected level of under-borrowing amounts to £468.0m This strategy is designed to limit the net cost of borrowing by utilising existing balances as well as reducing the overall exposure to counterparty risks by reducing available investment balances.
- 2.17. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates 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.
- 2.18. 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.

Capital prudential indicators 2017/18 to 2020/21

- 2.19. 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.
- 2.20. 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.
- 2.21. The prudential indicators are set out in Appendix 9.

Minimum revenue provision

- 2.22. 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) and is the method by which local authorities charge their revenue accounts over time with the cost of their capital expenditure which is funded by borrowing. The Council has a statutory obligation to make a prudent provision for the repayment of its external debt, the Council's policy on (MRP) is shown in Appendix 12.

Economic Environment

- 2.23. The Treasury Strategy is heavily influenced by the economic environment and particularly in relation to interest rates, for both borrowing and investment. The council employs Arlingclose as an external treasury advisor, one key area is to assist the Council to formulate a view on interest rates. Table 2.2 provides Arlingclose's central case for interest rates.

Table 2.2: Prospects for interest rates

	Bank Base Rate %	PWLB borrowing rates			
		5 year %	10 year %	20 year %	50 year %
March 2017	0.25	1.30	1.75	2.30	2.20
June 2017	0.25	1.25	1.70	2.25	2.15
September 2017	0.25	1.25	1.70	2.25	2.15
December 2017	0.25	1.25	1.70	2.25	2.15
March 2018	0.25	1.30	1.75	2.30	2.20
June 2018	0.25	1.30	1.75	2.30	2.20
September 2018	0.25	1.30	1.75	2.30	2.20
December 2018	0.25	1.35	1.80	2.35	2.25
March 2019	0.25	1.40	1.85	2.40	2.30
June 2019	0.25	1.45	1.90	2.45	2.35
September 2019	0.25	1.50	1.95	2.50	2.40
December 2019	0.25	1.55	2.00	2.55	2.45
March 2020	0.25	1.60	2.05	2.60	2.50

- 2.24. A major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty (subject to some clarification in January 2017) over whether leaving the European Union also means leaving the single market. Negotiations are expected to formally start once the UK triggers Article 50, expected in March 2017 and last for at least two years. Uncertainty over the UK's future economic prospects will therefore remain throughout 2017/18.
- 2.25. The fall and continuing weakness in Sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation (CPI) will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through short term inflation overshoots over the course of 2017/18 when setting interest rates so as to avoid derailing the economy.
- 2.26. Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

- 2.27. Looking overseas, with the US economy and its labour market showing steady improvement, the US Federal Reserve increased interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further monetary action.
- 2.28. The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the French presidential and general elections (April to June 2017) and the German federal elections (August to October 2017) have the potential for upsets.
- 2.29. Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.
- 2.30. 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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the authority. Returns from cash deposits, however, continue to fall.
- 2.31. The Authority's treasury advisor Arlingclose's central case is for the UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the bank rate look less likely. A negative UK bank rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of sharp falls in GDP growth and concerns over leaving the European Union.
- 2.32. Since the US presidential election, gilt yields have risen, but remain at low levels. The Arlingclose central case is for yields to decline when the Government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility in order to keep long-term interest rates low.
- 2.33. Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. Markets will continue to be monitored carefully and the Council will adopt a pragmatic approach to changing circumstances in relation to its borrowing strategy. Further analysis of the UK and global economic outlook is shown as Appendix 10.

Borrowing strategy

- 2.34. The Authority currently holds £397.2m of long term loans as part of its strategy for funding previous years' capital programmes. The authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.
- 2.35. Given the significant budgetary pressure facing the Council both from sources of funding and service demands, the authority's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio.
- 2.36. The proposed borrowing strategy for 2017/18 will be a continuation of the use of internal and short term external borrowing to meet the capital strategy. With the large gap between short term and long term interest rates likely to continue for the medium term there is a significant advantage for the Council to utilise short term borrowing.
- 2.37. By doing so, the authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates may rise. Arlingclose will assist the authority with this 'cost of carry' and breakeven analysis. Significant changes in current or forecast interest rates may mean that longer term borrowing becomes more cost effective, but this outcome is not expected.
- 2.38. Alternatively, the authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

Sources of borrowing

- 2.39. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except Surrey Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
 - UK Local Authorities and other public bodies.
- 2.40. The Authority has previously raised the majority of its long-term borrowing from the PWLB. For short term borrowing the Council will likely use other sources rather than the PWLB, such as other local authorities, public bodies and pension funds as the cost of borrowing is significantly lower in the short term.

Municipal Bond Agency

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

LOBOs

- 2.42. The Authority held a £10m LOBO (Lender's Option Borrower's Option) loan where the lender had the option to propose an increase in the interest rate as set dates, following which the authority had the option to either accept the new rate or to repay the loan at no additional cost. This LOBO has since been converted into a fixed term, fixed rate loan for the original duration of the instrument and is now classified in the authority's balance sheet as a fixed rate bank loan.

Debt Rescheduling

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

Treasury management limits on activity

- 2.44. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function, thereby managing risk and limiting exposure to 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.
- 2.45. Cabinet is asked to recommend the Council approves the treasury indicators and limits in Table 2.3.

Table 2.3: Treasury indicators and limits

	2017/18 to 2021/22		2016/17 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%

UK Treasury Management Delegation

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

Investment Strategy

- 2.47. The Authority is currently operating with limited investment funds. The strategy of internal borrowing, supplemented by short term borrowing when necessary has significantly reduced current and forecast investment balances for the year.
- 2.48. Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the optimal rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 2.49. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which may feed through to negative interest rates on many low risk, short-term investment options. This situation already exists in a number of other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 2.50. Given the increasing risk and lower returns from short-term unsecured bank investments, the authority will aim to place its surplus cash balances in secure, liquid asset classes during 2017/18. All of the authority's surplus cash is currently invested in short-term deposits with local authorities, money market or enhanced cash funds
- 2.51. The borrowing strategy as outlined will lead to reduced investment balances and a requirement to maintain readily accessible funds to limit the amount of borrowing required.

2.52. The Director of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the 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 duration or value limits need to be revised, amendments will be recommended to the Audit & Governance Committee.

Creditworthiness policy

2.53. The primary principle governing the Council's investment criteria is the security of its investments, followed by the availability or liquidity of the funds with the yield or return on the investment is also a key consideration. 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).

2.54. 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.

2.55. 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 three agencies with two 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.

2.56. Any counterparty failing to meet the criteria would be omitted from the counterparty 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.

2.57. The criteria for investment counterparties and instruments is set out below (both specified and non-specified investments).

- **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.
The council will only use banks meet the following criteria
 - Short term: F1/P1/A1 (Fitch, Moodys, S&P)
 - Long term A-/A3/A-
 - UK domiciled
 - are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA
 - HSBC as the Council' main bank provider for transactional purposes with minimal overnight balances if the bank does not meet the credit rating criteria above.
 - Bank subsidiaries where the parent bank has provided an appropriate guarantee and meets the rating criteria.

- **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.

- **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 AAA ratings (from two of the three rating agencies) up to a maximum of £175m (with a maximum of £25m per Money Market Fund)

- **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. Deposits with a single local authority or public body are limited to £20m, with no such limit in place for a UK national government body, e.g DMO.

- **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 with a maximum exposure of £20m.

- **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) with a maximum combined limit of £20m for enhanced cash/bond funds.

- **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. The strategy has set a maximum combined limit of £20m for pooled property funds.

Country restrictions

2.58. 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 up to a maximum of £40m per country. This restriction does not apply to the UK, which has seen its AAA rating reduced. The following countries are rated AAA:

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

Time and monetary limits applying to investments

2.59. 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 day:** Unsecured Banks Building Societies A- and above
- **6 months:** Unsecured Banks Building Societies A and above
- **13 months:** Unsecured Banks Building Societies AA- and above
- **2 years:** Corporate Bonds
- **5 years:** Bank/Building Society (Secured) Covered Bonds, Debt Management Office, Supranational Institutions, Local Authority

2.60. Further internal restrictions may be applied based upon market conditions or recommendations from Arlingclose.

2.61. The proposed criteria for specified and non-specified investments are shown in table 2.4

Table 2.4: Effective Counterparty Limits

Type	Fitch		Moody's		S&P		Maximum Value	Maximum Term
	Short Term	Long Term	Short Term	Long Term	Short Term	Long 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

Use of additional information other than credit ratings

2.62. 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.

Investment returns expectations

2.63. The Bank Rate is forecast by Arlingclose to remain unchanged at 0.25% for some considerable time. Arlingclose forecasts the financial year ends (March) as follows:

2016/17	2017/18	2018/19	2019/20
0.25%	0.25%	0.25%	0.25%

2.64. 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.

2.65. 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:

2016/17	0.40%
2017/18	0.40%
2018/19	0.40%
2019/20	0.65%

Specified Investments

2.66. 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.

2.67. 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 Investment Limits

2.68. 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 2.5 below.

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

Table 2.5: Non Specified Investment Limits

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

Investment risk benchmarking

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

Security

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

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

Liquidity

2.72. The Council currently restricts deposits with each counterparty to term deposits only, the length of which is based upon individual assessment of each counterparty. In respect of its liquidity, the Council seeks to maintain the following:

- Bank overdraft: £100,000;
- No minimum target relating to liquid short term deposits;
- Weighted average life benchmark is expected to be less than three months.

Yield

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

Policy on Use of Financial Derivatives

2.74. 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).

- 2.75. 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.
- 2.76. 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

- 2.77. 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.
- 2.78. 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

- 2.79. 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.

2.80. These indicators will be reported to the Audit & Governance Committee in the quarterly and half yearly reports, due after 30 September 2017, and the treasury management outturn report for 2017/18.

End of year investment report

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

Training

2.82. 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 regular newsletters and regular update calls/meetings will be held with Arlingclose.

2.83. 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.

External fund managers

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

Lead/contact officer:

Treasury Phil Triggs, Strategic Finance Manager, Pension Fund & Treasury
020 8541 9894

Capital Wai Lok, Senior Accountant
020 8541 7756

Appendices:

Appendix 8	Treasury Management Policy
Appendix 9	Prudential indicators – 2017/18 – 2020/21
Appendix 10	Global economic outlook and the UK economy
Appendix 11	Treasury management scheme of delegation
Appendix 12	Annual minimum revenue provision 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

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PURPOSE

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

VISION

ONE place
ONE budget
ONE team for Surrey

VALUES



Listen



Responsibility



Trust



Respect

Context

The Conservative government has confirmed it plans to continue the programme of deficit reduction over the lifetime of this Parliament. The themes in the Chancellor's 2016 Autumn Statement reflect downgraded economic forecasts, looser fiscal rules and investment to support the economy. Within this, public services are expected to provide taxpayers and resident ever better value and work more in partnerships to improve outcomes. As the move to 100% business rates retention and more local financial independence nears, the devolution agenda increases, passing greater powers and responsibilities to local authority areas. Meanwhile, demands for council services continue to grow. In particular social care services supporting vulnerable adults and children.

SECURING STEWARDSHIP:

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



ENSURING SUSTAINABILITY:

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



ENABLING TRANSFORMATION:

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



BUILDING PARTNERSHIPS:

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



Our strategic approach

1. Principles

We will better value outcomes through continual improvement by:

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

2. Method

Our financial planning will support corporate strategic goals by:

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

3. Actions

Our financial management arrangements will provide:

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

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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. The Government has formally abandoned its ambition to balance the budget during the current Parliament and public sector borrowing is now expected to fall much more slowly than was thought last year. The Office for Budget Responsibility (OBR) assessed this in its November 2016 report and forecast that the cyclically adjusted current budget (CACB) will move from a deficit of 2.0% of GDP in 2015/16 to a surplus in 2018-19. The surplus will then rise to 1.6% 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 0.7% of Gross Domestic Product (GDP) by 2021/22 compared with 4.0% in 2015/16. However, OBR expects the Government's cumulative borrowing or total amount of debt owed, Public Sector Net Debt (PSND), to rise to 90.2% of GDP in 2017/18 before beginning to fall in the years thereafter, and it is not expected to fall below current levels until 2021/22.

Table A2:1: UK borrowing levels as a percentage of GDP between 2015/16 and 2021/22

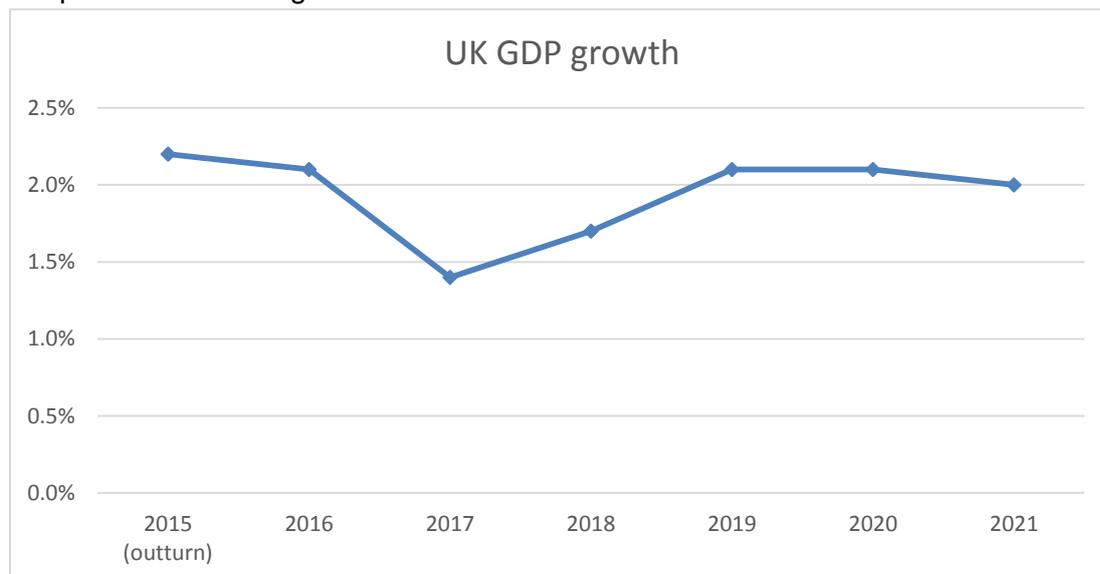
	←----- Percentage of GDP -----→						
	Outturn 2015/16	←----- Forecast -----→					
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Cyclically adjusted current budget deficit	2.0	1.4	0.5	-0.1	-1.1	-1.5	-1.6
Public Sector Net Borrowing ¹	4.0	3.5	2.9	2.2	1.0	0.9	0.7
Public Sector Net Debt	84.2	87.3	90.2	89.7	88.0	84.8	81.6

¹ Excluding Royal Mail and APF Transfers

Source: Office for Budget Responsibility, *Economic and Fiscal Outlook November 2016*

A.2.4. Graph A2:1 shows the OBR's growth figures for the next five years. OBR's forecast for growth in 2017 falls to 2.1% however, growth is then expected to rise year on year until 2019, when it will become more stable. This immediate predicted fall in growth is based on lower consumption caused by higher inflation weighing on household incomes and post-referendum uncertainty. This is somewhat offset by the growth anticipated as a result of the Chancellor's loosening of fiscal targets as announced in the Autumn Statement. From 2018 onwards, growth is expected to rise again as business investment and consumer spending increase while inflation eases.

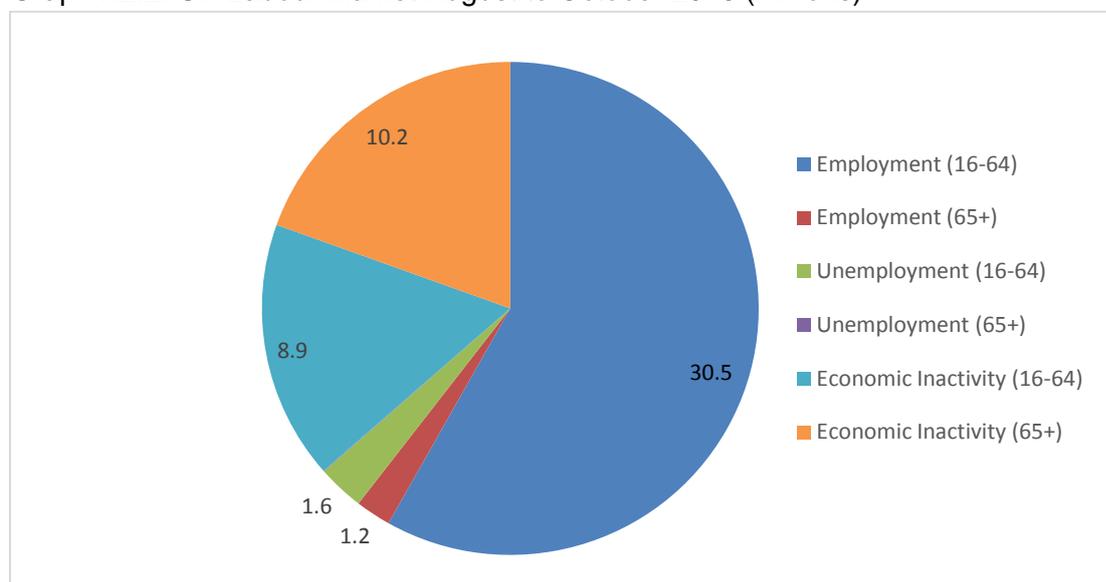
Graph A2:1 UK GDP growth:



Source: Office for Budget Responsibility, Economic and Fiscal Outlook November 2016

A.2.5. National unemployment is continuing to decline. For the period August and October 2016, compared with the same period in 2015, the number of people in employment increased by 342,000 to 31.8 million. Meanwhile, the number of unemployed people fell by 103,000 to 1.6 million and the number of people aged from 16 to 64 not in the labour force fell by 56,000 to 9 million. In the third quarter of 2016, the unemployment rate currently stood at 4.8% of the labour force, but the OBR predicts that while GDP growth is slow, this will rise again in 2017 and reach 5.5% by the end of 2018.

Graph A2:2: UK Labour Market August to October 2016 (millions)

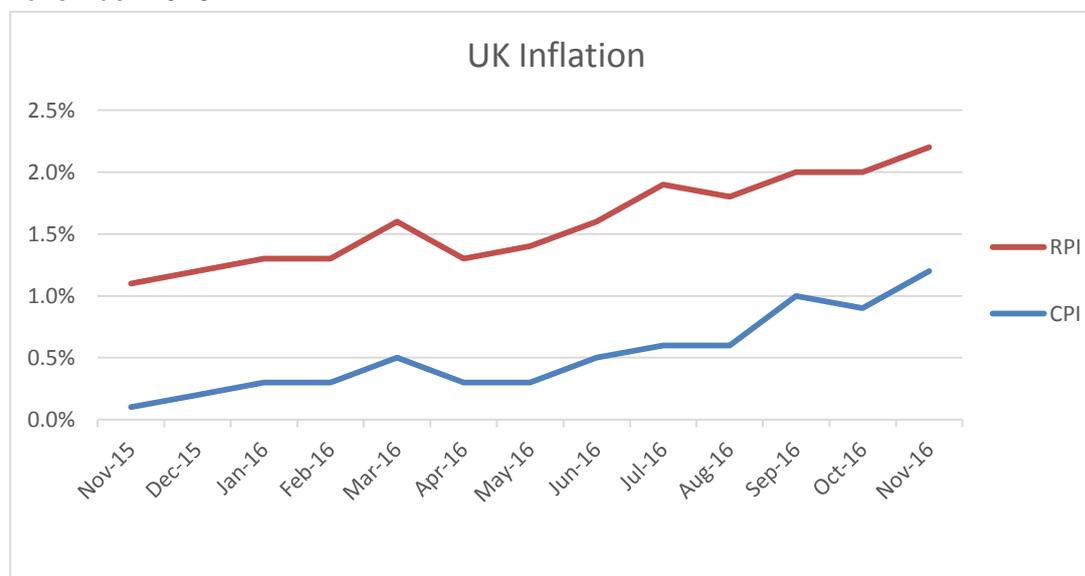


Source: Office for National Statistics, UK Labour Market Dec 2016

A.2.6. Graph A2:3 shows UK Consumer Price Index (CPI) and Retail Price Index (RPI) inflation between November 2015 and November 2016. In the year to November 2016, CPI rose by 1.2%, compared to a rise of 0.9% in the year to October. This rate of 1.2% is the highest since October 2014 when it began falling to remain at or

around 0 for much of 2015 and 2016. The rise in CPI is caused by the increase in price of most goods, with the notable exceptions of food and non-alcoholic beverages.

Graph A2:3: UK annual inflationary measures of CPI and RPI between November 2015 and November 2016.



Source: Office for National Statistics, Consumer Price Inflation November 2016

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 remained until August 2016, when it was cut again to 0.25%, an all-time low. The base rate is expected to stay very low for the next five years, reaching just 0.9% by 2021.

A.2.8. On 23 November 2016, the Chancellor of the Exchequer, Phillip Hammond, presented his Autumn Statement and Spending Review 2016. The main headlines from this were the downgrade of economic forecasts and the consequent downgrade in forecast living standards, and the abandoning of the aim to have a budget surplus by the end of the Parliament. The OBR have revised their projections for national income in 2020/21 down by £30 billion, the equivalent of £1,000 per household. The projected surplus in 2019-20 has now been turned into a £20 billion deficit.

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 in 2017;
- *Spread economic growth through a devolution revolution*
New powers to be given to local authorities including the implementation 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 as soon as possible in the next Parliament and to maintain a surplus thereafter. 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
- continuation of the social care precept, allowing local authorities to raise the council tax in their area by up to 6% over the next three years above the existing threshold for use exclusively on adult social care.

A.2.11. The national economic outlook has changed significantly in the past year due to the change in leadership in government and the uncertainty surrounding the negotiation of a new relationship with the EU. Since the referendum GDP growth has lowered due to lower net inward migration and lower trend productivity growth. Inflation has also risen as the fall in the pound since the referendum pushes up import prices.

Government Grants	Current	Estimates		
	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Adult Community Learning	2,287	2,207	2,196	2,130
Adult Social Care support grant	0	4,000	0	0
Surrey Area of Outstanding Natural Beauty	103	103	103	103
Asylum Seekers	3,300	3,300	3,300	3,300
Better care fund	25,000	25,000	25,000	26,500
Bikeability	221	213	212	206
Bus service operator grant	1,069	1,069	1,069	1,069
Business Rate cap grant	1,523	1,523	1,523	1,523
Business Rate retention Scheme	1,546	1,546	1,546	1,546
Care Act Implementation Funding	2,984	2,984	2,984	2,984
Dedicated School Grant	532,510	528,606	528,606	528,606
Dedicated School Grant - Corporate Allocation	3,493	3,493	3,493	3,493
Schools direct training grant	181	0	0	0
Education Funding Agency	13,891	11,086	11,086	11,086
Education Services Grant	9,319	3,781	2,781	0
Extended Rights to Travel	128	123	119	115
Sustainable Travel Grant	61	58	58	56
Fire Pension	9,396	8,151	11,456	10,603
Fire Revenue	80	80	80	80
Fire Joint Transport	302	289	287	276
Independent Living Fund	1,791	1,791	1,791	1,791
Health & Wellbeing	435	419	417	405
Mental Health Deprivation of Liberty	80	80	80	80
Mental Health Transformation Challenge Award	500	0	0	0
Music Grant, Surrey Arts	1,388	1,388	1,388	1,388
New Homes Bonus	6,221	5,055	2,430	1,970
New Homes Bonus returned funding	0	0	0	0
PE & Sport	2,334	2,185	2,185	2,185
Private Financing Initiative	11,045	19,022	16,702	16,702
Police & Crime Panel	61	59	58	57
Public health grant	38,452	37,504	36,529	35,579
Pupil Premium	17,572	17,498	17,498	17,498
Registration deaths	17	17	16	16
Remand Grant	32	32	32	32
Send Implementation	720	0	0	0
Woodland Officer	5	5	5	5
Sustainable Development Fund	30	30	30	30
SE Protected Landscape grants	36	36	36	36
Staying put	275	221	166	166
Troubled Families	972	972	972	972
Universal Infant school Meals	11,470	10,542	10,542	10,542
Youth Justice Board	696	696	696	696
Total Government Grants	701,526	695,164	687,472	683,826
From Appendix 4, Overall Subjective table:				
DSG	532,510	532,099	532,099	532,099
Gov Grants	169,016	163,065	155,373	151,727
Total	701,526	695,164	687,472	683,826

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		Overall			
		Current	Estimate		
		16/17	17/18	18/19	19/20
		£'000	£'000	£'000	£'000
Services					
Adults So	Adult Social Care	368,607	389,623	399,972	420,687
Public He	Public Health	324	324	324	324
Children,	Children, Schools & Families	197,657	201,082	195,563	194,244
Schools	Delegated Schools Budget	0	0	0	0
Environm	Environment & Infrastructure	124,598	126,497	128,790	134,390
Fire & res	Fire & Rescue Service	33,197	32,238	30,133	28,717
Customer	Customer & Communities	7,533	7,259	6,895	6,887
Legal, De	Legal, Democratic and Cultural services	17,976	19,109	16,990	16,958
Orbis	Orbis	38,045	37,405	34,649	33,852
Managed	Business Services - Managed services	42,493	41,944	43,010	44,328
	Organisational Leadership and				
Deputy Ci	Performance	9,390	8,866	8,627	8,568
Central is	Central Income & Expenditure	-814,997	-897,010	-890,798	-884,436
Draft Net Budget		24,823	-32,663	-25,846	4,518
Movements					
Open		3,698	24,823	-32,663	-25,846
Funding		13,988	-63,011	-3,965	-3,394
	Pay Inflation		4,800	3,605	3,545
	Non Pay inflation		19,024	19,364	19,530
	Demand		61,515	30,941	21,538
	Legislation		-19,990	-986	-49
	Market / Service Delivery		33,560	7,950	15,347
Pressures		88,203	98,908	60,874	59,911
		105,889	60,720	24,246	30,672
	Efficiency/ Service Transformation		-87,167	-47,965	-25,187
	Service reduction		-6,217	-2,127	-966
	Unidentified savings		0	0	0
Savings		-81,067	-93,384	-50,091	-26,154
Saving Proposals		0	0	0	0
Draft Net Budget		24,823	-32,663	-25,846	4,518
Subjective					
Council Tax		-614,903	-696,226	-714,831	-736,134
ASC precept		-11,829	-32,305	-55,077	-56,735
Bus Rates		-45,468	-48,300	-49,389	-50,503
Top up		-59,406	-60,567	-62,362	-47,093
RSG		-67,078	-28,000	-4,450	0
Trans Relief		-11,926	-12,175	0	0
DSG		-532,510	-532,099	-532,099	-532,099
Gov Grants		-169,016	-163,065	-155,373	-151,727
Partner Funding		-1,033	-926	-882	-874
Other Income		-147,994	-154,983	-159,909	-163,387
Funding		-1,661,164	-1,728,646	-1,734,372	-1,738,552
Expenditure		1,685,986	1,695,982	1,708,527	1,743,070
Draft Net Budget		24,823	-32,663	-25,846	4,518

Director for:**Adult Social Care**

	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Adult Social Care	368,607	389,623	399,972	420,687
Draft Net Budget	368,607	389,623	399,972	420,687
Movements				
Open	371,800	368,607	389,623	399,972
Funding	-4,139	-2,589	-2,270	-1,837
Pay Inflation	574	1,957	474	439
Non Pay inflation	7,014	7,737	7,535	7,649
Demand	23,623	22,149	20,887	20,640
Legislation	702	-500	0	0
Market / Service Delivery	24,365	17,824	3,701	3,787
Pressures	56,277	49,166	32,597	32,515
Efficiency/ Service Transformation	-55,332	-25,561	-19,978	-9,963
Service reduction	0	0	0	0
Unidentified savings	0	0	0	0
Savings	-55,332	-25,561	-19,978	-9,963
Draft Net Budget	368,607	389,623	399,972	420,687
Subjective				
Gov Grants	-580	-80	-80	-80
Other Income	-60,351	-63,439	-65,710	-67,547
Funding	-60,931	-63,520	-65,790	-67,627
Expenditure	429,538	453,142	465,762	488,313
Draft Net Budget	368,607	389,623	399,972	420,687

Director for:**Public Health**

	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Public Health	324	324	324	324
Draft Net Budget	324	324	324	324
Movements				
Open	324	324	324	324
Funding	3,085	948	975	950
Pay Inflation	0	45	45	46
Non Pay inflation	0	18	19	19
Market / Service Delivery	-2,735	666	-1,039	-1,015
Pressures	-2,735	729	-975	-950
Efficiency/ Service Transformation	-350	-1,677	0	0
Service reduction	0	0	0	0
Unidentified savings	0	0	0	0
Savings	-350	-1,677	0	0
Draft Net Budget	324	324	324	324
Subjective				
Gov Grants	-38,452	-37,504	-36,529	-35,579
Other Income	0	0	0	0
Funding	-38,452	-37,504	-36,529	-35,579
Expenditure	38,776	37,828	36,853	35,903
Draft Net Budget	324	324	324	324

Director for:

Children, Schools & Families

	Current	Estimate		
	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000
Services				
Children's Services	96,761	105,947	105,024	102,883
Schools & SEND	63,037	61,164	61,022	61,873
Commissioning and Prevention	37,859	33,971	29,517	29,488
Draft Net Budget	197,657	201,082	195,563	194,244
Movements				
Open	178,411	197,657	201,082	195,563
Funding	0	-17,940	0	0
Pay Inflation	1,800	1,700	2,000	2,001
Non Pay inflation	4,498	4,600	5,000	5,000
Demand	10,340	22,345	4,100	1,400
Legislation	6,047	17,460	-1,000	0
Market / Service Delivery	7,361	390	-450	0
Pressures	30,046	46,495	9,650	8,401
Efficiency/ Service Transformation	-9,100	-21,430	-15,169	-9,720
Service reduction	-1,700	-3,700	0	0
Unidentified savings	0	0	0	0
Savings	-10,800	-25,130	-15,169	-9,720
Draft Net Budget	197,657	201,082	195,563	194,244
Subjective				
DSG	-119,131	-137,071	-137,071	-137,071
Gov Grants	-6,293	-6,288	-6,284	-6,280
Other Income	-42,232	-42,381	-42,940	-43,511
Funding	-167,656	-185,740	-186,295	-186,862
Expenditure	365,313	386,822	381,858	381,106
Draft Net Budget	197,657	201,082	195,563	194,244

Director for: **Delegated Schools Budget**

	Current	Estimate		
	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000
Services				
Delegated Schools Budget	0	0	0	0
Draft Net Budget	0	0	0	0
Movements				
Open	0	0	0	0
Funding	11,376	25,981	0	0
Demand	0	11,576	0	0
Legislation	0	-36,868	0	0
Market / Service Delivery	-11,376	-689	0	0
Pressures	-11,376	-25,981	0	0
Savings	0	0	0	0
Draft Net Budget	0	0	0	0
Subjective				
DSG	-413,379	-391,535	-391,535	-391,535
Gov Grants	-44,283	-40,146	-40,146	-40,146
Funding	-457,662	-431,681	-431,681	-431,681
Expenditure	457,662	431,681	431,681	431,681
Draft Net Budget	0	0	0	0

Director for:**Environment & Infrastructure**

	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Environment & Planning	79,721	81,380	84,138	89,416
Highways & Transport	44,375	44,627	44,174	44,509
Emergency Management	502	490	478	465
Draft Net Budget	124,598	126,497	128,790	134,390
Movements				
Open	124,601	124,598	126,497	128,790
Funding	1,666	-291	-307	-268
Pay Inflation	439	446	454	461
Non Pay inflation	3,799	4,127	4,205	4,171
Demand	8,934	5,345	5,954	-502
Legislation	970	0	0	0
Market / Service Delivery	-10,240	1,589	-2,586	3,597
Pressures	3,902	11,507	8,027	7,727
Efficiency/ Service Transformation	-4,621	-7,417	-3,766	-893
Service reduction	-950	-1,900	-1,661	-966
Unidentified savings	0	0	0	0
Savings	-5,571	-9,317	-5,427	-1,859
Draft Net Budget	124,598	126,497	128,790	134,390
Subjective				
Gov Grants	-1,525	-1,514	-1,513	-1,505
Other Income	-12,604	-12,926	-13,254	-13,550
Funding	-14,129	-14,440	-14,767	-15,055
Expenditure	138,727	140,937	143,557	149,445
Draft Net Budget	124,598	126,497	128,790	134,390

Director for: Fire & Rescue Service

	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Surrey Fire & Rescue Service	33,197	32,238	30,133	28,717
Draft Net Budget	33,197	32,238	30,133	28,717
Movements				
Open	34,883	33,197	32,238	30,133
Funding	-1,480	2,707	-3,327	826
Pay Inflation	0	0	0	0
Non Pay inflation	514	517	515	537
Demand	0	0	0	0
Legislation	-640	-13	0	0
Market / Service Delivery	1,220	-1,000	3,207	-979
Pressures	1,094	-496	3,722	-442
Efficiency/ Service Transformation	-1,300	-3,170	-2,500	-1,800
Service reduction	0	0	0	0
Unidentified savings	0	0	0	0
Savings	-1,300	-3,170	-2,500	-1,800
Draft Net Budget	33,197	32,238	30,133	28,717
Subjective				
Gov Grants	-9,778	-8,520	-11,823	-10,959
Other Income	-3,794	-3,502	-3,526	-3,564
Funding	-13,572	-12,022	-15,349	-14,523
Expenditure	46,769	44,260	45,482	43,240
Draft Net Budget	33,197	32,238	30,133	28,717

Director for:**Customer & Communities**

	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Coroner	1,775	1,740	1,716	1,730
Community Partnership & Safety	2,833	2,731	2,500	2,504
Trading Standards	2,006	1,923	1,842	1,826
CC Directorate Support	919	865	837	827
Draft Net Budget	7,533	7,259	6,895	6,887
Movements				
Open	7,116	7,533	7,259	6,895
Funding	-78	-39	-26	-14
Pay Inflation	0	0	0	0
Non Pay inflation	112	129	138	136
Demand	0	0	0	0
Legislation	543	0	0	0
Market / Service Delivery	110	57	26	2
Pressures	765	186	164	138
Efficiency/ Service Transformation	-270	-316	-266	-132
Service reduction	0	-105	-236	0
Unidentified savings	0	0	0	0
Savings	-270	-421	-502	-132
Draft Net Budget	7,533	7,259	6,895	6,887
Subjective				
Gov Grants	0	0	0	0
Partner Funding	-1,033	-926	-882	-874
Other Income	-932	-1,107	-1,239	-1,282
Funding	-1,965	-2,033	-2,121	-2,156
Expenditure	9,498	9,292	9,016	9,043
Draft Net Budget	7,533	7,259	6,895	6,887

Director for:		Legal, Democratic and Cultural services			
	Current	Estimate			
	16/17	17/18	18/19	19/20	
	£'000	£'000	£'000	£'000	
Services					
Legal Services	3,915	3,962	3,884	3,909	
Democratic Services	4,500	5,851	4,535	4,552	
Cultural Services	9,560	9,296	8,571	8,497	
Draft Net Budget	17,975	19,109	16,990	16,958	
Movements					
Open	18,362	17,976	19,109	16,990	
Funding	-230	-77	-147	-97	
Pay Inflation	0	0	0	0	
Non Pay inflation	469	510	516	519	
Demand	0	100	0	0	
Legislation	286	-80	-12	-66	
Market / Service Delivery	-94	1,331	-1,334	1	
Pressures	661	1,861	-830	454	
Efficiency/ Service Transformation	-818	-283	-1,042	-389	
Service reduction	0	-367	-100	0	
Unidentified savings	0	0	0	0	
Savings	-818	-650	-1,142	-389	
Draft Net Budget	17,976	19,109	16,990	16,958	
Subjective					
Gov Grants	-3,753	-3,671	-3,658	-3,591	
Other Income	-9,928	-10,087	-10,247	-10,411	
Funding	-13,681	-13,758	-13,905	-14,002	
Expenditure	31,656	32,867	30,895	30,960	
Draft Net Budget	17,976	19,109	16,990	16,958	

Director for:**Orbis (70% Contribution)**

	Current	Estimate		
	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000
Services				
Orbis (70% contribution)	38,045	37,405	34,649	33,852
Draft Net Budget	38,045	37,405	34,649	33,852
Movements				
Prior year position	49,490	53,105	50,529	47,602
Funding	-152	-151	-154	-157
Pay Inflation	874	867	828	784
Non Pay inflation	79	107	110	111
Demand	0	0	0	0
Legislation	1,247	0	0	0
Market / Service Delivery	2,794	220	140	0
Pressures	4,994	1,194	1,078	895
Efficiency/ Service Transformation	-1,227	-3,619	-3,851	0
Service reduction	0	0	0	0
Unidentified savings	0	0	0	0
Savings	-1,227	-3,619	-3,851	0
Draft Net Combined Budget	53,105	50,529	47,602	48,340
Subjective				
ESCC Contribution	15,916	15,144	14,267	14,488
SCC Contribution	37,189	35,385	33,335	33,852
Draft Net Combined Budget	53,105	50,529	47,602	48,340
SCC Contribution	37,189	35,385	33,335	33,852
SCC Investment	856	2,020	1,314	
Expenditure	38,045	37,405	34,649	33,852
Draft Net Budget	38,045	37,405	34,649	33,852

Director for: Business Services - Managed Budgets

	Current	Estimate		
	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000
Services				
Human Resources and Organisational Development	4,590	4,256	4,339	4,424
Technology	12,461	12,365	12,510	12,764
Property	21,266	21,423	22,125	23,015
Procurement	853	868	884	900
Business Operations	227	237	247	257
Finance	3,096	2,795	2,905	2,968
Draft Net Budget	42,493	41,944	43,010	44,328
Movements				
Open	43,634	42,493	41,944	43,010
Funding	23	-38	12	-22
Pay Inflation	24	24	25	25
Non Pay inflation	1,370	1,184	1,237	1,293
Demand	0	0	0	0
Legislation	90	0	0	0
Market / Service Delivery	21	515	38	22
Pressures	1,505	1,723	1,300	1,340
Efficiency/ Service Transformation	-2,669	-2,234	-246	0
Service reduction	0	0	0	0
Unidentified savings	0	0	0	0
Savings	-2,669	-2,234	-246	0
Draft Net Budget	42,493	41,944	43,010	44,328
Subjective				
Gov Grants	0	0	0	0
Other Income	-10,524	-10,683	-10,796	-10,996
Funding	-10,524	-10,683	-10,796	-10,996
Expenditure	53,017	52,627	53,806	55,324
Draft Net Budget	42,493	41,944	43,010	44,328

Director for:	Organisational Leadership and Performance			
	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Strategy & Performance	2,891	2,711	2,677	2,639
Strategic Leadership	1,009	915	931	948
Communications	1,997	1,870	1,757	1,742
Customer Services	3,493	3,370	3,262	3,239
Draft Net Budget	9,390	8,866	8,627	8,568
Movements				
Open	9,341	9,390	8,866	8,627
Funding	346	9	-6	4
Pay Inflation	0	0	0	0
Non Pay inflation	140	147	149	152
Demand	0	0	0	0
Legislation	-260	-16	-2	-12
Market / Service Delivery	-16	0	1	0
Pressures	-136	131	148	140
Efficiency/ Service Transformation	-161	-520	-252	-204
Service reduction	0	-145	-130	0
Unidentified savings	0	0	0	0
Savings	-161	-665	-382	-204
Draft Net Budget	9,390	8,866	8,627	8,568
Subjective				
Gov Grants	-435	-419	-417	-405
Other Income	-480	-487	-494	-502
Funding	-915	-906	-911	-907
Expenditure	10,305	9,772	9,538	9,474
Draft Net Budget	9,390	8,866	8,627	8,568

Director for:	Central Income & Expenditure			
	Current	Estimate		
	16/17	17/18	18/19	19/20
	£'000	£'000	£'000	£'000
Services				
Central Income & Expenditure	-814,997	-897,010	-896,036	-896,439
Additional pressures	0	0	5,238	12,003
Draft Net Budget	-814,997	-897,010	-890,798	-884,436
Movements				
Open	-818,753	-814,997	-897,010	-890,798
Funding	4,729	-71,576	1,238	-2,826
Pay Inflation	0	0	0	0
Non Pay inflation	0	0	0	0
Demand	0	0	0	0
Legislation	-27	27	28	29
Market / Service Delivery	1,992	11,551	7,218	11,246
Pressures	1,964	11,579	7,247	11,275
Efficiency/ Service Transformation	-2,937	-22,016	-2,273	-2,086
Service reduction	0	0	0	0
Unidentified savings	0	0	0	0
Savings	-2,937	-22,016	-2,273	-2,086
Draft Net Budget	-814,997	-897,010	-890,798	-884,436
Subjective				
Council Tax	-614,903	-696,226	-714,831	-736,134
ASC precept	-11,829	-32,305	-55,077	-56,735
Bus Rates	-45,468	-48,300	-49,389	-50,503
Top up	-59,406	-60,567	-62,362	-47,093
RSG	-67,078	-28,000	-4,450	0
Trans Relief	-11,926	-12,175	0	0
DSG	0	-3,493	-3,493	-3,493
Gov Grants	-63,917	-64,923	-54,923	-53,182
Other Income	-495	-3,610	-4,836	-5,047
Funding	-875,022	-949,598	-949,360	-952,186
Expenditure	60,025	52,588	58,562	67,751
Draft Net Budget	-814,997	-897,010	-890,798	-884,436

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Capital Programme 2017 to 2020

Scheme	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Adult Social Care				
Major Adaptations	800	800	800	2,400
In-house capital improvement schemes	100	100	100	300
Adult Social Care	900	900	900	2,700
Children, Schools & Families				
Schools devolved formula capital	1,606	1,606	1,606	4,818
Foster carer grants	300	300	300	900
Adaptations for children with disabilities	299	299	299	897
Children, Schools & Families	2,205	2,205	2,205	6,615
Community Partnership & Safety: Local Committee Allocations				
	385	385	385	1,155
Surrey Fire & Rescue Service				
Fire-Vehicle & Equipment Replacement	2,835	1,120	926	4,881
Fire Joint Transport Project	4,800	0	0	4,800
Surrey Fire & Rescue Service	7,635	1,120	926	9,681
Highways & Transport				
Highway maintenance	14,099	14,774	13,116	41,989
Bridge strengthening	3,215	2,510	2,229	7,954
Flooding & drainage	1,715	1,339	1,189	4,243
Local transport schemes	3,000	400	400	3,800
Safety barriers	1,179	920	817	2,916
Traffic signal replacement	1,286	1,004	891	3,181
Highways Vehicle Replacement	214	167	0	381
Strategic Economic Plan Schemes	22,715	6,427	1,170	30,312
National Productivity Investment Fund	3,451	3,451	3,451	10,353
Flood resilience schemes	536	418	371	1,325
River Thames scheme	500	500	500	1,500
Developer funded schemes	1,200	1,200	1,200	3,600
Highways & Transport	53,110	33,110	25,334	111,554
Environment & Planning				
Maintenance at closed landfill sites	100	100	0	200
Rights of way and byways	85	85	85	255
Road safety schemes	200	200	200	600
Secondary Shopping Areas	750	750	750	2,250
Developer funded schemes	400	400	400	1,200
Cross Directorate CIL schemes	909	1,488	1,796	4,193
Environment & Planning	2,444	3,023	3,231	8,698

Business ServicesRecurring programmes:

Schools capital maint, inc.childrens centres & DDA	12,080	12,080	12,080	36,240
Carbon reduction – Corporate	1,300	1,300	1,300	3,900
Fire risk assessments/minor works/DDA	700	687	600	1,987
Non schools structural maintenance	6,300	6,300	6,295	18,895
Recurring programmes	20,380	20,367	20,275	61,022

Projects:

Fire Station reconfiguration	4,064	1,589	0	5,653
Replace aged demountables	1,200	0	0	1,200
SEN strategy	4,804	1,443	0	6,247
SEND (2 special schools)	0	750	8,750	9,500
Land acquisition for waste	3,667	0	0	3,667
Projects to enhance income	1,200	450	0	1,650
Regeneration projects	868	0	0	868
Projects to reprovision and deliver capital receipts	1,010	0	0	1,010
Reigate Priory School	360	0	0	360
Cranleigh Schools	6,000	3,700	300	10,000
Lindon Farm Autism Unit - ASC	4,000	1,764	0	5,764
Winter Maintenance Depots (Salt Barns)	2,118	1,392	0	3,510
Horley Library	1,000	0	0	1,000
Short Stay Schools	2,161	0	0	2,161

Projects	32,452	11,088	9,050	52,590
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Schools Basic Need	72,229	55,474	13,070	140,773
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IT Equipment Replacement Reserve	1,300	1,000	1,500	3,800
IT Project Investment	2,500	2,500	2,500	7,500
Other IMT projects	84	420	883	1,387
Information Management & Technology	3,884	3,920	4,883	12,687

Business Services	128,945	90,849	47,278	267,072
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Legal & Democratic services: Community

Buildings Grant scheme	150	150	150	450
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Chief Executive's Office	150	150	150	450
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Total Capital Programme	195,774	131,742	80,409	407,925
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Reserves & balances policy statement

Introduction

A.6.1. This paper sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves within the council's accounts.

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 2016. The council has applied none of this to support the 2016/17 budget. Going into 2017/18 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 2017/18.

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 2017/18 recommends holding general balances of £21.3m.

Proposed policy for 2017/18

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 in 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 1 Apr 16 £m	Forecast balance at 31 Mar 17 £m	Proposed use to support 2017/18 budget £m	Forecast balance at 1 Apr 16 £m
Revolving Infrastructure & Investment Fund	21.1	11.1		11.1
Budget Equalisation Reserve	13.1	11.7	-5.8	5.9
Eco Park Sinking Fund	11.7	4.4		4.4
Insurance Reserve	11.9	7.7		7.7
Investment Renewals Reserve	8.8	2.1		2.1
General Capital Reserve	5.2	5.2		5.2
Street lighting PFI Reserve	5.1	4.4		4.4
Vehicle Replacement Reserve	3.9	0.0		0.0
Economic Downturn Reserve	9.2	9.2		9.2
Public Health Reserve	2.7	0.0		0.0
Economic Prosperity Reserve	2.5	2.5		2.5
Equipment Replacement Reserve	2.1	4.0		4.0
Child Protection Reserve	1.1	0.0		0.0
Business Rate Appeals Reserve	1.3	1.3		1.3
Pension Stabilisation Reserve	1.1	0.0		0.0
Interest Rate Reserve	1.0	1.0		1.0
Earmarked Reserves	101.8	64.6	-5.8	58.8
General Fund Balance	21.3	21.3	0.0	21.3

Purpose of earmarked reserves

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasury Management Policy

A.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

A.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

A.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

A.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

A.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

A.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.

A.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

A.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.

- A.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

A.9.1. Table 9.1 sets out actual and estimated capital expenditure and its funding for 2015/16 to 2019/20. 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 2015/16 - 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	← ----- Estimated ----- →		
	£m	£m	£m	£m	£m
Capital programme expenditure	174.7	143.3	195.7	131.8	80.4
Financed by:					
Government grants	94.5	89.8	120.7	85.1	67.3
Revenue, reserves and third party contributions	19.8	15.9	24.7	10.0	5.7
Net financing need for the year*	60.4	37.6	50.3	36.7	7.4

*Capital expenditure to be met by borrowing.

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

A.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).

A.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.

A.9.4. The CFR includes any other long term liabilities, e.g., PFI schemes and 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.

A.9.5. In addition to the capital programme, the Council invests in opportunities identified as part of the long term capital strategy. These investments form part of the CFR and increase the Council's underlying need to borrowing, however, they do not create a pressure on the revenue interest paid or MRP budgets as they are funded from the investment returns of such investments.

Table 9.2: Capital financing requirement (CFR) 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	← ----- Estimated ----- →		
	£m	£m	£m	£m	£m
Opening CFR	781.6	903.8	1,084.0	1,143.7	1,154.7
MRP	-30.6	-18.0	-20.8	-23.1	-24.7
PFI* and Finance Leases	29.9	47.1	-3.0	-19.8	-18.7
Net Financing Need	60.4	37.6	50.3	36.7	7.4
Long term capital strategy spend	62.5	113.5	33.2	17.2	6.1
Closing CFR	903.8	1,084.0	1,143.7	1,154.7	1,124.8
Total CFR Movement	122.2	180.2	59.7	11.0	-29.9

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

The Council's gross borrowing requirement

A.9.6. 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 2015/16 to 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Projected	← ----- Estimated ----- →		
	£m	£m	£m	£m	£m
External Debt	429.3	429.3	429.3	429.3	429.3
CFR	903.8	1,084.0	1,143.7	1,154.7	1,124.8

The Council's operational boundary

A.9.7. 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 2015/16 to 2019/20

	2015/16 Actual £m	2016/17 Projected £m	2017/18 ← ----- Estimated ----- → £m	2018/19 Estimated £m	2019/20 ----- → £m
Borrowing	448.4	490.2	511.8	509.6	481.4
Other long term liabilities	160.5	186.7	182.5	162.7	144.1
Total	608.9	676.9	694.3	672.3	625.5
External debt	429.3	429.3	429.3	429.3	429.3

The Council's authorised limit

A.9.8. 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 2015/16 to 2019/20

	2015/16 Actual £m	2016/17 Projected £m	2017/18 ← ----- Estimated ----- → £m	2018/19 Estimated £m	2019/20 ----- → £m
Borrowing	722.4	741.4	1,091.5	1,092.8	1,021.4
Other long term liabilities	160.5	186.7	182.5	162.7	144.1
Total	882.9	928.1	1,274.0	1,255.5	1,165.5
External debt	429.3	429.3	429.3	429.3	429.3

Ratio of financing costs to net revenue stream

A.9.9. 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

	2016/17 Projected	2017/18 ← ----- Estimated ----- →	2018/19 Estimated	2019/20 ----- →
Ratio of financing costs to net revenue stream	1.15%	1.32%	1.47%	1.57%

Incremental impact of capital investment decisions on Council Tax 2017/18 to 2019/20

A.9.10. 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 three-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 2017/18 to 2019/20

	2017/18	2018/19	2019/20
Band D Council Tax	£1.79	£8.04	£11.64

A.9.11. 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

A.9.12. 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

- A.10.1. The medium term outlook for the UK economy is dominated by the negotiations to leave the European Union. The long-term position of the UK economy will be largely dependent on the agreements the Government is able to secure with the EU and other countries.
- A.10.2. The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- A.10.3. However, following significant global fiscal and monetary stimulus, the short-term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- A.10.4. Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- A.10.5. Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- A.10.6. The currency-led rise in CPI inflation (currently 1.6% December 2016) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- A.10.7. The depreciation in Sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- A.10.8. Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- A.10.9. Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.
- A.10.10. Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- A.10.11. The likely path for the Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

A.10.12. Gilt yields have risen since the US presidential election, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

Treasury management scheme of delegation

Full Council

A.11.1. Approval of annual strategy.

Audit & Governance Committee

A.11.2. Receiving and reviewing monitoring report and outturn report.

Director of Finance

A.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.

Annual Minimum Revenue Provision (MRP) policy statement 2017-18

- A.12.1. 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.
- A.12.2. The Secretary of State under section 21(1A) of the Local Government Act 2003 issued guidance on the calculation of MRP in February 2008, 2008/09 was the first year of operation. Following a review, changes have been made to the method adopted to calculate the MRP from 2016/17 onwards. The Council has assessed the Minimum Revenue Provision and are satisfied that the guidelines for their annual amount of MRP set out within this policy statement will result in their making the prudent provision that is required by the guidance.
- A.12.3. Where capital expenditure was incurred before 1 April 2008, MRP will be charged by writing down the remaining Capital Financing Requirement relating to this period over the next 50 years. For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, the Council will calculate MRP using the asset life annuity method. MRP will be based on the estimated life of the assets purchased from unsupported borrowing.
- A.12.4. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.
- A.12.5. 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.
- A.12.6. 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.
- A.12.7. The Council reserves the right to determine alternative MRP approaches where material in particular cases, in the interests of making prudent provision. Officers will take account of local circumstances, including specific project timetables and revenue-earning profiles.
- A.12.8. Each year a new MRP statement will be presented.

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County Council Meeting – 7 February 2017

REPORT OF THE CABINET

The Cabinet met on 13 December 2016 and 31 January 2017. The report from the meeting held on 31 January 2017 will be circulated following that meeting.

In accordance with the Constitution, Members can ask questions of the appropriate Cabinet Member, seek clarification or make a statement on any of these issues without giving notice.

The minutes containing the individual decisions for 13 December 2016 meeting are included within the agenda. The minutes of the 31 January 2017 meeting will be submitted to the next County Council meeting. Cabinet responses to Committee reports are included in or appended to the minutes. If any Member wishes to raise a question or make a statement on any of the matters in the minutes, notice must be given to Democratic Services by 12 noon on the last working day before the County Council meeting (Monday 6 February 2017).

For members of the public all non-confidential reports are available on the web site (www.surreycc.gov.uk) or on request from Democratic Services.

RECOMMENDATIONS ON POLICY FRAMEWORK DOCUMENTS

A ADMISSION ARRANGEMENTS FOR SURREY'S COMMUNITY AND VOLUNTARY CONTROLLED SCHOOLS AND CO-ORDINATED SCHEMES THAT WILL APPLY TO ALL SCHOOLS FOR SEPTEMBER 2018

1. Each year, Surrey County Council is responsible for processing approximately 29,000 applications for a school place from Surrey residents and coordinates offers for over 350 schools. The admission arrangements for each school determine which children can be offered a place and Surrey's coordinated admissions scheme ensures that, as far as possible, no child receives an offer at more than one school.
2. Surrey County Council is responsible for setting the admission arrangements for its community and voluntary controlled schools and the coordinated admissions scheme. Academies, foundation, trust and voluntary aided schools are responsible for setting their own admission arrangements.
3. Following statutory consultation on Surrey's admission arrangements for September 2018, the Cabinet at its meeting on 31 January 2017 will be asked to consider the responses and make recommendations to the County Council on admission arrangements for Surrey's community and voluntary controlled infant, junior, primary and secondary schools, the coordinated schemes that will apply to all schools for September 2018 and Surrey's Relevant Area.

4. The recommendations and reasons for recommendations to be considered by Cabinet are attached as Appendix 1 and the recommendations arising from the Cabinet's meeting will be circulated as a supplementary paper.
5. The full report is available as part of 31 January 2017 Cabinet agenda on the County Council's website.
6. This report covers the following areas in relation to school admissions:
 - Stoughton Infant School, Guildford – Recommendation 1
 - St Andrew's CofE Infant School, Farnham - Recommendation 2
 - Walsh CofE Junior School, Ash – Recommendation 3
 - Surrey's Relevant Area – Recommendation 4
 - Admission arrangements for which no change is proposed – Recommendation 5
 - Primary and secondary coordinated admission schemes that will apply to all schools for 2018 – Recommendation 6

REPORTS FOR INFORMATION / DISCUSSION

B INVESTMENT OF PROGRAMME FUNDING TO EXTEND SUPERFAST BROADBAND INFRASTRUCTURE TO SURREY PREMISES

1. Surrey County Council's investment in fibre broadband infrastructure over the past four years through the contract with BT has had a very significant impact on the well-being and economic prosperity of thousands of residents and businesses around the county. All of the contractual targets in the main phase of the contract have been achieved.
2. In 2012, commercial broadband providers advised that current and future fibre broadband rollout plans excluded approximately 20% of Surrey premises. Now, as a result of the County's investment into broadband infrastructure, more than 96% of all Surrey premises are able to access fibre download speeds of 15mbps or above. According to Think Broadband, Surrey County Council is currently the best connected county in England.
3. Due to the county's very successful demand stimulation campaigns, take-up of the fibre broadband services by residents and businesses is significantly higher than projected in the contract finance model resulting in additional clawback funding flowing into the contract. BT have offered Surrey County Council an advance against this clawback funding of £3.8 million, known as 'Gainshare'.
4. Achieving a very high level of broadband availability throughout the county remains a priority for the council and is something that supports the council's strategic goals.
5. The County Council's proposal is to use the Gainshare funding of £3.8 million to extend fibre infrastructure even further into Surrey to as many of the 15,300 premises as possible utilising the State Aid assured funding within the existing BT contract.

6. The Cabinet agreed:

1. That the investment of State Aid approved funds that have been generated by the contract with BT to further the deployment of Next Generation Access (NGA) broadband infrastructure within a revised Intervention Area be approved.
2. That final approval for the investment of contract funds be delegated to the Strategic Director for Environment and Infrastructure, in consultation with the Deputy Leader.

C M3 ENTERPRISE ZONE

1. Enterprise Zones (EZs) are an initiative to support business growth, create new jobs and attract private sector investment to specific areas. Within the designated EZ boundaries newly located or expanded businesses are able to benefit from financial incentives, including reduced business rates. Business rate growth accruing from these new businesses is used for investment to support the EZ.
2. The Government announced applications for a new round of EZs in July 2015. This was aimed at ensuring that all Local Enterprise Partnership (LEP) areas could benefit from an EZ and local authorities were encouraged to work with LEPs to develop bids.
3. Enterprise M3 LEP, in partnership with Basingstoke Borough Council, Runnymede Borough Council and East Hampshire District Council, submitted a successful application to Government for a multi-site EZ covering: Basing View in Basingstoke, Longcross Park in Chertsey, and Whitehill and Bordon's Louisburg Barracks.
4. The M3 EZ will start in April 2017 and last for 25 years. Government require a 5 year Implementation Plan setting out an investment programme to accelerate growth in the area and enable a greater business rates uplift. There is a Programme Steering Group overseeing the development of the EZ of which Surrey County Council is a voting member.
5. Over 25 years the ambition is for the EZ to deliver over 200 new businesses and over 10,000 new jobs and to generate an additional £178 million in retained business rates. The specific ambition for the Longcross site is for 49 new businesses, 5,600 new jobs and 118,000 sqm of new floor space with the development generating £8.5bn in additional Gross Value Added (GVA) over the 24 year construction and operational period.

6. The Cabinet agreed:

1. That Surrey County Council gives consent for Enterprise M3 to sign the Agreement for the M3 Enterprise Zone with Government on the basis of the principles, as set out at Annex 1 of the submitted Cabinet report.

2. That Surrey County Council and Runnymede Borough Council establish a Memorandum of Understanding (MoU) on agreeing the local initiatives for the Longcross site that are to be funded from the portion of retained business rates allocated to local authorities.
3. That Surrey County Council, along with each of the other local authorities involved, makes a one-off contribution of £20,000 to co-fund the Enterprise Zone Programme Director position and consultancy support. The contribution to be found from the Surrey Growth Fund.

D DEVELOPING A SINGLE WASTE APPROACH

1. Surrey County Council (SCC) and the Surrey Waste Partnership (SWP) have identified that significant savings and improvements for residents can be made by changing the way in which waste is managed in Surrey. A business case developed by the SWP proposes that waste services are delivered via a new partnership arrangement which is collectively owned by SCC and Surrey's district and borough councils. This would mean the benefits gained by working together would be shared across all authorities.
2. Four district and borough councils in Surrey have already made a step towards this by jointly procuring a waste collection contract. As a next step, it is proposed that this arrangement is expanded to include some of SCC's functions in order to deliver further benefit. More work will then be carried out to develop the optimum solution for other district and borough councils, and SCC's remaining waste functions.
3. The way in which waste is managed in Surrey has resulted in a complicated set of statutory and non-statutory financial transfers from the County Council to the boroughs and districts and the SWP, totalling around £11 million per year.
4. Despite the complicated structure of the current arrangements, SWP authorities have made significant progress since the partnership was formed in 2008. Waste collection arrangements have largely been aligned, the range of recycling materials able to be collected has greatly increased, and food waste collection from houses is now universal. These improvements have taken place whilst containing overall costs, maintaining high resident satisfaction levels, and have resulted in performance increases, with the overall recycling rate rising from 35% in 2007/8 to around 54% today.
5. In more recent years the rate of improvement has slowed significantly, and buy-in to new initiatives has been patchy. The SWP has identified major areas where further improvements could be made, as well as opportunities for changing the way in which waste is managed in Surrey in order to be better equipped to deliver these improvements.
6. **The Cabinet agreed:**
 1. To agree to combine SCC's Waste Disposal Authority partnership functions, as described in paragraph 28 of the submitted Cabinet report, with the functions of the four joint waste collection contract

authorities in early 2017/18, and that authority be delegated to the Strategic Director for Environment and Infrastructure, in consultation with the Leader of the Council and the Cabinet Member for Environment and Planning, to enter into the required agreements.

2. That officers be tasked to develop a business case, which recommends the optimum solution for the transfer of the remaining core Waste Disposal Authority functions, as set out in paragraph 27 of the submitted Cabinet report, to the new partnership entity, and to return to Cabinet in June 2017 with detailed proposals.
3. That officers continue to work through the Surrey Waste Partnership to engage with district and borough councils on how all authorities can adopt a single waste approach that is mutually beneficial, whilst delivering savings and improved services for Surrey residents.
4. The proposals for financial arrangements with Waste Collection Authorities in 2017/18, as set out in paragraphs 42 and 43 of the submitted Cabinet report, be approved.
5. That officers write to all Waste Collection Authorities to give formal notice of SCC's intention to centrally manage kerbside collected recyclables, via SCC's waste disposal contractor.

E QUARTERLY REPORT ON DECISIONS TAKEN UNDER SPECIAL URGENCY ARRANGEMENTS: 1 OCTOBER – 31 DECEMBER 2016

The Cabinet is required under the Constitution to report to Council on a quarterly basis the details of decisions taken by the Cabinet and Cabinet Members under the special urgency arrangements set out in Article 6.05(f) of the Constitution. This occurs where a decision is required on a matter that is not contained within the Leader's Forward Plan (Notice of Decisions), nor available 5 clear days before the meeting. Where a decision on such matters could not reasonably be delayed, the agreement of the Chairman of the appropriate Scrutiny Board, or in his/her absence the Chairman of the Council, must be sought to enable the decision to be made.

There has been one decision during the last quarter, as follows:

Property Disposal

(taken by the Leader of the Council on 27 October 2016)

Reason for Urgency:

That the decision cannot be reasonably deferred because of an urgent need to conclude the disposal thereby realising a capital receipt to the County Council.

**Mr David Hodge
Leader of the Council
27 January 2017**

ADMISSION ARRANGEMENTS FOR SURREY'S COMMUNITY AND VOLUNTARY CONTROLLED SCHOOL AND COORDINATED SCHEMES THAT WILL APPLY TO ALL SCHOOLS FOR SEPTEMBER 2018

It is recommended that Cabinet make the following recommendations to the County Council:

Recommendation 1

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

Reasons for Recommendation

- There was overall support for this change
- It would support families with more than one child as families with a sibling at Northmead Junior School would benefit from sibling priority at Stoughton Infant School
- This proposal is in line with a separate proposal by Northmead Junior School to introduce a reciprocal sibling link with Stoughton Infant School. This was agreed by the Governing Body of Northmead Junior School on 18 January 2017
- It would provide continuity and a clearer transition for parents, children and schools and would reduce anxiety for parents
- It would maximise the opportunity for families to keep children together or at schools with agreed links
- It is supported by Governors at Northmead Junior School and by the Headteacher and Chair of Governors of Stoughton Infant School

Recommendation 2

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

Reasons for Recommendation

- It is supported by the Headteacher and Governing Body of the school
- There will still be sufficient infant places for local children if the PAN is decreased
- It will help support other local schools in maintaining pupil numbers
- It will alleviate funding and staffing issues in the school
- It will have no impact on children who are currently on roll at the school

Recommendation 3

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

Reasons for Recommendation

- It is supported by the Headteacher and Governing Body of the school
- There will still be sufficient junior places for local children if the PAN is decreased
- It will help support other local schools in maintaining pupil numbers
- It will alleviate funding, accommodation and staffing issues in the school
- It will have no impact on children who are currently on roll at the school

Recommendation 4

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

Reasons for Recommendation

- The local authority is required by law to define the Relevant Area for admissions
- The Relevant Area must be consulted upon and agreed every two years even if no changes are proposed
- Setting a Relevant Area ensures that any schools who might be affected by changes to the admission arrangements for other local schools will be made aware of those changes
- No change has been made to Surrey's Relevant Area since it was last determined in March 2015

Recommendation 5

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

Reasons for Recommendation

- This will ensure stability and consistency for the majority of Surrey's parents, pupils and schools
- The arrangements enable parents to have some historical benchmark by which to make informed decisions about their school preferences
- The existing arrangements are working well
- The arrangements enable the majority of pupils to attend their nearest schools and in doing so reduces travel and supports Surrey's sustainability policies
- Changes highlighted in bold in sections 11, 19 and 21 of Enclosure 1 of the Cabinet report which have not otherwise been referenced in the report, have been made to add clarity to the admission arrangements but do not constitute a policy change
- Changes to PAN that are in Appendix 1 of Enclosure 1 of the Cabinet report are referenced in Recommendations 2 and 3

Recommendation 6

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

Reasons for Recommendation

- The coordinated schemes for 2018 are essentially the same as 2017 with dates updated
- Paragraph 50 of the primary and secondary schemes and paragraph 2 of the secondary scheme have been updated to provide clarity to the schemes
- The coordinated schemes will enable the County Council to meet its statutory duties regarding school admissions
- The coordinated schemes are working well.

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County Council Meeting – 7 February 2017

REPORT OF THE AUDIT & GOVERNANCE COMMITTEE

- * Mr Stuart Selleck (Chairman)
- * Mr Denis Fuller (Vice-Chairman)
- * Mr W D Barker OBE
- * Mr Will Forster
- * Mr Tim Hall
- * Mr Saj Hussain

* = Present

COUNTER FRAUD STRATEGY AND FRAMEWORK

1. On 5 December 2016, the Committee considered irregularity investigations and proactive counter fraud work undertaken by Internal Audit in the first half of this financial year from 1 April to 30 September 2016 and, following a robust discussion, confirmed that it was satisfied with the new Counter Fraud Strategy and Framework attached as appendix A to the report.
2. The Committee **COMMEND** the new Counter Fraud Strategy and Framework, attached as Annex A, was approved and endorsed to council for inclusion in the Constitution.

Stuart Selleck
Chairman of the Audit and Governance Committee
December 2016

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Counter fraud strategy and framework

Contents

Counter fraud strategy

Appendix A	Reporting categories
Appendix B	Anti-bribery policy
Appendix C	Anti-money laundering policy
Appendix D	Fraud response plan
Appendix E	Sanctions policy

Key points

- This strategy and framework set out the council's commitment to preventing, detecting and deterring fraud and corruption.
- The council expects the highest ethical and legal standards from its members, officers, contractors and agents carrying out business on its behalf.
- This framework includes guidance on types of fraud and corruption, how to report concerns and the investigation process.
- All cases of suspected financial irregularity or corruption must be reported to the Chief Internal Auditor.
- A Whistle Blowing Policy is in place to support a safe environment for concerns to be raised.
- Failure to comply with the policies contained within this document will result in sanctions being considered.

Date published: December 2016

Next review date: April 2017

1. Introduction

- 1.1 Surrey County Council is one of the country's largest local authorities, with a gross budget of £1.7billion in 2016/17 and employing over 26,000 people. The public is entitled to expect the council to conduct its business with integrity, honesty and openness and demand the highest standards of ethical conduct from those working for and with it.
- 1.2 The council takes its statutory duty to protect the public funds it administers seriously. It is essential that we protect the public purse and ensure that council funds are used only for their intended purpose: to support and deliver services to our community within Surrey. As such we maintain a zero tolerance approach to fraud and corruption whether it is attempted from outside the council or within.
- 1.3 This strategy forms part of the council's counter fraud framework, a collection of interrelated policies and procedures including the Code of Conduct, Financial Regulations and Whistle Blowing Policy. It also includes policies and procedures that are specifically targeted at countering fraud and corruption. These are attached as the following appendices:
 - A. 'Reporting categories' by which fraud and corruption are reported;
 - B. 'Anti-bribery policy' outlining measures to combat acts of bribery by or to anyone carrying out business for or on behalf of the council;
 - C. 'Anti-money laundering policy' detailing the responsibilities of members and officers, in particular the need to promptly report suspicions;
 - D. 'Fraud response plan' providing guidance on reporting concerns and the investigation process; and
 - E. 'Sanctions policy' explaining how to determine which sanctions are appropriate when fraud or corruption is identified.

2. Aims

- 2.1 This strategy sets out the council's commitment to preventing, detecting and deterring fraud and corruption, taking into consideration the council's three strategic goals that it aims to achieve for all residents:
 - Everyone in Surrey has a great start to life and can live and age well;
 - Surrey's economy remains strong and sustainable; and
 - Residents in Surrey experience public services that are easy to use, responsive and value for money.
- 2.2 This strategy aims to:
 - Embed an anti-fraud culture where people are empowered to challenge dishonest behaviour;
 - Actively prevent, deter and promote detection of fraudulent and corrupt acts;
 - Maintain the council's awareness of emerging fraud risks such as those associated with digital and cyber security;
 - Provide clear guidance on the roles and responsibilities of members and officers; and
 - Identify a clear pathway for investigative and remedial action.

3. Our commitment

At Surrey County Council we recognise that every pound lost to fraud reduces our ability to provide services to our residents who really need them.

While the majority of our staff and the people we deal with each day are honest and law abiding, we acknowledge that this may not always be the case and that fraud can and does regrettably happen.

The Council is committed to a zero tolerance policy in relation to fraud and corruption and we fully endorse the Counter Fraud Strategy and Framework. This has been developed in line with the latest professional good practice guidance and should help to safeguard public funds by minimising the risk of loss as a result of fraud. Everyone at Surrey County Council has a role to play in this.

David Hodge
Leader of Surrey County Council

David McNulty
Chief Executive Officer

4. Definitions

- 4.1 Fraud can be broadly described as a deliberate act, involving deception or concealment, carried out with the intention of making a gain or causing a loss (or risk of loss) to another. The Fraud Act 2006 includes three main offences:
- ‘False representation’ to a person or device, for example, falsely claiming to hold a qualification to obtain a job or misuse of another person’s debit card;
 - ‘Failing to disclose information’ which you are under a legal duty to disclose, such as not declaring assets as part of a means tested application for services; and
 - ‘Abuse of position’ whereby you act against or fail to safeguard any financial interests you are expected to protect, for example, financial abuse of individuals receiving social care.
- 4.2 For the purpose of this strategy the term ‘fraud and corruption’ includes a range of dishonest acts such as those involving theft, misappropriation, bribery, money laundering, concealment of material facts, false representation and abuse of position.
- 4.3 Definitions relating to bribery and money laundering are detailed in Appendices B and C, respectively. A brief description of the categories by which the council reports fraud and corruption, including examples, is attached at Appendix A.

5. Strategic approach

- 5.1 The council’s approach to fraud and corruption is based on three key strands, as set out in the Local Government Counter Fraud and Corruption Strategy:
- **Acknowledge** and understand fraud risks
 - **Prevent** and detect more fraud
 - **Pursue** losses and be stronger in punishing fraud

Acknowledge

- 5.2 We acknowledge that fraud risks exist both from within and outside the council. These are recorded in a risk register that is updated on a regular basis to reflect both emerging risks and changes to the likelihood and impact of risks in light of any developments. Fraud risks are also considered at the council's Strategic Risk Forum to facilitate coverage of all council services. Internal Audit will work with services and provide advice to mitigate identified fraud risks.
- 5.3 Our response to fraud and corruption is clearly documented in a Fraud Response Plan (Appendix D), which is designed to make available suitable resources and support to tackle fraud and corruption. We will regularly review our approach to tackling fraud, taking into consideration emerging risks, themes and trends both within the council and across wider local government areas.

Prevent

- 5.4 We recognise the importance of a strong anti-fraud culture in preventing fraud and corruption. The council operates according to a set of core values (see Section 6) and also has policies in place intended to prevent dishonest behaviour. These include Codes of Conduct, which place a duty on officers and members to declare any interests that may conflict with the council's business, and a Gifts and Hospitality Policy restricting the acceptance of financial or other rewards.
- 5.5 A key measure in the prevention of fraud and corruption is ensuring appropriate checks are made when new employees are recruited. Hiring managers must comply with the Resourcing Policy and Safer Recruitment Policy when conducting pre-employment checks such as verifying identity, obtaining references, confirming the right to work in the UK and, when necessary, Disclosure and Barring Service checks.
- 5.6 The council acknowledges the changing nature of fraud, in particular the risks emerging as a result of increased online access to and delivery of services. In recognition of the importance of robust cyber security and identity assurance, we take a networked approach involving collaboration both with local authorities and also central government agencies and departments.
- 5.7 We will improve controls and processes by learning from instances of proven fraud and corruption and will also take into account findings from the work of Internal Audit. We are committed to making full use of information and technology to proactively detect fraud, as detailed further in Section 7.

Pursue

- 5.8 We will ensure appropriate remedial action is taken in all cases of proven fraud or corruption, in line with the Sanctions Policy (Appendix E). This may include collaboration with the police, government departments and other local authorities. We will make every effort to recover funds including, where appropriate, making best use of legislation such as the Proceeds of Crime Act 2002.

6. Culture

- 6.1 The council is committed to the highest ethical standards ranging from the expected behaviours set out in the Code of Conduct to the four core values (listen, responsible, trust, respect) that are crucial to delivering the Corporate Strategy.
- 6.2 We believe the 'seven principles of public life' are the foundation of a strong anti-fraud culture and we expect all members, officers and contractors to follow these principles, as well as all legal rules, policies and procedures.

6.3 The seven principles of public life and a brief explanation are listed below.

Principle	You should...
Selflessness	...act solely in terms of the public interest and not for the purpose of gain for yourself, family or friends.
Integrity	...avoid placing yourself under any obligation to people or organisations that might seek to influence you in your work.
Objectivity	...act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	...be accountable to the public for your decisions and actions and submit yourself to scrutiny as appropriate.
Openness	...act and take decisions in an open and transparent manner. Information should only be withheld from the public if there are clear and lawful reasons for doing so.
Honesty	...be truthful. This includes declaring any conflicts of interest and taking steps to resolve such conflicts.
Leadership	...actively promote and support these principles by applying them to your own behaviour and challenging poor behaviour.

6.4 In essence, we expect everyone carrying out council business to protect the public interest and also to challenge instances of dishonest behaviour. The promotion of a strong anti-fraud culture is therefore vital, as not only will it deter potential fraudsters but it will also encourage a safe environment in which individuals can raise concerns.

7. Proactive work

- 7.1 The remit of Internal Audit includes the delivery of a risk based proactive counter fraud programme. These activities are detailed in an annual Fighting Fraud Plan, which is presented to Audit and Governance Committee. The plan takes into consideration emerging trends across the public sector, proven cases of fraud or corruption and other specific areas where there is an increased risk of fraud or corruption.
- 7.2 As part of the proactive detection of fraud and corruption, we undertake data analytics both within the council (for example payroll) and between other public sector bodies. In conducting data matching exercises, the council will comply with all relevant legislation such as the Data Protection Act 1998.
- 7.3 We are required to participate in the biennial National Fraud Initiative data matching exercise administered by the Cabinet Office. This exercise, which compares a wide range of data between publicly funded bodies, includes payroll, pensions, creditors, social care payments and concessionary travel.
- 7.4 We are committed to enhancing partnership working and information sharing as a means to reducing fraud and corruption. Where appropriate, information will be shared with anti-fraud networks such as Action Fraud and the National Anti-Fraud Network, as well as Orbis partners, to enable the identification of patterns and sharing of good practice.
- 7.5 As part of the Surrey Counter Fraud Partnership between the council and Surrey's borough and district councils, we will undertake targeted data matching exercises and publicity drives to detect and prevent fraud across the county.

8. Awareness and training

8.1 The success of this strategy is partly dependent on the awareness and training of members and officers across the council. In recognition of this, we will:

- Include information on the counter fraud framework in relevant training and e-learning packages;
- Continue the delivery of presentations raising awareness to individual teams;
- Include a discussion about fraud risks and training needs as part of Internal Audit's client liaison activities with all services; and
- Continue to deliver an annual fraud seminar to the Audit and Governance Committee.

9. Reporting

9.1 Responsibilities contained within this strategy rest with all officers and members of the council but its delivery will be led by the Internal Audit team. The biannual reports presented to Audit and Governance Committee, summarising investigations and counter fraud work, will include an update on progress against this strategy and the Fighting Fraud Plan.

9.2 This strategy will be reviewed on an annual basis.

Reporting categories

Reporting category	Description	Examples (not an exhaustive list)	Legislation / Policies (examples)
False representation	Knowingly making an untrue or misleading representation to make gain, cause loss or expose the council to the risk of loss	Submitting incorrect expense claims; falsely claiming to hold a qualification	Fraud Act 2006
Failure to disclose information	Intentionally withholding information to make gain, cause loss or expose the council to the risk of loss	Failing to declare pecuniary interests, or assets as part of a means tested assessment	
Abuse of position	Use of position to act against, or fail to safeguard, the interests of the council or Surrey's residents	Nepotism; financial abuse of individuals receiving social care	
Theft	Misappropriation of assets (often cash) belonging to the council or individuals under the council's care	Removing cash from safes; removing individuals' personal items in care homes	Theft Act 1968
Corruption	Offering, giving, seeking or accepting any inducement or reward which may influence a person's actions, or to gain a commercial or contractual advantage	Accepting money to ensure a contract is awarded to a particular supplier	Bribery Act 2010
False reporting	Intentional manipulation of financial or non-financial information to distort or provide misleading reports	Falsifying statistics to ensure performance targets are met; delaying payments to distort financial position	Theft Act 1968; Financial Regulations; Procurement Standing Orders
Misuse of public funds	The use of public funds for ultra vires expenditure or expenditure for purposes other than those intended	Officers misusing grant funding; individuals misusing social care direct payments	
Procurement	Any matter relating to the dishonest procurement of goods and services by internal or external persons	Breach of the Procurement Standing Orders; collusive tendering; falsifying quotations	
Misconduct	Failure to act in accordance with the Code of Conduct, council policies or management instructions	Undertaking additional work during contracted hours; inappropriate use of council assets and equipment	Code of Conduct; IT Security Policy
Poor Control	Weak local or corporate arrangements that result in the loss of council assets or a breach of council policy	Storing a key to a safe in the immediate vicinity of the safe	

Anti-bribery policy

Policy statement

Surrey County Council will:

- Not tolerate bribery or corruption in any form or at any level;
- Consider anti-bribery measures as part of its governance process; and
- Commit to policies and procedures to prevent, deter and detect bribery.

1. Introduction

- 1.1 The council expects its business to be conducted with probity, openness and accountability. Key to maintaining the council's high standards is the requirement for members, officers, contractors and agents carrying out business on behalf of the council to behave honestly, lawfully and with integrity.
- 1.2 This policy forms part of the council's counter fraud framework and sets out:
- Definitions and legal background in respect of bribery; and
 - The council's approach to bribery including fulfilling its duties under the Bribery Act 2010 (the Act).

2. Scope of the policy

- 2.1 This policy applies to all areas of council business and therefore all members, officers, contractors and agents carrying out business on behalf of the council. Any act of bribery by a person outside the council will be a matter for the police.
- 2.2 This policy should be read alongside the Gifts and Hospitality Policy. Other relevant policies (such as the Code of Conduct and Procurement Standing Orders) should be referred to where appropriate.
- 2.3 Failure to comply with this policy will result in action being considered under the Sanctions Policy (see Appendix E).

3. Definitions and legal background

- 3.1 Bribery is the act of offering, giving, receiving or seeking an inducement or reward intended to influence the performance of a relevant function or duty to gain a personal, commercial, regulatory or contractual advantage.

Bribery Act 2010

- 3.2 The Act includes four key offences:
- Offering, promising or giving a bribe to reward a person for improperly performing a relevant function (Section 1);
 - Requesting, agreeing to accept or receiving a bribe as a reward for improperly performing a relevant function (Section 2);
 - Bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business (Section 6); and
 - A corporate offence by a 'commercial organisation' of failing to prevent bribery that is intended to obtain or retain business or an advantage in the conduct of business (Section 7).

- 3.3 The Act makes no distinction between a bribe being offered, promised or given directly or through a third party. Further, it makes no difference whether the person requesting, agreeing to accept or receiving the bribe knows or believes that the performance of the function will be improper; or whether this person asks another person to carry out the improper performance of the function on their behalf.
- 3.4 The council accepts that it may be classed as a ‘commercial organisation’ in relation to the corporate offence of failing to prevent bribery. The Act allows for a defence to this corporate offence if an organisation can show that it had in place ‘adequate procedures’ designed to prevent bribery.
- 3.5 Good practice and robust governance arrangements include having adequate procedures in place to prevent bribery and protect the council from reputational and legal damage. Whether an organisation’s procedures are ‘adequate’ will ultimately be a matter for the courts to decide on a case-by-case basis. Adequate procedures need to be applied proportionately, based on the level of risk of bribery in the organisation.

Public Contracts Regulations 2006

- 3.6 The Public Contracts Regulations 2006 place a duty on the council to automatically and perpetually exclude from participation in a procurement procedure any company or director that has been convicted of a corruption offence. The council may disregard this regulation on an exceptional basis, for example due to reasons relating to the public interest such as public health or protection of the environment.

4. The council’s approach to bribery

- 4.1 The council has in place a framework of arrangements intended to manage the risk of bribery and corruption and ensure business is conducted to the highest standards. This policy does not change the requirements of other guidance, which includes:
- Member and Officer Codes of Conduct, which require members and officers to declare any personal or pecuniary interests;
 - Procurement Standing Orders governing the negotiation of contracts; and
 - Gifts and Hospitality Policy, which sets out the restrictions on accepting gifts and hospitality and the need to register approved gifts that are accepted.
- 4.2 In the context of this policy, it is unacceptable for members, officers, contractors and agents carrying out business for or on behalf of the council to:
- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given;
 - Give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to ‘facilitate’¹ or expedite a routine procedure;
 - Accept payment from a third party that is known or suspected to be offered with an expectation that it will obtain a business advantage for them;
 - Accept a gift or hospitality from a third party if it is known or suspected that it is offered with an expectation that a business advantage will be provided by the council in return;

¹ Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions, including but not limited to: awarding contracts; making appointments to temporary or permanent positions; and determining eligibility to receive services.

- Retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy; or
- Engage in activity in breach of this policy.

5. Reporting suspected bribery

- 5.1 You should report any suspected acts of bribery. If you have been offered an inducement from another party, you should report this even if you declined.
- 5.2 The council has put in place a safe environment to report suspected cases of fraud and corruption, including bribery. The Fraud Response Plan (see Appendix D) provides full details of who to contact but any individual may contact the council's Internal Audit team directly as below.

Email: internal.audit@surreycc.gov.uk

Telephone: 020 8541 9299

Post: Internal Audit
Surrey County Council
Room 318, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN

Anti-money laundering policy

Policy statement

Surrey County Council will do all it can to:

- Prevent any attempts to use the council and its staff to launder money;
- Identify potential areas where money laundering may occur; and
- Comply with all legal and statutory requirements, especially with regard to the reporting of actual or suspected cases of money laundering.

1. Introduction

- 1.1 The Proceeds of Crime Act 2002, the Money Laundering Regulations 2007 and the Terrorism Act 2000 (and all relevant amending legislation) place obligations on the council, including its members and employees, with respect to suspected money laundering.
- 1.2 While most money laundering activity in the UK occurs outside of the public sector, vigilance by council employees and members can help identify those who are, or may be, perpetrating crimes relating to the financing of terrorism and money laundering.
- 1.3 This policy forms part of the council's counter fraud framework and sets out:
 - Definitions and legal background in respect of money laundering;
 - The council's approach to money laundering including the responsibility of members and officers to report suspicions promptly; and
 - Guidance and procedures for members and officers.

2. Scope of the policy

- 2.1 This policy applies to all members and officers of the council and aims to maintain the high standards of conduct that the public is entitled to expect from the council.
- 2.2 It is vital that all members and officers are aware of their responsibilities and remain vigilant; criminal sanctions may be imposed for breaches of legislation.
- 2.3 Failure to comply with the procedures set out in this policy will result in action being considered under the Sanctions Policy (see Appendix E). This may include disciplinary action in line with the Officer, or Member, Code of Conduct.

3. Definitions and legal background

- 3.1 Money laundering is the process of converting illegally obtained money or assets into 'clean' money or assets with no obvious link to their criminal origin.
- 3.2 There are three primary money laundering offences set out in legislation:
 - Concealing, disguising, converting, transferring, or removing from the UK any criminal property (Section 327 of the Proceeds of Crime Act 2002);
 - Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (Section 328); and
 - Acquiring, using or possessing criminal property (Section 329).

- 3.3 There are also two secondary offences:
- Failure to disclose any of the three primary offences; and
 - Tipping off (the act of informing a person suspected of money laundering in such a way as to prejudice an investigation).
- 3.4 Any member or employee of the council may potentially be implicated in money laundering if they suspect money laundering and either become involved with it in some way and/or do nothing about it. The key requirement is to promptly report any suspected money laundering activity to the Money Laundering Reporting Officer.

4. The Money Laundering Reporting Officer (MLRO)

- 4.1 The officer nominated to receive disclosures about money laundering activities within the council is the Chief Internal Auditor:

Sue Lewry-Jones
Chief Internal Auditor

Telephone: 020 8541 9190
Email: sue.lewry-jones@surreycc.gov.uk

Surrey County Council
Room 318, County Hall
Penryhn Road
Kingston upon Thames
Surrey, KT1 2DN

- 4.2 In the absence of the MLRO, the Audit Performance Manager is authorised to deputise:

David John
Audit Performance Manager

Telephone: 020 8541 7762
Email: david.john@surreycc.gov.uk

Surrey County Council
Room 318, County Hall
Penryhn Road
Kingston upon Thames
Surrey, KT1 2DN

5. Procedures

Cash

- 5.1 The council will not accept any cash payment in excess of £5,000 irrespective of whether this is through a single payment or series of linked payments. 'Cash' includes notes, coins and travellers cheques in any currency.
- 5.2 This does not necessarily mean that cash transactions below this value are legitimate and legal. Professional scepticism is encouraged at all times and any suspicions must be reported to the MLRO or their deputy.

Responsibilities of members and officers

- 5.3 Any member or officer who suspects money laundering activity must report their suspicion promptly (as soon as practicable) to the MLRO or their deputy if appropriate. If you prefer, you can discuss your suspicions with the MLRO or deputy first.
- 5.4 Your disclosure should be made at the earliest opportunity following the information coming to your attention, not weeks or months later, and should be made to the MLRO or deputy using the form attached at the end of this policy.
- 5.5 You must follow any subsequent directions from the MLRO or deputy. You must not:
- Make any further enquiries into the matter;
 - Take any further steps in any related transaction without authorisation from the MLRO or deputy;

- Disclose or otherwise indicate your suspicions to the person suspected of money laundering; or
- Discuss the matter with others or make a note on file that a report to the MLRO or deputy has been made, as this may alert the suspected perpetrator.

Responsibilities of the MLRO

- 5.6 The MLRO or deputy must promptly evaluate any disclosure to determine whether it should be reported to the National Crime Agency (NCA). Any decision not to submit a report to the NCA must be recorded.
- 5.7 If they so determine, the MLRO or deputy must promptly submit an online Suspicious Activity Report (SAR) to the NCA. Alternatively, a SAR may be manually reported to the NCA. Both online and up to date manual reporting forms are available on the NCA's website.
- 5.8 If a disclosure provides the MLRO or deputy with knowledge or reasonable grounds to suspect that a person is engaged in money laundering, and they do not disclose this to the NCA as soon as practicable, the MLRO or deputy will have committed a criminal offence.

Identification of clients

- 5.9 The **client identification process** must be followed before the council conducts '**relevant business**²' with a client, where the council:
- Forms an ongoing business relationship with a client; or
 - Undertakes a one-off transaction involving payment by or to the client of €15,000 (or the equivalent in Sterling) or more; or
 - Undertakes a series of linked one-off transactions involving payment by or to the client of €15,000 (or the equivalent in Sterling) or more; or
 - Knows or suspects that a one-off transaction, or series of linked transactions, involves money laundering.
- 5.10 This requirement does not apply if the business relationship with the client existed before 1 March 2004.
- 5.11 Where the relevant business is being provided to another public sector body, you must ensure that you receive signed, written instructions on the body's headed paper before any business is undertaken.
- 5.12 Where the relevant business is not with a public sector body, you should seek additional evidence of identity, for example:
- Checking the organisation's website to confirm their business address;
 - Conducting an online search using Companies House; and/or
 - Seeking evidence from the key contact of their personal identity and position within the organisation.

² '**Relevant business**' includes provision 'by way of business' of: financial, investment and accounting services; audit services; legal services; services involving the formation, operation or arrangement of a company or trust; and dealing in goods where a one-off or series of linked cash payments total €15,000 or more.

6. Record keeping

- 6.1 The MLRO will keep a record of all referrals received and any action taken to ensure an audit trail is maintained.
- 6.2 All disclosure reports referred to the MLRO and reports made to the NCA will be retained by the MLRO in a confidential file for a minimum of five years.
- 6.3 Where relevant business is carried out, client identification evidence and details of any relevant transaction(s) for that client must be retained for at least five years.

7. Guidance and training

- 7.1 The council will:
 - Make members and officers aware of the requirements and obligations placed on the council, and on themselves as individuals, by anti-money laundering legislation; and
 - Give targeted training to those considered to be the most likely to encounter money laundering.
- 7.2 Further information can be obtained from the MLRO and the following sources:
 - The National Crime Agency: www.nationalcrimeagency.gov.uk
 - CIPFA: www.cipfa.org/members/members-in-practice/anti-money-laundering
 - Anti-money laundering guidance for the accountancy sector (issued by CCAB): www.icaew.com/en/membership/regulations-standards-and-guidance/practice-management/anti-money-laundering-guidance
 - Anti-money laundering guidance from the Law Society: www.lawsociety.org.uk/support-services/risk-compliance/anti-money-laundering/

[OFFICIAL – SENSITIVE]

To be completed by the Money Laundering Reporting Officer

Date report received:

Date acknowledged:

Evaluation	
What action is to be taken?	
Are there reasonable grounds to suspect money laundering activity? If so, please provide details	

Reporting	
If there are reasonable grounds for suspicion, will a report be made to the NCA?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If 'no', reasons for non-disclosure	
If 'yes', date of report to NCA	Online / Manual [delete as appropriate]

Consent	
Is NCA consent required for any ongoing of imminent transactions?	<input type="checkbox"/> Yes <input type="checkbox"/> No
If 'yes', please confirm details	
Date consent received from NCA	
Date consent passed on to officer	

Other relevant information

Signed _____

Date: _____

THIS REPORT TO BE RETAINED FOR AT LEAST FIVE YEARS

Fraud response plan

1. Introduction

- 1.1 This plan provides guidance on the action to be taken where fraud, theft or corruption against the council is suspected or discovered. It sets out who to report your concerns to, the investigation process and what to expect from Internal Audit.
- 1.2 This document forms part of the council's counter fraud framework and should be read in conjunction with the other documents that make up the Strategy against Fraud and Corruption. You may also wish to refer to the council's Whistle Blowing Policy, Code of Conduct, Disciplinary Policy and Financial Regulations.
- 1.3 The objectives of this plan are to ensure timely and effective action can be taken to:
- Minimise the risk of inappropriate action or disclosure which would compromise an investigation;
 - Ensure there is a clear understanding of who will lead any investigation and keep other individuals informed and involved as appropriate;
 - Prevent further loss of funds or other assets and maximise recovery of losses;
 - Identify the perpetrator and secure sufficient evidence necessary for disciplinary or legal action;
 - Review the reasons for the incident and identify the measures required to prevent a reoccurrence;
 - Reduce the adverse impacts on the business of the council and minimise adverse publicity arising from fraud; and
 - Identify any action needed to strengthen future responses to fraud.

2. Reporting your concerns

- 2.1 You should report your concerns to an appropriate person as soon as possible. All reporting channels shown overleaf are (with the exception of Expolink) available to members, officers, contractors, partners and the public.
- 2.2 Regulation 4.5 of the Financial Regulations requires all cases of suspected corruption or financial irregularity to be reported to the Chief Internal Auditor. The individuals listed overleaf will notify the Chief Internal Auditor of any referrals.
- 2.3 Employees may wish to approach their line manager in the first instance (unless this is not appropriate because, for example, they are implicated) to pass on the information on their behalf. This is acceptable in all cases except suspected money laundering, which must be reported directly to the Money Laundering Reporting Officer or their deputy (see Appendix C).
- 2.4 While you may choose to make an anonymous referral, please consider the following:
- There will not be any opportunity to ask you follow up questions or seek clarification, which may prevent an investigation from reaching a satisfactory conclusion.
 - The Whistle Blowing Policy clearly sets out the council's zero tolerance approach to harassment or victimisation and its commitment to protect officers who raise concerns in good faith.
- 2.5 You must only report concerns that you believe to be true. If it is subsequently determined that a referral was made maliciously, or for personal gain, it may be dealt with as a disciplinary matter.

2.6 You may report your concerns to:

Chief Internal Auditor (Money Laundering Reporting Officer – see Appendix C)

Telephone: 020 8541 9190 / 020 8541 9299

Email: internal.audit@surreycc.gov.uk

Director of Finance (Section 151 Officer)

Telephone: 020 8541 7012

Email: sheila.little@surreycc.gov.uk

Director of Legal, Democratic & Cultural Services (Monitoring Officer)

Telephone: 020 8541 9088

Email: monitoring.officer@surreycc.gov.uk

Elected Members

Find your local councillor: <http://mycouncil.surreycc.gov.uk/mgFindMember.aspx>

Chairman of the Audit and Governance Committee

Email: stuart.selleck@surreycc.gov.uk

Grant Thornton (the council's external auditors)

Email: geoffrey.c.banister@uk.gt.com

Public Concern at Work (charity offering free whistle blowing advice)

Telephone: 020 7404 6609

Email: whistle@pcaw.org.uk

Expolink (independent, confidential hotline)

Telephone: 0800 374 199

Submit an online report: www.expolink.co.uk/whistleblowing/submit-a-report

Please note, this is not available to the public; the access code is available on s-net.

3. Initial response

3.1 If someone approaches you to report concerns, you should:

- Listen patiently and without prejudice to their concerns
- Ask whether they wish to remain anonymous (obtaining contact details if not)
- Treat all information seriously and in strict confidence
- Obtain as much information as possible during the referral (but do not conduct your own investigation), such as:
 - Outline of the allegations and their impact
 - People involved including job role in the case of employees
 - Amount of money and/or details of other assets involved
 - Timescales (one-off or ongoing)
 - Evidence (available notes, documents or other evidence)
- Not interfere with any evidence and ensure it is kept secure

3.2 As required by the Financial Regulations, you should contact the Chief Internal Auditor to agree any proposed action. The Chief Internal Auditor may request additional information before determining whether a full investigation is necessary and advice will be given on how to approach this without alerting the suspected perpetrator.

3.3 You should also consider whether the allegations pose any immediate safeguarding risks and contact the relevant managers in Adult Social Care or Children Schools and

Families directorates if necessary. Safeguarding concerns will take priority over an allegation of fraud and corruption, although this should still be reported.

- 3.4 Where an allegation involves an employee, it may not be appropriate for the employee to remain in their role whilst the investigation is undertaken. Any risk assessment and decision to suspend an employee (or move them to alternative duties) will be taken by Human Resources in consultation with the line manager and advice from the Chief Internal Auditor.

4. Investigating officer

- 4.1 The Chief Internal Auditor will evaluate the outcomes from the initial enquiries to determine whether a full investigation is warranted and, if so, appoint an investigating officer. In most cases this will be an officer from Internal Audit but, where an officer from another service is appointed, advice and support will be provided.
- 4.2 The investigating officer will remain impartial throughout the investigation and will:
- Conduct the investigation in a prompt manner;
 - Obtain evidence in line with the guidance in section 5 of this plan;
 - Record and secure all evidence obtained;
 - Ensure any information and/or knowledge is contained;
 - Involve and notify other key officers as appropriate (management, Human Resources, Insurance, Internal Audit); and
 - Conclude the investigation in line with guidance in section 6 of this plan.

5. Evidence

- 5.1 It is essential that all available evidence relating to the allegation is preserved. This involves a fine balance between not alerting the suspected perpetrator before it is appropriate, complying with council policies and ensuring evidence remains admissible in a court of law.
- 5.2 Legislative requirements must also be fulfilled, in particular those of the Police and Criminal Evidence Act 1984 (PACE) and the Regulation of Investigatory Powers Act 2000 (RIPA). If you are uncertain, seek advice from the Chief Internal Auditor. The most common forms of evidence and brief guidance are given below.

Council premises

- 5.3 Inspection of any council premises or property must be witnessed by a key/code holder in the case of locked areas, safes and cash tins, or at least one manager in the case of other store rooms, cupboards and work stations. A list of the contents should be made and the list signed and dated by both you and the witness as being a true record of what was found.
- 5.4 You must not remove any cash or other valuables without first speaking with the Chief Internal Auditor to agree such action and arrange alternative secure storage.

Original documents

- 5.5 Original documents should be obtained and retained, handled as little as possible and placed in a protective folder. Under no circumstance must they be marked in any way. All copies of original documents or screen images should be formally certified as a true copy with the date of copying. You should maintain a record of all documents detailing how, when and where they were obtained.

Computer data

- 5.6 When evidence is held on a computer hard drive, the computer should be secured. You must not attempt to access or download information from the computer yourself. Information may also be held on the council's network, for example, networked folders and emails.
- 5.7 In both cases, the Chief Internal Auditor and Technical Delivery Manager in IMT will advise on the most appropriate way of retrieving the data in accordance with council policy and the rules of evidence.

Video footage

- 5.8 If you suspect that a CCTV or other camera system may have information of value, secure the hard copy media or arrange for a certified download of the data that is compliant with PACE requirements. The camera system engineer should be able to provide an appropriate download but you should seek advice initially from the Chief Internal Auditor about how to proceed.

Interviews

- 5.9 You should maintain a record of interviews or meetings held, including the date, location, attendees and, as a minimum, summary notes. When obtaining evidence through interviews and meetings, be aware of how much (or little) information needs to be shared for the meeting to be useful.
- 5.10 Interviews with the suspected perpetrator are normally conducted by two people. Unless the interview is part of a formal disciplinary process, the person is not expected to be accompanied by a representative. You should retain original copies of any handwritten notes made during the interview in addition to any subsequently typed notes. These notes should try to reflect a full account of the conversation.
- 5.11 Within the council, 'interviews under caution' will only be conducted by officers from Internal Audit or Trading Standards to ensure such interviews are appropriately recorded and fully compliant with PACE.

Surveillance

- 5.12 RIPA provides a clear statutory framework for certain investigative techniques such as surveillance, the definition of which includes:
- Monitoring, observing or listening to persons, their conversations, their movements or their other activities; or
 - Recording anything monitored, observed or listened to in the course of surveillance; and
 - Surveillance by or with the assistance of a surveillance device.
- 5.13 RIPA authorisation must be obtained before conducting certain types of surveillance. You **must not** use any 'covert'³ and/or 'directed'⁴ surveillance without first seeking advice from the Chief Internal Auditor. Failure to comply with RIPA may result in evidence being deemed inadmissible in court and the council being fined.

³ Action is 'covert' if it is carried out in a manner that is calculated to ensure that the person who is subject to surveillance is unaware that it is or may be taking place.

⁴ 'Directed' surveillance targets an individual with the intention of gaining private information. This includes information relating to private and family life, home and correspondence, and includes activities of a professional or business nature.

6. Investigation conclusion

- 6.1 You will present your conclusions, together with your evidence and notes, to the Chief Internal Auditor who will review the outcome of the investigation irrespective of whether the investigating officer is a member of the Internal Audit team.
- 6.2 Your conclusions must be based solely on the available evidence and any recommended sanction should be in accordance with the Sanctions Policy (Appendix E). You should be prepared to give a statement, if required, as part of any subsequent disciplinary or legal action.
- 6.3 The Chief Internal Auditor will take into account your conclusions when agreeing the appropriate action to take including sanctions.

7. What to expect from Internal Audit

- 7.1 Any conversations you have, or information that you share, with the Internal Audit team will remain confidential. You should remember, however, that the Chief Internal Auditor has a responsibility to investigate all cases of suspected fraud.
- 7.2 When a decision is made not to conduct a full investigation, Internal Audit will offer advice and assistance to improve management controls and minimise adverse impacts on the service.
- 7.3 If the investigating officer is within Internal Audit, a summary email, briefing note or full report (as appropriate) will be issued to relevant council officers and members. Due to requirements of the Data Protection Act, however, and the council's duty of confidentiality to its clients, employees and members, information about investigation outcomes may be limited for those outside the council.
- 7.4 Any investigation led by Internal Audit will seek to make recommendations to reduce the risk of reoccurrence and strengthen control systems. Information gained during investigation may also be used to help disclose similar frauds within the council.

8. Press and publicity

- 8.1 Publicity can act as a strong deterrent to fraud and corruption with publicity of successful cases demonstrating the council's zero tolerance approach. Under no circumstance, however, must details of any cases suspected or under investigation be released to the press or public.
- 8.2 All press and publicity, whether internal or external, will be managed by the council's Communications team. Disclosure of details of a case, successful or otherwise, to the media without the express authority of Communications may be dealt with as a disciplinary matter.
- 8.3 Publicity within the council will be managed by Internal Audit in consultation with Communications. Case details in any such publicity will be anonymised.

Sanctions policy

Policy statement

Surrey County Council will ensure that:

- Appropriate sanctions are applied in all proven cases of fraud, theft and corruption;
- Public funds are recovered wherever possible; and
- The sanction decision making process is robust, transparent and fair.

1. Introduction

- 1.1 The council takes its responsibility to protect public funds seriously and expects its business to be conducted to the highest ethical and legal standards. Where there is evidence of fraud, theft or corruption against the council, those responsible, whether internal or external to the council, will be held accountable for their actions using the full range of sanctions available.
- 1.2 This policy forms part of the council's counter fraud framework and sets out:
- The range of sanctions available; and
 - Guidance on determining the appropriate action to take.
- 1.3 This policy is not prescriptive. A range of factors will require consideration before deciding on the appropriate sanction, including the individual circumstances of each case and the seriousness of the offence.

2. Sanction options

- 2.1 Where there is evidence of fraud, theft or corruption, the following options will be considered:
- No further action
 - Referral to professional bodies
 - Disciplinary action
 - Civil proceedings
 - Criminal prosecution
- 2.2 These options are not mutually exclusive and parallel sanctions may be pursued.

No further action

- 2.3 The council may consider closing a case without taking any further action. This may be due to the following factors:
- Evidence is not robust or reliable
 - The offence is minor
 - The cost to pursue the case is not proportionate to the offence committed

Referral to professional bodies

- 2.4 Where there is adequate evidence that a person or entity has breached professional duties or responsibilities, the council will refer the matter to the relevant professional body. This may include the Disclosure and Barring Service if there is evidence of a safeguarding concern.

Disciplinary action

- 2.5 In the event that an allegation is made against a council employee, the investigating officer will consult with Human Resources and the employee's line manager regarding risk assessments and disciplinary action. Any disciplinary action will be in accordance with the council's Disciplinary Policy. Sanctions may include warnings or dismissal on the grounds of gross misconduct.
- 2.6 Additional sanction options will be considered alongside any disciplinary action including referral to professional bodies, civil proceedings and criminal prosecution.

Civil proceedings

- 2.7 Where evidence is not sufficient to prove a case beyond reasonable doubt, and therefore successful criminal prosecution is unlikely, the council may consider civil proceedings for which the standard of proof is on the balance of probability.
- 2.8 Regardless of whether any sanction action is taken, the council will always seek recovery of overpaid, misused or unfairly gained monies. The following measures may be considered in the pursuit of financial recovery:
- Consultation with the council's Payroll and Pensions Teams to redress financial loss caused by employees;
 - Application of the Credit Control Team's usual procedures, which includes civil action when necessary;
 - Legal action such as search orders and freezing/tracing injunctions to preserve evidence and assets; and
 - Recovery of money through appropriate legal proceedings.

Criminal prosecution

- 2.9 Where there is sufficient evidence to indicate that a criminal act has taken place, the case may be referred to the police. The decision to refer the issue to enforcement agencies, such as Surrey Police, will be taken by the Director of Finance and/or Monitoring Officer as advised by the Chief Internal Auditor.
- 2.10 The police or Crown Prosecution Service will provide a final decision on whether to pursue the case. This decision will consider the following:
- **Evidential criteria** such that the evidence must be:
 - Clear, reliable and admissible in court
 - Strong enough for a realistic chance of prosecution; to prove a case 'beyond reasonable doubt'
 - Whether prosecution is in the **public interest**, taking into account:
 - Seriousness and/or monetary value of the offence
 - Cost and proportionality of the prosecution
 - Age, health and level of culpability of the suspect
 - Circumstances of and harm caused to the victim
 - Other factors such as community impact
- 2.11 Where the council considers it "expedient for the promotion or protection of the interests" of its residents, Section 222 of the Local Government Act 1972 empowers the council to:
- Prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name; and

- In their own name, make representations in the interests of residents at any public inquiry held by or on behalf of a public body under any enactment.
- 2.12 The council will only consider undertaking prosecutions through this route under exceptional circumstances and any decision to do so will be taken by the Director of Finance and Monitoring Officer as advised by the Chief Internal Auditor.
- 2.13 Any criminal proceedings will include an attempt to recover money under the Proceeds of Crime Act 2002.

3. Leaving the council

- 3.1 During the course of an investigation or disciplinary action, the employee(s) suspected of fraud, theft or corruption may choose to resign from their employment with the council. In this case, following a review of evidence, the council may continue to pursue referral to professional bodies, civil proceedings or criminal prosecution.
- 3.2 The employee's line manager will also consult with Human Resources to determine whether it will be appropriate to provide a reference to future employers.

4. Publicity

- 4.1 Guidance on publicity is available in the Fraud Response Plan (Appendix D). The decision to publicise outcomes will consider the following criteria:
- Interests of Surrey County Council;
 - Interests of Surrey residents; and
 - Deterrent value to others.

MINUTES OF THE MEETINGS OF CABINET HELD ON 13 DECEMBER 2016

Any matters within the minutes of these Cabinet meetings may be the subject of questions and statements by Members upon notice being given to the Democratic Services Lead Manager by 12 noon on Monday 6 February 2017.

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**MINUTES OF THE MEETING OF THE CABINET
HELD ON 13 DECEMBER 2016 AT 2.00 PM
AT ASHCOMBE SUITE, COUNTY HALL, KINGSTON UPON THAMES,
SURREY KT1 2DN.**

These minutes are subject to confirmation by the Cabinet at its next meeting.

Members:

*Mr David Hodge (Chairman)	*Mr John Furey
*Mr Peter Martin (Vice-Chairman)	* Mr Mike Goodman
* Mrs Helyn Clack	* Mrs Linda Kemeny
*Mrs Clare Curran	* Ms Denise Le Gal
*Mr Mel Few	*Mr Richard Walsh

Cabinet Associates:

*Mr Tim Evans	*Mrs Kay Hammond
*Mrs Mary Lewis	*Mr Tony Samuels

* = Present

Members in attendance:

Mrs Hazel Watson
Mr David Harmer
Mr Colin Kemp

PART ONE
IN PUBLIC

243/16 APOLOGIES FOR ABSENCE [Item 1]

There were no apologies.

244/16 MINUTES OF PREVIOUS MEETING: 22 NOVEMBER 2016 [Item 2]

The minutes of the meeting held on 22 November 2016 were confirmed and signed by the Chairman.

245/16 DECLARATIONS OF INTEREST [Item 3]

Mr Furey declared a personal interest in the reports relating to the Runnymede Roundabout Scheme (item 11 and 26) because he was also a member of Runnymede Borough Council.

246/16 PROCEDURAL MATTERS [Item 4]

247/16 MEMBERS' QUESTIONS [Item 4a]

No questions from Members were received.

248/16 PUBLIC QUESTIONS [Item 4b]

No questions from members of the public were received.

249/16 PETITIONS [Item 4c]

No petitions were received.

250/16 REPRESENTATIONS RECEIVED ON REPORTS TO BE CONSIDERED IN PRIVATE [Item 4d]

Written representation was received from Mrs Hazel Watson to release information in paragraphs 15 -18 in the report relating to the Provision of Independent Advocacy Services in Surrey (item 24). A revised report was tabled at the meeting to reflect that some of this information was now included in the Part 1 report.

251/16 REPORTS FROM SCRUTINY BOARDS, TASK GROUPS, LOCAL COMMITTEES AND OTHER COMMITTEES OF THE COUNCIL [Item 5]

No reports were received.

252/16 SALESIAN SCHOOL, CHERTSEY: BASIC NEED EXPANSION PROJECT [Item 6]

The Cabinet Member for Schools, Skills and Educational Achievement reminded Cabinet that they had considered this report at the previous Cabinet meeting and deferred the decision. She said that she personally supported the request to approve the business case for the expansion of Salesian Catholic Secondary School from 220 admissions per year (1100 places) to 270 admissions per year (1,350 places) creating 250 additional places in Runnymede and the Elmbridge Catholic Deanery to help meet the basic need requirements in the Runnymede and Elmbridge area from September 2018.

She said that Salesian was a popular school, judged outstanding by Ofsted and that the catholic diocese of Arundel and Brighton were fully supportive of the proposed expansion and would contribute to the scheme, thereby reducing the overall cost to the County Council. However, she acknowledged that the provisional local government settlement had not yet been received and requested that Cabinet approved the expansion, subject to the inclusion of the following additional recommendations and reason for decision, which were:

2. That the expenditure of the sums planned in the MTFP be approved, subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
3. That it be noted that the Leader will decide whether the condition in recommendation 2 has been met in consultation with the Director of Finance and the Chief Executive.

Reason:

There is demonstrable public benefit to these proposals and strong value for money arguments. Nevertheless the county council is facing unprecedented financial pressures therefore it would not be sensible to agree to additional

expenditure without understanding the implications of the provisional local government settlement.

The Cabinet Member for Business Services and Resident Experience confirmed her support for the scheme, subject to inclusion of the additional recommendations.

Other Members of the Cabinet team expressed regret about having to include conditions within the recommendations and hoped that this action would not damage the good partnership working with the diocese.

RESOLVED (as amended):

1. That, subject to the agreement of the detailed financial information for the expansion as set out in Part 2 of the agenda, the business case for the provision of 250 additional Catholic secondary places be approved.
2. That the expenditure of the sums planned in the MTFP be approved, subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the county council.
3. That it be noted that the Leader will decide whether the condition in recommendation 2 has been met in consultation with the Director of Finance and the Chief Executive.

Reasons for Decisions:

The proposal supports the Authority's statutory obligation to provide sufficient school places to meet the needs of the population. Additionally this proposal expands an outstanding secondary school and adds to the diversity of provision within Surrey.

There is demonstrable public benefit to these proposals and strong value for money arguments. Nevertheless the county council is facing unprecedented financial pressures therefore it would not be sensible to agree to additional expenditure without understanding the implications of the provisional local government settlement.

253/16 ACCOMMODATION WITH CARE AND SUPPORT PROGRAMME - EXTRA CARE [Item 7]

The Accommodation with Care and Support Programme is a programme of work looking at all accommodation-based adult services that is commissioned and provides for residents of Surrey who have care and support needs. The Accommodation with Care and Support Strategy was approved by Cabinet in December 2015, giving a commitment to the direction of travel.

The Accommodation with Care and Support Programme aims to increase the options available for residents needing accommodation with care and support, by integrating the County Council approach across health, care and the community, and re-shaping the market to ensure everyone has access to the right support regardless of tenure.

The Cabinet Member for Adult Social Care, Wellbeing and Independence said that the report set out the rationale for the programme within paragraphs 5-10 of the report. He said that a number of the procurement models had been explored, including a public private partnership, a joint venture, a fully commissioned design, build and deliver package, in house design and build with commissioned delivery.

He referred to the consultation process which had been carried out and drew attention to the risk implications, as set out in the report. He also said by focussing on ensuring better understanding of future demand and developing the market to meet those needs, whilst maximising the Council's assets, additional capacity for extra care housing would contribute towards savings already planned in the Medium Term Financial Plan, and those required for future years.

Finally, he referred to the Equalities Impact Assessment, which was included as an Annex to the report.

The Cabinet Member for Business Services and Resident experience confirmed that the Adult Social Care service would be working with colleagues in Property Services to develop this initiative, which she considered would improve residents wellbeing and help them to live independently for longer.

RESOLVED:

1. The use of Surrey County Council assets, as appropriate, as part of the business case and offer to the market as outlined and described in the Part 2 report, be approved.
2. That responsibility for the exact sites that will be used as part of the offer to the market be delegated to the Strategic Director for Adult Social Care and Public Health, in consultation with the Leader of the Council, the Cabinet Member for Adult Social Care, Wellbeing & Independence and the Cabinet Member for Business Services & Resident Experience.
3. That the Council will be going to market in the Spring of 2017 to identify a development partner to begin delivery of the strategic ambition for Extra Care housing.
4. That further engagement with the market and a competitive tendering process will be taking place, with the appropriate delivery model and award of contract being subject to further Cabinet consideration at a later date.

Reasons for Decisions:

With changing demographics, increasing financial challenges, and a joint health and social care strategy to support people to live independently in their homes for as long as possible, we need to commission the right accommodation options to meet our resident's health and wellbeing needs. To do this, the Council will need to work with partners and the private sector to shape the market for accommodation with care and support and to meet the strategic aims of the Accommodation with Care and Support strategy. By

approving the approach to market to stimulate additional capacity within Extra Care housing market, the Cabinet sets out a clear direction of travel and message to the market in relation to future needs and our commitment to work in partnership. Further detail on this recommendation can be found in paragraph 14 of the submitted report.

254/16 THE PROVISION OF MENTAL HEALTH SERVICES - FIRST STEPS AND COMMUNITY CONNECTIONS IN SURREY - APPROVAL OF CONTRACTS [Item 8]

This item was deferred.

255/16 THE PROVISION OF INDEPENDENT ADVOCACY SERVICES IN SURREY - APPROVAL TO AWARD A CONTRACT [Item 9]

The Cabinet Member for Adult Social Care, Wellbeing and Independence said that this report sought approval to award a contract for the provision of Independent Advocacy Services in Surrey as detailed in the recommendations to commence on 1 April 2017. The service was jointly funded by Adult Social Care, Public Health and Surrey Clinical Commissioning Groups.

He said the key focus of the new contract was on statutory provision, with some discretionary advocacy support services for those on the cusp of requiring adult social care intervention.

Finally, he confirmed that a consultation exercise had been undertaken, which had given a number of opportunities for stakeholders to co-design the specification for this service.

RESOLVED:

That the contract be awarded to the recommended provider for three years from 1 April 2017 with an option to extend for up to one year. Details of the award and the contract value were contained in the Part 2 report, considered later in the meeting.

Reasons for Decisions:

The current contractual agreements will expire on 31 March 2017. A full tender process, in compliance with the requirement of Public Contract Regulations and Procurement Standing Orders has been completed, and the recommendations provide best value for money for the Council following a thorough evaluation process.

The newly commissioned service represents a substantial change of direction for the Council moving towards a more focussed advocacy service in Surrey.

The service will be delivered in Surrey from local bases and will provide apprenticeship opportunities to Surrey Young People whilst delivering efficiencies for the Council.

Re-focussing the way that advocacy is delivered under the new contract will allow a 50% reduction in spend, meeting the Councils need to make savings.

256/16 FINANCE AND BUDGET MONITORING REPORT TO 30 NOVEMBER 2016

[Item 10]

The Leader of the Council presented the budget monitoring report covering the period up to the 30 November 2016.

He said that in September, several significant financial risks crystallised resulting in an unprecedented forecast outturn of £22.4m overspend for this financial year. However, by the end of October, the forecast outturn position had improved to £15.0m and by the end of November, it has improved again to £6.1m overspend, which was much better. However, this year's budget was still not balanced. He said that there was still some way to go before a sustainable Medium Term Financial Plan was achieved.

He informed Cabinet that there were many reasons why the County Council needed to keep working to restore its financial position. Not least among them, as again pointed out in the Section 151 Officer's and the Monitoring Officer's commentaries was the requirement of the Local Government Finance Act to ensure the County Council's spending did not exceed its resources.

He advised Members that cost, demand and funding pressures had meant that there were overspends in Adult Social Care, Children's Services and Schools & SEND (Special Education Needs & Disabilities) and that many of these pressures were preventing the Council from implementing its savings plans and contributed to the £20m shortfall against the £83m savings target for 2016/17. These pressures were having a substantial and detrimental impact on the Council's medium term financial position, which was not yet sustainable.

The Chief Executive and Director of Finance had agreed a series of actions with Service Directors to review all spending plans and consider all options for managing service demand more effectively and that, wherever sensible, the Cabinet would not agree further spending commitments until a balanced budget was assured and progress had been made towards a sustainable Medium Term Financial Plan.

He said that the improvement in November's financial position was due to reducing the costs of the Council's capital assets. October's improvement was from higher Investment Strategy income, lower interest charges and extra savings in Property and Orbis but it remained imperative that improvements were found across the board.

Given the gravity of our situation, it was vital Members and officers continued their actions to identify and implement ways to reduce the overspend in 2016/17 and address the issues affecting the Council's financial sustainability for 2017/18 and subsequent years.

Finally, he urged the Cabinet and other leading Members to continue to bring the Council's budget issues to the attention and understanding of Surrey's MPs because the peak forecast £22.4m overspend closely matched the "shock" reduction in 2016/17 Revenue Support Grant which the Government had imposed upon the Council less than a year ago.

Other Cabinet Members were given the opportunity to highlight key points and issues from their positions.

RESOLVED:

That the report be noted, including the following:

1. That the forecast revenue budget outturn for 2016/17 was £6.1m overspend, down from £15.0m last month, as set out in paragraph 1 of the submitted report.
2. That the forecast efficiencies and service reductions for 2016/17 were £62.9m, the same as last month, as set out in paragraph 45 of the submitted report.
3. That the Section 151 Officer's commentary and the Monitoring Officer's Legal Implications commentary, as set out in paragraphs 16 to 20 of the submitted report be noted.

Reasons for Decisions:

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.

257/16 RUNNYMEDE ROUNDABOUT SCHEME [Item 11]

Mr Furey, Cabinet Member for Highways, Transport and Flooding declared a personal interest in the reports relating to the Runnymede Roundabout Scheme (items 11 and 26) because he was also a member of Runnymede Borough Council.

The Cabinet Member for Highways, Transport and Flooding began his introduction by stating that this item had been deferred from the previous Cabinet meeting. He said that he understood and acknowledged the financial situation that the County Council was facing. However, unlike other items, the requested money for this roundabout would provide a high return on investment because the required investment of £2.025m would return a sum of £5.2m, due to the successful Local Enterprise Bid (LEP). He said that within the contract, there had been included works to the drainage system which had been achieved at a lower cost price - these works would need to be delivered irrespective of this outcome.

Without a decision this week, he considered that it was highly likely that the scheme would be cancelled, for the following reasons:

- The contract award would fall outside the period which process were fixed, with consequent risk that prices could change.
- The construction programme for the scheme, if delayed would be outside the funding window required and agreed with Enterprise M3 LEP.
- Without the Runnymede Roundabout project, the County Council would still need to address the highway drainage system at some point and carry out re-surfacing works to the carriageway at the roundabout junction which requires repair. These works would be subject to the

Council's consideration of priorities and are estimated to cost in excess of £1.5m.

- Currently the County Council had carried out approximately £800,000 of LEP funding related work which would need to be funded by the County Council.

He said that he had considered the benefits and drawbacks of the decision being made this week and agreed with the proposed additional recommendations and reason for recommendation, which were:

3. Cabinet confirms that recommendations 1 and 2 are subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
4. That the Leader will decide by Friday 16 December 2016 whether the condition in recommendation 3 has been met, in consultation with Director of Finance and Chief Executive.

Reason:

There is demonstrable public benefit to these proposals and strong value for money arguments. Nevertheless the County Council is facing unprecedented financial pressures, therefore it would not be sensible to agree to additional expenditure without understanding the implications of the provisional local government settlement.

Finally, he requested that, once the provisional Local Government settlement had been received, that the Leader re-considered the request to proceed with the scheme because he thought that the benefit /cost savings were quite marginal.

Other Cabinet Members agreed that they wished to support the scheme and that the Council did not want to lose LEP funding. However, they acknowledged that the County Council's finances were under severe pressure and agreed to support the amendments to the recommendations and reasons for decision.

The Leader confirmed that he would take advice from the Chief Executive and the Director of Finance before making a decision, which would be in the best interests of Surrey residents.

RESOLVED (as amended):

1. That the financial support Cabinet gave to this scheme in 2014 be re-affirmed.
2. That the award of the tender for construction works for the Runnymede Roundabout scheme, on the basis set out in the Part 2 report to be considered later in the agenda, be approved.
3. Cabinet confirms that recommendations 1 and 2 are subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.

4. That the Leader will decide by Friday 16 December 2016 whether the condition in recommendation 3 has been met, in consultation with Director of Finance and Chief Executive.

Reasons for Decisions:

This report recommends approval to let a contract to construct an improvement scheme for Runnymede Roundabout (part of the combined Runnymede Roundabout and Egham STP package), one of the county's most serious congestion hot spots, near to Staines and Egham, supported by 75% government funding through the Enterprise M3 Local Enterprise Partnership and a contribution from Runnymede Borough Council.

A mini-tender process for the Runnymede Roundabout scheme, in compliance with the requirements of the GEN3 Regional Highways Framework has been completed, and the recommendations provide best value for money for the Council following a thorough evaluation process. Funding for this scheme has been secured from the Local Enterprise Partnership £4.950m plus a direct contribution of £1.525m from Surrey County Council (approved by Cabinet at its meeting on 23 September 2014) and a partner contribution of £0.250m from Runnymede Borough Council. An additional £0.500m has also been allocated from the Flood Resilience capital budget to complete required priority drainage maintenance scheme at the same time as the LEP scheme works in order to minimise disruption and cost, and this is a more efficient way to deliver this associated scheme. The Runnymede Roundabout and drainage scheme has a combined total budget of £7.225m.

There is demonstrable public benefit to these proposals and strong value for money arguments. Nevertheless the County Council is facing unprecedented financial pressures, therefore it would not be sensible to agree to additional expenditure without understanding the implications of the provisional local government settlement.

258/16 INVESTMENT OF PROGRAMME FUNDING TO EXTEND SUPERFAST BROADBAND INFRASTRUCTURE TO SURREY PREMISES. [Item 12]

Prior to the Deputy Leader presenting the report, Mrs Watson and Mr Harmer were invited to speak.

Mrs Watson said that this investment of £3.8m (Gainshare), from BT was insufficient to enable all 15,300 Surrey properties still without fast broadband to receive the service. She considered that the original plan had been 'watered down' and asked if Value for Money criteria would be applied when deciding who would benefit from this funding. She said that remote, rural areas missed out and requested that the County Council provided 100% coverage across Surrey. Finally, she asked when the postcode information would be publically available.

Mr Harmer said that there had been an extensive discussion on this investment of programme funding to further extend the superfast broadband infrastructure to Surrey premises at the Economic Prosperity, Environment and Highways Scrutiny Board (EPEH). Both he and the Board supported the overall strategy and considered that the proposed solution was brilliant.

He acknowledged that the outstanding issues did not affect the majority of divisions in Surrey and the problems were mostly in the south and east of the county. He understood that the postcode information would not be available until after the Cabinet had agreed the way forward. Finally, he gave an assurance that the EPEH Board would continue to scrutinise the financial and value for money implications of this investment and the contract.

Surrey County Council's investment in fibre broadband infrastructure over the past four years through the contract with BT has had a very significant impact on the well-being and economic prosperity of thousands of residents and businesses around the county. All of the contractual targets in the main phase of the contract have been achieved.

The Deputy Leader said that the contract with Openreach had been signed in 2012 and now, as a result of the County's investment into broadband infrastructure, more than 96% of all Surrey premises were able to access fibre download speeds of 15mbps or above. According to Think Broadband, Surrey was currently the best connected county in England.

He was pleased to announce that, due to the County's very successful demand stimulation campaigns, take-up of the fibre broadband services by residents and businesses was significantly higher than projected in the contract finance model, resulting in additional clawback funding flowing into the contract and BT have offered Surrey County Council an advance against this clawback funding of £3.8 million, known as 'Gainshare'. He hoped that this funding would enable a further 4000 - 5000 properties to receive the fibre broadband services and also hoped to receive the postcode information early next year.

Finally, he drew attention to paragraphs 14 and 15 in the report which set out details of how the Government had also intervened to try and improve broadband provision.

The Leader considered that the previous Head of Procurement had done a terrific job in negotiating this contract in 2012, which he felt had improved the economic prosperity for Surrey residents. He also congratulated the Deputy Leader for his work on the project.

RESOLVED:

1. That the investment of State Aid approved funds that have been generated by the contract with BT to further the deployment of Next Generation Access (NGA) broadband infrastructure within a revised Intervention Area be approved.
2. That final approval for the investment of contract funds be delegated to the Strategic Director for Environment and Infrastructure, in consultation with the Deputy Leader.

Reasons for Decisions:

Utilising available funding within the existing contract with BT enables the County Council to proceed with the deployment of additional broadband

infrastructure, providing high speed broadband to as many of the remaining 15,300 premises as possible.

The recommendation requires no new capital expenditure as the funding is generated wholly through the existing contract and higher than modelled take up of fibre broadband services in Surrey County Council's original Intervention Area. This funding is already State aid approved and can be used immediately through the existing contract with BT.

259/16 SUPPORTING ECONOMIC GROWTH THROUGH INVESTMENT IN TRANSPORT AND HIGHWAYS INFRASTRUCTURE - SCHEMES FOR STAINES AND LEATHERHEAD [Item 13]

Improving transport infrastructure was a key part of the Council's strategic goal of economic prosperity.

The Cabinet Member for Highways, Transport and Flooding said that approval was sought to retrospectively submit a business case to the EM3 Local Enterprise Partnership for Staines STP (Phases 1A and 1B) (EM3 LEP), and approval was also sought to submit a business case to the C2C Local Enterprise Partnership for Greater Leatherhead STP (C2C LEP), as additional schemes for the 2016/17 Strategic Economic Plan (SEP) programme of EM3 and C2C Local Enterprise Partnerships (LEPs).

He said that partner investment was required, that the Council had been in discussions with the relevant Borough and District Councils to secure local contributions and it was a requirement that the County Council confirmed that the specified local financial contribution was available when it submitted the business cases.

Finally, he confirmed that Surrey County Council's direct contribution to these schemes was nil.

RESOLVED:

1. That retrospective approval to submit a Business case for Staines STP (Phases 1A and 1B) (EM3 LEP) be approved.
2. That a business case for Leatherhead STP, subject to local contribution being made available be submitted.

Reasons for Decisions:

Transport infrastructure schemes are a key element of the Strategic Economic Plan (SEPs), submitted by the Local Enterprise Partnerships (LEPs) to Government in March 2014, which sets out how they will support the economic development and regeneration of their areas. The proposed schemes will deliver a range of benefits to Surrey's residents including reduced congestion; improved journey time reliability; improved network resilience and safety and improved access for cyclists, pedestrians and buses, as well as enabling economic development and regeneration.

Under the funding arrangements, delivery bodies are required to provide a local contribution for the schemes, to reflect the local benefits that will be provided.

For the Leatherhead STP project, Mole Valley District Council is extremely supportive of the proposed scheme, and is committed to doing all it can to identify local match funding.

260/16 M3 ENTERPRISE ZONE [Item 14]

The Deputy Leader informed Cabinet that Enterprise Zones (EZs) were a Government initiative to support business growth, create new jobs and attract private sector investment to specific areas. Within the designated EZ boundaries newly located or expanded businesses were able to benefit from financial incentives, including reduced business rates. Business rate growth accruing from these new businesses would be used for investment to support the EZ.

Enterprise M3 LEP, in partnership with Basingstoke Borough Council, Runnymede Borough Council and East Hampshire District Council, submitted a successful application to Government for a multi-site EZ covering: Basing View in Basingstoke, Longcross Park in Chertsey, and Whitehill and Bordon's Louisburg Barracks.

The M3 EZ would start in April 2017 and last for 25 years. The Government required a 5 year Implementation Plan setting out an investment programme to accelerate growth in the area and enable a greater business rates uplift. There was also a Programme Steering Group overseeing the development of the EZ of which Surrey County Council was a voting member.

Referring to paragraph 12, relating to retaining local business rates, the Cabinet Member for Adult Social Care, Wellbeing and Independence, who was the local Member for the Longcross area, requested that he was consulted on any proposed support for local initiatives in that area.

RESOLVED:

1. That Surrey County Council gives consent for Enterprise M3 to sign the Agreement for the M3 Enterprise Zone with Government on the basis of the principles, as set out at Annex 1 of the submitted report.
2. That Surrey County Council and Runnymede Borough Council establish a Memorandum of Understanding (MoU) on agreeing the local initiatives for the Longcross site that are to be funded from the portion of retained business rates allocated to local authorities.
3. That Surrey County Council, along with each of the other local authorities involved, makes a one-off contribution of £20,000 to co-fund the Enterprise Zone Programme Director position and consultancy support. The contribution to be found from the Surrey Growth Fund.

Reasons for Decisions:

The M3 EZ is a major opportunity to support economic growth on one of the largest available sites for commercial development in Surrey and to secure

additional investment in the area. Over 25 years the ambition is for the EZ to deliver over 200 new businesses and over 10,000 new jobs and to generate an additional £178 million in retained business rates. The specific ambition for the Longcross site is for 49 new businesses, 5600 new jobs and 118,000 sqm of new floor space with the development generating £8.5bn in additional GVA over the 24 year construction and operational period.

The Programme Director will provide the dedicated leadership needed given the complexity of developing a multi-site zone. The Government requires an Implementation Plan for the EZ which needs specialist input alongside the LEP and the local authorities and two consultancy firms with experience of other EZs have been brought on board to make sure that the approach maximises income and has a well targeted investment programme. Successful implementation of the EZ requires support from all the relevant Local Authorities and agreement between SCC and Runnymede about the infrastructure and other interventions that are needed to maximise development on the Longcross site will ensure that the package of measures is well targeted.

261/16 DEVELOPING A SINGLE WASTE APPROACH [Item 15]

Before the Cabinet Member for Environment and Planning introduced the report, the Chairman of Economic Prosperity, Environment and Planning was invited to speak. He said that his scrutiny board had set up a Member Reference Group to support this area of work and that there had been good progress in developing a single waste approach in Surrey and commended this proposition to Cabinet.

The Cabinet Member said that he was pleased to present this report, which illustrated that Surrey County Council (SCC) and the Surrey Waste Partnership (SWP), by working as One Team, had identified that significant savings and improvements for residents could be made by changing the way in which waste was managed in Surrey.

He said that since the Surrey Waste Partnership was formed in 2008, significant progress had been made with waste collection arrangements now largely aligned and the range of recycling materials able to be collected greatly increased. He considered that only by working together in partnership could savings continue to be achieved.

A business case developed by the SWP proposed that waste services were delivered via a new partnership arrangement which was collectively owned by SCC and Surrey's district and borough councils and details were set out in the report. It would mean the benefits gained by working together would be shared across all authorities.

He confirmed that there had been extensive consultation and the feedback had formulated the Plan. Finally, he said that the Medium Term Financial Plan required that SCC makes savings from its waste budget in the short term, and this report was an important step forward, making a difference to how waste was collected. Encouraging a high recycling performance would contribute to budget savings and be of benefit to Surrey taxpayers.

Other Cabinet Members made the following points:

- It was an excellent way forward for Surrey County Council
- Woking Borough Council wished to be at the forefront of this approach
- It was hoped that the remaining districts and Boroughs would consider the benefits of joining the new partnership arrangements
- Being partners in common benefitted Surrey residents
- The important role of Members and officers in this initiative
- Working together was the way forward

RESOLVED:

1. To agree to combine SCC's Waste Disposal Authority partnership functions, as described in paragraph 28 of the submitted report, with the functions of the four joint waste collection contract authorities in early 2017/18, and that authority be delegated to the Strategic Director for Environment and Infrastructure, in consultation with the Leader of the Council and the Cabinet Member for Environment and Planning, to enter into the required agreements.
2. That officers be tasked to develop a business case, which recommends the optimum solution for the transfer of the remaining core Waste Disposal Authority functions, as set out in paragraph 27 of the submitted report, to the new partnership entity, and to return to Cabinet in June 2017 with detailed proposals.
3. That officers continue to work through the Surrey Waste Partnership to engage with district and borough councils on how all authorities can adopt a single waste approach that is mutually beneficial, whilst delivering savings and improved services for Surrey residents.
4. The proposals for financial arrangements with Waste Collection Authorities in 2017/18, as set out in paragraphs 42 and 43 of the submitted report, be approved.
5. That officers write to all Waste Collection Authorities to give formal notice of SCC's intention to centrally manage kerbside collected recyclables, via SCC's waste disposal contractor.

Reason for Decisions:

Delivering waste collection and disposal services through a single organisation that is co-owned by all Surrey's authorities will deliver significant cost savings for the County Council and Surrey's district and borough councils, whilst improving services and delivering value for Surrey residents.

Combining SCC's waste partnership functions with the four district and borough councils which are part of the joint waste collection contract will demonstrate the early benefits of partnership working, reduce the duplication of effort inherent in the current system, improve the service offered to Surrey residents, and concentrate combined effort on the delivery of savings.

More work is required to fully appraise the benefits of integrating SCC's remaining Waste Disposal Authority functions into a joint entity. It is also

necessary to engage positively with all Surrey Waste Collection Authorities to continue to develop and deliver plans for a fully co-owned entity that are mutually beneficial and maximise benefit for Surrey residents.

Changes to the financial arrangements with Waste Collection Authorities in 2017/18 are necessary to improve performance and make savings in the short term, whilst work continues on the delivery of a single co-owned approach to waste management which will deliver savings in the longer term. This will include giving early notice of the council's intention to centrally manage kerbside collected recyclables in order to deliver cost savings and replace the existing recycling credit system.

262/16 PUBLIC SAFETY PLAN 2016 - 2025 [Item 16]

The Cabinet Member for Localities and Community Wellbeing said that the County Council's revised Public Safety Plan covered the period 2016 – 2025 and that some of the proposals within it were instrumental to achieving the savings required in the service's budget.

The Cabinet Associate for Community Safety Services informed Members that Surrey Fire and Rescue Authority was required to produce an Integrated Risk Management Plan (IRMP) which considered all the fire and rescue related risks that could affect its communities. This planning process helps to identify longer term priorities, to make sure there was an up to date assessment of risk, and how to mitigate it effectively.

She said in Surrey, the Council set out its IRMP in the Public Safety Plan (PSP), which was currently valid until 2020. However, within a constantly changing environment, new threats and opportunities have emerged and this new document provided a framework for how SFRS would respond and adapt to these changes.

The PSP refresh document covered the period 2016-2025 and there were nine proposals set out in paragraph 2 of the covering report. She said that the PSP was consulted on from 27 April – 7 June 2016 and the feedback was supportive of the proposals. She confirmed that the Fire Brigade Union had been fully engaged throughout the process and was supportive of the Plan and that the refreshed PSP 2016 – 2025 would remain as a 'draft' until final approval by Cabinet.

She said that it was a large document, containing a wealth of information including some amazing case studies. Referring to the Equalities Impact Assessment, she highlighted the following paragraph within it:

'The Public Safety Plan (PSP) is the over-arching business strategy that guides the priorities and improvements Surrey Fire and Rescue Service will make over the next ten years The Public Safety Plan (PSP) is our key planning document that describes how we will play our part in keeping Surrey residents, and those that work or travel through the county, safe over the next 10 years. It outlines our understanding of the risks and challenges facing the county and how we will maintain adapt and enhance our service accordingly.'

The Cabinet Member for Adult Social Care, Wellbeing and Independence wished to put on record his thanks to SFRS for the services it provided for Adult Social Care.

RESOLVED:

That the Surrey Fire and Rescue Public Safety Plan, setting a framework for 2016 – 2025, be approved for publication.

Reasons for Decisions:

In acknowledging the public consultation feedback and finalised version of the Public Safety Plan, the Fire and Rescue Authority gives confirmation to the direction of Surrey Fire and Rescue Service and endorses its plans.

263/16 APPROVAL FOR THE FIRE AND RESCUE SERVICE TO TRIAL THE USE OF INITIAL RESPONSE VEHICLES AND AWARD A CONTRACT FOR THE PROVISION [Item 17]

The Cabinet Member for Localities and Community Wellbeing said that changes to how Surrey Fire and Rescue Service (SFRS) responded to incidents needed to be implemented to achieve targets within the Medium Term Financial Plan (MTFP). Therefore, the service were proposing to trial the introduction of a different response method using Initial Response Vehicles (IRV) that can be sent to specified incident types in place of a traditional fire appliance.

However, he recognised the County Council's financial pressures and proposed adding the following recommendations and reason:

3. Cabinet confirms that recommendations 1 and 2 are subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
4. That the Leader will decide whether the condition in recommendation 3 has been met in consultation with the Director of Finance and Chief Executive.

Reason:

Whilst the potential value for money from this approach is clear the County Council is facing unprecedented financial pressures, therefore it would not be sensible to agree additional expenditure without understanding the implications of the provisional Local Government Settlement.

The Cabinet Associate for Community Safety Services said that this report was asking Cabinet to agree that the service trialled the use of IRVs and highlighted the potentially significant savings that could be achieved by replacing a traditional fire engine with an IRV.

RESOLVED (as amended):

1. That Surrey Fire and Rescue Service trial the use of Initial Response Vehicles to prove safe systems of work under the Health and Safety at Work Act 1974, leading to a more flexible and efficient response model to Surrey residents.
2. That a contract for Initial Response Vehicles be awarded in January 2017 to Rosenbauer UK Ltd for a two phase contract, consisting of an

initial trial period with two vehicles with an option to extend for a further two years with up to an additional four vehicles, subject to the completion of a successful pilot.

3. Cabinet confirms that recommendations 1 and 2 are subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
4. That the Leader will decide whether the condition in recommendation 3 has been met in consultation with the Director of Finance and Chief Executive.

Reasons for Decisions:

In order to better meet demand with the resources available, SFRS need to adjust the way it delivers services to improve efficiency and support a more sustainable approach that is value for money and continues to meet the needs of Surrey residents.

The IRV trial will enable the Service to assess capabilities and gathering data on the scope of operations that could be delivered through a different response method. The trial will ensure that the vehicles, equipment and crewing can be tested across a wide range of incidents and peaks of operational activity. The outcomes from the trial will inform the decisions around implementation, policy and safe and effective service delivery for Surrey residents.

Whilst the potential value for money from this approach is clear the County Council is facing unprecedented financial pressures, therefore it would not be sensible to agree additional expenditure without understanding the implications of the provisional Local Government Settlement.

264/16 CHANGES TO HOW SURREY FIRE & RESCUE SERVICE RESPONDS TO AUTOMATIC FIRE ALARMS [Item 18]

The Cabinet Member for Localities and Community Wellbeing said that he hoped that the changes proposed to how the Surrey Fire and Rescue Service (SF&RS) responded to automatic fire alarms would improve resident safety. He said that the proposed changes were set out in paragraphs 17 – 20 of the report.

The Chairman of the Resident Experience Board confirmed that the Board had considered this item in depth and was supportive of the proposed changes.

The Cabinet Associate for Community Safety Services confirmed that SF&RS already did 'call challenge' and details of this were set out in the background section of the report. She also drew Members attention to both the risk assessment and the equality impact assessment, which she considered were very thorough and were appended to the report. Finally, she thanked Members of the Resident Experience Board for its scrutiny of this issue and commended the recommendations to Members.

RESOLVED:

1. That Surrey Fire and Rescue expand on its existing call challenge policy through the three Phases, as set out in paragraphs 17-20 of the submitted report.
2. That authority be delegated to the Chief Fire Officer, in consultation with the Cabinet Member for Localities and Community Wellbeing to undertake the reviews of Phases 1 and 2 and make the decision concerning whether to proceed to the subsequent Phase of implementation.

Reasons for Decisions:

Due to the increasing number of call outs to automatic fire alarms that have proven to be false alarms, Surrey Fire and Rescue Service (SFRS) is reviewing how it responds to these calls.

This is because when the Service is emergency responding to what turns out to be a false alarm, they are not available to deal with real fire and rescue situations, and it may disrupt training and prevention work. In addition, using resources in this way and responding on 'blue lights' creates a risk to crews and to the public.

The proposal to review how the service responds to automatic fire alarms formed part of the consultation on the draft Public Safety Plan in 2016.

265/16 LEADER / DEPUTY LEADER / CABINET MEMBER DECISIONS TAKEN SINCE THE LAST CABINET MEETING [Item 19]

This Annex set out the decisions taken by individual Cabinet Members since the last meeting of the Cabinet. Members were given the opportunity to comment on them.

RESOLVED:

That the decisions taken by Cabinet Members since the last meeting, as set out in Annex 1 of the submitted report, be noted.

Reasons for Decisions:

To inform the Cabinet of decisions taken by Cabinet Members under delegated authority.

266/16 EXCLUSION OF THE PUBLIC [Item 20]

RESOLVED: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

**267/16 SALESIAN SCHOOL, CHERTSEY: BASIC NEED EXPANSION PROJECT
[Item 21]**

RESOLVED (as amended):

1. That the business case for the project to expand Salesian School by 250 places, at a total cost, as detailed in the submitted part 2 report, be approved.
2. That the arrangements by which a variation of up to 10% of the total value may be agreed by the Deputy Chief Executive and Strategic Director for Children, Schools and Families, in consultation with the Cabinet Member for Schools, Skills and Educational Achievement, the Cabinet Member for Business Services and Resident Experience and the Leader of the Council, be approved.
3. That the expenditure of the sums planned in the Medium Term Financial Plan be approved, subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
4. That it be noted that the Leader will decide whether the condition in recommendation 3 has been met in consultation with the Director of Finance and the Chief Executive.

Reasons for Decisions:

The proposal delivers and supports the Authority's statutory obligation to provide sufficient school places to meet the needs of the population in the Runnymede area.

There is demonstrable public benefit to these proposals and strong value for money arguments. Nevertheless the County Council is facing unprecedented financial pressures, therefore it would not be sensible to agree to additional expenditure without understanding the implications of the provisional local government settlement.

268/16 ACCOMMODATION WITH CARE AND SUPPORT - EXTRA CARE [Item 22]

Introducing this report which set out further information regarding the estimated financial savings that are expected to be delivered by developing further extra care provision and the proposed assets that could form part of the Council's offer as part of a commercial tender exercise, the Cabinet Member for Adult Social Care, Wellbeing and Independence highlighted the care cost savings and also the identified sites that could be offered to the market as part of the procurement process.

RESOLVED:

That the use of Surrey County Council assets as part of the business case and offer to the market, as described in this Part 2 paper and the Part 2 Annex, be approved.

Reasons for Decisions:

As detailed in the part 1 report (item 7).

269/16 THE PROVISION OF MENTAL HEALTH SERVICES - FIRST STEPS AND COMMUNITY CONNECTIONS IN SURREY - APPROVAL OF CONTRACTS [Item 23]

This item was deferred.

270/16 PROVISION OF INDEPENDENT ADVOCACY SERVICES IN SURREY - APPROVAL TO AWARD A CONTRACT [Item 24]

The Leader requested that the contract be reviewed after 12 months.

RESOLVED:

That a contract be awarded to Surrey Disabled People's Partnership (SDPP) for the provision of Independent Advocacy Services in Surrey with an annual value, as detailed in the submitted reports, for three years from 1 April 2017 with an option to extend for up to one year. The total value over the contract period is also set out in the submitted report. The service is jointly funded by Adult Social Care, Public Health and Surrey Clinical Commissioning Groups.

Reasons for Decisions:

The existing contractual agreements will expire on 31 March 2017. A full tender process, in compliance with the requirement of EU Procurement Legislation and Procurement Standing Orders has been completed, and the recommendations provide best value for money for the Council following a thorough evaluation process.

271/16 INVESTMENT OF PROGRAMME FUNDING TO EXTEND SUPERFAST BROADBAND INFRASTRUCTURE TO SURREY PREMISES [Item 25]

RESOLVED:

That this part 2 annex to the main part 1 report be noted.

Reasons for Decisions:

As detailed in the part 1 report (item 12).

272/16 RUNNYMEDE ROUNDABOUT SCHEME [Item 26]

RESOLVED (as amended):

1. That the financial support the Cabinet gave to this scheme in 2014 be re-affirmed.
2. That the award of the tender for construction works for the Runnymede Roundabout scheme, on the basis set out in the submitted Part 2 report, be approved.

3. That Cabinet confirms that recommendations 1 and 2 are subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
4. That the Leader will decide by Friday 16 December 2016 whether the condition in recommendation 3 has been met, in consultation with Director of Finance and Chief Executive.

Reasons for Decisions:

As detailed in the part 1 report (item 11).

There is demonstrable public benefit to these proposals and strong value for money arguments. Nevertheless the County Council is facing unprecedented financial pressures therefore it would not be sensible to agree to additional expenditure without understanding the implications of the provisional local government settlement.

273/16 APPROVAL FOR THE FIRE AND RESCUE SERVICE TO TRIAL THE USE OF INITIAL RESPONSE VEHICLES AND AWARD A CONTRACT FOR THE PROVISION [Item 27]

RESOLVED (as amended):

1. That a contract for an Initial Response Vehicle Concept be awarded to Rosenbauer UK Ltd, consisting of an initial period of one year to provide two IRVs and the financial details were set out in the submitted part 2 report.
Subject to the completion of a successful pilot, an option to extend for a further two years for up to a further four IRVs be agreed.
2. Cabinet confirms that the recommendations are subject to the provisional Local Government Settlement providing a significant response to the fundamental financial challenges facing the County Council.
3. That the Leader will decide whether the condition in recommendation 2 has been met, in consultation with the Director of Finance and Chief Executive.

Reasons for Decisions:

As detailed in the part 1 report (item 17).

Whilst the potential value for money from this approach is clear the County Council is facing unprecedented financial pressures therefore it would not be sensible to agree additional expenditure without understanding the implications of the provisional Local Government Settlement.

274/16 PROPERTY TRANSACTIONS - DISPOSAL [Item 28]

The Cabinet Member for Business Services and Resident Experience informed Cabinet that the County Council had acquired Parkside House, Epsom in 2013. However, the property was now surplus to the requirements of the service and therefore recommended its disposal.

RESOLVED:

1. That Surrey County Council take the benefit of the recent lease re-gearing which commences in December 2016 and disposes of the freehold interest conditional on the net receipt exceeding the sum as outlined in paragraph 7 of the submitted report.
2. That responsibility for the sale of the property be delegated to the Chief Property Officer, in consultation with the Leader of the Council and the Cabinet Member for Business Services and Resident Experience.

Reasons for Decisions:

Securing the lease extension has significantly improved the asset value and the recommendation from Surrey County Council's strategic investment advisors is that the council should take advantage of this particularly as the market conditions are favourable and prior to the asset value falling again as the break clause nears. The disposal will contribute to providing further financial flexibility should this be required to be considered as part of the options to achieve a balanced budget.

275/16 PROPERTY TRANSACTIONS - ACQUISITION [Item 29]

The Cabinet Member for Business Services and Resident Experience commended this acquisition to Cabinet.

RESOLVED:

1. That equity investment and a long-term loan, both as detailed in the submitted report, be provided to Surrey County Council's wholly owned property company, Halsey Garton Property Ltd, as outlined in paragraphs 9 to 11 of the submitted report.
2. That Legal Services be authorised to agree appropriate contractual arrangements for the provision of financing on behalf of the Council with funds to be released upon the completion of appropriate due-diligence in relation to the property acquisition.
3. That HGP be authorised to acquire the freehold interest in the property detailed in the submitted report, for a purchase cost, including associated costs of purchase, as set out in the submitted report.

Reasons for Decisions:

The provision of financing to the Council's property company to facilitate the proposed investment acquisition is in accordance with the Council's Investment Strategy and provides an asset that will contribute to the creation of a diversified portfolio over time to spread risk.

The investment will deliver an ongoing income to the Council, enhancing financial resilience in the longer term.

276/16 PUBLICITY FOR PART 2 ITEMS [Item 30]

It was agreed that non-exempt information may be made available to the press and public, where appropriate.

[Meeting closed at 4.00pm]

Chairman

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