SURREY COUNTY COUNCIL

CABINET

DATE: **4 FEBRUARY 2014**

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

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

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

SUMMARY OF ISSUE

To propose and recommend to the Full County Council:

1. the draft revenue and capital budget for the five years 2014-19 and the level of the council tax precept for 2014/15; and
2. the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2014-19, the policy for the provision of the repayment of debt (minimum revenue provision (MRP)), and the treasury management policy.

RECOMMENDATIONS

It is recommended that the Cabinet makes the following recommendations to the Full County Council on 11 February 2014:

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

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

across the whole MTFP period.

7. Require Strategic Directors and Senior Officers to maintain robust in year (i.e. 2014/15) budget monitoring procedures that enable Cabinet to monitor the achievement of efficiencies and service reductions through the monthly budget monitoring Cabinet reports, the quarterly Cabinet Member accountability meetings and the monthly scrutiny at the Council's Overview & Scrutiny Committee.

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8. Require a robust business case to be prepared for all revenue invest to save proposals and capital schemes before committing expenditure.

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

9. Approve the Treasury Management Strategy for 2014/15 and approve that their provisions have immediate effect. This strategy includes:
    - the investment strategy for short term cash balances;
    - the treasury management policy (Appendix B1);
    - the prudential indicators (Appendix B2)
    - the schedule of delegation (Appendix B4);
    - the minimum revenue provision policy (Appendix B7).

It is further recommended that Cabinet makes the following decisions:

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

11. Note Cabinet will receive the final detailed MTFP (2014-19) on 25 March 2014 for approval following scrutiny by Select Committees.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 11 February 2014 to agree the summary budget and set the council tax precept for 2014/15. Cabinet advises the Full County Council how best to meet the challenges the Council faces. The reasons underpinning the recommendations Cabinet is asked to make include:

- to ensure the Council continues to maintain its financial resilience and protect its long term financial position;
- to enable the Council to meet the expectations of Surrey's residents as confirmed in their responses to the in depth consultation exercise undertaken in 2012;
- to provide adequate finances for key services such as school places, highways,

adults social care and protecting vulnerable people.

DETAILS

Revenue and capital budget

Introduction

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

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

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

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

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

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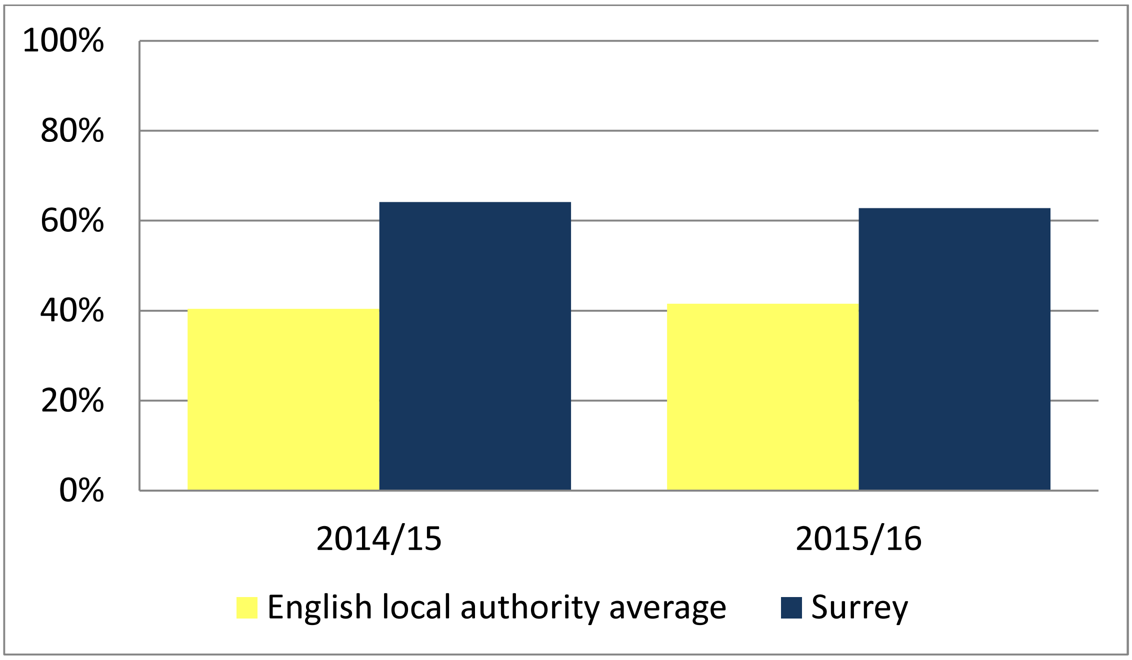
Figure 1: Council tax as a proportion of spending power



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

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

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

Strategies influencing the revenue and capital budgets

Corporate strategy

8. Presented separately at this Cabinet meeting is a refreshed version of the Council's Corporate Strategy. The refreshed *Confident in our Future, Corporate Strategy 2014-19* re-confirms the Council's vision to be delivering great value for Surrey residents. It includes the priorities for 2014/15 and key areas the Council is focusing on to achieve this. In summary this includes investing smartly to support future economic growth, protecting those residents who need most help, and transforming the way the council works with residents, businesses and partners. A robust MTFP is critical to

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

Financial strategy

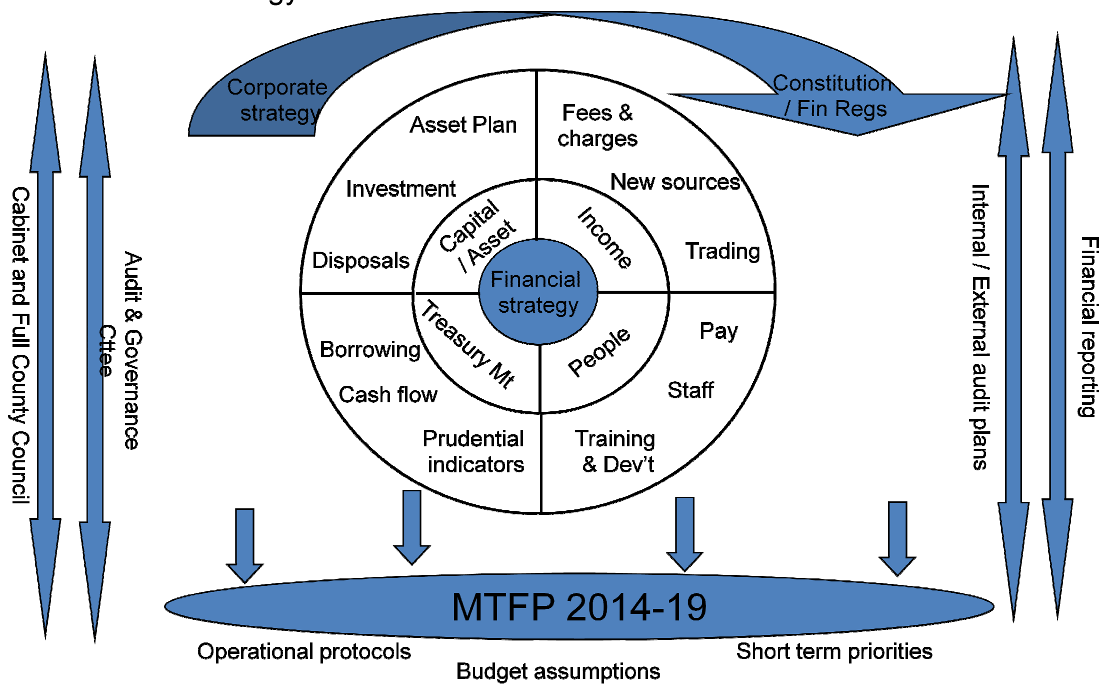
9. The Council's financial strategy provides the strategic framework and overarching corporate financial policy document for managing the Council's finances and ensuring sound governance and compliance with best practices.

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

- Keep any additional call on the council taxpayer to a minimum through continuously driving the productivity and efficiency agenda.
- Develop a funding strategy to reduce the Council's reliance on council tax and government grant income. The Council is heavily dependent on these sources of funding, which are under threat of erosion.
- Balance the Council's 2014/15 budget by maintaining a prudent level of general balances (£19.9m in 2014/15) and applying £25.9m reserves as appropriate (£20.1m from the Budget Equalisation Reserve (including £13m contribution from 2013/14's unused budget risk contingency) plus £5.8m from other reserves).
- Continue to maximise our investment in Surrey to:
    - improve services for vulnerable adults and children;
    - maintain and improve transport infrastructure to support business;
    - develop the workforce and Members and;
    - wherever possible, aim to invest in assets that will generate income streams.

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

Figure2: Financial strategy in context



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12. The financial strategy links directly to the six components of the *Confident in our Future, Corporate Strategy* as summarised below.

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

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

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

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

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

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

13. The financial strategy will remain largely stable to 2019. Within this, budget assumptions, operational protocols and financial drivers may alter in the short term

and each will be reflected in the annual budget planning process through the MTFP. The MTFP is the practical means to translate this strategy into reality.

Funding strategy

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

15. Several drivers have created a pressing need to deliver this vision: 7

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

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

17. The main workstreams fall under three themes.

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

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

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

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

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19. Business Services directorate monitors progress of the strategy.

Revenue budget

Forecast revenue budget outturn 2013/14

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

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

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

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

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

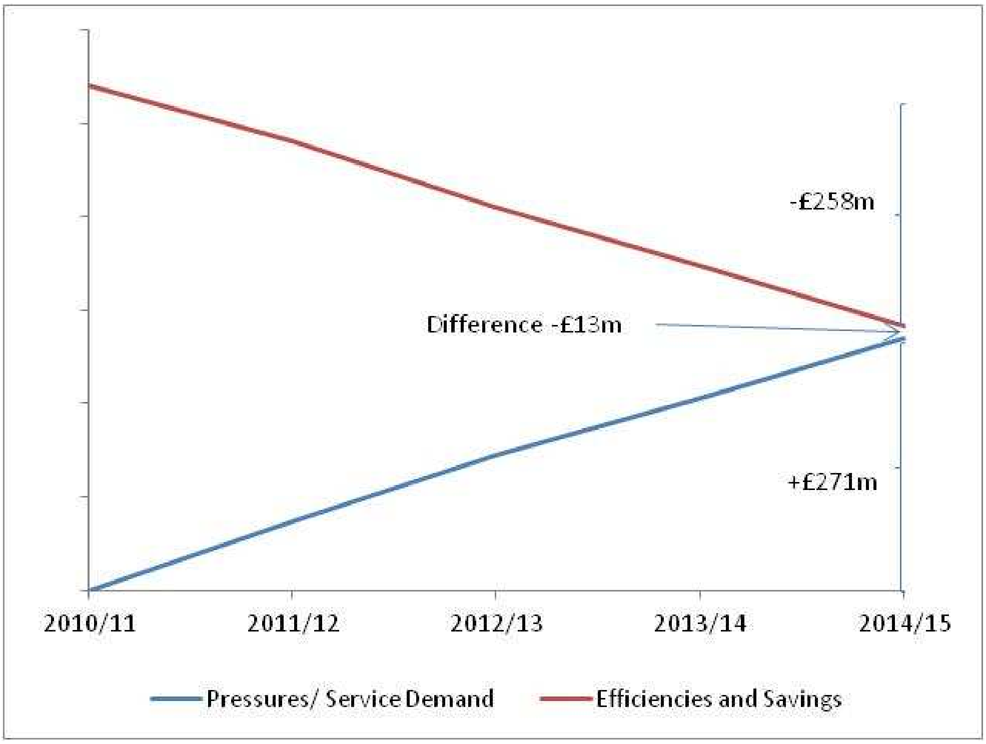
24. Over the same period, the spending demands and budget pressures the Council has faced have increased at a faster rate: taking 2010/11 as the baseline, the Council's spending pressures have increased by £271m over the four years to 2014/15. This unrelenting rise in pressures includes the need to:

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

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

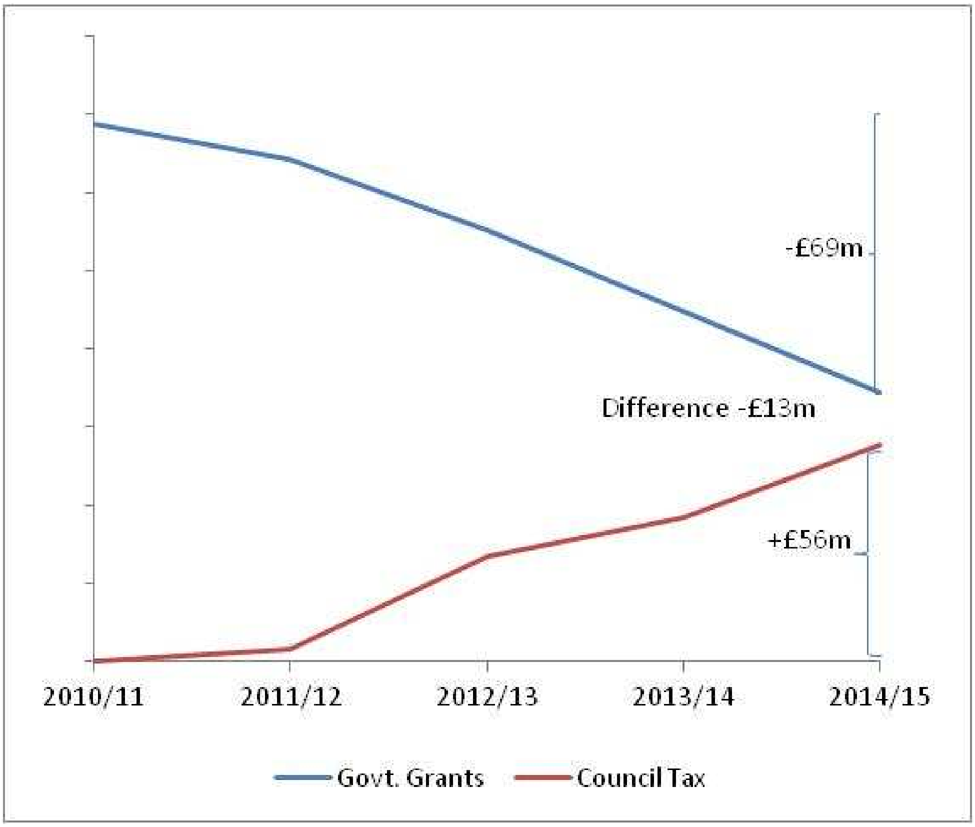
25. Despite managing to reduce its expenditure by an average £65m each year, the Council's programme of efficiencies and savings has not offset the demand pressures. Even after making £258m savings in four years, pressures exceed savings and efficiencies by £13m. Figure 3 shows how the profile of pressures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

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



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

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



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Scenario planning 2014/15 to 2018/19

Overall Government funding

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

28. In setting the MTFP (2013-18), the Council assessed the remaining impact of the public expenditure constraints of 2010's Comprehensive Spending Review (CSR) covering the period 2010/11-2014/15 and details released in the annual Local Government Financial Settlement. The Council also made financial projections related to the changes proposed to the system of local government funding to localise retention of business rates and council tax support implemented from April 2013. After including estimated budget pressures over the five years 2013/14 to 2017/18, the Council set itself a revenue savings target of £166m over the period.

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

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

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

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

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

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

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

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

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

34. In developing the MTFP (2014-19) the Council has again shared the stages of its medium term financial planning process widely. Cabinet members, senior officers and Select Committees participated in workshops and several financial planning update briefings have been provided for all members and other interested stakeholders. The Council also conducted a robust, open, consultation and engagement process with key stakeholders as outlined below (paragraphs 127 and 128).

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Budget planning assumptions

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

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

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

Note:

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

Service expenditure 2014-19

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

Table 2: Gross revenue expenditure budget 2014-19

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

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Service budget commentaries

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

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

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

Central Government funding

Provisional Local Government Finance Settlement

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

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

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

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

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

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

Table 3: Settlement Funding Assessment (SFA)

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

Better Care Fund

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

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

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

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

Total Schools Budget - as defined in legislation

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

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

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

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

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

49. Centrally managed services include the costs of:

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

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

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

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

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

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

Other grants

54. There are a number of other government grants that are newly included in plans. These reflect new areas of responsibility, meaning the funding will be matched by an increase in the Council's need to spend. The most material of these is £3.5m over the two years 2014/15 and 2015/16 for PE & sport release.

55. More minor sums totalling £265,000 will be received for responsibilities connected with: sustainable transport for town centres and high streets, Police and Crime Panel, remand and restorative justice. 7

Funding commitments the Government has reduced or withdrawn

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

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

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

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

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

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

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

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

Localisation of council tax support

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

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

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

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

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

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

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

Local retention of business rates

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

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

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Table 5: Surrey County Council's Settlement Funding Allocation

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

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

72. If an authority has a business rates baseline (government estimate of its business rates income) higher than its baseline funding level, the difference is paid to central government as a tariff. All the Surrey districts are tariff authorities. Where the business rates baseline is lower than its baseline funding level (as is the case for this council), the authority receives a top-up. All county councils receive a top-up.

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

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

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

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

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

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

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

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

- **Revenue support grant**
  Allocations will reduce, but will not change in-year. There is a risk that the government may adjust annual control totals between years.
- **Business rates top-up grant**
  MTFP 2013-18 assumed this would receive an annual uplift equivalent to RPI. For 2014/15, the Government has limited the increase in the business rates multiplier to 2%, but has provided compensation for the difference by way of grant. MTFP 2014-19 assumes indexation for this grant will return to RPI after 2014/15.
- **Business rates income**
  This is still relatively new and as such is uncertain and potentially volatile:
  - Under the previous funding system, central government bore the whole of the forecasting risk on business rates. BRRS shares this risk in Surrey: 50% by central government, 40% by the districts and boroughs, 10% by the County Council.
  - MTFP (2013-18) used the Government's baseline funding estimates for 2013/14's budget, assumed no real annual growth and inflationary business rate multiplier increases at forecast RPI.
  - MTFP (2014-19) uses the districts' & boroughs' mid-year estimates of 2013/14 business rates income as a baseline and adds 0.5% real growth annually and business rate multiplier increases limited to 2% for 2014/15 (as announced in the Chancellor's Autumn Statement) with subsequent years' indexation at forecast RPI using HM Treasury's average of independent forecasters as at November 2013.

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

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Council tax funding

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

Council tax freeze grant

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

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

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

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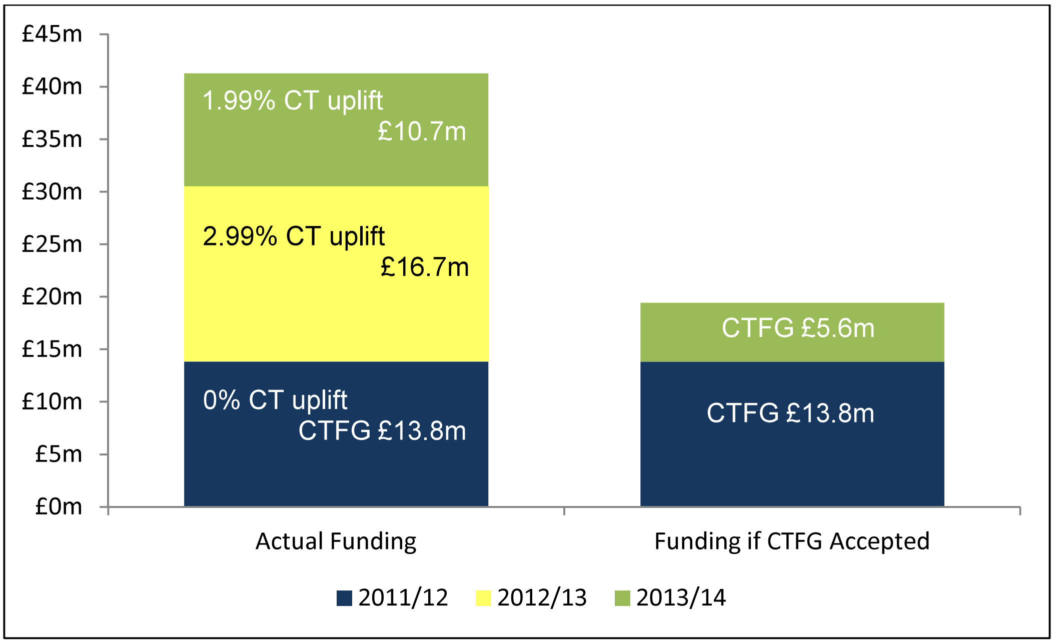
83. The Provisonal Finance Settlement also stated the Secretary of State would decide the council tax referendum threshold in January 2014. At the time of writing (24 January 2014) the Secretary of State has not announced the threshold.

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

Figure 5: Impact of past council tax decisions on funding



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

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

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

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

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

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

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

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

Table 7: Revenue funding for 2014-19 MTFP

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

Risks and uncertainties

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

- the agreement with CCGs to allocate £25m from Surrey's pooled BCF budget to protect adult social care services;
- the Secretary of State's referendum limit for uplifts to council tax;
- the council tax base for Surrey and the balance due to the Council from each District's & Borough's collection fund;
- the growth in the business rates base for Surrey;
- the Government's Final Local Government Financial Settlement;
- formal notification of £9.0m revenue grants assumed for 2014/15, including waste private finance initiative (PFI) grant of £1.9m;
- details of directorates' and services' budgets.

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Capital programme 2014-19

Capital budget planning

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

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

Capital position 2013/14

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

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

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

Capital expenditure

97. In 2012/13 the Council approved funding of £244m for the first five years of a ten year capital programme to provide an additional 16,000 school places by 2022. The capital programme in MTFP (2013-18) and MTFP (2014-19) recognise the number of school places required as nearer 20,000 over the ten year period. This 4,000 increase in school places is largely due to the increasing birth rate and inward migration to Surrey.

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

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

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

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

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

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

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

Table 8: Proposed reprofiling of Project Horizon

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

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

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

Table 9: Summary capital expenditure programme

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

Capital funding

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

Government grants

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

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

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

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

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Table 10: Government capital grants 2014/15

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

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

Third party contributions

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

Revenue reserves

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

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

Borrowing

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

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

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

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

Capital receipts

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

Additional portfolio of investments

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

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

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

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

Reserves & balances

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

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

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

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

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

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

TREASURY MANAGEMENT AND BORROWING STRATEGY

124. Each year the Full County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changed market conditions, changes in regulation, and other changes in the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. Annex 2 sets out updated versions of the County Council's treasury management policy statement and treasury management strategy.

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

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

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

CONSULTATION:

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

128. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a good sample and gives the results reasonable longevity. There are further details on the methodology and results in Appendix A8. The summary headlines were as follows:

- the Council's current spending closely reflects the spending priorities of Surrey's residents
- the Council understands its residents

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

RISK MANAGEMENT AND IMPLICATIONS:

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

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

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

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

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

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

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136. In view of the uncertainty highlighted in paragraph 7 of this report the Council has been asked to delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals to maintain the council tax rate it sets, should the Final Financial Settlement result in any late changes. If any such proposals cannot be accommodated without changes to the capital or borrowing strategies approved by Council a further report will need to be presented to Full County Council in due course.

EQUALITIES AND DIVERSITY

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

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

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

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

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

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

142. In approving the overall budget and precept at this stage, the Cabinet and Council will be mindful of the specific references in this report to the impact on people with protected characteristics under the Equality Act 2010 – particularly the following proposals referenced in this report which have been identified as requiring new Equality Impact Assessments:

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

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

WHAT HAPPENS NEXT

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

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

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

Annexes and Appendicies

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

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

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

Annex 2 Treasury management strategy report

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

Sources and background papers:

- DCLG revenue and capital Provisional Local Government Financial Settlement papers from the Government web-site
- Budget working papers
- CIPFA Prudential Code for Capital Finance
- CIPFA Treasury Management in the Public Services: Code of Practice
- Investment guidelines under section 15(1)(a) of the Local Government Act 2003
- Financial resilience report, Grant Thornton, 2013
- Spending Round 2013 (26 June 2013)
- CIPFA Prudential Code for Capital Finance
- CIPFA Treasury Management in the Public Services: Code of Practice
- Investment guidelines under section 15(1)(a) of the Local Government Act 2003
- Audit Commission: ‘Risk & Return: English Local Authorities and the Icelandic Banks