SURREY COUNTY COUNCIL

CABINET

DATE: **3 FEBRUARY 2015**

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

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

SUBJECT: **REVENUE AND CAPITAL BUDGET 2015/16 TO 2019/20, TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

To propose and recommend to the Full County Council:

1. the draft revenue and capital budgets for the five years 2015-20, which are collectively known as the council's Medium Term Financial Plan (MTFP);
2. the level of the council tax precept for 2015/16; and
3. the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2015-20, the policy for the provision of the repayment of debt (minimum revenue provision (MRP)) and the treasury management policy.

RECOMMENDATIONS

It is recommended that Cabinet makes the following recommendations to the Full County Council on 10 February 2015:

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

1. Note the Director of Finance'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 £1,219.68 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 Director of Finance to finalise detailed budget proposals following receipt of the Final Local Government Financial Settlement.
4. Transfer £4.6m from the surplus on the Council Tax Collection Fund to the Economic Downturn Reserve.
5. Approve the County Council budget for 2015/16.
6. Agree the capital programme proposals specifically to:
   - fund essential schemes over the five year period (schools and non-schools)

7

- to the value of £695m including ring-fenced grants;
- make adequate provision in the revenue budget to fund the revenue costs of the capital programme; and
- enhance provision for Local Growth Deal & flood schemes as set out in paragraph 114 including making a £0.5m pa contribution to the River Thames Scheme.

7. Agree for Cabinet to refresh the Medium Term Financial Plan for the financial years 2015-20 (MTFP 2015-20) revenue and capital budgets in summer 2015.
8. Require the Chief Executive and Director of Finance to continue regularly to track and monitor progress on the further development and implementation of robust plans for achieving the efficiencies across the whole MTFP period.
9. Require Strategic Directors, Heads of Service and Senior Officers to maintain robust in year (i.e. 2015/16) 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.
10. Require a robust business case to be prepared (and taken to the Investment Panel for review) for all revenue 'invest to save' proposals and capital schemes before committing expenditure.

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

11. Approve the Treasury Management Strategy for 2015-20 and approve that their provisions have immediate effect. This strategy includes:
    - the investment strategy for short term cash balances;
    - increasing the number of AAA-rated money market funds from five to seven (with the individual amount to a single fund increased from £20m to £25);
    - the treasury management policy (Appendix 8);
    - the prudential indicators (Appendix 9);
    - the schedule of delegation (Appendix 11);
    - the minimum revenue provision policy (Appendix 14).

It is further recommended that Cabinet makes the following decisions:

12. Approve the MTFP for the financial years 2015-20, which includes:
    - to approve the Total Schools Budget of £560.7m (paragraphs 53 to 59);
    - to support the 2015/16 budget by using £4.3m from earmarked reserves as set out in paragraph 99;
13. Note Cabinet will receive the final detailed MTFP (2015-20) on 24 March 2015 for approval following scrutiny by Select Committees.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 10 February 2015 to agree the summary budget and set the council tax precept for 2015/16. Cabinet advises the Full County Council how best to meet the challenges the Council faces and these proposals will aim to ensure the Council continues to maintain its financial resilience and protect its long term financial position.

DETAILS

Revenue and capital budget

Introduction

1. This report proposes the MTFP (2015-20), which Cabinet members have developed through a series of budget workshops since June 2014. Throughout this period, other Members have had opportunity to influence development of the MTFP through regular all Member seminars and Select Committee scrutiny.

2. The proposed MTFP period (2015-20) rolls forward by one year the current MTFP (2014-19) approved by Full County Council on 11 February 2014. It covers five years and is matched to the corporate strategy.

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

   - new models of delivery for services;
   - 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;
   - review of the funding assumptions for the MTFP;
   - the appropriate use of reserves and balances.

4. The Council's current MTFP (2014-19) sets out a sustainable budget assuming a council tax up-lift limited to 2% each year and delivery of £253m service reductions and efficiencies. Surrey is one of the most dependent of all councils on council tax receipts for its funding and the most dependent of all shire counties (i.e. it receives among the very lowest proportion of its funding as Government grant). This funding position makes the level of council tax particularly important in determining the long term financial stability of the Council.

5. The strategy of up-lifting 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 or up-lift council tax at a level that reflects the increase in demand as a result of demographic pressures on services.

7

6. Following approval of the budget by Full County Council on 10 February 2015, officers will prepare detailed service budgets and submit them to Cabinet for approval on 24 March 2015. The detailed budgets will link to services' strategic plans that Cabinet will also consider at its 24 March 2015 meeting.

7. The Provisional Local Government Finance Settlement announced on 18 December 2014 outlined the key grants and financial factors for 2015/16. This year's provisional settlement included greater information on grants than recent years, offered council tax freeze grant equivalent to a 1% in council tax and set the referendum limit for council tax up lifts at 2%. However some grant information remains outstanding and at the time of writing this report, the Government had not announced the Final Local Government Finance Settlement.

8. In addition to the pressures on revenue budget funding, the council faces challenges to funding its capital spending. For example, increasingly the council is required to bid for funding and identify match funding to access money for infrastructure and economic development provided by the Government to the Local Enterprise Partnerships.

9. The Provisional Local Government Financial Settlement only included financial information on the 2015/16 year, with no information about future years. This was expected due to the uncertainty of future government policy pending the General Election in May 2015 and the fact that 2015/16 is the final year of the current Comprehensive Spending Review period. The Chancellor of the Exchequer's Autumn Statement, on 3 December 2014, and the information provided by the Office for Budget Responsibility strongly suggested that significant further reductions in public expenditure would be required if there were to be a national budget surplus by 2020. This creates a high degree of uncertainty about local government budgets for 2016 to 2020 (the final four years of the council's Medium Term Financial Plan period).

10. The uncertainty about future budgets will reduce once the new Government is formed and their financial strategy is confirmed through the next Comprehensive Spending Review. Therefore, it is anticipated that the council should have better information by the summer 2015 upon which to refresh the MTFP (2015-20) for revenue and capital.

Strategies influencing the revenue and capital budgets

Corporate strategy

11. Presented separately at this Cabinet meeting is a refreshed version of the Council's Corporate Strategy. The refreshed *Confident in Surrey's Future: Corporate Strategy 2015-20* re-confirms the council's strategic direction and vision of 'one place, one budget, one team for Surrey'. It includes three strategic goals (well-being, economic prospects and resident experience) and a set of key actions for 2015/16 to support their achievement. A robust MTFP is critical to delivering these ambitions and goals and ensuring value for money for residents.

7

Financial strategy

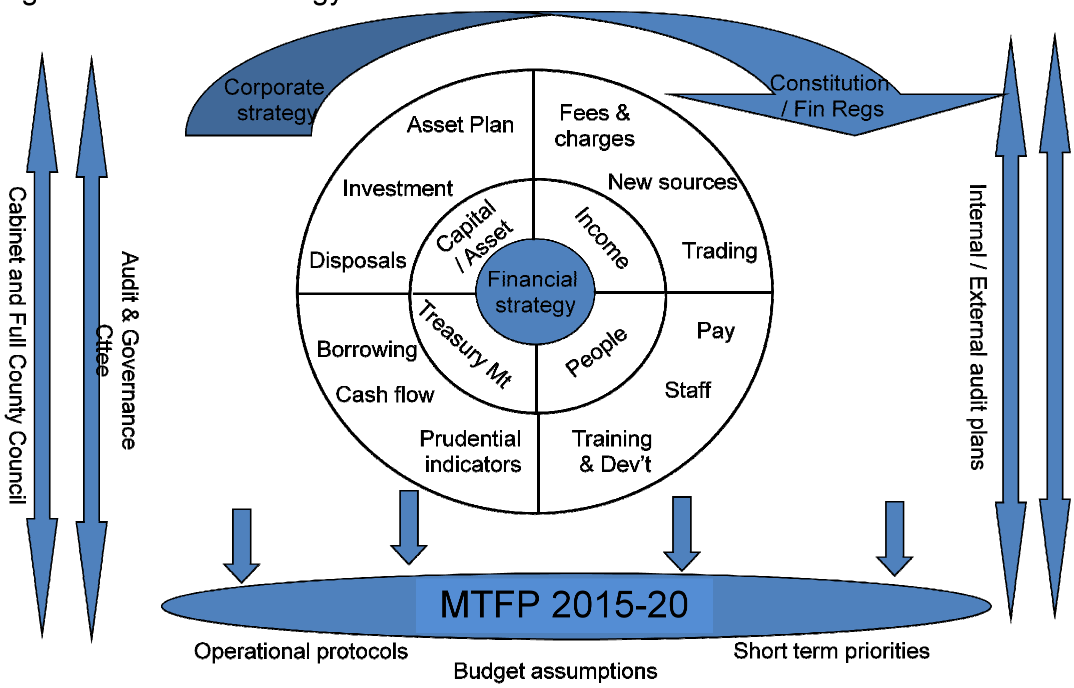
12. The council's financial strategy provides the strategic framework and overarching corporate financial policy document for managing the council's finances and ensuring sound governance and compliance with best practices.

13. The specific long term drivers of the financial strategy pertinent to the MTFP (2015-20) 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 2015/16 budget by maintaining a prudent level of general balances (£21.3m in 2015/16) and applying £4.3m reserves as appropriate
- 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.

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

Figure1: Financial strategy in context



15. The financial strategy links directly to the three components of the *Confident in Surrey's Future: Corporate Strategy 2015-20* as summarised below.

7

1. **Wellbeing:**
   Everyone in Surrey has a great start to life and can live and age well.
   The council will work with partners and invest resources to: provide over 2,800 additional school places, improve outcomes for children in need, support 750 families through the Surrey Family Support Programme, help older and disabled people to live independently at home, and support a healthy living approach.

2. **Economic prosperity:**
   Surrey's economy remains strong and sustainable.
   The council will invest to: support a £50m plus infrastructure investment programme, improve and renew 70 kms of roads, support young people participate in Education, Training or Employment, and increase waste recycling and reduce the amount produced and sent to landfill. The council will also ensure more than 50% of its spending is with Surrey businesses.

3. **Resident experience:**
   Residents in Surrey experience public services that are easy to use, responsive and value for money.
   The council will: deliver £62m savings, collaborate with partners to transform services for residents, use digital technology to improve services for residents, invest in flood and maintenance schemes, work with partners to tackle issues that make residents feel less safe.

16. 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. The MTFP is the practical means to translate this strategy into reality.

Funding strategy

17. During 2014 the council has continued to developed its funding strategy further to secure diversified sources of income to reduce its reliance on council tax revenue and increase its resilience against future financial challenges.

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

- the need to mitigate the effect of erosion of core sources of funding (council tax and government grant), potentially 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.

19. 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.

7

20. The main workstreams fall under three themes:

- Protecting the existing funding base:
  - securing a fairer share of central Government revenue and capital support;
  - capital funding for school places;
  - localisation of business rates;
  - localisation of council tax 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 (including greater member involvement in setting 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 MTFP;
  - financial reporting.

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

- continued strong political appetite to lead the focus on funding and income actively;
- increased collaboration with district and borough colleagues and Surrey Leaders (including the agreements to pool business rates and to co-ordinate efforts to combat fraud against council tax);
- development of other strong partnerships (e.g. with East Sussex County Council);
- 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.

22. The Director of Finance tracks the effectiveness of this financial strategy for the County Council in conjunction with other Senior Leaders of the organisation through a range of monitoring mechanisms.

Scenario planning 2015/16 to 2019/20

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

7

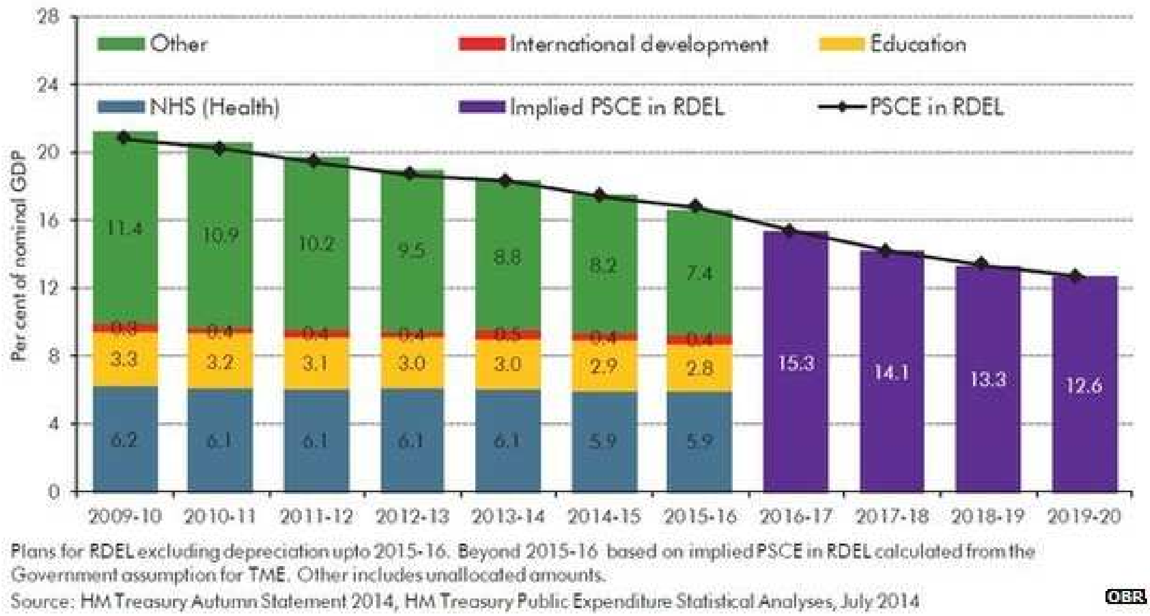
24. The Chancellor's Autumn Statement of 3 December 2014 set out the current government's policy for the medium term. This was for deficit reduction over the lifetime of the next parliament. The highlights that affect local government directly included a repeat of the business rates increase cap; a proposed review of business rates to be completed ahead of 2017/18 and the extension of the doubling of Small Business Rate Relief. The statement also raised the possibility of the delegation of greater powers to local government within the context of a greater devolution of powers to Scotland the impact of this on the rest of the UK. The high level vision for greater delegation of powers to local government is still vague, and there is little or no detail.

25. For Surrey there were two announcements in the Autumn Statement that will have a direct impact on the county as a place: firstly £60m of additional funding being made available for the Lower Thames flood defence scheme by 2020 (but which will still require some funding from the council), and funding for improvements to the A3 (Guildford) and ten junctions along M25.

26. Also, in his Statement, the Chancellor made clear his vision to eliminate the UK's public spending deficit in the lifetime of the next parliament – that is by 2020. On the basis of the economic data released by the Office for National Statistics, which forecast tax receipts to be £24bn lower than previously estimated and that a further £24bn of spending reductions were still to be identified, some commentators estimate that 60% of public expenditure cuts are still to come.

27. Figure 2 shows the Office of Budget Responsibility's graph of change in public spending from 2009 as departmental expenditure limit (DEL) as a proportion of gross domestic product (GDP). It highlights those areas that have been protected. That is health, education and international development. Local government spending is included in the 'Other' category. The graph then forecasts the reduction in spending over the next five years and this shows that if those areas continue to be protected, then the pressure on other public spending, including local government, will intensify.

Figure 2 Government spending relative to GDP



28. Following on from the Autumn Statement, the Department for Communities and Local Government (DCLG) published its Provisional Local Government Finance Settlement on 18 December 2014. This is open to consultation and the final settlement is not expected to be announced until early in February 2015. The timing of both the provisional and final settlements is late and only covers the year 2015/16. Neither of these assists local authorities in budget planning. However, the coordination of information from across government departments is much improved and this is welcome.

7

29. Overall there was little significant change in the settlement from what was indicated in the 2014/15 finance settlement. A key announcement is that councils' main source of funding from central government will be reduced by 13.9%. This funding comprises the national redistribution of business rates and revenue support grant (RSG) including other grants now included in RSG. Within this overall reduction, RSG has fallen by 27.4%. The implication of this is that rolled in grants, such as council tax support grant and early intervention grant, are not secure and that local government funding will increasingly be from locally collected taxes.

30. The provisional settlement confirmed the continuation of the business rates cap at 2%, which will further erode the local tax base. Individual local authorities will be reimbursed for this through a supplemetary grant.

31. The provisional settlement also set the increase in business rates retention scheme top ups and tariffs at 1.9%. It also confirmed the continued offer of Council Tax Freeze Grant for one more year, equivalent to a 1% increase in council tax.

32. Unlike in previous years the Secretary of State has announced the threshold at which local authorities must hold a referendum for increasing council tax in the provisional settlement, rather than in late January or early February as has been the case. For 2015/16 this limit is 2%, which is in line with the council's planning assumptions.

33. The remaining years of the MTFP (2016 to 2020) follow the next General Election and the Comprehensive Spending Review (CSR) period for 2016/17 onwards. As the review objectives and parameters of the CSR are unknown, this adds to the uncertainty the council needs to manage within its MTFP. Therefore the budget proposals within the MTFP should be considered in two parts:

- year 1, where council tax precept will be set and funding levels are clear; and
- years 2 to 5, which will be covered by the new CSR, which the next Parliament will determine and for which there is much uncertainty.

34. For the Director of Finance to continue to be able to state her statutory opinion that the budget is balanced and sustainable, a refresh of the budgets for 2016 to 2020 is proposed in the summer of 2015, following the General Election and clarity of Government policies.

35. The basic assumptions reflected in the MTFP (2014-19) remain valid in moving the MTFP forward to cover 2015-20, except 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.

7

36. In developing the MTFP (2015-20) 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.

Central Government funding for Surrey County Council

37. As described in paragraph 29, councils' main source of non ring-fenced funding from central government comprises the national redistribution of business rates, RSG and other grants that the Government had previously identified and awarded separately, but are now included in the main grant allocated to the council (Revenue Support Grant – RSG). For 2015/16, Government funding to local government will reduce significantly.

38. Under the business rates retention system (BRRS) district and borough councils collect local business rates. The government takes half as a central share, which it redistributes back to local authorities through the Department for Communities and Local Government (DCLG). The districts & boroughs retain the other half (the local share) to divide with the county council in their area (80:20 in their favour).

39. DCLG allocates this central funding to each authority as a baseline funding component and a RSG component. Table 1 shows the council's core funding allocations and comparisons to national totals.

Table 1 Surrey County Council's core funding allocation

	2014/15	**2015/16**	**SCC change**
RSG	133.5	109.2	-18%
Top up	57.8	58.9	2%
Bus. Rates cap	1.1	1.5	+40%
Core funding allocation	£192.4m	£169.6m	-12%

40. The Government has established a baseline funding level for each local authority. In effect, this is the authority's portion of the local share. This figure determined whether the authority pays a tariff to central government or receives a top-up.

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

42. BRRS introduced a funding risk for councils by making a direct financial link with the business rates collected locally. To allow for this the scheme provides a safety net for

authorities who, in any year, see significant reductions in their income from the scheme (7.5% beneath their baseline funding).

43. To fund the safety net, DCLG has arranged for authorities to pay a levy on real growth in tariff authorities' business rates income. DCLG capped the levy at 50%, but for district and borough councils in Surrey, this effectively means half of all their business rates growth funds the national safety net. 7

Business rates pooling

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

45. Surrey Treasurers investigated business rate pooling for 2015/16. The optimum pool maximises projected business rates income in the Surrey area by joining the county council with Elmbridge Borough Council, Mole Valley District Council, Spelthorne Borough Council and Woking Borough Council. The five authorities submitted a bid to form a business rates pool for the financial year 2015/16 and succeeded in receiving the relevant designation by Department for Communities and Local Government (DCLG). The pool's financial modelling projects retaining up to £3m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for the county council to receive half.

Business rates multiplier indexation

46. Prior to 2014/15, the Government increased the 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.

47. In his 2013 and 2014 Autumn Statements, the Chancellor of the Exchequer announced the Government would limit the increase in the business rates multiplier to 2% for 2014/15 and 2015/16. As this represents money taken from local government's funding base equivalent to the difference between RPI and 2%, the Local Government Finance Settlement 2014/15 showed a £1.1m compensating grant for the council in 2014/15 and £1.1m 2015/16. The Provisional Local Government Finance Settlement 2015/16 is silent on the continuation of this funding from 2016/17. MTFP (2015-20) assumes the council's income from local business rates and top-up grant from the Government will again 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.

48. In addition to the grants compensating local authorities for the business rates cap, the Government also provides grants to compensate for other reliefs to businesses, such as the extension of the temporary doubling of the small business rate relief and retail relief.

7

Better Care Fund

49. The Better Care Fund (BCF) has two primary purposes: first, to transform the health and social care system 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 achievement of those whole system goals. BCF carries forward the purposes of the current Whole Systems funding programme that runs from 2011 to 2015 but with greater ambition and on a broader scale. The BCF allocation for the Surrey area for 2015/16 totals £71.4m, comprising £65.5m of revenue funding and £5.9m of capital funding. The council works with the seven Clinical Commissioning Groups (CCGs) that serve Surrey's population to determine access to and use of these shared resources.

50. Over the last year, the council has worked closely with the seven CCGs to develop a detailed BCF plan setting out how to invest the resources in order to maximise benefits for the whole local health and social care system. The final version of that plan was submitted to the Department of Health (DH) on 9 January 2015 and is currently subject to the final stages of national assurance. Underpinning the BCF plan is a governance framework that has been agreed with all partner organisations and that sets out: the corporate governance framework, how it is intended funds will flow into the BCF and a risk sharing agreement. The next steps are now formally to create the Section 75 pooled budget agreements, ahead of 1 April 2015, that will legally enshrine the operations of the BCF in 2015/16.

51. The planning and management of the pooled budgets will be taken forward at a local level by Local Joint Commissioning Groups (LJCGs). Surrey's BCF is split into a number of key funding streams directed towards achieving the key transformational goals of the national programme at a local level. In 2015/16 £25m of the revenue funding will enable the protection of social care, with the council maintaining a range of important preventative services that deliver substantial benefits across the whole system. In addition, £2.5m of revenue and £0.9m of capital funding has been allocated to support the council in its implementation of the Care Act and a further £2.5m of revenue funding will be provided to support carers' services, replacing contributions previously received directly from local CCGs. BCF plans also allow for the continuation of schemes previously funded out of the Whole System Partnership where it is agreed at LJCGs that these schemes deliver local BCF priorities.

52. The above have been built into the council's base budget in anticipation of the likely continuation of health and social care integration. It is also worth noting that Disabled Facilities Grant allocations for Surrey's district & borough councils have been merged into the BCF and arrangements have been made to distribute these amounts to districts and boroughs to allow them to continue to discharge these duties.

Total Schools Budget - as defined in legislation

53. 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 for academies.

7

54. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 2 outlines the proposed Total Schools Budget for 2014/15 of £560.7m. This comprises:

- £544.7m Dedicated Schools Grant (DSG);
- £14.7m Education Funding Agency (EFA) sixth form grants; and
- £1.3m for post-16 learning disabilities, which the Council funds.

Table 2: Analysis of Total Schools Budget for 2015/16

	Schools' delegated budgets £m	**Centrally managed services £m**	**Total £m**
DSG 2015/16	422.6	121.3	543.9
DSG brought forward from previous years	0.8		0.8
Total DSG	**423.4**	**121.3**	**544.7**
EFA sixth form grant	14.7		14.7
County Council contribution (post-16 learning disabilities)		1.3	1.3
Total Schools Budget	**438.1**	**122.6**	**560.7**

Note:
Total Schools Budget does not include the pupil premium grant, provisionally £18.4m, the PE sports release grant, provisionally £2.4m or universal free meals grant, provisionally £11.6m. These grants, although not part of the legal definition, are also delegated to schools and are included in the total schools funding of £469.0m as in Appendix 4.

55. 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.

56. 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).

57. 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 this in October 2014. In 2015/16 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 theper pupil increase (or ceiling) to a maximum of approximately 5.5%.

7

58. 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).

59. 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 revenue grants

60. The council has successfully bid for revenue grants from central government totalling £4.6m. These include the following:

- Local Sustainable Transport Fund (Connectivity) £1.7m. This grant will be used for developing and promoting sustainable travel;
- Transformation Challenge Award £1.5m. This grant is to transform the public service response in Surrey to crisis situations for people with mental health problems;
- Fire Transformation £1.0m This grant will be used for developing the partnership working between Surrey's Fire & Rescue Service and Police and Ambulance services;
- Counter Fraud Fund £0.3m. This grant will be used to work with districts and boroughs to develop and strengthen capacity across Surrey to tackle non-benefit fraud.

61. The Government has made available new grants to promote their policies around social care and public health. These will be reflected in increased expenditure by the council. The council has received £7.2m for the implementation costs of the Care Act and a further £1.3m from the Independent Living Fund.

62. In Public Health the government has provided £6.5m grant for local authorities to take responsibility from NHS England for commissioning public health services for children aged 0-5. This includes health visiting and Family Nurse Partnership ((FNP) targeted services for teenage mothers).

63. Legislative change is being made for the integration of education, health and social care planning (EHSC). The government have provided £0.6m in grant for this.

64. A full list of grants is shown in Appendix 3. The most significant change is a 20% reduction in the Education Support Grant, which funds services to support maintained schools. For the council this grant reduces from £14.4m to £11.1m.

Funding commitments the Government has reduced or withdrawn

65. The Government has withdrawn funding in a number of areas and for the council this totals £6.0m. These are listed in Appendix 3 and in most cases will be matched with a reduction in expenditure. However, the £1.1m funding for the social fund has ceased although the responsibility for administering this will continue.

66. 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. 7

67. This ring-fenced specific grant is designed to cover all the services transferred from NHS Surrey. The Department of Health (DH) recognised it excluded £3.3m of genito-urinary medicine (GUM) services incorrectly from the grant and has rectified the council's Public Health grant to include these funds for 2015/16.

68. Historically public health funding in Surrey has been below the level of assessed need. In the first two years of the transfer of public health responsibility to local authorities (2013-15) DH committed to increasing the council's funding by 10% each year (to return funding to the level of assessed need). However, this has been removed from 2015/16 with the grant remaining at the 2014/15 level.

69. The Government has changed much of local authorities' access to funding for economic growth, European projects and transport. These now require bids to Local Enterprise Partnerships to gain matched funding allocations.

Retained Business Rates

70. The borough and district councils in Surrey are billing authorities and they collect business rates. As described above, they pay half of this to central government for national redistribution and retain the remaining half, of which 20% is paid to this council.

71. Under a local agreement the borough and district councils provide estimates of business rates collection to the council in early January each year. This is supplemented by quarterly monitoring throughout the year.

72. The main drivers of volatility in business rates income are the volume and value of successful valuation appeals, as these reduce expected business rates income. Any successful appeals after the start of the new system are refunded at the expense of the local authorities concerned (i.e. the district and borough councils and counties) and central government, in proportion to their shares of business rates income. In view of this, districts and boroughs made assumptions about the value of successful appeals in their estimates of business rates income. This council bears 10% of any appeals losses (districts and boroughs 40% and central government 50%) and set aside £1.25m in a reserve as mitigation against potential business rates valuation appeals in 2014/15.

73. 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.

7

74. MTFP (2015-20) uses the district and borough councils' mid-year estimates of 2014/15 business rates income and adds 0.25% real growth annually and business rate multiplier increases limited to 2% for 2015/16 with subsequent years' indexation at forecast RPI using HM Treasury's average of independent forecasters as at November 2014.

75. Table 3 shows the forecast retained income from business rates for 2014/15 and 2015/16:

Table 3 Surrey County Council business rates income 2014/15 and 2015/16

	MTFP 2014/15 £m	Estimate 2015/16 £m
Retained business rates	44.5	44.1

76. The council also faces vulnerabilities associated with the loss of large site business ratepayers from the county area.

Council tax funding

77. Council tax, through the precept, is the council's main source of funding for the council's budget, excluding schools. The MTFP (2014-19) assumes council tax yield will increase by 2% annually through either an up-lift in the level of the tax and a further 0.5% through an increase in the number of properties subject to the tax. The latter is often referred to as the council tax base.

78. The 2015/16 Provisional Local Government Finance Settlement stated that the council tax freeze grant offered is equivalent to 1% of an council's council tax, as expected. The settlement also proposed the council tax referendum threshold be set at 2%, as expected.

79. Since 2012/13 the council has not accepted the Government's offers of council tax freeze grant, choosing instead to uplift council tax within the limits set by the Secretary of State.. This was done to sustain the long term financial resilience of the council and in the context of year on year increases in demographic demand pressures.

80. Each January, the district and borough councils notify the council of their estimates of the council tax base for the following financial year. 2014/15 has seen a 2% rise in the estimates meaning that the council tax base for 2015/16 is now 481,179 band D equivalent properties.

81. A 2% uplift in the council tax precept in 2015/16 would yield an additional £11.5m, This funding would be in the base for future years. The council tax freeze grant is the equivalent of a 1% increase, or £5.7m. There is no guarantee that this funding would continue after 2015/16 as one of the grants rolled into RSG. Since 2012/13, the difference in funding the council would receive than if it had accepted all such grant offers would be the equivalent of £33m per year each year.

82. All Members of the council have been invited to several financial planning update briefings outlining the impact on the 2015/16 budget and MTFP (2015-20) 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.

7

83. The MTFP (2015-20) includes proposals to increase council tax by 1.99% in 2015/16, giving a band D equivalent precept rate of £1,219.68 On the 2014/15 base, this would raise £575.2m funding.

84. As stated above, the council's tax base has risen by 2%. In addition, the council tax collection fund has a surplus of £11.1m, which will be paid to the council as a one-off sum. These changes led to a reappraisal of the council's estimates of future council tax growth to 0.6% annually and annual collection fund surpluses of £5m.

85. As in previous years, an element of the collection fund surplus is used to fund the Economic Downturn Reserve to mitigate any loss of business rates or council tax base erosion. The Director of Finance recommends that £4.6m is added to this reserve.

86. The current MTFP (2014-19) includes an assumption for an annual uplift in council tax of 2% a year and that is the proposed level of up-lift for 2015/16. The new MTFP (2015-20) assumes, for the remaining years (2016-20) that the uplift will be equivalent to the known increase in demographic demand across those years.

87. Table 4 summarises the council's revenue funding for the MTFP period 2015-20.

Table 4: Revenue funding for MTFP (2015-20)

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Council Tax	-571	-598	-627	-663	-699	-735
Business Rates	-45	-44	-46	-48	-51	-53
Gov Grants	-858	-884	-871	-865	-865	-864
Other income	-152	-138	-143	-151	-155	-159
Use of reserves	-26	-4	0	0	0	0
Total Funding	-1,652	-1,668	-1,687	-1,727	-1,770	-1,811

Revenue budget

Forecast revenue budget outturn 2014/15

88. The council's overall revenue forecast outturn for 2014/15 at the end of December 2014 projects an underspend of £3.5m. A separate report on this agenda presents this in more detail -Item 8 (Finance and budget monitoring report for December 2014)

89. Services' hard work in managing spending within budgets in 2014/15 continues the council's good record of achieving efficiencies and savings. The council has used and plans to use the funding this releases to provide support to the budget in 2014/15 and subsequent years. The Chief Executive's and Director of Finance's work tracking efficiencies will maintain rigour in services' plans for achieving their efficiencies.

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

7

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 2015/16

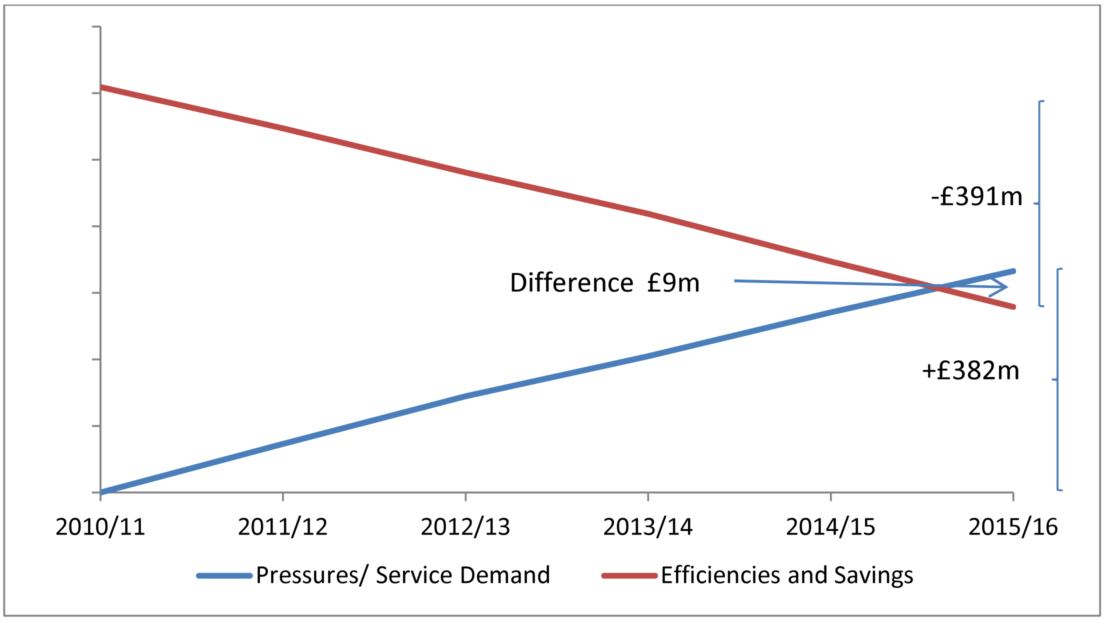
91. Since 2010 the spending demands and budget pressures the Council has faced have increased at a faster rate: taking 2010/11 as the baseline, the Council's spending pressures increased by £326m over the four years to 2014/15. This is forecast to continue in 2015/16 with a further £56m rise in pressures making a total of £382m. The increase next year reflects 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.

92. Over the same four year period, the council has mitigated these demand pressures through a programme of efficiencies and savings that has reduced the unit cost of many services. This is shown in Appendix 1 – *Surrey County Council: Unit costs and Analysis.* Since 2010 the council has reduced the annual value of expenditure by £329m: an average savings of over £65m every year. For 2015/16 further savings have been identified that total £62m, making a total of £391m.

93. In summary, despite a 5 year intensive efficiency programme and continual improvement initiatives reduce unit costs, the Council's has only marginally exceeded the increases in demand across the same period, as illustrated in the figure below.

Figure 3: Profile of pressures and savings, 2010/11 to 2015/16

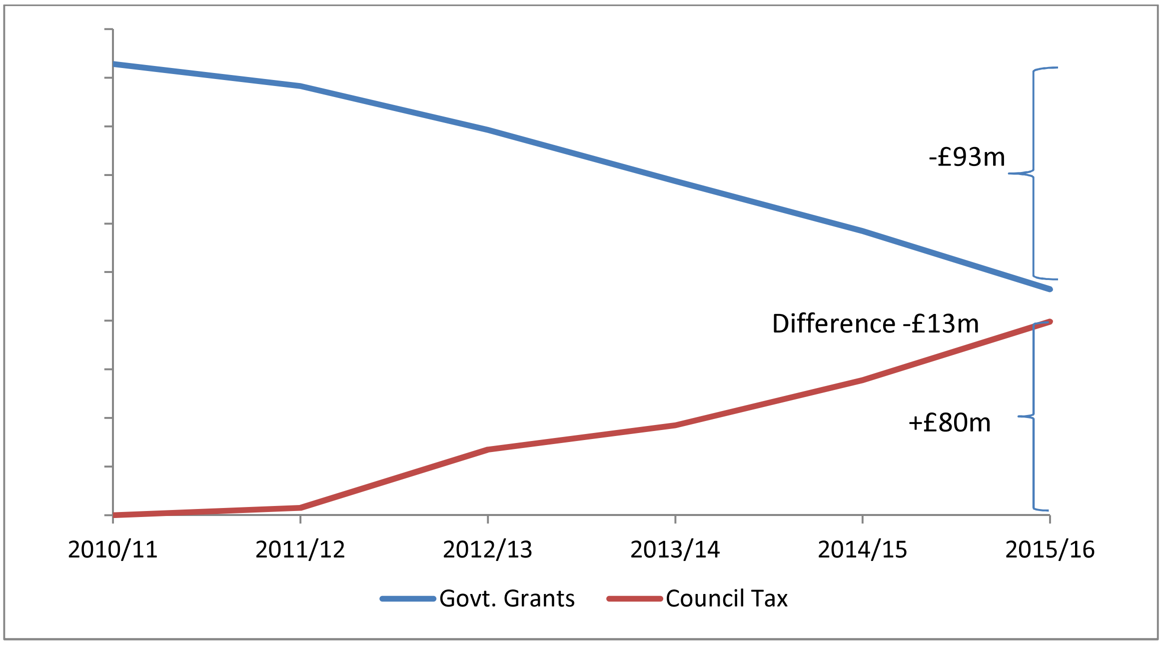


94. Also since 2010/11 the Council has faced significantly reducing funding from Government grants, despite the expansion in service demands and pressures over the same period. Taking 2010/11 as the baseline, the reduction in Government grants to

2015/16 totals £93m. Over the same period, the uplift in council tax has increased funding by only £80m. A shortfall of £13m. Figure 4 shows how the profile of funding from Government grants and council tax has changed.

7

Figure 4: Profile of funding from Government grants and council tax, 2010/11 to 2015/16



Budget planning assumptions

95. The council began building its annual budget in June 2014. This involved reviewing the council's financial position and outlook at the end of the first quarter of 2014/15, revisiting the assumptions, pressures and savings included in the MTFP (2014-19) and projecting forward a further year to 2019/20. Table 5 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 5: Budgetary cost, pressure and savings assumptions 2015-20

Descriptor	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Pay inflation – Surrey pay	£300 +£500 (subject to head room)	up to 1.6%	up to 1.6%	up to 1.6%	up to 1.6%
Pay inflation – National pay	1.0%	1.0%	1.0%	1.0%	1.0%
General, non-pay inflation	1.3%	1.8%	2.0%	2.0%	2.0%
Savings required in MTFP	-£62m	-£32m	-£20m	-£7m	-£32m
Allowances for central pressures:					
Revenue impact (borrowing) of the capital programme 2015-20	£5m	£6m	£3m	£1m	£4m

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

7

Service expenditure 2015-20

96. Table 6 summarises the council's gross revenue expenditure budget for the five years 2015-20 and compares it to 2014/15's budget by main services.

Table 6: Gross revenue expenditure budget 2015-20

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Adults Social Care	412	429	433	448	476	506
Central Income & Expenditure	66	60	66	78	74	68
Children services	90	95	96	98	101	104
Communications	2	2	2	2	2	2
Community Partnership & Safety	3	3	3	3	3	3
Coroner	1	1	1	1	1	1
Cultural Services	23	23	22	23	23	23
Customer Services & Directorate Support	6	5	5	5	5	5
Emergency Management	1	1	1	1	1	1
Environment	94	89	88	91	95	98
Finance	11	10	11	11	11	11
Highways and Transport	53	53	54	54	55	57
Human Resources & Organisational Development	11	9	9	10	10	10
Information Management & Technology	26	25	25	26	26	27
Legal & Democratic Services	9	9	9	10	9	9
Policy & Performance	3	3	3	3	4	4
Procurement	3	3	3	4	4	4
Property	39	37	39	40	42	43
Public Health	29	36	42	42	42	42
Schools	468	469	468	468	468	468
Schools and Learning	214	217	218	222	228	235
Services for Young People	27	26	26	26	26	27
Shared Service Centre	8	9	9	9	9	9
Strategic Services	3	3	3	3	3	3
Surrey Fire and Rescue Service	47	48	48	46	49	48
Trading Standards	3	3	3	3	3	3
Total expenditure	**1,652**	**1,668**	**1,687**	**1,727**	**1,770**	**1,811**

97. Services continue to develop and test a range of proposals to enable the council to meet its budget reduction targets for 2015/16 and beyond. Appendix 4 contains a summarised income and expenditure statement and expenditure by service.

98. Cabinet will receive final detailed budget proposals for approval on 24 March 2015, after the appropriate Select Committees have continue to track and monitor progress on the implementation of robust plans for achieving all the MTFP efficiencies.

Balancing the 2015/16 revenue budget and MTFP (2015-20)

99. The council plans to balance its budget in 2015/16 through a combination of budget reductions and efficiencies, additional income, council tax up-lift of 1.99% and use of £4.3m from the Budget Equalisation Reserve to smooth the flow of funds between years.

100. 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.

101. 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 reductions to the services residents receive or reassess the up-lift in council tax required.

102. To help ensure success, the Chief Executive and Director of Finance will continue to track and monitor systematically progress on the implementation of robust plans for achieving all the MTFP efficiencies.

Risks and uncertainties

103. In balancing the 2015/16 revenue budget and looking ahead for the remaing four years of the MTFP (2016-20), the council has taken account of the key risks and uncertainties facing the council and proposes to refresh the budget in the summer 2015 when it is anticpated that the level of uncertainty may have reduced. The main areas of risk include:

- potential policy changes (including service specific and fiscal) following the General Election in May 2015;
- the absence of a Comprehensive Spending Review 2015;
- the on-going effectiveness of the efficiencies and savings programme;
- the on-going uncontrollable growth in demographic demands on services.

Capital programme 2015-20

Capital budget planning

104. The council set a five year capital programme totalling £760m in the MTFP (2014-19), which it refreshed in July 2014 to accommodate underspends carried forward, bringing the total for five years to £780m. A significant element of this relates to the supply of new school places (£313m) and the recurring programme of transportation and highways maintenance (£186m).

105. For the MTFP (2015-20) Cabinet has reviewed the capital programme including extending it to 2019/20. The updated capital programme amounts to £695m 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 2014/15

106. The forecast in-year variance on the 2014/15 capital budget as at 31 December 2014 is an overspending of £2.5m against the approved revised budget of £2054m. The main reasons for the overspend are +£7.5m invested in long term capital investment assets through the Revolving Infrastructure & Investment Fund, offset by -£10.0m revised spending profile on the service capital programme. These are explained in

another report on this agenda, Item 8 (Finance and budget monitoring report for December 2014).

7

107. 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 2015 and if approved, the amounts will be added to the capital programme for 2015-20.

Capital expenditure

108. 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 programmes in MTFP (2013-18), MTFP (2014-19) and MTFP (2015-20) 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.

109. For 2015/16 the capital investment in school places has increased from £54m to £75m. Overall, for the period 2015-20, the Council will invest an additional £290m to create 13,000 school places.

110. The council will review demand for school places beyond 2017/18 annually and reflect it in the capital programme. Along with other local authorities, the council is seeking further support from Central Government to meet the increased demand for school places.

111. 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%.

112. The best approach to managing road maintenance is through longer 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 to 2017 (known as Project Horizon).

113. This single investment programme will not only help Surrey reach the UK average for road condition but has also enabled contractor negotiations and design innovations to secure an additional 15% saving. The council is reinvesting this saving in the wider programme.

114. The next tranche of Local Growth Deal Transport schemes needs to be developed to business case during 2015/16 and will require further match funding beyond the current budget provision. It is proposed to create new budget provision, adding to the £1m per year from the Economic Regeneration capital budget, by virement of £5m per year from Highways Maintenance budget from 2018 to 2021 and a phased reduction in the Local Area Committee capital allocation of £0.5m in 2016/17 rising to £2.0m by 2019/20). The new match funding budget will be required to support Flood

Alleviation Schemes also including a £0.5m pa contribution to the development of the River Thames Scheme.

115. The council plans to invest £19.0m in Information Technology over the five years to 2019/20. This includes £12.5m for new equipment and infrastructure, a £7.5m replacement and renewal programme. By making this investment, the council is enabling and supporting further service efficiencies.

116. Table 7 summarises the council's £695m capital programme for the five years of MTFP (2015-20). The grant funding for capital from central government from 2016/17 onwards is still unclear, pending a new government and the Comprehensive Spending Review. The council propose to review its five year capital programme in the summer of 2015.

117. As described above the council has been successful in winning a bid for the Fire Transformation Grant. £1m of this award is a revenue grant and £5m is for capital. This grant will be used for developing the partnership working between Surrey's Fire & Rescue Service and Police and Ambulance services.

Table 7: Summary capital expenditure programme

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Schools Basic Need	75	95	59	41	20	290
Highways recurring programme	31	31	31	36	35	164
Property & IT recurring programme	24	23	23	23	27	120
Other capital projects	55	31	13	14	8	121
Total	**185**	**180**	**126**	**114**	**90**	**695**

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

Capital funding

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

Government grants

120. Government departments have announced some, but not all, capital grants for 2015/16 and even fewer for 2016/17 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. £24m of the £86m capital grants funding the programme remain to be announced.

121. 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.

7

122. Table 8 shows those grants for 2015/16 announced in the provisional settlement, those the council still expects and whether they are ring fenced or not.

Table 8: Government capital grants 2014/15

	Provisional settlement 2015/16 £m
Capital grants announced	
Ring fenced grants	
Fire transformation – successful bid	5
Non ring fenced grants	
School places	29
Schools kitchens	1
Integrated transport block	5
Highways maintenance	17
Total capital grants announced	**57**
Total capital grants yet to be announced	**29**
Total grants	**86**

123. Capital grants for years beyond 2015/16 are not known and MTFP (2015-20) includes an estimate for each year. The council reviews this estimate each year and makes equivalent adjustments to the capital programme.

Third party contributions

124. 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 (2015-20) capital programme relies on £41m third party funding.

Revenue reserves

125. 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 (2015-20) capital programme relies on £15m funding from revenue reserves.

Borrowing

126. The council borrows to fund the part of the programme remaining after applying the above three funding sources. Over the five years of MTFP (2015-20), the council expects to borrow £261m to balance the capital programme.

127. Table 9 summarises the council's estimated capital funding for the period 2015-20.

Table 9: Capital funding 2015/16 to 2019/20

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Grants		86	88	74	72	52	372
Reserves		3	1	3	3	4	15
Third party contributions		5	8	10	10	10	42
Borrowing		91	83	39	29	24	266
Total	**0.0**	**185**	**180**	**126**	**114**	**90**	**695**

7

Capital receipts

128. 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 Director of Finance supports the proposal for the council to use these resources to fund its additional portfolio of investments.

Additional portfolio of investments

129. In recent years the council has taken a strategic approach to investment. This allows the council to invest in schemes that support economic growth in Surrey and is based upon the following:

- prioritising use of the council's cash reserves and balances to support income generating investment through a Revolving Investment & Infrastructure Fund, which meets the initial revenue costs of funding initiatives to deliver savings and enhance longer term income;
- using the Revolving Investment & Infrastructure Fund to support investments to generate additional income that the council can use to support service delivery;
- investing in a diversified and balanced portfolio to manage risk and secure an annual overall rate of return to the council;
- investing in schemes with potential to support economic growth in the county;
- retaining assets where appropriate and managing them effectively including associated investment if necessary, to enhance income generation.

Reserves & balances

130. In recent years it has been considered prudent to maintain the council's minimum level of available general balances 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 brought forward £21.3m general balances at 1 April 2014.

131. Going into 2015/16 the Director of Finance recommends the level of general balances remains in the same range. This approach is considered prudent when combined with the removal of the risk contingency from within the revenue budget, leaving general balances to mitigate against the risk of non-delivery of service reductions and efficiencies in 2015/16.

132. 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 2015 is £95m, down from £129m brought forward on 1 April 2014. The main reason for this is the use of £40m of reserves to support the 2014/15 budget.

133. During the 2014/15 financial year, the council has received £2.4m for the Bellwin Grant in respect of the severe weather in 2014. Cabinet approved the transfer of these funds to the Budget Equalisation Reserve (BER) for use in supporting 2015/16 budget. In addition, the revenue budget is forecast to underspend by £3.5m and this report proposes to also add these to the BER. This will bring the balance on the BER to £7.2m, subject to separate agreement to carry forward spending plans across financial years (to be determined in May 2015).

134. The Director of Finance supports that the council applies £4.3m from the BER to smooth funding between years.

135. To help mitigate future reductions in government grants and minimise future council tax uplifts, 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.

136. 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

137. 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 council's treasury management policy statement and treasury management strategy.

138. Since 2009/10 the treasury management strategy has followed a cautious approach as a direct result of the council's Icelandic bank experience and the period of continuing low interest rates for investments.

139. The council has set itself a working cash balance of £47m in order to optimise the benefit of current unprecedented low interest rates and the opportunity to fund capital expenditure from internal cash reserves. . The council's approach to borrowing has been to use internal funding for capital expenditure to minimise the need for borrowing externally until this minimum balance is reached. Over the current year, this has required the council to borrow £70m to date. 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 rate on offer and the timing of any potential borrowing appropriate within the overall strategy.

140. 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;
- A maximum deposit period of one year; and
- The setting of maximum deposit limits.

7

141. For 2015/16 the Director of Finance recommends the council continues with the internal funding policy while the current interest rate environment continues and that the current counterparty criteria are maintained.

142. The financial resilience of banks is being monitored by national governments and there are moves at a European level to withdraw the sovereign support for banks. The impact of this may be to restrict the number of counterparties meeting the council's criteria. Therefore, in order to ensure that the council can place cash in interest earning deposits, the Director of Finance recommends the ceiling for investment in money market funds is increased from £100m to £175m.

143. With this increased exposure to money market funds, the Director of Finance further recommends the council:

- increases the exposure from £20m to £25m for each fund;
- selects additional money market funds; and
- risk assesses each fund with a minimum rating of AAA.

CONSULTATION:

144. During October 2014 and January 2015, the Leader, Deputy Leader, Chief Executive and Director of Finance held a series of workshops and face-to-face meetings with key partners and stakeholder groups, including representatives of Surrey's business community, voluntary sector and trade unions. The feedback from these workshops and meetings was incorporated into the council's budget scenario planning workshops and briefing sessions.

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

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

RISK MANAGEMENT AND IMPLICATIONS:

146. 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 Director of Finance,

7

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 service 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

147. The Leadership Risk Register contains the council's strategic risks. The Strategic Risk Forum reviews it monthly after the Statutory Responsibilities Network and ahead of review by the Chief Executive. Each strategic risk is cross referenced to risks on service 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.

148. 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; and
- development and maintenance of significant partnerships.

149. 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.

150. The Director of Finance 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. Further narrative relating to risks is included in the Director of Finance's statutory report (see Annex 1).

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

152. As required by legislation, the Director of Finance has written a separate report, attached at Annex 1.

LEGAL IMPLICATIONS – MONITORING OFFICER

153. 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 Director of Finance to finalise detailed budget proposals to maintain the council tax rate it sets, should the Final Local Government Finance 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

154. 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: 7

- "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."

155. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP (2015-20) 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 25 March 2015. This analysis will also set out the actions that the council is taking, or will undertake, to mitigate any negative impacts that could arise.

156. The equality impact analysis undertaken for the proposed MTFP (2015-20) will build on the analysis of savings in the MTFP (2014-19). It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.

157. 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.

158. 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.

159. 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

160. 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.

7

Area assessed:	Direct implications:
Climate change	No significant implications arising from this report.
Carbon emissions	No significant implications arising from this report.

WHAT HAPPENS NEXT

161. The Full County Council will set its budget and council tax precept on 10 February 2015.

162. The detailed budget will be presented to the Cabinet on 24 March 2015.

Contact Officer

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

Consulted

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

Annexes

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

Appendices:

Appendix 1	Surrey County Council: Unit costs and Analysis
Appendix 2	National economic outlook and public spending
Appendix 3	Provisional government grants for 2015/16 to 2019/20
Appendix 4	Revenue budget proposals
Appendix 5	Capital programme proposals 2015/16 to 2019/20
Appendix 6	Reserves & balances policy statement
Appendix 7	Projected earmarked reserves and general balances 2014/15 and 2015/16

Appendix 8	Treasury Management Policy
Appendix 9	Prudential indicators – summary
Appendix 10	Global economic outlook and the UK economy
Appendix 11	Treasury management scheme of delegation
Appendix 12	Institutions
Appendix 13	Approved countries for investments
Appendix 14	Annual minimum revenue provision (MRP) policy statement

Sources and background papers:

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

---

This page is intentionally left blank