

SURREY COUNTY COUNCIL**CABINET****DATE: 2 FEBRUARY 2016****REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: REVENUE AND CAPITAL BUDGET 2016/17 TO 2020/21, AND TREASURY MANAGEMENT STRATEGY****SUMMARY OF ISSUE**

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

1. the draft revenue and capital budgets for the five year period 2016-21, which is collectively known as the council's Medium Term Financial Plan (MTFP);
2. the level of the council tax precept for 2016/17; and
3. the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2016/21; the policy for the provision of the repayment of debt (minimum revenue provision (MRP)) and the treasury management policy.

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

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

RECOMMENDATIONS

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

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

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

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

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

receipts from asset sales.

14. Approves the County Council's £1,694m gross revenue expenditure budget for 2016/17.
15. Agrees the capital programme specifically to:
 - fund essential schemes over the five year period (schools and non-schools) to the value of £633m including ring-fenced grants;
 - make adequate provision in the revenue budget to fund the revenue costs of the capital programme, including a borrowing requirement of £187m over the five years.
16. Requires a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:
 - the Public Value Transformation Fund,
 - all revenue 'invest to save' proposals, and
 - capital schemes.

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

17. Approves, with immediate effect, the Treasury Management Strategy for 2016-21, which includes:
 - the investment strategy for short term cash balances;
 - introducing three new investment categories: corporate bonds, covered bonds and pool investment property funds which will generate additional returns within controlled credit risk (paragraph 108);
 - increasing the maximum term for high quality longer dated investments to two years for supranational institutions, local authorities, UK Government, corporate bonds and five years for covered bonds, earning additional interest income without compromising liquidity risk (paragraph 108);
 - setting the maximum amount in respect of any one counterparty to £20m with the exception of money market funds which should remain at £25m (paragraph 108);
 - the treasury management policy (Appendix 8);
 - the prudential indicators (Appendix 9);
 - the schedule of delegation (Appendix 11);
 - the minimum revenue provision policy (Appendix 14).

It is further recommended that Cabinet makes the following decisions:

18. Notes that services will develop budgets and savings proposed ahead of approval by Cabinet on 22 March 2016 when the final MTFP (2016-21) will be presented.
 19. Approves the draft MTFP for the financial years 2016-21, which includes:
 - to approve the Total Schools Budget of £551.5m (paragraphs 37 to 43);
 - to support the 2016/17 budget by using £17.2m from reserves as set out in paragraph 72;
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- to approve overall cash limits for individual services.

REASON FOR RECOMMENDATIONS

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

DETAILS

Revenue and capital budget

Introduction

1. This report proposes the draft MTFP (2016-21), which Cabinet Members have developed through a series of budget workshops. In view of the late and unexpected announcement in the Provisional Settlement, there has not been sufficient time to develop full efficiency proposals for this report. Rather, service cash limits are proposed and detailed savings and efficiency plans will be completed following proper consultation.
2. The proposed MTFP period (2016-21) rolls forward by one year the current MTFP (2015-20) approved by Full County Council on 10 February 2015. It covers five years and is directly linked to the Corporate Strategy.
3. The Council can only balance its five year MTFP through a combination of all of the following:
 - significant transitional relief funding from Government in 2016/17 and 2017/18 to manage the immediate impact of a significant, unexpected funding loss which has arisen from the late changes to external funding announced by Government in the Provisional Settlement;
 - the significant use of capital receipts from asset sales to fund major transformation of service delivery through a programme of transformation;
 - significant use of reserves in 2016/17 and 2017/18;
 - earlier and deeper implementation of service efficiencies and reductions.
4. Following approval of the high level budget by full County Council on 9 February 2016, service budgets will be prepared for Cabinet approval on 22 March 2016. The service budgets will link to services' strategic plans that Cabinet will also consider in March.

Autumn Statement, Spending Review 2015 and Provisional Finance Settlement

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

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

Table 1: National Departmental Expenditure Limit reductions

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

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

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

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

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

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

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

Revenue grants rolled into Revenue Support Grant

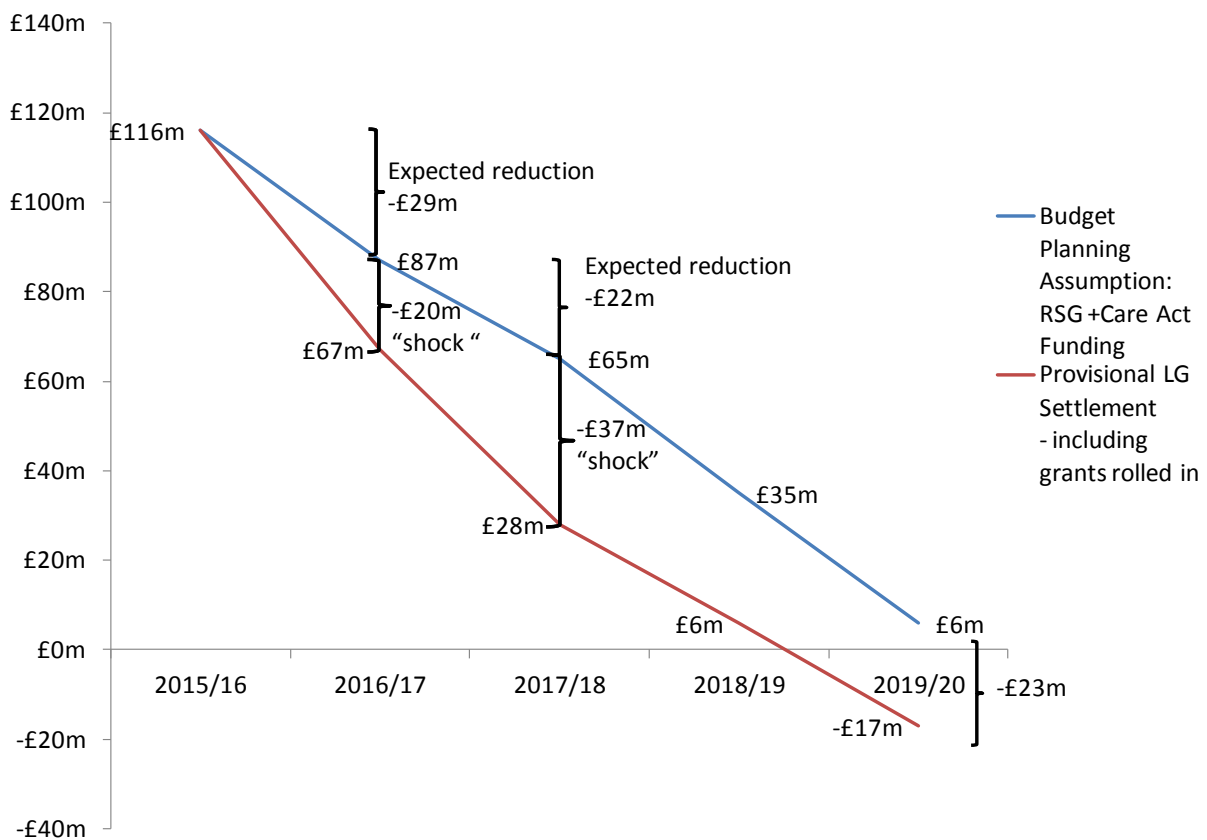
8. DCLG proposes to transfer some Government grants the Council receives in 2015/16 into the Settlement Funding Assessment for 2016/17 through RSG: Care Act Grant £5.8m and Flood Prevention Grant £0.2m. Given that RSG is then substantially reduced (42% in 2016/17) and disappears completely after 2018/19,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

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

‘Shock’ rate of reduction in RSG

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

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



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

Change in funding distribution methodology & core spending power

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

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

12. The new distribution alters this straight line reduction by specifically also taking account of an authority's ability to raise funding locally. This means councils that have to rely on a higher proportion of council tax to fund their services suffer a quicker loss of RSG than could have reasonably been foreseen in view of Government's previous indications.
13. There have been a significant number of winners and losers as illustrated in Table 3. The biggest losers are county councils. Among counties, Surrey County Council is particularly adversely affected losing more Settlement Funding Assessment than could reasonably have been anticipated, to the extent of £20.4m in 2016/17 and £36.9m in 2017/18. In the past when Government have changed local government funding methodologies, they have given prior indications and usually consulted ahead of funding proposals. Also Government have previously applied a system of damping through limiting gains for the winners and losses for the losers to give councils time to adjust to new levels of funding. They have not done this now. Without some form of damping or transitional relief, Surrey County Council will not be able to set a sustainable budget for 2016/17 and 2017/18. The County Council's response to the Government's Provisional Settlement consultation made this point strongly.

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

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

Core Spending Power

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

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

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

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

Four year settlement offer

15. The Provisional Settlement included indicative figures about funding for the next four years, offering for councils to accept the four year funding figures in their Core Spending Power. If the Council takes up this offer, DCLG have indicated they will provide future funding on this basis, with some caveats as set out below.
16. It is not yet clear when the Council will have the opportunity to accept the offer, nor the implications. Although acceptance would provide some certainty about funding included in the Settlement Funding Assessment figures, these would nonetheless remain subject to changes to allow for future events:
 - transfers of functions to local government,
 - transfers of responsibility between local authorities,
 - mergers,
 - any other unforeseen event,
 - the impact of the Retail Price Index on business rates,
 - the National Living Wage implications, plus
 - current relief to businesses provided by Government.
17. It should be noted that the Council separately receives funding from a number of Government departments other than DCLG, which fall outside of the four year offer in the Provisional Settlement. For 2016/17 these amount to an estimated £731m, or 85% of the Council's grant funding. As at the date of the report, the Government is yet to announce a significant number of these grants and it is not known whether these will be for multiple years or just 2016/17. Although the Council follows the principle that services' spend matches the level of these grants, the late notifications make this impossible to adjust for by 1 April 2016, if settlement figures vary from the planning

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

18. The Government's figures in Table 5 give indicative allocations for the three years beyond the Provisional Settlement for 2016/17.
19. In 2019/20, the Council will effectively receive negative RSG after the Government proposes to achieve this by deducting the negative RSG amount (-£17.2m) from the Council's Business Rate top-up grant. The Council is the most severely affected of all local authorities and by more than £6m more than the next most badly affected authority.

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

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	115.8	67.1	28.0	4.7	0.0
Top up Grant	58.9	59.4	60.5	62.4	47.1
Business Rates Baseline	45.6	45.9	46.9	48.2	49.8
Baseline Funding Assessment	104.5	105.3	107.4	110.6	96.9
Settlement Funding Assessment	220.3	172.4	135.4	115.3	96.9

Council tax funding

20. Council tax, through the precept, is the Council's main source of funding for the council's budget, excluding schools. The current council tax strategy is to increase general council tax by 2% and assume a 0.6% increase in the number of properties subject to the tax. The latter is often referred to as the council tax taxbase.
21. The Provisional Settlement indicated a number of factors relating to council tax:
 - general council tax referendum limit at 2% (as expected);
 - the ending of the grant to compensate councils choosing to freeze council tax, known as the council tax freeze grant (minimal impact on Surrey County Council since the council has not accepted most of the previous freeze grants);
 - introduced an ability to raise council tax by a further 2%, each year, specifically for adult social care (ASC) services, and set out guidance on requirements for councils to evidence their use of the money raised on adult social care services (the Council had actively sought this flexibility from Government).
22. The annual returns from districts and boroughs showed an overall increase in the council tax taxbase in Surrey of 1.24%. Based on the Provisional Settlement and the districts' and boroughs' returns, it is proposed to adjust the council tax strategy to the following:
 - Continue with the general council tax increase of 1.99%;
 - assume annual 1% council tax base increase;
 - assume 2% ASC council tax increase.

23. The MTFP (2016-21) therefore, includes proposals to increase council tax by 3.99% in 2016/17 and each year up to 2020/21. This provides a Band D equivalent precept rate of £1,268.28 for 2016/17. On the 2016/17 base, this would raise £618m funding.
24. As stated above, the Council's council tax base has risen by 1.24%. In addition, the Council's share of the districts' and boroughs' council tax collection funds is a surplus of £9.3m, which will be paid to the Council as a one-off sum. These changes led to a reappraisal of the Council's estimates of future council tax growth to 1% annually and annual collection fund surpluses of £6m.

Business rates

25. The Provisional Settlement confirmed the continuation of the business rates cap funding for 2015/16 and prior years. This is funding paid to compensate councils for funding lost when the Government limits the increase in the business rates multiplier affecting amounts payable by businesses. The Government will reimburse individual local authorities for this through a supplementary grant. There is no funding required in 2016/17 because the inflationary increase in the business rates multiplier is below the 2% capping level.
26. The Provisional Settlement also set the increase in business rates retention scheme top ups and tariffs at 0.8%, consistent with the MTFP planning assumptions.

Business rates pooling

27. DCLG permits geographically linked authorities to apply to pool their business rates. By combining tariffs and top ups among pooled authorities this can reduce the composite levy rate paid by the pool. This further incentivises business rates growth through collaborative effort and smoothes the impact of volatility in business rates income across a wider economic area.
28. Surrey as an area has operated a business rates pool in 2015/16 in partnership with: Elmbridge Borough Council, Mole Valley District Council, Spelthorne Borough Council and Woking Borough Council. Following review, the optimum pool to maximise projected business rates income in the Surrey area for 2016/17 involves joining Surrey County Council with the London Borough of Croydon, Guildford Borough Council, Runnymede Borough Council, Spelthorne Borough Council, Waverley Borough Council and Woking Borough Council. These six authorities submitted a bid to form a business rates pool for the financial year 2016/17 and succeeded in receiving the relevant designation by DCLG. The pool's financial modelling projects retaining up to £4m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for the county council to receive a third of this additional income.

Business rate retention

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

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

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

New Homes Bonus

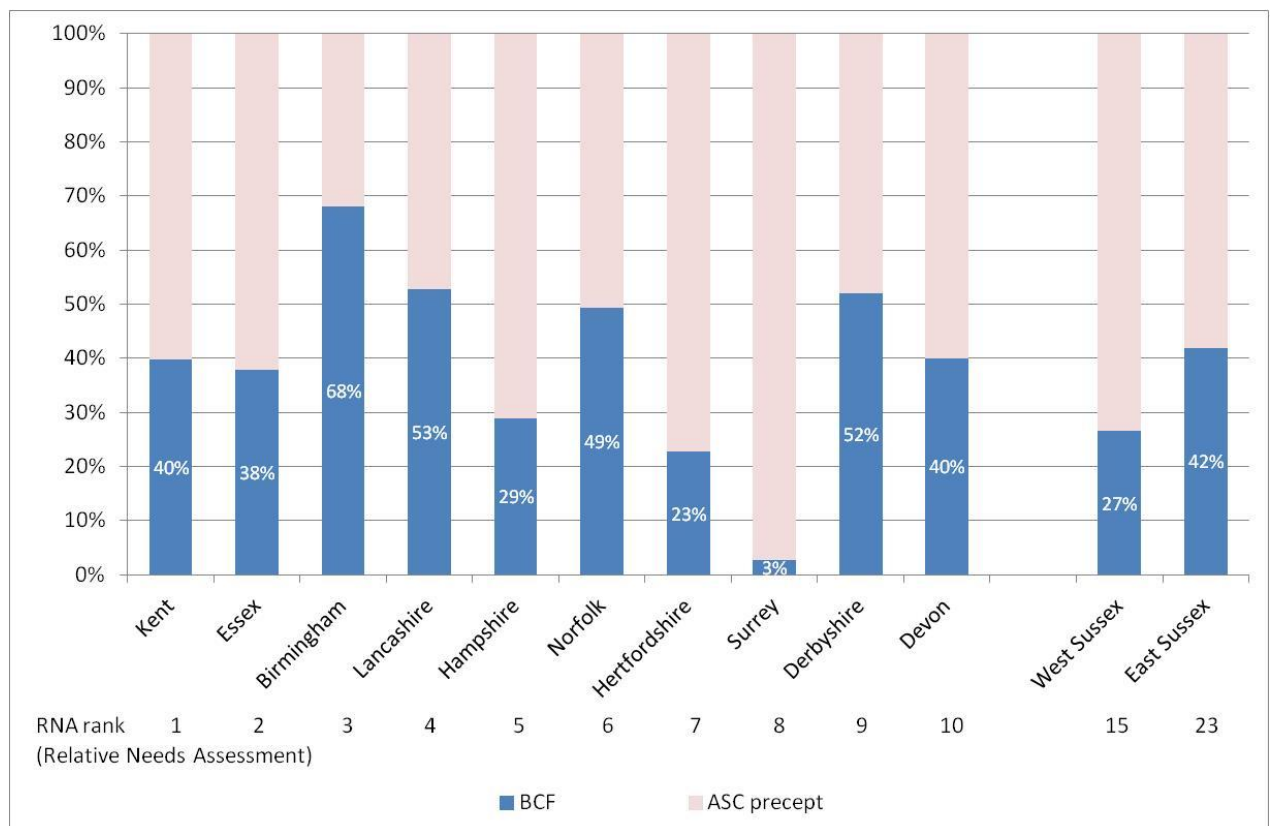
31. The Provisional Settlement included a consultation, running until 10 March 2016, on reforms to the New Homes Bonus, including focusing the incentive on those councils that deliver additional homes and reducing the period for which councils receive the New Homes Bonus.
32. Ahead of the outcome of this consultation, Government has identified indicative amounts the Council will receive for New Homes Bonus (NHB) as shown in Table 4 (following paragraph 14). These amounts, which reduce from 2017/18 onwards, are linked to the changes DCLG is consulting upon specifically:
- reduce the sum set aside for the payment of NHB to provide additional funding for social care; and
 - to introduce changes which exclude councils from receiving NHB where they do not have a current approved Local Plan and to reduce NHB where properties are built on appeal.

Better Care Fund

33. The Better Care Fund (BCF) that was introduced in 2015/16 has two primary purposes:
- to transform the health and social care system to achieve a shift from acute to community services;
 - to 'protect' (the Government's word) adult social care, recognising the financial pressures on it.
34. The BCF allocation for the Surrey area for 2015/16 was £65.5m revenue and £5.9m capital funding. The Council works with Surrey's seven Clinical Commissioning Groups (CCGs) to determine use of these shared resources and current MTFP (2015-20) includes £25m allocated to protecting existing ASC services. Although the Government have yet to announce the grant for 2016/17, they have indicated it will continue and the budget planning assumes this, to ensure ASC services remain protected in 2016/17.
35. From 2017/18, the Government will provide additional improved Better Care Funding for local authorities to spend on adult social care. The amount rises from zero to £1,500m nationally over the three years to 2019/20. The Provisional Settlement introduced a different basis for allocation of the improved BCF that takes account of relative needs and resources in the form of how much each social care authority could raise from the 2% Adult Social Care precept. Table 4 (following paragraph 14) shows the Council will receive £1.5m in 2019/20. Had the Government used their usual method of distribution of ASC funding, the Council could have expected additional funding of approximately £28m.

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

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



Total Schools Budget - as defined in legislation

37. The Council is required by law formally to approve the Total Schools Budget. The technical legal definition of the Total Schools Budget comprises: Dedicated Schools Grant funding, post 16 grant funding and any legally relevant council tax related funding. The Total Schools Budget covers schools' delegated expenditure and other maintained schools expenditure, plus expenditure on a range of school support services specified in legislation. The Total Schools Budget (and the total county council budget) excludes funding allocated to individual academies.
38. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 6 outlines the proposed Total Schools Budget for 2016/17 of £551.5m. This comprises:

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

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

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

Note:

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

39. Total Schools Budget comprises schools' delegated budgets and centrally managed services. Centrally managed services include the costs of:
- placements for pupils with special educational needs in non maintained special schools and independent schools;
 - two and three year olds taking up the free entitlement to early education and childcare in private nurseries;
 - part of the cost of alternative education (including part of the cost of pupil referral units);
 - additional support to pupils with special educational needs; and
 - a range of other support services including school admissions.
40. The County Council contribution is to fund part of the increased cost of placements and services for pupils with high cost special educational needs, due to increases in the number and cost of placements over and above the additional funding provided by the Department for Education for this purpose, particularly for post 16 learners where demand has increased due to legislative changes.
41. Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. Cabinet considered and agreed a detailed report on the 2016/17 funding formula in October 2015. In 2016/17 the formula limits any school level losses to a 1.5% maximum per pupil (the Government's Minimum Funding Guarantee). To pay for the guarantee, the formula limits the per pupil increase to a maximum of under 1%.
42. Schools will also receive pupil premium funding, based on the number of:
- pupils on free school meals at some time in the past six years;
 - looked after children;

- children adopted from care;
 - pupils from service families (or who qualified as service children at some time within the last six years, or are in receipt of a war pension).
43. Funding for some support services for schools is provided through Education Services Grant. This grant is divided between the Council and individual Surrey academies in proportion to pupil numbers in each. This grant is not part of the statutory Schools Budget.

Revenue Grants

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

Capital receipts flexibility

45. As part of the Provisional Settlement, the Government is introducing flexibility in the use of capital receipts. This will enable councils to use asset sales to help pay for upfront investment in service transformation.
46. The Provisional Settlement sets out the requirements a council must comply with to use this flexibility. Specifically local authorities will need to prepare an efficiency strategy which has to be approved by Full Council. The Provisional Settlement indicates councils can use Capital Receipts which are received after the 1 April 2016 to be invested in transformation projects, which would normally be regarded as revenue costs, to deliver future revenue savings. This flexibility is offered for 2016/17-2018/19.
47. To manage the considerable 'shock' impact in the Provisional Settlement the Council proposes to use the flexibility offered by using £30m of capital receipts from asset sales to support a significant transformation programme that will generate future revenue savings. A mechanism to manage this programme is being developed and will be led by the Chief Executive and the Director of Finance in consultation with the Leader.

Strategies influencing the revenue and capital budgets

Corporate strategy

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

1. **Wellbeing:**

Everyone in Surrey has a great start to life and can live and age well.

2. **Economic prosperity:**

Surrey's economy remains strong and sustainable.

3. **Resident experience:**

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

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

Financial strategy

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

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

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

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

Risk management strategy

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

Scenario planning 2016/17 to 2020/21

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

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

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

56. The late notification of the shock to the Council's funding set out in the Provisional Settlement has meant work has focused on developing a robust budget for 2016/17. As the Government has provided indicative funding allocations through to 2019/20, work will commence on developing detailed budgets and savings for the remaining years of the MTFP (2017 to 2021) Therefore the budget proposals within the MTFP should be considered in two parts:
 - year 1 (2016/17) for which the Council needs to set a council tax precept; and
 - years 2 to 5 (2017/18 to 2020/21 - for which provisional funding levels are available and the Council will need to make a long term plan to address the challenges ahead) which will be addressed through a longer term and detailed review.
57. For the Director of Finance to continue to be able to state her statutory opinion that the budget is balanced and sustainable, a Public Value Transformation programme covering all service budgets will commence from 1 April 2016 to cover the period up to 2020/21 and the Council assumes transitional relief will be provided by the Government for 2016/17 and 2017/18.
58. The basic assumptions reflected in the MTFP (2016-21) remain valid in moving the MTFP forward from 2015-20, except where the emerging changes to the new funding arrangements and assumptions about growth in service pressures have changed. Cabinet members and senior officers have rigorously reviewed, probed, assessed and validated the assumptions to determine the predicted scenario for MTFP purposes.
59. In developing the MTFP (2016-21) the Council has again shared the stages of its medium term financial planning process widely. Cabinet members, senior officers and Scrutiny Boards participated in workshops and several financial planning update briefings have been provided for all members and other interested stakeholders.

Revenue budget

Forecast revenue budget outturn 2015/16

60. The Council's overall revenue forecast outturn for 2015/16 at the end of December 2015 projects an underspend of -£5.0m. A separate report on this agenda presents this in more detail - Item 8 (Finance and budget monitoring report for December 2015).
61. Services' hard work in managing spending within budgets in 2015/16 continues the Council's good record of achieving efficiencies and savings. The Council has used and plans to use the funding this releases to provide support to the budget in 2016/17 and subsequent years. The Chief Executive's and Director of Finance's work tracking efficiencies will maintain rigour in services' plans for achieving their efficiencies.
62. Within the Council's financial outturn, as part of longer term financial planning, services may request to carry forward underspends to smooth funding across financial years.

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

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

63. Since 2011 the spending demands and budget pressures the Council has faced have increased at a faster rate: taking 2011/12 as the baseline, the Council's spending pressures increased by £404m over the five years to 2015/16. This is forecast to continue in 2016/17 with a further £102m rise. While there remains a risk that demand pressures could intensify, the increase next year reflects the need to:
- care for an estimated extra 300 vulnerable adults in 2016/17 as Surrey's population ages;
 - provide 11,500 school places during the 2016-21 MTFP period (5,400 in primary schools and 6,100 in secondary schools) for Surrey's growing number of young children; and
 - maintain and repair Surrey's highways network, one of the most heavily used in the UK.
64. Over the same four year period, the Council has mitigated these demand pressures through a programme of efficiencies and savings that has reduced the unit cost of many services. Since 2010 the Council has reduced the annual value of expenditure by £396m: an average savings of over £65m every year. For 2016/17 further savings have been identified that total £84m.

Budget planning assumptions

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

Table 7: Budgetary assumptions 2016-21

Descriptor	2016/17	2017/18	2018/19	2019/20	2020/21
Pay inflation – Surrey pay	up to 1.6%	up to 1.6%	up to 1.6%	up to 1.6%	up to 1.6%
Pay inflation – National pay	1.0%	1.0%	1.0%	1.0%	1.0%
General, non-pay inflation	1.8%	2.0%	2.0%	2.0%	2.0%

Note: - differing percentages apply to contractual inflation

Service expenditure 2016-21

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

Table 8: Gross revenue expenditure budget 2016-21

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

67. Due to the late notice of the Provisional Settlement, the significant change in the distribution of funding and the impact that this has on the council's finances, services are still developing plans for further savings. Appendix 4 contains a summarised income and expenditure statement and expenditure by service, which shows the budget movements for each year.
68. Cabinet will receive final service budget proposals for approval on 22 March 2016, after the appropriate Scrutiny Boards have reviewed progress in developing service budgets.

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

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

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

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

70. The Council plans to balance its five year MTFP through the Public Value Transformation programme. This will robustly consider alternative methods of service delivery. The Transformation programme will be funded from capital receipts from asset sales in accordance with the Government's increased flexibilities set out in the Provisional Settlement (paragraphs 45 to 47). The Council recognises that service transformation on this scale will take time and will not be delivered in full for the 2016/17 financial year. The Public Value Transformation programme will follow the principle of the Council's Public Value Review (PVR) programme introduced in 2010. PVR was the start of a long term process over the last five years for ensuring efficiencies and the gains the programme made are already built in for the next five years. The new funding settlement will require the Council to find even greater efficiencies while ensuring availability of front line services to residents.
71. Other than increasing the level of savings required, making use of capital receipts from asset sales as set out above, and significant transitional relief provided by Central Government (£20m in 2016/17 and £37m in 2017/18) the Council plans to balance its budget in 2016/17 and in 2017/18 through the use of reserves. However, these reserves have been set aside for specific purposes - either future expenditure or to meet possible liabilities - meaning that their use to balance the revenue budget can only be short term and will lead to the council needing to identify other ways of meeting the expenditure for which they were intended.
72. The Council plans to use £17.2m reserves in 2016/17 and £6.2m in 2017/18.

Risks and uncertainties

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

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

Capital programme 2016-21

Capital budget planning

74. The Council set a five year capital programme totalling £696m in the MTFP (2015-20), which it refreshed in July 2015 to accommodate underspends carried forward, bringing the total for five years to £744m. A significant element of this relates to the supply of new school places (£285m) and the recurring programme of transportation and highways maintenance (£153m).
75. For the MTFP (2016-21) the capital programme is rolled forward one year to include 2020/21. The focus remains on the continuing forecast growth in school pupil numbers and the importance residents place on good roads.

Capital position 2015/16

76. The forecast in-year variance on the 2015/16 capital programme as at 31 December 2015 is an underspend of £16m against the approved revised service budget of £176m. The main reasons for the underspend include: £2.3m across a range of environment projects; £1.6m on superfast broadband scheme; £4.8m on schools capital maintenance and £2.3m on other school schemes. These are explained in another report on this agenda, Item 8 (Finance and budget monitoring report for December 2015).
77. To complete these projects, the Council will need to carry forward the related funding to future years. This decision is proposed as part of the budget outturn report, published towards the end of April 2016 and if approved, the amounts will be added to the capital programme for 2016-21.

Capital expenditure

78. For 2016/17 the capital investment in school places continues with an increase from £58m to £76m. Overall, for the period 2016-21, the Council will invest an additional £208m to create a further 11,500 school places. Of these 5,400 will be primary school places and 6,100 will be secondary school places.
79. Given the pressures on the Council's finances, and the impact of the Council borrowing to fund the schools places programme and incur additional capital financing costs, the Council is seeking further support from Central Government to meet the increased demand for school places.
80. In 2012 independent benchmarking confirmed that Surrey had one of the road networks in the country most in need of repair, with 17% of roads classed as needing urgent repair compared to national average of 10%.

81. The best approach to managing road maintenance is through longer term planned repairs, as opposed to short term pothole repairs. For example, planned repairs have a ten year guarantee compared to a two year guarantee for reactive repairs. The Council fully adopted this principle into its road maintenance strategy and in 2012 approved a £100m investment programme to resurface 312 miles of roads over five years to 2017 (known as Project Horizon).
82. This single investment programme will not only help Surrey reach the UK average for road condition but has also enabled contractor negotiations and design innovations to secure an additional 15% saving. The council is reinvesting this saving in the wider programme. Investment in roads and transport will be £31m in 2016/17 and totalling £147m by 2020/21.
83. The Council plans to invest £20m in Information Technology over the five years to 2020/21. This includes £12.5m for new equipment and infrastructure, a £7.4m replacement and renewal programme. By making this investment, the Council is enabling and supporting further service efficiencies.
84. Table 10 summarises the Council's £635m capital programme for the five years of MTFP (2016-21). The grant funding for capital from Central Government remains unclear, pending Government departments announcing the level of grant.

Table 10: Summary capital expenditure programme

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

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

Capital funding

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

Government grants

87. Government departments have announced some, but not all, capital grants for 2016/17 and even fewer for 2017/18 in the Provisional Settlement. Government departments commonly announce additional grants during the financial year, so the Council includes a forecast for these. £34m of the £114m capital grants funding the 2016/17 programme remain to be announced.
88. Central Government provides capital grants to local authorities in two categories: ring fenced grants paid to local authorities for specific projects or to achieve an agreed outcome; and non ring fenced grants, which although awarded for a general purpose, can be used to fund local priorities. This is often referred to as the single capital pot.

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

Table 11: Government capital grants 2016/17

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

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

Third party contributions

91. The Council also uses contributions from third parties to fund its capital programme. Third party contributions come largely from developers as Community Infrastructure Levies and planning gain agreements under Section 106. The MTFP (2016-21) capital programme relies on £6m third party funding in 2016/17.

Revenue reserves

The Council uses reserves to fund capital items. It replenishes these reserves from revenue. The main two revenue reserves are: Fire Vehicle & Equipment Reserve and IT Equipment Reserve. MTFP (2016-21) capital programme relies on £8m funding from revenue reserves in 2016/17.

Borrowing

92. The Council borrows to fund the part of the programme remaining after applying the above three funding sources. Over the five years of MTFP (2016-21), the Council expects to borrow £187m to balance the capital programme.
93. Table 12 summarises the Council's estimated capital funding for the period 2016-21.

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

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

Capital receipts

94. The Council can apply capital receipts more flexibly to fund its investments, and the Council can use these resources to fund its additional portfolio of investments. The Council currently has £46m in unapplied capital receipts.
95. As part of the Provisional Settlement, the Government proposes to allow councils the flexibility to use capital receipts to meet the revenue costs of transformation programmes, within conditions that are yet to be published. The current proposal is for councils only to use such capital receipts that are received in year. However, in its consultation response, the Council has argued that this discriminates against those local authorities that have already rationalised their assets, such as Surrey County Council. If this flexibility is extended, a report will be prepared for Cabinet or Full Council (as required by Government) to decide about using capital receipts for these purposes.

Additional portfolio of investments

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

Reserves & balances

97. The Council's minimum level of available general balances is between 2.0% to 2.5% of the sum of council tax plus settlement funding, i.e. £16m to £20m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council is forecasting general balances brought forward of £21.3m at 1 April 2016.
98. Going into 2016/17 the Director of Finance recommends the level of general balances remains in the same range. This approach is considered prudent to mitigate against the risk of non-delivery of service reductions and efficiencies in 2016/17 and to take account of the late notification of many revenue and capital grants.
99. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. The forecast total balance for all earmarked reserves carried forward at 31 March 2016 is £92m, down from £110m brought forward on 1 April 2015. The main

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

100. As stated in paragraph 72 the Council is planning to use £17m of reserves to support the 2016/17 budget.
101. Appendix 6 sets out the Council's policy on reserves and balances. Appendix 7 summarises the level and purpose of each of the Council's earmarked reserves.

TREASURY MANAGEMENT AND BORROWING STRATEGY

102. Each year the Full County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect current market conditions, changes in regulation and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the Full County Council before the beginning of the financial year. Annex 2 sets out updated versions of the Council's treasury management policy statement and treasury management strategy.
103. Since 2009/10 the treasury management strategy has followed a cautious approach as a direct result of the Council's Icelandic bank experience. With the Icelandic bank deposits now fully resolved, officers have consulted with their advisors in order to present to Full County Council a slightly less risk averse strategy with the intention of generating additional return within a managed risk environment.
104. In order to capitalise on sustained low interest rates and the ability to fund capital expenditure through the use of internal reserves to limit the need for external borrowing, the council has set itself a minimum working cash investment balance of £47m. The council's approach to borrowing will continue to rely on internal funding for capital expenditure whilst it remains viable.
105. In the period September 2014 to March 2015, the Council borrowed an additional £160m during a period of unprecedented low interest rates. The Director of Finance reviews interest rates and the need to borrow on a daily basis, and has the delegated power to authorise additional borrowing if she considers the interest rates on offer and the timing of any potential borrowing appropriate within the overall strategy. Future borrowing decisions will continue to be managed in this way.
106. The Council also invests cash on a daily basis, reflecting the fluctuating cash balance due to the timing of receipts and payments. The principles for this short term cash investment are as follows:
 - Focus on security, liquidity and yield – in that order
 - The use of a permissible counterparty list;
 - The setting of maximum deposit limits according to counterparty risk and security.
107. For 2016/17 it is recommended that the Council continues with the internal funding policy while the current low interest rate environment continues, and that the current counterparty criteria are varied as set out in the strategy, as advised by the Council's treasury advisors.

108. It is recommended that the Council:

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

CONSULTATION:

109. During July 2015 and January 2016, the Leader, Deputy Leader, Chief Executive and Director of Finance held a series of workshops and face-to-face meetings with key partners and stakeholder groups, including representatives of Surrey's business community, voluntary sector and trade unions. The feedback from these workshops and meetings was incorporated into the council's budget scenario planning workshops and briefing sessions.

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

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

RISK MANAGEMENT IMPLICATIONS:

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

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

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

113. Senior management and members regularly monitor and manage risk through boards, groups, networks and partnerships to ensure that opportunities are exploited and the resulting risks are controlled to a tolerable level.
114. The Director of Finance's statutory report (Annex 1) considers the level of risks in the proposed budget more fully and states her opinion as to the robustness of the proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

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

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

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

LEGAL IMPLICATIONS – MONITORING OFFICER

118. This report sets out information upon which recommendations will be made to Council for the adoption of a lawful budget and the basis for the level of the council tax for 2016/17. Council is under duty to deliver a balanced budget and this report highlights the difficulties of this task for Members, faced with a Provisional Settlement reduction which could not have been reasonably foreseen, which only became apparent in late December and which has still to be finalised by Government at the time of this report.
119. In view of this, should the Final Settlement result in any late changes, Full County Council will be asked to delegate powers to the Leader and the Director of Finance to finalise the details of the budget to deliver a balanced budget, which maintains the council tax rate Full County Council sets. If these cannot be accommodated without changes to the capital or borrowing strategies approved by Council a further report will need to be presented to Full County Council in due course.

EQUALITIES AND DIVERSITY

120. In approving the budget and the council tax precept, the Cabinet and Full County Council must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to:
- “eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
 - advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - foster good relations between persons who share a relevant protected characteristic and persons who do not share it.”
121. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP (2016-21) on Surrey’s residents with one or more of the protected characteristics identified by the Equality Act 2010 will be made available at the meeting of the Council’s Cabinet on 22 March 2016. This analysis will also set out the actions that the Council is taking, or will undertake, to mitigate any negative impacts that could arise.
122. The equality impact analysis undertaken for the proposed MTFP (2016-21) will build on the analysis of savings in the MTFP (2015-20). It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.
123. The analysis will include an overall council wide analysis and a summary of the implications of the proposals for each service. Detailed analysis, undertaken through Equality Impact Assessments, will be made available on the Council’s website.
124. Where Cabinet is required to take specific decisions about the implementation of savings proposals, additional equalities analysis will be presented at the point where a decision is made. This will be submitted alongside relevant Cabinet reports. Services will continue to monitor the impact of these changes and will take appropriate action to mitigate additional negative impacts that may emerge as part of this ongoing analysis.
125. In approving the overall budget and precept at this stage, the Cabinet and Full County Council will be mindful of the impact on people with protected characteristics under the Equality Act 2010.

Other Implications

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

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

WHAT HAPPENS NEXT

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

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

Contact Officer

129. Sheila Little, Director of Finance.
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Consulted

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

Annexes

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

Appendices:

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

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

Sources and background papers:

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