SURREY COUNTY COUNCIL

CABINET

DATE: **22 MARCH 2016**

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

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

SUBJECT: **MEDIUM TERM FINANCIAL PLAN 2016 TO 2021**

SUMMARY OF ISSUE:

In February 2016, the Cabinet approved the council's Financial Strategy for the period 2016 to 2021. The Financial Strategy aims to secure the stewardship of public money; ensure financial sustainability and to enable the transformation of the council's services. This paper outlines the council's Medium Term Financial Plan for 2016 to 2021 (MTFP 2016-21), which is a key means for delivering these strategic aims in the context of the demand and funding pressures that the council faces and its proposals to meet these challenges.

Cabinet approved the draft medium term financial plan (MTFP) for the financial years 2016-21 on 2 February 2016 and Full County Council set the budget envelope and council tax precept for the 2016/17 financial year on 9 February 2016.

The Government published the Final Local Government Settlement late on 8 February 2016, which included several funding changes, most significantly the allocation of Transition Grant to the council of £11.9m in 2016/17 and £12.2m in 2017/18.

Since then, changes to government grants following the Final Local Government Settlement have led to several smaller budget changes. This report details these changes and presents the detailed service revenue and capital budgets for 2016/17, including fees and charges, and indicative budgets for the following four financial years.

The MTFP 2016-21 balances the budget in the early years of the period through a series of one-off measures. To become sustainable the council is embarking on a Public Value Transformation programme that will meet the challenge of rising demand pressures and falling government funding.

This paper reports summaries of the Equality Impact Assessments that support the changes in service budgets.

Following Cabinet approval, the council will publish the detailed budgets as "MTFP 2016-21" on its website. This will enable users, budget managers and residents to view budget details interactively on-line and request a hard copy of relevant sections.

RECOMMENDATIONS:

It is recommended Cabinet approves:

1. the 2016/17 service strategies that will deliver the Corporate Strategy 2016-21 (Annex 1);
2. the detailed service revenue and capital budgets for the year 2016/17 and indicative budgets for the years 2017-21 including amendments resulting from the Final Local Government Financial Settlement and other Government funding changes announced since 9 February 2016 (Annex 1);
3. the use of a further £7.5m of earmarked reserves to support the 2016/17 revenue budget (paragraph 25);
4. the proactive and systematic engagement of the County Council in responding to proposed changes in local government funding to ensure these changes do not further disadvantage Surrey, and the recognition of the costs of delivering services in Surrey;
5. the highway maintenance capital budget for 2016/17 is increased by £5m, offset by a £5m reduction to the 2017/18 highway maintenance budget (paragraphs 55 to 56); and
6. the publication of the service revenue and capital budgets as the Medium Term Financial Plan 2016-21;

It is recommended Cabinet notes:

7. the Director of Finance's letter to the Department for Communities and Local Government confirming that the adult social care precept will be spent entirely on adult social care functions (paragraph 11);
8. a programme has been established in line with previous recommendations to deliver on Public Value Transformation that will identify base budget reductions to deliver up to £50m through additional continuing savings or funding, beyond those already in MTFP (2016-21), over the next two years to make the council's finances sustainable (paragraphs 29 to 38);
9. the fees & charges approved under delegated powers (Annex 2); and
10. the Equality Impact Assessment of the savings proposals within the directorate and service budgets (Annex 3).

REASONS FOR RECOMMENDATIONS:

The Corporate Strategy 2016-21 sets out the council's key strategic goals of wellbeing, economic prosperity and residents' experience. The underpinning service strategies provide detail on the objectives and actions to achieve these corporate goals.

MTFP 2016-21 is a five year budget aligned to the corporate strategy. It reflects assumptions about the current local and national financial, economic and political environment. Setting a five year budget is a key element of the council's multi-year approach to financial management. Regular reporting through the year will enable effective tracking and management of progress with the strategy and the budget.

DETAILS:

Corporate and service strategies

1. Cabinet approved the council's refreshed five year strategy at its meeting on 2 February 2016. *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

2. The council's refreshed Financial Strategy 2016-21 (reported to Full County Council on 9 February 2016) clearly sets out the council's approach to financial management, which is aligned with the Corporate Strategy. It provides the basis for sound financial governance and long term sustainability, and supports the delivery of the Corporate Strategy. The 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.

3. A robust MTFP (2016-21) is critical to delivering these ambitions and goals and ensuring value for money for residents.

4. To support the corporate strategic goals of wellbeing, economic prosperity and resident experience, MTFP (2016-21) includes a single page for each of the council's services setting out its purpose, challenges, key actions and budget summary for 2016/17. These illustrate how each service contributes to achieving *Confident in Surrey's Future: Corporate Strategy 2016-21*. As part of the council's performance management arrangements Strategic Directors, Heads of Service and Cabinet Members will ensure robust plans, personal objectives and tracking arrangements are in place to achieve the key outputs and outcomes.

5. Annex 1 includes each of the service strategies.

Medium term financial plan – revenue budget

6. Cabinet approved the indicative five year revenue and capital budgets on 2 February 2016 and on 9 February 2016 Full County Council approved the 2016/17 budget envelope and set the council tax precept for that year.

MTFP (2016-21) identifies the resources needed to achieve the goals of the corporate and service strategies. It provides detailed service revenue and capital budgets following further consideration by Scrutiny Boards and also includes other changes due to government announcements on grant funding.

7. MTFP (2016-21) is based on the funding for Surrey County Council announced on 8 February 2016 in the Final Local Government Financial Settlement (Final Settlement) for 2016/17 and the Government's outline funding for the following three years to 2019/20.

Update on the Final Local Government Financial Settlement 2016/17

8. In the Final Settlement, the Secretary of State for Communities and Local Government confirmed the threshold for excessive council tax rises for 2016/17 that would require a local referendum at 2% for general council tax and an additional 2% precept allowed for councils with adult social care responsibilities.

9. Full County Council approved a council tax rise of 3.99% (including 2% adult social care precept) for 2016/17 on 9 February 2016. This was in line with the council's strategy of taking a long term approach to assuring the financial resilience of the council at the same time as balancing the interests of local council tax payers with the users of local council services. For the remaining years of MTFP (2016-21) the council has adopted an equivalent uplift.

10. The council has increased the council tax precept on the basis that the Spending Review announced, that for the rest of the current Parliament local authorities responsible for adult social care would be allowed an additional 2% on their current council tax referendum threshold, to be used entirely for adult social care. This was stated as being in recognition of demographic changes which are leading to growing demand for adult social care and an increasing pressure on council budgets. Given the need for all local authorities to make efficiency savings, the Government accepts that the precept revenues will not be wholly additional to the 2015/16 baseline spend, although it states "clear public expectation is that the precept is intended only for the benefit of adult social care."

11. The Secretary of State is expecting that local authority Chief Financial Officers confirm that money raised through the precept is being used exclusively for adult social care. The Director of Finance for the County Council wrote to the Secretary of State to confirm this on 18 March 2016.

12. Since Full County Council set the 2016/17 Council Tax rate, the council has made a small adjustment to the estimated tax base, which equates to a reduction in the total precept of £0.4m. This does not affect Full County Council's approval of the Council Tax Band D rate.

13. As indicated in the report to Full County Council, the council required some form of transitional relief to help deal with the effect of the 'shock' reduction of Revenue Support Grant (RSG) in 2016/17 and 2017/18. The extent of the transitional help needed to mitigate the shock was £20m in 2016/17 and £37m in 2017/18. The Final Settlement confirmed the amounts for RSG in 2016/17 and 2017/18 given in the Provisional Settlement and made a small (£0.3m) additional reduction to Revenue Support Grant in 2018/19.

14. The Government provided some mitigation of the shock reduction in RSG in 2016/17 and 2017/18 through a national total of £300m Transition Grant

funding over the next two years for those local authorities most affected by the change to the methodology. Surrey County Council will receive Transition Grant of £11.9m for 2016/17 and £12.2m for 2017/18. As the amount for 2016/17 was less than expected by £8.1m, the council will balance its 2016/17 budget by drawing on further reserves. This is included in further detail in paragraphs 25 and 65.

15. Government departments have confirmed some revenue grants since the Final Settlement on 8 February 2016. These are for Public Health, Independent Living Fund, Special Educational Needs and Disabilities (SEND) implementation, Universal Infant Free School Meals, Pupil Premium, Music and S31 Business Rate Relief. In addition, the council's £11.0m Private Finance Initiative grant was set through formal agreements and cannot be changed. The outcome of the grant confirmations is that the council faces a -£7.2m funding shortfall, predominately due to the Transition Grant being lower than required (-£8.1m), partially off-set by higher than expected grants for SEND Implementation (+£0.7m).

16. Another 21 revenue grants (totaling £24.1m) are as yet unconfirmed including: Education Funding Agency (£13.9m), PE and sport schools grant (£2.3m) and Adult Continuing Learning (£2.3m). The other 18 grants are each below £1.5m. Any alterations to the final allocations of these grants will be covered directly in year by the services. The full list of grants is in Annex 1.

17. In total, including loss of RSG and award of Transition Grant, the council is facing a £36m reduction in its non-schools government grant funding for 2016/17, which amounts to 11% in one year.

Detailed revenue budget – key highlights

18. Since Cabinet's approval of MTFP (2015-20) the council has undertaken a number of service reconfigurations. Children, Schools & Families directorate has restructured into three services (Schools, Learning & Special Educational Needs and Disabilities; Children's Services; and Commissioning & Prevention) instead of four (Schools & Learning; Strategic Services; Children's Services; and Services for Young People). Changes in Business Services directorate have separated individual services' budgets into the joint partnership with East Sussex, known as ORBIS and those functions that are managed on behalf of Surrey County Council.

19. The council's gross revenue budget for 2016/17 is £1,686m, which includes £89m expenditure pressures across all services, but especially in social care, partially offset by savings of £83m.

20. The most significant pressures are within Adult Social Care, which has total annual pressures of £52m for 2016/17, which continue to increase in the following four years. £24m of these pressures arise due to an increase in demographic demand for services, £8m is due to inflationary increases and £4m is due to changes in legislation causing additional costs. These legislative changes include a Supreme Court Ruling on Deprivation of Liberties and higher National Insurance contributions for employers. A further £16m of savings are required to compensate for previous years' savings that were not found on a sustainable basis.

21. The pressures in paragraph 20 require that the £12m funded by the Adult Social Care precept will be used by the council to contribute to meeting the total Adult Social Care service's pressures.

22. Over the last five years the council has successfully met its savings targets of over £330m including savings in 2015/16 of over £64m. Further reductions in central Government funding and rising demand for the council's services, particularly in social care, require the council to achieve a further £361m of base budget savings or additional income over the next five years to enable a sustainable and balanced budget.

23. In the first two years of the MTFP period the council will use a series of one-off measures to contribute to a balanced budget. This includes the use of more than £30m reserves and a surplus on the council tax collection fund of over £4m. These will need to be replaced by continuing base budget savings and income to create a sustainable budget.

24. This MTFP includes service identified savings of £312m over the five years, of which £173m are to be delivered in 2016/17 and 2017/18. These additional savings represent a major challenge, which will be difficult to deliver, with significant risks. To illustrate this, Table 1 shows the 2016/17 savings identified in MTFP (2016-21) analysed by risk of achievement.

Table 1: Risk of achievement of 2016/17 savings

	2016/17 £m	
Green	9.5	services have developed plans and will achieve the savings with little internal or external obstacles
Amber	45.0	significant barriers exist to the savings being realised and services are developing plans to overcome these
Red	10.7	severe challenges and barriers exist to services achieving the savings
Purple	18.3	savings that are for one year only and are not continuing
Total savings	83.5	

25. Full County Council approved the use of £17.2m of reserves to support and balance the 2016/17 revenue budget. With the amount of Transition Grant being lower than required, the council faces a budget gap of £7.5m in that year. Given the late announcement of these changes and the Transition Grant being lower, the use of further earmarked reserves is proposed to balance the 2016/17 budget. The use of reserves is not a sustainable measure and will require the identification and delivery of permanent on-going savings for future years.

26. In view of the challenges of delivering significant further efficiencies for several more years, Cabinet has required the Chief Executive and Director of Finance, in consultation with the Leader to:

- continue to track and monitor existing MTFP efficiencies;
- lead and oversee a Public Value Transformation programme of all services' delivery of savings.

27. This is to ensure the council's revenue budget is sustainable and to develop robust plans for further savings and income generation opportunities for the

remaining years of MTFP (2016-21). The Chief Executive's and Director of Finance's challenge to services reinforces the existing rigorous tracking mechanisms in place across services focused on achieving the council's savings each year.

28. The Chief Executive and the Director of Finance have regular support sessions with strategic directors and heads of service to confirm their strategies for achieving savings are sound. The detailed budget proposed in this report outlines the estimated timing for delivering the council's total savings across the five year term of MTFP (2016-21).

Public Value Transformation

29. At its meeting on 9 February 2016, Full County Council agreed a recommendation to: "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".

30. The purpose is to ensure the council has a transformation programme, driven by Public Value, which identifies lasting base budget reductions to deliver £50m additional savings or funding beyond those already in the MTFP (2016-21) over the next two years to ensure the council's finances are sustainable.

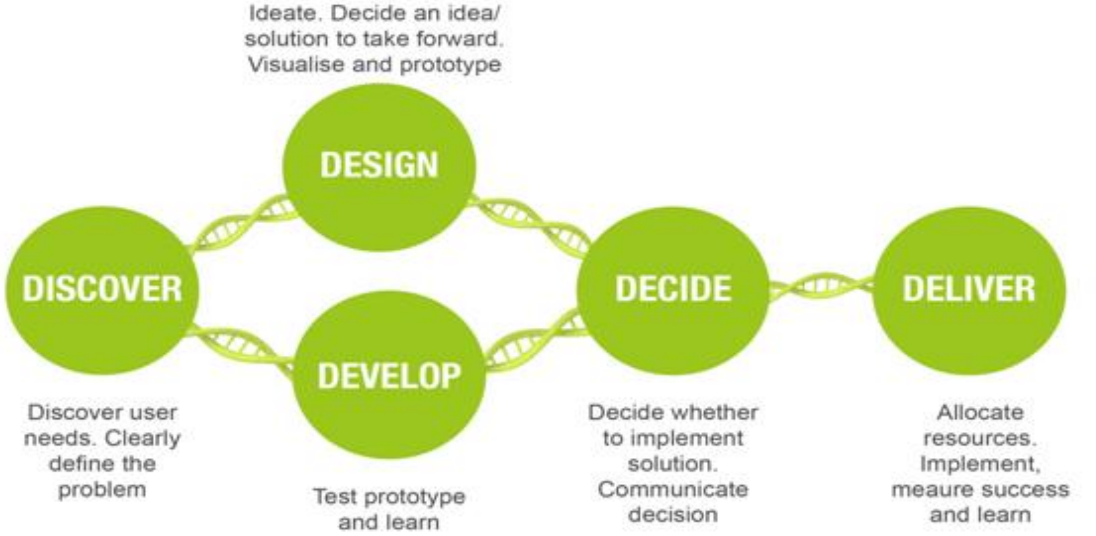
31. A transformation programme on the scale of that required by the council will need up-front funding and investment in new ways of working. The revenue costs the PVT Fund may cover include: pump priming of transformation projects, any resulting redundancy costs and recognition of part year effect of savings. The Chancellor announced in the Comprehensive Spending Review that local authorities can use capital receipts to fund the revenue costs of transforming local authority services. In order to take advantage of this flexibility, the council needs the Government to confirm local authorities' flexibilities to use capital receipts and the council will need to complete asset sales to generate the receipts. Public Value Transformation and its funding will form a key element of the council's efficiency plan to be submitted to DCLG for approval by 14 October 2016.

32. The key principles of Public Value are:

- there is evidence of a clear, measurable benefit to those who are meant to benefit from the council's work;
- there is political and stakeholder support for what the council proposes; and
- the council is able to deliver it.

33. The PVT Programme will follow the council's 5D approach to transformation, which has been used since 2011.

Figure 1 The council's approach to Public Value Transformation



34. To meet the challenging timelines to agree the implementation plan in September 2016, the PVT Programme aims to be set up by mid March 2016, with the PVT Board (comprising the Leader of the Council, the Chief Executive and the Director of Finance) in place and the initial work programme agreed.

35. The Discovery phase will take place from March to April 2016, taking stock of current plans and analysing the gaps to identify further opportunities. This will follow the PVR methodology:

- challenge why, how and by whom a service is provided;
- compare performance with others;
- consult widely with residents and specifically vulnerable groups and communities and staff;
- collaborate with partners and contractors; and
- test the market to see if it can deliver the service more efficiently, effectively or economically.

36. The Design/Develop phase will follow from April to July 2016 focusing on the areas identified in the gap analysis and involving colleagues across teams, our partners and residents to co-design our future delivery models. The council will evaluate options against key criteria, such as whether it: adds public value; achieves better outcomes; achieves cost savings, improves quality assurance; is politically acceptable; and is deliverable in Surrey.

37. In the Decide phase, Cabinet will receive a report in September 2016, outlining: the implementation plan, the Efficiency Plan for submission to DCLG and the business case for the PVT Fund.

38. Subject to Cabinet approval of the implementation plan, the final Deliver stage will be completed by March 2018. Investment from the PVT fund will enable achievement of the transformation plans and rigorous monitoring will support progress throughout the implementation phase.

Strategic changes to local government funding

39. As a part of the Final Settlement the Government announced its intention to review and change a number of significant areas of funding that will have a further impact on the sustainability of Surrey County Council's finances. These

changes are in part a move towards the self-sufficiency of local authorities and the County Council needs to ensure there are no artificial constraints imposed on this self-sufficiency.

40. In the Autumn Statement 2015, and as a part of the Spending Review 2015, the Chancellor of the Exchequer confirmed the Government's intention to move to 100% business rates retention by local authorities. Currently the government retains 50%, which is used to fund a number of other government grants to local authorities. In 2016/17 businesses in Surrey will pay over £480m in business rates (a figure which is set to rise annually). The County Council receives 10% of this and £59m as a top-up grant.

41. The consultation on this proposal and its details is likely to start in the summer of 2016, with full implementation phased in by the end of this Parliament in 2019. The three main issues of concern for the council will include:

- the level of any centrally held 'top-slice';
- the apportionment of business rates growth between councils in two tier shires, and
- the additional responsibilities that will be transferred to local government.

42. The County Council will need to be fully engaged in this consultation to ensure it receives a fair deal for residents and Surrey businesses get a fair return for the business rates they pay.

43. Central to the distribution of business rates is the methodology of relative needs. This aims to balance local government funding from areas of low needs and high resources to those of high needs and low resources. The mechanism to achieve this has been the "Relative Needs Assessment" (RNA) that was introduced in 2006 and has not been fundamentally reviewed since. Surrey County Council continues to lose significant funding through this formula as it does not adequately represent the needs of the council, especially in respect of older people and those with learning difficulties. In addition, the current RNA does not reflect the differing costs of service delivery in different areas due to macro economic factors such as property prices. The County Council has requested on many occasions that the Secretary of State for Communities and Local Government reviews this methodology and formula, and in the Final Settlement he announced this review. As with 100% business rates retention, the County Council will be fully engaged to ensure Surrey residents receive a fair deal.

44. On Monday 7 March 2016 the Department for Education issued two consultation papers covering proposals to amend schools funding. The consultations cover:

- the new National Funding Formula (NFF) for schools, which includes proposals to end the Education Services Grant; and
- High Needs SEND funding

45. These proposals include some significant risks to the funding of schools in Surrey and the funding of Special Educational Needs and Disability (SEND). The County Council along with the Schools Forum are analysing the proposals to consider potential impacts on schools and local authority services. The deadline to respond on the initial consultation on principles is 17 April 2016. Further details will be available in the summer and officers and Cabinet

Members will be fully engaged to ensure Surrey County Council and Surrey schools receive a fair deal.

46. The Chancellor also announced two funding sources to support adult social care in his Autumn Statement. These were: an improved Better Care Fund totalling £1.5bn nationally and paid directly to local authorities; and the freedom for councils with adult social care responsibility to raise a further 2% from council tax precepts to be spent on adult social care. While both of these are welcome as a means to support the increasing volume and cost of adult social care, the details confirmed in the Final Settlement were disappointing.

47. The methodology for distributing the £1.5bn improved Better Care Funding was largely based on the ability of a council to raise council tax, rather than its need. This has resulted in the council only receiving £1.5m (or 0.1% of the national total), which is the least per resident in the country, and not until 2019/20. The Government will consult on these proposals further and the County Council will again be engaged to ensure a fair deal for Surrey.

48. The principle of a 2% precept for adult social care is welcome. However it is an arbitrary cap that is the same for all social care authorities whatever the level of need in the area is. For Surrey County Council, this precept will raise approximately £12m per year. However, the annual cost of the volume increase in demand for adult social care services totals £24m each year. This cost is after the continued reduction in the unit cost of providing those services over the last five years. If central government is unable, or unwilling, to fund adult social care adequately then it should allow local government to link the precept to the rise in demographic demand.

Staffing

49. As a part of the detailed budget, Annex 1 includes the numbers of funded employees for each service expressed as full time equivalents (FTEs). The overall staffing budget has risen by 33 FTEs. This rise partly reflects savings in 2016/17 from greater workforce efficiency and planned increases in employee numbers which generate economies by reducing the need for more expensive contractors.

50. Staffing transfers account for a reduction of 65 FTE posts within Adult Social Care. An increase in demand, matched with increased income for school meals, especially due to the roll out of free school meals has led to an increase in staff for Commercial Services within Schools & Learning. More staff in the budget for child protection (funded from the Child Protection earmarked reserve) has increased the FTEs for Children’s Services. In Highways & Transport more FTEs are required to deliver the planned capital programme, together with increases in FTEs funded by income for the Highways Permit scheme.

Medium term financial plan – capital budget 2016 to 2021

51. Surrey County Council invests in creating public value for Surrey residents through its capital programme. There are two strands to the capital programme: the first being investment in assets to provide services, and the second being investment in long term capital assets that will generate capital growth and regular income returns to reduce reliance on the taxpayer.

School Places

52. The number of school aged children in Surrey has been rising for a number of years and this requires the county council to provide additional pupil places in both primary schools and secondary schools. This is known as the Schools Basic Need programme. The council has been successful in attracting additional government funding to contribute to the cost of these additional places, but the council still needs to use a significant amount of borrowing to provide all the places.

53. The Schools Basic Need programme needs to provide 11,500 pupil places over the next five years: 5,400 in primary schools and 6,100 in secondary schools. This is estimated to cost £208m between 2016 and 2021, with £76m required in 2016/17. The Government has confirmed grant funding in 2016/17 of £59m and the council estimates a total of £164m over the next five years. The council will need to find the remaining £44m through its own resources, or through external borrowing.

Highways

54. Surrey has one of the most heavily used road and highway networks in the country, which requires maintenance and replacement over time. The best approach to managing road maintenance is through long term planned repairs, as opposed to short term pothole fixes. Planned repairs have a ten year life, while short term, reactive repairs last only two years. The council is planning to continue its long term investment in roads with a five year highways maintenance budget of £128m, with £35m in 2016/17.

55. The County Council recognises the importance of good roads to Surrey residents and business and is therefore looking at the balance of spending between years. A part of this review is to find the most effective way to improve footpaths and complete the Project Horizon highway maintenance programme

56. To address this, £5m will be added to the 2016/17 capital budget, and the 2017/18 capital budget will be reduced by £5m, to enable the programmes and adjustments outlined above to proceed, without compromising critical activities.

57. The Government will provide £15.3m to Surrey County Council through Highways Base Allocation grant funding in 2016/17, and a further £4.8m for the Integrated Transport Block. In addition the council also made bids for £1m each from both the Challenge Fund and the Incentive grants, and included this additional £2m in the budget papers for Full County Council on 9 February 2016. Since then, the council has learnt the Government has not awarded the council any funding under the Challenge Fund, but has secured £0.9m under the Incentive grant. The council will fund this budgeted shortfall through borrowing to ensure the roads continue to be maintained.

58. The Community Infrastructure Levy (CIL) is a form of developer levy collected by boroughs and districts in Surrey and then potentially passed to the council to fund new transport schemes. Delays relating to this scheme have resulted in budgets being re-profiled to better align to the updated expected levels of expenditure.

59. The Strategic Economic Plan Schemes (Local Growth Deals) are Local Enterprise Partnership (LEP) schemes funded by a combination of grant, developer contributions, partner contributions (from boroughs and districts and bus and rail companies) and a contribution from Surrey County Council. The

budget papers provided to Full County Council included the council's contribution but these budgets have now been updated to reflect the overall scheme value. In addition, the developer contribution budgets have been updated to reflect more recent information about these schemes.

Property

60. The council has a large number of properties from which it provides its services which it must maintain, and the biggest element of this is schools. The Government provides two further grants for schools capital, which are the Devolved Formula Capital (for new buildings and extensions and is devolved to schools) and Schools Capital Maintenance. In setting the budget, the council assumed these grants would continue at the 2015/16 level for 2016/17. It has now been informed both of these grants will be reduced by £1m. It is the council's policy to pass the funding for Devolved Formula Capital in full to schools and spend to the grant level for Schools Capital Maintenance.

Fire & Rescue

61. The Surrey Fire and Rescue Service operates a Vehicle and Equipment Replacement Reserve, funded through annual revenue contributions. The service has reviewed its vehicle requirements and their estimated useful lives. This has resulted in a more appropriate and cost effective fleet replacement programme for the service's needs. This has led to a re-profiling of the capital expenditure over the five years with a £0.2m reduction in 2016/17 to £1.7m and a total spend over the five year period of £6.6m.

Adult Social Care

62. The Adult Social Care service received a grant in 2015/16 from the Department of Health for IT improvements. The service will use £0.6m of this grant in 2016/17.

Summary

63. Table 2 summarises the capital spending and funding for the period 2016 to 2021, with more detail for each service shown in Annex 1.

Table 2 – Capital programme and funding 2016 to 2021

Summary capital programme	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**Total £m**
Schools Basic Need	76	70	43	14	5	208
Highways recurring programme	58	39	33	29	29	188
Property & IT recurring programme	25	25	24	25	25	124
Other capital projects	35	35	21	18	9	118
Total capital programme	**194**	**169**	**121**	**86**	**68**	**638**
Summary capital funding						
Grants	129	93	71	66	48	407
Reserves	8	11	1	3	3	26
Third party contributions	4	4	4	3	5	20
Borrowing	53	61	45	14	12	185
Total capital funding	**194**	**169**	**121**	**86**	**68**	**638**

Reserves and balances

64. The council holds a small general balance to provide a contingency against unforeseen overspendings or a major unexpected event. The level of this general balance is not prescribed and the council aims to keep a reasonable balance that is justifiable in the context of local circumstances, while not tying up council taxpayers' money unnecessarily. In recent years this has been set at between 2.0% to 2.5% of council's core spending power (between £16m and £20m). At 31 March 2016, the council's general balance is expected to be £21.3m

65. Earmarked reserves are for specific purposes and to mitigate against potential future known or predicted liabilities. Full County Council approved the use of £17.2m reserves to balance the 2016/17 budget in February 2016. Following the Final Settlement, the Government's Transitional Grant was £8.1m lower than expected, while other grant funding was £0.6m higher. Consequently, to ensure a balanced budget for 2016/17, the council needs to draw on a further £7.5m reserves, as follows.

    - The Insurance Reserve holds the balance resulting from a temporary surplus or deficit on the council's Self Insurance Fund. An actuary recently assessed the fund against possible liabilities the council may face and this has resulted in a proposal to use £5.4m of the Insurance Reserve to support the 2016/17 revenue budget.
    - The council has held a Pensions Stabilisation Reserve of £1.1m for several years so it can smooth its revenue contributions to the pension fund between years. Within the budget, the council forecasts contributions for the past deficit on the pension fund will increase by £1.2m. It is therefore appropriate to use this reserve to support the 2016/17 revenue budget.
    - The Budget Equalisation Reserve supports the revenue budget from previous years' unapplied income and unused budgets. The council has used £1.3m to support the 2016/17 revenue budget and now proposes to use a further £1.0m.

66. Appendix 1 to Annex 1 provides an updated schedule of earmarked reserves and a description of their use.

Medium term financial plan – interactive and publication

67. MTFP (2016-21) will be available on the council's website as both an interactive document, allowing the user to drill down into service budgets on the website and an electronic version available for printing. The electronic drill down into service budgets has been linked to the external website presentation by using the same categories. The council has aimed to enhance the resident's experience by using consistent terminology throughout all external financial publications (council tax information, interactive MTFP and Annual Report).

68. A printed version of MTFP (2016-21) will be available to order from the council's main website. As in the current year, this will enable the reader to choose which pages to print.

69. MTFP (2016-21) will present the strategy for each service followed by an analysis of the service's budget including changes from the current year's budget, savings, pressures and staffing.

Fees and charges

70. In addition to government grants, business rates and council tax funding, the council plans to raise over £89m in fees and charges in 2016/17.

71. The detailed budgets in Annex 1 analyse the council's fees and charges income by service. The schedules to Annex 2 detail the charges proposed for 2016/17.

72. In December 2015, Full County Council approved amendments to the financial regulations so that Cabinet now notes any operational changes to existing fees and charges and Cabinet approves any new charges or strategic or policy changes to existing charges.

73. The amended financial regulations updated the definition of fees and charges. The new definition distinguishes between individual and organisational income. The definition is:

    An agreed upfront rate payable for providing services that are either set by statute (Act of Parliament eg: fairer charging) or though the council's delegated authority, and include fines, licenses and penalties. The fees and charges are usually paid by individual members of the public and can be purchased by anyone.

    It is not a fee or charge when there is an arrangement to provide services to another organisation, where the price and service is negotiated, is under a form of contract.

74. Every year services must review and update their fees and charges to ensure discretionary services for which a fee or a charge is applicable are not provided at a subsidy without a specific supporting policy decision; and publish the 2016/17 schedule of fees and charges. Annex 2 details the existing and revised charges by service.

75. Fees and charges are reviewed each year and scrutiny boards may review and challenge the fees and charges elements of the service strategies over the next twelve months.

CONSULTATION:

76. During February and March 2016 the council's scrutiny boards have reviewed and scrutinised service budgets that are now reflected in the MTFP (2016-21) detailed budgets.

RISK MANAGEMENT AND IMPLICATIONS:

77. MTFP (2016-21) includes £361m of savings and additional income to be made over the five year period, including £50m PVT savings. MTFP (2016-21) assumes council tax will rise by 1.99% for standard council tax and 2.00% for the adult social care precept. The risks of not achieving these savings in 2016/17 have been assessed and summarised in Table 1 and reported in more detail in Annex 1.

78. In view of the increasing challenge to deliver high levels of savings for several more years, the Chief Executive and the Director of Finance will continue to lead the existing rigorous monitoring process for current year savings and the

mechanism for thoroughly reviewing plans for delivering all savings across the whole MTFP period.

79. The council maintains an integrated risk framework to manage the significant challenges it faces and the associated emerging risks. The specific risks and opportunities facing the council and recorded in the Leadership Risk Register are:

- Financial outlook
  Lack of funding results in significant adverse long term consequences for services.
- Safeguarding – Children's Services
  Avoidable failure in Children's Services leads to serious harm, death or a major impact on well being.
- Safeguarding – Adult Social Care
  Avoidable failure in Adult Social Care leads to serious harm, death or a major impact on wellbeing.
- Medium Term Financial Plan (MTFP) 2016-21
  Failure to achieve the MTFP lowers the council's financial resilience and could lead to adverse long term consequences for services.

80. As stated in the February 2016 Cabinet and Full County Council budget reports, the Director of Finance is satisfied the 2016/17 budget is balanced and deliverable and the longer term budget is sustainable so long as:

- Government provides transitional relief in the Final Settlement;
- the council delivers all existing savings plans in full; and
- the council adopts the Public Value Transformation programme, with rigorous management and monitoring by the Chief Executive and the Director of Finance to ensure it identifies and achieves considerable base budget reductions.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

81. All the documented budgets and targets have been subject to a thorough value for money assessment.

SECTION 151 OFFICER COMMENTARY

82. Throughout the budget planning and setting process, material financial and business risks have been assessed and are reflected in this report and its annexes. The Chief Executive and the Director of Finance have regular support meetings with the main heads of services to confirm that their strategies for savings are sound.

83. However, the delivery of further savings following five years of achieving significant expenditure reductions will be increasingly difficult. This is reflected in £56m of the 2016/17 identified savings (total £84m) being assessed as having significant or severe challenges or barriers to achievement. As well as becoming more challenging to deliver, the level of savings required is increasing, reflecting the further reductions in central government funding, at the same time as service volume pressures continue to increase and the ability to raise funding from local sources is constrained. The detailed budget

proposed in this report outlines the estimated timing for delivery of the total savings across the five years of MTFP (2016-21).

84. As was indicated in the budget report to Cabinet in February 2016, the situation is serious and whilst the revenue budget is balanced for 2016/17, this is on the basis of significant one-off funding from reserves, council tax collection fund and one-off savings. From 2017/18 these temporary measures will need to be replaced on an on-going basis for a sustainable budget to be produced. The success of the Public Value Transformation programme will be key to achieving this sustainability, or alternative expenditure reductions will be required.

85. Although central government has provided local authorities with a four year 'offer' in terms of its funding, this doesn't cover all of the councils funding and further Government policy changes present further risk to the council's medium to long term financial resilience. These include the outcome of consultations on 100% business rates retention, the relative needs assessment and the funding of schools, especially for high needs. The council will seek to be actively engaged in these policy changes and reviews to ensure the council's financial sustainability is assured.

LEGAL IMPLICATIONS – MONITORING OFFICER

86. There are no legal implications or legislative requirements arising directly from this report.

87. The council has a duty under the Equality Act (2010) to consider the equalities implications of the proposals underpinning the MTFP. These are detailed in the Equalities and diversity section of this report.

EQUALITIES AND DIVERSITY

Background

88. An analysis has been undertaken of the equalities implications of the savings proposals presented in the MTFP for 2016-17. The aim of this analysis is to provide the Cabinet with information about the potential impact of the proposals on groups with protected characteristics in Surrey. Where potential negative impacts have been identified, information is also provided about the actions that the Council is taking, or will undertake, to mitigate them.

89. Where the Cabinet is required to take further decisions around the implementation of savings proposals, or where proposals are not sufficiently developed to undertake an equalities analysis at this time, additional analysis will be presented to inform decision-making alongside the relevant Cabinet reports. There are a significant number of proposals included in this report for which savings are being scored but on which decisions remain to be taken. As described above, Equality Impact Assessments (EIAs) will be prepared as more specific proposals to achieve these savings are brought forward but this does mean that the potential equality impacts of some savings which are now being assumed in the Budget have yet to be assessed. Directorates will also continue to monitor the impact of these changes to services and where appropriate will take action to mitigate additional negative impacts that may emerge as part of this ongoing analysis. Consideration will need to be given at that time as to whether there should be any changes to the projected savings figures as a result of the consideration of any equality implications.

90. Equality Impact Assessments for a number of savings proposals in 2016-17 are continuations of those undertaken previously. Where this is the case, the existing EIA has been reviewed by services. For new savings proposals, or proposals with significant material changes, services undertook a new EIA. This section of the report provides information about:

- the legal requirements around equalities;
- the high-level findings of the analysis, including information about which new savings proposals have been assessed for equalities implications; and
- how the findings of this analysis will be used.

Legal requirements

91. When approving the financial plans, the Council's Cabinet 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.

Equalities analysis: overarching findings

92. A detailed summary for each directorate is included as an annex to this document. Where necessary Equality Impact Assessments have been completed and have been published on our website[1].

93. The Council provides many services for the most vulnerable in our communities. This includes numerous protected characteristic groups. There are significant savings to be made this year which will impact on services for those groups. Officers have identified proposals for savings and where possible mitigating actions to prevent any negative impacts. However, many services are still to develop detailed plans and have committed to identifying impacts and developing mitigating actions over the coming year. For the Council's workforce, the biggest changes will be in restructures and management of vacancies across back office teams. These will be completed in line with Council policy to ensure no particular groups are disadvantaged.

94. Adult Social Care has a £52m savings target. The directorate provides important services for older people, disabled people and their carers. Ongoing savings have been grouped under three headings whole systems demand management, market management and workforce development. The level of savings required in 2016/17 means it is becoming increasingly difficult for the directorate to mitigate negative impacts associated with the 'whole systems demand management' savings. This involves promoting independence and resilience, signposting people towards informal community based services and offering preventative interventions. There are risks that:

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[1] http://www.surreycc.gov.uk/your-council/equality-and-diversity/ensuring-our-decisions-are-fair

- We will need to reduce our investment in preventive services to ensure we continue in our duty to meet eligible assessed needs. To mitigate this risk we will review all grants and contracts with providers to ensure any changes are evaluated for potential impact upon people with protected characteristics and are targeted to minimise the impact upon local services provided for people, their carers and families.
- There will be increased pressure on the NHS and informal carers. To mitigate this risk we will continue to collaborate with health partners to deliver local integrated community based health and social care.
- Providers will be facing financial difficulty. To mitigate this risk we will continue to work with providers to implement long term and sustainable market management and pricing strategies.

95. The directorate has committed to numerous mitigating actions including a recognition that where care and support options involving family, friends and the local community do not prove possible, the local authority has a continuing duty to meet eligible assessed needs and will continue to do so. The service will continue its commitment to personalisation of care and engaging with and supporting carers.

96. Children, Schools and Families will need to make further savings and efficiencies in 2016/17 than planned, following the late notification of funding reductions in the Local Government Finance Settlement. These savings are to be found around Early Help (£2m); marginal gains (£1.6m); Special Educational Needs transport (£0.5m) and increasing traded income targets (£0.7m). There is a risk that changes could have an impact on children, young people and disabled people. However, as savings are developed, Equality Impact Assessments will be carried out prior to any final decisions being made and where possible negative impacts on protected characteristic groups will be avoided or mitigated.

97. Public Health has a £7.5m total budget reduction for 2016/17. A significant part of these savings is reduction in spending on existing contracted public health services. These include 0-19 Public Health services, Sexual Health, Substance Misuse, Smoking, NHS Health Checks, Healthy Weight & Physical Activity and Public Mental Health. These contracts provide services targeted at protected characteristic groups including age, pregnancy and maternity, sexual orientation, disability and race. These groups are more likely to be in need of these services. Public Health is currently renegotiating contracted front line services. Reduction in funding could have an impact on the level of service delivery for the wider Surrey population and those within protected characteristic groups. The impact will be fully assessed through a full Equality Impact Assessment. Where possible, provision for at risk groups will be prioritised which will in turn mitigate potential impacts on protected characteristic groups.

98. For the Business Services Directorate, major savings will be made through the amalgamation of both Business Service Directorates in Surrey and East Sussex County Councils through the Orbis shared services partnership. Savings will be made by creating joint teams, reducing duplication and adopting more efficient working practices. There should be no negative impact on service provision. This change will impact on staff and Equality Impact Assessments will be completed as proposals are developed for each area. These will ensure new structures do not disadvantage protected characteristic

groups. There will also be reductions to the training budget but core training that people require to do their job and equalities training will be safeguarded.

99. For Environment and Infrastructure the Local Transport Review means changes to subsidised routes in terms of their frequency, days of operation, route travelled and in a few cases withdrawals. An Equality Impact Assessment completed for year one of the Local Transport Review will be updated using the year two public consultation feedback, to form part of the report to be considered by Cabinet on 24 May 2016. Older and younger people, disabled people, women and carers are significant bus users. To mitigate impact on these groups community transport options will be explored.

100. The kerbside waste improvement programme could have a negative impact for disability, age and race due to differing communication needs. In addition, there are potential negative impacts in terms of the range of volunteering opportunities available to disabled residents. These will be mitigated using accessible communications methods to reach residents as well as making reasonable adjustments to volunteering schemes. Savings to the winter maintenance budget could potentially have a negative impact on protected characteristic groups. A full analysis will be presented to the Cabinet in September 2016 when making the decision on this. Marginal gain savings could have negative impacts on protected characteristic groups. Impacts will be assessed in full assessments once proposals are developed.

101. The Libraries service have £0.5m of savings to make and are considering reductions to the stock budget, reductions to opening hours and management of staff vacancies. Reduced capacity to develop and deliver health and well being, literacy and community engagement may reduce the impact of the preventative agenda on all service users. Older people, younger people and disabled people who rely more on public transport may find it more difficult to access libraries if there are reduced opening times. In addition, working age people might find it more difficult to access libraries if changes are made to opening times in non-standard working hours. A draft Equality Impact Assessment has been completed and is available on the Council's website. This will be updated as proposals develop to ensure impacts on protected characteristic groups are considered throughout the decision making process. Local committees will make decisions on opening hours for libraries in their areas and a full Equality Impact Assessment will be published in each case.

Mitigation

102. As part of this equalities analysis work, services have developed a range of mitigating actions that seek to offset negative impacts of savings proposals. In summary, the council's approach to mitigating negative impacts of savings proposals within the MTFP has been to adopt one or more of the following:

- using **co-design and consultation** with service users and staff to assist in the reconfiguration of services;
- undertaking detailed **needs assessments** to enable the council to target services more effectively to vulnerable residents;
- undertaking **ongoing evaluation** of the impacts of changes to services to mitigate unforeseen negative impacts;
- providing **tailored information** to service users that are impacted negatively by savings proposals; and

- ensuring that any changes to staffing levels or staff structures are completed in accordance with the **Council's human resources policies and procedures** and take account of the workforce profile.

Using the equalities analysis findings

103. Cabinet should be aware that the public equality duty is not to achieve the particular outcomes set out in section 149 of the Equality Act or to take particular steps. It is instead a duty to bring the important matters identified in section 149 into consideration as part of the decision making process. "Due regard" is a test of the substance underpinning decisions in the sense that they have been approached with rigour and an open and enquiring mind. This substance is demonstrated through EIAs and the changes that are made to proposals and services as a result of them. "Due regard" also means that the regard that is appropriate in making these decisions. So alongside the proper regard that Cabinet must give to the goals set out in section 149 they should also consider any other relevant factors and it is a matter for them to decide the weight to be given to these factors. In this case the most significant other matters are:

- the statutory requirement to set a balanced budget;
- the outcomes the Council is seeking to achieve, which are set out in the *Confident in Surrey's Future: Corporate Strategy 2016-2020;*
- the priorities within the Council's Confident in Surrey's Future: Equality, Fairness and Respect Strategy 2015 – 2020; and
- the demographic pressures facing Surrey County Council that include a rising population, with projected increases in the number of older residents and children and young people. Increases in both these age groups will place additional demands on adult social care services and local schools.

OTHER IMPLICATIONS:

104. 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.

Area assessed:	Direct implications:
Climate change and carbon emissions	A primary outcome of the council's Carbon and Energy policy is a reduction in carbon emissions from the council's own estate, along with managing the council's energy costs. The investment and savings figures referred to in the MTFP are consistent with this policy update. In addition to this, many of the council's financial commitments to schemes in the areas of waste management, transport and flood alleviation will make a positive contribution to reducing emissions and/or a proactive response to managing the impacts of climate change.

WHAT HAPPENS NEXT?:

105. The council will publish MTFP (2016-21) on its website.

106. Progress against the council's strategic priorities will be published quarterly on the council's website. The Chief Executive will submit six-monthly progress reports to the Council meetings in July and December 2016. Scrutiny Boards will continue to scrutinise work programmes and performance.

Contact Officers:

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Consulted:

Cabinet, all County Council Members, strategic directors, directors , heads of service, business and voluntary sectors, residents and unions.

Annexes:

Annex 1 Medium Term Financial Plan (2016-21),
including Cabinet Member portfolios and service strategies and detailed revenue and capital budgets

Annex 2 Fees & charges schedules 2016/17

Annex 3 Equality assessment summary

Sources/background papers:

- Revenue and Capital Budget 2016/17 to 2020/21, report to Council 9 February 2016
- Revenue and Capital Budget 2016/17 to 2020/21, report to Cabinet 2 February 2016
- Budget working papers

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- DCLG revenue and capital Financial Settlement papers from DCLG website
- Government Equality Office (2011) Equality Act 2010 – Specific Duties to Support the Equality Duty. What do I need to know?
- Government Equality Office (2011) Public Sector Equality Duty. What do I need to know?