Appendix B

SURREY COUNTY COUNCIL

CABINET

DATE: **20 SEPTEMBER 2016**

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

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

SUBJECT: **FINANCIAL SUSTAINABILITY AND BUDGET PLANNING 2017 TO 2022**

SUMMARY OF ISSUE:

Since 2010 local authorities in England have been faced with year on year reduction in funding from central government as a part of the deficit reduction policy. This reduction has included Surrey County Council, which has traditionally been one of the lowest funded local authorities from government grants. At the same time, the demand for Surrey County Council's services has been increasing, especially in looking after an increasingly aged population, a high level of people with learning disabilities and providing school places for a record number of children. The county council has met this challenge through a financial strategy that includes: managing demand, efficiency savings and increases in the level of council tax.

In February 2016 the council's Section 151 Officer highlighted that the 2016/17 budget was balanced through the use of substantial one-off funding and the Medium Term Financial Plan for 2016/17 to 2020/21 (MTFP 2016-21) required significant actions to become sustainable. The council agreed to a Public Value Transformation programme to investigate whether sustainability could be achieved through further significant transformation. This report presents an update on the council's financial prospects and the key strategies to respond to the challenge presented in the next five year Medium Term Financial Plan (MTFP 2017-22) to ensure it is both balanced and sustainable.

Government decisions have a huge influence on the council's financial sustainability. These include:

- the level of grants and how they are allocated;
- the use of business rates;
- the imposition of new responsibilities;
- caps on the council's ability to raise its own income.

How the government implements these decisions will shape the financial prospects over the next five years.

RECOMMENDATIONS:

Cabinet to note:

1. the context and background to the county council's financial prospects over the medium term (paragraphs 15 to 22);

2. the achievement of £329m efficiency savings over the last five years and the further planned savings of £361m over the next five years;

3. the impact of additional funding on the council's financial sustainability (paragraph 35).

Cabinet to approve:

4. revised cash limit budgets for each service in the absence of additional funding from government grants, council tax, or business rates; or further savings (paragraph 33 and annex 1);

5. Cabinet Members and officers to develop proposals on delivering services within the revised cash limits for a future Cabinet meeting (paragraph 33);

6. development of proposals to the Government for additional funding through the adult social care precept, business rates retention and for school places (paragraph 35).

7. delegation to the Leader of the decision to accept or decline the Government's four year settlement offer (paragraph 41);

8. the council's own response to the 100% Business Rates Retention consultation, and to endorse the joint response from the 3SC local authorities (paragraph 48).

Cabinet requests;

9. scrutiny boards examine the key budget proposals and report back to Cabinet (paragraph 34)

REASON FOR RECOMMENDATIONS:

10. The Council is required to produce a balanced budget each year. Surrey County Council also prepares a Medium Term Financial Plan (MTFP) that sets out its financial plans over a rolling five year period. The efficiency savings the council has had to achieve over the last five years and the efficiency plans it has had to make for the coming five years illustrate the unprecedented and continuing length of the Government's austerity programme, the simultaneous rise in service demand and the impact of additional spending pressures on the council's financial sustainability. Given the confluence of these challenges, Cabinet's decisions need to ensure the council plans and implements coherent and robust measures to achieve a balanced financial plan in MTFP 2017-22.

11. A key step in achieving a balanced and sustainable MTFP 2017-22 is for Cabinet to approve a suitable framework for developing proposals to deliver the council's Corporate Strategy within the available budget envelope. A critical element of this is a set of revised cash limits for each service that officers will

use to develop proposals for Cabinet to approve at a future meeting.

12. The Government has not announced detailed changes to its spending plans, austerity is set to continue and the council needs to maintain a prudent approach. However, the recent changes in the Government's policy developments and economic forecasts mean there is increased continuing uncertainty over the level of future fundraising.

13. In March 2016, the Secretary of State for Communities and Local Government wrote to all councils offering a four year settlement. The offer guarantees (subject to unforeseen significant economic events) each council its Revenue Support Grant (RSG), Rural Services Delivery Grant and Transitional Grant over the period 2016/17 to 2019/20 as set out in the Final Local Government Settlement. To accept the offer, a council must prepare and submit an efficiency plan to the Department for Communities and Local Government (DCLG) by 14 October 2016. A significant feature of the council's proposed four year settlement is that it is set to receive -£17.3m negative RSG in 2019/20 (the Government will deduct £17.3m from the council's other grants). To maximise the time available to consider this issue Cabinet is asked to delegate this decision to the Leader, which will be reported to Full County Council.

14. The Government is consulting on 100% Business Rates retention by local government and a fairer funding review. These will have a fundamental and strategic impact on the council's financial sustainability. The council's consultation responses, in conjunction with partner organisations', seeks to safeguard and advance Surrey residents' wellbeing and experience and Surrey businesses' prosperity.

DETAILS:

Context and background

15. The context and background for the council's financial planning has changed significantly due to the increased uncertainty in the UK's economic forecast, principally due to:

- EU referendum;
- new Prime Minister and Cabinet;
- possible changes to Government economic policy; and
- Bank of England reductions in interest rates and new quantitative easing.

16. The council's current MTFP 2016-21 includes the shock reduction in RSG funding over the period 2016/17 to 2019/20 following a change in grant allocation method to take account of a council's ability to raise council tax. The Government partially mitigated the effects of this change in funding allocation through Transition Grant in 2016/17 and 2017/18 only. However, the reductions in RSG last to 2019/20, when the council suffers a negative RSG grant of -£17.3m.

17. In addition to the reduced Government funding the council has experienced over recent years, it has also had to maintain one of the country's most heavily used road networks and faced intensifying demographic growth pressures from a record number of children requiring more school places and an ageing adult population requiring more social care. To balance and sustain its budget over this period, the council has achieved £329m efficiencies since 2011/12,

coupled with regular modest uplifts in council tax.

18. In her statutory report in February 2016 on the robustness of the council's estimates and the adequacy of its reserves, the council's Section 151 Officer commented that though the 'level of risk remains significant and the position is very serious' the 2016/17 budget was balanced and the longer term budget was sustainable, provided:

- the council delivered all of its existing savings plans in full; and
- the Public Value Transformation (PVT) programme identified considerable base budget costs reductions as soon as practicable.

19. To help maintain and boost the UK economy following the EU Referendum, the Bank of England has cut interest rates to 0.25% and introduced a new package of quantitative easing.

20. On 25 November 2015, the then Chancellor of the Exchequer, George Osborne, presented his Autumn Statement and Spending Review. This planned a further four years of spending reductions so Government revenues would exceed its spending and would have balanced the budget by 2019/20. However, before leaving office on 13 July, George Osborne announced the Government's ambition to achieve fiscal balance would now have to extend beyond 2019/20.

21. The Prime Minister, Theresa May, has a new Cabinet (including Sajid Javid as the new Secretary of State for Communities and Local Government). Within this, the new Chancellor of the Exchequer, Philip Hammond, has a series of judgments to make on a much changed economic and political backdrop and has yet to announce his plans. These are expected in his Autumn Statement, for which no date is known yet.

22. All of these factors mean the outlook for financial planning is uncertain. While the uncertainty also holds several potential opportunities, the council has an obligation to balance its budget and achieve a sustainable financial position.

Public Value Transformation Programme

23. Public Value Transformation (PVT) was agreed in February 2016 as part of the Council's response to tackling an unsustainable budget beyond 2017. The approach is overseen by the PVT Board (comprising the Leader of the Council, Chief Executive and Director of Finance). The Board had two key objectives:

- transformation work across the council is aligned within a programme approach to deliver optimum Public Value; and
- Public Value is a key element of identifying additional savings or funding of £25m by 2017/18 and £50m by 2018/19.

24. The PVT Programme follows the Council's 5D approach to transformation and focuses on the key principles of Public Value:

- there is evidence of a clear (measurable) benefit to those who are meant to benefit from our work;
- we have stakeholder support for what we propose; and

- we are able to deliver it.

25. The initial phase of the work (Discovery) aimed to: offer challenge and scrutiny to the transformation areas in their discovery process; sign off analysis and agree work areas for design/develop phase; develop a process for tracking current savings; identify MTFP savings.

26. The Public Value Transformation Board identified seven transformation priority areas amongst the transformation work taking place across the Council and has provided additional strategic support for transformation priority areas.

27. The Discovery phase has proven an effective way of getting focus on all of the priority area transformation programmes: Special Educational Needs and Disabilities; Early Help; Multi-Agency Safeguarding Hub (MASH); Health and Social Care Integration; Accommodation with Care and Support; Waste; Highways for the Future. As a consequence of this work, there has been a significant increase in confidence that we have credible approaches in place to deliver change on a large scale. This phase also identified a number of challenges and potential gaps in our approach to transformation, resulting in a renewed focus on the identification and analysis of need and demand to identify the pressures with clarity as to the cause, and accuracy. Using this more rigorous approach, assumptions being made within transformation programmes can be tested and challenged.

28. The PVT approach has created greater confidence in our current MTFP savings and helped to accelerate key transformation programmes where required as well as identifying and stopping those which are not critical to the development of a sustainable budget so that resources can to redirected to actions that will create Public Value and contribute significant savings. The Discovery phase has clarified that the savings already identified are the upper limit of what can be achieved through the transformation programme. Further, we do not have transformational proposals that would meet the additional £50m required.

Revenue and capital budgets

29. The detailed MTFP 2016-21 Cabinet approved in March 2016 included £25m PVT savings to find in 2017/18, rising to £50m in 2018/19 and remaining at £50m to 2020/21. Work during the spring and early summer identified two scenarios as the basis for financial planning.

30. Scenario A incorporates the following known changes, which increase the budget challenge by £6m in 2017/18, rising to £23m in 2020/21.

    - Savings increased by £7m in 2017/18, rising to £8m in 2020/21 due to: higher collection fund income, lower treasury management costs and staffing savings.
    - Costs increased by £13m in 2017/18, rising to £31m in 2020/21 due to, in particular, high needs block funding and the National Living Wage.

31. Scenario B models the additional impact of a further £20m shock funding reduction. This is to reflect the level of uncertainty and the possibility of currently unknown factors leading to a further reduction in funding. This is considered prudent following the council’s experience with the Local

Government Settlement for 2016/17.

32. Table 1 shows how these factors provide the quantities of new savings for the council to identify in order to meet the two budget challenge scenarios.

Table 1 Summary of revised budget challenge scenarios (new savings to identify)

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
PVT savings to be identified in MTFP 2016-21	25	50	50	50
Increased new savings	-7	-8	-8	-8
Increased new costs	13	17	26	31
Scenario A budget challenge	**31**	**59**	**68**	**73**
Additional shock	20	20	20	20
Scenario B budget challenge	**51**	**79**	**88**	**93**

33. Based on these scenarios, revised cash limits have been set for each service (Annex 1). Cabinet Members and officers will work together to determine where services' spending is to reduce in order to balance the budget.

34. To explore the robustness of the proposals Cabinet Members and officers develop, Cabinet is recommended to request scrutiny boards to test the assumptions within proposals during the period from October to Christmas 2016.

35. Assuming the council identifies and delivers the service reductions to meet the revised cash limits, the uncertain economic position means there is a strong likelihood of the budget challenge remaining. Therefore Cabinet is recommended to continue to work to influence Government policy, especially around the key areas of: adult social care precept, business rates retention and school funding. Any additional funding gained through the council's influencing work will have a positive impact on the council's financial sustainability.

Four year settlement

36. On 10 March 2016, the Secretary of State for Communities and Local Government wrote to all councils offering a four year funding settlement for councils that prepared and submitted an efficiency plan to DCLG by 14 October 2016.

37. The Secretary of State's letter outlines that efficiency plans should:

- be locally owned and locally driven;
- show how the greater certainty of the four year settlement can bring about opportunities for further savings;
- cover the full four year period (2016/17 to 2019/20);
- be open and transparent about the benefits to the council and the community; and
- show how the council will collaborate with local neighbours, partners and devolution deals where appropriate.

38. In return for completing an efficiency plan, the Government would guarantee (subject to unforeseen significant economic events) the council minimum

funding over the period 2016/17 to 2019/20, as set out in the Final Settlement in February 2016 for:

- Revenue Support Grant,
- Rural Services Delivery Grant and
- Transitional Grant

39. Table 2 summarises the offer. As such, the Government's guarantee would mean the council will have negative Revenue Support Grant (RSG) to the value of -£17.3m in 2019/20.This is the equivalent of Surrey residents paying for a 3% increase in council tax to fund services elsewhere in the country.

Table 2 Summary of the Government's four year funding offer

Grant funding	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	67.1	28.0	4.5	-17.3
Transitional Grant	11.9	12.2	0.0	0.0
Rural Services Delivery Grant	0.0	0.0	0.0	0.0
Total four year offer	**79.0**	**40.2**	**4.5**	**-17.3**

40. Other factors to consider in determining whether to decline or accept the four-year offer are set out below.

The main risks to the council of declining include:

- increased vulnerability to further funding changes as DCLG has indicated it will look first to reduce the funding of authorities that have not accepted the offer of a four year settlement;
- Surrey County Council would appear to be unsupportive of DCLG's policy response to requests from local government for greater certainty over future years' funding; and
- uncertainty about the profile of RSG and Transitional Grant allocations, albeit that the grants protected form a very small proportion of the council's overall funding.

The main risks to the council of accepting include:

- the risks of reductions in other unprotected grants remain, in particular funding for SEN (special educational needs) is not assured (the council's assessment of potential reductions in SEN funding could be significant);
- the offer provides no assurances around the future level of funding through business rates retention;
- acceptance could imply acceptance of the financial position the Government has put the council in for future funding discussions and could weaken further funding arguments (through the key influencing areas around business rates retention and devolution);
- acceptance could imply the council agrees the offer enables it to make and deliver efficiency plans with appreciably more certainty than would otherwise be the case; and
- the obligation to produce an efficiency plan by 14 October 2016 (although the council has already published much of the material and this involves minimal additional effort).

41. In conclusion, to maximise the time available to consider this issue, it is recommended Cabinet delegates the decision to accept or decline the Government's four year settlement to the Leader, and report the decision to Full County Council.

Efficiency Plan

42. In outline, the council could prepare its efficiency plan to meet the requirements described in paragraph 37 as follows:

- Summarise the Corporate Strategy, setting out the council's intentions and challenges and how it plans to achieve the strategy's outcomes for Surrey residents and businesses.
- Summarise the Financial Strategy, including how this underpins the council's Corporate Strategy.
- Reference the council's service strategies, highlighting some particular challenges in them.
- Summarise MTFP 2016-21, highlighting:
    - the council's overall financial challenge and its profile;
    - how the council intends to make efficiencies to achieve financial sustainability; and
    - the impact of transformational efficiencies on the council's finances.
- Summarise evidence of the council's partnership and collaborative activities, including with: 3SC, ORBIS, SE7 and health & social care integration.

Business Rates Retention

43. In July 2016 the Government confirmed its intention to move to 100% business rate retention by local government with the publication of two consultation papers on 100% business rates retention and fair funding review of needs and redistribution. Responses to the consultation papers are due on 26 September 2016.

44. The Government states the purpose of this fiscal devolution is 'to provide communities with the financial independence, stability and incentives to push for local growth and pioneer new models of public service delivery.' This will mean local authorities as a whole retaining all of the business rates they collect, but taking on new responsibilities to match the increased resources this gives them. The Government's intention is that this change in local government funding is fiscally neutral, and as such is not a solution to the council's financial challenge.

45. The council is fully engaged in the consultations and discussions to develop the proposals, both as Surrey County Council and with a range of partners. As part of this, the council is contributing to responses by:

- Three Southern Counties (3SC) proposed combined authority group;
- South East Seven (SE7) group of authorities;
- South East Strategic Leaders (SESL) group of authorities; and
- Society of County Treasurers (SCT).

46. In summary, the key principles and areas of commonality agreed in the responses for Surrey County Council, boroughs and districts in Surrey and

3SC group of authorities include:

- business rates retained by local authorities should fully fund current responsibilities first;
- new responsibilities devolved to local authorities by the Government should link to economic growth and enable effective public service delivery; and
- combined authority areas should be able to agree their own arrangements to suit local circumstances and ambitions.

47. Cabinet is recommended to approve the council's responses to the consultation papers, which are set out in full in Annex 2 and to endorse the joint response from the 3SC group of authorities set out in Annex 3.

CONSULTATION:

48. All Cabinet Members will have consulted their relevant director or head of service on the financial positions of their portfolios.

RISK MANAGEMENT AND IMPLICATIONS:

49. Risk implications are stated throughout the report and each relevant director or head of service has updated their strategic and/or service risk registers accordingly. In addition, the leadership risk register continues to reflect the increasing uncertainty of future funding likely to be allocated to the council.

Financial and Value for Money Implications

50. The financial and value for money implications are considered throughout this report.

Section 151 Officer Commentary

51. In February 2016 the council's Section 151 Officer highlighted that the financial position was serious, noting that:

- the 2016/17 budget was balanced through the use of substantial one-off funding, and;
- the Medium Term Financial Plan for 2016/17 to 2020/21 would only be sustainable through an effective programme of Public Transformation.

52. It is now clear that the PVT Programme has increased the level of confidence in delivery of the existing MTFP, although it will not produce the additional savings to close the budget gap. Therefore the requirement to set a balanced budget can only be met either through identifying further reductions in services' spending, or by securing a fairer funding settlement from Central Government.

53. Changes across Government, the on-going uncertain economic outlook and service demand changes since February 2016 mean the financial position remains serious. It is essential Members remain focused on shaping service delivery to fit within available resources as a matter of priority over the autumn, to enable a balanced budget to be set in February 2017 and a clear plan for moving towards sustainability to be identified.

Legal Implications – Monitoring Officer

54. The Council is under a duty to set a balanced and sustainable budget. This report describes the context to the Council's financial prospects in the medium term and highlights the challenges faced in planning future budgets. It also provides an update on the strategies recommended to respond to these challenges and delegates to the Leader the decision to accept or decline the Government's four year settlement.

Equalities and Diversity

55. Any impacts of the budget monitoring actions will be evaluated by the individual services as they implement the management actions necessary.

WHAT HAPPENS NEXT:

56. Cabinet Members and officers will work together in informal workshops to determine where services' spending is to reduce in order to balance the budget. Scrutiny boards will test the assumptions within proposals during the period from October to Christmas 2016.

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Consulted:
Cabinet, Strategic Directors, Heads of Service.

Annexes:

Annex 1 Services' revised cash limits 2017/18 to 2020/21

Annex 2 Surrey County Council's responses to DCLG's consultation papers on: Self-sufficient local government: 100% Business Rates Retention and Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution

Annex 3 Three Southern Counties' response to DCLG's consultation papers on: Self-sufficient local government: 100% Business Rates Retention and Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution

Sources/background papers:
- Medium Term Financial Plan 2016-21
