SURREY COUNTY COUNCIL

CABINET

DATE: **31 JANUARY 2017**

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

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

SUBJECT: **REVENUE AND CAPITAL BUDGET 2017/18 TO 2019/20, AND TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

This report of the Cabinet is to enable recommendations be put to the Full County Council for:

- council tax precept for 2017/18
- revenue budget for 2017/18 to 2019/20
- capital programme quantum and principles
- treasury management strategy.

For the last six years Surrey County Council has faced unprecedented increases in demand, particularly for adult social care and children's services. For instance: over the last five years the number of people supported for their learning disabilities has increased by 990 to a total of 3,765 (a 36% increase); similarly the population of children (who require school places) has increased by 11% to 150,428; the number of children with a statutory plan for special educational needs has risen by 8% (405) over five years and, the number of older people supported has risen to 9,418 (a 12% increase in five years). Further, the county's roads are becoming increasingly congested and the demand on many other services resulting in significant challenges for services to respond accordingly.

At the same time central government funding for the council has reduced significantly, especially over the last two years, and this will continue until at least 2019/20. Since 2010 the Government's core funding for the council (from the Settlement Funding Assessment (SFA)) has reduced by £170m and is part of a total loss of government grant since 2010 of £228m.

Furthermore the main methodology used to distribute Government funding nationally has changed. The Government now focuses on the concept of a local authority's 'core spending power' (CSP). CSP brings together the Government's main core grants to local authorities (such as Revenue Support Grant) with sources of funding that the Government is not responsible for raising, as these are raised locally, through council tax and business rates. This combination enables Government to make assumptions about the levels of Council Tax to be raised and includes a significant shift from central Government grant support to Council Tax for the period 2016/17 to 2019/20. In this way, areas that have to rely on a higher proportion of their funding from council tax see the sharpest reductions in grant. There are four main disproportionate impacts of this methodology on Surrey County Council:

i. Firstly, the calculation of the Government's original funding baseline for local authorities' core grants (the four block model) already included ability to raise council tax within the resources block. The decision to use CSP in allocating core grants therefore counts council tax twice (a significant disadvantage to Surrey residents). Then, the Government's allocations of the Improved Better Care Fund also make assumptions about local authorities' ability and willingness to raise council tax through the Adult Social Care precept thereby counts council tax a third time (again a significant disadvantage to Surrey residents). This increasingly flawed methodology militates against residents in areas like Surrey County Council who have to provide a higher proportion of funding for local services from council tax.

ii. Over the years, the Government has 'rolled in' to its core funding to local authorities grants it had allocated separately in previous years. As the Government has made significant cuts to its core funding, it has also through those cuts, reduced the funding of those grants rolled in. For Surrey County Council, the largest example is the Learning Disabilities and Health Reform Grant (LDHRG) which was rolled in from 2014/15 at the value of £69m. For 2017/18, the Government's assessment of LDHRG spending for the council is £71m, but the rolled in grant, reduced in proportion to Government funding is less than £40m. **This leaves a £31m funding gap**.

iii. The CSP methodology relates to the resourcing available to an authority and does not reflect the demands for services nor any variation in the relative costs to deliver services in an area. For example the average house prices in Surrey are second only to London and are 41% higher than the South East and 90% higher than the average for England. This makes it especially more expensive for service providers to sustain their businesses in Surrey.

iv. The methodology results in a continuing significant shift for all authorities from central Government funding to locally raised funding (specifically council tax) from 53% of core funding coming from council tax in 2016/17 to 62% in 2019/20. However, as Surrey starts with a relatively high proportion of funding coming from council tax (due to historic lack of Government support), the rate of shift from Government funding to council tax is disproportionately greater for Surrey (72% in 2015/16 to 88% in 2019/20).

In previous years, Surrey County Council has contained the cost and volumes pressures of rising demand by making efficiency savings through wide reaching transformation programmes and service unit cost reductions, totalling over £450m since 2010/11. At the same time this council has been forced to continue increasing its level of council tax to off-set the impact of severely reduced Government funding, whilst maintaining services to residents despite growing demand and needs. The council is planning to make significant additional savings of £93m in 2017/18, **this will still leave a funding shortfall of £30m in 2017/18, rising to £73m by 2019/20**.

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. To maintain essential services, the council requires a budget that funds these shortfalls and the funding for this can either come from further Government support or locally raised sources.

The Provisional Local Government Financial Settlement, announced on 15 December 2016, permits an increase in general council tax limited to 2% before a referendum is required under legislation, and the flexibility to raise an Adult Social Care precept of 3% per year in 2017/18 and 2018/19. However, to fund the required budget for the next three years from locally generated sources the council would be forced to increase council tax in total by 15% in 2017/18 to 'reset' its funding base and achieve a sustainable position for the next decade, followed by modest increases in future years in line with government guidance.

RECOMMENDATIONS

It is recommended that Cabinet makes the following recommendations to the Full County Council on 7 February 2017:

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

1. The Director of Finance has produced two statutory conclusions as follows.

    a. For the proposed budget: that the council's budget is balanced and sustainable over the long term, although still requiring significant service transformation and efficiencies.

    b. For the substitute budget: that the budget can only be balanced and become sustainable through the identification of substantial and permanent further service reductions for implementation in 2017/18 and subsequent years.

2. The requirement for the council to approve a substitute budget, with a council tax rise of 4.99% that will be implemented if the proposed budget in not supported in a referendum.

3. The findings of the Financial Resilience Review completed in November 2016.

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

4. Increase the level of the general council tax by 1.99% and an additional 10% (35p per day) as a result mainly of social care pressures, making a total general council tax increase of 11.99%.

5. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services.

6. Set the County Council precept for band D council tax at £1,458.45 which represents a 14.99% up-lift.

7. Agree to maintain the council tax rate set above after the Final Local Government Financial Settlement.

8. Delegate 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 Local Government Financial Settlement.

9. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions.

10. Approve the County Council's £1,696m gross revenue expenditure budget for 2017/18 for the proposed budget.

11. Note that the existing revenue costs of funding past capital spending decisions is £30m for 2017/18.

12. Agree up to a total of £408m funding for capital schemes that funds essential schemes over the next three year period (schools and non-schools), including ring-fenced grants and a borrowing requirement of £94m over the three years.

13. Note that the detailed programme of schemes will be agreed at the March 2017 Cabinet as part of the Medium Term Financial Plan.

14. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:

    - all revenue 'invest to save' proposals, and
    - capital schemes.

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

15. Increase the level of the general council tax by 1.99%.

16. Increase council tax by a further 3% for the adult social care precept, which will provide £18m to support the growth in demand for services.

17. Set the County Council precept for band D council tax at £1,331.55 which represents a 4.99% up-lift.

18. Approve the County Council's £1,666m gross revenue expenditure budget for 2017/18 for the substitute budget.

19. Require the Chief Executive and the Director of Finance to continue their work to ensure delivery of planned efficiencies and service reductions.

20. Agree that there will be a requirement for a transparent Member led process, in conjunction with officers, to find and implement an additional £30m of cuts to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this will require cuts greater than £30m to reflect that only a part year benefit will be achievable)

21. Agree to support only capital schemes which are funded without requiring borrowing, unless a sustainable basis for funding borrowing costs is identified and a compelling business case developed that demonstrates best value in progressing a particular scheme.

22. Note that the detailed programme of schemes will be agreed ahead of implementation of the substitute budget (if necessary).

23. Require a robust business case to be prepared (and taken to the Investment Panel for review) before committing expenditure for the use of:

- all revenue ‘invest to save’ proposals, and
- capital schemes.

Treasury management and borrowing: Cabinet recommendations to Full County Council

24. Approve, with immediate effect, the Treasury Management Strategy for 2017/18, which includes:

- the investment strategy for short term cash balances;
- the borrowing strategy for funding the capital programme;
- the treasury management policy (Appendix 8);
- the prudential indicators (Appendix 9);
- the schedule of delegation (Appendix 11);
- the minimum revenue provision policy (Appendix 12).

It is further recommended that Cabinet makes the following decisions

25. Note that services will develop detailed budgets and savings ahead of approval by Cabinet on 28 March 2017 when the final MTFP 2017-20 will be presented.

26. Approve the draft MTFP for the financial years 2017-20, which includes:

- to approve the Total Schools Budget of £545.2m (paragraphs 66 to 71);
- to approve overall cash limits for individual services for the proposed budget and the substitute budget.

REASON FOR RECOMMENDATIONS

Full County Council will meet on 7 February 2017 to agree a budget and set the council tax precept for 2017/18. Cabinet’s role is to recommend a budget to Full County Council. Council must also agree substitute calculations in the event that its proposed budget would result in a council tax increase above that set out in principles laid down by the Secretary of State. The published draft principles for 2017/2018indicate that the council tax increase proposed by Cabinet would exceed that set by Government and substitute calculations are therefore also put forward to Council.

DETAIL

The council’s financial position

Public value

1. Since 2009 the council has focussed relentlessly on achieving ever better public value for Surrey residents set within an ongoing five year budgeting framework. Two of many very good examples of this work are the first Public Value Programme and the council’s stringent restriction on the use of consultants. The council has also been at the leading edge of partnership working and viewing public services as a system it

could improve significantly through working together as one team for Surrey. The council has received recognition across the country for its approach to innovation.

2. The investment strategy, Orbis partnership that has begun with East Sussex County Council, Trading Standards' partnership with Buckinghamshire County Council and income raised through filming at County Hall are examples of how the council has responded to the pressures it faces. There is no question the council is a more effective organisation, offering far better public value for residents than in 2009.

Funding reductions

3. Surrey as an area has had some of the lowest government funding in the country. This has been because of the high weighting of relative deprivation in the continued use by the current Government of the four block funding model, which the Coalition Government inherited from the previous Labour Government. Deprivation does not necessarily reflect need for spending on services (such as dementia care, or learning disabilities) nor the cost to serve of providing those activities locally (which often varies in accordance with local markets). For example, the deprivation weightings do not reflect the cost drivers the council faces, such as the aging population, the overspill of school children from London and the wear and tear on Surrey's roads arising from their heavy use.

4. The four block funding model's weighting for resources exacerbates the Council's position as it also militates against Government funding for Surrey councils by assuming a higher ability of Surrey residents to contribute to the cost of local services through council tax. Together these features of the Government's funding model have led to Surrey's residents being forced to pay some of the highest council tax in the country.

5. For 2016/17, the Government revised its method for distributing its general grant funding to local authorities (Revenue Support Grant) by introducing locally determined council tax as a new factor in how it allocates Government grant among local authorities. The basis of the allocation is to maintain similar percentage changes to an authority's core spending power, which aggregates funding from central and local sources:

   - Revenue Support Grant (RSG);
   - business rates retention system; and
   - council tax.

6. As the council already has to raise one of the highest proportions of its funding from council tax (and the model extrapolated this by assuming all authorities would raise council tax at the referendum threshold 2% plus the additional 2% adult social care precept) this meant the Government's decision to allocate RSG based on core spending power exacerbated this position disproportionately for Surrey residents. This has greatly accelerated the council's loss of grant funding and increased the proportion of funding it has to raise from residents yet further. Under core spending power, the divergence is set to be even greater, with Surrey County Council residents set to contribute proportionately more: around 88% of the funding in CSP by 2019/20 (up

from 72% in 2015/16) compared to a national average local tax payer contribution of around 62% in 2019/20 (up from 50% in 2015/16).

2016/17 budget

7. In February 2016 the shock reduction in Government grant support meant the council found itself in a very difficult position. It could see how through one-off measures the council could balance its 2016/17 budget. However, it couldn't see how it could build a sustainable financial position over its five year medium term financial plan (MTFP) period 2016-21 without significant further service trasnformation.

8. The reasons for this are straightforward:

- an unprecedented six year period of funding cuts by the Government, including rolling in nearly £70m Learning Disability Grant to the Settlement Funding Assessment (SFA), which the Government has subsequently continued to cut;
- an unrelenting increase in the numbers of people requiring services across adults and children's services in particular (Surrey has by far the greatest number of people with learning disabilities in the country for historical reasons);
- an increase in the complexity of needs of Surrey residents and therefore increases in the cost of serving these needs; and
- an increase in responsibilities (over 60 new responsibilities since 2010) from central government to the council year after year without proper funding, such as unaccompanied asylum seeker children.

Transformation and savings programmes

9. Since February 2016, the council has undertaken significant work to test whether it was squeezing every bit of value possible from its transformation programmes. The council's second Public Value Transformation programme thoroughly tested all the key programmes. As a result the council has assurances that it has credible and improved plans to deliver the significant level of savings required in the 2015-20 MTFP. However the testing also identified that the programme will not contribute anything further to the funding gap the council faces in 2017/18.

10. In response, the council began to:

- identify further potential savings through service reductions; and
- continued to seek to reduce costs wherever possible on its day to day spending.

11. This work continued and made progress until September 2016 when the council confirmed a significant forecast overspend against the 2016/17 budget. Again the reasons are straightforward:

- planned levels of new savings for 2016/17 proved unachievable;
- numbers of applicants for social care grew even faster than the council's pessimistic assumptions; and
- costs of individuals' care packages increased as their needs became more complex.

12. In response the council has taken key steps to bring the 2016/17 spending back under control. These include:

- stopping any spend that was not demonstrably essential and cannot be delayed;
- accelerating changes in treatment of capital financing costs;
- accelerating savings planned for 2017/18 where possible; and
- deferring any planned investment until the financial situation is clearer.

13. Alongside these measures, all services are reinforcing an approach to reviewing all planned spending in year, the Chief Executive and Director of Finance have agreed a series of actions with service directors and meet regularly to review progress.

Financial resilience review

14. In recognition of the seriousness of the financial challenges facing the Council the Director of Finance, supported by the Chief Executive and Leader, requested the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a financial resilience review in November 2016. As well as looking at comparative spending and costs, the review focused on the accuracy of the council's budget planning assumptions and figures and the council's long term financial resilience. The key conclusions were:

- the budget planning assumptions and figures were sound;
- the council's financial resilience is not sustainable over the short or medium term unless it identifies and implements the full scale of savings required as soon as possible to match its currently allowed income profile going forward..

15. CIPFA confirmed that the council could not manage until 2019/20 through reliance wholly on reserves, which are already somewhat depleted. Furthermore, CIPFA advised that any service reductions not yet planned would only have a part year impact in 2017/18 due to the need for public consultation and equality impact assessment ahead of implementation. They estimated only a quarter year effect of savings not already planned.

Key strategies

Financial strategy

16. The council's refreshed Financial Strategy 2017-20 (Appendix 1) clearly sets out the council's approach to financial management. It provides the basis for sound financial governance and to return towards a position of long term sustainability.

17. The key fundamentals of the financial strategy 2017-20 are:

- acting in the public interest at all times through building partnerships to improve value and outcomes;
- long term planning to enable effective and sustainable outcomes that meet future needs and opportunities; and
- a proactive and practical outcome-focused approach to managing key risks and opportunities and supporting service strategies.

18. The Financial Strategy will remain largely stable to 2020. Within this, budget assumptions, operational protocols and financial drivers may alter in the short term and each will be reflected in the annual budget planning process through the MTFP.

Risk management strategy

19. 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 council's corporate priorities.

Financial planning environment

20. The council sets its budget 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 and how these affect financial prospects.

21. In his Autumn Statement in November 2016, the Chancellor of the Exchequer loosened the Government's objective little on eliminating the UK's public spending deficit in the lifetime of this Parliament – that is by 2020. The Chancellor broadly kept to his predecessor's departmental reductions targets, but allowed extra investment spending.

Provisional Local Government Financial Settlement 2017/18

22. Following on from the Autumn Statement, DCLG published its Provisional Settlement 2017/18 consultation on 15 December 2016. This consultation ran until 13 January 2017 and DCLG is expected to announce the Final Settlement 2017/18 in early February 2017. The timing of both the Provisional and Final Settlements is later than expected and the response period is short. Neither of these helps local authorities in their financial planning.

23. The Provisional Settlement 2017/18 set out funding allocations to local authorities for the period up to 2019/20. The allocations follow the pattern set out in the Final Settlement 2016/17 that introduced the shock funding reduction that has so severely affected the council during this financial year.

24. The Final Settlement 2016/17 included a four year offer to broadly set authorities' funding for the period 2016/17 to 2019/20. The Government's four year offer to the council did not provide an equitable or sustainable financial position. Surrey's Full County Council debated the issue of whether to accept the four year offer at some length. After due consideration and weighing up the risks involved, Full County Council declined the offer as ultimately it would mean the council accepting figures that they fundamentally disagreed with, including that the council would lose over £17m in 2019/20. Equally, the council would not prepare an efficiency plan that accepted and enabled such damage to its finances. For the council to accept the -£17m negative

RSG imposition would be equivalent to asking every Surrey council tax payer to pay 3% to fund other areas every year.

25. Having declined the four year offer, the council has to rely on annual settlements and can only take the figures published for 2018/19 onwards as indicative.

Settlement Funding Assessment and Revenue Support Grant

26. Settlement Funding Assessment (SFA) is Revenue Support Grant plus business rates baseline funding (which comprises business rates top up grant and business rates income). Table 1 shows the council's SFA as set out in the Provisional Settlement.

Table 1 Provisional Settlement Funding Assessment

	2016/17		**2017/18**		**2018/19**		**2019/20**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Business rates retention	46.0		49.0		50.5		52.3	
Tariff/Top-Up*	59.4		58.6		60.4		62.6	
Baseline Funding Level		105.4		107.6		110.9		114.9
Revenue Support Grant		67.0		28.0		4.5		
Tariff/Top-Up adjustment								-17.3
Settlement Funding Assessment		172.4		135.6		115.4		97.6

* DCLG has recalculated tariffs and top-ups for 2017/18 to reflect the adjustment for the 2017/18 business rates revaluation

27. The reduction in SFA for the council between 2016/17 and 2017/18 is -£37m (-21%) and over the four years from 2016/17 to 2019/20 is -£75m or -43%.

28. The reduction in Revenue Support Grant (RSG) for the council between 2016/17 and 2017/18 is -£39m (-58%) and over the four years from 2016/17 to 2019/20 (including the -£17.3m top up adjustment) is -£84m (-126%). This closely follows the reductions expected from the final Settlement 2016-17 for the four year period to 2019/20.

Core Spending Power

29. The Department for Communities and Local Government (DCLG) continues to present the financial amounts in the Provisional Settlement using Core Spending Power (CSP). For 2017/18 CSP combines:

- Revenue Support Grant,
- Retained Business Rates,
- New Homes Bonus,
- Rural Services Delivery Grant,
- improved Better Care Fund,
- 2017/18 Adult Social Care Support Grant,
- Transition Grant and
- council tax (including adult social care precept at 2%).

30. The Government has revised CSP this year to include the new 2017-18 Adult Social Care Support Grant. The inclusion of council tax in CSP again masks the withdrawal of

core Government grant (RSG). Table 2 shows the council's CSP set out in the Provisional Settlement.

Table 2 Provisional Core Spending Power

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding Assessment	**172.4**	**135.5**	**115.4**	**97.7**
Settlement specific grants				
Improved Better Care Fund	0.0	0.0	0.0	1.5
New Homes Bonus	6.2	5.0	3.6	3.5
Rural Services Delivery Grant	0.0	0.0	0.0	0.0
Transition Grant	11.9	12.2	0.0	0.0
2017-18 Adult Social Care Support Grant	0.0	4.0	0.0	0.0
Total Settlement specific grants	**18.1**	**21.2**	**3.6**	**5.0**
Council tax (core element)	606.0	625.8	646.3	667.4
Adult Social Care precept	11.9	24.8	38.8	53.9
Council tax	**617.9**	**650.6**	**685.1**	**721.3**
Core spending power	**808.4**	**807.3**	**804.1**	**824.0**

31. The Provisional Settlement indicates an increase in CSP of £15m (2%) over the period 2016/17 to 2019/20. This modest increase is founded on DCLG expecting the council to raise council tax by £103m over the period. This marks a shift in proportionate contributions of council tax to core Government grants for local authorities' funding for England, on average, from 50%:50% in 2015/16 to 62%:38% in 2019/20. For Surrey County Council, the same period the proportionate contributions for are 72%:28% in 2015/16 and 88%:12% in 2019/20.

The main components of the provisional settlement and related announcements

Council tax and Adult Social Care precept

32. The Provisional Settlement confirmed the council tax referendum limit remains at 2% and local authorities can raise an additional 1% under the Adult Social Care precept flexibility. This means a maximum of 3% in in 2017/18 and 2018/19 and limited to a total rise of 6% over the three years 2017/18 to 2019/20. In other words, instead of 2%, 2%, 2% rises, a local authority can opt for 3%, 3%, 0%. It is expected the Government will require local authorities opting to do this to provide assurance that this funding will be used for adult social care services. If the council decided to raise the Adult Social Care precept to 3% in 2017/18 this would generate an additional £6.2m.

New 2017/18 Adult Social Care Support Grant

33. In 2017/18, local authorities will share in a new £241m 2017/18 Adult Social Care Support Grant. The Provisional Settlement shows the grant is available for one year only. DCLG will distribute the grant using the social care relative needs formula and on that basis, Surrey County Council is ranked eighth highest in England and will receive a 1.66% share of the total, equivalent to an additional £4.0m. This is clear recognition that Surrey has a high need for spend on adult social care.

New Homes Bonus

34. To generate the savings to fund the 2017-18 Adult Social Care Support Grant, the period for paying New Homes Bonus for 2017/18 reduces from six years to five coupled with a 0.4% growth threshold below which local authorities will not receive the grant. The impact of this is to reduce the council's funding by £1.2m (and by £5.0m for Surrey districts and boroughs in aggregate). It is noted this announcement has seen £2.2m funding lost to Surrey residents to support services elsewhere.

35. Following consultation earlier in 2016, from 2018/19, DCLG will base the grant on a four year period rather than the existing six year period.

Improved Better Care Fund

36. The distribution for this funding is unchanged and continues to include amounts raised locally from the Adult Social Care precept within the Improved Better Care Fund (iBCF) resources making up an authority's share of the fund. This disadvantages those local authorities that have had to rely on council tax for a high proportion of their funding due to historic low levels of Government grant support. Because the Government's allocation mechanism for iBCF factors in funds it assumes local authorities will raise through the ASC precept at 2% a year, the Provisional Settlement shows Surrey County Council's share is zero in 2017/18 and 2018/19 and £1.5m (0.1% of the total £1,500m fund) in 2019/20, when the council's relative needs based share of those years' Government funding are: £2m, £14m and £25m respectively.The lack of allocation of this funding to Surrey contradicts the Government's recognition of the need to spend on adult social care services in the area.

Business rates retention and revaluation

37. DCLG announced the adjustments to business rates tariffs and top ups in the Provisional 2017/18 Settlement. These adjustments are to neutralise the impact of the revaluation which takes effect from 1 April 2017. First of all, DCLG adjusts the national business rates multipliers so that the revaluation exercise does not increase to total revenue raised nationally by business rates. Because this is a national adjustment, areas where rateable values increase more than the national average will have higher collectable retained business rates incomes. So that local authorities' baseline funding from business rates remains the same and to maintain relative funding levels between local authorities, DCLG adjusts individual authorities' tariffs or top ups. For Surrey County Council, the Provisional Settlement shows a £2m increase in retained business rates and a corresponding £2m decrease in top up grant.

38. In the business rates revaluation exercise, rateable values in Surrey increased by around 15%, which is above the national average of 10%. This means that after applying the reduced multiplier to their increased rateable values, businesses in Surrey will pay higher business rates from April 2017. However, because the tariff and top up system neutralises income changes between local authorities for the effects of the revaluation, the councils in Surrey will not gain funding.

39. The full impact on the council's business rate retention revenues following the revaluation will not be known until the 2017/18 forecasts (known as NNDR1) are completed by the districts and boroughs at the end of January 2017.

Transition Grant

40. The 2017/18 Transition Grant remains at £12.2m as published in the Final Settlement 2016-17.

Revenue Support Grant (RSG)

41. The council's 2017/18 RSG remains at £28.0m as published in Final Settlement 2016-17. This is a reduction of £39m from the 2016/17 allocation.

Public Health Grant

42. The council's Public Health Grant reduces to £37.5m. Responsibility for public health transferred to local authorities in 2013/14. To maintain stability in the system, the Government based grant allocations on the existing spending by the extant primary care trusts (PCTs). PCTs in Surrey had low public health spending and the council received a low grant on transfer. The Government intended to adjust Public Health Grant distributions to more closely match population and need indicators and move away from the distributions inherited from the PCTs. The Government has not revised the distribution of Public Health Grant and for 2017/18, Surrey has the lowest grant allocation per head of population (£31.46) of any local authority and is substantially below the average rate for England of £59.38. If the council was funded at the average rate, it would receive an additional £33m Public Health Grant.

Dedicated Schools Grant and Education Services Grant

43. The Government confirmed on 14 December 2016, through the launch of Phase 2 of the National Funding Formula for schools consultation, that the new national funding formula will be introduced from 2018/19, with full implementation by 2019/20.

44. The consultation illustrations show that had the Department for Education (DfE) fully implemented the proposed formula for 2016/17, Surrey schools would have received £18.0m more overall than they did.

45. The former general Education Services Grant no longer exists in 2017/18 but the council is receiving partial replacement funding from the following three main sources in 2017/18. All of these three figures are estimates and the funding shown will reduce as more schools convert to academies.

- A transitional grant for April to August 2017. The provisional allocation is £2.6m.
- A new school improvement monitoring and brokering grant to support local authorities' residual school improvement responsibilities from September 2017. The provisional amount is £0.6m.
- On 9 January 2017, Schools Forum agreed a levy of £25.65 per pupil from maintained schools. The estimated amount raised from this is £1.6m.

Scenario planning 2017/18 to 2019/20

46. The shock to the council's funding set out in the Final Settlement 2016-17, coupled with higher than anticipated cost and demand pressures have meant the council's planned levels of savings for 2016/17 have proved unachievable. This has delayed and disrupted work on the savings programme in MTFP 2016-21 and the council has focused effort firstly on developing a robust budget for 2017/18. The Government has provided indications of the council's funding through to 2019/20, when it expects to move to 100% business rates retention. Beyond 2019/20 the financial planning environment is potentially open to considerable change. For this latter period of the 2017-20 MTFP, the council has worked on the basis of a continuation of the position in 2019/20. Therefore the budget proposals within the MTFP should be considered in two parts:

    - year 1 (2017/18) for which the council needs to set a council tax precept; and
    - years 2 and 3 (2018/19 and 2019/20) the remaining period for which indicative funding levels are available.

47. Usually the Council produces a 5 year Medium Term Financial Plan. However, in view of the long term uncertainty over Government funding levels and the financial climate, figures beyond 2019/20 would be potentially spurious and misleading. The Council is therefore only considering the next three financial years in this budget paper.

REVENUE BUDGET

Budget planning assumptions

48. The council began building its annual budget in June 2016. This involved reviewing the council's financial position and outlook at the end of the first quarter of 2016/17, revisiting the assumptions, pressures and savings included in the MTFP 2016-21. Table 3 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 3 Budgetary assumptions 2017-20

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

Note: - differing percentages apply to contractual inflation

Forecast revenue budget outturn 2016/17

49. The council's overall revenue forecast outturn for 2016/17 as 30 November 2016 was an overspend of +£6.1m. A separate report on this agenda updates the position as at 31 December 2016 and provides more detail (Finance and budget monitoring report for December 2016).

50. Despite significant improvement from the +£22.0m overspend forecast at 30 September 2016, at 30 November 2016, the council still forecast to overspend by +£6.1m in a year when it had also planned one of its largest ever use of reserves to support the revenue budget (£24.8m). The underlying cause of the service overspend

is because planned levels of new savings for 2016/17 have proved unachievable in the context of significant demand pressures, exacerbated by the shock reduction in 2016/17 RSG the Government imposed upon the council in the Final Settlement 2016-17.

51. The council has taken action to bring the 2016/17 budget back into balance including:

- the Chief Executive and Director of Finance have agreed a series of actions with service directors and meet regularly to review progress;
- all services have reinforced and reviewed all planned spending in year;
- all services have reviewed options for managing service demands more effectively; and
- Cabinet will, wherever sensible, not agree further spend commitments until a balanced budget is assured and progress towards a sustainable Medium Term Financial Plan (MTFP) is made.

52. Within the council's financial outturn, as part of longer term financial planning and subject to resource availability, 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 2017-18.

Service pressures

53. The council faces growing service pressures for reasons of: cost, volume and complexity. The council's service pressures do not include the effects of changes in funding.

54. Many of the actions to help bring the 2016/17 budget back into balance are short term measures and primarily do not tackle the overspends on an ongoing basis or compensate fully for savings the council planned, but found to be unachievable.

55. The forecast 2016/17 overspend and planned savings found to be unachievable add an ongoing pressure on the 2017/18 budget of £20m each year. These pressures largely arise from demand and price pressures preventing Adult Social Care from achieving its demanding £55m savings target for 2016/17.

56. For 2017/18 gross service pressures on the budget amount to £119m as shown in Table 4.

Table 4 Surrey County Council budget pressures 2017/18

	2017/18 £m	**2017/18 £m**
Pay Inflation	4.8	
Non pay inflation	19.0	
Total inflation		23.8
Demand		61.5
Market and service delivery		33.6
Total gross service pressures		**118.9**

57. Legislative changes resulting in expenditure reductions reduce the gross pressures in 2017/18 by £20m. Of these changes, £19m is due to schools' academy conversions, which take away the responsibility for spending on services. The impact in 2017/18 is net pressures of £99m.

58. Table 5 shows the further pressures on the budget for 2018/19 onwards.

Table 5 Surrey County Council budget pressures 2018/19 and 2019/20

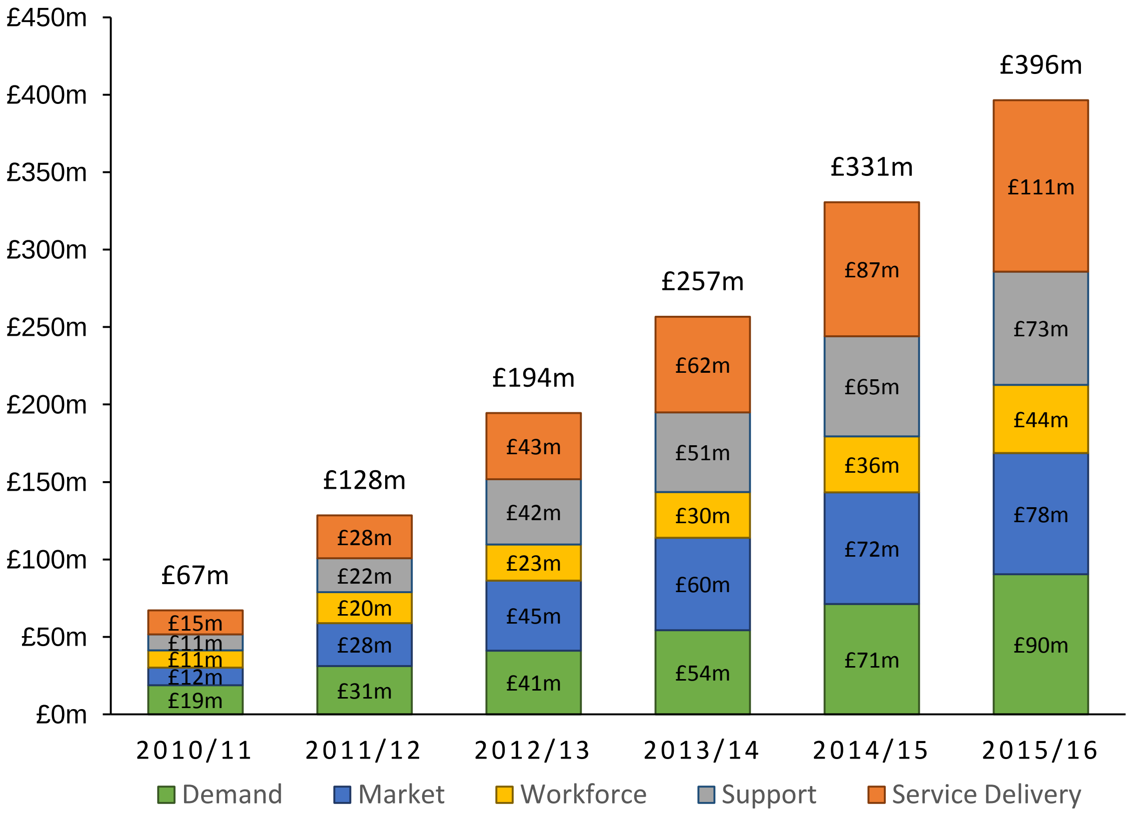
	2018/19 £m	2019/20 £m
Pay Inflation	3.6	3.6
Non pay inflation	19.4	19.5
Total inflation	23.0	23.1
Demand	30.9	21.5
Market and service delivery	8.0	15.3
Total gross pressures	**61.9**	**59.9**

Savings and service reductions

Savings and service reductions achieved 2010/11 to 2016/17

59. Over the six years 2010/11 to 2015/16, the council achieved £396m savings and service reductions as shown in Figure 1.

Figure 1 Surrey County Council savings achieved 2010/11 to 2015/16



60. In 2016/17, the council forecasts to achieve a further £63m savings.

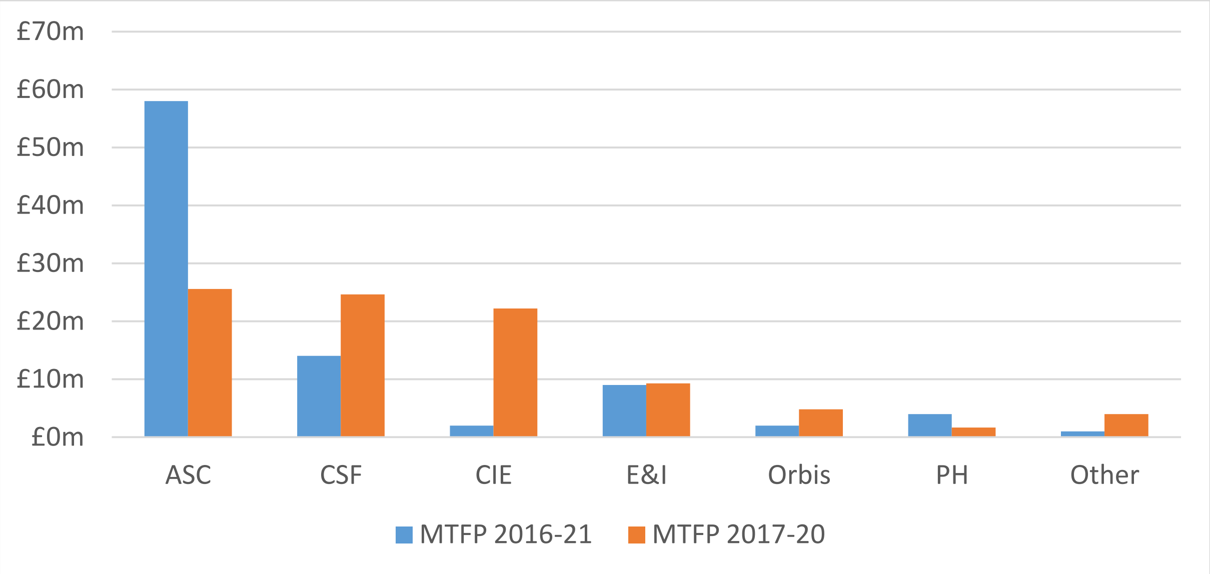
Savings and service reductions planned for 2017/18 and 2018/19 onwards

61. MTFP 2016-21 included £90m savings for 2017/18. The difficulties encountered in 2016/17 including the rise in demand pressures in adult social care, leading to the inability to achieve some of the year's planned savings and the growth of the savings gap during the year has led to a reconsideration and review of savings. Figure 2 compares savings identified by directorate for 2017/18 in the MTFPs for 2016/17 and 2017/18.

62. The impact of the reconsideration and review by senior directors is an increase in efficiency savings and reductions for 2017/18 to £93m. Importantly, this includes a shift in the distribution of savings from Adult Social Care (ASC) and Public Health (PH) to: Children, Schools & Families (CSF), Central Income & Expenditure (CIE) and Orbis. Savings for Environment & infrastructure (E&I) remain the same. Within these figures:

- ASC savings figures are now more realistic and achievable than originally planned for 2017/18;
- ASC figures also include identified savings and actions to reduce budget pressures;
- CIE savings now include £8m for the revised MRP (minimum revenue provision) policy and further savings due to changes in interest rate assumptions and the treasury management policy.

Figure 2 2017/18 savings identified in MTFPs for 2016-21 and for 2017-20



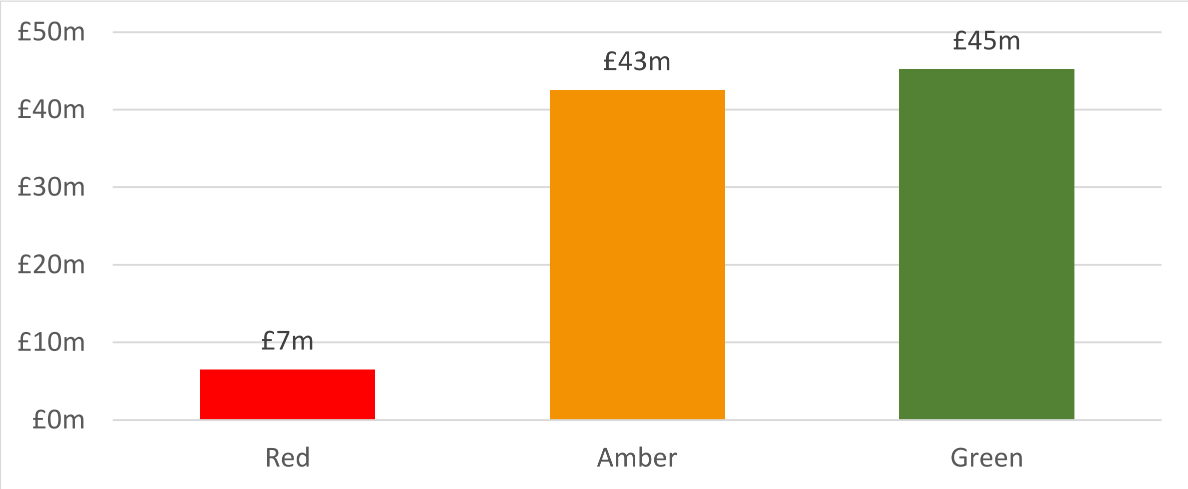
63. Despite the assurances given by the reconsideration and review of savings, significant challenges to delivery remain. The directors' review assessed the risks to achieving the savings on the following basis:

- Red – there is no plan to deliver the saving;
- Amber – there is a plan to deliver the saving, although it is not currently on track;
- Green – there is a plan to deliver the saving and it is on track.

8

64. Figure 3 shows the distribution of risk by value of 2017/18's savings. The amount of combined Red and Amber rated savings fits with advice from the council's financial resilience review and 2016/17's experience that delivering savings is ever harder. To ensure the council increases the rigour in its savings delivery, the Director of Finance is devising a process to track and monitor services' progress in achieving their planned savings to operate from 1 April 2017.

Figure 3 Risk rating of 2017/18 savings



65. For the remainder for the MTFP 2017-20 period (2018/19 and 2019/20), the council plans to achieve just over £76m savings, bringing the total for the three years to £170m. Table 6 shows the spread of savings over the MTFP 2017-20 and between efficiencies, service transformation and service reductions.

Table 6 Planned savings 2017-20

	2017/18 £m	2018/19 £m	2019/20 £m	2017-20 £m
Efficiency/ Service Transformation	-87.2	-48.0	-25.2	-160.4
Service reduction	-6.2	-2.1	-1.0	-9.3
Total planned savings	**-93.4**	**-50.1**	**-26.2**	**-169.7**

Total Schools Budget - as defined in legislation

66. 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.

67. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 7 outlines the proposed Total Schools Budget for 2017/18 of £545.2m. This comprises:

- £532.1m Dedicated Schools Grant (DSG);
- £11.0m Education Funding Agency (EFA) sixth form grants; and
- £2.1m additional funding for high cost SEN pupils, which the council is funding.

Table 7 Analysis of Total Schools Budget for 2017/18

	Schools' delegated budgets £m	**Centrally managed services £m**	**Total £m**
DSG 2017/18	390.5	140.6	531.1
DSG brought forward from previous years	1.0	0	1.0
Total DSG	**391.5**	**140.6**	**532.1**
EFA sixth form grant	11.0		11.0
Surrey County Council contribution to the cost of placements and services for high cost SEN pupils		2.1	2.1
Total Schools Budget	**402.5**	**142.7**	**545.2**

Note: Total Schools Budget does not include the pupil premium grant, provisionally £16.3m, the primary PE and sports grant, provisionally £2.3m, or universal free meals grant, provisionally £10.5m. These grants, although not part of the legal definition, are also delegated to schools and are included in the total schools funding of £430.6m as in Appendix 4.

68. 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.

69. The council's 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.

70. 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 2017/18 funding formula in November 2016. In 2017/18 the formula limits any school level gains and losses to a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee). To pay for the guarantee, the formula limits the per pupil increase (or ceiling) to a maximum of under 1%.

71. 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).

Pension fund actuarial valuation

72. The Surrey Local Government Pension Fund underwent its triennial valuation as at 31 March 2016, with results received in December 2016. In summary, the fund deficit has reduced significantly from £980m to £680m and the funding level for Surrey County Council has risen from 71.0% to 81.0%. Although the stabilisation policy means there will be no change to employer contribution rates, the actuary's advice is the council's contributions towards eliminating past deficits can reduce from that planned in the MTFP 2016-21 as shown in Table 8. The changes will take effect from 1 April 2017.

Table 8 Past deficit contributions

	2017/18 £m	2018/19 £m	2019/20 £m
MTFP 2016-21 assumption	13	15	17
Actuarial advice December 2016	11	11	11
Contribution reduction	-2	-4	-6

Overall impact of the Provisional Settlement (2017-18) announcements

73. As outlined in paragraphs 22 to 45, the overall impact of the Provisional Settlement 2017-18 changes for the council is a net £9m increase in funding if the council opts to take up the additional flexibility to bring forward the Adult Social Care precept and increase by 3% in 2017/18 and 2018/19, rather than the current planned 2% in each year, as summarised in Table 9.

Table 9 Changes due to the Provisional Settlement 2017-18

	2017/18 £m	2018/19 £m	2019/20 £m	2017-20 £m
Adult Social Care precept (potential additional 1%) *	6.2	6.5	-12.7	0.0
2017-18 Adult Social Care Support Grant	4.0	0.0	0.0	4.0
New Homes Bonus	-1.2	-0.3	-0.3	-1.8
Total potential change to MTFP	9.0	6.2	-130.0	2.2

* If the council uses the new flexibility around the Adult Social Care precept, it will attain the permitted 6% rise in 2017/18 and 2018/19 and would have to forgo the planned 2% rise in 2019/20 (as indicated by the -£12.7m)

74. The council's net £9m resource increase breaks down as follows.

- Flexibility for local authorities to raise up to 3% Adult Social Care precept (instead of 2%) in 2017/18 and 2018/19, provided the total increase over the three years to 2019/20 is no more than 6%. The impact of this is the council can gain an extra £6.2m income in 2017/18 and a further £6.5m in 2018/19, but no more in 2019/20.
- A new Adult Social Care Support Grant (ASCSG) of £241m in total for 2017/18 only. The new grant is available to adult social care authorities only and is allocated on the basis of the social care relative needs formula (RNF). The council supports

the move to allocate funding on the basis of need, but is disappointed there is no new money and by the lowly scale of the funding as initial analysis by the Local Government Association suggests at least £1.3bn could be needed immediately to stabilise the provider market and put it on a sustainable footing. The impact of the ASCSG is the council gains an extra £4.0m income in 2017/18 only, compared to annually increasing pressures of £12m.

- DCLG has funded ASCSG from reductions in New Homes Bonus (NHB) payments in 2017/18 by reducing the period of NHB payments from six years to five. The impact of this is the council loses £1.2m in NHB payments in 2017/18 and Surrey districts and boroughs together lose £5.0m, factoring in the council's £4.0m ASCSG grant gives a net loss to the Surrey area of £2.2m.

75. For the council, nearly 70% of the £9m increase comes from council tax. For other counties 55% of the net increase comes from council tax.

Business rates

100% Business rates retention

76. After 2019/20 the 100% business rates retention system is scheduled to be in operation. The Government asserts this will give local authorities around £12.5bn additional business rates receipts to spend on local services. Central and local government are currently discussing the scope and nature of these changes. To maintain fiscal neutrality across government, local authorities will gain new responsibilities, and some Whitehall grants will be phased out.

77. The limitations of the Provisional Settlement 2017-18 for the council and the potential for change with the introduction of 100% business rates retention add to the uncertainty about the council's future responsibilities and funding sources, including the adequacy and sustainability of funding at the start of the new system. A key element of the council's engagement with and responses to the development of and consultation on the 100% business rates retention proposals is to enable the new 100% business rates retention system to succeed, the council believes the Government must:

- ensure full and fair funding of existing local responsibilities before adding new ones;
- on implementation of the new system, provide robust, sustainable funding built from a realistic starting point; and
- ensure two-tier areas get the right balance of reward, risk and resourcing to make the system work effectively.

Business rates pilot areas

78. DCLG has reached agreement with authorities in the following areas to pilot 100% rates retention, starting in 2017/18: Greater London Authority, Greater Manchester, Liverpool City Region, Cornwall Council and the councils in the combined authority areas of West of England and West Midlands. The pilot authorities will each retain 100% of locally-raised business rates. In return they will forego RSG and a number of other funding streams. The pilot authorities' tariffs and top-ups will be adjusted to ensure cost neutrality. DCLG will test several elements of the 100% rates retention

scheme through the pilots, including revised safety net arrangements. These arrangements will not affect non-pilot authorities.

79. Notwithstanding the protections for non-pilot authorities, the council is disappointed the pilots do not include two tier areas.

Business rates revaluation

80. The business rates revaluation takes effect from 1 April 2017. Revaluation is a revenue neutral exercise across England, so the total rates bill stays the same in real terms, after allowing for appeals. At individual local authority level, overall rates bills will rise or fall depending upon whether rateable values in the area have increased by more or less than the average for England, after allowing for appeals. This creates change in the system outside local authorities' control.

81. To compensate individual local authorities, DCLG calculates an adjustment to tariffs and top ups based on the relative change in rateable values, before adjusting for inflation.

Business rates pooling

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

83. For 2017/18, Surrey County Council, London Borough of Croydon, Elmbridge Borough Council, Guildford Borough Council, Mole Valley District Council, Spelthorne Borough Council and Surrey Heath Borough Council submitted a bid to DCLG in October 2016 to form a business rates pool for the financial year 2017/18. The bid was successful. The pool's financial model, projects up to £4m additional income to the Surrey county area, which would otherwise be lost as levy payments. The pool agreement is for Surrey County Council to receive roughly a third of this additional income

Council tax

Council tax

84. Council tax, through the precept, is the council's main source of funding for its budget, excluding schools' budgets. The current council tax strategy is to increase general council tax by 2% and assume a 1% increase in the number of properties subject to the tax. The latter is often referred to as the council tax taxbase.

85. The Provisional Settlement 2017-18 indicated the general council tax referendum limit at 2% and introduced the additional flexibility to raise the adult social care (ASC) precept to 3% in 2017/18 and 2018/19 provided the total increase for 2017-20 is no more than 6%. This essentially achieves a cash flow advantage by enabling local authorities to bring an element of funding forward without increasing the total funding raised by the end of the full period. Given the intense and immediate pressure on adult

social care, the MTFP assumes full use of the ASC precept flexibility at 3% in 2017/18 and 2018/19.

86. Districts' and boroughs' annual returns showed an overall increase in the council tax taxbase in Surrey of 1.32%. In addition, the council's share of the districts' and boroughs' aggregate council tax collection fund surplus is £9m, which will be paid to the council as a one-off sum. These confirmed the council's estimates of future council tax growth as 1% annually and annual collection fund surpluses of £7m.

Balancing the revenue budget 2017/18 and MTFP 2017-20

Gross funding and expenditure

87. The council's gross estimated funding for 2017/18 from: Government grants, business rates, fees, charges and other income, plus council tax limited to the referendum threshold determined by the Secretary of State amounts to -£1,661m. Table 10 shows the council's funding limited to the referendum threshold increase determined by the Secretary of State, with 2016/17 funding provided for comparison.

Table 10 Surrey County Council funding at council tax referendum threshold 2017-20

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Council tax	-615	-635	-652	-671
ASC precept	-12	-31	-51	-53
Business rates	-46	-48	-49	-51
Top up	-59	-61	-62	-47
RSG	-67	-28	-5	0
Transition Grant	-12	-12	0	0
Dedicated Schools Grant	-533	-532	-532	-532
Other Government grants	-168	-163	-155	-152
Partner funding	-1	-1	-1	-1
Other income	-148	-155	-160	-163
Total funding	**-1,661**	**-1,666**	**-1,668**	**-1,670**

88. The council's gross estimated expenditure for 2017/18 is £1,696m. The shortfall in income is £30m. Table 11 shows the council's gross expenditure budgets by service for 2017/18 to 2020/21.

Table 11 Surrey County Council gross expenditure budgets 2016-20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Adult Social Care	430	453	466	488
Public Health	39	38	37	36
Children, Schools & Families	365	387	382	381
Delegated Schools Budget	458	432	432	432
Environment & Infrastructure	139	141	144	149
Fire & Rescue Service	47	44	46	43
Customer & Communities	10	9	9	9
Legal, Democratic & Cultural services	32	33	31	31
Business Services & Orbis (70% SCC contribution)	45	44	42	41
Managed budgets	53	53	54	55
Organisational Leadership & Performance	10	10	10	10
Central Income & Expenditure	58	52	51	56
Additional pressures	0	0	5	12
Gross expenditure budget	**1,686**	**1,696**	**1,709**	**1,743**

89. Table 12 summarises the Council's overall net funding position at council tax referendum threshold.

Table 12 Surrey County Council overall funding position 2016-20

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Gross funding	-1,661	-1,666	-1,668	-1,670
Gross expenditure	1,686	1,696	1,709	1,743
Net expenditure	**25**	**30**	**41**	**73**

90. The council's general reserves stand at £21.3m. This is the minimum safe level the Director of Finance regards as appropriate given the risks and uncertainties the council faces. Table 13 shows the earmarked reserves the council forecasts to bring forward as at 1 April 2017. The £59.8m total the council forecasts to bring forward on 1 April 2017 relies on it achieving a balanced budget outturn for 2016/17.

Table 13 Forecast earmarked reserves brought forward as at 1 April 2017

	£m
Revolving Infrastructure & Investment Fund	11.1
Budget Equalisation Reserve	5.9
Eco Park Sinking Fund	4.4
Insurance Reserve	7.7
Investment Renewals Reserve	2.1
General Capital Reserve	5.2
Street lighting PFI Reserve	4.4
Vehicle Replacement Reserve	3.0
Economic Downturn Reserve	9.2
Public Health Reserve	0.0
Economic Prosperity Reserve	2.5
Equipment Replacement Reserve	2.0
Child Protection Reserve	0.0
Business Rate Appeals Reserve	1.3
Pension Stabilisation Reserve	0.0
Interest Rate Reserve	1.0
Total earmarked reserves	**59.8**

Council tax referendum

Legislation

91. The Local Government Finance Act 1992 (as amended by the Localism Act 2011) requires a council proposing an increase in council tax in excess of a limit set annually by the Government to hold a referendum. In the Provisional Settlement 2017-18, the Secretary of State for Communities and Local Government confirmed the limit on an increase in core council tax to be 2% or more.

A local authority proposing a council tax increase above the limit set by government must also prepare substitute calculations for a budget below the amount which the Secretary of State considers excessive. The substitute budget will take effect if the local authority loses the referendum. If the Full County Council agrees the budget and council tax increase recommended to it by Cabinet a referendum will be held on 4 May 2017.

Costs of a referendum

92. DCLG estimates the costs of a referendum at between £85,000 and £300,000 depending on the size of the authority and whether it is combined with a local election. In addition to this, there are the potential costs of re-issuing council tax bills in the event of a referendum loss. Based on other referendums held in recent years, re-billing is estimated at approximately £630,000.

Proposed budget

93. The council faces significant service pressures and substantial loss of Government grants over the MTFP period. Its £170m MTFP savings programme is stretching and ambitious on top of what the council has achieved already. To help ensure the council achieves its savings programme, the Chief Executive and the Director of Finance are required to:

- continue to ensure delivery of existing MTFP efficiencies for the remaining years of the MTFP 2017-20; and
- continue to ensure demand and cost pressures are monitored and plans to mitigate their impact developed.

94. Despite determining a £170m MTFP savings programme including £93m in 2017/18, the intensity of its pressures and its loss of grant mean the council does not balance its budget in 2017/18 or the subsequent years of the MTFP. In setting council tax strategy, the council aims to balance its 2017/18 budget and to achieve a long term sustainable financial position for up to the next decade through a council tax rise of 15% (including 3% ASC precept). Tables 14 and 15 show the council's proposed gross funding and expenditure budgets for 2017/18 and over the MTFP 2017-20 period. Table 14 highlights the line of council tax revenue, as this is the main differentiator between the proposed and the substitute budgets.

Table 14 Surrey County Council proposed gross funding budget 2017-20

	2017/18 £m	**2018/19 £m**	**2019/20 £m**
Council Tax	*-696*	*-715*	*-736*
ASC precept	-32	-55	-57
Bus Rates	-48	-49	-51
Top up	-61	-62	-47
RSG	-28	-5	0
Trans Relief	-12	0	0
DSG	-532	-532	-532
Gov Grants	-164	-156	-152
Partner Funding	-1	-1	-1
Other Income	-155	-160	-163
Proposed gross funding budget	**-1,729**	**-1,735**	**-1,739**

Table 15 Surrey County Council proposed gross expenditure budget and MTFP 2017-20

	2017/18 £m	2018/19 £m	2019/20 £m
Adult Social Care	453	466	488
Public Health	38	37	36
Children, Schools & Families	387	382	381
Delegated Schools Budget	432	432	432
Environment & Infrastructure	141	144	149
Fire & Rescue Service	44	46	43
Customer & Communities	9	9	9
Legal, Democratic & Cultural services	33	31	31
Business Services & Orbis (70% SCC contribution)	44	42	41
Business Services managed budgets	53	54	55
Organisational Leadership & Performance	10	10	10
Central Income & Expenditure	52	51	56
Additional pressures	0	5	12
Proposed gross expenditure budget	**1,696**	**1,709**	**1,743**
Shortfall / Surplus (-) of gross funding to gross expenditure	-33	-26	4

95. By proposing a budget that exceeds the Secretary of State's view of an excessive rise, the council must put its proposal to a referendum and prepare a substitute budget that does not breach the Secretary of State's limit.

Substitute budget

96. In the event the council does not win the referendum, it must implement its substitute budget. Tables 16 and 17 show the council's substitute gross funding and gross expenditure budgets for 2017/18 and MTFP 2017-20. Rather than be in a position to sustain services as under the proposed budget, **the substitute budget requires further significant service reductions to be found of £30m in 2017/18, rising to £73m by 2019/20.**

97. Table 16 highlights the line of council tax revenues as this is the main differentiator between the proposed and substitute budgets. Table 14 shows the proposed budget raises £696m council tax in 2017/18, rising to £736m in 2019/20 compared to the substitute budget raising £635m council tax in 2017/18, rising to £671m in 2019/20. The substitute budget council tax rise in 2017/18 is 4.99% in line with the Secretary of State's determination of excessiveness. The council tax rises in 2018/19 and 2019/20 are in line with government guidance i.e. 5% and 2% respectively.

8

Table 16 Surrey County Council substitute gross funding budget 2017-20

	2017/18 £m	2018/19 £m	2019/20 £m
Council tax	*-635*	*-652*	*-671*
ASC precept	-31	-51	-53
Business rates	-48	-49	-51
Top up	-61	-62	-47
RSG	-28	-5	0
Transition Grant	-12	0	0
Dedicated Schools Grant	-532	-532	-532
Other Government grants	-163	-156	-152
Partner funding	-1	-1	-1
Other income	-155	-160	-163
Substitute gross funding budget	**-1,666**	**-1,668**	**-1,670**

98. Table 17 has a line of unidentified service reductions which shows how much lower the council's expenditure would need to be to balance the substitute budget and that the actions to identify and implement those reductions have yet to be identified. This line does not appear in the proposed budget, because there are no further savings to find as the budget balances from the beginning of the year.

Table 17 Surrey County Council substitute gross expenditure budget and MTFP 2017-20

	2017/18 £m	2018/19 £m	2019/20 £m
Unidentified service reductions	*-30*	*-41*	*-73*
Adult Social Care	453	466	488
Public Health	38	37	36
Children, Schools & Families	387	382	381
Delegated Schools Budget	432	432	432
Environment & Infrastructure	141	144	149
Fire & Rescue Service	44	46	43
Customer & Communities	9	9	9
Legal, Democratic & Cultural services	33	31	31
Business Services & Orbis (70% SCC contribution)	44	42	41
Business services managed budgets	52	51	56
Organisational Leadership & Performance	10	10	10
Central Income & Expenditure	53	53	56
Additional pressures	0	5	12
Substitute gross expenditure budget	**1,666**	**1,668**	**1,670**
Shortfall / Surplus (-) of gross funding to gross expenditure	0	0	0

99. In addition to the actions required to manage the delivery of the proposed budget (see paragraph 93) there is a further requirement for a transparent Member led process, in conjunction with officers, to find and implement an additional £30m of cuts to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this

may require cuts greater than £30m to reflect that only a part year benefit will be achievable).

100. Because a referendum on the proposed council tax would not happen until 4 May 2017, the council would lose time beginning the extra work to achieve the additional £30m service reductions it would need to find within 2017/18. Given the late start, the requirement for consultation and equalities assessments, and time to agree plan and implement the service reduction measures, the time available to put actions in place and see the effects of the additional service reductions could be less than six months. Indeed during a review of the council's financial resilience carried out by the Chartered Institute for Public Finance and Accountancy (CIPFA) commented that it would only be realistic to achieve a quarter year reductions from actions not already planned. On average, the savings gap due to the late start will accrue at £2.5m each month. To achieve 2017/18's ongoing efficiency savings amounting to £30m within what is realistically a much shorter timescale, the council could:

- bring forward and implement all of 2018/19's savings on an annual ongoing basis during 2017/18 to make up for the shorter timescale to accrue the savings;
- fill the ongoing efficiency gap with one-off reductions; or
- a mixture of the two.

RISKS AND UNCERTAINTIES

101. In balancing the 2017/18 revenue budget and looking ahead for the remaining two years of the MTFP (2018-20), the council has taken account of the key risks and uncertainties it faces. The main areas of risk include:

- the outcome of the referendum on the proposed 2017/18 budget council tax increase;
- is it possible for directors to identify and deliver sufficient service reductions to achieve a balanced budget and one that moves towards a sustainable budget;
- the on-going effectiveness of the council's existing efficiencies, savings and service reductions programme included in the proposed budget;
- the on-going growth in demographic demands on services; and
- confirmation of outstanding grant allocations.

CAPITAL PROGRAMME 2017-20

Capital budget planning

102. The council set a five year capital programme totalling £638m in MTFP 2016-21. In April 2016, it approved a range of underspends to be carried forward, bringing the total for five years to £651.3m.

103. In year changes to the capital programme include additional approved schemes, additional grant notifications and reductions in planned expenditure for some schemes, specifically SEND (special educational needs and disabilities) and looked after children as well as some reductions and reprofiling in relation to new school places. In addition to these changes, the capital programme in MTFP 2017-20 takes account of the council's new financial environment. The revised proposed four year capital programme totals £408m. The focus remains on the continuing forecast growth in

school pupil numbers (£141m) and the importance residents place on good roads (£112m).

Capital position 2016/17

104. The forecast in-year variance on the 2016/17 capital programme as at 30 November 2016 is an underspend of £14m against the approved revised service budget of £153m. The main area of underspend relates to highways and transport.

105. 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 2017 and if approved, the amounts will be added to the capital programme for 2017-20.

Capital expenditure

106. For 2017/18 the capital investment in school places continues with a capital budget of £72m. Overall, for the period 2017-20, the council will invest an additional £141m to create a further 11,000 school places over the five years 2016-21.

107. Given the current pressures on the council's finances, and the impact of borrowing to fund the capital programme by incurring additional capital financing costs, the council has reduced the planned capital spend on highways which would need to be funded from borrowing from 2018/19 onwards. Investment in roads and transport continues to total £53m in 2017/18 and £112m across the three years to 2020/21.

108. The council plans to invest £13m in information technology over the three years to 2020/21. This includes £7.5m for new equipment and infrastructure and a £3.8m replacement and renewal programme. By making this investment, the council enables and supports further service efficiencies.

109. Table 18 summarises the council's £408m capital programme for the three years of MTFP 2017-20. Annex 5a sets out a more detailed version of the capital programme.

Table 18 Summary capital expenditure programme 2017-20

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2017-20 £m**
Schools Basic Need	72	55	13	140
Highways recurring programme	30	26	24	80
Property & IT recurring programme	24	24	24	72
Property projects	33	11	9	53
Other capital projects	37	16	10	63
Total	**196**	**132**	**80**	**408**

110. Cabinet requires a detailed and robust business case before considering additional projects for approval.

111. If the referendum does not support the proposed budget, then the MTFP 2017-20 capital programme would require revisions to reduce the impact of borrowing on the

revenue budget. This would require removal of all the capital schemes funded by borrowing, with the exception of those schemes:

- that generate revenue savings or prevent revenue pressures; and
- that are already committed and where work has already begun.

Capital funding

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

Government grants

113. Government departments have announced some, but not all, capital grants for 2017/18 and even fewer for future years. The grant funding for capital from central government therefore remains unclear. Government departments commonly announce additional grants during the financial year, so the council includes a forecast for these.

114. 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.

115. Table 19 shows the grants expected for 2017/18.

Table 19 Government capital grants 2017/18

Expected Government capital grants	**2017/18 £m**
School places	59
Schools condition allocation	12
Integrated transport block	5
Highways maintenance	15
Local Growth Fund	18
Other capital grants	12
Total expected grants	**121**

116. Capital grants for years beyond 2017/18 are less certain and MTFP 2017-20 includes an estimate for each year. The council reviews this estimate each year and makes equivalent adjustments to the capital programme.

Third party contributions

117. The council also uses contributions from third parties to fund its capital programme. Third party contributions come largely from developers as community infrastructure levies (CIL) and planning gain agreements under Section 106. The MTFP 2017-20 capital programme relies on £6m third party funding in 2017/18.

Revenue reserves

118. The council uses reserves to fund some items of capital expenditure. It replenishes these reserves from service revenue budgets. The main service revenue reserve is the

IT Equipment Reserve. The MTFP 2017-20 capital programme relies on £19m funding from service revenue reserves in 2017/18.

Borrowing

119. The council borrows to fund the part of the programme remaining after applying the above three funding sources. Over the three years of MTFP 2017-20, the council expects to borrow £95m to balance the proposed capital programme.

120. Table 20 summarises the council's estimated capital funding for the period 2017-20.

Table 20 Capital funding 2017/18 to 2020/21

	2017/18 £m	2018/19 £m	2019/20 £m	2017-20 £m
Grants	121	85	67	273
Reserves	19	6	2	27
Third party contributions	6	4	4	14
Borrowing	50	37	7	94
Total	**196**	**132**	**80**	**408**

Capital receipts

121. The council can apply capital receipts more flexibly to fund its investments and it can use these resources to fund its additional portfolio of investments. The council currently has £46m in unapplied capital receipts.

122. During 2016 the Government announced an additional flexibility to allow councils to use capital receipts received between 2016 and 2019 to meet the revenue costs of transformation programmes, within certain conditions. The council is considering its options in relation to this new flexibility and if it chooses to use it, 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

123. In recent years the council has taken a strategic approach to investment. This allows it 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

124. The council sets its minimum level of available general balances at 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 as at 1 April 2017.

125. Going into 2017/18 the Director of Finance recommends the level of general balances remains the same. Although the current expected level of £21.3m is marginally in excess of this, the Director of Finance considers this is prudent to mitigate the increasing risk of non-delivery of service reductions and efficiencies in 2017/18 and to take account that it is usual for the council to receive notification of many revenue and capital grants after it has set its budget.

126. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. Table 13 shows the forecast total balance for all earmarked reserves brought forward at 1 April 2017 is £60m, down from £102m brought forward on 1 April 2016. The main reason for this is the use of £25m of reserves to support the 2016/17 budget. In the previous three years (since 2012/13) the council has drawn £110m from reserves to support the revenue budget.

127. As stated in paragraph 118 the council is planning to use £19m of reserves to support the 2017/18 capital programme budget. During the period 2012/13 to 2015/16, the council used £17m reserves to fund capital and forecasts to use another £6m in 2016/17.

128. 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

129. 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 strategy statement and Appendix 8 sets out the council's treasury management policy statement.

130. On 12 July 2016, as a result of changes in the economic and regulatory environment, specifically the combination of increased counterparty risk (less security arising from new bail in regulations) and further downward pressure on the interest rate environment, Full County Council approved a revised treasury management strategy. This resulted in the adoption of a more focused strategy of internal borrowing over the short term and a move away from long term borrowing towards short term borrowing in order to minimise borrowing costs and unnecessary cash balances.

131. Outstanding long term debt has stayed constant during 2016/17. Financial and geopolitical concerns (including the pending UK exit from the EU and the monetary policy response from the Bank of England) have led to a sharp dip in gilts yields and

therefore the cost of long term and short term debt, and has validated the revised strategy.

132. The proposed position can be summarised as follows.

- A continuation of the existing strategy to take advantage of the unprecedented low interest rates to borrow externally only when required for liquidity purposes and for the short term, while minimising surplus cash balances.
- Maintain the existing counterparty, duration and investment instrument criteria for the management of any surplus cash balances.
- In addition, a review of the calculation of the annual Minimum Revenue Provision (MRP) has been undertaken during 2016/17. Changes to the method of calculation are proposed in the minimum revenue provision policy (Annex 12). The revised calculation continues to ensure the council makes a prudent provision for the repayment of its external debt but does not put unnecessary pressure on the council's revenue budget

133. 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 approach to borrowing will continue to rely on internal funding for capital expenditure while it remains viable.

134. 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.

135. 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.

136. For 2017/18 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.

CONSULTATION

137. During July 2016 and January 2017, the Leader, Deputy Leader, Chief Executive and Director of Finance held a series of face-to-face briefing 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 member briefing sessions.

RISK MANAGEMENT IMPLICATIONS

138. 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 representatives from the Emergency Management team and Internal Audit. 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.

139. 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.

140. The specific risks relating to the financial environment and opportunities facing the Council and recorded in the Leadership Risk Register are listed below:

- constraints in the ability to raise local funding and/or distribution of funding;
- increased reliance on integrated working, partnership working and implementing new models of delivery to manage service delivery, optimise efficient service delivery and respond to the strategic infrastructure challenges facing the county;
- the on-going uncontrollable growth in demographic demands on services.

141. After seven years the risk of non-delivery of efficiencies and service reductions is increasing and a number of mechanisms are in place to help manage the risks inherent in the council's budget assumptions, including:

- monthly reporting to Cabinet on budget monitoring forecasts within three weeks of the period end and including remedial management action where required;
- the operation of a robust risk management approach;
- the presence of the council's key internal control framework, including the financial regulations and Scheme of Delegation for Financial Management which provides the framework for delegated budget management;
- the sustaining of good working relations with the external auditor (Grant Thornton);
- the operation of the internal audit function and its role in assessing controls and processes to highlight any major weaknesses and advise on best practice, and;
- the continuation of robust arrangements to track and monitor demand growth, the delivery of new savings and determine any additional measures necessary.

142. 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.

143. 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

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

SECTION 151 OFFICER COMMENTARY

145. 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 have become even more serious since setting last year’s budget. Whilst the councils recommended budget, which requires an increase in council tax of 15% and therefore a referendum, will move the Council to a long term balanced and sustainable financial position, assuming planned service changes are delivered, it does include risk. The key risk is that the planned service changes may not be straightforward to implement and must comply with equality duties.

146. If the referendum is unsuccessful, the substitute budget requires early and intense work led by Members to confirm an additional £30m of service reductions to achieve a balanced budget in 2017/18 and move towards a sustainable budget (noting that this will require the council to reduce its spending by £30m to achieve a balanced budget in less than a whole year). In recognition of the complexities in delivering this, there is a significant risk that there is likely to be an unplanned need to use reserves on a temporary basis to ensure a balanced budget in 2017/18. Any use of reserves would need to be replenished in 2018/19 to ensure safe levels are held as the council faces further financial uncertainty going into 2019/20 when the Government are planning to change the methodology for funding significant elements of local government (through changes to business rate retention as well as schools funding). It is therefore the view of the Director of Finance that the council should hold the current level of reserves going into 2017/18.

LEGAL IMPLICATIONS – MONITORING OFFICER

147. The Council is under a legal duty to set a balanced budget. This report sets out recommendations to Council for the adoption of a budget and the basis for the level of the council tax for 2017/18. The recommended budget would result in a council tax increase above that laid down in draft principles which have been published by the Secretary of State for 2017-18 and, assuming these become law, would trigger the requirement for a referendum of the Surrey electorate, which would be held on the same day as County elections. In accordance with the requirement of the Local Government Finance Act 1992 the report also set out substitute calculations, which would deliver a balanced budget below the 5% cap set out in the Secretary of State’s principles. If Council adopt the recommended budget it would stand in the event that a referendum was successful. If, in a referendum the majority voted against the recommended budget the substitute calculations would take effect, without the requirement for any further Council decision.

148. Members will note that the Director of Finance points out that the recommended budget still requires significant service transformation and efficiencies. Delivering these will impact on public facing services. This budget report does not detail these reductions, but officers have been working to identify and develop options for implementation. This report sets out in paragraph 149 below the public sector equality duty by which Members are bound and follows this with a methodology for ensuring that any future decisions about services flowing from the recommended budget will comply with that duty. The Director of Finance also reminds Members that balancing a substitute budget would require the identification of further substantial and permanent service reductions for implementation in 2017/18 and subsequent years. Any such service reductions and their subsequent impacts have as yet to be identified. In choosing which services to reduce decision makers would have to comply with the public sector equality duty. This of course does not prevent difficult financial decisions, but the possible Member led process described in paragraph 99 of this report (which would be designed to find an additional £30m of cuts to achieve a balanced budget in 2017/18) would need to be conducted in a fair and transparent way and to be sufficiently informed and supported to take those difficult decisions in full consideration of the needs of the different individuals and communities the Council serves, in particular people in those groups defined by reference to protected characteristics.

EQUALITIES AND DIVERSITY

149. 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."

150. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP 2017-20 on Surrey's residents with one or more of the protected characteristics identified by the Equality Act 2010 will be made available at the meeting of the council's Cabinet on 28 March 2017. This analysis will also set out the actions that the council is taking, or will undertake, to mitigate any negative impacts that could arise.

151. The equality impact analysis undertaken for the proposed MTFP 2017-20 will build on the analysis of savings in the MTFP 2016-21. It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.

152. 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.

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153. 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.

154. 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

155. 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

156. The Full County Council will set its budget and council tax precept on 7 February 2017.

157. The detailed budget will be presented to Cabinet on 28 March 2017.

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 2017-20

Appendix 2 National economic outlook and public spending

Appendix 3 Provisional government grants for 2017/18 to 2019/20

Appendix 4 Revenue budget proposals

Appendix 5 Capital programme proposals 2017/18 to 2019/20

Appendix 6 Reserves & balances policy statement

Appendix 7 Projected earmarked reserves and general balances 2016/17 and 2017/18

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	Annual minimum revenue provision (MRP) policy statement

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