SURREY COUNTY COUNCIL

CABINET

DATE: **28 MARCH 2017**

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

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

SUBJECT: **MEDIUM TERM FINANCIAL PLAN 2017 TO 2020**

SUMMARY OF ISSUE:

This report presents the Council's Medium Term Financial Plan (MTFP) for 2017 to 2020 which builds on the budget envelope and Council tax precept set by Full County Council on 7 February 2017. This covers the remaining three years of the current comprehensive spending review period beyond which there is no detail known about the funding proposals upon which to build funding assumptions. The MTFP 2017-20 is a key means for delivering the Council's strategic aims in the context of the rising demand and funding pressures it faces. 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 pressures and the funding for this can either come from further Government support or resources raised locally. This report sets out how this will be achieved for 2017/18.

The Government published the Final Local Government Settlement on 20 February 2017 at which point the Council faced uncertainty in its medium term financial position including the need to identify further savings, service reductions or funding increases of £30m in 2017/18, rising to £73m by 2019/20. Since then a change to Government grants has led to an improvement in the Council's funding and subsequent budget changes. This report sets out those changes and presents the detailed service revenue and capital budgets for 2017/18 including fees and charges, and indicative budgets for the following two financial years.

In the current 2016/17 financial year the Council has made progress on measures aimed at reducing the forecast overspending. At the end of January 2017 the Council was in a position where it is forecasting a small underspending. This will enable the Council's reserves to be increased which will assist in managing the financial challenges of 2017/18.

In January 2017 the Cabinet agreed to set up a Sustainability Review Board (SRB) to focus on identifying up to £30m permanent service reductions and potential one-off reductions to achieve a balanced budget in 2017/18. A separate report on SRB's progress, which is an annex to this report, has identified areas for further savings of up to £5.3m.

Following the Full County Council's decision to support only capital schemes that it can fund without borrowing, other than in exceptional cases, the capital programme has been revised and is presented in this report.

Over the last four months in particular, the Council has highlighted the strains that the growth in demand for services, particularly social care, is putting both on this Council's and all councils' finances. This Council has drawn particular attention to where the methodologies used to distribute national funding have a disproportionate negative impact on Surrey such as the Improved Better Care Fund. Although the Chancellor of the Exchequer's 8 March Budget announcement has provided a temporary, albeit limited, solution in terms of £2bn additional adult social care funding over the next three years, the methodologies for distribution have not, for 90% of the funding, applied the Government's own relative need formula which means the Council receives £7.5m in 2017/18 rather than £17m that the Council would have had if the needs formula been applied.

This confirms that the basis of the needs assessment and distribution methodology is crucial and is why the Council continues to play a full role in the Government's Fair Funding Review. In addition, this Council will be seeking for Surrey to be a pilot area for the 100% Business Rates Retention Scheme from 2018/19 to help shape future arrangements for the benefit and protection of Surrey residents and businesses. The Government had indicated they will shortly be inviting authorities to apply to be a pilot for 2018/19. Surrey intends to apply.

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

Following Cabinet approval, the Council will publish the detailed budgets as "MTFP 2017-2020" on its website. This will enable users, budget managers, Members and residents to view budget details interactively on-line and request a hard copy of relevant sections.

RECOMMENDATIONS:

It is recommended Cabinet approves:

1. the release of provisions of £11m and reserves of £8.5m to balance the 2017/18 budget;
2. the capital programme of £387m from 2017 to 2020, which is a reduction of £21m from that approved 7 February 2017;
3. to only borrow for capital schemes where there is a compelling business case and for officers to review future years' budgets within the capital programme to reduce spending;
4. the 2017/18 service strategies (Annex 1);
5. the detailed service revenue and capital budgets for the year 2017/18 and indicative budgets for the years 2018-20 including amendments resulting from the Final Local Government Financial Settlement and other Government funding changes announced since 7 February 2017, including the March Budget (Annex 1);
6. the proactive and systematic engagement of the County Council in

responding to proposed changes in local government funding to ensure these changes do not further disadvantage Surrey, and seeking the appropriate recognition of the costs of delivering services in Surrey;

7. the following in relation to the funding of Early Years providers:

- The Local Authority to retain £4.4m of the Early Years grant to manage the sector and allow for a devolved provision for more targeted support.
- Fund Early Years providers at rates which are commensurate with the levels of funding in the Early Years DSG:
  - £4.51 per hour for three and four year olds
  - £5.88 per hour for two year olds

  Change in the distribution of deprivation funding which has been simplified to be based on the Early Years pupil premium funding (paragraph 22);

8. the publication of the service revenue and capital budgets as the Medium Term Financial Plan 2017-20.

It is further recommended that Cabinet notes:

9. the additional funding for adult social care announced in the Chancellor of the Exchequer's Budget 2017;

10. the options for areas for additional savings and service reductions identified by Sustainability Review Board (SRB) in a separate report (Annex 2);

11. the Director of Finance's letter to the Department for Communities and Local Government confirming that the Adult Social Care Precept will be spent entirely on adult social care functions (paragraph 8 and Annex 3);

12. the fees & charges approved under delegated powers (Annex 4); and

13. the Equality Impact Assessments of the savings proposals within directorate and service budgets (Annex 5).

REASONS FOR RECOMMENDATIONS:

The Council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents.

The Medium Term Financial Plan (MTFP) 2017-20 is a three year budget. It reflects assumptions about the current local and national financial, economic and political environment. Setting a three year budget is a key element of the Council's multi-year approach to financial management and its aim of achieving a sustainable financial position. Regular reporting through the year will enable effective tracking and management of progress with the strategy and the budget.

DETAILS:

Relevant strategies update

1. The Council's refreshed Financial Strategy 2017-20 that was reported to Full County Council on 7 February 2017 clearly sets out the Council's approach to financial management. It provides the basis for sound financial governance and long term sustainability and supports the delivery of the Corporate Strategy. The fundamentals of the Financial Strategy 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 supports service strategies.

2. For the last three years the Council has produced a five year MTFP. However, the funding arrangements for local government are set to change significantly from 2019/20 with the extension of the Business Rates Retention Scheme. Related to this, is that the Government are only providing funding figures in the financial settlement up until 2019/20. Therefore, this MTFP also focuses on the three years to 2020.

3. To support the corporate strategic goals of wellbeing, economic prosperity and resident experience in a period of rising demand and falling funding, the MTFP (2017-20) includes the purpose, challenges, key actions and budget summary for 2017/18 for each service on a single page. Annex 1 includes each of the service strategies.

4. Cabinet approved the indicative three year revenue and capital budgets on 31 January 2017 and on 7 February 2017 Full County Council approved the 2017/18 budget envelope. This envelope included savings and service reductions totaling £93m in 2017/18 and a possible further £30m of savings, service reductions or funding increases. This is forecast to rise to £73m by 2019/20.

Sustainability Review Board

5. The Cabinet agreed to establish a Sustainability Review Board (SRB) comprising three cross party Members, the Strategic Director for Adult Social Care and Public Health, the Deputy Chief Executive and the Director of Finance. As part of the recommendation, the Cabinet requested that the SRB bring back an initial report to the Cabinet meeting on 28 March 2017 on progress towards identifying £30m permanent service reductions and up to a further £22m one-off reductions required to achieve a balanced budget in 2017/18.

6. A separate report on progress is included as Annex 2 to this report. This review has identified areas for additional savings of up to £4.6m. These are presented at the end of the annex. The Council will undertake further work to develop these areas for savings into firm proposals. As such, the service budgets in Annex 1 do not yet include the impact of these areas for savings. It is expected that at least £3m of the proposed savings are deliverable.

Final Local Government Financial Settlement and Chancellor's March Budget

7. Full County Council approved the overall budget envelope for 2017/18 on 7 February 2017. This was before the Final Local Government Financial Settlement was announced which was nearly two weeks later on 20 February 2017. The Council's budget was set based upon a 1.99% increase in the Council tax precept for general expenditure and a 3% adult social care precept which are both within the limits announced by the Secretary of State for Communities and Local Government in the Provisional Settlement in December 2016.

8. The Final Settlement confirmed the percentage increases and also the arrangements to satisfy the Department for Communities and Local Government (DCLG) that the adult social care precept will be spent appropriately. The Director of Finance had complied with these conditions by the stated deadline of 28 February although this has now been extended to April. The letter from the Director of Finance providing this confirmation is attached in Annex 3

9. The Government announced its intention to invite local authorities to apply to become 'pilot authorities' for the 100% Business Rates Retention Scheme for 2018/19. Although no formal invitation has been received as yet the Council is pro-actively discussing the concept of being a pilot with the Leaders of Surrey Borough and District Councils. This will provide the opportunity to help inform the new scheme for two-tier areas and provide further incentive for local authorities in Surrey to work with businesses to promote economic growth in the county.

10. The Government are due to consult on the basis for the needs assessment and distribution methodology for funding local government under the 100% Business Rates Retention Scheme. It therefore continues to be crucial the Council plays a full role in the Government's Fair Funding Review.

11. There were some very small adjustments to the New Homes Bonus Grant (NHB) contained in the Final Settlement. This Council saw a small reduction of £3,500 to £4,750,500 for 2017/18.

12. The Chancellor of the Exchequer presented his Spring Budget on 8 March 2017. Within this he announced additional funding for local government to meet some of the rising costs of adult social care. This Council has played a leading role in raising the profile of this issue and welcomed this announcement as a step in the right direction.

13. The total additional funding for adult social care nationwide totals £2bn by 2019/20. This includes £1,010m in 2017/18, £674m for 2018/19 and £337m for 2019/20. The Government allocated 10% of this new funding on the basis of the Government's own relative needs formula (RNF) and 90% as an addition to and in line with the improved Better Care Fund (iBCF). This means the funding is reduced to take account of sums paid by Surrey residents through the adult social care precept.

14. The amounts allocated to Surrey County Council (SCC) are £7.5m in 2017/18; £7.9m in 2018/19 and £5.6m in 2019/20 and these funds have been included in the MTFP to support adult social care services and contributes to a balanced budget position for 2017/18. However, the allocations are disappointing because if they had been based wholly on RNF the Council would have received £16.8m in 2017/18; £11.2m in 2018/19 and £5.6m in 2019/20.

15. In a similar way to the adult social care precept funding, this additional funding is expected to have conditions attached. The DCLG are consulting with the sector to try and agree these conditions and as yet there is no firm timetable for when they will be known and shared. However, it is likely that the conditions will include the need to meet unmet social care, assist the NHS, stabilise the social care market and also demonstrate actions for reducing delayed discharges. It is also likely that there will be a quarterly reporting return required but at this time the format of this is unknown.

Medium term financial plan – revenue budget

16. The MTFP 2017-20 is based on the Full County Council's approved 2017/18 budget envelope and the Council tax precept for 2017/18. It provides detailed service revenue and capital budgets following further consideration by Scrutiny Boards and also includes other changes due to Government announcements on grant funding. Any alterations to the final allocations of these grants will be covered directly in year by the services. The full list of grants is in Annex 1.

17. The areas for further savings from the SRB are not currently included in service budgets, although £3m of further savings is assumed to be delivered in 2017/18 in relation to this report.

Detailed revenue budget – key highlights

18. The Council's gross revenue budget for 2017/18 is £1,696m which includes £119m expenditure pressures across all services, especially in social care, and savings of £93m. The final published version of the MTFP will also include the additional savings identified by SRB that Cabinet approves.

19. Adult social care pressures continue to rise in 2017/18 and it is no longer possible to deliver the same proportion of savings to mitigate them. Total budget pressures amount to £47m in 2017/18 against which the service plans to deliver £26m of savings. £22m of these pressures arise due to an increase in demographic demand for services and nearly £10m is due to inflationary

increases. Overall this represents a £21m increase in the Adult Social Care (ASC) service budget for 2017/18.

20. In 2016/17 the Council has used reserves of £25m to achieve a balanced budget. Based on the budget pressures and savings related to adult social care, £11m of these reserves relate to the Adult Social Care service. When combined with the £21m increase in the ASC budget, this represents additional investment in adult social care of £32m by the Council. In 2017/18 specific income sources for adult social care are set to grow by a total of £30m. This is made up of £18m from the 3% ASC precept, £4m from the Government's new social care grant and £7.5m from the new monies announced in the Chancellor's Spring Budget Statement. Therefore, whilst these additional monies are welcome to support ongoing service delivery, combined they are still less than the total extra investment required in adult social care. Receipt of these additional monies does not therefore reduce or prevent the need to deliver the £26m of savings planned in ASC's MTFP for 2017/18 or indeed further savings in later years.

21. In addition, demand pressures in Children, Schools and Families continue to increase by over £22m in 2017/18 plus inflationary pressures of over £6m.

22. Local authorities receive funding (£66m in 2017/18) from the Department for Education (DfE) for free nursery entitlement for two, three and four year olds through the Early Years block of the Dedicated Schools Grant (DSG). The DfE funds local authorities for three and four year olds on the basis of an hourly rate and is also increasing the number of hours of free entitlement for some three and four year olds from 15 hours to 30 hours. Local authorities can retain up to 93% of the Early Years funding centrally in 2017/18 and 95% from 2018/19. These changes were subject to national consultation and are to be implemented from September 2017.

23. The Council has consulted with Early Years providers and Schools Forum around local funding changes and agreed that:

- the local authority retains £4.4m of the Early Years grant to manage the sector and allow for a devolved provision for more targeted support;
- fund Early Years providers at rates which are commensurate with the levels of funding in the Early Years DSG:
    - £4.51 per hour for three and four year olds
    - £5.88 per hour for two year olds
- Change in the distribution of deprivation funding which has been simplified to be based on the Early Years pupil premium funding. As with any formula change there will be winners and losers but this revised methodology will provide predictability on funding levels and was broadly supported in the local consultation.

24. To meet these pressures and reductions in overall government funding the Council has to make further and deeper savings and service reductions. Since

2010, the Council has demonstrated a strong track record by achieving over £450m savings, although it is falling short of its £83m target in 2016/17. For 2017/18, the Council has identified £93m of savings and service reductions as part of £123m needed to move toward a balanced and sustainable budget. Further savings identified by the SRB will contribute to filling this gap. Despite the additional funding for adult social care, further actions are still required to achieve a balanced budget for 2017/18, and a sustainable budget for future years.

25. This MTFP includes service identified savings of £170m over the three years, of which £93m are to be delivered in 2017/18. These savings represent a major challenge, which will be difficult to deliver, with significant risks. To illustrate this, Table 1 shows the 2017/18 savings identified in MTFP (2017-20) analysed by risk of achievement.

Table 1: Risk of achievement of 2017/18 savings

	2017/18 £m	
Green	45	Plan to deliver the savings and it is on track
Amber	43	Plan to deliver the savings, although it is not currently on track
Red	7	No plan to deliver the savings
Total savings	93	

26. In view of the challenges of delivering significant further savings and reductions for several more years, Cabinet has required the Chief Executive and Director of Finance, in consultation with the Leader of the Council to continue to track and monitor progress on all existing MTFP savings.

27. For 2017/18, directorate leadership teams will receive detailed tracking reports of the savings which they are responsible for achieving. The Chief Executive's Direct Reports will receive a tracking report on the consolidated position and take actions to ensure the Council achieves its overall savings target. In the next administration, Cabinet Members will also receive tracking reports so that they can report monthly at Cabinet meetings on the progress under their responsibility areas. This is to ensure the Council's revenue budget is sustainable and to develop robust plans for further savings and income generation opportunities for the remaining years of MTFP (2017-20).

28. The detailed budget proposed in this report outlines the estimated timing for delivering the Council's total savings across the three year term of MTFP (2017-20).

Staffing

29. As a part of the detailed budget, Annex 1 includes the numbers of funded employees for each service expressed as full time equivalents (FTEs). The

overall staffing budget has reduced by 101 FTEs. This rise reflects savings and service reductions in 2017/18.

Medium term financial plan – capital budget 2017 to 2020

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

31. The capital programme proposed to the County Council in February 2017 totaled £408m over the three years 2017-20. In agreeing the budget proposals to increase Council tax by 4.99%, the Council also agreed to support only those schemes which are funded without requiring borrowing, unless a sustainable basis for funding the borrowing costs can be made and a compelling business case to demonstrate value for money. As a consequence, the final detailed capital programme included in the MTFP is smaller at £386m, supported by reduced borrowing of £61m over the three year period.

School Places

32. The number of school aged children in Surrey has been rising for a number of years and this requires the County Council to provide additional pupil places in both primary schools and secondary schools. This is known as the Schools Basic Need programme. In the past the Council has undertaken significant borrowing to support this expansion in school places but going forward the Council has been successful in attracting additional government funding and developers' contributions. This means that no further long term borrowing is required for the Schools Basic Needs programme

Highways

33. Surrey has one of the most heavily used road and highway networks in the country which requires maintenance and replacement over time. Over recent years the Council has invested heavily in its roads and this continues with a three year highways maintenance budget of £57m including £19m in 2017/18. None of this expenditure is planned to be supported by borrowing.

34. The Highways and Transportation capital budget is primarily financed by Government funding and third party contributions, supported by borrowing for: flood resilience schemes, the River Thames flood protection scheme, and Surrey's contribution to highway maintenance "challenge fund" schemes, which require match funding. In 2017/18 the Government will provide grant funding to SCC totaling £25.8m for highway maintenance and transport schemes.

35. The Community Infrastructure Levy (CIL) is a form of developer levy collected by boroughs and districts in Surrey and then potentially passed to the Council to fund new transport schemes. The capital budget for Highways & Transport

includes an estimated £3.6m of spend funded by CIL contributions during 2017-20, with £1.2m of this planned for 2017/18.

36. The Strategic Economic Plan Schemes (Local Growth Deals) are Local Enterprise Partnership (LEP) schemes funded by a combination of grant, developer contributions, partner contributions (from boroughs and districts and bus and rail companies) and a contribution from Surrey County Council. Total spend on these schemes for 2017/20 is £32m, with Surrey's contribution being £5m.

Property

37. The Council has a large number of properties from which it provides its services which it must maintain, and the biggest element of this is schools. The Government provides two further grants for schools capital which are the Devolved Formula Capital (for new buildings and extensions and is devolved to schools) and Schools Capital Maintenance. The Council will receive Devolved Formula Capital Grant of £1.6m in 2017/18 and £12m of Schools Capital Maintenance Grant. These amounts are still provisional awaiting final allocations from Government which will change for revised pupil numbers and academy conversions. Any variances in these allocations will be adjusted for in the levels of planned expenditure.

38. Table 2 summarises the capital spending and funding for the period 2017 to 2020 with more detail for each service shown in annex 1.

Table 2 – Capital programme and funding 2017 to 2020

Summary capital programme	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**Total £m**
Schools Basic Need	72	55	13	140
Highways & Transport programme	49	34	28	111
Property & IT recurring programme	23	22	23	68
Other capital projects	42	17	8	67
Total capital programme	**186**	**128**	**72**	**386**
Summary capital funding				
Grants	134	100	49	283
Reserves	19	6	2	27
Third party contributions	5	3	7	15
Borrowing	28	19	14	61
Total capital funding	**186**	**128**	**72**	**386**

Reserves and balances

39. The Council holds a small general balance to provide a contingency against unforeseen overspends or a major unexpected event. The level of this general balance is not prescribed and the Council aims to keep a reasonable balance that is justifiable in the context of local circumstances while not tying up Council taxpayers' money unnecessarily. In recent years this has been set at between 2.0% to 2.5% of Council's core spending power (between £16m and £20m). At 31 March 2017, the Council's general balance is expected to be £21.3m

40. Earmarked reserves are for specific purposes and to mitigate against potential future known or predicted liabilities. Since 2012/13 the Council has applied £110m of reserves to support the budget, including £24.7m which were used to balance the 2016/17 budget. Further use of reserves was not proposed in the budget presented to County Council in February 2017 because of the continuing and significant risks facing the Council in terms of on-going increasing demands and limited local ability to manage the level of funding to keep pace with growing service demands. However, since then the forecast small underspend on the 2016/17 budget and the additional retained business rates income not confirmed until after the Full County Council met, will allow a modest contribution from reserves for 2017/18 of £8.5m without an unacceptable impact on the overall level of reserves.

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

42. The Council also carries a number of provisions for liabilities that the Council previously expected to be likely in the future, but the timing of the liability arising was unknown. One of these was for potential liabilities relating to injury awards. The likelihood of these liabilities occurring has now reduced sufficiently for the Director of Finance to be satisfied that the provision can be reduced by £9m. Another provision exists in relation to potential equal pay liabilities. Although the likelihood of a liability remains, the amount of the provision can be reduced by £2m.

Medium term financial plan – interactive and publication

43. MTFP (2017-20) will be available on the Council's website as both an interactive document, allowing the user to drill down into service budgets on the website and an electronic version available for printing. The Council has aimed to enhance resident experience by using consistent terminology throughout all external financial publications (Council tax information, interactive MTFP and Annual Report).

44. A printed version of MTFP (2017-20) will be available to order from the Council's main website. As in the current year, this will enable the reader to choose which pages to print.

45. MTFP (2017-20) will present the strategy for each service followed by an analysis of the service's budget including changes from the 2016/17 budget, savings, pressures and staffing.

Fees and charges

46. In addition to Government grants, business rates and Council tax funding, the Council plans to raise over £98m in fees and charges in 2017/18.

47. The detailed budgets in Annex 1 analyse the Council's fees and charges income by service. The schedules to Annex 4 detail the charges proposed for 2017/18.

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

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

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

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

50. Every year services must review and update their fees and charges to ensure discretionary services for which a fee or a charge is applicable are not provided at a subsidy without a specific supporting policy decision; and publish the 2017/18 schedule of fees and charges. Annex 4 details the existing and revised charges by service.

51. Fees and charges are reviewed each year and Scrutiny Boards should review and challenge the fees and charges elements of the service strategies over the next twelve months.

CONSULTATION

52. During February and March 2017 the Council's scrutiny boards have reviewed and scrutinised service budgets that are now reflected in the MTFP (2017-20) detailed budgets.

RISK MANAGEMENT AND IMPLICATIONS:

53. The MTFP (2017-20) includes £240m of savings and additional income to be made over the three year period. MTFP (2017-20) assumes Council tax will rise by 1.99% for standard Council tax and 3.00% for the adult social care precept. The risks of not achieving these savings in 2017/18 have been assessed and summarised in Table 1 and reported in Section 2 of MTFP (2017-20).

54. In view of the increasing challenge to deliver high levels of savings for several more years, the Chief Executive's Direct Reports (CEDR) will lead the rigorous tracking and monitoring process for current year savings for the whole Council and the mechanism for rigorously reviewing plans for delivering all savings across the whole MTFP period. Directorate leadership teams will track and monitor services' detailed savings plans. Cabinet Members will also receive tracking reports so that they can report monthly at Cabinet meetings on the progress under their responsibility areas.

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

- Financial outlook
  Lack of funding, due to constraints imposed by Central Government on local authorities' ability to raise appropriate local funding and distribution of less grant funding, results in significant adverse long term consequences for sustainability and service reductions leading to significant implications for residents.
- Safeguarding – Children's Services
  Avoidable failure in Children's Services through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on wellbeing..
- Safeguarding – Adult Social Care
  Avoidable failure in Adult Social Care leads to serious harm, death or a major impact on wellbeing.
- Devolution
  Failure to achieve a devolution deal leaves Surrey County Council without a coherent response to the strategic infrastructure challenges facing the county.
- Medium Term Financial Plan
  Failure to achieve the MTFP lowers the Council's financial resilience and could lead to adverse long term consequences for services.
- New ways of working
  Failure to identify and manage the impacts / consequences of implementing a range of new models of delivery leads to severe service disruption and reputational damage.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

56. The Council's refreshed Financial Strategy sets out its approach to financial management as the basis for sound financial governance and long term sustainability. All the documented budgets and targets have been subject to a thorough value for money assessment. Throughout the budget planning and setting process the Council has assessed material financial and business risks and reflects them in this report and its annexes.

57. The Government has indicated its intention to implement a 100% Business Rates Retention Scheme for local government from 2020. This will include a fair Funding Review among its foundations and a pilot scheme to test practical application. To ensure the Council's financial prospects are sustainable and the new scheme treats Surrey residents fairly and incentivises Surrey businesses effectively, it is crucial the Council plays a full and vital role in these consultations and reviews to influence the future funding of local government.

58. The 100% Business Rates Retention Scheme will introduce many significant changes to local authorities' spending responsibilities and funding sources that are, as yet unknown. As such, the Government has only provided funding totals to Councils for the period 2017/18 to 2019/20. Given the level of uncertainty beyond 2019/20, the Council has limited its MTFP to three years.

59. Even over this shorter three year period, reductions in Central Government funding, constraints on raising revenue from local sources and growing service costs and volumes all combine to mean pressures on the Council's budget intensify. In this worsening scenario, it will be increasingly challenging for the Council to deliver further savings after achieving more than £450m expenditure reductions since 2010. The 2017/18 budget includes £93m of identified savings, plus one-off measures of up to a further £22m. By 2019/20 the amount of identified savings in the MTFP is £170m plus amounts to be identified in 2018/19 and 2019/20 that rise to £67m.

SECTION 151 OFFICER COMMENTARY

60. Since 2010 the Council has made significant savings, efficiencies and service reductions in order to maintain a balanced budget. These have averaged between £60m to £70m per year. For 2017/18, there are £93m of identified savings which is a significant increase on previous years and there is a high degree of risk around all of these being achieved. It is the view of the Director of Finance that the Council will be required to make a significant unplanned use of earmarked reserves for unachieved savings in 2017/18. This will take reserves below the safe minimum levels and will need to be replenished in future years, especially those required to cover future possible liabilities. There is therefore an essential need for even more rigorous tracking and monitoring by the leadership of the Council of the savings and spending reduction plans to

ensure they are delivered or that alternative actions are taken early if necessary.

61. The SRB, set up in February, has identified areas for further savings including £3m that could be delivered in 2017/18. The SRB and the Council's leadership will need continue this work together to deliver these savings and identify further savings for the Council to sustain its budget for 2017/18 and move towards a sustainable budget for future years.

62. It is important to note that the 2017/18 budget is balanced through the use of one-off measures totaling over £19m. In future years this is not sustainable, especially the use of reserves that are already at the safe minimum level in light of the financial uncertainty facing the Council. Further, the Council must not rely on increases in future funding to create a balanced and sustainable budget such as a 100% Business Rates Pilot if agreed to in the future since any pilot will be for 2018/19 only. The implications for funding from 2019/20 are unknown pending the Government's planned reform of local government funding through its Need Review and the 100% Business Rates Retention policy implications. The Council therefore needs to continue to identify and implement further measures to reduce it spending to be contained within known resources.

LEGAL IMPLICATIONS – MONITORING OFFICER

63. This report sets out the Council's refreshed financial strategy and in particular the need for high levels of savings to be delivered. Legal Services will be involved in tracking and monitoring savings to advise on the legal implications of individual proposals.

64. The Council also has a duty under the Equality Act (2010) to consider the equalities implications of the proposals underpinning the MTFP, as set out in the Equalities and Diversity section of this report.

EQUALITIES AND DIVERSITY

Background

65. An analysis has been undertaken of the equalities implications of the savings proposals presented in the MTFP for the 2017/18 financial year. This analysis provides the Cabinet with information about the potential impact of the proposals on groups with protected characteristics in Surrey. Where potential negative impacts have been identified information is also provided about the actions that the Council is taking, or will undertake, to mitigate them.

66. This analysis covers proposals to deliver the £93 million of savings proposals outlined for 2017/18 in the new MTFP. Following the Council's decision to increase Council tax by 4.99% on 7 February 2017, £30 million of further savings will be required in 2017/18, but are yet to be identified. Equalities implications for new proposals will need to be assessed and understood.

67. Where the Cabinet is required to take further decisions around the implementation of savings proposals, or where proposals are not sufficiently developed to undertake an equalities analysis at this time, additional analysis will be presented to inform decision-making alongside the relevant future Cabinet reports. Equality Impact Assessments (EIAs) will be prepared as more specific proposals to achieve savings are brought forward.

68. EIAs for a number of savings proposals in 2017/18 are continuations of those undertaken previously. Where this is the case the existing EIA has been reviewed by Services. For new savings proposals, or proposals with significant material changes, services undertook a new EIA. This section of the report provides information about:

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

69. The equality implications for the financial plans beyond 2018 will be considered in detail alongside future MTFP reports for Cabinet.

Legal requirements

70. When approving the financial plans, the Council's Cabinet must comply with the Public Sector Equality Duty in section 149 of the Equality Act 2010 which requires it to have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Equalities analysis: Overarching findings

71. A detailed summary for each Directorate is included in Annex 5 to this report. Where necessary, EIAs have been completed and have been published on the SCC website at http://www.surreycc.gov.uk/your-Council/equality-and-diversity/ensuring-our-decisions-are-fair

72. The Council provides many services for the most vulnerable in Surrey's communities. This includes numerous protected characteristic groups. Officers have identified proposals for £93 million of these savings and, where possible, mitigating actions to prevent any negative impacts. However, some services are still to develop detailed implementation plans and have committed to identifying impacts and developing mitigating actions over the coming year. Work is also underway to identify how to deliver the remaining £30 million. In total, significant additional savings of £123 million need to be made in 2017/18 which will affect services for those groups.

73. For the Council’s workforce, the biggest changes will be in restructures and management of vacancies. These will be completed in line with Council policy to ensure no particular groups are disadvantaged.

74. Key points from Directorates are highlighted below:

Adult Social Care

75. Adult Social Care has a £25.5 million savings target in 2017/18. The Directorate provides important services for older people, disabled people and their carers. Ongoing savings have been grouped under three headings: whole systems demand management; market management and pricing strategies; and workforce development.

76. There are a number of issues facing the Directorate that will make it increasingly difficult to mitigate potential negative impacts associated with the whole system’s demand management savings, including:

- the level of savings required in 2017/18 in addition to the £225 million savings delivered by the Directorate since 2010;
- increased demand for services; and
- national policy changes (such as Deprivation of Liberty Safeguards).

77. There are risks that:

- Investment in preventive services will need to be reduced to ensure the Council continues to discharge its duty to meet eligible assessed needs. To mitigate this risk, a formal consultation will be undertaken on the Housing Related Support proposals and the Directorate will ensure any changes to grants and contracts are evaluated for potential impact on people with protected characteristics and are targeted to minimise the impact upon local services provided.
- There will be increased pressure on health, borough, district, voluntary, community and faith sector partners and informal carers. To mitigate this risk, the Council will continue to collaborate with partners to deliver local integrated community based health and social care.
- Providers will be facing financial difficulties. To mitigate this risk we will continue to work with providers to implement long term and sustainable market management and pricing strategies.

78. The Directorate has committed to a range of mitigating actions including continuing to collaborate with partners to deliver local integrated community-based health and social care; encouraging people to build networks of support amongst their family, friends and communities; and ensuring practice continues to focus on outcomes. It will also ensure any reductions in grants and contracts are evaluated across the system; individuals, their family and carers are engaged throughout the process of change; and utilise technology and look for new and creative models of delivery.

Children, Schools and Families

79. The Children, Schools and Families (CSF) Directorate consists of Schools and Learning (including Special Educational Needs and Disabilities); Children's Services; and Commissioning and Prevention. CSF is required to make savings of £25.1 million in 2017/18 and the Directorate has undertaken an equalities analysis of the savings planned. The level of savings required means it may be increasingly challenging for the Directorate to mitigate negative impacts.

80. The Directorate has identified 36 planned savings for 2017/18 which have been grouped under six themes:

- **Market management and demand management** – these savings proposals are seeking to reduce the effect of inflation on services and to ensure that the Council pays the right costs for services. Demand management is through a new operating model of Early Help.
- **Early Help model** – these savings proposals relate to the implementation of a new operational model of Family Services and the restructure of the commissioning functions of the Commissioning and Prevention Service.
- **Special education needs and disabilities (SEND)** – these saving proposals are seeking to review/redesign operating models and service delivery to ensure a sustainable service to support children and young people with SEND.
- **Education and skills** – these savings proposals relate to changes in support services for schools in light of changing national legislation and funding arrangements and the growth in the number of academies.
- **Support functions reduction –** these savings proposals are to review the business support functions of Children's Services and Schools and Learning to ensure efficiencies while reducing operational costs.
- **Productivity efficiencies** - these savings relate to the continuous identification of the most effective and efficient ways of running the services.

81. The Directorate has committed to mitigating actions for any negative equalities impacts arising from these proposals and will continue to ensure staff, users and partners are engaged throughout the process of change.

Public Health

82. Public Health has a £3.3 million savings target for 2017/18. Proposals identified as requiring specific EIAs are for non-renewal of a mental health promotion contract and reduction in programmes for substance misuse. There will be a direct impact on service delivery within these areas. Both require further consultation to fully inform the final EIAs and mitigating actions. However, it is clear that the initial process has identified a number of key groups who are likely to experience a negative impact as a result of the savings. While for substance misuse it is possible to build in mitigation through the service redesign process, the withdrawal of the public mental health budget and related service as it is currently commissioned, will be much harder to mitigate within the remaining resources in the Council's public health team.

Business Services

83. Savings will continue to be delivered by the Orbis shared services partnership formed between the Business Service Directorates of Surrey and East Sussex County Councils. Savings of £3.9 million will be made by creating joint teams, reducing duplication and adopting more efficient working practices and reviewing methods of service delivery. These changes will impact on staff and EIAs will be completed as proposals are developed for each service.

84. Further savings are being delivered from the budgets that are managed by the Orbis partnership. This includes reductions in property spend including from utilities and following the closure of the six older people's homes. There will be some reductions in training spend, however this is from a review of methods of delivery rather than reducing essential core training that staff require to do their jobs.

Environment and Infrastructure

85. Environment and Infrastructure has a savings target of £9.6 million for 2017/18 and is delivering savings in a number of areas. Subsidies for bus services are being reduced which means that there will need to be reductions on subsidised routes in terms of their frequency, days of operation, route travelled and in a few cases withdrawals. The comprehensive EIAs completed for years one and two of the Local Transport Review are in the process of being updated for 2017/18.

86. There will also be a reduction of £100,000 to the Council's contribution to partnership work with Surrey Wildlife Trust; a reduction in contribution to hosted partnerships, contribution to non-hosted partnerships to stop: Gatwick Greenspace Partnership and Blackwater Valley Countryside Management Partnership. It is also proposed that the revenue budget for Rights of Way work will reduce by £190,000. The public who visit the countryside and potentially those who benefit from some of the activities run by the hosted and non-hosted partnerships will be affected by the proposals. Advice will be sought from the Surrey Countryside Access Forum – the statutory forum that advises on countryside access issues – to help mitigate these impacts.

Customer Services

87. Customer Services has a £180,000 savings target for 2017/18. The Contact Centre's opening hours are being reduced and there is a drive to promote use and increase provision and uptake of on-line options to customers so that they can self-serve 24/7. EIAs are being undertaken to mitigate the impact on people with protected characteristics. This will include continuing the library automated telephone renewal service and offering bespoke support from the Contact Centre for customers unable to use the alternative channels offered.

Registrations and Nationality and Libraries Services

88. The Registration and Nationality Service is constantly reviewing the levels of provision that are offered for appointment for birth and death registrations, and notices of marriage at Register Offices. It will continue to prioritise death registration appointments (as these should be registered within five days), but may look at a slight reduction in the number of available birth registrations appointments which would mean that people may have to wait longer to register the birth of their child at their nearest Register Office. If they wanted an earlier appointment to register the birth they could choose to travel further to another Surrey Register Office. The Registration Service would ensure that the required number of appointments are available across the Register Offices in Surrey to ensure that all births (around 20,000 per year) can be registered within the required 42 days and that special arrangements would continue to be made in exceptional circumstances.

89. The Library Service is required to make budget savings of £397,000 from 2017/18. There are three proposals to achieve this:

- Revision and reduction of evening opening hours across the branch network at Category A and B libraries to save £121,000.
- Reduction of the resources fund, which will affect the range and availability of book titles, by £246,000.
- Reduction of the staffing budget for the service development team by £30,000.

90. The reduction in evening opening hours may impact predominantly on people with limited opportunities to visit the library at alternative hours of the day, including those of working age in full time employment and carers.

91. The Service will communicate with library members to advise of changes to opening hours and promote alternative access to services online.

92. All users will be affected by a reduction in the book fund with a reduction in the range and availability of titles - purchasing reduction of approximately 20,000 books against a book stock of 1,400,000.

Surrey Fire and Rescue Services

93. For Surrey Fire and Rescue Service (SFRS), a number of changes are proposed to meet the service's £3.1 million savings target for 2017/18. Reviews are underway to improve collaborative working across Surrey and Sussex to meet current and future transport and associated equipment needs of emergency services, deliver efficiencies in back office and management costs and on the contingency arrangements for the service to ensure SFRS meets its legal duties and the need to ensure it is cost effective. The EIA process will identify and mitigate impacts on protected characteristic groups.

Mitigation

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

- using **co-design and consultation** with service users and staff to assist in the reconfiguration of services;
- undertaking detailed **needs assessments** to enable the Council to target services more effectively to vulnerable residents;
- undertaking **ongoing evaluation** of the impact of changes to services to mitigate unforeseen negative impacts;
- providing **tailored information** to service users that are impacted negatively by savings proposals; and
- ensuring any changes to staffing levels or staff structures are completed in accordance with the **Council's human resources policies and procedures** and take account of the workforce profile.

Using the equalities analysis findings

95. Cabinet should be aware that the public equality duty is not to achieve the particular outcomes set out in section 149 of the Equality Act or to take particular steps. It is instead a duty to bring the important matters identified in section 149 into consideration as part of the decision making process. "Due regard" is a test of the substance underpinning decisions in the sense that they have been approached with rigour and an open and enquiring mind. This substance is demonstrated through EIAs and the changes that are made to proposals and services as a result of them.

96. "Due regard" also means that the regard that is appropriate in making these decisions. So, alongside the proper regard that Cabinet must give to the goals set out in section 149, they should also consider any other relevant factors and it is a matter for them to decide the weight to be given to these factors. In this case the most significant other matters are:

- the statutory requirement to set a balanced budget
- the outcomes the Council is seeking to achieve, which are set out in the Council's *Corporate Strategy 2017-2022*
- the priorities within the Council's *Confident in Surrey's Future: Equality, Fairness and Respect Strategy 2015 – 2020*
- the demographic pressures facing SCC that include a rising population with projected increases in the number of older residents as well as children and young people. Increases in both these age groups will place additional demands on adult social care services and local schools.

OTHER IMPLICATIONS:

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

WHAT HAPPENS NEXT?

98. The Council will publish the MTFP (2017-20) on its website.

99. Progress against the Council's strategic priorities will be published quarterly on the Council's website. The Chief Executive will submit six-monthly progress reports to the Council meetings in July and December 2017. Scrutiny Boards will continue to scrutinise work programmes and performance.

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Consulted:

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

Annexes:

Annex 1 Service strategies and detailed revenue and capital budgets 2017-20

Annex 2 Report of the Sustainability Review Board

Annex 3 Director of Finance's letter to DCLG on use of the ASC Precept

Annex 4 Fees & charges schedules 2017/18

Annex 5 Equality assessment summary

Sources/background papers:

- Revenue and Capital Budget 2017/18 to 2019/20, report to Full County Council 7 February 2017
- Revenue and Capital Budget 2017/18 to 2019/20, report to Cabinet 31 January 2017
- Budget working papers
- DCLG revenue and capital Financial Settlement papers from DCLG website
- Government Equality Office (2011) Equality Act 2010 – Specific Duties to Support the Equality Duty. What do I need to know?
- Government Equality Office (2011) Public Sector Equality Duty. What do I need to know?

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