SURREY COUNTY COUNCIL

COUNTY COUNCIL

DATE: **12 FEBRUARY 2013**

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

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR CHANGE & EFFICIENCY**

SUBJECT: **REVENUE AND CAPITAL BUDGET 2013/14 TO 2017/18, COUNCIL TAX REQUIREMENT AND TREASURY MANAGEMENT STRATEGY**

SUMMARY OF ISSUE

To approve:

- the level of the council tax precept for 2013/14; and
- the revised treasury management strategy, including the borrowing and operation limits (prudential indicators) for 2013-18, the policy for the provision of the repayment of debt (minimum revenue provision (MRP)), and the treasury management policy.

RECOMMENDATIONS

The Cabinet recommends that the County Council:

1. Notes the Chief Finance Officer's statutory report on the robustness and sustainability of the estimates and the adequacy of the proposed financial reserves (Annex 2).
2. Notes that dispensation has been sought for all county councillors to ensure their eligibility to vote on the recommendations in this report without any risk of non-compliance with the Localism Act 2011.
3. Approves the council tax requirement for 2012/13 is set at £550.4m; (Annex 3, paragraph 3.5)
4. Approves the 2013/14 council tax increase be fixed at 1.99%;
5. Approves the basic amount for 2013/14 council tax at Band D is set at £1,172.52 (Annex 3, paragraph 3.7);
6. Approves the council tax for each category of dwelling in its area be as in Annex 3 paragraph 3.8.
7. Approves that the payment for each billing authority including any balances on the collection fund will be as set out in Annex 3, paragraph 3.9.
8. Approves that the payment for each billing authority including any balances on the collection fund to be made in ten equal instalments on the dates, already agreed with billing authorities and set out in Annex 3, paragraph 3.10.
9. Agrees to maintain the Council Tax rate set above and delegate powers to the Leader and Chief Finance Officer to finalise detailed budget proposals

following receipt of the Final Local Government Finance Settlement.

10. Approves the County Council budget for 2013/14.
11. Agrees the capital programme proposals specifically to:
    - fund essential schemes over the five year period, schools and non-schools, to the value of £695m including ring-fenced grants;
    - seek to secure capital receipts over the five year period to 2017/18 of £50m; and
    - make adequate provision in the revenue budget to fund the capital programme.
12. Requires Strategic Directors and Senior Officers to maintain robust budget monitoring procedures that enable Cabinet to monitor the achievement of efficiencies & service reductions through the monthly budget monitoring Cabinet reports, the quarterly Cabinet Member accountability meetings and the monthly scrutiny at the Council's Overview & Scrutiny Committee.
13. Requires an approved business case for all revenue invest to save proposals and capital schemes before committing expenditure.
14. Notes the Cabinet will begin the process of reviewing the revenue budget and capital programme set out in the MTFP (2013-18) immediately after the first quarter of 2013/14.
15. Notes that the final detailed MTFP (2013-18) will be considered and approved by Cabinet on 26 March 2013, following scrutiny by Select Committees.

Treasury management and borrowing:

16. Approves the Treasury Management Strategy for 2013/14 and approve that their provisions have immediate effect. This strategy includes:
    a. the investment strategy for short term cash balances;
    b. the prudential indicators (Annex 1, section B, Appendix B1);
    c. the treasury management policy (Annex 1, section B, Appendix B8);
    d. the minimum revenue provision policy (Annex 1, section B, Appendix B7).

REASON FOR RECOMMENDATIONS

This meeting of the Full County Council is to agree the summary budget and set the council tax increase for 2013/14, on the advice of the Cabinet. The reasons underpinning the recommendations Cabinet has made include:

- to ensure the Council maintains its financial resilience and protects its long term financial position;
- to enable the Council to meet the expectations of Surrey's residents as confirmed in their responses to the in depth consultation exercise;
- to provide adequate finances for key services such as school places, highways, adults social care and protecting vulnerable people.

DETAILS

Introduction

1. This report summarises the Cabinet's decisions about Surrey County Council's overall financial planning, sets the council tax rate for 2013/14 and agrees the treasury management strategy and key control parameters.

2. It also summarises for the five financial years 2013-18 the Council's:

   - revenue and capital budgets;
   - financial and funding strategies; and
   - treasury management and borrowing proposals.

Revenue and capital budget

Revenue budget

3. The Local Government Finance Act 2012 brings significant changes to the system of local government finance operating from financial year 2013/14, in particular:

   - local retention of business rates; and
   - localisation of council tax support.

4. These changes bring a welcome shift to link local funding more closely to local economic growth and prosperity. However, the changes are complex and implementation brings increased volatility and uncertainty about actual levels of funding that will be generated locally. The ongoing challenging national economic outlook exacerbates these features.

5. The above make prudent financial planning more critical and complex. After allowing the changes to settle, Cabinet proposes to review the MTFP 2013-18 at the end of the first quarter of 2013/14.

6. The Council's current medium term financial plan (MTFP 2012-17) set out a sustainable budget based on a council tax rise limited to 2.5% each year and delivery of £206m service reductions & efficiencies. Surrey is the most dependent of all shire counties on council tax for its funding (i.e. it receives the lowest proportion of grant) as illustrated in Figures 1 and 2 below. This makes the level of council tax particularly important in determining the long term financial stability of the Council.

Figure 1 Spending power – Surrey County Council

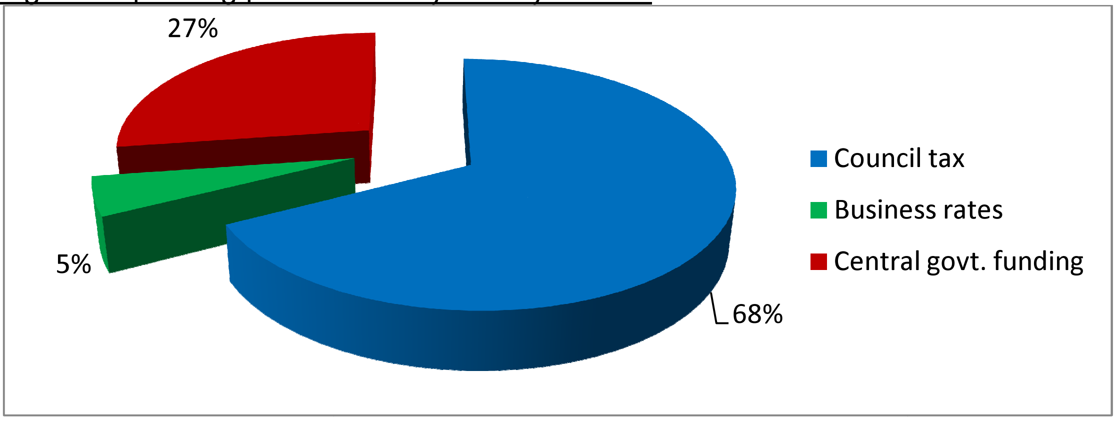
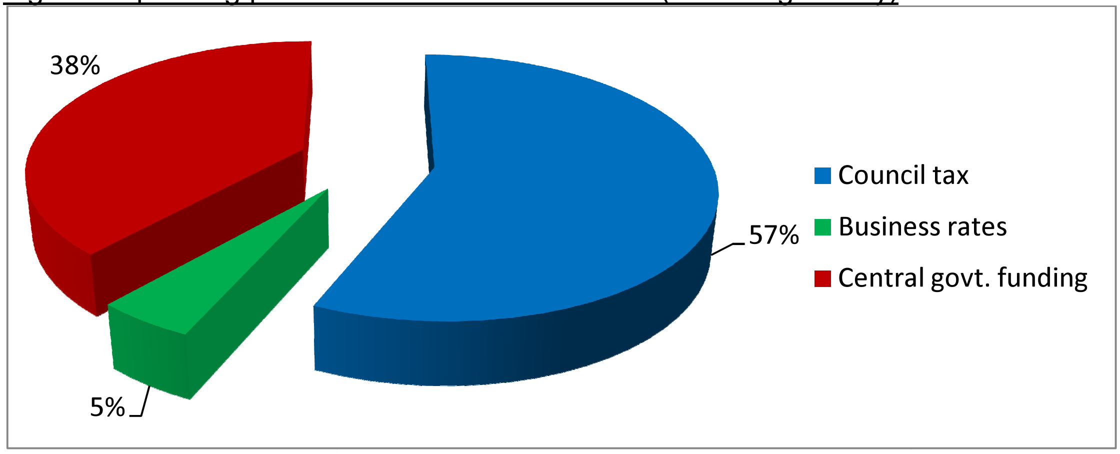


Figure 2 Spending power – shire counties with fire (excluding Surrey)



7. The decision as to what council tax rate to set for 2013/14, should be made in the context of the following parameters:

    - **Council tax freeze grant 2013/14**
      Offered by Government at the rate equivalent to a 1% rise, payable for two years to councils that freeze or reduce their council tax in 2013/14.
    - **Excessive council tax rise threshold 2013/14**
      Set by Secretary of State, Eric Pickles at 2% (in the Provisional Local Government Financial Settlement), above which a council must hold a referendum using a prescribed format to determine whether it has local residents' support for the rise proposed.

8. After due challenge, scrutiny and deliberation, Cabinet proposes a below inflation council tax rise of 1.99% in 2013/14, reverting to the current MTFP strategy of a council tax rise limited to 2.5% each year after that up to 2017/18.

9. Figures 3 and 4 overleaf show over the four years (2010 to 2014) the demand for services within the Council are up £204m. Over the same period the Council has seen government grant reduce by £48m, adding £252m pressure to the budget. During the same period, the Council has responded by delivering £194m of on-going service reductions & efficiencies and secured £37m additional funding through council tax rises. Having achieved these substantial savings, the shortfall in 2013/14 is proposed to be funded through use of the Council's balances, specifically set aside in recent years in anticipation of needing to smooth achievement of efficiencies over financial years.

Figure 3 Change in pressures and savings 2010 to 2014

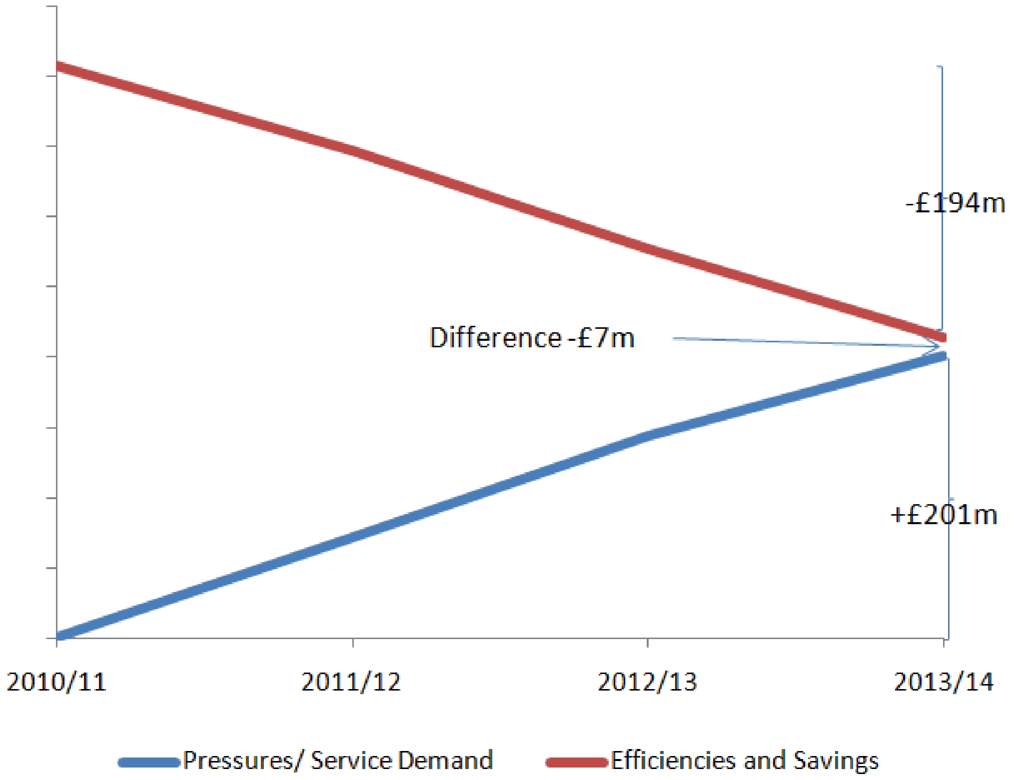
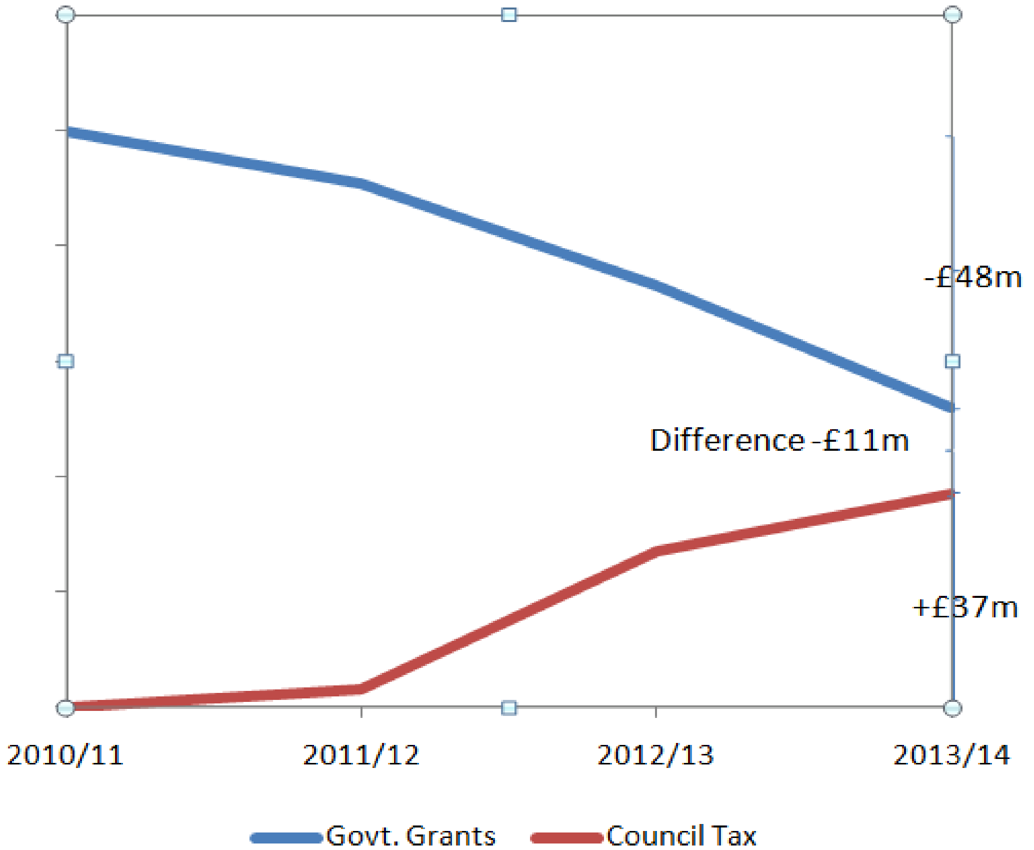


Figure 4 Change in funding 2010 to 2014



10. The forecast increase in service demand is expected to continue, meaning the Council's financial position is expected to remain challenging and could worsen. Spending pressures arise mainly from increases in demand volumes for adult social care, school places and children's services.

11. In addition, the Council will start to address a £400m maintenance backlog on a highways network that is among the most heavily used in the country and other work to enable Surrey businesses to sustain, grow and thrive. Surrey's business base is a major contributor to the UK economy[1], second only to London and bigger than Birmingham, or Leeds and Liverpool combined, meaning that the Council's action to support Surrey's economy significantly benefits not just the local population, but the whole UK.

Capital programme

12. The Council has a substantial capital programme, approved as part of the MTFP 2012-17, and the Cabinet proposes to the Full County Council that this increases to reflect the following changes:

    - recognise the additional demand for school places (from 8,000 to 12,000) by adding £45m to the programme;
    - add £25m over five years to partially address the backlog of highways repairs;
    - roll the annual recurring programme of property and highways maintenance forward into 2017/18.

13. This programme is funded from a combination of: Government capital grants, capital receipts, third party contributions, revenue reserves and borrowing.

14. During 2012/13, the Council has reviewed the funding of this capital programme as follows.

    - In view of generally depressed property prices in the economy, asset disposals will only be completed where the Council cannot redevelop or reuse property to deliver value for money.
    - Third party contributions are expected to grow over the next five years following the introduction of the community infrastructure levy (CIL).
    - The level of funding through revenue contributions and borrowing is constrained by affordability of borrowing costs within revenue resources. This report sets out an up-dated minimum revenue provision policy and borrowing strategy aimed at most effectively linking the assets' useful lives with funding.

15. Finally, the level of government grant available to fund this capital programme remains unclear; over half of the anticipated government grants for 2013/14 have, at the date of this report, yet to be announced by Government and will not be known for future years until the next financial settlement. In view of this uncertainty the Cabinet proposes to review the capital programme once more details of government funding are known.

[1] Surrey contributed £5.8bn in income tax and £28.3bn gross value added (GVA) to the UK economy in 2009. More GVA than Birmingham (£20.1bn) or Liverpool (£8.6bn) and Leeds (£17.8bn)

16. Annex 1A, from paragraph A67 and Appendix A4 provide further details of the Council's capital programme.

Treasury management and borrowing strategy

17. 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 changed market conditions, changes in regulation, and other changes in 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 B sets out updated versions of the County Council's treasury management policy statement and treasury management strategy.

18. The treasury management strategy since 2009/10 has followed an extremely cautious approach as a direct result of the Council's Icelandic bank experience. Moving forward into 2013/14, several changes are proposed to the treasury management strategy reflecting the current economic climate and Council's risk appetite.

19. The changes are detailed in Annex 1B, and are summarised below.

    i. To maximise the benefit of current unprecedented low interest rates and high cash balances and set a minimum cash balance of £49m.
    ii. To expand the current counterparty list of institutions to which the Council will place short term investments to reflect market opinion and formal rating criteria. This means that Barclays Bank, whose rating change in 2012 reduced and effectively removed them from the eligible list, are now eligible again.
    iii. To increase the monetary limit for the two instant access accounts (Lloyds and RBS) from £40m to £60m since both have nationalised status and therefore minimum risk.
    iv. To adjust the Council's Minimum Revenue Provision policy.

CONSULTATION:

20. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a statistically significant sample.

21. The key findings are as follows:

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

22. In addition, the Leader and Chief Finance Officer have held face to face meetings with representatives of Surrey's business community, voluntary sector and trade unions in October 2012 and January 2013.

RISK MANAGEMENT AND IMPLICATIONS:

23. 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:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies;
- delivery of the waste infrastructure; and
- changes to health commissioning.

24. The Chief Finance Officer is satisfied the proposed budget, including increased risk contingency, general balances & reserves are sensible to address these risks.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

SECTION 151 OFFICER COMMENTARY

26. As required by legislation, the Chief Finance Officer has written a separate report, which is attached at Annex 2.

LEGAL IMPLICATIONS – MONITORING OFFICER

27. A dispensation has been sought for all county councillors to avoid any risk that they have a disclosable pecuniary interest which could affect their eligibility to vote on the recommendations in this report.

28. In view of the uncertainty highlighted in paragraph 15 of this report the Council has been asked to delegate powers to the Leader and the Chief Finance Officer to finalise detailed budget proposals to maintain the council tax rate it sets, should the Final Local Government Finance Settlement necessitate any late changes. If any such proposals cannot be accommodated without changes to the capital or borrowing strategies approved by Council a further report will need to be presented to Full Council in due course.

EQUALITIES AND DIVERSITY

29. 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. Some management actions to meet the spending targets may have an equalities impact. Strategic Directors will consider these as they develop their detailed implementation plans, completing equality assessments as relevant and reporting their findings before the Cabinet sets detailed budgets on 26 March 2013.

30. In approving the overall budget and precept at this stage, the Cabinet and Full County Council will be mindful of the specific references in this report to the impact on people with protected characteristics under the Equality Act 2010 - particularly the intention to improve services for vulnerable adults and children, supporting children and young people not in education, training or employment, and enabling elderly people to live independently.

OTHER IMPLICATIONS:

31. The potential implications for the following council priorities and policy areas have been considered. There were no areas where the impact is potentially significant, as indicated 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:

32. The Leader and Chief Finance Officer will finalise the budget in the light of the Final Local Government Finance Settlement, in advanced .

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

Annexes:

Annex 1 – Section A	Revenue & capital budget report
Annex 1 – Section B	Treasury management strategy report
Annex 2	Chief Finance Officer Statutory Report (Section 25 report)
Annex 3	Council tax requirement

Appendices:

Appendix A.1	National economic outlook and public spending
Appendix A.2	Spending Review 2013 including details of provisional

	government grants for 2013/14
Appendix A.3	Revenue budget proposals
Appendix A.4	Capital programme proposals
Appendix A.5	Reserves & balances policy
Appendix A.6	SIMALTO results
Appendix A.7	Earmarked reserves
Appendix B.1	Prudential indicators - summary
Appendix B.2	Prudential indicators – details
Appendix B.3	Global economic outlook and the UK economy
Appendix B.4	Treasury management scheme of delegation
Appendix B.5	Institutions
Appendix B.6	Approved countries for investments
Appendix B.7	Annual minimum revenue provision (MRP) policy statement
Appendix B.8	Treasury management policy

Sources and background papers:

- DCLG revenue and capital provisional financial settlement papers from the DCLG web-site
- Budget working papers
- Various government web sites detailing provisional financial settlement details
- CIPFA Prudential Code for Capital Finance
- CIPFA Treasury Management in the Public Services: Code of Practice
- Investment guidelines under section 15(1)(a) of the Local Government Act 2003
- Audit Commission: Risk & Return: English Local Authorities and the Icelandic Banks