SURREY COUNTY COUNCIL

COUNTY COUNCIL

DATE: **6 FEBRUARY 2018**

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

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

SUBJECT: **REVENUE AND CAPITAL BUDGET 2018/19 TO 2020/21, CORPORATE STRATEGY AND KEY FINANCIAL STRATEGIES**

SUMMARY OF ISSUE

This report is for the County Council to approve the:

- Council Tax precept for 2018/19
- revenue budget for 2018/19 and medium term financial plan to 2020/21
- capital programme quantum and principles
- key corporate and financial strategies.

Looking forward, the council aims to continue to work more closely with: Surrey's district and borough councils, the police and health service, the local voluntary & community sector and our residents as a single community to look again at place with fresh eyes. The council will work with all of these partners to determine what can be done to make everything easier and better for local residents.

The council's goal is to provide seamless, affordable, high quality services in our places. To achieve that goal the council needs to focus on four questions:

1 How do we work with our residents in new ways to achieve these ambitions?

2 How do we deliver better services in a place?

3 How do we join up services to focus better on the needs of a particular place?

4 How do we make better use of all our collective assets and resources?

Since 2010, Surrey County Council has faced unprecedented increases in demand, particularly in social care for adults and children. At the same time the Government's core funding for the council has reduced significantly, especially over the last three years and reductions will continue until at least 2019/20. Over the period from 2010/11:

- the number of people supported for their learning disabilities has increased by 1,187 to a total of 3,760 (a 46% increase) the highest for any council;
- the population of children (who require school places) has increased by 9% to 142,208;
- the number of children with a Statement of Special Educational Needs or an Education, Health and Care Plan has risen by 2,342 to 7,700 (a 44% increase);

- the council supports 116 unaccompanied asylum seeking children and 228 care leaver asylum seeking children, which are among the highest numbers in the country;
- the number of older people supported has risen by 841 to 9,822 (a 9% increase);
- the county's roads experience significantly higher use than the average for England and the South East, which places significant demands for the Highways Service to respond to; and
- the Government's core funding for the council has reduced by over £200m.

The recent sharp decline in the council's grant funding is due to the Government reducing its funding to local government and changing its main method to distribute funding nationally. The method focuses on a local authority's 'core spending power' (CSP). CSP aggregates the Government's main core grants to local authorities, such as Revenue Support Grant (RSG) and sources of funding raised locally through Council Tax and business rates. This methodology effectively offsets reductions in central Government grant with assumed increases in locally generated income, in particular Council Tax, and means the Government can demonstrate that there has been an overall increase in CSP.

The overall increase in CSP masks the significant shift in local authority core funding from central Government grant support to locally raised Council Tax funding over the period 2016/17 to 2019/20. Accordingly, the equation for determining CSP means those areas that have to rely on a higher proportion of their funding from Council Tax see the sharpest reductions in Government grant. There are four main disproportionate impacts on Surrey County Council of the Government using CSP to allocate grant funding:

i. Firstly, the Government's current funding baseline calculation for local authorities' core grants (the four block model) already takes account of ability to raise Council Tax. Using CSP to allocate core grants therefore counts Council Tax twice in the formula. Then, the Government's initial and supplementary 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 and thereby counts Council Tax a third time. This flawed methodology continues to militate against residents in areas like Surrey, where grant support has been historically low and Council Tax has had to fund a higher proportion of local services' costs.

ii. Over the years, the Government has 'rolled in' grants it had allocated separately in previous years to local authorities' core funding. As the Government has made significant cuts to its core funding, it has concomitantly 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 £69m, representing the council's need to spend on this responsibility. For 2018/19, the Government's assessment of LDHRG spending need for the council is £73m, but the rolled in grant, reduced in proportion to Government core funding is around £33m. This leaves a £40m funding gap this year.

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 over 40% higher than the South East and 90% higher than the average for

England. This makes it much more expensive for service providers to sustain their businesses in Surrey and is reflected in the prices the council has to pay.

iv. The methodology results in a continuing significant shift for all authorities from central Government funding to locally raised funding (specifically Council Tax) from 50% of core funding coming from Council Tax in 2015/16 to 62% in 2019/20 at a national level. 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 87% 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 £540m since 2010/11. At the same time this council has been forced to continue increasing its level of Council Tax to offset the impact of severely reduced Government funding, while maintaining services to residents despite growing demand and increasing needs. The council is planning to make significant additional savings of £66m in 2018/19. **This will still leave a funding shortfall of £39m in 2018/19, rising to over £93m by 2020/21**.

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 balances these shortfalls with additional funding from either further Government support or locally raised sources and efficiencies and service reductions.

The Provisional Local Government Financial Settlement, announced on 19 December 2017, permits an increase in general Council Tax limited to below 3% before requiring a referendum and the flexibility to raise the Adult Social Care precept by 3% in 2018/19. This follows a 3% increase in 2017/18 and intial 2% in 2016/17.

The Provisional Settlement also announced the next round of 100% business rates pilots that will operate for 2018/19 only. Surrey County Council and the Surrey district and borough councils were successful in their application to form a business rates pilot in 2018/19. The next steps are for the Surrey Business Rates Pilot to agree a Memorandum of Understanding (MoU) with the Ministry of Housing, Communities and Local Government (MHCLG) setting out details of how the pilot will operate before the start of the 2018/19 financial year.

RECOMMENDATIONS

Following its meeting on 30 January 2018, Cabinet's recommendations to County Council on 6 February 2018 are as follows.

Cabinet recommends County Council notes the following important features of the revenue and capital budget.

1. The Director of Finance's statutory conclusions that the council's budget is balanced for 2018/19 and it is developing a major transformation programme to be able to set a balanced budget for 2019/20 and become sustainable over the medium to long term (Annex 1).

Proposed budget: Cabinet recommends County Council approves the following revenue and capital budget decisions.

2. Increase the level of the general Council Tax by 2.99% (paragraphs 101 and 102).

3. Increase Council Tax by a further 3% for the adult social care precept, which will provide a further £20m to support the growth in demand for services (paragraph 102).

4. Set the County Council precept for band D Council Tax at £1,411.29 which represents a 5.99% up-lift. This is a rise of £1.53 a week from 2017/18's precept of £1,331.55.

5. The Council Tax for each category of dwelling to be as in Annex 3.

6. The payment for each billing authority, including any balances on the collection fund, will be as set out in Annex 3.

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 County Council updated to take into account new information in the Final Local Government Financial Settlement.

9. Approve the County Council's £1,705m gross revenue expenditure budget for 2018/19 (Table 9).

10. Approve the application of up to £15m capital receipts to fund the revenue costs associated with transformation projects (paragraphs 33 to 36 and Appendix 3)

11. Approve use of up to £24m of earmarked reserves to support the revenue budget (paragraph 109).

12. Approve £316m three year capital programme, with £139m capital investment in 2018/19 (paragraph 124 and Appendix 7).

13. Agree to support only capital schemes that do not require borrowing, unless the scheme has a compelling business case developed that demonstrates best value and a sustainable basis for funding borrowing costs (paragraph 135).

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

15. 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 (paragraph 120).

16. To help ensure the council achieves its savings programme, require the Chief Executive and the Director of Finance to:

    - continue to ensure delivery of existing MTFP efficiencies and service reductions for the remaining years of the MTFP 2018-21; and

- continue to ensure services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures (paragraph 95).

17. Require the Chief Executive and the Director of Finance to lead the development of a transformation programme to move the council to a sustainable position in 2019/20.

Corporate and key financial strategies: Cabinet recommends County Council approves the following.

18. the refreshed Corporate Strategy for 2018/19 that Cabinet has endorsed (paragraphs 18 to 24 and Appendix 1);

19. the refreshed Financial Strategy for 2018/19 (paragraphs 29 to 31 and Appendix 2);

20. the Capital Strategy for 2018-22 (paragraphs 117 and 118); and

21. the Flexible Use of Capital Receipts Strategy for 2018/19 (paragraphs 33 to 36).

Treasury management and borrowing: Cabinet recommends County Council approves the following.

22. with immediate effect, the Treasury Management Strategy for 2018/19 (Annex 2), which includes:

    - the investment strategy for short term cash balances;
    - the borrowing strategy for funding the capital programme;
    - the treasury management policy (Appendix 10);
    - the prudential indicators (Appendix 11);
    - the treasury management scheme of delegation (Appendix 12);
    - the minimum revenue provision policy (Appendix 13).

County Council is recommended to note the following Cabinet decisions.

23. Cabinet noted that services will develop final detailed budgets and savings within budget for review by the council’s Scrutiny function, ahead of approval by Cabinet on 27 March 2018 when the final MTFP 2018-21 will be presented.

24. Cabinet approved allocation of a part of the additional funding from the additional 1% increase in the Council Tax, and a change to the funding for the Member Allocations to provide the following to support members’ work in their local communities (paragraphs 104 and 105):

    - a new Member Local Highways Fund;
    - a Revenue Highways Fund shared among Local Committees; and
    - revised Members Community Allocation.

25. Cabinet approved the draft MTFP for the financial years 2018-21, which includes:

    - the Total Schools Budget of £505.8m (paragraphs 110 to 115);
    - overall cash limits for individual services for the 2018/19 budget (Table 9).

REASON FOR RECOMMENDATIONS

This meeting of County Council is to agree a budget and set the Council Tax precept for 2018/19.

FINANCIAL PLANNING

The council's financial position

Overview

1. Since 2010, pressures on Surrey County Council's budget have intensified. The council has faced unprecedented increases in demand, particularly in social care services for adults and children. At the same time the Government's core funding for the council has reduced significantly, especially over the last three years and this downward trajectory will continue until at least 2019/20. The continuing reductions in Government funding mean the council has to rely ever more increasingly on Council Tax payers to support the budget.

2. The council has responded to these budget pressures by making more and more savings and efficiencies. The council is on track to achieve over £540m savings since 2010 and plans to achieve a further £133m over the next three years, bringing the total by 2020/21 to £675m.

3. From 2020/21 the Government will implement a new funding system for local government based on 75% local business rates retention. The council will engage actively with the Government over the development of the new system to seek a fairer funding outcome for Surrey residents. This engagement includes through its role as a business rates pilot for 2018/19.

Public value

4. Since 2009 the council has focused relentlessly on achieving ever better public value for Surrey residents set within an ongoing multi year budgeting framework. Two very good examples of this work are council's Public Value Review Programme and its stringent restriction on the use of consultants. Despite huge service demand pressures, the council has also been at the forefront of partnership working and striving to improve public services significantly by working together as one team for the people of Surrey. The council has received recognition across the country for its approach to innovation.

5. The investment strategy, Orbis partnership that has begun with East Sussex County Council and Brighton & Hove City 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 financial 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

6. Surrey as an area has had some of the lowest government funding in the country. This has its roots in the Government's continued use of the four block funding model, which

has its origins in the mid 2000s and gives a high weighting to relative deprivation. 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 with local markets). Furthermore, the deprivation indices 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 from their heavy use.

7. The four block funding model's weighting for resources exacerbates the council's funding position as it assumes 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 having to contribute among the very highest proportions of Council Tax to support local services.

8. For 2016/17, the Government changed how it distributes core grant funding to local authorities by making locally determined Council Tax revenue a factor in how it allocates Government grant among local authorities. The basis of the allocation is to maintain similar percentage changes to authorities' core spending power (CSP). CSP aggregates funding from central and local sources, which are mainly:

- Revenue Support Grant (RSG);
- business rates retention system; and
- Council Tax.

9. As the council already has to raise one of the highest proportions of its funding from Council Tax this meant the Government's decision to allocate RSG based on core spending power resulted in an abrupt loss of grant funding for the council and increased the proportion of core funding it has to raise from residents yet further. Council Tax will form around 87% of CSP by 2019/20 (up from 72% in 2015/16) compared to a national average Council Tax contribution of around 62% in 2019/20 (up from 50% in 2015/16).

10. The Government's sudden change in how it allocated grant support resulted in a severe reduction in funding for the council, which put it in a very difficult position. The Government acknowledged the impact of the change in funding through its provision of Transition Grant for 2016/17 and 2017/18. This grant and one-off measures helped the council balance its budget in those years, but no Transition Grant is available for 2018/19. To build a sustainable financial position over the medium term, the council would need significant service transformation. The reasons for reaching this difficult financial position are straightforward:

- an unprecedented six year period of funding cuts by the Government, including rolling in nearly £70m Learning Disability Grant to the core grant funding 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 adequate funding, such as care of unaccompanied asylum seeker children.

Financial resilience through transformation

11. In view of the seriousness of the financial challenges facing the council the Director of Finance, supported by the Chief Executive and Leader, asked the Chartered Institute of Public Finance and Accountancy (CIPFA) to conduct a financial resilience review in November 2016. The review focused on the council's budget planning assumptions and its long term financial resilience, as well as comparative spending and costs. 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.

12. CIPFA's financial resilience review confirmed the council could not rely on its reserves to balance its budgets through to 2019/20. In response, in 2017/18 the council is set to deliver the highest in-year level of savings (£79m) although this is still short of the original target of £104m. This shortfall, together with growing demand pressures during 2017/18 adds to the pressure on the 2018/19 budget, and the importance of a robust transformation programme.

13. Medium to long term financial sustainability requires the council to transform fundamentally how people access local public services in Surrey. Alongside the sustained reductions in funding over the last seven years, the scale and nature of residents' needs has also changed, becoming both greater and more complex, adding further financial pressures.

14. Public services in Surrey have responded through making efficiencies; developing shared operations and joint-working; new models of delivery, working closer with the voluntary community and faith sector; greater collaboration with partners on a preventative approaches; and taking advantages of devolution, for example through Surrey Heartlands.

15. With funding pressures set to continue and demand increasing, the scale of the challenge for public services in Surrey will become ever greater. To address these challenges will require a step change in collaboration with partner organisations and a much greater focus on thinking about changes to whole systems (involving many organisations) involved in delivering services. These changes are likely to be significant and very noticeable for residents so it is essential that residents and service users are much more fully involved in service design.

16. The council has had some success in this area already and will build on this, taking a much more place-based rather than individual service-focused approach. Working closely with partners, in particular the district and borough authorities, the people and places approach will look to understand local needs and consider how best to deliver within future budgets, looking at sustainable approaches which make best use of our

combined resources – protecting those services which residents value most and looking at new ways to deliver preventative services more effectively. There will also be a focus on understanding residents' views and the role they see public services playing in the future, including any ideas they have on how councils could deliver differently. This approach will also help the council to look at its own assets and the best use of them, looking at how we bring services together in one place for communities wherever possible.

17. In addition to the place-based approach, the council will continue to develop its digital strategy as well as pursue commercial opportunities as they arise. To drive forward at pace, both areas will potentially need additional capacity and external expertise such as project management, change expertise to ensure a more agile approach, research and data analysts. The work will also need to look at what is happening in the broader sector in terms of innovation, and across the market to understand the potential of digital to transform both service delivery and resident contact with the council. Where a need for additional capacity is identified and cannot be met within existing budgets and resources, a business case will be presented as appropriate to Cabinet on an invest-to-save basis, with a clear focus on delivering a balanced budget in 2019/20 and a sustainable long-term budget.

Key strategies

Corporate Strategy

18. Cabinet recommends County Council approves a refreshed version of the council's Corporate Strategy (Appendix 1).

19. By reconfirming a vision for the county to the end of the council term and setting goals and key actions for the next financial year, the refreshed Corporate Strategy provides a sense of direction for the council's staff, residents, businesses and partner organisations. As part of the council's Policy Framework (as set out in the Constitution) the Corporate Strategy must be approved by Full County Council.

Background

20. On 16 July 2013 County Council approved a long term Corporate Strategy for the council. The Corporate Strategy provides the strategic framework for the council's revenue and capital budget and MTFP. It has been refreshed in parallel with the development of the council's revenue and capital budget. It was agreed the Strategy would undergo a refresh annually. This report presents a refresh of the version that was previously approved by the council on 23 May 2017.

21. The council faces significant, persistent strategic challenges. The refreshed Strategy for 2018-2021 reconfirms the council's strategic direction and reflects the challenging environment in which the council is operating – that of growing demand and reducing resources.

22. The strategic goals for Wellbeing, Economic Prosperity and Resident Experience have been updated for the 2018/19 financial year to reflect the council's key strategic

priorities. Further information about individual Service priorities in 2018/19 will be included in the MTFP to be considered by Cabinet at its meeting on 27 March 2018.

23. The council's long term strategy has been discussed with Members, officers and partners.

24. The Corporate Strategy sets out goals and commitments that have positive implications for all residents, including protected groups. There are specific positive commitments in relation to children and young people, older people, and people with disabilities. The equalities implications of the goals will continue to be considered in relation to the more detailed and specific policies that stem from the Strategy.

What happens next?

25. The Strategy will be published on the council's website in readiness for the start of the 2018/19 financial year.

26. An internal communications campaign will be run to raise awareness of the Strategy.

27. The measures and targets for the council's priorities for 2018/19 will be finalised with progress reported throughout the year on the council's website.

28. Select Committees will continue to scrutinise work programmes and performance.

Financial Strategy

29. The council's refreshed Financial Strategy 2018-21 (Appendix 2) 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.

30. The key fundamentals of the financial strategy 2018-21 are:

- acting in the public interest at all times through building and nurturing 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.

31. The Financial Strategy will remain largely stable to 2021. 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.

Capital strategy

32. The council takes capital expenditure and investment decisions in accordance with its overall organisational strategy, consideration of available resources and with regard to their long term financial implications and potential risks. A range of policies and programmes exist to ensure capital decisions take account of stewardship, value for money, prudence, sustainability and affordability. The council applies robust financial planning, option appraisal and governance arrangements to schemes included in the

council’s capital programme and its investment strategy. Paragraphs 117 and 118 provide more details.

Flexible Use of Capital Receipts Strategy

33. In the Spending Review 2015, the Chancellor of the Exchequer announced that to support local authorities to deliver more efficient and sustainable services, the government will allow local authorities to spend up to 100% of their capital receipts on the revenue costs of reform projects. Initially this flexibility on the use of capital receipts was limited to those receipts received between 1 April 2016 and 31 March 2019. However the Government is now consulting on extending this period by another three years.

34. In the 2016/17 and 2017/18 financial years, Surrey County Council has not sought to use the flexibility. From the 2018/19 financial year, the council will use capital receipts to fund the revenue costs of transforming services to become more efficient and sustainable, which will lead to future revenue savings for either the council or other public sector bodies.

35. Since 1 April 2016, the council has received £32m capital receipts, which it could use to fund this strategy. In 2018/19 the council will initially use up to £15m capital receipts in accordance with this strategy. The council can vary this amount during the year with the approval of County Council. Appendix 3 provides a schedule of projects to transform services and associated revenue savings that will be funded through flexible use of capital receipts.

36. The regulations on the flexible use of capital receipts require local authorities to disclose the impact of the strategy on Prudential Indicators. The council’s current capital programme has not sought the use of capital receipts received since 1 April 2016 as a source of funding for schemes. Therefore, there will be no change to the council’s Prudential Indicators that are shown in Appendix 11.

Risk Management Strategy

37. 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.

Treasury Management Strategy

38. Before the beginning of each financial year, 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. Annex 2 sets out updated versions of the council's Treasury Management Strategy statement and Appendix 10 sets out the council's treasury management policy statement.

Financial planning environment

39. 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 4 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.

40. In his November 2017 Budget, the Chancellor of the Exchequer confirmed his commitment to his fiscal rules, but made use of headroom to invest. Due to the UK's persistent low productivity, forecasts of GDP growth are 1.5% in 2017, falling to 1.4% in 2018 and 1.3% in 2019, before rising back to 2.0% in 2021. Forecast Government borrowing in 2017/18 is £8.4bn lower than expected in March 2017 due to stronger receipts, lower spending and some classification changes. By 2020/21, forecast borrowing is £12.2bn higher primarily due to lower receipts from the lower economic growth. Over this period: forecast net Government debt as a proportion of GDP (about £2 trillion a year) peaks at 86.5% in 2017/18 then falls to reach 79.3% in 2021/22, while public spending as a proportion of GDP will fall steadily from 38.9% to 37.9%.

Provisional Local Government Financial Settlement 2018/19

41. Following on from the Chancellor's Autumn Budget 2017, the Ministry of Housing, Communities and Local Government (MHCLG – formerly the Department of Communities and Local Government) published its Provisional Settlement 2018/19 consultation on 19 December 2017. This consultation ran until 16 January 2018 and MHCLG is expected to announce the Final Settlement 2018/19 in February 2018.

42. The Provisional Settlement 2018/19 set out local authorities' funding allocations for the period up to 2019/20. The main changes affecting this council were as follows.

    - The Surrey Business Rates Pilot application was successful. The projected impact of this is an estimated extra £20m for the council in 2018/19 only from its share of retained business rates growth.
    - The core Council Tax referendum threshold rose by 1% for 2018/19 with a proposal that this continues for 2019/20. The projected impact of this is an extra £7m in the council's base budget in 2018/19 and a further £7m in 2019/20.

43. Other changes announced by MHCLG in the Provisional Settlement include:

    - an intention to consult in spring 2018 on fair and affordable options for negative RSG;
    - councils will be able to keep 75% of business rates in 2020/21, MHCLG will reallocate its 25% central share to local government;
    - in 2020/21, the business rates retention system will reset to reflect actual growth in business rates and locally retained business rates funding will incorporate existing grants, including RSG and Public Health grant;
    - a continuation of the business rates pilot period into 2019/20, to allow more areas to apply to be involved and existing pilots to reapply;
    - extension of the capital receipts flexibility for three more years;

- an intention to publish a consultation paper on the fair funding review, seeking responses by 12 March 2018;
- an intention for the NHS to publish a Green Paper on adults' and children's social care in the summer 2018.

44. The Final Settlement 2016/17 introduced the CSP basis for reducing core grant that resulted in the abrupt funding reduction, which has so severely affected the council during the last two financial years and through to 2019/20. The Government's four year offer did not provide this council with a fair or sustainable financial position and ultimately would have meant accepting the -£17m negative RSG imposition in 2019/20. This would be equivalent to asking every Surrey Council Tax payer to pay an extra 2.5% to fund other areas in 2019/20 and as the new business rates retention system will incorporate RSG, such a tariff could be due, albeit less visibly, every subsequent year.

45. The timing of the Provisional Settlement was later than expected and the response period was very short. The Government announced other main funding sources for local authorities (Public Health Grant, Dedicated Schools Grant) alongside or shortly after the Provisional Settlement. The late announcement of the Provisional Settlement does not help local authorities in their financial planning.

Business rates pilots

46. In addition to Surrey, MHCLG has agreed ten new business rates pilots for 2018/19: Berkshire, Derbyshire, Devon, Gloucestershire, Kent & Medway, Leeds, Lincolnshire, London, Solent and Suffolk. The existing business rates pilots from 2017/18 will continue to operate in 2018/19. These are: Greater Manchester, Liverpool City Region, West Midlands, West of England and Cornwall. Of the 16 business rates pilots, seven are in predominantly two tier areas.

47. The pilot authorities forego RSG and Rural Services Delivery Grant in return for higher business rates retention adjusted through their share of the overall tariff or top up. This amount is equivalent to the Settlement Funding Assessment (SFA) MHCLG has used to determine core grant and business rates shares since 2014/15.

48. The Surrey business rates pilot application proposal comprised this council and all of the district and borough councils in Surrey. The application enjoyed the full agreement of each of the leaders of the twelve councils and the support of the two Local Enterprise Partnerships (LEPs) that operate in Surrey. The application includes the proposal to share business rates growth among the councils so this council receives 70% and the districts and boroughs receive 30% to help improve financial sustainability and promote economic growth. The council's significantly increased share of locally retained business rates, coupled with its shift from receiving a top up grant to paying a substantial tariff significantly increases its expose to risks and opportunities of changes in that income. The next steps are for the Surrey Business Rates Pilot to agree a Memorandum of Understanding with MHCLG setting out details of how the pilot will operate before the start of the 2018/19 financial year.

49. Under the business rates pilots arrangements, MHCLG treats the whole pilot primarily as a single pooled entity and derives individual councils' shares of the business rates,

tariffs and top ups from within that. The Surrey Business Rates Pilot has an overall business rates baseline of £500m (the total business rates revenue the Government expects for the Surrey county area) and the pilot's overall tariff is -£364m, leaving £136m baseline funding level to cover all twelve councils in the Surrey Business Rates Pilot. In other words, £136m is the total aggregate funding the Government believes the twelve Surrey councils need to retain from local business rates to fund their core services. Of this £136m, this council's share is £115m and the district and borough councils' share is £21m.

50. MHCLG calculates individual business rates pilot councils' shares of local business rates and their tariffs and top ups as follows.

- Calculate the business rates baseline for the whole pilot
  (for the Surrey Business Rates pilot = £500m).
- Calculate each individual council's business rates baseline from the proposals in their pilot application
  (for Surrey County Council this is 70% x £500m = £350m).
- Calculate the tariff or top up by subtracting the council's business rates baseline from its baseline funding level
  (Surrey County Council's tariff is £115m less £350m = -£235m).

51. Surrey County Council's baseline funding level is equivalent to its SFA had the pilot application not succeeded. It comprises RSG (£4m) plus retained business rates (£50m) plus business rates top up (£61m).

52. Table 1 shows the council's SFA as set out in the Provisional Settlement. This position does not include the effect of any business rates growth achieved in Surrey.

Table 1 Provisional Settlement Funding Assessment

	2017/18 £m	2018/19 £m	2019/20 £m
Business rates retention	49.0	349.9	51.1
Tariff (-)/Top-Up (+)	58.6	-234.7	62.1
Baseline Funding Level	107.6	115.2	113.2
Revenue Support Grant	28.0		
Tariff/Top-Up adjustment			-17.3
Settlement Funding Assessment	**135.6**	**115.2**	**95.9**

53. Over the four year period (2016/17 to 2019/20) following the introduction of CSP to determine core grant reductions, the council's loss of SFA is -£75m (-43%) and between 2017/18 and 2018/19 is -£20m (-15%).

54. During the same four year period, the reduction in the council's RSG including the -£17.3m top up adjustment, is -£84m (-126%) between 2017/18 and 2018/19 it is -£24m (-84%).

Business rates retention and revaluation

55. MHCLG made adjustments to business rates tariffs and top ups in the Provisional 2017/18 Settlement to neutralise the impact of the national business rates revaluation which took effect from 1 April 2017. The business rates revaluation increased rateable values in Surrey by around 15%, which is above the national average of 10%. This means businesses in Surrey generally pay higher business rates from April 2017. However, MHCLG adjusts tariffs and top ups so local authorities' retained business rates income remains unchanged for the revaluation impacts.

56. Following completion of data returns by billing authorities, MHCLG has made further adjustments to reconcile tariffs and top ups based on the updated data and plans a final technical adjustment for 2019/20. The impact on the council is a one-off £0.4m reduction in the council's tariff as an adjustment in respect of the 2017/18 settlement.

Core Spending Power

57. MHCLG continues to present the financial amounts in the Provisional Settlement in terms of an authority's Core Spending Power (CSP). CSP comprises core grant funding, some grants with conditions attached and total Council Tax, including adult social care precept.

58. MHCLG has revised CSP for 2018/19 to exclude the Transition Grant and 2017-18 Adult Social Care Support Grant, which have expired and to include the new additional Better Care Fund Grant (announced by the Chancellor in the Spring Budget 2017) and the grant compensating for under indexing the business rates multiplier at CPI (consumer price index) rather than RPI (retail price index).

59. In calculating CSP, MHCLG now assumes each council's Council Tax base grows at the average rate it has experienced for 2013/14 to 2016/17 and the Council Tax rate increases at up to the maximum 3% permitted, plus 3% for the Adult Social Care precept (as outlined in paragraphs 64 and 65).

60. For 2018/19 CSP comprises:

- Revenue Support Grant,
- business rates baseline funding,
- New Homes Bonus,
- Rural Services Delivery Grant,
- improved Better Care Fund Grant
- additional Better Care Fund Grant,
- grant compensating for under indexing business rates, and
- Council Tax including adult social care precept.

61. MHCLG's original aims for using CSP to allocate core grant reductions was to achieve roughly equal percentage changes in authorities' CSP totals while keeping its own expenditure within HM Treasury limits. Because the council has a high Council Tax base and has had to raise Council Tax to compensate for historically low levels of grant funding, Council Tax forms a much higher proportion of CSP than for other other authorities. Consequently as the balancing figure in the equation is the core grant

MHCLG allocates, the council has suffered much higher than average losses of government funding and Surrey Council Tax payers continue to have to contribute a higher proportion towards funding local services than almost all of the rest of the country.

62. Table 2 gives the council's CSP and the changes between 2017/18 and 2019/20. The Provisional Settlement shows £22m CSP increase for the council over the period 2017/18 to 2019/20. However, the council's increase relies on £78m Council Tax growth over the period offsetting -£40m SFA reduction and -£16m reduction in other settlement specific grants.

63. 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, in the same period the proportionate contributions are 72%:28% in 2015/16 and 87%:13% in 2019/20.

Table 2 Core Spending Power as set out in the Provisional Settlement

	2017/18 £m	**2018/19 £m**	**2019/20 £m**
Business rates baseline funding	107.6	115.2	113.2
Revenue Support Grant (including adjustment)	28.0		-17.3
Settlement Funding Assessment	135.6	115.2	95.9
Settlement specific grants			
Compensation for under indexing	1.4	2.3	3.5
Improved and Additional Better Care Fund	7.5	7.9	7.1
New Homes Bonus	5.0	3.1	2.8
Rural Services Delivery Grant	0.0	0.0	0.0
Transition Grant	12.2	0.0	0.0
2017-18 Adult Social Care Support Grant	4.0	0.0	0.0
Total Settlement specific grants	30.1	13.3	13.4
Council Tax (core element)	625.8	652.6	680.6
Adult Social Care precept	31.0	52.3	54.5
Council Tax	656.8	704.9	735.1
Core spending power	**822.5**	**833.4**	**844.4**

The main components of the provisional settlement and related announcements

Council Tax and Adult Social Care precept

64. The Provisional Settlement permitted an additional 1% flexibility to the Council Tax referendum limit so increases must be below 3%.

65. The Provisional Settlement confirmed local authorities can raise the Adult Social Care precept by a maximum of 3% in 2018/19 and limits the total rise over the three years 2017/18 to 2019/20 to 6%. Local authorities using the adult social care precept have to provide assurances that they use the funding for adult social care services.

New Homes Bonus

66. Following consultation in 2016, from 2018/19, MHCLG will base New Homes Bonus (NHB) grant on a four year period rather than the original six year period. The impact of this reduction in NHB is -£1.9m reduction in 2018/19 and £0.3m in 2019/20, following -£1.2m in 2017/18. Surrey districts and boroughs suffer aggregate NHB losses of -£6.7m and -£1.3m in 2018/19 and 2019/20 respectively, following -£4.8m loss in 2017/18.

Improved Better Care Fund

67. In the Spring Budget 2017, the Chancellor announced £2bn additional grant funding for adult social care spread over the three years 2017-20 to add to the £2.4bn grant funding included in the 2017/18 Settlement for the same period.

68. MHCLG allocates this funding by aggregating amounts it expects local authorities to raise locally from the Adult Social Care precept with the total Improved Better Care Fund (iBCF) resources and then calculating an authority's share based on its relative need. 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.

69. Despite having the eighth highest ranked relative need in England, the Provisional Settlement shows this council's share is £7.9m in 2018/19 and £7.1m in 2019/20. These grant allocations place the council 78th and 101st out of 152 social care authorities for receipt of grant. The council's relative needs based share of those years' iBCF grant funding are: £24.9m and £30.6m respectively. This means the council has the biggest difference between its actual grant and its relative need share of the grant and a difference that is almost twice that suffered by the next ranked authority.

Public Health Grant

70. The council's Public Health Grant reduces from £37.5m in 2017/18 to £36.5m in 2018/19 and £35.6m in 2019/20. Responsibility for public health transferred to local authorities in 2013/14. To maintain funding stability, the Government based grant allocations on spending by the extant primary care trusts (PCTs). The PCT in Surrey had low public health spending, so the council received a low grant on transfer. The Government intended to adjust Public Health Grant distributions to target funding allocations to match population and need indicators more closely and move away from the superseded PCTs' spending patterns. However, the Government only adjusted grant allocations to move towards the target allocations in 2014/15 and 2015/16. Since then it has reduced every authority's Public Health Grant by the same proportion each year. Throughout this period, Surrey County Council has had the lowest grant allocation per head of population of any local authority in England and for 2018/19, it again has the lowest grant per head of population at £30.39 and is substantially below the average rate for England of £57.42. If the council was funded at the average rate, it would receive £32.5m extra Public Health Grant in 2018/19. If it was funded at its target funding level, it would receive £17.7m extra Public Health Grant in 2018/19.

Dedicated Schools Grant and Education Services Grant

71. The Government is phasing in a national funding formula for schools, starting in 2018/19. The formula increases the Dedicated Schools Grant (DSG) allocation for Surrey primary and secondary schools by £14m in 2018/19, with a further increase of £14.5m when fully implemented, probably in 2020/21. Although the total DSG funding of Surrey schools will increase, the total DSG received by the council will fall because of the increased number of schools converting to academies. The Government deducts funding for academies in Surrey from Surrey's DSG and allocates it directly to schools. When fully implemented, the national funding formula will specify how much must be allocated to individual schools and local authorities are expected to move their own local funding formula to converge on the national funding formula by 2020/21. Furthermore, from 2018/19 the council may no longer transfer "schools'" Dedicated Schools Grant to support high cost special educational needs, except with the annual approval of the Schools Forum (or Secretary of State) and even then only up to 0.5% of the total national funding formula allocation. Following discussions with the Schools Forum, the council is not to make such a transfer in 2018/19.

72. In 2018/19 the council will no longer receive general Education Services Grant or related transitional funding. The Schools Forum has agreed a levy of £37.96 per pupil on maintained schools, which will raise an estimated £2.7m to part fund statutory services to schools which were previously funded from general Education Services Grant. In 2017/18 the levy covered only part year costs (£25.65 per pupil) because transitional grant funding was available. The Schools Forum also agreed a contribution of £1.2m to part fund the travellers' education service and to provide additional school improvement funding to schools identified with standards difficulties or needing interim leadership support.

73. In 2018/19 the Government will continue to provide the school improvement monitoring and brokering grant to support local authorities' residual school improvement responsibilities for maintained schools. The allocation has yet to be confirmed but is estimated at £0.8m.

Scenario planning 2018/19 to 2020/21

74. The council has made significant efficiencies totalling £463m over the seven years from 2010/11 to 2016/17. In 2017/18 the council set a £104m savings target, which has been challenging and the council forecasts to achieve £79m savings. The budget setting process has focused on developing a balanced budget for 2018/19, moving to a sustainable budget from 2019/20 through transforming services.

75. As with last year, with the continuing uncertainty over Government funding levels and arrangements beyond 2019/20 and the overall financial climate affecting public services means projecting figures much beyond 2019/20 could be spurious and misleading. However, as 2020/21 is the first year of the new business rates retention arrangements, it is important to project a baseline position for the council on commencement. The council is therefore only considering the next three financial years (2018/19 to 2020/21) in this budget paper.

REVENUE BUDGET 2018-21

Budget planning assumptions

76. The council began building its annual budget in June 2017. This involved reviewing the council's financial position and outlook at the end of the first quarter of 2017/18, revisiting the assumptions, pressures and savings included in the MTFP 2017-20, plus an outlook for the years to 2020/21. Table 3 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 3 Budgetary assumptions 2018-21

Descriptor	2018/19	2019/20	2020/21
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	2.5%	2.5%	2.5%

Notes:

- Surrey pay is negotiated locally and applies to most of the council's employees
- National pay applies to specific groups of staff, such as firefighters, who negotiate pay nationally
- Within non-pay inflation, differing contractual inflation rates apply depending on the contract's terms

Forecast revenue budget outturn 2017/18

77. The council's overall revenue forecast outturn for 2017/18 as at 31 December 2017 was £11m overspend.

78. Despite the £13m improvement from the £24m overspend forecast at 30 June 2017, at 31 December 2017, the council still forecasts to overspend by £11m in a year when it had also planned an unprecedentedly large level of savings (£104m) to support the revenue budget. The underlying cause of the service overspend is due to: some new savings proving unachievable within the 2017/18 financial year, some savings remaining unidentified and social care services for adults and children continuing to experience increasingly intense demand pressures.

79. All services continue to take all appropriate action to keep costs down and optimise income (e.g. minimising spending, managing vacancies wherever possible etc.).

80. 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 council's provisional estimates of the government grants it will receive (Appendix 5) become clearer when the Government publishes the Final Settlement 2018-19 and when Government departments confirm their grants ahead of or sometimes during the financial year.

Service pressures

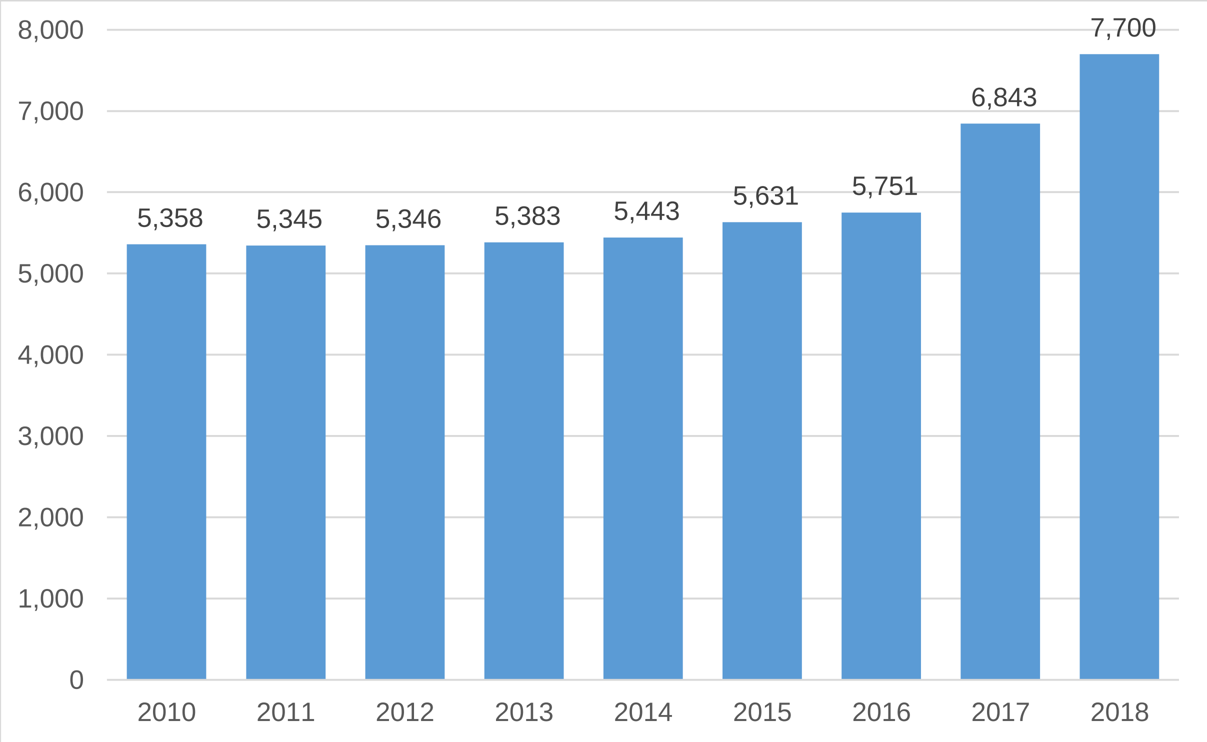
81. The council faces growing service pressures for reasons of: cost, volume and complexity. Service pressures do not include the effects of changes in funding.

82. The council's service pressures largely arise from demand and price pressures within adult social care and children's services. The following paragraphs provide examples illustrating some of the continuing demand pressures on the council's budget.

Children with Special Educational Needs and Disabilities

83. Figure 1 shows the number of children with a Statement of Special Educational Needs (SEN) or an Education, Health and Care Plan (EHCP) increased by 44% over the period from 2010 to 2018, with rises of 19% and 13% in the most recent two years (which coincided with a reduction in funding per pupil of 7%).

Figure 1 Increase in children with a Statement of Special Educational Needs or an Education, Health and Care Plan.



84. The increasing volume of children with an SEN statement or an EHCP means there is a corresponding increase in costs for services. However, the Dedicated Schools Grant for high needs has not increased accordingly and there is a significant pressure of costs exceeding available funding by an estimated £15m in 2018/19. The future sustainability of SEN services for the most vulnerable children in the county is being reviewed in conjunction with school leaders, but this is now a major financial issue for the council and schools.

Unaccompanied Asylum Seeking Children

85. As at January 2018, the council supports 116 Unaccompanied Asylum Seeking Children (UASC) and 228 Care Leaver Asylum Seeking Children (children who arrived in the country as UASC who are now over the age of 18). The number of UASC has remained relatively constant over the last two years after a sharp increase in 2015/16, whereas the number of UASC care leavers has increased considerably. This is as a result of the high number of UASC who arrived in 2015/16 now being over 18.

86. There is currently a two tier funding arrangement whereby the council receives different funding for young people depending on their age and whether they arrived in the country before or after 1 July 2016. The funding levels range from £25,915 to

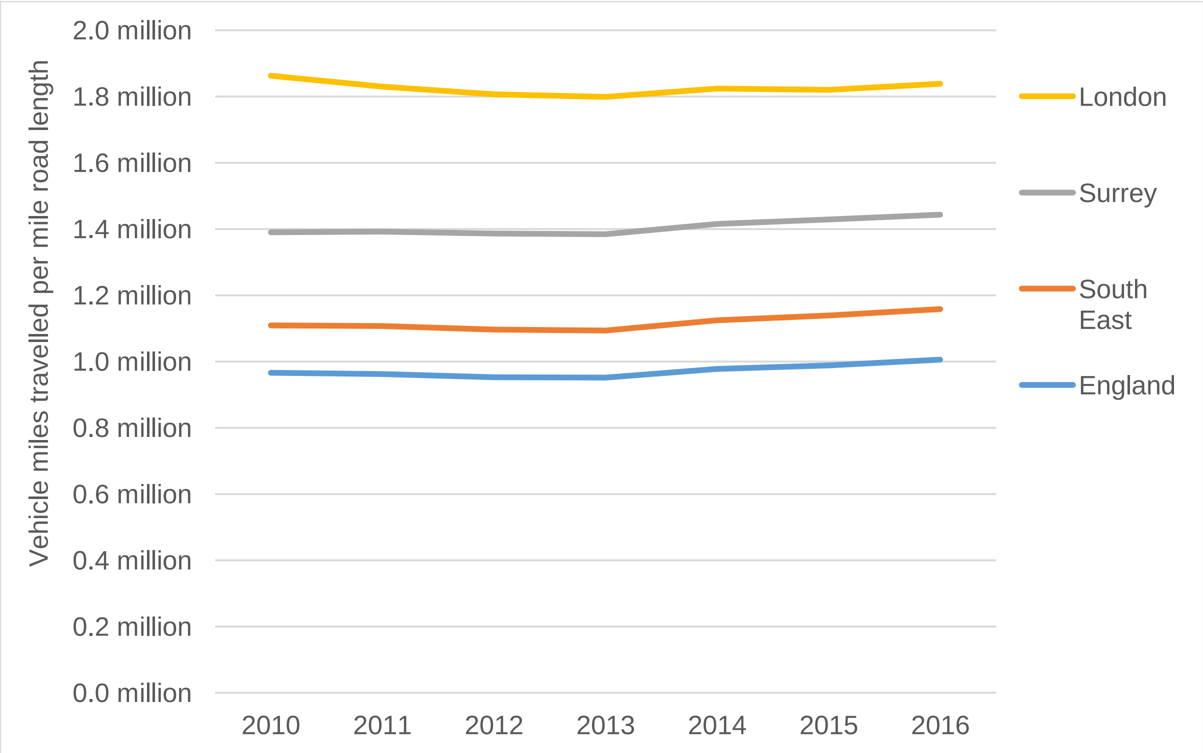
£41,610 a year for UASC and from £7,821 to £10,428 a year for Care Leaver UASC. The average cost to the council of supporting UASC in 2016/17 was £51,413 each and £17,570 each for Care Leaver UASC. This is a significant shortfall against all funding rates. In 2016/17 the total shortfall against the funding was £4.5m. The forecast shortfall for 2017/18 is similar.

87. The Home Office is reviewing the current funding arrangements as it recognises the rates are not sufficient to meet the costs of supporting these young people. The council expects changes to be in place for 2018/19. As part of the Provisional Settlement the Government announced £29m funding for local authorities facing significant pressures in relation to supporting UASC. The council was awarded £118,000 to support work to reduce the need for independent foster provision for UASC and £231,000 additional funding to build capacity to support UASC.

Traffic density

88. Surrey has among the highest used roads in the country outside London. Figure 2 shows traffic density (measured as vehicle miles travelled per mile of road length) in the county is 44% higher than that for England and 25% higher than that for the South East. Over the period from 2010 Surrey's roads suffered a similar increase in traffic density to the South East and England (all around 4%) and higher than London (where traffic density decreased by 1%). As such the county's roads suffer much more intense use, which is still increasing. This intensifies demand pressures on the county's highways management and maintenance budgets.

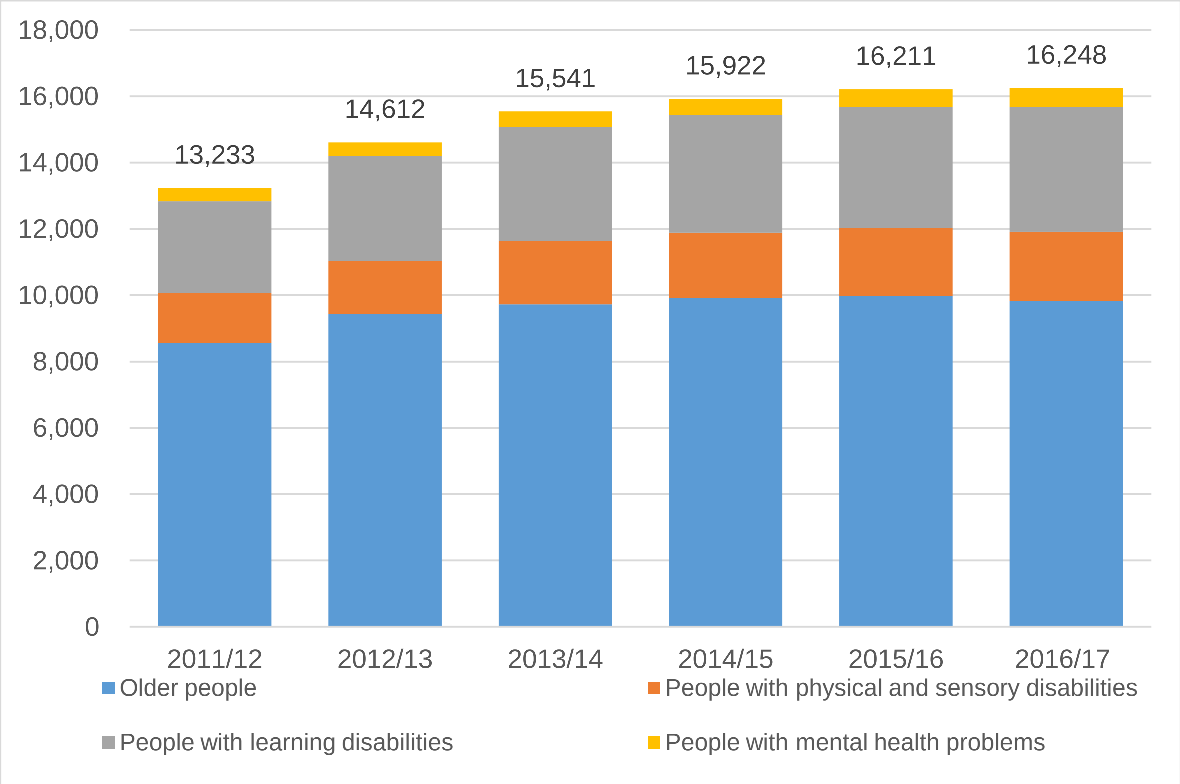
Figure 2 Traffic density: million vehicle miles travelled per mile road length



Adult social care – total care packages

89. Figure 3 shows the increase in total number of people who received a funded care package for the years 2011/12 to 2016/17. This is a significant driver of adult social care costs. The total comprises: older people, people with physical and sensory disabilities, people with learning disabilities and people with mental health problems. The overall total grows by 23% over the period, including increases of around 40% each in the numbers of: people with physical and sensory disabilities, people with learning disabilities and people with mental health problems. Measured over the total period 2011/12 to 2016/17, the council achieved a small reduction in the average cost of a care package per person. Although prices have begun to increase again, this means the cost pressure felt by the council is overwhelmingly due to the increase in demand for care.

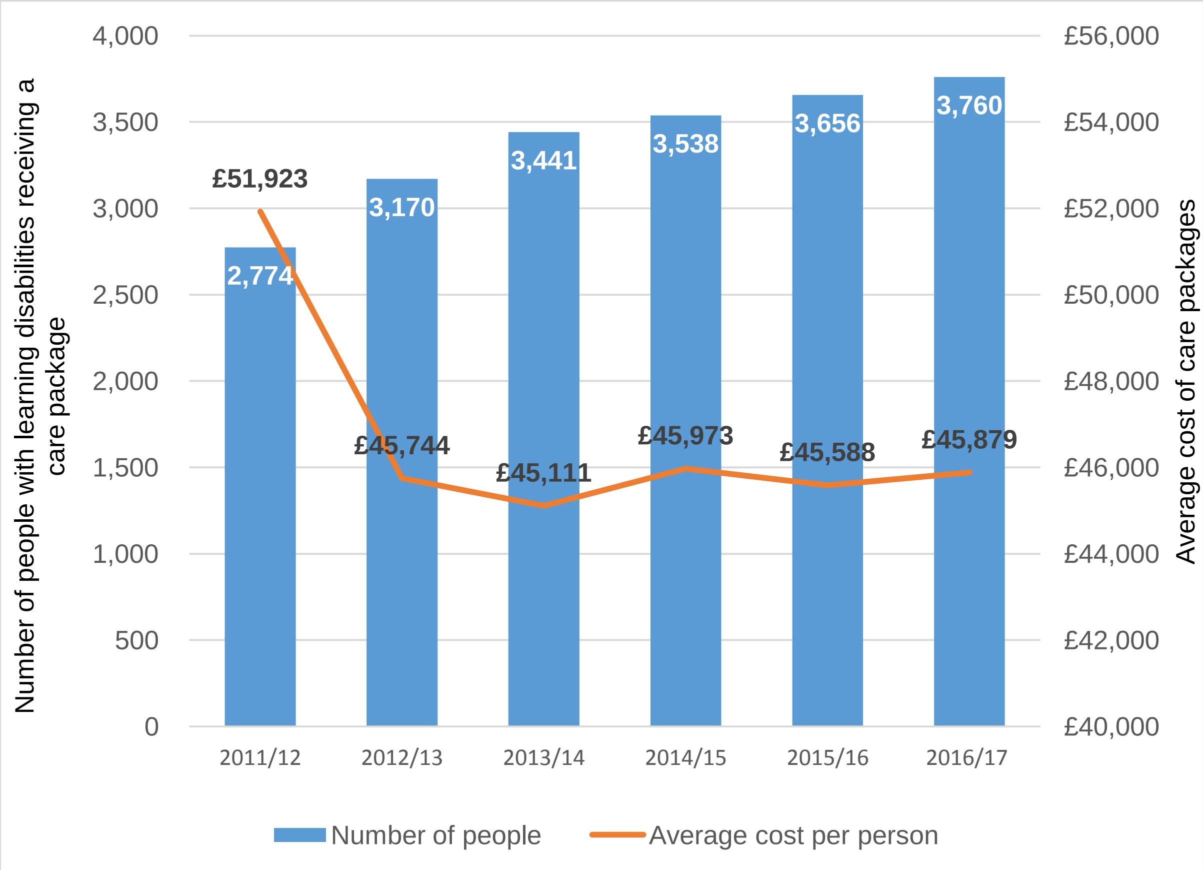
Figure 3 Increase in total number of people who received a funded care package



Adult social care – people with learning disabilities

90. Although by 2016/17 the number of people with learning disabilities formed around 23% of the total number of people who received a funded care package, the high average cost of care means they account for 44% of the total cost of care. Figure 4 shows level of demand for care packages for people with learning disabilities has risen by 36% and continues to rise steadily. Over the period, the council has reduced the average cost of care packages by around 12%, which has limited the overall cost pressure to 20%. Nevertheless, steadily rising demand remains the main driver of this significant cost element for the council.

Figure 4 Increase in number of people who received a funded care package for people with learning disabilities and the average cost of those care packages



Overall budget pressures

91. For 2018/19 gross service pressures on the budget amount to £107m and £131m further pressures on the budget for 2019/20 and 2020/21 as shown in Table 4.

Table 4 Surrey County Council budget pressures 2018/19 to 2020/21

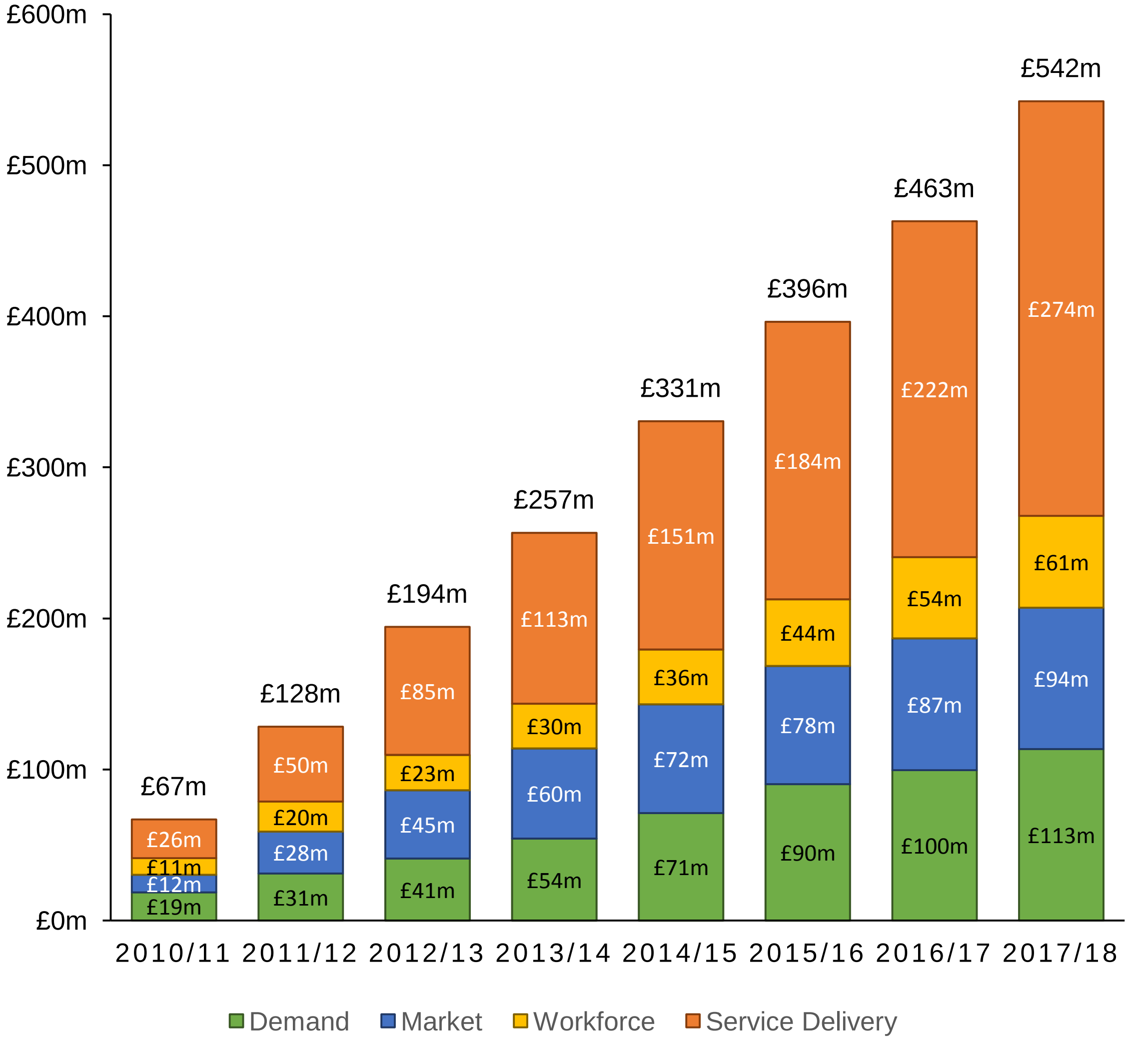
	2018/19 £m	**2019/20 £m**	**2020/21 £m**
Pay Inflation	4.5	4.8	4.8
Non pay inflation	30.6	26.3	23.9
Total inflation	35.1	31.1	28.7
Demand	55.1	39.9	28.2
Market and service delivery	16.3	14.2	-11.4
Total gross service pressures	**106.5**	**85.2**	**45.5**

Savings and service reductions

Savings and service reductions achieved 2010/11 to 2017/18

92. Figure 5 shows the council achieved £463m savings and service reductions over the seven years 2010/11 to 2016/17 and forecasts achieving a further £79m in 2017/18.

Figure 5 Surrey County Council savings achieved 2010/11 to 2016/17 and forecast 2017/18



Savings and service reductions planned for 2018/19 and 2019/20 onwards

93. MTFP 2017-20 included £104m savings target for 2017/18. Difficulties encountered during 2017/18 include the continued rise in demand pressures in social care for children and adults. These and other factors have led to the inability to achieve some of 2017/18's planned savings within the year and the growth of the savings gap for 2018/19.

94. As shown in Table 5, services have identified £66m savings for 2018/19, of which £65m are through efficiencies and service transformation. For 2019/20 and 2020/21, the council plans to achieve a further £67m savings. This brings the total for the three years for the MTFP 2018-21 period to £133m and £675m for the period since 2010/11.

Table 5 shows the spread of savings over the MTFP 2018-21 and between efficiencies and service transformation measures and service reductions. Table 6 shows the planned 2018/19 savings by the council's directorates.

Table 5 Planned savings 2018-21

	2018/19 £m	2019/20 £m	2020/21 £m	2018-21 £m
Efficiency / service transformation	-64.7	-49.9	-16.9	-131.5
Service reduction	-1.8	0.0	-0.1	-1.9
Total planned savings	**-66.5**	**-49.9**	**-17.0**	**-133.4**

Table 6 Total planned 2018/19 savings by directorate

Directorate	**2018/19 £m**
Adult Social Care	-18.7
Public Health	-2.3
Children, Schools & Families	-25.6
Environment & Infrastructure	-1.3
Fire and Rescue Service	-0.7
Customer & Communities	-0.5
Legal, Democratic & Cultural Services	-1.6
Business Services	-3.2
Organisational Leadership & Performance	-0.5
Central Income & Expenditure	-12.1
Total savings	**-66.5**

95. The council faces significant service pressures and substantial loss of Government grants over the MTFP period. Its £133m 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 2018-21; and
- continue to ensure services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures.

Overall impact of the Provisional Settlement (2018-19) announcements

96. As outlined in paragraphs 41 to 73, the overall impact of the Provisional Settlement 2018-19 changes for the council is a potential net £30m increase in funding. This includes an extra £23m one off funding from early estimates of the additional retention of business rates growth as a business rates pilot in 2018/19 only. In addition there will be £7m additional Council Tax in 2018/19 if the council opts to take up the additional flexibility to increase core Council Tax by an extra 1% in 2018/19 and a further £7m if the council uses the additional 1% flexibility as proposed for 2019/20. Table 7 summarises the changes.

Table 7 Changes to MTFP due to the Provisional Settlement 2018-19 and 2019/20

	2018/19 £m	2019/20 £m
Additional retained business rates growth	-23.0	-0.2
Council Tax flexibility (potential additional 1%)	-7.4	-14.6
Total potential change to MTFP	-30.4	-14.8

97. The Provisional Settlement did not provide any information on funding for 2020/21, other than to say the business rates retention scheme will expand the locally retained share to 75% from the current 50%.

Business rates

75% Business rates retention

98. After 2019/20, MHCLG intends to operate a 75% business rates retention system. The Government asserts this will give local authorities around £6bn 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, some Whitehall grants will be phased out, with the continuing responsibility funded from the additional retained business rates (this is expected to include Public Health Grant). Under the proposed 75% business rates retention system, local authorities are unlikely to gain new responsibilities and the change will mainly shift the source of funding from Government grants to retained business rates.

99. As the new system is expected to be fiscally neutral and to use damping to mitigate initial changes, the council does not, at this stage, anticipate significant, immediate changes to its funding. This is disappointing as the council’s current funding is increasingly insufficient to meet its responsibilities. This pattern is prevalent across the whole of local government and the Local Government Association estimates total current underfunding at £5.8bn.

100. The limitations of the Provisional Settlement 2018-19 and the potential for change in 2020/21 from an already inadequate funding position all add to the uncertainty about the council’s future responsibilities and funding sources over the longer term, including the sufficiency and sustainability of funding. The council has and continues to engage actively with the development of the new business rates retention proposals. A key new element to this is the council’s involvement as a business rates pilot for 2018/19. To enable the new 75% business rates retention system to succeed, the council believes the Government must:

- ensure full and fair funding of existing local responsibilities, such as for people with learning disabilities and public health 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.

Council Tax

Council Tax precept

101. 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:

- assume a 1% increase in the number of properties subject to Council Tax (often referred to as the Council Tax taxbase);
- increase general Council Tax sufficient to cover inflation within the referendum threshold; and
- given the intense and immediate pressure on adult social care, take full use of the flexibility applied to the adult social care (ASC) precept.

102. The Provisional Settlement 2018-19 indicated the general Council Tax referendum limit as up to 3% and the additional flexibility to raise the ASC precept at 3% in 2018/19, provided the total ASC precept increase for 2017-20 is no more than 6%. Given the intense and immediate pressure on the council's overall and particularly its adult social care budgets, this report recommends increasing the ASC precept by 3% and core Council Tax by 2.99% in 2018/19, to give an overall Council Tax increase of 5.99%.

Council Tax taxbase 2018/19

103. In January 2018, the Surrey districts' and boroughs' annual returns showed an overall increase in the Council Tax taxbase in Surrey of 0.86%. In addition, the council's share of the districts' and boroughs' aggregate Council Tax collection fund surplus for 2017/18 is £6.85m, which the council will receive as a one-off sum. These returns confirmed the council's estimates of future Council Tax growth as 1% annually and annual collection fund surpluses of £7m as reasonable.

Member Local Highway Fund and Member Allocations

104. As elected representatives, each local councillor needs to have a relentless focus on the county's residents. This involves listening and taking effective action to address local concerns and issues, and through this to become game-changers in the local community. To support local members in doing this, a part of the additional funding from the additional 1% increase in the Council Tax, and a change to the funding for the Member Allocations will be allocated to new local funds. If the additional Council Tax threshold is maintained:

- a new Member Local Highways Fund will be established from 2018/19 with £7,500 per member, rising to £10,000 per member by 2019/20 and £15,000 per member by 2020/21;
- in addition, each Local Committee will share a Revenue Highways Fund totalling £1.4m in 2018/19, rising to £2.0m in 2019/20 and £2.5m by 2020/21; and
- for 2018/19, the Members Community Allocation will be £5,000 per member, rising to £7,500 in 2019/20 and £10,000 in 2020/21,

105. Subject to Council agreeing the budget on 6 February 2018, the Cabinet member for Highways and Assistant Director of Highways will set out the guidelines for the distribution of the Local Committee funding pot. These will include guidelines on the spend direction that will best support local communities and on working with the relevant borough and district councils.

Balancing the revenue budget 2018/19 and MTFP 2018-22

Gross funding and expenditure

106. The council's gross estimated funding for 2018/19 from: Government grants, business rates, fees, charges and other income, plus Council Tax amounts to -£1,667m. Table 8 shows the council's funding, with 2017/18 funding provided for comparison.

Table 8 Surrey County Council gross funding 2017-21

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Council Tax	-634.8	-658.0	-685.9	-707.3
ASC precept	-31.0	-50.9	-51.4	-52.0
Business rates	-52.7	-375.9	-54.9	-55.9
Top up (-) / Tariff (+)	-58.6	234.3	-47.8	-47.8
RSG	-28.0	0.0	0.0	0.0
Transition Grant	-12.2	0.0	0.0	0.0
Dedicated Schools Grant	-507.2	-490.2	-497.2	-497.2
Other Government grants	-152.0	-133.4	-130.7	-128.4
Partner funding	-4.6	-4.5	-4.5	-4.5
Other income	-179.8	-188.1	-194.3	-197.6
Gross funding	**-1,660.9**	**-1,666.7**	**-1,666.7**	**-1,690.7**

107. The council's gross estimated expenditure for 2018/19 is £1,705m. Table 9 shows the council's gross expenditure budgets by service for 2017/18 to 2020/21. Table 10 summarises the council's overall net funding position

Table 9 Surrey County Council gross expenditure budgets 2017-21

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
Adult Social Care	460.8	497.0	525.6	555.0
Public Health	37.9	37.0	36.4	36.4
Children, Schools & Families	454.7	480.1	481.2	488.7
CSF – Delegated Schools	345.1	314.5	321.5	321.5
Environment & Infrastructure	140.8	150.0	157.0	161.6
Fire and Rescue Service	45.5	45.8	42.2	40.8
Customer & Communities	34.8	33.2	33.2	33.2
Legal, Democratic & Cultural Services	8.1	7.7	8.0	8.3
Business Services	89.8	85.7	86.1	88.1
Organisational Leadership & Performance	9.7	8.5	8.5	8.5
Central Income & Expenditure	54.5	45.8	53.4	42.4
Gross expenditure budget	**1,681.7**	**1,705.3**	**1,753.1**	**1,784.5**

Table 10 Surrey County Council overall funding position 2017-21

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Gross funding	-1,660.9	-1,666.7	-1,666.7	-1,690.7
Gross expenditure	1,681.7	1,705.3	1,753.1	1,784.5
Shortfall / surplus (-) of gross funding to gross expenditure	**20.8**	**38.6**	**86.4**	**93.8**

108. Despite a £133m savings programme, including £66m in 2018/19, the intensity of the council's pressures and the loss of grant mean it cannot balance its 2018/19 budget without making substantial use of reserves and the capital receipts flexibility.

109. To meet the overall shortfall of funding, the council proposes to apply:

- £15.0m capital receipts under the flexible use of capital receipts strategy to revenue transformation projects as detailed in Appendix 3; and
- £23.6m from available earmarked reserves (paragraphs 159 to 164 and Appendix 9) comprising
    - £9.2m from the Economic Downturn Reserve,
    - £3.6m from the Business Rate Appeals Reserve;
    - £2.5m from the Economic Prosperity Reserve;
    - £1.0m from the Interest Rate Reserve; and
    - £7.3m from the Budget Equalisation Reserve.

Total Schools Budget - as defined in legislation

110. A local authority 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 and devolved 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 estimated funding of £337m allocated to individual academies.

111. The Total Schools Budget is a significant element of the proposed total budget for Children, Schools & Families services. Table 11 outlines the proposed Total Schools Budget for 2018/19 of £505.8m. This comprises:

- £495.9m Dedicated Schools Grant (DSG);
- £8.1m Education and Skills Funding Agency (ESFA) sixth form grants; and
- £1.8m additional funding for high cost SEN pupils, which the council is funding.

Table 11 Analysis of Total Schools Budget for 2018/19

	Schools' delegated budgets £m	**Centrally managed services £m**	**Total £m**
DSG 2018/19	339.7	156.2	495.9
DSG brought forward from previous years	0.0	0.0	0.0
Total DSG	**339.7**	**156.2**	**495.9**
ESFA sixth form grant	8.1		8.1
Surrey County Council contribution to the cost of placements and services for high cost SEN pupils		1.8	1.8
Total Schools Budget	**347.8**	**158.0**	**505.8**

Note: Total Schools Budget does not include the pupil premium grant, provisionally £14.9m, the primary PE and sports grant, provisionally £4.0m, or universal free meals grant, provisionally £9.9m. These grants, although not part of the legal definition, are also delegated to schools and are included in the total Children, Schools & Families grants of £43.397m in Appendix 6.

112. Total Schools Budget comprises schools' delegated and devolved 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.

113. 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.

114. 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 2018/19 funding formula on 14 December 2017. 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 around 4%.

115. 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 within the last six years, or are in receipt of a war pension).

RISKS AND UNCERTAINTIES

116. In balancing the 2018/19 revenue budget and looking ahead for the remaining two years of the MTFP (2019-21), the council has taken account of the key risks and uncertainties it faces. The main areas of risk include:

- 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;
- confirmation of outstanding grant allocations; and
- increased exposure to risks of volatility in retained business rates income.

CAPITAL STRATEGY

117. Capital expenditure and investment decisions are taken in accordance with the council's overall organisational strategy, consideration of available resources and with regard to the long term financial implications and potential risks to the authority. The council has in place robust financial planning, option appraisal and governance arrangements for both schemes included in the capital programme and those approved as part of the council's investment strategy.

118. The council ensures that capital decisions take account of stewardship, value for money, prudence, sustainability and affordability. To ensure this a number of inter-related policies and programmes exist.

Capital budget planning 2018-21

119. The overall capital programme for the MTFP period is proposed to County Council for approval. This is supported by capital financing proposals and prudential indicators as required by the Prudential Code.

120. The approved capital programme gives 'in principle' approval for capital projects, and schemes. Expenditure on new capital projects or schemes or revenue 'invest to save' proposals can commence only following review of the business case by Investment Panel.

121. Schemes will usually only be added to, or removed from, the capital programme as part of the annual budget setting process. Cabinet requires a detailed and robust business case before considering additional projects for approval.

122. Senior managers must ensure any planned capital spend included within the MTFP does not exceed the capital resources allocated to that programme or scheme. In particular, they must ensure:

- capital programme proposals are consistent with the council's corporate strategy, capital strategy, asset management plan and directorate strategies;
- each capital scheme or project is assessed for both financial and service risk;
- the proposed timetable for the programme is realistic;

- the available revenue resources (or planned revenue resources likely to be made available) can contain all consequential revenue costs in current and future years; and
- Investment Panel has reviewed the business case for each scheme or project for robustness

123. Capital expenditure is monitored regularly and reported to Cabinet monthly.

Capital programme

124. The council proposes a £316m three year capital programme. This amounts to £139m capital investment in 2018/19, with an indicative programme for the subsequent two years totalling £177m. This represents a continued major investment in the infrastructure and economy of Surrey. The focus remains on the continuing forecast growth in school pupil numbers (£108m) and the importance residents place on good roads (£70m).

125. In addition, the council plans to invest £14m in information technology over the three years to 2020/21. This includes £7.5m for new equipment and infrastructure and a £5m replacement and renewal programme. By making this investment, the council enables and supports further service efficiencies.

126. Table 12 summarises the council's £316m capital programme for the three years of MTFP 2018-21. Appendix 7 sets out a more detailed version of the capital programme.

Table 12 Summary capital expenditure programme 2018-21

	2018/19	**2019/20**	**2020/21**	**2018-21**
	£m	**£m**	**£m**	**£m**
Schools Basic Need	47	47	14	108
Highways recurring programme	24	22	24	70
Property recurring programme	19	19	19	57
Property projects	22	1	1	24
Other capital projects	27	17	13	57
Total	**139**	**106**	**71**	**316**

Capital funding

127. The council funds its capital programme from the following sources:

- Government capital grants;
- third party contributions
- reserves and capital receipts; and
- borrowing

Government capital grants

128. Government departments have announced some, but not all, capital grants for 2018/19 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 an estimate for these.

129. 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. Table 13 shows the grants expected for 2018/19.

Table 13 Government capital grants 2018/19

Expected Government capital grants	**2018/19 £m**
School places	41
Schools condition allocation	11
Integrated transport block	5
Highways maintenance	16
Local Growth Fund	12
Other capital grants	3
Total expected grants	**88**

130. Capital grants for years beyond 2018/19 are less certain and the MTFP 2018-21 includes an estimate for each year. The council reviews this estimate each year and makes appropriate adjustments to the capital programme.

Third party contributions

131. The council also uses contributions from third parties to fund its capital programme. These are amounts awarded to the council in return for past or future compliance with certain stipulations. Third party contributions come largely from developers as community infrastructure levies (CIL) and planning gain agreements under Section 106. The MTFP 2018-21 capital programme relies on £5m third party funding in 2018/19.

Reserves and capital receipts

132. The council uses reserves to fund some items of capital expenditure. These are amounts set aside from the revenue budget into a reserve for future capital expenditure. The main service revenue reserve is the IT Equipment Reserve. The MTFP 2018-21 capital programme relies on £5m funding from service revenue reserves in 2018/19.

133. In addition, amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance, known as capital receipts, can be used to fund capital expenditure. The council plans to use £10m of capital receipts to support the 2018/19 capital programme.

Borrowing

134. The council borrows to fund the part of the capital programme remaining after applying the other funding sources. Over the three years of MTFP 2018-21, the council expects to borrow £91m to balance the proposed capital programme.

135. The council restricts borrowing to the funding of those schemes that:

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

136. The implications of financing capital expenditure from borrowing is that the expenditure is not funded immediately from cash resources but instead charged to the revenue budget over a number of years in the form of interest payments and the Minimum Revenue Provision (discussed further in paragraph 145).

137. Table 14 summarises the council's estimated capital funding for the period 2018-21.

Table 14 Capital funding 2018/19 to 2020/21

	2018/19 £m	2019/20 £m	2020/21 £m	2018-21 £m
Grants	89	63	35	187
Reserves & capital receipts	15	2	3	21
Third party contributions	5	9	4	18
Borrowing	30	32	29	91
Total	**139**	**105**	**71**	**316**

Note – some numbers may not cast due to roundings.

Investment Strategy

138. In recent years the council has taken a strategic approach to investment. The Investment Strategy was agreed by Cabinet in July 2013 and was developed in response to the requirement for the council to enhance its financial resilience in the longer term. The Investment Strategy is separate from the general capital programme and also the treasury management investment strategy.

139. The main principles of the Investment Strategy are as follows.

- The creation of a diversified and balances portfolio of investments to facilitate future service provision, manage risk and secure an ongoing annual overall return to the council.
- Use of the established Revolving Investment & Infrastructure Fund to meet the initial revenue costs of funding initiatives that deliver savings and enhance income in the longer term
- The Revolving Investment & Infrastructure Fund is to be used to support investments that generate additional income to support the delivery of the council’s functions and services
- Investments have the potential to support economic growth in the county of Surrey.

- Retain assets where appropriate and undertake effective property and asset management, and if necessary associated investment, to enhance income generation.

140. Cabinet approved the business case for the creation of the Property Company and its associated subsidiaries in May 2014. The council's investment portfolio is therefore a combination of assets acquired or developed by the council for future service need or economic development and those acquired or developed by the Halsey Garton Property Group.

141. The governance arrangements for the Investment Strategy consist of an Investment Board and a Shareholder Board.

142. The Investment Board is responsible for ensuring that investment opportunities are thoroughly evaluated, there is an appropriate balance between risk and reward and that the acquisitions contribute to the achievement of the aims of the strategy.

143. Shareholder Board provides oversight for the council's shareholdings. It safeguards the council's interests and takes decisions in matters that require the approval of the council as owner or as a shareholder of a company.

144. Both the Shareholder Board and the Investment Board produce an annual report which provide information about the council's subsidiary companies and an overview of the progress we have made in developing a property investment portfolio and enhancing the financial resilience of the council.

Capital financing requirement, borrowing and prudential indicators

145. When the council finances capital expenditure from borrowing, it does not need to fund the expenditure immediately from cash resources, but is instead able to charge the expenditure to the revenue budget over a number of years into the future. This statutory requirement to set aside an amount for the future repayment of debt is known as the Minimum Revenue Provision (MRP) and the council is required to set a policy each year setting out how it will calculate this provision. The council's MRP policy for 2018/19 is set out in Appendix 13 and 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

146. The council's underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). It represents historic capital expenditure not funded by capital receipts, revenue contributions, capital grants or third party contributions.

147. The council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities. Fundamental to the prudential framework is a requirement to set a series of prudential indicators to demonstrate the affordability, prudence and sustainability of its capital investment plans. The prudential indicators include an estimate of the council's future capital financing requirement.

148. Appendix 11 provides a summary of the actual prudential indicators for 2017/18, and the estimates for 2018/19 through to 2020/21.

TREASURY MANAGEMENT STRATEGY

149. The council's capital investment decisions have a large impact on both the borrowing requirements and the levels of cash held by the authority.

150. The council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice which requires the authority 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 County Council before the beginning of the financial year.

151. The treasury strategy sets out the council's approach to:

- treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure funds are available when needed, before seeking the highest rate of return of yield; and
- borrowing, setting out the borrowing strategy which aims to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

152. The Treasury Management Strategy statement was approved by the Audit & Governance Committee on 22 January 2018 and is attached at Annex 2 for approval by the County Council.

153. The treasury strategy recommends a continuation of the internal borrowing focus approved in 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 the continued low interest rate environment, 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.

154. Outstanding long term debt has stayed constant during 2017/18. Financial and geopolitical concerns (including the pending UK exit from the EU and the monetary policy response from the Bank of England) have resulted in a continued low interest rate environment, despite the Bank of England's Base Rate rise in November 2017.

155. The proposed borrowing position can be summarised as follows. 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.

156. 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.

157. 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.

158. Appendix 10 sets out the council's treasury management policy statement, for approval, and Appendix 12 the treasury management scheme of delegation. These set out the council's policies, objectives and approach to risk management of its treasury management activities.

RESERVES & BALANCES

159. 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. £17.0m to £21.3m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council is forecasting £21.3m general balances brought forward as at 1 April 2018.

160. Going into 2018/19 the Director of Finance recommends the level of general balances remains the same. Although the current expected level of £21.3m is at the upper end of the normal minimum level, the Director of Finance considers this is prudent to mitigate the increasing risk of non-delivery of service reductions and efficiencies in 2018/19 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.

161. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. Table 15 shows the forecast total balance for all earmarked reserves brought forward at 1 April 2018 is £66m, down from £79m brought forward on 1 April 2017. The main reason for this is the £12m planned use of reserves to support the 2017/18 budget. The £65.5m total the council forecasts to carry forward on 31 March 2018 relies on it achieving a balanced budget outturn for 2017/18.

Table 15 Forecast earmarked reserves to be carried forward as at 31 March 2018

	£m
Revolving Infrastructure & Investment Fund	11.1
Budget Equalisation Reserve	11.1
Eco Park Sinking Fund	4.4
Insurance Reserve	7.7
Investment Renewals Reserve	4.8
General Capital Reserve	4.4
Street lighting PFI Reserve	3.7
Economic Downturn Reserve	9.2
Economic Prosperity Reserve	2.5
Equipment Replacement Reserve	2.0
Business Rate Appeals Reserve	3.6
Interest Rate Reserve	1.0
Total earmarked reserves	**65.5**

162. As stated in paragraph 109, the council is planning to use £24m of reserves to support the 2018/19 revenue budget. This will reduce the council's level of reserves to £42m as at 1 April 2018. This is the minimum safe level the Director of Finance and the Leader of the Council regard as appropriate given the risks and uncertainties the council faces and is clear that if reserve levels drop below this level, they will have to be replenished in future years.

163. Since 2013/14, the council has drawn £103m from reserves to support the revenue budget. In addition, during the 2017/18 financial year, the council plans to use £1.5m reserves to fund its capital programme and forecasts to use another £5.1m in 2018/19.

164. Appendix 8 sets out the council's policy on reserves and balances. Appendix 9 summarises the level and purpose of each of the council's earmarked reserves and the proposed use of reserves to balance 2018/19's budget.

CONSULTATION

165. During November 2017 and January 2017, the Leader and Deputy Chief Finance Officer 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

166. 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.

167. The Leadership Risk Register is owned by the Chief Executive and shows the council's strategic risks. Currently, it is reviewed every month by the Strategic Risk Forum and the Statutory Responsibilities Network. 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 function or Cabinet Member. The Leadership risk register is also presented to Cabinet on a quarterly basis.

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

- Further reductions in funding, due to constraints in the ability to raise local funding and/or distribution of funding, results in significant adverse long term consequences for sustainability and service reductions leading to significant implications for residents.
- Failure to achieve the MTFP, which could be a result of:
  - not achieving savings

- additional service demand and/or
- over optimistic funding levels

and as a consequence, lowers the council's financial resilience and could lead to adverse long term consequences for services if Members fail to take necessary decisions.

169. After eight years generating significant savings, 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:

- reporting monthly to Cabinet on budget monitoring forecasts within three weeks of the period end and including remedial management action where required;
- operating 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;
- sustaining good working relations with the external auditor (Grant Thornton);
- ongoing member development programme to ensure that all members have the skills and information they need to understand the challenges facing the council;
- significant focus on income generating activities through an enlarged property investment programme and optimising use of the council's existing property assets;
- 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;
- continuing robust arrangements to track and monitor demand growth, the delivery of new savings and determine any additional measures necessary.

170. 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.

171. 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

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

SECTION 151 OFFICER COMMENTARY

173. 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 remained very serious since setting the 2017/18 budget. The council has significant service savings to deliver in 2018/19 (£66m) and must focus on effective delivery. Despite this high level of savings, the council has had to rely on extensive use of one off measures to balance the 2018/19 budget, including use of reserves, capital receipts and additional business rate growth estimated to be retained as a part of the 100% Business Rate Pilot.

174. The council has insufficient one off resources to balance the 2019/20 budget. At this stage the Director of Finance has no realistic expectation that funding levels will alter the significant scale of transformation needed by the council to set a balanced budget in 2019/20. This view holds regardless of whether the council is successful in becoming a business rates pilot into 2019/20 and MHCLG's review of negative RSG providing extra funding.

175. The Director of Finance cautions against optimism bias in future proposals. As such, an urgent and wide ranging transformation programme is essential for the council to achieve a balanced budget in 2019/20.

176. Finally, in accordance with the recently revised Prudential Code, the Director of Finance supports the proposed capital strategy. The various elements of the capital strategy and associated inter-related controls and policies demonstrate that the Council's capital expenditure and investment decisions properly take account of stewardship, value for money, prudence, sustainability and affordability, by setting out the long term context in which capital expenditure and investment decisions are made, and by giving due consideration to both risk and reward and impact on the achievement of priority outcomes.

LEGAL IMPLICATIONS – MONITORING OFFICER

177. This report sets out recommendations to County Council for the adoption of a budget and the basis for the level of the Council Tax for 2018/19. The council is under a duty to set a balanced and sustainable budget, and in doing so must give due regard to the report of the s151 officer set out at Annex 1 to this report. Members will note that the Director of Finance points out that the situation beyond 2018/19 is very serious, and that an urgent and wide ranging transformation programme will be required to progress to a sustainable position and to balance the budget in 2019/20.

178. To achieve this progress, significant service transformation and efficiencies will be required that will impact on public facing services. The details are not yet available, but officers have been working to identify and develop options for implementation. This report sets out in the paragraph 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. This does not prevent difficult financial decisions being made, but members will need to be sufficiently informed about the equalities implications of any proposals and take these into account in their decision making.

EQUALITIES AND DIVERSITY

179. In approving the budget and the Council Tax precept, the Cabinet and 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."

180. To inform decision making, an analysis of the potential impact of the proposals set out in the MTFP 2018-21 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 27 March 2018. This analysis will also set out the actions that the council is taking, or will undertake, to mitigate any negative impacts that could arise.

181. The equality impact analysis undertaken for the proposed MTFP 2018-21 will build on the analysis of savings in the MTFP 2017-20. It will include full assessments of new savings proposals and further analysis of proposals where there is a significant change from those presented previously.

182. 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.

183. 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.

184. In approving the overall budget and precept at this stage, the Cabinet and County Council will be mindful of the impact on people with protected characteristics under the Equality Act 2010.

Other implications

185. 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

186. The detailed budget will be presented to Cabinet on 27 March 2018.

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Annexes

Annex 1	Director of Finance Statutory Report (Section 25 report)
Annex 2	Treasury management strategy report
Annex 3	Council Tax requirement

Appendices:

Appendix 1	Surrey County Council: Corporate Strategy 2018-21
Appendix 2	Surrey County Council: Financial Strategy 2018-21
Appendix 3	Transformation projects funded by Flexible Use of Capital Receipts Strategy 2018/19
Appendix 4	Economic outlook and public spending
Appendix 5	Provisional government grants for 2018/19 to 2020/21
Appendix 6	Revenue budget proposals
Appendix 7	Capital programme proposals 2018/19 to 2020/21
Appendix 8	Reserves & balances policy statement
Appendix 9	Projected earmarked reserves and general balances 2017/18 and 2018/19
Appendix 10	Treasury Management Policy
Appendix 11	Prudential indicators – summary
Appendix 12	Treasury management scheme of delegation
Appendix 13	Annual minimum revenue provision (MRP) policy statement