SURREY COUNTY COUNCIL

CABINET

DATE: **27 MARCH 2018**

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

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

SUBJECT: **MEDIUM TERM FINANCIAL PLAN 2018/19 TO 2020/21**

SUMMARY OF ISSUE:

This report presents the council's Medium Term Financial Plan for 2018/19 to 2020/21 (MTFP 2018-21), which builds on the outline budget and Council Tax precept set by County Council on 6 February 2018. It covers the remaining two years of the current Local Government Financial Settlement period beyond which there is little detail on how funding under the 75% business rates retention or Fair Funding Review proposals, both due to be implemented from 2020/21, will work.

MTFP 2018-21 is a key means for delivering the council's strategic aims in the context of the rising demand and funding pressures it faces. The council has a legal duty to prepare a balanced and sustainable budget and to deliver statutory services to residents. To maintain essential services, the council requires a budget that provides for these pressures and the funding for this can either come from further Government support or resources raised locally. This report sets out how the council plans to achieve this for 2018/19.

The council will work with its partners to determine what can be done to make everything easier and better for local residents. In doing so, the council aims to continue to work ever 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'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?

The Government published the Final Local Government Settlement on 7 February 2018. It confirmed the figures in the Provisional Settlement and added a little new funding. The impact of the Final Settlement is £2.5m funding increase for the council in 2018/19, comprising the £2.5m share of £150m new Adult Social Care Support Grant

Following this announcement, the council plans to make £66m significant additional savings in 2018/19. However, it still faces medium term a funding shortfall, including

the need to identify £86m further savings, service reductions or funding increases in 2018/19, rising to £94m by 2020/21. This report sets out those changes and presents the detailed service revenue and capital budgets for 2018/19 including fees and charges, plus indicative budgets for the following two financial years.

During the 2017/18 financial year the council has made progress on measures aimed at reducing its forecast overspend. As at 31 January 2018 the council had reduced its forecast overspend to £6m from a peak of £24m forecast as at 30 June 2017. The council is maintaining downward pressure on spending to minimise the impact on reserves. Maintaining reserves is important as the council plans to use £21m from reserves to balance the 2018/19 financial year, while it transforms services to achieve a sustainable financial position.

Over the last year, the council has highlighted the strains the growth in demand for services, particularly social care, continues to put on this council's and all local authorities' finances. Over the period from 2010/11:

- the number of people supported for their learning disabilities has increased by 46% to 3,760 the highest for any council;
- the population of children needing 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 44% to 7,700;
- the council supports among the highest numbers of asylum seeking children, in the country;
- the number of older people supported has risen by 9% to 9,822;
- cuts to the Government's Public Health Grant has worsened the council's position compared to the Government's assessment of need, leading to a £17.7m shortfall;
- the county's roads experience significantly higher use than the averages for the South East and for England, which brings significant Highways Service demands, for which the council is underfunded by £11m compared to other authorities.

Over this same period, the Government has reduced its core funding to the council significantly and plans to continue to do so until at least 2019/20.

With services demands continuing to increase, funding pressures will continue making medium to long term financial sustainability only achievable through a fundamental review of service delivery across Surrey. This will require a step change in collaboration with partner organisations and much greater focus on changes to whole systems for delivering services. These transformation changes form a significant part of the total savings programme necessary to build the council's financial resilience to face an increasingly uncertain medium term service and funding environment. These changes are likely to be significant, so it is essential the council involves residents and service users fully in service design.

The council will build on its success in this area and take a much more place-based, rather than individual service-focused approach as well as continuing to develop its digital strategy and pursuing commercial opportunities as they arise.

In recent years, this council has drawn particular attention to where methods for distributing national funding have a disproportionate negative impact on Surrey, such as the Improved Better Care Fund that for 90% of the funding does not apply the

Government's own relative needs formula. These unfair funding distributions underline why the council aims to play a full role in the Government's Fair Funding Review. This includes its role as a 100% Business Rates Retention pilot in 2018/19 in partnership with the Surrey district and borough councils. The councils will seek to retain and extend the pilot into 2019/20, to help shape future arrangements for the benefit and protection of Surrey residents and businesses.

In February 2018, County Council approved £316m three year capital programme, with £139m capital investment in 2018/19 and confirmed it would only support capital schemes it can fund without borrowing, other than in exceptional cases. This report presents the detailed capital programme.

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

Following Cabinet approval, the council will publish the detailed budgets as "MTFP 2018-21" on its website. This will enable users, budget managers, Members and residents to view budget details interactively on-line and request a hard copy of relevant sections.

RECOMMENDATIONS:

It is recommended Cabinet approves the following.

1. £21.3m use of reserves in 2018/19, reduced from £23.6m due to receipt of additional funding announced in the Final Settlement on 7 February 2018 (paragraph 16).
2. Changes to the capital programme outlined in paragraphs 28 and 29, including £5m increase in 2018/19 for highways as a result of recent severe weather, funded by use of capital receipts. This brings the three year capital programme to £322m, with £144m in 2018/19.
3. A savings programme over the three years of MTFP 2018-21 to build the council's financial resilience (paragraph 17).
4. The 2018/19 service strategies (Annex 1).
5. The detailed service revenue and capital budgets for the year 2018/19 and indicative budgets for the years 2019-21 including amendments resulting from the Final Local Government Financial Settlement and other Government funding changes announced since 7 February 2018 (Annex 1).
6. The council's proactive and systematic engagement in: responding to proposed changes in local government funding to ensure these changes do not further disadvantage Surrey and seeking appropriate recognition by the Government of the costs of delivering services in Surrey.
7. Publication of the service revenue and capital budgets as the Medium

Term Financial Plan 2018-21 (MTFP 2018-21).

8. Decisions related to the Early Years single funding formula (paragraphs 50 and 51):

- the local authority retains £3.4m of the Early Years Dedicated Schools Grant to manage the sector, support providers and secure the supply of places;
- the SEN Inclusion Fund to provide additional funding to providers for 3-4 year olds with special educational needs is set at £1.4m (£1.2m in 2017/18)
- fund individual Early Years providers at rates which are commensurate with the levels of funding in the Early Years DSG:
  - £4.60 / hour for three and four year olds (£4.51 in 2017/18);
  - £5.88 / hour for two year olds (unchanged); and
  - £2.77 / hour additional deprivation funding based on eligibility for the early years pupil premium on economic grounds.

It is recommended Cabinet notes the following.

9. The Director of Finance's letter to the Ministry for Housing, Communities and Local Government confirming the council will spend the Adult Social Care Precept entirely on adult social care functions (Annex 2);

10. Fees & charges approved under delegated powers (Annex 3).

11. Equality Impact Assessments of the savings proposals within directorate and service budgets (Annex 4).

REASONS FOR RECOMMENDATIONS:

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

The Medium Term Financial Plan 2018-21 (MTFP 2018-21) is a three year budget that reflects assumptions about the current local and national financial, economic and political environment. Setting a three year budget is a key element of the council's multi-year approach to financial management and its aim of achieving a sustainable financial position. Regular reporting through the year will enable effective tracking and management of progress with the strategy and the budget.

DETAILS:

Relevant strategies update

1. The refreshed Financial Strategy 2018-21, reported to County Council on 6 February 2018, clearly sets out the council's approach to financial management. It provides the basis for sound financial governance and long term sustainability and supports the delivery of the Corporate Strategy. The fundamentals of the Financial Strategy 2018-21 are:

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

2. In light of the Government's comprehensive spending review period only covering up to 2019/20 and the expectation of fundamental local government funding changes in 2020/21, in the form of 75% Business Rates Retention and Fair Funding Review, this MTFP only covers the three years 2018-21.

3. To support the corporate strategic goals of wellbeing, economic prosperity and resident experience in a period of rising demand and falling funding, the MTFP 2018-21 includes the purpose, challenges, key actions and budget summary for 2018/19 for each service. Annex 1 includes each of the service strategies.

Final Local Government Financial Settlement

4. County Council approved the overall outline budget for 2018/19 on 6 February 2018. The Ministry of Housing, Communities and Local Government (MHCLG) announced the Final Local Government Financial Settlement the following day. The council's budget was set based upon a 2.99% increase in the Council Tax precept for general expenditure and a 3.0% adult social care precept which are both within the limits announced by the Secretary of State in the Provisional Settlement in December 2017 and confirmed in the Final Settlement.

5. The Final Settlement confirmed the arrangements to satisfy MHCLG that the adult social care precept will be spent appropriately. The Director of Finance had complied with these conditions by the stated deadline of 28 February although this has now been extended to April. The letter from the Director of Finance providing this confirmation is attached in Annex 3

6. The Government announced its intention to extend the Business Rates Retention pilots for 2019/20. Although MHCLG has issued no formal invitation for this, the council is pro-actively discussing extending its 2018/19 pilot with the Surrey borough and district councils. As the lead authority, the council is working with MHCLG to help further on the new scheme's impact for two-tier areas.

7. The Final Settlement largely confirmed the amounts in the Provisional Settlement and introduced two items of new funding:

- Adult Social Care Support Grant - £150m new funding in 2018/19, distributed in accordance with the relative needs factor for adult social care. The council's share is £2.5m; and

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- Rural Services Delivery Grant - £31m increase in 2018/19, distributed only to the top quartile of authorities based on the super-sparsity indicator. The council is not eligible for this grant

8. The Final Settlement made a small adjustment to the s31 grants paid to compensate local authorities for the difference between the inflationary increase due on retained business rates and the 2.0% cap on business rates increases introduced by the Chancellor for the Exchequer.

9. The fair funding review's consultation on relative needs and resources closed on 12 March 2018. MHCLG continues to work to implement the next phase of the business rates retention reforms in 2020/21. It proposes local authorities will be able to retain 75% business rates, with the additional 25% retained intended to cover: Revenue Support Grant (RSG), the Greater London Authority Transport Grant, the Rural Services Delivery Grant and Public Health Grant (PHG). It continues to be crucial the council plays a full role in the review.

10. The Government plans to publish a Green Paper on Adult Social Care in summer setting out proposals for reform. It also plans a formal consultation looking at fair and affordable options to address the problem of negative RSG that occurs in 2019/20. As the 75% business rates retention scheme intends to add total of RSG to the amount of funding local authorities retain from business rates, it is important the council helps the Government find a fair and affordable solution to negative RSG for 2019/20 and removes it as an issue in the 75% business rates retention system.

Medium term financial plan – revenue budget

11. Cabinet approved the indicative three year revenue and capital budgets on 30 January 2018 and on 6 February 2018, County Council approved the outline 2018/19 budget. This included £66m planned savings and service reductions in 2018/19, rising to a total £133m planned savings over the period 2018-21.

12. MTFP 2018-21 is based on the council's approved 2018/19 budget. It provides detailed service revenue and capital budgets following further consideration by Scrutiny Boards and includes other changes from Government announcements on grant funding. Any alterations to the final allocations of these grants will be covered directly in year by the services. The full list of grants is in Annex 1.

Detailed revenue budget – key highlights

13. The council's gross revenue expenditure budget for 2018/19 is £1,712m which includes £108m expenditure pressures across all services, especially in social care, and savings of £66m.

14. In Adult Social Care (ASC) pressures continue to rise in 2018/19 and this council, like many others throughout the country, can no longer deliver the same proportion of savings to mitigate them. ASC's budget pressures amount to nearly £50m in 2018/19, against which the service plans to deliver over £18m of savings. Over £20m of these pressures arise due to an increase in demographic demand for services and nearly £20m is due to inflationary increases. Overall this represents a £31m increase in the ASC service budget for 2018/19.

15. Similarly, demand pressures in Children, Schools & Families continue to increase by over £35m in 2018/19 plus inflationary pressures of over £7m.

16. Despite £133m planned savings, over the three year MTFP period, including £66m in 2018/19, the intensity of the council's pressures and the continuing loss of grant mean it will be making substantial use of reserves and the capital receipts flexibility. To meet its overall funding shortfall in 2018/19, the council will apply:

- £15m capital receipts under the flexible use of capital receipts strategy to revenue transformation projects; and
- £21.3m from available earmarked reserves

17. However, to achieve a sustainable financial position, based on current prudent financial planning assumptions, the council has identified further spend reductions of £133m over the three years 2018-21. The council needs to transform services to cover its funding shortfall (£94m in 2020/21) to achieve a sustainable financial plan over the next three years and assure longer term financial sustainability in the context of uncertain future funding.

18. However, delivery of the savings is not straightforward and for 2018/19, at this stage savings have been assessed and ragged as set out in Table 1 below.

Table 1: Risk of achievement of 2018/19 savings

Risk rating	**2018/19 £m**	**Risk description**
Red	13	Achievement of savings faces severe challenges and barriers.
Amber	27	Significant barriers exist to the savings being achieved and the service is developing plans to overcome them.
Green	26	Savings will be achieved with few internal or external barriers.
Total savings	66	

19. In view of the challenges of delivering significant further savings and reductions for several more years and to help ensure the council achieves its planned and total savings programme, Cabinet has

required the Chief Executive and Director of Finance to continue to ensure:

- delivery of existing MTFP efficiencies and service reductions for the remaining years of the MTFP 2018 21 (to gain greater assurance about the robustness and deliverability of the 2018/19 planned savings, the Chief Executive and Director of Finance have initiated a series of “deep-dive” reviews); and
- services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures.

Financial resilience through transformation

20. 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. Public services in Surrey have responded by:

- making efficiencies;
- developing shared operations and joint-working;
- new models of delivery that work 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.

21. As funding and demand pressures both continue to intensify, the scale of the challenge for public services in Surrey will become ever greater. Addressing these challenges requires a step change in collaboration with partner organisations and a much greater focus on thinking about changes to whole systems (involving many organisations) for delivering services and achieving the savings and cost reductions the council needs to achieve financial resilience.

22. The transformation changes are likely to be very significant and noticeable for residents, so it is essential the new service design involves residents and service users much more fully. 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.

23. The people and places approach will work closely with partners (the district and borough councils in particular) to understand local needs and consider how best to deliver within future budgets. The approach will look at sustainable approaches to make best use of our combined resources, protecting services residents value most and seeking new ways to deliver preventative services more effectively. It will also focus on understanding residents’ views and the role they see public services playing in the future, including ideas on how councils could deliver

differently. The approach will help the council consider its own assets and how to use them best, looking at how to bring services together for communities in one place wherever possible.

24. In addition to the place based approach, the council will continue to develop its digital strategy and pursue commercial opportunities as they arise. To drive forward at pace, both areas may need additional capacity and external expertise such as project management, change expertise to ensure a more agile approach, research and data analysis. The work will also look at innovation more broadly in the sector and across the market to understand the potential of digital to transform both service delivery and residents' contact with the council. Where the approach identifies need for additional capacity, which the council cannot meet within existing budgets and resources, Cabinet will receive a business case on an invest to save basis, with a clear focus on delivering a balanced budget in 2019/20 and a sustainable long-term budget.

Staffing

25. As a part of the detailed budget, Annex 1 includes the numbers of funded employees for each service expressed as full time equivalents (FTEs). The overall staffing budget has reduced by 12 FTEs. Demand (Schools & SEND and Children Services) and new responsibility increases (Schools & SEND – contract changes, Coroner Officers from Surrey Police) have offset the planned savings and service reductions in 2018/19.

Medium term financial plan – capital budget 2018/19 to 2020/21

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

27. In February 2018 County Council approved a capital programme of £316m for the three years 2018-21 in relation to assets to provide services. It agreed a continuation of the policy to support only capital schemes that do not require borrowing, unless the scheme has a compelling business case that demonstrates best value and a sustainable basis for funding borrowing costs.

28. Since the Council meeting in February there have been some amendments to the capital programme. These relate to Cabinet approvals to increase property spend relating to residential refurbishment and an update to the capital programme relating to Environment & Planning Strategic Economic Plan Schemes (Local Growth Deal) and schemes funded by developers or as part of the cross

directorate CIL schemes, to reflect recent changes. In addition, the IT & Digital projects budget has increased to include the network refresh spend which will be funded from the equipment replacement reserve. IT & Digital makes regular revenue contributions to this reserve to facilitate future year capital expenditure requirements.

29. The council proposes a £5m increase in the highways capital programme in 2018/19, funded from capital receipts.

30. The revised three year programme for 2018-21 is £322m, with £144m committed to 2018/19.

31. The main components of the capital programme are for: school places, highways and the council's property.

School Places

32. The number of school aged children in Surrey has been rising for several years and requires the council to provide additional pupil places in primary schools and secondary schools. This is known as the Schools Basic Need programme. In the past the council has had to undertake significant borrowing to support the need for more school places and a reduction in the grant provided by Central Government from 2019/20 results in additional borrowing being required to meet for future years' requirements.

Highways

33. Surrey has one of the most heavily used road and highway networks in the country which requires maintenance and replacement. Over recent years the council has invested heavily in its roads and this continues with a £75m three year highways and transport budget, including £29m in 2018/19. The majority of this budget is financed by Government funding and only the River Thames flood protection scheme and other flood resilience schemes are planned to be supported by borrowing.

34. Surrey's highway network has suffered extensive damage over the winter, particularly during the severe cold spell which brought snow and ice in late February and early March 2018. This damage is causing particular problems on the busier roads, which will require treatment so they are serviceable for all road users. It is recommended that these roads are treated with a programme of large and small local structural repairs, followed up with surface dressing to seal the roads. To reflect this, the capital highway maintenance budget has been increased by £5m (from £15.9m to £20.9m) for 2018/19 only.

35. The Community Infrastructure Levy (CIL) is a developer levy collected by boroughs and districts in Surrey. Depending on the development, the council receives CIL monies to fund new capital schemes. Both the Highways & Transport and the Environment & Planning capital budget

include schemes to be funded either from CIL or other developer contributions. This equates to £5.6m funded by contributions during 2018-21, with £2m planned for 2018/19.

Property

36. The council has a large number of properties for providing its services from, which it must maintain. The biggest element of this is schools. The Government provides two grants for schools capital: the Devolved Formula Capital Grant is devolved to schools for new buildings and extensions and the Schools Condition Allocation (capital maintenance) Grant. In 2018/19, the council expects to receive £1.6m Devolved Formula Capital Grant and £11m Schools Condition Allocation Grant. These amounts are provisional pending final allocations from Government which can change for revised pupil numbers and academy conversions. The council will adjust the capital programme expenditure for any changes in these allocations.

37. Table 2 summarises the capital spending and funding for the period 2018/19 to 2020/21 with more detail for each service shown in annex 1.

Table 2 – Capital programme and funding 2018/19 to 2020/21

	2018/19 £m	**2019/20 £m**	**2020/21 £m**	**2018-21 £m**
Summary capital programme				
Schools Basic Need	47	47	14	108
Highways and transport	29	22	24	75
Property recurring programme	19	19	19	57
Property projects	23	1	0	24
Other capital projects	26	18	14	58
Total capital programme	**144**	**107**	**71**	**322**
Summary capital funding				
Grants	87	66	35	188
Reserves & capital receipts	22	1	4	27
Third party contributions	6	7	3	16
Borrowing	29	33	29	91
Total capital funding	**144**	**107**	**71**	**322**

Reserves and balances

38. The council holds a small general balance to provide a contingency against unforeseen overspends or a major unexpected event. The level of this general balance is not prescribed and the council aims to keep a reasonable balance that is justifiable in the context of local circumstances while not tying up Council taxpayers’ money unnecessarily. In recent years this has been set at between 2.0% to 2.5% of the council’s core spending power (between £17m and £21m).

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The council expects its general balances at 31 March 2018 to be £21.3m.

39. Earmarked reserves are for specific purposes and to mitigate against potential future known or predicted liabilities. Since 2013/14 the council has drawn £103m from earmarked reserves to support the budget. The budget approved by County Council in February 2018 proposed £24m reserves to support the 2018/19 financial year. Following the additional funding announced in the Final Settlement, this amount has been reduced to £21m. This will reduce the council's level of earmarked reserves to approximately £52m as at 1 April 2018.

40. In addition to the use of reserves to support the 2018/19 budget, there is currently a forecast overspend on the 2017/18 budget which may require a further contribution from reserves. The current projected level of reserves as at 1 April 2018 is considered to be the minimum appropriate safe level given the risks and uncertainties the council faces. The Director of Finance is clear that the council will have to replenish any further use of reserves in future years.

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

Fees and charges

42. In addition to Government grants, business rates and Council Tax funding, the council plans to raise over £103m in fees and charges in 2018/19.

43. The detailed budgets in Annex 1 analyse the council's fees and charges income by service. The schedules to Annex 3 detail the charges proposed for 2018/19.

44. The council's financial regulations distinguish between individual and organisational income. The definition is:

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

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

45. Every year services review and update their fees and charges to ensure discretionary services for which a fee or a charge is applicable are not provided at a subsidy without a specific supporting policy decision; and publish the 2018/19 schedule of fees and charges. Annex 3 details the existing and revised charges by service.

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

Medium term financial plan – interactive and publication

47. MTFP 2018-21 will be available on the council's website as both an interactive document, allowing the user to drill down into service budgets on the website and an electronic version available for printing. The council has aimed to enhance resident experience by using consistent terminology throughout all external financial publications (Council Tax information, interactive MTFP and Annual Report).

48. A printed version of MTFP 2018-21 will be available to order from the council's main website. As in the current year, this will enable the reader to choose which pages to print.

49. MTFP 2018-21 will present the strategy for each service followed by an analysis of the service's budget including changes from the 2017/18 budget, savings, pressures and staffing.

Early years single funding formula 2018/19

50. Local authorities receive funding (currently estimated at £76m in 2018/19) from the Department for Education (DfE) for free nursery entitlement for two, three and four year olds through the Early Years block of the Dedicated Schools Grant (DSG). The DfE funds local authorities for three and four year olds on the basis of an hourly rate and requires local authorities to fund providers via a formula. From September 2017 the number of hours of free entitlement for some three and four year olds was increased from 15 hours to 30 hours. Thus 2018/19 is the first full financial year in which the 30 hour entitlement is funded. This creates a number of new risks as follows.

- The council does not yet have a full year's data on demand for the 30 hour entitlement and there is still considerable uncertainty both as to the level of demand for the 30 hour entitlement in Surrey and the level of capacity to provide it.
- In particular, the DfE funds Surrey on an annual census, whereas Surrey must fund providers on a termly census. There is always an increase in take up between autumn, spring and summer terms but the increase for the 30 hour entitlement may be different from that seen previously for the universal 15 hour entitlement.
- The deprivation profile of children taking up the additional 15 hours may differ from that of children taking up the 15 hour universal entitlement.
- Local authorities can retain up to 5% of the Early Years funding for 3-4 year olds centrally in 2018/19 (the same level as retained by Surrey in 2017/18) ; the remainder must be passed on to individual providers

51. The council has consulted with Early Years providers and Schools Forum around local funding changes. The Forum agreed that in 2018/19 the local authority could retain £3.4m of the Early Years grant to manage the sector and support providers (which includes £0.3m to provide full time education for children in maintained nursery schools who do not meet the DfE's full time criteria). Schools Forum supported the following.

- The use of £1.4m to provide devolved funding for 3 and 4 year olds with SEND (the inclusion fund) an increase of £0.2m.
- Funding of Early Years providers at rates which are commensurate with the levels of funding in the Early Years DSG:
  - £4.60 / hour for three and four year olds (£4.51 in 2017/18)
  - £5.88 / hour for two year olds (unchanged).
- 2.5% of formula funding to be allocated as a deprivation supplement for children meeting the DfE criteria for the early years pupil premium on economic grounds (generally those who, if in school, would meet the eligibility criteria for free school meals). This is the same criterion which has been used since September 2017. This should allow the deprivation supplement to be set at £2.77 / hour.
- Funding for free meals provision in maintained and academy nurseries to remain unchanged.

CONSULTATION

52. During February and March 2018 the council's scrutiny boards have reviewed and scrutinised service budgets that are now reflected in the MTFP 2018-21 detailed budgets.

RISK MANAGEMENT AND IMPLICATIONS:

53. The MTFP 2018-21 includes £133m of savings and additional income to be made over the three year period. MTFP 2018-21 assumes Council Tax will rise by 2.99% for standard Council Tax and 3.00% for the adult social care precept in 2018/19. Table 1 summarises the risks of not achieving the council's planned savings in 2018/19. Section 2 of MTFP 2018-21 gives further details.

54. In view of the increasing challenge to deliver high levels of savings for several more years, and to contain significant cost and demand pressures, Cabinet has required the Chief Executive and 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
- services monitor their demand and cost pressures and develop plans to mitigate the impact of those pressures.

55. To enable this, the Corporate Leadership Team will lead a thorough tracking and monitoring process for the whole council and rigorously review plans for delivering all savings across the whole MTFP period. Directorate leadership teams will track and monitor services' detailed savings plans. Cabinet Members will also receive tracking reports so that they can report monthly at Cabinet meetings on the progress under their responsibility areas.

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

- *Financial outlook*
  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.
- *Safeguarding – Children's Services*
  Avoidable failure in Children's Services through action or inaction, including child sexual exploitation, leads to serious harm, death or a major impact on wellbeing.
- *Safeguarding – Adult Social Care*
  Avoidable failure in Adult Social Care, through action or inaction, leads to serious harm, death or a major impact on wellbeing.
- *Medium Term Financial Plan (MTFP) 2017-20*
  Failure to achieve the MTFP, which could be a result of:
  - not achieving savings;
  - additional service demand; and/or
  - over optimistic funding levels.
  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.
- *New ways of working*
  Failure to work effectively as part of a multi-agency system leads to severe service disruption and reputational damage.
- *Organisational resilience*
  Failure for the organisation as a whole to plan for and/or respond effectively to a significant event and or strains on workforce capacity or resilience, results in severe and prolonged service disruption and loss of trust in the organisation.
- *Senior Leadership Succession Planning*
  A significant number of senior leaders leave the organisation within a short space of time and cannot be replaced effectively resulting in a reduction in the ability to deliver services to the level required.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

58. The Government has indicated its intention to implement a 75% Business Rates Retention Scheme for local government from 2020/21. This includes a fair funding review among its foundations and pilot schemes to test practical application. To ensure the council's financial prospects are sustainable and the new scheme treats Surrey residents fairly and incentivises businesses effectively, it is crucial the council continues to play a full and vital role in these consultations and reviews to influence the future funding of local government.

59. The 75% Business Rates Retention Scheme will introduce many significant changes to local authorities' spending responsibilities and funding sources that are, as yet unknown. As such, the Government has only provided funding totals to councils for the period 2018/19 to 2020/21. Given the level of uncertainty beyond 2019/20, the council has limited its MTFP to three years.

60. Even over this shorter three year period, reductions in Central Government funding, constraints on raising revenue from local sources and growing service costs and volumes all combine to mean pressures on the council's budget intensify. In this worsening scenario, it will be increasingly challenging for the council to deliver further savings after achieving more than £540m expenditure reductions since 2010. The 2018/19 budget includes £66m of identified savings and cost reductions. The total planned savings in MTFP 2018-21 is £133m. However, this still leaves a funding gap of over £94m in 2020/21.

SECTION 151 OFFICER COMMENTARY

61. Since 2010 the council has made significant savings, efficiencies and service reductions in order to maintain a balanced budget. These have averaged between £60m to £70m per year. For 2018/19, there are £66m of identified savings and there is a high degree of risk around all of these being achieved. It is the view of the Director of Finance that the council will be required to make a significant unplanned use of earmarked reserves for unachieved savings in 2018/19. This will take reserves below the safe minimum levels and will need to be replenished in future years, especially those required to cover future possible

liabilities. There is therefore an essential need for even more rigorous tracking and monitoring by the leadership of the council of the savings and spending reduction plans to ensure they are delivered or that alternative actions are taken early if necessary.

62. It is important to note that the 2018/19 budget is balanced through the use of £56m one off measures, including £21m from earmarked reserves. In future years this is not sustainable, especially the use of reserves that are already at the safe minimum level in light of the financial uncertainty facing the council. Further, the council cannot reasonably assume that future funding changes will emerge to create a balanced and sustainable budget. The implications for funding after 2019/20 are largely unknown pending the Government's planned reform of local government funding through its Fair Funding Needs Review and the 75% Business Rates Retention policy implications. The council therefore needs to continue to identify and implement further measures to reduce its costs, so it can replenish reserves and contain spending within anticipated resources all within an increasingly uncertain service demand and funding environment.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

64. In exercising its functions, the Council has a duty under s11 of the Children Act 2004 to have regard to the need to safeguard and promote the welfare of children. In considering the MTFP, members should therefore consider the impact of the plan on services provided for children and the extent to which the plan safeguards and promotes their welfare. As specific savings proposals are developed, additional analysis will be provided to ensure that this is one of the factors taken into account in making the final decision to implement them.

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

EQUALITIES AND DIVERSITY

Background

66. An analysis has been undertaken of the equality implications of the savings proposals presented in the MTFP for the 2018/19 financial year. This analysis provides the Cabinet with information about the potential

impact of the proposals on groups with protected characteristics in Surrey. Where potential negative impacts have been identified, information is also provided about the actions that the Council is taking, or will undertake, to mitigate them.

67. This analysis covers proposals to deliver savings of £66 million outlined in the MTFP. Equality implications for new proposals for delivering savings in 2018/19 have been, or will be, assessed and mitigating actions put in place, where possible.

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

69. EIAs for a number of savings proposals in 2018/19 are continuations of those undertaken previously. Where this is the case, the existing EIA has been reviewed and, where relevant, been updated with the latest available information. For new savings proposals, or proposals with significant material changes, a new EIA has been completed.

70. This section of the report provides information about:

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

71. The equality implications for the Council's financial plans beyond 2018/19 will be considered by the Cabinet alongside future MTFP reports. .

Legal requirements

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

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

Equalities analysis: Overarching findings

73. A detailed summary for each council directorate is included as an annex to this document. Where necessary, EIAs have either been completed or are being developed, and will be published on the Surrey County Council website at http://www.surreycc.gov.uk/your-council/equality-and-diversity/ensuring-our-decisions-are-fair

74. The council provides many services for the most vulnerable in Surrey. This includes numerous groups with characteristics protected under the Equality Act 2010[1]. Officers have identified proposals for savings in 2018/19, assessed the impact of any proposals on those groups and, where possible, developed mitigating actions to prevent any negative impacts. Some detailed implementation plans are still being developed which will commit to identifying impacts and setting out mitigating actions over the coming year.

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

76. Key points are highlighted below.

Adult Social Care

77. Adult Social Care plans, commissions and provides a wide range of services for adults across Surrey. The directorate has a target to deliver £18.4 million savings in 2018/19. EIAs for these savings have been grouped under three strategic headings - whole systems demand management; market management and pricing strategies; and workforce development.

78. Increasing demand for services and the level of saving required in 2018/19, coming on top of £234 million savings already achieved since 2010/11, means it is increasingly difficult to mitigate negative impacts and there are risks as follows.

- Investment in preventive services will continue to be reduced to ensure the council discharges its duty to meet eligible assessed needs as demand on services increases. To mitigate this risk the directorate will ensure any changes are evaluated for the potential impact on people with protected characteristics and are targeted to minimise the impact.
- There will be increased pressure on health, borough, district, voluntary, community and faith sector partners and informal carers. To mitigate this

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[1] Protected characteristics are Age (including younger and older people), Disability, Gender reassignment, Pregnancy and maternity, Race (including ethnic or national origins, colour or nationality), Religion or belief (including lack of belief), Sex, Sexual orientation and Marriage/civil partnerships.

risk, the council will continue to collaborate with partners to deliver local integrated community based health and social care.
- Providers will be facing their own financial challenges. To help mitigate this risk the council will continue to work in partnership with providers to develop and maintain sustainable social care markets).

79. The directorate has committed to a range of other mitigating actions including encouraging people to build networks of support amongst their families, friends and communities; and ensuring practice is proportionate and continues to focus on outcomes. Service changes will also be evaluated across the system; individuals, their families and carers engaged throughout the process of change; technology will continue to be used to help promote independence, manage increasing demand and drive proportional practice; and new and creative models for delivering services will continue being sought.

Children, Schools & Families

80. The Children, Schools & Families (CSF) directorate consists of Children's Services; Schools & Learning (including Special Educational Needs & Disabilities); and Commissioning & Prevention (including Early Help and Family Services). Savings of £25.5 million are planned for 2018/19, and are grouped under six themes:

- Market management –seeking to contain costs for commissioned services.
- Early Help model –relating to the implementation of a new operational model for Family Services which works with children and families to identify and address problems before they escalate.
- Special Education Needs & Disabilities (SEND) –seeking to ensure a sustainable service to support children and young people with SEND.
- Education and skills –relating to changes in support services for schools in light of changing national legislation and funding arrangements, and growth in the number of academies.
- Support functions reduction –to review the business support functions in Children's Services and Schools & Learning to ensure efficiencies whilst reducing operational costs.
- Productivity efficiencies - relating to the continuous identification of the most efficient ways of running services

81. Key changes in 2018/19 include: the continued reconfiguration of Early Help services, which are anticipated to improve outcomes for children and young people with multiple vulnerabilities and across all protected characteristic groups, and introduction of a new travel assistance policy for children and young people with SEND.

82. Mitigating actions include engaging local stakeholders so Early Help services are delivered in the most accessible locations possible.

83. Other proposals are likely to have a positive impact for vulnerable groups, for example, savings aimed to support increased in-county provision for children and young people with SEND to provide them with placements closer to home.

Public Health

84. Public Health has a £2.2 million savings target for 2018/19. Changes are proposed to sexual health and substance misuse services, both of which have EIAs that are being updated.

85. Savings in sexual health services are to non-contract related spend, such as work to encourage a reduction in the numbers accessing sexual health services outside the county for which the council is required to pay additional fees. While this does not mean a direct change in service provision, the approach may be counter to the preferences of some using the service. This will be reflected in the updated sexual health services EIA that will be published in March.

86. Savings in substance misuse services relates to work with current providers to develop a new integrated substance misuse service under one contract from April 2018. The detail of this is still being developed however it will involve a move to one provider for tiers two (e.g., injecting equipment exchange), three (e.g., psychosocial and recovery support) and four (inpatient detoxification) services. In addition, specialist support provided for those within the criminal justice system will not be recommissioned.

87. EIAs for these savings will be updated as changes are implemented over the coming months and data on user impact is collected and monitored. In addition, partners and service users will continue to be engaged as the changes are rolled out.

Orbis

88. The Orbis Partnership aims to make major savings to back office services by amalgamating functions across Surrey County Council, East Sussex County Council and Brighton & Hove City Council. By the end of 2018/19, Surrey County Council will have accrued savings of £2.7m by creating joint teams, reducing duplication and adopting more efficient working practices with the other local authority partners. There should be no negative impact on front line service provision.

89. Changes will impact on staff for savings to the Information Technology & Digital Service and mitigating actions are being put in place to address any negative impacts. However, there are also opportunities to maximise participation in the workplace for staff from all protected groups, such as flexible working for part-time staff and more scope for reasonable adjustments to accommodate a range of people with different needs.

90. EIAs will be completed, or updated, for different service areas as they undergo the transformation set out in the Orbis three-year business plan.

Environment & Infrastructure

91. Environment & Infrastructure has a savings target of £1.3m for 2018/19 and is delivering savings in a number of areas.

92. There will be a reduction of £350,000 to the council's contribution to partnership work with Surrey Wildlife Trust; and contributions to certain partnerships reduced or stopped, such as Gatwick Greenspace Partnership and Blackwater Valley Countryside Management Partnership. It is also proposed to reduce the revenue budget for Rights of Way work. The public who visit the countryside and potentially those who benefit from some of the activities run by the hosted and non-hosted partnerships will be affected by the proposals. Papers will be brought before Cabinet throughout the year, with details on service delivery reductions and changes to access arrangements, which will be accompanied by full EIAs outlining the key equality impacts.

93. Savings will also be realised following Cabinet's decision to make operational changes (for example, ceasing the free daily allowance of chargeable waste from construction or demolition to homes and gardens) at the Community Recycling Centres, and rationalisation of staffing and back office costs within the directorate. Full EIAs have been, or will be, carried out for these savings.

Customer Services

94. Customer Services has a £165,000 savings target for 2018/19. Full EIAs are being written for two of the savings plans as negative impacts have been identified. Savings proposals include promoting online and other self-service options to access services and moving away from telephone mediated contact, changes to staffing, and a review of how appointments are managed for the Registrations Service.

95. Proposals to mitigate the negative impacts of these changes include continuing to provide a telephone mediated service for people who are unable to self-serve, and providing training for contact centre staff so they can identify vulnerable customers and arrange the right support for their needs.

Libraries

96. The Library Service plans to make £546,000 savings in 2018/19. The following proposals have been identified as having potential equality impacts on residents and staff:

- options for the future of Surrey Performing Arts Library (PAL); and

- changes to the operational delivery models to some libraries across the branch network.

97. The options being considered for the PAL include whether to relocate the music and drama collections across two existing library branches in the county, or to relocate the collection to a charitable incorporated organisation. There are positive and negative impacts from either of these options, including increased travel time for some residents, but less for others, and a less accessible location for employment, but more accessible for others.

98. Proposals for the branch network include changing the delivery models of some libraries to a Community Supported Library model, with an increased opportunity for volunteers across the library network. In addition, the reallocation of resources within the branch network means a reduction in the service offer at designated libraries.

99. These proposals have may have negative implications for some protected groups, such as older people, women and children, as they represent a higher proportion of library users and there may be a need for some users to travel further to access services. EIAs are being developed for these proposals with mitigating actions to be identified.

100. An increase in volunteering opportunities may have a positive impact on those with limited availability who would like to volunteer, for example those with babies or young children or carers.

Surrey Fire & Rescue Services

101. For Fire & Rescue, a number of changes are proposed to meet the £661,000 savings target for 2018/19. Reviews are underway of fire cover for the Woking and Surrey Heath areas, delivering efficiencies in back office and management costs and reductions in employer contribution rates following changes to the National Firefighters Pension Scheme. The EIA process will identify and aim to mitigate any negative impacts on residents and staff with protected characteristics.

Mitigation

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

- using **co-design and consultation** with service users and staff to assist in the reconfiguration of services;
- undertaking detailed **needs assessments** to enable the council to target services more effectively to vulnerable residents;

- undertaking **ongoing evaluation** of the impact of changes to services to mitigate unforeseen negative impacts;
- providing **tailored information** to service users that are impacted negatively by savings proposals; and
- ensuring any changes to staffing levels or staff structures are completed in accordance with the **council's human resources policies and procedures** and take account of the workforce profile.

Using the equalities analysis findings

103. Consideration of equalities is an ongoing process throughout a project, and should take into account the evidence from public consultations and resident engagement where appropriate. The requirements of the public sector equality duty are designed to ensure that decision makers routinely consider how a proposal might affect different groups in different ways and reflect this in the design of policies and services. In practice, having 'due regard' to the duty means removing or minimising disadvantages suffered by people with protected characteristics; taking steps to meet the needs of these groups where they differ from the needs of others, and encouraging people from protected groups to take part in public life.

104. "Due regard" also means that the consideration given to equality matters should be appropriate in the context of the decision being taken. So alongside the proper regard that Cabinet must give to the duty set out in section 149 they should also consider any other relevant factors and it is a matter for them to decide the weight to be given to these factors. In this case the most significant other matters are:

- the statutory requirement to set a balanced budget
- the outcomes the council is seeking to achieve, which are set out in the council's *Corporate Strategy 2018-2122*
- the priorities within the council's *Confident in Surrey's Future: Equality, Fairness and Respect Strategy 2015 – 2020*
- the demographic pressures facing SCC that include a rising population with projected increases in the number of older residents as well as children and young people. Increases in both these age groups will place additional demands on adult social care services and local schools.

OTHER IMPLICATIONS:

Climate change and carbon emissions

105. A primary outcome of the council's Carbon and Energy policy is a reduction in carbon emissions from the council's own estate, along with managing the council's energy costs. The investment and savings figures referred to in the MTFP are consistent with this policy update.

106. In addition to this, many of the council's financial commitments to schemes in the areas of waste management, transport and flood alleviation will make a positive contribution to reducing emissions and/or a proactive response to managing the impacts of climate change.

WHAT HAPPENS NEXT?

107. The council will publish the MTFP 2018-21 on its website.

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

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Consulted:

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

Annexes:

Annex 1 Service strategies and detailed revenue and capital budgets 2018-21

Annex 2 Director of Finance's letter to MHCLG on use of the ASC Precept

Annex 3 Fees & charges schedules 2018/19

Annex 4 Equality assessment summary

Sources/background papers:

- Revenue and Capital Budget 2018/19 to 2020/21, report to County Council 6 February 2018
- Revenue and Capital Budget 2018/19 to 2020/21, report to Cabinet 30 January 2018
- Budget working papers
- MHCLG revenue and capital Financial Settlement papers from MHCLG website
- Government Equality Office (2011) Equality Act 2010 – Specific Duties to Support the Equality Duty. What do I need to know?
- Government Equality Office (2011) Public Sector Equality Duty. What do I need to

8 know?