

Corporate Overview Select Committee

25 October 2018



Preliminary Financial Strategy

Purpose of report:

In advance of the publication of the Council's Preliminary Financial Strategy, this report sets out the scale of the challenge facing the Council and its approach to setting a balanced budget for 2019/20.

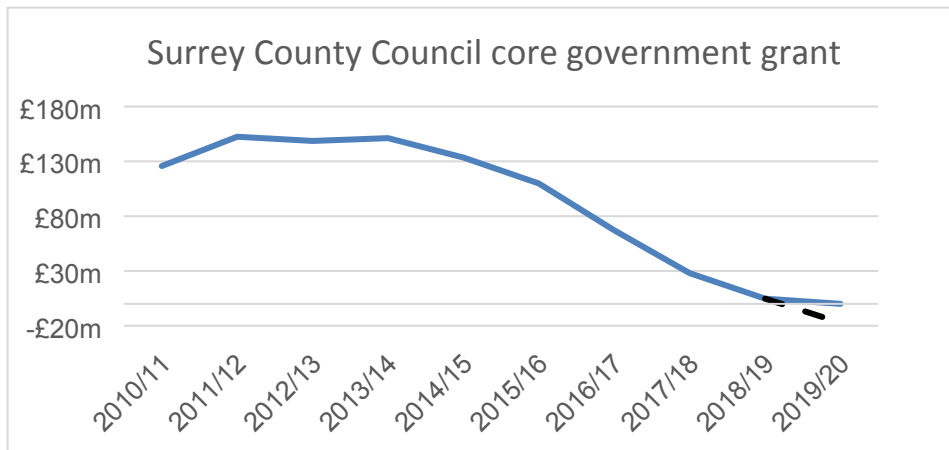
Introduction:

1. In common with the local government nationally, Surrey County Council has seen a steady and sustained reduction in its core funding, putting increased pressure on Council Tax. This has been exacerbated through disproportionately lower grant funding for Public Health, Learning Disabilities (where Surrey will have a £46m gap in 2019/20 against the Government's own funding assessment) and Unaccompanied Asylum Seeking Children. The Council has worked hard to contain the costs and volume pressures, and made significant on-going savings over the last 8 years totalling over £540m.
2. Despite the levels of savings, in recent years the Council has had to use its reserves, and in 2018/19 additional one off measures, to balance the budget. We have been able to do this as in the early part of the decade we built up our reserves for this purpose
3. However, continuing austerity and even sharper reductions in government funding in recent years has meant the scale of the budget challenge going forward, and the uncertainty over Government funding for local government, causes this approach to be no longer sustainable and as a result the Council is undertaking a significant transformation programme to ensure that it delivers vital services within its resources.
4. The Preliminary Financial Strategy sets out a preliminary balanced budget for 2019/20, without the use of reserves.

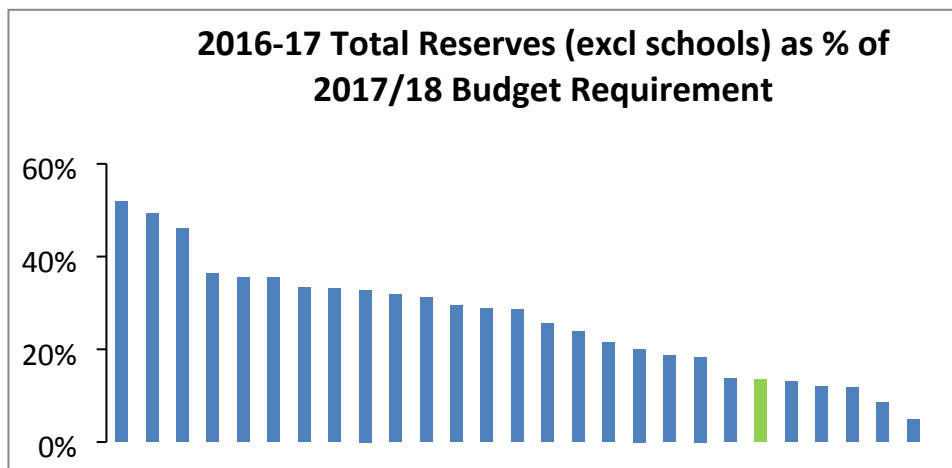
Scale of the Financial Challenge

5. The government's policy of austerity and deficit reduction started to take effect on local government in 2010 with in-year reduction in government grants. There have been reductions in grants ever since leading to local government in general losing 60% of its funding since 2010.
6. In this period, Surrey County Council has lost 100% of our Revenue Support Grant (RSG), which is the core grant funding for local authorities. This amounts to £152m, and is shown in the graph below. For 2019/20 the current policy is that should be reduced

further and the County Council would suffer negative RSG of £17m. This is shown by the dotted line.



7. However, at present the Government is consulting on amending this policy so that Surrey County Council and the other 167 authorities facing the prospect of negative RSG receive no less than nil core grant.
8. The financial challenge facing the County Council is not unique, but it is more challenging than most of the Counties.
9. The Council now has a comparatively low level of reserves following a number of years where they have been used to support the annual revenue budget. In 2018/19 this extended to using one-off solutions totalling £56m, including £21m draw-down of reserves. The chart below shows the comparative level of reserves for Surrey County Council (in green) and other county councils.



10. The Medium Term Financial Plan (MTFP) for 2018 to 2021 provided a draft budget for 2019/20, which after identified savings of £50m would still be in deficit by a further £86m. The Council does not hold enough reserves to cover this, and would be an unpredicted level of savings to achieve in one year.
11. One of the main reasons identified for this is budget pressures (both service need and prices) are significantly higher than statistical and geographical neighbours.
12. In September 2018, the Council published a report by the Chartered Institute of Public Finance & Accountancy (CIPFA) in to

the financial resilience of the Council. This report reiterated many of the issues identified above.

Setting of Budget Envelopes for 2019/20:

13. Since setting the MTFP in February 2018, the Council has undertaken a series of actions to set a balanced budget for 2019/20.
14. The Council is clear that it must reduce the budget pressures, but mainly through changes to policy, practice, better commissioning and changes to behaviours and culture.
15. A Transformation Programme has been launched and Business cases have been developed to deliver services in a different way and at reduced cost. Several of the business cases focus on managing down cost and service need.
16. The Preliminary Financial Strategy has set budget envelopes for each Executive Directorate to contain spend within sustainable levels without reliance on the use of reserves, and to close the £86m gap assuming, no additional government support.
17. The budget envelopes for 2019/20 followed the Cabinet's approval of a £40m reduction in budgets in year. From this base, the 2019/20 Budget Envelopes allowed for £87m of additional service need and cost, and through the Transformation Programme and its business cases, £85m of savings. The table below summarises the budget envelope for each Directorate.
18. In order to balance the budget for 2019/20, the Council is developing robust business cases to meet the financial challenge, which will change how services are delivered in future.

	Current 2018/19 Budget £m	Revised 2018/19 Budget Envelopes £m	Revised 2019/20 Budget Envelopes £m
Health, Wellbeing & Adults	382	372	366
Children, Families, Learning & Culture	229	223	223
Highways, Transport & Environment	172	170	163
Customer, Digital & Transformation	59	52	49
Economy, Growth & Commercial	22	20	20
Finance, Legal & Coronial	13	11	12
Corporate Income and Expenditure	49	41	57
Total	926	889	890

Recommendation:

For the Committee to review the report and Preliminary Financial Strategy, making recommendations to Cabinet as necessary.

Conclusions:

19. The Council faces a huge financial challenge, and it will need a combined and collective input to meet that challenge. This includes a Transformation Programme to ensure services can be delivered in an affordable way.
20. Members have to make some very difficult decisions, so they need assurance that we are getting good value for money for every pound we spend

Report contact:

Kevin Kilburn, Deputy Chief Finance Officer

Contact details:

020 8541 9207, kevin.kilburn@surreycc.gov.uk

Sources/background papers:

Organisation Strategy and "Our People" Strategy: Cabinet 30 October 2018

Preliminary Financial Strategy: Cabinet 30 October 2018

Transformation Programme: Cabinet 30 October 2018

Surrey County Council Finance: CIPFA report: July 2018

Annexes:

Preliminary Financial Strategy (*to follow*)

Report of the Corporate Overview Select Committee Budget Sub-Group,
July – October 2018