PRELIMINARY FINANCIAL STRATEGY

2019 – 2024

October 2018

SURREY
COUNTY COUNCIL

FOREWORD

The County Council (the council) has endorsed the ‘Community Vision for Surrey 2030’. This sets out the vision for Surrey after talking with residents, council staff, businesses, universities and organisations from the public, voluntary, community and faith sectors about what they value, and their hopes for the future. To achieve this vision, working in partnership with others, the council needs to be financially stable, sustainable and resilient, whilst demonstrating that it provides value for money in the services it delivers.

In common with the rest of local government, 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 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 eight years totalling over £540m.

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. It has been able to do this due to a deliberate strategy to build up reserves in the early part of the decade.

However, continuing austerity and even sharper reductions in government funding in recent years has meant the scale of the budget challenge going forward has increased significantly. Coupled with uncertainty over government funding for local government, this approach is 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.

This strategy sets out a preliminary balanced budget for 2019/20, without the use of reserves. The proposals contained within this budget will impact on service delivery in future years and the savings proposals are required in order to deliver a balanced budget for the next year, as well as ensuring a sustainable budget in future.

Some of the saving proposals still need to be consulted upon and delivery plans are currently in the early stages of development. The actions necessary to develop these plans and understand the impact on staff, partners and residents should be seen as a priority. As consultation and delivery plans develop, the level of risk around the achievability of these proposals will reduce.

The funding arrangements for local government will change from 2020/21 and the details of this will not be known until well into 2019. This strategy includes a scenario modelling the possible level of funding for the Council in the years up to 2023/24.

OUR PRELIMINARY FINANCIAL STRATEGY SUPPORTS THE COMMUNITY VISION FOR SURREY IN 2030

We share in the long term vision for Surrey, and we want to work alongside residents and partners to realise it. This preliminary financial strategy is our plan to ensure the council delivers good outcomes for our residents, remains financially stable and resilient, and demonstrates value for money as we work towards achieving the outcomes in the vision, and focus on making a real difference to residents' lives.

THE PURPOSE OF OUR PRELIMINARY FINANCIAL STRATEGY

Our financial strategy sets out the overall framework within which the Council manages its financial resources and supports the delivery of the council's priorities and the Community Vision for Surrey 2030.

The financial strategy drives the five year Medium Term Financial Plan, the revenue budget and the capital programme. It is supplemented by a number of other documents including:

- financial regulations
- the reserves policy
- the fees and charges policy
- the capital strategy
- the treasury management strategy

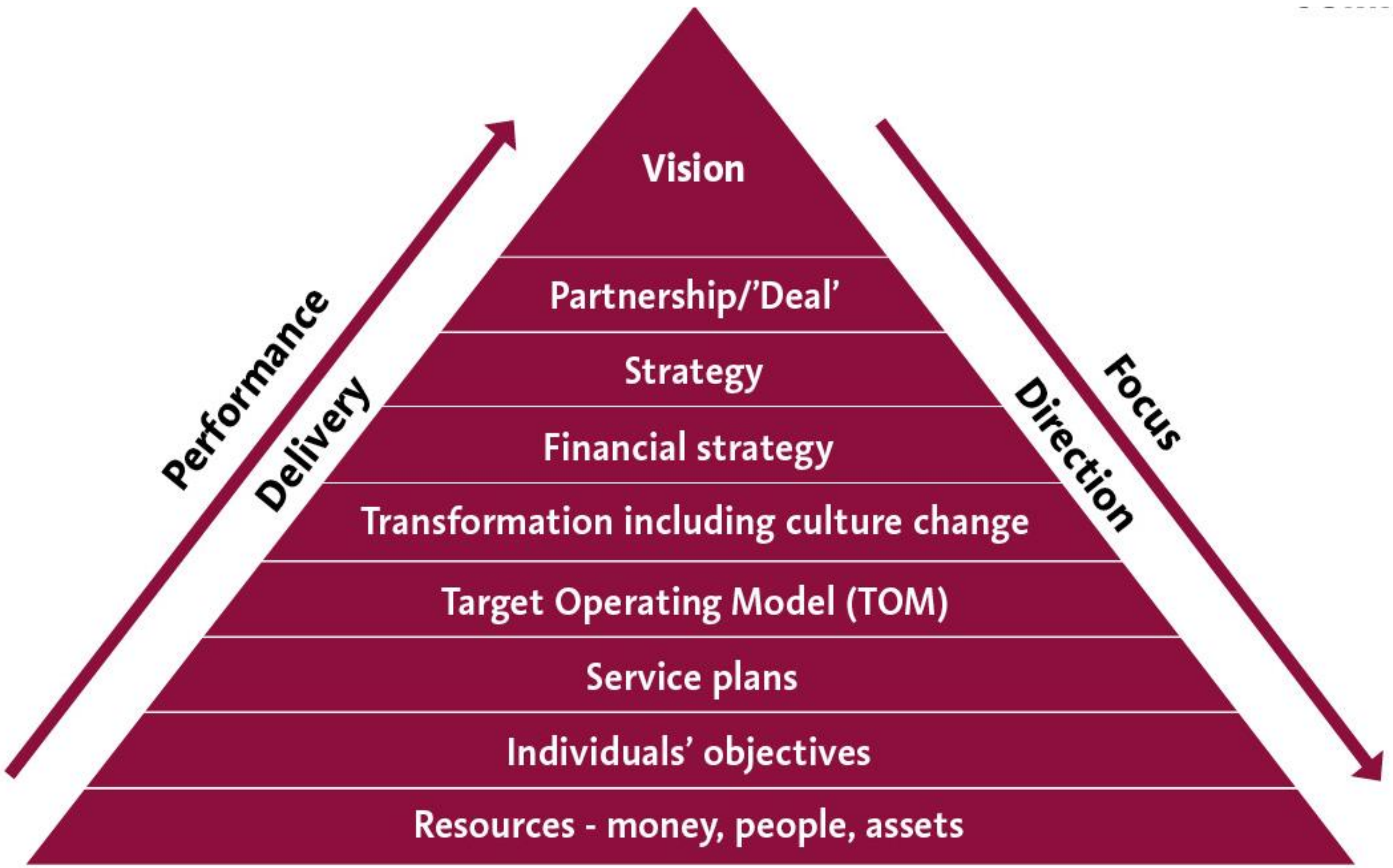
This financial strategy aims to ensure three primary objectives:

- Financial sustainability

- Financial management
- Great services and outcomes for our residents

DELIVERING THE VISION EFFECTIVELY AND EFFICIENTLY

The financial strategy is key to ensuring we deliver the vision and that Surrey County Council transforms into a high performing council within the next five years. Alongside this will be the new ‘Our People 2021’ strategy supporting our new target operating model.


Vision
Partnership/'Deal'
Strategy
Financial strategy
Transformation including culture change
Target Operating Model (TOM)
Service plans
Individuals' objectives
Resources - money, people, assets
Performance
Delivery
Focus
Direction

THE NATIONAL FINANCIAL CONTEXT

Funding since 2010/11

The UK Government started its policy of public sector spending austerity and deficit reduction in 2010. Since then, local government has borne the brunt of this policy with central government funding support forecast to have fallen 56% by 2019/20. At the same time, total government spending is expected to rise about 20% over the same period. Many local authorities have partially mitigated this reduction in government support through rising Council Tax, although this has been constrained by government policies of offering time limited grants to freeze any increases, and the need to hold a referendum above a centrally set threshold.

At the same time local authorities have had to contend with a significant rise in the need for its services. This is illustrated below.

- 11% increase in the numbers of looked after children.
- 10% increase in those in need aged 18-64.
- 14% increase in those in need aged 65+.

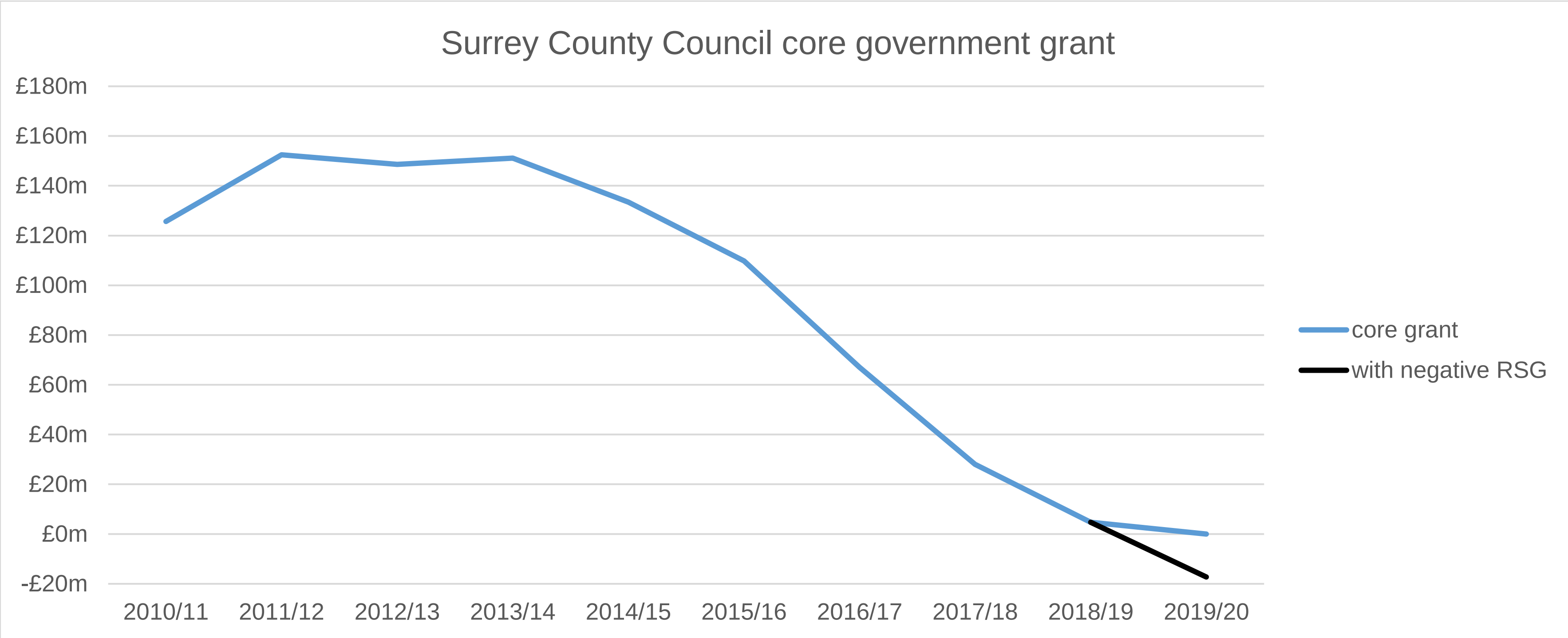
Councils have had to cut other services substantially to manage the twin pressures of reduced government funding and rising demand and costs for their services.

Funding prospects

The prospects for more government funding for councils are low, given the promise of £20bn a year extra funding for the NHS by 2023. The Government has announced a Fair Funding Review for local government and changes to the distribution of receipts raised from Business Rates. However, this only helps local government as a whole if the quantum of funding increases and is not just a redistribution. In the meantime, this all adds to the uncertainty of local government finance.

OUR FINANCIAL CONTEXT

For us, one impact of the national funding changes since 2010 has been that the Government has taken away all of our £152m core grant funding, known as the Revenue Support Grant (RSG). In 2019/20, the Government had planned to implement a funding policy which would have led to us losing a further £17m so called 'negative RSG' and a reduction of £170m core funding in total. However, at present the Government is minded to amend the policy so that Surrey County Council and the other 167 authorities facing the prospect of negative RSG receive no less than nil core grant. This plan is therefore based on the assumption that the Government acts to remove negative RSG in the upcoming Local Government Finance Settlement, as it has said it is minded to do.



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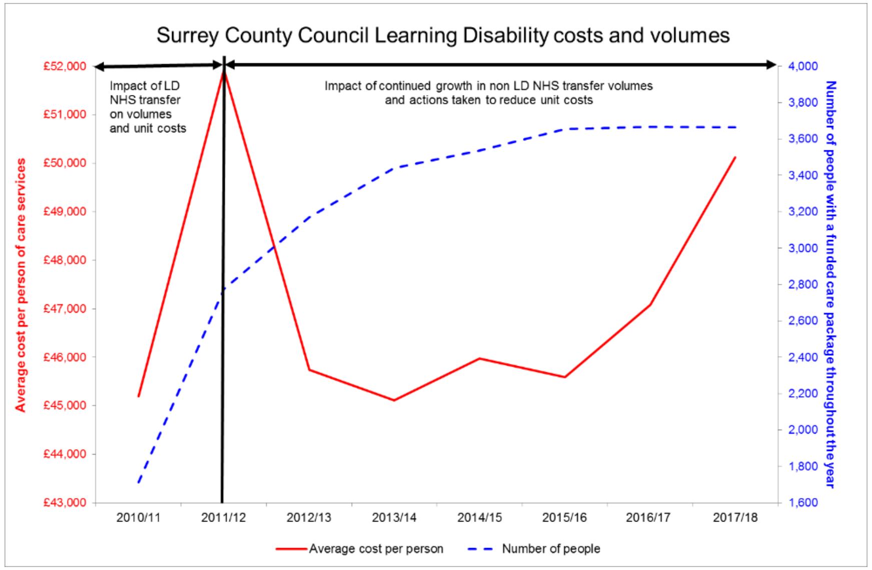
We have also been consistently underfunded by government in areas such as Learning Disabilities (LD), Public Health and Unaccompanied Asylum Seeking Children. For example, in April 2011 we became responsible for almost 900 people with severe LD who transferred from the NHS with £65m of initial annual funding. As shown in the graph on the left, this increased our unit costs significantly. We subsequently reduced our unit costs by 12% by 2015/16. However, huge demand growth of 36%, which also affected unit costs, has increased total LD spend by £40m.

As shown in the graph on the right, instead of following this demand growth, our funding has reduced.



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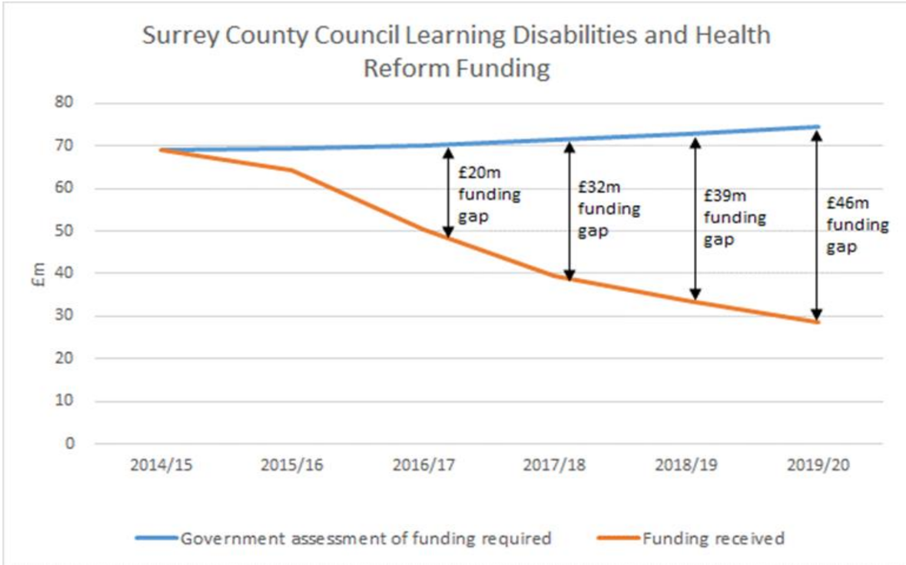
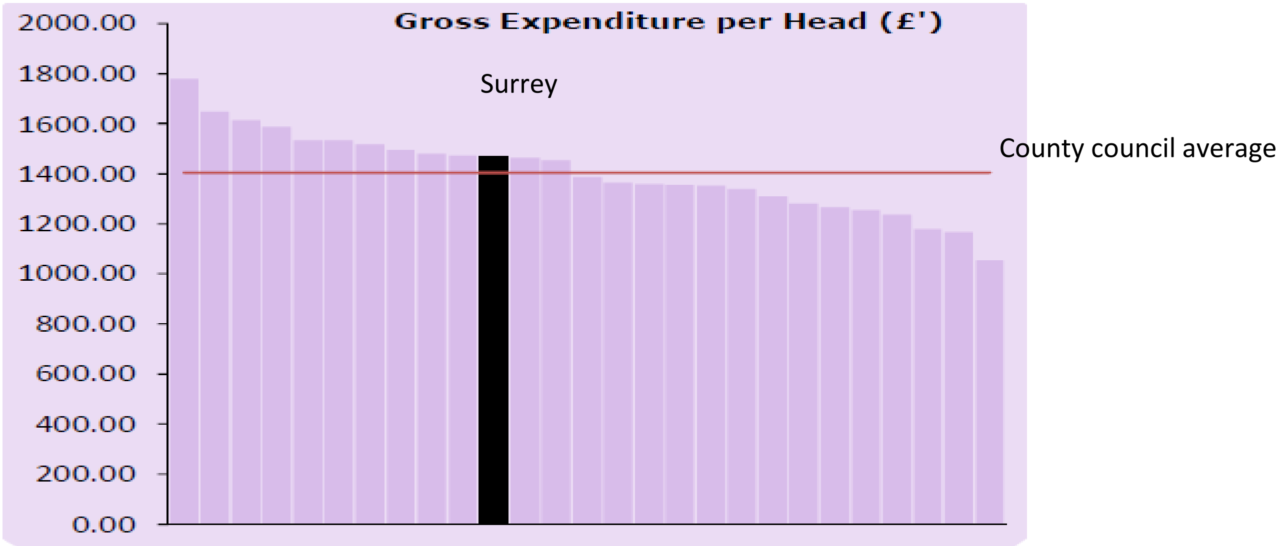


As a result of our historically low grant funding, we have had to rely increasingly on Council Tax and much more so than other local authorities. In 2018/19, 84% of our core spending power is from Council Tax, compared to averages for all county councils of 72% and all local authorities of 59%. While this means we have some financial resilience through low reliance on government grant, our ability to raise income through tax increases is effectively capped and there remains significant uncertainty about the new business rates retention system and how the fair funding review will take account of resources. It also means our reliance on local people for funding services is among the very highest in the country.

How we compare with other county councils

In recent years, we have been relatively more successful in protecting service provision from cuts in government funding, partly due to the high Council Tax base in Surrey and the decisions to decline Council Tax Freeze Grant (CTFG) in the years 2012/13 to 2015/16 and make modest incremental changes to Council Tax. Through this we have accumulated around £250m extra funding for services for the period up to 2018/19, than if we had accepted CTFG. This includes an additional £59m in 2018/19. This has led to us having higher spending per head than the average county council shown in the graph below.



Source: CIPFA Local Authority Expenditure Comparative Profile; 2016/17 Tier Report
(2016/17 is the most recent year for which confirmed spending statistics are available).

Use of reserves and one-off funding

As a local authority, we are not permitted to allow spending to be more than the available resources we have. We hold a level of reserves and balances as a part of our overall resources. We hold these reserves and balances for three reasons:

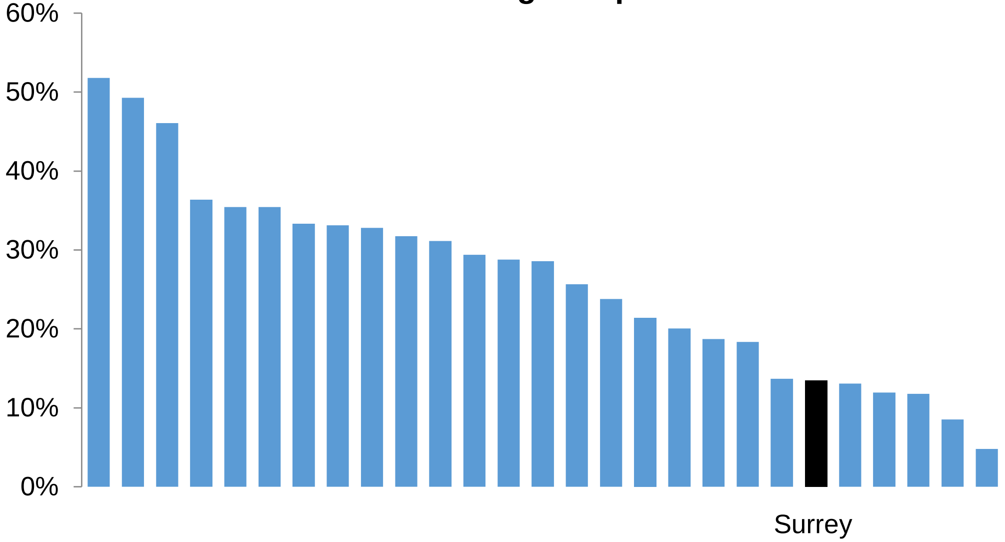
- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing;
- a contingency to cushion the impact of unexpected events or emergencies, and
- a means of building up funds to meet future known or predicted liabilities.

From 2010, we built up reserves to provide a cushion against cuts in government funding. Since 2014, we have had to use £88m of reserves to help support the revenue budget, whilst in 2018/19 we used a further £36m of other one-off sources of funding to support the budget.

Compared to other county councils we now have a relatively low level of reserves and balances, as shown in the graph opposite.

With such low levels of reserves, any further depletion to support future budgets would more than likely impair our financial resilience and could only be justified as a last resort.

2016-17 total reserves (excluding schools) as % of 2017/18 budget requirement



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OUR FINANCIAL RESILIENCE PLAN - STRATEGIC PRINCIPLES

To ensure we are financially resilient and sustainable, we have some broad strategic principles.

- **A balanced revenue budget without the use of reserves and balances.** This is to ensure that our reserves are not further diminished and we remain financially resilient to any unexpected events. We will only plan to use one-off sources of funding where there is a strong business case, such as investing to save and for the transformation of services.
- **Level of reserves and balances.** We will regularly assess our level of reserves and balances to ensure that it is appropriate for the levels of risk that we face.
- **Budget envelopes.** Each of our service areas will have a budget envelope within which to achieve outcomes to meet our residents' needs.
- **Cost and demand containment.** We will look to manage cost and demand volume pressures within services' budgets envelopes. Our service budgets will only be increased for exceptional movements in inflation and service need and this must remain affordable.
- **Robust savings plans.** Each of our savings proposals will have a robust plan. We will regularly track and monitor progress.
- **Council Tax.** We will only consider increases to Council Tax where costs and demand pressures cannot be managed within the budget envelope or when it is clear that agreed outcomes and priorities will not be met.
- **Partnership working.** We will work with all our partners, such as other councils, other public bodies, the voluntary, community and faith sector organisations and businesses to create the best value for every pound we spend.

- **Budget accountability.** Our managers will be responsible and accountable for their budgets, within a clear budget accountability framework, maintaining transparency in how we use Council Tax payers' money.

OUR FINANCIAL RESILIENCE PLAN - STRATEGY ACTIVITY

Achieving financial sustainability, by which we mean being able to set a balanced budget for the next year and one which is sustainable into the future, requires strong leadership from members and officers in keeping to plan and taking the tough decisions to deliver our agreed priority outcomes.

Our financial sustainability will be delivered by:

- our transformation programme which focuses on reforming the way we deliver outcomes and changes the way we work to ensure we are doing the very best we can for our residents within a sustainable budget.
- developing and delivering in-year additional savings programme where required. A £40m cost reduction plan has been put in place for 2018/19 to reduce the need to use reserves and manage the costs of additional needs. We will regularly monitor and scrutinise achievability and progress of this plan.
- the production of budget envelopes for 2019/20, within which we will manage expenditure in order to ensure budget sustainability. These are shown in Appendix 1.
- maintaining sound financial management policies and controls to ensure value for money in our use of resources.
- implementing a Budget Assurance Statement to establish clear budget responsibility and accountability.
- regularly reviewing and updating the constitution and financial regulations.
- developing the monthly budget monitoring process to include key activity data alongside monitoring of service expenditure and the delivery of savings proposals.
- managing investment and borrowing decisions within the Treasury Management Strategy Statement, which ensures compliance with CIPFA’s Prudential Code & Treasury Management Code of Practice.
- providing training and ongoing advice and support to budget holders and officers on financial management

- reviewing the appropriateness of our policy on fees and charges and our investment strategy.

OUR FINANCIAL RESILIENCE PLAN – 2019/20 REVENUE BUDGET

The 2019/20 financial year will be the final one of the Government's current Comprehensive Spending Review and the four year Local Government Financial Settlement. Our assumptions for funding in 2019/20 are as follows:

Council Tax

When costs and demand pressures cannot be managed within the budget envelope or when it is clear that agreed outcomes and priorities will not be met, we will have to consider increasing Council Tax.

In the Local Government Settlement for this year, the Government announced that its intention was to permit local authorities to increase Council Tax by up to 2.99% without a referendum, provided that inflation continued at its current level. Inflation is currently at around the same level it was last year, so we expect the Government to continue to allow this level of increase.

We are facing increasing demand for our services, especially those in need of social care and for children with special educational needs and disabilities. Whilst we are managing to absorb some of these increases, to ensure that provision of services is maintained and vulnerable people are cared for appropriately, we are assuming that we need to increase council tax by 2.99% in 2019/20.

The Government have also given local authorities with responsibility for adult social care the flexibility to raise a further precept, or additional Council Tax, to fund the growing cost and volume pressures. This flexibility was for a precept totalling 6% over the three years 2017/18 to 2019/20. We have already raised a precept of 3% in the past two years, so we will not raise this again in 2019/20.

The number of houses in Surrey continues to grow and collection rates are very high. We expect this to lead to increased income from Council Tax.

In total we forecast our income from Council Tax to be **£737m** in 2019/20.

Business Rates

In 2018/19 we successfully applied to become a pilot for the 100% Business Rates Retention Scheme with our 11 borough and district partners. This scheme allows Surrey as a place to keep the full proceeds of the growth in business rates, which we expect to amount to £28m. The County Council’s share of that would be £20m. However, this is only a one-year benefit.

For 2019/20, the Government are inviting bids from groups of local authorities to apply to be business rates pilots for a 75% scheme. That means keeping three quarters of any growth in business rates. We are applying to be a pilot, but are not making any financial assumptions that we will be successful.

We are forecasting our total income from business rates to be **£120m** in 2019/20.

Government Grants

We receive grants from government that are either service specific or more general. The service specific grants are included in the relevant service’s budget, while the general grants form part of the council’s total funding. For 2019/20 we forecast these grants to total **£33m**. Our assumption for 2019/20 is that the Government’s original proposal to impose a negative RSG of £17.3m will not occur. This is based on their consultation on the Local Government Financial Settlement in July 2018.

Our total funding for 2019/20 is forecast to be **£890m.**

Other income

To build financial resilience, we will seek to increase and diversify our income sources locally, by reviewing our approach to fees and charges for services, and through making a growing return on our capital investments in property.

Budget Envelopes

Each of our services has a budget envelope, within which to deliver their agreed outcomes and priorities. These are summarised by Executive Directorate in the table below and shown in more detail in Appendix 1.

	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**

Appendix 1 also shows the forecast pressures and target savings for our services. We will consult and engage about these proposed savings as appropriate over the coming months, before setting the final budget in February 2019.

OUR FINANCIAL RESILIENCE PLAN – FUNDING 2020 TO 2024

Our Financial Strategy must enable us to attain and maintain a sustainable financial position. The period beginning 1 April 2020 will be the first year under the new Business Rates Retention System (BRRS). Under the new BRRS, councils will retain 75% of local business rates. There will also be a reset of the BRRS in 2020 and a new distribution of funding among local authorities. Both of these changes will follow the new fairer funding system that the Ministry of Housing, Communities and Local Government (MHCLG) is developing with the local government sector. These changes could have a significant effect on our funding. While MHCLG has promised transition arrangements for councils most severely affected by the changes brought in by the new BRRS, there is a high degree of uncertainty about a significant element of funding and therefore a risk for us and other county councils.

Given our low levels of reserves and fast rising service need, we have little room to manoeuvre should our funding position turn out to be worse than reasonably anticipated. So, for us to continue our progress to attaining a sustainable, resilient financial position, we will take a realistic, yet prudent view of our prospective funding from 2020 onwards.

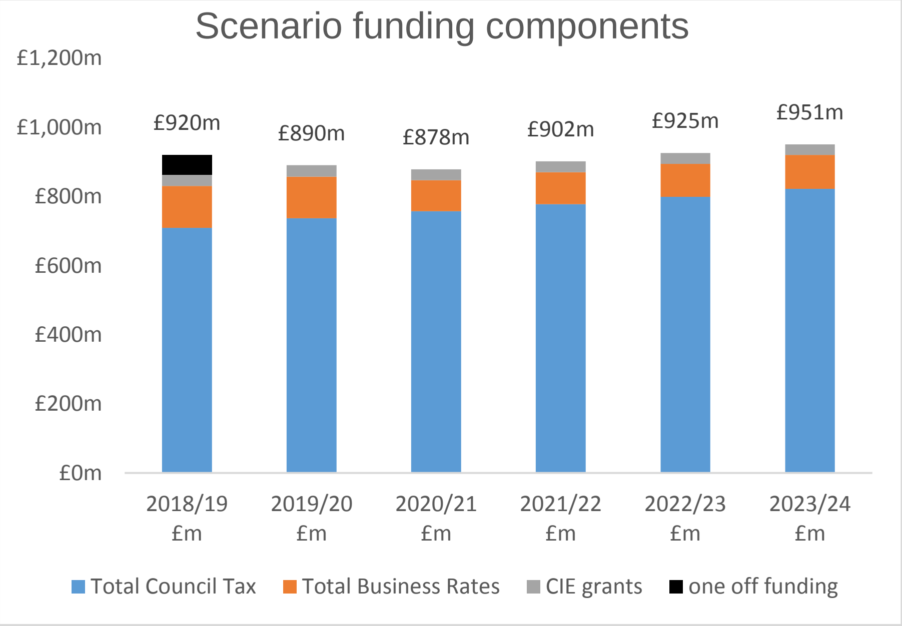
We have developed a model to make projections about prospective funding that would support our net budgets from 2020/21 onwards. The model uses assumptions about the following factors.

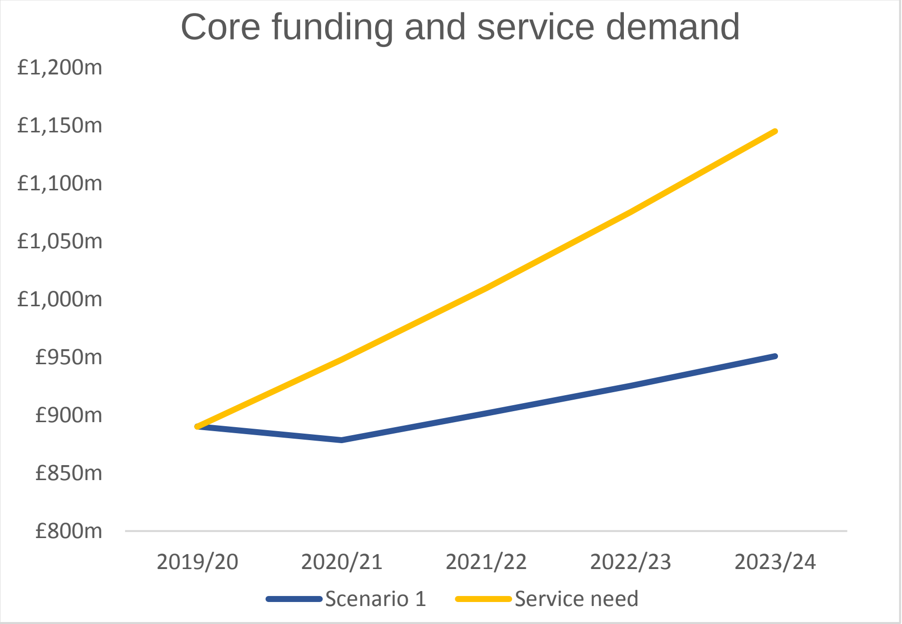
- **Council Tax** - including tax base growth rates, standard precept rises and collection fund surplus.
- **Business Rates Retention (BRRS)** including: growth rates; the split between county and district councils; rolled in grants; our new fairer funding share of local business rates; and the impact of re-setting retained business rates growth.
- **Other Government Grants** are those not rolled into BRRS. These are general grants.

Summary funding scenario 2020 to 2024

The overall context for the scenario is one in which local government has taken the most severe funding reductions of any sector and the prospects for more government funding for councils are low, given the promise of £20bn a year extra funding for the NHS by 2023 and expected continued protection of the Government's defence, schools and international development budgets.

The first graph below shows the funding components for that scenario. The second graph compares funding levels from the scenario to annual underlying service need growth from the 2019/20 base net budget. In the model, while funding falls between 2018/19 and 2019/20 through ceasing one off funding, it grows steadily each year from 2020/21, primarily due to our high Council Tax base. However, underlying service need grows more quickly, so the funding gap widens. By 2023/24, the gap is nearly £200m.





NEXT STEPS

Over the last eight years, we have continued to strive to provide the best value services to our residents in the face of cuts to our funding from government, rising costs and rising need for our services. We have made annual savings of over £540m in that time. We will continue to put the case to our MPs and to government that the current funding of local government is inequitable and that Surrey and its residents lose out.

From 2020/21 the Government have promised a new system of funding for local government, whereby local authorities can keep and invest a greater share of the proceeds from business rates and economic growth. Currently businesses in Surrey pay over £500m in rates but only £150m of this is retained in the county to fund local services. Whilst we recognise the national requirement to ensure all areas of the country are properly funded and there needs to be some redistribution, this has to be fair. We have successfully applied to be a pilot for the new model of funding from business rates during 2018/19 and are proactively working with government to ensure we all learn and develop a better system for the future. We are also seeking to extend this pilot for 2019/20.

Funding for adult social care nationally is inadequate, and the Government is consulting on a new model of providing and paying for this. We want to ensure that all vulnerable adults are considered in the review, whether they are young adults with learning disabilities or older people who need support to remain active and independent. We will work with government and other partners to ensure a fair distribution of funding.

We recognise that we cannot just look to government to ensure we are financially stable and sustainable into the future. We are taking action across all of the council, through a programme of transforming our services and a Financial Improvement Plan to ensure we provide the best value for money to our residents.

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