2019/20 BUDGET

&

FINANCIAL STRATEGY 2019-24

Contents:

Foreword

In October 2018, the Council endorsed the Community Vision for Surrey in 2030 which was developed and agreed by a broad range of partners across the county, following extensive and systematic engagement and consultation over the summer.

A council that is financially stable and resilient, with a plan for a sustainable financial future, is a fundamental prerequisite for the ambitious work that will be required to fulfil its part of the Vision.

This Financial Strategy describes how the council is planning to meet these requirements in 2019/20, and the work still to do in order to achieve this in the medium term through to 2023/24. It sets out the assumptions behind its estimated resources, including the Council Tax levels for the 2019/20 financial year; estimated receipts from Business Rates Retention and government grants. The budgets for each directorate are shown, along with the reductions required for a balanced budget and consideration of there impact on residents.

For the past eight years, the level of resources available to the Council has fallen as a result of successive governments' policies on national deficit reduction and the consequent impact on public spending, and therefore local government funding. At the same time, demands on services have risen due to demography and other societal factors.

By acting quickly and decisively, the council was initially able to meet this enormous financial challenge successfully. Budgets were balanced, and reserves were increased in recognition of growing financial uncertainty and volatility. However, with this period of ongoing reductions extending beyond initial expectations, and delays to the promised reform of the local government finance system, for the past four years the strain of this had begun to tell on the council's finances.

In each of the past four years, the council's budget has relied on the use of reserves and other one off measures in order to achieve a balanced position.

During 2018, it was recognised that this trend could no longer continue, and that decisive action needed to be taken. A £40m package of in year budget reductions was agreed at Cabinet in September 2018 with the express intent of offsetting emerging pressures in the High Needs Block of the Dedicated Schools Grant relating to services for children with Special Educational Needs or Disabilities (SEND), and to avoid the planned £21m drawdown of reserves originally agreed in the 2018/19 budget.

This programme, which we remain on track to deliver, was intended to draw a very clear line, and mark a change in direction for the council's finances. The reliance on reserves to balance the budget was replaced by an expectation that we would set sustainable budgets aligned with the level of available resources. This was in recognition of the need to strengthen, rather than weaken, the council's underlying financial position.

This change of approach was reflected in the development of proposals for the 2019/20 budget. The focus of the council's financial planning was shortened to the current and next financial years. A renewed emphasis was placed on the responsibility of services to manage delivery within available resources through the introduction of clear 'budget envelopes'.

A Preliminary Financial Strategy was agreed by Council in November 2018, which set out a clear direction of travel as part of a wider suite of key strategic documents, including an Organisational Strategy to help us realise the Vision for Surrey in 2030.

These steps, and the building blocks put in place to accompany them, move the council towards the objective of a financially sustainable future. However it is fundamentally important to recognise these as part of a much wider transformation of the council that is underway and will continue for much of the medium term period covered by this Financial Strategy.

The proposals included within the budget for 2019/20 constitute the most significant package of measures the council has considered. They represent significant transformation of both the way the council provides services and operates and 2019/20 will be a pivotal year in the achievement of this change.

The proposed budget reductions are based on a rigorous transformation programme. Many of the proposals will have a significant impact on the way services are delivered; this will affect residents, service users and the staff delivering those services. These are being informed and shaped by ongoing engagement and consultation with residents, staff, local businesses and the community and faith sector. They are being developed to ensure that the resources of the council continue to be invested in local services and communities, to deliver the best possible services to the residents of Surrey.

From 2020/21, the government intends to implement two changes to local government funding – the introduction of the 75% Business Rates Retention Scheme and the Fair Funding Review. However, the council is not expecting a significant change to its funding. With the demand on services continuing to increase, the challenge to maintain a balanced and sustainable budget remains. For example, the council forecasts a budget gap of £57m in 2020/21 rising to £134m by 2023/24, so the council will need to continue to focus on transforming and improving, so the money it spends achieves maximum benefit for residents.

Surrey County Council's contribution to the Vision for Surrey in 2030

Surrey as a place - and the context within which the council, other public and voluntary, community and faith (VCF) sector partners and businesses operate - has significantly changed over the last decade and will continue to do so. Evidence shows that while many residents and businesses thrive in Surrey, not everyone has the same opportunities to flourish. Surrey is an affluent county and this image often masks the problems that some residents face, such as domestic abuse, homelessness and mental health issues. A report to Council in May 2018 Developing a Vision for Surrey in 2030 set out some of the main challenges, including population changes, rising demand for services and support, government policy changes, funding reductions and the impact of continued financial constraints.

In October 2018, the Council subsequently endorsed a new Community Vision for Surrey in 2030, informed by extensive stakeholder engagement. The Community Vision for Surrey in 2030 recognises the need for, and value of, a shared set of outcomes to focus on - to inspire public services, the third sector, businesses, residents, staff and members - as they collectively strive to improve the lives of everyone who lives in the county. The Community Vision for Surrey describes the kind of place people want Surrey to be, and includes ten outcome-focused ambition statements.

To support the Vision for 2030 and respond to the new context, the council developed a suite of interdependent, strategic documents which were approved by Full Council in October 2018. These strategies will support the council to achieve improved outcomes for residents and develop a more sustainable, effective organisation and services in future years.

An ***Organisation Strategy*** which sets out how the council will work with residents and partners and direct resources to where they will have the most impact. It is the council's plan for how, over the next four years, it will work towards achieving the outcomes in the Community Vision for Surrey in 2030, and focus on making a real difference to residents' lives.

A ***Preliminary Financial Strategy*** that sets out the overall framework within which the council will manage its financial resources and supports the delivery of the council's priorities and the Community Vision for Surrey in 2030. This financial strategy builds on that preliminary work, setting out the revenue budget and the capital programme.

A ***Transformation Programme***, shaped around six thematic areas, which will reform the function, form and focus of the organisation to help the council to deliver its priorities.

The '***Our People 2021' strategy*** is the plan for the council's workforce (current and future) and sets out how it will develop its capacity and capability to contribute to the Community Vision for Surrey, achieve priority strategic outcomes for residents, ensure the effectiveness and efficiency of the council, drive wholesale transformational change and create a high performance culture.

By 2030 the council wants Surrey to be a uniquely special place where everyone has a great start to life, people live healthy and fulfilling lives, are enabled to achieve their full potential and contribute to their community, and no one is left behind.

The council would like the county's economy to be strong, vibrant and successful and Surrey to be a great place to live, work and learn. A place that capitalises on its location and natural assets, and where communities feel supported and people are able to support each other.

To achieve these ambitions the council will:

- Focus on ensuring no one is left behind - some residents experience a poorer quality of life than their neighbours, and this isn't good enough. This means focusing support on the most vulnerable people in communities, and those who do not have the means or resources to help themselves.

- Take a fresh approach to working in partnership - The Community Vision for Surrey in 2030 is a shared one – the council has a key role to play but cannot deliver it alone. This is a significant moment to re-affirm a collective commitment to build on existing partnerships and extend and enhance them for the benefit of Surrey residents.

- Support people to help themselves and each other - individuals and communities lead better, more fulfilling lives the more they help themselves and each other and remain independent for as long as possible. With partners, the council will explore new ways of working to develop a shared sense of responsibility for delivering the vision and achieving the best outcomes for residents.

- Involve and engage residents earlier and more often in designing and delivering services, and responding to challenges - Residents have told the council that they want public sector organisations in Surrey to be better at listening. The council would like to design services so that the right people, including residents, come together to first understand the issues and then work together to decide what can be done collectively to improve outcomes.

How we will transform as a Council

To successfully deliver the council's contribution to the Community Vision for Surrey in 2030 with the resources available, the council will also need to transform the organisation and its culture. The size and scale of the challenges and opportunities facing the council means an accelerated, systematic and coordinated approach is needed. The council is purposefully redesigning how things are done so there is the capacity and capability to succeed now and in the future.

Building on the Preliminary Financial Strategy (PFS)

The council is taking a new approach to setting the statutory budget and council tax for 2019/20. In November 2018, the council published the draft budget strategy, and the proposals that underpinned it, much earlier than in previous years. The approval of the PFS was an important milestone and set out how the council plans to achieve financial sustainability and a blueprint to inform the statutory budget.

Starting the process earlier enabled the council to better plan for the future, carrying out extensive engagement and consultation with residents and stakeholders over recent months, which is ongoing. Amendments are being made to these proposals, as a result of this consultation, the impact of the provisional Local Government Settlements and any other changes considered necessary as the result of a robust review of the proposals over recent months. This has enabled the council to ensure everything is in place to begin to make savings from 1 April 2019.

Financial Strategy Response

To be able to contribute to the Community Vision for Surrey in 2030, the role of the council has to fundamentally change. There is unlikely to be a significant change in the wider financial outlook for local government in the medium term, so it is clear the council will be unable to do all the things it has done previously. The council will need to prioritise those services that matter most to residents, and will have the biggest impact on improving people's quality of life. The focus will be on carrying out a smaller number of activities, but in a more effective way.

The council is required in law to ensure that its expenditure in any year does not exceed its resources. This financial strategy supports the council's organisational objectives and sets out the steps for a balanced and sustainable budget. Following years of cuts to government funding and rising pressures and costs, without action, the council will face a significant budget shortfall in 2019/20 and beyond. The council's reserves and balances are at a safe minimum level given the risks it faces and therefore it is no longer prudent to continue to use one-off sources of funding, such as reserves, to fund on-going expenditure.

This financial strategy sets out a balanced budget for 2019/20, without the general use of reserves. It sets a net revenue budget of **£885.9m** and a capital programme of **£129m** to deliver the council's priorities in 2019/20.

The level of transformation required to achieve the council's organisational objectives, and set a balanced and sustainable budget is significant. For 2019/20, this requires £82m of on-going savings, which is a significant total, and which carries an inherent level of risk that is moderate to high. The council will need to closely track and monitor the actions to achieve this level of savings. While challenging, this transformation is achievable but does require the council to make some tough decisions.

The council's financial strategy drives the five year Medium Term Financial Plan. It is supplemented by a number of other documents including:

- financial regulations
- the capital strategy
- the treasury management strategy
- capital receipts flexibility policy
- transformation programme

This financial strategy aims to ensure three primary objectives:

- financial sustainability,
- financial management and
- great services and outcomes for our residents

To ensure the council meets these objectives and supports the journey towards the Vision for Surrey in 2030, the council has some broad strategic principles.

A balanced revenue budget with minimum use of reserves and balances. This is to ensure that reserves are not further diminished and the council remains financially resilient to any shocks. The council will only use one-off sources of funding where there is a strong business case, such as investing to increase efficiency and the transformation of services.

Level of reserves and balances – The council will regularly assess its level of reserves and balances to ensure that it is appropriate for the levels of risk faced.

Budget envelopes – Each service area will have a budget envelope within which to provide services to residents. It is the relevant manager's responsibility to ensure that delivery of objectives is achieved within the available resource.

Cost and demand containment – the council will look to manage cost and demand volume pressures within services' budget envelopes. Service budgets will only be increased for exceptional increases in inflation and service need and this must remain affordable. The council will make the management of value for money a mainstream, business as usual activity.

Robust savings plans - Each of the savings proposals will have a robust plan, which will be consulted upon, regularly tracked and progress monitored using key indicators.

Council tax - Council Tax increases will only be considered where costs and demand pressures cannot be delivered within the budget envelope, or when it is clear that agreed outcomes cannot be met without an increase.

Partnership working – the council is committed to working with all 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 that is spent.

Budget accountability - managers will be responsible and accountable for their budgets, ensuring they are not hampered by rules and regulations, but remain transparent in how council taxpayers' money is being used.

Commentary of the Executive Director of Finance (s151 officer)

(Section 25 Report)

Introduction

In setting the Council's annual budget, section 25 of the Local Government Act 2003 requires the Council's Chief Financial Officer to make a statement on:

a) The robustness of the estimates made for the purposes of the calculations, and
b) The adequacy of the proposed financial reserves

The relevant officer for Surrey County Council is Leigh Whitehouse, the Executive Director of Finance, who is the Council's statutory Section 151 Officer.

In 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to publish a new Financial Management Code which will require the relevant officer completing the section 25 statement to refer to the information set out in CIPFA's proposed 'Resilience Index'.

CIPFA has indicated that it would be 'good practice' to adopt this approach in advance of the new Code, and this has been taken into account in the drafting of this statement.

Opinion

The Council's Executive Director of Finance advises that budget proposals recommended to Cabinet:

a) Are based on sufficiently robust estimates, and
b) An adequate level of reserves

As such, the proposals represent a balanced budget for the financial year 2019/20.

Notwithstanding this, the overall financial standing of the Council remains in a position of relative weakness. The budget recommended for 2019/20 reflects positive changes that have occurred over the past twelve months, however this progress is recent and has not yet been in place for sufficient time to be able to be fully confident in it being sustained. In contrast, many of the issues that give grounds for concern are long standing and well established.

There remains some distance left to travel before the level of vigilance required in relation to the Council's financial position can be reduced, and it remains susceptible to re-emerging or new risks in the meantime. Alongside this, the external financial outlook does not offer significant grounds for optimism, and some policies and positions that are beneficial in the short term need to be addressed in the medium to long term.

Background

Last Year's Section 25 Statement

Last year the then section 151 officer set out to Council, in some detail, her concerns about the Council's financial outlook. She drew Members' attention to a number of factors which contributed to a high level of risk in the medium term. In particular, she cited the "unprecedented level of one off funding" which was being relied upon to balance the budget for 2018/19, and the risks this represented to the ability to set a balanced budget in 2019/20.

Attention was also drawn to the fact that planned use of reserves would reduce these below the previously recommended level, and that the cumulative risk from successive years of significant savings represented a material risk to delivery of further savings in the budget year.

CIPFA Report on Financial Resilience

In Summer 2018, CIPFA were commissioned by the then Leader of the Council and the Chief Executive to undertake a review of the Council's finances and finance function. Their report, which was considered by Cabinet on 25 September 2018, highlighted the following in relation to the Council's finances:

- Surrey County Council is in a difficult financial position. Despite repeated cost reductions, the expected increase in service pressures means that, as things stand, the Council will not have sufficient reserves to meet its expected budget gap in 2019-20 unless it acts now.

- Despite some additional central government funding, Surrey County Council will need to reform fundamentally how it provides services to its communities.

The report also set out a series of recommendations in relation to the operation and performance of the Council's finance function.

At its meeting in September, Cabinet accepted CIPFA's report, and endorsed an action plan developed in response.

External Audit Value for Money Conclusion 2017/18

The 12 December 2018 meeting of the Council's Audit and Governance Committee received a report from Grant Thornton, the Council's External Auditors, setting out supplementary evidence relating to the issuing of an 'Adverse conclusion' in relation to the Council's arrangements for securing Value for Money in its use of resources for the 2017/18 financial year. Grant Thornton cited two bases for their adverse conclusion:

- The continued rating of the Council's Children's Services as 'Inadequate' by OFSTED
- A failure to demonstrate sustainable deployment of resources, as evidenced by a continued use of reserves to balance the budget in successive years

Grant Thornton repeated CIPFA's observation about the inadequacy of the Council's reserves to meet future budget shortfalls.

CIPFA's Financial Resilience Index

In December 2018, CIPFA provided the Council's section 151 Officer with analysis relating to Surrey County Council from its newly developed 'Resilience Index'. This information is expected to be published later in 2019, but as set out above, CIPFA have conveyed an expectation that reference to the index in section 25 statements will be part of their upcoming mandatory Financial Management Code, and that it would be seen as good practice to draw upon it in producing this year's statement.

The Index utilises available information to produce what CIPFA believe to be a valuable insight into a Council's financial resilience, and to highlight those councils where financial standing is most at risk. The index is based on information from 2017/18 and three prior years.

The information provided for Surrey County Council highlights the Inadequate OFSTED rating and the Adverse Value for Money Conclusion that have been outlined above.

The indicators provided show a range for the Council from very high risk to very low risk. There are a series of indicators relating to reserves: overall level, rate of depletion, level of unallocated reserves, change in reserves and so on. In general Surrey is shown as 'High Risk' on these measures when compared with all comparator groups. This reflects the points made above in relation to the use of reserves to balance the budget in recent years.

The Council is shown as medium risk in relation to the proportion of expenditure that is committed to social care costs and debt when compared to other County Councils or a ‘Nearest Neighbours’ group. These indicators are included in the index to reflect that these types of costs are harder to control in the short term in particular, and generally are less discretionary than some other areas of expenditure. There is an inference in this analysis, which values flexibility, that Surrey County Council has more scope to vary downwards service levels on other discretionary services, which is not necessarily an easy option, even when it is required by financial necessity.

The Council is shown as relatively very low risk in relation to the small extent to which it relies on external government funding, and the high proportion of the budget which is provided from local taxpayers. This is in comparison to all comparator groups.

In very broad terms, the Resilience Index sets out a picture of an authority with relatively low levels of current financial resilience, but with relatively strong fundamentals and opportunities to strengthen financial standing. This can be interpreted as our current position being weaker than it should be, but there being strong grounds for believing that we should be able to use the significant resources we possess to deliver better and more sustainably in future.

Developments during the 2018/19 Financial Year

Early in 2018/19, the Council’s finances were placed under significant strain as a result of an increasing level of overspend in the High Needs Block of the Dedicated Schools Grant. These costs are part of a ringfenced grant provided by the Department for Education to fund local schools budgets.

Constraints placed on the use of the Dedicated Schools Grant, and rising costs following changes of government policy relating to children with special educational needs, have contributed to an unfunded overspend on the High Needs Block, which had been in deficit for two years at the start of 2018/19. As the level of overspend was expected to increase significantly during 2018/19, and there was no identified way of funding this from the Department for Education or the Dedicated Schools Grant, the Council rightly sought to recognise this growing potential liability. Without any accompanying actions, this would have led to an overspend on the Council’s General Fund resulting in the need to divert either general or earmarked reserves to offset this growing liability on the Dedicated Schools Grant.

Cabinet agreed to recommendations from the Council’s Corporate Leadership Team to implement an initial programme of in year budget reductions totalling £15m, which was subsequently increased to £40m, and agreed in full on 25 September 2018.

Delivery of these budget reductions would initially avoid the need to make an unplanned drawdown from reserves to offset the High Needs Block overspend, and if delivered in full would also allow the planned drawdown of £21m reserves to support the 2018/19 budget to be cancelled.

Concurrent with this activity, the Council undertook a review of its medium term financial plan, and initiated the Transformation Programme which was reported to Council in November 2018. Together these activities reframed the financial targets for 2019/20, and provided an identified route to delivering the majority of the savings required to balance the budget. The results of this are set out elsewhere in this paper.

A fundamental aspect of this work was a recognition that the level of growth being added to the council’s service directorate budgets was unaffordable and unsustainable, it was also far in excess of the levels being budgeted for in comparable County Councils.

Responding to findings from CIPFA's review, fundamental principles of budget and financial management accountability have been restated and strengthened during the year.

The in-year budget reductions, and the development of budget proposals for 2019/20 were based around a framework of 'budget envelopes'. These emphasised the fundamental importance of budget owners and managers' responsibility for delivering within available resources, and for identifying solutions to financial challenges in addition to identifying the challenge itself.

All of the Council's budget managers are now required to sign a Budget Accountability Statement confirming their acceptance of their budget management responsibilities, and the requirement to deliver service objectives within the available financial resources.

These are important changes which would appear to have already started to have an impact, however shifting this to a truly embedded way of doing things will take much more time.

A significant amount of work remains to improve performance and activity data, and management information in general. This was identified as an issue by CIPFA, and whilst some progress has been made, further work is required to ensure that underlying systems are able to provide the necessary assurance about delivery of services, transformation and savings.

Positively, there is a recognition within the Council that a fundamental change in organisational culture is required to ensure that effectiveness, delivery and achievement are all raised to the necessary level. The Council's future financial outlook is heavily dependent on achieving this shift in culture.

The Council's Budget 2019/20

The information set out above sets the context in which the budget for 2019/20 is being set, and in which judgements about the robustness of the estimates therein and the adequacy of reserves must be placed.

The Council's latest budget monitoring report for the current year projects an outturn underspend against the agreed budget of £14.3m. Although the ambition remains to improve this further by year end, if this was to be the final outturn position it would mean a draw down of £7m would be required from reserves in 2018/19, rather than the £21m planned in the budget. An additional £15.8m will be added to an earmarked reserve in order to offset the estimated 'negative reserve' on the Dedicated Schools Grant caused by the expected overspending on the High Needs Block. The result of the above is that the new financial year will begin with a higher level of reserves than was anticipated in last year's budget.

In addition, the proposed budget for 2019/20 does not include any changes to the General Fund Balance, nor any general reliance on the use of earmarked reserves.

Despite this, in relative terms the Council's reserves and balances remain low. They are however at a level which is adequate based on the identified risks to the Council, and are consistent with the budget strategy for 2019/20.

In the medium term there will need to be consideration given to rebuilding the level of reserves following several years in which they have been depleted. The end of this trend, and a higher level of balances than was anticipated in last year's budget represent an important change of direction in relation to the Council's reserves strategy.

It is important to note that this addresses concerns raised in last year's section 25 statement, and subsequently by CIPFA and Grant Thornton, about the reliance on one off resources, including reserves, in order to balance the Council's budget. The budget proposed for 2019/20 is affordable and sustainable within the available resources.

The budget proposed for 2019/20 contains total savings plans of £82m. This is higher than the original target for the current year of £66m (agreed at budget setting last year), but less than the total figure being achieved in the current year due to the additional £40m budget reduction target.

The majority of the savings in terms of value are driven by work within the Council's Transformation Programme. This has a dedicated programme structure and support team, including appropriate resourced projected management.

Performance in 2018/19 gives greater confidence in the ability to deliver significant savings targets than has been the case in previous years. It also demonstrates, via the additional in year reductions, the ability of the Council to react to changing circumstances and to protect its financial position when required.

A small base budget contingency of £10m has been included within the 2019/20 budget, which will be used to mitigate any shortfall in savings delivery as and when required. However, whilst important, this is a significantly smaller contingency than was envisaged in the Preliminary Financial Strategy published in November.

Whilst these are grounds for optimism, the level of risk contained in the budget proposals should not be underestimated. After eight years of deficit reduction and significant savings, most proposals inevitably carry a degree of risk, and the 2019/20 budget will be challenging to deliver.
The proposals have been rated as Red/Amber/Green depending on the level of risk associated with them. Proposals totalling £16m have been rated as red. The achievement of red rated savings is considered as high risk due to the high level of uncertainty that remains in delivery plans, where delivery not directly controllable, or where consultation processes are yet to be concluded. The level of savings rated red is in excess of the contingency of £10m created to provide against 'optimism bias' in savings proposals.

Delivering our objectives within the available resources will require more effective management of placements and packages across adults and children's social care. These rely on a series of actions and initiatives that should, all things being equal, contain these costs within the available budgets. However, as indicated by the inclusion of these items in CIPFA's resilience index, these costs are not directly controllable, as they are subject to a number of external influences.

Significant projects within the Transformation Programme are focused on improving professional practice in order to improve service outcomes. These changes will also contribute to managing demand in a more sustainable way.

The actions taken to deliver these savings will be monitored and tracked, supported by the need for improved activity data that will give early indications of whether the proposals are on track. However the extent to which they are delivered will only become substantively clear once a majority of the budget year has passed.

A further tranche of savings proposals rely on decisions to be taken following public consultations, and where the Council has to weigh up various factors, and to make trade offs between competing

priorities. Until the decision is made these savings carry a high level of risk of achievement, although once the decision is made the risk profile may change significantly.
A small proportion of the savings (less than 5%) included in the plan relate to areas where there will be an upcoming consultation, which will include consideration of the level and timing of any budget reduction to be made. Indicative budget reductions are included for these areas, which give tolerance for both the timing and the level of the saving to be identified. Were the consultation on these areas to result in proposals that could not be accommodated within the resources made available through the budget, then there is sufficient flexibility within the budget estimates, and ability to alter plans accordingly, for this not to be a prohibitive budget risk in the short term.

The transformation programme includes a number of proposals and initiatives that cut across the whole Council. In many cases, these projects enable savings included within these budget proposals to be achieved. It is however expected that in some cases these projects will realise additional savings, which will be reflected in later updates to these plans.

The Council plans to fund this Transformation Programme using the Flexible Use of Capital Receipts Strategy (see Annex 3). The alternative use of these capital receipts would be to apply against the Council's borrowing requirement and therefore reduce its Capital Funding Requirement (CFR). There is a robust process in place for agreeing the use of transformation funding, including the appropriate formal approvals.

Consideration will need to be given to any ongoing commitment arising from this investment, and to ensure that there is a sustainable funding plan in place.

Reserves

The council is required to maintain an adequate level of reserves and general balances to deal with future forecast and unexpected pressures. The Council continues to face significant challenges due to increasing need for its services and having limited ability to manage the level of local funding to keep pace with these growing demands. Therefore the retention of the council's general balances and reserves will be essential to order to mitigate the risk of future uncertainties, non-delivery of the transformation programme or other planned budget reductions.

From 2010, the council planned to build up reserves to provide a cushion against reducing Government funding. Since 2014, however, significant use of the reserves has been made to help support the revenue budget. This approach is no longer considered appropriate and this financial strategy does not rely on the general use of reserves to provide a one-off funding solution to ongoing budget pressures.

While the Council's reserves and balances remain low, they are however at a level which is adequate based on the identified risks to the Council. In the medium term there will need to be consideration given to rebuilding the level of reserves following several years in which they have been depleted.

Capital Programme

The Council's proposed Capital Programme is based on prudent estimates of costs and appropriate financing decisions. The Capital Strategy has been produced in line with CIPFA's guidance.

Two major areas of the programme: the Asset and Place Strategy, and the Investment Strategy, are subject to an ongoing review, with any outcomes being included in an updated Capital Programme early in the new financial year.

Changes have been made to the Council's Minimum Revenue Provision policy, which will result in shorter write down periods for some investment and asset types, making the policy more prudent.

The Council's balance sheet includes long term borrowing of £398m. Due to low interest rates and the risks associated with holding large cash balances, the Council has been following a policy of temporarily funding capital expenditure from internal sources or from short term borrowing. The underlying need to borrow, or the CFR, is forecast to be £1,062m at 31 March 2019.This strategy is based on current economic conditions and is under regular review to ensure the risk of upward movements in interest rates do not expose the Council to increasing long term costs.

At the moment the risk exposure to increases in interest rates is too high, and therefore some long term borrowing is likely to be undertaken before the end of this financial year. Any borrowing will be discussed in advance with the Council's Treasury Advisers.

Key Considerations:

The following points provide assurance about the robustness of the estimates:

- *The budget proposed for 2019/20 is affordable and sustainable within the available resources, without any general use of reserves.*

- *Reserves are higher than anticipated, with trajectory reversed, but they remain low.*

- *The Transformation Programme will act as a vehicle to deliver the majority of the required savings*

- *A small contingency (£10m) has been created to offset any shortfall in savings delivery. Any benefit arising from positive changes to the Council Tax base assumptions will be added to this contingency.*

- *This year has demonstrated the ability of the Council to respond to adverse financial conditions in year, and to make short term offsetting savings.*

The following risks remain within the budget estimates:

- *The Council has a high level of 'Internal Borrowing', which brings short term revenue savings, but creates a risk of increasing long term costs and exposure to upward changes in interest rates*

- *The Council is properly utilising 'Freedoms and Flexibilities' to fund transformation costs from capital receipts. The opportunity cost of this is a higher capital financing requirement than would otherwise be the case. A sustainable solution to funding any ongoing transformation requirements is also required.*

- *The contingency included within the budget is important, but is lower than would ideally be the case*

- *A number of short term and one off measures have been used to deliver revenue savings over several years. This reduces flexibility or the range of options available should remedial action need to be taken, but also in some cases will create high costs in the long term.*

Economic outlook and public spending

The council's financial and service planning takes place within the context of the national economic and public expenditure plans, which are in turn influenced by global economic movements.

The Office for Budget Responsibility's (OBR) forecast is for relatively stable but unspectacular economic growth (around 1.5% every year) with a gradual further decline in the budget deficit. Over the medium term, forecast Gross Domestic Product (GDP) growth reflects several factors, including growth in Government spending; relatively subdued household spending; uncertainty affecting investment growth, and positive contributions from net trade.

The Government uses Consumer Price Index (CPI) inflation to calculate many allowances, benefits and spending thresholds. CPI has been falling from 3.0%, reached in the fourth quarter of 2017, and averaged 2.4% mid-way through 2018. Following increases in oil prices. OBR expects CPI to rise towards the end of 2018, fall in 2019, then remain slightly above the Bank of England's 2% target.

Stronger tax revenues and lower spending on welfare and debt interest than expected meant the actual budget deficit at March 2018 was lower than previously forecast and OBR forecast lower public sector net borrowing for 2018/19, giving a stronger starting position for the forecast period to 2023/24.

The Chancellor's Autumn Budget included plans to spend this fiscal gain. The most significant decision is to increase NHS spending by over £20bn by 2023/24. This includes over £2bn increase in funding for mental health services. Other revenue spending plans include £650m to local authorities in 2019/20 for social care.

Spending by local authorities is mostly funded from government grants; locally raised funding such as Council Tax and business rates and one off funding from reserves. Movements in reserves essentially reflect the extent to which local authorities' spending exceeds their sustainable funding in any one year (or vice versa).

Analysis of local authorities' under- and over-spends by service area since 2011 shows that throughout the period, children's social care has overspent and by increasing amounts. Adult social care also showed an increasing trend until 2017/18 when it coincided with additional funding being made available and the trend reversed. In aggregate, budgets for highways, environment, public health and fire & rescue services have underspent consistently.

Taken in aggregate, councils underspent each year from 2010/11 to 2014/15 and added £4.4bn to reserves. In 2016/17 and 2017/18, this reversed and councils drew £0.9bn from reserves. Although the overall picture seems healthy, considering the spending patterns at service level, it masks substantial variations among councils, with pressures most significant for social care authorities.

Analysis of local authorities' capital expenditure by funding source shows Government grants funded about half and prudential borrowing financed about a quarter of all capital spending from 2010/11 to 2015/16, over the next two years, grants fell and spending financed by prudential borrowing increased significantly. OBR has assumed most of the additional spending is on standard capital projects, rather than commercial ventures to generate revenue and forecasts a return to the funding pattern seen at the start of the decade, but with a bigger contribution from asset sales.

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Provisional Local Government Settlement

The Secretary of State for Housing, Communities & Local Government, announced the Provisional Local Government Finance Settlement on 13 December 2018. The consultation ran until 10 January 2018 and MHCLG aims to publish the Final Settlement by 31 January 2019.

Highlights for Surrey County Council

- £17.3m funding gain from elimination of negative RSG
- Surrey is not to be a 2019/20 business rates pilot, a loss of £20m from the previous year
- £10.8m social care funding (from the £650m announced in the Budget)
- £1.7m share of £180m national business rates levy surplus

Negative RSG

Negative RSG totals £152.9m across 158 authorities, including £17.3m for this council and £27.0m for all Surrey councils. Having considered responses to its technical consultation, MHCLG has decided to eliminate negative RSG directly using foregone business rates. This confirms the council's funding position in line with the Provisional Financial Strategy.

Business rates pilots

MHCLG had confirmed it would continue the pilot programs in devolution deal areas. All remaining authorities were invited to apply for the 2019/20 75% pilot scheme. MHCLG received 35 applications. The Surrey application was not successful, which was anticipated in the PFS, which included a reduction of £20m in funding as a result.

The 15 successful applicants were: Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicestershire, Norfolk, Northamptonshire, North and West Yorkshire, North of Tyne, Solent Authorities, Somerset, Staffordshire and Stoke, West Sussex and Worcestershire. London will continue to pilot business rates retention, but at the lower rate of 75% in 2019/20.

Council Tax

MHCLG confirmed local authorities can raise Council Tax by up to 3% for 2019/20 without triggering a referendum, as assumed in the PFS. Police and Crime Commissioners can increase their band D precept by up to £24 (up from £12).

Social care funding

The Provisional Settlement proposes allocating £650m social care funding in 2019/20 using the existing Adult Social Care Relative Needs Formula. The total comprises £240m for winter pressures and £410m to support social care (that councils can use for either adults' or children's services). The council's allocations are £4.0m and £6.8m respectively. This is additional funding to that not anticipated in the PFS.

Business rates retention and levy account surplus

Higher business rates growth in 2018/19 resulted in £180m surplus on the business rates levy account. MHCLG proposes to distribute this in 2019/20 based on councils' relative need as indicated by the

2013/14 Settlement Funding Assessment (SFA). The council's allocation is £1.7m, which was not anticipated in the PFS.

New Homes Bonus

House building continued to rise in 2018/19 and MHCLG has increased New Homes Bonus (NHB) funding to £920m to keep the threshold at 0.4%. NHB will receive £900m from RSG and £20m from MHCLG budgets. The Council expects the payment period for NHB to remain at four years.

As part of funding reform, MHCLG intends to explore how to incentivise housing growth. Suggestions include Housing Delivery Test results and incentivising plans that meet or exceed local housing need. MHCLG will consult on proposals before implementing.

Settlement Funding Assessment

Settlement Funding Assessment (SFA) represents the level of general funding the Government provides to local authorities. SFA comprises Revenue Support Grant (RSG) plus business rates baseline funding (retained baseline business rates income adjusted for the business rates tariff or top up). For pilot authorities RSG is absorbed into business rates baseline funding.

Table A outlines the components of the SFA for 2019/20

Table A Total SFA components 2019/20 for England

Dec 2018 Provisional Settlement	**2019/20 £m**
RSG	653.1
Business Rate Retention	16,895.6
Tariff/Top-up	-1,590.5
Settlement Funding Assessment	**15,958.2**

Core Spending Power

Core Spending Power (CSP) represents MHCLG's assessment of local authorities' core funding. CSP comprises: SFA, Council Tax and a range of grants. For 2019/20, MHCLG assumes each council raises Council Tax at the maximum 3% permitted and each council's Council Tax base increases at its average rate for the four years up to 2016/17. The grants included in CSP are: compensation for a lower than inflation rise in the business rates multiplier, improved Better Care Fund, New Homes Bonus, Rural Services Delivery Grant, Social Care Support Grant and Winter Pressures Grant.

This year, CSP increases by 2.8% in cash terms for English local authorities. For SCC the CSP increases by 3.1%.

Capital receipts flexibilities

As part of the government's 4 year offer councils are allowed to use capital receipts to fund revenue expenditure where it supports transformation and releases savings. Last year MHCLG announced the flexibility will be extended for a further three years to March 2022.

Consultations and future work

Work towards system reform from April 2020 continues and MHCLG has published two further consultations on: business rates retention reform and review of relative needs and resources. These seek further representations ahead of introducing 75% business rates retention from 2020/21, and on ensuring MHCLG has a sound basis for a fair and optimum distribution of Spending Review resources. The consultations close on 21 February 2019.

The business rates retention reform consultation seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. The review of relative needs and resources, also known as Fair Funding, seeks views on the approach to measuring the relative needs and resources of local authorities, which will determine new baseline funding allocations for local authorities in England from 2020/21. We are currently developing our response to these consultations to propose that funding is fair, predictable and relates to the cost of providing services.

MHCLG will launch a continuous improvement tool in spring 2019 following continued work with local authorities to promote efficiency.

MHCLG and HM Treasury are considering what further interventions may be required in relation to the few authorities who undertake significant borrowing for commercial purposes.

Surrey County Council core funding

Core funding 2019/20

Impact of the Provisional Settlement

The Provisional Settlement proposals increase the council's core funding for 2019/20 compared to that set out in the 2018/19 Final Settlement. The main reasons for this are:

- elimination of negative RSG,
- new social care grant funding and
- distribution of the business rates levy account surplus.

The elimination of negative RSG adds £17.3m, net changes to government grants add £11.0m and the business rates levy account distribution adds £1.7m funding compared to that in the 2018/19 Final Settlement. The Provisional Financial Strategy (PFS) assumed elimination of negative RSG, but not the other funding changes.

Business rates

As the council will no longer be part of a business rates pilot in 2019/20, it will revert back to the previous Business Rates Retention Scheme. This gives the council a revised business rates top up and much reduced scope to benefit from business rates income growth. This is reflected in the £20m reduction in total business rates and was anticipated in the 2018-21 MTFP and PFS.

Council Tax

The Provisional Settlement confirmed the permitted maximum increase in Council Tax as up to 3%, and for this council no headroom to raise the Adult Social Care precept further. A rise of just over 2.99% brings the overall Band D rate to £1,453.50. Table B shows the band rates for 2019/20, including Adult Social Care precept. The table below shows the proposed Council Tax Precept for each valuation band.

Table B Proposed Council Tax band rates 2019/20

Valuation band	Standard Council Tax precept	Adult Social Care precept	Overall Council Tax precept
A	£900.74	£68.26	£969.00
B	£1,050.86	£79.64	£1,130.50
C	£1,200.99	£91.01	£1,292.00
D	£1,351.11	£102.39	£1,453.50
E	£1,651.37	£125.14	£1,776.51
F	£1,951.61	£147.90	£2,099.51
G	£2,251.86	£170.65	£2,422.51
H	£2,702.23	£204.78	£2,907.01

Surrey's districts and boroughs, as council tax billing authorities, estimate the growth in the base and the balance on the collection fund. Estimates provided for 2019/20, show a 0.64% growth in the Council Tax base and £3.6m Collection Fund surplus. Both of these figures are lower than both their equivalents for 2018/19 (0.86% and £6.8m) and the estimates included in the PFS (1.0% and £7m). Accordingly, the estimate for Council Tax yield for both standard Council Tax and £51.3m Adult Social Care precept in 2019/20 is £731.3m.

Core grants 2019/20

For 2019/20 the council estimates receiving £34.6m in core grants. This includes the one off business rates levy account surplus grant. These are detailed below in Table C.

Total core funding 2019/20

The council's total core funding for 2019/20 amounts to £885.9m. Council Tax remains by far the biggest element of the council's core funding, providing five pounds out of every six. Table C compares core funding for 2018/19 and 2019/20.

Table C Surrey County Council core funding 2019/20

	2018/19 £m	2019/20 £m
Council Tax	-658.0	-680.1
Council tax - Adult Social Care support	-50.9	-51.3
Total Council Tax	**-709.0**	**-731.3**
Business rates	-375.9	-57.9
Business Rates (+) Tariff / (-) Top-up	234.3	-62.0
Total Business Rates	**-141.6**	**-119.9**
Core grants	-33.3	-34.6
Total core funding	**-883.9**	**-885.9**

Note: some figures may not cast due to rounding.

Indicative Government Grants

The Council anticipates receiving the following Government grants in 2019/20. In many cases, the grants and the amounts are not yet confirmed.

Table D Surrey County Council indicative grants 2019/20

Directorate and grant	2018/19 £000	2019/20 £000
Children, Families, Learning & Culture (CFLC)		
Adult Community Learning	-2,406	-2,406
Asylum Migration Fund	-59	-59
Asylum Seekers	-5,400	-4,600
Care Leavers at Risk of Rough Sleeping	0	-48
Care Leavers Extended Duties	0	-43
Dedicated School Grant	-487,717	-477,379
Education and Skills Funding Agency	-8,039	-6,705
Extended Rights to Travel	-129	-152
Monitoring & Brokering	0	-400
Music Grant, Surrey Arts	-1,388	-1,386
PE & Sport	-4,026	-3,492
Pupil Premium	-14,946	-13,432
Registration deaths	-17	-17
Remand Grant	-62	-94
Social innovation grant	-264	-64
Teachers' Pay Grant		-2,599
Troubled Families	-959	-360
Universal Infant school Meals	-9,853	-8,447
Youth Justice Board	-630	-630
Total CFLC grants	**-535,895**	**-522,313**
Health, Wellbeing & Adult Social Care (HWA)		

Directorate and grant	2018/19 £000	2019/20 £000
Adult Social Care support grant	-2,497	-4,000
Improved Better Care Fund	-7,895	-7,078
Mental Health Deprivation of Liberty	-80	-80
Public Health	-36,540	-35,575
Total HWA grants	**-47,012**	**-46,733**
Highways, Transport & Environment (HTE)		
Bikeability	-256	-256
Bus service operator grant	-1,125	-1,125
Countryside - other grants	-77	-77
Fire Revenue	-394	-394
Flood water management	-98	-98
Surrey Area of Outstanding Natural Beauty	-144	-144
Sustainable Travel Grant	-63	-63
Total HTE grants	**-2,157**	**-2,157**
Economy, Growth & Commercial (EGC)		
Health Watch	-464	-478
Police & Crime Panel	-66	-66
Total EGC grants	**-530**	**-544**
Finance & corporate expenditure		
Social care funding	0	-6,800
Total Finance & corporate grants	**0**	**-6,800**
Total service grants	**-585,594**	**-578,547**

Central Income & Expenditure (CIE)

Directorate and grant	2018/19 £000	2019/20 £000
Business rate cap grant	-1,667	-1,667
Business rate retention Scheme	-1,393	-1,393
Business rate levy account surplus		-1,737
Community Voices - Prison funding	-421	-421
Dedicated School Grant - Corporate Allocation	-8,744	-8,832
Independent Living Fund	-1,791	-1,791
New Homes Bonus	-2,430	-1,970
Private Financing Initiative	-16,702	-16,702
Staying put	-166	-166
Total CIE	**-34,679**	**-34,680**
Total grants	**-618,908**	**-613,227**

2019/20 Revenue Budget - Council Overview

The series of tables below show the net expenditure to be incurred in the delivery of council services by directorate. In 2019/20 this amounts to £885.9 m and equals the estimated core funding without the need for the general use reserves.

2019/20 Subjective Budget

2018/19 Base Budget £'000	Directorate	Lead	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000
223,157	Children, Learning, Families and Culture	Dave Hill	141,484	377,596	519,080	-52,644	-224,862	241,574
0	Delegated Schools	Dave Hill	0	297,451	297,451	0	-297,451	0
370,900	Health, Wellbeing & Adult Social Care	Simon White	65,233	456,368	521,600	-110,051	-46,733	364,816
169,804	Highways, Transport & Environment	Jason Russell	60,033	124,931	184,964	-18,725	-2,157	164,082
26,565	Economy, Growth & Commercial	Vacant	5,990	32,513	38,503	-11,012	-544	26,947
53,394	Customer, Digital & Transformation	Michael Coughlin	9,513	45,999	55,512	-1,631	0	53,881
2,449	Finance	Leigh Whitehouse	0	4,190	4,190	-1,701	0	2,489
34,080	Corporate expenditure	Leigh Whitehouse	0	38,891	38,891	0	-6,800	32,091
880,349	**Total - Our Council**		**282,253**	**1,377,939**	**1,660,191**	**-195,764**	**-578,547**	**885,880**
	Central funding:							
-708,985	Council tax					-731,300		-731,300
-141,588	Business Rates					-119,900		-119,900
-15,000	Capital Receipts							0
-33,314	Central Government grants						-34,680	-34,680
-18,538	**Total - Our Council**		**282,253**	**1,377,939**	**1,660,191**	**-1,046,964**	**-613,227**	**0**

19/20 Directorate Budgets

These tables show the 2019/20 budget for each directorate, summarising the service budgets and the movement in each directorate budget from 2018/19.

Children, Learning, Families and Culture

2019/20 Subjective Budget

2018/19 Budget Envelope £'000	Key service	Key Performance Indicator driver	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000
42,940	Family Resilience		30,928	11,088	42,016	-831	-1,404	39,781
68,360	Education, Lifelong Learning & Culture	SEN Placements Home to School Transport journeys	65,449	291,889	357,338	-46,655	-212,874	97,809
11,400	Commissioning		10,080	637	10,717	-60	-1,142	9,515
5,900	Quality Assurance		5,607	704	6,311	-527	-426	5,358
94,557	Corporate Parenting	Children in Need Placements Children in need Achievement rates	33,520	73,061	106,581	-4,571	-9,016	92,994
	Directorate wide savings		-4,100	217	-3,883			-3,883
223,157	**Total - Children, Learning, Families and Culture**		**141,484**	**377,596**	**519,080**	**-52,644**	**-224,862**	**241,574**
	Delegated Schools			297,451	297,451		-297,451	0
223,157	**Total - Children, Learning, Families and Culture**		**141,484**	**675,047**	**816,531**	**-52,644**	**-522,313**	**241,574**

From 2018/19 Budget to 2019/20 Budget

2018/19 Budget Envelope £'000	Directorate & Service	Lead	2018/19 One-offs and other Adjustments £'000	2019/20 Base Budget £'000	Inflation £'000	Growth & other changes £'000	Budget reduction £'000	19/20 Net cost £'000
42,940	Family Resilience		-2,160	40,780			-1,000	39,780
68,360	Education, Lifelong Learning & Culture		1,060	69,420	511	30,100	-2,222	97,809
11,400	Commissioning		-185	11,215			-1,700	9,515
5,900	Quality Assurance		-542	5,358				5,358
94,557	Corporate Parenting		7,687	102,244	200	1,000	-10,450	92,994
	Directorate wide			0	2,200	217	-6,300	-3,883
223,157	Total - Children, Learning, Families and Culture		5,860	229,017	2,911	31,317	-21,672	241,573
0	Delegated Schools			0		0		0
223,157	**Total - Children, Learning, Families and Culture**		**5,860**	**229,017**	**2,911**	**31,317**	**-21,672**	**241,574**

Health, Wellbeing & Adults Social Care

2019/20 Subjective Budget

2018/19 Budget Envelope £'000	Key service	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000
370,900	Adults Social Care:	62,768	423,139	485,906	-109,932	-11,158	364,816
0	Public Health	2,465	33,229	35,694	-119	-35,575	0
370,900	**Total - Health, Wellbeing & Adult Social Care**	**65,233**	**456,368**	**521,600**	**-110,051**	**-46,733**	**364,816**

From 2018/19 Budget to 2019/20 Budget

2018/19 Budget Envelope £'000	Directorate & Service	2018/19 One-offs and other Adjustments £'000	2019/20 Base Budget £'000	Inflation £'000	Growth & other changes £'000	Budget reduction £'000	19/20 Net cost £'000
370,900	Adult Social Care	-116	370,784	8,022	6,060	-20,049	364,816
0	Public Health	0	0	0	974	-974	0
370,900	**Total - Health, Wellbeing & Adult Social Care**	**-116**	**370,784**	**8,022**	**7,034**	**-21,023**	**364,816**

Highways, Transport & Environment

2019/20 Subjective Budget

2018/19 Budget Envelope £'000	Key service	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000	Note Ref
67,072	Highways & Transport	18,012	55,452	73,464	-11,977	-794	60,693	
68,716	Environment	7,446	66,435	73,881	-3,283	-969	69,629	
31,252	Surrey Fire & Rescue Service	30,407	3,130	33,537	-915	-394	32,228	1
1,737	Trading Standards	3,330	338	3,668	-1,924		1,744	2
517	Communities Support function	359	29	388	0		388	
510	Emergency Management	479	47	526	-26		500	
	Directorate-wide savings		-500	-500	-600		-1,100	3
169,804	**Total - Highways, Transport & Environment**	**60,033**	**124,931**	**184,964**	**-18,725**	**-2,157**	**164,082**	

Notes:
1. Fire employee costs include the net cost of pensions after allowing for employee contributions and government pension top-up grant, which was previously shown separately within the MTFP.
2. Trading Standards is run in partnership with Buckinghamshire County Council (BCC). SCC and BCC jointly fund the service in the proportion 66% and 34% respectively. BCC's contribution is shown within income in the table above.
3. Savings to be identified across services include HT&E directorate-wide reviews of contracts and income (£1.1m).

From 2018/19 Budget to 2019/20 Budget

2018/19 Budget Envelope £'000	Directorate & Service	2018/19 One-offs and other Adjustments £'000	2019/20 Base Budget £'000	Inflation £'000	Growth & other changes £'000	Budget reduction £'000	19/20 Net cost £'000
67,072	Highways & Transport	275	67,347	1,979		-8,633	60,693
68,716	Environment	467	69,183	2,587		-2,141	69,629
31,252	Surrey Fire & Rescue Service	270	31,522	598	200	-92	32,228
1,737	Trading Standards	62	1,799	51	26	-132	1,744
517	Communities Support function	-61	456	9		-77	388
510	Emergency Management	-12	498	13		-11	500
	Directorate-wide savings		0			-1,100	-1,100
169,804	**Total - Highways, Transport & Environment**	**1,001**	**170,805**	**5,237**	**226**	**-12,186**	**164,082**

Economy, Growth & Commercial

2018/19 Budget Envelope £'000	Key service	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000
18,540	Property	443	28,789	29,232	-10,411		18,821
0	Procurement			0			0
-100	Business Operations	159	-227	-68			-68
3,600	Legal Services	3,265	785	4,050	-424		3,626
3,560	Democratic Services	1,537	2,750	4,287	-151	-544	3,592
965	Economic growth	586	416	1,002	-26		976
26,565	**Total - Economy, Growth & Commercial**	**5,990**	**32,513**	**38,503**	**-11,012**	**-544**	**26,947**

From 2018/19 Budget to 2019/20 Budget

2018/19 Budget Envelope £'000	Directorate & Service	2019/20 Base Budget £'000	Inflation £'000	Growth & other changes £'000	Budget reduction £'000	19/20 Net cost £'000
18,540	Property	21,608	767		-3,554	18,821
0	Procurement	0				0
-100	Business Operations	-80	12			-68
3,600	Legal Services	3,900	65		-339	3,626
3,560	Democratic Services	3,860	76		-344	3,592
965	Economic growth	965	11			976
26,565	**Total - Economy, Growth & Commercial**	**30,253**	**931**	**0**	**-4,237**	**26,947**

Customer, Digital & Transformation

2019/20 Subjective Budget

2018/19 Budget Envelope £'000	Key service	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000
700	Strategic Leadership	1,268	28	1,296			1,296
1,600	Communications	1,099	322	1,421			1,421
1,000	Strategy & Performance	913	295	1,208	-264		944
3,000	Customer Services	3,171	190	3,361	-228		3,133
0	Cross County Transformational Savings	-500	-500	-1,000			-1,000
1,600	Coroner	1,047	1,238	2,285	-513		1,772
3,000	Human Resources & Organisational Development	1,704	1,404	3,108	-20		3,088
10,940	Information Technology & Digital	811	10,802	11,613	-606		11,007
31,554	Joint Operating Budget ORBIS		32,220	32,220			32,220
53,394		**9,513**	**45,999**	**55,512**	**-1,631**	**0**	**53,881**

From 2018/19 Budget to 2019/20 Budget

2018/19 Budget Envelope £'000	Directorate & Service	2018/19 One-offs and other Adjustments £'000	2019/20 Base Budget £'000	Inflation £'000	Growth & other changes £'000	Budget reduction £'000	19/20 Net cost £'000
700	Strategic Leadership	93	793	13	490		1,296
1,600	Communications	211	1,811	32		-422	1,421
1,000	Strategy & Performance	191	1,191	23		-270	944
3,000	Customer Services	279	3,279	54		-200	3,133
0	Cross County/Transformational Savings		0			-1,000	-1,000
1,600	Coroner	122	1,722	50	118	-118	1,772
3,000	Human Resources & Organisational Development	1,337	4,337	98		-1,347	3,088
10,940	Information Technology & Digital	1,469	12,409	313		-1,715	11,007
31,554	Joint Operating Budget ORBIS	4,071	35,625	1,411		-4,816	32,220
53,394	**Total - Customer, Digital & Transformation**	**7,773**	**61,167**	**1,994**	**608**	**-9,888**	**53,881**

Finance & Central Income & Expenditure

2018/19 Budget Envelope £'000	Key service	Employee cost £'000	Non-Employee cost £'000	Gross Exp £'000	Income £'000	Government Grants £'000	19/20 Net cost £'000
36,529	Corporate expenditure	0	43,081	43,081	-1,701	-6,800	34,580
36,529	**Total - Finance & Corporate expenditure**	**0**	**43,081**	**43,081**	**-1,701**	**-6,800**	**34,580**

From 2018/19 Budget to 2019/20 Budget

2018/19 Budget Envelope £'000	Directorate & Service	2018/19 One-offs and other Adjustments £'000	2019/20 Base Budget £'000	Inflation £'000	Growth & other changes £'000	Budget reduction £'000	19/20 Net cost £'000
36,529	Corporate expenditure	15,351	51,880	66	-4,536	-12,830	34,580
36,529	**Total - Finance & Corporate expenditure**	**15,351**	**51,880**	**66**	**-4,536**	**-12,830**	**34,580**

2019/20 Proposed Budget Reductions

2019/20 will be a very challenging, but pivotal, year in the council's move towards a financially sustainable service provision. The following table lists the budget reductions assumed in the revenue budget for 2019/20. Due to the nature of the policy changes being proposed by some of the transformation business cases, the council has begun the process of conducting wide ranging and thorough consultations and engagement with residents and other stakeholders. A number of these budget reductions are subject to further consultations taking place.

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Corporate Parenting	Looked After Children - Reduction in placements	Recommission better and more cost effective placements. Reduce more expensive residential and independent fostering placements.	A	-4,950	Transformational
Corporate Parenting	Looked After Children - Reduction in placements	Increase local foster care.	R	-5,500	Transformational
Corporate Parenting	Reconfiguration of CFL Directorate	Reduce staffing budgets restructure Children's services completely and build in a staff vacancy factor	A	-6,300	Transformational
Corporate Parenting	Reconfiguration of CFL Directorate	Review contract spend to recommission or decommission as appropriate	R	-1,700	Transformational
Corporate Parenting	Recommissioning of Children's Centres	Review and reconfigure the children centre provision	A	-1,000	Transformational
Education, Lifelong Learning & Culture	SEND Sustainability - SEN transport savings	Independent travel training and increased take up of travel allowances.	R	-700	Transformational
Education, Lifelong learning & Culture	Saving from Democratic Services envelope		A	-22	Transformational
Education, Lifelong learning & Culture	Review of Cultural Services	Review libraries, heritage, arts and registration services	A	-1,500	Transformational
Total Children, Families, Learning & Communities				**-21,672**	

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Adult Social Care	Older People /Physical Disabilities savings	Deliver savings through Adult Social Care's transformation programmes including Practice Improvement, Accommodation with Care & Support, Market Management, All Age Learning Disabilities and Health & Social Care Integration	G	-1,100	Transformational
Adult Social Care	Older People /Physical Disabilities savings		A	-5,924	Transformational
Adult Social Care	Older People /Physical Disabilities savings		R	-658	Transformational
Adult Social Care	Learning Disabilities 25+ savings		G	-2,500	Transformational
Adult Social Care	Learning Disabilities 25+ savings		A	-1,500	Transformational
Adult Social Care	Learning Disabilities 25+ savings		R	-4,470	Transformational
Adult Social Care	Transition 18-24 savings		A	-1,262	Transformational
Adult Social Care	Mental Health savings		R	-412	Transformational
Adult Social Care	Resolution of significant outstanding Continuing Health Care (CHC) disputes / assessments	Resolve cases where the Council believes individuals have a primary health need, meaning the NHS should fund their care costs under the CHC framework rather than ASC	A	-750	Efficiency
Adult Social Care	Surrey Choices efficiency programme	Efficiencies delivered by Surrey Choices to reduce the cost of services commissioned by ASC	A	-300	Efficiency
Adult Social Care	Completion of Housing related support decommissioning	The remaining full year effect saving from the decision to decommission Housing Related Support services	G	-151	Policy
Adult Social Care	Completion of Closure of Surrey Information Hubs	The remaining full year effect saving from the decision to close Surrey Information Hubs	G	-121	Policy
Adult Social Care	Wider contracts & grants savings	Reduce ASC's contribution to a range of universal services	G	-500	Policy
Adult Social Care	Increased assessed fees & charges income	Growth in assessed fees & charges income based on current year trends	G	-400	Income (increases and new initiatives)
Total - Adult Social Care				**-20,049**	

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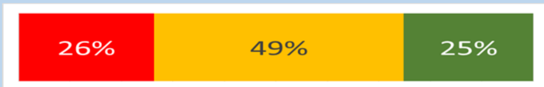
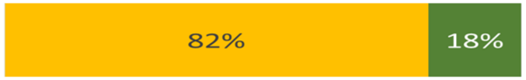
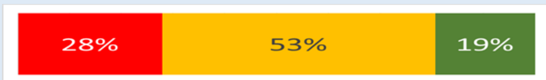
Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Public Health	Change in Mental Health Budget to match contracted expenditure	Match 2019/20 budget to projected expenditure on: time to change and suicide prevention activity.	G	-15	Efficiency
Public Health	Reduce Healthy Child Programme (0-19) contract management fee	Reduce contract management fee for healthy child programme (0-19) as part of the wider community services contract. The Council is an associate commissioner, Guildford & Waverley is the lead commissioner.	G	-18	Efficiency
Public Health	Move to increased targeting of healthy weight service	The healthy weight contract expires in September 2019. Commission a new contract to maximise the remaining funding.	A	-37	Efficiency
Public Health	Children's Dental Health Epidemiology Survey	Allocate the remaining budget for activity to support oral health as other intelligence can target such work. There is no direct service provision impact.	A	-40	Policy
Public Health	Reduction to the pay budget	Reduce the pay budget by removing vacant posts so there is no direct impact on existing individuals and work is redistributed across the team.	G	-50	Efficiency
Public Health	Maintain Health Checks programme at current activity levels	Health checks are paid for based on activity by pharmacies and GPs. Realign the budget to match the expected 2018/19 expenditure more closely to maintain activity at a similar level in 2019/20.	A	-50	Efficiency

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Public Health	Reductions in non-pay budgets	Reduce a number of non-pay budgets including training, printing, and the recharge paid to SCC from the ring fenced PH budget. This means no likely impact on service provision is expected.	G	-51	Efficiency
Public Health	Smoking cessation - recommissioning and maintain current public health agreement activity levels	Commission a more targeted smoking cessation service for 2019/20 at a smaller contract value. Also realign the smoking cessation budget for payments to GPs and pharmacies to match the expected 2018/19 expenditure, providing a similar level of activity in 2019/20.	G	-89	Efficiency
Public Health	Planned change in Healthy Child Programme (0-19) contract value	The recommissioned healthy child 0-19 programme built a planned reduction into the contract, meaning no additional impacts anticipated beyond those already identified in the original EIA	G	-284	Transformational
Public Health	Planned change in substance misuse budget	Reduce the contingency budget built into year one (from April 2018) of the integrated substance misuse service. Now the service is established, this has no significant negative impact on services beyond those identified in the existing EIA. Review the EIA in February 2019 to see if introduction of the new model needs further updates or mitigating action.	A	-340	Transformational
Total – Public Health				**-974**	
Total Health, Wellbeing & Adult Social Care				**-21,023**	

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Highways & Transport	HT&E savings to be identified		A	-1,537	Transformational
Highways & Transport	Changes to concessionary fares, including reduced volumes	Review concessionary fares scheme, and impact of recent trend of reduced journey numbers.	A	-883	Transformational
Highways & Transport	Local Committee Highway Fund and Local Committee Revenue Schemes	Remove Local Committee Highway Fund and Local Committee Revenue Schemes and replace with a capital budget. Hold the Member Local Highway Fund and Member Community Fund at 2018/19 levels.	G	-1,866	Transformational
Highways & Transport	Application of transport grants	One-off application of Bus Service Operator Grant where there has historically been a surplus.	A	-1,900	One-offs and Financing
Highways & Transport	Street lighting conversion to LED	Expected net saving from LED conversion after revenue impact of investment.	A	-260	Efficiency
Highways & Transport	Street lighting contractual savings	Estimated one-off saving from street lighting PFI contract review.	A	-1,382	One-offs and Financing
Environment	Changes at community recycling centres	A range of measures including site closures and extension of existing charges for non-household waste.	A	-1,005	Transformational
Environment	Countryside review	Identify cost reduction and income generation measures.	A	-200	Efficiency
Environment	Ongoing waste disposal & recycling initiatives	Ongoing impact of existing measures e.g. waste minimisation campaigns.	A	-225	Efficiency
Environment	Directorate-wide initiatives	Delete HT&E directorate initiatives budget. New initiatives need to be self-financing, or funded from existing budgets.	G	-323	Efficiency
Trading Standards	Additional income generation	Additional income including from providing trading standards advice under Primary Authority Agreements.	A	-33	Income (increases and new initiatives)
Directorate-wide	Staffing review		A	-1,000	Transformational

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Directorate-wide	Income review	Review existing fees and charges, investigate new opportunities.	A	-600	Transformational
Directorate-wide	Contract reviews		A	-500	Transformational
Directorate-wide	Marginal gains		A	-472	Efficiency
Total Highways, Transport & Environment				**-12,186**	
Legal	Case management efficiency review		A	-339	Efficiency
Democratic Services	Staffing review		G	-76	Efficiency
Democratic Services	Modern council	Efficiencies through modern ways of working	G	-22	Efficiency
Democratic Services	Members' allowances	Savings from pension changes and fewer special responsibility allowances	A	-246	Efficiency
Property	Building repairs and maintenance		G	-1,960	Efficiency
Property	External fees for building project feasibilities	.	G	-627	Efficiency
Property	Budget for utilities at low usage		G	-600	Efficiency
Property	Building running costs		G	-150	Efficiency
Property	Building rates		G	-117	Efficiency
Property	Printing contract		G	-100	Efficiency
Total Economy, Growth & Commercial				**-4,237**	

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Coroner	Case management efficiency review		A	-118	Efficiency
Communications	Service efficiencies		G	-222	Efficiency
Communications	Further staffing restructure		A	-200	Efficiency
Strategy & Performance	Service efficiencies		G	-270	Efficiency
Customer Service	Service efficiencies	Ongoing savings achieved in 2018/19	G	-200	Efficiency
Orbis Contribution	Business plan savings	Partnership working efficiencies.	A	-1,743	Efficiency
Orbis Investment	Remove one-off funding	Fund investment needed to deliver savings from transformation fund.	A	-1,316	One-offs and Financing
Orbis	Efficiencies to be identified		R	-1,757	Transformational
HR&OD	Training & Leadership development		G	-800	Policy
HR&OD	Remove directorates in-year training allocation		A	-480	Policy
HR&OD	Manage non-pay inflation	To be identified	A	-67	Efficiency
IT&D	Modern Worker (fund from transformation)	Fund investment needed to deliver savings from transformation fund.	A	-1,000	One-offs and Financing
IT&D	Additional Data Centre income		G	-130	Efficiency
IT&D	Staffing		G	-185	Efficiency
IT&D	Network & applications		G	-105	Efficiency
IT&D	Manage inflation	To be identified	A	-295	Efficiency
Cross County Savings	Channel Shift	Change communication channel with public from phone to website	R	-250	Transformational
Cross County Savings	One Front Door	More efficient public interactions channelled through the contact centre.	R	-250	Transformational
Cross County Savings	Spans of Control	To be identified	R	-500	Transformational
Total Customer, Digital & Technology		 28% 53% 19%		**-9,888**	

Service	Budget Reduction	Description of reduction	RAG	19/20 Budget reductions £000	Category
Finance	Contribution to insurance reserve	Reduce contribution to Insurance Self Fund based on Actuarial Review	G	-223	Policy
Total Finance		100%		**-223**	
Corporate expenditure	Revised borrowing strategy	Continue short term borrowing strategy	A	-826	Efficiency
Corporate expenditure	Deferred contributions to reserves	Defer planned contribution to replenish reserves	G	-3,199	One-offs and Financing
Corporate expenditure	Minimum Revenue Provision (MRP)	Apply capital receipts to the Capital Financing Requirement to reduce the MRP required.	G	-2,700	Policy
Corporate expenditure	Investment Income – existing	Increase income from the investment strategy	G	-4,182	Income
Corporate expenditure	Investment Income-projected	Increase income from the investment strategy	A	-1,700	Income
Total Corporate Income & Expenditure		20% 80%		**-12,607**	
Total		20% 52% 28%		**-81,836**	

Total Schools Budget

The council is required by law formally to approve the Total Schools Budget, which comprises: Dedicated Schools Grant funding, post 16 grant funding and any legally relevant council tax related funding. This budget is used to fund schools' delegated and devolved expenditure and other maintained schools expenditure, plus expenditure on a range of school support services specified in legislation. The Total Schools Budget excludes funding allocated to individual academy schools.

The Total Schools Budget is a significant element of the proposed total budget for Children, Families, Learning & Communities Directorate. Table E outlines the proposed Total Schools Budget for 2019/20 of £492.9m, comprising:

- £486.2m Dedicated Schools Grant (DSG);
- £6.7m Education and Skills Funding Agency (ESFA) sixth form grants;

Table E Analysis of Total Schools Budget for 2019/20

	Schools' delegated and devolved budgets £m	Centrally managed services £m	Total £m
DSG 2019/20	334.4	151.8	486.2
Total DSG	**334.4**	**151.8**	**486.2**
ESFA sixth form grant	6.7		6.7
Total Schools Budget	**341.1**	**151.8**	**492.9**

Centrally managed services include the costs of:

- placements for pupils with special educational needs in non-maintained special schools and independent schools;
- two and three year olds taking up the free entitlement to early education and childcare in private nurseries;
- part of the cost of alternative education (including part of the cost of pupil referral units);
- additional support to pupils with special educational needs; and
- a range of other support services including school admissions.

Schools are funded through a formula based on pupil numbers and ages with weightings for special educational needs and deprivation. Cabinet considered and agreed a detailed report on the 2019/20 funding formula on 30 October 2018. In 2019/20 the formula limits any school level losses to 0% maximum loss per pupil (the Government's Minimum Funding Guarantee). To pay for the guarantee, the formula limits the per pupil increase (via a "ceiling"). The level of this ceiling is dependent on the outcome of the appeal to the Secretary of State to transfer £3.1m of school funding to high needs.

Schools will also receive pupil premium funding, based on the number of:

- pupils on free school meals at some time in the past six years;
- looked after children;
- children adopted from care;
- pupils from service families (or who qualified as service children within the last six years, or in receipt of a war pension).

Funding Scenarios 2020-24

The funding position beyond 2019/20 is not clear. 2020/21 is the first year of a new Comprehensive Spending Review and the new 75% Business Rates Retention system based on the current Fair Funding Review. Details of these will not be known until well into 2019, making accurate financial forecasting challenging. So, the council has modelled core, optimistic and pessimistic funding scenarios from 2020/21. The main elements in the modelling are: Council Tax, growth in local business rates income and the impact of the new business rates retention system.

Council Tax

Council tax funded over 80% of the council's net revenue expenditure in 2018/19 – one of the highest proportions nationally. While this makes the council more resilient to fluctuations in government funding, it also increases reliance on the local taxpayer.

In 2018/19 Tax base growth was 0.86% and had averaged 1.51% in the preceding three years. The forecast growth for 2019/20 by Surrey's districts and boroughs has fallen further to 0.64%. From 2020/21, the core scenario assumes 0.75% annual tax base growth, with the optimistic and pessimistic scenarios at 1.00% and 0.50% respectively.

MHCLG limited Council Tax increases without a referendum at 3% for 2018/19 and 2019/20, in line with CPI. All the scenarios assume annual standard Council Tax rises of 1.99% from 2020/21, which is in line with the Office for Budget Responsibility's forecast for CPI.

Only the optimistic scenario assumes an additional precept to fund social care, with a 2% limit each year from 2020/21.

The collection fund surplus, which the difference between actual and estimated council tax collected in any year, peaked in 2014/15 at £11m. It has since fallen and the forecasts districts and boroughs indicate a surplus of £3.6m in 2019/20. From 2020/21, the core scenario assumes a £3.0m annual surplus, with the optimistic and pessimistic scenarios at £5.0m and 1.0m respectively.

Business rates income

Surrey benefits from a large business rates tax base and the local economy makes a contribution to the UK in terms of gross value added (GVA) that is second only to London. However, this scale and stability has meant actual tax base growth has averaged less than 0.1% in the seven years preceding the business rates revaluation in 2017.

In making estimates of future funding from retained business rates, all scenarios assume the business rates multiplier rises each year in line with CPI. In addition, the core scenario assumes zero real tax base growth. The optimistic and pessimistic scenarios respectively see a 1% increase to the tax base and a 1% decrease to the tax base.

Business rates retention system

The new 75% business rates retention system starts in 2020/21. In it, councils will use the extra 25% business rates income to cover responsibilities previously supported by RSG and Public Health Grant (PHG). In addition, the formula derived from the Fair Funding

Review will revise authorities' Baseline Funding Levels (BFL), which indicate relative need to spend from business rates funding, adjusted for ability to raise resources locally through Council Tax.

While the council can influence the above factors by responding to consultations and lobbying, much is outside its control. Key factors affecting this council include the following.

- How the Fair Funding formula determines spending need, including for Public Health, which will set councils' BFL.
- The split of retained business rates in two tier areas.
- Decisions around setting and resetting the Business Rates Baseline (BRB), which is the Government's estimate of a council's share of collectable business rates in its area.
- The difference between a council's BFL and its BRB determines its tariff or top up, which affects its exposure to funding volatility.

For 2020/21 the core scenario assumes the new funding formula will take account of the council's high Council Tax base and reduce BFL by -£26m. Because MHCLG is considering transitional arrangements this reduction is applied over five years. The pessimistic scenario sees the reduction applied over three years and the optimistic scenario sees no reduction.

Proposals for a new public health relative needs formula within the new funding formula is welcome news, as the council receives the lowest allocation per head of all county councils. The core scenario assumes funding at 2019/20 levels, £36m. The optimistic scenario, follows the Advisory Committee on Resource Allocation model, at £49m and the pessimistic scenario assumes PHG decreases at the same rates as recent years, so the council's allocation would be £35m.

MHCLG will reset all councils' BFL in 2020/21, the first reset since 2013. MHCLG has indicated it prefers a 'full reset' meaning BRB would be set at the forecast level rather than a 'partial reset' which sets the revised BRB lower than forecast. A partial reset would benefit the council as it would retain more of its current income above BRB. The core scenario assumes a full reset; the optimistic scenario a partial reset; and the pessimistic scenario assumes BRB is set higher than the council's forecast baseline level.

All scenarios assume a 70:30 tier split. This gives the council a 30% share of 75% local retention (i.e. 22.5%) compared to the current 20% share of 50% local retention (i.e. 10%).

Overall funding scenarios 2020-24

Figure A shows the differences in core funding from the three scenarios. Table F shows the core funding scenario estimate totals for the period 2019/20 to 2023/24.

The main change in the council's activities supported by its core funding in 2020/21 relates to Public Health. From 2020/21, Public Health Grant will form part of local authorities' 75% local share of retained business rates, and the function will no longer be funded directly by a specific grant. Therefore, the council forecasts its net budget will increase by £35.6m, which is equivalent to its spending on Public Health. The council's scenario planning estimates its core funding will increase by between £35m and £49m as outlined above for Public Health in 2020/21.

The other main changes relate to:

- inclusion of a further social care precept in the optimistic scenario, which adds £15m to Council Tax income in 2020/21 compared to the core scenario and an additional £15m in each year thereafter; and

- the impact of the reset of the business rates baseline in 2020/21 and the transitional period for damping the change from the 2019/20 baseline.

By 2023/24, the pessimistic scenario funding total is £29m lower than the core scenario and the optimistic scenario funding total is £117m higher than the core scenario.

Figure A Funding scenarios 2020-24

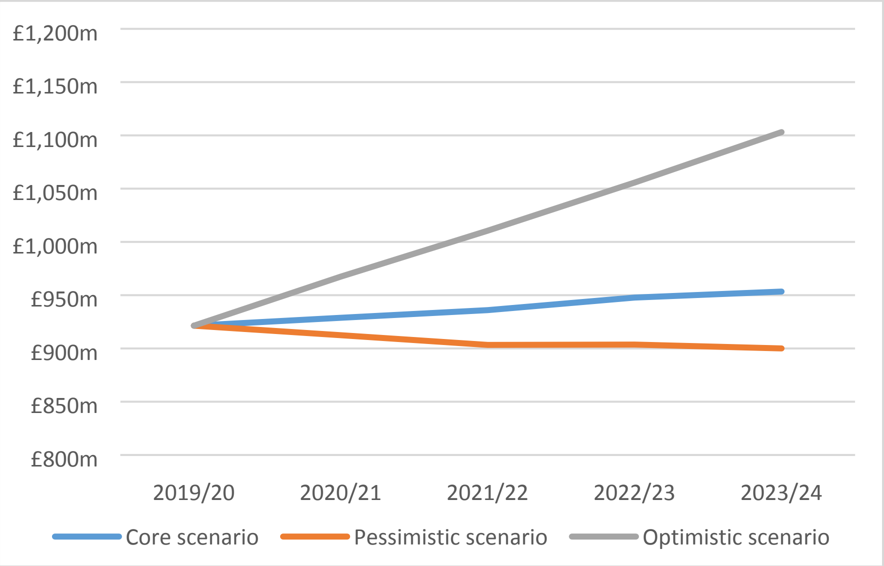


Table F Core funding estimates 2019/20 to 202023/24

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Core funding estimate	-885.9	-928.8	-936.0	-947.8	-953.4

2020/21 – 23/24 Budget Envelopes

In light of the uncertainty of future funding, this strategy has set out a number of scenarios to illustrate potential funding for 2020-24. Directorate budget envelopes have been set for the same period based upon the core funding scenario.

Our Financial Strategy aims to set a balanced revenue budget without the general use of reserves and balances. We have achieved this for the 2019/20 financial year as shown in the preceding sections. In future years we must also contain the expenditure on our services within the core funding scenario. The realisation of a different level of funding will entail revising these budget envelopes

The budget envelopes shown in Table G below use the 2019/20 balanced budget as a starting point and then projects forward the budget envelope for each Executive Directorate.

Table G – Budget Envelopes 2019/20 to 2023/24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Children, Families, Learning & Culture	240.7	242.1	245.1	246.6
Health, Welfare & Adults	399.0	401.2	406.2	408.6
Highways, Transport & Environment	163.8	164.7	166.8	167.8
Economy Growth & Commercial	26.9	27.0	27.3	27.5
Customer, Digital & Transformation	53.7	54.0	54.7	55.0
Finance	2.5	2.5	2.5	2.5
Corporate expenditure	31.0	31.2	31.6	31.8
Contingency	11.3	13.3	13.5	13.5
Total	**928.8**	**936.0**	**947.8**	**953.4**

A key principle of budget envelopes is that keeping within them will ensure that the budget is balanced and sustainable. This requires any increases in expenditure, whether due to increase volume demand, price increases or the full delivery of savings, to be contained within the total budget for each directorate.

The council has developed the Service Transformation Programme to improve how we deliver services to our residents and at lower cost. The impact of this programme will continue to be realised from 2020/21 and future years. However, in estimating future expenditure and activity levels the council is aware of the risks that may lead to cost increases. Whilst a small contingency against these risks has been included, the council will continue to closely monitor the progress of transformation plans and the need and usage of services. To match the level of savings required in future years, the contingency would need to increase to reflect the associated risk

The council continues to face significant risks in future years that will put pressures to increase expenditure above these budget envelopes. The most significant areas include;

- Pay and non-pay inflation
- Looked after children
- Special Education Needs and Disabilities
- Adults Learning Disabilities
- Older people
- Waste Disposal

Including these forecast pressures into future budgets will increase the annual net expenditure above the budget envelopes set out above. This creates a budget gap – the difference between the Budget Envelope and forecast expenditure and funding is shown in Table H below.

Table H – Directorate Budgets Gaps 2020/21 to 2023/24

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
Children, Families, Learning & Culture	23.6	33.7	39.9	42.7
Health, Welfare & Adults	18.0	32.6	44.6	59.5
Highways, Transport & Environment	7.5	12.4	16.1	20.9
Economy Growth & Commercial	0.3	0.3	0.1	0.2
Customer, Digital & Transformation	0.5	0.5	0.1	0.0
Finance	0.0	0.0	0.0	0.0
Corporate expenditure	7.5	8.6	9.7	10.5
Contingency	0.0	0.0	0.0	0.0
Total	**57.3**	**88.1**	**110.6**	**133.8**

In preparing the budgets for future years, and having regard to the estimated nature of the funding scenario, we will develop plans to ensure the budget continues to be balanced and sustainable from 2020/21 onwards.

Capital programme

The council has produced a Capital & Investment Strategy for 2019-24. This provides an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of our services. The council's capital investment plans deliver a range of schemes to enhance, maintain and deliver new assets to support the delivery of the council's strategic aims and priorities. It includes investment in agile workforce, highways improvements, property maintenance and also in some cases provides a return on investment.

The strategy covers a number of distinct areas of capital spend and brings these together in one place:

- The ***capital programme***, which covers the council's capital expenditure plans on operational assets to continue to provide services to residents. Planned expenditure in this area is detailed below.
- The council's ***investment strategy*** which set out to deliver annual net income of £10m to support council services and reduce reliance on central government support. This strategy is current subject to a review before any further expenditure is committed to.
- ***Transformation & Strategic Investment***, which is required to deliver the council's new vision and transformation of its services. This area of spend is also subject to review and detailed business cases will be drawn up for approval in line with the appropriate governance arrangements before expenditure is committed.

In addition, during 2018/19, the council has introduced new governance arrangement to oversee all capital investment decisions. Further details of the governance, monitoring and financing arrangements can be found in the council's Capital & Investment Strategy.

The council's capital expenditure plans are financed from the following sources:

- Government grants
- Third part contributions
- Revenue reserves
- Capital Receipts
- Borrowing.

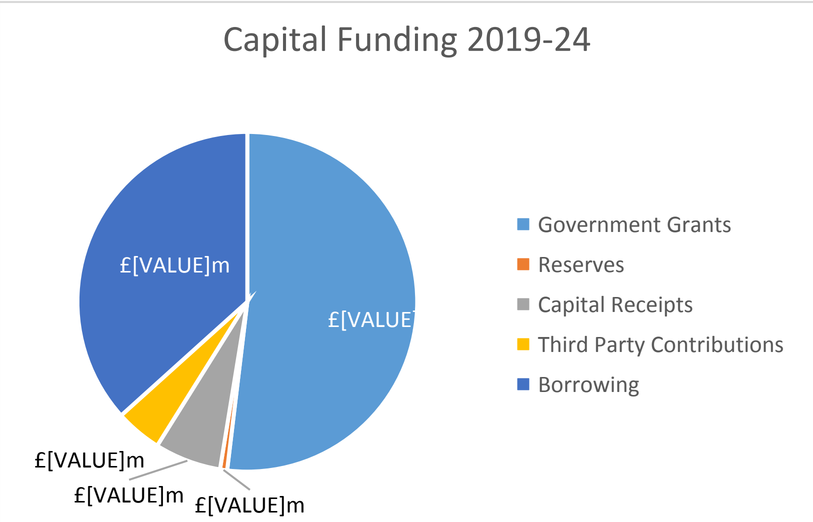
The Prudential Code for Capital Finance plays a key role in capital finance decisions in local authorities. Local authorities are free to determine their own programmes and the Prudential Code was developed by CIPFA as a professional code to support the making of these decisions and ensure that borrowing decisions take proper account of stewardship, value for money, affordability, prudence and sustainability. The Prudential Code requires Local Authorities to have in place a capital strategy which sets out the long term context in which capital expenditure and investment decisions are made.

Where the council uses borrowing to pay for capital investment, it incurs borrowing costs, which increase pressure on the revenue budget. The council therefore has set some criteria to determine the circumstances when it will borrow. The council will use borrowing to fund capital expenditure only where:

- It fulfils a statutory requirement
- It generates a capital receipt
- It generates a revenue saving, or avoids a revenue cost

The council's proposed capital programme for 2019-24 is summarised below:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	**TOTAL £000**
Property (incl Schools)	70.9	46.4	25.5	21.7	21.7	**186.2**
Highways & Transport	48.5	32.6	32.3	26.8	25.6	**165.8**
IT & Digital	3.9	8.1	12.1	3.2	3.3	**30.6**
Fire & Rescue	1.0	1.6	1.6	1.6	1.6	**7.4**
Other	4.9	4.7	4.7	4.7	4.7	**23.8**
Total Capital Programme	**129.2**	**93.4**	**76.2**	**58.0**	**57.0**	**413.8**



The council's capital investments fall within "the Prudential Code for Capital Finance in Local Authorities." Under this Code, local authorities have discretion over the funding of capital expenditure and the freedom to determine the level of borrowing they wish to undertake to deliver the Capital Programme. There are a range of potential funding sources which can be generated locally, either by the council itself or in partnership with others.

The implications of financing capital expenditure from borrowing is that the expenditure is not funded immediately but charged to the revenue budget over a number of years. This annual charge to revenue is known as the Minimum Revenue Provision (MRP) and the council has a statutory duty to set aside each year and amount it considers to be prudent, in line with guidance. The Council approves the MRP Policy each year.

Reserves & balances policy statement

The council is required to maintain an adequate level of reserves and general balances to deal with future forecast and unexpected pressures. A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit. Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of balances and reserves needed for meeting estimated future expenditure when calculating the budget requirement.

Balances and reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing - this forms part of general balances;
- a contingency to cushion the impact of unexpected events or emergencies, which also forms part of general balances;
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

Given the reduction in funding that the council has experienced over recent years, retention of the council's general balances and reserves will be essential to order to mitigate the risk of future uncertainties and non-delivery of the transformation programme or other planned budget reductions, that are designed to bring the council's spending in line with available resources.

The application of general balances and reserves can, by definition only be used once and should therefore only be applied for one-off or non-recurring spending, investment or to smooth the effect of government funding reductions that have a disproportionate impact in any one year. If reserves are depleted disproportionately in a financial year, the council should plan to replenish these in future years to be confident of being in a position to manage future risks safely.

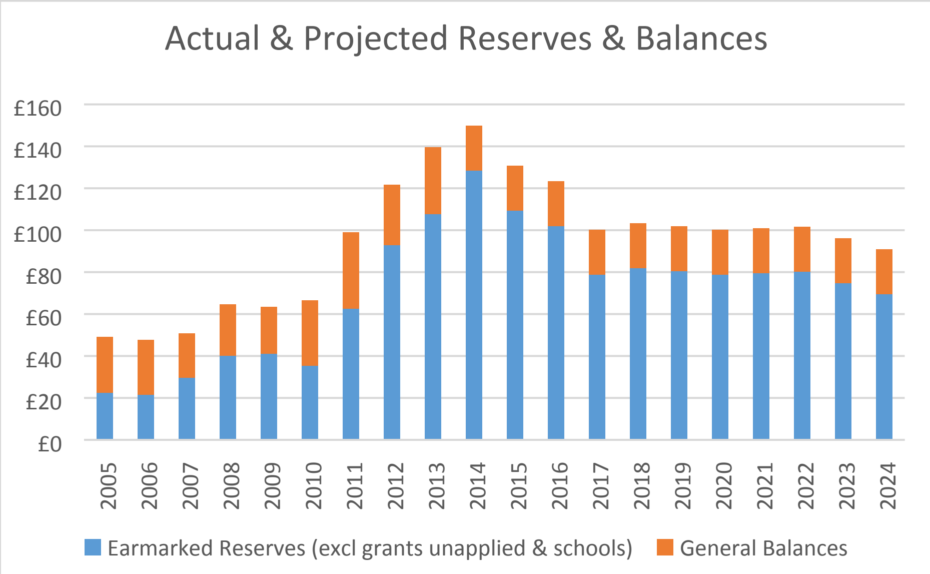
General Fund Balance:

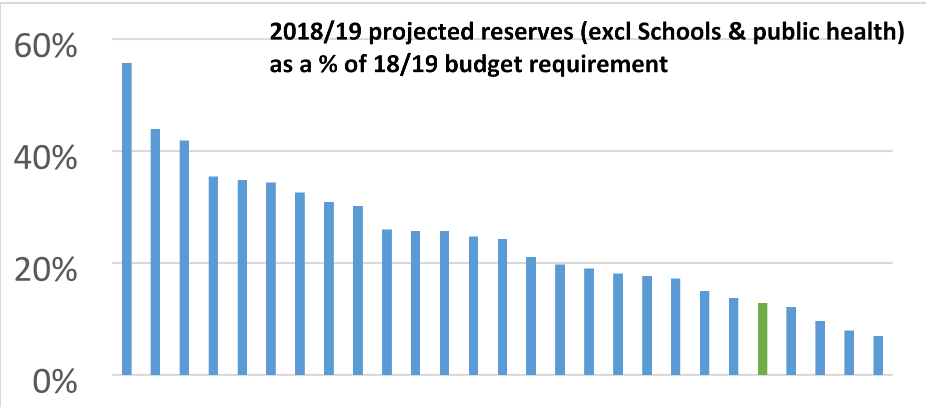
The council has traditionally maintained a small general balance in order to provide a contingency against unforeseen overspendings or a major unexpected event. Although there is no generally recognised official guidance on the level of general balances to be maintained, the key factor is that the level should be justifiable in the context of local circumstances, and council taxpayers' money should not be tied up unnecessarily. The council's external auditor comments on the level of balances and reserves as part of the annual audit of the council's financial position.

In recent years it has been considered prudent to maintain a minimum level of available general balances of between 2.0% to 2.5% of the core funding, i.e. between £17m to £22m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. The council brought forward £21.3 m general balances at 1 April 2018. The council has applied none of this to support the 2018/19 budget. Going into 2019/20 the Executive Director of Finance recommends the level of general balances remains the same. This reflects the on-going high level of uncertainty and risk the council faces.

Earmarked Reserves:

While general balances are unallocated, earmarked reserves are held for specific purposes and to mitigate against potential future known or predicted liabilities. The level of earmarked reserves will vary according to specific prevailing financial circumstances, in particular linked to risk and uncertainty and are therefore reviewed regularly with adjustments reported to and supported through Cabinet decisions.





From 2010, the council planned to build up reserves to provide a cushion against reducing Government funding. Since 2014, we have used £88m of reserves to help support the revenue budget.

We now believe that our reserves are at the minimum level to be able to sustain financial resilience and therefore the further depletion of these reserves to support future budgets in no longer considered appropriate. This financial strategy does not rely on the general use of reserves to provide a one-off funding solution to ongoing budget pressures.

Despite this, in relative terms, the Council's reserves and balances remain low. Compared to other county councils we have a relatively low level of reserves and balances. This is demonstrated in the graph (below), with Surrey County Council being the green column.

Reserves are however at a level which is adequate based on the identified risks to the Council. Due to the increased risk and uncertainty in current budgets, it would not be considered appropriate to reduce reserves to pre-2011 levels.

In the medium term there will need to be consideration given to rebuilding the level of reserves following several years in which they have been depleted. The end of the trend of falling reserves, and a higher level of reserves than was anticipated in last year's budget represent an important change of direction in relation to the Council's reserves strategy.