Revenue and capital budget

Introduction

A.1. This report proposes the medium term financial plan (MTFP) 2013-18 that Cabinet has developed at its workshops beginning in July 2012 and concluding in January 2013. Throughout this period, Members have had opportunities to influence the MTPF's development through all Member seminars and select committee scrutiny. The proposed MTFP period (2013-18) rolls forward 1 year the current MTFP (2012-17) approved by Full County Council on 7 February 2012. It covers five years, matched to the corporate strategy.

A.2. This report:

- presents integrated revenue and capital strategies for the five-year period 2013/14 to 2017/18;
- presents the Chief Finance Officer's report to the Full County Council on the robustness and sustainability of the estimates and the adequacy of the reserves the budget provides; and
- proposes a Band D council tax requirement of £1,172.52 for 2013/14 and a 1.99% rise (44p a week for band D) in the level of council tax precept to fund this.

A.3. Following the agreement of a budget by the Full County Council on 12 February 2013, detailed service budgets will be prepared and submitted to the Cabinet on 27 March 2013 for approval. These will link to directorates' strategic plans that will also be approved at the 27 March 2013 Cabinet meeting.

A.4. The Provisional Local Government Finance Settlement announced from 19 December 2012 outlined the key grants and financial factors for the first two years of the new system of local government finance that will apply from April 2013. While most elements of the settlement have now been announced, some important factors are still unknown and several new factors are inherently more volatile. All of this makes the uncertainty in the figures proposed in the medium term financial plan relatively high and subject to change as the financial environment becomes clearer. Also, at the time of writing this report the Final Financial Settlement has not been announced, adding yet further uncertainty around the proposals.

A.5. In view this high level of uncertainty Cabinet proposes to review the Council's financial position and the MTFP 2013-18 at the end of the first quarter of 2013/14.

Summarised relevant strategies influencing the revenue and capital budget

Corporate strategy

A.6. The Council's ***One County One Team Corporate Strategy*** sets out a vision to be the most effective council in England by 2017. It includes the priorities and key areas the Council is focusing on to achieve this: investing smartly to support future economic growth, protecting those residents who need most help, and transforming the way the council works with residents, businesses and partners. A robust medium term financial plan is critical to delivering these ambitions and goals and ensuring excellent value for money for residents.

Financial and funding strategy update

Financial strategy

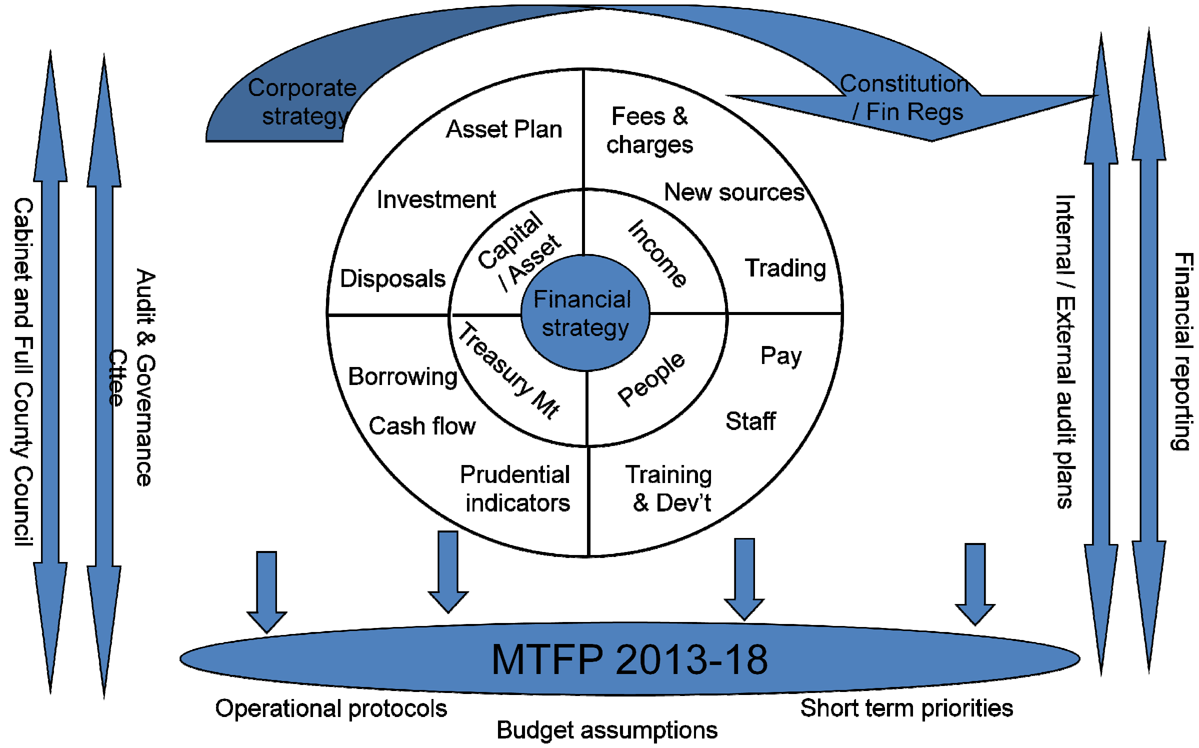
A.7. The Council's financial strategy originally set out in the 2012-17 MTFP, remains applicable and provides the strategic framework and overarching corporate financial policy document for managing the Council's finances and ensuring sound governance and compliance best practice.

A.8. The specific long term drivers of the financial strategy pertinent to the MTFP 2013-18 proposals are as follows.

- Keep any additional call on the council taxpayer to a minimum through continuously driving the efficiency agenda.
- Develop a funding strategy to reduce the Council's reliance on council tax and government grant income. The Council is heavily dependent on these sources of funding, which are under threat of erosion.
- Balance the Council's 2013/14 budget by reducing general balances to £16m and provide an increased risk contingency of £13m in the revenue budget. This reflects the present uncertainty and volatility of funding sources and spending pressures.
- Continue to maximise our investment in Surrey to:
  - improve direct services for vulnerable adults and children;
  - maintain and improve transport infrastructure to support business;
  - develop the workforce and Members and;
  - wherever possible, aim to invest in assets to generate annual income streams.

A.9. The financial strategy links a number of other strategies and essential governance arrangements as illustrated overleaf in Figure 1.

Figure1: Financial strategy in context



A.10. The financial strategy also links directly to the six components of One County, One Team Corporate Strategy established in 2012 and still relevant, as summarised below.

1. **Residents:**
Over the medium term, the Council's strategy is to minimise the tax levels on both residents and businesses, encouraging individual philanthropy and social responsibility. The Council strives to enable informed and effective engagement in its financial planning through timely conversations and other interactions with residents, businesses and other interested stakeholders.

2. **Public value:**
The Council will ensure it understands activity levels as well as the cost base, cost drivers and income potential of its functions, to inform cost reduction and charging policies. The Council will share its understanding transparently with operational managers and key stakeholders. Familiarity with benchmarking, trend performance and opportunities to improve, will help the Council to focus on cost reduction and good, long term planning. The Council will invest in the future and promote economic growth through innovation and constant challenge in services delivery.

3. **Partnerships:**
The Council will co-operate and work effectively with other public bodies, including the voluntary sector, through agreeing clear objectives, responsibilities and accountabilities that are understood and recorded by all parties. The Council will implement community budgets where appropriate.

4. **Quality:**
The Council will maintain the highest standards of financial governance, in terms of both policy and practice. The Council will maintain its financial reporting and financial management practices to ensure an unqualified audit opinion and value for money conclusion on its accounts each year.

5. **People:**
The Council will determine clear objectives for employees and Members underpinned by investment in appropriate financial training. This will help employees and Members achieve the financial objectives. The Council will ensure that employees' skills and equipment keep pace with the financial challenges faced.

6. **Stewardship:**
The Council will continue to produce a balanced and sustainable budget where income equals expenditure and that assures an appropriate level of financial resilience. The Council will make adequate provision to cover financial risks and ensure key assumptions are 'stress tested' (for public benefit, political acceptability and practical achievability).

A.11. The financial strategy will remain largely stable to 2018. Within this, budget assumptions, operational protocols and financial drivers may alter in the short term and each will be reflected in the annual budget planning process through the MTFP as relevant. These actions will make the MTFP the practical means to translate this strategy into reality.

<u>Funding strategy</u>

A.12. During 2012 the Council has developed a funding strategy further to position the Council to deliver diversified sources of funding that reduce the Council's reliance on council tax revenue and increase its resilience against future financial challenges.

A.13. Several drivers have created a pressing need to deliver this vision:

- the need to mitigate the effect of erosion of core sources of funding (council tax and government grant), jeopardising the Council's future financial resilience and prohibiting it from pursuing its long term financial strategy;
- the desire to develop a culture that focuses equally on funding sources as on spending pressures;
- the aim to address the mis-match between the size of the Council's budget and the relatively low level of income from fees and charges; and
- the need to provide a direct link to the financial strategy objectives, in particular:
    - to keep to a minimum any additional call on the council taxpayer through continuously driving the efficiency agenda; and
    - to continue to maximise our investment in Surrey to support business and wherever possible, aim to invest in assets to generate annual income streams.

A.14. The funding strategy is being delivered using a robust programme management framework to scope and plan a series of work streams, which will be delivered over a number of years.

A.15. The main work streams can be grouped into three themes.

- **Protecting the existing funding base**
  - localisation of business rates
  - localisation of council tax support;
  - schools funding.

- **Developing alternative sources of funding;**
  - economic stream (including Community Infrastructure Levy, New Homes Bonus and Local Enterprise Partnerships);
  - grants;
  - return on investments (treasury management);
  - fees and charges;
  - partnership opportunities;
  - assets (property).

- **Improving financial awareness, training and reporting;**
  - staff awareness, communications and engagement;
  - funding reporting in the medium term financial plan (MTFP);
  - financial reporting.

A.16. A number of dependencies are associated with the funding strategy, as outlined below:

- strong political appetite to lead the focus on funding and income actively;
- increased collaboration with district and borough colleagues and Surrey Leaders;
- embedding the drive for a commercial focus into individuals' roles to achieve the required ownership; and
- achieving buy-in and engagement throughout the whole organisation.

A.17. Progress against the strategy will be reported through quarterly performance reporting for the Change & Efficiency Directorate.

Revenue budget

Forecast Revenue Budget Outturn 2012/13

A.18. The revenue forecast outturn for 2012/13 at the end of December 2012 projects an underspend of £8.9m. The Cabinet will receive details of this in a separate report on this agenda.

A.19. It is proposed that this forecast underspend be carried forward to smooth spending across financial years, as part of the long term financial planning, and further consideration on use of balances and reserves will be necessary as the level of government grants receivable for future years becomes clearer (when the Final Financial Settlement is known).

Scenario planning 2013/14 to 2017/18

A.20. In setting the MTFP 2012–17, the Council assessed the remaining impact of the public expenditure constraints of 2010's Comprehensive Spending Review (CSR 2010) covering the period 2010-14 and details released in the annual local government finance settlement. The Council also made financial projections related to the changes proposed to the system of local government funding to localise retention of business rates and council tax support due to be implemented from April 2013. After including estimated budget pressures over the five years 2012/13 to 2016/17, the Council set itself a target of reducing annual revenue expenditure by £206m over the same period.

A.21. Appendix A1 summarises the national economic outlook, which highlights how the relevant economic outlook and future forecasts have changed in the last year.

A.22. The basic assumptions reflected in the MTFP (2012-17) have been assumed as remaining valid in moving this MTFP forward one year to cover 2013-18, except where emerging changes to the new funding arrangements and assumptions about growth in service pressures have changed. Cabinet members and senior officers rigorously reviewed, probed, assessed and validated the assumptions to determine the predicted scenario for medium term financial planning purposes. 80mIn developing the MTFP 2013-18, the Council has shared the stages of its medium term financial planning process more widely than previously. Cabinet members, senior officers and select committees participated in workshops and several financial planning update briefings have been provided for all members and other interested stakeholders.

A.23. The Council also conducted a robust, open, consultation and engagement process with stakeholders as outlined below from paragraph A.92 and detailed in Appendix A.6.

Budget planning assumptions

A.24. The Council's annual detailed service budget setting started in July 2012. This involved revisiting the assumptions, pressures and savings included in the MTFP 2012-17 and projecting forward a further year to 2017/18. Table 1 shows the key cost, pressure and savings assumptions used to prepare the illustrative budgets.

Table 1 Budgetary assumptions 2013-18

Descriptor	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Pay inflation	1.5%	2.0%	2.0%	2.0%	2.0%
General, non-pay inflation	2.1%	2.1%	2.2%	2.2%	2.2%
Remainder of MTFP 2012-2017 saving programme	-£50m	-£33m	-£25m	-£27m	
Extra savings to meet new service funding and spending pressures	-£18m	-£39m	-£7m	-£8m	-£33m
Allowances for central pressures:					
• Revenue impact (borrowing) of the capital programme 2013-18	£1m	£2m	£6m	£8m	£9m
• Risk contingency	£13.0m	£8.0m	£8.0m	£8.0m	£8.0m

Note:

- differing percentages apply to contractual inflation
- new service funding and spending pressures includes statutory, contractual and demographic changes.

Service expenditure 2013-18

A.25. Table 2 summarises the Council's revenue expenditure budget for the five years 2013-18 and compares it to 2012/13's budget by main services.

Table 2 Revenue Expenditure Budget 2013-18

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Adults Social Care	332	341	352	369	387	411
Children, Schools & Families	289	288	296	301	298	307
Schools Delegated Budgets	519	522	516	514	514	514
Customer & Communities	71	70	72	75	73	75
Environment & Infrastructure	126	129	134	131	134	138
Public Health	0	23	29	32	35	39
Change & Efficiency	85	84	84	85	87	90
Chief Executive Office	14	15	14	14	14	14
Central Income & Expenditure	77	68	73	70	74	67
Additional savings to be found			-46	-55	-62	-79
Total expenditure	**1,513**	**1,540**	**1,524**	**1,536**	**1,554**	**1,576**

Service budget commentaries

A.26. Services are continuing to develop and test a range of proposals that will enable the Council to meet its budget reduction targets for 2013/14 and beyond. Appendix A3 contains a summary of the proposals for each budget category, with a brief commentary by services on the proposal evidenced by a summarised income and expenditure statement and expenditure by service.

A.27. Cabinet will receive the final detailed budget proposals for approval on 27 March 2013 after review by the appropriate Select Committees of detailed budget changes.

Funding 2013-18

Central Government Funding

A.28. From 2013/14, The Local Government Finance Act 2012 has fundamentally changed the local government funding system: to one based on partial retention of local business rates and localisation of council tax benefit support.

A.29. The Provisional Local Government Settlement for 2013/14 set out local authorities' "start up" funding related to the new local government financing system. Start up funding is equivalent to funding from the following sources:

- formula grant
- council tax freeze funding
- council tax support funding
- early intervention funding
- lead local flood authority funding
- learning disability & health reform funding

A.30. Table 3 shows actual level of funding included in the Provisional Financial Settlement compared to the assumptions made, illustrating that the total start up funding is close to that predicted, although there are variations within the individual areas. This demonstrates the increased uncertainty, and therefore risk, in forecasting long term planning going forwards.

Table 3 Provisional start up funding compared to expectations

	Expected funding £m	**Provisional settlement £m**
Council tax freeze grant 1	14	14
Council tax support	38	38
Early intervention grant	27	25
Local lead flood authorities' grant	0	0
Learning disabilities & health reform grant	60	68
Total grants rolled in	139	145
Formula funding	114	107
Share of returned topslice (safety net) etc.	0	2
Total start-up funding	253	254

A.31. The Council's plan is to balance its budget in 2013/14 and over the medium term of five years through a combination of service transformation mechanisms, earlier implementation of planned budget reductions & efficiencies and use of reserves. Table 4 outlines the revenue funding proposals.

Table 4 Revenue funding for 2013-18 MTFP

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m	£m
Council tax	-580	-550	-572	-586	-603	-622
Retained business rates	0	-44	-45	-47	-48	-49
UK Government grants	-916	-923	-907	-903	-903	-905
Use of reserves and balances	-17	-23				
Total funding	**-1,513**	**-1,540**	**-1,524**	**-1,536**	**-1,554**	**-1,576**

Schools' funding

A.32. The Council is required by legislation formally to approve the total Schools Budget. The Schools Budget includes schools' delegated budgets and other funding allocated to maintained schools, plus expenditure on a range of school support services specified by legislation, irrespective of the source of funding.

A.33. The Schools Budget (and the total County Council budget) excludes funding for academies.

A.34. Table 5 analyses the proposed total Schools Budget for 2013/14 is £621.5m, of which £600.7m is funded by Dedicated Schools Grant (DSG), £19.3m by Education Funding Agency (EFA) sixth form grants and £1.5m by County Council funding. The Schools Budget is a significant element of the Children, Schools and Families proposed total budget of £810m.

Table 5 Analysis of total Schools Budget for 2013/14

	Schools Delegated Budgets £m	Centrally Managed Services £m	Total £m
DSG 2013/14	482.2	111.6	593.8
DSG brought forward from previous years	5.8	1.1	6.9
	488.0	112.7	600.7
EFA sixth form grant	19.3		19.3
County Council contribution		1.5	1.5
Total Schools Budget	507.3	114.2	621.5

A.35. Centrally managed services include the cost of placements for pupils with special educational needs in non maintained special schools and independent schools, 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

A.36. The County Council contribution is to fund part of the anticipated increase in new responsibilities for post 16s with lifelong learning difficulties and disabilities (LLDD).

A.37. DfE has required local authorities to simplify and standardise their formulas for funding schools in 2013/14, as a first step towards the aspiration of a national funding formula. Thus, major changes have been needed to Surrey's formula, which mean significant long term gains and losses to individual schools. In 2013/14 these gains and losses have been limited by a 1.5% maximum loss per pupil (the Government's Minimum Funding Guarantee) and a 1% maximum per pupil increase (or ceiling) which is required to pay for the guarantee.

A.38. 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, the number of looked after children and the number of pupils from service families (or who qualified as service children at some time within the last three years, or are in receipt of a war pension).

A.39. Funding for some support services for schools has now been transferred from general grant to a new education services grant. This grant is divided between the Council and individual Surrey academies in proportion to pupil numbers in each.

<u>Other grants</u>

A.40. There are a number of government grants that are newly included in plans. These reflect new areas of responsibility, meaning the funding will be matched by an increase in the council's need to spend. The most material of these are:

• Public health	£23m
• Education Services Grant (estimate)	£17m
• Bid funding from the Local Sustainable Transport Fund	£2m
• Social Fund	£1m
• Troubled families grant	£1m
• Business rates retention system top slice refund (estimate)	£1m

A.41. More minor sums totalling £1m will be received for responsibilities connected with the community right to challenge, the local reform & community voices funding, the Special Education Needs pathfinder project and the south-east protected landscape funding.

A.42. The Health and Social Care Act 2012 transfers substantial public health improvement duties to local authorities from 2013/14, funded by a ring-fenced specific grant based on estimates of historic spending from NHS Surrey. The budget is drafted in accordance with the £23.2m grant allocation.

A.43. This ring-fenced specific grant is designed to cover all the services transferring from the Primary Care Trust and allow for some growth. However, the Department of Health has recognised that £3.3m of genito-urinary medicine (GUM) services have been excluded incorrectly from the grant and allocated to the NHS. Discussions are on-going with the Council's health partners for this funding and a final budget position will be set within the resources available when the outcome is known.

A.44. Historic public health funding in Surrey has been below the level of our assessed need. Government stated policy is to rectify this underfunding. In the medium term the Council expects its public health grant to increase by 10% each year, which will assist the service to deal with the growing need for public health services.

Localisation of council tax support

A.45. From 2013/14, the Department for Work & Pensions will no longer have a national scheme of council tax benefit. At the same time, central government has imposed funding reductions requiring councils to make choices about changes to eligibility and levels of support. District & borough councils must implement their own local support schemes from 1 April 2013. The County Council has worked alongside Surrey districts & boroughs as they developed their schemes, with a view to:

- preserving the current high council tax collection rate,
- avoiding unintended cost consequences for council services, and
- avoiding detrimental impacts on frontline policing.

A.46. With these objectives in mind, the Council has made available up to £1m to fund the first year deficits that the Police, districts & boroughs would otherwise incur.

A.47. At the same time and to allow councils to mitigate some of the above funding reductions, the Government has localised some council tax exemptions and discounts. District & borough councils have been able to make local decisions about the level of these or whether to withdraw them altogether.

A.48. There are several direct impacts of the new arrangements:

- A reduction in council tax income. The central government subsidy previously paid into districts' & boroughs' collection funds will no longer exist. The County Council will bear its share of this loss (approximately 75%) estimated at approximately £45m.
- A new grant for council tax support (to partially compensate for the cessation of subsidy). The County Council's grant is confirmed as £38m and will be received as part of its baseline funding allocation.
- An increase in council tax yield from changes to discounts and exemptions. The approximate impact on the Council is an increase of £5m.
- A reduction in the council tax base (reflecting eligibility to council tax support).

A.49. These impacts are on-going and imply a number of newly assumed risks, namely the future levels of central government grant funding is uncertain and the cost of local support schemes will be subject to price (council tax rises) and volume (numbers of claimants) changes.

A.50. Although the Department for Communities & Local Government (DCLG) has identified the discrete council tax support scheme funding that has been included in the 2013/14 settlement, this will not be identifiable from 2014/15: making it more difficult to demonstrate how this has changed from year to year.

A.51. Changes in the volume and make-up of the claimant population will need to be monitored given different funding implications. Pensioner claimants are fully protected from localisation changes (in effect remaining on the 'old' national scheme) so any increase in their volume or proportion of caseload could have material implications.

A.52. The changes to the council tax base arising from localisation will also need to be closely monitored. This reduction has an on-going impact since it reduces authorities' ability to raise council tax and increases central dependency.

Local retention of business rates

A.53. The new business rates retention system (BRRS) will replace formula grant as the core funding for local authorities from 2013/14. This represents a major change and is the culmination of nearly two years' development. Under the current funding system, the proceeds from business rates are collected locally and paid into a national pool. Central government then distributes the pool together with revenue support grant (RSG) via the 'four block' model for formula grant. RSG is supplementary central funding to make the total available to local government up to the planned total spend on local government. RSG is received by individual local authorities as a non ring fenced grant.

A.54. The new funding system will see district & borough councils holding back half of the business rates income collected, to share locally with their county councils (80:20 in the districts' & boroughs' favour).

A.55. The remaining half represents central government's share of the amount collected, which it redistributes back to local authorities. The central share is combined with a number of existing specific grants which have been rolled into the business rates retention system.

A.56. These are allocated to each authority as a baseline funding allocation and an RSG allocation. Table 6 shows the Council's allocations as part of the national totals.

Table 6 Surrey County Council's start up funding

	2013/14	2014/15	SCC change	National change
RSG	£151.171m	£135.024m	-10.7%	-16.9%
Baseline funding	£100.570m	£103.654m	3.1%	3.1%
Start-up funding	£251.741m	£238.678m	-5.2%	-8.5%

A.57. Under the new system, central government establishes a baseline funding level for each local authority. In effect this is the local authority's portion of the "local share" (i.e. 50% of the estimated net business rates collected). This is the key figure that determines whether an authority will pay a tariff to central government or receive a top-up.

A.58. If an authority has a business rates baseline (government estimate of its business rates income) that is higher than its baseline funding level, the difference is paid to central government as a 'tariff'. All the Surrey districts are tariff authorities. Where the business rates baseline is less than its baseline funding level (as is the case for this council), an authority receives a 'top-up'. All county councils receive a top-up. Tariffs and top-ups are inflated annually by RPI to maintain their value in real terms.

A.59. Table 7 shows the calculation of the County Council's top-up funding.

Table 7 Surrey County Council's top up funding 2013/14 and 2014/15

	2013/14	**2014/15**
Funding baseline	£100.570m	£103.654m
less Business rates baseline	£43.863m	£45.208m
Top-up	£56.707m	£58.446m

A.60. The new funding system will alter the nature of the funding risks borne by the Council. Under the existing funding system, formula grant allocations are confirmed annually by the local government finance settlement. These are fixed allocations that do not vary in-year.

A.61. The Council's medium term financial planning makes the following assumptions for the new funding system:

- **Revenue support grant**
  Allocations will not change in-year, although there is a risk that the government may adjust annual control totals between years.
- **Business rates top-up grant**
  This will be fixed and predictable, being up rated by RPI annually.
- **Business rates income**
  This is uncertain and potentially volatile:
  - Budget figures reflect estimated rather than actual sums, since the latter are not known. Under the existing system, the forecasting risk was borne centrally, but under the BRRS this will be born locally as well.
  - The key drivers of volatility are the volume and value of successful valuation appeals, as these will reduce expected business rates income. At the start of the new system, the full billable sum for any outstanding appeals will have been charged to rate-payers and paid into the central pool. Any appeals that succeed after the start of the new system will have to be refunded at the expense of the local authorities concerned (i.e. the district & borough councils

and counties) and central government, in proportion to their shares of business rates income.

- In view of this, billing authorities will have had to make assumptions about the value of successful appeals in their estimates of business rates income. The County Council will bear 10% of any appeals losses across the county (districts & boroughs 40% and central government 50%).
- There are also vulnerabilities associated with the loss of large site business ratepayers from the county area.
- It is an anomaly of the system that there is no incentive upon the Valuation Office Agency (which undertakes business rates valuations) to reduce the number and value of successful appeals against their valuations, since any adverse financial consequences rest only with local and central government.

Council tax funding

A.62. The MTFP 2012-17 assumes council tax yield will increase by 2.5% annually through either an increase in the level of the tax or a compensating Council Tax Freeze Grant payment.

A.63. The Chancellor of the Exchequer announced the availability of a third Council Tax Freeze Grant to those authorities that freeze or reduced their band D council tax in 2013/14. The grant offered is equivalent to 1% of an authority's council tax, payable in 2013/14 and 2014/15.

A.64. In introducing the Provisional Local Government Settlement, the Secretary of State for Communities & Local Government set the council tax excessiveness principles (i.e. the maximum increase a council can set without a referendum) at 2.0%.

A.65. Members have received several financial planning update briefings outlining the impact on the 2013/14 budget and 2013-18 MTFP of accepting or declining Council Tax Freeze Grant and of increasing council tax at different rates. Cabinet has explored the options in depth in workshops.

A.66. The MTFP includes proposals to increase council tax by 1.99% in 2013/14 and to revert to council tax increases of 2.5% for the remaining years of the MTFP 2013-18.

Capital budget

Capital budget planning

A.67. The Council set a five year capital programme totalling £679m in the MTFP 2012-17. A significant element of this related to the supply of new school places, which totalled £244m and the recurring programme of transportation and highways maintenance totalling £150m.

A.68. For the MTFP 2013-18, the capital programme is reviewed and the new year of 2017/18 is included. The review has focused on the continuing forecast growth in school pupil numbers and the importance residents place on good roads.

A.69. In 2012/13 the council approved funding of £244m for the first five years of a ten year capital programme to provide an additional 16,000 school places by 2022. In compiling the 2013-18 capital programme it was recognised that the number of school places required was nearer 20,000 over the ten year period. This 4,000 increase in school places is largely due to the increasing birth rate and inward migration to the County. In order to address this issue effectively a formal review of the revised capital programme will be undertaken in the next six months.

A.70. For 2013/14 the capital funding for school places has increased from £42m to £72m. Overall an additional £45m has been added to the existing school place capital budget for new schemes starting in 2013/14. The existing and revised budget for the capital programme includes target procurement efficiency savings on capital schemes of 40% for primary schools and 20% for secondary schools on average.

A.71. Surrey has some of the most heavily used roads in the country and their up keep and maintenance play an important part of the county's economic success and prosperity. With a back log of £400m of repairs, the council is allocating a further £5m per year, or £25m, over the next five years.

Capital position 2012/13

A.72. The forecast in-year variance on the 2012/13 capital budget is an underspend of £7.3m against the approved revised budget of £147.9m. The principal reason for the underspend is the reprofiling of project spend.

A.73. To complete these projects, the Council will need to carry forward the funding for these schemes to future years. This decision is proposed as part of the budget outturn report and if approved, the amounts will be added to the capital budget for 2013–18.

Capital funding

A.74. Government departments have announced some, but not all, capital grants for 2013/14 and even fewer for 2014/15 in the provisional financial settlement. It is common for government departments to announce additional government grants during the financial year, so the Council includes a forecast for these. Table 8 shows the grants that have been announced for 2013/14 and those the Council still expects.

A.75. Central government provides capital grants to local authorities in two categories: 'ring-fenced' grants that are paid to local authorities for specific projects or to achieve an agreed outcome; and 'non ring-fenced' grants, which although awarded for a general purpose, can be used to fund local priorities. This is often referred to as the 'single capital pot'.

Table 8 Government capital grants 2013/14

Capital grants confirmed	Provisional settlement
Ring-fenced grants	
Walton bridge 2013/14	£4m
Local Sustainable Transport Fund (large)	£4m
Broadband Delivery UK (BDUK) broadband grant	£1m
Non ring-fenced grants	
Integrated transport block	£7m
Highways maintenance	£14m
Highways maintenance Autumn Statement	£3m
Local Sustainable Transport Fund	£1m
Community capacity capital grant	£2m
Fire capital grant	£1m
Total confirmed grants	**£37m**
Capital grants yet to be confirmed	**Estimate**
Ring-fenced grants	
Devolved formula capital (devolved to LA schools)	£2m
Safe cycling grant	£1m
Non ring-fenced grants	
Schools places	£15m
Schools capital maintenance	£14m
Total grants yet to be confirmed	**£32m**

A.76. In the 2012 Autumn Statement, the Chancellor of the Exchequer announced funding to all highways authorities for road maintenance. For Surrey County Council, this amounted to £2.6m and is a non ring-fenced grant. The Council will use this to fund its highways maintenance programme.

A.77. Capital grants are not known for future years and an estimate is made for each year. This estimate is reviewed annually and equivalent adjustments will be made to the capital programme.

A.78. Capital receipts, or income from the sale of assets, are an important part of funding the capital programme. In 2012 the Council set a target of £69m over the five year term of the financial plan from asset sales. During the year, the Council has reviewed its strategy towards asset sales in the light of generally lower property prices in the economy. Sales will only occur when property cannot be redeveloped or reused by the Council. While this will reduce the amount of asset sales over the next five years, those that are continuing have generated higher receipts.

A.79. The Council also funds its capital programme from contributions from third parties, such as developers and its own revenue budget. The part of the programme that cannot be funded by the above four sources is done so through borrowing. Table 9 shows the estimated capital funding for the period 2013-18.

Table 9 Capital funding 2013/14 to 2017/18

	2013/14 £m	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
Government grants	69	77	71	72	55
Capital receipts	14	26	5	5	0
Revenue reserves	1	4	3	2	4
Third party contributions	2	4	11	13	14
Borrowing	102	61	52	28	0
Total	188	172	142	120	73

Capital expenditure

A.80. Table 10 summarises the Council's capital programme for the five years of this medium term financial plan. This is shown in more detail in Appendix A4. Inclusion of a project in the approved capital programme is not authority for the scheme to commence. A detailed and robust business case is required before the project is approved.

Table 10 Summary of capital programme

Scheme Category	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
School places	72	80	61	48	0
Recurring programmes	63	66	65	63	65
Strategic capital projects	53	26	16	9	8
Total	188	172	142	120	73

Risk management arrangements

A.81. The Council's integrated risk framework enables identification and escalation of key risks. The Risk and Resilience Steering Group, chaired by the Assistant Chief Executive, brings together all elements of risk to provide a clear approach to managing risk and strengthening resilience across the council. The group consists of risk practitioners, directorate risk leads and specific service representatives. The Council's Risk and Resilience Forum, comprising of service risk and resilience representatives, focuses on the operational side of risk and develops risk registers, business impact analyses and continuity plans.

A.82. The Leadership Risk Register contains the Council's strategic risks. It cross-references these strategic risks to strategic directors' risk registers and shows clear lines of accountability for each risk at both senior management and Cabinet Member levels. The Risk and Resilience Steering Group reviews the Leadership Risk Register monthly prior to review by the Corporate Board as part of performance, finance and risk monitoring.

A.83. Cabinet receives the Leadership Risk Register as part of the quarterly business report. Audit & Governance Committee also reviews the Leadership Risk Register at each meeting and refers any issues to the appropriate Select Committee.

A.84. Significant financial and reputational risks and opportunities facing the Council and recorded in the Leadership Risk Register include:

- erosion of the Council's main sources of funding (council tax and government grant)
- delivery of the major change programmes and associated efficiencies
- delivery of waste infrastructure
- changes to health commissioning.

A.85. Senior management and Members regularly monitor and manage these risks through the specific project boards, steering groups and partnerships to ensure that opportunities are exploited and the resulting risks are controlled to a tolerable level.

Reserves & balances

A.86. 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 net budget requirement, i.e. between £15m to £19m. This is normally sufficient to cover unforeseen circumstances and the risk of higher than expected inflation. Going into 2012/13 the Chief Finance Officer recommended that the level of general balance was increased, to a maximum of £30m, in recognition of the unprecedented austerity agenda and anticipated future high level of service reductions & efficiencies likely to be required in future years.

A.87. In fact the Council's available general unallocated balances at 1 April 2012 were £28.8m. Going into 2013/14 the Chief Finance Officer recommends that the level of general balances is reduced to £16.8m by using £12m to support the 2013/14 revenue budget on a one-off basis. While significant service reductions & efficiencies remain to be delivered, this approach is considered to be prudent when combined with the proposal to increase the risk contingency within the revenue budget from £8m to £13m to mitigate in the base budget against the risk of non-delivery of service reductions & efficiencies in 2013/14.

A.88. Earmarked reserves are funds set aside for specific purposes and agreed by the Cabinet. The forecast total balance for all earmarked reserves at 31 March 2013 is £99.7m, down from £112.1m on 31 March 2012.

A.89. The MTFP (2013-18) includes the creation of a new reserve. To plan for future reductions in government grants and to help minimise council tax increases in future, the Council is creating a Revolving Investment & Infrastructure Fund to provide the revenue costs of funding initiatives that will deliver savings and enhance income in the longer term. This reserve will be set up with £20m, which is funded from combining the former Financial Investment Reserve of £9.5m and the Investment Fund of £5.0m. The balance will be made up from the surplus on the council tax collection fund.

A.90. The budget also includes planned contributions to and from the earmarked reserves. The Budget Equalisation Reserve holds the carried forward underspending from the previous year. This is currently forecast to be £11m and is planned to support the 2013/14 revenue budget.

A.91. In line with the MTFP (2012-17), there is a planned contribution of £2.1m to the Economic Downturn Reserve; created to allay the risks of erosion in the council's tax base due to the impact of the localisation of council tax benefit, business rate retention and any further downturn in the economy. The revenue budget also includes provision for interest payments to support the borrowing in line with the capital programme. However, there is a risk that if interest rates or other borrowing conditions change, then it would be better value for money in the medium to long term of borrowing in advance. An Interest Rate Risk Reserve of £3.7m would allow the flexibility for the council to borrow funds early if the circumstances changed. The balance of this reserve would be reviewed annually. Appendix A7 summarises the level and purpose of each of the Council's earmarked reserves, while Appendix A5 sets out the Council's policy on reserves and balances.

Engagement and consultation

A.92. The Council conducted a public engagement campaign in November and December 2012 to understand residents' service priorities and views on spending. A budget consultation modelling tool (called SIMALTO) was used to ensure this process was robust and statistically sound. There were 701 participants (155 face-to-face, 546 via the web) which represents a good sample. There are further details on the methodology and results in Appendix A6. The summary headlines were as follows:

- **The Council's current spending closely reflects the spending priorities of Surrey's residents:**
  A majority of residents would leave the allocation of current spend as it is now, altering the existing budget only slightly through increased investment in highways services, with corresponding reductions to the opening hours of libraries and recycling centres.

- **The Council understands its residents:**
  The research company who ran the exercise reported that the similarity

between the council's current spending and residents' preferences was notable and not typical for councils.

- **A majority of residents (58%) would be willing to see a slight increase in council spending and their council tax in return for current service levels being maintained and specific investments and improvements being made in the following areas:**
  Highways maintenance, supporting young people into education, employment or training (including more apprenticeships), and supporting more older people to live independently

- **Residents attach value to the Council's services and reductions will cause dissatisfaction:**
  If service levels were scaled back to the most basic level that was presented in the budget survey, 96% of respondents indicated they would complain to the council.

A.93. The Leader and Chief Finance Officer have also held a series of face-to-face meetings with key partners and stakeholder groups, including local businesses, the voluntary, community and faith sector, and trade unions. The feedback from engagement and consultation activities was incorporated into the Council's budget scenario planning workshops and briefing sessions.

This Annex is supported by seven appendices:

Appendix A1	National economic outlook and public spending
Appendix A2	Settlement 2013 including details of provisional government grants for 2013/14
Appendix A3	Revenue budget proposals
Appendix A4	Capital programme proposals
Appendix A5	Policy statement on reserves and balances
Appendix A6	SIMALTO results
Appendix A7	List of earmarked reserves

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